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**Center for
Effective
Organizations**

**USING HUMAN CAPITAL MEASUREMENT TO
DRIVE PRODUCTIVITY**

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Abstract

In 2005 Frito-Lay's senior executive team faced a challenge with their Route Sales Representatives (RSRs). The company was achieving sales and profitability targets. But high turnover and low productivity among the RSRs had made the task of meeting those targets progressively harder over time. Tired of having to resort to "cheerleading" to meet each quarter's numbers, line managers and human resource professionals came together in an effort to see if they could identify solutions that could provide bottom-line results that were both cost effective and sustainable. However, they immediately ran into a brick wall: What was the cause of the low productivity and morale issues?

To find the answers, members of Frito-Lay's HR team, in partnership with researchers at the Center for Effective Organizations, launched a study of the drivers of attraction, retention, motivation and productivity for the RSRs. The analysis produced actionable results that Frito-Lay used to improve job performance and business results.

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An RSR places every bag of Frito-Lay product that a consumer purchases from a retailer's shelf. This method of delivery is known as direct store delivery (DSD). The DSD system serves as one of the cornerstones of Frito Lay's success in the marketplace by enabling an unparalleled level of service to the stores. With DSD, Frito Lay reaches more than 20,000 outlets daily and enjoys a market share greater than 60 percent nationally. More than 17,000 RSR drive the products from the warehouse to the retailers, merchandise the products at the retailers, place orders and negotiate for additional display space. The RSR is a commission sales role, with compensation dependent on the total volume of sales.

Like most companies, Frito-Lay's executives had a laundry list of possible reasons for the low productivity and high turnover, including compensation, training, recruiting, and the complexity of the job (an increasing number of products and more difficult retail environment). Frito-Lay's executives had known for some time that there were compensation issues that could be inhibiting improved performance in pockets of the sales organization. Some regions had fallen significantly behind the company's local benchmarks for target compensation of route sales drivers. A leading hypothesis was that these shortfalls were at least partly responsible for driving low morale, productivity and retention. Supporting this, a preliminary analysis of turnover and compensation patterns across the United States revealed that regions where the gap between target and average compensation was greatest also tended to have higher turnover (see Figure 1).

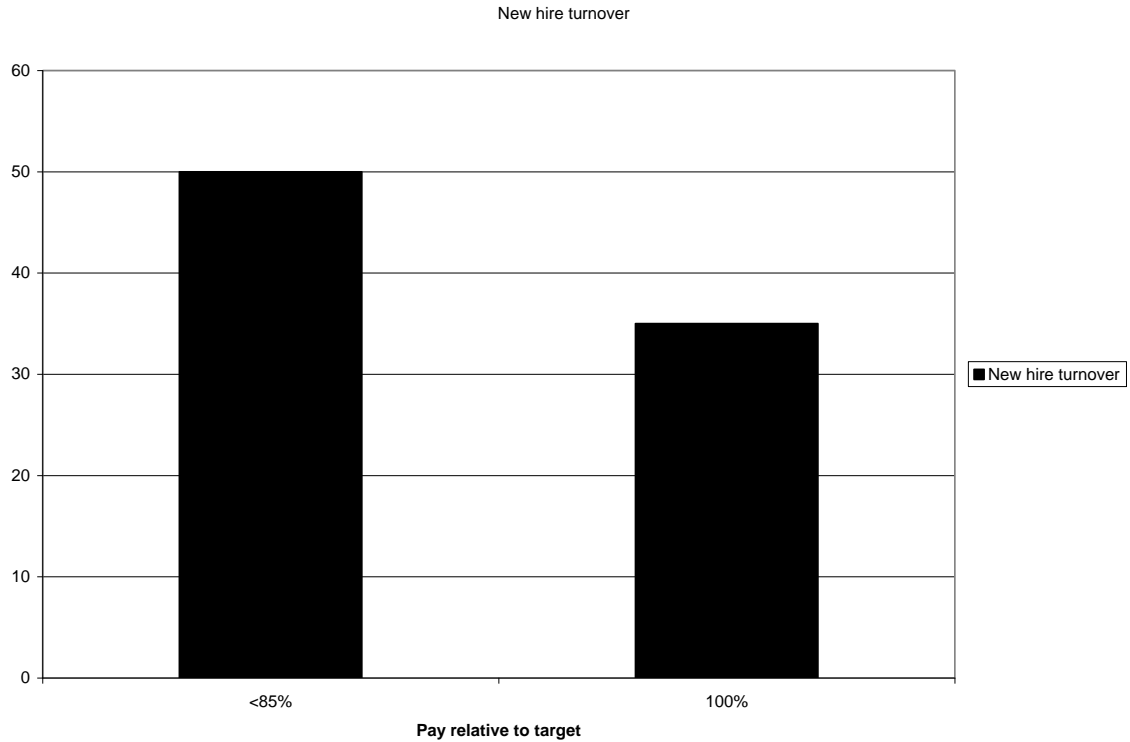


Figure 1

This is the point in the story when many organizations would declare victory and dive headfirst into solving the compensation problem. Yet there were two factors that led the diagnosis team to look further for root causes. First, the relationship between compensation and turnover was real, but the statistics were not very strong. This meant that a lot of other factors aside from compensation were impacting turnover, but the specific drivers aside from compensation had not been identified yet (see box below). Second, the relationship between the compensation gap and turnover in each region was stronger for new-hire turnover, weaker for turnover of the longer-tenured RSRs. But it was the longer tenured RSRs who had greater productivity and sales. So, while closing the compensation gap would have positive impact on the talent supply chain of RSRs, it would not necessarily improve productivity. To do that, another element in the employment picture needed to change.

Other Likely Factors Affecting Turnover

- Onboarding Process
- Training Quality
- Work Schedule
- Weekend Work
- Job Complexity
- Work Environment
- Physical Demands

“We were successful by framing the investment in the RSR job as any other strategic business decision where the fundamental hurdle is always whether or not the investment will grow the business and increase profitability,” said Randy Melville, Senior Vice President of Frito Lay Sales. By specifically quantifying the impact of new hire turnover on lost sales, Human Resource Leadership in conjunction with Senior Sales Leadership, was able to align the organization to make investments in RSR compensation over a period of three years with a goal to bring pay to market targets at the end of that time. “Prior to the study, we could only hypothesize turnover had a negative impact on sales. After the study results came in, we had hard data and specific volume and profit impacts to back up our hypothesis. We could commit to a return on investment that justified the expense of increasing compensation.”

Getting back to basics

To start, members of Frito-Lay’s HR team, in partnership with researchers at the Center for Effective Organizations (CEO), launched a study of the drivers of attraction, retention, motivation and productivity for the RSRs. The work started with an analysis of the job, breaking it down into three parts: sales tasks, driving and delivery tasks, and merchandising tasks. There were two reasons for taking a job-design approach.

First, Frito-Lay’s Sales team had already studied the importance of in-store product location for driving sales. They knew that getting additional display space in high-traffic areas was a key to driving incremental sales volume. Detailed training and coaching had long been provided to the RSRs on how to identify and secure incremental shelf space in key areas. So, even though sales activities—such as gaining incremental shelf space, building promotional displays and so forth—take only a fraction of time RSRs spent on the job during each day, there was a clear awareness that sales activities are critical for driving sales revenue and compensation.

Second, the RSR job is highly optimized, with the numbers and types of stores on a route set to strike the right balance between driving time, in-store time and truck utilization. Low-volume routes service a large number of small-volume stores such as convenience stores, drug stores and gas stations and use smaller trucks. High-volume routes service a small number of large-volume stores such as Wal-Mart, CostCo and large grocery stores and use larger trucks. RSRs on the low-volume routes spend more time driving between stores and are the primary interface with Frito-Lay’s customer: the retail store manager. RSRs on the high-volume routes spend more time in each store with more product to handle per store and are only one of several Frito-Lay employees to work with these customers. For the high-volume routes, national- and regional-account teams work directly with buyers in the retailers’ corporate offices on many, though not all, aspects of promotions and product mix, leaving less leeway for the RSR to influence sales at the local level.

One hypothesis Frito-Lay’s leaders wanted to test was whether sales-task execution mattered for the high-volume routes. Some leaders argued that the work of the account-sales teams for the high-volume route stores meant that in-store sales task execution by the RSRs was not important for driving incremental sales volume on those routes. Other leaders argued that RSRs executing sales tasks on high-volume routes was critical because local store managers

could subvert the directives of their own national-account teams by either refusing displays or putting them in less-desirable locations within the stores. They further argued that even if RSRs on the high-volume routes had less impact on the number and location of displays compared to the low-volume routes, the greater volume of sales on those routes meant that each incremental display in the right location on a high-volume route had disproportionately large impact on the company's bottom line.

Third, the job-design approach used by Frito-Lay, combining the three sets of tasks in one role--sales; driving and delivery, and merchandising--is one approach to the work design traditionally employed by consumer-products companies. Managers at other companies divide the tasks into separate jobs, most often creating two separate roles: one job dedicated to sales and a separate job dedicated to driving and delivery and merchandising. Frito-Lay wanted to use measurement and analytics to better understand the tradeoffs involved in keeping all three sets of tasks bundled in one, and the options for improving performance if the basic job design remained the same. This was of particular concern for the high-volume routes. These routes were better candidates for supporting breaking the tasks into separate roles, due to the greater total sales. Hourly merchandisers already were employed in some cases to help keep the shelves stocked at stores with extremely high volume, such as Wal-Mart.

Measurement and Analysis

The primary data to conduct the analysis came from a one-time survey of the RSRs and their supervisors, and from the performance-measurement system. The RSR survey measured a range of factors related to attraction, retention and motivation, including fit with the different parts of the job, availability of outside employment opportunities, job and career satisfaction, pay satisfaction, supervisor and organization support, and work-life balance. It also included questions about prior experience respondents had before coming to work at Frito-Lay in two key job-design areas: sales, and driving and delivery. Prior experience in merchandising was not emphasized because it was widely acknowledged that merchandising skills are relatively easy to learn and apply. It was unknown, though, the impact that prior sales experience or prior driving and delivery experience had on productivity in the RSR job.

The supervisors' survey used new measures to rate each RSR's ability to execute the sales, driving and delivery, and merchandising parts of the job. Given the deep understanding of the tasks associated with each part of the job, little difficulty was encountered getting the supervisors to provide the ratings.

All survey data were collected and treated confidentially by CEO. CEO also did all matching of the survey data, both RSRs and their supervisors, with the route -performance data, including net sales and customer service.

Productivity Drivers

The analysis produced actionable results. One critical insight was that the marginal contribution of task execution to sales performance differed by both route type and skill type. On the low-volume routes, differences in sales-task skills were the main driver of sales performance. On

these routes, the ability to secure additional display space was the primary differentiator of sales and customer service performance. In addition, RSRs with more years of sales experience before joining Frito-Lay also had greater sales than their peers who came to the job with less prior sales experience.

On the high-volume routes, differences in driving and delivery task skills were a stronger differentiator of sales performance than sales-task skills. On these routes, the ability to hit tight delivery windows was a critical issue because most high-volume stores require that deliveries be made early in the morning. This meant that an RSR might have to make deliveries to three stores on the route first thing in the morning, and then double back later in the day to merchandise the product and work on sales tasks.

Based on these results, managers might have concluded that sales-task execution was not important as a differentiator of sales on the high-volume routes. Yet a separate analysis demonstrated that prior sales experience before joining Frito-Lay was a predictor of sales on the high-volume routes, just as it was on the low-volume routes. Thus, the emphasis on sales-task training was validated for high- as well as low-volume routes.

Actions Taken

The question remained: What to do about the importance of driving and delivery skills on the high-volume routes? Because the bottleneck to performance lay largely with the job structure--the tight delivery windows--the solution was to free up time for driving and delivery tasks on the high-volume routes. This was accomplished by allocating more hourly merchandising help to those routes, freeing the RSRs up to take on more stores and focus on the driving and delivery tasks and sales tasks.

To take advantage of the positive impact of prior sales experience on route performance, the hiring profile was modified to put greater emphasis on prior sales experience.

HR's Role and HR Metrics

Throughout the process, HR professionals throughout the Sales organization, including generalists and specialists in Compensation, Recruitment, and Training and Development, played a central role working alongside the line leaders to identify the possible causes of the productivity bottlenecks to be addressed by the analysis. As Jose Motta, Vice President of Frito Lay Compensation and Benefits explained, "Business leaders will often move quickly to what they intuitively believe to be the 'right' answer, and Frito Lay Sales Leadership was no different. In this case, HR was able to guide the decision making by informing the process with key data and analysis along the way."

This case is an example of targeted, focused use of data. The measures of job task execution and RSRs' prior experience were largely created specifically for the analysis, and were not drawn from the HRIS or other reporting system. This case demonstrates the importance of problem focused use of measurement and analysis, including creating custom measures that are not necessarily to be used as ongoing reporting metrics. HR used the process of designing and

conducting the analysis to reframe management's going in beliefs and hypotheses about the role using a multifaceted approach.

The takeaway for HR professionals in other organizations is the importance of tailoring measures to fit the issue being addressed. The "right" human-capital measurement tools cannot necessarily be found in turnkey software solutions, a lesson applicable in companies of all different sizes. And while the resources used to design and conduct the analysis were not insignificant, they represented a tiny fraction of the dollars spent monthly in compensation and in supporting the activities of more than 17,000 incumbent employees.

More importantly, the job-design analysis capability that Frito-Lay HR professionals used to help design and carry out the analysis is in short supply in the HR functions of many organizations. Finding the root causes in this case meant looking at the design of the job, the tasks needed to execute each part of the job, the skills each RSR had to execute those tasks, and the role of attitudes about compensation and other factors in driving retention and productivity. Building job-design capabilities into the HR toolkit offers potentially high return on investment for any organization looking to improve the efficacy of its human-capital management.