

The New England Consulting Group

The Myths and Dangers of ACV

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Dolan and Hayes take an in-depth look at “all commodity volume weighted distribution” and how marketers can better utilize ACV as a marketing tool.

When managing existing consumer packaged goods brands, few metrics are as important as the strength of retail distribution. It is even more significant for the 90% of new products that fail every year. Availability to consumers is an integral factor in determining the success of any CPG product. Aside from direct sale to consumers, if a product is not on shelves where people shop, they will not buy it. It is just that simple.

In CPG retail, the commonly accepted measure of product distribution is termed “all-commodity volume weighted distribution” (ACV). It currently serves as the basis for most retail distribution measures of Information Resources Inc. (IRI) and ACNielsen, the leading data sources on retail sales.

While ACV is often a useful gauge of distribution, there are major shortcomings to this measure, both conceptually and as a result of the common methods of data collection. In reality, ACV is far from synonymous with actual distribution reach, and the consequences of confusing the two concepts can be drastic.

The danger of “ACV Distribution” is its ubiquity in typical CPG analyses and reports. Numerous vital decisions must be made on the basis of this measurement, such as ad spending, trade and consumer promotion, channel strategy, and line extension. For example, a company generally would not want to ramp up its advertising or consumer promotion for a product that has very limited distribution reach. Marketers must recognize and understand these shortcomings before making decisions based on ACV, so that additional metrics can be considered and the myths and dangers of ACV can be avoided.

Myth #1: ACV is a straightforward measure of availability to the consumer.

In theory, ACV is a general measurement of the extent to which a product is available to consumers. To calculate for a particular SKU, one must first determine all of the retail stores in which the SKU is offered. The stores are

then weighted based on their total sales (a.k.a. “all commodity volume”), with the resulting calculation:

$$\text{ACV wtd. dist.} = \frac{\sum \text{ACV of stores offering SKU during time period}}{\sum \text{ACV of all stores during time period}}$$

The primary logic behind this weighting is robust on the whole, because retailers with more sales generally have higher traffic and more valuable distribution points than stores with fewer sales. However, not all types of products are weighted throughout the various channels proportionately to overall sales. The first problem with ACV, by definition, lies in the fact that the weighting of ACV can be misleading for products in categories whose sales are concentrated in channels less sizable or more specialized.

This issue was particularly salient during our recent work with a client whose majority of sales came from traditional grocery channels. Since ACV is weighted based on overall store sales, the metric scores differently for products in such categories than those that sell mostly in superstores, especially for slower moving goods. While ACV still often provides useful comparisons within the category, the comparison across categories is not always valid and may be misleading.

Myth #2: ACV includes 100% of the opportunities for the consumer to purchase.

Current ACV calculations are limited to retailers included in the data set, which is only a subset of all retailers. As many brands experience “channel fragmentation,” the percentage of sales going through audited channels is declining. Most marketers are aware that IRI and ACNielsen data do not include scanner data from Wal-Mart, but the lack of coverage can be much more extensive. For example, health and natural food stores, e-commerce sites, and direct sales are all gener-

ally excluded from these sources. It is imperative for marketers to be aware that there are currently no comprehensive data sources available for retail sales, and any related distribution calculation is only valid for a limited set of retailers.

Myth #3: ACV measurement is not dependent on the rate of sales.

A more commonly overlooked problem stems from the fact that ACV is measured using retail scanner data. As a result, a product must sell at least one unit during the given time period in order to be counted as having “distribution” in that location. Under current ACV computation methods, the actual calculation looks more like this:

$$\text{ACV wtd. dist.} = \frac{\sum \text{ACV of all stores recording sale of product in time period}}{\sum \text{ACV of all stores during time period}}$$

Therefore, a brand could have 100% actual consumer availability but would have 0% ACV if no sales of it were scanned.

This issue is especially significant in slower moving categories, such as big-ticket items, bulk goods, and new products prior to advertising or promotional pull-through. Based solely on ACV, such products will often appear to have lower distribution reach than they actually have. Both IRI and ACNielsen concede this as a shortcoming to the measure.

Marketers of newly introduced products should be particularly wary of relying on ACV to gauge distribution reach. In such cases, marketers often seek widespread distribution before rolling out mass advertising and/or promotional campaigns. However, using ACV to gauge distribution could be especially misleading since the awareness of new products is often low, along with the sales rate. Thus, it becomes another instance of a chicken-and-the-egg problem, where sales are required for ACV to measure distribution effectively, but advertising and promotional spending may be necessary to garner the initial sales.

Even when the category as a whole is quick to move, ACV may demonstrate this shortcoming for multiple SKU brands. The problem here arises when one or two SKUs comprise

the majority of sales for the line. Since the marginal SKUs do not sell as often as the main SKU, their ACV will tend to be lower, despite the fact that they sit right next to each other on the shelf.

Myth #4: ACV is always comparable within categories.

In some cases, the same moderating factors that render cross-category comparisons invalid also affect products within a category differently. As a result, ACV measures are not always comparable even for products within the same category.

Based on these actual numbers from a recent NECG project, Competitor SKU #1 has comparable weekly

“distribution” to our client’s SKU X. However, the same

Competitor SKU #1 has a 12-week ACV much higher than that of SKU X. (See chart below.)

	SKU X	Competitor SKU #1	Competitor SKU #2
12-week ACV	57%	71%	88%
Avg. weekly ACV	24%	23%	40%

The disparity is due to the differing sales rates of the two SKUs. Competitor SKU #1 has broader distribution than SKU X, but Competitor SKU #1 has a lower rate of sales, so some of its distribution is regularly unrecorded in the weekly ACV measure. On the other hand, Competitor SKU #2 has a more extensive distribution than both SKU X and Competitor SKU #1.

Despite the many caveats of ACV, it remains a functional gauge of distribution and is currently the most cost-effective measure. However, given the significant role of ACV in the decision making of most marketers, its misinterpretation and misuse can have serious consequences. In the not-so-distant future, there will be methods to examine retail distribution with considerably more accuracy, such as when on-pack RFID tags become ubiquitous. Until then, we must make the most out of ACV by understanding it fully along with its various shortcomings and advantages.

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