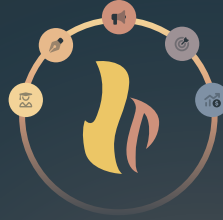


SPINS Ignite



Mastering Sales Velocity

How to choose the right
calculation for CPG brands

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What is **Velocity**?

Of all the important sales metrics, velocity can feel like the most complex to understand.

The word itself may remind you of high school physics class! But in our normal daily lives, we use velocity every day. When you're driving a car, how do you tell someone how fast you are going? You use miles (or kilometers) per hour; distance over time.

Real Life vs. Shelf Life

Just as we can tell how fast our car was going using miles per hour, we can tell how “fast” a product is moving by looking at velocity in sales data.

PHYSICS EXAMPLE

Miles

Per Hour

CPG DEFINITION

Sales

Distribution

There are 8 different ways to calculate velocity but they all take into account two major metrics: sales, as in dollars or units, divided by distribution, represented as either Stores, Maximum All Commodity Volume (Max ACV), or Total Distribution Points (TDPs).

Velocities with Store or ACV denominators only consider the amount of retail locations selling, while velocity metrics that include TDP also consider the number of items a brand is selling.

Velocity is important because it tells retailers how frequently a product sells.

Retailers want to sell through inventory quickly, and some have velocity targets for each category. If a brand doesn't consistently meet the velocity threshold, the product is at risk of discontinuation.

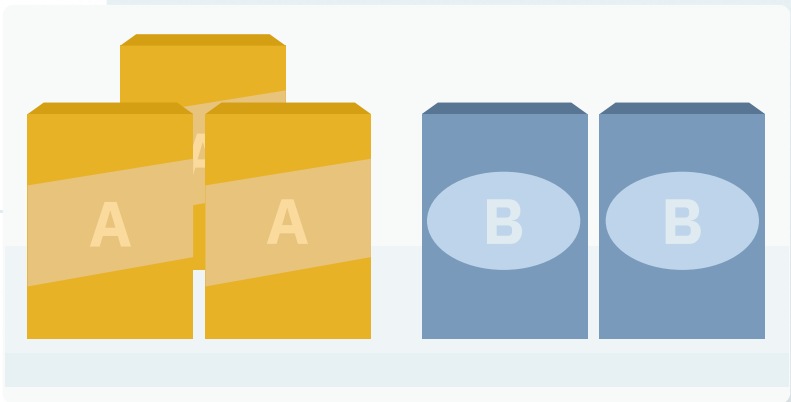
Units Per Store Selling

1 Week Timeframe

Let’s look at a really simple example. This retailer has only one location, and we are looking at one week of data.



In one week, Brand A sold three units and Brand B sold two units.



Brand A’s velocity is higher by 50%.

BRAND	UNIT SALES	STORES SELLING	UNITS/STORE SELLING
A	3	1	3.0
B	2	1	2.0

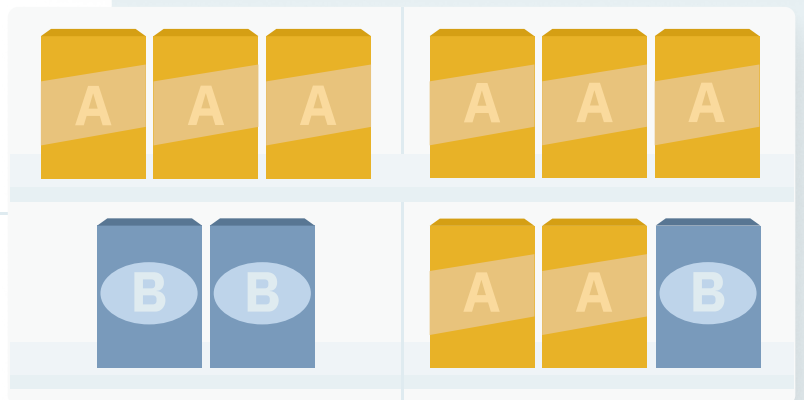
Units Per Store Selling

1 Week Timeframe

Let's increase the amount of stores. Now the retailer has two locations.



Brand A's weekly sales are higher at the second location while Brand B's sales are lower.





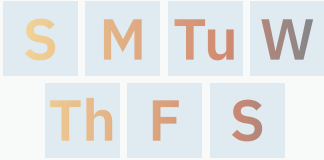
Divide the total units by the total stores and you can find the velocity for the brand at this retailer.

BRAND	UNIT SALES	STORES SELLING	UNITS/STORE SELLING
A	8	2	4.0
B	3	2	1.5

Units Per Store Selling

52 Week Timeframe – 1 Year

Time can be an important factor in velocity calculations. Many brands and retailers look at an average velocity over 12, 24, or 52 weeks. Advertising, sales, or demos can skew one week of performance so looking at an average over time can be more reliable.

UNIT SALES	STORES	TIME (WEEKS)
		
VELOCITY MEASURE	CALCULATION	NOTES
Average Weekly Units Per Store Selling	Average Weekly Units / # of Stores Selling	To compare unit velocities of products with varying levels of store selling and items carried .
Average Weekly Units Per Store Selling Per Item	Average Weekly Units / # of Stores Selling / (TDP / Max % ACV)	To track how well a product sold, controlling for both the number of stores selling it as well as the number of product UPCs scanning within the store .

Should I use **dollars** or **units**?

Generally speaking, use whatever velocity metric your retail buyer uses - don't be afraid to ask them ahead of time! But there is some nuance around pricing that can affect your brand's velocity ranking.

Unit velocities can be slightly more favorable if your products are cheaper than the Average Retail Price (ARP) of the subcategory.

ARP **Lower** = Use Units

Dollar velocities can increase your brand ranking if your products are more expensive than the ARP of the subcategory.

ARP **Higher** = Use Dollars

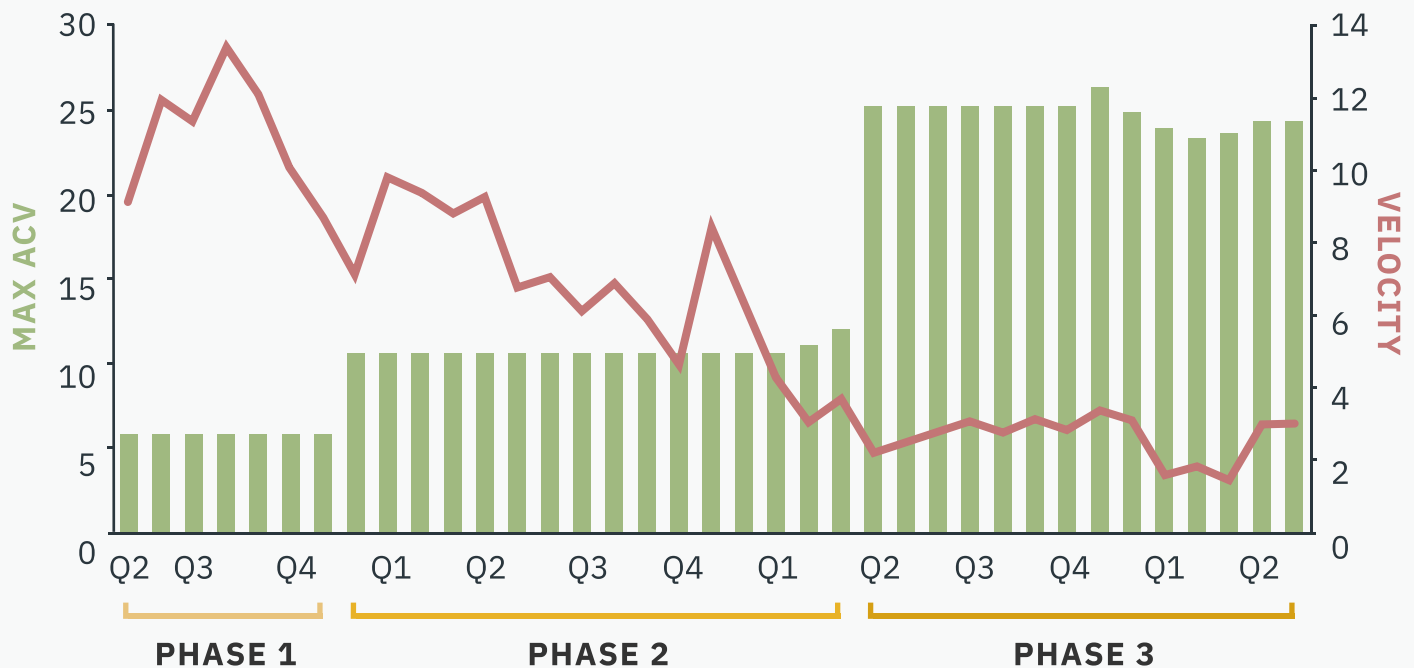
*Pro Tip: Do **NOT** use velocity when Max ACV is low; <5 is a no-no, <10 use caution.*

DESCRIPTION	DOLLARS	UNITS	ARP	AVG WEEKLY DOLLARS PER STORE PER ITEM	AVG WEEKLY UNITS PER STORE PER ITEM
Cheap Brand	\$2,751,220	604,125	\$4.55	\$8.36	1.8
Premium Brand	\$1,497,524	109,780	\$13.64	\$12.97	1.0

Velocity and Distribution are **inversely correlated**

Many people don't realize that velocity and distribution are inversely correlated!

Think about it – your first few stores are usually your best performing if you have built local brand recognition prior to your retail launch. But when you expand to new retailers and/or states, these customers won't know you as well. Your velocity will be slower in these new stores so as an average, your brand's velocity will decrease.



Deep Dive on Phases →

Velocity and Distribution are **inversely correlated**

Phase 1

Launch! Only a few stores. Lots of excitement and activity based on existing brand recognition. These stores will be your best performing for a while.

Phase 2

Getting more retailers means distribution can double, but velocity slips a lot. Customers at these stores may not be as familiar with your products, so they are buying them less frequently. Velocity is an average, so the average will go down if the new stores don't move as much as the launch stores.

Phase 3

Your brand has doubled distribution again, and velocity continues to decrease—but overall, the brand is still unit and dollar positive. Velocity numbers will settle down to a similar level as the broader and bigger competition—this is completely normal.

Going forward, your velocity will probably stop decreasing as dramatically. Activities like demos, promotions, and marketing can help boost velocity and expose more people to your products. Over time, successful execution of these activities will help stabilize your velocity and keep it competitive with other brands.



Key Takeaway 1:

Velocity metrics matter

Velocity is a key metric that retailers use to judge the performance of a product. A big brand who is down in sales versus a year ago can still retail their shelf space if their sell-through rate is high. Consistently moving lots of product is very important to retailers.



Key Takeaway 2: **Velocity goes down when distribution goes up**

When your brand is new, velocity metrics won't look as good as the competition. As you expand, velocity metrics actually tend to go down! Increasing distribution tends to decrease velocity for expanding brands.

But as long as your overall unit and dollar sales are positive, then it's usually not a big deal – and your velocity will stabilize over time.



Key Takeaway 3: **Monitor your velocity and take action!**

Even things as small as missing or incorrect price tags can negatively **affect an item's velocity**. People won't buy something (especially if it's new) if they don't know what the benefits are or they think it's too expensive.

Brands can increase velocity by executing in-store promotions, geo-targeting advertising around store footprints, demoing the product, changing pricing, or monitoring voids to make sure their product is in stock and merchandised appropriately.

SPINS **Velocity Metrics**

Use this handy guide on how to correctly calculate velocity and choose the best one for your use case or audience.

Most people are familiar with Average Weekly Sales Per Store Selling Per Item.

VELOCITY MEASURE	CALCULATION	NOTES
Average Weekly Dollars (or Units) Per Store Selling Per Item	$\frac{\text{(Average Weekly Dollars (or Units) / \# of Stores Selling)}}{\text{(TDP / Max \% ACV)}}$	When comparing individual items or sets of items ideally within the same geography
Dollars (or Units) / Sales Per Point (SPP)	$\frac{\text{Dollars (or Units)}}{\text{Max \% ACV}}$	When comparing individual items within the same geography
Dollars (or Units) / TDP	$\frac{\text{Dollars (or Units)}}{\text{TDP}}$	When comparing sets of items (e.g., brands) within the same geography

Partner with SPINS to **Accelerate Your Brand Growth**

The SPINS Liftoff Bundle is designed to equip brands with insights and resources to succeed in a highly competitive market. We bring 25 years of experience as a proven growth partner to develop data-driven retail strategies and put them into action.

Brands that work with SPINS grow 22% faster on average than those that don't.

Optimize performance
& accelerate velocity
at key retailers.

Benchmark against
competitors & create
better sell stories for
new distribution.

Grow market share
& innovate across
categories.

To learn how SPINS can drive success for your business, email growth@spins.com or visit www.spins.com/liftoff.

Small Business **Liftoff Bundle**

