Background on the Commercial Excellence Benchmarking Survey

<table>
<thead>
<tr>
<th>Collects <strong>marketing and sales practices</strong> from leading CPG companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Identifies winner’s practices</strong> by linking company actions to results seen in market</td>
</tr>
<tr>
<td><strong>Data-driven approach</strong> quantifies the value of winning in each area and provides insight around how the winners are succeeding</td>
</tr>
<tr>
<td>Analyzes performance across the suite of marketing and sales capability areas</td>
</tr>
</tbody>
</table>

Since 1978 using the same principles
North America benchmarking covers over 100 companies, representing $1 trillion of net sales and $20 billion of trade spend.
The value of being a winner is significant…

**Revenue Growth Management**

Price: winners have increased **price 1.5 points relative to category** (-0.3% for others)

Trade: winners achieved **25% greater lift per point of price** reduction relative to category, and **10% greater lift from quality merch** relative to category

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**Route to Market**

Winners experienced **2.5 pts of sales growth relative to category** (-4.2% for others) …

… while managing to **keep sales expenses under control** (4.3% gap in year-over-year sales expense change)

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**Omnichannel**

Winners **grew online sales 63% faster than others**

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Winners are companies that outperform\(^1\) their peers in the categories in which they compete

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\(^1\) Sales growth ahead of category, while still managing costs more effectively than competitors

**SOURCE:** 2018 McKinsey CEB Survey
…however, the gap is narrowing and the bar is rising

The gap in alignment to best practices between winners and others is closing

Difference in best practice alignment, winners vs. others
Winners’ advantage when measured on a scale of 1-10

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store-specific insight generation</td>
<td>2.2x</td>
<td>1.6x</td>
</tr>
<tr>
<td>Using consumer-based analysis to sell-in RGM decisions</td>
<td>1.7x</td>
<td>No gap</td>
</tr>
<tr>
<td>Dedicated RGM resources</td>
<td>1.9x</td>
<td>1.4x</td>
</tr>
<tr>
<td>Teams co-located with Amazon</td>
<td>2.3x</td>
<td>1.7x</td>
</tr>
</tbody>
</table>

Examples

1 In 2018, average is 7.2 for winners and 5.1 for others

SOURCE: 2018 McKinsey CEB Survey
**McKinsey’s Predictive Growth framework**

**Predictive Growth**
*Unleash growth potential using proven winner’s formula – Create, Invest, Perform, Sustain – to tailor an innovative forward-looking growth roadmap*

<table>
<thead>
<tr>
<th>Create</th>
<th>Invest</th>
<th>Perform</th>
<th>Sustain</th>
</tr>
</thead>
<tbody>
<tr>
<td>CREATE actionable growth path for brands, products, business models and customers, by predicting consumer demand through granular advanced analytics</td>
<td>Force transparency around the value of every $ spent to INVEST more effectively behind better targeted Marketing and activities that deliver holistic Revenue Growth Management</td>
<td>Drive execution excellence in every store to out-PERFORM competition across channels and retailers</td>
<td>Unlock organizational agility and build new capabilities to SUSTAIN superior performance over time</td>
</tr>
</tbody>
</table>

1. Portfolio Mapping & Innovation
2. Dynamic Customer Portfolio Strategy
3. Data-driven Marketing
4. Precision Revenue Growth Management
5. Retail Partnerships for Growth
6. Digitally-enabled In-store Excellence
7. Agile Growth Organization
8. Predictive Growth Analytics
NA Winning Practices – Portfolio Mapping & Innovation

Winners…

A. Develop a robust innovation foundation
   - Maintain a granular understanding of the consumer journey
   - Use behavioral insights
   - Leverage AA and consumer data platform to inform portfolio strategy

B. Establish a flexible and responsive innovation process
   - Place bets on internal innovation
   - Use more frequent SKU assessments
   - Bring innovation to market faster
   - Respond to market pressures with renovations
   - Maintain local touchpoint

C. Assess SKU changes by looking at portfolio impact
   - Focus on “true impact” across the portfolio and value chain when making SKU changes

SOURCE: 2018 McKinsey CEB survey
Winners use broad and more advanced data sources and manage this data effectively...

Winners are 1.5X more likely to use **behavioral insights** in addition to traditional insights to inform portfolio innovation.

Winners are 2X more likely to use **choice-based conjoint analysis** to inform shopper insights used in brand strategy.

Winners are 2X more likely to have a **consumer data platform** to track and manage data and support a 360-degree view of the consumer.

...to support a more granular understanding of the consumer decision journey

% of winners

**Understand CDJ online**

 Winners are **1.5X** more likely to have this level of clarity on the CDJ online

60%

**Understand CDJ in-store**

80%

SOURCE: 2018 McKinsey CEB survey

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1 Includes behavioral and transactional social listening, ethnography
Winners…

A. Develop forward looking strategies to capture growth
   - Use a broad range of channels and platforms and understand the clear role that customers play in a portfolio
   - Maintain active consumer touchpoints through content creation, social media, and online community management

B. Align functions and organizational resources with customer strategies
   - Proactively and frequently manage online and offline customer resources (people and $s) accordingly
     - Align sales force with top key accounts
   - Co-locate teams with Amazon
   - Maintain close ties between sales and eComm to link capabilities with overall strategy

C. Build customer and channel-specific capabilities
   - Use a wide range of tactics to drive sales
   - Track and monitor repeat offenders on Amazon
   - Implement strict guidelines and differentiate SKUs across channels

SOURCE: 2018 McKinsey CEB survey
Winners align functions and organizational resources with customer strategies

Prioritize top accounts

1.5x

Align sales force by account for top key accounts and channels

Prioritization of club channels has resulted in increased size of dedicated customer teams for Sam’s and Costco in 2018 vs. 2017

Co-locate when needed

1.7x

Reinforce customer and channel strategy through co-location of teams with Amazon

43% winners have co-located teams with Amazon, up from 29% in 2016

Execute across channels

1.4x

Link ecommerce teams with regional sales teams to support key account strategy

SOURCE: 2018 McKinsey CEB survey
Winners…

A. Develop effective spend management
   - Maintain reliable ROI across vehicle
   - Optimize through programmatic buying
   - Assess performance in near real-time
   - Dedicate resources to frequent testing

B. Leverage a broad ecosystem of agency partners
   - Work with at least 5 agencies
   - Seek clarity on detailed agency cost drivers
   - Perform frequent annual reviews of agencies

C. Invest in content creation and effective data management
   - Maintain clarity around content use
   - Support content and data management through technology platforms
   - Track consumer decision journeys on and offline

D. Adopt agile processes
   - Migrate digital and traditional media to agile processes (e.g., testing)

SOURCE: 2018 McKinsey CEB survey
Winners develop effective spend management

Winners collect granular information on how and where they spend ...

Winners have reliable ROI tracked across all channels, including digital and out of home:

- 1.7x more likely to have reliable ROI for digital spend
- 1.7x more likely to have reliable ROI for TV spend
- 3x more likely to have reliable ROI for out of home spend

... and adopt rigorous spend management processes:

- Winners are 1.6x more likely to make real-time adjustments most or all of the time depending on performance
- Winners allocate 48% of their digital marketing budgets to programmatic buying where they can optimize placement

Winners are 3x more likely to have clarity on all detailed programmatic costs

SOURCE: 2018 McKinsey CEB survey
NA Winning Practices – Precision Revenue Growth Management: Pricing

Winners…

A. Align stakeholders with RGM objectives
   • Empower dedicated RGM leads to have a strong voice across the organization with support from senior leadership
   • Nurture cross functional decision making

B. Maintain agility in pricing actions
   • Improve net-price realization by taking pricing actions more frequently

C. Leverage basic and advanced tools to maintain pricing strategy
   • Apply basic tools (e.g., price gaps) frequently to inform real-time decision making
   • Use new data sources (e.g., loyalty card) and advanced tools to get broader pricing insights

SOURCE: 2018 McKinsey CEB survey
NA Winning Practices – Precision Revenue Growth Management: Trade

Winners…

D. Measure and track detailed ROI to inform investment decisions
- Use event and customer-level ROI to invest in more targeted customers and promotions

E. Utilize a ‘Pay for performance’ trade investment architecture
- Use ROI as a primary driver in allocation
- Flex trade rates across customers
- Incentivize retailers based on adherence to agreed promotion plan
- Take corrective actions when overspend occurs

SOURCE: 2018 McKinsey CEB survey
Winners maintain agility in pricing actions

Winners took RGM actions (e.g., price, promo, trade) quarterly or more frequently to hit new price points.

50%

Winners are more likely than others to adjust list prices frequently.

1.7x

Of everyday recommended price changes made by winners use price gap analysis.

>80%

SOURCE: 2018 McKinsey CEB survey
Winners…

A. Invest more in strategic negotiation preparation
   - Develop robust negotiation tracking practices
   - Use internal and external trainings to develop negotiations skills across channels

B. Anchor sell-in on compelling and granular insights
   - Generate a broader range and deeper shopper insights
   - Leverage consumer and shopper insights teams to support sell in

C. Partner with retailers to drive shopper benefit
   - Collaborate with retailers to drive shopper value in immediate impact areas (e.g., assortment, reduction in out-of-stocks)
   - Build specific retail capabilities and partnerships using broad levers (e.g., trade, retailer launches)

SOURCE: 2018 McKinsey CEB survey
Winners partner with retailers to drive shopper benefit

Winners rely on strategic collaboration to drive value for shoppers across their core

- **2x** Shopper marketing programs
- **1.4x** Exclusive products and packaging
- **1.3x** Improved merchandising strategy

SOURCE: 2018 McKinsey CEB survey
### NA Winning Practices – Digitally-Enabled In-Store Excellence

**Winners…**

<table>
<thead>
<tr>
<th>A</th>
<th>Tie evaluation metrics to in-store excellence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Evaluate salesforce on in store metrics and KPIs</td>
</tr>
<tr>
<td></td>
<td>• Track in-store metrics more frequently</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B</th>
<th>Build capabilities with retail brokers to support in-store performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Utilize retail brokers to perform broad base of customer service and category management tasks</td>
</tr>
<tr>
<td></td>
<td>• Compensate brokers on in-store performance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C</th>
<th>Use predictive analytics to anticipate out of stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Anticipate out of stock and in-store service issues and leverage these insights during sell-in</td>
</tr>
</tbody>
</table>

**SOURCE:** 2018 McKinsey CEB survey
Winners tie evaluation metrics to in-store excellence

Top input-based metrics used by winners to evaluate salesforce effectiveness

1. Expanding distribution of SKUs
2. Speed to shelf
3. Customer satisfaction
4. Compliance (e.g., promo, planogram)
5. Order entry speed and accuracy

Winners are 2x more likely to use customer satisfaction to evaluate their sales force

Winners track KPIs monthly, on average, compared to quarterly for others

SOURCE: 2018 McKinsey CEB survey
Winners create agile organizations and disproportionately invest resources in some areas…

<table>
<thead>
<tr>
<th>Commercial Specialists</th>
<th>1.3x</th>
<th>in shopper insights compared to others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.2x</td>
<td>in social/digital marketing</td>
</tr>
</tbody>
</table>

While staying lean in some areas…

<table>
<thead>
<tr>
<th>Commercial Generalists</th>
<th>1.5x</th>
<th>Less in Brand FTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.2x</td>
<td>Less in KA/HQ FTEs</td>
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</table>
Winners and others have adopted optimization tools, but the whole industry has opportunity to increase the use of advanced analytics.

<table>
<thead>
<tr>
<th>Optimization Tool Usage</th>
<th>Winners advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Promotion Management Tool</td>
<td>1.2X</td>
</tr>
<tr>
<td>Trade Promotion Optimization Tool</td>
<td>1.8X</td>
</tr>
<tr>
<td>Assortment optimization tool</td>
<td>1.8X</td>
</tr>
</tbody>
</table>

- There are **increasing opportunities** to use sophisticated data and analytics to inform decisions and optimize processes across the value chain.
- The whole industry, both winners and others, **lags in the use of advanced analytics**.
- To start, **prioritize the highest impact use cases** and **selectively invest** to capture value and build capabilities.

SOURCE: 2018 McKinsey CEB survey
About McKinsey’s North America Commercial Excellence Benchmarking Team

Kari Alldredge
Partner
Minneapolis
• Leads Commercial Excellence Benchmarking globally
• Expertise across commercial growth – especially in sales, marketing effectiveness, and channel management

Jen Henry
Partner
Charlotte
• Leads Commercial Excellence Benchmarking in NA
• Expertise in revenue growth management and predictive growth analytics

Julie Lowrie
Sr. Knowledge Expert
Atlanta
• Leads Commercial Excellence Benchmarking globally
• Expert in Marketing and Sales organization design

Travis Reaves
Associate Partner
Atlanta
• Leads Commercial Excellence Benchmarking in NA
• Expertise in revenue growth management and portfolio strategy

To learn more, please reach out to Travis Reaves (travis_reaves@mckinsey.com)