Adapting with speed:
How agile selling organizations win in a demanding environment

THE 2014 CUSTOMER AND CHANNEL MANAGEMENT SURVEY

GMA
nielsen
McKinsey & Company
GROCERY MANUFACTURERS ASSOCIATION (GMA) Based in Washington, DC, the Grocery Manufacturers Association is the voice of more than 300 leading food, beverage, and consumer-product companies that sustain and enhance the quality of life for hundreds of millions of people in the United States and around the globe. Founded in 1908, GMA is an active, vocal advocate for its member companies and a trusted source of information about the industry and the products consumers rely on and enjoy every day. The association and its member companies are committed to meeting the needs of consumers through product innovation, responsible business practices and effective public-policy solutions developed through a genuine partnership with policymakers and other stakeholders.

In keeping with its founding principles, GMA helps its members produce safe products through a strong and ongoing commitment to scientific research, testing, and evaluation as well as providing consumers with the products, tools, and information they need to achieve a healthy diet and an active lifestyle. The food, beverage, and consumer-packaged-goods industry in the United States generates sales of $2.1 trillion annually, employs 14 million workers, and contributes $1 trillion in added value to the economy every year. For more information, visit the GMA Web site at gmaonline.org.

McKinsey & COMPANY McKinsey & Company is a global management-consulting firm dedicated to helping the world’s leading organizations address their strategic challenges. With consultants deployed in more than 50 countries around the globe, McKinsey advises on strategic, operational, organizational, and technological issues. For more than eight decades, the firm’s primary objective has been to serve as an organization’s most trusted external adviser on critical issues facing senior management. The Consumer Packaged Goods (CPG) practice serves the majority of the top global CPG companies on a range of cross-functional topics. As CPG companies face an increasingly challenging market, our consultants deliver distinctive, substantial, and lasting performance improvements, rigorous analyses, and innovative insights.

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows, and related properties. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands. For more information, visit nielsen.com.

Copyright © 2014 by the Grocery Manufacturers Association, McKinsey & Company, and Nielsen. All rights reserved. No part of this publication may be reprinted or reproduced in any way without written consent from GMA, McKinsey & Company, or Nielsen.
INTRODUCTION

What do Kodak, Blockbuster, and BlackBerry all have in common? They all became obsolete or less relevant because they failed to recognize and adapt to fundamental changes in their industries. Consumers take pictures, watch movies, and use mobile devices—more than ever before. However, today they do these things in new ways that require successful companies to adapt their business models.

The old adage that “people will always need to eat and wash their clothes…” does not mean the Consumer Packaged Goods (CPG) industry is insulated from change. In fact, changes across the industry are reshaping how companies compete and win. Consumers are frequenting a wider range of channels, making it harder for CPG companies to manage channel conflict. Shoppers want to order household staples while on the go, and they expect a seamless experience across channels. Retailers are implementing technology-enabled in-store experiences that build shopper engagement and raise the bar on the depth of insights required from CPG partners. Finally, CPG companies need to attract, engage, and retain a new generation of talent which prioritizes rapid advancement, personalized development, work-life balance, and social responsibility. The pace of this change is accelerating as consumer, shopper, retailer, and employee requirements continue to evolve.

Companies have a choice: will they be Instagram or Kodak, Netflix or Blockbuster? Winning companies differentiate themselves in this rapidly changing world not just through what they do—but how they do it. Read on to see how winning CPG companies are adapting with speed in this rapidly changing marketplace in three ways:

- **Staying ahead of the curve:** anticipating the future and collaborating with customers to realize it
- **Winning in an omnichannel world:** staking a claim through long-term investments and strong partnerships
- **Building end-to-end sales capabilities:** driving return through a strategic, hands-on approach that develops and retains talent

SURVEY OVERVIEW AND METHODOLOGY

This article shares the findings of the 2014 Customer and Channel Management (CCM) Survey and provides an up-to-date perspective on the practices of top-performing CPG companies. Our distinctive approach, linking customer and channel management practices to in-market results, gives us a unique perspective on which practices matter most and how much value they generate.
Since 1978, McKinsey’s Consumer and Packaged Goods Practice has been studying and benchmarking the customer and channel management practices of leading CPG companies in the United States. More recently, we added surveys covering Asia, Latin America, and Europe. This article discusses the findings from our recent US survey, which we developed in partnership with the Grocery Manufacturers Association and Nielsen. Through the survey we define a set of market-based metrics that we use to define “winners” (companies that outperform their peers in the categories in which they compete) and “others” in the United States.

Our long experience with the CCM survey provides us with a longitudinal view of customer and channel management excellence. As a result, we can clearly distinguish between practices that are now “table stakes” and those that truly differentiate companies in today’s environment. We track and explore changes in core topics we repeat in each survey (sales strategy, revenue management, and organization design). We also examine emerging areas that are high priorities for commercial leaders. In 2014, these include building end-to-end sales capabilities and competing in an omnichannel world.

More than 45 leading CPG players participated in the 2014 survey (Exhibit 1). These companies represent food, nonfood, and consumer health categories, as well as small and large companies, and DSD and warehouse go-to-market systems. Participants selected their most appropriate and knowledgeable commercial leader to complete each survey module. Approximately 150 CPG executives participated in this year’s survey.

EXHIBIT 1
More than 45 leading Consumer Packaged Goods manufacturers participated in the 2014 CCM Survey.
WINNING PRACTICES MATTER NOW MORE THAN EVER

The 2014 survey results reveal that winning practices continue to make a significant difference in company performance—in fact they are worth more now than they were in 2012. A significant performance difference exists between winners and others across capability areas in 2014.

**Sales strategy**

Winners grew about 3 percentage points faster than their peers while reducing sales costs. Others lost share while reducing sales cost at a slower rate.

**Company growth ahead of category**

<table>
<thead>
<tr>
<th>Percentage points</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-2.1</td>
<td>3.3</td>
</tr>
</tbody>
</table>

**Sales expense reduction**

<table>
<thead>
<tr>
<th>Percentage points</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.3</td>
<td>0.05</td>
</tr>
</tbody>
</table>

1. Indexed to category; reflected in percentage points.
2. Absolute change in sales costs as a percent of net sales, 2012-2013; sales costs defined as sum of sales-personnel expense, broker sales agency, field office, sales-related IT, sales aides / materials, sales-related travel and entertainment, other.

**Revenue management**

**Pricing**

Winners increased their price 2 percentage points ahead of their categories and grew share while others failed to keep pace on price and lost share.

**Unit price change vs category**

<table>
<thead>
<tr>
<th>Average, Percentage points</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-0.6</td>
<td>2.0</td>
</tr>
</tbody>
</table>

**Sales change vs category**

<table>
<thead>
<tr>
<th>Average, Percentage points</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-2.2</td>
<td>3.6</td>
</tr>
</tbody>
</table>

1. Indexed to category; reflected in percentage points.
2. For example, if a company’s sales are generated entirely from category A, and this category has experienced average unit price growth of 5%, a “winner” achieved unit price growth of 7%, or 2 points above category, while an “other” achieved unit price growth of 4.4% or 0.6 points below category.

**Revenue management**

**Trade investment**

Winners captured more incremental revenue from price reductions and quality merchandising than others.

**Relative lift per point of price reduction**

<table>
<thead>
<tr>
<th>Percent (relative to median)</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-6.9</td>
<td>24.8</td>
</tr>
</tbody>
</table>

**Relative lift from quality merchandising**

<table>
<thead>
<tr>
<th>Percent (relative to median)</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-7.3</td>
<td>26.6</td>
</tr>
</tbody>
</table>

1. Lift from promotion is calculated as difference in sales dollars given the specific promotion compared to baseline sales dollars; relative lift indexed to category compares company lift by category against average category lift figures.
2. Quality merchandising implies any feature or display on a product.
3. Companies cannot exceed category lift by more than 50%.

Winning practices matter more now than before (Exhibit 2). A longitudinal view shows the performance gap between winners and others expanded between 2012 and 2014. This increase emphasizes the value of performance excellence in customer and channel management. In sales strategy, for example, the delta between winners’ and others’ performance (sales growth ahead of the category) is significantly greater than it was in previous surveys. Winners are growing even faster than their categories, while others are declining faster relative to their categories. The delta between revenue management winners and others also expanded between 2012 and 2014.

EXHIBIT 2
Excellence in customer and channel management is more important than ever.

Average sales growth
Percent, 2012-13

<table>
<thead>
<tr>
<th>Category</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>90</td>
<td>12</td>
</tr>
<tr>
<td>Consumer</td>
<td>58</td>
<td>24</td>
</tr>
<tr>
<td>Health</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td>Nonfood</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Participant must have at least $20 million in online sales.
2. Self-reported.

SOURCE: 2014 CCM Survey

Company growth ahead of category
Percentage points

<table>
<thead>
<tr>
<th>Year</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2</td>
<td>-1</td>
</tr>
<tr>
<td>2014</td>
<td>3</td>
<td>-2</td>
</tr>
</tbody>
</table>

1. Indexed to category; reflected in percentage points.

SOURCE: 2014 CCM Survey
ADAPTING WITH SPEED: Detailed discussion

Staying ahead of the curve: *anticipating the future and collaborating with customers to realize it*

Sales strategy continues to be a critically important differentiator of performance among CPG players. Winners in this performance area grow market share while reducing sales expense; their peers, on the other hand, lose share. These outperforming companies identify and stay ahead of evolving sources of growth, which allows them to take bold actions and reap emerging benefits.

More specifically, winners are:

- Growing 1.5 to 3 times faster than others in the highest-growth channels: Walmart, Dollar, and e-commerce
- Making bigger bets against high-growth consumer segments (millennials, Hispanics, value conscious)
- Collaborating more closely with key customers

**Growing faster in the highest-growth channels**

In the Dollar channel, winners are developing consumer and shopper insights and are using them to shape in-store execution. They are two times more likely than others to invest in Dollar channel-specific insights. These help inform pricing, merchandising, and assortment strategies (which are particularly important given limited available shelf space). Winners also introduce a greater number of new items in the Dollar channel than others do (Exhibit 3). These items are designed...
to meet shoppers’ requirements and manage manufacturers’ economics. (With a limited assortment, individual SKU-level economics are the key to managing overall profitability within the channel.) To maximize velocity, winners tailor their assortments based on retailer strategy, geography, and shopper demographics. SKUs are offered at pack-price combinations that signal value to the shopper (relative to the Mass channel) and winners execute simple, value-oriented merchandising strategies. Finally, due to their limited assortment, they manage out of stocks aggressively.

In Walmart, winning companies are investing more FTEs to support the business than their peers (about 25 percent more). Winners saw potential in Walmart’s resurgence in the marketplace and shifted resources to drive it. Consistent with 2012, winners are still deploying more functional expertise such as category management, shopper insights, and shopper marketing against Walmart than others. (At winners, 42 percent of their Walmart-dedicated team are functional experts versus only 26 percent at others.) The proportion of the team with functional expertise has actually grown since 2012. In addition to people, winners are also investing in getting their assortment right for Walmart and its shoppers. Annually, winners introduce a higher percentage of new items into Walmart than others do.

Winning companies also apply a tailored approach to winning in e-commerce. Their investments in organization, capabilities, assortment, shopper analytics, and marketing strategies are detailed in the next section, “Winning in an omnichannel world.”

While Dollar, Walmart, and e-commerce are winning companies’ current priorities, we know from our earlier surveys that one thing winners do better than others is shift priorities and flexibly reallocate resources. As an example, our winners in 2008 were aggressively investing in Walmart, but by 2012 winners had shifted top priority to small format growth channels such as Dollar and Drug. Forward-looking strategy and flexible resource allocation are time-tested hallmarks of winners.

Making bigger bets against high-growth consumer segments
Most CPG companies believe that demographic shifts will drive the greatest change in the industry over the next five years (presenting both challenges and opportunities). Similar to what we saw in 2012, companies believe high-potential segments include millennials, Hispanics, and more value-conscious consumers.

Winners and others focus on a common set of high-growth consumer segments; however, the ways in which winning companies are activating against these segments is more advanced. Winners are making greater and different types of investments than their peers (or than they themselves were in 2012). For example, many companies are investing in research to understand millennials’ attitudes, preferences, and behaviors; they then use these insights to create targeted communications and promotions. Winners take these insights even further,
applying them to develop new products that address the segment’s needs (29 percent of winners develop tailored products for millennials versus 7 percent of others). Similarly, many companies are developing insights about Hispanic consumers, but winning companies turn these insights into actions: identifying retailers that are well-developed with Hispanic consumers and collaborating with them on in-store, Hispanic-oriented shopper programs.

**Collaborating more closely with key customers**

Strong retail support is absolutely essential to successfully execute tailored channel strategies and well-targeted shopper-activation programs. Winners know this and collaborate closely with key retailers in three high impact areas:

- Developing overall account strategies
- Creating space strategies
- Managing performance versus plans

Winning companies also know that high impact partnerships depend on both who they collaborate with and how they collaborate. They choose to work more closely with retail partners that have significant growth potential, high capability levels, and close alignment with their strategic aspirations. They develop opportunities that have win–win benefits for both sides. In addition, winners work closely with a broad cross-section of their partners’ organizations (not just their category merchant teams). Account performance is assessed more frequently, with 100 percent of winners reviewing account plans with customers quarterly, monthly, or weekly (versus around 60 percent of others). Finally, winning companies are more likely to get explicit top-to-top commitment to the joint plans (Exhibit 4).

**EXHIBIT 4**

<table>
<thead>
<tr>
<th>Winning practices in account planning</th>
<th>Frequency of account plan reviews</th>
<th>Customer engagement in account planning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent of respondents</td>
<td>Percent of respondents</td>
</tr>
<tr>
<td></td>
<td>Winners</td>
<td>Others</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Quarterly or more frequently</td>
<td>61</td>
<td>39</td>
</tr>
<tr>
<td>Annually or semi-annual</td>
<td>0</td>
<td>50</td>
</tr>
<tr>
<td>Includes functional experts</td>
<td>67</td>
<td>23</td>
</tr>
<tr>
<td>Includes account team and buyers only</td>
<td>0</td>
<td>37</td>
</tr>
</tbody>
</table>

*SOURCE: 2014 CCM Survey*
Winning in an omnichannel world: staking a claim on future growth through long-term investments and strong partnerships

According to the 2014 CCM Survey, CPG companies believe e-commerce will be a key driver of change in the industry over the next five years (second only to the impact of demographic shifts). Across the industry, companies rely on Amazon and the e-commerce units of brick-and-mortar players (rather than their own Web sites) for efficient access to online shoppers; on average, Amazon generates 50 percent of their online sales. Broadly, CPG players believe that Amazon, and its requirements for increased trade investment, will put pressure on profitable online growth. Many companies (40 to 50 percent of participants) are using assortment and performance based trade rates as a means to protect online profit. Despite a common focus on Amazon and e-commerce units of brick-and-mortar players, a distinct group of companies are outperforming the rest. These companies have achieved at least moderate scale ($20 million or more in online sales) and are growing significantly faster than their peers (1.3 to 7.5 times faster depending on the category). Companies that are winning in this omnichannel world are making longer-term investments. More specifically, 43 percent of winners state that they make investments against a medium- or long-term time horizon while only 14 percent of their peers do. In stark contrast, 71 percent of others state they are investing against a near- or medium-term horizon. Winners in the omnichannel world are focused on five key practices:

- Building their “digital quotient”
- Investing in dedicated account teams and tailored assortment with high priority omnichannel retailers
- Using a wider range of marketing vehicles to drive online growth
- Analyzing more data to better understand omnichannel shopping behavior
- Engaging digitally with omnichannel shoppers

Building their “digital quotient”

Winning companies are using organization structure, capabilities, and performance management to build their “digital quotient.” They are adding specialized, cross-functional roles that are dedicated to executing omnichannel activities. Key roles often include digital analytics, digital marketing, and IT / operations. These winners also rapidly acquire and develop talent with digital and omnichannel expertise and intentionally rotate employees with more traditional commercial experience through teams with a digital focus. In terms of performance management, winning companies incorporate e-commerce-oriented key performance indicators into executive-level scorecards; doing so increases the organization’s focus on this often small but incredibly important part of the business. In addition, they restructure Sales team performance incentives (for example, for account managers) to reward sales from a customer regardless of the source (for instance,
Adapting with speed: How agile selling organizations win in a demanding environment

online or in store). This helps motivate teams to drive initiatives that reflect shopper preferences, regardless of their specific lines of responsibility. Finally, winning companies “ring-fence” e-commerce and omnichannel resources through different funding mechanisms and relevant performance hurdles.

Investing in dedicated account teams and tailored assortment with high priority omnichannel retailers

Winning companies are making significant investments in customer-facing resources. They build dedicated key account teams to support their key online partners (like they do to support their key brick-and-mortar partners). Overall, these winners are four times more likely to have dedicated key account resources for key online accounts than their peers are. The difference is even more pronounced with Amazon. Within the next two years, 80 percent of winners expect to have co-located teams with Amazon while only 14 percent of others do. Twenty percent of winners have already co-located a team in Seattle (no others have) (Exhibit 5).

Winning companies are staffing these dedicated teams with specialized functional support for their online partners. Winners are four times more likely to provide dedicated category management and shopper marketing support to their key online partners than their peers. These dedicated functional experts have e-commerce and omnichannel expertise. For example, category management teams understand that assortment needs to be tailored to meet digital shopping occasions, manage conflict with traditional channels, and address requirements of home delivery. In addition, they typically have the strong digital-content skills that allow them to optimize the merchandising of their portfolio on digital shelves. Winners believe their investments in specialized

---

**EXHIBIT 5**

<table>
<thead>
<tr>
<th>Teams co-located with Amazon in Seattle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of respondents</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Co-located</strong></td>
</tr>
<tr>
<td>Winners</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td><strong>Plan to co-locate within 2 years</strong></td>
</tr>
<tr>
<td>Winners</td>
</tr>
<tr>
<td>60</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>14</td>
</tr>
</tbody>
</table>

SOURCE: 2014 CCM Survey
functional support have significantly strengthened their relationships with their key omnichannel partners during the past two years. Given this, they expect to increase the level of such support over the next two years (a significantly greater increase than their peers plan to make).

Winners are investing more than just people behind their online partners. Winners offer niche SKUs (for example, hard-to-find sizes, flavors, or fragrances) that complement more traditional brick-and-mortar assortment. In addition, winners offer new, often unique SKUs to online partners. Annually, winners are 25 percent more likely than others to have 10 percent or more of their assortment for online partners be new items (Exhibit 6). A strategically differentiated assortment allows CPG companies and their omnichannel partners to fully meet shoppers’ overall needs, mitigate potential channel conflict, and address the logistical requirements of home delivery. Winners believe these investments in both people and assortment will drive profitable growth in the channel.

EXHIBIT 6

Winners introduce more new items in e-commerce channel.

<table>
<thead>
<tr>
<th>New products in e-commerce channel</th>
<th>Percent of respondents with &gt;10% new SKUs in the channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winners</td>
<td>50</td>
</tr>
<tr>
<td>Others</td>
<td>40</td>
</tr>
</tbody>
</table>

SOURCE: 2014 CCM Survey

Using a broader range of marketing vehicles to drive online growth

Winners also use a broader range of marketing and promotional vehicles than their peers do to drive online sales activity. Commonly used vehicles among winning companies include display advertising, online coupons, “new aisle” placements, e-mail blasts, optimized searches, and favorites lists (Exhibit 7). In contrast, others are more likely to rely primarily on display advertising and online coupons. With Amazon, 84 percent of winners are investing in co-marketing activity; only 57 percent of others make this investment (Exhibit 8).
Analyzing more data to better understand omnichannel behavior

Companies that are winning in the omnichannel world are mining a much richer data set in order to understand online and omnichannel shopping behavior. Working with third-party partners, winners regularly collect data that include basket composition and abandonment rates, promotional effectiveness, click-stream data, and item in-stock rates. They then employ this data to explore shopper demographics, purchase occasions, and spending levels and patterns.
In contrast, others typically focus on analyzing item in-stock rates and promotional performance metrics (Exhibit 9). In addition, winning companies do not stop here; 86 percent also use their own Web sites to gather insights about shoppers, and 57 percent use their sites to test new products.

**EXHIBIT 9**

Winners collect more data from online and omnichannel partners.

<table>
<thead>
<tr>
<th>Types of data collected</th>
<th>Percent of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basket composition</strong></td>
<td>71 Wins 71 Others</td>
</tr>
<tr>
<td><strong>Promo depth, frequency and sales</strong></td>
<td>71 Wins 57 Others</td>
</tr>
<tr>
<td><strong>Clickstream data</strong></td>
<td>57 Wins 14 Others</td>
</tr>
<tr>
<td><strong>Basket abandonment rates</strong></td>
<td>43 Wins 29 Others</td>
</tr>
<tr>
<td><strong>In-stock rates</strong></td>
<td>71 Wins 71 Others</td>
</tr>
</tbody>
</table>

SOURCE: 2014 CCM Survey

**Engaging digitally with omnichannel shoppers**

Finally, winners engage omnichannel shoppers more proactively than their peers do – both pre- and post purchase. Successful companies are more likely to engage shoppers through mobile technology to influence purchase decisions than their peers: 86 percent leverage mobile coupons (71 percent of others), 71 percent use mobile accessible social media (29 percent of others), and 43 percent use mobile loyalty programs. Post purchase, winning companies are also more likely to engage shoppers digitally than others are. More of them offer coupons via social media, follow up with e-mail communications and receipts, and distribute personalized offers linked to loyalty information.
Adapting with speed: How agile selling organizations win in a demanding environment

End-to-end sales capabilities: *driving return through a strategic, hands-on approach that develops and retains talent*

In prior surveys, we found that winners and others focused on different capabilities. Winners were investing in capabilities such as shopper insights and revenue management, while others focused on getting the basics right (such as, core marketing, financial analysis). This year, however, we found all companies are focusing on the same capability areas: revenue management, joint business planning, category management, and consumer and shopper insights. (Over 80 percent of respondents said joint business planning and revenue management are their top two capability-building priorities for the next two years.) Even with this common focus, a select set of companies delivers superior in-market results. What distinguishes winners from others is how they are building these four capability areas.

Winners are doing five unique things to build capabilities:

- Embedding capability building in the company strategy
- Placing responsibility for capability building with Sales
- Taking a tailored, personalized approach that emphasizes coaching and mentoring
- Lifting all performers (not just the top or bottom)
- Rewarding performance with a mix of incentives

### Mastering revenue management: The time is now

Revenue management has been a top capability-building priority for many years; it has also delivered consistent, significantly enhanced performance to those that achieve excellence. Consumer Packaged Goods (CPG) players who win in pricing can take price well ahead of their peers while growing market share. CPG players that win in trade investment realize extra lift for price reductions and quality merchandising support. Peers actually realize negative returns.

The reality is that many of the winning revenue management practices (both pricing and trade investment) are time-tested practices. To begin, companies take an integrated approach to pricing and trade investment (for example, they create customer P&Ls to understand the full picture, and leverage integrated performance metrics). Then, they apply specific time-tested pricing and trade investment practices. Time-tested pricing practices include the following:

- Dedicating resources to support pricing
- Continuing to use advanced / predictive analytical tools to inform pricing decisions (the tools may evolve, but winners focus on developing and using them more than their peers do)
- Reviewing pricing quarterly or monthly—significantly more frequently than others
- Focusing on retailer profit and consumer insights to sell in price changes

Time-tested trade investment practices include:

- Taking a holistic approach to setting trade investment levels
- Formally reviewing trade performance monthly at the event level and making adjustments
- Using advanced TPM / TPO tools to analyze promotional performance

Although revenue management excellence is a top priority for CPG companies, it continues to elude many of them. Why don’t more companies excel? Simple — this discipline is hard. Excellence demands access to rich data and the ability to mine it, internal cross-functional collaboration (across Sales, Marketing, and Finance), close partnerships with customers to activate in store, and a commitment to continuous improvement.
Placing responsibility for capability building with Sales

Winners give the Sales function the responsibility for leading capability-building efforts far more frequently than their peers do (Exhibit 10). Sales leadership (versus HR or a training group) helps ensure a pragmatic, impact-oriented focus.

Taking a tailored, personalized approach that emphasizes coaching and mentoring

Talent development and retention are essential to winning performance. Winning companies adopt a hands-on, personalized approach to their entire workforce. Their employees are twice as likely to have tailored development plans that include personal development goals and clear expectations of success. Most of these plans explicitly name the employee’s mentor or coach (83 percent of winners include this element vs. 62 percent of others). Winners also supplement formal training with individual mentoring and apprenticeship 50 to 67 percent of the time (depending on the capability); their peers less frequently include coaching and mentoring as an integral part of their development approach—only 15 to 19 percent of the time, depending on the capability (Exhibit 11).
Winners supplement formal training with individual mentorship/apprenticeship.

Lifting all performers (not just the top or the bottom)
Winning companies are also committed to developing all employees’ capabilities—including both high and low performers. They are as likely to develop performance goals for high performers as they are for low performers. In contrast, others are more likely to establish performance goals only for low performers. In addition, low performers are much less likely to be let go by winners (only 33 percent of winners exit these employees versus 54 percent of others). Instead, winning companies work with low performers to build their skills and improve their performance.

Rewarding performance with a mix of incentives
Finally, winners are able to retain more top quality talent than their peers by combining financial incentives with career opportunities. Eighty-three percent of winners make career-advancement opportunities (for instance, rotation programs, roles on special initiatives) available to high-potential talent in addition to financial rewards; only 54 percent of others do. The same amount of winners (83 percent) have an attrition rate of 10 percent or less—an achievement only 69 percent of their peers can claim—which suggests this combination of opportunities and incentives is powerful.
CONCLUSION

Fast forward ten, five, or even just three years: which companies will be winners in CPG and which will be obsolete?

The future winners of the industry are being defined now. Winning companies look forward (anticipating consumer, shopper, retailer, and employee requirements) and agilely position themselves to capitalize on emerging opportunities. They focus not just on where the industry will move but also how to get there: making long-term investments, building strong customer partnerships, leveraging technology and rich data, and investing to build end-to-end capabilities.

Five or ten years ago, industry leaders were speculating about the potential of e-commerce to disrupt fresh-food retailing, and now online players have a substantial market share in key metro markets. Similarly, ten years ago, we might have been surprised that leading Mass retailers would be opening more smaller-format stores than large-footprint ones—another current reality. The key to winning is looking forward and adapting with speed.
Adapting with speed:
How agile selling organizations win in a demanding environment

CONTACTS

GMA
Elise Fennig, Vice President, Industry Affairs, Washington, DC
efennig@gmaonline.org

McKinsey & Company
Kari Alldredge, Master Expert, Consumer Packaged Goods Practice, Minneapolis
kari_alldredge@mckinsey.com
Putney Cloos, Senior Expert, Consumer Packaged Goods Practice, New Jersey
putney_cloos@mckinsey.com
Brian Henstorf, Associate Principal, Consumer Packaged Goods Practice, Dallas
brian_henstorf@mckinsey.com
Kris Licht, Principal, Consumer Packaged Goods Practice, Dallas
kris_licht@mckinsey.com
Emily Reasor, Associate Principal, Consumer Packaged Goods Practice, Chicago
emily_reasor@mckinsey.com
Steve Reis, Principal, Consumer Packaged Goods Practice, Atlanta
steve_reis@mckinsey.com

Nielsen
Doug Bennett, Senior Vice President, Custom Analytics, Minneapolis
doug.bennett@nielsen.com