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The background of the entire page is a photograph of several sprinters at the start of a race. They are in a crouched starting position on a red track, with their hands on the ground and feet on their starting blocks. The image is slightly blurred to convey a sense of motion and intensity. A semi-transparent blue rectangular box is overlaid on the right side of the image, containing the main text.

A tight race in consumer packaged goods: How to break out and win with big data, tools, and insights

*Our 2016 North American Customer
and Channel Management Survey
offers insights into how CPG
companies can drive winning
performance*

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Introduction

Where can you find growth today in consumer packaged goods (CPG)? In 2016 CPG companies face a challenging set of dynamics, including political uncertainty and a questionable economic outlook, changing consumer needs with a continued focus on value, and intensified cost pressure from retailer consolidation and the entrance of hard discounters. In fact, you have to look well beyond the Fortune 500 to find growth. Over the last four years, the average compound annual growth rate (CAGR) for the largest food and beverage players, representing about 50 percent of the category, was only 0.3 percent, while midsized companies grew 3.8 percent and small 10.2 percent.¹ So in this new world, how do companies of all sizes create differentiation and find a way to grow? The 2016 North America Customer and Channel Management (CCM) Survey explores this challenging question and identifies how winners break out and win.

This report shares the findings of the 2016 North America 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.

How do we find winners?

Since 1978, McKinsey's Consumer Packaged Goods Practice has been studying and benchmarking the customer and channel management practices of leading CPG companies through research conducted in North America as well as Asia, Latin America, Europe, and the Middle East. This article discusses the findings from the most recent North America survey, 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 identify "winners" (companies that outperform their peers in the categories in which they compete) and "others" in the United States.

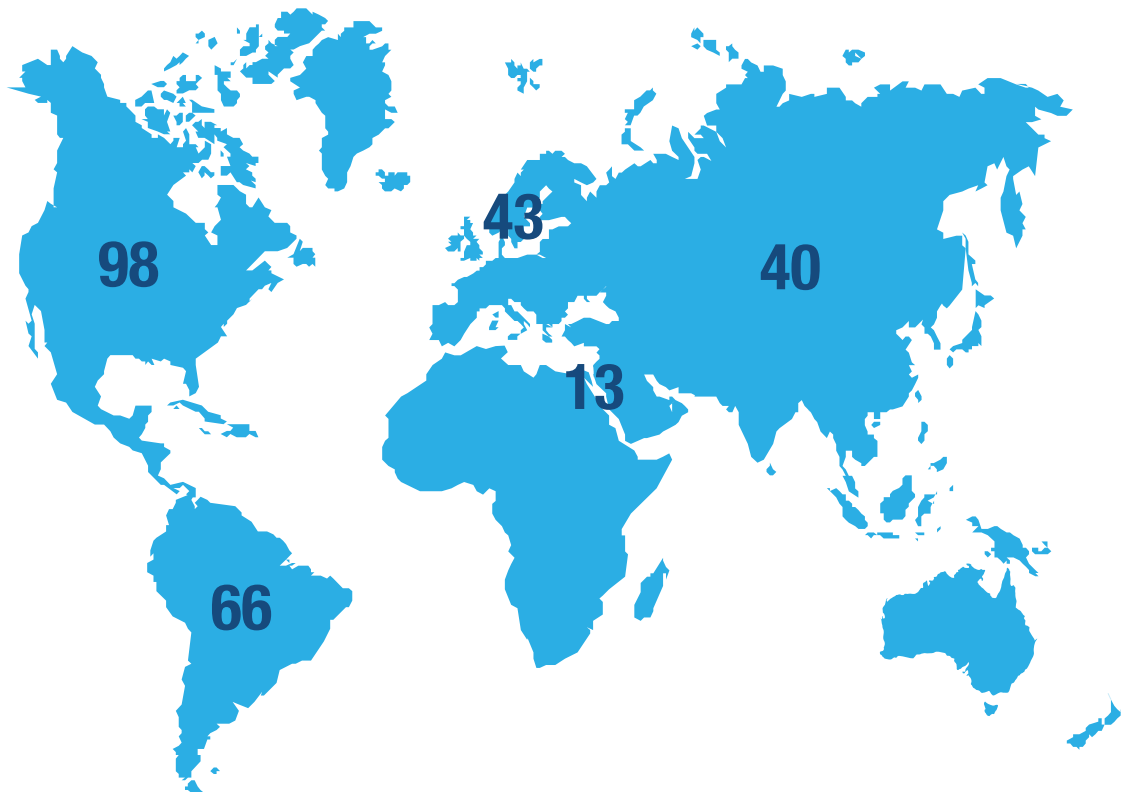
Our long experience with the CCM Survey provides us with a longitudinal view of customer and channel management excellence. As a result, we can clearly distinguish between practices that are now table stakes and those that truly differentiate companies in today's environment. We track and explore changes in core topics repeated in each survey (sales strategy, revenue growth management, organization and resourcing, and financials). We also examine emerging areas that are high priorities for commercial leaders. In 2016, these include key account management, broker management, and omnichannel.

Since 2010, approximately 100 companies have participated in the CCM Survey in North America, and more than 250 across 19 markets globally worth over \$2 trillion in revenues (Exhibit 1). These companies represent food, nonfood, and consumer-health categories, as well as a mix of small, midsized, and large companies. Participants selected their most appropriate and knowledgeable commercial leader to complete each survey module.

¹ According to Nielsen data on non-private-label manufacturers. A total of 27 companies are categorized as large, approximately 400 as midsized, and about 20,000 as small.

Exhibit 1

Our global benchmarking database of over 250 companies represents more than \$2 trillion of net sales and \$40 billion of trade spend¹



¹ Companies defined as individual country operations.

SOURCE: 2016 CCM Survey

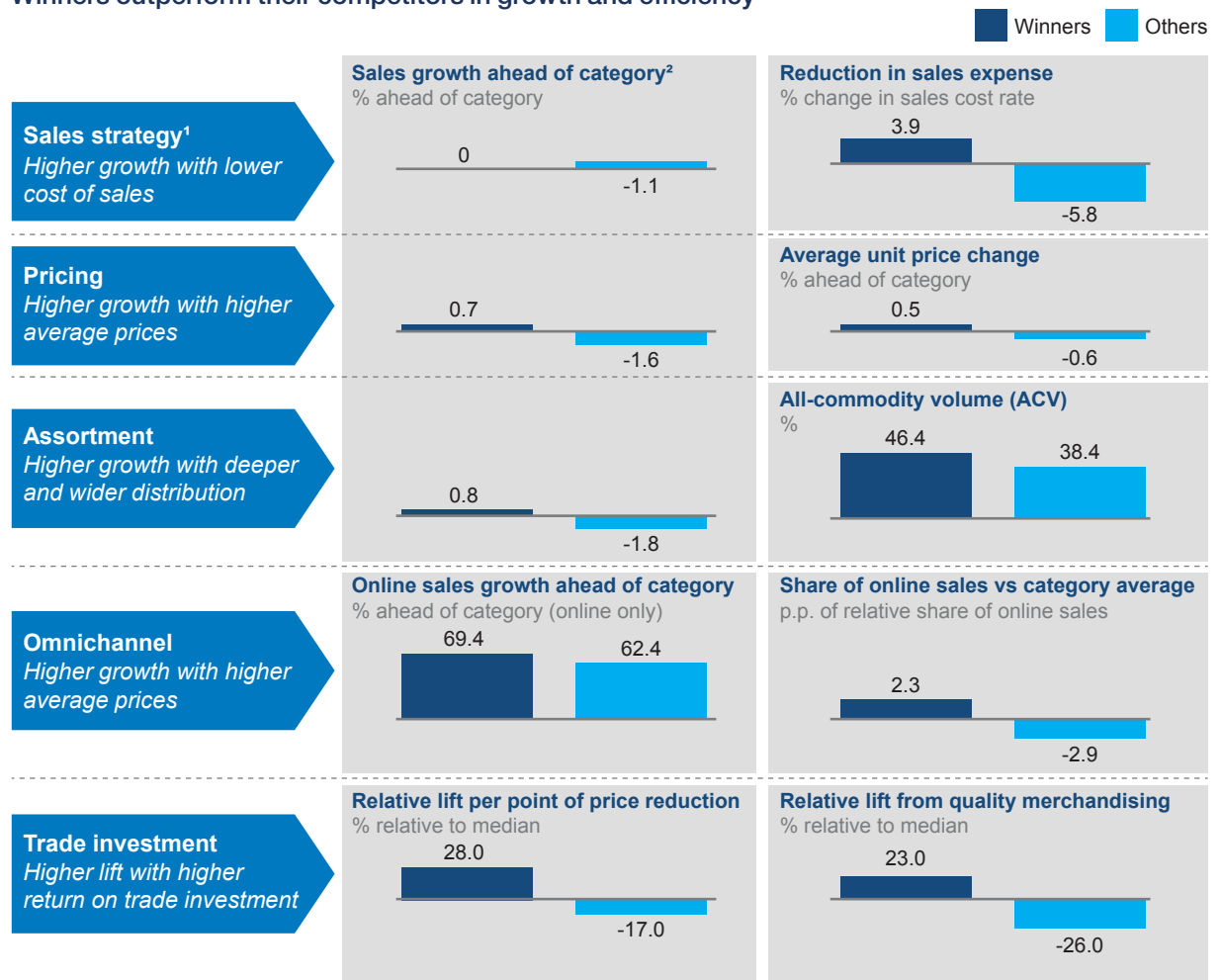
The narrowing gap

Over the years and across geographies, the CCM Survey has uncovered measurable differences in performance between winner and other companies. Although in North America the gap between winners and others may be slim—a few percentage points in terms of growth or performance—the difference is meaningful in the landscape of today’s slow-growth market and demanding performance environment (Exhibit 2).

The narrowing gap (for example, 1.1 points for sales strategy in 2016 versus 5.4 points in 2014) implies that it is getting harder for CPG companies to achieve breakout differentiation within their categories because historically average performers have raised the bar. What will it take to get to the next level?

Exhibit 2

Winners outperform their competitors in growth and efficiency



1 Same metrics used to determine winners in broker and key account management modules.

2 Values differ for sales strategy, pricing, and assortment due to different mix of companies that completed the modules.

SOURCE: 2016 CCM Survey; Nielsen point-of-sale data

The five imperatives for growth

After analyzing the key practices of the winners, we have identified five imperatives for growth (Exhibit 3):

1. Identify pockets of growth and align resources against them.
2. Overinvest in power partnerships with the most important customers.
3. Leverage revenue growth management to maximize return from pricing and promotion.
4. Optimize omnichannel, improving price/mix across channels.
5. Develop an insights factory and use big data to drive sales execution with granular, localized insights.

Exhibit 3

We identified five imperatives that set winning companies apart



SOURCE: 2016 CCM Survey

These consistent actions taken by winners are significant because they identify areas where investment has the potential to widen the gap, allowing CPG companies to differentiate themselves and drive value.

1. Identify pockets of growth and align resources against them

Looking across customers, channels, and segments, where are the pockets of growth? In 2016, there are three clear growth sources: 1) omnichannel, 2) grocers (especially regional) and club/dollar/discounter, and 3) millennial and value-oriented consumers.

In order to capture these pockets of growth, we see winners investing very differently in the capabilities they build. Winners continue to invest in functional experts (for instance, shopper insights, pricing, sales strategy), but they also allocate funding to secure exhaustive retailer information, so their shopper-insights teams can mine the data, looking beyond full-basket data to analyze shopper-panel, loyalty, and coupon-redemption information.

Also, winners differ from other companies in the way they approach the expert roles that sit at the intersection of sales and marketing. Winners see that the two functions are blurring, with sales and marketing increasingly operating as one function along category, brand, channel, and account lines (Exhibit 4). Some companies have formed “commercial” or “market development organization” teams sitting between sales and marketing as the “translators” or “integrators.” Other companies have invested in resources within each team poised to play the linkage roles. In either scenario, roles, responsibilities, and funding are becoming less definitively assigned to either marketing or sales. Brand presidents travel to customer top-to-top meetings, and shopper-marketing programs become part of the 360 integrated marketing campaign.

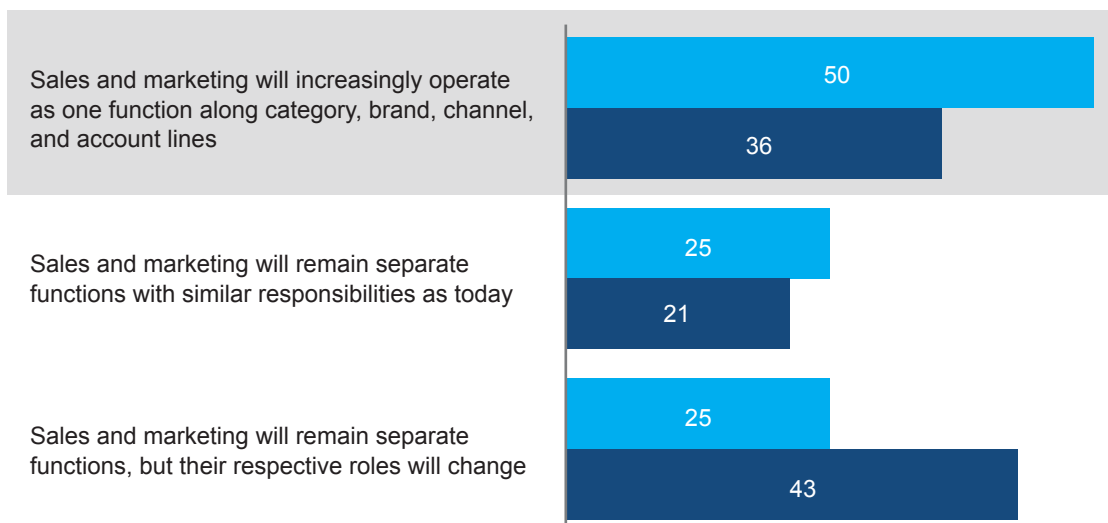
Exhibit 4

Winners establish better cross-functional collaboration within their commercial organizations—for example, with increased integration of sales and marketing teams

Winners see sales and marketing increasingly operating as one function along category, brand, channel, and account lines

Collaboration within organization

% of respondents



SOURCE: 2016 CCM Survey (Question: How do you see the role and interface of the sales and marketing functions evolving in your company?)

2. Overinvest in power partnerships with the most important customers

While the industry has talked about joint business planning for the last decade, the number of retailers with which this collaboration is taking place has exploded over the past two years. It is no longer just the very largest CPGs partnering with Walmart. The top 25 CPG companies are driving fully collaborative joint business planning with their key accounts—engaging cross-functionally with the retailers, bringing deep insights to strategy conversations, and finding opportunities to engage earlier on the innovation pipeline and how both sides can support it.

And while all CCM participants state that they participate in joint business planning, winners back up this commitment with resourcing and staff at a rate 2.6 times that of others.

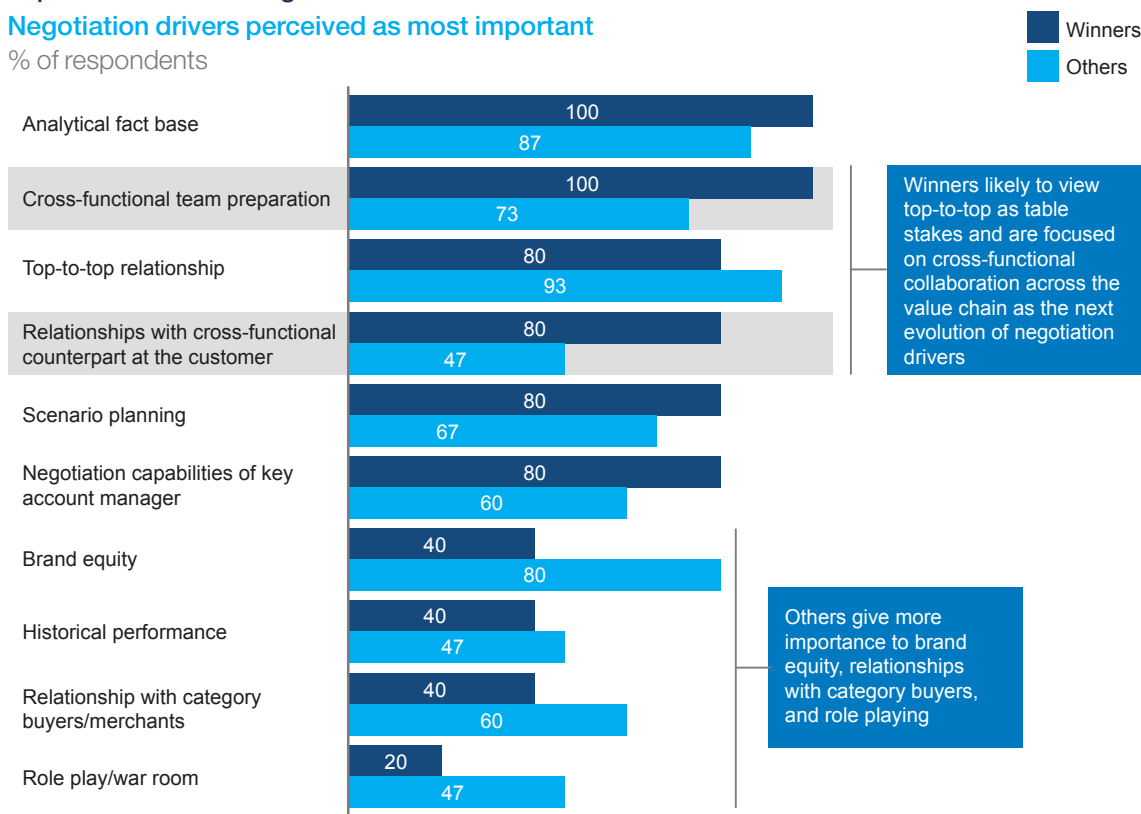
Winners also pursue true power partnerships, rather than settle for a slightly more strategic version of the traditional annual business plan. Winners have more frequent top-to-top conversations (at least three times per year) and involve additional senior leadership alongside sales leaders. Winners view the top-to-top conversations as table stakes and are focused on cross-functional collaboration across the value chain as the next evolution of negotiation drivers (Exhibit 5).

Exhibit 5

Winners identify cross-functional team preparation and cross-functional customer relationships as important drivers in negotiations

Negotiation drivers perceived as most important

% of respondents



SOURCE: 2016 CCM Survey (Question: What do you think are the most important drivers in a successful negotiation?)

In return, retailers are also raising the bar and increasingly requesting more shopper insights. Most respondents are in the early stages of using insight-based selling to drive business results but are responding with real-time data; 75 percent of winners deliver data weekly and 25 percent in real time, as needed.

3. Leverage revenue growth management to maximize return from pricing and promotion

Revenue growth management has become a CPG buzz term as companies are increasingly integrating the capabilities that evaluate pricing, trade, and assortment in order to make holistic margin management decisions across these three levers. Getting this right is critical and can mean significant margin expansion of two to five points.

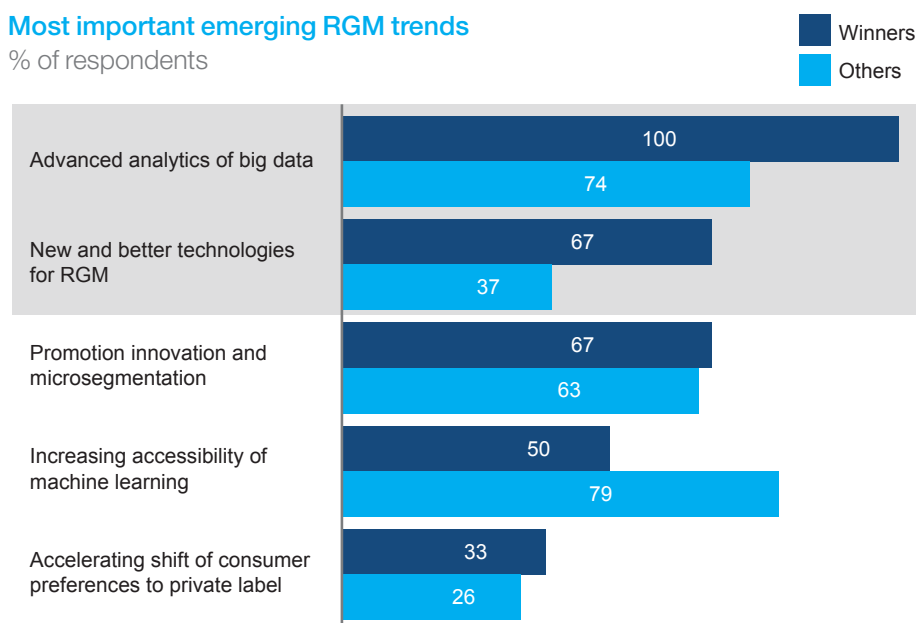
When you walk the halls of a winning company that has invested in building a holistic revenue growth management capability, you will likely see deeper insights on pricing dynamics (competitors, consumers) by continuously exploring sophisticated analytics and new tools for revenue growth management (Exhibit 6).

Exhibit 6

Winners develop deeper insights into pricing dynamics by continuously exploring sophisticated analytics and new tools for revenue growth management (RGM)

Most important emerging RGM trends

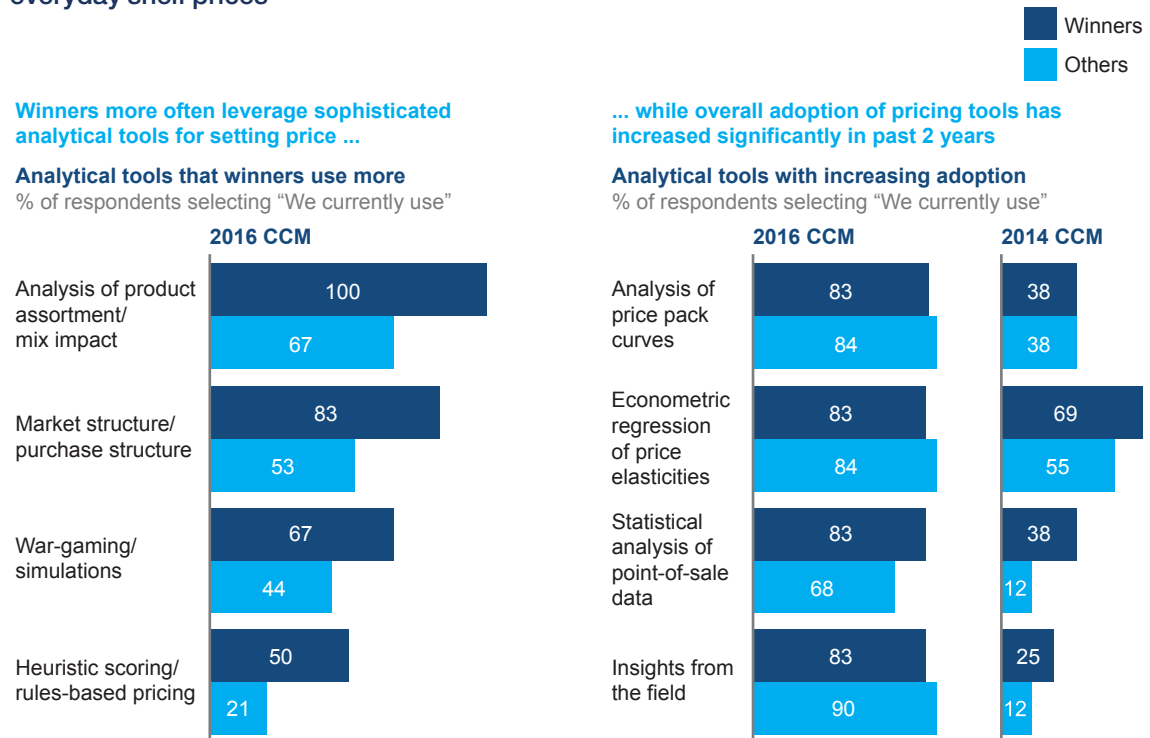
% of respondents



SOURCE: 2016 CCM Survey (Question: As you look ahead, which are the most important emerging revenue growth management trends that will require your attention?)

You will hear customer teams considering both general external trends and specific consumer responses (via price elasticity models), or you will see them running sophisticated analytics, such as product analysis, market structure, and war-gaming to derive deep consumer and market insights and use these to set everyday shelf prices (Exhibit 7). Moreover, they use a variety of software solutions as well as external sources to track competitive prices.

Winners also use more sophisticated analytics to derive deep consumer and market insights to set everyday shelf prices



SOURCE: 2016 CCM Survey (Question: When setting price strategy across recommended everyday shelf prices, what are the analytical methodologies/tools you use?)

Winners also take a holistic approach to setting trade rates, differentiating investments across customers based on segmentation and “pay for performance” structures. They vary trade rates by customer, product, and channel while considering a set of outcome-based factors (net sales, customer growth of category) and activity-based factors (merchandising/promotion secondary placement, new-product introduction). In addition, winners analyze a comprehensive set of key performance indicators during formal reviews, paying special attention to deviations in trade investments versus guidelines. Winners recognize that comprehensive data and IT tools are important for successfully managing investments, and they continue to show higher adoption of tools for trade promotion management and trade promotion optimization (Exhibit 8).

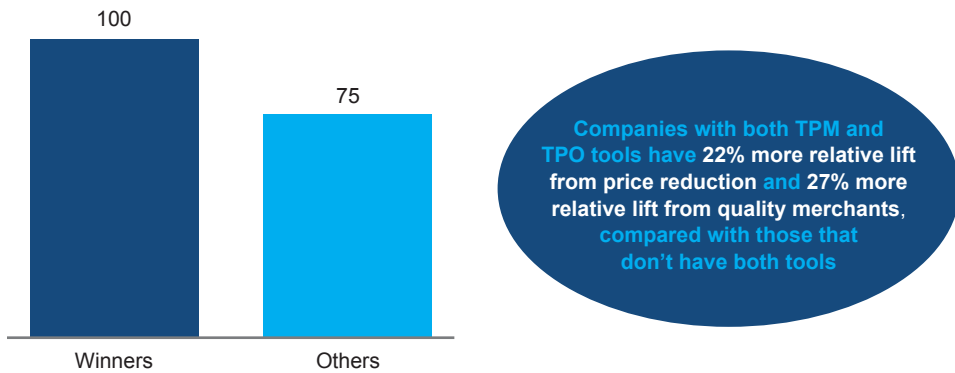
Finally, best-in-class revenue growth management organizations optimize their assortment and then set pricing and merchandising plans. Specifically, winners make bigger and more frequent adjustments to their SKU portfolio and are twice as likely to optimize frequently (Exhibit 9). Winners review their SKU portfolio more holistically and focus more on profitability, customer and sales feedback, and logistics. Eighty-eight percent of winners create SKU priority lists within a brand or category, and winners are six times more likely to include customer margin, while others are more likely to consider all-commodity volume. Winners propose more comprehensive assortment changes and leverage more tools, including qualitative consumer research, to communicate those changes. They report greater collaboration between sales and business units on assortment, driven by clear roles/ownership of tasks regarding assortment decisions and consistent SKU financial and customer data.

Exhibit 8

And winners continue to show higher adoption of tools for trade promotion management (TPM) and trade promotion optimization (TPO)

Adoption of TPM and TPO tools

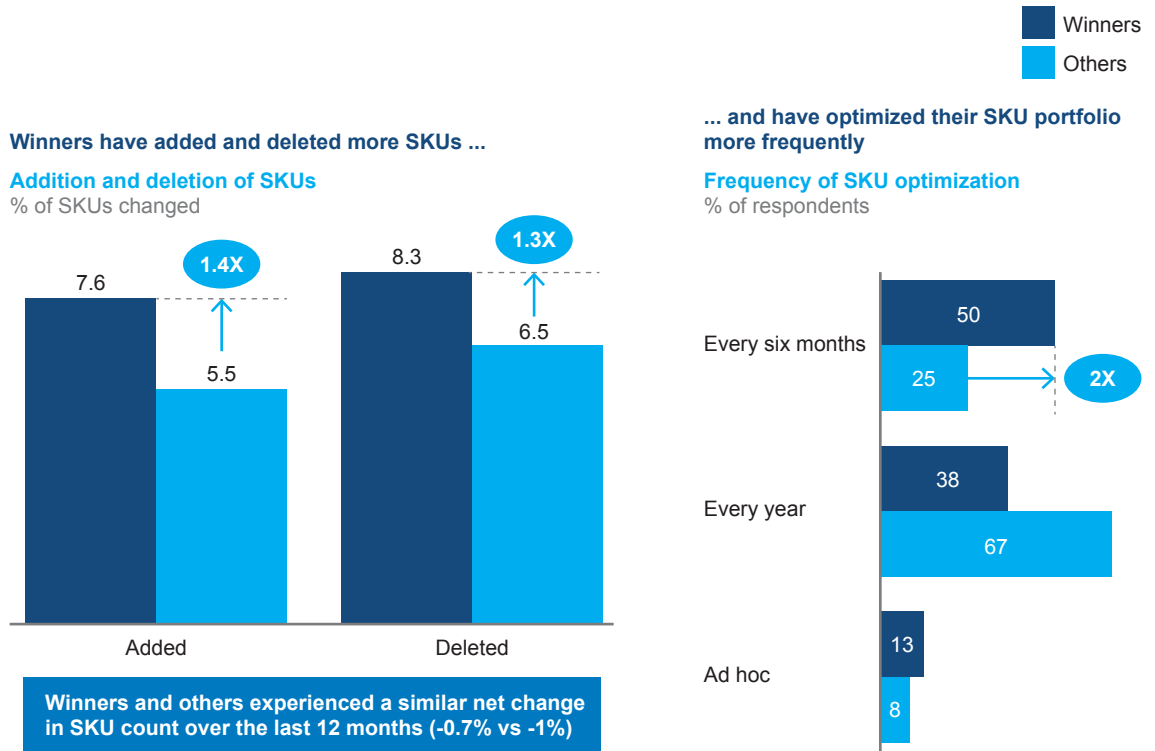
% of respondents



SOURCE: 2016 CCM Survey (Question: Which of the following describes your technology investments in TPM and TPO?)

Exhibit 9

Winners make bigger and more frequent adjustments to their SKU portfolio



SOURCE: 2016 CCM Survey (Questions: How has SKU count changed in the last 12 months? How frequently is the portfolio evaluated to optimize existing SKUs?)

4. Optimize omnichannel, improving price/mix across channels

In 2016 CPG companies say that the top driver of change over the next five years will be the e-commerce channel—in particular, Amazon’s continued growth—not demographic shifts, as stated in 2014 (Exhibit 10). Companies are fully committing to partnerships with Amazon, with 29 percent of winners co-located and 14 percent with plans to do so over the next two years.

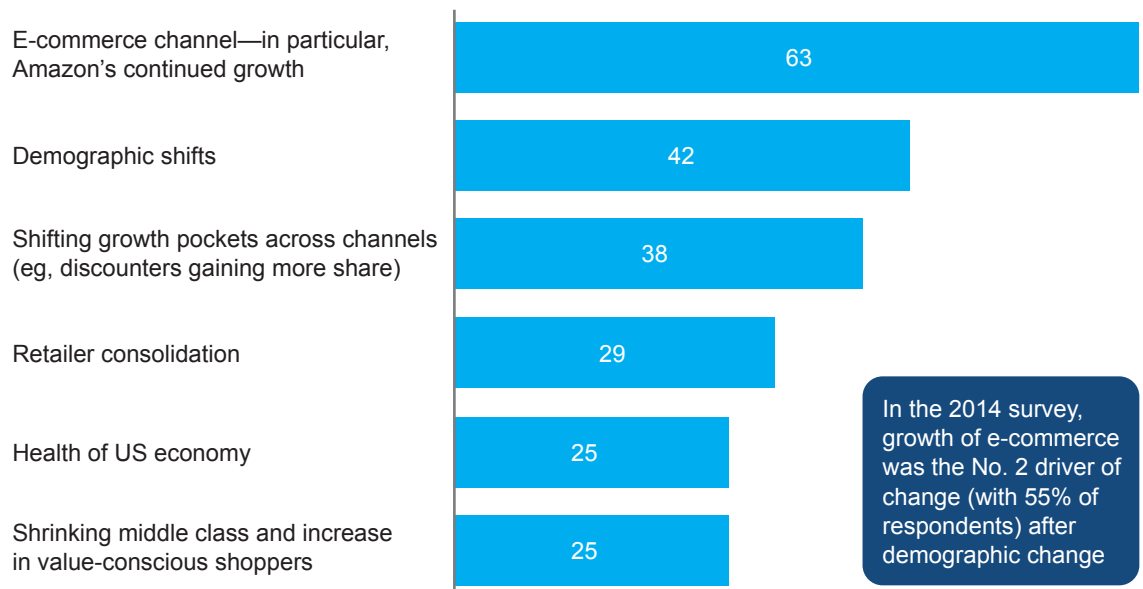
Furthermore, winners are placing bets on sites beyond Amazon. They are focusing on multichannel retailers (Walmart.com, Kroger.com) and are seven times more likely than others to increase investment in online or multichannel category specialists, such as Diapers.com² and Sephora.com. Winners manage channel conflict between Amazon and other channels through assortment and promotional differentiation. In addition, they use their own websites to strengthen the brand and consumer experience, test new products, and collect data and develop insights in order to drive personalization and brand presence. Winners obtain and analyze more data across different types of online retailers in order to gain shopping insights to better understand online shoppers. They are 1.3 to 1.4 times more likely than others to actively use data and insights to drive online sales performance and support investment decisions (Exhibit 11). Winners currently allocate 2.4 times more resources than others for online retailers, but that gap is expected to shrink in the next two years.

Exhibit 10

Companies say the top driver of change over the next 5 years will be the e-commerce channel—in particular, Amazon’s continued growth

Factors creating biggest change in next 5 years

% of respondents



SOURCE: 2016 CCM Survey (Question: What factors will create the biggest changes—both opportunities and challenges—for your sales organization over the next 5 years?)

² Diapers.com is owned by Amazon.com but operates as an independent entity.

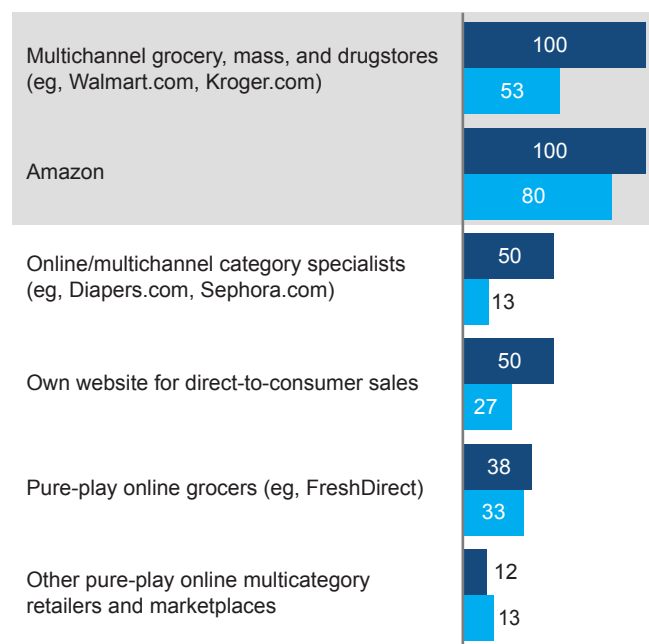
Winners obtain and analyze more data across different types of online retailers in order to gain shopping insights to better understand online shoppers



Winners are more likely to collect data from online retailers ...

Data collection from online retailers

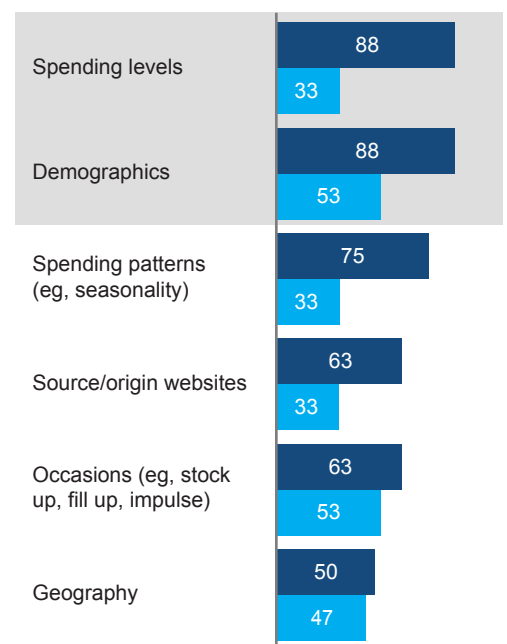
% of respondents who collect some type of data



... and are analyzing a broader set of shopper attributes to better understand online shoppers

Shopper attributes that are analyzed

% of respondents who analyze attributes



SOURCE: 2016 CCM survey (Questions: What data does your company collect from online retailers? Which of the following shopper attributes does your company analyze to better understand your online shoppers and their shopping behaviors?)

Winners are more likely to successfully operate centers of excellence and work in a cross-functional manner to drive digital sales. If 2016 is the year of building the team, 2018 is likely the year of driving measurable business impact.

5. Develop an insights factory and use big data to drive sales execution with granular, localized insights

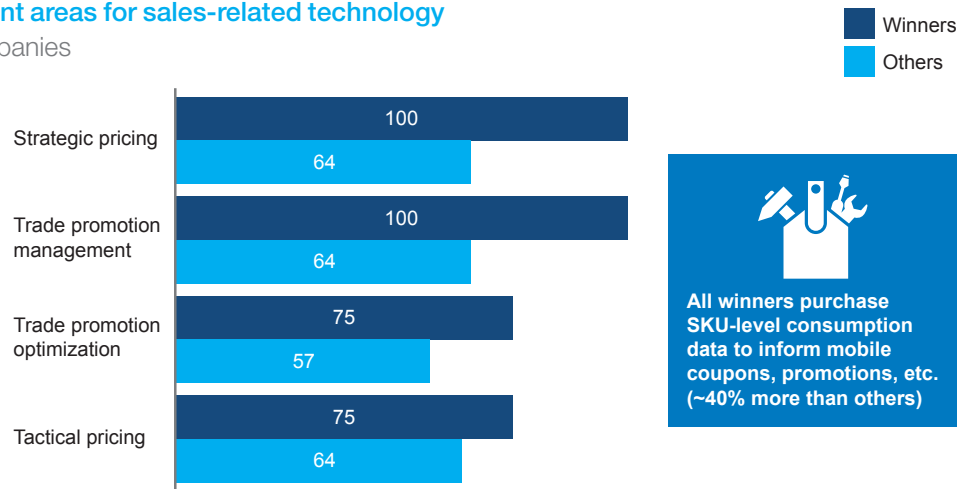
Executives in winning companies are asking themselves how they can make better and faster decisions given the overwhelming amount of data available. In those companies, executives are twice as likely to see advanced analytics as one of the most critical drivers of their strategies. We see those companies building a data lake that can inform decisions across the commercial organization, and the data are increasingly granular. Winners are twice as likely to view advanced analytics as critical to developing business strategy and are increasing their focus on big data. All companies are investing in sales technology; however, winners plan to channel investments in trade, pricing, and assortment (Exhibit 12).

Exhibit 12

All companies are investing in sales technology, but winners plan to channel investments in trade, pricing, and assortment

Investment areas for sales-related technology

% of companies



SOURCE: 2016 CCM Survey (Question: Have you invested in technology (eg, systems, software, or tools) in the following areas over the past 2 years?)

Winners use more granular, geography-based and store-based, retailer-specific shopper insights (Exhibit 13). They also refresh consumer and shopper insights more often: they are four times likelier to refresh them each month. Winners more often use advanced analytics, especially sophisticated methods involving competitor product interaction, such as predictive shopper behavior and cross-price elasticity.

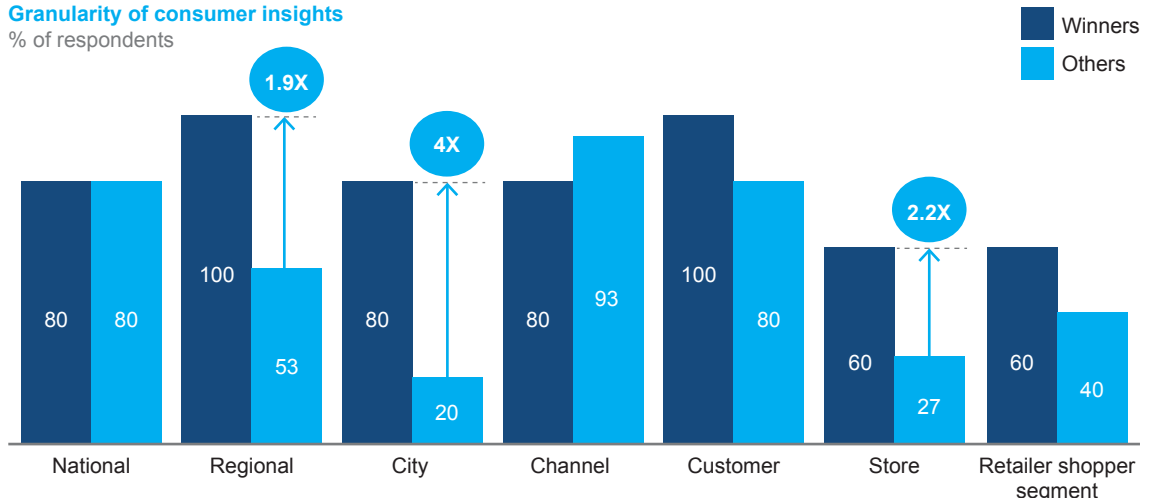
Exhibit 13

Winners use more granular, geography-based and store-based, retailer-specific shopper insights

All winners use regional and customer-level insights; winners are 4X more likely to use city-level insights and 2.2X more likely to use store-level insights

Granularity of consumer insights

% of respondents



SOURCE: 2016 CCM Survey (Question: How granular are your channel/retailer shopper insights?)

Conclusion

Choices made by the sales organization are driving big differences in overall company performance (\$1.4 billion in top-line growth for the winners). Many of these choices will require big changes and will stretch companies to develop or acquire new skills. The five imperatives suggest a way forward. By leveraging big data, tools, and insights to power their customer and channel management strategies, CPG companies can differentiate themselves from the competition. In a world of slower growth, tomorrow's winners in the CPG industry are likely to be the companies that take up the challenge and invest to win.

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Contacts

GMA

Patricia Stockton, Senior Director, Industry Affairs, Washington, DC
pstockton@gmaonline.org

McKinsey

Kari Alldredge, Partner, Consumer Packaged Goods Practice, Minneapolis
kari_alldredge@mckinsey.com

Jen Henry, Associate Partner, Consumer Packaged Goods Practice, Charlotte
jen_henry@mckinsey.com

Julie Lowrie, Senior Expert, Consumer Packaged Goods Practice, Atlanta
julie_lowrie@mckinsey.com

Antonio Rocha, Associate Partner, Consumer Packaged Goods Practice, New Jersey
antonio_rocha@mckinsey.com

Nielsen

Doug Bennett, Senior Vice President, Sales Effectiveness, Minneapolis
doug.bennett@nielsen.com

Kris Walker, Senior Vice President, Professional Services, Chicago
kris.walker@nielsen.com

Troy Treangen, Senior Vice President, Professional Services, Atlanta
troy.treangen@nielsen.com

We wish to acknowledge the contributions of Fernando Kondayen, Chase Mizzell, Yoav Rand, Shruti Shukla, Chris Whitfield, and Xiaodong Zhang to this research.

August 2016

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