

# Emerging from the storm

How leading customer organizations reignite growth.



**GROCERY MANUFACTURERS ASSOCIATION (GMA)** Based in Washington, D.C., 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 and to 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 [www.gmaonline.org](http://www.gmaonline.org).

**McKINSEY & COMPANY** McKinsey is a management consulting firm that helps many of the world's leading corporations and organizations address their strategic challenges, from reorganizing for long-term growth to improving business performance and maximizing revenue. With consultants deployed in 50 countries across the globe, McKinsey advises companies on strategic, operational, organizational, and technological issues. For 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** The Nielsen Company 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 assets. The privately held company has a presence in approximately 100 countries, with headquarters in New York. For more information on Nielsen measurement products, visit [www.nielsen.com](http://www.nielsen.com).

Copyright © 2010 by the Grocery Manufacturers Association (GMA), McKinsey & Company, and The Nielsen Company. All rights reserved. No part of this publication may be reprinted or reproduced in any way without written consent from GMA, McKinsey & Company or The Nielsen Company.

<b>Executive summary</b>	<b>3</b>
<b>Survey overview and methodology</b>	<b>4</b>
<b>The value of winning</b>	<b>5</b>
<b>Detailed findings by performance area</b>	<b>6</b>
Sales strategy	6
Pricing and trade investments	8
Pricing	8
Trade investments	10
Strategic customer collaboration	11
Complexity management	13
<b>Acknowledgements</b>	<b>15</b>
<b>Contacts</b>	<b>16</b>



**EXECUTIVE SUMMARY**

The past few years have presented an unprecedented set of challenges for consumer-packaged-goods (CPG) manufacturers and their customer organizations. Margins have come under pressure from a significant rise in commodity prices. Cash-strapped, value-conscious consumers continue to look for ways to save money, waiting for sales and trading down to lower-priced brands and private-label products. Retailers are placing ever-increasing demands on manufacturers to offer greater value and quality to consumers.

As the recession ends and a slow recovery begins to take shape, it is clear that the past few years were challenging for even the most well-equipped and prepared players in the industry. At the same time, the 2010 Customer and Channel Management Survey shows that those leading customer organizations that made the right bets for growth, built better capabilities, and collaborated more effectively with their top retail customers emerged from the storm better and stronger than their peers, with share gains, growth, and margin expansion to show for it.



## SURVEY OVERVIEW AND METHODOLOGY

This report summarizes the findings of the 2010 edition of the Customer and Channel Management (CCM) Survey, which provides an up-to-date perspective on the practices of top-performing CPG companies. Unlike other market surveys, this effort links companies' financial performance and in-market results with self-reported practices to identify winning practices.

This year's survey is produced in collaboration between the Grocery Manufacturers Association (GMA), McKinsey & Company, and The Nielsen Company. The 2010 survey focuses on four dimensions of customer and channel management: sales strategy, pricing and trade investment, strategic customer collaboration, and complexity management. By reviewing the survey findings in these areas, CPG companies can identify gaps and opportunities in their customer and channel management practices, as well as gain insights into new and important industry trends.

The CCM Survey has a long history. In 1978, McKinsey & Company began gathering data and performance benchmarks on the sales organizations of the leading CPG companies in the United States. The GMA/McKinsey partnership on the survey started in 2002. Over time, the survey evolved to include a deeper focus on performance across a broader range of topics; for example, in 2010, we added new modules on strategic customer collaboration and complexity management and increased the details of our financial and sales organization benchmarks.

This year's survey was conducted in the Spring of 2010. More than 50 companies with close to \$160 billion in US manufacturer sales—in the food, beverage, personal care, and home care categories—participated. These players represent a broad cross-section of the CPG industry, including large-cap and mid-cap companies, leading brands (No. 1 or 2) and trailing brands (No. 3 or 4), manufacturers with direct-store-delivery and warehouse distribution models, and companies using sales agents and direct selling models.

To ensure the accuracy and relevance of the data, the person accountable for each performance area completed the relevant part of the questionnaire. Approximately 220 CPG executives participated in the survey.

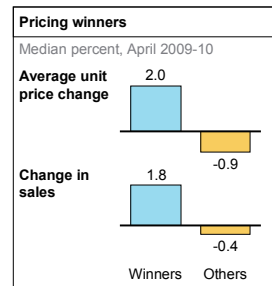
## THE VALUE OF WINNING

The survey revealed that CPG manufacturers that outperformed their category peers implemented winning practices in several critical dimensions. We determined the value that these winners realized using a unique approach that combines market performance and financial results with self-reported business practices.

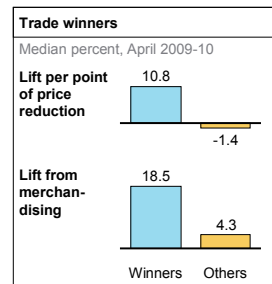
- Sales strategy winners were able to achieve faster sales growth than their category peers while decreasing selling costs (as a percentage of net sales). Net sales for these winners grew by almost 3 percentage points more than the average growth for their category, and they invested 8 percent less than the category average to achieve this growth.



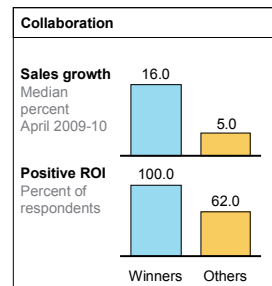
- Pricing winners were able to increase their unit prices by 3 percentage points more than the average unit-price increase for their category and grow their category share by 2 percent.



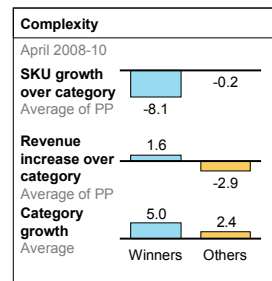
- Trade investment winners achieved higher market share and gross margin growth than others, with greater impact from their trade investment efforts by capturing 11 percentage points higher sales lift from each promotional price point reduction and a 14 percentage point higher sales lift from merchandising than their category peers.



- While most manufacturers believe that their strategic collaboration efforts are effective, only 20 percent of these efforts achieve significant impact. This group achieved, on average, a sales lift that was 11 percentage points higher than other collaboration efforts.



- Complexity-management winners were able to decrease their number of stock-keeping units (SKUs) while increasing market share. On average, these winners realized an 8 percent greater reduction in SKUs and 5 percent higher sales than others in their category, and they increased overall category size.



**DETAILED FINDINGS  
BY PERFORMANCE  
AREA**

**Sales strategy**

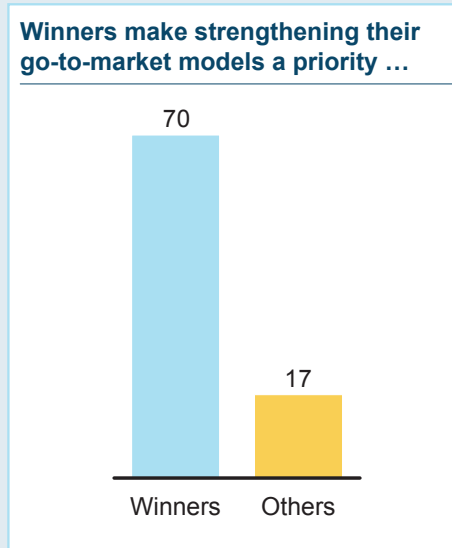
Despite the challenging economic environment in 2008 and 2009, winning CPG companies increased sales faster than their category peers while decreasing selling costs. Winners achieved these results by focusing their resources on high-growth channels such as dollar and discount stores as well as Walmart. These players also strengthened their go-to-market models, developed winning and highly capable sales leadership teams, and tailored their account teams to address the needs of priority retailers. Last, top-performing companies captured efficiencies in warehousing and transportation that lowered their overall selling costs. The companies that won in sales strategy used multiple strategies to achieve these outcomes and to realize this growth.

**Make big, forward-looking bets to unlock growth.** The survey revealed that winners are seeking to solidify gains made during the crisis and preparing for even stronger performance coming out of this period; 70 percent of these top performers (versus 17 percent of others) are reshaping their go-to-market models (Exhibit 1). Accordingly, in the next 12 to 24 months, more than half of the winners plan to boost their field sales organizations and merchandising resources, and one-third of winning companies also plan to increase their use of brokers and to combine broker and retailer resources to reach more outlets.

**Exhibit 1**

Winners proactively reshape their go-to-market models

% of responding heads of sales



- ... and plan to take several actions in the next 12–24 months**
- Half of the winners are boosting field sales and merchandising resources
  - One-third of the winners are increasing the use of brokers
  - One-fourth of the winners are covering more outlets with combined company/broker resources

To ensure that their bets are aligned with changing high-growth opportunities, winners continually evaluate resource investments by channel and customer. For example, in the past survey, winners invested heavily in a rejuvenated grocery channel. However, our 2010 survey reveals that winners have stopped expanding grocery resources and instead increased resources in the highest-growth channels of discount, club, and Walmart. For example, in dollar and discount stores 63 percent of current winners increased customer-facing resources in this channel while over half of others in their categories did not. Similarly, 89 percent of winners increased customer-facing resources at Walmart Stores, versus 64 percent of others.

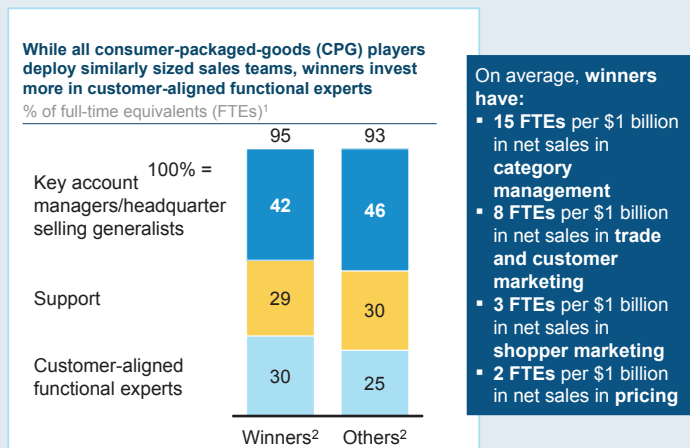
Winners also report that they perceive higher-growth retailers such as Dollar General, Costco, and Kroger are more willing to collaborate with them. Moreover, top-performing CPG manufacturers pull multiple levers to build stronger relationships with key retailers. Not only do they make a greater resource investment in priority retailers, they also take a collaborative approach to growing a category or solving business issues, sharing mutually beneficial insights and data with their retail collaborators.

**Build a strong sales leadership team, next-generation capabilities, and cross-functional collaboration.** Winners ensure that they staff the right sales leadership resources to ensure future growth, emphasizing deep category expertise, customer knowledge, and a strong strategic perspective. Our survey also revealed that winning companies are constantly improving their team's capabilities by investing in customer profit and loss (P&L) management, pricing analytics, and strategic collaboration. In contrast, their category peers are still working on improving basic capabilities such as financial analysis and marketing knowledge. In addition, winning CPG organizations report a high level of internal collaboration and more effective relationships between sales and other key functions including marketing, finance, and supply chain. In particular, collaboration between sales and marketing appears to be critical to winners.

**Create customer-focused account teams as part of a winning sales organization.** While all survey respondents deploy sales teams of similar sizes, winners' teams have a high percentage of customer-aligned functional experts in areas such as pricing, category management, and trade marketing versus their category peers (Exhibit 2). As we have seen in the past, winners also tailor their customer teams to the unique needs of each priority retailer. In addition, winning CPG organizations report a high level of collaboration and more effective relationships between sales and other key internal functions including marketing, finance, and supply chain. In contrast, in the grocery channel, winners deploy more of these functional experts to support their retailers.

**Exhibit 2**

Winners make a greater investment in customer-aligned functional expert roles



<sup>1</sup> FTEs per \$1 billion in net sales; only considers companies with more than \$0.75 billion in annual net sales; customer-aligned functional experts include those in pricing, category management, shopper marketing, and trade/customer marketing; support includes sales finance, sales IT, sales HR, sales planning, sales training, shopper insights, administrative, senior management, and broker management.

<sup>2</sup> Numbers do not sum to 100% because of rounding.

## Pricing and trade investments

From 2008 to 2010, CPG manufacturers faced significant challenges in managing pricing and trade investments. At the start of this period, late 2007 and early 2008, many CPG companies experienced significant increases in commodity input costs, a situation that caused many players to implement price increases that were significantly larger and more frequent than the industry has seen in the past. Then, as the United States economy fell into a deep recession and core commodity prices declined, CPG players encountered considerable downward pressure as volumes declined and consumers, focused on value, began trading down and switching to more value-oriented formats. In order to maintain their competitiveness, retailers responded by pushing for lower prices and greater investments from CPG companies to deliver lower prices and more value to consumers.

However, despite these challenges, the 2010 survey revealed that pricing and trade winners were still able to deliver strong results and outperform their categories. While these winners relied on many traditional industry leading practices they achieved winning performance in this volatile time period by adapting to the rapidly changing and complex market environment of the past few years more quickly and strategically than their peers.

### Pricing

Pricing winners were able to increase prices above those of their categories while increasing category share by developing a deep understanding of the consumer, carefully weighing the effects of market forces, and making organizational investments to deliver strong results.

#### **Integrate a comprehensive view of market dynamics in pricing strategies.**

Pricing winners are more likely to focus on external influences when setting prices. For example, they examine shifts in competitor pricing and the ability of retailers to meet their target margins or price points. In addition, recognizing the growth in private labels, winning companies report that private-label prices have become a more important consideration in the development of pricing strategy. Yet, with only 57 percent of winners and 35 percent of other CPG companies tracking and managing their price gap relative to private-label products, there is room for improvement in this area for many companies.

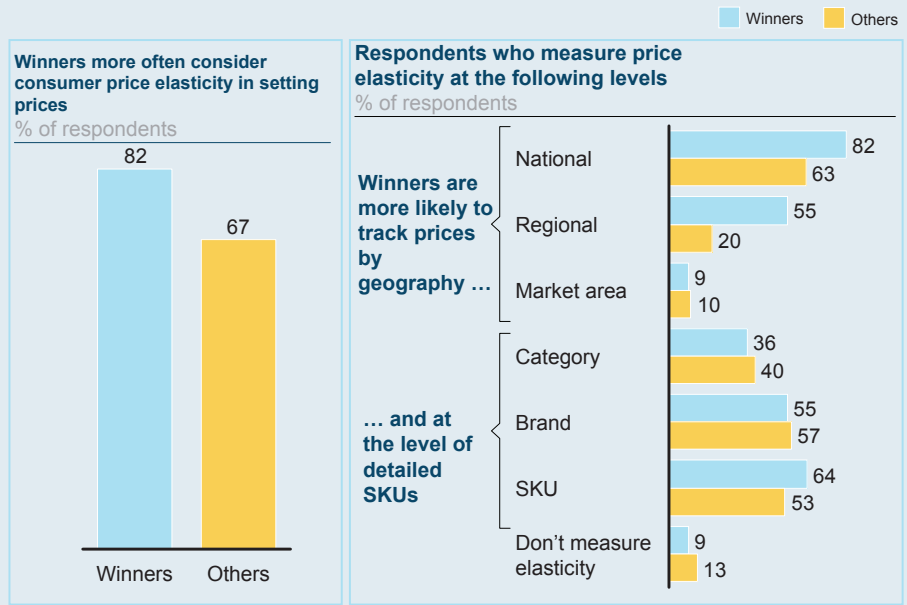
**Take a broad yet deep view of price elasticity to ensure pricing performance.** Winners have a clearer view of overall consumer price sensitivity than do others, and they more often set prices by considering consumer price elasticity at national and regional levels, as well as at the detailed category or brand level (Exhibit 3). Top-performing CPG players are also more likely to use a “menu” approach to pricing, varying prices depending on the service level requested by a retailer for warehousing, logistics, and back-office services.

**Ensure regular and frequent pricing discussions with retailers.** Winners continue to engage retailers in pricing discussions at regular intervals (at least once a year), framing these discussions in ways that are relevant to retailers and taking into consideration the market environment and pace of inflation. Winners are also more likely to take a multidimensional approach in pricing discussions, emphasizing retailer profits and product or category investment—not just commodity costs.

**Invest in dedicated pricing resources and integrate pricing and promotion teams.** Winning CPG companies invest nearly 50 percent more, normalized based on sales, in pricing resources across functions. In addition, winners are two

**Exhibit 3**

Winners have a clearer view of overall consumer price sensitivity



times more likely to have a dedicated revenue-management group to ensure that pricing receives the appropriate level of attention and analytics support.

Winners are also twice as likely to integrate everyday pricing and promotion roles in a team that resides either in an existing centralized function (for example, marketing or finance) or in a revenue-management group at the center (Exhibit 4). This approach provides multiple benefits to the CPG manufacturer, including alignment of pricing and promotion strategies and the establishment of a single source of accountability for all pricing activities.

**Trade investments**

In response to the challenges noted above, trade spend as a percentage of adjusted gross sales increased significantly from 2008 to 2009 for all companies

**Exhibit 4**

Pricing winners invest in FTEs and organize to achieve winning results

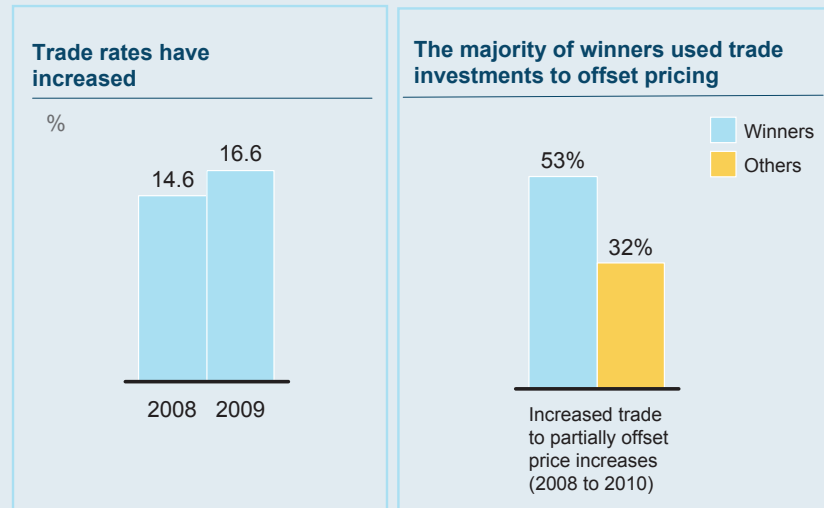


<sup>1</sup> Centralized group can reside in any function (eg, sales, marketing, finance).

(Exhibit 5). Trade-investment winners, however, were able to differentiate their performance and capture more incremental sales from promotions than others. The majority of these winners chose to use increases in trade investment to offset price increases and captured more market share and gross-margin gains from these increased investments.

### Exhibit 5

Trade rates have significantly increased, with winners using trade investments to offset pricing



### Conduct rigorous and frequent performance reviews of trade investments.

Winning companies make it a priority to evaluate the performance of their trade investments at frequent intervals. Approximately two-thirds of winners conduct such promotional performance reviews at least quarterly. Winners use more metrics on average—specifically, volume and trade investment trends, overall account return on investment (ROI) versus plan, as well as account profitability and growth. By contrast, less than 50 percent of other players assess their trade investments at least quarterly. A third of other CPG manufacturers have no formal post-promotional review process. Because winning organizations consider these assessments a priority, they more often allocate resources within corporate headquarters to complete these post-promotional analytics, instead of assigning this task to a field analyst or account representative.

A majority of all survey respondents use three sources of data to understand trade promotional performance: syndicated scan data, loyalty- or shopper-card data, and retailer POS data. Winners are using the insights from this analysis to improve chain-level performance and to deepen their understanding of consumer and category dynamics. In the future, winning companies are looking to continue improving these analytics in order to better understand issues such as the incremental value of promotions and the promotions that best drive their brands and expand the category.

### Differentiate investments based on past and potential future performance.

Top-performing CPG players use both activity- and outcome-based criteria to set trade investments across channels and accounts, and they are more likely to consider projected financial outcomes such as ROI and sales growth at a given retailer in their rate-setting exercise. In addition, these players evaluate the type of activity that their investments will fund.

**Work effectively with Walmart.** While most CPG companies are increasing

their trade investments at Walmart, winning companies are allocating more of their trade spend to nonpromotional activities requested by Walmart (for example, sustainable packaging) than others. In return for these investments, winners are able to secure greater cooperation from Walmart in the form of increased distribution, more promotional support, additional secondary placement in stores, and better shelf placement.

### Strategic customer collaboration

A new, more collaborative way of working is replacing the often adversarial relationship between manufacturers and retailers. A majority of CPG companies report having recently undertaken multiple strategic collaboration efforts with retailers. The survey defined strategic customer collaboration as joint initiatives between manufacturers and retailers that go well beyond the normal course of business. These initiatives are designed to deliver impact in multiple dimensions: sales lift, cost savings, ROI, and the impact captured by the retailer.

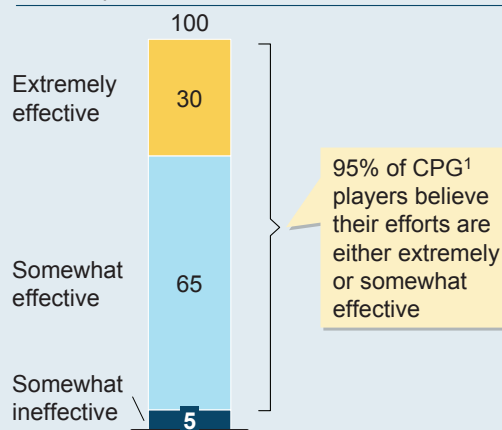
While most manufacturers believe that their collaboration efforts are effective, few deliver winning results; 50 percent have only modest impact, with category performance at participating retailers slightly better than the baseline, and 30 percent yield no measurable impact. However, a small group of manufacturers—20 percent—is realizing the full potential from these collaboration initiatives (Exhibit 6). Our review of these winning companies suggests that the following leading practices increase the return on collaboration.

#### Exhibit 6

Most CPGs believe their collaboration efforts are effective; however, a very small portion of these efforts are truly delivering winning performance

#### Overall, how effective do you believe your collaboration efforts have been?

% of respondents



- Despite these beliefs, only ~20% of the collaboration efforts achieve significant impact<sup>2</sup>
- This suggests that understanding best practices is critical for improving performance

<sup>1</sup> Consumer packaged goods.

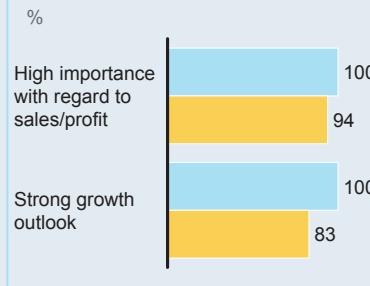
<sup>2</sup> Increase in sales above manufacturer category growth and retailer category growth, as well as self-reported metrics.

**Select the right retailers.** Winning companies cast a wide net, exploring potential collaboration initiatives with more retailers than other companies do: 50 percent of these companies have approached ten or more retailers as potential collaborators versus 22 percent of others who have done so. After the net has been cast, winning companies closely evaluate prospective collaborators, choosing to work only with those with the greatest potential to deliver impact based on sales, profitability, and growth outlook (Exhibit 7).

**Exhibit 7**

Winners make hard choices to prioritize collaboration efforts with a subset of potential partners

**Winners focus on sales, profits, and growth when determining potential partners**



1 Note that winners were selected based on their ability to beat this number; winners still outpace others on this dimension.  
2 Consumer packaged goods.

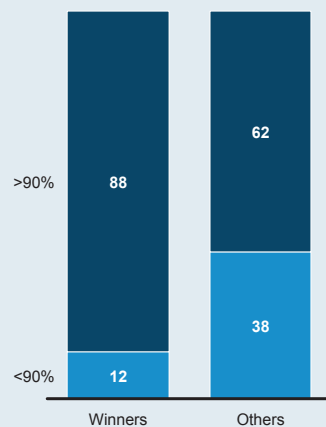
**Define a bold ambition.** Eighty-eight percent of winning companies, versus 62 percent of others, include 90 percent of total category sales in collaboration efforts. Top performers also have a proactive rationale to develop strategic collaboration efforts. For example, winners view collaboration as an opportunity to increase access and influence on merchandising and marketing initiatives or to build a "preferred" relationship with retailers, as opposed to reacting to performance issues (Exhibit 8).

**Develop a true strategic alliance.** Winners align with retailers on common performance goals at the start of a given initiative. These manufacturers ensure that joint efforts with retailers are mutually beneficial and establish at the outset how benefits will be shared. While retailers commonly share information on store sales, loyalty-card data, and shopper research, winners go a step beyond basic data sharing and provide retail collaborators with information on brand performance, competitor performance, and price elasticity.

**Exhibit 8**

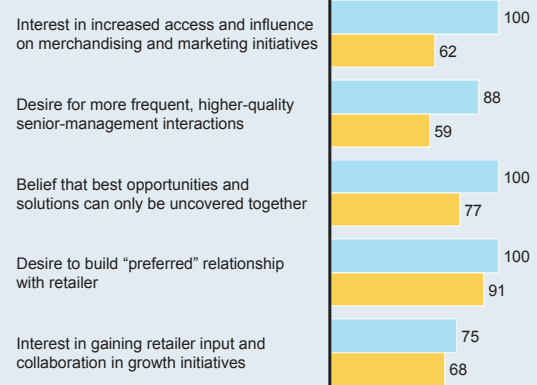
Winners are bold in their ambition—and proactively seek to collaborate on win/win opportunities for growth and profit

**CPG<sup>1</sup> categories represented in effort<sup>2</sup>**  
% of manufacturer's sales



**What triggered this strategic collaboration effort?**  
% of respondents

**Proactive rationale**



1 Consumer packaged goods.  
2 Refers to focus category sales as % of total.

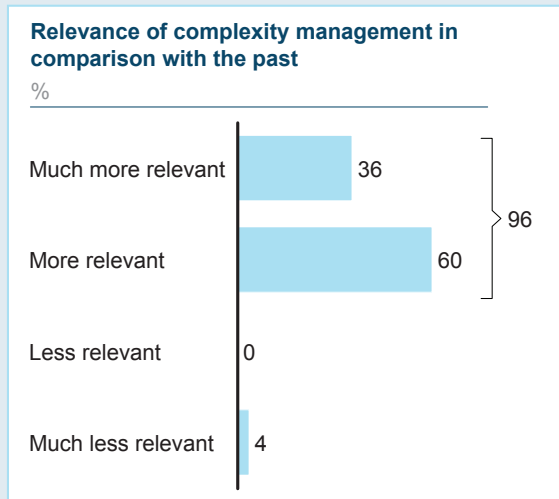
**Set up the joint team for success and focus on execution.** To support a given collaboration effort and develop comprehensive solutions, winning manufacturers and their retail collaborators dedicate more resources across a broad range of cross-functional experts (for example, those in brand marketing and category management) to work on the joint team. Furthermore, manufacturers and retailers invest more, going beyond the basics (for instance, consumer and shopper research) to address such areas as IT, supply chain, and new product development.

Furthermore, manufacturers and retailers jointly tracked performance metrics and shared incentives, performance routines, and a focus on the bottom line to enable successful execution, which is critical to collaboration efforts.

### Complexity management

Many forces are combining to make manufacturers' product portfolios and value chains more complex. Channels have varying price-point, size, and packaging requirements (for example, discount stores require small packages with lower price points). Individual retailers are seeking competitive advantage through differentiated product offerings and requesting customized SKUs, while also focusing on assortment optimization for their stores (more than 40 percent of retailers reduced SKUs in 2009). And as 25 percent of SKUs generate 80 percent of CPG sales, according to survey responses, manufacturers recognize the value of reducing SKUs and effectively managing complexity (Exhibit 9).

**Exhibit 9**  
CPG companies almost unanimously recognize the complexity challenge

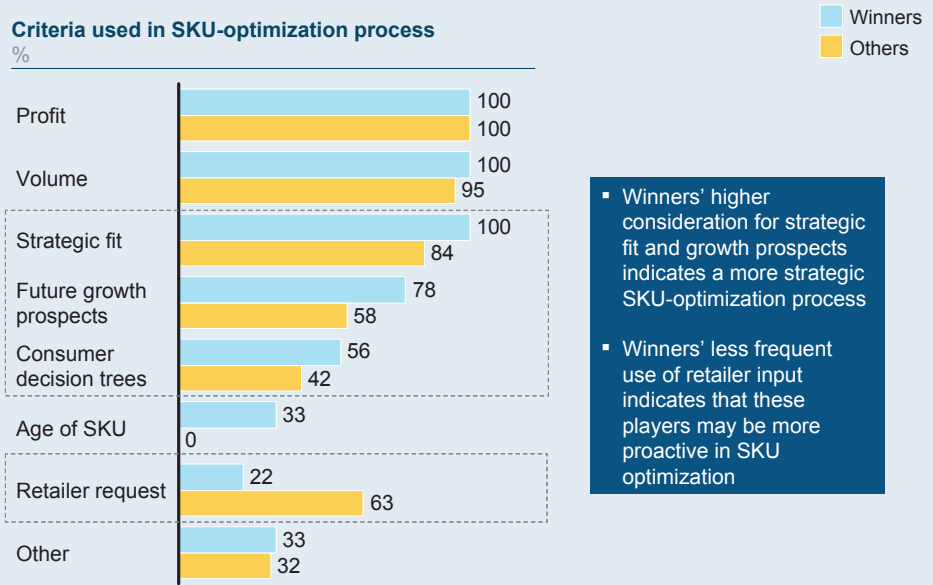


Our survey revealed that a majority of respondents are using two approaches to address this complexity challenge. Despite broad efforts, only 30 percent of respondents are able to manage this complexity in an effective manner. Winners are reducing their SKUs below the category average while increasing revenue and achieving category growth by adhering to the following imperatives.

**Implement robust SKU optimization.** Seventy-eight percent of winners conduct SKU-optimization analyses once a year, while 42 percent of other players do. In winning companies, marketing and sales lead this analysis; in other organizations, finance and supply more often assume this role. Ideally, SKU optimization should be considered not only from the perspective of the manufacturer but also from that of the retailer and consumer. Winners also take a more strategic approach to this analysis, according greater importance to criteria such as strategic fit, growth potential, and consumer decision trees, as opposed to retailer requests (Exhibit 10).

**Exhibit 10**

Winners prioritize strategic for SKU optimization



**Effectively and proactively engage retailers in the SKU-optimization process.** Top-performing CPG companies proactively engage retailers in the SKU-optimization process. Survey results show winners are more likely than others to initiate this process with a retailer; others may simply react to a retailer request. Winners are also more likely to apply a targeted approach to SKU optimization, focusing on one category at a time. Finally, winners create a relatively smaller number of customized SKUs for retailers—77 percent of winning companies tailor less than 10 percent of their SKUs for individual retailers; 36 percent of other companies do so.

**Take a cross-functional approach to standardization.** Our survey reveals that most CPG companies pursue standardization. While standardization initiatives have been implemented in many areas, more than 70 percent of respondents focus their efforts on supply chain, manufacturing, and marketing and packaging. These players involve a broad range of cross-functional groups in the process of identifying standardization opportunities—including supply, research and development, finance, and marketing. Companies pursuing standardization initiatives usually realize the greatest savings in inventory, raw-material, and packaging costs.

□ □ □

The winning companies in the 2010 Customer and Channel Management Survey have proven that strong performance is possible even in the most challenging of economic environments. To deliver high-impact results in the future, winning CPG manufacturers will need to continue to rely on many of the leading practices outlined in the survey, while strategically positioning themselves to reignite growth and capture the next wave of business opportunities.

## ACKNOWLEDGEMENTS

Grocery Manufacturers Association (GMA), McKinsey & Company, and Nielsen would like to acknowledge the cooperation and input from the companies that participated in the 2010 Customer and Channel Management Survey. Additionally, we would like to thank the GMA Sales Committee for its sponsorship and support.

## CONTACTS

For more information about the survey or this report, please contact:

### **Grocery Manufacturers Association**

Brian Lynch, Director, Sales & Sales Promotion/Industry Affairs  
(blynch@gmaonline.org)

### **McKinsey & Company**

Kari Alldredge, Senior Expert, Consumer/Packaged Goods Practice, Minneapolis  
(Kari\_Alldredge@mckinsey.com)

Danielle Bozarth, Principal, Consumer/Packaged Goods Practice, New Jersey  
(Danielle\_Bozarth@mckinsey.com)

Kris Licht, Principal, Consumer/Packaged Goods Practice, Dallas  
(Kris\_Licht@mckinsey.com)

### **The Nielsen Company**

Konrad Gerszke, Executive Vice President, Global Consumer Practices & Products  
(Konrad.Gerszke@nielsen.com)

Steve Matthesen, Executive Vice President, Professional Services  
(Steve.Matthesen@nielsen.com)





The Association of Food, Beverage  
and Consumer Products Companies

1350 I Street, NW Suite 300  
Washington, DC 20005  
Tel 202 639 5900  
Fax 202 639 5932  
[www.gmaonline.org](http://www.gmaonline.org)



770 Broadway  
New York, NY 10003-9595  
Tel 646 654 5000  
Fax 646 654 8393  
[www.nielsen.com](http://www.nielsen.com)

McKinsey&Company

55 East 52nd Street  
21st Floor  
New York, NY 10022  
Tel 212 446 7000  
Fax 212 446 8575  
[www.mckinsey.com](http://www.mckinsey.com)