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Lessons from Latin America's leading consumer-goods companies

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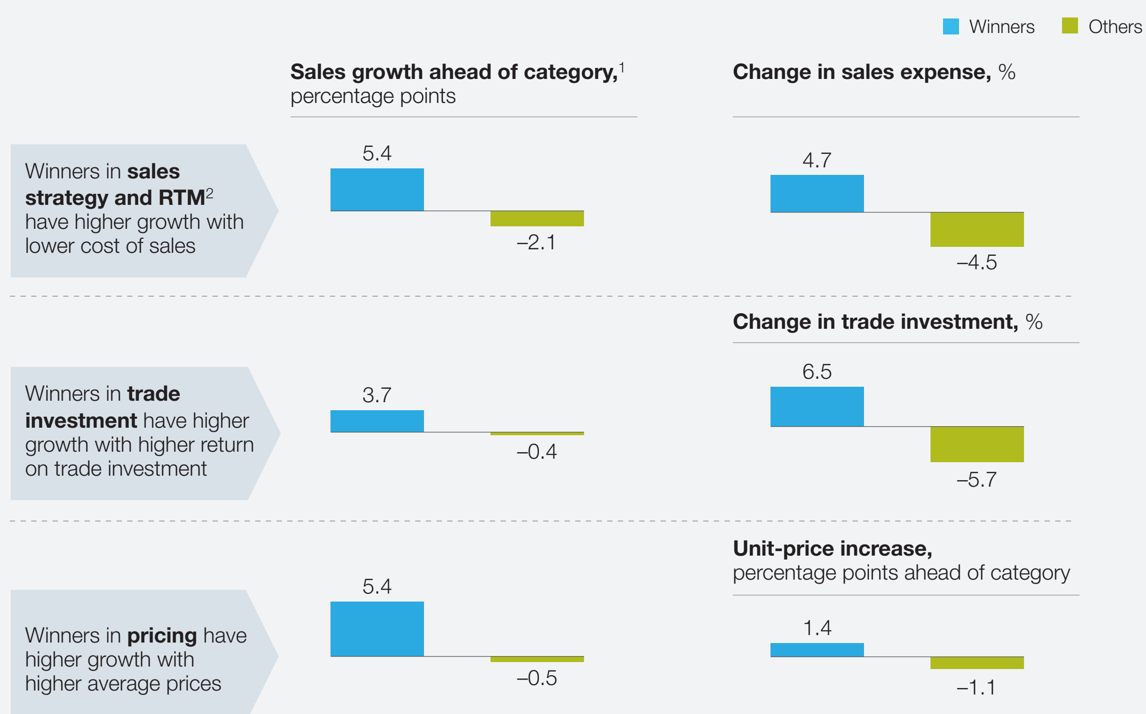
Our survey of local and multinational companies yields useful lessons in how to navigate the dynamic Latin American market.

The Latin American economy has seen better days. Over the past few years, Latin American countries have experienced slowdowns in both GDP and private-consumption growth, a rise in inflation rates, and devaluations in currency. In this difficult environment, consumer-packaged-goods (CPG) manufacturers must make careful choices and deliberately weigh trade-offs.

How are the region's leading CPG companies managing their customers and channels? Our survey of 35 companies offers some best practices. We examine what "winners" do differently from their peers—winners being companies that achieved higher sales growth than the categories they play in while also outperforming peers on one or more customer- or channel-management metrics. The survey results show that by applying best practices, companies can grow sales by more than seven percentage points ahead of others, while reducing selling expenses as a percent of net sales (Exhibit 1). This difference in performance between winners and others is bigger than in any other market we studied except China, where the gap is 17 percentage points.[1]

Exhibit 1 **In each performance area, winners outperform their competitors in growth and efficiency.**



[1] Based on 2013–14 performance.
[2] Route to market.

Source: 2015 Customer and Channel Management Survey; Nielsen

The following five imperatives offer guidance for companies competing in the Latin American market.

Focus on the highest-potential outlets in fragmented trade

Modern retail formats—in particular, supermarkets and hypermarkets—are undeniably making inroads in Latin America.[2] But, unlike in developed markets, Latin America's retail sector still consists of many small, independent businesses, known collectively as the traditional or fragmented trade. These small retailers account for at least 40 percent of retail sales in every country in the region.

Winning companies do a thorough job of segmenting their fragmented-trade customers: they use more segmentation criteria than others do and are much more likely to include forward-looking criteria such as their company's share within the store and the store's profit-growth potential (Exhibit 2). They then differentiate service levels for each segment.

Winning companies also tend to manage a broader portfolio of products than their peers do, giving them an advantage in achieving scale. About 75 percent of winners (compared with only 41 percent of others) offer products in at least five categories.

Not surprisingly, a focus on traditional trade requires significantly more resources within the sales organization. In Latin America, sales-planning and sales-administration activities demand, on average, 42 full-time equivalents for every $1 million in sales, compared with 23 in Europe.

Exhibit 2 **Winners are more likely to use forward-looking criteria in store segmentation.**

Source: 2015 Customer and Channel Management Survey; Nielsen

Overinvest in 'power partnerships' with key accounts and distributors

All the winning companies in our survey have created multifunctional service teams dedicated to key accounts. Almost half of the members of these service teams are primarily focused on sales and are typically involved in customer-related activities such as segmenting the customer base, determining service levels for each segment, and pursuing collaboration opportunities with customers. By contrast, at nonwinning CPG companies, only 29 percent of key-account team members are focused on sales, and the sales staff is less likely to be involved in customer-related activities. In a market where more than 60 percent of respondents said retailer-manufacturer relationships tend to be transactional rather than collaborative, the ability to form strong, collaborative customer relationships—what we call "power partnerships"—can provide true competitive advantage.

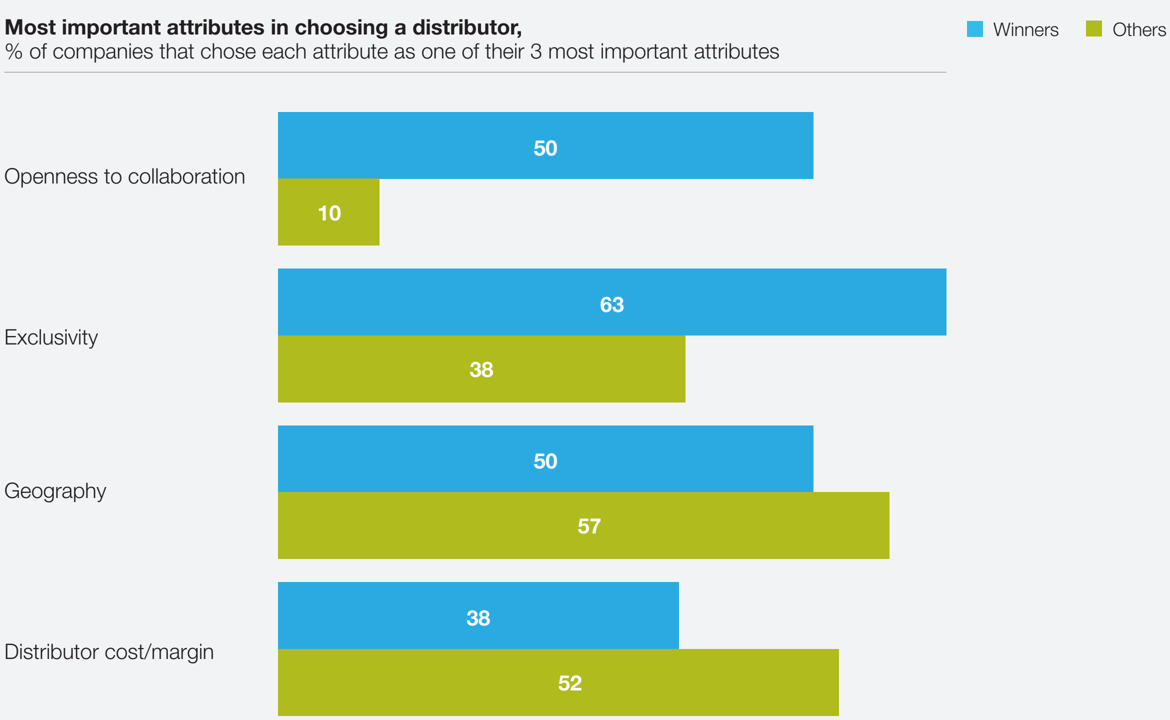
Winners seek to form power partnerships not just with large modern-trade accounts but also with the distributors that help them serve the fragmented trade. On this front, partnering with the largest or least costly distributors isn't necessarily a recipe for success. When selecting distributors, nonwinning companies are typically more concerned about a distributor's geographic focus and costs, whereas winning companies look primarily for exclusivity and openness to collaboration (Exhibit 3).

Closely monitor and manage in-store execution

Winning companies pay close attention to the basics of in-store execution—in particular, monitoring

Exhibit 3

Winners prioritize exclusive and collaborative distributor relationships over partnering with larger, lower-cost players.



Source: 2015 Customer and Channel Management Survey; Nielsen

out-of-stock items and correctly implementing planograms. All winners, for example, control stock at the store level; they are also more likely than others to control stock by customer and by individual SKU.

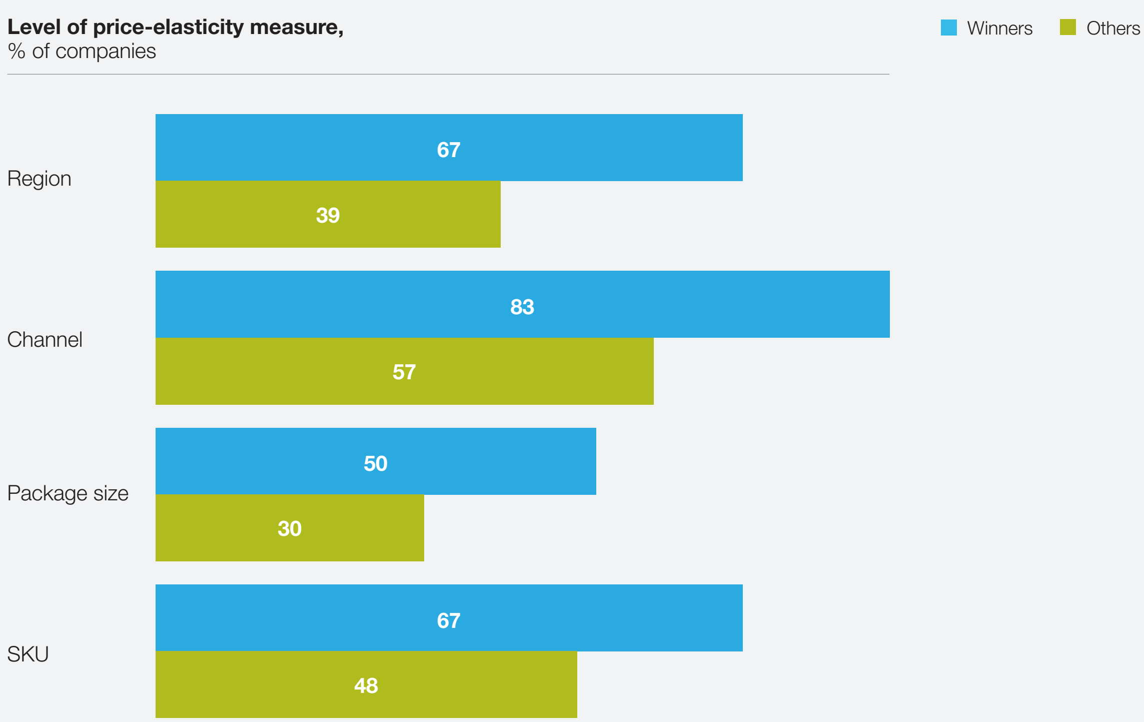
A big part of excelling in in-store execution is holding salespeople accountable for it and compensating them accordingly. At most winning companies, salespeople's compensation depends in part on the quality of point-of-sale (POS) execution. Half of winning companies also take into account other in-store metrics, such as control of stock and introduction of new products, when evaluating salespeople's performance. Survey results indicate that winning companies pay their salespeople about 28 percent more in salary and as a result have lower personnel turnover, which further helps ensure in-store execution excellence.

Use more advanced metrics in revenue-growth management

Even amid currency instability and significant cost pressures, winners in revenue-growth management (which includes pricing and trade investment) were able to sell a higher percentage of items at undiscounted prices: 78 percent, compared with 63 percent for others. One distinguishing feature of winners seems to be organizational structure: they are more likely to centralize the management of pricing and promotional spending in a single team at the business-unit level.

In addition, pricing winners are more likely to track SKU-level price gaps versus competitors on at least a monthly basis and to measure price elasticity in a granular way—for instance, at the region or channel level rather than at the national level (Exhibit 4). And winners tend to use advanced metrics, such

Exhibit 4 **Winners measure price elasticity in a more granular way.**



Source: 2015 Customer and Channel Management Survey; Nielsen

as cost to serve and brand equity, to set prices rather than simply take into account the minimum margin requirement. They're also more likely to use advanced analytics to support pricing activities such as setting prices, diagnosing pricing opportunities, and simulating pricing scenarios.

Enforcing price changes isn't easy, and a majority of survey respondents still point to raw-material cost increases when justifying price changes to retailers. Winners, however, are slightly more likely to make retailer-oriented arguments in their negotiations.

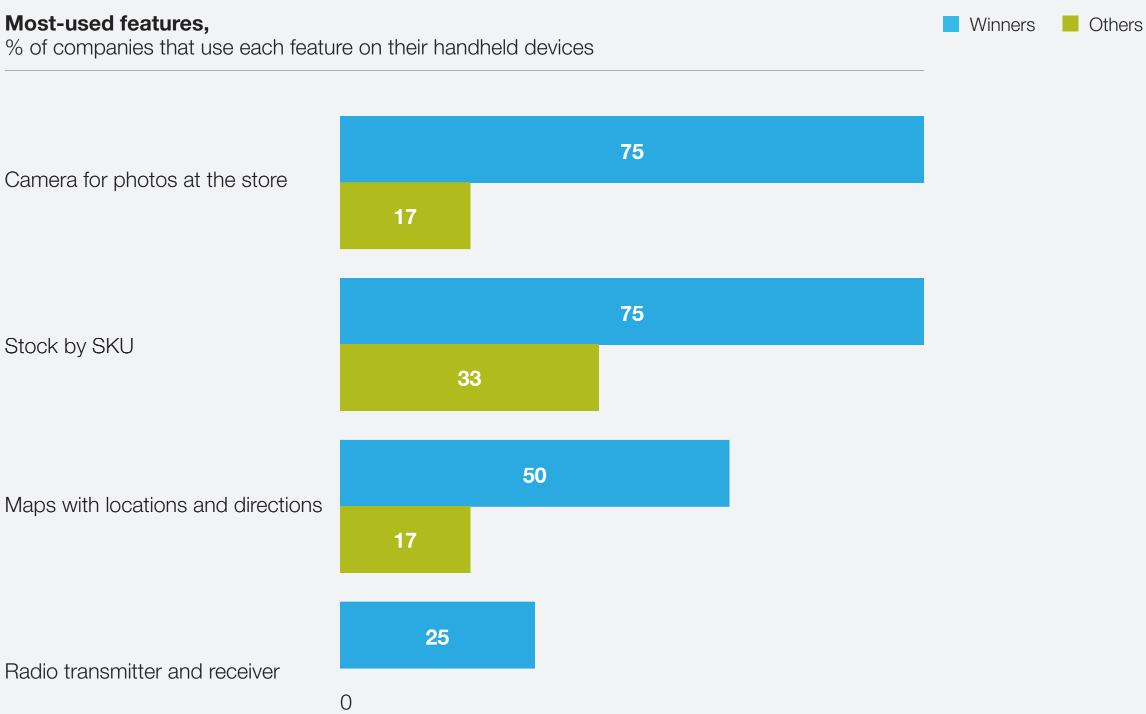
In trade investment, as in pricing, granularity matters. More winners than others use forward-looking criteria—such as performance forecasts—to differentiate trade rates and customize promotions. As a result, their trade rates vary more and at much more detailed levels (for example, by SKU and by product rather than just by category). Also, all winning companies formally review their trade investments at least quarterly. These formal reviews seem to be meaningful, as most winners (and only 20 percent of others) say they refine their promotional guidelines or eliminate customer- or channel-specific promotions as a result of the reviews.

Use technology and big data to improve sales-force performance and in-store execution

Winners say they use technology effectively in a number of sales processes, including GPS tracking of salespeople and POS surveys. A significantly higher percentage of winners say they use handheld capabilities effectively—for example, to take photographs in stores or to track inventory (Exhibit 5).

Exhibit 5 **Winners make greater use of handheld technologies.**

Most-used features,
% of companies that use each feature on their handheld devices



Source: 2015 Customer and Channel Management Survey; Nielsen

Winners are also able to gather data from a broader range of sources. They are more likely than others to have direct access to retailers' POS and inventory data and to capture store data themselves using smartphones and other handheld devices.

■ ■ ■

Latin American CPG manufacturers have much to learn from one another. By emulating best practices in customer and channel management—and through disciplined prioritization, deliberate relationship building, and thoughtful investments—Latin America's CPG players can win even in today's tough economic environment. ■

[1] The Latin American survey is part of the 2015 Customer and Channel Management Survey, a global survey conducted in the latter half of 2015 by McKinsey in collaboration with Nielsen.

[2] For more on the growth of modern food-retail formats, see Peter Child, Thomas Kilroy, and James Naylor, "Modern grocery and the emerging-market consumer: A complicated courtship," *Perspectives on retail and consumer goods*, August 2015, McKinsey.com.

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