

# **Customer & Channel Survey (CCM) Latin America**





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**McKinsey & Company together with AC Nielsen launched for the first time the Latin American Customer and Channel Management (CCM) Survey, which offers an up-to-date perspective on the practices of top-performing Latin American Consumer Packaging Goods (CPG) companies.**

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## Introduction

Latin America was one of the fastest growing regions in the world, with an annual average GDP growth of 3.97% from 2003 to 2013. Foreign direct investment reached record levels and the boom in natural resources (e.g., oil, natural gas, and precious metals) continued. As a result, the economy grew, wealth increased, and the middle class and domestic consumption exploded.

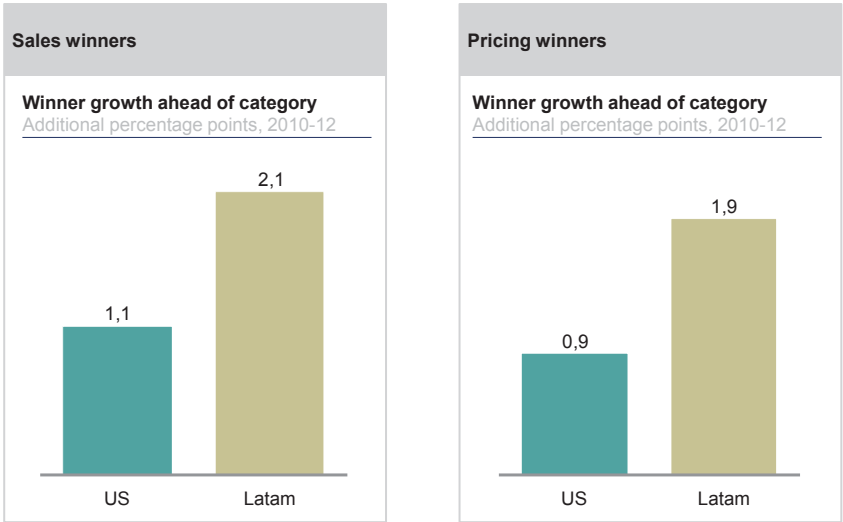
Consumer-packaged-goods (CPG) companies in Latin America have been and are capitalizing on the middle class's rising income and demand for consumer goods. However, these companies must also attract lower income groups by offering value through competitively priced products with entry price labels. Latin America's CPG companies represent most of the multinational CPG

companies from the developed world as well as strong local companies in many segments. Some of the local companies also play multinational roles, either within Latin America or globally. Both local and Multinational companies are taking steps to win in the region by acquiring minor players and consolidating the market.

Within this environment, winning Latin American companies outperform their competitors and position themselves for success. What differentiates them? A relentless pursuit of more granular, analytical, and customer-based solutions across sales strategy, trade investment, and pricing, the three modules we researched in the CCM Survey. Winning in Latin America brings these companies significant advantages – almost twice as much value as winning in the U.S. did for winners there (Exhibit 1).

**Exhibit 1:**  
Value of winning in Latin America vs. the U.S. American Consumer Packaging Goods (CPG) companies.

**Winning in Latin America can drive even higher growth than in the U.S.**



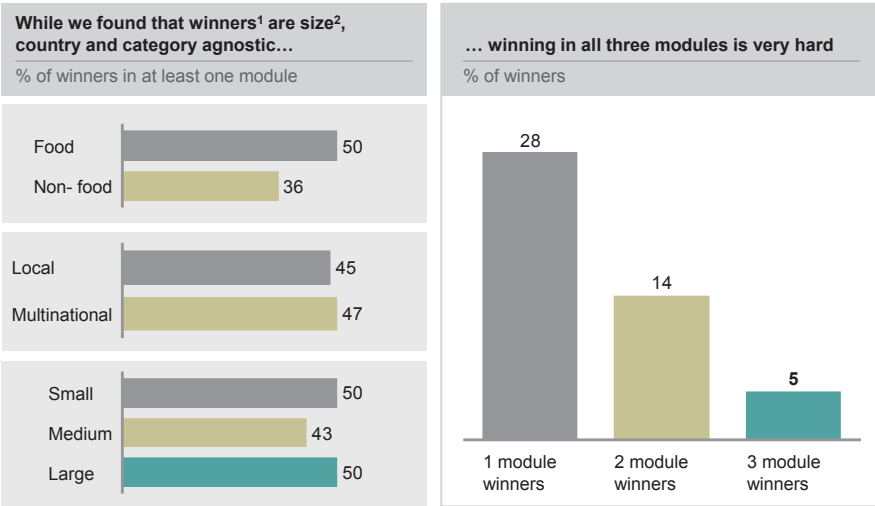
**What makes a Latin American winner**

Latin American winners’ membership was independent of country, category (food, beverages, pet care, home care, etc.) and size (Exhibit 2).

They could excel in one or more modules, although they usually did so in just one. It was extremely difficult for companies to win in more than that. While almost half of the companies won in at least one module, few of them (14%) won in two modules and only two companies (5%) won in all three modules.

**Exhibit 2:**  
Latin American winners

**Winners came from all surveyed profiles however winning in all modules proved to be very hard**



1:Percent of winners respondents      2: Small: net sales < USD 500 million ; Medium USD 500 - 2billion ; Large > USD 2 billion

A few characteristics truly define Latin American winners. These are present in most of the winners in the three modules described later in this report and they underlie these companies' ability to capture premium value from the market.

**They handle fragmented trade masterfully:**

- Manage their Route-to-market (RtM) very efficiently
- Carefully monitor and manage their distributors and direct sales force

**They excel at granular customer/channel management:**

- Segment the market according to the Point-of-sale (POS) potential
- Apply promotions and assortment according to the customer segmentation, managing them by product, channel and region

**They constantly invest in the data-driven capabilities that underlie very sophisticated analytics that enable them to:**

- Optimize trade investments, estimating with higher accuracy the return for each promotion

and monitoring if the promotions are being implemented as expected

- Use more quantitative analysis to define pricing and capture granular opportunities around the whole product portfolio, per region and channel

**Finally, they incorporate best practices around key account management:**

- Create account plans that tie to shop-floor execution
- Manage trade terms by linking investments to customer performance
- Use a promotion management process that identifies the promotion's impact on the bottom line
- Improve collaboration with high-priority customers

While Latin America winners are world class performers in the Fragmented Trade channel, they still could be stronger by adopting some key account management best practices from the U.S. winners (Exhibit 3).

**Exhibit 3:**  
U.S. best practices  
in the Modern Trade  
channel

**Modern Trade levers**



**Account planning**



**Trade terms**



**Promotion management**



**Category management**



**Collaboration**



**Organization**

**What US winners do**

- 1 Create **account plans** based on metrics that relate to shop floor execution and financial performance, linked to incentives to retail performance
- 2 **Link investments to customers' performance**, with an integrated view of customer funds and optimized ROI
- 3 Use a **promotion management process**, understanding promotions' impact on consumers and bottom-line
- 4 Develop a **customer-centered approach** to assortment optimization, **integrated to each category's strategy**
- 5 Build **strategic partnerships** with priority customers seeking win-win situations
- 6 **Overinvest resources** on top customers and build **multifunctional teams** using a mix of metrics to evaluate performance and develop skills

**Only 18% of LatAm participants plan their key accounts by store**

**Only 37% of Latam winners are using a TPM tool, vs. 75% of US winners**



In this report, we cover the CCM survey's findings in detail and divide them into the three modules: sales strategy, trade investment, and pricing. As you will see, companies that excel in one or more of these areas usually achieve stronger performance and are in better positions for future growth.

### Survey overview and methodology

This paper includes the results of the 2013 Latin American Customer and Channel Management (CCM) Survey, which has a unique approach that identifies winning practices by linking financial performance and market results with self-reported business practices in three modules – sales strategy, trade investment, and pricing.

The CCM Survey has a long history. It began measuring data and performance benchmarks on the sales organizations of leading CPG companies

in 1978 in the U.S., where it was updated every two-three years. Later, Nielsen's in-market data and analytics augmented the original survey; these were crucial in determining the winning practices in the current surveys, which cover a broader range of topics. The last U.S. survey was in 2012, when more than 50 companies participated.

In Latin America, forty-three companies from Brazil, Colombia, Mexico and Peru, which make up at least 25% share of their markets, participated in this survey. These players—in the food, beverage, personal-care, home-care, and pet-care categories—represent a broad cross-section of the Latin American CPG industry. Companies that participated in more than one division (e.g. Brasil Foods and Nutresa) or in more than one country (e.g. Bimbo) were counted as different companies in each division or market (Exhibit 4).

**Exhibit 4:**  
Survey participants

Countries	Participants
 Brazil (13)	            
 Mexico (16)	               
 Colombia (7)	     
 Peru (7)	      

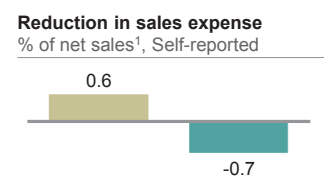
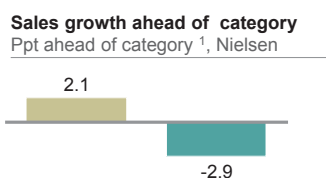
(x) Number of companies included

To ensure that we received relevant data, the person accountable for each performance area completed the appropriate part of the questionnaire. Approximately 150 CPG executives completed the survey.

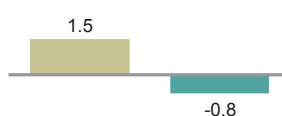
## The value of winning

Winning practices in any and all of the three modules offer enormous potential to companies in Latin America. Those who stand out as winners outgrew their peers by ~2 to 5 p.p./year – a significant difference in today's market. This allows them to experience better share prices, earnings, and overall growth as they capture the value from their practices – unlike their peers, who struggles to maintain their position in the current environment.

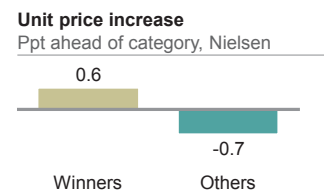
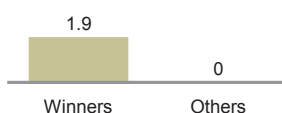
Winners in Sales strategy grew sales by 2.1 percentage points more than the market, while reducing the cost of sales (as a percent of net sales) by 0.6 p.p.



Winners in Trade investment grew sales by 1.5 percentage points more than the market, while reducing trade investment (as a percent of net sales) by 0.4 p.p.



Winners in Pricing grew sales by 1.9 percentage points more than the market, while increasing unit prices by 0.6 p.p. ahead of the category.



As can be seen in the chart above, not only do winning companies perform well but the performance gap between them and their peers is large in all three modules. Unsurprisingly, this theme runs through the rest of the Survey and the identified best practices highlight what drives these differences.

## Detailed findings by module

### Sales Strategy Winners

As in the other two modules, approximately 23% of Latin American companies are winners in Sales Strategy, outperforming their peers in the categories of company growth<sup>1</sup> by 5% while reducing 0.6% their sales cost<sup>2</sup>. They are masters of fragmented trade, employ in-store resources exceptionally well, and employ efficient key account management for modern trade. By doing so, they attain exceptionally strong positions for future sales and are able to create a differentiated proposition with both fragmented and modern trade.

### Fragmented trade

As we mentioned previously, fragmented trade is one of the Latin American winners' greatest strengths. Almost all of them (88%) proactively manage their RtM and use transactional and behavioral data to revisit their POS segments at least annually. They evaluate the RtM's service level, profitability, and strategic relevance. They also prioritize POS segmentation – in many situations including stores not served today, organize the sales force by channel, and uses distributors that are dedicated to a channel. When they have enough scale/ critical mass, they prefer to employ direct sales distribution (DSD) or a dedicated and exclusive third-party distributor network, which is usually a more efficient model that allows higher control of sales distribution and execution.

Almost 90% of winners look to the future and are more detailed when they focus on fragmented trade – which strongly contrasts with their peers, who examine mainly current and past measures.

Instead, winners' POS segments reflect market forecasting criteria. To complement this, almost two-thirds of winners create individual account plans for their high-priority individual retail segments. Although over half of their peers also do this, their high-priority segments are different, with more winners segmenting the fragmented trade according to the POS potential.

Winners also manage their distributors strategically. Almost all winners (~90%) evaluate them at least quarterly, while only about two-thirds of their peers do. Winning companies are also much more aggressive about managing distributors' performance. Almost two-thirds (63%) tie distributors' discounts to their performance and base their prices on the distributor's geographic cluster, local competition and price-to-serve. The contrast with peers is striking: only 18% of peers do the former and only 27% do the latter (Exhibit 5).

Half of the winners carefully monitor the risk of losing their distributors and prepare contingency plans for these circumstances, an important step in managing risk; however, only 14% of peers do this.

### In-store resources

Sales winners employ in-store resources exceptionally well. They approach in-store execution strategically, use the customers' perspective to design in-store programs, and use very granular data to monitor merchandising activities. These practices give them a distinct advantage over their competitors, both now and in the future.

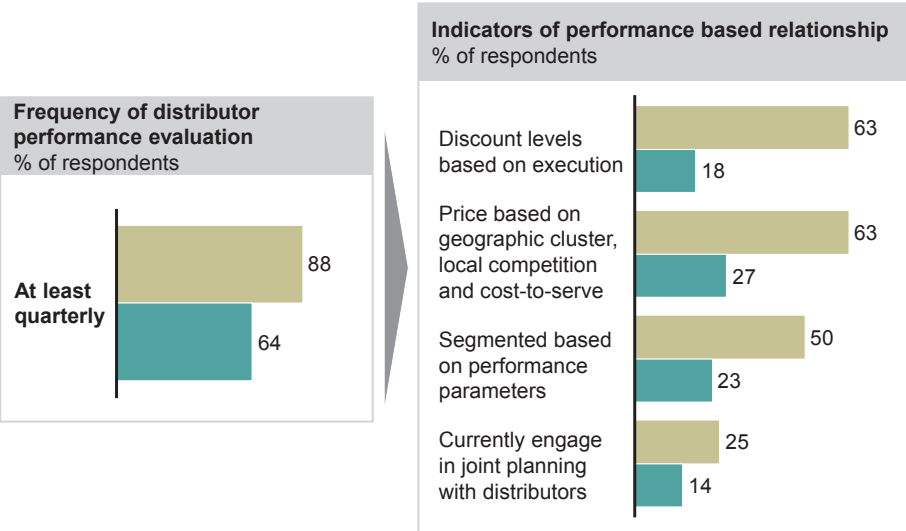
This strategic bent enables winners to go far beyond operational shelf-related tasks and focus on collaborative planning and identifying strategies for dealing with competitors' prices (Exhibit 6). As the exhibit shows, fewer peers are pursuing these strategic activities.

<sup>1</sup> CAGR 2010-2012. Considers categories and country they compete in, weighting the growth gap of each category with the company's sales (i.e., milk, beer, soap, coffee, etc.)

<sup>2</sup> Absolute change in sale costs as a percent of net sales, 2010-2012

**Exhibit 5:**  
Distributors performance  
evaluation

**Winners evaluate their distributors more often, using  
metrics tied to execution rules**



When asked why their in-store programs succeed so often, half of winners said it is because they consider shoppers’ opinions. In addition, 75% said they are effective implementers of the programs. Just as importantly, none of them said that the programs work because of “sufficient field resources” or “alignment between corporate areas and sales.”

Three-quarters of winners also ensure that they have very granular data to monitor merchandising activities at the Brand and SKU level. Almost two-thirds (63%) also track the ROI of POS equipment, which is extremely important for beverages and frozen foods companies.

**Efficient Modern Trade Management**

Finally, sales winners, unlike winners in other modules, use efficient key account management to succeed in modern trade. Almost 40% invest in key account teams, including multifunctional teams for high-priority accounts, and use advanced analytical tools and metrics to manage

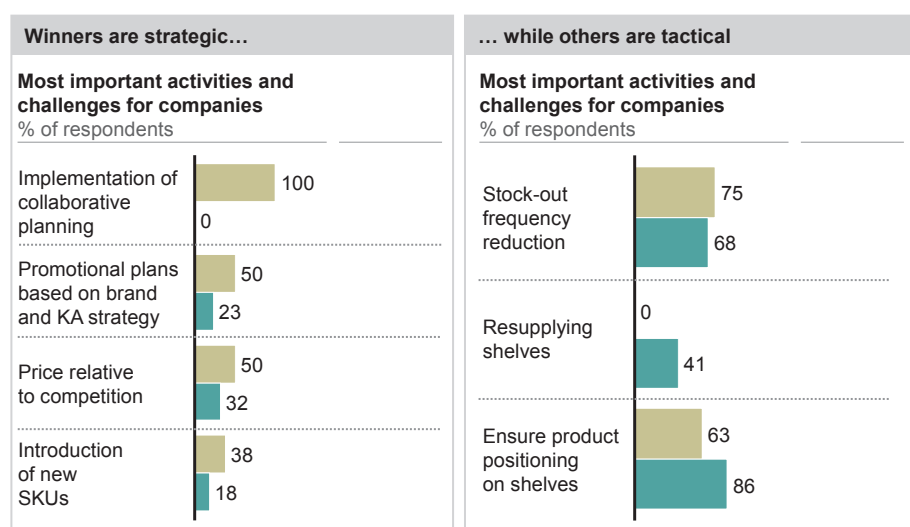
the teams. Peers are at a very different place in this area, with only 14% making this investment.

The account teams are part of the key to this effort’s success. Successful key account teams dedicate more resources and attention to demand generation (e.g., roles include commercial, trade-marketing, marketing, category and retailer management). By contrast, peers still dedicate more resources and attention to meeting the demand (e.g., roles include logistics, credit, and payments). Although the roles needed to meet demand are very important, winners usually have these processes well under control and therefore focus their efforts demand generation. Their teams use advanced analytical tools and metrics to manage accounts. Half of winners examine key accounts’ real growth and track their key activities and performance metrics (e.g., ROI, volume). In addition, 60% of them use the account’s cost-to-serve to determine how frequently they visit it.



**Exhibit 6:**  
In-store activities

### Winners are strategic about in-store activities



#### Trade Investment Winners

Winners in trade investment outgrew their peers<sup>3</sup> by 2.3% and reduced their trade investments by 0.4% while their peers' investments held steady with no change. They accomplished this by analytically determining a very granular strategy, conducting frequent reviews and renegotiations, and investing in tools and data that optimized consumer insights and investments.

#### Granular Strategy

When creating their strategy, almost two-thirds of winners use customer segmentation to define their investment rates, while only half of peers do. Half of the winners also incorporate account annual performance goals into this calculation. Winners also employ much more advanced metrics (e.g., elasticity, promotional profitability) when evaluating their discounts' and promotions' effectiveness. All winners also customize promotion investments by region, vs. only ~40% of peers (Exhibit 7). However, most players customize promotions by channel and client.

#### Frequent Reviews and Renegotiations

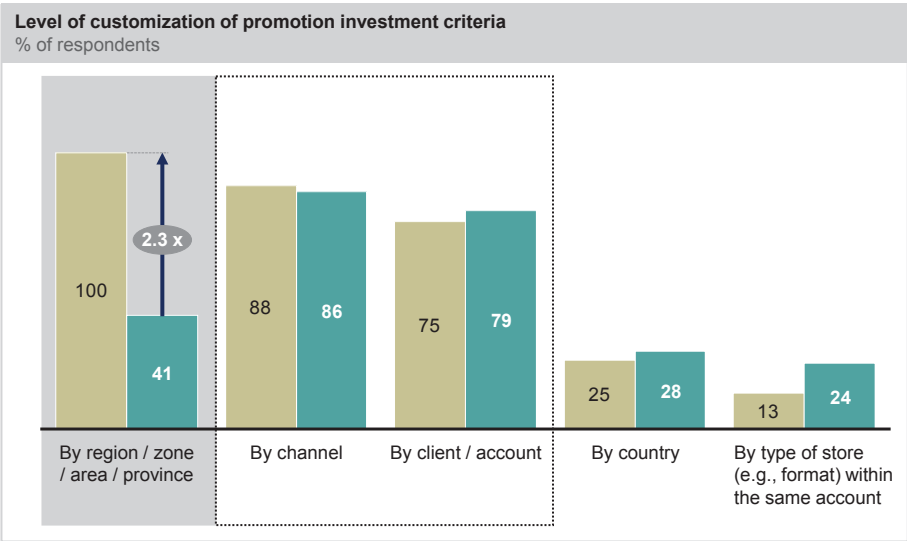
Winners regularly review the performance of their trade investments and adjust their strategy as needed, whether this means renegotiating a contract, investing new money, or eliminating an ineffective promotion. These reviews are usually conducted centrally and any renegotiations are proactive so they prevent, rather than react to, problems.

While half of winners evaluate investment performance monthly and adjust plans as necessary, only one-third of peers do. The reviews rely on basic analyses such as investment volume, post-promotional analyses (at the channel and client level) and deviations from the investment plan. Depending on the review's results, almost two-thirds of winners proactively renegotiate or eliminate future events as they manage commercial investments that are over budget. However, only 39% of peers renegotiate and only 25% eliminate future events. In some instances, winners also change allocation levels and define new promotions for the account.

<sup>3</sup> Reduction on Trade Investments as a percent of net sales, 2010-2012

**Exhibit 7:**  
Customization of  
promotion investments

**Winners customize promotion investments by region, in  
addition to channel and client, which is what most players do**



In terms of process, the vast majority of winners (88%) make trade-marketing responsible for promotion decisions; only 60% of peers do. Winners also conduct monthly or quarterly event-level post-promotional analyses, which a central analyst or commercial marketing often leads.

**Invest in Tools to Optimize Insights and Investments**

Three-fourths of winners use Trade Promotion Optimization (TPO) and Trade Promotion Management (TPM) tools to develop deeper insights into consumers, categories, and promotions. The same percentage of winners frequently delves into external data sources. Only half to a little over half of their peers use either of these sources. In addition, all winners employ TPM and TPO tools in trade marketing and their national account teams (63% (TPM) and 83% (TPO)). Peers use these tools much less frequently.

**Pricing Winners**

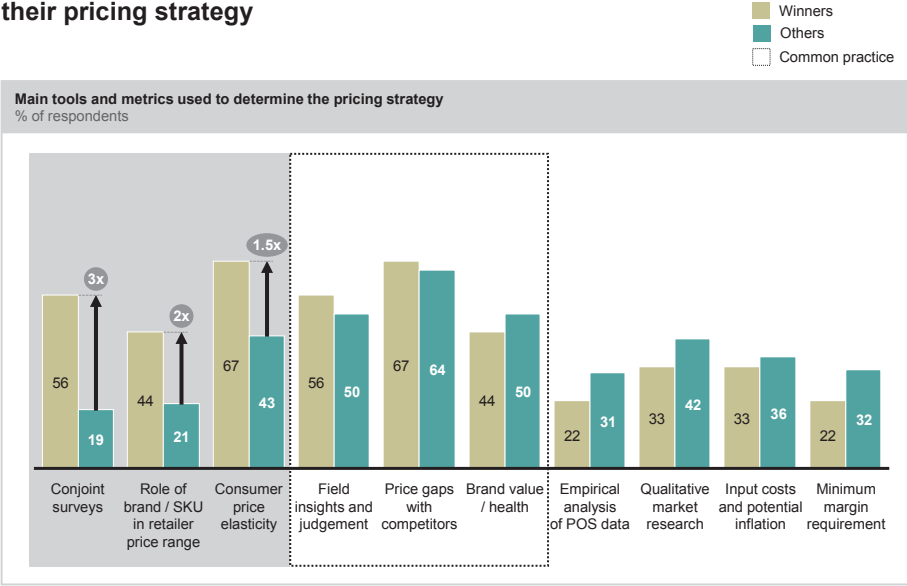
Pricing winners truly outpaced their peers<sup>1</sup> on sales by 1.9 p.p. and increased their average unit price growth by 0.6 p.p. above the market average, while their peers’ sales held steady with average unit price increase below 0.7 p.p. the market average. They use sophisticated techniques to set their prices, negotiate in more retailer-oriented ways which more frequently yield price increases, and organize their sales function and sales force so that these operate efficiently while making well-informed decisions.

**Set the price**

When winners create their pricing strategy, over half to two-thirds of them use specific, quantitative, advanced data-driven approaches (e.g., conjoint surveys, consumer price elasticity) instead of qualitative methods and cost-based analyses (e.g., minimum margin requirement) (Exhibit 8).

**Exhibit 8:**  
Winners analysis to  
define pricing

**Winners rely more on quantitative analyses to determine their pricing strategy**



In addition, slightly over half of winners use pricing tools (e.g. scenario modeling), while only about a third of peers do.

Winners also customize their packaging assortment to the region, channel, and client. While all of them tailor it by channel, only half of winners do it also by customer segments or by region. Peers also customize packaging, but at a much lower rate, with 65% by channel and only 35% by the last two types.

**Get the price**

Winners are much more adept at using retailer-oriented discussions to negotiate price changes (i.e., focus on the additional profit the retailer will get with the changes. They employ such tactics almost twice as frequently as peers when negotiating a price increase.

**Organize to win**

A majority of the winners (77%) adopt a centralized approach to pricing decisions. They manage decisions centrally with either a single function or a dedicated pricing group.

Winners also treat pricing tools as an invaluable part of their arsenal. They perceive pricing tools’ most relevant quantitative benefits (e.g., scenario/impact simulations, price performance) as more important than their operational ones (e.g., access rights, automatic price uploads to the system). They also encourage and motivate their marketing and sales functions to adopt these tools. Marketing employs pricing in all of the winning organizations and sales does so in half of them; the numbers for peers are only about half these percentages.

## Conclusion

The 2013 Latin American Customer and Channel Management survey results reveal how multiple companies have succeeded in positioning themselves for current success and future growth. The various best practices in sales strategy, trade investment, and pricing provide multiple pathways that CPG companies can consider as they seek their road to success, whether they are already winners or trying to raise their performance into that category.

It is also crucial to remember the few themes that define the Latin American winner and that cut across the different modules. Such a winner is a company that relentlessly pursues more granular, analytical, customer-based solutions, one that handles fragmented trade masterfully, that excels at customer/channel management, that constantly invests in the capabilities needed for sophisticated analytics, and that is starting to incorporate best practices around key account management.

These themes underlie all the other practices and help shape and build the true Latin American winners of now and the future. We hope that this report will help you and your company prosper and refine your strategies. If you have any questions or comments, please contact us.

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Function/Practice

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