
© d3sign/Getty Images

How consumer-goods companies can win in Southeast Asia

Disciplined spending, stronger partnerships with retailers and distributors, and cross-functional collaboration set winners apart. But all companies in the region need to step up their game in digitization and analytics.

Felix Poh, Rohit Razdan, Suyin Soon, and Simon Wintels

October 2018

McKinsey&Company

nielsen

For more than a decade, Southeast Asia has been a growth market for consumer-packaged-goods (CPG) manufacturers. The sustained rise in consumer demand in the region is, of course, good for business—but it also brings new challenges for CPG companies. Consumers in Southeast Asia are making buying decisions differently from how they were in the past, retail channels are increasingly modernizing, and e-commerce is slowly but steadily capturing an ever-larger share of total retail sales.

Some CPG companies have been able to navigate this evolving landscape more skillfully than others. What are the most successful CPG manufacturers doing that other companies should emulate? In other words, what constitutes commercial excellence in Southeast Asia today?

In this article, we present highlights from our latest Asia Commercial Excellence Benchmarking of CPG companies. A collaborative effort between McKinsey and Nielsen, Commercial Excellence Benchmarking is a unique global benchmark that quantifies how a company performs compared with the best industry players. It pinpoints strengths and weaknesses using our proprietary Commercial Excellence Index (see sidebar, "About Commercial Excellence Benchmarking"). It reveals what "winners" do differently from "others"—winners being companies that achieved higher sales growth than their categories did, while also outperforming peers on one or more commercial metrics. Winners in marketing, for instance, outgrew others by almost ten percentage points even while reducing marketing expenditures.

Our benchmarking indicates that CPG winners in Southeast Asia share the following best practices: they measure the effectiveness of their spending more rigorously, nurture stronger relationships with both retailers and distributors, and place greater emphasis on cross-functional collaboration than others do.

Three market realities

Consumer companies across Southeast Asia are operating in a changing business environment. Three market realities in particular are having a massive impact on commercial practices.

Southeast Asian consumers are changing their buying behaviors

In the 2017 McKinsey Global Consumer Sentiment Survey,[1] 76 percent of respondents from Southeast Asia said they'd changed their buying behavior in the prior year. Despite rising disposable incomes in the region, many consumers remain price conscious: slightly more than half of survey respondents said they are increasingly looking for ways to save money. Some are sticking with their preferred brands but finding ways to pay less for them—for instance, by shopping at stores with lower prices, buying in smaller quantities, waiting for discounts, and using coupons.

These findings provide a useful picture of consumer sentiment and behavior, but there are vast differences from one country to the next and even from one city to the next. Therefore, CPG companies must carefully tailor their assortment and pricing to each local market.

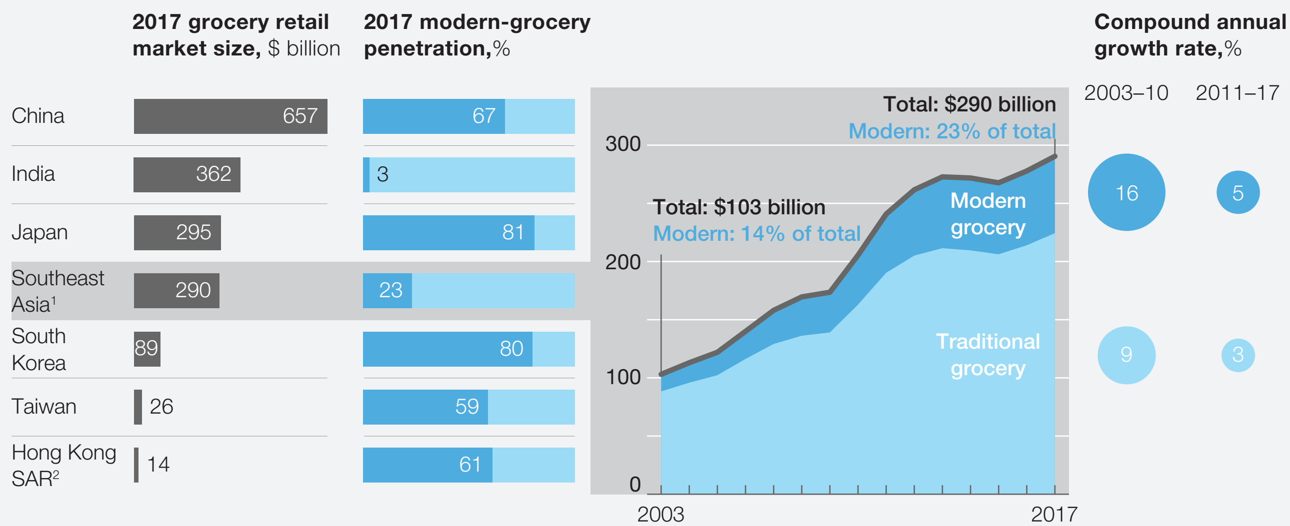
Modern retail is growing faster in sales volume than in market share

Total grocery sales in Southeast Asia have more than doubled since 2006, reaching $290 billion in 2017. Over that period, modern grocery formats (such as supermarkets and hypermarkets) have certainly captured market share—but their gain has been a mere six percentage points. Today, modern grocery still accounts for only 23 percent of the grocery market in Southeast Asia.[2] By contrast, in Japan and South Korea, modern grocers generate approximately 80 percent of total grocery sales (Exhibit 1).

That means CPG companies in Southeast Asia must excel at serving modern retailers, even as they continue

Exhibit 1

In Southeast Asia, modern grocery is slowly taking share from traditional grocery.



[1] This analysis includes only the 5 major emerging economies in Southeast Asia: Indonesia, Malaysia, Philippines, Thailand, and Vietnam.
[2] Special Administrative Region of China.

Source: Euromonitor

to do the bulk of their business with traditional retailers, or the so-called fragmented trade. The smaller, independently owned businesses that make up the fragmented trade tend to be more profitable accounts for CPG manufacturers, but they're also more difficult to serve because they are numerous, geographically dispersed, and less sophisticated with regard to processes and systems.

E-commerce is gaining ground

Modern grocery formats generate around $65 billion in grocery sales in Southeast Asia. Of this total, online grocery accounts for only about $550 million. But e-commerce has been the fastest-growing grocery format in Southeast Asia by far, with a compound annual growth rate of 26 percent between 2012 and 2017.

This growth is poised to accelerate as the internet becomes more accessible across the region, primarily through smartphones, and as infrastructure continues to improve. Today, only one in four Southeast Asians regularly uses the internet, and one in five has made an online purchase of any kind[3]—which means there remains plenty of opportunity for companies to attract first-time online buyers and convert them into regular online shoppers.

What winners do

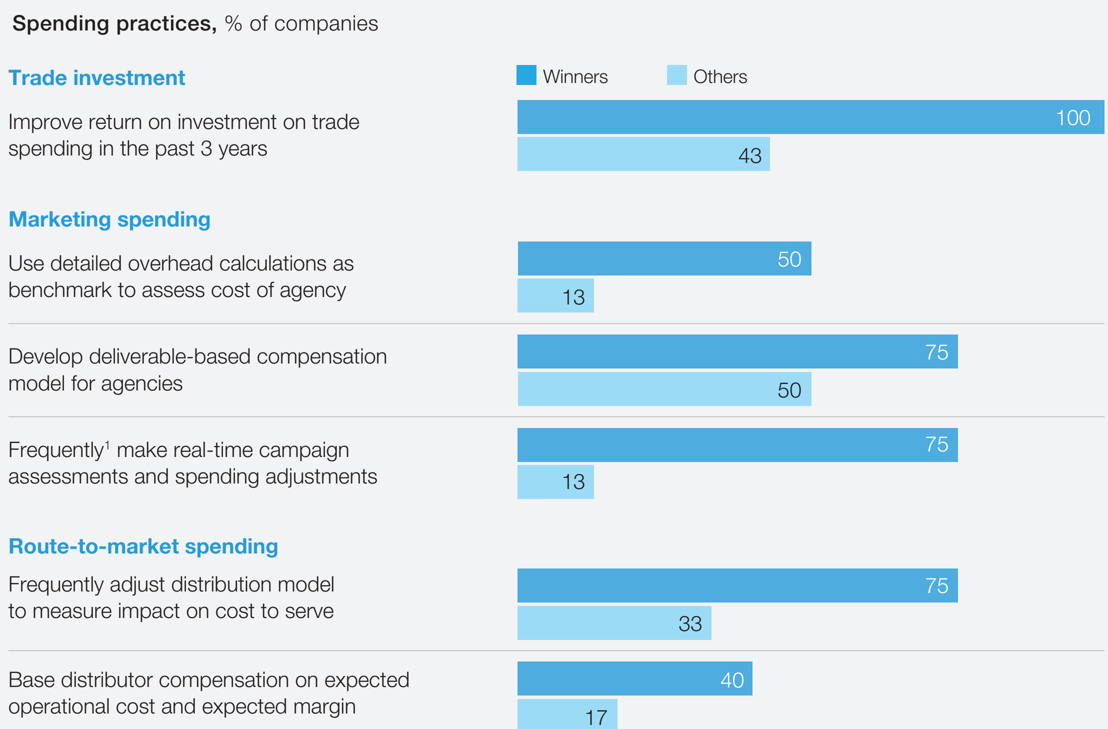
These trends have compelled forward-thinking CPG companies to adjust their commercial practices. We've found that, globally, leaders in commercial excellence are companies that make informed choices about where to play, which investments to make, how to execute in the market, and how to sustain momentum. These choices allow them to consistently outperform the competition and drive sustainable, profitable growth.[4] Our survey reveals that winners in Southeast Asia prioritize the following imperatives in particular.

Closely track return on investment

The most successful CPG companies in the region are far from frivolous when it comes to spending. They evaluate their spending regularly and rigorously. It's not that they're constantly looking to cut their budgets; rather, they're disciplined about ensuring that every dollar spent is geared toward channels and activities that yield high returns on investment.

For instance, winners are significantly more likely than others to assess marketing campaigns in real time and to adjust campaign spending immediately as a result of these assessments (Exhibit 2). They're also more likely to compensate marketing agencies based on deliverables rather than paying fixed fees. Half of winners (but only 13 percent of others) use detailed calculations of overhead costs as benchmarks to assess agency costs.

Exhibit 2 **Winners monitor return on investment more closely than their competitors do.**



[1] In at least half of cases.

Source: McKinsey Asia Commercial Excellence Benchmarking

About Commercial Excellence Benchmarking

This article draws on the results of the 2017 Asia Commercial Excellence Benchmarking, with an exclusive focus on companies operating in Indonesia and the Philippines. The survey, developed in collaboration with Nielsen, aims to identify consumer-packaged-goods (CPG) companies' winning practices in commercial functions including marketing, portfolio management, pricing, and trade investment. Survey respondents are typically heads of sales and their colleagues. The survey responses help inform our framework for sustainable and profitable growth, which has eight elements: portfolio mapping and innovation, dynamic customer-portfolio strategy, data-driven marketing, precision revenue-growth management, retail partnerships for growth, digitally enabled in-store excellence, agile growth organization, and predictive growth analytics.

Since 1978, McKinsey has been gathering data and benchmarks on the sales organizations of the leading CPG companies in the United States. Over time, the survey expanded in geographic scope. Our latest global Commercial Excellence Benchmarking, conducted between 2014 and 2017, received responses from more than 280 companies (including eight of the top ten CPG companies worldwide). These companies represent more than $2.2 trillion in net sales and more than $55 billion in trade spending. Our respondent base included a cross-section of industry players from all major CPG categories. Our 2017 Southeast Asia survey involved 12 CPG manufacturers that were a mix of local and multinational companies, with combined net sales of $5 billion. The findings highlighted in this report draw on data from the 2015, 2016, and 2017 surveys.

In the 2017 survey, we used three analytical methodologies. First, we analyzed Nielsen-syndicated retail and consumer data as well as self-reported financial data to distinguish "winners" from "others" based on sales growth versus category as well as commercial metrics, such as price increases, reduction in marketing expenses, and per-SKU sales growth. We then compared the self-reported commercial practices of winners to those of others. Next, using the companies' self-reported financial and employment data, we benchmarked participating companies against industry averages. Finally, we created the Commercial Excellence Index, assigning each company a score of 0 to 100. The scores were based on two criteria: (1) sales growth versus the category and (2) return on marketing-and-sales investments. The industry benchmark and the Commercial Excellence Index give companies a quantitative sense of how they compare with their peers and (assuming they participate in future surveys) how they progress over time.

With regard to route-to-market spending, most winners frequently adjust their distribution model based on cost-to-serve information. And in compensating distributors, winners are more likely to consider expected operational costs and expected margins.

Deepen relationships with retailers and distributors

Unsurprisingly, winners devote more time and resources to understanding their customers' businesses. For example, most winners analyze the impact of price adjustments and trade terms on retailers' profits; they then use the results of these analyses when communicating with their customers. Furthermore, 80 percent of winners provide price-transition programs to smooth the effects of price changes for retailers.

Winners invest in their relationships with not only large modern retailers but also the distributors that help them serve the fragmented trade. Every winner in our survey systematically selects and assesses distributors using a structured set of criteria, whereas only half of others do the same. Some 40 percent of winners (but only 17 percent of others) help build their distributors' capabilities through training programs. In addition, most winners conduct account planning for the independent stores most important to their business.

Foster cross-functional collaboration

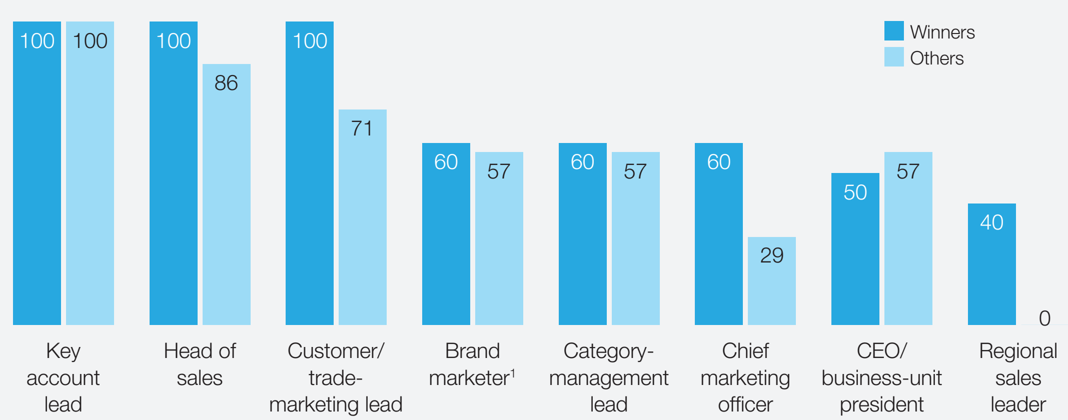
At best-practice companies in developed markets, including the United States and Western Europe, a central team is accountable for all revenue-growth-management (RGM) initiatives. In Southeast Asia, on the other hand, winners distribute RGM resources and responsibilities across functions, spreading them out

Exhibit 3

Winners emphasize collaboration within the organization to develop the best customer strategies.

Revenue-growth-management resources are distributed across functions, % of companies

Involvement in joint business planning (JBP), % of companies in which leader attends JBP meetings



[1] Director or vice president.

Source: McKinsey Asia Commercial Excellence Benchmarking across the entire commercial organization (Exhibit 3). Drawing on local resources for RGM expertise ensures that local-market understanding is embedded into decisions about assortment, pricing, promotions, and trade investment.

Winners in Southeast Asia also break traditional silos in other ways to bring the best of their organization to their customers. For instance, every winner has the head of sales and the leader of customer/trade marketing participate in joint business planning with key accounts. Most winners also involve a senior-level brand marketer, the category-management leader, and the chief marketing officer in joint business planning. Winners say that stronger cross-functional collaboration yields a number of benefits, including more productive trade spending and supply-chain improvements.

Becoming globally competitive

Studying best-practice companies in Southeast Asia is instructive in itself. But our global Commercial Excellence Benchmarking allows us to compare the practices of winners in Southeast Asia to winners from around the world. We've identified three areas in which CPG manufacturers in Southeast Asia lag their global counterparts. Companies seeking to become world-class must step up their game by taking the following actions.

Take a harder line on trade spending. Some CPG companies in Southeast Asia, including half of winners, still use historical spending levels as their primary basis for determining yearly trade investments. More than one-fourth of this spending is unconditional, which means the money is paid to retailers regardless of performance outcomes. But in an evolving retail landscape, the levels and terms of trade spending should evolve as well. Best-practice CPG companies worldwide use more advanced methodologies, such as integrated trade and media-mix models, to set their trade spending—and almost all of it is either fully or partially conditional. In China, for instance, only 10 percent of trade spending is unconditional.

Use data and analytics in all commercial functions. Compared with winners elsewhere in the world, CPG companies in Southeast Asia have invested little in gathering data to generate business insights. For instance, none of the companies in our survey conduct conjoint analysis to understand consumer behavior. None of them mine social media for consumer insights. And although all winners in the region now use analytical tools and techniques to make pricing decisions, they haven't yet harnessed the power of data and analytics in other commercial areas, such as trade investment or assortment management. Only half of the winners in the region, compared with all winners in the US market, use trade-promotion-optimization tools. Of the winners in Southeast Asia, 60 percent don't use any assortment-optimization tools at all.

Adopt a digital mind-set. As e-commerce continues to grow, companies that will win online are those that are preparing now. CPG manufacturers in Southeast Asia would do well to invest in digital platforms.[5] This will require a mind-set shift because companies aren't currently prioritizing the online channel. Half of companies don't feel that developing e-commerce capabilities on their own website should be a priority, 83 percent aren't concerned with exploring alternatives beyond the leading online retailers, and 42 percent sell their products via online marketplaces such as Lazada but don't have a direct relationship with them. CPG companies must take a long-term market view and begin building digital capabilities so they can be well positioned to serve the future consumer.

■ ■ ■

The winners among CPG manufacturers in Southeast Asia have been able to capture profitable growth and outdo their competition. Their disciplined spending, strong relationship management, and internal collaboration serve as valuable lessons for other companies in the region. But, in a growing and ever-changing market, even winners shouldn't become complacent. By emulating the best practices of their counterparts and competitors in Asia and beyond, they'll make big strides in their journey toward global competitiveness. ■

---

[1] For highlights from the 2017 McKinsey Global Consumer Sentiment Survey, see Max Magni, Anne Martinez, Rukhshana Motiwala, and Alex Rodriguez, "How are consumers feeling about their finances?," February 2018, McKinsey.com.

[2] For an analysis of the factors impeding faster growth of modern trade in emerging markets, see Peter Child, Thomas Kilroy, and James Naylor, "Modern grocery and the emerging-market consumer: A complicated courtship," August 2015, McKinsey.com.

[3] According to 2018 data from Euromonitor.

[4] For more on the dimensions that constitute commercial excellence, see the article on the Predictive Consumer Growth framework, by Julie Lowrie, Max Magni, Ryan Murphy, and Sara Prince, forthcoming on McKinsey.com.

[5] See Kaushik Das, Toshan Tamhane, Ben Vatterott, Phillia Wibowo, and Simon Wintels, *The digital archipelago: How online commerce is driving Indonesia's economic development*, August 2018, McKinsey.com.

Felix Poh is a partner in McKinsey's Shanghai office, and **Rohit Razdan** is a senior partner in the Singapore office, where **Suyin Soon** is an associate partner and **Simon Wintels** is a partner.

The authors wish to thank Amrita Dhar Sen, Kumar Gaurav, Kapil Joshi, and Rachel Reyes for their contributions to this article.

Designed by Global Editorial Services.

CONTACTS

McKinsey & Company
Felix Poh, Felix_Poh@McKinsey.com
Rohit Razdan, Rohit_Razdan@McKinsey.com
Suyin Soon, Suyin_Soon@McKinsey.com
Simon Wintels, Simon_Wintels@McKinsey.com

Nielsen
Agus Nurudin, Managing Director, Nielsen Indonesia, Agus.Nurudin@nielsen.com
John Patrick Cua, Managing Director, Nielsen Philippines, Patrick.Cua@nielsen.com

ABOUT MCKINSEY & COMPANY

McKinsey & Company is a global management consulting firm, deeply committed to helping institutions in the private, public, and social sectors achieve lasting success. For more than 90 years, our primary objective has been to serve as our clients' most trusted external advisor. With consultants in more than 120 cities in 65 countries, across industries and functions, we bring unparalleled expertise to clients anywhere in the world. We work closely with teams at all levels of an organization to shape winning strategies, mobilize for change, build capabilities, and drive successful execution.

ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global measurement and data analytics company that provides the most complete and trusted view available of consumers and markets worldwide. Our approach marries proprietary Nielsen data with other data sources to help clients around the world understand what's happening now, what's happening next, and how to best act on this knowledge. For more than 90 years Nielsen has provided data and analytics based on scientific rigor and innovation, continually developing new ways to answer the most important questions facing the media, advertising, retail and fast-moving consumer goods industries. An S&P 500 company, Nielsen has operations in over 100 countries, covering more than 90% of the world's population. For more information, visit www.nielsen.com.