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Consumer Packaged Goods
The organizational agenda

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To continue to compete, CPG companies must increase agility, reskill the C-suite, and leverage millennial talent.

The pace of change has quickened in the consumer-packaged-goods (CPG) sector. Consumer preferences and behaviors are evolving at an ever-faster rate, e-commerce is producing new channels, nimble competitors are emerging each year, and disruptors such as Amazon are growing. Continuous and increasing change is the new normal for consumer-facing businesses of all kinds.

To compete successfully, leaders of CPG companies have started to think anew about elements of their businesses—including organizational implications, such as what kinds of structures, processes, and skills are needed to win.

This shaped the focus of a 2017 research survey conducted by McKinsey's Consumer Packaged Goods Practice, in partnership with the Grocery Manufacturers Association (GMA). The survey explored organizational topics, those that CPG chief human resources officers (CHROs) say are top of mind. The research sought to understand current and emerging best practices for high-performing organizations, and it focused on three priorities:

- Becoming a more agile organization. How agile are CPG companies today, what is the importance of agility, what are the key tactics agile companies employ, where have CPG companies made progress, and where is there room for improvement?

- Evolving the roles and skills of top teams. What are the changing profiles of top-team (C-suite) leaders, what new skills are needed, and how do high-performing companies ensure top teams have those skills?

- Attracting and retaining millennials. What are the recruiting and retention challenges, and how should CPG companies rethink talent management to meet them?

The survey findings suggest that most CPG companies have made progress in identifying and adopting proven practices in each of these three areas—but more work needs to be done. As progress is dynamic, not static, companies need to step up to next-tier tactics to stay competitive.

Becoming a more agile organization
Seventy-three percent of respondents said that increasing organizational agility was a top three priority. They want to enable faster and smarter decision making at every level of their business.

It's no wonder agility is a top priority. As change in the sector continues to speed up—triggering greater volatility and making the business environment more complex—CPG leaders have concluded that traditional organizational models are a liability. The slow flow of information in a hierarchy impedes responsiveness, change renders budgets outdated sometimes even before they are completed, and front lines can't adequately source market signals or act on them quickly enough.

To surmount these constraints, some CPG companies are delayering hierarchies, automating business capabilities, rethinking market strategies, and making other structural and process changes to improve their responsiveness—to become, in other words, agile at scale (Exhibit 1).
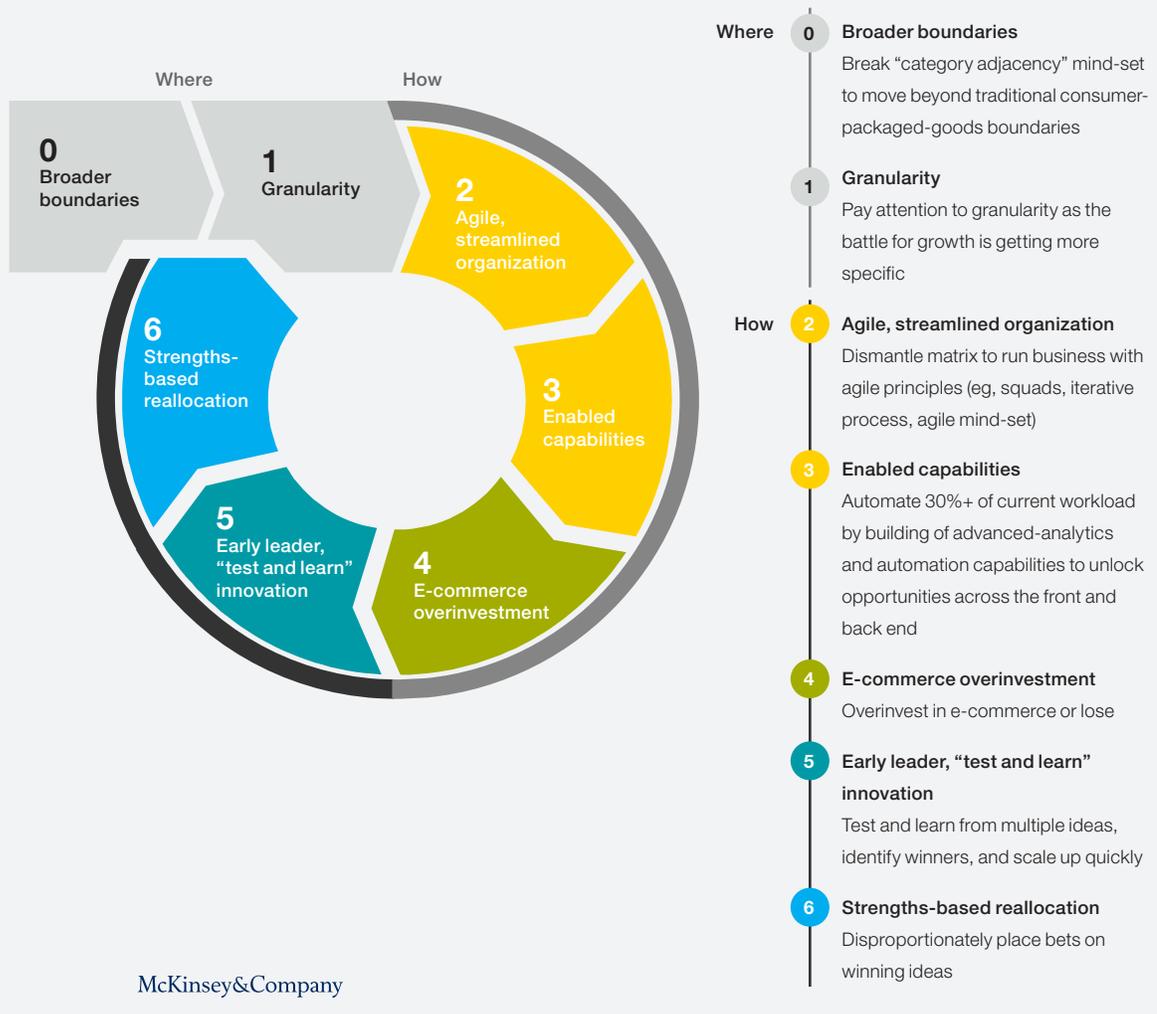
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Exhibit 1   A competitive flywheel demonstrates how large consumer-packaged-goods companies can achieve faster growth.

Agility at scale

Where	0	**Broader boundaries** Break "category adjacency" mind-set to move beyond traditional consumer-packaged-goods boundaries
	1	**Granularity** Pay attention to granularity as the battle for growth is getting more specific
How	2	**Agile, streamlined organization** Dismantle matrix to run business with agile principles (eg, squads, iterative process, agile mind-set)
	3	**Enabled capabilities** Automate 30%+ of current workload by building of advanced-analytics and automation capabilities to unlock opportunities across the front and back end
	4	**E-commerce overinvestment** Overinvest in e-commerce or lose
	5	**Early leader, "test and learn" innovation** Test and learn from multiple ideas, identify winners, and scale up quickly
	6	**Strengths-based reallocation** Disproportionately place bets on winning ideas

Where | **How**

0 Broader boundaries

1 Granularity

2 Agile, streamlined organization

3 Enabled capabilities

4 E-commerce overinvestment

5 Early leader, "test and learn" innovation

6 Strengths-based reallocation

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Agile companies are both stable and dynamic at the same time, according to McKinsey research on agile organizations across multiple sectors.[1] Stable practices provide a backbone of structural elements—consistent and reliable—that do not need to change frequently. Dynamic practices enable responsiveness, nimbleness, and an ability to sense and seize opportunities quickly. They might include rapid iteration, or the quick adaption of new ways of working in response to market changes.

Many companies are transforming to gain the ability to reconfigure strategy, structure, processes, people, and technology toward value-creating and value-protecting opportunities—McKinsey's definition of organizational agility.[2] But few companies are there yet. In an online survey exploring agility in organizations conducted by McKinsey in 2017, 37 percent of the more than 2,500 respondents reported company-wide agility transformations in progress, but only 4 percent said they had completed them.[3]

Agile companies embrace changes to structure, process, people, and strategy, according to McKinsey research (Exhibit 2). Respondents to the survey said CPG companies have made some progress toward agility along each of these dimensions—but, more important, the CPG industry still has a way to go.

More than three-quarters of the surveyed companies, for instance, have implemented moderate to highly developed programs that define the organizational matrix and articulate the roles of business units, functions, and geographies. (This is an important stabilizing element in any company's transformation program.)

Exhibit 2 **Agile organizations have stable and dynamic elements in four main areas.**

	Stable backbone	Dynamic capabilities	Consumer-packaged-goods maturity
Structure	**Stable and simple structure** ▪ Delayered organizational structure with cross-functional teams ▪ Simple reporting structure ▪ Clear rights and accountabilities	**Built up by small modular cells** ▪ Easily composed and decomposed based on needs ▪ End-to-end ownership of delivery ▪ Full-time work on 1 team, on 1 task	
Process	**Processes support value-adding work** ▪ Built around lean, efficient, and often digitized core processes ▪ Elimination of non-value-adding processes and duplications ▪ Clear decisions on whether to stop or continue	**Fluid reconfiguration to keep ahead** ▪ Sense and seize market opportunities ▪ Adopt new ways of working in response to circumstances ▪ Rapid iterations, "fail fast" ▪ Reactive processes	
People	**Values hold company together** ▪ Strong purpose, both on overall vision and individual-task level ▪ Uniform team key performance indicators ▪ Focus on doing, not reporting ▪ Talent development and clear career expectations ▪ Capability gaps identified and filled	**Engaged people drive results** ▪ Regular feedback and high-performance culture ▪ "Debossing," trust, and delegating through autonomous teams ▪ External orientation and strategic partnerships	
Strategy	**Top team sets direction** ▪ Clearly articulated purpose and overall strategic direction	**Fast reaction to changing circumstances** ▪ Decision making delegated close to the action ▪ Rapidly allocate individuals and resources toward priority needs	

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Forty percent of the surveyed CPG companies have in place well-developed programs to delayer decision making, and another 47 percent have moderately developed programs in place. (This is a critical dynamic practice.) CPG companies are standardizing processes for further clarity and autonomy, establishing standard operating procedures for key processes, tying role definitions for managers and employees to the company's strategies, and dynamically reallocating resources (talent and capital) to high-priority projects on a regular basis.

But for most CPG companies, the greater part of their agility transformation lies ahead. For instance, only 11 percent of survey respondents said their companies have digitized core processes, and a third of them said digitization was not a priority. CPG companies could also establish processes to regularly evaluate ways of working and do more to empower their front lines to react to cues in the environment. They need to embrace nontraditional structural approaches, such as deploying cross-functional squads. And they need to be open to failing faster—rapid iteration is a competitively advantaged process in more agile sectors—and to rotating talent within the company, even developing career paths that foster rotation.

Becoming an agile organization isn't about picking and choosing where and how to be stable and dynamic. Rather, companies must embrace all practices to unlock the power of agility. To advance agility within the sector, CPG leaders could study the evolution of companies in other sectors to draw inspiration. Some technology companies, such as Amazon and Google, and retailers, such as Zara, are recognized as quick moving, agile organizations. But even companies in financial services, advanced industries, and oil and gas have successfully adopted more agile ways of organizing and working. These include Banco Bilbao Vizcaya Argentaria (BBVA), BMW, Boeing, Haier, HSBC Group, ING, Shell, and Statoil, to name a few.

Finally, it may be useful for CPG leaders to view the changes they need to make as essentially falling into three themes. A thematic filter allows leaders to more clearly focus actions and achieve results quickly:

- Agile structure. Consider the change agenda as one of moving from organizing as a hierarchy—with rigid systems, talent defined by roles, and internal functions operating as silos—to organizing with organic structures that allow teams to collaborate quickly and effectively around tasks and projects and on core value-added work. These teams, or tribes, would rely on support from a stable core backbone of traditional functions, such as finance and HR, and internal "center of excellence" services.

- Agile working principles. Moving from a hierarchy to more fluid structures will require different working principles to maximize the productivity of teams. Agile working principles include team accountability, a focus on self-organizing and a shared (and urgent) sense of ownership, colocation and constant communication, a relentless focus on prioritization and scope definition, and rapid prototyping.

Becoming an agile organization isn't about picking and choosing where and how to be stable and dynamic. Rather, companies must embrace all practices to unlock the power of agility.

- **Agile leadership mind-sets and behaviors.** The way leaders lead in agile organizations also changes. For instance, they might directly review the work of teams rather than get presentations filtered by layers of management. Agile leaders also could motive the speed of learning over performance, and they should ask teams to "swarm" high priorities rather than multitask across a number of initiatives.

Piloting change initiatives in functions that already operate with some traits of agility allows companies to leverage what's in place, and to build from there. For instance, in many companies, the product-development function already has cross-functional-team capabilities, along with a culture of collaboration and creativity, an ability to react faster to trends, and a higher tolerance for risk. Alternatively, the marketing function might offer a better opportunity to pilot an agility transformation if it already has the ability to allocate resources responsively and to execute projects quickly. Or, the sales function might be the place to start, if the function is steeped in an end-to-end accountability to the customer. Sales organizations also frequently have structures and processes that are highly scalable—a plus for piloting agility.

Understanding how companies effectively achieve agility at scale is a topic McKinsey is committed to pursuing in depth, and we are committed to publishing our findings regularly.

The evolving roles and skills of top teams

Changes sweeping through the CPG sector require new capabilities within the top team. The shift in how consumers interact with brands and companies and in how they purchase requires new digital skills and channel experience. With growing consolidation in the industry, merger-and-acquisition skills are a plus. CHROs throughout the sector consider this issue to be one of their top concerns. To that end, CPG companies are investing more attention in developing, or acquiring, leadership and technical skills in the C-suite.

What's the problem? Survey respondents overwhelmingly said that the most critical skills needed by the top teams of CPG companies are the ability to collaborate together as a C-suite (79 percent of respondents rated this as a high concern) and the ability to inspire others to act toward a shared vision (71 percent of respondents rated this a high concern). But 86 percent of respondents said that maintaining a collaborative environment across functions was their top challenge to C-suite performance.
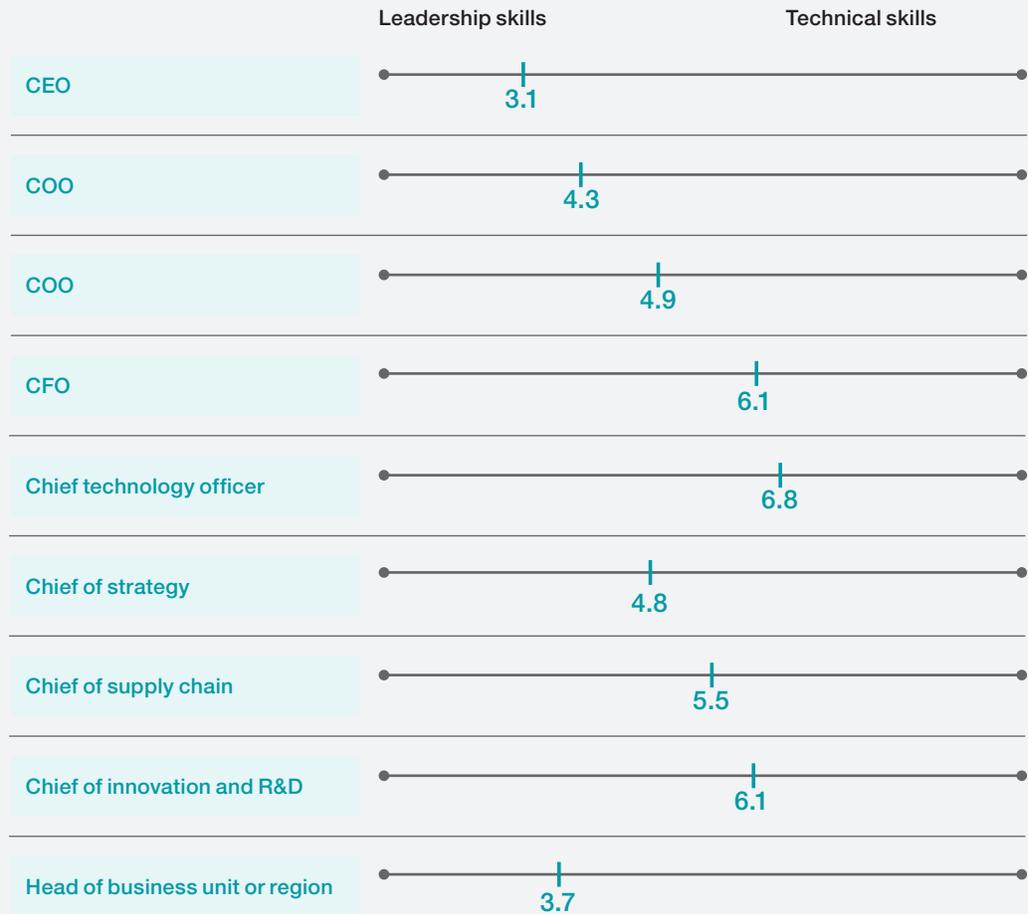
Leadership skills are paramount in the C-suite. Survey respondents said that for most C-suite positions, leadership skills were more important for top-team performance than technical skills. However, the weighted importance of the two kinds of skills varied by position. For instance, respondents consider leadership skills far more important for the CEO, the COO, and heads of businesses. But they ranked technical skills for the CFO, the chief technology officer, the chief supply chain officer, and the chief of innovation. In the middle were the chief marketing officer (CMO) and the head of strategy (Exhibit 3).

What's more, CHROs said that gaps in select technical skills are widening, and they could soon become a significant impediment to top-team effectiveness in CPG companies. The skills CHROs identified as gaps mirror changes sweeping through the industry. For instance, CHROs said the critical skill gaps for CMOs are having experience with the evolving digital landscape, knowledge of advanced analytics, and an understanding of e-commerce and direct-to-consumer strategies. The skill gaps for CFOs include an ability to fund investments and experience with mergers and acquisitions.

CHROs did not exempt themselves from the technical skills-gap checklist. Survey respondents said CHROs in the sector need a greater understanding of HR analytics and of learning and development tools and methodologies.

Exhibit 3 The importance of technical skills versus leadership skills varies by position.

Average of respondent scores, n = 15

|	Leadership skills	Technical skills
CEO	3.1	
COO	4.3	
COO	4.9	
CFO	6.1	
Chief technology officer	6.8	
Chief of strategy	4.8	
Chief of supply chain	5.5	
Chief of innovation and R&D	6.1	
Head of business unit or region	3.7	

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Most of these skills cannot be developed in-house; they must be acquired. An analysis of 76 CPG-company-leadership profiles indicated that nearly half of all top-team positions are being filled through external hires (Exhibit 4). The highest percentage of external hires are for roles with the highest skills gaps: CFO, CMO, and CHRO.

However, when consumer companies hire top executives from outside the company, it is typically from another company within the sector. For instance, Russell Reynolds Associates, which tracks top-team hires, notes that 83 percent of external consumer chief marketing officer appointments in Q3-Q4 2016 were of executives from companies within the sector. Compared with other sectors, consumer had the highest number of intrasector CMO appointments that year.[4] Respondents to the survey underscored this point: 77 percent said industry-based career paths have become common for top teams, eclipsing career paths within the same company. Survey respondents also noted that CPG companies rarely venture outside the sector to make top-team hires.

Exhibit 4   To fill technically oriented top-team leadership roles, consumer companies are looking heavily to external hires.

Internal vs external hires for current executives, by position, % of current executives, n = 76 consumer companies

■ Internal hire   ■ External hire
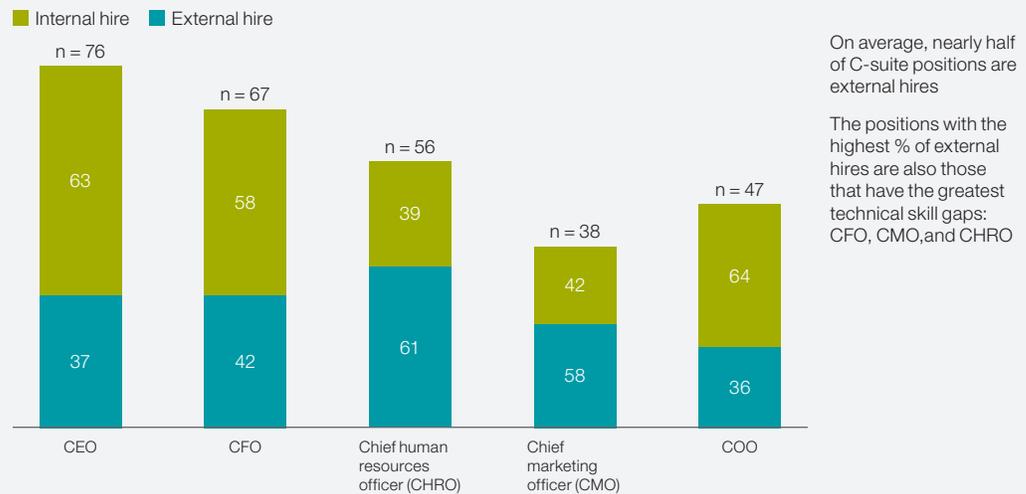
On average, nearly half of C-suite positions are external hires

The positions with the highest % of external hires are also those that have the greatest technical skill gaps: CFO, CMO, and CHRO

	CEO	CFO	Chief human resources officer (CHRO)	Chief marketing officer (CMO)	COO
n =	76	67	56	38	47
Internal hire	63	58	39	42	64
External hire	37	42	61	58	36

Note: Profiles were not available for all positions or companies.

Source: Web search of top-team profiles, including Bloomberg, corporate websites, and LinkedIn

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At the same time, turnover among top-team executives caught in the skills gap is increasing. There were 177 marketing-leader appointments in the consumer sector during 2016, up 13 percent from 2015.[5] Similarly, CFO turnover nearly doubled between 2009 and 2013, across all sectors. During this time, CFO turnover among consumer companies (at 23 percent turnover) was second only to the industrial sector (at 37 percent turnover).6

To ensure that top teams have the technical skills needed to perform effectively as consumer, channel, and industry changes intensify in the years ahead, CPG companies may need to explore new sources for top-team talent, or they may need to redefine the skills needed for these roles. For instance, CPG companies could consider the following:

■ Draw talent from outside CPG. CPG companies could more aggressively hire talented people with specific skills from other industries. They could acquire leaders with digital skills from the

technology or media sectors, or leaders with M&A skills from the private-equity sector.

■ Rewrite roles. CPG companies could consider whether traditional top roles still meet the needs of the business. As presently defined, they might not. Companies could instead consider creating new roles with new qualifications in the top team. For instance, companies such as J.M. Smucker and Kellogg's have created a new role, called chief growth officer (CGO), to drive greater cross-functional collaboration, improve processes to allocate resources to high-value initiatives, and sponsor innovation. Typically, the CGO reports to the CEO and can take oversight for functions such as marketing, innovation, consumer insights, and R&D. Other CPG companies, such as L'Oreal and Coca-Cola introduced a role for a chief digital officer (CDO), or chief e-commerce officer, tasked to introduce new technologies, build digital business lines, and change mind-sets.

- **Delayer, delayer, delayer.** By delayering hierarchies and adopting team structures, CPG companies could tap the technical expertise of senior or mid-level managers.

Rethinking the skills of select top-team members—even the roles and hiring profiles of these executives—is a task long overdue in many CPG companies. To meet the accelerated pace of change sweeping through the sector, CPG companies need to make the effectiveness of the top team a top priority.

Attracting and retaining millennials

Millennials will become the dominant group in the US workforce in just a few years. While there has been a great deal of discussion about the values, expectations, and technology habits of millennials, or about their sense of the nature of work, something else about this generation is of particular concern to HR executives in CPG companies. That is, talented millennials are difficult for companies to retain.

Survey respondents said they expect newly hired millennials to stay, on average, just three to five years in the company before moving elsewhere (Exhibit 5). A third of respondents said millennials move on in just two to three years. And all respondents said retaining millennial talent was a top priority for their company.
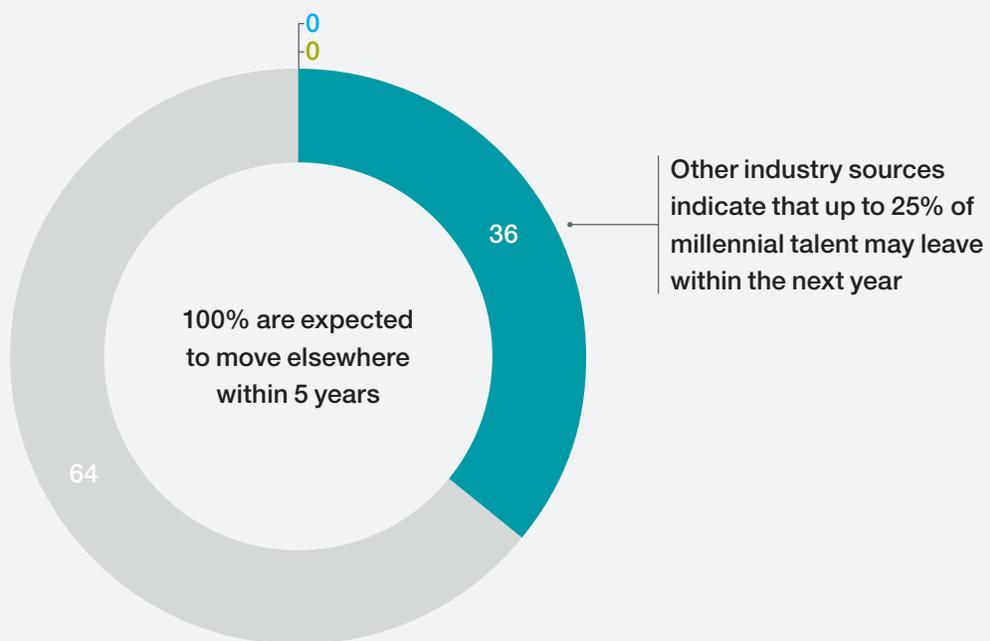
Exhibit 5   The average tenure of millennial talent is three to five years.

Millennials now make up the largest portion of the workforce, but nearly all are expected to move to new companies
What's the average tenure of millennial talent?
% of survey respondents, n = 13

■ <2 years   ■ 2–3 years   ■ 3–5 years   ■ 5+ years

0
0

36

100% are expected to move elsewhere within 5 years

Other industry sources indicate that up to 25% of millennial talent may leave within the next year

64

Source: Survey conducted by McKinsey in partnership with the Grocery Manufacturers Association, 2017, n = 13

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Attracting millennial talent within the CPG sector is a challenge. Fifty percent of survey respondents said that while their companies were successful at attracting millennials, they could still be more effective. Another 43 percent of respondents said they struggle to attract talent from this generation. The biggest hurdle to attracting millennials to the CPG sector, respondents said, is meeting the high bar for work–life balance. But nearly as important to millennials are the comparisons in pay and role designations, and the brand reputation of the employer within social media.

Retaining millenials is an even bigger challenge, CHROs said. Why do millennials turn over so quickly? The top three reasons, according to survey respondents, are ambitions for fast advancement (79 percent of respondents), having stretch opportunities and a variety of roles (71 percent), and flexible work arrangements and autonomy (64 percent).

Consumer-packaged-goods companies today largely hire millennials through traditional approaches, such as management-rotation programs for undergraduate students, current-employee referrals, and internship programs. CPG companies have common strategies for retaining millennials. These include deploying millennial-friendly employer-brand propositions, such as offering an environment for advancement opportunities and an attractive work–life balance, and corporate-social-responsibility programs. Other common strategies for retention include providing greater lateral movement and entrepreneurial opportunities and giving regular feedback that is focused on development.

But companies can't be successful if their talent strategies are geared toward eking out a few more months' retention from millennials. Talent-management strategies need to be reconsidered. The reality is that companies' talent will churn every three to five years—or less. HR executives need to lead efforts to develop talent strategies that reflect this new reality:

- **Fire up ongoing recruiting.** CPG companies could optimize and tailor employer value propositions to communicate to millenials through multiple channels, and do more to reflect these propositions in external rankings and benchmarks (such as "best places to work" lists). Companies could also plan for new cohorts to join employee ranks annually. Or they could sculpt job titles to be in line with talent competitors.

- **Make the five years count.** CPG companies could provide flexible work options to millennials, such as job sharing. They could also rethink short-term career tracks, boosting rotational cycles, entrepreneurship opportunities, and lateral moves within the company. Companies might institutionalize regular feedback processes for millennials, and ensure positive transitions for departing employees.

- **Don't forget the other 50 percent.** Companies should continue existing talent-management practices to support non-millennial talent. They must be careful not to alienate Gen Xers, who are motivated by values that are the opposite of millennials—that is, Gen Xers value longevity and stability.

Finally, companies need to begin to prepare plans to attract and retain the generation after the millennials. The post-9/11 generation may prove to be more technologically savvy than any preceding generation. Also, it may share some millennial values, but diverge from them in other respects.

In any case, strategies developed to secure—and get the most from—talent in previous generations fall short of what CPG companies need to succeed today and tomorrow. New talent strategies for a new era are required.

The only constant in the CPG sector—to paraphrase the Greek philosopher, Heraclitus—is change. Change is dynamic, and its pace is speeding up. Consumer behaviors and preferences are quicksilver, channels to consumers morph and evolve in importance, new competitors emerge, and disruptors thrive. To compete in a fast-changing business environment, CPG companies need to rethink how their organizations utilize their existing capabilities, and acquire new ones, to be agile at scale—smart, fast, flexible, and innovative. This is the new imperative for CPG companies.

[1] Wouter Aghina, Aaron De Smet, and Kirsten Weerda, "Agility: It rhymes with stability," McKinsey Quarterly, December 2015, McKinsey.com. The research was based on an analysis of McKinsey's Organizational Health Index, a database of organizational practices built from over three million surveys of employees and leaders in more than 1,300 organizations worldwide.

[2] This is McKinsey's proprietary definition of an agile organization, intended to make a distinction from organizations with agile software-development processes.

[3] "How to create an agile organization," McKinsey & Company, October 2017, McKinsey.com. Survey findings suggest that organization-wide agility transformations were more likely to be under way in industries where respondents perceived their business environments to be highly unstable, such as in the high-technology, telecommunications, and financial-services sectors. The activities transformed most often were those close to customers: innovation, customer experience, sales and servicing, and product management.

[4] "Marketing moves 2016: Q3 – Q4," Russell Reynolds Associates, January 30, 2017, russellreynolds.com.

[5] Ibid.

[6] "Trends in the Finance Talent Market: Analysis of Fortune 500 Finance Leader Appointments across the First Three Quarters of 2013," Russell Reynolds Associates, russellreynolds.com.

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