Consumer organization and operating models: Bold moves for the next normal

Consumer companies must make bold decisions to withstand disruptions brought on by the pandemic.

This article is a collaborative effort by Aun Ansari, Pamela Brown, Oren Eizenman, Lauren Ratner, Kristi Weaver, and Ahmad Zaidi, representing views from across McKinsey’s Consumer Packaged Goods and Retail practices.
Roiled by the COVID-19 pandemic, many consumer organizations are wondering how they can survive and thrive in a time of unprecedented uncertainty. Even after the pandemic subsides, we face an unpredictable future that demands more flexibility than ever before. But while the COVID-19 crisis is unique to modern history, a look at prior global disruptions reveals some winning strategies that have helped consumer organizations remain resilient through a crisis.

Fortune favors the bold
Our analysis of top-performing, resilient consumer and retail companies suggests that fortune favors the bold in times of crisis. In McKinsey’s 2007 index of total returns to shareholders (TRS) among consumer and retail companies, the companies with top-quintile performance in compound annual growth rate (CAGR) in TRS were found to have remained resilient through the 2008 financial downturn. As they emerged from the crisis, these organizations’ revenue increased 30 percent more than that of nonresilient companies, and they continued to outperform their peers well after the economy stabilized.

A closer look at the resilient companies indicates that bold decisions determined their success. During a period of downturn, these companies were able to build speed and agility into their core operations, lead with compelling value propositions and customer experiences, and further divest from noncore assets. In the recovery phase, they managed to aggressively reallocate resources to growth areas, rebuild their portfolios through acquisitions, and restructure costs.

Just as in 2008, a willingness to make bold decisions about both cost and revenue is critical to staying resilient through the current crisis. Yet our 2020 survey of 100 executives at consumer and retail organizations reveals that they may not be thinking boldly enough. In the 2008 banking crisis, resilient organizations reduced their operating expenses by three times more than their nonresilient competitors, but almost all participants in our survey reported that they planned to cut operating expenses by less than 10 percent. Further, only 33 percent of retailers and 67 percent of consumer-goods companies expect to see positive revenue growth over the next 12 to 18 months.

Five bold moves to ensure resilience
Lessons from 2008 suggest that consumer and retail organizations must act quickly and decisively to maintain resilience through the current crisis and into an uncertain post-COVID-19 future. We have identified five bold moves that consumer organizations should consider (Exhibit 1).

Exhibit 1
Making five bold moves can help consumer and retail companies succeed in the next normal.

<table>
<thead>
<tr>
<th>Take a cleansheet approach to design</th>
<th>Strategically reallocate resources</th>
<th>Hardwire agile practices</th>
<th>Embrace the age of automation</th>
<th>Make the most of a flexible workforce</th>
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</thead>
<tbody>
<tr>
<td>Rethink overall organizational construct and top-team roles</td>
<td>Redistribute resources to fund capabilities and sources of competitive advantage</td>
<td>Harness mindsets and behaviors from COVID-19 to scale agile practices enterprise-wide</td>
<td>Use advanced analytics and robotics to optimize decision making while reducing manual work</td>
<td>Release physical constraints and build an ecosystem to open up talent pools</td>
</tr>
</tbody>
</table>

1 In the last week of April 2020, we surveyed 100 executives of US retailing and consumer-goods companies to understand their thoughts about organizational and operating-model actions to take after the COVID-19 crisis. We followed up that survey with another one during the second week of June 2020 to focus on leadership behaviors.
To unlock speed, simplicity, and growth, most companies need to cleansheet their structure to create business segments that are empowered, fewer in number, and at scale.

1. Take a cleansheet approach to organizational design
Now is the time to “cleansheet” a company’s legacy structure and hierarchy—to reduce the organization to the minimum needed to survive and then rebuild it from the ground up. In the most basic form, cleansheet design takes a hard look at organizational spans and layers; finds areas to centralize across brands, banners, or regions; and streamlines “shadow” functions, such as technology, insights, and analytics. Each function understands the minimum resources required to operate. In the boldest form, cleansheet design takes an enterprise-wide perspective that challenges the top team’s composition, rethinks the corporate center’s role, and creates centers of excellence to enable capability building and continuous improvement.

In the typical multibrand consumer or retail company today, most direct reports to the CEO lack explicit responsibility for profits and losses (P&L). Instead, they are “span breakers” who serve as liaisons between operations and the CEO, or they are operational and functional leaders. Among the top 20 consumer-goods and retail companies, the average CEO had a span of nine and eight direct reports, respectively, and only one top-team role dedicated to emerging or next-generation priorities such as innovation, analytics, or design. On top teams, consumer-goods companies had an average of three to four P&L roles and six non-P&L roles, while retailers had an average of three P&L roles and five non-P&L roles.

Moreover, business units tend to be organized generically, in a one-size-fits-all pattern, and the units are often subscale. Twenty to 30 percent of full-time employees (FTEs) sit in corporate-center or enterprise functions.

To unlock speed, simplicity, and growth, most companies need to cleansheet their structure to create business segments that are empowered, fewer in number, and at scale. They should eliminate most span-breaking roles and slim down their enterprise functions to focus on safeguarding and standards only. Moreover, they should create new roles to occupy the C-suite, including roles related to digital capabilities, data and analytics, innovation, new business models, and customer experience.

A large, multcategory retailer integrated its physical and digital operations and created a chief-customer-officer role responsible for marketing, customer experience, visual merchandising, consumer insights, and alternative revenue streams. The role is designed to keep the customer at the center of all operations. This prevents friction from developing between the expanding e-commerce business and the store business and ensures consistency in the overall customer experience.

For multibrand retail organizations, the cleansheeting exercise might look different. Many of these organizations have centralized key functions, such as marketing, logistics, digital and analytics, and
even merchandising. The functions serve and are
optimized across each brand to drive enterprise-
wide results through at-scale solutions. This step
has enabled not only faster capability development
but also streamlined organizations so that they make
caste decisions and are 20 to 30 percent leaner.

2. Strategically reallocate resources
Once the cleansheeted top team or corporate
center has been designed, organizations need
to strategically reallocate resources to build
out the teams that support the top. The cost
and size of each function should be allocated by
strategic prioritization and need, rather than simply
allocating them as they have always been allocated.
Historically, it has been left to executives to allocate
only the resources within their purview. Rarely has
there been a system in place to reallocate across the
organization and to do so dynamically, rather than
annually during the budgeting process.

As they enter the post-COVID-19 era, organizations
need to zero base their personnel spending and
then reallocate it according to strategic priorities.
Of course, a reallocation inevitably has winners
and losers, so an enterprise-oriented mindset
and effective change management are critical to
bringing the organization along.

When we asked executives to rank the three most
important capabilities for their organizations to
build in the next one to two years, e-commerce
and omnichannel capabilities, data and analytics
capabilities, and a flexible supply chain rose to the
top. Yet less than 10 percent of FTEs in a typical
consumer company possess these capabilities
today. Companies should dramatically reallocate
their resources toward these critical competencies.

A Brazilian multibrand retailer decided to
evolve from a traditional, store-led retailer to
an omnichannel operator, with an aspiration to
become a digital retail ecosystem. To enable the
digital strategy, the company aggressively shifted
resources away from in-store merchandising
and toward digital product development and
e-commerce, with a focus on the key capabilities
required to drive digital success. As a result, the
company was able to increase its e-commerce
share of revenue from 25 percent in 2016 to more
than 50 percent in 2019.

Consumer and retail executives are aware of the
skill gap, as 40 percent of them believe that their
companies need to increase resourcing around
these capabilities two- to threefold. One approach
is to provide existing resources with skill training
(and retraining) rather than simply hiring new
resources. This not only narrows the capability
gap but also gives companies the flexibility to shift
resources to (re)prioritized areas when needed.

For many companies, the capability-building effort
means digging into functions such as marketing
and sales or merchandising, which have long
remained untouched for fear of disrupting the heart
of a consumer organization. Such areas are ripe
for innovation, however, and the need to free up
resources to build capabilities in other areas can
help propel long-overdue change.

3. Hardwire agile practices enterprise-wide
Prior to the COVID-19 crisis, some consumer and
retail companies had deployed agile methodologies
in certain areas—such as IT, digital, or marketing.
Others adopted a version of agile practices—having
fewer meetings or creating cross-functional teams,
for example. When the crisis struck, companies
were forced to adopt such practices more broadly,
and now they appreciate what widespread
deployment could look like at scale, in a business-asusual setting.

In particular, companies have embraced faster
decision making. More than 80 percent of leaders
at consumer and retail companies report that they
now make major decisions faster than before; 50
percent even say they make such decisions much
faster. Approval processes have been streamlined,
and the number of “meetings before meetings” has
been drastically cut. Today, over 60 percent of major
decisions are reached in five or fewer meetings—
much more than the previous average of 26 percent.
To move this trend forward, companies must continue making decisions faster and focusing intensely on just a few objectives—while also scaling them. However, to do so requires a true step change in leadership behavior and role modeling. In a recent survey of consumer and retail executives, behavior that indicates agile leadership—such as being comfortable with ambiguity, increasing employee empowerment, embracing rapid decision making, and promoting a creative, open, and trusting work environment—rose in importance during the crisis and will probably remain more important after the COVID-19 crisis (Exhibit 2).

If these behaviors are sustained and scaled, they can further accelerate the transition to a more agile organization. Ways to sustain them include reconfiguring certain teams to become agile squads or cells, rewiring key processes and creating new routines to ensure that priorities are aligned and that progress toward shared goals is visible, and redesigning the leadership and employee model to reflect the traits desired in the next-normal organization.

4. Embrace the age of automation
The consumer and retail industries rank among the top industries with automation potential but

Exhibit 2
Leadership behaviors have changed in importance for consumer and retail companies since the pandemic began.

Leadership behaviors exhibited by most effective leaders, percentage-point change

<table>
<thead>
<tr>
<th>After pandemic began</th>
<th>Prior to pandemic</th>
</tr>
</thead>
<tbody>
<tr>
<td>+25 Being supportive and caring</td>
<td></td>
</tr>
<tr>
<td>+23 Being employee focused</td>
<td></td>
</tr>
<tr>
<td>+15 Being creative and entrepreneurial</td>
<td></td>
</tr>
<tr>
<td>+15 Empowering and delegating to others</td>
<td></td>
</tr>
<tr>
<td>+15 Promoting open and trusting environment</td>
<td></td>
</tr>
<tr>
<td>+14 Embracing rapid decision making</td>
<td></td>
</tr>
<tr>
<td>+13 Being comfortable with ambiguity</td>
<td></td>
</tr>
<tr>
<td>+8 Taking holistic view of specific outcomes</td>
<td></td>
</tr>
<tr>
<td>0 Challenging others and being provocative to inspire</td>
<td></td>
</tr>
<tr>
<td>-4 Managing consequences and accountability</td>
<td></td>
</tr>
<tr>
<td>-4 Showing operational excellence</td>
<td></td>
</tr>
<tr>
<td>-5 Establishing performance contracts</td>
<td></td>
</tr>
<tr>
<td>-9 Focusing on competitive insights</td>
<td></td>
</tr>
<tr>
<td>-9 Focusing on customer</td>
<td></td>
</tr>
<tr>
<td>-13 Making fully informed decisions</td>
<td></td>
</tr>
<tr>
<td>-15 Promoting internal competition within teams</td>
<td></td>
</tr>
<tr>
<td>-18 Using authoritative leadership and leading from front</td>
<td></td>
</tr>
<tr>
<td>-26 Using consultative leadership</td>
<td></td>
</tr>
</tbody>
</table>

1Making specific choices with a view to their likely implications for broader enterprise.
2Involving employees through communication and consultation.
Source: McKinsey Consumer Leadership Survey, June 2020 (n = 80)
have lagged behind in actual implementation. This reluctance can be attributed in part to capital constraints and the need to reskill employees, and in part to simple inertia (Exhibit 3).

Now consumer and retail companies are realizing that automation is a powerful way to answer the ever-mounting pressure to boost efficiency, innovation, and speed. Moreover, the cost of automation is falling—thanks to better, less expensive technology and off-the-shelf solutions—and demand is rising.

In automation, being bold involves moving beyond the typical targets—such as stores and warehouses—and into corporate functions, where the same tools and logic have been used for generations. Areas like merchandising, for example, are ripe for automation. Activities such as planning and forecasting, assortment selection, pricing and promotions, and replenishment can all be partially automated by using advanced analytics and predictive modeling to enable real-time, optimized decision making, while also reducing time-consuming manual reporting. To begin automating quickly, companies can seek off-the-shelf solutions or partner with solution providers.

A North American multicategory retailer has implemented a semiautomated pricing system that factors in inventory positions, competitors’ pricing, preseason targets, and other factors in real time to suggest prices to merchants. Merchants can thus conduct more targeted pricing reviews, saving time for the SKUs that need the most attention and for strategic category management.

Exhibit 3

**Consumer and retail industries have high automation potential but lag behind other sectors in adoption.**

<table>
<thead>
<tr>
<th>Automation potential based on demonstrated technology, %¹</th>
<th>Automation adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>High: 60, Medium: 59, Low: 57</td>
</tr>
<tr>
<td>Transportation and warehousing</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>High: 57</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td></td>
</tr>
<tr>
<td>Retail trade</td>
<td>High: 54, Medium: 52, Low: 51</td>
</tr>
<tr>
<td>Mining</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>High: 47, Medium: 44, Low: 44</td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>High: 44, Medium: 43, Low: 40</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td>High: 39, Medium: 38, Low: 36</td>
</tr>
<tr>
<td>Administrative services</td>
<td></td>
</tr>
<tr>
<td>Arts, entertainment, and recreation</td>
<td>High: 35, Medium: 35, Low: 35</td>
</tr>
<tr>
<td>Information services</td>
<td></td>
</tr>
<tr>
<td>Professional services</td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td>High: 33, Medium: 26, Low: 49</td>
</tr>
<tr>
<td>Healthcare and social assistance</td>
<td></td>
</tr>
<tr>
<td>Educational services</td>
<td></td>
</tr>
<tr>
<td>Other services</td>
<td></td>
</tr>
</tbody>
</table>

¹Consumer-industry sectors in bold.
Source: McKinsey Global Institute analysis
On the consumer-goods side, one direct-store-delivery (DSD) beverage company has managed to reduce out-of-stock inventory by implementing an automated, store-level planning and forecasting tool. This tool ingests more than ten variables (including in-store promotions, shelf space, pricing, and media activity) and automatically relays recommendations for each store to delivery drivers’ handheld devices. The company’s DSD network is now more effective, and its forecasting team more efficient.

5. Make the most of a flexible workforce
Widespread remote working was born of necessity when the COVID-19 pandemic forced most office environments to close down. But remote working is likely to become an entrenched business practice in the next normal—as long as companies work purposefully to make it so (Exhibit 4).

Consumer and retail executives seem to be moving in this direction; 67 percent say that they may use corporate-office space differently in the near future, and half expect to eliminate at least 10 percent of office space in favor of a more flexible remote-working model. Moreover, 83 percent of employees are now willing to work remotely, versus 37 percent prior to the COVID-19 crisis.

A multicategory retailer is allowing thousands of its digital and technology employees to work remotely and is using its physical space for collaboration when needed.

Traditionally, many companies have broadened their talent models through mutually beneficial arrangements and partnerships. For example, many have outsourced media buying or creative services to an agency, offshored transactional financial activities, or used contractors for project-based work in IT. Now the trend is expanding to include offshoring core functions, such as merchandising allocation and replenishment. This trend will only accelerate as organizations become more comfortable with remote working. The long-held belief that certain roles require co-location is being challenged, and forward-thinking retailers are accessing new, unique talent pools to expand their capabilities and boost performance.

Exhibit 4
Consumer and retail companies can embrace a remote-working model and facilitate labor changes.

<table>
<thead>
<tr>
<th>Employees’ willingness to work remotely, %</th>
<th>Tapping into ecosystem of providers can help smooth labor changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to pandemic</td>
<td>After pandemic began</td>
</tr>
<tr>
<td>37</td>
<td>83</td>
</tr>
</tbody>
</table>

Increasing affordability of relevant talent pool (eg, IT roles)  
Providing access to expert pools (eg, product development, design)

Managing workforce fluctuations (eg, DSD delivery)  
Redefining geographic boundaries to help close skill gaps (eg, data science roles)

Achieving parity  
Driving competitive advantage

1 Direct store delivery.
For bold movers, the gig economy is providing a potential pool of talent. Approximately 30 percent of the consumer and retail leaders surveyed said that they are now more likely to leverage the gig economy as part of their post-COVID-19 talent strategy. Another growing trend—especially as smaller companies experience financial distress—is “acqui-hiring,” in which companies are acquired for their employees’ talent and skills instead of the company’s products and services.

One North American grocer acquired more than half of its digital talent from the company where it had previously outsourced digital marketing work.

How bold is bold enough?
As consumer and retail companies embark on these five moves, they may wonder whether their measures are sufficiently bold to compete in the next, post-COVID-19 normal. By examining some markers, companies will know if they have been bold enough:

— Personnel costs and related selling, general, and administrative expenses have fallen by 20 to 30 percent. As a percentage of sales, these costs should continue to grow more slowly than the top line.

— The organization has become permanently faster through automation, digitization, clearer accountability in roles, and dramatically fewer organizational layers.

— Resources have been strategically reallocated so that prioritized capabilities and growth areas have two to three times more resources than other capabilities. The wisdom of prioritizing these capability areas should be evident to the market.

— The organization has become 30 percent more flexible by using gig and flexible workers for permanent and project-based work and by cross-training to create a more adaptable workforce.

— Industry peers emulate the company’s next-normal practices.

Getting started
To begin a path toward bolder operations, consumer and retail companies first need to assess the sustainability of their cost structures given the current business outlook, and to evaluate the maturity of critical capabilities like automation and agile ways of working.

Next, leaders and stakeholders must agree on the critical capabilities needed for the organization to deliver on its strategic priorities, and how to build the capabilities. The organization should set bold aspirations that represent a step change in performance, as typical, incremental aspirations will not be enough to deliver results in the next normal.

Once these steps have been taken, the new organization and operating model can be designed and implemented. As organizations work through these changes, cultures, mindsets, and behaviors, they will need to evolve across the enterprise. To sustain the new operating model, change-management practices must be rigorously implemented. In short, bold change must be managed boldly.