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Playing catch-up:
How to partner with the retailer of the future

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Playing catch-up: How to partner with the retailer of the future

Amid fundamental shifts in the retail and consumer landscape, consumer-goods manufacturers must rethink the way they manage key accounts.

There's no denying that the balance of power in the consumer industry has tilted. Retailers have the advantage over consumer-packaged-goods (CPG) manufacturers—and retail buyers are deftly using their leverage at the negotiating table. Retail buyers are more sophisticated, more analytical, and more demanding than ever. Consider this: each of the top ten US retailers employs dozens of big data professionals who provide buyers with valuable insights. The same retailers have also hired more than 70 executives from European retail companies, known for having more aggressive negotiation styles than their American counterparts. In this increasingly adversarial environment, what's a CPG key-account manager to do?

These changes in the retailer-manufacturer dynamic are the result of three trends that have been playing out in the US consumer industry: the steady rise of newer retail channels including hard discount and e-commerce, stagnant growth among the largest CPG brands, and burgeoning capabilities in big data and advanced analytics. The trends have been evident for a few years, yet in our experience the majority of CPG sales leaders are still largely doing things the way they always have. They continue to use the same key-account management (KAM) model and they haven't enhanced key-account managers' skill sets to keep up with the increasingly competitive business environment.

The future success of CPG sales teams rests on how aggressively sales leaders move to overhaul their KAM model and upgrade their sales capabilities. In this article, we discuss the most important changes that CPG companies will need to make. Companies that have implemented these changes have driven incremental growth of up to 3 percent above the category, while also reducing sales expenses.

Three game-changing trends

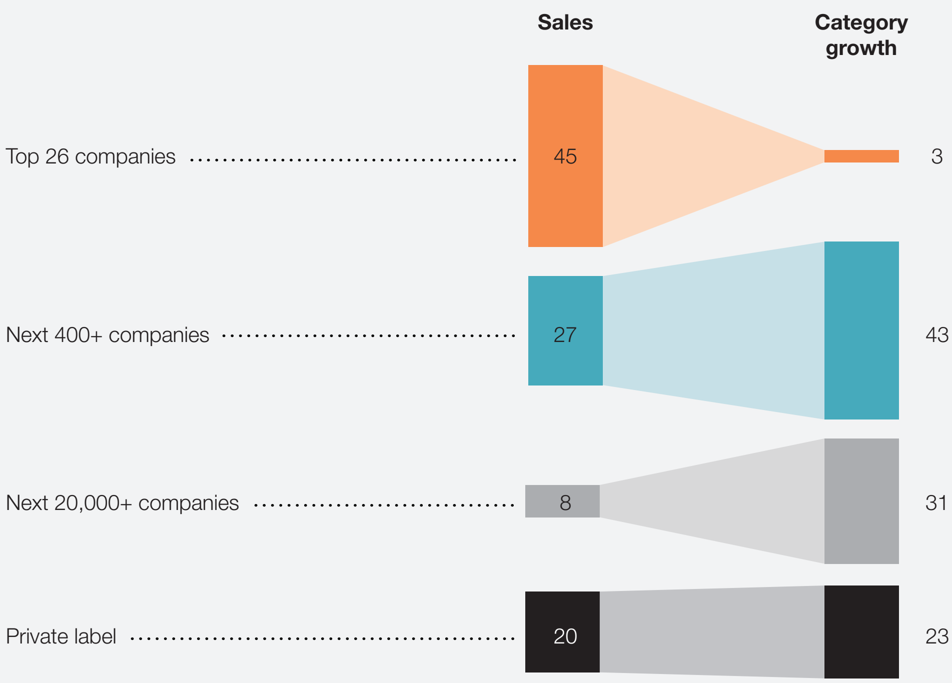
Large-scale trends have been shaking up the US retail sector. One such trend is structural channel shifts, embodied by the growth of hard-discount formats and e-commerce. This trend is exerting downward pressure on retail prices and on retailers' gross margins. In Western Europe, where hard discounters enjoy a higher market share (16 percent) than they do in the United States (7 percent), the average retail gross margin is five percentage points lower: 20 percent in Western Europe compared with 25 percent in the United States. E-commerce, because it enables price transparency, has exacerbated these pressures. It's therefore not surprising that retailers are trying to protect their shrinking margins by negotiating more aggressively with suppliers. Margin pressure is also spurring more retailers to expand their private-label offerings, usually at the expense of the largest CPG brands. At the same time, discounters and online retailers represent new types of customers for CPG manufacturers. These customers' strategies, operations, and partnership approaches differ from those of traditional retailers, necessitating major adjustments in the way CPG companies serve and manage their accounts.

A second trend is the declining contribution of the top CPG brands to category growth. In food and beverages, for instance, the largest manufacturers account for 45 percent of sales but only 3 percent of growth (Exhibit 1). Much of the growth today is coming from smaller manufacturers, putting large CPG companies at a disadvantage when negotiating with retailers.

A third trend is the advent of big data and advanced analytics in retail. Almost all retailers can now gather and mine valuable data when consumers use loyalty cards or shop on retailers' websites, thus diminishing the value of the data that CPG manufacturers provide. Amazon employs more than 1,000 big data

Exhibit 1 **The largest packaged-goods manufacturers have contributed little to category growth.**

Food and beverage category, %



Source: Nielsen xAOC, 2012–15

professionals; traditional retailers, too, have made big data investments. The top ten US retailers now have an average of almost 70 big data analysts on board. The retail data analytics market, valued at just under $2 billion in 2014, is thriving and is expected to exceed $5 billion in revenues by 2020. Armed with more granular consumer and shopper insights, retailers are pursuing many new initiatives at the micromarket and store levels—and expecting CPG companies to support these initiatives.

The overall effect of these trends is that the retailer-manufacturer relationship has become more challenging. Retailers are demanding more from suppliers and are flexing their negotiating muscle in a variety of ways. For instance, as mentioned, more than 70 senior leaders at the top ten US retailers came from European companies, bringing with them more aggressive European-style negotiating tactics. Some US retailers have also adopted the common Western European practice of establishing a centralized function for strategic supplier management. This central team—which typically includes finance, merchandising, and shopper insights—now holds much of the decision-making power that individual buyers used to have. The central team also undertakes significant preparation to run more sophisticated and intense negotiation sessions, for which many CPG key-account teams find themselves ill equipped.

All these developments have fundamentally changed how the typical retail buyer does his or her job. Many buyers have a wealth of customer information from both offline and online channels at their fingertips.

They're making business decisions based on data and advanced analytics, using next-generation machine learning and algorithms.[1] And they're adhering to strict purchasing and negotiation guidelines from a centralized team, rather than relying on long-standing relationships or gut instinct.

A sharpened focus

We've found that, on the whole, the sales organizations of CPG companies have been slow to adapt to these changes. Many key-account managers are career salespeople who rely on personal relationships with individual buyers and aren't well versed in big data and advanced analytics. They haven't been trained in responding to direct financial demands or ultimatums from retailers and therefore they make concessions too readily. Of course, there are exceptions—but we've rarely seen best practices of successful key-account managers disseminated across the sales organization.

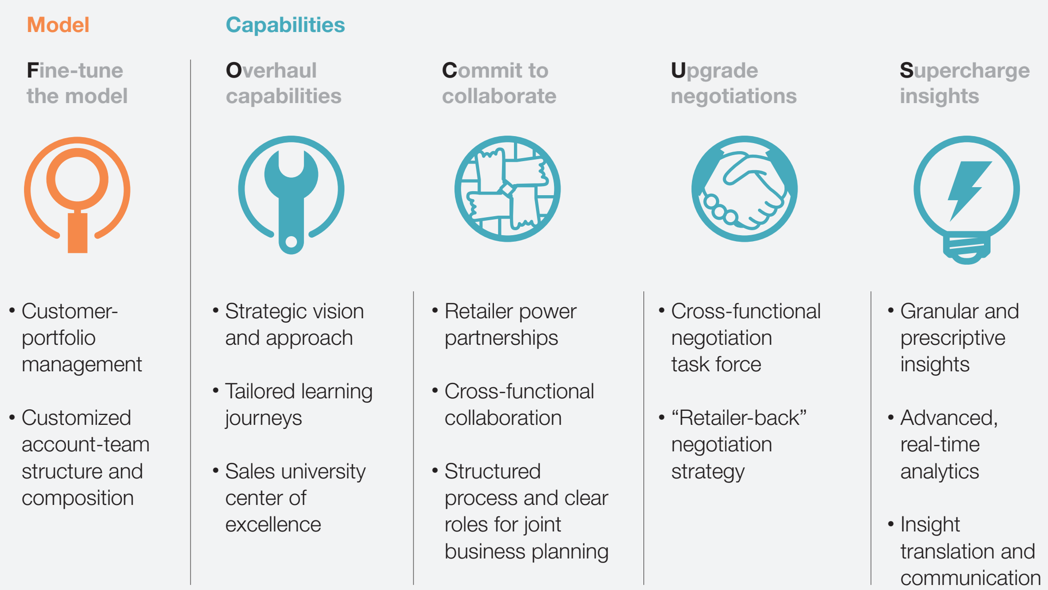
These changes to the business environment call for CPG companies to rethink their approach to partnering with retailers. In particular, they must focus on revamping the KAM model and on upgrading individual and organizational KAM capabilities (Exhibit 2).

Fine-tune the model

Although the details may vary, the basic KAM model is the same in most CPG companies: retailers are segmented using some combination of revenue, profit, and growth potential, then resources are allocated based on a tiered segmentation. Each key-account team has essentially the same structure and capabilities. People are usually assigned to specific accounts based on tenure, not on distinctive capabilities.

But every retailer is different—so why should every key-account team be the same? We recommend two fundamental changes to the KAM model.

Exhibit 2 **The new retail and consumer landscape requires a sharpened focus on the key-account management model and capabilities.**



Source: McKinsey analysis

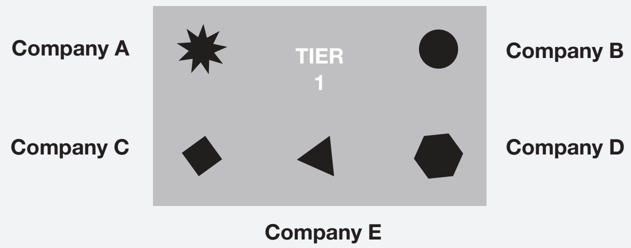
- **Shift from customer segmentation to customer-portfolio management.** Traditional customer segmentation is mainly a prioritization exercise—useful, but not sufficient for ensuring that CPG companies are appropriately investing in their key accounts. We recommend instead using a portfolio-management approach, in which the CPG sales organization determines the distinct role that each retailer plays in the manufacturer's portfolio of customers. Examples of roles might be growth driver, profit driver, scale builder, core customer, or future bet (Exhibit 3). This role then informs the manufacturer's profit-and-loss (P&L) expectations, investment level, collaboration style, negotiation posture, and account-team capabilities for that customer.

  Customer-portfolio management helps a CPG company differentiate treatment of customers and allocate resources in a way that aligns with

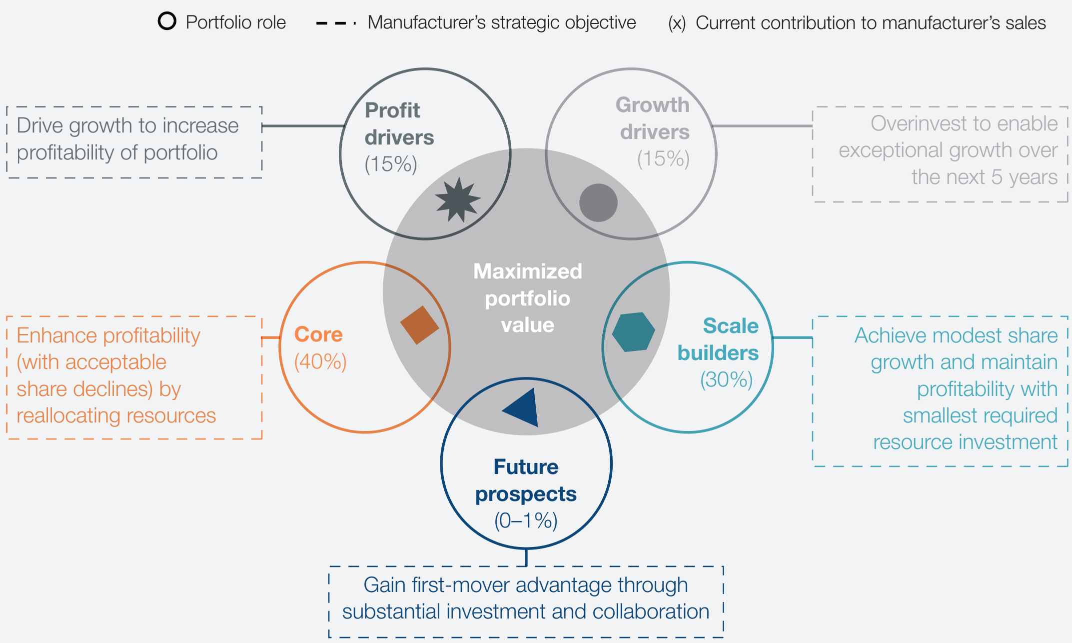
Exhibit 3

Portfolio roles inform the business objectives and expectations for each customer.

In traditional customer segmentation, all Tier 1 companies are treated the same ...



... but in next-generation portfolio management, companies are treated differently based on their role.



Source: McKinsey analysis

all its financial aspirations, rather than just growth targets. With a portfolio approach, five retailers previously in the same customer segment or tier could conceivably play five different roles.

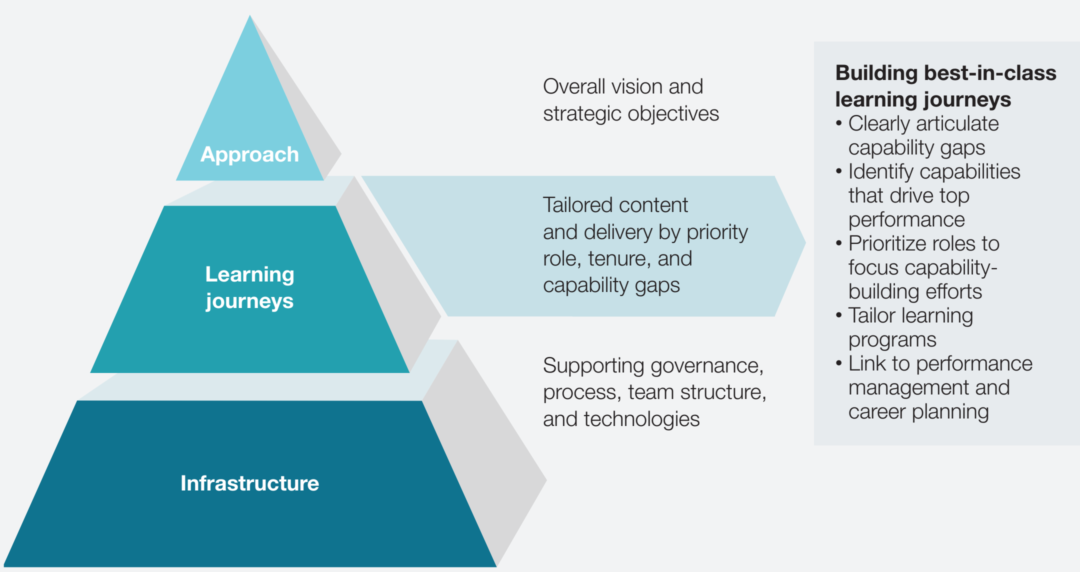
- Tailor key-account teams to customers. That said, even two retailers that play the same role in the portfolio shouldn't get identical treatment. Each will have different business drivers and a unique path to success, and CPG companies should tailor their account teams based on these differences. Amazon and Whole Foods Market, for instance, may both be designated future bets, but the two companies differ in their strategic objectives across categories, their financial goals, their views on the role of CPG brands, and their way of dealing with suppliers.

  CPG companies should seek to understand each customer's business drivers, including its strategic objectives, analytical capabilities, retail operations, collaboration style, and procurement processes and posture. A CPG company learned, for instance, that one of its customers—a discounter that plays a growth-driver role in the portfolio—greatly values distinctive consumer and shopper insights and is interested in unique products and pack sizes that it can carry in its stores as impulse buys. The manufacturer handpicked a team best suited to serve this customer, making sure that the team included people with shopper-insight experience and new-product-development and customization skills. Other key-account teams had a different structure and different capabilities, tailored to each retailer's business drivers.

Overhaul capabilities

Changing the KAM model is an essential step, but the new model won't achieve its purposes if a company neglects to bolster sales capabilities. A robust capability-building program has three main components: a strategic capability-building approach, learning journeys, and a supporting infrastructure (Exhibit 4).

Exhibit 4 **A strong capability-building program consists of a strategic approach, tailored learning journeys, and a supporting infrastructure.**



Source: McKinsey analysis

The strategic approach to capability building shouldn't be static; it ought to evolve along with an organization's vision and objectives. The training content and modalities should be tailored to individual roles and tenures, and grounded in adult-learning principles.[2] Sales organizations would do well to ask themselves, "When was the last time we rethought the content and delivery formats of our sales-training materials? Have we added new modules on how big data and analytics are changing the way retailers work with us? Have we customized learning journeys to the unique demands of each person and each customer?" To design role- and tenure-specific learning journeys, companies must first identify the intrinsic traits, skills, and motivations that drive top performance, keeping in mind that even people who hold the same title may have different learning needs: a key-account manager for a growth driver, for instance, will probably require a different skill profile than a key-account manager for a scale builder. Sales leaders—not HR executives—are best placed to do this tailoring and therefore should lead capability building, with HR serving as a collaborator.[3]

Underpinning a company's capability-building efforts is the supporting infrastructure, which can take the form of ad hoc training programs, a dedicated learning-and-development organization, or a full-fledged, stand-alone "sales university" that designs tailored learning journeys for all high-priority sales roles. The latter is the most comprehensive (and most resource-intensive) option, and the one we would recommend for most large CPG sales organizations.

Commit to collaboration

One increasingly important capability for KAM organizations is collaboration. To secure future success, key-account managers must strengthen joint business planning and nurture a broad partnership that encompasses both cost efficiency and demand creation.

To become better collaborators, key-account teams must be trained to do the following:

- Strengthen their partnership mind-set. Given the increased speed that e-commerce requires and the greater complexity that comes with wider and more localized assortments, account teams now have opportunities to help retailers solve problems on a daily basis. Open and frequent communication with the retailer will help an account team gain a deep understanding of the retailer's biggest concerns and priorities along the entire value chain, from supply and inventory to shopper insights.

- Explore even more cost and demand levers. The best key-account managers initiate a formal process for working with retailers on far-reaching initiatives in both cost reduction (including, for example, collaborative working-capital and inventory management) and demand generation (for example, joint innovation and product development).

- Bring in experts more frequently. Historically, if managing logistics costs were a priority for the retailer, the account manager might proactively bring in a senior logistics executive to advise the retailer on optimizing end-to-end logistics costs. Today, the best account managers are tapping experts to advise retailers on newer opportunities like digital marketing and analytics.

Upgrade negotiation skills

Even as they become better collaborators, key-account teams must also become savvier negotiators. As mentioned, some retailers have established a central function for strategic supplier management. Manufacturers, too, can benefit from the creation of a centralized, multifunctional task force to develop standardized processes and provide negotiations support to key-account teams. This task force should comprise a combination of skill sets including sales, finance, customer marketing, operations, and category management.

The key-account manager will continue to lead negotiations, but the task force can help each account team tailor its negotiation postures and tactics to the customer. The first step in this tailoring exercise is to understand the retailer's strategy and its likely negotiating stance. Developing this perspective requires careful analysis of retailer performance, input from functional partners, and a strategic mind-set to bring it all together. The account team can then determine its own negotiation posture, prioritize topics for discussion, and agree on entry and walk-away points (Exhibit 5).

Building such a detailed fact base entails a considerable amount of work: evaluating customers'

Exhibit 5

Priority topics and negotiation ranges will depend largely on the retailer's role in the portfolio.

Negotiation elements	Discussion topics	Negotiation range: Entry point	Negotiation range: Exit point
Weekly circular	• Obtain 8 front-page features for 2017 • Each core SKU featured 5 times a year	• 1.0% of gross sales	• 1.3% of gross sales
In-store activity	• Obtain 20 gondola ends (including 10 at front of store) • 90% planogram compliance for A and B stores	• $3.0 million for A and B stores	• $4.0 million for A stores
Growth incentive	• 3% total NSV[1] sell-in growth target • 5% "category A" NSV sell-in growth target	• $1.0 million bonus	• $1.5 million bonus
Distribution incentive	• Achieve 60% ACV[2] for top 40 SKUs • Achieve 80% ACV by week 8 for all new items	• $1.0 million bonus	• $1.5 million bonus

[1] Net sales value.
[2] All-commodity volume.

Source: Disguised client example

P&L statements, studying category performance drivers, linking consumer insights to the retailer's shoppers, assessing operational levers, and so on. Having a centralized team conduct the analysis is ideal, as it builds a center of excellence within the organization. Also, because the centralized team has visibility into the entire portfolio, it can make more balanced decisions—ensuring that negotiation postures align with each retailer's portfolio role and guarding against account teams being either too aggressive or too conciliatory.

Through scenario planning and simulation of tactics, the team can then anticipate a retailer's moves and formulate responses. Regular practice and role playing can help ensure flawless execution. And to spur continuous improvement, companies should put in place a standardized process and system for tracking negotiation outcomes and disseminating best practices.

Supercharge insights

Finally, the CPG sales organization must develop its insights capabilities.[4] In an age of information overload, a CPG company must be able to generate insights that aren't simply descriptive or explanatory, but predictive and prescriptive—offering fact-based answers to the questions, "What will happen?" and "What should we do to get the most benefit out of what will happen?" No longer will it be enough to generate insights at the national, channel, or customer level on a weekly or monthly basis. Retailers will expect store-specific, real-time insights tailored to their strategic priorities.

CPG companies should seek to generate distinctive insights in the areas that retailers care about most: category performance, assortment, pricing and promotions, operations, innovation, and shopper and consumer behavior (Exhibit 6). Predictive and prescriptive insights in one of these domains can

Exhibit 6 **Companies should define use cases and generate detailed insights in six areas.**

Examples of use cases

1	2	3	4	5	6
Performance	**Assortment/ planogram**	**Pricing/ promotions**	**Operations**	**Innovation**	**Shopper/consumer behavior**
Automated tracking of leading indicators (eg, store traffic, basket metrics) to anticipate changes in performance	Predictive modeling based on transferable demand and consumer decision trees, combined with test and learn to localize assortment	Tailored insights combined with rapid digital microtesting to optimize promotions	Enhanced store-level monitoring with predictive analytics to anticipate out-of-stocks, display compliance, and other in-store issues	Automated retailer-specific shopper tracking to identify innovation opportunities (eg, white space in category)	Cross-channel insights combining basket analysis and shopper surveys to enhance in-store offering

Source: McKinsey analysis

help elevate a planning conversation with a retailer to a highly valued partnership. Some companies are already leveraging advanced analytics in one or more of these domains, yielding significant benefits (see sidebar, "Case example: How deeper insights led to better promotions").

The entire sales organization—especially key-account managers, category managers, and the customer-marketing team—must then translate insights into initiatives that will appeal to customers. It's important to assign a single function, usually customer marketing (sometimes called trade marketing, sales strategy, or sales planning), to be responsible for gathering, consolidating, and interpreting feedback from customers and conveying it to the brand-marketing organization so that retailer input can inform category and brand strategies.

Account managers must excel at insight-based selling—that is, connecting retailer-specific insights to proposed commercial programs and giving tailored recommendations. For example, instead of simply saying, "Here's how this promotional event will perform at your stores," an account manager should seek to provide finer details: "Here's the expected margin impact this event will have among your highest-priority shopper segments. We know you've been tracking that metric closely. And, given demographic profiles and previous performance, here's how you might adjust the promotion in these specific stores in these zip codes to limit cannibalization of your private-label SKUs—which we know is also a top priority for you."

For effective communication of insights, account managers and analytics experts must work together. Some companies give analysts opportunities to attend meetings with customers, allowing analysts to sharpen their customer-facing skills and better understand customers' perspectives.

Companies should determine where its leakages are in the "insight funnel": Is it that the company

Case example: How deeper insights led to better promotions

Many consumer-goods companies plan their promotional programs based largely on historical norms and analysis of past promotions. One manufacturer had been using the same promotional price point for years. But in 2015, it partnered with a leading retailer to conduct rapid, low-cost tests of more than 30 different promotional offers (such as "15 percent off every purchase," "buy two, get one free," and "buy two, get 30 percent off") via social media and other digital channels.

Using an advanced analytics software solution, the manufacturer was able to gauge consumer engagement and predict in-store behavior by measuring click-through and conversion rates. The tests revealed that consumers responded to higher-priced offers just as enthusiastically as they did to the manufacturer's standard promotional offer. By discontinuing its standard promotion and instead rolling out targeted offers at higher price points, the company has increased returns on its promotion investment by more than 50 percent without negatively affecting sales for the retailer.

hasn't invested enough in the tools and talent for generating insights? Or is the company struggling to translate insights into plans that excite retailers? Are key-account teams not communicating the insights effectively? Often, these leakages are best addressed in part through capability building and in part through hiring new kinds of talent.

■ ■ ■

To begin sharpening its focus on effective key-account management, a CPG company should assess the current state of its sales organization: Do its customer segmentation, resource allocation, and organizational structure align with its strategic and financial aspirations? What are its biggest capability gaps? Does it invest sufficiently in capability building? Does it have the infrastructure to support a transformation? Based on this assessment, it can create a vision for its sales organization and develop a road map of opportunities. An organization can't be best-in-class in everything, so strategic prioritization is crucial. Companies that commit to this journey will be well on their way toward sales excellence and sustained competitive advantage. ■

[1] See Dorian Pyle and Cristina San Jose, "An executive's guide to machine learning," *McKinsey Quarterly*, June 2015, McKinsey.com.

[2] See Claus Benkert and Nick van Dam, "Experiential learning: What's missing in most change programs," August 2015, McKinsey.com.

[3] See Bart Delmulle, Brett Grehan, and Vikas Sagar, "Building marketing and sales capabilities to beat the market," March 2015, McKinsey.com.

[4] See "How companies are using big data and analytics," April 2016, McKinsey.com and Peter Breuer, Jessica Moulton, and Robert Turtle, "Applying advanced analytics in consumer companies," May 2013, McKinsey.com.

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