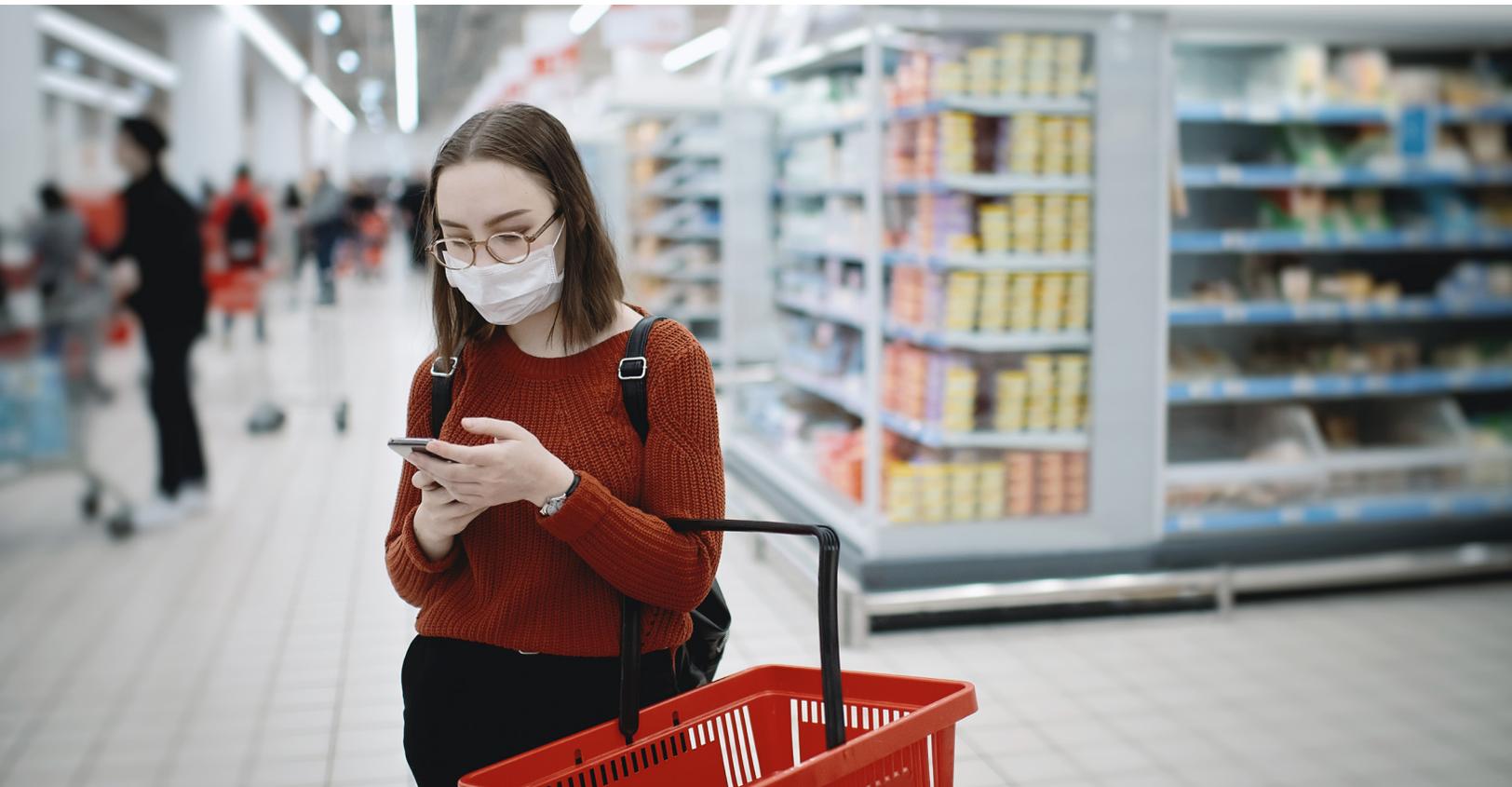


Consumer Packaged Goods Practice

# What consumer-goods sales leaders must do to emerge stronger from the pandemic

The COVID-19 crisis has transformed how people shop and how retailers sell. In response, consumer-goods manufacturers and retailers must build new capabilities and change how they operate.

*This article is a collaborative effort by Brandon Brown, Lindsay Hirsch, René Schmutzler, Jasper van Wamelen, and Matteo Zanin*



**Coming into 2020**, the relationship between consumer-goods manufacturers and retailers showed signs of strain, with each battling to stay ahead of new challenges. For consumer-goods companies, there were threats from niche and private-label brands and from the squeezed margins that came with selling more goods through higher-cost channels. Retailers, meanwhile, were trying to step up their digital game while dealing with pressure from discounters, e-commerce giants, and price-driven consumers.

Then COVID-19 became a global pandemic and everything changed. As we noted in a recent article, COVID-19 is amplifying a dozen trends that have been disrupting the industry for more than a decade. The move to online shopping seemed to accelerate at warp speed, with US grocery's penetration into e-commerce rising from 13 percent before the pandemic to more than 31 percent by the end of March.<sup>1</sup> As consumers stayed home to stop the spread of the coronavirus, they used mobile apps and websites to buy a different mix of products than they had previously purchased in stores, with more focus on pantry staples and at-home occasions. Those who did venture into stores found the experience transformed by new rules on physical distancing, hygiene, and mask use. By mid-June,

McKinsey's consumer-sentiment survey found that more than 75 percent of Americans had tried new brands from new places or otherwise changed how they shop as a result of the crisis.

With so many factors in flux, the case for deeper ties between consumer-goods companies and retailers has rarely been stronger. Along with the challenge of keeping products stocked during the current public-health crisis, retailers and manufacturers now need to collaborate more closely to adapt to new consumer preferences, shopper behaviors, and regulations. In doing so, they will be better equipped to navigate trends that many thought would take years to play out: touchless payments, curbside pickups, automated fulfillment, omnichannel marketing, and more (Exhibit 1).

The COVID-19 crisis has transformed the value proposition that consumer-goods companies can offer to retailers. McKinsey's recent consumer-sentiment survey indicates that many pandemic-related behaviors are likely to continue after the crisis. We have argued that consumer-goods leaders need to make changes across the entire value chain, from how they manage talent to how they set and fund priorities. To succeed in this challenging environment, they must also reimagine how they sell their products.

**By mid-June, McKinsey's consumer-sentiment survey found that as a result of the crisis, more than 75 percent of Americans had tried new brands from new places or otherwise changed how they shop.**

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<sup>1</sup> David Bishop, "Online grocery: New consumer research press release," research conducted August 21–23, 2019, and March 23–25, 2020, Brick Meets Click, March 26, 2020, brickmeetsclick.com.

Exhibit 1

## COVID-19 is transforming the retail experience, strengthening the case for deeper ties between consumer-goods companies and retailers.

### Pandemic responses are here to stay ...

<p><b>Consumers</b></p>  <ul style="list-style-type: none"><li>• Hygiene and prevention awareness</li><li>• Concern for health and well-being</li><li>• More consumption in the home</li></ul>	<p><b>Shoppers</b></p>  <ul style="list-style-type: none"><li>• Preference for one-stop shopping</li><li>• More price conscious</li><li>• Want a personalized omni-channel experience</li></ul>	<p><b>Regulation</b></p>  <ul style="list-style-type: none"><li>• Physical distancing, masks, and other measures to prevent disease</li><li>• Scrutiny on supply security</li><li>• Contingency plans to shut down or shift operations in a crisis</li></ul>
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### ... prompting retailers to shift priorities

 <p><b>Keep foot traffic high</b> as consumers shift where they shop</p>	 <p><b>Build loyalty online</b> as customers shift to e-commerce, including innovation in fast-tracking, click-and-collect, delivery, and other areas</p>	 <p><b>Maintain robust sales and revenues</b> as shoppers start to cut back, given economic uncertainty</p>	 <p><b>Redesign stores for safety, sustainability, and consumer comfort</b> with new hygiene and distancing investments</p>	 <p><b>Innovate to compensate</b> for loss of food-service business</p>
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Source: Expert interviews; McKinsey consumer-sentiment survey; McKinsey analysis

In this article, we will examine the growing impetus for partnerships, as well as the four imperatives for how consumer-goods leaders can—and must—reshape their sales function to adapt.

### A complicated and sometimes competitive partnership

As shoppers have embraced a broader mix of brands and channels, maintaining profitability and market share has become increasingly challenging for both consumer-goods manufacturers and retailers. While e-commerce has created new opportunities to reach and sell to consumers, it has also brought added costs, risks, and competition from a wider array of brands.

At the same time, retailers increasingly compete with consumer-goods companies, creating their own brands to build loyalty with consumers and

develop higher-margin income streams. After a decade when consumer-goods companies and retailers posted joint profit growth of around 9 percent, combined economic profits began to dip in 2014 (Exhibit 2). Manufacturers bore the brunt of that shift, with their profits falling, while retailers still managed to eke out some gains.

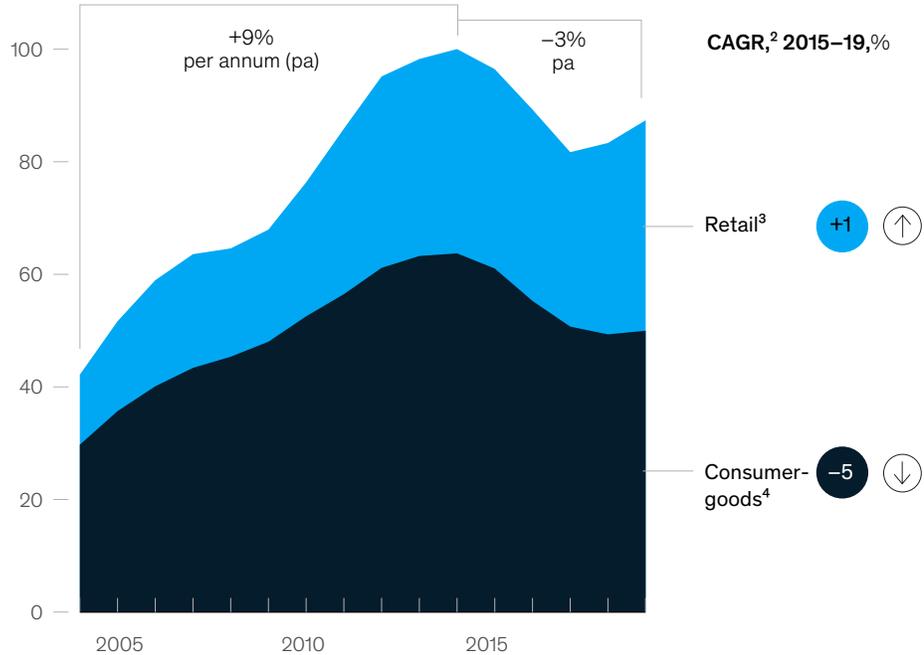
Faced with an overall trend of lackluster growth and tight margins, retailers have pressed manufacturers to offer products that are more tailored, sustainable, and exclusive to their stores or platforms. While such pressures have sometimes increased tension between manufacturers and retailers, they have also led to more creative collaborations.

The COVID-19 crisis has added another dimension, creating more urgency to partner around new technology, data, and insights on shoppers across sales channels. With the sudden shift to new ways

Exhibit 2

**Profitability was shifting to retailers prior to COVID-19.**

**Consumer-goods manufacturers and retailers, joint industry economic-profit generation, \$ billion<sup>1</sup>**



Note: Includes Australia, Europe, North America, and New Zealand; excludes any listed companies with financing operations.  
<sup>1</sup>3-year trailing average economic profit.  
<sup>2</sup>Compound annual growth rate.  
<sup>3</sup>Excluding automotive, consumer durables, and clothing.  
<sup>4</sup>Beverages, food products, tobacco, household products, and personal products.  
 Source: Expert interviews; McKinsey consumer-sentiment survey; McKinsey analysis

of buying, the need to coordinate and collaborate has never been greater. For consumer-goods companies that have struggled to retain shelf space and consumer loyalty to their products, this creates a rare opportunity for sales teams to reinforce and reimagine their retail relationships. In particular, three shifts are materially changing how consumer-goods players and retailers work together: changing consumer preferences, accelerating omnichannel demands, and the need for increased speed and responsiveness.

**Changing consumer preferences.** With the unprecedented scale and scope of the lockdowns, consumers have naturally developed an appetite for

products and services centered on the home. It's no surprise that sales at US quick-service restaurants, excluding those for coffee and pizza, have dropped by more than a third, while sales at casual-dining restaurants have dropped by as much as 70 percent. The question is whether consumer preferences will revert back to prepandemic norms once the restrictions are lifted. We believe that consumers are likely to continue spending a significant amount of time at home, driven by a desire to save money and reduce the risk of infection—plus, a newfound pleasure in nesting. Our research indicates that it could take anywhere from three to ten years for out-of-home channels to fully recover.<sup>2</sup>

<sup>2</sup> Earnest; Foursquare; industry reports (for example, from Bernstein); McKinsey research and analysis in partnership with Oxford Economics.

For makers of consumer goods, the implications are profound. While staying home could help sustain demand through online channels, it does not bode well for consumer-goods sales to restaurants, hotels, and other commercial partners. Within retail channels, the longer-term shift away from physical stores and higher-priced retail brands has also been accelerated by the pandemic. We estimate that grocery supermarkets and convenience stores are likely to lose up to seven points of market share to discounters, hypermarkets, and online sales. This is the new norm. For consumer-goods companies, it's time to shift from crisis mode to a more fundamental realignment of their portfolio and route-to-market strategy to reflect this.

**Accelerating omnichannel demands.** As consumers move more seamlessly between online retailers and brick-and-mortar stores, they increasingly expect the brands that serve them to do the same. The need for manufacturers and retailers to deliver omnichannel excellence has become more acute as the pandemic gives rise to a hybrid model that combines digital commerce with products and services delivered by a neighborhood store.

Having been forced to shop online by the pandemic, many consumers are discovering that they quite like doing so. The ease and convenience of e-commerce are especially appealing when the alternative is wearing a mask to stand in line and risk infection by shopping inside a store. Our research suggests that 70 percent of consumers plan to continue or increase their online shopping after the restrictions end. Many of those consumers—57 percent—said that they intend to order online and pick up their goods at local stores. Moreover, 28 percent of them said that they plan to avoid stores altogether.

When consumers do visit stores, they are likely to walk down the aisles with less money, more safety concerns, and their phones at the ready to compare prices. If brands and retailers are not prepared to respond with unique product offers, experiences, and other incentives to buy, they could lose sales to competitors that can understand and deliver what each shopper wants.

**Increased speed and responsiveness.** The progression of this pandemic is likely to remain unpredictable for a while. Rising infection rates can quickly result in renewed restrictions, which means retailers and manufacturers must adopt a more fluid and dynamic approach to getting goods into the hands of consumers.

For many companies, that's meant more emphasis on creating rapid-response teams and resilient operations, as well as a willingness to take risks. When COVID-19 hit, one multinational retailer expanded grocery deliveries from a modest pilot to all of its stores in a matter of days. Instacart hired 300,000 employees in a month to meet demand for at-home deliveries. Both retailers and manufacturers have been forced to speed up their decision making and comfort with ambiguity as they respond rapidly to the pandemic.

Even more important than acting quickly is the ability to act quickly together. In our recent survey of consumer-goods sales leaders, conducted in collaboration with The Gap Partnership, 60 percent of respondents indicated that they had canceled promotions in response to the pandemic. Of course, many pandemic-related issues, from supply-chain hiccups to shifts in demand, have been beyond the leaders' control. Half of all sales leaders expect to work with retailers on managing assortment rationalization, net-price deflation, and new promotion events coming out of COVID-19 (Exhibit 3). The results will depend on the levels of trust and transparency between manufacturers and their partners, as well as the willingness to pool data and other resources.

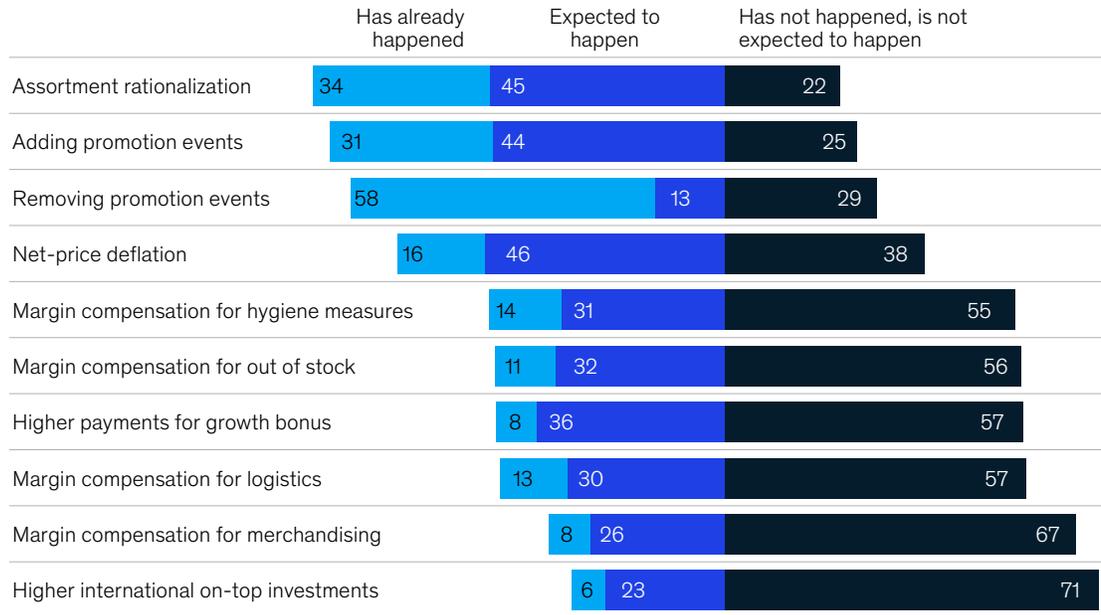
### **Four sales imperatives for consumer-goods leaders**

Throughout the crisis, we have explored how consumer-goods companies need to adapt their strategy and collaborate across every aspect of their business to create sustainable growth in this new environment. To increase sales, four priorities stand out: differentiate, diversify, be dynamic, and digitize.

Exhibit 3

**Consumer-goods sales leaders feel pressure to manage assortment rationalization, pricing, and promotions amid the pandemic.**

Survey responses from consumer-goods leaders,<sup>1</sup> % of respondents



<sup>1</sup>Question: What do retailers want from consumer-goods manufacturers as a result of the COVID-19 pandemic?  
Source: McKinsey survey on the next normal in the retailer–manufacturer relationship, n = 265

**Differentiate: Tailor your sales team and capabilities to the unique needs of each retail partner**

As sales tools and practices become more standardized, consumer-goods companies need to be much more intentional in how they approach new channels, customers, and consumer segments. That means customizing how they leverage data and other assets to address the unique aspirations and needs of each retail customer. It means analyzing shopper data and market insights to understand not only what retailers want but also what they need. One US manufacturer, for example, has reorganized its cross-functional sales teams to tailor its services to specific needs. For one retail customer, that meant adding more data-analytics expertise to help hone an omnichannel strategy; for another customer, the consumer-goods sales team added more

supply-chain and operational expertise to help the retailer streamline its operations. By adding more flexibility to the sales model, this manufacturer was able to gain a leading share with both customers.

No manufacturer can offer all things to all retailers. Differentiation is critical in choosing the right trade-offs to manage profitability. With a dynamic customer-portfolio strategy, a consumer-goods manufacturer can provide each customer with different resources and measure them by different metrics to balance overall costs (Exhibit 4). Although new products and a strong track record will always be key selling points for any manufacturer, those that invest in developing a more sophisticated understanding of their customers and category prospects, as well as new technologies and profit pools, will ultimately forge stronger relationships.

With so much uncertainty in the current environment, helping retailers fill gaps and gain insights on what's around the corner is invaluable.

**Diversify: Provide retailers with the partner they need to deliver an omnichannel experience**

As retailers increasingly serve consumers across multiple channels and touchpoints, they need a partner that can be there with products, services, and insights. Navigating seamlessly between brick-and-mortar stores and mobile apps or e-commerce platforms is not enough. Consumer-goods companies must help their retail partners move beyond the traditional four walls to capture new shopping occasions and build greater shopper loyalty.

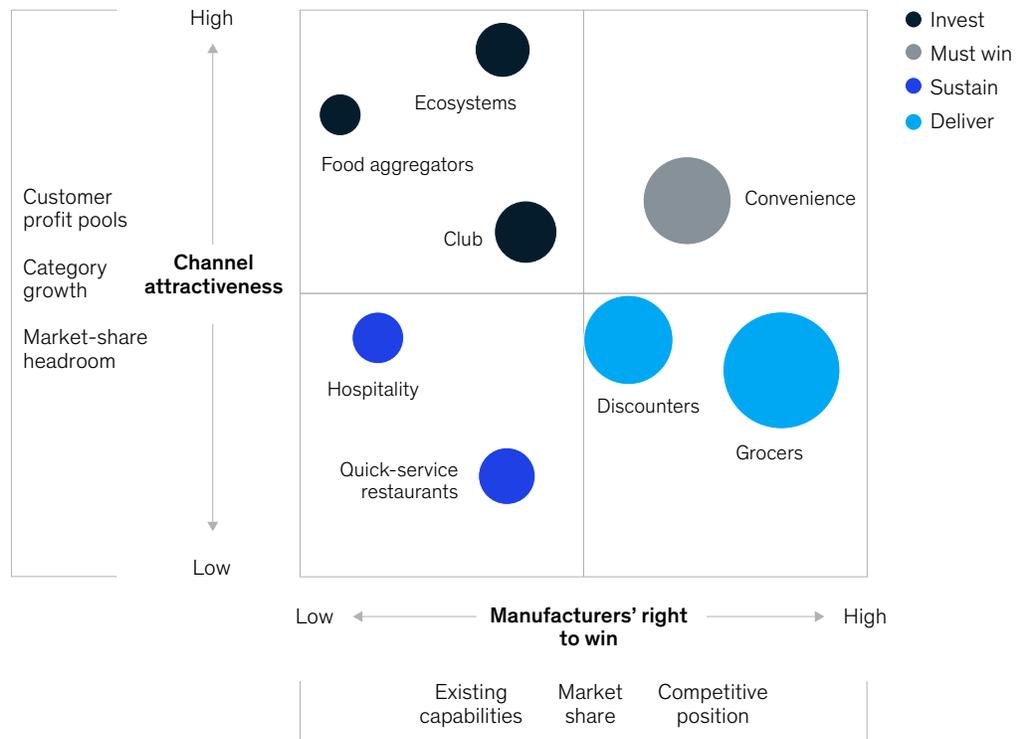
To set priorities, consumer-goods sales teams must ask themselves several questions:

- Am I working with my retail partners online and in stores in the best way? Are there other opportunities to collaborate (such as ship-to-home and click-and-collect)?
- Have I allocated resources in line with the channel strategy (covering product, people, trade, promotion, and advertising spending)?
- How do I manage channel conflicts among retailers, e-commerce players, and direct-to-consumer channels?

Exhibit 4

**No manufacturer can offer all things to all retailers; differentiation is critical in choosing the right trade-offs to manage profitability.**

Expected client sales, 2023, \$ million (circle size)



- Do I have the right channel partners? Have I thought beyond the “usual suspects” to explore new marketplaces and emerging platforms?
- What is my direct-to-consumer value proposition? Is it responding to new shopper and channel realities?

To win in an omnichannel environment, the more data, the better. While a retailer knows what’s happening in its own ecosystem, manufacturers can see how their products are performing across multiple channels and markets. By leveraging pooled data, they can help retailers understand and optimize their omnichannel offering. An even more powerful strategy is using the insights to identify new ways to innovate and engage shoppers. To develop the opportunities, omnichannel expertise must be infused throughout the organization, from the e-commerce team to people working in sales, supply chain, and marketing.

**Be dynamic: Adopt a more flexible and agile approach to customer management**

Consumer-goods makers have just begun to explore agile ways of working that enable teams to shift quickly to meet market needs. Our advice: encourage retail partners to join you on the journey. Almost every sales leader believes that the manufacturer–retailer relationship needs to become more agile (Exhibit 5). It’s time to reevaluate the ubiquitous joint business-planning process, aiming to morph it from a static agreement to a working plan that is constantly recalibrated as trends and conditions shift. That means more flexibility around product mix and shelf space, as well as more willingness to iterate, tweak, and learn from mistakes.

In our recent survey of 135 global consumer-goods sales leaders, 60 percent said that they believe 2021 planning sessions will continue to be conducted remotely. Another 93 percent believe that virtual communication with retailers is here to stay. One reason may be that including virtual meetings in the mix makes it easier to tap cross-functional experts and foster collaboration based on expertise rather than geography.

Imagine how such flexibility could transform interaction with key accounts. In trusted relationships, data flow both ways, enabling all partners to connect the dots and spot trends that they might not recognize on their own. Dynamic partnerships also require more frequency of interaction and alignment on processes, which can strengthen bonds and create more opportunities for innovation.

At the same time, less strategically important retail partners could be transitioned to a B2B online portal that enables them to manage their own ordering and planning with light-touch support. That would lead to lower costs for manufacturers and higher satisfaction from retailers that want less friction and more flexibility around managing product flow.

**Digitize: Deploy digital tools to drive greater efficiencies**

The COVID-19 pandemic has ushered in the era of contactless commerce. Shutdowns immediately forced companies to prioritize processes and products that minimize the risk of infection. The crisis also accelerated plans to digitize more aspects of order taking, delivery, and customer service. It forced consumer-goods companies to minimize human contact in the production and delivery of their products, just as it forced retail partners to minimize human contact in their distribution facilities and stores.

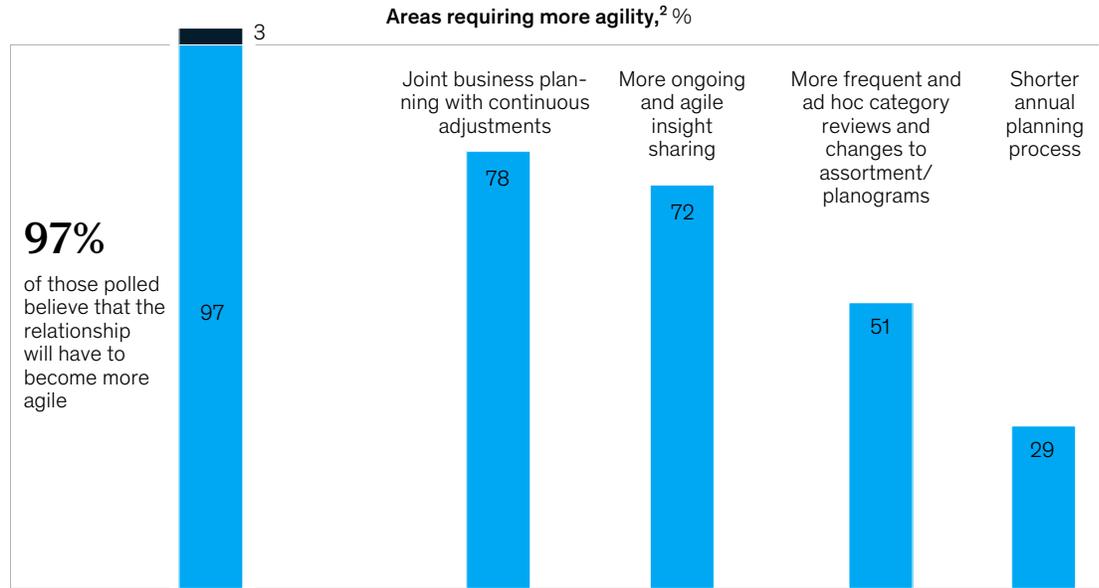
We see three priorities for field-sales forces coming out of the crisis: digitizing route-to-market models for getting their products in front of customers, automating in-store activities, and using advanced analytics to gain deeper insights on shoppers and product performance.

As consumer-goods sales teams have turned to telesales and online-ordering platforms in response to the pandemic, many have discovered that retail customers prefer those digital options to in-person calls. Such models are also more efficient for manufacturers, which means telesales, messaging apps, and specialized B2B e-commerce platforms are likely to retain their popularity after the crisis passes.

Exhibit 5

**Consumer-goods manufacturers expect a more agile relationship with retailers amid COVID-19, especially for planning and for sharing insights.**

**Manufacturer-retailer relationship agility,<sup>1</sup> %**



<sup>1</sup>Question: Do you believe the manufacturer-retailer relationship needs to become more agile?  
<sup>2</sup>Question: In which areas do you believe manufacturers and retailers need to move faster and be more agile?  
 Source: McKinsey survey on the next normal in the retailer-manufacturer relationship, n = 265

That said, in-person sales activities are often necessary, especially for new retail locations or manufacturers that deliver directly to stores. To minimize the risk of infection in such settings, companies are accelerating efforts to automate or outsource core sales functions. Activities such as restocking or installing signage can often be handled by store employees in return for incremental fees or additional merchandising material. Image-recognition technology can enable companies to automate execution and shelving compliance. Now is the time to review how sales activities can be streamlined, automated, redesigned, outsourced, or eliminated altogether. One leading North American manufacturer was able to reduce its time in stores by 25 percent by automating and outsourcing activities. Another global manufacturer discovered new growth

opportunities and savings by using advanced-analytics algorithms to assess the potential value of every outlet.

**Shaping the postpandemic partnership**

In an unpredictable and often perilous landscape, consumer-goods companies and retail partners can prove their value by pooling resources. They can also form strategic partnerships that span the entire value chain, from working together on logistics costs to innovating on products and services. In trying to navigate new tools, opportunities, challenges, and trends, manufacturers are finding that their sales teams have become mission critical to success.

To win, consumer-goods sales teams will deploy new tools to anticipate and deliver exactly what

each customer needs exactly when that customer needs it. They will help retailers develop new micromarkets, personalized marketing solutions, and other opportunities. They are the natural hubs through which manufacturers can synthesize trends, rapidly interpret real-time data, and work with both customers and internal leaders across different functions to shift strategy in real time. In all conditions, through fair weather or foul, leading sales teams can stay focused on driving mutually profitable growth by bringing new value, capabilities, and knowledge to the table.

While COVID-19 has created numerous challenges across the consumer-goods industry, it has also brought into focus the power and importance of collaborative retail–manufacturer relationships. Amid lockdowns and panicked buying, companies with recognized brands and resilient supply chains have

delivered. They have enabled retailers to pivot to new ways of selling and delivering products, reinforcing the importance of shared intelligence and joint value creation after years of focusing on price.

The full impact of the COVID-19 pandemic will take years to play out. But in previous crises, the most resilient companies were those that acted faster than their rivals and were more disciplined in executing to get results. In many ways, the current crisis has reinforced the value of consumer-goods brands, putting them in a better position to leverage their strengths with retail partners. Now is the time for consumer-goods sales leaders and retail executives to sit down (over videoconferences, of course) and lay out a plan for how to work differently together to create more value for their collective organizations.

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