

The 'how' of transformation

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In the consumer sector and in many other industries, transformation programs often fail. Creating a “performance infrastructure” can help ensure that yours won’t.

Disruptive forces abound in today’s business environment. Technological innovation, regulatory changes, pressure from activist investors, and new entrants are just some of the forces causing disruption, even in historically less volatile business sectors. It’s therefore no surprise that many consumer-goods and retail companies are embarking on transformation efforts, sometimes in response to outside pressure and other times to get ahead of it. Regardless of why, these companies are introducing new ways of working to large numbers of employees, with the goal of producing a step-change, sustainable boost in business results.

However, the painful reality is that most transformations fail. Research shows that 70 percent of complex, large-scale change programs don’t reach their stated goals. Common pitfalls include a lack of employee engagement, inadequate management support, poor or nonexistent cross-functional collaboration, and a lack of accountability. Furthermore, sustaining a transformation’s impact typically requires a major reset in mind-sets and behaviors—something that few leaders know how to achieve.

As practitioners in Recovery & Transformation Services (RTS), a McKinsey unit focused on

supporting turnarounds and transformations across industries worldwide, we’ve observed that the most difficult part of transforming performance isn’t determining what to do but rather how to do it. In this article, we discuss an often overlooked component of the “how” of transformation: the establishment of a performance infrastructure, made up of the people, processes, and tools that enable successful execution and sustainability of results.

A holistic approach to performance improvement

For companies in financial distress, transformations tend to focus on immediate and radical cost reduction. But many consumer-focused companies play in relatively healthy and stable product categories. For these organizations, transformation isn’t a fight for survival. Instead, it tends to be about reaching the full potential of the business (going from good to great) or responding to an external challenge or opportunity, such as learning how to win in new channels or shifting away from an historical money-maker.

Our experience suggests that, regardless of the circumstances, real transformation happens only when a leadership team embraces the idea

“On the revenue side, the power of a transformation isn’t so much in coming up with the next big product idea or category or consumer segment that you’ve never heard of. It’s much more about figuring out how to better deploy your limited resources to unlock greater value.”

—Vice president of marketing, consumer company

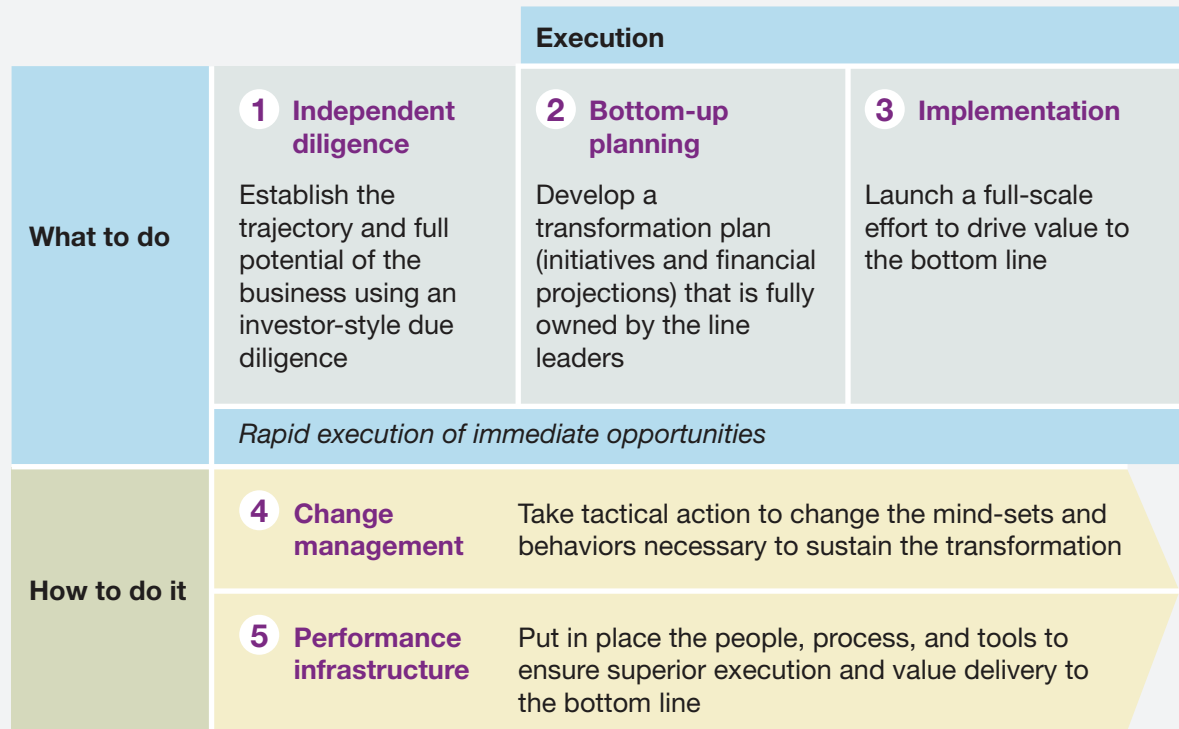
of holistic change in how the business operates—tackling all the factors that create value for an organization, including top line, bottom line, capital expenditures, and working capital. This is easier said than done. Ordinary approaches to transformation typically deliver ordinary (and often suboptimal) results.

To achieve extraordinary results, we believe a comprehensive, highly disciplined methodology—encompassing both the “what” and the “how”—is needed (exhibit). The “what” entails the smooth movement of the many specific transformation ideas and initiatives through three phases: from independent diligence to planning to implementation. These phases will sound familiar to the seasoned executive.

However, we find that executives tend to focus too much on individual initiatives rather than on how the business must change. Many leaders sense that this is an issue; they express concerns about execution risks and sustainability, knowing instinctively that the initiatives won’t stick unless the business fundamentally changes how it operates. So how does an organization change the way it operates? We break the “how” into two parts: change management and performance infrastructure. Change management is a challenging concept for many organizations and one we will address in detail in a forthcoming article. Our focus in this article is the performance infrastructure, which helps create effective executive-level alignment, communication, and coordination during a transformation.

Exhibit

Our transformation approach encompasses both the ‘what’ and the ‘how.’



Source: McKinsey Recovery & Transformation Services

Making change happen at speed

The performance infrastructure consists of the people, process, and tools that work in concert to ensure superior execution and value delivery. It serves as the central nervous system for a transformation effort and plays a vital role in the effort's success (see sidebar, "One company's transformation").

The people: A governance structure led by a chief transformation officer

To oversee the execution of each "workstream" (or area of activity), ensure decisions are made quickly, and keep the transformation on course, companies must create a governance

structure—specifically, a transformation office (TO) comprising a few respected executives supported by analysts from the finance and HR functions. At the helm of the TO should be a chief transformation officer (CTO), who should also sit on the company's executive team. The TO should regularly report progress to the CEO, highlighting issues and decisions for resolution.

One might ask, is a CTO really necessary? Shouldn't the CEO lead the transformation? Our answer is unequivocal. The CEO should lead the company; an experienced, full-time CTO should lead the change.

One company's transformation

A global consumer-products company, which had once enjoyed a strong market position, was suffering sustained share losses across multiple sales channels. Its financial performance was declining in a relatively healthy industry and investors were losing patience with the management team.

A top-down assessment of the company's performance and projected trajectory yielded a bleak picture. Compared with its peers, the company scored low on almost every aspect of organizational health: it was in the bottom quartile on several health dimensions, including employee motivation, innovation, and ability to execute.

But the management team was determined to find a way forward. In bottom-up planning sessions, the company's executives and line leaders developed initiatives focusing on three cost levers (external

spending, supply chain, and overhead) and three revenue levers (field sales, marketing, and alternative channels). Initiatives included a redesign of the supply-chain network, new pricing guidelines, an overhaul of the company's e-commerce site, reconfigured sales management, and a revamped performance-bonus structure for salespeople.

The company immediately established a performance infrastructure, with the three components outlined in this article: a transformation office led by a skilled chief transformation officer, a weekly cadence of meetings, and a set of common tools that made it easy to gauge each initiative's progress and results.

The impact of the transformation was significant: dramatically reduced costs, trend improvements across markets, and the development of new skills in important segments. The company now has a solid foundation for growth and resilience.

“I think of our company’s transformation as a marathon. If you ask people who have never run a marathon to run one, they’ll feel like it’s impossible. But our CTO knew how to push people to their limits. Some people probably saw him as a drill sergeant, while others saw him more as a teammate who was constantly motivating us to do our best. He customized the message for each person based on what would get that person ready to run the marathon, so to speak.”

—Strategy director, consumer company

The ideal CTO has extensive experience in orchestrating transformations and guiding companies through the process. The CTO should bring a perspective focused on what is possible, combining an objective view of best-in-class performance and the company’s current capabilities with a realistic plan for spurring disparate groups to act in a coordinated manner.

It’s a highly demanding role. From day one, the CTO must exude the confidence and gravitas that will keep the organization inspired and motivated, even when the going gets tough. He or she should not be a fist-pounding autocrat, but rather must possess keen judgment and instincts as to how—and how hard—to push people so that they reach their full potential. The CTO must also have the intellect to be able to lead deep dives into complex issues that matter to the company.

The CTO should be an extension of the CEO, with the mandate and authority to address all levers and to influence decisions about personnel, investments, and operations. The CTO can play an important role in “getting the right people on and off the bus,” weighing in on key decisions about the addition or dismissal of managers.

Many companies don’t have a person with these qualifications who could readily step in to the role, much less maintain objectivity. The CTO, therefore, often comes from outside. Company leaders may have apprehensions about an outsider, but an outsider’s ability to see the business with fresh eyes and to make decisions without being constrained by internal politics is among the most crucial success factors for a CTO.

[The process: A relentless delivery cadence](#)

A slow transformation process is an ineffective one. Thus, the cadence of weekly transformation meetings is an indispensable part of creating an effective performance infrastructure. Whereas most turnarounds are run by a project-management office that meets for a couple of hours each week to discuss all workstreams (typically about a dozen in total), we recommend a cadence of 60- to 90-minute weekly meetings for each workstream, in addition to a 2-hour weekly TO meeting. This cadence is aggressive and relentless, and it works. It helps enforce “closed loop” accountability and accelerate implementation by preventing “pocket vetoes,” other delaying tactics, and slippage.

The meetings—in particular, the question-and-answer exchanges between the CTO and line leaders—are fundamental to holding people

accountable. This discipline is not a comfortable, consensus-led approach; the CTO should be willing to be confrontational when managers don't meet their commitments. Meetings should be characterized by honesty and transparency, allowing the organization to diagnose its situation and align on not just the problems but also the solutions. The transparency is important to helping everyone understand the company's decision-making processes and priorities.

The weekly meetings are also a forum for surfacing and debating difficult trade-offs between cost reduction and revenue generation, and for refining the individual plans for each initiative as needed. Because it sees all the initiative plans in depth, the TO can help evaluate and manage competing priorities and call for speedy cross-functional decisions. In addition, the weekly meetings are an important mechanism for developing new talent and for identifying people who can best contribute to a certain initiative. For instance, when a consumer-goods company decided to build a mobile app for customer acquisition, the TO used the weekly meetings to identify high-performing and motivated individuals who could help build and develop the app.

The weekly cadence is a critical building block for the transformation process, but it's not enough on its own. It should be supplemented by daily performance management to instill an

execution-focused mentality into everyday decision making and operations, monthly value analysis to ensure and quantify bottom-line impact, and an annual "refresh" process that plugs into the budget cycle to reignite idea generation and foster continuous improvement.

The tools: Robust tracking and reporting systems

Making up a third component of the performance infrastructure are the tools and systems used to monitor performance. These might include organizational-health assessments, benchmarks, value-capture models, and visual management and planning aids. For instance, advanced initiative-tracking tools that can be sorted by owner, department, delivery status, and other criteria allow users to understand, at a glance, the progress of all initiatives. The tools should make it easy to spot delays, observe trends, monitor impact, and create rich yet user-friendly reports. And these tools should be available to everyone involved in the transformation.

In our experience, the most successful transformations use an advanced tool that allows leaders to track the bottom-line impact of initiatives. Too often, executives launch initiatives, then simply hope and pray that the dollars will show up in the company's bank account. With sophisticated tracking tools, initiative owners can tie the impact of each initiative to a profit-and-loss line item. This

"In our company, nobody wants to push too hard and embarrass anyone else. We brought in a CTO who was very pushy, to the point that he made people uncomfortable. He'd say, 'Show me the money. What happened to the \$1 million?' At first it was shocking, but it really created accountability. People didn't want to show up to a meeting having lost \$1 million, so they'd go and find a project to make up for the money they lost. It was a huge cultural shift."

—Senior vice president of global supply chain, consumer company

“Salespeople are salespeople: if you ask them about their numbers, they always find the number that’s growing. So we had to figure out what our most important metrics really were. It was an intensive, painful process—but we ended up with a great tool. Today, ask anybody on the field, ‘How are you doing?’ They’ll tell you, ‘My dashboard today is green. I’m in this decile. These are my metrics.’ And everybody speaks to the same metrics.”

—Finance director, consumer company

level of detail enables executives to take appropriate actions to ensure that every initiative makes a quantifiable difference to business results.



A transformation effort is not for the faint of heart. A company’s leaders must be absolutely unified and committed before embarking on such a program. Once they do, they must pay close attention not only to the specific initiatives, but also to the changes they are making in how the business operates. Establishing a performance infrastructure is an essential ingredient of a successful transformation—one that yields rapid, dramatic, and sustainable business improvement. ■

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Recovery & Transformation Services is a unit of McKinsey focused on corporate turnarounds and transformations. We bring to bear our firm’s industry and functional expertise, combined with specialists and practitioners with deep transformation experience. Our work ranges from acute crisis and liquidity management to large-scale transformations. Beyond recovery, we are committed to bringing our clients back to long-term health.

