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The future of key-account management in the Middle East

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Consumer-goods manufacturers in the Middle East must change the way they manage their most important retailer relationships.

The Middle Eastern consumer landscape looks vastly different today than it did even five years ago. Modern retail in the region has become much more diverse and complex, retailers are under margin pressure and demanding more from suppliers, and big data and advanced analytics are playing increasingly important roles in the industry. It's a fast-changing market that increasingly requires consumer-packaged-goods (CPG) companies to hone top-notch capabilities in sales and key-account management (KAM).

KAM, however, is a relatively new concept in the Middle East. To illustrate: in a recent McKinsey survey of leading CPG companies in the region, only about one-fourth said they have key-account teams dedicated to individual retailers—not surprising in a market where transactional relationships tend to be the norm.[1] In this article, we examine major trends shaping the Middle East's consumer-goods landscape and their implications on key-account management.

Three game-changing trends

One important trend is the strong growth of modern trade across the region. Much of the growth in brick-and-mortar retail in the Middle East today is coming from modern retailers, which already account for more than 80 percent of total grocery sales in the United Arab Emirates (UAE) and more than 50 percent in the Kingdom of Saudi Arabia (KSA). Several large retail chains have announced plans to expand across the Middle East, albeit cautiously given the recent economic slowdown.

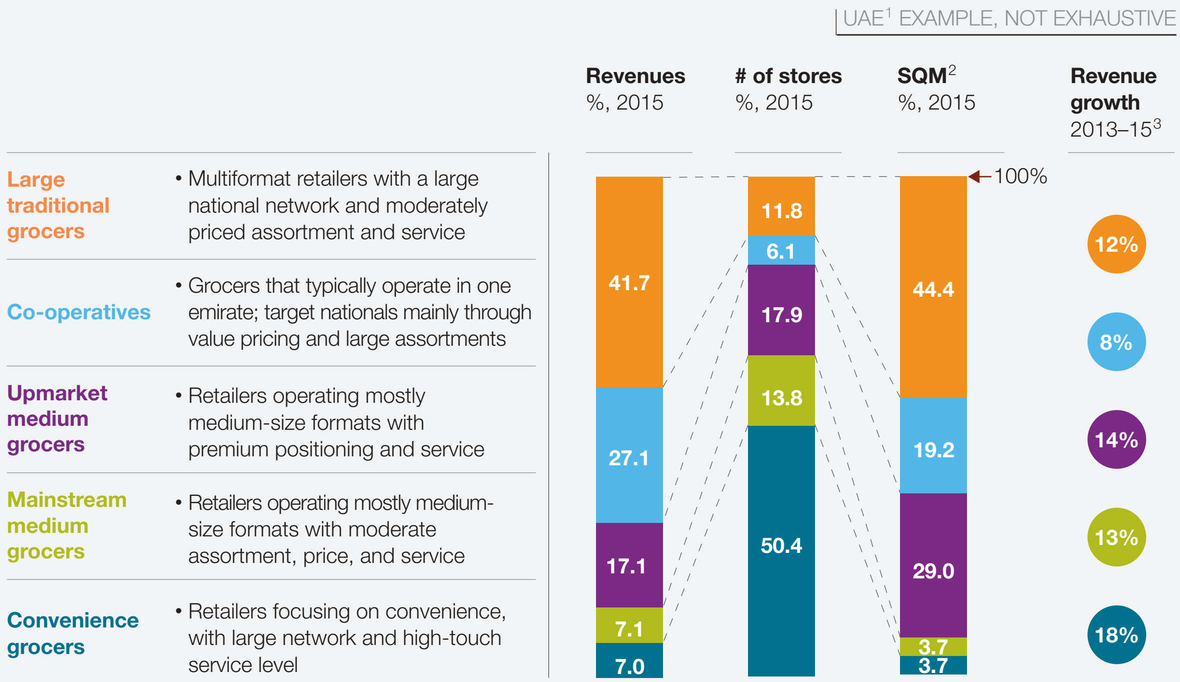
Many modern retailers in the region operate multiple formats, creating a more complex retail landscape (Exhibit 1). In the UAE, for example, the fastest-growing format is convenience stores, but others—such as upmarket and mainstream medium-size grocers—are growing almost as fast. Modern discounters are also emerging; KSA's Dukan, for one, has witnessed strong growth in recent years, and current consumer sentiment could further accelerate a shift toward discounters. To secure future success, CPG manufacturers must learn how to serve this wide variety of retail formats.

A second trend is the decline in retailer profitability. Our analysis shows that retailers operating in the Middle East historically enjoyed healthy profit margins, but structural changes in the region are exerting downward pressure on profits. For one, Middle Eastern governments are expected to impose new taxes, such as levies on luxury goods and on sugary drinks; value-added tax has already been approved for rollout across the member countries of the Gulf Cooperation Council (GCC). Also, governments are reducing subsidies (such as those for utilities and gasoline) that local retailers used to benefit from. Finally, new labor laws will make it more costly for retailers in the Middle East to hire low-skilled expatriates. These factors will not only limit Middle Eastern consumers' buying power, but also make it difficult for retailers to charge higher prices even as their costs rise.

As retailers' margins get squeezed, they will demand more from suppliers. Already, retailers are entering into regional contracts or using cross-country benchmarking to negotiate more aggressively with suppliers. In addition, retailers have become better equipped to extract value from their supplier relationships, in large part due to a third trend: the more prevalent use of big data and advanced analytics.

Almost all retailers can now gather and mine valuable data when consumers use loyalty cards

Exhibit 1 **Modern grocery formats are experiencing strong growth in the Middle East.**



[1] United Arab Emirates.
[2] Square meters.
[3] Compound annual growth rate, 2013–15, except for mainstream medium grocers for which growth is 2014–15.

Source: Euromonitor; Planet Retail; McKinsey analysis

or shop on retailers' websites. Through advanced analytics, retailers are generating insights that benefit them during supplier negotiations—for instance, being able to prove that customers will willingly switch to private label from a branded product. Retailers are also using predictive analytics to localize assortments, personalize online promotions, recommend products, adjust prices rapidly, and automate planogram design. Through real-time shelf monitoring, they can better anticipate out-of-stocks and other in-store issues. And they expect CPG companies to support and keep pace with these initiatives. Currently, however, only about one-fourth of CPG companies in the Middle East are tapping into the power of advanced analytics.[2]

An overall effect of these trends is that the retailer-manufacturer relationship has become more challenging. Some retailers have 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—establishes strict purchasing and negotiation guidelines and now holds much of the decision-making power that used to belong to individual buyers. The central team also helps buyers prepare for more sophisticated and intense negotiation sessions through war rooms and scenario planning. Too often, CPG manufacturers find themselves ill-equipped for these sessions and end up making too many concessions.

A sharpened focus on key-account management

These changes to the business environment call for CPG companies to be deliberate and thoughtful about how they manage their partnerships with retailers in the Middle East. In particular, they must focus on revamping the KAM model and on upgrading individual and organizational KAM capabilities (Exhibit 2).

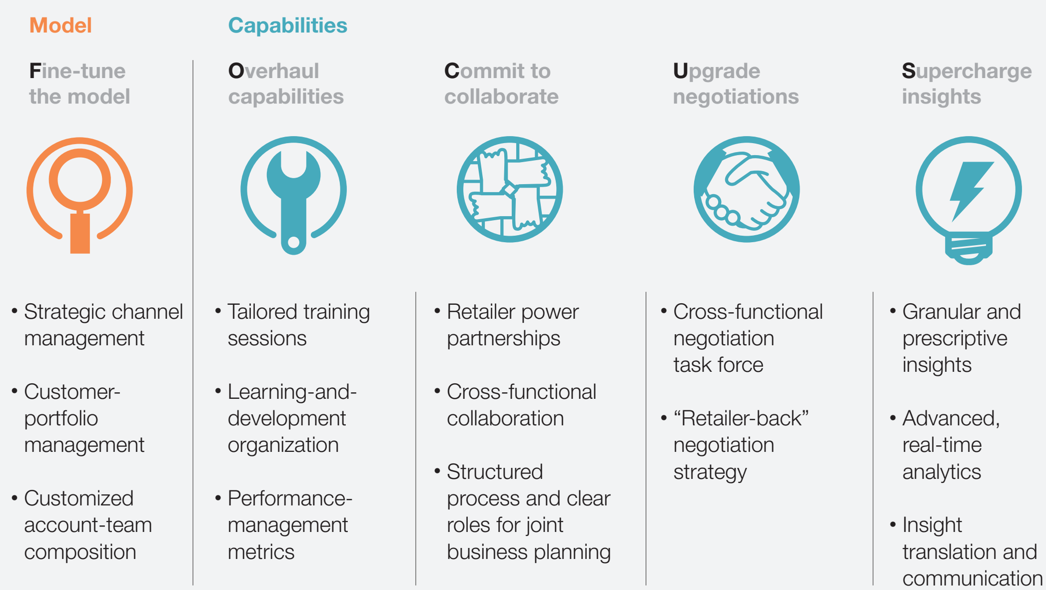
Fine-tune the model

To help CPG companies better serve a large and diverse group of key accounts, we recommend three fundamental changes to the KAM model.

- Make strategic choices about channel management—and act on those choices. CPG executives regularly engage in strategic discussions about which channels their company ought to focus on and which channels to de-emphasize, but in our experience they often fail to follow through. Typically, the challenge isn't in agreeing on which channels represent the biggest opportunities, but rather in actually shifting resources and leadership focus to those opportunities. Companies must put in place mechanisms—such as investment targets or simple decision-making rules—to overcome organizational inertia and enable dynamic resource reallocation.[3]

- Define a portfolio role for each customer. Many CPG companies divide retailers into levels or tiers, based primarily on revenue, profit, and growth. This traditional segmentation is useful, but not sufficient for ensuring that CPG companies are appropriately investing in their key accounts. We recommend moving to a portfolio-management approach, in which the CPG sales organization determines the distinct role that each retailer plays in the manufacturer's

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



Source: McKinsey analysis

portfolio of customers. Examples of roles might be growth driver, profit driver, scale builder, core customer, or future prospect (Exhibit 3). This role should then inform the manufacturer's profit-and-loss expectations, investment level, collaboration style, negotiation posture, and account-team capabilities for that customer.

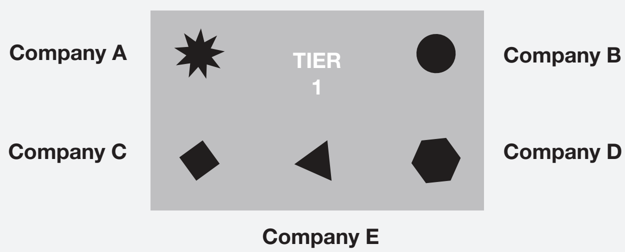
Customer-portfolio management helps a CPG company differentiate treatment of customers and allocate resources in a way that aligns with *all* its financial aspirations, rather than just growth targets. With a portfolio approach, five retailers previously in the same customer segment or tier could conceivably 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. CPG companies should seek to

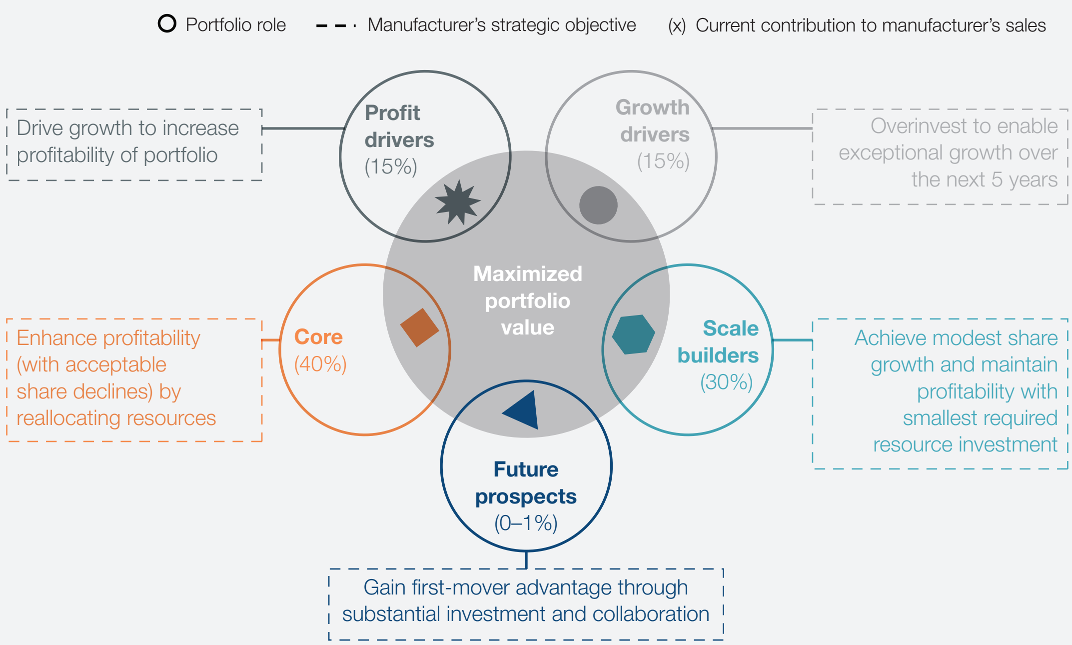
Exhibit 3

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 customer-portfolio management, companies are treated differently based on their role.



Source: McKinsey analysis

understand each customer's business drivers, including its strategic objectives, analytical capabilities, store operations, collaboration style, and procurement processes and posture. They should then tailor their account teams to each customer. This tailoring is doable even without dedicated account teams—for instance, by matching a highly analytical retailer with a key-account manager who has deep analytical skills, or by ensuring that an operations-focused retailer has regular contact with the CPG company's supply-chain experts.

Overhaul capabilities

Changing the KAM model is an essential step, but a new model won't achieve its purposes unless the company simultaneously bolsters its sales capabilities. Companies should train KAM staff on a range of skills such as developing account tactics and strategies, managing client interactions, and understanding a retailer's business style.

And these training sessions shouldn't be ad hoc events. Rather, companies should formalize a capability-building infrastructure. For smaller manufacturers, one option might be to leverage third parties such as universities or reputable sales-training providers. Manufacturers with more scale should create a dedicated learning-and-development (L&D) organization that resides within the human-resources department but is supported by the sales team. In some emerging markets, CPG companies have hired talent from global companies like P&G or Unilever, and tasked these new hires with setting up L&D organizations modeled after those at their previous employers.

For large multinational companies, a "sales university" is the most comprehensive (and resource-intensive) option for a capability-building infrastructure. Usually led by the sales team with support and collaboration from HR, a sales university designs training programs for all high-priority sales roles.

Regardless of which kind of infrastructure a company chooses, a robust performance-management system, with clear metrics linked to strategic goals, is crucial to success. The most effective systems measure results instead of activities and offer a balance of financial and nonfinancial incentives. To ensure accountability, managers at all levels of the organization should hold regular performance dialogues.

Commit to collaboration

According to the aforementioned McKinsey survey, the fastest-growing CPG companies in the Middle East are twice as likely as their peers to work with retailers on developing promotions and doing customized shopper research; they are 40 percent more likely to collaborate on innovations to spur category growth. But CPG companies can—and should—go even further. Key-account managers must seek to nurture broad "power partnerships" with their most important customers. In particular, key-account teams must do the following:

- Engage in end-to-end value-chain collaboration. The best key-account managers work with retailers on both demand generation (such as joint innovation and product development) and cost reduction (such as collaborative inventory management). In the Middle East, collaborating on exclusive products and packaging is particularly important; 63 percent of winning companies cited it as being crucial to driving growth in modern trade.

- Facilitate cross-functional collaboration, both internally and externally. Sales organizations won't work effectively with a retailer if they're not good at collaborating with their own colleagues. At the most successful CPG companies in the Middle East, account teams regularly work with other functions within their company on a variety of activities, such as developing the annual operating plan, forecasting demand, and deciding on IT investments. They also strive to nurture relationships with their functional counterparts at the retailer—for example, CPG supply-chain leaders being in close contact with the retailer's supply-chain leaders.

- Establish a structured process for joint business planning. Winning CPG companies are four times more likely than their peers to hold monthly reviews of customer performance, guided by clear targets and objectives. These frequent dialogues provide ample opportunities to collaborate on a variety of business initiatives.

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, conduct analysis, and oversee the preparation for negotiations.

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 task force can build a detailed fact base that incorporates several types of data, including historical customer data, market-trend data, and customer-specific shopper insights. The account team can then decide on its negotiation posture, prioritize topics for discussion, and agree on entry and walk-away points. Middle Eastern companies might take a page from winning CPG companies in the United States, which are six times more likely than their peers to make the CEO a part of the negotiations team.[4]

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. 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. 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?" Companies should seek to gather insights by analyzing data from a variety of sources—including web scraping, quantitative surveys, and in-person focus groups—and share insights with retailers frequently.

Indeed, many CPG companies now specify analytical skills as a requirement for key-account managers. But having the skills isn't enough. Overcoming "soft" challenges—those involving organizational mind-sets and behaviors—are key to unlocking the full potential of data and analytics.[5] Senior management needs to champion new tools and ways of working, and form strong partnerships with external data-and-analytics providers. As for an organizational structure for analytics, there is no one-size-fits-all answer, but many companies have found success using a hybrid model: an analytics center of excellence combined with analytics resources embedded in business units.

In our experience, CPG companies in the Middle East have begun using advanced analytics to gain insights into assortment optimization, demand planning and forecasting, innovation, and inventory management. The most sophisticated companies are also starting to generate distinctive insights in a range of other domains including sales, revenue-growth management, marketing, and people processes.

To begin sharpening its focus on effective key-account management, a CPG company should assess the current state of its sales organization in the Middle East: What are its top three pain points? What activities and enablers will help address these pain points? What are its biggest capability gaps? What roadblocks can the company expect? And which stakeholders need to be engaged and involved? Based on this assessment, the company can create a vision and aspirations for its sales organization and develop a road map for the future of key-account management. Companies that commit to this journey will be well on their way toward sales excellence and sustained competitive advantage in a fast-changing and increasingly competitive market. ■

[1] McKinsey's Customer and Channel Management Survey was developed in collaboration with Nielsen. Survey findings are referred to throughout this article. For survey highlights, see Max Magni, Felix Poh, and Alex Sawaya, "Winning in the Gulf region's consumer-goods market," December 2015, McKinsey.com.

[2] Ibid.

[3] See Yuval Atsmon, "How nimble resource allocation can double your company's value," August 2016, McKinsey.com.

[4] Kari Alldredge, Jen Henry, Julie Lowrie, and Antonio Rocha, "Winning in consumer packaged goods through data and analytics," August 2016, McKinsey.com.

[5] Brad Brown and Josh Gottlieb, "The need to lead in data and analytics," April 2016, McKinsey.com.

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