

Consumer Packaged Goods Practice

# Completing a transformation in the consumer-goods industry

In a dynamic environment, every organization must realign its operating model. Consumer-packaged-goods players are no exception. But what's the secret to a successful transformation? Here are six ideas.

*by Onno Boer, Raphael Buck, Patrick Guggenberger, and Patrick Simon*



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**Strong brands and** product innovations for the mass market—that is the formula that has guaranteed consumer-goods companies economic success for decades. Most recently, it was the emerging markets, especially in Asia, that accounted for three-quarters of revenue growth. There, too, most companies rely on their tried-and-true operating models to manage their business. But a new era has since dawned that requires new strategies.

Indeed, consumers are changing rapidly, as are their preferences. Millennials are entering the phase of their lives in which their spend is peaking. Yet, only 7 percent of them would consider themselves loyal to brands. Many of the 1.8 billion millennials worldwide today associate consumption with higher motives: they are more keenly aware of their health, value the local origin of products, and support the sharing economy.

Moreover, digitization is not only speeding up the market, it's shifting it too. While the large online providers recorded growth of 34 percent in the past six years, conventional companies barely grew 0.4 percent. It is the industry's small outfits that benefit most from the digital marketing and distribution channels, accounting for over half of growth (exhibit). At the same time, customer communication is increasingly shifting to the internet; meanwhile, 63 percent of millennials follow brands on social-media channels. These and other market trends bring fundamental changes that the internal structures of many companies fail to adequately reflect.

### **Digital opportunities, agile methods**

Future-oriented, consumer-centric manufacturers or retailers run digital and agile operations at all levels: they focus on customer data, use advanced analytics to make faster and better decisions, and win and retain digital talent. In their internal organization, they use agile methods to react quickly to changing requirements and to pick up on trends early on.

Many consumer-goods companies are well aware that they are still nowhere near realizing this vision. What they need is a new operating model that meets

today's and tomorrow's needs. In fact, 60 percent of the CEOs McKinsey surveyed plan to transform their organization within the next few years—knowing full well that it will not be an easy undertaking. On the often stony path from a transformation's initial idea to its implementation, a three-step approach is generally recommended.

**Diagnostic and design.** The first step is to get an accurate snapshot of the status quo: What are the organization's strengths and weaknesses? What needs to change? How do structures, processes, technologies, and capabilities have to be designed in order to optimally support a growth strategy, for example? This groundwork forms the foundation for the new operating model. It is essential here to involve experts from different functions and regions from the outset. At the end of the diagnostic and design phase, companies have a clear picture of the future organizational structure, the processes, as well as the required employee skills and work cultures for the new operating model.

**Basic check and fine-tuning.** In order to ensure that the vision designed “top down” by headquarters also meets the practical requirements at the grassroots level, it is put to the test in all business functions, regions, and markets and, if necessary, adapted to the specific requirements prevailing there. Also established in this phase are the systems needed to monitor the change process.

**Implementation and control.** At this point, the organization should be ready to implement the changes at all levels. To ensure that the transformation is both effective and sustainable, it should be accompanied by professional change management that controls the process, builds up the capabilities needed, regularly monitors progress, and closely involves senior management.

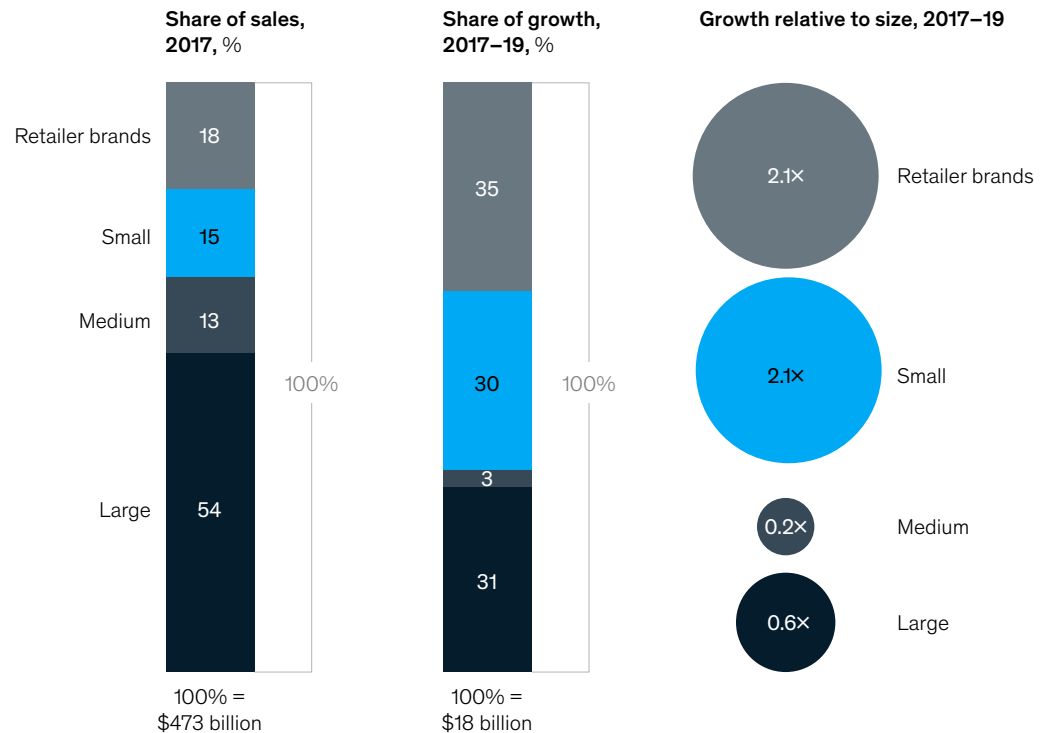
### **Getting the transformation right—six determinants of success**

Depending on the nature and scale of the organization in question, the amount of time and effort needed to realign the operating model

Exhibit

## Empowered by digitization, small brands make up almost one-third in the consumer-goods market.

### Fast-moving consumer-goods industry share of sales and of growth, United States



Note: Large = top 25 companies; medium = next 400; small = the rest. Figures may not sum to 100%, because of rounding.

Source: Nielsen Retail Measurement

can vary. In practice, however, all successful transformations have six factors in common.

**Optimally staff roles.** An organization's prosperity or undoing can hinge on large-scale realignments. So, the smartest minds should be involved. In what is known as the "talent to value" approach, each employee role undergoes a quantitative assessment of the value it creates for the company. This is used as a basis for staffing roles with the most suitable people. The approach can also be applied to the allocation of new roles and responsibilities as the transformation progresses.

Example: A consumer-goods manufacturer that had not yet defined clear career paths in its organization and was not using top performers effectively decided to implement a radically new talent-management system. Taking the "talent to value" approach, key roles were clearly delineated for the first time and succession appointments systematically formalized. From then on, the most efficient employees were no longer deployed to the traditionally high-revenue core business, but rather to the market segments with the greatest growth and earnings opportunities. The company was thus able to harness its workforce potential in a way that created far greater value.

**Establish robust project management.** Larger transformation programs require not only a powerful team, but also clear leadership structures. The central project team should be the driving force on the ground, while a steering committee consisting of project-management and senior-management representatives calls the shots. In addition, project management should permit agile work methods and modify them as needed.

Example: A large company in the luxury-food industry commissioned the central project team to orchestrate the transformation process across all functions, regions, and markets. The team was given free rein to independently challenge and evaluate the plans drawn up by the individual business units. As a result, it was possible to process all change concepts efficiently and to quickly remove obstacles.

**Keep change simple.** The concepts underlying future operating models are often excessively complex and obsessed with detail. On the drawing board, such constructs might at first glance appear superior to simpler models. In practice, however, they usually prove to be a dangerous stumbling block in that they create countless distractions that heighten the risk of overlooking critical changes. Simpler approaches with a solid baseline plan and continuous adjustments are often more successful.

Example: A German fashion label initially designed for its organization a minimum viable product (MVP) intended as a simplified concept that it gradually developed further and refined. Advantages of the keep-it-simple principle: thanks to the rapid implementation, the positive effects soon became apparent, and early experience on the ground made it possible to better integrate suggestions for adjustments made by various departments and thus more systematically optimize the operating model as a whole.

**Think of consumers first.** Traditional market research is a thing of the past. Today, companies have huge volumes of data at their disposal that allow them to better tailor their operating model to their customers' needs. This also explains the

range of different models used by leading market players today.

Example: A global apparel manufacturer no longer wanted to rely solely on the gut feeling of its designers when developing its fashion lines, so it created its own analytics department and tasked it with determining its customers' preferences. At the same time, customer-centric fashion production required a new operating model. So product development was adapted and the calendar shortened, analytical skills developed, and a new, data-based decision-making culture instilled. The company is now able to accurately design up to 80 percent of its product range driven by data analytics, while designers can focus their creativity on genuine new developments. The significantly improved sales figures confirmed that it was a good idea to change course toward primarily customer-data-driven fashion production.

**Go for agile sprints.** Analysis and planning phases have traditionally taken many months and have been followed by a rude awakening in the implementation phase as theoretical models collided with real-world conditions. Agile work methods can cushion the reality shock. Ideas are developed, reviewed, and continually improved. As a consequence, the goal remains the same, but the pathway there can change.

Example: A fashion brand showing signs of weakness decided to restructure its marketing organization. Its redesign took place in agile sprints in which employees from marketing, IT, product management, and creative departments iteratively exchanged ideas and developed and modified concepts. As a result, it was possible to efficiently rework the new operating model and ensure its tight fit with the marketing strategy.

**Think holistically.** Companies have to make up their minds: Do they want to eliminate isolated weaknesses or benefit from a transformation that will get their organization as a whole in shape for the future? To avoid piecemeal solutions, management should develop a fundamentally new, all-encompassing vision. That also prevents wasting

excessive resources on temporary problems that sort themselves out in due course anyway. An integrated transformation also requires farsighted personnel management that asks: What employees do we need in the long term, and how do we get them? In addition to attractive remuneration, digital talents in particular value a dynamic environment, flexible working time models, cross-functional teams, and flat hierarchies. Agile operating models feature many of these attributes.

Example: A leading online provider not only adjusted its organization's structure and processes, but also brought about cultural change. Accordingly, hierarchies were dismantled and employees were given greater responsibility. In the three years that followed, three times as many specialists applied for tech positions.

## The people factor

The six determinants of success described above can be found at the core of every successful transformation. Many companies undergoing transformations are already applying them, at least in part. However, factors that are less obvious at an operational level are often underestimated or even completely overlooked. That is especially

true of what one might refer to as the “human factor”: according to McKinsey studies, 33 percent of all transformations fail for lack of support by management. Consequently, change has to be on senior management's agenda; leaders have to actively drive the change.

More than that, a transformation is an emotional challenge for everybody involved. In 39 percent of cases, it is employee resistance that causes transformations to fail. Companies seeking to motivate change need to know and understand their people and tailor their approach to individual employees. Compelling change stories that resonate with all employees, combined with intelligently planned communication, help to overcome barriers.

Consumer-goods manufacturers can learn from the most successful organizations: leveraging operating models that meet today's market requirements can get them in shape for the future by increasing their flexibility and reducing their distance to customers. In turn, they can not only react more quickly to changes and generate new growth, but they can also take the opportunity to realign their strategic focus and successfully transition their business into the next decade.

**Onno Boer** is a partner in McKinsey's Amsterdam office, **Raphael Buck** is a senior partner in the Zurich office, **Patrick Guggenberger** is an associate partner in the Vienna office, and **Patrick Simon** is a partner in the Munich office.

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