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Global customer and channel management: What the best CPG companies do

Consumer Packaged Goods October 2017

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To excel in customer and channel management, consumer-goods companies must emphasize different capabilities in different markets. Which ones matter most, and where?

Consumer-packaged-goods (CPG) manufacturers everywhere are facing rapidly changing market realities. Consolidation among retailers and wholesalers is concentrating buying power in the hands of fewer entities. In many countries, discounters are luring consumers away from supermarkets and hypermarkets. Online players are steadily taking share. And many retailers are building sophisticated capabilities in big data and advanced analytics. In most categories, smaller and nimbler CPG competitors are growing quickly, buoyed by rising consumer demand for organic products, local or regional goods, and healthier options, as well as easier access to shoppers via e-commerce.

Amid these challenges, large CPG companies can't simply manage their customers and channels the way they always have. Commercial excellence requires new skills and more-advanced capabilities—but in which specific areas? Which customer- and channel-management practices truly matter to a CPG company's performance today? To find out, we surveyed more than 250 companies across Asia, Europe, Latin America, the Middle East, and North America (see sidebar "About McKinsey's Customer and Channel Management Survey"). The survey results brought to light a set of must-have capabilities, with nuances depending on a company's geographic scope.

Regional champions versus global giants

We examined what "winners" in customer and channel management do differently from "others"—winners being companies that achieved higher sales growth than the categories they play in, while also outperforming peers on one or more customer- and channel-management metrics. We found that, in every region, winners outgrow their categories by two to 16 percentage points, even as they maintain lower sales costs. In Europe, for instance, winners grow on average eight percentage points faster than others, and their EBITDA[1] margins are at least nine percentage points higher. In China, the sales-growth gap between winners and others is even larger: 16 percentage points.

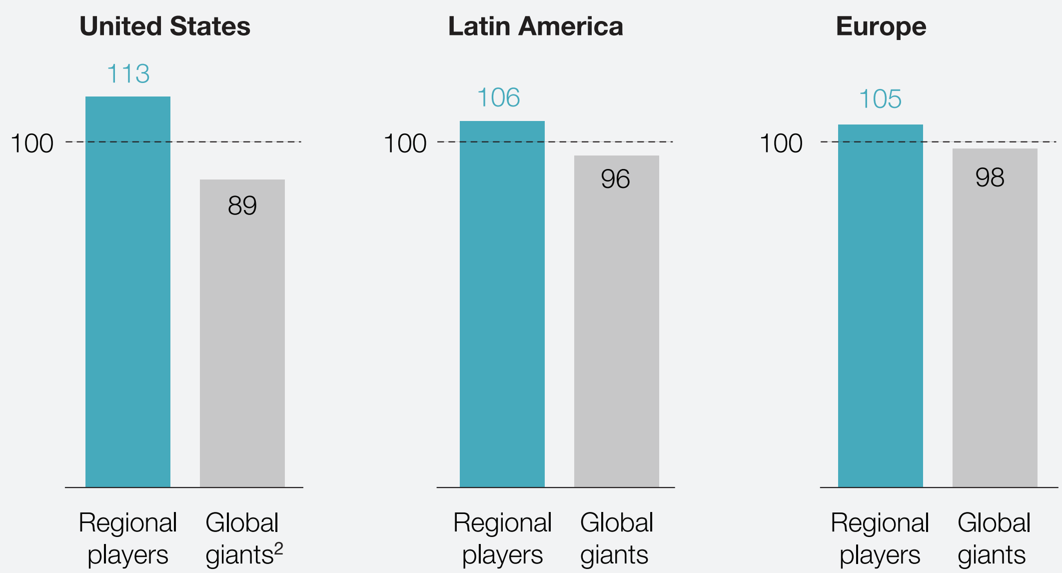
Like in our previous survey, we found that regional champions are still outperforming global giants in most geographies,[2] albeit by narrower margins (Exhibit 1).

Global best practices

Our analysis of the latest survey results indicates that winners' approaches to customer and channel management have become more disciplined and systematic since our last survey. For instance, many companies have either established a new center of excellence in customer management or strengthened their existing one. Typically, this global customer-management function oversees the development and rollout of tools and techniques, the selection of solution providers (and, in some cases, of the solutions themselves), and the dissemination of best practices across the organization. Such a function can also give smaller markets access to data and solutions that might otherwise be too costly to purchase on an individual-market basis.

Exhibit 1 **Regional champions continue to outperform global giants.**

Likelihood of achieving above-average sales growth,[1] index



[1] Values greater than 100 indicate greater likelihood to outperform.
[2] Defined as companies with global revenue of at least $25 billion.

Source: McKinsey Customer and Channel Management Survey, 2016

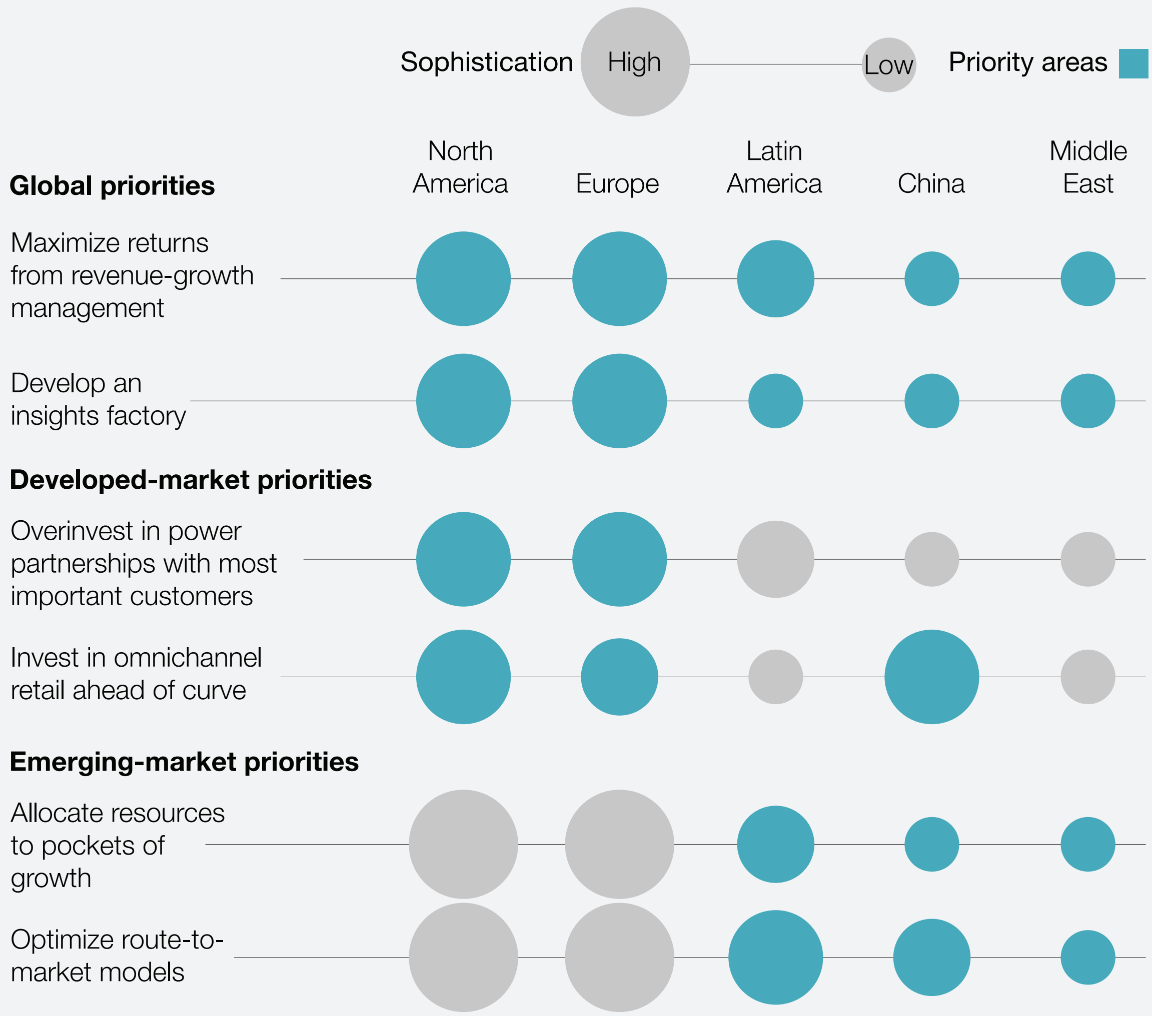
As outlined in our previous articles, winning consumer-goods companies pursue a set of global customer-management imperatives: namely, they allocate resources to high-growth channels, form "power partnerships" with their most important customers, hone their revenue-growth-management (RGM) capabilities, use big data and advanced analytics to generate detailed insights, constantly refine their route-to-market models, and make assertive omnichannel investments. The relative importance of these imperatives varies; some are more crucial for developed markets, others for developing markets (Exhibit 2).

Of course, not every market follows this pattern precisely. Exhibit 2 shows that in China, for instance, omnichannel retail is a much bigger factor than it is in other emerging markets (see sidebar "Winning in China"). And in developing markets with a high share of modern trade—such as the United Arab Emirates—power partnerships might play a more critical role in driving growth.

In general, winning companies everywhere prioritize the following imperatives:

Build an 'insights factory.' Winners put big data and advanced analytics to work in every aspect of customer management. By developing an insights factory—a centralized set of analytical models, tools, and processes—winning companies can automate data collection and integrate data from a variety of sources (such as data gathered in the field by the sales force, shared by wholesalers, or purchased

Exhibit 2 **Must-have capabilities for commercial excellence vary by market.**



Source: McKinsey analysis

from external agencies). The insights factory can also conduct standardized analyses and generate market-specific customer and shopper insights.

Maximize returns through RGM, powered by advanced analytics. Companies are increasingly making decisions about pricing, promotions, trade spending, and assortment—the four main elements of RGM—in an integrated way. Leading CPG manufacturers have launched global RGM programs (or "net-revenue management" programs, as some companies call them) and developed cutting-edge analytical approaches to RGM. For example, they've deployed advanced tools and

About McKinsey's Customer and Channel Management Survey

Since 1978, McKinsey's Consumer Packaged Goods (CPG) Practice has been studying and benchmarking the customer- and channel-management practices of leading CPG companies in the United States. Starting in 2012, we expanded the research to other regions. The survey now covers Asia, Europe, Latin America, and the Middle East. This multiregional focus has allowed us to develop a global perspective on the practices that differentiate performance.

We analyze Nielsen-syndicated retail and consumer data as well as self-reported financial data to identify CPG manufacturers that are outperforming their peers. The measures to define winners are tailored to each customer-management imperative—for instance, omnichannel winners are those that achieve higher online sales growth versus the category and earn a higher share of their revenue through online sales channels than their peers. We compare the self-reported customer-management practices of winners to those of nonwinners in the following areas: sales strategy, key-account management, revenue-growth management, omnichannel, sales-force effectiveness, and sales organization.

Our latest surveys, conducted between 2014 and 2016, encompassed more than 250 companies, including eight of the top ten CPG companies worldwide. These companies represent about $900 billion in net sales. Our respondent base included a cross-section of industry players from all major CPG product categories.

solutions for trade-promotion management and optimization. They've integrated pricing and promotions, putting a single team in charge of both, rather than treating them as separate capabilities that reside in different parts of the organization. In addition, winning companies use big data analytics to make pricing decisions. They create more accurate price-volume-profit models to assess the impact of price changes or the effectiveness of hundreds of individual promotions. And they're applying these programs not just to modern trade but also, increasingly, to the traditional trade—for instance, by collecting data from the field more efficiently through software-supported processes.

Winning in developed markets

In markets where modern retailers dominate and e-commerce is growing rapidly—markets such as Europe[3] and North America[4] —leading CPG players focus on power partnerships and omnichannel management.

Overinvest in power partnerships with high-priority customers. In developed markets, winning companies are overhauling the way they manage their key accounts. Many are questioning the old markers of strategic partnership (such as category captainship). Within our survey sample of CPG manufacturers operating in the US market, category-management full-time equivalents declined 28 percent between 2014 and 2016. Companies instead chose to shift resources toward joint business planning—for instance, by creating new commercial or sales roles with titles such as "business-development manager" or "sales strategist." These new roles are designed to improve collaboration between the marketing and sales teams and to ensure that insights from consumer and shopper research translate into increased sales at the front line.

For these roles, analytical skills are crucial. Winning companies have invested heavily in data, tools, and capability building to keep their insights and knowledge on par with retailers and to retain their competitive edge during negotiations. This enables them to transform transactional relationships into true power partnerships; they can enter into mutually beneficial data-sharing agreements with retailers and are better equipped to address longer-term strategic issues.

Invest in omnichannel retail. In North America, online sales now have a share of approximately 10 percent. Western Europe is close behind, with 8 percent. These percentages, although small, are growing by double digits annually.

Winners secure first-mover advantage by shaping how their categories are sold online. They develop market-specific strategies, ensuring strong buy-in from their leadership teams on key strategic decisions. One such decision is how—and how deeply—to partner with Amazon and other pure-play e-commerce companies; another is how to do business with multichannel players. In half of winning companies (versus only 13 percent of others), a central commercial team defines the online strategy, with input from the local-market teams responsible for execution. The central team also provides expertise and shares best practices across the organization. Winners then tailor their assortment, merchandising, and promotions to the online channel, and they support their online offer with aggressive digital-marketing campaigns.

In the United States, winning companies currently invest 2.4 times more resources in omnichannel retail compared with their peers—and they don't look for an immediate payoff. They recognize that success in omnichannel retail requires a medium- to long-term investment horizon.

What matters most in developing markets

In markets where traditional (or "fragmented") trade still accounts for a large fraction of total retail sales—such as Latin America,[5] the Middle East,[6] and much of Asia[7] —winning manufacturers are putting more emphasis on identifying pockets of continued growth and optimizing their route-to-market models.

Allocate resources to pockets of growth. Winners follow a clear channel strategy, prioritizing pockets of growth within both traditional and modern retail channels. They conduct in-depth analyses of channel trends and seek to develop accurate forecasts of channel growth, even in data-poor environments—for example, by mining transactional data from distributors and retailers or by leveraging social media and other public sources of information. They also strive to cultivate a detailed and up-to-date understanding of the cost-to-serve levels in each channel and the factors that can push these costs up or down. In these endeavors, global customer-management functions can be particularly valuable, as they can share insights from other markets (for instance, in predicting the trajectory for modern-trade growth).

Their rigorous analytics help winners to do a thorough job in tailoring their product portfolio, merchandising, and promotions to different channel requirements and to adjust their resource allocations depending on expected channel growth and cost-to-serve drivers. Winners also make sure to build the capabilities of their sales organizations, equipping them to remain competitive amid modern-trade growth and consolidation in fragmented trade.

Tailor route-to-market models to 'microsegments.' Winning companies regularly review and adjust their route-to-market models (for example, direct store delivery or third-party distribution)

Winning in China

Excelling in customer and channel management is particularly challenging in China. Consumer-packaged-goods (CPG) companies must simultaneously serve the traditional (or "fragmented") trade, partner with modern brick-and-mortar retailers, and set themselves up to win with China's fast-growing e-commerce and omnichannel players. Major e-commerce players such as Alibaba are constantly developing new business models, and CPG companies must be able to react rapidly. Like their counterparts in developed markets, winning companies in China tailor their assortments in each channel to proactively manage channel conflict.

In our China survey, winners' online sales growth exceeded that of their categories by 241 percent. That growth wasn't by accident—every winning company claimed to have a well-defined omnichannel strategy; 80 percent of winning companies stated that a key part of their strategy is to operate flagship stores on e-commerce platform Tmall and that they plan to invest more in those flagship stores. Winners have also been quick to establish strategic partnerships with rising omnichannel platforms such as Ele.me, the leading online food-delivery platform in China.

In addition, winners fuel growth by investing more in online marketing and shopper insights, often in partnership with the large online retailers. They seek to build long-term relationships with these online retailers by setting up dedicated key-account and trade-marketing teams for each one.

in each market to maximize sales per outlet and keep cost to serve in check. They rely on microsegmentation of the outlets they serve, using advanced analytics as well as more—and more forward-looking—criteria to make such decisions. In China and Latin America, winners have cut the number of distributors they do business with. Having a smaller network of strategic distribution partners not only reduces complexity but also allows winners to tailor their execution across microsegments. Sales reps follow clearly defined, outlet-specific execution standards to reduce out-of-stocks, implement planograms, and launch promotions. At many winning companies, global customer-management functions take the lead in creating an approach for defining standards and success metrics for each outlet.

Global functions also often help select the best vendors for software and handheld devices in each market, taking into account unique market situations and field-sales requirements. Winners continuously improve the functionality of their customer-relationship-management and mobile technologies to better track compliance, record in-store performance, and generate shopper insights.

■ ■ ■

Chief customer officers (CCOs) at global CPG manufacturers have full—and ever-expanding—agendas. As they seek to determine their priorities, the framework we've outlined in this article can serve as a starting point. Depending on a company's footprint and growth ambitions in developed and developing markets, the CCO can use the framework to decide where to focus and which specific capabilities to build in which markets. Done right, the payoff will be commercial excellence that sets the company far above its competitors. ■

[1] Earnings before interest, taxes, depreciation, and amortization.

[2] Cristina Del Molino, Alejandro Diaz, and Dennis Martinis, "Lost in translation: The challenge of global channel and customer management," *Perspectives on retail and consumer goods*, Summer 2014, McKinsey.com.

[3] Simon Land, Stefan Rickert, and René Schmutzler, "The sales practices of Europe's leading consumer-goods companies," November 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] Bruno Furtado, Felipe Ize, Antonio Rocha, and Miguel Suadi, "Lessons from Latin America's leading consumer-goods companies," June 2016, McKinsey.com.

[6] Max Magni, Felix Poh, and Alex Sawaya, *Winning in the Gulf region's consumer-goods market: Best practices in customer and channel management*, a joint report from McKinsey and Nielsen, December 2015, McKinsey.com.

[7] Max Magni, Felix Poh, and Rohit Razdan, "Understanding Indonesia's consumer-goods market," September 2015, McKinsey.com.

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The authors wish to thank Kumar Gaurav for his contributions to this article.

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October 2017
Designed by Global Editorial Services