

Consumer Packaged Goods and Retail Practices

How consumer companies are adopting agility during the COVID-19 pandemic

Under pressure during the pandemic, many consumer companies turned to agile. Here's how they accelerated adoption of agile practices across their organizations.

This article is a collaborative effort by Shaun Callaghan, Jose Ricardo Cota, Katie Kelley, Lauren Ratner, Kristi Weaver, and Ahmad Zaidi, representing views from McKinsey's Consumer Packaged Goods and Retail Practices.



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As the COVID-19 pandemic continues to shift how industries operate, organizations everywhere face significant challenges, and the consumer sector is no exception. Consumers are spending less money overall but more of it online. Loyalty dynamics are shifting, both in brands and channels, as people try new products and new ways to shop. And consumers are buying much more in certain product categories (such as cleaning products) and much less in others (such as jeans).

In an effort to respond to fast-changing consumer behaviors and demand patterns, some consumer companies hurriedly implemented agile practices and operating models to solve specific problems—quickly and efficiently reconfiguring strategy, structure, processes, people, and technology toward value-creating and value-protecting opportunity models. A few companies institutionalized agile methods across their organizations.

This article draws on ongoing conversations with consumer leaders—executives from large North American retail and consumer-packaged-goods (CPG) companies—to outline how these organizations have used agile techniques in several functional areas during the pandemic, and to provide a snapshot of the state of agile in the consumer sector today. The retail and CPG industries each face unique challenges, but the case examples that follow can provide learnings for both.

The consumer sector is a new agile player

Agile methodology is not new. The technology sector, including software and IT development, has used it for decades to improve productivity and motivation, boost product quality, and increase

speed to market. In recent years, a growing number of companies in other sectors, including retail and CPG manufacturing, have adopted agile to rapidly iterate and deploy solutions.

The majority—65 percent—of retail executives we polled said that they have begun to pilot agile in some areas, including IT, a natural place to start since most IT professionals are already familiar with agile.¹ Some CPG companies have also begun to adopt agile ways of working for activities including marketing, supply-chain planning, research and development (R&D), and innovation.

But while the agile evolution has clearly begun, the vast majority of consumer organizations have not deployed the methodology at scale: just 10 percent of leaders we spoke with said they have scaled up agile methodologies across their organizations.²

COVID-19 has accelerated agile adoption in certain areas

In response to the unique challenges that the pandemic has brought, consumer companies have implemented agile practices in one or more functional areas. Case examples include the following.

Technology: Handling unprecedented spikes in online demand

Consumer companies' e-commerce operations faced serious pressure particularly in the early days of the pandemic, as consumers flocked to online shopping—many, for the first time ever. One North American retailer we spoke with had its largest traffic spikes (larger than any Black Friday in its history), and its e-commerce site could not handle the traffic increases that were four to five times larger than in previous weeks.

¹ "How agility can help retailers thrive in the next normal," April 28, 2020; and "How agility can help consumers thrive in the next normal," May 12, 2020, McKinsey consumer organization webinars.

² Ibid.

To upgrade its website, the retailer brought together a newly established, cross-functional team. Leadership defined a common, simple mission for the team: focus on restoring the e-commerce platform. The singular focus allowed business and technology partners to meticulously prioritize activities that would contribute to restoration of the site versus other tasks that were not directly connected to it.

Resetting the interaction model between teams and functions—including daily stand-up meetings with cross-functional teams—allowed the team to make decisions and execute on them quickly. Several fixes that would have previously taken months, such as modifications to the landing page, were developed and launched overnight. The relaunched e-commerce site is now able to handle the spike in e-commerce traffic without any additional downtime.

R&D and innovation: Developing new packaging for e-commerce

When one CPG company experienced a 30+ percent shift in share of sales to e-commerce, it needed to reimagine the end-to-end customer experience for the online channel. Part of this work entailed developing new packaging that would be better suited for an online purchase journey. The company began by defining the consumer needs (for example, protected and easy-to-manage delivered goods) and worked to develop the packaging needed to deliver that experience.

The company established a new team encompassing multiple disciplines, including engineering, design, manufacturing, marketing, supply chain, and sales, and tasked it with rapidly developing the new packaging. First, the team enhanced the structural integrity of its primary packaging to better protect the product during transport, which was crucial, given that online orders involve four times as many touches throughout the supply chain as products sold in brick-and-mortar stores. Next, the company

made the packaging lighter and less bulky to lower shipping costs. Finally, it made online returns easier by designing packaging that consumers could easily reseal.

As the team moved forward, it faced a number of issues that required resolution, such as limited engineering resources and nonalignment between product management and marketing on graphics changes. A cross-functional leadership ensured that team members felt trusted and supported to make decisions—and used twice-weekly sessions to resolve any outstanding roadblocks that remained. Team members felt empowered and accountable to deliver for the customer.

Supply chain: Maintaining fill rate without incurring additional costs

Demand behavior drastically changed in multiple product categories when the pandemic began in the spring of 2020. In the first months of the pandemic, certain categories, including some household supplies and packaged foods, had demand spikes five times larger than in the previous year, placing tremendous pressure on supply chains and forcing companies to aggressively streamline their portfolios.

One cleaning-supplies manufacturer experienced a massive rise in demand and initially struggled to meet its fill-rate target. The company realized that it was unable to quickly assess multiple customer requests and understand manufacturing and logistics constraints because its commercial, manufacturing, sales, planning, and logistics functions worked in silos. The company therefore established a new cross-functional team with representation from each of those functions. Team members, working closely together daily, quickly identified which SKUs were top priorities for which customers and rationalized the product portfolio accordingly. The result: the company was able to meet its goal, a 98.5 percent fill rate, while maintaining logistics cost per case.

Marketing: Improving ROI

Many consumer companies, working at a much faster pace during the pandemic, have launched agile marketing war rooms to drive quick decision making about how to reallocate spend. They've also built "sprint backlogs"—lists of tasks to be completed in a defined time period, usually two weeks—to answer key questions about which new customers to attract, what messages to prioritize, how the messaging should evolve in focus and tone, and whether customers' increased engagement with digital channels, social media, and TV will last.

One large CPG player built a six-week marketing war room, with a team dedicated to maximizing ROI on marketing spend. By staying close to their customers with real-time tracking of marketing performance (for example, open rate, click through, sales) and understanding their changing needs, the retailer was able to rapidly reallocate its marketing budget across digital, social, and offline channels to get maximum reach for the lowest cost possible.

Another company, a large retailer, used agile to quickly deploy its digital marketing campaigns and adopt a test-and-learn approach. The company set up new cross-functional teams, created a backlog of digital campaigns to test, and deployed daily stand-

up meetings to enable faster decision making. By rapidly iterating and testing campaign content within a two-week cycle, this retailer effectively increased speed to market by 50 percent.

During the pandemic, consumer companies have adopted a common set of agile practices

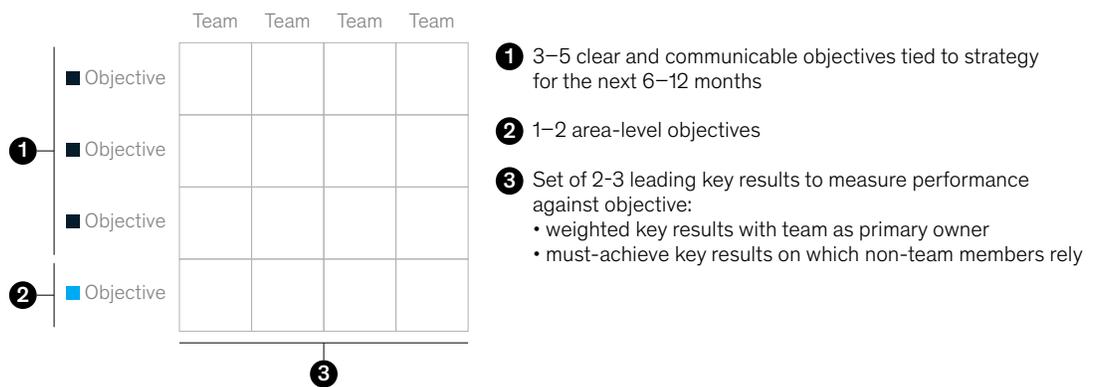
Customer centricity. Consumer companies became laser-focused on providing positive customer experiences during and after points of sale. Many of the retailers we spoke with made customer experience a priority, for example, by altering operating hours and reserving times in the early morning for at-risk populations to shop. This customer centricity began with setting out to understand their customers' shifting and evolving needs.

Fewer and better-defined objectives. Leadership teams ruthlessly prioritized their efforts according to what drives the most value to consumers. Top teams focused on a handful of clear objectives tied to enterprise strategy, while working teams came up with key initiatives to accomplish these objectives (Exhibit 1).

Exhibit 1

Consumer companies are increasingly focused on fewer and better-defined objectives.

Illustrative framework for identifying enterprise strategy and objectives



To enable faster decision making, many teams deployed daily stand-up meetings with clear goals to enable rapid issue resolution. Consequently, leaders ensured visibility into priorities and quickly surfaced any impediments encountered by the working teams.

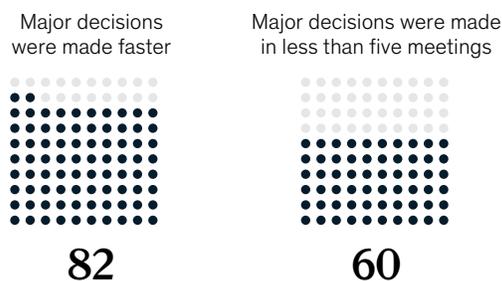
Mission-based cross-functional teams. Many consumer companies reset the interaction model within and between teams and functions. Cross-functional teams frequently reviewed and aligned their perspectives, allocated resources to value-creating initiatives, and course-corrected as needed—which enabled teams to quickly solve issues faced during the crisis.

Faster decision making. To enable faster decision making, many teams deployed daily stand-up meetings with clear goals to enable rapid issue resolution (Exhibit 2). By orchestrating a standard interaction cadence across the organization, leaders ensured visibility into priorities and quickly surfaced—and addressed—any impediments encountered by the working teams.

Exhibit 2

A set of well-defined stand-up meetings can enable rapid issue resolution.

Decision making during the COVID-19 crisis,
% of respondents



Illustrative stand-up schedule

8:30 a.m.	Daily squad stand-up Category manager raises supplier-plan issue
8:45 a.m.	Daily stand-up for squad leaders in tribe Team identifies multiple orders for same supplier; need to consolidate and negotiate a plan
9:00 a.m.	Daily stand-up for tribe leaders with CMO¹ With input from CMO, leaders align on key messages for supplier plan

Note: Squads are cross-functional teams with end-to-end responsibility for defining work and making business decisions. A tribe is a group of related squads focused on a common business area.

¹Chief marketing officer.

Source: McKinsey CPG Retail Survey, April 2020 (n = 100); survey respondents include leaders from US consumer-packaged-goods and retail companies with revenues ranging from \$1 billion to more than \$20 billion

Changes in mindsets and behaviors. Consumer companies also made massive strides in adopting more agile mindsets and behaviors. Leaders adopted a mindset in which they strived to serve their employees, instead of the other way around; they focused on setting the vision for the organization while also empowering and enabling teams to succeed. In a survey of retail and CPG executives, five out of the top eight behaviors seen in successful leaders³ aligned with agile principles. Behaviors such as being a supportive and caring leader (25-percentage-point positive change), being employee-focused (23-percentage-point positive change), and empowering your teams (15-percentage-point positive change) saw the greatest increases in adoption during the crisis (Exhibit 3).

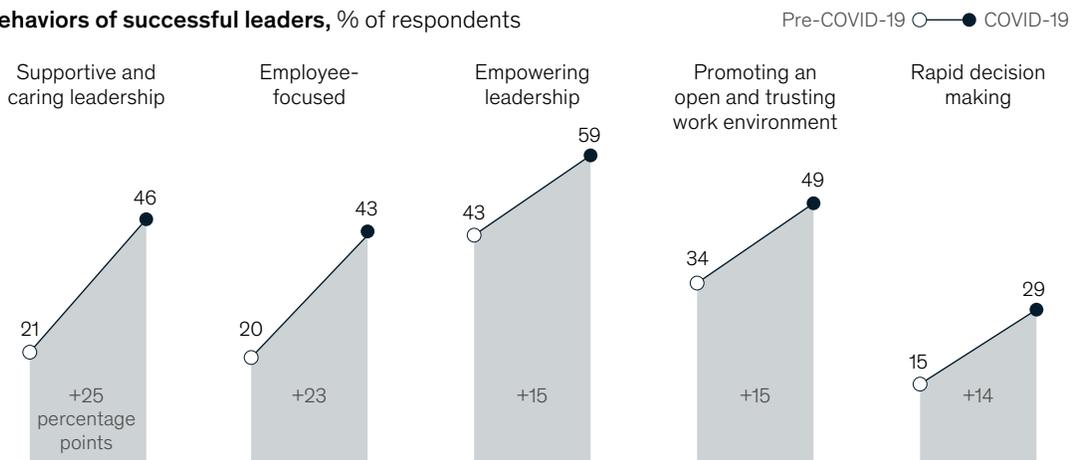
While some consumer companies did adopt agile practices during the pandemic, most did so out of necessity. Now, companies should think through how to institutionalize the agile practices that helped them capture significant value. A good starting point is to conduct a diagnostic to help identify which agile practices worked well and which may require adjustment. Next, companies can set up a clear aspiration for implementing agile at the organization, including intended benefits, application scope (whether to apply agile methods enterprise-wide or in selected areas), and expected timelines for rollout. Many consumer companies have already seen the benefits of agile practices throughout the pandemic. As they look toward the new normal, companies should look for ways to make these benefits last.

³ Question: "What leadership behaviors were exhibited by the most effective leaders in your organization?" (McKinsey Consumer Leadership Survey; fielded June 2020, n = 80).

Exhibit 3

Successful leaders have shifted their behaviors to align with agile principles.

Behaviors of successful leaders, % of respondents



Source: McKinsey Consumer Leadership Survey, fielded June 2020 (n = 80)

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