

Winning where it matters

A focused approach to capturing growth



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INTRODUCTION

As the US economy continued its slow and uneven recovery in 2010 and 2011, capturing growth proved a challenge for consumer-packaged-goods (CPG) companies. They have had to operate in a fast-changing environment. Their consumer base is becoming increasingly diverse demographically. And while some US consumers have loosened their purse strings, others continue to look for value and rely on discounts and private labels. The retail landscape has also undergone significant change, as value-seeking consumers have boosted the growth of nontraditional retailers such as discount-limited-assortment stores (for example, Aldi and Save-A-Lot) and dollar stores. In addition, many retailers are continuing to invest in their private-label efforts and are thus emerging as direct competitors to CPG manufacturers. New technologies were another source of change for the industry, disrupting traditional business practices and creating both a challenge and an opportunity. E-commerce and digital marketing have fundamentally changed the game and will only become more important.

That said, the results of the 2012 Customer and Channel Management Survey suggest that a company employing winning practices can successfully tackle external challenges and set itself apart from the competition. We hope that this report provides a comprehensive view of such best practices and allows you to find opportunities to further boost your company's performance.

What are the winning practices we have identified? There are many, but the main theme unifying all of them is focus. Specifically, companies achieve this focus by placing forward-looking strategic bets, leveraging data and advanced analytics to drive decision making, collaborating more effectively with top retail customers, and building industry-shaping capabilities. While most of these practices seem straightforward and are already in place at many companies, winners deploy such practices throughout the organization with greater consistency and magnitude.

Winning companies place forward-looking strategic bets:

- They are three times more likely to invest in emerging channels and the Hispanic market.
- They are twice as likely to increase their investments in Amazon by more than 10 percent.
- They are 50 percent more likely to increase their investment in sales technology over the next two years.

Winning companies leverage data and advanced analytics:

- They are 50 percent more likely to use pricing diagnostics and pricing optimization tools.
- They are more than 30 percent more likely to invest in tools for trade-promotion management or optimization.
- They are 50 percent more likely to analyze the impact of promotions on the total category, as well as to on their own sales.

Winning companies engage in next-generation collaboration:

- They are five times more likely to view retailer collaboration as a strategic priority.
- They are six times more likely to share new-product ideas with retailers at least 18 months before launch.
- They are three times more likely to focus on implications to retailer profit to sell in price increases.

Winning companies build industry-shaping capabilities:

- Their heads of sales spend twice as much time on talent development.
- They are twice as likely to view their strategic-planning and frontline-selling capabilities as effective.

In this report, we discuss CPG companies' winning practices in the following performance areas: sales strategy, pricing and trade investment, the Hispanic market, high-growth channels, sales technology, and the "battle at the shelf." Those companies that embraced winning practices were rewarded with above-average financial performance and a strong foundation for future growth.

SURVEY OVERVIEW AND METHODOLOGY

This report summarizes the findings of the 2012 Customer and Channel Management (CCM) Survey, providing an up-to-date perspective on the practices of top-performing CPG companies. Unlike other market surveys, this effort links companies' financial performance and in-market results with self-reported business practices to identify winning practices.

The CCM Survey has a long history. In 1978, McKinsey began gathering data and performance benchmarks on the sales organizations of the leading CPG companies in the United States. In 2002, the Grocery Manufacturers Association partnered with McKinsey on the survey and enabled broad access to CPG industry players. Over time, the survey evolved to include a deeper focus on performance across a wider range of topics and was augmented with analytics from Nielsen. Nielsen's in-market data were crucial to determining the winning practices in both the 2010 and 2012 surveys. This year, the survey features new modules on the Hispanic market, sales technology, and the "battle at the shelf."

More than 50 companies, with close to \$160 billion in US sales, participated in the 2012 survey. These players—in the food, beverage, personal-care, and home-care categories—represent a broad cross-section of the CPG industry. To ensure the accuracy of the data, the person accountable for each performance area completed the relevant part of the questionnaire. Approximately 220 CPG executives participated in the survey.

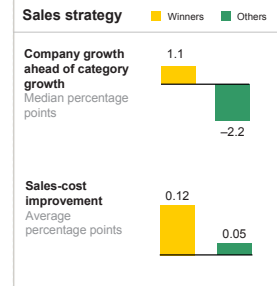
Participants in the 2012 Customer and Channel Management Survey

THE VALUE OF WINNING

The value of deploying the winning practices is high, as evidenced by the significant gap in performance between winners and others. Winning practices can help companies drive top-line growth, earnings, and share-price improvement at a time when peers are struggling to find growth in a flat to declining market.

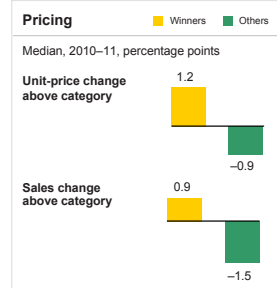
Sales strategy

Winners in sales strategy grew 3 percentage points more than nonwinners, while reducing their selling expenses (as a percent of net sales) by 0.12 percentage points.



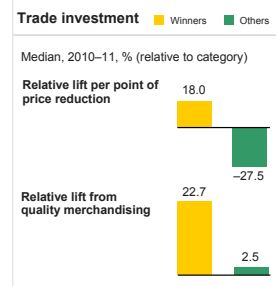
Pricing

Pricing winners were able to increase unit prices by 1.2 percentage points more than the category average. At the same time, they gained share by growing sales by almost a full percentage point ahead of their peers.



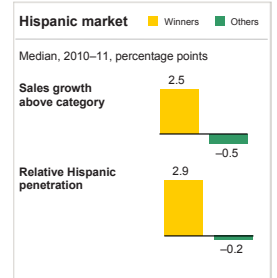
Trade investment

Winners in this area generated higher returns from trade investment relative to overall category growth: 18 percent higher sales lift from each point of price reduction and approximately 23 percent higher sales lift from merchandising.



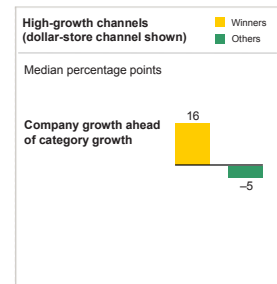
Hispanic market

Winners in the fast-growing Hispanic market grew sales to Hispanics 2.5 percentage points more than the category average. They also achieved higher rates of Hispanic household penetration, beating out their peers by 2.9 percentage points.



High-growth channels

High-growth channels—clubs, dollar stores, discount-limited-assortment stores, and e-commerce—contributed more than 25 percent of total growth. Winners grew their business in these channels by as much as 16 percentage points more than their category peers.



**DETAILED FINDINGS
BY PERFORMANCE
AREA**

Sales strategy

Our 2012 survey indicates that winners in sales strategy, for the most part, continue to rely on the best practices that yielded results in 2010: disproportionate investment in emerging channels, an emphasis on customer collaboration, and a focus on investing in next-generation capabilities.

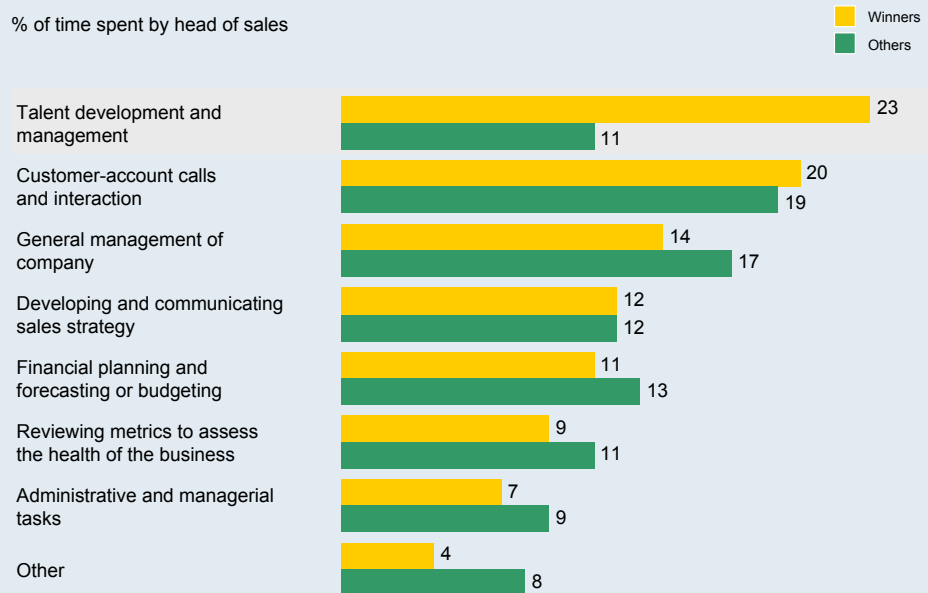
Invest in emerging channels while growing the core business. Winners are more than twice as likely to place strategic bets on high-growth channels like dollar stores and clubs. Winners have not only built larger sales teams dedicated to high-growth channels; they have also staffed those sales teams with a greater proportion of customer-aligned functional experts (in areas including pricing, category management, and shopper marketing) and customer-service personnel. Winners are also more likely to see e-commerce as an important driver of future growth. (For winning practices in e-commerce, see the section on high-growth channels on page 10.)

Pursue closer partnerships with customers. Tellingly, winning CPG companies are five times more likely than their lower-performing peers to invest in customer collaboration—or joint manufacturer-retailer initiatives with shared accountability and targets, which go above and beyond the normal course of business. Winners drive collaboration on multiple fronts. They share data and ideas to develop “win-win” growth opportunities, take into account retailer profitability when designing pricing and category strategies, and tap into their own consumer expertise to help retailers cater to new consumer segments.

Focus on capability building. Our 2012 survey showed a sharp contrast between the management priorities of winning CPG players and those of their peers. On average, heads of sales at winning CPG companies spend 23 percent of their time on talent development and talent management; at lower-performing CPG companies, that figure is 11 percent (Exhibit 1).

Exhibit 1

Heads of sales at winning companies spend twice as much time on talent development and management.



Winners are also placing an increased emphasis on building core sales capabilities, such as account-level planning, frontline selling, strategic planning, trade-spend management, and pricing—and they claim to be seeing improved performance across all of these capabilities.

Pricing and trade investment

In 2010 and 2011, many CPG companies in the United States responded to rising commodity prices by passing price increases on to customers and consumers. Managing pricing and trade strategy was not an easy task, as many consumers continued to struggle financially and retailers persisted in their push to deliver lower prices. Still, some CPG companies performed strongly on key pricing and trade-investment metrics using a combination of time-tested approaches and innovative techniques.

Pricing

Winners—CPG companies that were able to outperform their categories in both unit-price increases and sales growth—did so by proactively leveraging pricing as a strategic tool, taking a retailer-focused approach to selling-in prices, and creating robust pricing capabilities, processes, and tools.

Proactively manage pricing as a core strategic tool. Winners set prices based on a comprehensive understanding of their own strategic positioning and of the competitive landscape. For example, they are four times more likely than nonwinners to consider brand equity as a primary price-setting concern; 75 percent of winners—compared with only half of others—take relative price gaps into consideration when setting prices. By contrast, two-thirds of others—but only one-third of winners—cite input costs as a major influence in price setting. At the same time, winners usually adjust their pricing much faster in response to changes in the external environment, such as rising commodity costs or shifting economic conditions.

Take a retailer-focused approach to selling-in prices and adjust prices regularly. In their sell-in stories, winners focus on the distinct positions of their brands, noting their advantages over competitors and calling attention to favorable product attributes—such as positive margin impact or the ability to drive store traffic—that are of interest to retailers. By crafting persuasive arguments, winners are more likely than others to sell in the full price increase desired, even with retailers that typically push back. In addition, almost 40 percent of winners—compared with 24 percent of others—adjust prices on their top brands at least semi-annually (Exhibit 2).

Exhibit 2

Winners frequently adjust price on their top brands.

Winners review and manage price more often
Percent of respondents¹

Winners
Others



¹ Aggregated responses for top three brands.

Focus on creating robust pricing capabilities, processes, and tools.

Winners ensure that sufficient resources are devoted to building up internal pricing capabilities. They tend to have more full-time equivalents (FTEs) in pricing functions than other companies, and 45 percent have a dedicated revenue-management or pricing group, compared with 29 percent of others.

All CPG companies have access to comparable data, but winners leverage the information more successfully by using differentiated pricing tools. About three-fourths of winners (versus half of nonwinners), for example, already have or are developing pricing diagnostics and pricing-optimization tools. In addition, winners are more likely than others to deploy their pricing tools across the organization—encompassing national and local sales teams, as well as category-management and revenue-management groups. At the same time, winners are often dissatisfied with the standard tools available and develop proprietary software solutions instead: 50 percent of winners, for instance, have custom price-diagnostic tools, compared with only 12 percent of others. Finally, winners don't rely on tools alone: they complement quantitative analysis (the “science” of pricing) with qualitative insights from the field staff and other sources (the “art” of pricing).

Trade investment

Winners in trade investment implemented more effective promotions than competitors, measured in both relative lift per point of price reduction and relative lift from merchandising displays. Trade-investment winners distinguish themselves by setting trade rates based on strategic objectives and hard facts, executing and analyzing promotion programs with excellence, and putting in place the necessary organization and capabilities.

Set trade rates based on strategic objectives and hard data. Winners use trade as a strategic competitive tool. They typically adjust trade rates in response to changes in competitor dynamics, while other companies tend to change trade rates to compensate for price increases. Winners make their trade decisions based on facts: when setting investment levels for trade and marketing, 75 percent of winning CPG companies—compared with only 44 percent of others—take an analytical approach (for example, analyzing historical returns on trade versus marketing investment). By contrast, more than half of nonwinners make trade-investment decisions based on negotiations between the trade and marketing functions. In addition, winners adopt a “retailer-back” perspective to set trade-investment levels and design trade programs, with 67 percent of winners—but only 35 percent of others—looking at impact on customer profitability when doing so.

Excel in executing and analyzing promotion programs. Winners frequently review the performance of their trade investments—with 88 percent conducting formal reviews at least quarterly—and change their trade-investment strategies as a result. Winners are also more likely to look at a variety of metrics during reviews—including volume and trade-investment trends, account growth and profitability, postpromotional data, and overall account return on investment versus plan. While winners and nonwinners use the same sources for promotional data (syndicated scan data, retailer point-of-sale data, loyalty-card or shopper-card information, and proprietary shopper research), winners make better use of the data to improve their understanding of consumers and shoppers.

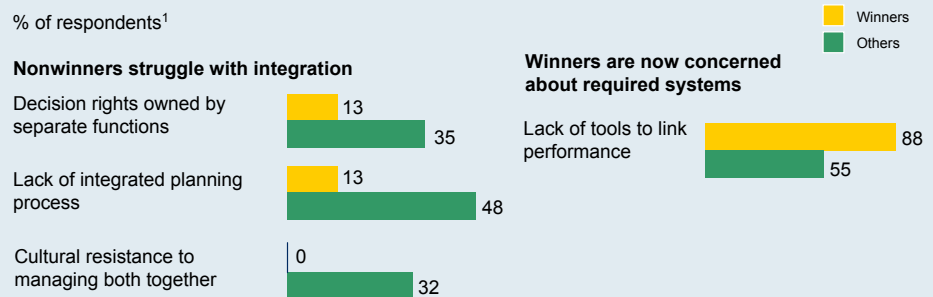
Put in place the organization and capabilities to support trade excellence.

To enhance capability building, winners integrate ownership for promotional analysis into the broader sales and trade organization. In addition, 88 percent

of winners (versus 63 percent of others) have installed and launched tools for trade-performance management and are thinking about next-generation tools (for example, tools for trade-promotion optimization), whereas nonwinners are still somewhat preoccupied with the challenge of integrating pricing and trade investment—a challenge that winners have already resolved (Exhibit 3).

Exhibit 3

Winners have already successfully integrated pricing and trade.



¹ Additional responses not shown; totals do not reflect comprehensive results.

Hispanic market

In 2010, buying power among Hispanic consumers in the United States reached \$1 trillion; by 2015, that number is expected to grow to \$1.5 trillion. To capture this growing market, winning CPG manufacturers—those with higher-than-average sales growth and market penetration among Hispanic consumers—are focusing their efforts on three dimensions: tailoring their products and marketing to Hispanics, partnering with retailers to provide a compelling in-store experience, and building Hispanic-focused organizational resources and capabilities.

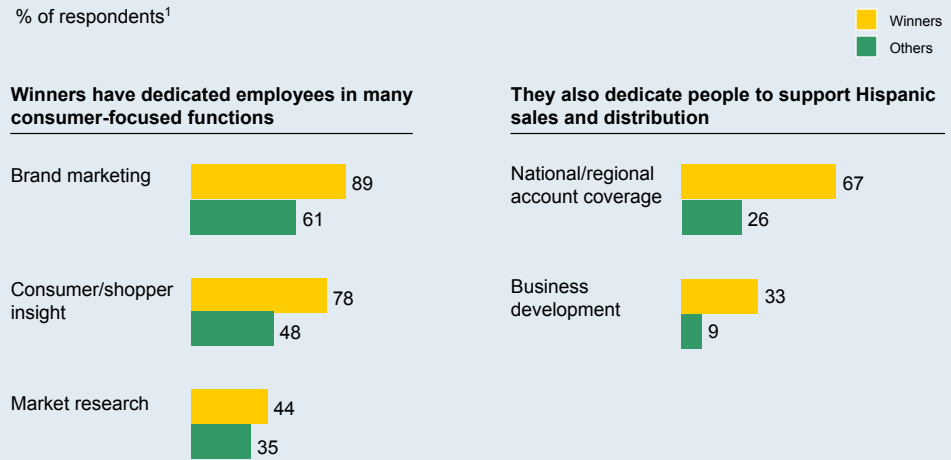
Tailor products and marketing to Hispanics. Close to 90 percent of winners—but only half of nonwinners—identify specific brands within their portfolios as distinctly Hispanic. In addition, winners are far more likely to use bilingual packaging to appeal to Hispanic consumers—80 percent of them do, versus 52 percent of others. And because winners view marketing in Hispanic-focused vehicles and in-store activities as vital investments to support brand growth, more than 90 percent of winners plan to increase spend in these areas.

Partner with retailers to create a compelling in-store experience. Winning CPG companies prioritize those retailers that are also focused on the Hispanic market: 50 percent of winners say that more than half of their key retail accounts have strategies specifically aimed at reaching the Hispanic market, while only 20 percent of others can say the same. Winners are also twice as likely to tailor their sales strategies to Hispanic-focused retailers—for instance, by providing Spanish-language point-of-sale materials and signage or by holding special in-store demonstrations and events.

Build organizational capabilities and resources to win in the Hispanic market. Some of the most striking differences between winners and others were in capability building and resource allocation for the Hispanic market. A much higher percentage of winners have resources dedicated to the Hispanic market in consumer-focused functions like brand marketing, consumer and shopper insights, and market research, as well as in sales and distribution (Exhibit 4).

Exhibit 4

Winners in the Hispanic market are more likely to have Hispanic-focused resources across the organization.



¹ Additional responses not shown; totals do not reflect comprehensive results.

Winners are not resting on their laurels—they are making a concerted effort to be sure they continue to win with Hispanic consumers. Almost 80 percent of winners (compared with only 25 percent of others) review their sales performance in the Hispanic market on at least a quarterly basis. Furthermore, all of the winning companies in our survey—along with 75 percent of nonwinners—gather data about trends and projections in the Hispanic market.

High-growth channels

While grocery chains and mass retailers still account for approximately 70 percent of CPG sales, nontraditional channels—specifically clubs, dollar stores, discount-limited-assortment stores, and e-commerce—accounted for more than 25 percent of survey participants' revenue growth from 2010 to 2011 and continue to represent a significant growth opportunity (with projected growth of \$128.5 billion between 2012 and 2016). To win in these channels, CPG companies will need to align their sales strategies against each channel and meet its unique requirements.

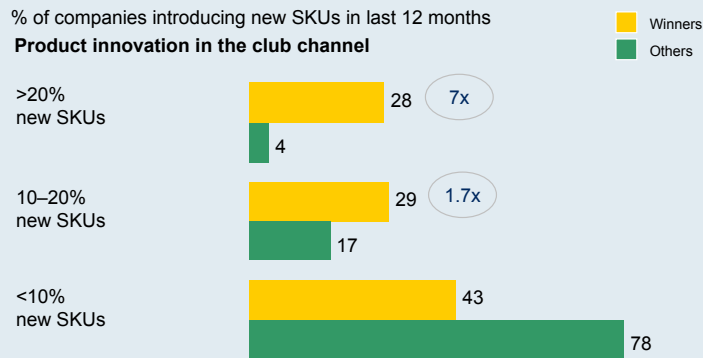
Club

The club channel has four times the sales of the next-largest brick-and-mortar high-growth channel (dollar stores) and continues to grow at an annual rate of 8 percent. Most CPG companies view this channel as an opportunity to increase their share of wallet among consumers who already purchase their products.

Winners in the club channel exceeded category growth by six percentage points on average. The 2012 survey found that winners include a higher percentage of new SKUs in the club assortment (Exhibit 5). They are also more successful at securing endcap displays: 57 percent of winners, but only 26 percent of others, have at least the same number of endcap displays in club stores as they do in traditional sales channels. And while peers focus solely on reducing manufacturing costs in an effort to drive growth in the club channel, winning CPG players make sure to build capabilities in revenue management and develop next-generation sales strategies, such as tailored channel strategies and joint business plans.

Exhibit 5

Winners' club assortments contain more new SKUs.



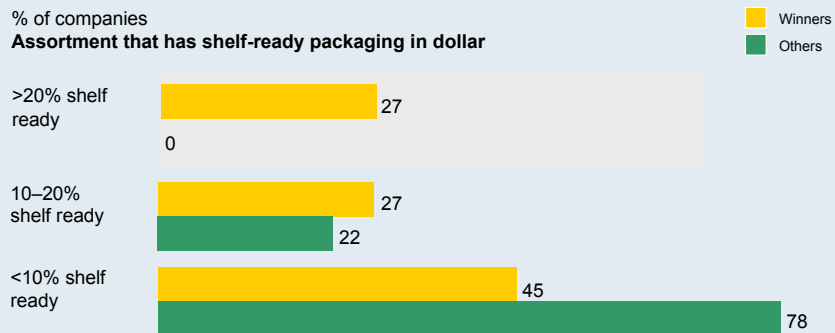
Dollar

With an annual growth rate of 6 percent, dollar stores—the big three being Dollar General, Dollar Tree, and Family Dollar—represent opportunities for CPG manufacturers to gain access to consumers who had limited access to their products before. Through a combination of unique product offerings and relationship building, winners in the dollar-store channel outpaced category growth by 16 percentage points.

Winners have significantly reconfigured their business model to serve the unique needs of the channel. They offer more shelf-ready packaging (Exhibit 6) and dedicate more sales resources, with 60 percent more FTEs dedicated exclusively to the dollar channel. They are also more proactive about collecting retail-sales data: they are much more likely than their peers to partner with retailers and conduct store audits.

Exhibit 6

Dollar winners create more shelf-ready assortments.



Discount limited assortment (DLA)

The DLA channel consists of small (typically 5,000- to 10,000-square-foot), food-focused stores with a limited assortment and an emphasis on private label. With Aldi and Save-A-Lot as the top two players, the channel is growing at twice the rate of grocery. Winners in DLA grew, on average, 16 percentage points more than category growth.

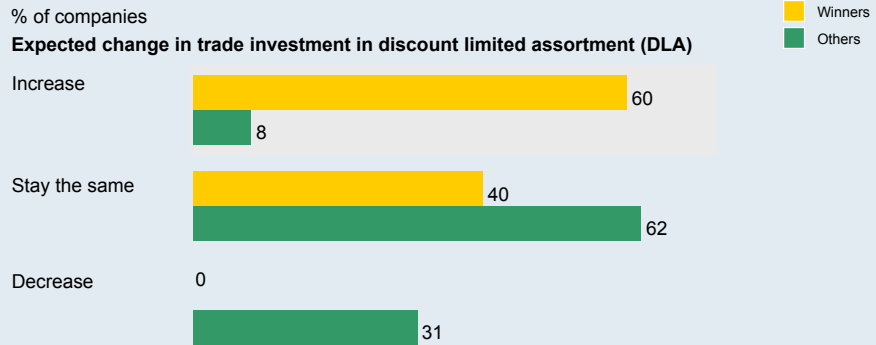
When asked how they expected their trade investment to shift over the next two years, 60 percent of winning CPG manufacturers (compared with 8 percent of nonwinners) predicted an increase in their trade investment in DLA (Exhibit 7).

Winning CPG manufacturers offer DLA retailers a larger percentage of exclusive items than their peers do and are able to command higher prices than their

peers. They are also more likely to provide additional services such as shelf-ready packaging and private-label products. Sixty percent of winners, compared with only 38 percent of others, said at least half of the SKUs they sell through the DLA channel are shelf ready; 40 percent of winners, but only 13 percent of others, sell at least half their products as private labels.

Exhibit 7

DLA winners are increasing trade investment in the channel.



Trade spend largely spent on EDLP¹; 80–90% of companies execute fewer promotions in this channel relative to grocery

¹ Everyday low prices.

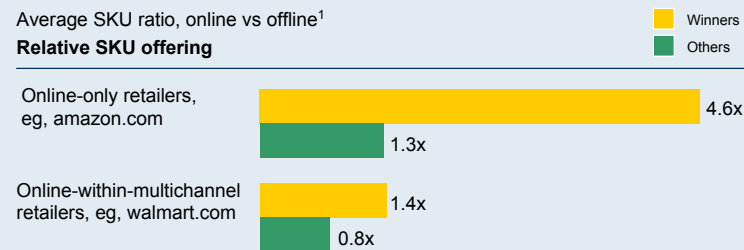
E-commerce

CPG winners in e-commerce outpaced nonwinners in online sales growth by more than eight percentage points. They did so primarily by partnering with key online and multichannel retailers, adjusting their product offerings and price points, and investing heavily in internal capabilities to support online growth. Interestingly, 40 percent of e-commerce winners are food companies, traditionally seen as less impacted by the channel.

Winning CPG companies work with a much broader set of online retailers than their peers do, partnering with multichannel retailers such as Target and Walmart, as well as pure-play sites like Peapod, FreshDirect, and online juggernaut Amazon. Winners also approach their online portfolio differently: they offer a larger number of *total* SKUs (Exhibit 8)—as well as a larger number of *new* SKUs—online. When it comes to pricing, winners ensure that their online prices are lower than brick-and-mortar prices for identical items, but they capture a premium online for unique items.

Exhibit 8

Winners offer more SKUs online relative to brick-and-mortar stores.



¹ Total reported offering of online or multichannel SKUs relative to total reported offering of brick-and-mortar SKUs.

In addition, winners dedicate substantial resources to their online customers: whereas every single e-commerce winner in our survey has a sales team dedicated exclusively to Amazon, less than half of nonwinners do—and the latter’s teams are, on average,

about half the size of winners' teams. Moreover, 100 percent of winners, compared with only 59 percent of others, say they plan to increase investment in Amazon by more than 10 percent over the next two years.

Sales technology

Broadly speaking, sales technology in the CPG industry encompasses three areas:

- Technologies for **internal processes** include systems, software, and tools that support sales-related decisions such as pricing and trade management.
- **Customer-facing** technologies enable data sharing and collaborative selling with retailers.
- **Shopper-facing** technologies, such as smartphone applications and interactive in-store displays, allow companies to interact directly with consumers.

All three are rising in importance, and indeed, most CPG companies have increased their spending on sales technology since 2010 and plan to continue doing so in the next two years. Winners are distinguishing themselves from the competition through bigger and broader investments in sales technology, more retail partnerships, and the sophisticated use of data to enhance microtargeting efforts.

Make big and broad investments in sales technology. Winners invest in a wide range of sales technologies, from systems and tools related to tactical pricing and assortment to trade-promotion optimization. And although 73 percent of CPG companies plan to spend more on sales technology over the next two years, winners are 50 percent more likely than others to boost their investment by more than 15 percent. Winners are able to place bigger strategic bets in part because they have had more success than their peers (64 percent of winners versus 46 percent of others) in getting the entire organization aligned on technology strategy.

Partner more broadly with retailers on data collection. The CPG companies in our 2012 survey reported spending about 1.5 percent of net sales value on the collection of retail data. Winners set themselves apart by investing in more types of data: although winners and nonwinners alike obtain loyalty-card information, full-basket data, shopper-panel data, and data on in-store shopper behavior, winners are more likely to invest in all four of these categories of data—both today and in two years' time.

Winners also distinguish themselves by casting a wider net for partners. Like most CPG companies, they often collaborate with retail giants Kroger and Walmart on sales-technology initiatives. However, winners are twice as likely as competitors to seek out partnerships with other retail leaders such as Amazon, Safeway, Sam's Club, and Target.

Leverage shopper-facing technologies and content to improve microtargeting. Although only 23 percent of survey participants currently use technologies that facilitate in-store interactions with shoppers, 79 percent expect to use such technologies within the next two years. For instance, 78 percent of winners use mobile couponing to compile data on shopper behavior; over the next two years, winners plan to use that data to develop microtargeting strategies directed at consumers. As this practice becomes more popular, many CPG companies understand that they will need to update shopper-facing content more regularly. Only 13 percent of survey respondents now update mobile-coupon offers daily or weekly, but 38 percent plan to do so in the next two years.

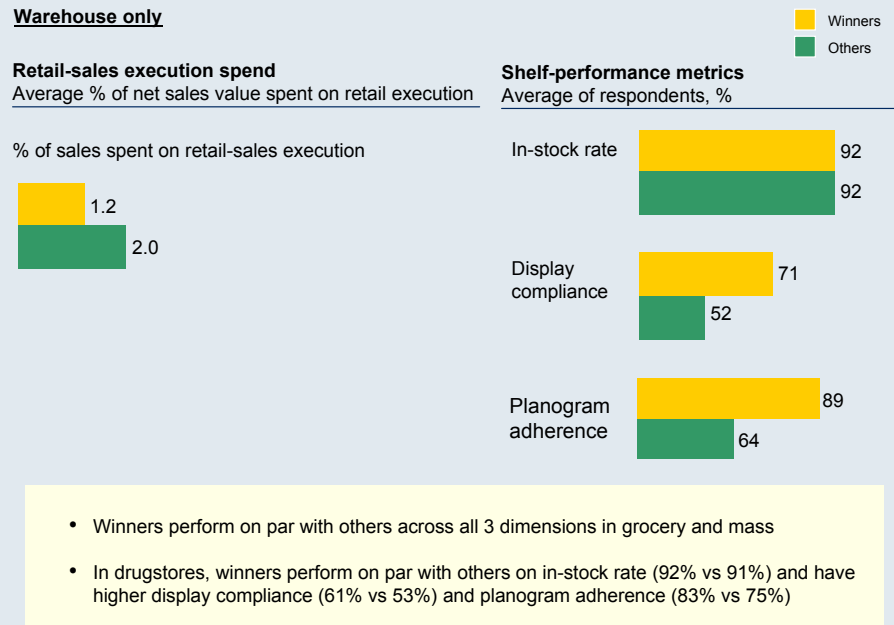
Battle at the shelf

As the influence of traditional advertising wanes, consumers are increasingly making decisions about what products and brands to buy while in the store. Shelf performance matters more than ever. The “battle at the shelf” therefore becomes a critical opportunity for CPG companies to gain market share.

Survey participants included companies that use the warehouse model of distribution (majority of participants) as well as companies that use the direct store delivery model. Among those using the warehouse model, winners,¹ on average, have the same in-stock rate as nonwinners (92 percent) but higher rates of planogram adherence (how closely retailers follow the manufacturer’s plans for arranging its products on the shelf) and display compliance (the extent to which retailers comply with the manufacturer’s design for special in-store displays). Yet they spend significantly less on retail execution: 1.2 percent of net sales value (NSV), compared with 2.0 percent for nonwinners (Exhibit 9). The key practices that seem to make the difference: focused coverage on fewer retail outlets and selective use of brokers.

Exhibit 9

Winners spend considerably less than others for the same or better shelf performance.



Focus coverage on fewer retail outlets. Winners provide retail coverage in far fewer outlets—and in the case of grocery stores, winners cover less than half as many outlets as their peers. Winners and nonwinners tend to segment retail outlets using similar criteria (primarily channel, size, and performance). Nonwinners, however, use segmentation to do only one thing: to set the frequency of their visits to stores. Winners, on the other hand, use segmentation in additional ways—for example, to decide what level of employee should work with each retail segment, to customize out-of-stock replenishment processes, and to fine-tune the degree to which they manage planogram adherence.

¹ For the purposes of this report, the winners in sales strategy are also the winners in the battle at the shelf.

Use brokers selectively and manage them more closely. Winners rely more heavily on their own salespeople than on brokers: 42 percent of winners' total sales force is composed of their own staff, compared with 31 percent for nonwinners. When they do use brokers—primarily for high-growth channels—winners are more likely than their peers to use dedicated brokers, as opposed to syndicated (multifirm) brokers: dedicated brokers account for 36 percent of winners' total sales force versus 22 percent for nonwinners. Winners also monitor performance and manage brokers at a more granular level: 91 percent of winners, versus only 68 percent of others, say they monitor shelf performance at the SKU or pack-size level, and 57 percent of winners, versus only 43 percent of others, say they monitor broker performance at the category or customer level.

The 2012 survey highlighted one aspect of the “battle at the shelf” that remains a challenge for CPG companies regardless of which distribution model they use: assortment optimization. Most companies tailor their assortment at the store cluster level (74 percent) or at the store/outlet level (51 percent). Interestingly, the vast majority of respondents already use third-party optimization tools, but the tools have limited impact on satisfaction with the overall assortment-planning process.



In summary, the 2012 Customer and Channel Management Survey shows that winning companies were able to optimize their current performance while, crucially, looking ahead and planning for the future. Their winning practices hold valuable lessons for all CPG companies, who would do well to ask themselves:

- Are we making bold, forward-looking investments?
- Are we leveraging the power of data and advanced analytics in our decision making?
- Are we nurturing our most important retail relationships?
- Are we strengthening the capabilities that will be critical to sustained success?

Companies that can answer these questions with a resounding “yes” are well-positioned to capture growth in a rapidly changing business environment.

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