Lost in translation: The challenge of global channel and customer management

Our research points to five practices that have helped consumer-goods companies outperform their peers.

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Over the past few years, consumer-packaged-goods (CPG) companies worldwide have faced obstacles to growth—but some companies have fared much better than their competitors. What are the outperformers doing differently from the rest? One answer, according to our recent research, is that winning companies are managing their distribution channels and key retail accounts much more effectively. Across the globe, excellence in channel and customer management appears to be a critical contributor to superior performance.

In this article, we summarize the results of our latest global research on customer and channel management, which includes a survey of 141 of the world's leading CPG manufacturers (see sidebar, "About the research"). We highlight five imperatives that, taken together, present a potential road map for companies that want to extend their channel- and customer-management capabilities to achieve sales excellence globally.

Disparities in performance

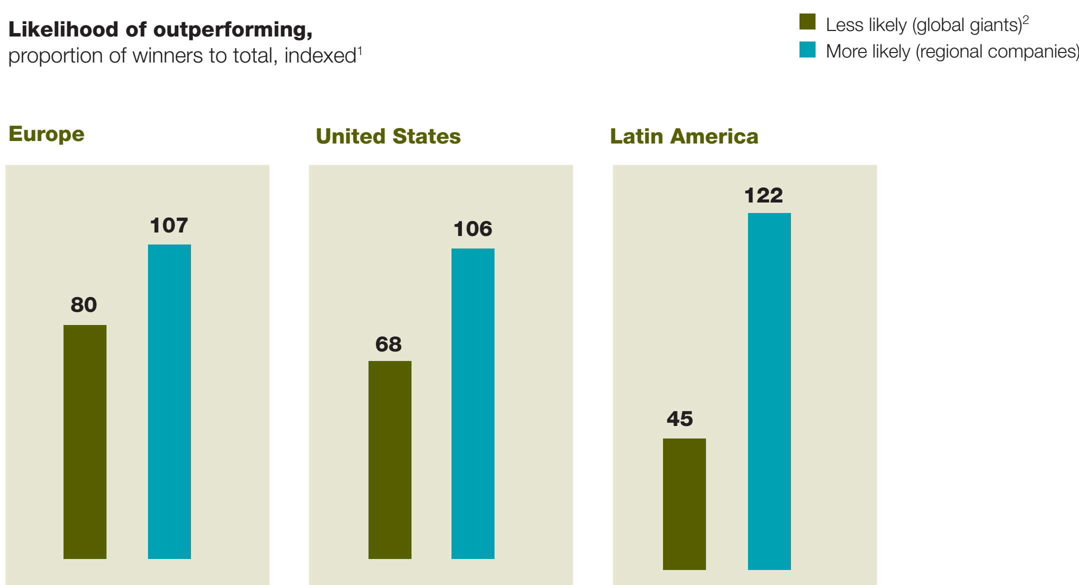
Our analysis shows that companies with best-in-class capabilities in customer and channel management grew net sales three to six percentage points faster than relevant peers. Furthermore, these outperformers achieved almost double the return on their trade investment. This disparity in performance exists in each of the three regions we studied: Europe, Latin America, and the United States.

Our research also reveals that in spite of growing global connectivity and the emergence of global retail, regional CPG players are consistently doing better than the "global giants"—companies with more than $25 billion in net sales and operations in multiple regions—even though the giants boast advantages of scale, reach, and resources (Exhibit 1).

The divergence in performance underscores the fact that building excellent customer-management capabilities across regions is extremely difficult. Within our sample of 141 companies representing all major CPG product categories, only 24 percent demonstrated excellence across all three of the core capability areas in customer management: sales strategy, pricing, and trade promotion. Moreover, only 7 percent of multinational companies in our survey excelled in all three geographies being studied. For instance, one multinational has best-in-class trade-management practices in Europe but not in Latin America or the

Exhibit 1

Regional champions are outperforming 'global giants.'

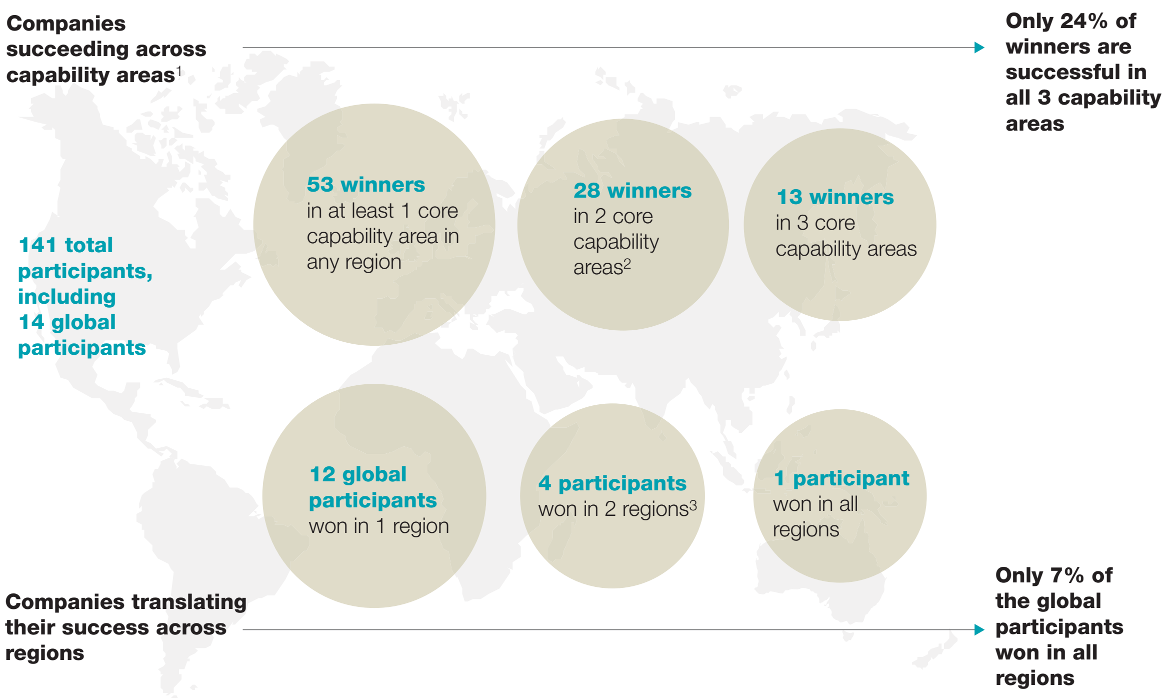


[1]Values greater than 100 indicate greater likelihood to outperform.
[2]Companies with more than $25 billion in net sales and operations in multiple regions.

Source: 2012 McKinsey Customer and Channel Management Survey

Exhibit 2

Creating customer-management capabilities globally is difficult.



[1]Core capabilities include sales, pricing, and trade promotion.
[2]May be the same capability in multiple regions.
[3]May be the same or different capabilities.

Source: 2012 McKinsey Customer and Channel Management Survey

United States, and thus has not been able to amplify the impact of its success in this core capability area (Exhibit 2).

Five imperatives

Our research points to five imperatives that address the core elements of customer and channel management. CPG companies should assess how well they are executing these imperatives in each region and then establish a program for addressing any capability gaps.

Identify pockets of growth and align resources against them. Compared with their category peers, outperforming CPG companies allocate a disproportionate amount of their resources to high-growth channels, customers, and geographies. For instance, convenience is one of the fastest-growing channels in Europe, and the most successful CPG companies in Europe are investing more of their trade dollars (11 percent of net sales) in the convenience channel than their category peers are (7 percent). Meanwhile, dollar stores and drugstores are the fastest-growing channels for consumables in the United States, and the outperforming US companies in our study allocate 15 to 25 percent more full-time staff to the account teams handling these channels than relevant peers do. Furthermore, outperformers invest time and resources in customizing account plans, not only for large, high-priority trade customers but also for high-potential independent stores in fragmented retail markets.

Overinvest in collaborative relationships with most important customers. Outperforming CPG companies collaborate with high-priority customers more broadly than category peers do. Top European companies, for instance, engage with customers to jointly strategize on an average of seven topics, including category management, in-store promotions, merchandising, and innovation. By contrast, category peers typically collaborate with retailers on only three to five such topics. Similarly, successful CPG companies in the United States are almost twice as likely as category peers to share new product concepts with their top retail partners at least a year prior to launch. Eighty percent of winners, compared with only 45 percent of nonwinners, communicate with retailers about new products 12 to 24 months in advance. In doing so, they generate strong retailer support (in the form of broader distribution, prioritized shelf placement, and preferential merchandising) and, in some cases, a more compelling product.

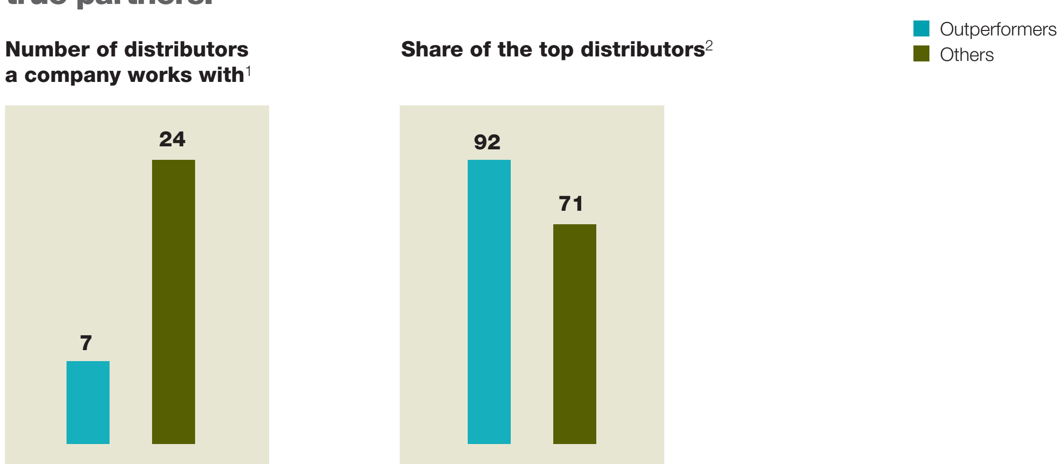
Use deep insights and analytics to realize greater returns from pricing and promotion activities. The outperforming companies in our research consistently use revenue-management and trade-promotion optimization tools to improve their pricing and promotion results, as well as their return on trade investment. Successful CPG companies in Europe, for instance, are more likely than category peers to have invested in analytical capabilities that allow them to boost the effectiveness of their pricing and promotional activities. Furthermore, outperformers in Europe tap into more sources and types of data—including data from loyalty cards, point-of-sale transactions, third-party providers, and virtual store environments—when assessing pricing and promotion effectiveness.

Translate distinctive consumer insights into in-store advantages. Compared with category peers, high-performing CPG companies across all three geographies are more regularly collecting unique shopper insights and applying those insights more broadly. Outperformers in the United States, for instance, are 50 percent more likely than category peers to experiment with in-store shopper-interaction tools and technologies for collecting behavioral data. These companies are using the insights they glean to inform their in-store marketing, promotion, and assortment strategies, and innovating accordingly. Similarly, winning CPG companies in Europe are 50 percent more likely than their category peers to use shopper data to better understand product interactions and to shape trade-promotion strategy and tactics. (For examples of how companies are translating shopper data into in-store advantages, see "Market Map: Finding pockets of growth in mature markets," page 70.)

Increase sales using optimized route-to-market models. Outperforming companies have a disciplined process for optimizing their route-to-market models based on economics and strategic priorities. In Latin America, 90 percent of outperforming companies review their route-to-market strategies—across direct store delivery, wholesalers, and distributors—at least annually. In every region we studied, the outperforming companies evaluate their route-to-market partners at least quarterly. They also tend to have fewer, deeper third-party relationships. Outperformers in Europe, for instance, work with three times fewer distributors than their category peers (Exhibit 3). Additionally, outperforming companies consistently invest in

Exhibit 3

EU outperformers carefully select the best distributors to become true partners.



[1]Considering companies using distributors.
[2]Companies with more than 200 distributors not considered for averages.

Source: 2012 McKinsey Customer and Channel Management Survey

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improving field sales-force effectiveness (in the form of training and technology), both for themselves and their distribution partners.

Building global customer-management excellence

As our findings suggest, a small set of CPG companies is capturing the advantages of global customer-management excellence; a much larger group is wrestling with the challenges of how to do so. There are multiple approaches that companies can take to achieve sales excellence worldwide.

Capitalizing on a strong global commercial function. A global sales organization sets the capability-building agenda and marshals the resources (talent and budgets) and influence (performance evaluations and compensation schemes) to deliver results. This approach is effective when the company's operating model emphasizes global rather than regional categories, and when the organization emphasizes and enforces global processes.

Establishing strong regional accountability. Each market or region is responsible for building its own capabilities; the sales organization may boast a global capability-building agenda but there is limited global infrastructure to support it. This approach is effective when the company's operating model is oriented toward regional rather than global categories, when there is a strong performance-management culture embedded in all regions, and when there is even distribution of sales talent across regions.

Building centers of excellence as well as local accountability. The capability-building agenda is created through regional consensus and collaboration. A lean global sales infrastructure

About the research

Since 1978, McKinsey has been studying and benchmarking the channel- and customer-management practices of leading consumer-packaged-goods (CPG) companies in the United States. (For the latest US survey results, see *Winning where it matters: A focused approach to capturing growth—2012 Customer and Channel Management Survey*, on mckinsey.com). In 2012, we expanded the research to include Latin America and Europe; future surveys will include data from Asia. This multiregional focus has allowed us to develop a more global perspective on the practices that differentiate performance.

Our research links in-market results with reported channel- and customer-management practices to identify the winning practices that matter most. A survey is administered to heads of sales and their teams; it seeks information on their capabilities in core areas such as sales strategy, pricing and trade investment, and organizational and financial benchmarking. Our most recent survey, conducted between 2011 and 2013, included 141 companies across the United States, Latin America, and Europe, representing about $900 billion in net sales globally and eight of the top ten CPG companies. The research base included a cross-section of industry players from all major CPG product categories.

develops processes and tools for all to use and promotes the sharing of best practices. This approach is effective when the company's operating model balances power across businesses and regions; when it has strong functional networks, in which the cross-pollination of ideas by function and geographies occurs; and when there is an even distribution of sales talent across regions.

In any of these models, leaders seeking to develop channel- and customer-management excellence on a global scale must take certain steps:

- *Know where you stand.* Build a fact-based perspective on your commercial capabilities across geographies.

- *Pick your battles.* Prioritize your market-level capabilities based on the potential effects of your activities and the size of the prize; factor in both your company's starting point in the market and the local dynamics of the market.

- *Play to your strengths.* Conduct an honest assessment of your company's operating model and your sales organization's culture and composition. Consider what that assessment implies about the choice of capability-building approach.

- *Manage for impact.* Invest in and establish processes for creating transparency across your global operations; this includes instituting a performance-management program that measures outcomes and facilitates the sharing of best practices.

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Competition in the CPG industry continues to intensify. Our findings show that both faster-than-average growth and higher returns on commercial investment are functions of best-in-class channel and customer management. Clearly, the time for CPG companies to build global capabilities in these areas is now.

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