



Results of the 2016 European Customer
and Channel Management Survey

New frontiers in customer and channel management

Learning from the winners

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Introduction

Customer and channel management for most consumer packaged goods (CPG) manufacturers in Europe requires a dual focus. On the one end, they need to outperform in established but constantly evolving key account relationships with major retailers. On the other end, they need to master emerging channel trends like e-commerce and convenience. These emerging channels are often the only opportunities to grow in an otherwise stagnant European market.

One global confectionary manufacturer, for example, sets its focus on working strategically with established key accounts and follows a clear growth plan for the convenience channel in key European markets. Several of the manufacturer's country organizations were also rated among the winners in these areas. Despite its success in this established channel, the manufacturer still experiments with how to sell its impulse-driven brands in the e-commerce channel.

McKinsey has carefully studied the customer and channel management practices of manufacturers that managed to outperform their peers. The winners grow on average 8 percentage points faster than their categories and earn at least 9 percentage points more EBITDA than other CPG players in Europe according to Nielsen data and self-reported financials. The winners' practices have been structured into six imperatives that define their approach and contribute to their success:

- I Identify pockets of growth in the sales strategy and align resources against them
- II Overinvest in collaborative relationships with most important retail customers
- III Deliver greater return from advanced revenue growth management
- IV Identify omnichannel as a driver of change and invest ahead of the curve
- V Drive sales execution with optimized route-to-market models
- VI Build strong end-to-end capabilities and commercial operating models as enablers to win

The findings in this report are based on the 2016 Customer and Channel Management Survey that McKinsey ran in cooperation with Nielsen. More than 100 sales managers participated in this survey, which is part of a global multiyear benchmarking that includes nearly 200 companies.

The survey's unique methodology employs syndicated retail and consumer data from The Nielsen Company and combines it with self-reported financial data and customer and channel management practices. Winners are designated as such by their performance along the quantifiable metrics of top-line growth, sales cost, and trade spend. Their practices are then compared to the other CPG manufacturers to understand where these companies set their focus.

I Identify pockets of growth in the sales strategy and align resources against them

Winners manage to achieve above-category sales growth (6 percentage points) and decrease their sales cost as a percent of net sales (5 percentage points) with their sales strategies. This is particularly remarkable since most of their categories have shown low or no growth and flat or deflating prices recently in Europe. Among many, McKinsey has identified three key European trends that sales managers need to tackle in their strategies:

- **Discounters are still on the rise in many European countries.** The UK and France see continued growth. In Germany, discounters are starting to uptrade, list branded products, and compete on supermarket territory. The vast majority of winners (83 percent) mention discounters in their top three channels.
- **Convenience is king.** Busy lives make on-demand shopping a necessity. Shoppers want to be able to shop whenever and wherever. Yet, convenience needs a specific approach for pack sizes and food service offerings in their consumer decision journey.
- **Shoppers turn hybrid and shift between off- and online channels.** Studies show that shoppers not only use e-commerce pages to purchase online but also to seek product information or compare prices.

To address the different channel characteristics, winners employ tailored channel strategies and invest accordingly. In the discounter channel, CPG manufacturers work more strategically with key players and understand their shoppers in more depth. Discounters are opening up to more strategic conversations since they are turning to branded manufacturers for continued growth.

In countries with strong e-commerce channels like the UK, winners are four times more likely to invest in targeted assortments and channel-specific marketing for their key online retail partners.

In the convenience channel, winners invest significantly in collaborative approaches that improve their outlet coverage and assortment to cater to all shopping missions from top-up shops to immediate consumption offerings in food service.

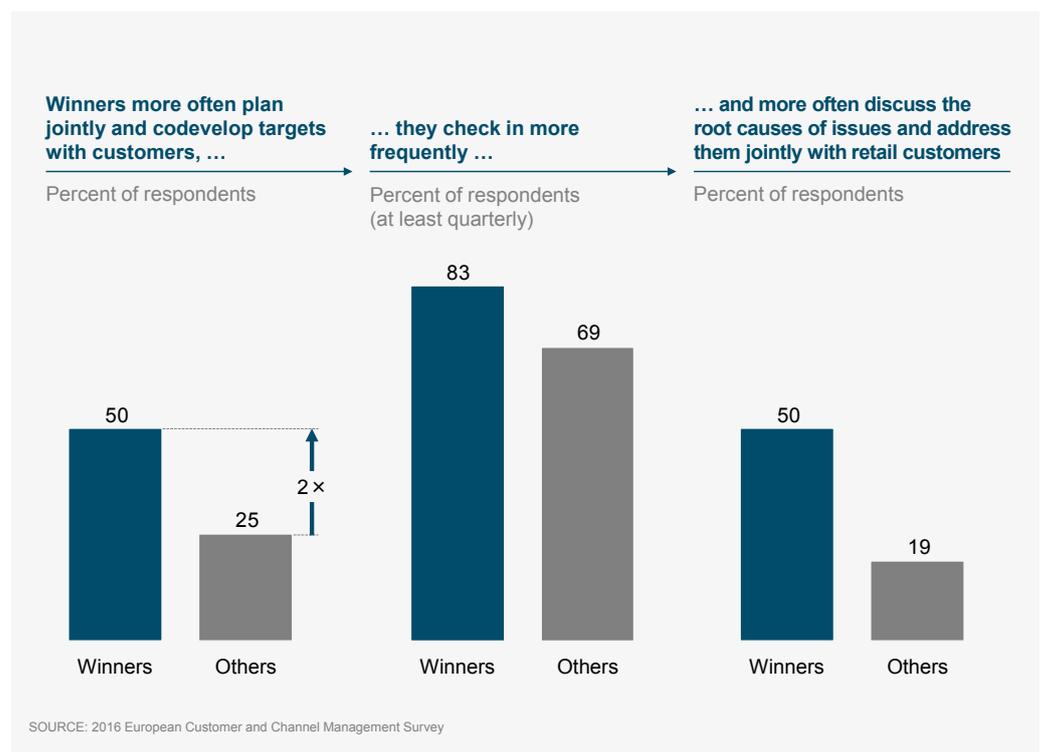
Across the board, winners invest in deep customer and shopper understanding to underpin their sales strategies with facts and insights. Two-thirds of the winners report having the analytical capabilities necessary to make the most of their data, while the same is true for less than half of the other manufacturers.

II Overinvest in collaborative relationships with most important customers

Many CPG manufacturers struggle to maintain their edge in their old domains of shopper, category, and product performance understanding. Retailers invest heavily in big data capabilities that generate insights from the vast amounts of data at their disposal. These insights start to give retail buyers an edge in discussions with key account managers of CPG manufacturers.

Winning CPG manufacturers have overhauled their key account management approach. This has allowed them to “play at the same level” and leverage big data from data sharing agreements with retailers, focus more on digital capabilities, and become ever more granular on promotions and assortment. As a result, they are able to address longer-term issues jointly with retailers (half of the winners versus 25 percent of others) and codevelop targets to tackle these issues (Exhibit 1). Winners are two times more likely to optimize the product assortment in collaboration with their retail customers. Half of the winners create tailored pack sizes (vs. 8 percent of others) and are three times more likely to develop a joint space strategy and optimize planograms with retailers. They are happy to commit one-third of their sales leaders’ time to these major retailers.

Exhibit 1:
Winners in key account management develop more strategic customer relationships

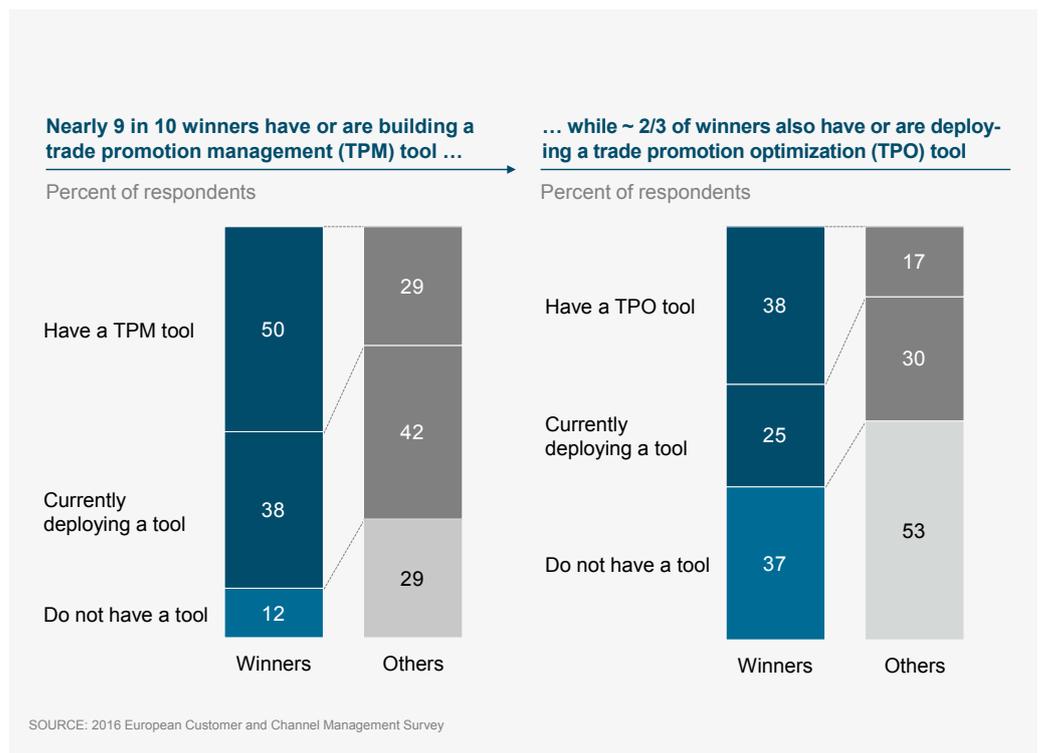


III Deliver greater return from advanced revenue growth management

For the winning manufacturers, revenue growth management has become a key building block in their sales approach. The winners achieve 4 percentage points above category sales growth, 1 percentage point average retail selling price growth, and top-line growth that outpaces the inflation of trade investments.

Pricing strategy and promotion management. Winners use the full range of tactics like adjusting list prices or flexibly changing the promotion intensity. They state that automated tools to optimize promotions and recommended selling prices help them make the right decisions quicker than competitors. Taking a closer look at their tools reveals that they employ sophisticated, more granular analytics and distill deeper shopper and market insights (Exhibit 2). Winners typically think beyond market share and place equal importance on product mix and revenue per unit (80 percent of winners versus 55 percent of others) in their pricing and promotion decision making. As an exemplary result, they are better able to maintain price increases without adjusting trade spend to the full increase.

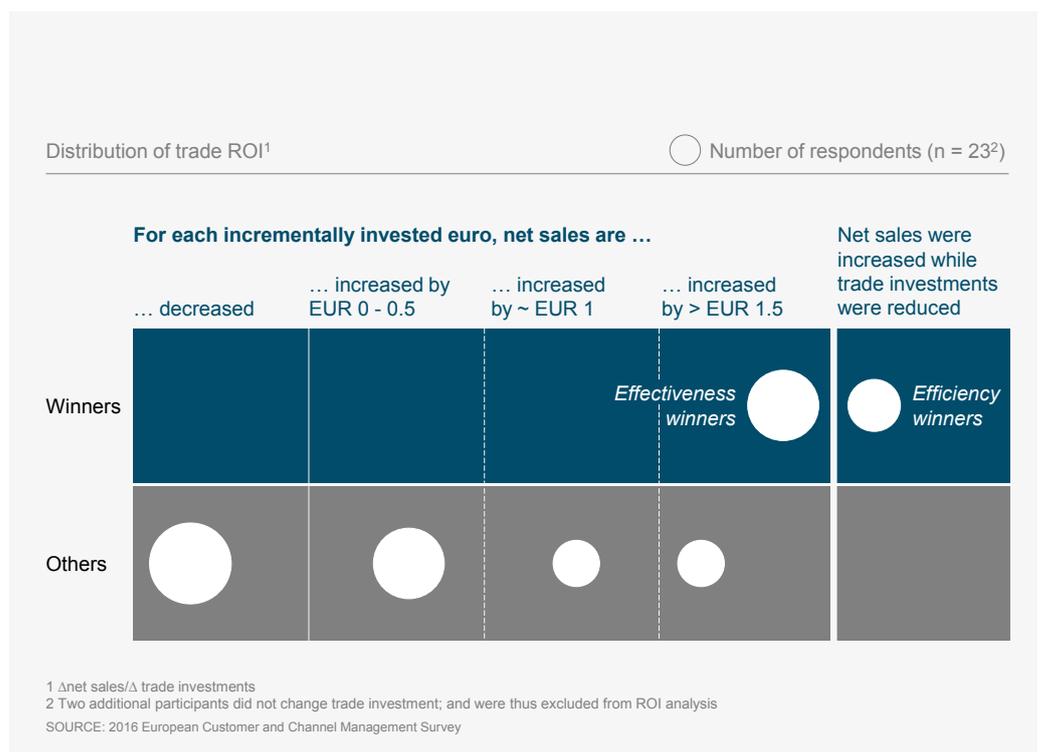
Exhibit 2:
Winners more often use
advanced promotion tools



Trade investment management. Winners are able to increase their net sales faster than their trade investments or even increase their net sales while reducing trade investments (Exhibit 3). Half of the winners saw improving returns on their trade investments (versus 30 percent of others). Behind most of their success are performance-based trade investment agreements based on clear underlying activities (e.g., shelf share or new product listings) and targeted outcomes (e.g., value growth or share in retailer). The activities and outcomes are closely tied to the overall business objectives of the CPG manufacturer. Winners typically avoid simply rolling trade investment levels forward from one year to the next. They have a more transparent and granular understanding of their trade investment, allowing them to better manage funds across customers and channels – 88 percent of winners understand trade rates on product levels (versus 47 percent of others). To achieve this understanding and optimize returns, winners are twice as likely as others to invest in trade investment management and optimization solutions and dedicate revenue growth management resources.

At the same time, winners also see themselves challenged by a growing online channel with different promotion mechanics and trade investment requirements, further data points on promotions and trade investments waiting to be analyzed, and ever more deal-hungry shoppers in markets dominated by discounters that cry for innovative rather than “just” optimized promotions.

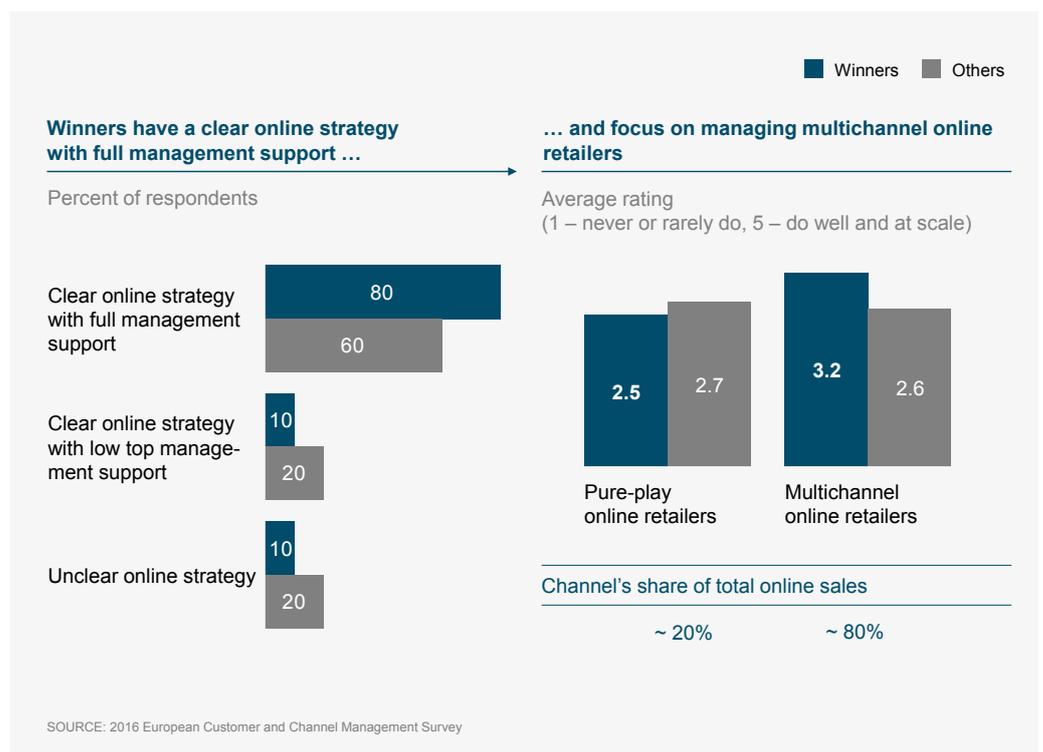
Exhibit 3:
Winners in trade investment management achieve higher trade ROI



IV Identify omnichannel as a driver of change and invest ahead of the curve

Omnichannel and e-commerce are at different maturity levels in the major European markets. Online food sales make up around 4 percent of the UK market (EUR 7 billion). The major format is home delivery but also click & collect is widespread. France has about 1.5 percent share of online food sales (EUR 3 billion). The typical format is click & collect at the sites of the major super-/hypermarket chains. Germany falls behind its peer markets with only around 0.5 percent share of online sales (EUR 0.6 billion). There is a mix of multichannel and pure players but all on a very small scale. In this context, winners achieve above-category online growth (19 percentage points) and attribute higher shares of sales to online channels (4 percentage points) than other companies. They have a clear e-commerce growth strategy (Exhibit 4) with a long-term horizon backed by full top-management support (80 percent winners versus 60 percent others). The focus of most CPGs is currently on multichannel players. They also gain valuable insights from their first-mover advantage on how to avoid pricing conflicts between their own channels, activate the e-commerce shopper, and define the right assortment for the channel. They understand e-commerce as a sales and a communication channel. Consequently, 75 percent of winners increase their advertising and marketing spend in this channel (versus 20 percent others). Winning companies rely on a tailored e-category management playbook that they apply in pure-play e-commerce and multichannel. For example, half of the winners develop tailored assortments for the e-commerce channel versus 20 percent of the others.

Exhibit 4:
Winners follow clear omnichannel strategy



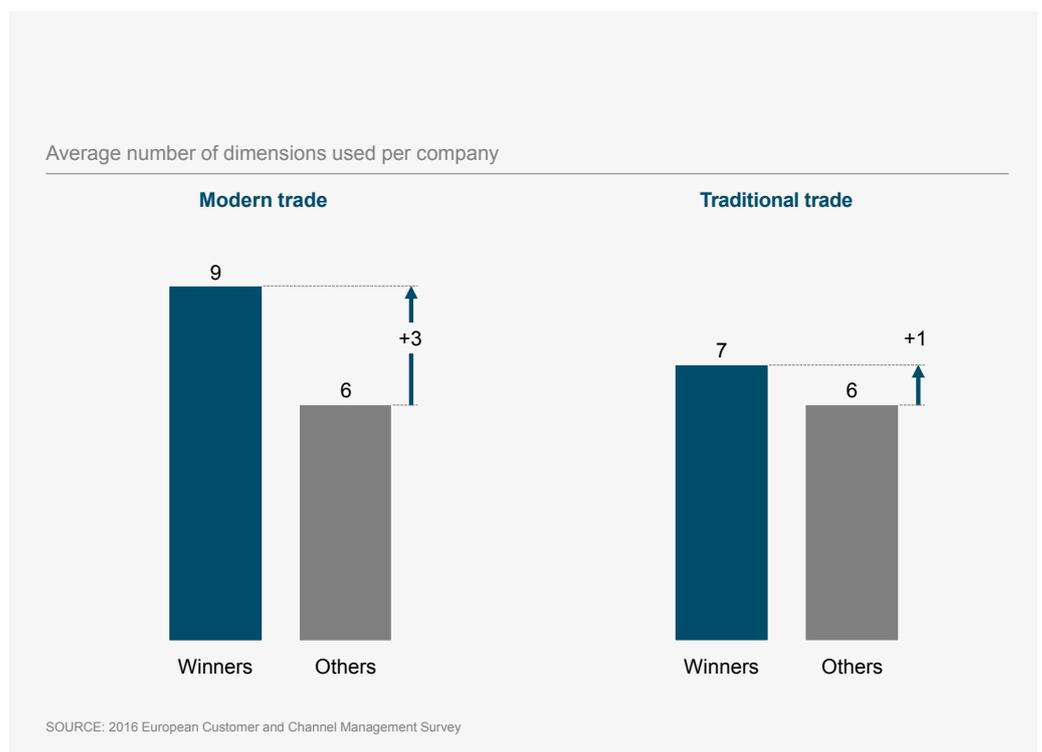
V Drive sales execution with optimized route-to-market models

The right route-to-market model continues to be a major driver of CPG manufacturers' success. Winners have a superior understanding of cost-to-serve and route economics as well as a clear appreciation of the importance of the field force.

Sophisticated multidimensional outlet segmentations are still at the heart of successful route-to-market models. Winners now typically use seven to nine dimensions in their segmentations (Exhibit 5). Winners are also over four times more likely than other CPG companies to assign "pictures of success" to outlet segments – 75 percent versus 17 percent – outlining the core drivers of a perfect outlet.

Winners are more likely to leverage external sales forces to free up the capacity of their internal sales teams to focus on value-adding activities like customer relationship building, developing new accounts, and introducing new products. They also equip their field sales reps with better scripts and more advanced technology to win at the point of sale. Furthermore, winning companies develop customized selling stories based on geography, retailer or outlet economics, and category trends.

Exhibit 5:
Winners rely on granular
outlet segmentations



VI Build strong end-to-end capabilities and commercial operating models as enablers to win

As in other areas, CPG manufacturers can only be as good in customer and channel management as their people are. Winners heavily invest in and dedicate resources to building commercial capabilities; they invest in external and internal trainings and excel at reinforcing training content in the field. By contrast, nearly half of other CPG manufacturers admit that important training concepts are not reinforced. They consistently use simple tools like action plans with objectives and milestones to drive the development of capabilities (83 percent of winners versus 50 percent of others). Moreover, winners overinvest in driving key capabilities that provide a competitive edge like shopper marketing and insights (they are two times more likely to have strong capabilities in these areas).

In general, winners continuously review and improve their commercial operating model. They focus on embedding core capabilities on revenue growth management and e-commerce and adjusting customer and shopper marketing resources to evolving channels and key accounts.

How CPG manufacturers can close the performance gap

CPG manufacturers with the aim of bringing their customer and channel management performance up to par with that of the winners need to develop a consistent program. This program begins with manufacturers reviewing their performance and practices regarding the six major imperatives of customer and channel management in Europe. Thus, they will gain clarity on gaps in their performance and potential root causes in their practices compared to the winning manufacturers. Some of the initiatives might be easily tackled, e.g., data availability and tools used. Others could require a long-term approach that is implemented over years, e.g., achieving performance-based trade investment levels with all key customers.

About the customer and channel management survey

Since 1978, McKinsey has been studying and benchmarking the channel and customer management practices of leading CPG companies in the United States. We expanded the survey to Europe in 2012. In this latest European edition, we surveyed more than 100 sales managers in 43 country organizations of 18 CPG manufacturers. Roughly 90 percent of the country organizations were located in France, Germany, or the UK.

The methodology employs Nielsen-syndicated retail and consumer data as well as self-reported financials to identify manufacturers that are outperforming their peers. The measures to define winners are tailored to each customer management imperative, e.g., trade ROI, value growth versus the category. After the winners have been identified, their self-reported customer management practices are compared to the practices reported by the other manufacturers in the areas of sales strategy, key account management, revenue growth management, omnichannel, sales force, and sales organization.

The survey is conducted on a rolling basis. Hence, participation is possible at any time.

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