McKinsey&Company

APRIL 2010

McKinsey Quarterly

ORGANIZATION PRACTICE

A new world for brand managers

CPG companies have created fragmented, overlapping structures that prevent brand and category managers—and the companies themselves—from achieving their full potential.

Stacey Haas, Monica McGurk, and Liz Mihas

In any successful consumer-packaged-goods (CPG) company, there have always been a few creative marketing integrators who made it tick. They are the brand managers and category managers, the key-account executives and geographic leaders who played starring roles, pulling the levers at the center of complicated businesses. From product development to consumer interactions—and including advertising, strategic planning, and operations planning—they ensured that all the parts came together and that the right products made their way to the right markets.

But CPG companies and their markets are growing increasingly complicated, and the complexity endangers the effectiveness of these critical integrators. CPG companies are selling more variations of products in more places to more types of customers. The number of ways customers can learn about products has exploded—including digital and social media, which aren't directly controlled by companies. And retailers expect CPG companies to make more customized marketing offerings.

For many companies, these developments have produced major structural shifts and seemingly endless rounds of reorganization that increasingly deny brand managers and their peers the integrated perspective they used to have. More and more, they share power with functional leaders or more senior executives. What's more, they must cope with new groups or roles, such as customer marketing and shopper marketing, that have been added to create links between functions or to address capability gaps. As a result, brand managers have lost their role as integrators, and they spend more time in meetings than in doing their jobs. That wastes time and money and diminishes the opportunity to create real value. Some brand managers spend as much as 80 percent of their day in meetings to coordinate their activities with those of other internal groups.

In our experience, two interrelated steps can help companies ensure that they get the coordination they need, reduce waste, and help executives in coordinating roles thrive. The first is simplifying and aligning organizational structures wherever possible: removing just two layers of management can reduce the time a brand manager spends in meetings to 54 percent, from 80 percent. A key part of this reorganization involves streamlining all significant processes to ensure that it's clear who makes final decisions on complex issues and that only those people and others with crucial knowledge are involved. The second step is ensuring that the people in coordinating roles have the skills, such as negotiating and networking, that will enable them to succeed without additional organizational structures. Taking these two steps together will give CPG companies the best chance of maintaining an effective organizational structure over time.

Good intentions, confusing results

CPG companies have seen tremendous growth in the past 20 years. Average revenue at the top ten companies, for example, grew from $13 billion in 1990 to $47 billion in

2009, while the average number of brands they sell rose from 46 to 153 and the average number of countries they're active in from 112 to 160. Between 2004 and 2006 alone, fast-moving consumer goods companies introduced 274,000 new products. At the same time, the marketing management of CPG companies has become more complex through the emergence of online tools, especially social media, that are shifting the balance of power to consumers.

CPG companies have responded to all this by adding reporting lines, management layers, and infrastructure. They have split up business units to increase the focus on narrow groups of products, made ever-finer geographic cuts, created "bridge" functions to coordinate existing functions, or added specialist capabilities to address new consumer media activities.

Very often, these can be valuable responses to changes in a fast-moving marketplace. One consumer goods company, for example, identified a gap in its commercial execution. Some of its key retail partners were consolidating and gaining power in the marketplace. To maintain its relationships, the company therefore needed to ensure that it was using best practices in gaining more insight into these retailers' needs and to improve its own performance management and executional strength.

The company formed a bridge function composed of employees drawn from marketing, finance, innovation, and supply chain, with expertise in areas as diverse as revenue growth management, route-to-market planning and analysis, and shopper marketing. The function grew and maintained itself for several years. Eventually, the company was satisfied that it had built up the necessary capabilities in critical business units and had codified best practices and incorporated them into its formal commercial processes and training programs. At that point, the function began shrinking itself, transferring accountability for ongoing improvement to the business units and existing functions, such as supply chain and marketing. Even though the bridge function added layers of management and control to the various functions and business units for a time, those layers were removed when they were no longer adding value.

Too often, however, we find that companies don't monitor organizational changes and that new structures persist long after they have stopped creating value—if they've created value at all. Consider the many "sustainability" groups now in vogue to bridge the supply chain and marketing functions in response to increased retailer and consumer pressure to address all forms of waste along the CPG supply chain. These groups rarely bring new expertise to a company, we've found, because typically they are staffed by existing employees from each of the functions. Instead they become distractions to both of them—at best fact finders, but never shapers of the corporate agenda.

In addition, corporate cost-cutting or standardization initiatives often strip away some of the brand manager's decision-making authority. Brand managers, for example, are now frequently told to cede advertising authority to a global campaign, to subsume their supply chains into a company-wide supply chain, or to meet sales targets set by the sales department. Such developments also mean that brand managers and their peers have a less integrated perspective than they formerly did. All of this has led many CPG companies to elevate decision making to higher levels, which creates significant bottlenecks, slows the overall pace of response, and leads to less clarity in the consumer's experience in understanding—and purchasing—brands.

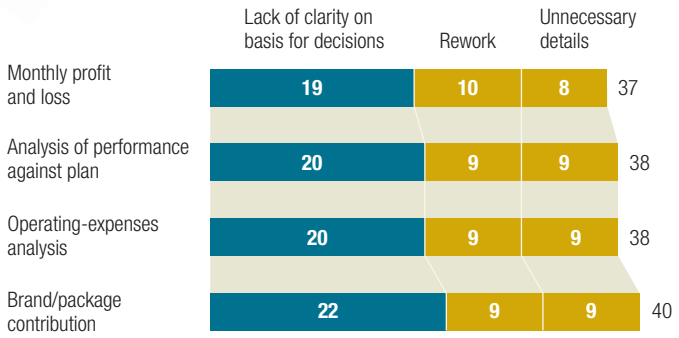
The basic problem is that too many people are involved in too many decisions, often with insufficient information or perspective.[1] Today, 81 percent of CPG companies, for example, have a matrix structure, with multiple reporting lines in most key positions, compared with 59 percent of companies in other sectors. Such overlapping responsibilities appear to reduce effectiveness, compared with companies in other sectors, even in areas where they're supposed to help, such as coordination. People in coordinating roles, such as brand managers, spend huge amounts of time unprofitably (Exhibit 1) across a range of processes, from creating the monthly profit-and-loss statement to analyzing progress against sales plans. The reasons include a tendency to revisit decisions because roles aren't clear, to do extra work to please a broad group, and to seek alignment across a large number of people. Finally, we see CPG companies burdened with so many layers that they cease to gain scale with growth.

Exhibit 1

Unclear and overprocessed

The opportunity to reduce wasted energy exists across a range of processes.

Disguised example of a consumer-packaged-goods company, % of time that could be reduced



[1] Many companies in other industries that rely on knowledge workers also face significant problems managing organizational structures. See, for example, Lowell L. Bryan and Claudia Joyce, "The 21st-century organization," mckinseyquarterly.com, August 2005.

By contrast, McKinsey research on CPG organizations that emphasize the importance of generalist marketing functions and of marketers as integrators shows that these organizations are more efficient and effective. Overall, marketing organizations that emphasize the role of generalist marketers deliver two to three more percentage points of organic growth than marketing organizations that make relatively greater use of specialist groups.

The first step in dealing with structural problems is the familiar one of making sure that a company's current organization meets its current strategic needs. It's important for companies to focus on the key ways brand mangers interact with others every day in the core processes of their work, including innovation, brand portfolio management, strategy development, and changes in packaging. Companies can both accelerate decision making and reduce the overall level of resources required to reach "go-no-go," by streamlining the work itself, addressing key points where information or analysis is made too widely available,[2] clarifying what counts as important enough to rise through the ranks, and reducing the level of consultation. It is often possible to remove numerous management layers and reporting lines, giving managers more time for value-adding activities.

Reckitt Benckiser is an example of a company that addresses this problem by clarifying the roles of global marketers versus country marketers and emphasizing the importance of their 17 "powerbrands," which account for over 60 percent of annual net revenue. Marketers in the global organization focus on developing global product initiatives with a three-year or longer horizon, while country marketers have profit-and-loss responsibility and focus on executing the global plans. In addition to the universal and consistent focus on their global brands, most of which are number 1 or 2 in their category, the company invests heavily in innovation and has a publicly stated goal to achieve 40 percent of their revenue from products launched within the past three years. Reckitt Benckiser has a culture that values fast decision making, entrepreneurship, and teamwork. While managers are compensated and promoted based on individual performance, they are also rewarded for team performance and cultural fit. The organization structure is kept flat, streamlined, and nonbureaucratic, all of which foster speed in making decisions and responding to changing consumer and market conditions.

More skills needed

How lasting such organizational changes prove to be depends in large part on the ability of people to address the more complex competitive environment CPG companies face. As they have grown, increased fragmentation has highlighted the fact that they don't focus on ensuring that brand managers and other key coordinators have or can gain the skills needed to thrive in the current environment. One global company, for example, undertook a major reorganization and in the aftermath categorized various high-level coordinating roles, such as brand and category managers, as pivotal. It then used targeted recruitment

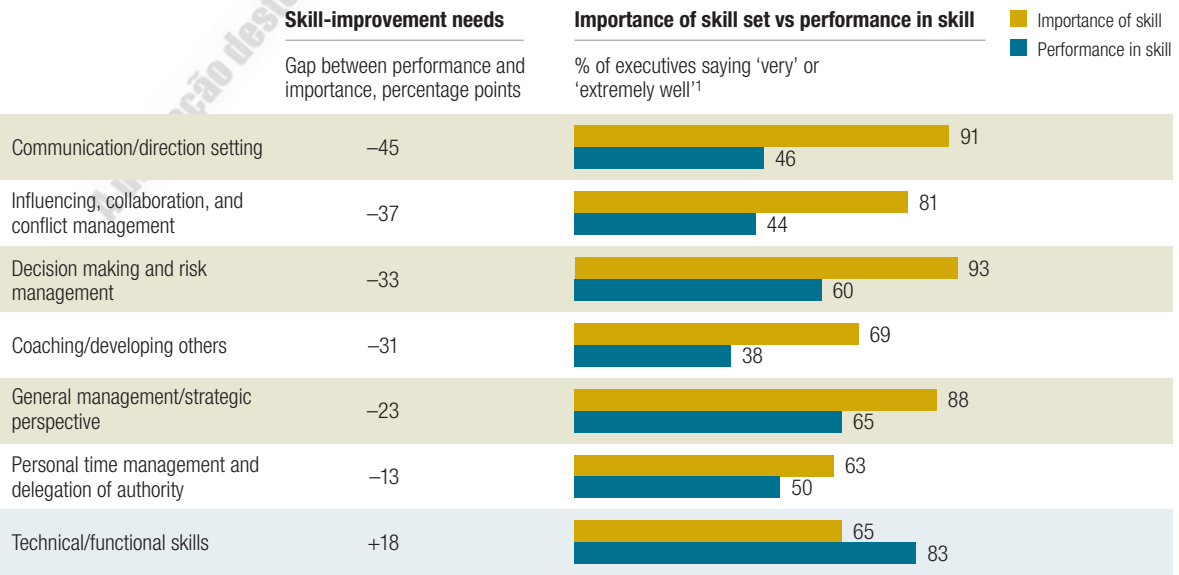
[2] For instance, eliminating status updates or information sharing with managers who cannot contribute to shaping a decision.

and promotion to upgrade talent in them. After four years with the new organizational structure, the company's senior leaders (including the ones in those roles) were surveyed. They reported that they now thought only about a fifth of the people in pivotal roles were talented or high performing enough to succeed; also, more than half said they themselves didn't have a professional-development plan.

More broadly, according to a recent *McKinsey Quarterly* survey, although most companies formally identify high-performing talent, fewer than half formally designate a set of coordinating roles, such as brand or category managers. Companies that do designate such roles put more emphasis on screening and placement than on relevant skills. Also, like the company above, these companies place little emphasis on developing people once they're in the roles. All this may explain why the executives who responded to the survey say that the people in some of their companies' most crucial roles are, on the whole, not strong performers on a range of critical skills (Exhibit 2). Another recent survey showed that even at companies where brand management is the corporate capability most important to performance, only 30 percent of respondents say their companies focus solely or a lot on developing employees' skills in that area. In fact, fewer companies focus tightly on developing brand-management skills than on many others, such as supply chain management or service operations (Exhibit 3).

Exhibit 2

Short on skills



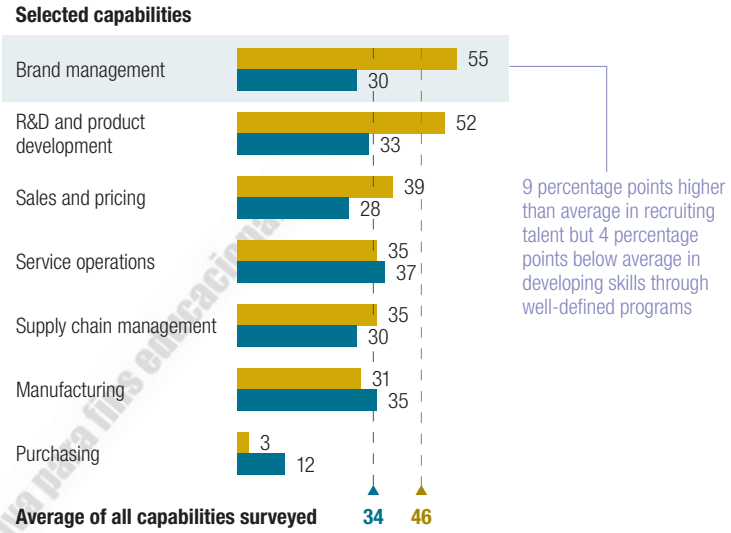
[1]Respondents were screened out if they identified themselves as a student, journalist or academic, or if they reported their company had 1,000 or fewer employees. The remaining respondents numbered 227; of these, 89 responded to this question.

Source: Oct 2009 McKinsey survey of 227 executives from around the world

Exhibit 3

Skill development suffers

To what extent, if at all, does your company focus on the following activities to maintain or improve its capabilities?



Source: Jan 2010 McKinsey survey on building capabilities; "Building organizational capabilities: McKinsey Global Survey results," mckinseyquarterly.com, March 2010

Related thinking:

"Harnessing the power of informal employee networks"

"The evolving role of the CMO"

"How consumer goods companies are coping with complexity"

P&G remains the best example of a company that gets skill building right for its brand managers. The "P&G way" can best be described as a build-from-within apprenticeship model that requires almost all senior leadership to be promoted from P&G's ranks. This translates to a heightened emphasis on career-long training, internal networking, and clear communications skills across the company. Overall, 95 percent of P&G employees have worked their way through the ranks. To reinforce this apprenticeship model, P&G has developed a common marketing language, established an internal marketing "university," created centers of expertise through global networks of experts with shared competencies, and redefined brand management as a career, extending the time horizons of people in these roles. While critics sometimes view the company as slow to respond to changes in the marketplace, P&G-trained marketers are successful in many industries, and the company is one of the world's preeminent marketing institutions.

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Faced with an increasingly complex competitive environment, CPG companies have responded by creating fragmented, overlapping structures that have tied up brand and category managers and others in key coordinating roles, crimping their vitality and value creation potential. Streamlining critical processes and building skills among the people in coordinating roles will help companies avoid endless rounds of reorganization and ensure that their executives in coordinating roles can once again deliver real value.

The authors wish to acknowledge the contributions of Lizzie Burn, a consultant in the New Jersey office, to this article and the research underlying it.

Stacey Haas is an associate principal in McKinsey's Detroit office, **Monica McGurk** is a principal in the Atlanta office, and **Liz Mihas** is a principal in the Chicago office.