

INSIGHTS

CONSUMER AND HEALTH GROUP

VOL. 1 ISSUE 1

Customer Teams—A Solution in Search of a Problem

Challenges of a Changing Retail Industry

Customer Teams Failed to Deliver the Expected Result

At this point, everyone is familiar with the sales challenges facing consumer products companies. Major retail accounts are consolidating and continue to exercise their increasing buying power. All accounts seem to be more demanding, and are actively working with everything from shopper cards to high-quality captive label products to shift the consumer's loyalty from manufacturer brands to theirs. At the same time, traditional grocery sales are being fragmented. As more of the food dollar is spent away from home, channels like food service and convenience stores are gaining at the expense of traditional grocery retailers.

Worse yet, this trend is far from over. In fact, there appears to be no end in sight. Despite recent acquisitions, food retailing in the

United States remains fairly fragmented.

Certainly, there is a long way to go before five or six retailers comprise 80 percent of grocery volume, as is the case in some European countries (or in Canada). Perhaps more significantly, acquisitions and expansion no longer stop at country borders. Wal-Mart, Ahold and Carrefour operate in multiple



Overview

Both the consolidating retail industry and changing consumer shopping habits pose significant challenges for the consumer products industry. Large retailers have become more sophisticated. Shopping occasions have proliferated. In response, many consumer product companies have reorganized their sales forces and introduced customer teams. While this is without doubt a move in the right direction, many challenges continue to plague current sales force organizations, among them the right coordination between sales and marketing, resource allocation, trade spending, etc.

We believe these issues can be addressed only through a more comprehensive organizational realignment. This realignment will not only affect the sales force but needs to re-balance the decision-making powers of the sales, marketing and support functions. This Insights describes Booz-Allen's perspective on the challenges and the correct organizational response.

countries and have plans to continue to expand. To date, these retailers have continued to buy locally, but it likely will not be long before they figure out how to leverage their global scale with suppliers (see Exhibit 1).

In response to these changes, most consumer products companies have moved to some kind of customer team structure. Following Procter & Gamble's lead, they have reorganized parts of their sales forces into cross-functional units aligned with their major customers. Often this transition has come at a significant cost, in terms of both the transformation itself and a higher ongoing cost for incremental resources in these teams.

Unfortunately, while many have acted, there are only very few who feel they are getting it right. Most

Most of the companies
continue to explore
key design details of their
customer
team organizations

of the companies continue to explore key design details of their customer team organizations, such as:

- What do customer teams actually do? What is their role? How should they be staffed?

- How are customer teams tailored to meet the needs of different types of key accounts (e.g., Kroger vs. Wal-Mart vs. Super-Valu)?

- What parts of the regional sales organization are still required after the move to customer teams and how are the activities of the two organizations coordinated?

- How can consistency in the pricing and promotions strategy be ensured?

- What is the role of the broker (if any) in the new structure?

SELLING CONSUMER PRODUCTS—KEY INDUSTRY CHALLENGES (EXHIBIT 1)

Retail consolidation and increasing centralization of purchasing activities

- National (international) sourcing decisions
- Obsolescence of traditional regional sales approach

Changes in consumer shopping habits

- Growing importance of non-traditional grocery channels (club, convenience, food service...)
- Out-of-home consumption growing



Channel partners demanding sophisticated price and category management capabilities from manufacturers

Further erosion of consumer loyalty by emerging Internet shopping sites and extended retailer programs (shopper cards, private label, etc.)

Source: Booz-Allen & Hamilton analysis

Many Fundamental Challenges Not Addressed

Much of the above-mentioned fine-tuning could be explained by companies who have found that the transition away from a purely regional sales structure was simply harder than expected. However, even companies who began the transition several years ago usually cannot point to the specific benefits they receive from their customer team structures. Frequently they have adjusted their organizational models over time, but are left with a sense that each problem they solved created another problem somewhere else. As a result, many organizations experience core sales force management issues that are as bad as ever, for example:

- Multiple conflicts arise between brands and channels that cannot be resolved without senior management intervention—tying up the organization in endless coordination meetings
- Sales time is a shared resource across product divisions or brand organizations, and there is no systematic way to prioritize sales force time—creating significant organizational conflict
- Trade spend, while generally recognized to be inefficient, has not gone away. In fact, for many manufacturers, it is increasing and now needs to be balanced across very different types of accounts—with customer teams acting as champions for their customers
- Coordination and prioritization activities absorb so much time that sales people find themselves spending less time than ever actually with their customers—missing out on high value-added opportunities.

It seems to us that many of these companies have missed the essence of the issue. They jumped on customer teams as the solution without first understanding the root causes they were trying to address. In this sense, for many, customer teams are addressing just the tip of the proverbial iceberg. They are at best a partial solution, addressing some customers' needs, but not improving overall sales and marketing effectiveness, and in many cases, potentially detracting from it.

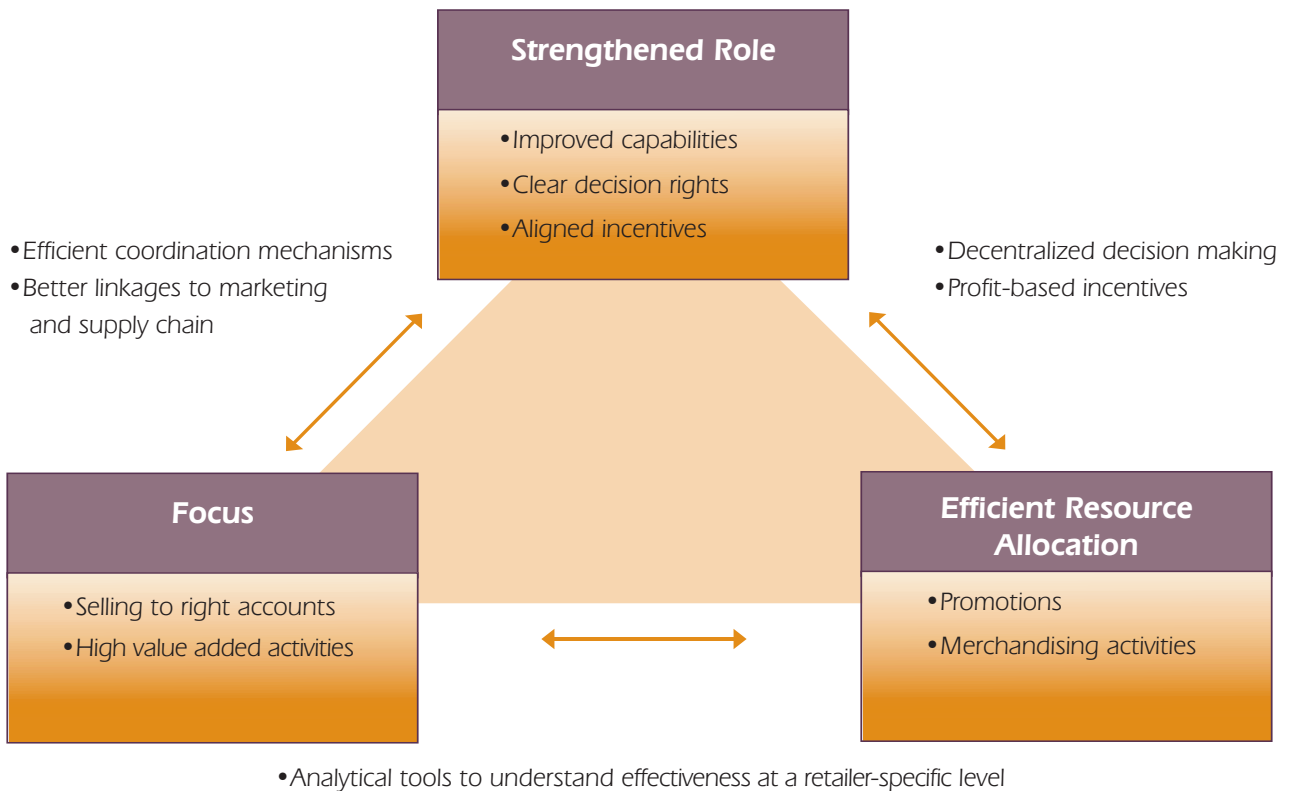
For those close to these organizations, this perspective might seem heretical. “We had to change! Our customers demanded it,” we hear you cry. But look at the list of issues above: How many existed prior to the switch to customer teams? How many have gotten worse? If you answered like most of our clients, you would have to admit almost all these issues pre-date customer teams. And while customer teams have increased awareness of certain customer-specific manifestations of these issues, these issues generally have not gone away, and may have gotten worse. If anything, customer teams may have drawn additional attention to some of these conflicts, as they tend to amplify the voice of the customer in any internal debate.

Required: A Comprehensive Organizational Realignment

The reason customer teams did not solve these problems is that they were not sales force problems to begin with. All the issues listed above have to do with how sales relates to the rest of the organization, specifically the brand group. As such, they cannot be addressed by “fixing” the sales force alone. Often, we find that the processes and policies that marketing

Perhaps it is not only the regional sales model that has outlived its usefulness. The all-powerful brand structure favored by many consumer goods companies may be guilty as well.

COMPETITIVE SALES FORCE—KEY CHARACTERISTICS (EXHIBIT 2)



Source: Booz-Allen & Hamilton analysis

organizations use to guide and prioritize the sales force are incomplete, unrealistic and overly time-consuming. Perhaps it is not only the regional sales model that has outlived its usefulness. The all-powerful brand structure favored by many consumer goods companies may be guilty as well. In today's environment of powerful retail partners, the role, focus and capabilities of the sales force need to be upgraded in order to allow sales management to interact with marketing on a more level playing field (see Exhibit 2).

Moving a piece of the sales force to a customer team structure does nothing to address how the organization manages or prioritizes sales time or how other key business trade-offs are made. Again, the move to teams may even exacerbate these issues by adding to the complexity with another layer

of organization that needs to be planned and coordinated, i.e., strategies are developed by brands, negotiated with customers by a customer team and executed locally by a regional sales force.

Is there a way out? Can a consumer products company avoid these problems associated with customer teams and still address the underlying challenges? Our experience is that there is no easy answer, but with the right approach, companies can build more effective “go to market” organizations, in which customer teams usually play a role.

But to “get it right” consumer products companies must:

- Understand the key issues and their root causes, particularly at the intersection of sales and marketing

- Plan on having to rebuild the entire organizational model, not just the sales force

- Design the model from the ground up, with an emphasis on the key decisions and where and how they are made

- Consciously rebalance the coordination between sales and marketing functions, giving the sales force a say in the allocation of its efforts

- Explore profit-based incentives with “double-counting” of P&Ls as a way to align decision making and encourage appropriate trade-offs without micro-managing every decision

- Create forums for joint decisions and build an atmosphere that favors fact-based, transparent decision making.

Some might object that this systematic approach to develop a better organizational model with this level of detail is extremely complex. Of course it is. But the real world is complex, and becoming more so. Accepting a solution that is oversimplified will only perpetuate the cycle of solving one problem by creating another. Fortunately, there is a better way. Properly designed organizational models can absorb the complexity using straightforward incentives and decision boundaries, dramatically

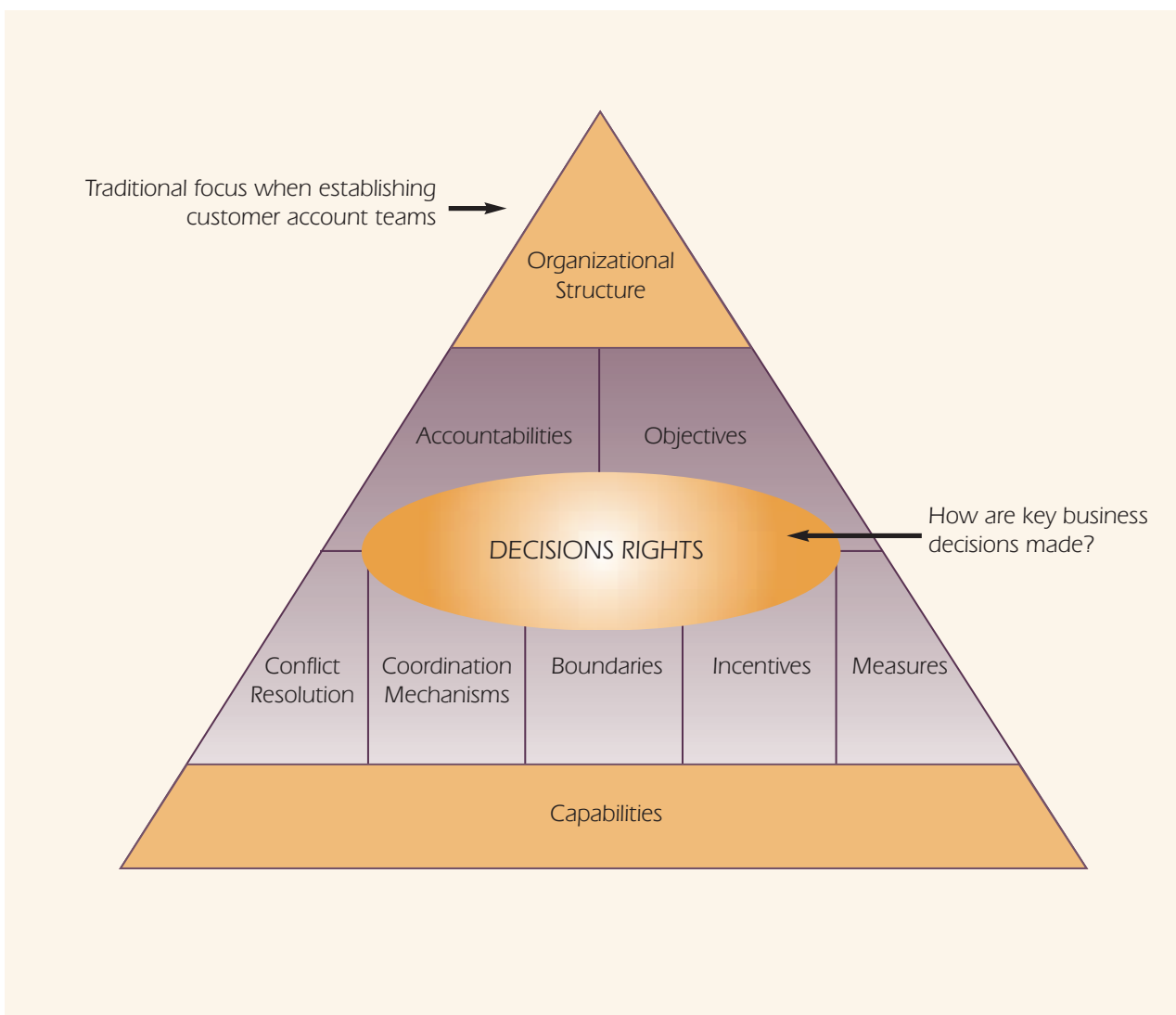
simplifying and clarifying the role of key individuals (see Exhibit 3).

Summary

So customer teams, like the large customers they call on, are likely here to stay. Whether they are successful at achieving their goals, however, is a function of how they are designed, and, in particular, how the rest of the organization is designed to accommodate them. Without this context, customer teams really are a solution in search of a problem.

The good news for those consumer products companies who take on the challenge of the required comprehensive organizational realignment is that the competitive advantage from an effective sales and marketing organization is significant. A successful “go to market” organization makes all the difference when it comes to growing revenue and profits in consolidating industries.

ORGANIZATIONAL REALIGNMENT—REQUIRED COMPREHENSIVE APPROACH(EXHIBIT 3)



Source: Booz-Allen & Hamilton analysis

BOOZ·ALLEN & HAMILTON
Consumer and Health Group

101 Park Avenue
New York, New York 10178
<http://www.boozallen.com>

Amsterdam

31-20-504-1900
Karin Dorrepaal, Vice President
Marco Kesteloo, Vice President
Peter Mensing, Vice President

Bogata

57-1-628-5050
Alonso Martinez, Senior Vice President

Caracas

582-285-3522
Jose Baquero, Vice President
Carlos Garcia, Vice President

Chicago

312-346-1900
Cyrus Freidheim, Senior Vice President
Rhonda Germany, Vice President
David Kantor, Vice President

Cleveland

216-696-1900
Jack McGrath, Senior Vice President
Jeff Bennett, Vice President
Mike Goulder, Vice President
Steffen Lauster, Vice President
Cesare Mainardi, Vice President
Les Moeller, Vice President
Raman Muralidharan, Vice President

London

44-207-956-2020
David Newkirk, Senior Vice President
Doug Hardman, Vice President
Dominik Magyar, Vice President

Mexico City

52-5-230-6900
Carlos Molina, Vice President

Milan

39-02-72-50-91
Ricardo Lotti, Vice President

Munich

49-89-54525-0
Britta Kraemer, Vice President

New York

212-697-1900
Gerald Adolph, Senior Vice President
Charley Beever, Vice President
Barrie Berg, Vice President
Nick Demos, Vice President
John Rhodes, Vice President
Horacio Rozanski, Vice President
Deven Sharma, Vice President

San Francisco

415-391-1900
Mike Hsu, Vice President

São Paulo

55-11-5501-6200
Francis Liu, Vice President

Booz·Allen & Hamilton

Jeffrey W. Bennett is a Vice President with Booz·Allen & Hamilton's Consumer and Health Group, based in the Cleveland office. His recent work focuses on issues at the intersection of strategy and organization, primarily in consumer packaged and consumer durables businesses. He holds an MS in Industrial Administration from Carnegie Mellon University and a BS in Mechanical Engineering from the University of Illinois.

Steffen M. Lauster is a Vice President with Booz·Allen & Hamilton's Consumer and Health Group, based in the Cleveland office. Mr. Lauster specializes in strategy development and sales force management in consumer products and health industries. He holds an MBA from the Darden School, University of Virginia, and a BA from the Berufsakademie Stuttgart, Germany.

Booz·Allen & Hamilton Founded in 1914, Booz·Allen & Hamilton pioneered the business of management consulting. Today, it is one of the world's leading international management and technology consulting firms, with more than 10,000 employees in over 100 offices worldwide and sales in excess of \$1.8 billion. Booz·Allen & Hamilton corporate headquarters are located in McLean, Virginia.

Booz·Allen's client base includes many of the world's largest industrial and service corporations, as well as major institutions and government bodies around the world, including most U.S. departments and agencies. Booz·Allen provides services in strategy, systems, operations and technology to clients on six continents. The firm delivers a powerful combination of strategy, e-business expertise, industry knowledge, functional capabilities, implementation expertise and technical know-how. Consistent with its position as a business thought leader, Booz·Allen sponsors *strategy+business*, a quarterly journal containing the best ideas in business. Visit the Booz·Allen Web site at www.boozallen.com or the *strategy+business* Web site at www.strategy-business.com.