AGILE SWEET SPOTS IN CPG

By Steve Maaseide, Luke Pototschnik, and Nicol Zhou

While agile is gaining popularity in the financial services industry and elsewhere, this way of working is only slowly finding traction in the consumer packaged goods (CPG) industry. The slow adoption reflects the difficulties of introducing agile into the multidimensional matrices—region, channel, and category—of consumer companies. These difficulties, however, should not dissuade CPG companies from doing so. Agile works well in specific activities and sweet spots within CPG, and the principles of agile can apply more broadly across CPG organizations.

Why CPG Is Different

Agile was born in the software industry to speed and improve product development by doing away with the slow and sequential waterfall approach to decision making. Its defining characteristic—small, empowered cross-functional teams—has successfully migrated to companies in a variety of industries being disrupted by digital technologies, such as financial services and telecommunications. These organizations have started to create multidisciplinary teams to accelerate processes, boost innovation, and shorten the time to market. Even public sector organizations have used agile to lower costs and dramatically improve both productivity and engagement.

Banking, for example, was a natural fit for agile because the industry has become digital to its core. In banking, agile brings together IT and product teams to ensure that they are pursuing the same business outcomes. Agile cross-functional teams are able to move quickly because members do not need to continually run decisions up functional siloes for approval. IT, for example, can establish standards and guidelines that enable IT members of agile teams to make decisions without oversight. Agile has worked so well in this industry that some banks are even starting to build entire operating models around these self-managed teams.

But the CPG industry has proven to be a tougher nut for agile to crack. (See "Agile to the Rescue in Consumer Goods," BCG article, May 2018.) Most global consumer packaged goods organizations have evolved into complex, multidimensional matrices of regions, categories, and channels. Initially, this setup worked tremendously well to leverage the benefits of scale in any particular category, market, or channel. But over time, bureaucracy—or what we call "complicatedness"—began to overwhelm cooperation and coordination as the defining characteristic of these matrices. For example, as new capabilities such as e-commerce and digital marketing emerged and earned their own seats at the table, reporting lines grew fuzzier and more complex. Many executives could say no, but too few could say yes.

The multidimensional context of CPG companies has proven to be a far harsher place than financial institutions for agile to take root. In banking, agile was able to solve a coordination challenge between business and IT; the IT members of cross-functional teams can be given predefined standards and guidelines to enable them to make decisions without continually running up functional siloes for approval. But in CPG, with its three power centers of region, channel, and category, agile has to do a lot more heavy lifting.

Therefore, two challenges loom large in deploying agile in CPG companies:

- How to empower teams when leaders in each of the axes of the matrix often want approval or veto rights

- How to structure cross-functional teams when creating teams for every combination of region, channel, and category would be too unwieldy

Fully agile organizations have ways to address these issues. But to do so, they require new operating models with fundamental changes in underlying structures and roles, decision rights, and mechanisms for governance and funding. (See "Taking Agile Beyond the Tipping Point," BCG article, August 2018.) Few CPG companies are ready to take this step—but that does not make agile irrelevant for CPG.

Two Agile Approaches for CPG

What's a CPG company to do if it is not ready for fundamental changes to its operating model? Taking at least one of two intermediate approaches makes sense.

Collapse The Matrix

A few CPG companies have decided that enough is enough and have begun to collapse the matrix as a way to move decision making down the chain of command and create a less-cluttered environment in which empowered cross-functional teams can take root.

Unilever, for example, recently decentralized in two fundamental ways and saved money in the process. First, it created three global divisions—beauty and personal care; home; and food and refreshments—with the scale and authority to make decisions without running the gauntlet of approvals from other executives. Then, in order to assure that its brands would be relevant in local markets, Unilever empowered a collection of cross-functional "country category business teams" (CCBTs) that report directly to one of the company's global divisions. These CCBTs have the freedom to spend a portion of the company's overall innovation budget on strictly local initiatives without getting approval from above. In the process, Unilever eliminated any duplication of roles between the global divisions and regional clusters.

Unilever's new model introduces greater agility into the organization by reducing the role of the regional clusters in the matrix and devolving power closer to the field. Procter & Gamble is taking a similar route, announcing last November that it would shift more power to category business units in 2019 and eliminate the geographic dimension of its matrix (with the exception of a business unit that consists of small markets).

While not every company is ready to radically simplify its matrix, taking this important step can establish the autonomy of cross-functional teams and enable the broad deployment of agile ways of working.

Find The Sweet Spots

The second approach involves targeting particular areas that are ripe for agile. These are generally in global, regional, or divisional headquarters, where employees often work in siloed corporate functions—such as marketing, product development, and innovation—and in centers of excellence. Three of the most popular agile use cases in the CPG industry involve speedy innovation, faster growth at lower cost, and process redesign.

Speedy Innovation. A global beverage company recently decided to create a full-time, dedicated, cross-functional pilot team focused on testing new products and brands in the market. The goal was to introduce test projects quickly without raising costs.

The team adopted a variety of agile methods, including working in the same location and in sprints, and getting support from an agile coach. The team was able to launch five pilots in six months—some within 30 to 60 days. Under a traditional setup, these launches would likely have taken 12 to 18 months. Given the success of the pilots, the company plans to scale up its effort in 2019 and focus on innovation within existing brands and categories.

This undertaking had high visibility and the active support of senior leaders, which allowed the team to recruit the right mix of employees, including seasoned executives and young talent. Now the company is thinking about other parts of the business in which agile ways of working could play a role.

Faster Growth, Lower Cost. Another global CPG company used agile as a way to generate fresh growth while saving money. Within a regional business with global categories, the company introduced agile teams to monitor the market closely and respond quickly. The teams also allowed the company to cut its head count by 20%. The company effectively removed middle managers who had largely been serving in a coordination capacity—a job that the teams themselves now do. One challenge, however, was that the company still had many executives who could veto, revise, or otherwise slow the efforts of the teams. In response, the company has been reviewing decision processes to eliminate unnecessary approvals, with the goal of further improving team empowerment, autonomy, and speed. Senior leaders aspire to extend agile elsewhere while figuring out ways to make the agile model work within their organizational context and culture.

Process Redesign. Many CPG companies are looking to agile to redesign processes that require coordination across many silos. Some of the most promising are product launch teams with representatives from R&D, engineering, and manufacturing; supply chain teams that bring together sourcing, purchasing, transportation, and manufacturing; and digital marketing teams consisting of employees from social media, marketing, IT, finance, legal, and communications. Tackling discrete cross-functional processes allows CPG companies to educate themselves on the power of agile approaches while avoiding the need for fundamental changes to their enterprise model and matrix.

Agile has a place in big, global CPG companies, but its initial role, presence, and impact may be smaller than in banks and other organizations with less complicatedness. The secret is to find the sweet spots where agile can make a difference right away while making the moves, such as removing an axis of the matrix and clarifying decision rights, that will foster even greater acceptance.

About the Authors

Steve Maaseide is a senior partner and managing director in the Washington, DC, office of Boston Consulting Group. He leads the firm's topic on agile in consumer products and has helped numerous consumer and retail clients with large-scale transformations. You may contact him by email at maaseide.steve@bcg.com.

Luke Pototschnik is a senior partner and managing director in the firm's New York office. He is a core member of the Consumer practice. You may contact him by email at pototschnik.luke@bcg.com.

Nicol Zhou is a principal in BCG's New York office. He works with consumer clients on people and organizational issues. You may contact him by email at zhou.nicol@bcg.com.

Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with offices in more than 90 cities in 50 countries. For more information, please visit bcg.com.