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AGILE TO THE RESCUE IN CONSUMER GOODS

By Ivan Bascle and Steve Maaseide

The matrix organization has long been the dominant model for consumer packaged goods (CPG) companies. Yet as these companies have grown in size and scope, the matrix is collapsing under its own weight and contributing to their decline.

CPG companies have become slow and bureaucratic. The time and resources they devote to coordinating, reporting, and aligning across the matrix robs them of the ability to engage in the productive activity that drives demand. Consequently, smaller, younger, and more nimble companies are out-flanking them to steal a disproportionate share of growth.

To compete against their newer and smaller competitors, incumbents should embrace the test-and-learn and self-managed teams of agile. Executives who dismiss agile as a methodology limited to software development (its birthplace) or financial service (where it has migrated) should rethink their skepticism. Agile practices travel well across industries and help solve the problems of complexity and bureaucracy. Agile increases productivity, speed, and focus while radically reducing time spent in meetings and on coordination. It puts more resources into customer-oriented activities. Agile organizations have more doers, fewer managers, and, as a consequence, lower costs.

The activist investors who have been circling the CPG companies for years would be better off encouraging them to go agile rather than simply shed costs and consolidate or sell off businesses. By going agile, large CPG companies can accomplish what the activists want and what their smaller competitors fear. They will actually harness their scale rather than be hobbled by it.

The Death of the Matrix

Agile and CPG companies ought to be a natural fit. These companies have a long history of innovation in organizational and management practices: they were pioneers in both brand and category management in the last century. They embraced the advantages of scale earlier than companies in most other

industries and were early adopters of the matrix organization as a way to manage competing tensions and requirements within global, scale-sensitive enterprises.

Scale and the matrix structure have lost their punch at CPG companies. Built to take advantage of global scale, efficiency, and control, the resulting organizations tended to have rigid functional silos and bureaucratic hierarchies.

As new capabilities, such as e-commerce and digital marketing, came into existence, these companies began to add new dimensions to the matrix or increase the size of their already sizable centers of excellence. The idea was that, rather than have individual business units hire HR, pricing, and other functional specialists, the company should create a center populated by these specialists, whose expertise could then be shared across the businesses. But shared resources are often unaccountable resources.

These developments have an ironic twist. Known as fast-moving-CPG companies, their decision making slowed down and became further separated from the market and customer desires. With internal bureaucracy rising, cooperation across the matrix weakened, and employee engagement lagged.

These companies are now drowning in their devotion to scale and the matrix at a time when they face their most serious competitive threat in decades. From 2011 through 2016, upstart brands took $22 billion in sales from incumbents in North America alone.

These newer competitors have been winning without the typical advantages of scale, as the era in which the domination of big manufacturing, big media, big brands, and big retail comes to an end. Contract manufacturing enables small brands to essentially rent production scale. E-commerce provides a route to market for products that would otherwise not secure shelf space. Digital media allows companies to reach consumers at a fraction of the cost of big media campaigns.

At the same time, consumers have gravitated toward niche brands that fulfill specific needs, such as organic food, natural home care products, and energy drinks. The changing economics of supply allowed new companies to compete profitably against the leviathans.

It's not just external developments that have allowed these smaller companies to win. They are fluid and focused, acting swiftly and creatively to bring their brands to life. Their simplicity has allowed them to outmaneuver the giant global brands that once seemed so indomitable.

The Rise of Agile

Agile has leapt beyond software because it comprises a methodology and a set of organizational principles that successfully address many of the inefficiencies of the modern organization. (To learn more about agile, see the BCG articles "Taking Agile Way Beyond Software," July 2017, and "Five Secrets to Scaling up Agile," February 2016.)

Agile is built around cross-functional teams that have the power to make decisions. These teams, with generally no more than a dozen members, have both the skills and the authority to make decisions. They do not need to wait for external specialists to weigh in with their expertise and for a manager to bless their decisions.

Team membership is full time. Members are not being pulled in several directions simultaneously. They are fully devoted to the work of the team. If a team is waiting for input from a third party—a vendor, for example—it simply moves on to the next item on its list in the meantime.

Agile focuses on productive action rather than coordination. Agile teams are engaged in activities that generate insights, value, and demand. Team members have the power to act without running the gauntlet of gaining authorization from functional silos and writing countless memos and reports seeking approval. The relatively small size and cross-functional skill sets of

these teams facilitate fast decision making, experimentation, and an ability to change course in response to feedback.

Agile values doers. In an agile organization, the locus of activity is the work of agile teams of doers. The members of these teams are the organization's rock stars.

Team members work together in a single room, building a sense of shared accountability that comes from physical proximity. Each member of the team has specific expertise, and tasks are assigned to people based on their expertise. But everyone on the team needs to be an all-around contributor.

When a company adopts agile, many managers often become team members and enjoy their new roles, despite no longer managing people, because they have more power. In fact, the role of the manager in agile gives way to the product owner. (See "Agile Development's Biggest Failure Point—and How to Fix It," BCG article, August 2016.) This individual helps define a team's priorities, manages the backlog of priorities, and is the team's link to the rest of the organization. But product owners are not traditional managers, because agile teams, at their core, are largely self-managed.

Leaders have different roles. Agile organizations still maintain management layers above agile teams, but leadership takes a different form. Leaders establish context and strategy, allocate resources, and remove roadblocks. But what leaders do *not* do is equally important: they leave decisions about execution to the teams themselves. In other words, leaders define team objectives and how they will be measured, but they let the teams decide how best to meet those objectives.

With their changing roles, these leaders have larger spans of control, and agile organizations have fewer layers of management, than traditional companies. The reduction in layers, costs, and coordination improves speed and agility.

Expertise still matters. While most of the work at agile organizations occurs within cross-functional teams, the specialists within teams maintain their skills and knowledge through a so-called chapter, whose members share similar backgrounds. (See the sidebar "Squads, Tribes, and Chapters.") The chapter leader is responsible for the professional and career development of members and is the link between individual squad members and the overall hierarchy of the organization.

What Does Agile Look Like in the CPG Industry?

Agile is still a relatively new concept in the CPG industry. Though agile practices gener-

SQUADS, TRIBES, AND CHAPTERS

Agile can often seem to be a mysterious black box of unfamiliar phrases and roles. Here is a quick glossary:

- **Squads** are where most of the work gets done. Squads are cross-functional teams consisting of six to twelve members who have end-to-end responsibility for a particular mission.
- **Tribes** are collections of interconnected squads with typically no more than 150 members overall.
- **Chapters** consist of members of similar disciplines (such as marketing) from different squads and tribes that come together to ensure uniform practices across the organization.

While many companies adopt these names to signal change, what's most important is that they change how they work. Other companies refer to squads and tribes as, respectively, teams and portfolios.

ally travel well across industries, they cannot simply be copied and pasted into a company's existing organization. Agile grew out of software, which is virtual, while consumer goods are physical. So running the manufacturing operations of a CPG company more traditionally continues to make sense.

The sweet spot for agile at CPG companies is at headquarters, where legions of employees work in traditional corporate functions requiring cooperation across boundaries (such as marketing, product development, and innovation) and in centers of excellence. These functions are highly efficient with regard to their internal processes but not their ability to work with other functions. The focus of centers of excellence, for example, is often fragmented across many projects. Centers often become bottlenecks, are unaccountable for their decisions, and can act as scapegoats for other teams to reduce their own accountability.

A few CPG companies have started to flip part of their headquarters from vertical to horizontal, creating agile teams by inserting pricing, digital marketing, and supply chain specialists into category or brand teams. The teams have market-oriented goals, such as sales targets, for which they are accountable and measured. These companies typically retain most of their centers of excellence but focus them narrowly on the state of the art rather than have them broadly serve multiple masters. (See the sidebar "The Agile FAQ.")

This type of agile configuration frees up resources that were once devoted to coordination and supervision for more productive activities. The transition, however, is

THE AGILE FAQ

How does agile fit into an organization composed of layers and spans of control?

There will still be management layers above the agile teams. But rather than supervise direct reports, leaders in those layers will oversee collections of teams, known as tribes. The leaders will enable team autonomy and performance rather than direct and control individuals. Within factories, agile will likely play a much smaller role because the work is largely routinized.

What is the true value of agile ways of working?

Agile teams are more responsive and faster to market than traditional teams. They create a minimally viable product or service, seek feedback from customers or end users, and then make revisions. By bringing together individuals from several functions and by testing ideas in the market, they achieve better solutions and avoid last-minute surprises. This iterative approach also improves the engagement of team members, who understand how their work contributes to overall success.

Agile reduces activities that do not add value, such as coordination, reporting, and alignment of decision makers. Empowered to act, squads push themselves to improve rather than look for direction from their bosses. Agile creates more visibility into the actual work that people are completing. There is no place for paper-pushing middle managers to hide.

What are the implications for P&L ownership?

In an agile organization, power is shifted from silos to agile teams, and there will likely be a corresponding redistribution of P&L responsibility. However, in CPG companies, there are limits because agile is most applicable in support functions and other areas, such as digital marketing, that do not currently have direct P&L responsibility. Regional or country businesses will likely retain P&L responsibility.

not necessarily easy. At a high level, CPG companies often have intricate matrices, with regional, functional, and business unit reporting lines. It's often not easy to untangle the connections.

Meanwhile, team members, even former managers who are now doers, actually make the shift fairly easily. They are engaged in getting stuff done rather than sitting in meetings and reviewing memos.

Senior leaders, on the other hand, are more likely to keep leading in traditional ways. They are the employees who have worked inside the matrix the longest and have learned how to master its intricacies. They are often reluctant to let go of their ability to review and approve decisions and to give agile teams the decision rights and control of resources to achieve specific goals.

The transition of leaders, however, pales in comparison to the existential transition facing large CPG companies. They are competing against companies with faster clock speeds and more adaptive DNA. Their challenges have less to do with activist investors and more to do with reinvention. CPG companies have reinvented themselves before, transitioning from the era of horses and buggies and penny circulars to the age of autos, radio, and television. Their next leap forward is upon them.

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