

A woman wearing a red hijab and a white long-sleeved shirt is standing in a supermarket's produce section. She is holding a single yellow apple in her right hand and a white plastic shopping bag in her left. The background shows shelves stocked with various fruits, including apples and lemons, with price tags visible. The lighting is bright, typical of a modern grocery store.

Best practices in customer and channel management

Winning in Indonesia's consumer-goods market

Max Magni, Felix Poh, and Rohit Razdan

September 2015

McKinsey & Company

nielsen



TABLE OF CONTENTS

Introduction	4
Survey overview and methodology	5
The value of winning	7
Detailed findings in each performance area	8
Moving from good to great	16

INTRODUCTION

Indonesia is a vast, sprawling country—the 15th largest in the world in terms of land area. Its 250 million people are spread out across more than 6,000 inhabited islands. For consumer-packaged-goods (CPG) companies to make their products available to such a large and dispersed population, they must do business with the country’s myriad of retailers, which operate a combined 4.1 million off-premise and on-premise stores selling CPG products. Indonesian retail is dominated by small independent store owners, collectively known as “fragmented trade,” but modern retail—particularly convenience-store chains, supermarkets, and hypermarkets—is growing twice as fast as fragmented trade.

In short, Indonesia presents complex and evolving challenges for CPG manufacturers. This report sheds light on how the country’s most successful CPG players are navigating the market. We discuss the findings from McKinsey’s Customer and Channel Management Survey, developed in collaboration with Nielsen. Specifically, we discuss best practices in four areas of customer and channel management: sales strategy, route to market, pricing, and trade and promotion. Using Nielsen’s retail measurement of in-market performance, we call attention to the contrasts between the practices of “winners” and the practices of “others”—winners being companies that achieved higher sales growth than the categories they play in, while also outperforming peers on one or more customer- or channel-management metrics.

While 7 of the 16 companies we surveyed were winners in at least one of the performance areas, only one company won in all of them—proof that excelling in customer and channel management is no small feat. In studying best practices in the four performance areas, we uncovered some common themes.

First, we found that winners avoid one-size-fits-all models. Instead, they apply **tailored approaches** in a variety of areas. For example:

- Winners are more than twice as likely as others to offer tailored assortments, packaging, and promotions to their key accounts.
- Winners tailor their route-to-market models to each channel, using direct sales more in modern trade and distributors more in fragmented trade.

Winning companies also benefit from greater use of **advanced analytics** and **granular data**. For example:

- Winners are more likely than others to use advanced analytical techniques to inform their price-setting strategy.

- They gather more—and more granular—data from a variety of sources when making trade/promotion decisions.

Finally, winners establish robust processes for **performance management**.
For instance:

- They evaluate distributors more frequently than others do, and they vary their discount policies for distributors based on performance.
- Winners analyze promotional events at least monthly, using more advanced metrics.

Also in this report is a brief exploration of the opportunities for Indonesian CPG manufacturers to achieve the next level of excellence. Currently, Indonesian players lag behind their global counterparts in certain critical aspects of customer and channel management. Companies that act on these opportunities will be best positioned to become world-class CPG players.

SURVEY OVERVIEW AND METHODOLOGY

This report draws primarily on the results of the 2014 Asia Customer and Channel Management Survey, supported by market retail performance from Nielsen, and with an exclusive focus on the responses from Indonesian companies. The aim of the survey is to identify winning practices by linking financial performance and in-market results with self-reported business practices in four modules: sales strategy, pricing, trade investment, and route-to-market (RTM) performance.

Sixteen companies with a presence in Indonesia participated in the 2014 Asia Customer and Channel Management Survey.

Multinational corporations



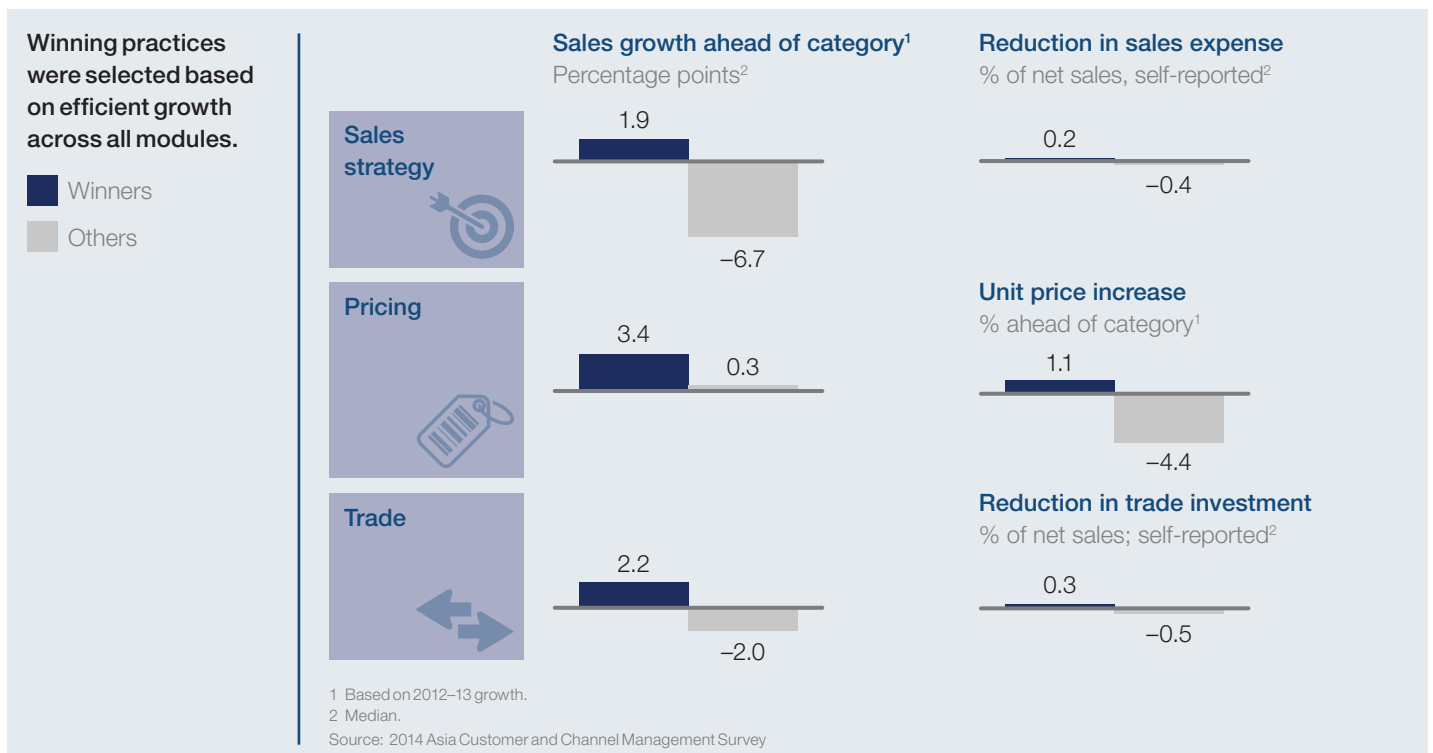
Local companies



¹ Indofood counted as two companies because two of its business units (milk and baby food) participated in the survey.

The Customer and Channel Management Survey has a long history. In 1978, McKinsey began gathering data and performance benchmarks on the sales organizations of the leading CPG companies in the United States, and updated the data every two to three years. Over time, the survey evolved to include a deeper focus on performance across a wider range of topics and was augmented with analytics from Nielsen. It also expanded in geographic scope, first to Europe and then to Latin America, and most recently to Asia. Globally, the participants in the 2014 Customer and Channel Management Survey included nearly 200 companies, with a combined \$150 billion in net sales and \$40 billion in trade spend. In the future, regular updates to this global survey will provide a rich historical view of how winning practices change.

Fifty-two companies from China, Indonesia, Saudi Arabia, and the United Arab Emirates participated in the 2014 Asia Customer and Channel Management Survey. Indonesia was represented by approximately 50 executives from 16 companies, which together had a 22 percent share of the food and beverages category and a 14 percent share of the home and personal-care categories in 2014. To ensure the accuracy of the data, the person accountable for each performance area completed the appropriate part of the questionnaire: for instance, heads of sales answered the questions related to sales strategy.



1 Absolute change in sales costs as a percent of net sales, 2012–13. On average, sales costs were approximately 4 percent of net sales.

THE VALUE OF WINNING

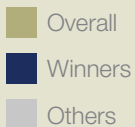
Winners in sales strategy and route-to-market performance grew sales by 1.9 percentage points ahead of their category—and more than 8 percentage points ahead of others—while reducing selling expenses as a percent of net sales.¹ There were 4 winners in sales strategy among our sample group of 16 Indonesian companies.

Winners in pricing grew sales by 3.4 percentage points more than their category, even as they increased average unit prices by 1.1 percentage points ahead of the category average. Four companies in our survey emerged as pricing winners.

Winners in trade investment, of which there were four in our sample, grew sales by 2.2 percentage points more than the category and reduced trade investment (as a percent of net sales) by 0.3 percentage points.

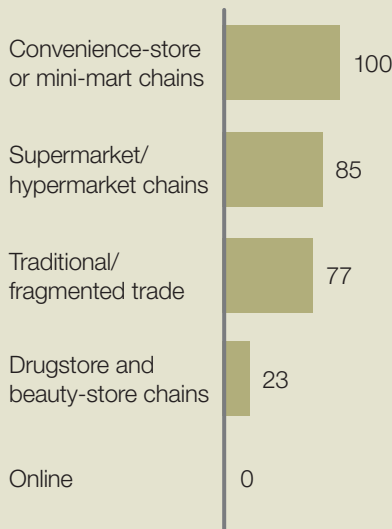
EXHIBIT 1

Winners prioritize and invest in modern-trade channels with strong growth potential.



Channels with the greatest growth opportunities

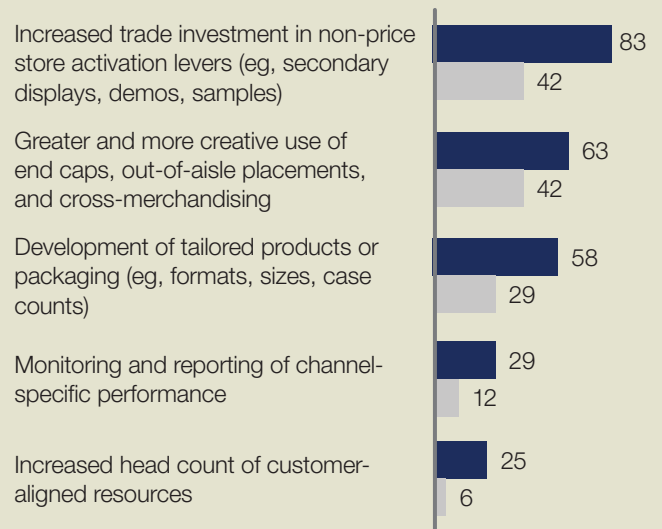
% of respondents



Online is a nascent channel in Indonesia

Actions taken to drive growth in modern trade

% of respondents



¹ Additional response options not shown.
Source: 2014 Asia Customer and Channel Management Survey

DETAILED FINDINGS IN EACH PERFORMANCE AREA

Sales strategy

All survey participants agree that the greatest growth opportunities are in convenience-store chains such as Alfamart and Indomaret; 85 percent of survey respondents feel that supermarket and hypermarket chains also have high growth potential (Exhibit 1). Unsurprisingly, winners' top priorities are modern-trade retailers.

That said, winners in sales strategy are able to serve both modern and traditional retailers well. In particular, winners heed the following best practices:

Tailor assortment and promotions to key accounts in modern trade. Half of winning companies—versus less than one-fourth of others—create custom promotions for key accounts. More than half of winners, versus less than one-third of others, develop tailored products or packaging for their modern-trade customers. And to define their assortment for modern-trade accounts, 75 percent of winning companies use sophisticated metrics: they rely on both economic and strategic variables, whereas most of their peers use only one or the other.

As shown on Exhibit 1, to drive growth in modern trade, majority of winners increase their investments in store-activation levers such as secondary displays, in-store demonstrations, or free samples. They also make greater and more creative use of end caps, out-of-aisle placements, and cross-merchandising.

Collaborate with key accounts. Winning companies nurture close partnerships with their retail customers through joint activities. In fact, when creating a segmentation of their customers, 75 percent of winners (and slightly more than half of others) consider “willingness to collaborate” as one of the top criteria. Also, every winner in our survey (compared with only one-third of others) works with key accounts to develop space strategies—for example, concerning the use of end caps or in-aisle versus out-of-aisle placements.

In fragmented trade, prioritize resources. Even though modern trade is where most of the growth opportunities lie, winners unanimously view fragmented trade as a continued source of growth and set clear growth targets for their business in that channel (Exhibit 2). While all survey respondents segment their fragmented-trade accounts by sales volume, all winners (and 44 percent of others) take it a step further: they prioritize resources—for example, by allocating a greater proportion of their trade investments to high-volume accounts.

EXHIBIT 2

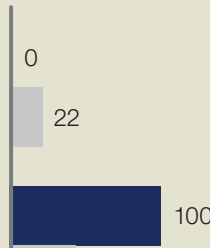
Winners view fragmented trade as a continued source of growth and thus invest more in distributor management.

■ Winners
■ Others

Growth mentality regarding fragmented trade

% of respondents

Aggressive: daring targets set for growth opportunities and sufficient resources allocated to the sector



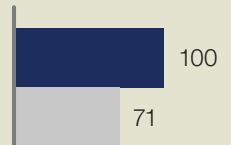
Positive: clear growth targets and a focus on opportunities

Defensive: accepting less growth and allocating resources to other opportunities and channels

Critical capabilities to drive growth in fragmented trade¹

% of respondents

Distributor management



Assortment optimization (eg, tailoring assortment based on consumer segment and/or channel)

Tailored channel and/or regional strategies

¹ Additional response options not shown.
Source: 2014 Asia Customer and Channel Management Survey

Build sales capabilities. Each of the winning companies (and two-thirds of others) takes responsibility for strengthening the capabilities of their sales force by investing in in-house training, rather than leaving the training to distributors. In addition, winners are more than twice as likely to use a customer-relationship-management (CRM) system. Every winning company that has a CRM system uses it to share data across various functions in the organization and to track the sales pipeline. Many winners develop a customized CRM platform in-house to meet their specific business needs.

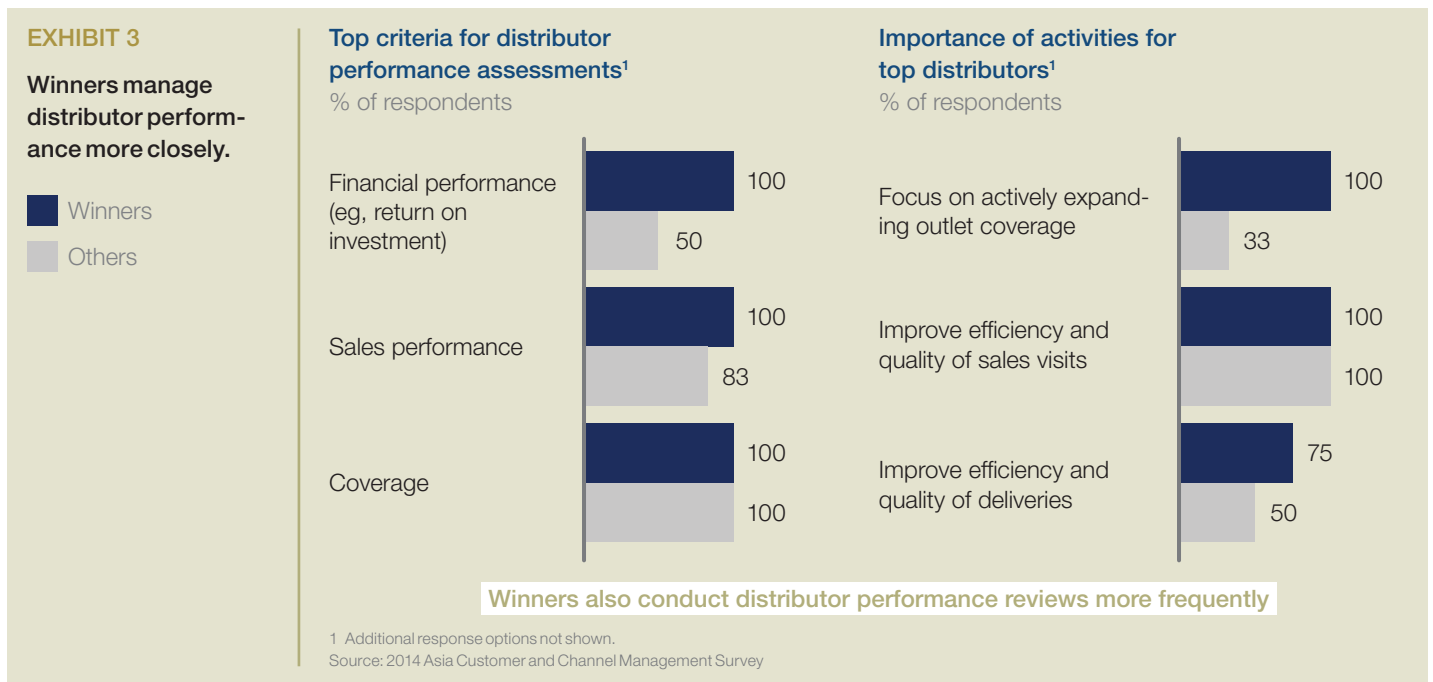
Route-to-market performance

Given the geographic challenges and the immense number of retail outlets in Indonesia, RTM planning and execution are extremely important for the country's CPG companies. The companies in our survey cover approximately 20,000 modern outlets on average (the range was 16,000 to 32,000). Fragmented-trade coverage varies widely, from as few as 3,000 to as many as 800,000 outlets. Best practices in RTM performance include the following:

Tailor the RTM model to the channel. At winning companies, only 45 percent of modern-trade accounts are served via distributors or third-party providers; the rest are served through direct sales. This coverage model allows winners to exert fuller control over their relationships with key accounts. Among nonwinners, the split is 80/20 in favor of distributors. Furthermore, winners treat their retail customers

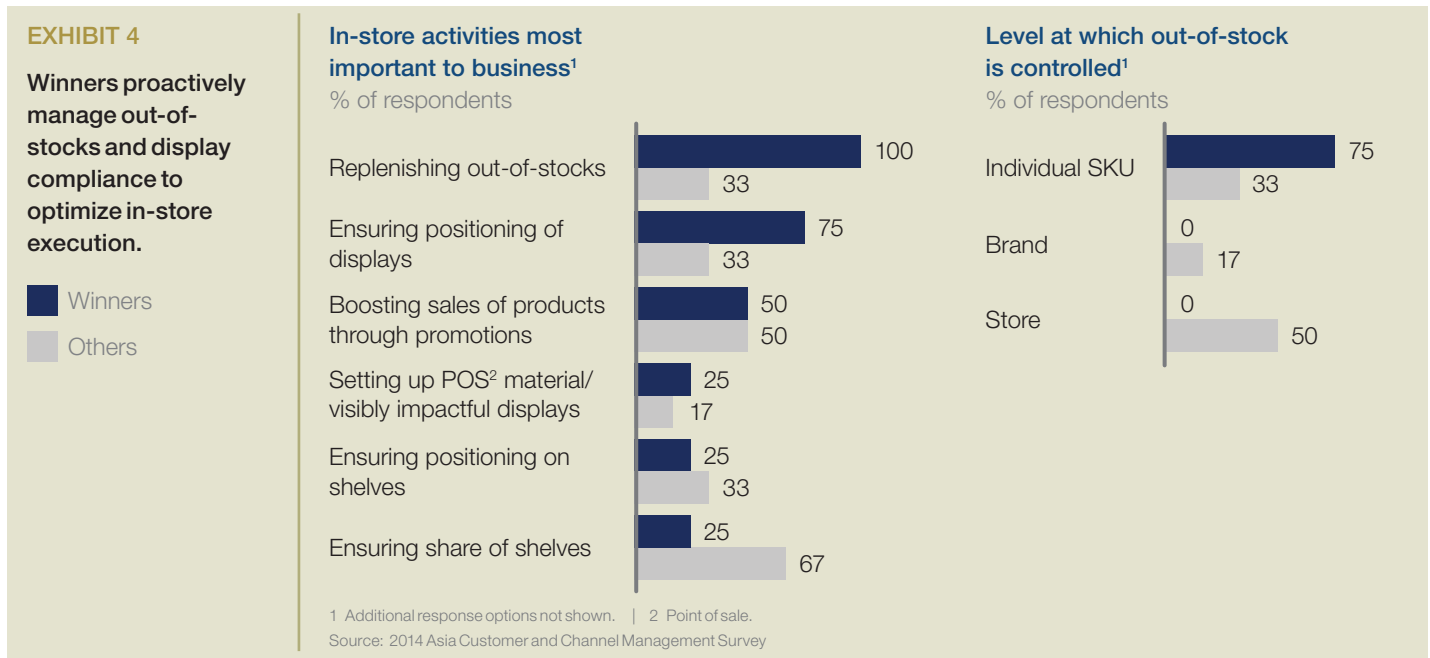
differently depending on cost to serve: knowing the cost of serving each customer segment helps winners determine optimal delivery sizes in modern trade and adjust the frequency of their visits in fragmented trade. Three-quarters of winners refresh their outlet segmentation at least annually.

Manage distributor performance rigorously. As Exhibit 2 shows, winners believe distributor management is the most crucial capability for driving growth in fragmented trade. They therefore manage their distributors more closely than others do and conduct performance reviews more frequently (Exhibit 3). Winning companies use several criteria to evaluate distributor performance, including financial returns (a metric that only half of nonwinners use), sales performance, and outlet coverage. In contrast to most nonwinners, winning companies keep track of whether distributors are actively expanding outlet coverage and improving the quality and efficiency of deliveries. And all winners conduct joint sales planning with their distributors.



Furthermore, winners differentiate pricing guidelines and discount policies for their distributors: 75 percent use clear mark-up guidelines by channel/store segment, with adjustments based on historical performance. They also have rules that establish discount policies for distributors based on their performance, efficiency, and adherence to planned store execution. Only 25 percent of winners (versus two-thirds of others) offer the same discount rate to all distributors regardless of performance.

Keep a close watch on in-store execution. Winners manage in-store activities at a more detailed level than others do. They pay particular attention to replenishing out-of-stock items, which they typically control at the SKU level, and ensuring the optimal positioning of displays (Exhibit 4).



Pricing

Against a backdrop of currency instability and significant cost pressures, pricing excellence is crucial to Indonesia's CPG companies. The majority of survey participants said they have had to raise their list prices due to the rising internal cost of sales operations, volatile commodity and input costs, and competitor actions. Indeed, all winners (compared with just over one-fifth of others) cited pricing excellence as a top priority in the next two years. Yet pricing winners were actually able to raise unit prices above the category average while also increasing sales—dispelling the myth that low pricing is necessary to win in Indonesia. Instead, the following practices appear to be what set winners apart from others:

Use analytics to set and execute pricing strategy. Winners are more likely than others not only to use basic pricing tools and track basic metrics (such as net revenue per unit and market share), but also to adopt more-advanced analytical techniques (such as conjoint analysis) to inform their price-setting strategy for everyday shelf prices. In addition, they are more likely to measure price elasticity by customer, by channel, and by pack size, and to use advanced pricing metrics such as net profit per unit, sales velocity, and product mix (Exhibit 5).

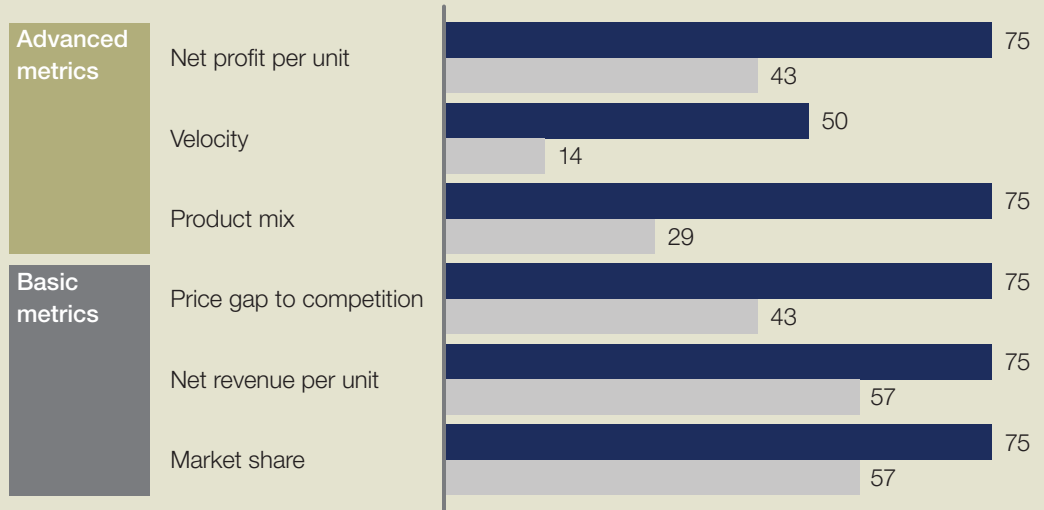
EXHIBIT 5

Winners track advanced pricing metrics more frequently.

■ Winners
■ Others

Share of respondents that track these key performance indicators (KPIs) at least monthly¹

% of respondents



¹ Additional response options not shown.

Source: 2014 Asia Customer and Channel Management Survey

Review and change prices more frequently. Winners are slightly more likely to have established processes for reviewing and approving price changes. Most winners conduct pricing reviews at least quarterly for tier 1 and 2 products (their large and profitable brands), whereas others tend to conduct pricing reviews only every six months or even less frequently. Winners (and 71 percent of others) develop margin guidelines for each category, brand, and SKU; 75 percent of winners (and more than half of others) conduct cross-functional reviews for pricing that doesn't conform to the margin guidelines.

Most winners also change their prices more frequently: semiannually or more often for tier 1 and 2 products. By contrast, nonwinners tend to make price changes only once a year at most. Also, winners are 1.5 times more likely to proactively manage price gaps to competitors.

Enforcing price changes isn't easy, and survey respondents cited a number of reasons that desired prices aren't always reflected at the point of sale. The primary reasons are retailers' reluctance to increase prices for fear of declines in sales volume, lack of coordination of pricing changes among channels (allowing retailers to purchase products more cheaply from another channel), and a multitiered RTM structure that makes it difficult to monitor price changes. Despite these challenges, most winners (and less than half of others) are able to enforce their desired price in the market at least 80 percent of the time.

Of course, a CPG company's store-level pricing strategy should differentiate between modern and fragmented trade. While tracking and reviewing pricing are must-do's in modern trade, these activities are considerably more challenging in fragmented trade where products typically are not price-marked.

Trade/promotion

Companies that do best in trade/promotion are those that take a disciplined and data-driven approach to their trade investments and promotion planning. Winning companies do the following:

Use more granular data to differentiate trade rates. All companies use an analytical approach to set promotion and marketing investment levels. However, winners use more activity-based factors to differentiate their trade rates by customer and, as a result, their trade rates vary more and at much more granular levels (Exhibit 6).

Winners also gather data from a broader range of sources, helping them develop promotions tailored to specific consumer segments. All winners (and only 43 percent of others) get data directly from their partner retailers. Half of winners

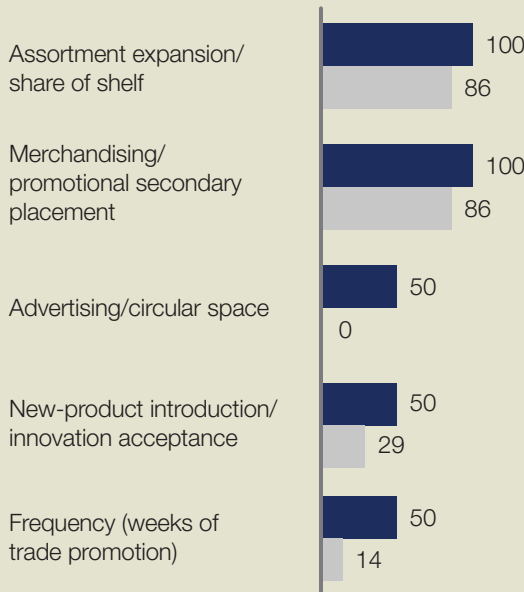
EXHIBIT 6

Winners use more activity-based metrics and more highly differentiated trade rates.

■ Winners
 ■ Others

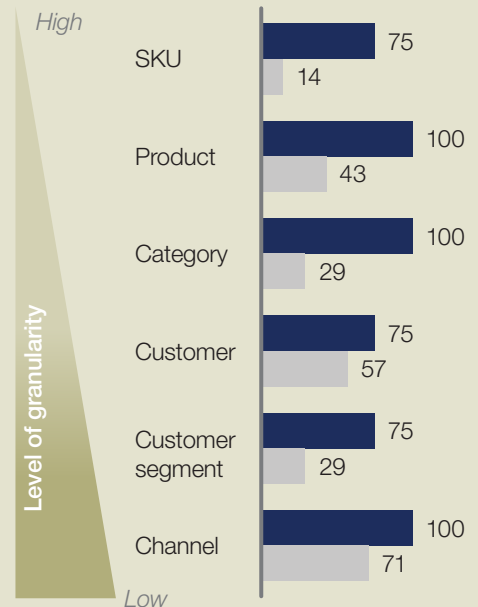
Activity-based factors used to differentiate trade rates¹

% of respondents



Level that trade rates vary¹

% of respondents



¹ Additional response options not shown.
 Source: 2014 Asia Customer and Channel Management Survey

collect data from the field using mobile technology and IT tools (for example, handheld or shopper tracking), whereas none of the nonwinners do so. In addition, 75 percent of winners (versus less than half of others) have SKU-level data on sell-through rates for trade events.

Analyze the impact of promotions monthly or more often, and replan them accordingly. Two-thirds of winners (and only one-third of others) conduct event-level postpromotion analysis at least once a month. Interestingly, winners favor the use of certain metrics in evaluating promotion effectiveness (Exhibit 7). They all use an advanced metric—incremental return on investment for the company—and none of them use volume impact as a measure of promotional effectiveness. (That said, all survey respondents measure sales impact.) Two-thirds of winners pay attention to a metric that others completely ignore: impact of a trade promotion on the overall category.

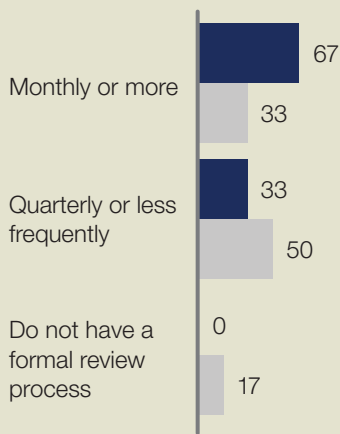
EXHIBIT 7

Winners conduct event-level post-promotion analysis more frequently, using more advanced metrics.

■ Winners
■ Others

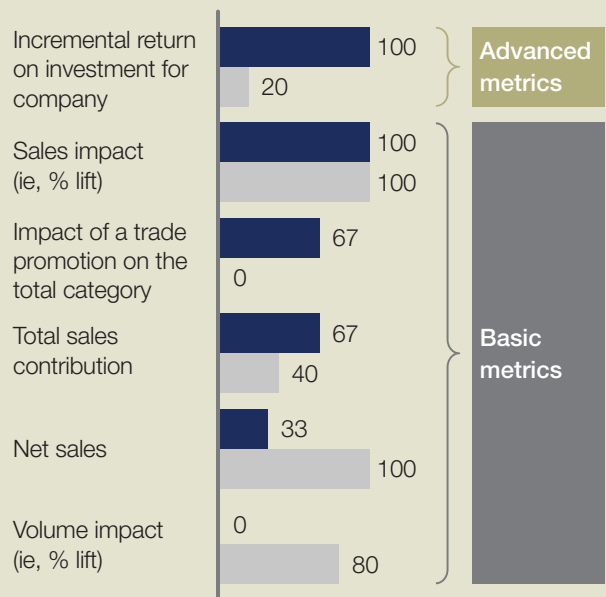
Frequency of event-level postpromotion analysis

% of respondents



Promotion effectiveness evaluation metrics¹

% of respondents



¹ Additional response options not shown.
Source: 2014 Asia Customer and Channel Management Survey

In addition, winners take action based on postpromotion reviews: specifically, they reallocate spending across channels and customers, and they refine their promotional plans without reducing the level of funding. They also manage overspending more aggressively. All winners renegotiate with customers the terms of future promotional events. Half of winners—and less than a third of others—terminate the person responsible after a predetermined number of overspending instances.

Invest in trade-promotion optimization (TPO) tools. Finally, winners invest in TPO tools to create data transparency and allow for better trade-investment decisions. Half of winning companies (versus one-third of others) now use TPO tools and are thus farther along in their efforts to draw refined insights from the tools. TPO tools can help companies determine what drives year-over-year performance variance. They can be extremely useful for measuring the effects of a promotion on the entire category on both the manufacturer and the retailer, and for developing guidelines for optimal promotions by retailer, geographic region, and category.

MOVING FROM GOOD TO GREAT

Learning from best-practice Indonesian companies is instructive in itself. But our global Customer and Channel Management Survey allows us to compare the practices of Indonesian CPG companies with their counterparts around the world. We've identified the following five success factors for Indonesian companies to consider if they seek to become world-class.

1. Clear guidelines for field sales teams

Companies that provide specific directives and detailed guidance for their field sales representatives can better ensure excellence in in-store execution. Indonesian CPG companies can give sales teams clear guidelines regarding, for example, the activities performed in store, the promotions to execute, and the SKUs that should be in stock—not just for each account, but also for each store format or, even better, for each outlet. Currently, no Indonesian companies give guidelines at the outlet level. Standards of on-shelf execution should be based on economic data, shopper insights, and development priorities.

2. Greater use of advanced analytics and new technologies

Much has been written about the potential of advanced analytics and cutting-edge technologies to revolutionize business. With regard to customer and channel management for CPG companies, advanced analytics can help improve in-store execution, trade-performance optimization, and innovation. But other technologies, too, can have dramatic impact. The use of smartphones, for instance, has helped companies everywhere capture more in-store data than ever before. Mobile devices have also strengthened the capabilities of field teams, particularly in data capture (for example, by allowing them to give and receive real-time data updates or take photographs in stores) and in route planning.

3. A single 'center of excellence' to oversee both pricing and trade

At many Indonesian companies, pricing employees are organizationally separate from trade employees, and are distributed across the various customer teams or brand teams. We've found, however, that combining the pricing team with the trade team in a single, central group is optimal. In more mature CPG markets, companies with a single center of excellence at either the business-unit level or corporate level tend to achieve higher sales growth than their competitors.

4. A dedicated e-commerce team

The rising Internet penetration rate in Indonesia hasn't translated into booming e-commerce businesses—yet. But the increase in Internet penetration and usage is a real and continuing trend. If Indonesia's consumer-goods market

follows the trajectory that, say, the Chinese market has taken, then the online channel is poised to become the biggest growth opportunity for consumer-goods companies in the near future. Companies that will win online are those that begin to prepare now. Indonesian companies would do well to start investing in online marketing and trade promotions and in mobile initiatives (such as mobile coupons or mobile apps). They may soon need to consider dedicating resources to e-commerce, especially in the areas of key account management, trade and customer marketing, and sales planning.

5. Containment strategies for channel conflicts

Because they serve both modern and traditional retailers, CPG companies will inevitably experience channel conflicts, which will only grow once e-commerce becomes a viable channel in the Indonesian market. Companies can quantify these conflicts, then design and implement containment strategies such as coordinated promotional calendars or differentiated packaging for different channels. Tracking the success of these strategies and refining them as needed is also important.

* * *

Indonesian CPG manufacturers have much to learn from each other, as well as from their counterparts and competitors in Asia and across the globe. By emulating best practices in customer and channel management, Indonesia's CPG players can position themselves to win in an increasingly competitive and fast-changing market.

Max Magni is a director in McKinsey's New Jersey office, **Felix Poh** is a principal in the Shanghai office, and **Rohit Razdan** is a principal in the Singapore office.
Copyright © 2015 McKinsey & Company. All rights reserved.

About the McKinsey Asia Consumer Insights Center

The Asia Consumer Insights Center develops new market insights for companies working to satisfy Asia's rapidly evolving consumer needs. It aims to drive an understanding of the beliefs, attitudes, and motivations that underpin customer behavior through their purchase decision journey. By combining McKinsey experience and proprietary data sets with that of our clients, we can determine what information is needed and what actions should be taken. When gaps are identified, we can bring to bear a broad portfolio of tools and techniques, such as needs-based segmentation, ethnography, and semiotics. The Asia Consumer Insights Center can help corporations generate a 360-degree view of their customers—one that sparks innovation, uncovers the most promising sources of growth, and helps develop successful products and brands.

About Nielsen

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows, and related properties. Nielsen has a presence in approximately 100 countries, with headquarters in New York, United States, and Diemen, the Netherlands. For more information, visit nielsen.com.

Copyright © 2015 by McKinsey & Company and Nielsen. All rights reserved. No part of this publication may be reprinted or reproduced in any way without written consent from McKinsey & Company or Nielsen.

CONTACTS

McKinsey & Company

Max Magni, *Director*, New Jersey
Max_Magni@McKinsey.com

Felix Poh, *Principal*, Shanghai
Felix_Poh@McKinsey.com

Rohit Razdan, *Principal*, Singapore
Rohit_Razdan@McKinsey.com

Nielsen

Agus Nurudin, *Managing Director*, Nielsen Indonesia
agus.nurudin@nielsen.com





Nielsen Indonesia
Mayapada Tower 15/F,
Jl. Jend. Sudirman Kav. 28
Jakarta 12920
Phone: +62.21.2939.8100
Fax: +62.21.2939.8200/8300
Nielsen.Indonesia@nielsen.com
www.nielsen.com

McKinsey & Company

Wisma GKBI, 40th Floor
Jl. Jend. Sudirman 28
Jakarta 10210
Indonesia
Voice: +62 (21) 5798 6600
Fax: +62 (21) 574 1540
www.mckinsey.com