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ORGANIZING FOR AGILITY IN CONSUMER COMPANIES

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FOR MANY DECADES, SCALE was the primary source of competitive advantage for consumer goods companies. But the game has changed. Agility now rivals scale as the fuel for future success.

Suddenly, large consumer companies must learn how to balance size with speed and compete with a new breed of smaller competitors that are thriving in the current environment and stealing share from less nimble players.

The transition is necessary but not easy. Companies that learn how to become more agile will recapture momentum; the rest will continue to lose share to smaller rivals.

Why Agility Matters

From 2011 through 2016, upstart brands took \$22 billion in sales from incumbents in North America alone. And these attackers have been winning without typical scale advantages. (See “How Big Consumer Companies Can Fight Back,” BCG article, September 2017.)

The era of big manufacturing, big media, big brands, and big retail has given way to a more fragmented ecosystem in which every step of the value chain has been disrupted. Contract manufacturing enables small brands to “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.

As a result, these attackers often act more quickly and creatively than incumbents in bringing brands to life. As founder-led companies, they are focused and fluid. Their simplicity allows them to outmaneuver large, siloed, fast-moving consumer goods companies.

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. In the last category, for example, Red Bull and Monster Energy did not so much find a new need as fulfill a long-standing one and

get their products to market economically. The changing economics of supply allowed these companies to compete profitably against the leviathans.

The Restructuring Route to Agility

In addition to these new competitors, large consumer companies face pressure from increasingly demanding retailers and from private equity firms that have already made several consumer acquisitions and show no signs of resting. In the past, when consumer companies encountered headwinds, they tended to remove layers and employees or restructure the organization.

In this new fragmented world, traditional restructuring often is still required but is insufficient to regain share from smaller brands. As part of future restructurings, global companies should not just cut costs. They should also change how they get work done—so that they can counter their smaller, nimbler competitors, which can quickly introduce new products and deftly respond to market changes.

While consumer companies cannot shrink to match the organizational strengths of their young competitors, they can take inspiration from other companies that have become agile. Agile originated in software development and became known for its methods, such as standups (daily meetings), sprints (brief work efforts designed to deliver a minimum viable product), and retrospectives (reflections on prior sprints). These events encourage face-to-face meetings, transparency, brainstorming, course correction, and a shared sense of ownership in a project.

At its core, agile is a set of fundamental beliefs about working together quickly and effectively to meet customer needs. These beliefs have spread beyond software development to become core operating principles in companies as diverse as music streaming and financial services. In other words, agile software development has morphed into agile ways of working. (See “Taking Agile Way Beyond Software,” BCG article, July 2017.)

What does restructuring to agile ways of working look like at a global consumer goods company?

Faster Cycles of Innovation. Agile organizations operate in a test-and-learn culture of iteration. This enables frequent feedback from customers, improving cycle times and the quality of the final product.

A Customer-Centric Approach. Agile methods are aimed at producing products and services that resonate with customers. During sprints, teams generate and analyze empirical customer data, allowing them to adjust their original plans, estimates, and assumptions. The traditional waterfall steps of testing, consumer research, and product development are combined so that teams can incorporate customer feedback in days or weeks rather than months or years.

Cross-Functional Units. In agile teams, members from different functions work closely together. Cross-functionality improves cooperation and reduces time-consuming handoffs. In doing so, it helps to create a common understanding across the organization of how best to satisfy the customer. Agile teams are not just an oversight layer or an ad hoc body. They perform real work.

Focused Work. Agile teams tend to work on high-impact products and services that demand resources and attention. The work of the team is the main priority. Agile teams also take time to become effective, so members should not be pulled away to other responsibilities and tasks or frequently rotated off the team.

Empowered Decision Making. Agile teams have the authority to make decisions. While members often have functional supervisors, the team is in charge of decisions related to its mission. Because team members are accountable for outcomes, they have strong incentives to reduce complexity, eliminate handoffs and rework cycles, and continually improve the customer experience. And they gain a sense of purpose and engagement that is often missing in highly siloed organizations.

How to Become Agile

Many of these agile principles are at odds with the standard operating practices of some consumer companies. Power and decision making often rest at headquarters and in the global functions. In an agile set-up, teams much closer to the field make more of the decisions. In a role reversal, headquarters and global functions play a supportive role.

How should a global consumer goods company make the transition to agile? (For examples of how some companies are experimenting with agile, see the sidebar.)

Go flat. Agility is easier to create in horizontal organizations. Broad spans and few layers encourage team members to cooperate. In past restructuring efforts, many companies stopped once they created a horizontal structure. Agile is the logical next step because employees on agile teams require less oversight, and therefore their leaders can have broader spans of control. Through agile and delayering, one financial services company ultimately broadened the spans of most leaders to 10 to 12 employees from single digits.

Shift the culture. Agility is a cultural trait that does not just happen. It is a byproduct of careful efforts to change the way work gets done in a company. Metrics that evaluate speed, time to market, and cooperation across organization borders

will help set the context. So will a tolerance for small mistakes. Agile is often called a test-and-learn process. But that is another way of saying, “Make mistakes and fix them.” One strength of working in sprints is that teams identify mistakes early and treat them as learning opportunities.

Many old habits may have to die. Agile requires managers to shift their focus from directing teams to empowering them. At the same time, agile team members who previously took pride in multitasking now need focus and dedication. If members are being pulled in many directions, they will not have the ability to work swiftly and cooperatively.

Create agile “lighthouses.” Organizations should create a few cross-functional teams of approximately five to ten employees in areas amenable to agile, such as product development, marketing, or merchandising. These pilot, or lighthouse, teams should be empowered to investigate and tackle a portfolio of work in that specific domain. General Electric applied this approach to product development with GE FastWorks. The initial pilot team created a refrigerator with doors that swing outward from the middle, and they did it in half the time and at half the cost of a traditional development effort.

The specific methods of agile, such as standups and retrospectives, are less

AGILE IN PRACTICE

Creating an agile organization is a journey. None of the largest consumer companies have fully reached shore, but several are pursuing promising avenues toward agility. Nestlé’s digital acceleration teams, for example, comprise marketing leaders from around the world who come together for eight months to experiment with innovative technologies, learn different ways of working, and then return to their home markets and share their new knowledge. Procter & Gamble has created end-to-end teams that bring

together sales and marketing, which had been in different parts of the organization, as well as other functions. Finally, as part of its Danone 2020 initiative, Danone has given power formerly held by headquarters to regional leadership teams.

The prominence of these initiatives underscores the importance of the broad principles, if not the specific practices, of agile in the escalating battle between large, global consumer companies and their smaller, nimbler competitors.

important than the overall approach. The teams should work cooperatively, move forward in small steps, and receive frequent customer feedback. Lighthouses should also help to identify aspects of the organization—such as structure, roles, performance management systems, and career paths—that may need to be modified.

Reimagine the role of global functions. As work devolves to cross-functional teams, the role of global functions fundamentally shifts from directive to supportive. So, executives within legal, finance, HR, and other functions should become active members of cross-functional teams in the field. These executives will make decisions, sometimes on imperfect information, in real time as part of these teams; because the cross-functional teams operate in short sprints, they can revisit decisions when they have better information. This process substantially reduces the number of decisions that need to pass up through the hierarchy to global.

Enable new people and organizational practices. To make their organizations more agile, consumer companies need to rethink how they manage, train, and provide incentives to their employees. Many managers who have grown up inside silos may need to learn how to manage

cross-functional teams and delegate decision making to employees closer to the field. Team members, especially those with long careers within a single function, may need training on how to work cooperatively. Organizational processes and evaluation tools may need to be reengineered to reward cooperation, information sharing, problem solving, and a willingness to take risks.

IN TODAY'S CUTTHROAT environment, restructuring will continue to be a crucial element of meeting cost targets. But structure alone will not enable large consumer companies to meet customer needs, introduce new products swiftly, or compete against the new breed of competitors. They must also embrace agile and other ways of working that soften silos, push down decision making, and elicit consumer feedback in test-and-learn cycles. By restructuring and introducing new ways of working, consumer companies can win back share by beating their smaller competitors at their own game.

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