A changing marketplace: Managing change in the consumer goods industry

Consumer goods companies are constantly seeking new ways to reinvent themselves to drive margin and top-line growth. However, success of these initiatives hinges on avoiding critical mistakes.

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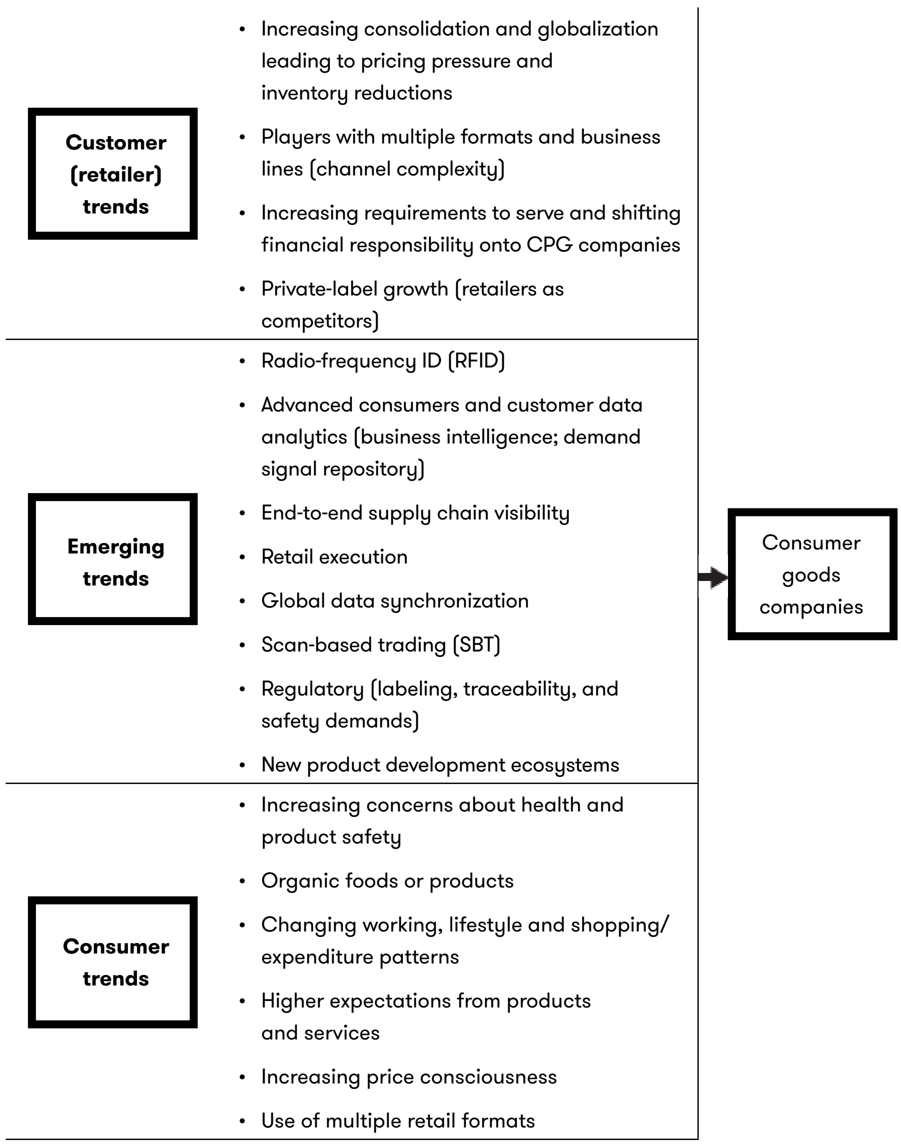
Competing means connecting—introducing new products, services, and technologies, enhancing collaboration, capitalizing on mergers and acquisitions, and optimizing your supply chain. And the human element to the business-transformation process is the crucial link that can help ensure your journey leads to success.

Industry trends drive the need for change

The slow pace of the economic recovery has taken its toll on many industries, and in particular, the consumer packaged goods (CPG) industry. But there are a number of consumer, customer, industry, and IT-enabled trends that are affecting and influencing the future of the CPG industry (see Figure 1).



Business climate and industry trends

- Rising cost environment
- Growth from emerging markets
- Global scale/local execution
- Focus on "green"
- Market saturation of existing products and proliferation of new brands/products
- M&A—continued consolidation for brand companies/distributors
- Supply chain eectiveness
- Rethinking of business models

Trends in bold denote the top issues/trends in the industry. Source: DXC analysis

Figure 1: DXC Consumer Industries Consulting and Solutioning Practice Analysis

To be successful, CPG companies are striving to:

- Connect with consumers in new ways to increase reach and develop predictive insights into their preferences
- Collaborate with customers and suppliers to achieve end-to-end supply chain visibility and optimization
- Use global reach and brand assets as levers to sustain margins in a challenging and rapidly consolidating environment
- Drive top-line growth through rapid product and service innovation

To turn great strategy into great performance, companies must develop internal business transformation capabilities geared to enable and institutionalize change, and avoid the pitfalls associated with an ineffective change management plan.

The pace of change

A number of challenges are forcing CPG companies to reinvent themselves so they can survive—and thrive—in the current environment. These include low market growth and uncertain revenues in new channels, as well as retailer and industry consolidation, among others. Most CPG companies facing large-scale transformations are familiar with the key steps needed to achieve their goals; however, many struggle with tactically executing the organizational change management steps necessary to ensure success.

Lessons learned from leading change experts, such as John P. Kotter, clearly lay out some of the key mistakes companies make when change is required in their organization (see Figure 2).[1]

Common errors

- Having no sense of urgency
- Failing to create a sufficiently powerful guiding coalition
- Underestimating the power of visions
- Undercommunicating the visions by a factor of 10
- Not empowering broad-based action
- Permitting obstacles to block the new vision
- Failing to create and celebrate short-term wins
- Declaring victory too soon
- Neglecting to anchor changes firmly in the corporate culture

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Common errors

- New strategies and business models aren't implemented well
- Acquisitions don't achieve expected synergies
- Reengineering and innovation take too long and cost too much
- Down- or right-sizing doesn't get costs under control
- Quality programs

Figure 2: Why business transformation efforts fail

Although some of these lessons have been around for a long time, and are relatively easy to avoid, critical mistakes continue to occur when implementing business transformation programs. Data from a McKinsey survey shows that the success rate of transformation programs that deliver a "true step change in performance" is less than 40 percent.[2]

This is why many executives are asking questions such as:

- What are the actionable steps that we need to undertake to ensure success?
- What should I concentrate on; what is important?
- How do we mitigate program and project risks?
- How do we make the change stick?

To further complicate matters, the pace of change is accelerating. Large enterprise application implementations that took years to complete have given way to implementations that can be completed in less than a year. New approaches, such as agile development and leveraging reusable code and services (service-oriented architecture), have shortened large project implementation times even further. Organizations now expect to see results in a matter of months rather than years. They are increasingly asked to "turn on a dime," and do so without a hiccup.

[1] Adapted from John P. Kotter, Leading Change, Harvard Business School Press, 1996 and updated with Kotter's 8-Step Model for effective change, 2014

Demystifying the "art of managing change"

So what should executives do to help ensure lasting change happens in their organizations? This section outlines nine practical recommendations for how companies can achieve sustainable change.[3] These recommendations are based on years of experience managing large-scale, complex business transformation programs in the manufacturing and CPG industries. They should be considered along with other widely available "lessons learned" from change-management experts.

Beware of proposed technology-enabled business transformation efforts that do not have clear goals, or don't take into account business process analysis and redesign, as well as organizational change management.

It seems like common-sense advice, but this frequently is ignored by companies too eager to implement IT-enabled solutions, with unsubstantiated expectations of overnight success with sustainable results.

Years of studies from various institutions show that when organizations are not aligned to the new business paradigm, the result can lead to project failure. In short, companies must invest in process transformation and organizational change-management activities. Failure to do so, and to keep down the price of implementations, will cause significant heartache.

Don't assume that you are naturally good at managing change. Managing change is not a one-off event.

It's a process, and it's hard work. Change management requires business process and industry knowledge, as well as the ability to analyze changes in roles and responsibilities. It requires making appropriate changes to organizational structures and performance metrics, as well as executing a two-way communications plan that addresses all key stakeholders. It also calls for execution in delivering training and education programs. Managing change is also very difficult without seeking outside help.

Sponsors must put corporate-wide interests ahead of local or functional-based interests.

Make sure you understand all business transformation linkages and key dependencies among the different business areas or functions. Create a sponsor coalition that is broad based in nature, and strong enough to make change happen. You have business processes that transcend functional or organizational boundaries. So your sponsorship needs to address optimizing enterprise-wide processes, and avoid situations where optimizing one area of the business negatively affects the overall enterprise.

Compensate people (including sponsors), based on their combined ability to deliver the desired business transformation, and results under budget and on time. Consider a compensation model that rewards people over a measurable period of time so there is incentive to make the change last—anchoring the change firmly in the corporate culture.

[2] Reflections on the art of managing change, MIT Sloan Management Review Magazine Winter, 2013 - Adapted from various articles that focus on different aspects of managing and leading change in business.

[3] Adapted from Wilhelm (Will) Ruiz,

"e-CPG: Demystifying the 'Art of Change,'" GMA Forum Magazine, Q4 2001.

By tightly coupling infrastructure and applications, SOA enables you to reduce processing costs while improving performance and overall quality of service.

Create your own business transformation team.

Companies today don't undertake a large business transformation effort unless there is a compelling business case for it. Because of the nature of these IT-enabled projects, business people, along with IT people, should drive new program implementation. In similar fashion, business people should collaborate with human resources (HR) to drive change management. It's important to have business people in charge of implementing change within their own organization or functional area. No one else knows the business processes, underlying policies, procedures, and behaviors characteristic of their home organization as well as they do. It stands to reason, then, that credible business people should lead the charge in helping the enterprise implement change.

Devote your best resources to the task at hand.

The old adage that "you get what you pay for" holds true in all change-management activities. Staff your change-management team with people who are well-respected "A" players in the areas of the business you intend to transform. Make the commitment to devote these resources full-time to managing change (at least for a period of time). Make it attractive for business resources to want to fill these positions. To ensure a comprehensive change approach, supplement your business resources with HR, training, corporate communications, and legal resources. And last but not least, leverage industry-specific change-management expertise (no generalists) and methodologies supplied by consultants. But insist on knowledge transfer. Become self-sufficient.

Involve middle and line management in the project.

In many cases, the decision to embark on a large business-transformation program is the exclusive domain of upper-level executives; program design and implementation typically involve the lower levels of the corporation. Few people would argue with the notion that "winning over middle and line management" is one of the key success factors in making any transformation lasting and successful. In most CPG companies, training and communications have traditionally been delivered by supervisors or line managers. That makes leveraging this group of people an important component of any transformation program. Front-line employees tend to trust this group the most within their organizations.

Take into account the organization's capacity to assimilate change.

This one requires a lot of homework, and is a hard one to execute. It requires complete and accurate information on all significant business-transformation programs and activities that are ongoing in the corporation. To gauge whether you have a good handle on such information, you should try answering questions such as:

- How many strategic projects is the enterprise currently undertaking?
- Do implementation timelines, communication messages, education programs, and other key activities coincide with one or more groups of company stakeholders?
- Do we understand the key interdependencies between projects or initiatives?
- Do we have a risk-management process in place, and are we managing risks?

If you are not able to get clear answers for these types of questions, you may need to institute an enterprise governance structure to oversee all business-transformation programs. A governance structure will enable you to align all programs to the stated corporate vision, and prioritize them based on a predetermined set of criteria. Periodically review and analyze the prioritized list to make sure the organization will be capable of implementing, sustaining, and digesting all of the planned business-transformation programs. And as painful as it may be, don't be afraid to remove programs from the list when it makes sense to do so.

Don't neglect to identify the need for organizational change management in your IT organization.

Whether you are migrating from mainframe-based legacy systems to a client-server environment, or are attempting to transform the corporation by implementing cloud-based business process solutions, chances are that you will need to tap into hard-to-find IT resources and skills. Some of the needed resources will have to be hired from the outside, or temporarily supplied by an outside vendor. But a significant number may need to come from within the organization, and be reskilled in new technologies and IT processes. If you find yourself in that situation, you will find solace in the fact that all of the previous points are also valid for the IT transformations required to enable the desired transformations.

Don't be afraid to swap out resources.

Even in the face of evidence that a major change program is needed, and is being executed according to a well-crafted strategy, you will occasionally have to deal with resources that are unwilling to support and participate in the program. When that happens, don't be afraid to take quick action and make the necessary organizational changes. But make sure those changes are based on a fair evaluation process. "Consequence management" can be hard, but it is an important step in getting corporate culture to align with the enterprise's new vision.

Embarking on the journey

For years, companies have tried to bundle change management into an existing human resources work-stream during transformation initiatives. This is particularly evident as organizations consolidate and reinvent themselves, as mergers and acquisitions are on the rise. Many organizations do not achieve the success they desire, and as a result, companies are rethinking the best approach to managing change, creating cultural alignment and, most importantly, engaging and integrating people.

To survive and thrive in the current business environment, companies need to understand that a change-management process must become one of the enterprise's core competencies—and must be willing to invest the resources and time to make it happen.

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Tony Galli is a principal with the Enterprise Services Advisory Services practice of DXC Technology. He works primarily with clients in the consumer products and retail industry on supply chain planning and strategy engagements. He is focused on order-to-cash cycle, forecasting, and leveraging emerging technologies to improve clients' revenue management processes. His consulting experience includes strategic planning, software selection, change management, and organization design and training and helps clients navigate the transition of technology, culture, and organizational restructuring. Tony holds an MBA specialized in finance from Wilkes University, and a BS in marketing from King's College, both in Wilkes-Barre, Penn.

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