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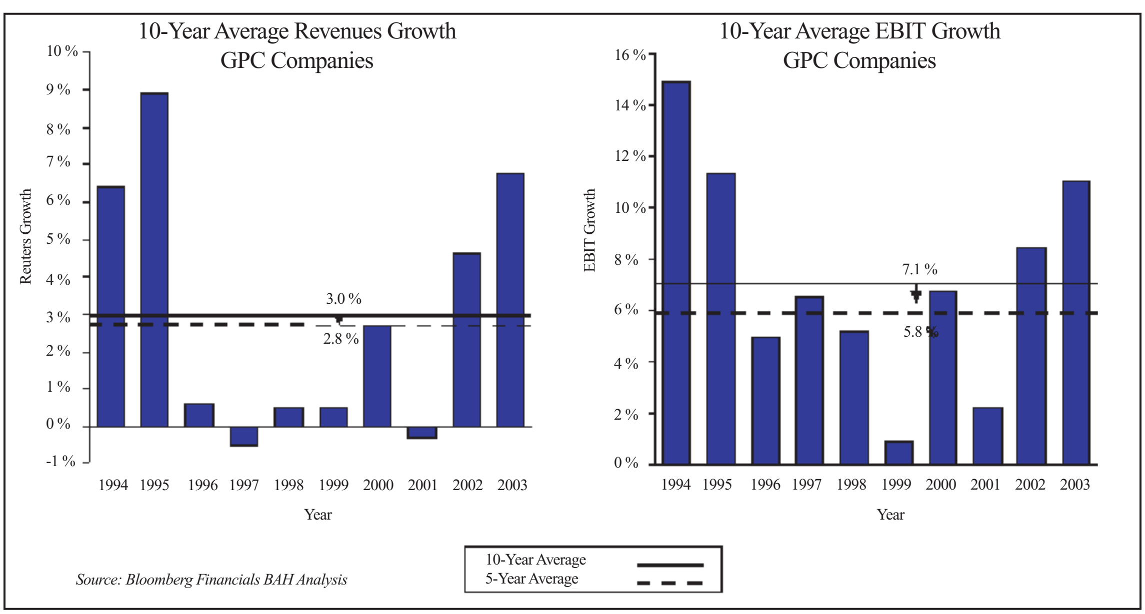
Engineering your organization's "DNA" for growth

By Mike Cooke, senior associate; Steffen Lauster, vice president;Ed Landry,vice president;Booz Allen Hamilton

These are challenging times for consumer product companies. Intense competition coupled with the growth of value-focused channels (mass, club, dollar stores) limit pricing power and revenue growth for many players in the industry. Investment community expectations have to be managed downwards as the industry as a whole suffers from inconsistent and low growth. Only seven of 24 leading packaged goods companies examined in a recent study beat the S&P500 in stock performance over the last 12 months.[1] Even as the overall economy heads back toward higher growth, the traditional 'safe-haven' investment value proposition of Consumer Packaged Goods (CPG) is not enough anymore to attract investors.

As a result of the challenging industry environment, most CPG companies have scaled down their growth targets and reset the market's expectations to top-line growth in the 3 percent to 5 percent range and bottom-line growth of 8 percent to 12 percent, but, in truth, even these aspirations pose considerable challenges (Exhibit 1). The question more and more executives are asking is: "What does it take in this environment to break out and become a top performing CPG player?"

Exhibit 1: CPG Revenue and EBIT Growth Performance



Sustainable Growth—Execution is Key

Achieving sustainable growth in today's environment requires better execution—the pursued growth strategies are remarkably similar. Most players understand this. Successful growth strategies begin with the realization that the brand is no longer the sole source of value creation. Other sources, such as superior customer relationships, channel management and globalization need to be recognized. In order to achieve sustainable 3 percent to 5 percent growth rates (beating the industry average), CPG companies must not only renew their brand value propositions but also customize service offerings to different channels and customers, and effectively manage resource allocation.

There is no silver bullet here. Most companies fall short in the required systematic, coordinated pursuit of these parallel objectives. Unlike major cost programs,growth programs are often expected to succeed through a multitude of largely uncoordinated initiatives rather than a systematic, coordinated growth management program. A successful growth program requires a comprehensive view of growth: full senior management support, clear priorities, effective resourcing, motivated leaders, relentless experimentation and measurement. Falling short on any of these dimensions jeopardizes the organization's ability to be successful.

The Right Organizational DNA for Growth

The most resilient and consistently successful CPG companies have been adaptive, self-correcting entities that have developed a robust capability to grow the top and bottom line over time. The ability to execute is woven deeply into the core of these organizations. It is embedded in the management processes, relationships, measurements, incentives and beliefs that collectively define the "rules of the game". In fact, successful companies have discovered that the devil is in the details of organization, and for them, organizing to execute has truly become a competitive advantage.

In a recent on-line survey, Booz Allen asked more than 4,000 middle managers and executives at U.S. companies, including 200 from the consumer products industry, to answer 19 straight-forward questions (www.orgdna.com) to help them identify their organization's unique characteristics. The questions were organized around what we believe to be four critical organizational features — structure, decision rights, motivators and information. These four dimensions, when combined in myriad ways, define an organization's "DNA" (Exhibit 2) — just as nature's DNA is held together by bonds between base pairs of four nucleotides, whose sequence spells out the exact instructions required to create a unique organism[2].

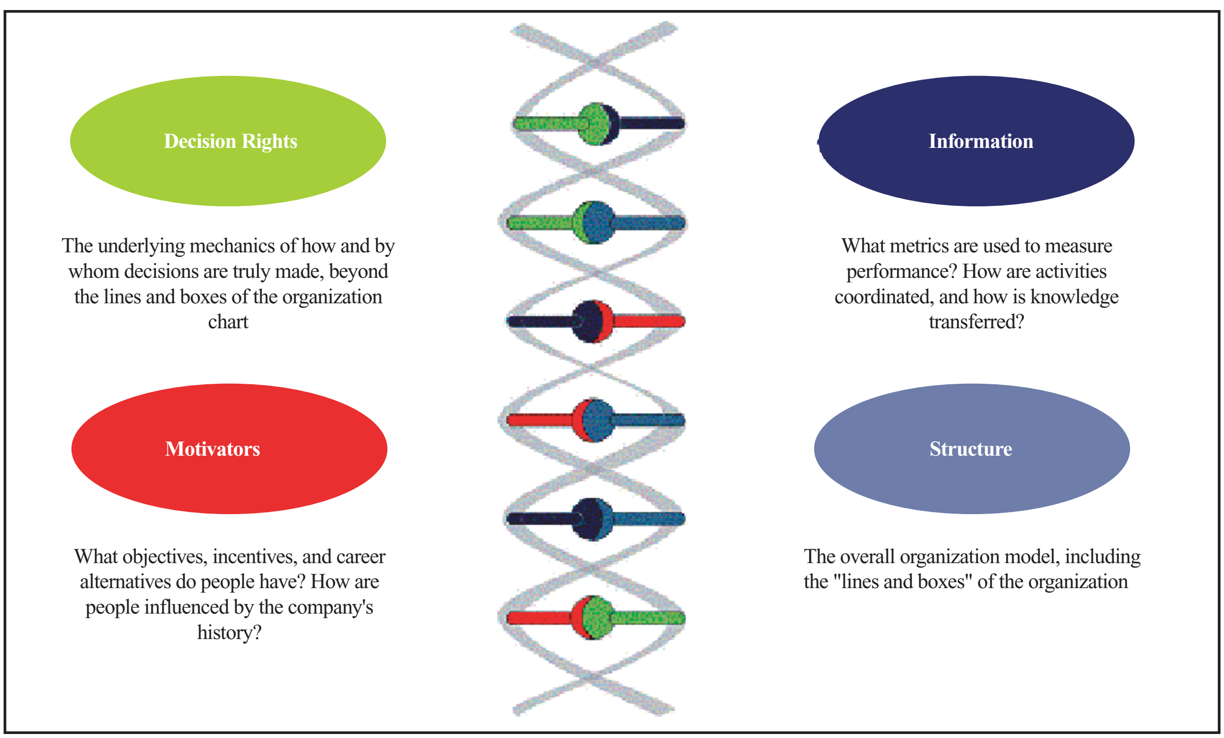


Exhibit 2: The Four Building Blocks of Organizational DNA

Answers to the 19 questions were fed through proprietary software that assigns the organization described to one of seven organization profiles (Exhibit 3). These profiles were developed by Booz Allen consultants based on years of experience working with companies to diagnose and overcome organizational impediments to effective execution.

Exhibit 3: Org DNA Profiles

Org DNA Type	Descriptor
Passive-Aggressive	"Everyone agrees but nothing changes". Line employees tend to ignore mandates from headquarters, assuming "this too shall pass".
Fits-and-Starts	"Running in a million different directions" Scores of talented and motivated people who often do not pull in the same direction at the same time.
Outgrown	"Bursting at seams". Too large and too complex to be effectively controlled anymore by small team of top executives.
Over-managed	"Analysis paralysis". When it does move, it moves slowly and reactively, pursuing opportunities less vigorously than competitors.
Military	"Command and control" by small group of senior managers. Succeeds by sheer source of will while middle management bench can be shallow and short-lived.
Just-in-Time	Ability to "turn on a dime" when needed. Can miss opportunities, but only by inches rather than miles.
Resilient	"Adaptive to market changes" yet "steadfast" in business strategy. This forward-looking organizations anticipates changes routinely and addresses them proactively.

Source: Booz Allen Hamilton

CPG Survey Results

First of all the good news: Findings suggest that CPG companies, as rated by survey respondents, are more resilient than players in most other industries. Moreover, CPG companies were associated with organizational personalities that indicate negative behaviors less frequently than other industries (Passive Aggressive, Fits-and-Starts, Outgrown, and Over-managed). Generally, this bodes well for an industry dependent on innovative products and new markets.

Going deeper however, the data does strongly point out that for CPG companies, focused on growth, there is still much work to be done:

- Aligning the organizational structure for growth by de-layering the organization and creating rewarding career opportunities
- Driving to quicker decision-making by delegating more responsibilities and decision-making powers to front line management
- Building and deploying cross-functional capabilities by improving the information flow across organizational boundaries (e.g. between sales and marketing and other functions)

Approximately 45 percent of the survey respondents in the CPG industry indicated that the companies they worked for exhibited so many traits that prevent them from performing effectively that they were assigned an unhealthy profile. Moreover, the structure of many CPG firms does not seem to encourage growth-focused behaviors (Exhibit 4). The management-to-employee leverage ratio — a good indicator of bureaucracy levels —was rated as worse than all but three other industries. Promotion opportunities and career potential were viewed as average at best and below levels that would encourage the pragmatic risk-taking essential to a growth agenda.

Exhibit 4: Selected Survey Responses to Structure Related Questions

Structure Related Question	% of Respondents that Agree	Average for All Other Industries (% that Agree)	Consumer Product Rank (Out of 23 Industries)
At the middle-management level, the average number of direct reports is 5 or more	42.0%	52.2%	20
"Fast track" employees here can expect promotions every 3 years or more (as opposed to less than 3 years)	41.4%	40.8%	14

The survey's decision rights data is even more insightful (Exhibit 5). CPG companies appear less likely than other industries to use a 'command and control' management approach. In spite of the less directive culture, CPG companies appeared to be more successful at translating strategy into action. However, it is worth noting that the majority of CPG respondents still don't think their companies act quickly enough. Respondents also reported that senior managers in the CPG industry do not seem to trust decisions made at the lower levels of the organization. Senior managers believe getting their hands dirty is a good thing. However, junior managers generally feel micromanaged.

Exhibit 5: Selected Survey Responses to Decisions Rights Related Questions

Decision Rights Related Question	% of Respondents that Agree	Average for All Other Industries (% that Agree)	Consumer Product Rank (Out of 23 Industries)
The culture of this organization can best be described as persuade and cajole instead of command and control	56.4%	49.5%	2
Important strategic and operational decisions are quickly translated into action	43.6%	34.4%	3
Everyone has a good idea of the decisions/ actions for which he or she is responsible	55.2%	44.4%	2
Managers above me in the hierarchy frequently "get their hands dirty" by getting involved in operating decisions	70.2%	60.8%	22

From an information flow point of view, CPG companies fare far better than companies in other industries. Message consistency and information monitoring are at best-in-class levels. However, there still appears to be room for improvement. Only 39 percent of CPG respondents think that field/line employees have adequate information to understand the bottom-line impact of their day-to-day decisions (Exhibit 6). CPG respondents also identified the inefficiency of transferring messages across organizational boundaries (e.g., from sales to marketing, from marketing to supply chain) as a real weakness. In this area, CPG performance was sub-par.

Exhibit 6: Selected Survey Responses to Information Related Questions

Information Related Question	**% of Respondents that Agree**	**Average for All Other Industries (% that Agree)**	**Consumer Product Rank (Out of 23 Industries)**
Important information about our competitive environment gets to headquarters quickly	68.5	52.5	1
Feild/line employees usually have the information they need to understand the bottom-line impact of their day-to-day choices	39.8	36.1	6
Line management has access to the metrics they need to measure the key drivers of their business	58.6	44.8	2
Information flows freely across organizational boundaries	25.4	31.0	16

Relative to other industries, CPG companies are strong when it comes to motivating their employees through compensation and incentive programs. The challenge lies in ensuring that these efforts are not offset by other forces (e.g., bureaucracy, unclear decision rights).

Exhibit 7: Selected Survey Responses to Motivator Related Questions

Motivator Related Question	**% of Respondents that Agree**	**Average for All Other Industries (% that Agree)**	**Consumer Product Rank (Out of 23 Industries)**
If the firm has a bad year, but a particular division has a good year, the division head would still get a bonus	59.7%	52.5%	7
The individual performance appraisal process differentiates among high, adequate and low performers	68.0%	54.7%	1
The ability to deliver on performance commitments strongly influences career advancement and compensation	76.8%	54.3%	1

Engineering the Organizational DNA for Growth

In short, while our survey data indicate that CPG firms have many of the organizational DNA elements required to achieve sustainable growth, several elements exist that limit the ability to execute against a comprehensive growth strategy.

These limitations are not insurmountable — fortunately, the DNA of an organization can be re-engineered. Re-engineering the DNA of an organization requires the delicate rewiring of the intertwined four bases – structure, decision rights, motivators and information. As we said earlier, the best organization designs are adaptive, are self-correcting, and become more robust over time. The first step in fixing problems is to identify and isolate them. DNA testing can be as valuable to corporate health as it has become to human health care. But generating a profile is not the point; it is only an exercise designed to focus managers on the root causes of their organizational disconnects and execution problems. It is up to management to translate these findings into sustainable solutions.

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[1] Booz Allen Consumer Packaged Goods Industry benchmarking.
[2] See Neilson, G., Pasternak, B. and Mendes, D. The Four Bases of Organizational DNA