

The two-speed organization

How consumer products companies should organize to accelerate growth

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I. Situation

Faced with ever-increasing external threats, consumer product companies may need to take bold steps to accelerate growth

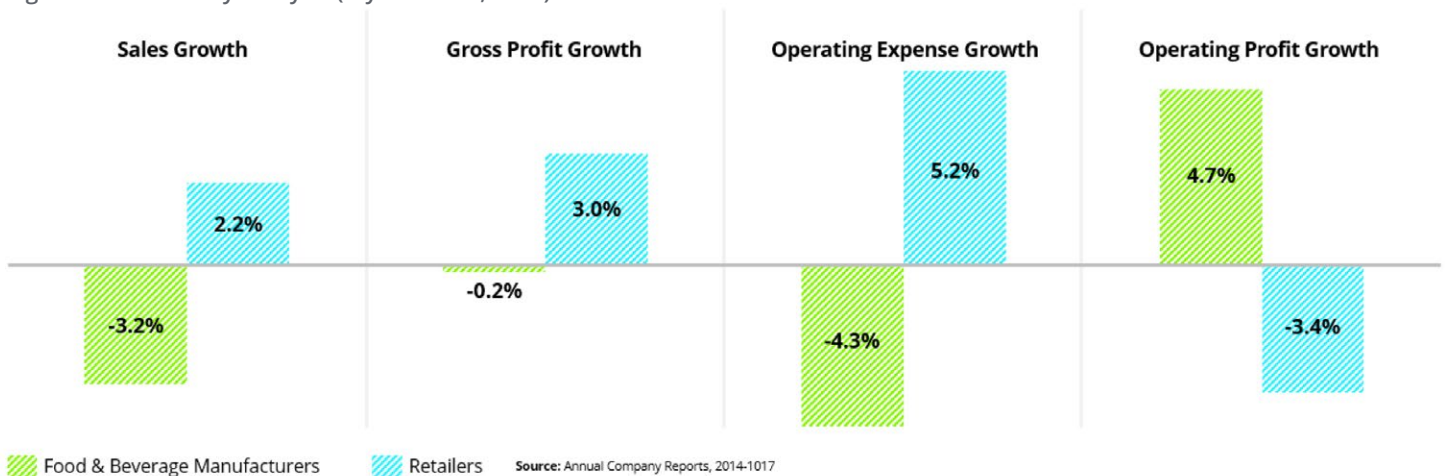
For years now, incumbent consumer product (CP) companies have often struggled to respond to the start-ups disrupting categories ranging from skin care to ice cream. They've chased strategic initiatives they hope will accelerate sales and profit growth; initiatives including portfolio diversification (often through acquisitions), product and packaging innovation, geographic and segment expansion, and cost management. So how have these initiatives performed?

Deloitte analyzed recent sales and profit performance of over 50 publicly traded CP companies that operate in all major

industry channels—food and beverage manufacturers, foodservice distributors, and supermarket chains (see figure 1).

Our data show food and beverage manufacturers clearly face the most significant headwinds, with declines in sales and gross profit of 3% and 0.2%, respectively. Sales for multinational companies in North America were off even more sharply (-3% vs. +2% for international sales), while producer prices rose 2%, suggesting unit volume declines of -5%. Operating profit was up only due to a decrease in operating expenses.

Figure 1: Profitability Analysis (3-year CAGR, 2017)



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That's the bad news. The good news is that retailers are seeing solid sales growth, averaging 2%, with gross profit growing faster at 3.0%, mostly due to product mix and improved terms.

It's worth pointing out an important difference in how operating profit growth was generated in either case: food and beverage manufacturers largely delivered growth by reducing operating expenses, while retailers typically drove sales growth (and are preparing themselves for the future) by investing in operations and transformational digital capabilities. We'll return to this distinction—and its significance—later.

The pace of disruption in the marketplace is exponential

Gordon Moore, co-founder of Intel, famously observed that computing dramatically increased in power and decreased in relative cost over time, and at an exponential pace. What would become known as Moore's Law describes this exponential dynamic: technical advancement getting progressively faster, sparking accelerating change in related domains.

We see this dynamic playing out in the marketplace: when industries begin to take on digital—i.e., technically-driven—properties such as digital commerce, digital marketing, and digital services, these industries see to reflect Moore's Law, with

disruptive changes coming at a faster and faster rate.

We believe today's CP industry is in the early stages of just such systemic disruption. The competitive advantages on which the industry has been built are increasingly less differentiated; technology-savvy start-ups have eroded them by:

- Creating breakthrough innovation by staying close to consumers and trends
- Building digital-first, purpose-led brands
- Capitalizing on the rise of emerging channels such as direct-to-consumer and alternative channels
- Leveraging 'asset-light' manufacturing model and ecosystem partners
- Being hyper-efficient
- Moving fast

The corollary: We believe the system by which consumer products are made, distributed, sold, and brought home is largely outdated, and built on a model of the world that we don't live in anymore. When technology disrupted industries in the past, the disruptive forces were often misunderstood, misinterpreted, or underestimated until it was too late and companies got disrupted. Today, we believe we're still within a window in which adaptive changes to the CP industry can be made. There is a path through.

II. Challenge

The pace of change in the industry is forcing many consumer product companies to compete ambidextrously in two worlds

At the heart of the industry's disruption is a new, consumer-centric paradigm that challenges the traditional value of 'scale' and forces an evolution of the business.

Our experience working with large CP companies suggests that they don't suffer from a lack of ideas; where they often struggle is in innovation—knowing where to make bets, move products to launch quickly, then nurture them to scale. Driving growth through innovation like this means CP companies should evolve the assets and capabilities already in place and adapt while adopting significantly different ways of working. The catch? They have to do this without harming the existing business.

How? By competing in two worlds simultaneously: the world where large,

multi-national companies compete on scale and efficiency, and the world where start-ups and niche brands compete on customer intimacy and speed.

We're beginning to see some evidence of CP companies starting to pivot like this. In February 2019, 23 of the most preeminent CP companies gathered for the 48th annual Consumer Analyst Group of New York (CAGNY) event in Florida. Almost half of them outlined a strategy for restructuring and realigning their operations, and for embracing organization agility. And more than 80% of the companies presented their plans for further P&L productivity and cost management (see figure 2).

Figure 2: Analysis of CP Company Strategies (from CAGNY 2019)



Rethink The Operating Model

Fundamentally re-examining operations and ways of working to resolve the tension between operating at a global scale and being nimble

48% of CP companies are restructuring and realigning their operations¹



Recast The Cost Structure

Beyond productivity to create flexibility in cost structure; new accountabilities and measures

83% of CP companies are focusing on P&L productivity¹



Embrace Organizational Agility

Leveraging talent and culture in a way that enables speed to action and results along with nimbleness

48% of CP companies called out new ways of working through agile development¹

Source: Deloitte Analysis of 23 CP Strategy Presentations at CAGNY 2019

Rethinking the two O's: operating model and organization

Still, it's not immediately apparent how companies can straddle these two worlds. Those that compete as large multi-nationals have well-defined roles and responsibilities—with clear job descriptions—while firms competing as start-ups and niche brands have organically developed lateral coordination mechanisms with few formally defined tasks, and less reliance on standardization and specialization.

Studies of organizational adaptation suggest success over time, in the face of environmental and technological change requires change in the organization's structure—but to what? In this case, we're suggesting successful organizations should be both routine-based *and* agile; efficient *and* creative. Simultaneously. Organizationally...ambidextrous.

There is precedent for this concept of organizational ambidexterity, the most accepted definition being *a balance between exploration and exploitation; organizations capable of exploiting their existing competencies while simultaneously exploring new opportunities* (Nieto-Rodriguez, 2014). When we look at things this way, we can see that most organizations already work with both 'hands'. Adaptation then means strengthening the weaker of the two and getting them to work in concert.

Running-the-business—call it the right hand—is central to any organization day-to-day. It quite simply keeps the company alive, and includes core processes like operations, sales and marketing, customer service, and finance. Most of the revenue firms generate will come from these activities; the focus is a short-term. Objectives are mainly commercial, financial, and performance-driven. Efficiency, productivity, and economies of scale are paramount.

Changing-the-business—call it the left hand—is the future of the organization. It includes all the strategic and tactical programs, as well as projects and initiatives (organizations often have hundreds, even thousands of initiatives running in parallel). Changing-the-business makes bets on future value for the organization. Objectives are closer to the vision. They're made to transform the business, significantly increasing growth and its profitability. The focus is medium and long-term, with benefits harder to quantify—if they ever materialize—so bets are more risky. If running the business is like writing with your right hand, changing the business is like painting with your left.

One way that many CP companies have responded to this challenge is to adopt independent, parallel operating models—typically by acquiring smaller, niche brand businesses. But can you compete two different ways in the same industry? Running dual operating models is challenging, because the new model usually requires

different (and often incompatible) value chain activities from those already in place. CP companies that shift to selling directly to consumers online, for example, may alienate their existing retail customers.

Some CP companies have addressed this problem by keeping the two businesses (and their underlying value chains) physically separate as two distinct businesses. This is the 'innovator's solution' associated with Professor Clayton Christensen's work on disruptive innovation. Christensen was one of the first to introduce the idea that an incumbent company place responsibility for building a disruptive new business in an independent organization, putting teams on skunkworks projects to ringfence them from the mainstream business.

But there's a flaw to this logic: companies with two separate businesses and operating models fail to exploit potential synergies between them. Ventures need space to develop, but strict separation can prevent them from getting invaluable resources, while robbing their parent company of the vitality they can generate.

But there's a middle path, where separate units are integrated into the existing management structure of the firm to allow the company to both run-the-business and change-the-business at the same time. Where right and left hand not only know what the other is doing, but work together.

Call it the two-speed organization.

III. Solution

The Two-speed Organization: transforming the organization to resolve the tension between operating at scale and being agile

In our work with CP companies, we've found that organizational structures rarely come from methodical planning. Rather, they evolve over time, in fits and starts. The haphazard nature of the resulting structures is a perennial source of frustration for executives, with overly-complex structures (like matrixed organizations) often collapsing because of lack of clarity about responsibilities and accountabilities. Intentional organization design can spare leaders these issues.

When designing a Two-speed Organization, we recommend leaders ask two fundamental, strategic questions: *Which markets do we compete in, and how will we win in those markets?* These may seem obvious questions, but too often a company's existing operating model and organization end up impeding a new

strategy rather than support it. So it's important to clarify strategy and business model from the beginning in order to support key sources of competitive advantage. In a perfect world, each source of competitive advantage is assigned a working group dedicated to preservation and realignment to the new model.

In 2015, we conducted an exhaustive analysis of dominant business models in the CP industry. The results of that analysis were published as part of the Deloitte Insights series *Business Model Innovation in Consumer Goods: How Companies Are Configuring Their Business to Deliver Exceptional Performance*.

Our research and analysis identified three dominant business model types (see figure 3).

Figure 3: Dominant Business Model Types in the CP Industry



Operational Excellence

- Proprietary capabilities that allow the company to provide similar products more cheaply
- Manage high-volume, routine processing activities with a focus on standardization, cost control, and predictability
- Emphasize *economies of scale* and efficiency



Product/Brand Leadership

- Brand or proprietary technology that allow the company to charge a premium
- Focus on rapid iteration in product/brand development, and initiate change to which competitors must react
- Driven by innovation and *economies of time* (speed to market)



Customer Solutions

- Build broader relationships with a targeted consumer segment or group of customers
- The customer is king: Offer new combinations of boundary-spanning products, services, and information to meet specific needs and requirements
- Focus on *economies of scope*








Importantly, we found that a small number of CP companies—regardless of business model—consistently outperformed their peers in terms of sustainable financial performance. They'd structured themselves as Two-speed Organizations. These outliers designed their operating models with intention, developing distinctive, world-class capabilities to help them leverage scale and efficiency *and* explore new growth opportunities at the same time. How? Here's some insight into the process.

Before designing a Two-speed Organization, executives must first agree on the type of

company they want to lead. To help in this analysis, the company's business model type, as well as its where-to-play and how-to-win strategic considerations are filtered through design principles that guide how the future organization should operate (see figure 4).

As illustration of this process, we've applied these principles to two of the CP Industry's dominant business models—Customer Solutions and Product/Brand Leadership—to generate two potential models of Two-speed CP organizations.

Figure 4: Example of Two-speed Design Principles

	Enable Growth	Enable growth via strong commercial ideas and innovation, investment choices, excellence in execution, and increased speed to market of commercial ideas
	Outside-in View	Deploy marketing resources close to consumers and complement with Center of Excellence at scale
	Market Responsiveness	Design to improve the speed of decision making and increase the flexibility of resources to best respond to market opportunities
	Centralized Business Support	Relentlessly centralize (and digitally-enable) management of back office, sales enablement, and operations support to take advantage of scale and maintain agility
	One P&L	Design with simplicity and clarity of decision making in mind with leadership team aligned to one common P&L
	Clear Governance	Create agility and flexibility by reducing the number of decision makers and adhere to a clear governance structure to maintain accountability
	Talent Development	Ensure there are opportunities for people development and growth

Model I: Customer Solutions with integrated commercial teams

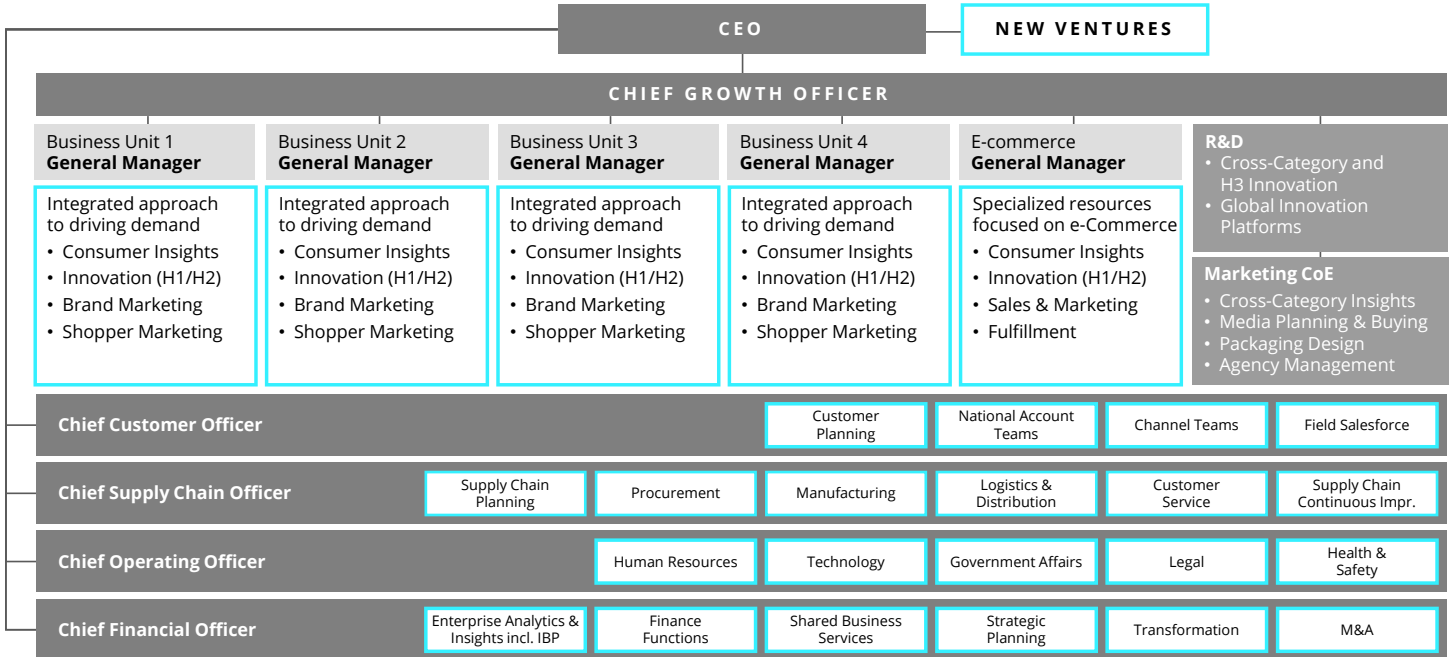
The Two-speed version of the Customer Solutions business model is built on economies of scope, and creating broader relationships with a growing number of customers. Organizationally, this business model type requires skills related to gathering and analyzing the large amounts of data that provide a deep understanding of each customer’s evolving context. Culturally, this business model type is focused completely on the customer—no matter how much internal turmoil and heartburn meeting customer requirements might create, the customer is king. Other names for this type of business model include Service Provider and Customer Relationship.

responsive—the organization needs to move away from matrixed structures with their webs of ‘straight line/dotted line’ reporting relationships. These structures obfuscate who’s accountable for decisions, and reduce organizational agility.

Instead, each of the growth levers associated with the 5Ps (Product, Price, Promotion, Place, and People) are assigned category owners, who report up to a Chief Growth Officer. This structure helps consumer-focused categories drive demand across the full spectrum of growth levers—from insights, to shoppers, to innovation—eliminates unnecessary layers, and prevents the addition of senior-level counterparts in other functional areas that might mirror the commercial structure (see figure 5).

To engage its ‘second speed’—that is, to become more agile and customer

Figure 5: Organization Structure for a Two-speed Organization with a Customer Solutions Business Model



Note: H1 = Horizon 1 Innovation; H2 = Horizon 2 Innovation; H3 = Horizon 3 Innovation

The two-speed organization

Bringing all the demand-generating activities into the category teams can reduce fragmentation, and the tendency of too many people influencing the brand. Shopper marketing also sits within the category teams, allowing for clear ownership and activation at the brand level, while removing disconnected middle layers. Ultimately, this structure allows the single category owner to set the strategy for the category, as well as manage tradeoffs across the demand generation levers both within, and across brands.

Manufacturing is centralized in this model, including co-manufacturing, co-packing, and value-added services. Logistics and distribution within the organization are refocused to prioritize On-time, In-full (OTIF) service improvements to the customers, and to create one voice to the customer.

Sales is organized under a single, cross-functional Chief Customer Officer. This can bring simplicity to the sales structure, improve how sales works with supply chain and commercial units, and eliminate role duplication. Building a Sales Enablement Center of Excellence helps inform investments in capabilities around technology, data, and people.

Placement of support functions can vary in this model. For example, CP companies may choose to have the Chief Information Officer (CIO), Chief HR Officer (CHRO), and/or the Chief Strategy Officer (CSO) report directly to

the CEO. In the model above, we've shown a CEO with six direct reports, creating an agile leadership team that can make decisions quickly. This solution isn't necessarily right for every business—it's important to understand the trade-offs between fewer, more empowered senior executives vs. a broader inclusive leadership team.

In addition to the above-mentioned design principles of a Two-speed Organization, this particular business model requires a few additional considerations:

Marketing Center of Excellence

To mirror the agility of the category teams, a Marketing Center of Excellence (CoE) can inject marketing efficiency into media planning and buying, packaging design, agency management, training, and digital and marketing coordination.

Digital Marketing

Digital marketing is embedded into the category teams to support agility (and, since we've aligned demand generation levers under single owner, likely to support its effectiveness). We don't silo digital marketing in the Marketing CoE; while this would encourage scale and potentially build digital capability, it would likely slow down and fragment decision making—anathema to our two-speed goal of agility.

E-commerce

To really win in e-commerce, you need the ability to pull together specialized

resources from insights, innovation, sales and marketing, and fulfillment under a single leader. In this model, the e-commerce team reports into the Chief Growth Officer. This ensures the team gets the prioritization and attention it needs and helps build specialized e-commerce capabilities.

New Ventures

In this model, the New Ventures team reports into the CEO, protecting the team from absorption into the broader organization. For a simpler structure, New Ventures could report into the Chief Growth Officer; this would make it easier to integrate new ventures into the primary structure when approved.

Integrated Business Planning

A critical part of being agile and market responsive is the coordination between demand and supply. In this model, the Integrated Business Planning (IBP) team delivers an effective management process by extending the principles of Sales and Operations Planning (S&OP) throughout the supply chain, product and customer portfolios, customer demand, and strategic planning. We recommend IBP report into the CFO to create a 'neutral' ground for business planning across categories, sales, and supply chain.

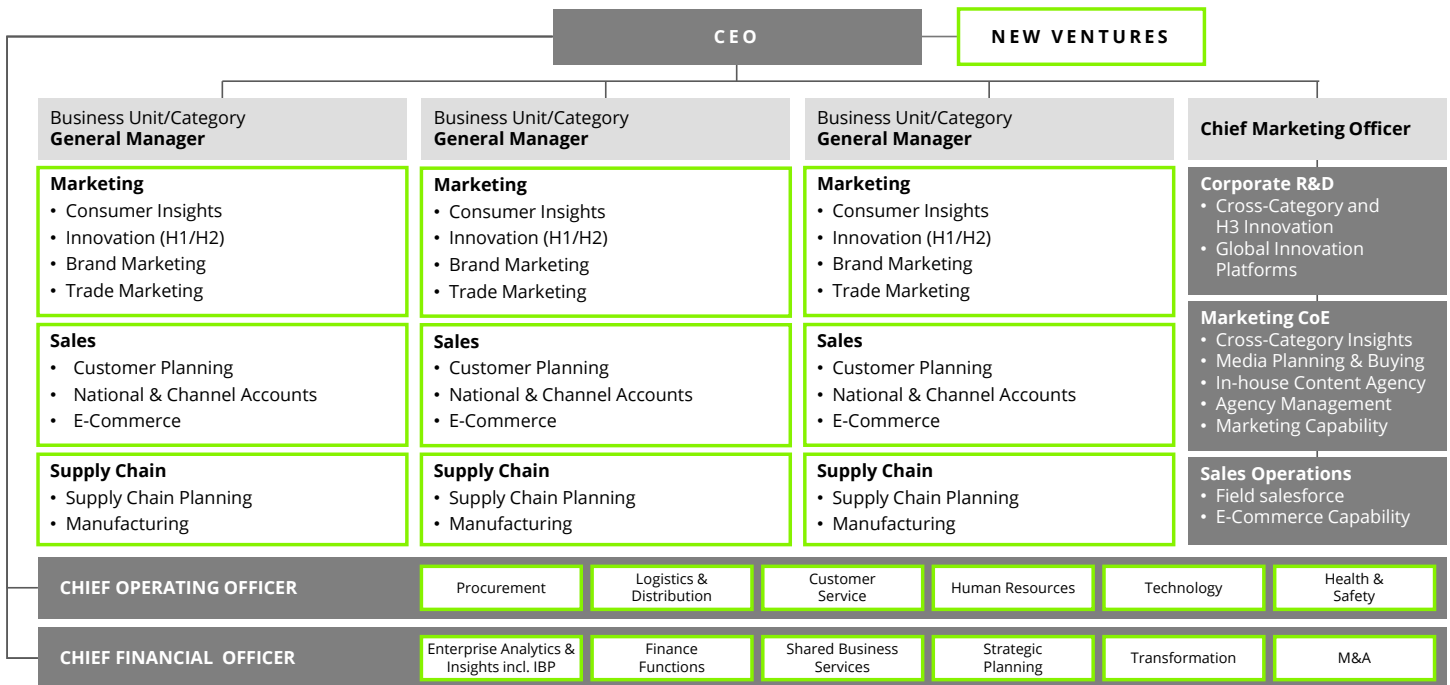
Model II: Product/Brand Leadership with separated business groups

Companies with a Product/Brand Leadership business model focus on very different economics, skill sets, and cultures than the Customer Solutions model. They're driven by economies of time—speed to market for instance—so the organization require skills focused on rapid innovation and iteration in product development, so that market opportunities can be quickly identified and addressed. The culture prioritizes creative talent, with resources focused on supporting the development of strong brands and innovation. This business

model has also been referred to as Product Innovation and Commercialization or Technology Creators.

The Two-speed version of the Product/Brand Leadership business model focuses on transitioning from one-size-fits-all, to balanced global scale with local agility. The strategy is to run the organization like a series of small, connected companies—in practice, business units or category teams—that are fast, locally adept, and generally fit to compete in today's rapidly changing environment (see figure 6).

Figure 6: Organization Structure for a Two-speed Organization with a Product/Brand Leadership Business Model



Note: H1 = Horizon 1 Innovation; H2 = Horizon 2 Innovation; H3 = Horizon 3 Innovation

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These empowered business units/ category teams are multi-functional, entrepreneurial units with end-to-end responsibility for consumer insights, R&D, customer development, sales, and supply chain expertise for their categories. This version of the Two-speed Organization has few, scaled business units responsible for national/global marketing and advertising, and local 'country category teams' reporting into the broad category teams to promote agility and connection with key consumers and markets. These country category teams have an entrepreneurial mindset; each has separate targets in sales and innovations, helping them fight nimbler rivals and mop up higher sales in a fast-changing consumer environment.

In this model, each category team allocates resources dynamically between geographies, making its own investment decisions based on strategic objectives. Each team makes recommendations for capital allocation, both in the supply chain and in terms of acquisitions. The result: duplicative work and hand-offs can be reduced, trapped capacity is unlocked, and the organization is more agile at a lower cost. (One important note:

not everything is independent. Category teams continue to benefit from central functions including procurement, finance, and data and digital capabilities).

This model requires the company and its business units to be large enough to support their own sales forces and manufacturing teams; we've recently seen it applied by large global companies operating across multiple categories and markets.

Each category team has full P&L ownership, serviced by lean support functions with shared back-office services agreed to by the business unit general managers. This creates full and clear control of the entire P&L and reduces operational complexity and operating costs. Incentives for the business unit general managers are clear: fund growth investments, optimize costs, and maximize profits.

This model has additional considerations:

Marketing Center of Excellence

Like the Customer Solutions focused model, marketing efficiency is provided by a Marketing Center of Excellence (CoE) across

media planning and buying, packaging design, agency management, training, and digital and marketing coordination.

Digital Marketing

Digital is embedded into the category teams to create agility and likely effectiveness.

E-commerce

In this model, e-commerce is split across the category teams with a central Sales Enablement team focused on building and sharing specialized e-commerce capabilities.

New Ventures

Like the Customer Solutions focused model, the New Ventures team reports into the CEO, creating separation, and keeping the new ventures from being swallowed by the category teams.

Integrated Business Planning

Integrated Business Planning (IBP) is integrated into each category team to deliver one efficient management process across categories, sales, and supply chain.

IV. How to Get Started

Five steps to creating a Two-speed Organization

As described above, the competitive advantages on which the CP industry has been built are increasingly less unique. Technology-savvy start-ups have eroded them, and we believe the system by which consumer products are made, distributed, sold, and brought home is largely outdated.

To be successful, future organizations should be simultaneously efficient and routine-based, explorational and agile. These Two-speed Organizations integrate separate business units into the existing management structure of the firm so that they can both run-the-business and change-the-business at the same time.

To unlock the potential benefits of a Two-speed Organization, we suggest business leaders consider taking five deliberate steps:

1. **Clearly define the Two-speed Organization principles and values**

The purpose of the Two-speed Organization must be to enable growth via strong commercial ideas and innovation, investment choices, excellence in execution, and increased speed to market. Though different cultures will emerge within the new organization, a strong shared vision, common strategic intent, and overarching set of values should unite the company and the different business units. Consider:

- *Have you made intentional choices around your business strategy and how to compete in two different worlds?*
- *How do these choices link to your where-to-play and how-to-win positioning for exploiting and exploring opportunities?*
- *What does that mean for the organization you want to lead in the future?*

2. **Determine the right operating model—Customer Solutions or Product/Brand Leadership**

Using the design principles and values, and a strong understanding of what your customers and consumers value, design the new operating model structure so that it improves the speed of decision making, increases accountability, and improves the flexibility of resources to best respond to market opportunities. Despite the massive changes at play in the marketplace, formal and flexible organizational structures will continue to coexist. Perhaps ironically, it still takes formal support structures to ensure that flexible team structures work effectively. In practice, this means the ability to quickly build, deploy, disband, and reform teams is a critical skill for today's organizations. Consider:

- *Have you made intentional choices around the operating model type, and how these link to your design principles and values?*
- *Have you allowed the business units or category teams to differentiate themselves by adopting a few of their own capabilities, while at the same time exploiting synergies by ensuring that some value chain activities are shared?*
- *Have you created full and clear control of the entire P&L and reduced operational complexity and operating costs?*

3. **Create a structure based on a network of teams**

Having the right organizational and governing structure is probably the biggest challenge of becoming ambidextrous—and potentially the most critical, because the structure of a Two-speed Organization determines the behaviors in the system. So if we

want people to display ambidextrous behaviors, we must first create the appropriate organization context for such behaviors to emerge by decentralizing authority, and forming dynamic networks of highly empowered teams that communicate and coordinate activities in unique and powerful ways.

This new mode of organization—a network of teams with high levels of empowerment, strong communication, and rapid information flow—is critical to the success of the Two-speed Organization. It encourages individuals to make their own judgments as to how to best divide their time between efficiency in their management of today's business demands, while also being adaptive enough to changes in the environment that they will still be around tomorrow. Consider:

- *Have you organized the teams around mission, product, market, or integrated customer needs rather than business functions?*
- *Are there ways to bring functional experts into mission-driven teams focused on customers, markets, or products?*
- *Is there a balance of power and decision rights across commercial, sales, and supply chain?*

4. **Pushing down decisions—not just creating fewer decision makers**

To move quickly, lower levels of the organization need to be empowered to make and own decisions. This is the Achilles' heel at many CP companies today: if you don't do this, you could end up driving every decision to the top levels of the organization, slowing things down and diluting accountability. Pushing down decision rights can be

done by building a set of processes or systems that enable and encourage individuals to make their own judgments about how to divide their time between conflicting demands for alignment and adaptability. This may also require cultural change to break long-standing habits and norms. Consider:

- *Have you created agility and flexibility by reducing the number of decision makers?*
- *Are the teams empowered to set their own goals and make their own decisions within the context of an overarching strategy or business plan?*
- *Can performance management be focused on team performance and team leadership rather than focusing solely on individual performance and designating individuals as leaders?*

5. **Plan for the support needed to make the Two-speed Organization stick**

When a new organization doesn't work as expected, executives are often quick to blame 'people problems.' But we find that if an organization isn't suited to the skills and attitudes of its members, then the problem often lies with the design, not the people. Transitioning to

a Two-speed Organization takes strong leadership, clearly defined decision rights, performance measurements, and reward systems to engage the employees. Companies that fail to plan for and resource these areas often end up discarding the new model within a couple of years. Also critical: look at the pivotal jobs in the design—the positions that will need to be staffed by highly talented people if the organization is to work well. These will typically include heads of the business units, and managers of all the functions involved in crucial cross-unit relationships. Conversely, pay close attention to the employees who will forfeit status or power in the new structure. All redesigns create them, and they can turn cynical and resistant, becoming roadblocks to change. Consider:

- *Do you have outstanding people to staff the key jobs today?*
- *Do you have the career paths and development initiatives needed to create and retain new talent for tomorrow?*
- *If you had to find replacements outside, would you be able to attract and hire them?*

Is your company faced with the new consumer-centric paradigm that challenges the traditional value of 'scale' and forces an evolution of the business? Then the Two-speed Organization may help you bridge the gap between operating scale and agility.

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Jacob Bruun-Jensen is one of Deloitte Consulting LLP's thought leaders on business model innovation and transformation. He is a principal in the US Strategy service line Monitor Deloitte with a focus on Strategy and Business Transformation. Jacob works with leading companies in the consumer goods and retail industries to make sense of the converging forces of consumer changes, technologies, and business ecosystems to rethink operating models. His experience spans 10 years in the industry in various strategy and commercial leadership roles, as well as 15 years in strategy consulting. Jacob researches and writes about business model transformation and is the co-author of "Business Model Innovation in Consumer Goods" and "Minimum Viable Transformation," part of Deloitte University's Business Trends series.

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Endnotes

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