



# POI European Summit

**Successfully Navigating Growth in the New CPG and Retail World**

**McKinsey  
& Company**



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# The Next Growth Curve with Tech-Enabled Strategic Revenue Growth Management



## The need for change



Changing commercial dynamics shaping the consumer goods sector

## Strategic RGM



Taking an integrated longer-term view on growth by bringing together insights across the core RGM levers with untapped category growth opportunities

## Tech-enabled RGM



Accelerating scalability, ensuring long-term sustainability, and unlocking next generation insights through the interplay of data engineering, data science, advanced analytics, and agile tooling



# There is a systemic dissatisfaction with the current state in CPG companies ...

## Businesses at risk



8/10

CEOs think their current business model is at risk

## Too much focus on bottom-line



79%

of CEOs are mostly focusing on bottom-line improvement to drive value for the company

## No systematic growth management



Less than 30%

of companies are systematically scanning for and evaluating new growth opportunities

## Innovation underperformance

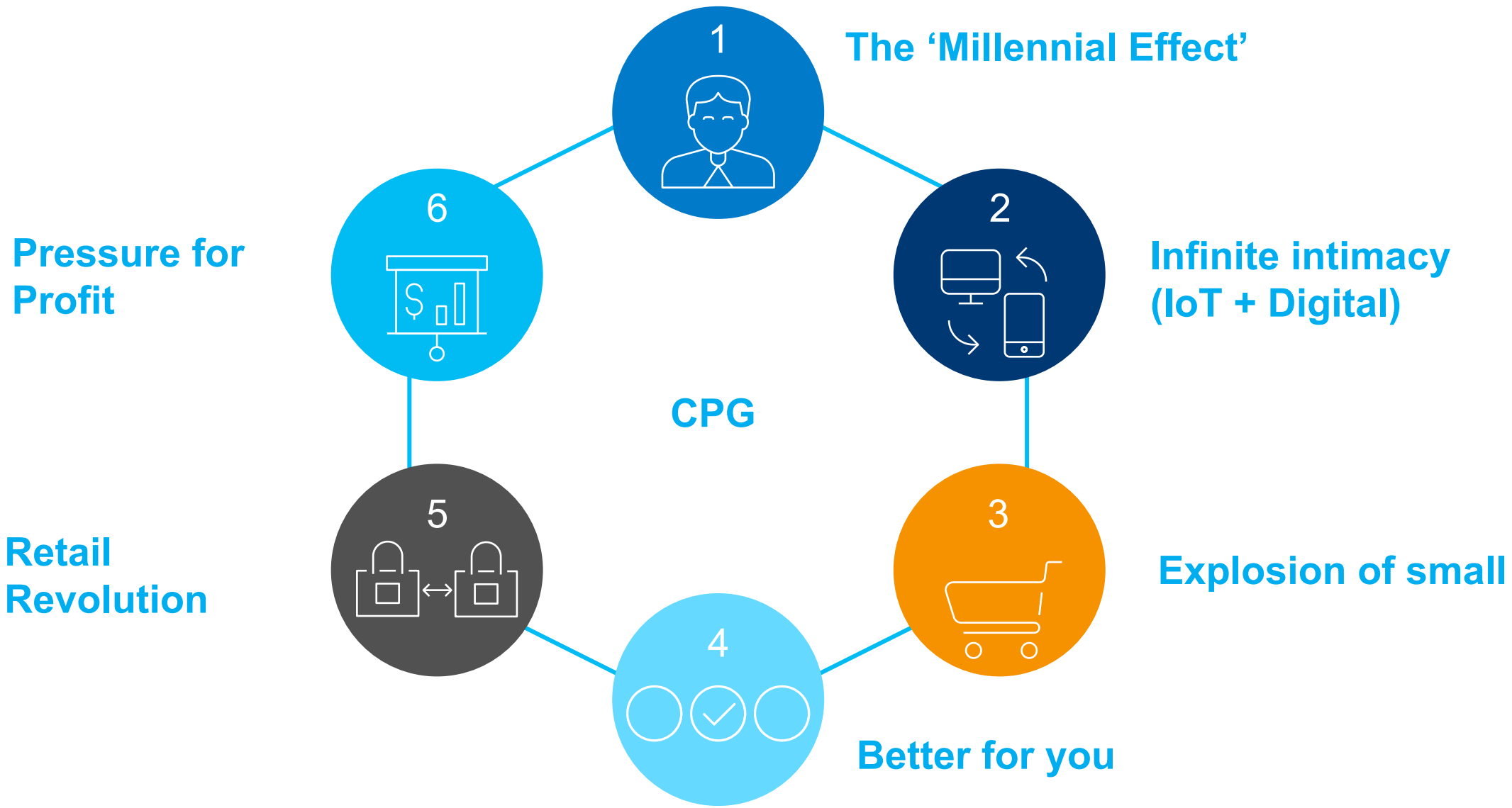


6%

of CEOs are satisfied with their companies' innovation performance



... and changing commercial dynamics are presenting new challenges with implications on RGM



Against this backdrop there is an increasing need to think about RGM strategically in the context of holistic growth strategy



**Create**  
**CREATE** actionable growth path for brands, products, business models and customers, by predicting consumer demand through granular advanced analytics

**Invest**  
Force transparency around the value of every \$ spent to **INVEST** more effectively behind better targeted Marketing and activities that deliver holistic Revenue Growth Management

**Perform**  
Drive execution excellence in every store to out-**PERFORM** competition across channels and retailers

**Sustain**  
Unlock organizational agility and build new capabilities to **SUSTAIN** superior performance over time

# What is “strategic revenue growth management”?



## The bar is rising - many FMCG players have enhanced their RGM capabilities to achieve significant revenue and profitability growth



**+5.0% price per liter realization** (at constant volumes) driven by strategic pricing, brand portfolio mgt. and “margin accretive” innovation (FY17 vs FY16), simultaneous improvement in COGS resulting in operating profit improvement of 6.7%



**+3.0% growth in net operating revenue** driven through combination of pricing and mix FY17 vs FY16 at flat volumes (same performance in FY16 vs FY15)



**+3.2% increase in organic net revenues through pricing/mix** while achieving organic 1.1% volume growth and while simultaneously improving operating margin by 57bps (FY17 vs FY16)



**+3.4% effective revenue increase through price/L**, with total organic revenue growth of 5.7% and increase of operating margin by 34 bps (H1 2017 vs H1 2016)



**+3.1% revenue growth through effective pricing/mix** at 1.5% volume growth and operating margin improvement of 1.1ppt (FY17 vs FY16)



# Many have mastered the Core RGM disciplines and are now exploring new frontiers

Where most are today

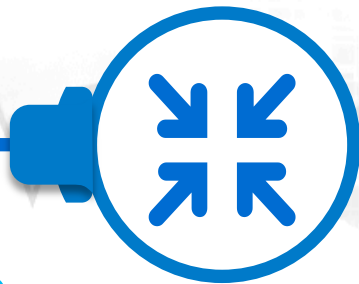


New frontiers



## Strategic RGM

Longer-term value creation and category growth



## Precision RGM

New analytics and data sources to develop highly tailored price, promo and assortment strategies



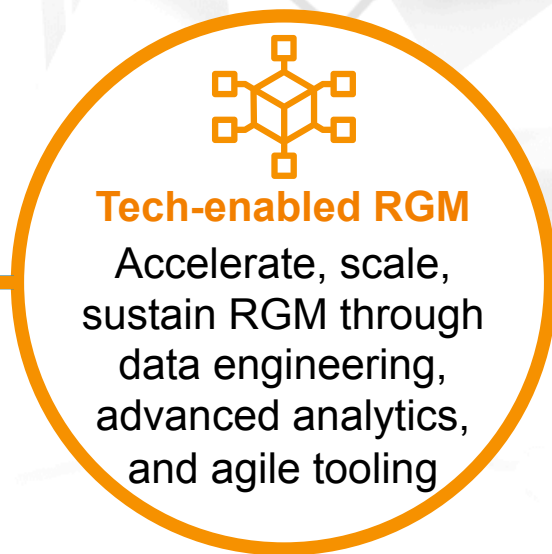
## e-RGM

Extend RGM to address omnichannel opportunities and adapt strategies to specific needs of this dynamic channel



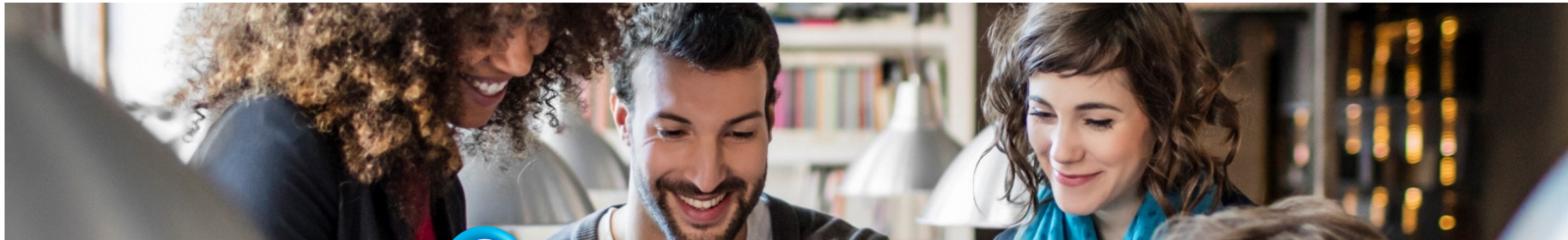
## RGM at scale

Scale-up organization structure, roles and capabilities across markets/BUs





## Strategic RGM takes scope to a more strategic level and often serves as the basis of overall commercial planning



From good...



...to world-class RGM capabilities

Tactical RGM focus

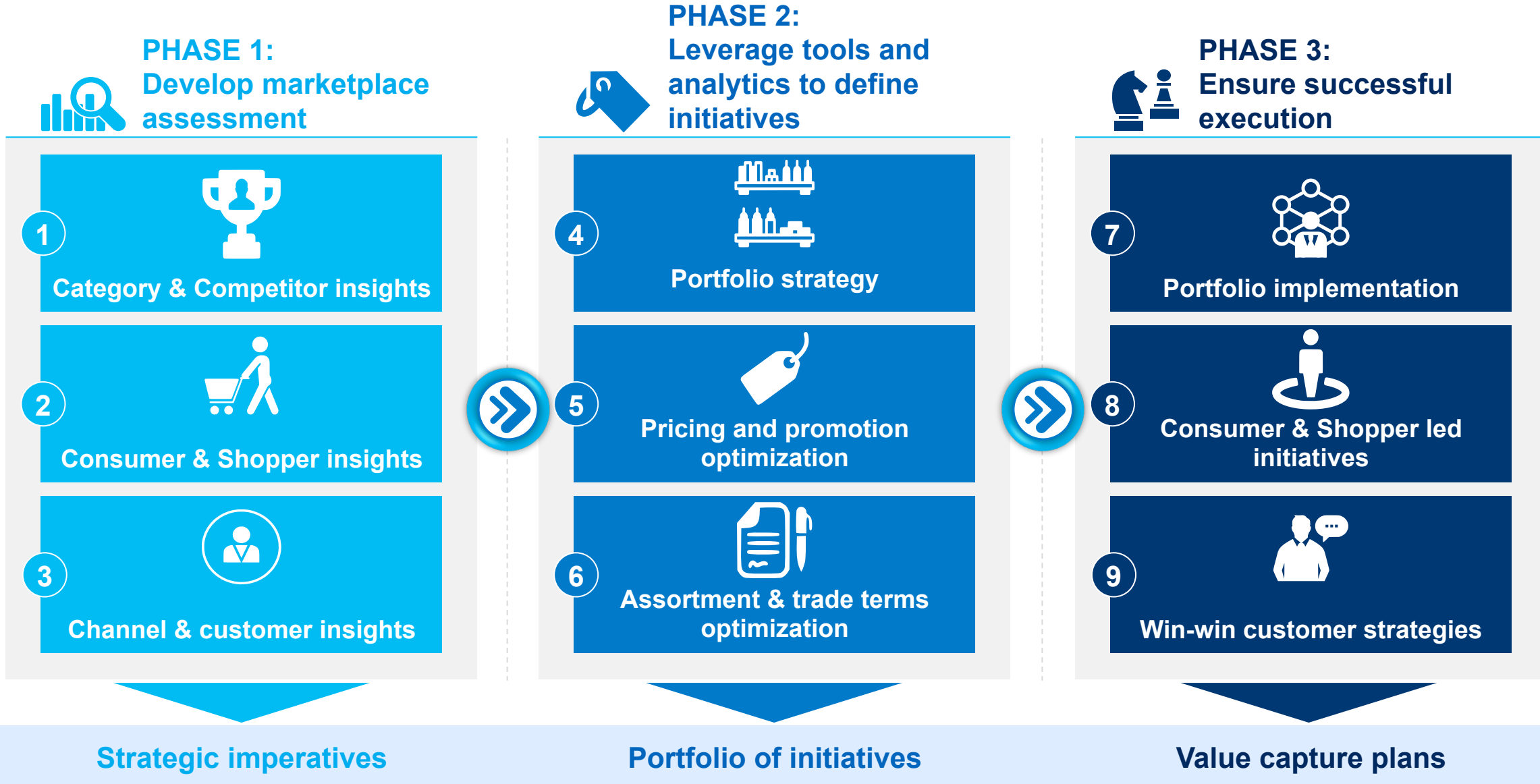
Lack of multi-functional engagement

Short term optimization

- 1 Holistic approach to revenue growth
- 2 Rigorous insights from advanced analytics tools and broader data
- 3 Multi-function engagement and stewardship
- 4 Establish real plans that get built into budgets and operating plans
- 5 Enhancing capabilities over time



Specifically, strategic RGM is comprised of three phases and results in strategic imperatives, a portfolio of initiatives, and value capture plans



# How does it drive value? Real example that delivered significant impact over 3-5 year period

## Situation

1
Category & Competitor insights

Low consumption habit ...

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2
Shopper & Consumer insights

... with challenging pricing & promotional conditions ...

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3
Channel & Customer insights

... and undergoing a customer / channel metamorphosis

## What we did (selected initiatives)

4

### Portfolio Strategy

- A Drive recruitment
- B Grow occasion consumption
- C Premiumization

5

### Pricing and promotion optimization

- D Multi-year pricing architecture
- E Value-plus promotions
- F Regional price stratification

6

### Assortment & trade terms optimization

- H Optimized assortment
- I New package innovation
- J P4P trade structure
- K New channel growth

**\$ Identified and budgeted an opportunity to grow net sales by 12% vs current base, profit by 20%+ and volumes by 5%, with impact to be realized over the next 3-5 years**

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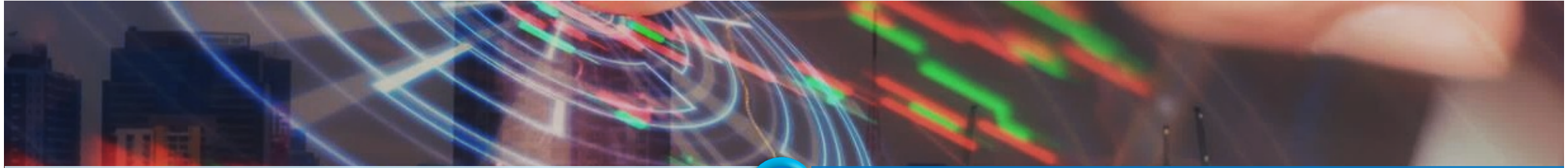
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# How does it work? Precision RGM leverages new data sources and analytical techniques to extract value through granularity

NOT EXHAUSTIVE



## New sources of data and insight



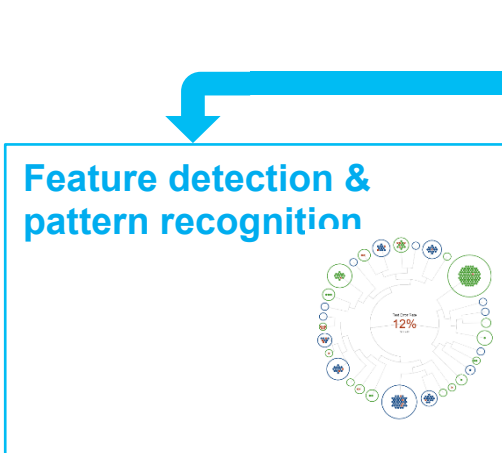
## Next generation advanced analytics techniques

### Internal

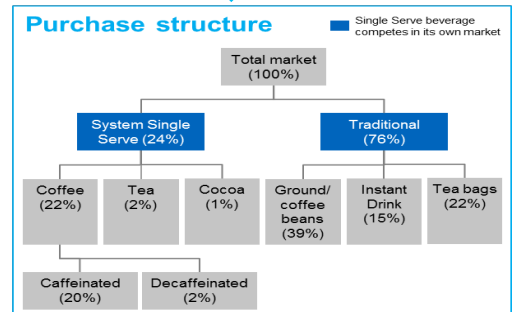
- Product information
- Customer data
- Route-to-market execution data
- Shopper insights
- Supply chain & manufacturing
- Sales & channel data
- Website & mobile
- Marketing and brand data

### External

- POS and syndicated data
- Social media
- Store visit images
- Food logs
- Embedded sensors
- Location data
- Panel / survey data
- Click-stream
- Card append data
- Weather patterns



Feature detection and pattern recognition on promo events and consumer response



Semi-automated purchase structure development (hours instead of weeks)





The resulting proliferations and precision of use cases enables a diverse set of sales and profit driving levers

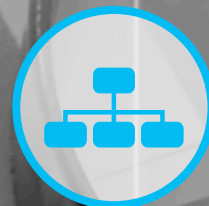


**AA enabled levers**

**Optimizing trade investment**  
(e.g., promotions, EDLP)



**Differentiating at a granular level** (e.g., by zip, by retailer, consumer segment)



**Maximizing new channels to RGM** (e.g., online, foodservice, fragmented trade)



**Personalizing prices and promotions through targeting** (e.g., digital value delivery)



**Leveraging multichannel to create value** (e.g., optimizing across retail and wholesale)



# Case Study: Micro-market demand forecasting by retailer – a POS-level analysis to quantify potential and current share to find micromarket POS sites that required additional investment



## Create format-specific POS areas

## Size the potential of each POS

## Estimate share to ID penetration gaps

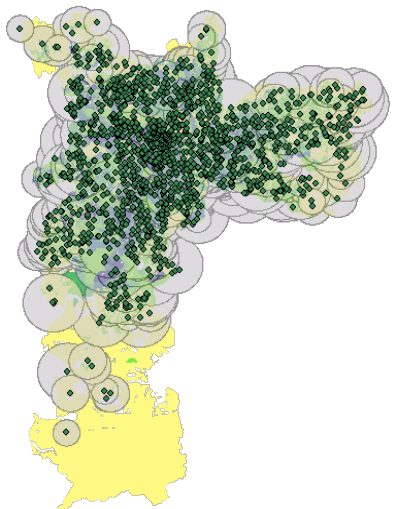
## Segment and prioritize POS and micromarkets

- Individually modeled using geo-location and trade areas

- Three factors determine potential
  - Size** (checkouts or specific aisle)
  - Number of competitors** within catchment area
  - Consumption of neighborhoods** in catchment area

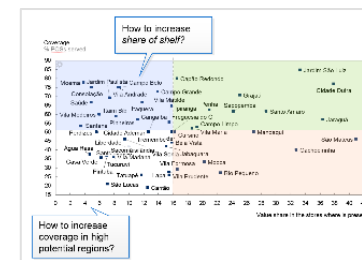
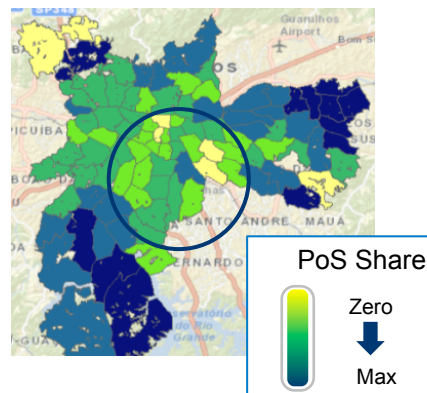
- Compare potential and actual share on a granular level to determine gaps
- Able to target POS and regions in granular way

- Identify path to capture opportunity by POS / micromarket
  - Assess micromarket strategy and resourcing
  - Create tailored POS strategy



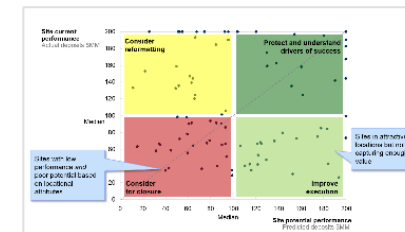
Supermarket A: potential of \$X

- ~Low competitor concentration
- Mid and high income area



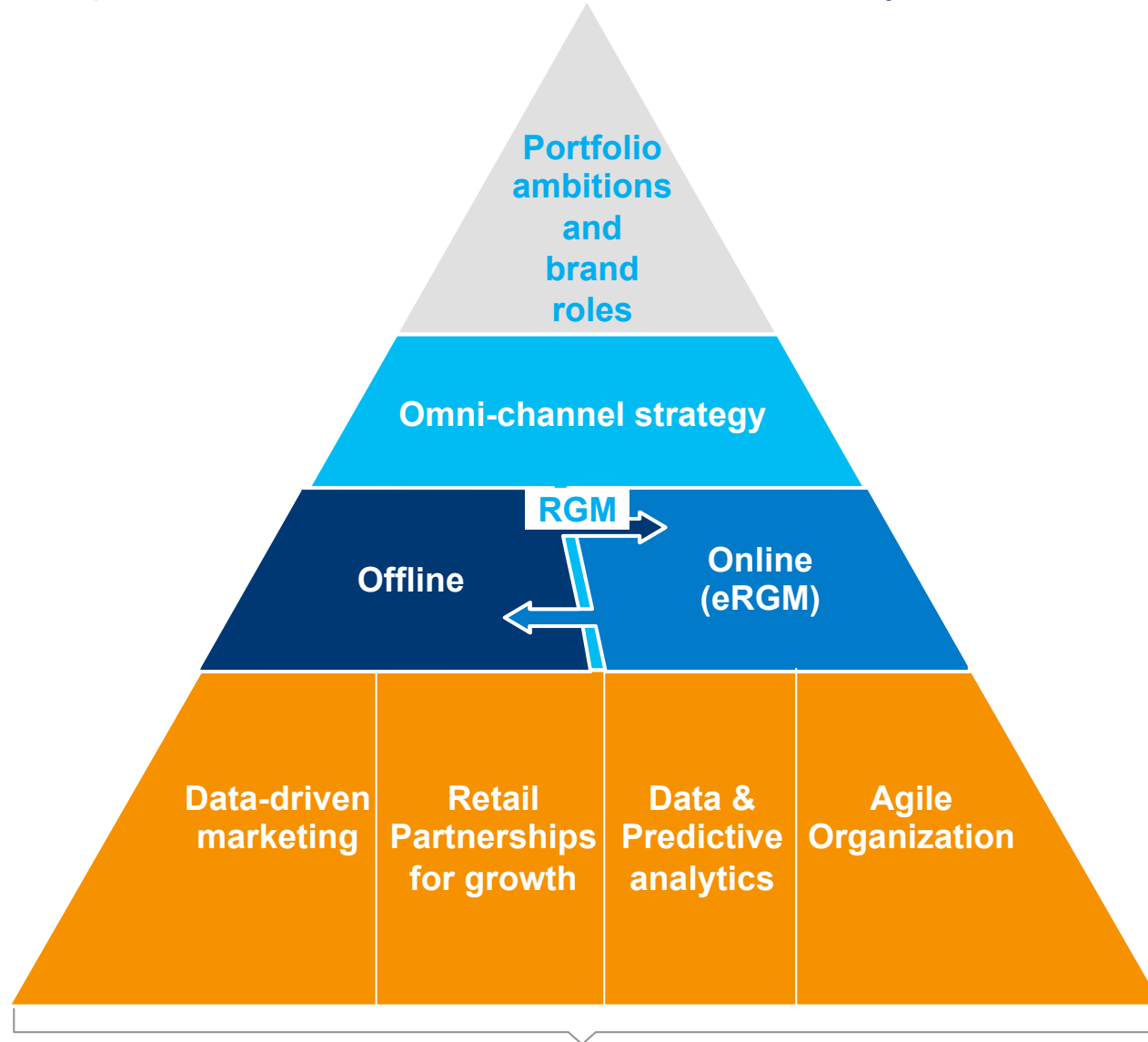
Micro-market share and potential

POS share and potential





A successful eRGM strategy supports is harmonious with the offline strategy and in support of portfolio / brand ambitions; offline only is table stakes



**Cross-Functional Enablers**

**Brands must develop an eRGM strategy that integrated with traditional RGM levers**

### 1: See



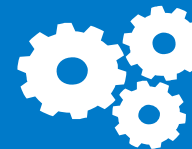
- Invest to learn how consumers are using online channels to **interact with your category**
- Understand performance of online players across traditional RGM levers

### 2: Set



- Develop a (dynamic) **pricing and promotion strategy** that minimizes channel conflict and reflect online buying behavior
- Tailor **assortment** that reflect online shopping
- Include online performance metrics when allocating **trade funds**

### 3: Get



- Establish new **capabilities** required to execute on the eRGM (e.g., advanced analytics for dynamic pricing, rapid SKU development for custom assortment)



## 7 key elements to scale RGM across BUs/markets

### 1 Vision and commitment

- **Sponsorship** from the top – CEO / CFO at a minimum
- **Communication of the ambition**
- Set-up of **required program backbone**, investment into resources needed to drive the program

**2 RGM resources** – dedicated resources at in- and above-the market level, tailored to size of market and RGM complexity

**3 RGM integration** – specified way on how regular business processes, roles and responsibilities, and decisions include RGM concept

**4 Data** – access to appropriate data, combined with the philosophy of constant data improvement drive

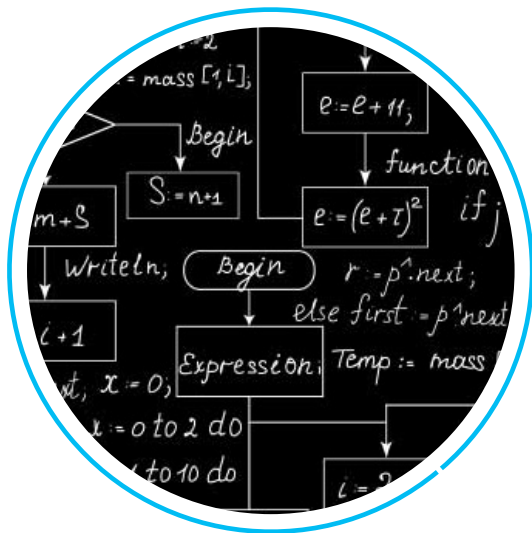
**5 Tools and Analytics** – RGM toolkit with level of sophistication aligned with size of opportunity; company-wide approach to RGM analytics

**6 Capability** – company-wide RGM capability building program, covering both hard skills (e.g., analytics) as well as required soft skills

**7 Performance management** – Creating transparency about real RGM value delivery and having an ongoing performance dialogue



# The Digital and Advanced Analytics revolution is redefining industries and functions



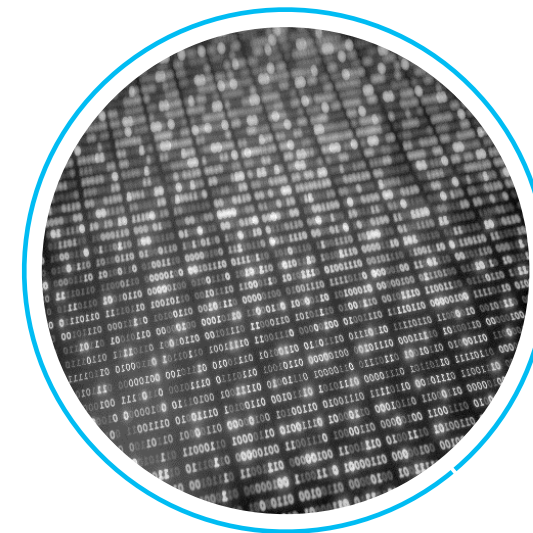
**Better  
algorithms**



**Faster  
processors**



**Cloud**



**More data**

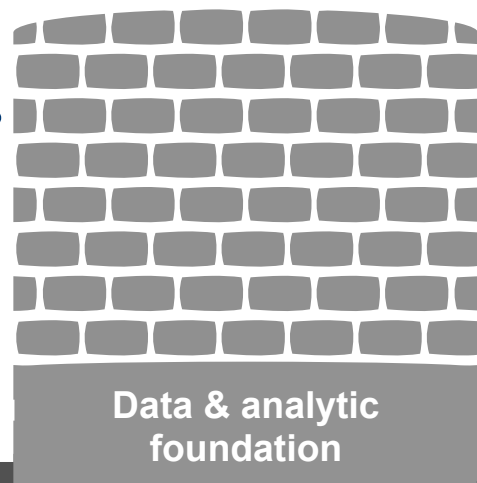




This revolution is also transforming RGM: Companies that are able to collect robust data and apply advanced analytics identify and capture disproportionate share of profit pools

**Winners are building capabilities:** Winners are using RGM to retain *their* consumers and attract new ones

Micro-market/  
personalized  
pricing

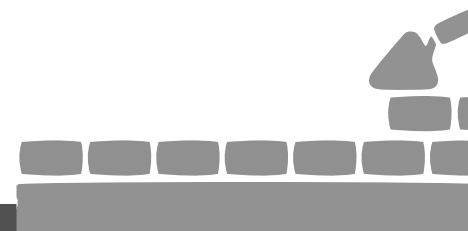


Regional  
pricing

Data & analytic  
foundation

- Leaders are using **data and analytic foundations** to create privileged insights and drive outsized profits – reinvesting in the capability to create long term advantage
- These leaders are taking price and optimizing trade and assortment based on granular scopes (e.g., outlet), micro segments, seasonality, etc. through innovative use cases

**Starting is easier than you think:** The journey can be daunting, but barriers to progress are rapidly vanishing



- The democratization of data and analytics allow any firm with a data scientist, the right tools and a “test & learn” plan to protect and capture profit pools
- The virtuous cycle of the work (better insights → more profit → better capabilities) means getting started is the most important step

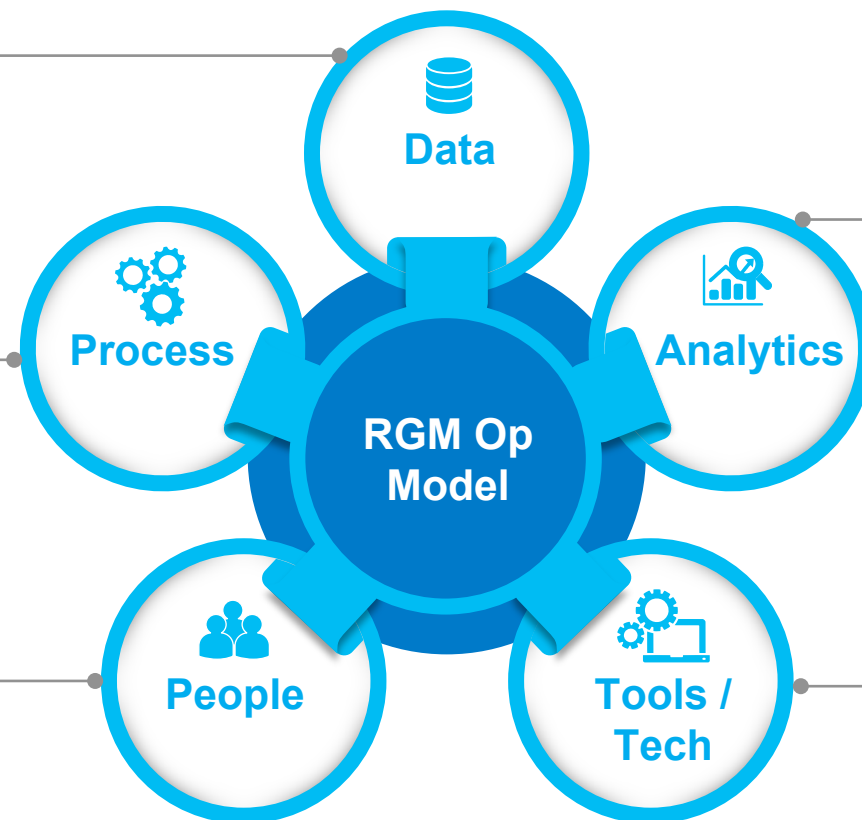


## Getting started: Five pillars of the Tech-enabled RGM operating model

- **Data** from a variety of sources, internal & external, structured & unstructured
- **Category and competitive data** should be supplemented with macroeconomic and social listening information

- **Structured approach** with defined objectives and responsibilities
- **Test and learn processes** that enable agile process, with rapid iteration, a “fail fast” mindset, clear decision rights

- **Data scientists** to build and maintain algorithms, set data strategy
- **Translators** to bridge the gap between data scientists and markets, executives, etc.
- **Engineers and analysts** to build and run the routines and rituals



- **Model building** (data collection and structuring, algorithm testing and selection, etc.)
- **Measurement and performance** (impact tracking, performance measurement)

- **At scale technical infrastructure that's paced by clear business cases** to avoid over-investment
- Flexible IT stack that enables multiple analytic engines
- Intuitive frontline tools that maximize adoption



# Getting started: Tech-enablement capabilities are becoming more accessible and commoditised

## Categories of technology ...

### Existing host technology

- Client cloud/on-premise
- Client platform/tools
- Client ETL
- Client database

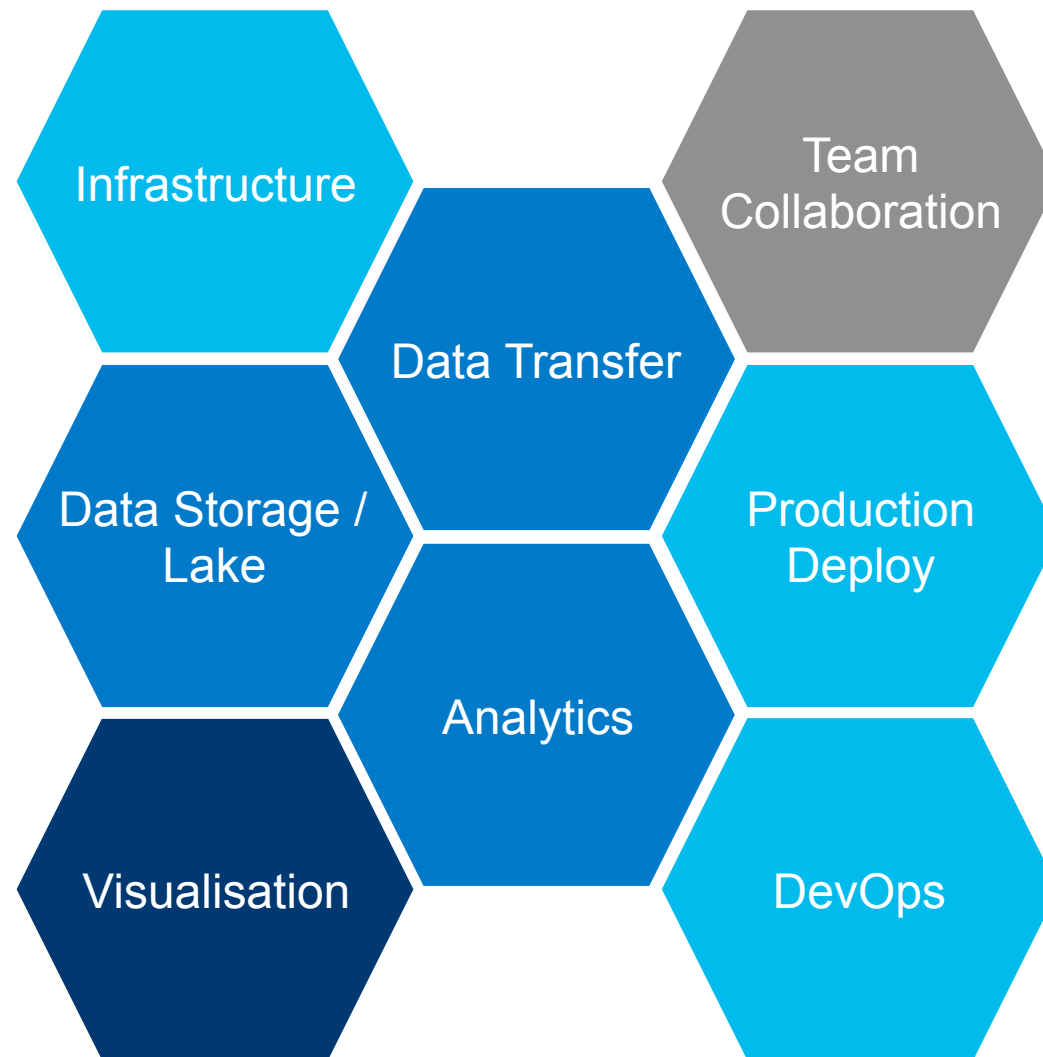
### Open source software



### Third party commercial off-the-shelf



## ... to create an optimal workbench





## Lessons learned from Tech-enabled pioneers across industries

**Make it a business opportunity, not a technology problem**

Integration and adoption happens **through engaged (and up-skilled) business leaders and front-line personnel**. They should feature heavily in the composition of your digital/analytics teams

**Take a value-driven approach**

**~80%+ of the effort should be anchored around a set of priority use cases (and only a handful initially)** that will create disproportionate value for your company

**Establish an innovation backbone, not a command and control center**

You likely need a **Center of Excellence** for scarce talent and leverage-able technology.... but NOT a centralized "function". The COE should create a platform (e.g., Data Lake, governance standards) that unleashes innovation at the front line

**Don't "boil the Data Lake"...**

**More, better organized data is NOT a bottleneck to getting started.** You typically need ~5-10% of your data organized to start – the rest follows your priority use cases.

**...Or fall into the "pilot trap"**

This should only be a top priority if it is going to **create material value in the near term – not in 10 years**. Take a bias to scaling priority use cases fast, kill experiments that aren't working, and establish quarterly milestones for impact and value delivered



# The four pillars behind successful Tech-enabled RGM transformation journeys

Develop clear and ambitious VISION with a strategy that supports

**A**



## Prioritised use case delivery

Identify and prioritize critical **sources of value**

Develop use cases, and **push through from POC to implementation**

Rolling development and implementation for **continuous improvement**

**B**



## People & capabilities

Build **core capabilities** in-house and **strategic partnerships**

Ensure **competencies beyond the Analytics CEO** – ensure leadership and business users understand how to find and exploit opportunities

**C**



## Tech platform

**Match technology to use case** (no ‘one-size fits all’) and agile development to prove end-to-end capabilities before scaling

**Modernize IT backbone** (cloud first, software as service, etc.)

Manage **data as strategic asset**

**D**



## Change management

Set-up strong **governance** and invest in **culture change and business buy-in**

**Build strong link between business, IT and Analytics** to align business value and resources

Embed insight in decision-making, **drive business adoption and value capture**



# A Use cases: Prioritize use cases based on feasibility and impact, and then build a pipeline

ILLUSTRATIVE

## Create 'long-list' of use cases

### Enabling functions

1. Develop talent
2. Forecast accurately
3. Manage enterprise risk
4. Understand competition

### Market access, commercial, medical

5. Optimize commercial spend
6. Manage gross-to-net optimization
7. Precision commercial deployment
8. Digital customer engagement
9. Ensure patient adherence
10. Measure real world outcomes

### Manufacturing & supply chain

11. Plan end-to-end supply chain
12. Optimize warehousing and manufacturing
13. Optimize procurement
14. Optimize network
15. Monitor quality

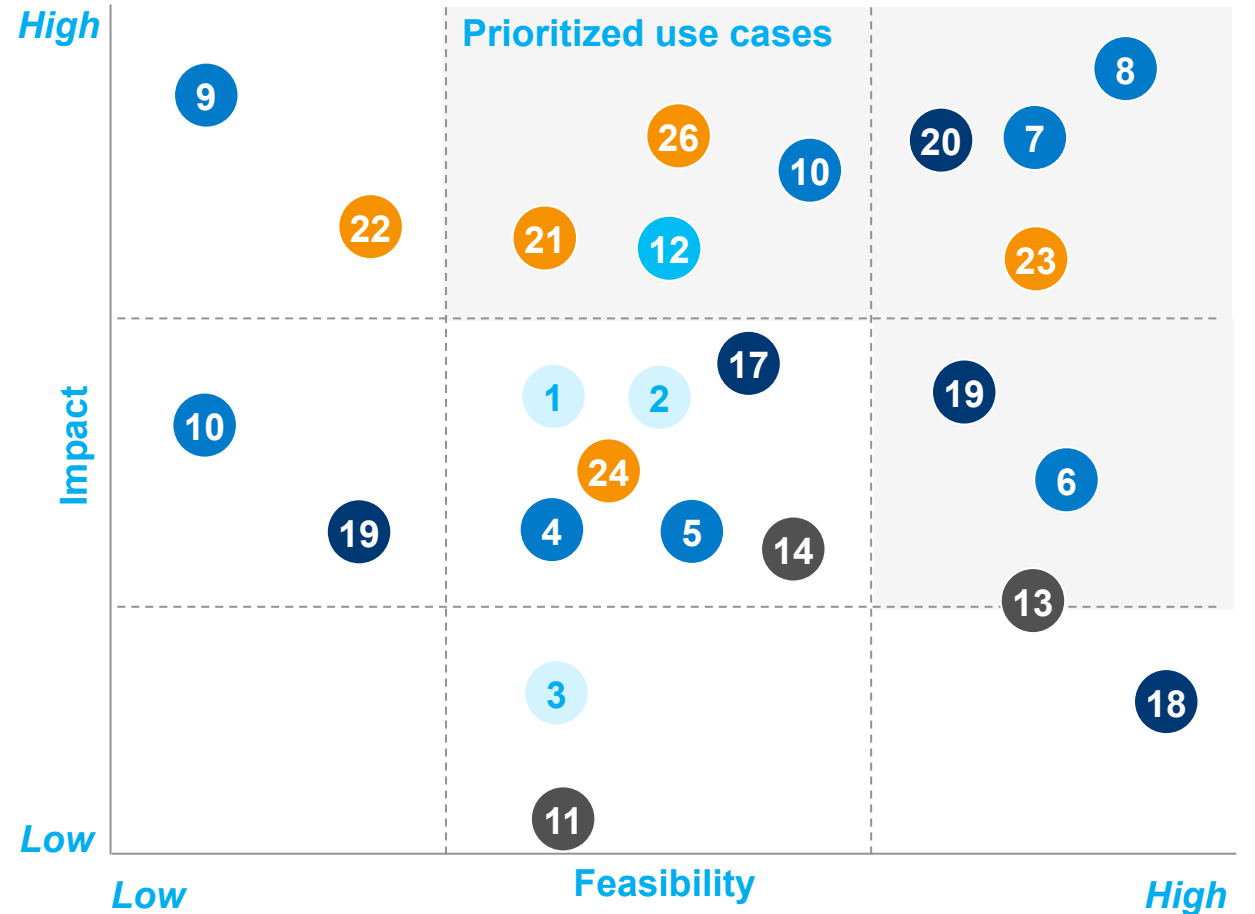
### Development, regulatory & safety

16. Plan and execute trails
17. Develop data-adaptive development plans
18. Manage portfolio
19. Manage active safety surveillance
20. Optimize regulatory filling

### Research and early development

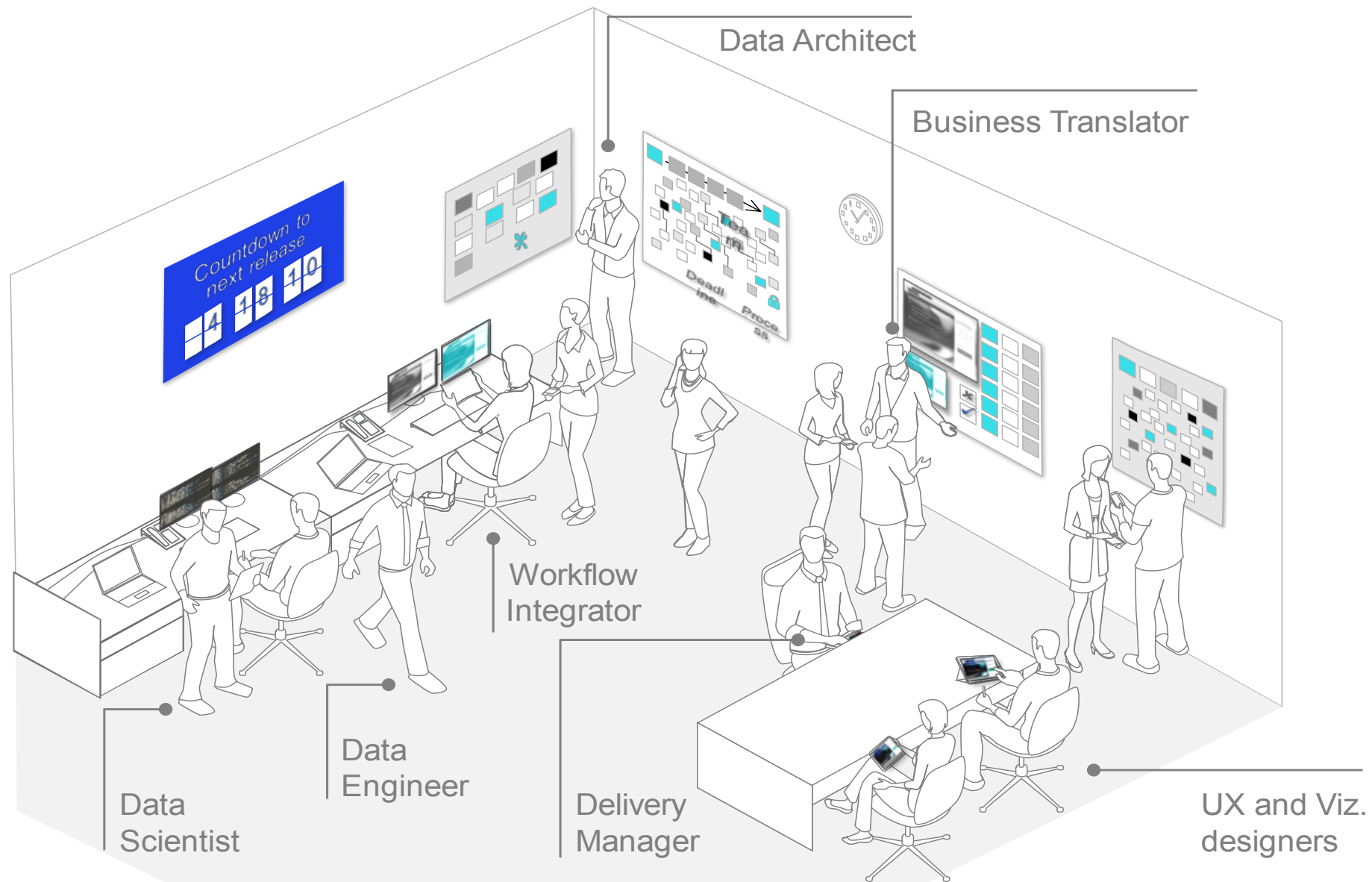
21. Understand disease stage and target
22. Select and optimize leads
23. Select clinical dose and endpoint
24. Develop personalized therapies

## Prioritize use cases



Prioritisation used to fill the use case pipeline in the transformation

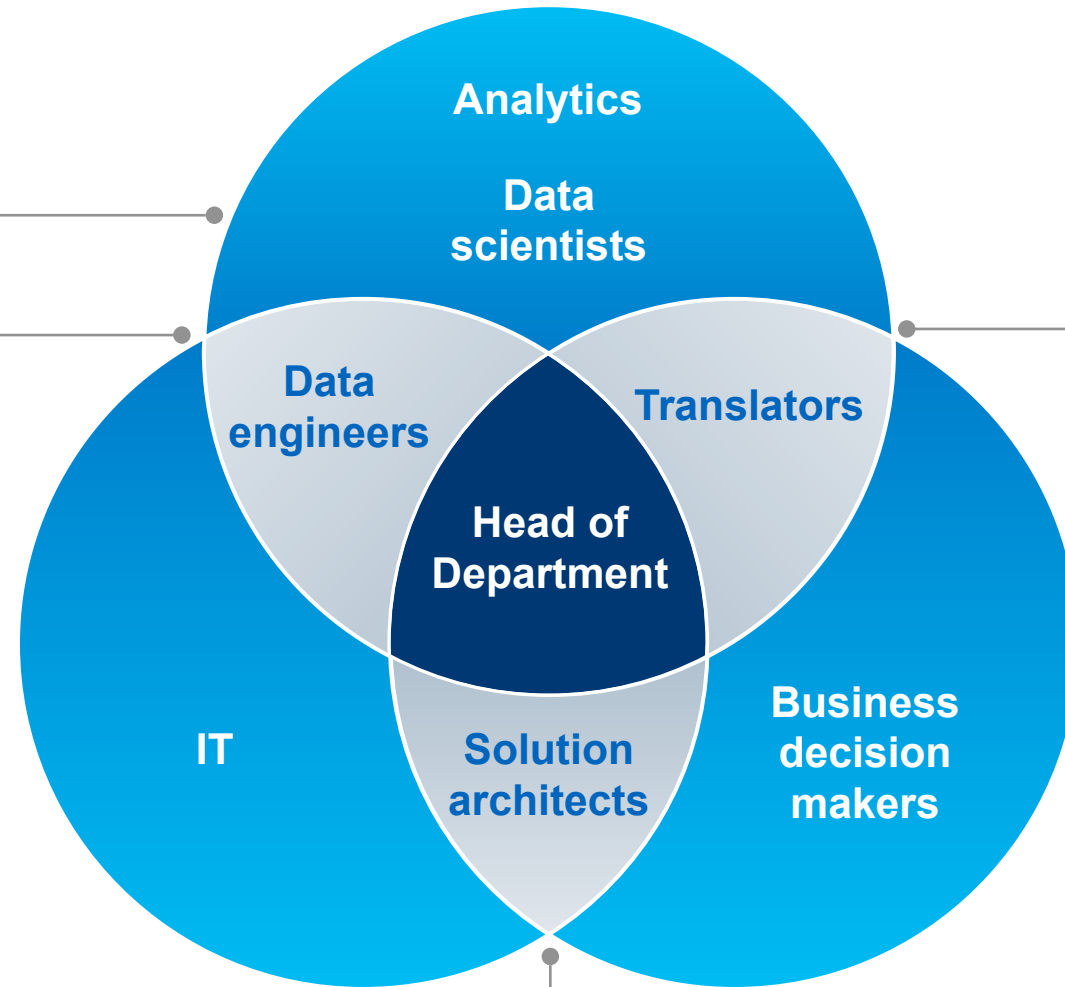
# **B** People: Build and incentivize cross-functional 'agile development teams'



## B People: RGM calls for different sets of skills, and the “intermediary” roles are critical

Ensure **best-in-class models** and **algorithms** to support needed business insight

Collect and structure data; ensure **quality and consistency** of data flows for analytic use and insight generation

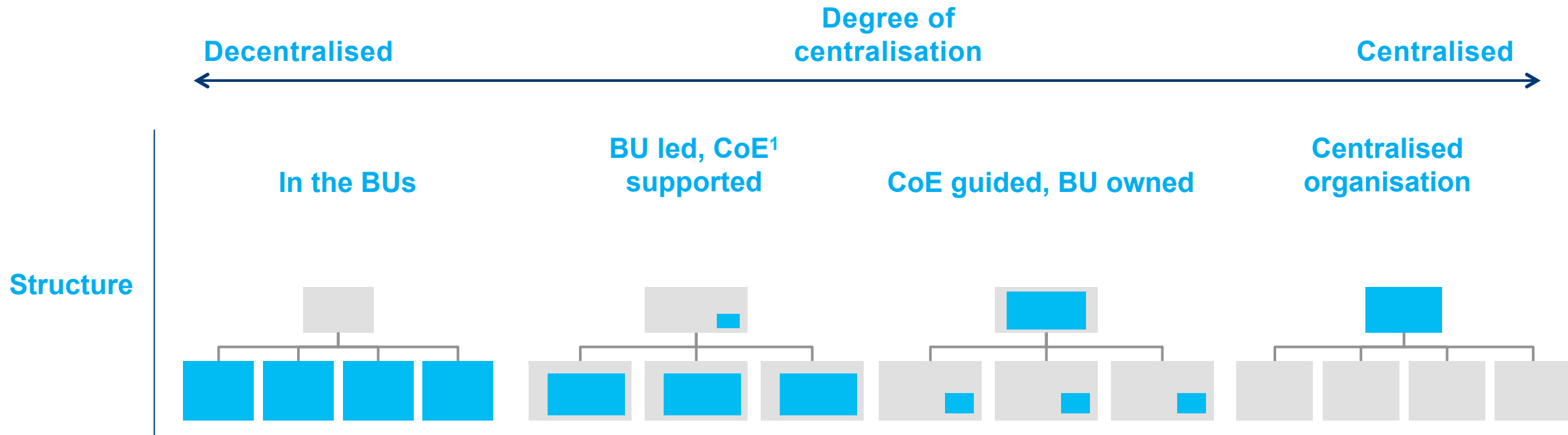


Elaborate and understand **business needs** to design analytics solutions

Translate **statistics and analytics** into business decisions

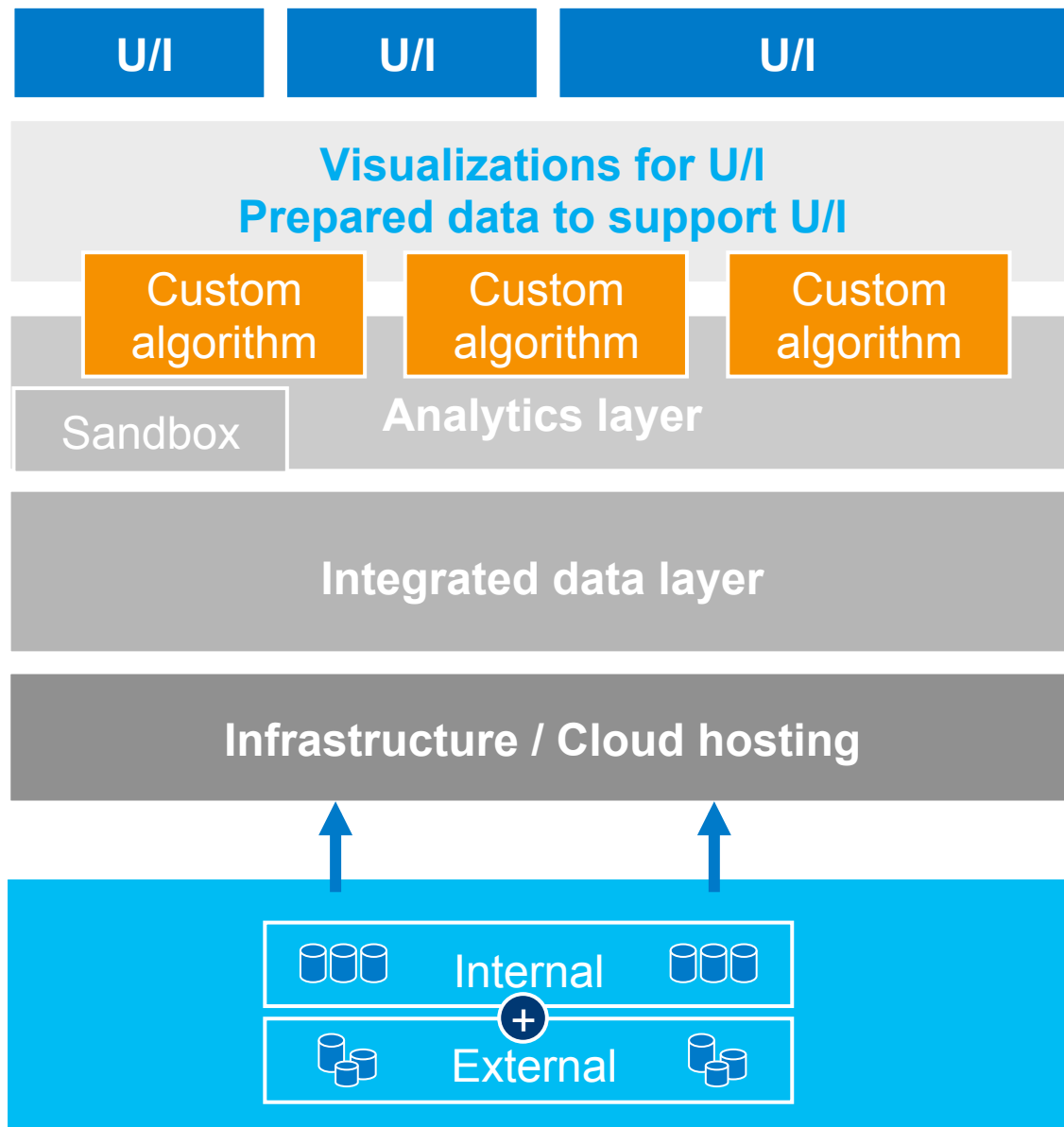
Design and build **scalable** and **secured** solutions that meet business needs

**B People:** The key decision that organizations need to address is the level of centralization for the data/analytics function, but there is no one size fits all





## Tech platform: Agile development with iterative roll-out for early value; not a 'big bang' in 3 years



- **Don't boil the data lake – More, better organized data is NOT a bottleneck to getting started.** You typically need ~5-10% of your data organized to start – the rest follows your priority use cases.
- **Start with what you have** – no one is leveraging a fraction of existing data... **and then improve**
- **Aligning business & IT** to ensure focus on what will deliver business impact
- **Agile development** with interim milestones – solve for short- and long-term goals, and adapt based on what you learn



# C Tech platform: An example MVP backend data warehouse architecture for an RGM engagement

## Data sources

Point of sale transactions

Brand equity research

P&L

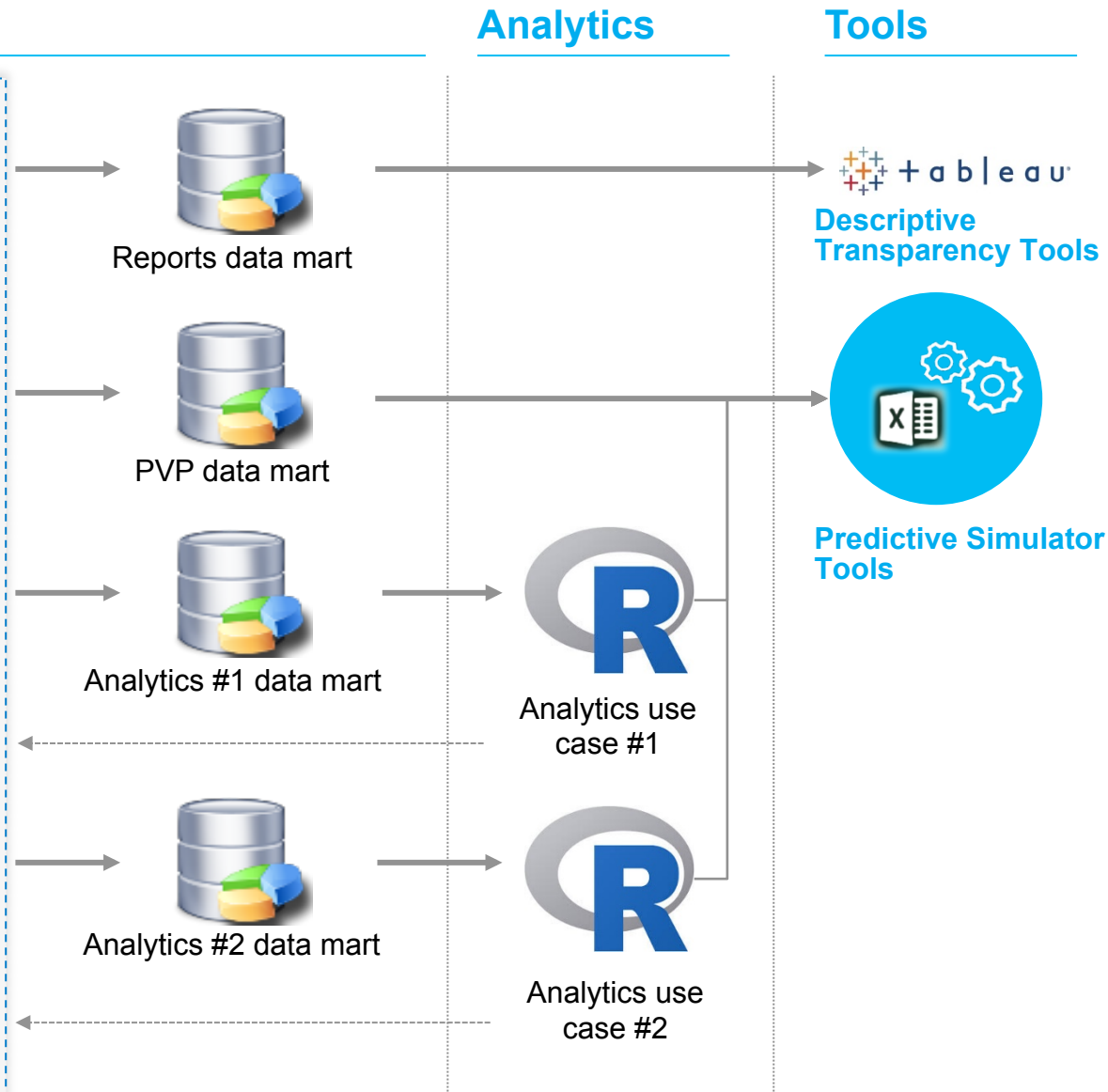
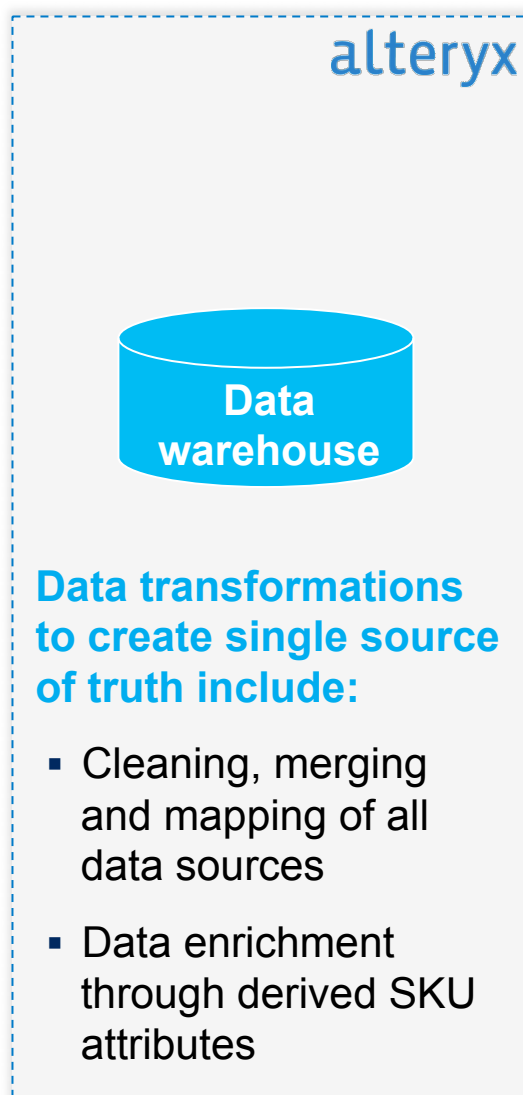
Shopper panel data

Promotion calendars

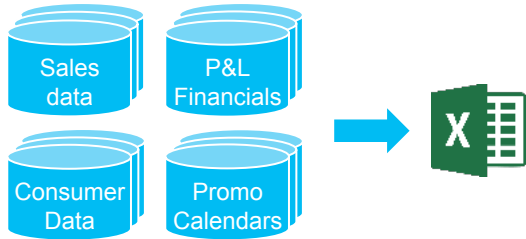
Mapping tables



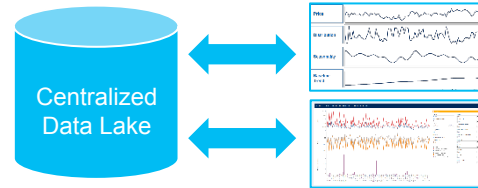
## Data management



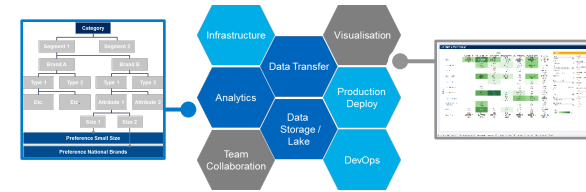
# C Tech platform: There are several RGM system archetypes (aka “rest stops”) that can break-up the journey to a fully integrated RGM tech stack



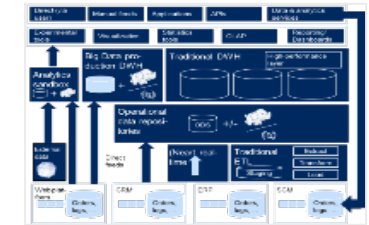
- **Discrete data sources:** POS data, consumer panel data, promo calendars, and P&L financials
- **Ad hoc analytics housed in discrete RGM tools:** .xls-based assortment and promo tools



- **Centralised data & tech platform:** Data standardised and mapped onto one common online platform that allows modules to be easily added
- **Automated data pipelines:** Data transformation workflows developed enabling the automation/feeding and refreshment of RGM tools



- **Integrated RGM tool ecosystem:** Tools codified and imported onto the platform with the ability to easily add additional new tools as modules
- **Automated analytics library:** RGM analytics use cases codified and added to an organic, growing library of ‘plug & play’ use cases



- **Real-time, closed loop, integrated commercial planning:** Fully automated data and analytics systems with predictive simulation capabilities and workflow integration with other business planning systems, e.g., demand forecasting and inventory/supply planning
- **Deep learning analytics:** Application of pattern recognition to unlock ‘cross RGM lever’ insights and generate use cases



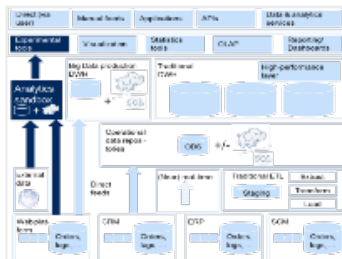
# Tech platform: Incrementally build your IT architecture based on priority use cases through the use of a flexible scalable foundation

## Discovery

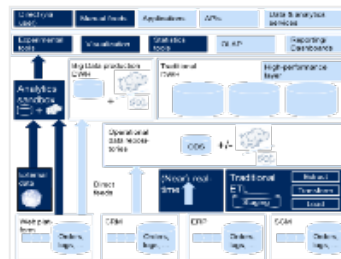
## Production

## Full business immersion

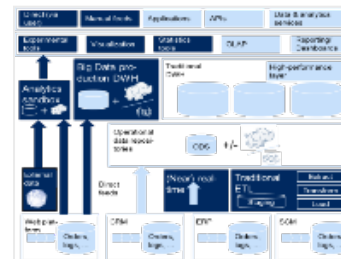
### Early Discovery



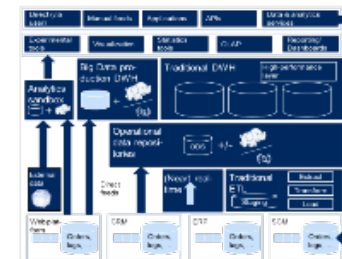
### Scaled Experiments



### Big data production scaling



### Fully integrated tech stack



## Features

- Focus on a flexible user space that has little usage constraints
- Feed data manually
- Expert only analytics environment
- Build more automated data loading
- Strengthen data policies
- Extend the data toolset to become broadly usable
- Creation of a Big data production environment
- Advance toolset to become more broadly usable
- Simplify access to highly granular data
- Fully integrated Big Data stack
- Large range of granular data available for discovery and production
- Strong real-time capabilities

## Technical realization

- Physically separate sandbox
- Part of existing environment (e.g., R)
- Outsourced as SaaS solution
- Deeper integration with existing ETL
- On premise tools (open source or commercial)
- More formalized operating model
- Currently mostly as on-premise solution due to deep integration with operational systems
- May be complemented with cloud-based solutions
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- May be complemented with cloud-based solutions

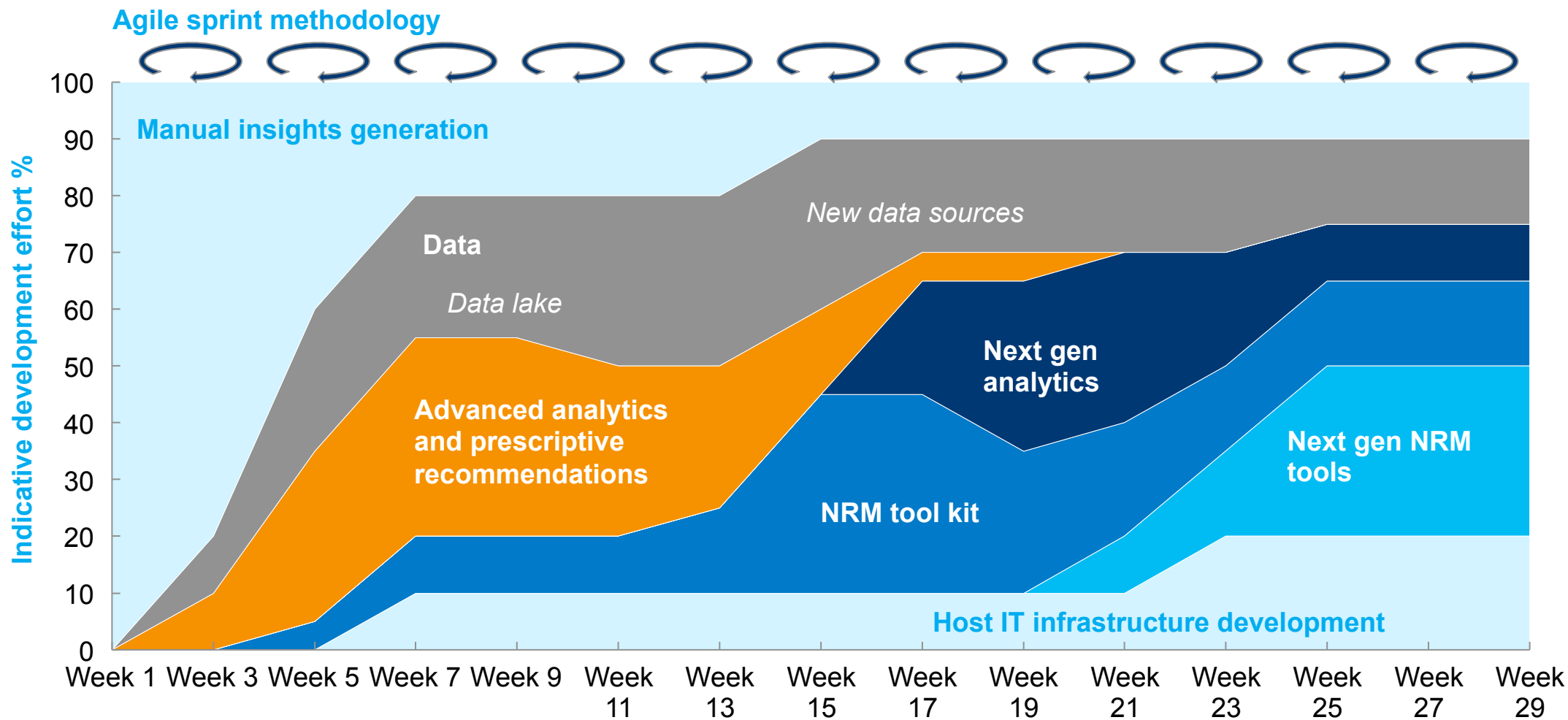
## Typical investment<sup>1</sup>

- Low (USD 0.05 - 0.1 million)
- Moderate (USD 1-5 million)
- Significant (USD 5-15 million)
- Significant (USD 15-50 million or more)

<sup>1</sup> Normalized from past projects to a mid-sized organization USD >5 billion



# Tech platform: How an agile sprint approach can help break down this journey



# **D** Change management: Impact requires end-user adoption & embedding throughout organization

Analytical impact at scale is 10% analytics and 90% end user adoption; most companies fall short on the latter

End user adoption is required to **embed insights in decision-making and drive value capture**

## **User driven design**

Focus on user need throughout the process by including them in **co-development of solutions**

## **Rapid prototyping**

**Quickly align** cross-functional stakeholders on the customer value proposition

## **Immersive experience creation**

Ensure all digital touch points deliver a **consistent and reinforcing experience**

## **Empowerment of action**

Make it extremely **easy for users to take action** based on insights





# POI European Summit

**Successfully Navigating Growth in the New CPG and Retail World**

**McKinsey  
& Company**

Thank you for joining us today

# Backup



# The Tech-enabled RGM transformation journey requires coordinated and mutually reinforcing capabilities from use case articulation to business adoption and change management

