The Evolution of Revenue Growth Management

What a global CPG company gained from an integrated RGM solution

The Road So Far

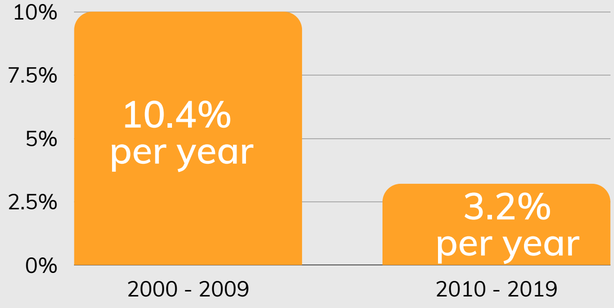
On the way to achieve financial targets, CPG companies manage two major levers, costs and revenue growth. Recently, there's a renewed focus on Revenue Growth Management. Why? Because traditional approaches to achieve the price and market share increases are not producing results.

This is not a COVID phenomenon; over the last decade, economic profit growth in has nosedived. From 2000 to 2009, economic profit grew 10.4 percent annually; from 2010 to 2019, it dropped to 3.2 percent annually.[1]

Additionally, for the top 30 CPG manufacturers, margin expansion contributed twice as much to overall economic profit as revenue growth, while smaller brands are grabbing more market share and revenue.[1]

The fall of Economic Profit Growth for CPG Companies

(2000-2009 compared to 2010-2019)



Highlights

RGM's Road so Far

Two Major Shifts in Trade Promotions

The Pandemic's Effects

A CPG Manufacturer's Case Study

Discovering New Opportunities

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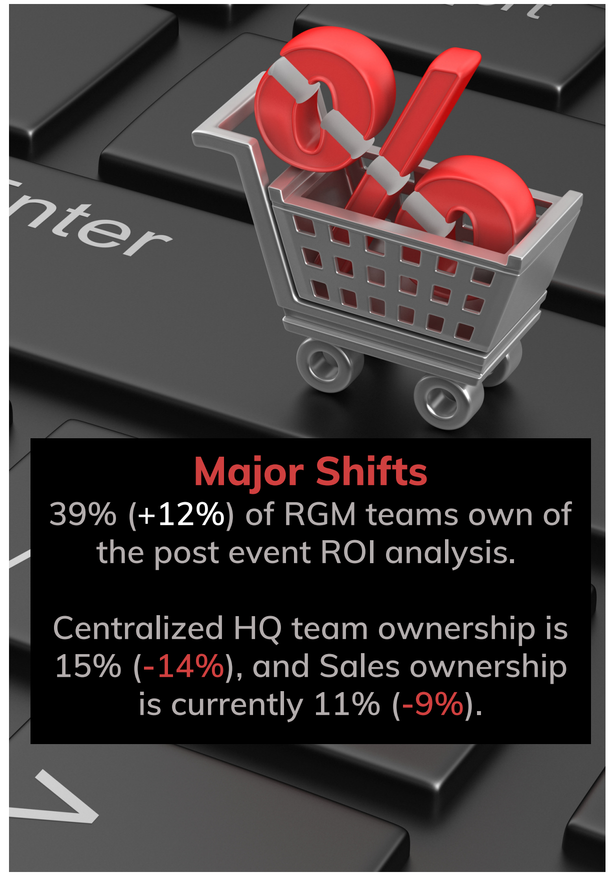
Trade Promotion Changes

Companies invest various amounts in trade promotions. In the latest POI survey, 20% of tier 1 and tier 2 CPG manufacturers spend between 11-15% and 55% spend less than 20%. In addition, 45% of companies are spending upwards of 20% with 8% spending over 27% in trade.[2]



But now, RGM teams work with Sales teams to optimize pricing and promotions at an account level to maximize ROI. Recently, there has been a shift in where the work takes place. With substantial post event ROI and promotion comparison evaluations needed, 39% of respondents noted that RGM teams own the post event ROI analysis. This is 12% higher than last year.

Additionally, centralized HQ team ownership is only 15% and Sales ownership is 11%. These are drops of 14% and 9%, respectively, from the prior year.[2]

The Pandemic's Effects

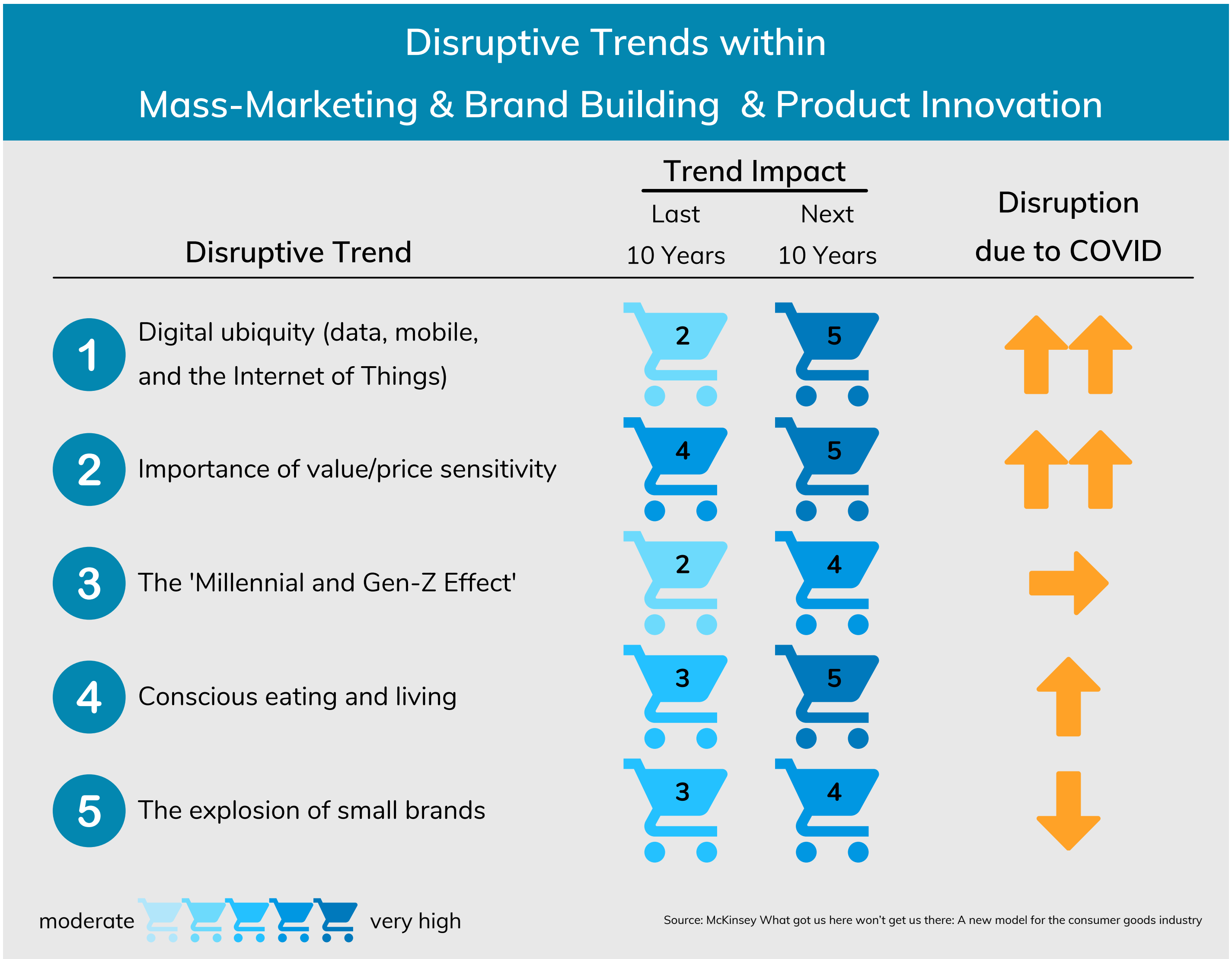
Post-pandemic consumer behavior has made achieving growth even more challenging. According to research from Accenture, in a survey of over 25,000 consumers in 22 countries, 50% felt that the pandemic caused them to “reimagine” their lives and needs in such a way that they would question their brand loyalty and willingness to spend more.[3]

In addition, new digital channels have amplified their ability to take different paths on their buyer journey.

50% of consumers state the pandemic caused them to “reimagine” their lives and needs such that they question their brand loyalty and willingness to spend.

Before COVID, CPG leaders recognized that traditional mass-market brand-building was less effective, but the pandemic accelerated three particularly impactful trends – a conscious lifestyle, digital ubiquity, and consumer sensitivity to product value and price. (See chart below.) In fact, 60% of consumers have stated they have become more price sensitive.[4]

Driving growth with price has always been a known lever - trade spend is typically the second largest line item in the P&L behind COGS,[5] and traditionally has a lot of waste. But in combination with the mentioned trends, it's more complicated to get price right.



In response, CPG companies are analyzing consumers at a localized and segmented level to get a picture of consumers' buying motivations. They leverage consumer consumption data while taking a more integrated approach across their assortment, price, and trade investments.

The net result produces dramatic revelations about the interaction between these functions and drives greater coordination across sales, marketing, finance, and the supply chain.

A CPG Manufacturer's Journey (a Case Study)

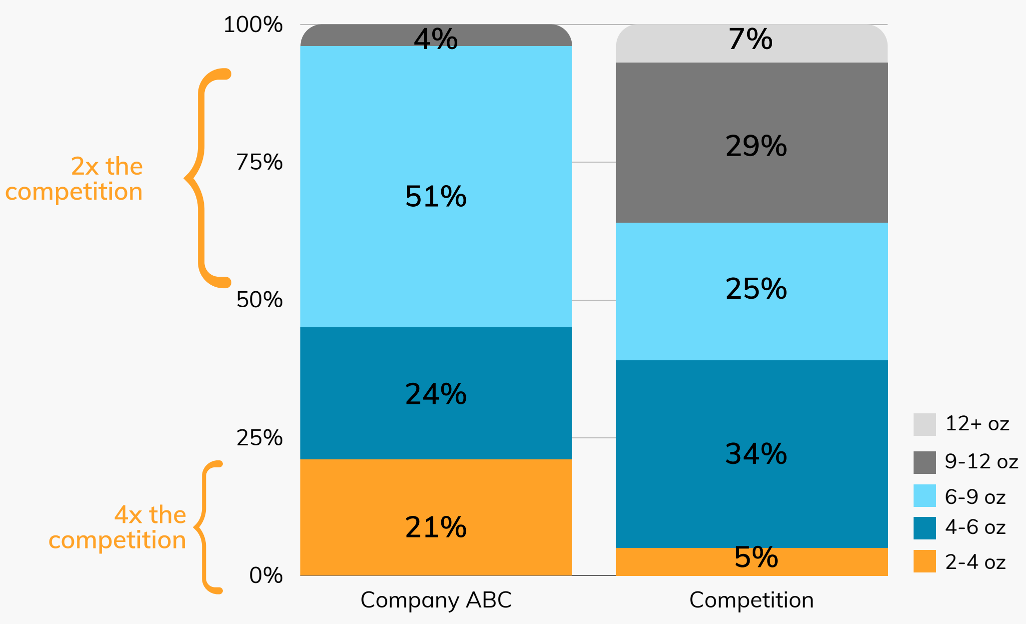
In a recent engagement, a global CPG manufacturer, which we will call Company ABC, discovered a misalignment in their go-to-market strategy for a prominent category. This misalignment caused a negative incremental GMROI on their promoted products.

Their strategy was to be price competitive and drive volume for all their products; however, by applying the promotional lever in isolation from other pricing and assortment actions, their goals weren't achieved.

The company decided to use an integrated platform to gain insights across assortment, pricing, and promotions. This highlighted multiple issues and opportunities.

When evaluating their assortment, Company ABC compared their revenue share of their assortment by pack size with the competition. This revealed some incredible insights, as shown in Figure 1.

Figure 1: Revenue Dollar Share by Pack Sizes
(Company ABC vs. Competition)



Compared to the competition, Company ABC had

4x the distribution of the smallest pack size 2-4 oz,

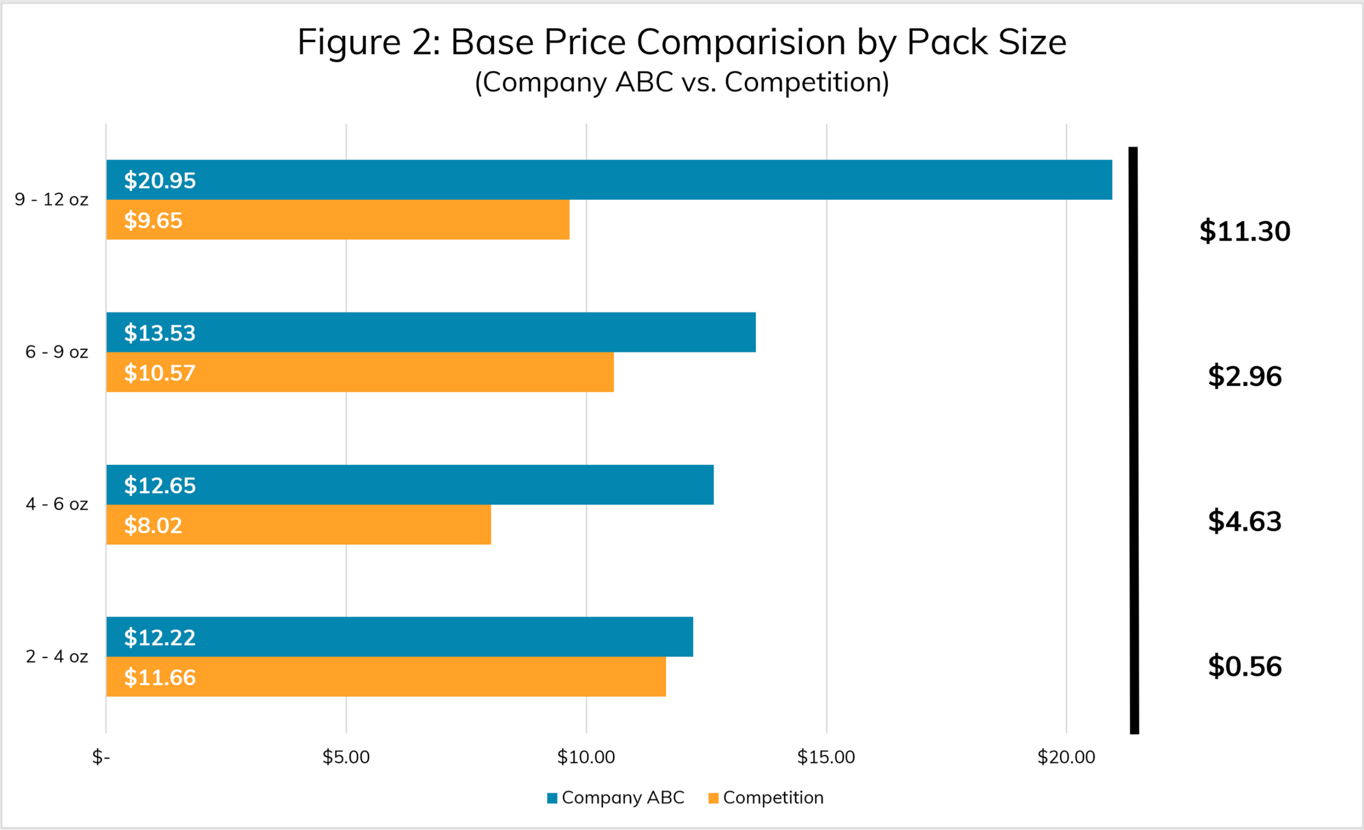
2x the distribution of the 6-9 oz

And elected not to compete in the largest size of 12+ oz.

This information was problematic on its own.

However, they had another issue that kept them from optimizing their position – pricing.

Within the 6-9 oz. pack size segment, Company ABC focused on providing more options, but the average price was ~$3 higher than the competition as shown in Figure 2. This pricing misalignment reduced the company's competitiveness and forced a promotion strategy focused on lowering the price. However, the price gap was too large to close with promotion alone.



When promoting, Company ABC often ran a $1-off discount, closing the $3 gap to $2. But due to the limited trade investment budget, the frequency and discount were not compelling enough for consumers. It was achieving a dismal volume uplift of 1.5%-35% across locations with an overall negative incremental GMROI. Anything less than 100% volume uplift was considered a failure.

Conversely, when Company ABC ran $3.60 off discount to reduce their price to be 10% below the competition, the desired volume uplift of 100%+ was easily achieved. Yet, the budget was not available to sustain these discounts.

Discovering New Opportunities

Leveraging these integrated insights across assortment, pricing and promotion, Company ABC created a new go-to-market strategy:

Rebalance the overall assortment mix distribution to create better opportunities to compete at the shelf.

Close the base price gap in crucial segments - instead of spending money on trade investment to close the gap.

Only invest in trade promotion where GMROI and uplift were positive by limiting the overall promotions that would drive customers to switch.

The Time is Now!

From the case study, it's clear that now's the time for an integrated and unified RGM. With more granular data increasingly available, RGM provides a closer inspection of customer need within the competitive market context. Since in North America alone, 72% of trade promotions lost money, these solutions are increasingly necessary for current and future success.[6]

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