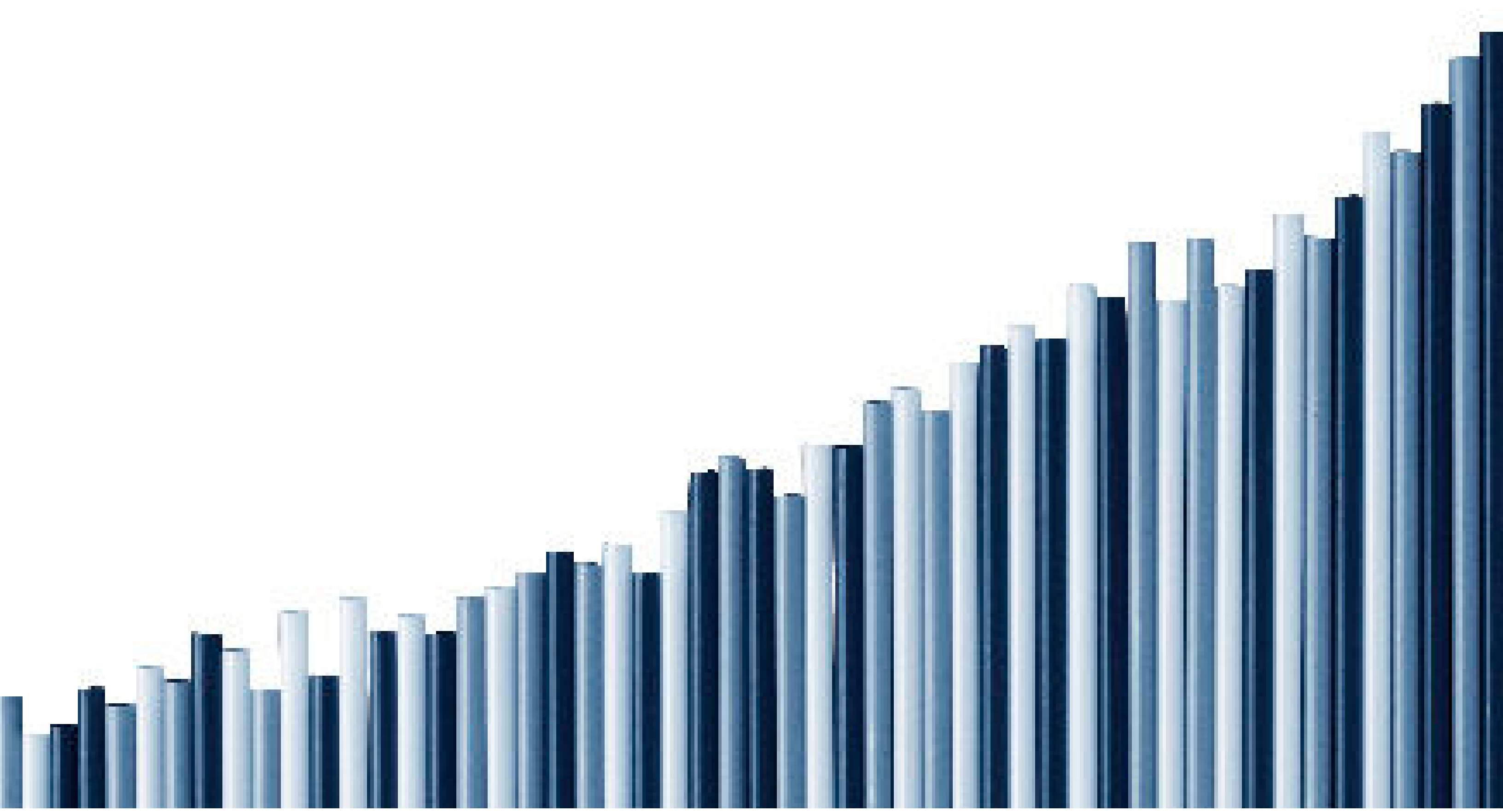
Marketing & Sales Practice

Revenue growth management: The next horizon

Consumer-goods companies have learned to capture significant value from revenue growth management. But the market is challenging them to improve their game again. Here's a road map for success.

by Kevin Bright, Josef Kouba, Sheldon Lyn, and Pieter Reynders



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Over the past decade, many consumer-packaged-goods (CPG) companies have mastered the fundamentals of pricing, promotions, assortment, and trade investment—revenue growth management's four main elements. While that development has allowed CPGs to reliably capture value, the landscape has shifted, and the bar is rising.

Changing consumer behaviors, advances in data and analytics, channel shifts, and higher expectations from investors such as activists and private-equity firms[1] have created new challenges. In addition, retailers are getting better at all elements of revenue growth management (RGM). Many have embraced new data and technologies, and in doing so, have leapfrogged over manufacturers in their knowledge of what, how, and why shoppers buy. Core RGM capabilities have become table stakes: companies can't operate effectively in the market without them, but they're no longer a competitive advantage.

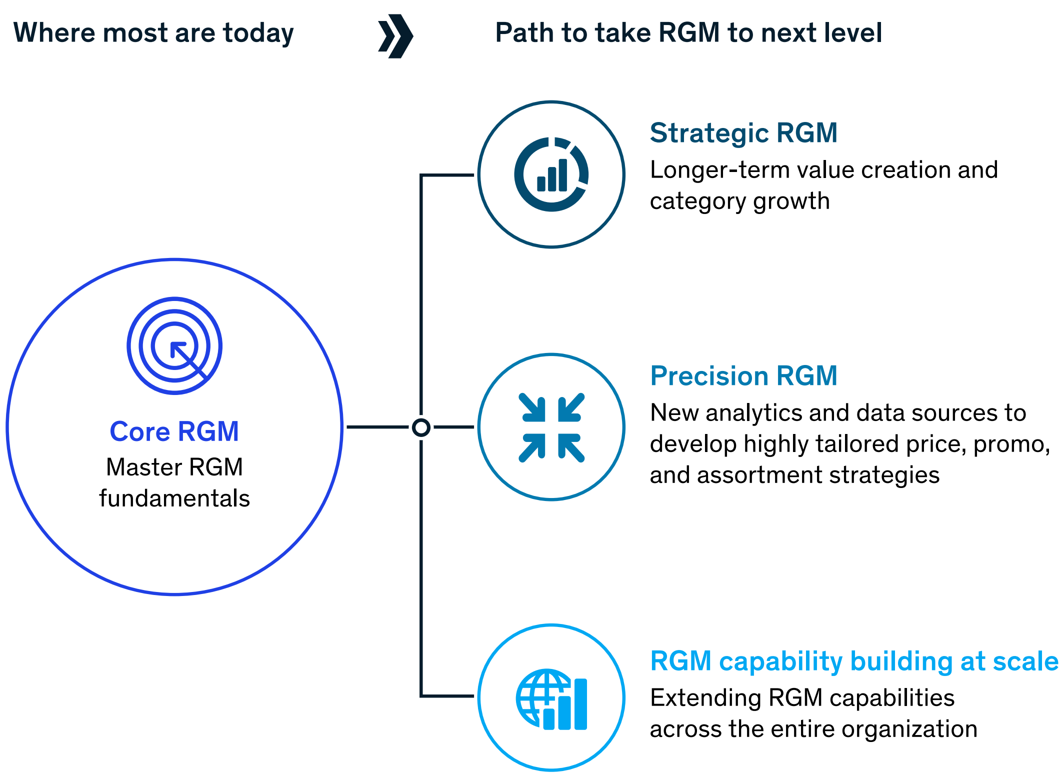
Still, a few leading-edge CPG manufacturers have been able to outperform their competitors and stay ahead of retailers. These manufacturers have pursued at least one of three paths toward next-generation RGM capabilities: strategic RGM, precision RGM, and RGM capability building at scale (Exhibit 1). In this article, we describe the three paths, how they add value, and how CPG companies can decide which one is right for them, enabling them to generate several additional percentage points in return on sales.

1. Strategic RGM: A longer-term and more integrated approach

Traditionally, core RGM interventions have been tactical in nature (for example, adjusting prices

[1] For more on the big trends reshaping the consumer-goods industry, see Greg Kelly, Udo Kopka, Jörn Küpper, and Jessica Moulton, "The new model for consumer goods," April 2018, McKinsey.com.

Exhibit 1
There are three 'next horizon' RGM paths that companies can take.



based on consumer price elasticities or reallocating trade investments toward higher-growth categories and accounts). One path toward greater RGM impact is to elevate RGM to shape the company's commercial strategy rather than just enable it. We call this path strategic RGM.

Strategic RGM is built on a foundation of deep insights, enabling a CPG company to derive more granular choices about where to play (Exhibit 2) and how to win. The insights come from sophisticated analyses of data from primary and secondary sources, which provide companies with a more complete picture of available opportunities. Improved insights are generated in each of the following areas:

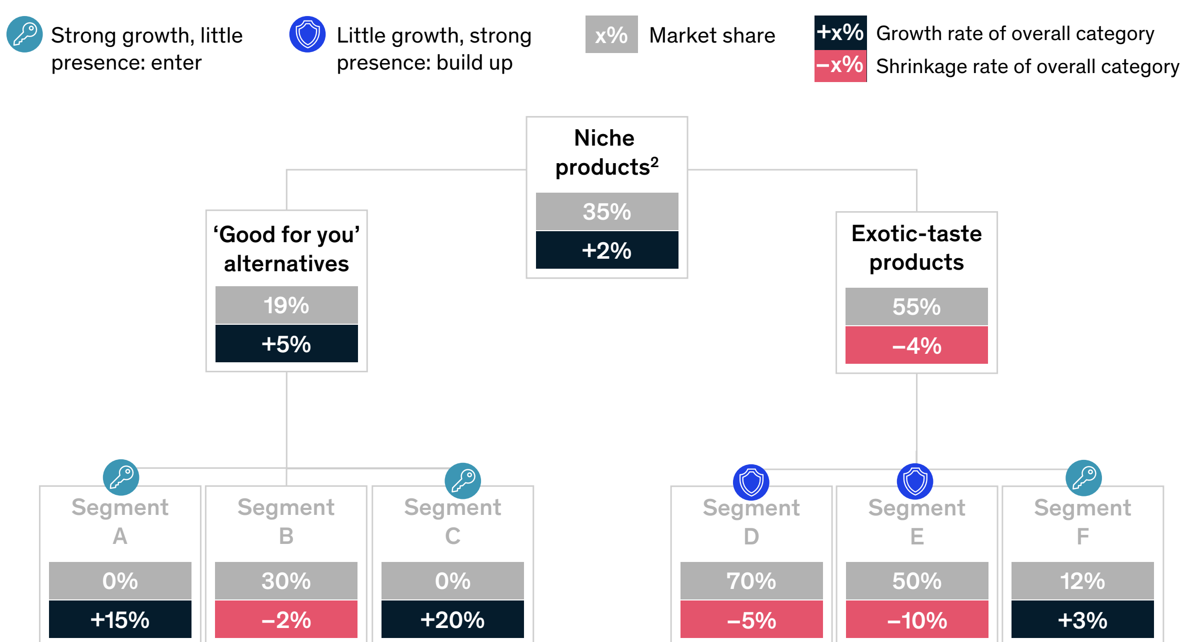
— *Category:* how it's structured, what the most attractive revenue and profit pools are, and how they're evolving

— *Competitors:* which brands are playing—and winning—in each channel, how they're positioned, and what their economic objectives and potential strategic moves are

Exhibit 2

Strategic RGM is built on a foundation of deep insights, which entails a granular analysis of growth opportunities.

Illustrative example of a category analysis[1] for a food manufacturer and its market share in specific segments, %



Future sources of growth and revenue include:
- **Segments A and C:** high-growth segments in which manufacturer is not present
- **Segment F:** growing segment in which manufacturer does not have a fair share
- **Segments D and E:** segments in which manufacturer has a strong presence, but segment is declining significantly

[1]Can also be prepared qualitatively without panel data.
[2]Basis = 100%, segment growth rate = –2%, manufacturer's market share = 25%.

Source: McKinsey B2C Insights Factory analytics, based on Nielsen's household panel and POS data

- *Consumers and shoppers:* who they are (including size and growth of key consumer segments), how they make purchasing decisions and trade-offs, how sensitive they are to prices, and how much they are drawn to other products

- *Occasions:* what usage or consumption occasions there are, which needs relate to each occasion, and how current products and propositions fulfill those needs

- *Channels and customers:* what current and future growth and profitability are and the quality of execution in each channel

With regard to consumers and shoppers, for instance, strategic RGM calls for an in-depth understanding of "purchase structures"—how a shopper navigates the category, what occasions the product is used for, and how the shopper makes trade-offs. If the specific item isn't in the store, will the shopper buy a substitute, or will he or she leave the store without buying anything?

With these insights, a company can design and execute a full portfolio of both short- and long-term initiatives to drive above-market growth. These initiatives might include innovation options and M&A to fill "white spaces" in the market, changes in pack-price architecture to better address consumer and shopper needs, and channel-specific moves. The insights can also help a CPG company prioritize investments in capital expenditures and operating expenditures.

Strategic RGM thoroughly equips the company for joint business planning and negotiations with retailers by clearly demonstrating and quantifying business and shopper benefits to the retailer.

What strategic RGM looks like in action

A food-and-beverage manufacturer, despite having a strong RGM capability, was seeing steep sales declines in one of its larger markets. It decided to invest in strategic RGM. Much of the impact came from three main components, carefully planned and executed over a three-year period:

- *A more detailed pricing strategy.* By developing a nuanced understanding of how consumers shop the category, the company was able to create highly specific short- and mid-term pricing strategies by region, channel, and stock-keeping unit (SKU). It simulated pricing scenarios based on insights into shoppers' switching behavior and their shopping missions. Over time, the company increased prices above the rate of inflation for certain SKUs, introduced smaller price increases for other SKUs, and maintained prices for still other SKUs.

- *A shift toward higher-growth revenue and profit pools.* With detailed insights into what types of consumers were buying its products, where, and why, and when they consumed them, the manufacturer was able to introduce new brands, packs, and products that better aligned with consumer needs. It also identified underserved opportunities that were complementary to its current portfolio. For instance, the company saw a trend in consumer willingness to pay more for natural and organic food products. In an already crowded market for organic brands, the company's thorough analysis found white spaces in two specific subsegments: distinct snack flavors and small pack sizes for on-the-go consumption.

- *Tailored shopper activation.* The company discovered that shoppers who bought one of its brands in convenience and discount stores typically enjoyed the product during the occasion of relaxing at home. This insight led the company to pursue partnerships with media providers to offer joint discounts, increasing the brand's association with watching movies at home.

After implementing strategic RGM, the company reversed its downward trajectory and is on track for a 10 percent revenue increase over three years.

Success factors for strategic RGM

A CPG company should consider pursuing strategic RGM if it has strong RGM fundamentals but its gains from RGM are starting to plateau, or if it plays in stagnant categories and needs a shift away from tactical actions.

The key success factors for strategic RGM include a shared vision and cross-functional ownership across the sales, marketing, supply-chain, and RGM teams, as well as support from top management. There should be a shared set of incentives focused on long-term value creation. This is particularly important for a portfolio of initiatives to drive both short- and long-term impact. In addition, an agile test-and-learn mind-set is needed: all functions should be aligned on the philosophy of bringing innovations to market quickly and refining them based on real-time consumer feedback.

2. Precision RGM: Powered by data and advanced analytics

Strategic RGM requires some investment in data and analytics, which can typically happen without a major step-up in talent in this area. Precision RGM harnesses data and cutting-edge analytical skills to get radically more granular in identifying opportunities and delivering on them precisely.

The increase in data availability (click-stream data, mobile-phone location data, longitudinal purchase history, for example), combined with advancements in analytics such as machine learning, can yield previously inconceivable RGM insights. Companies can now understand shopper-level activities at particular retail outlets, identify microsegments within their consumer base, and zero in on granular profit pools in specific locations and channels. These capabilities can then allow CPGs to deliver tailored, dynamic, and continuous omnichannel RGM activities, such as store-level RGM strategies and promos that target specific microsegments.

What precision RGM looks like in action

One CPG company suspected that it could vastly improve the return on investment (ROI) of each of its promotions. It had been measuring the usual aggregated incremental gross-margin impact of its promotional events, which wasn't telling the complete story. In reality, some promotional events were effective—convincing certain consumers to try the product and then become loyal consumers, for instance—while others were value destroying, providing lower prices to loyal consumers who would have been willing to pay the full price.

With the help of analytics, the company designed an approach to understand specific consumer segments and their unique buying patterns. It made use of several data sources—including point-of-sale data, loyalty-card data, and third-party panel data—and added an advanced analytics layer to identify a consumer segment on purchase behavior and a response to specific promotional tactics (Exhibit 3). This revealed not just the impact of the promotion but also its drivers. The company learned that a promotion that initially seemed to have poor ROI, for example, actually proved effective at getting "light" users of the category to increase usage over the long term, whereas a seemingly high-ROI promotion was actually cannibalizing the loyal-user base. The company then ran optimization models to determine the ideal mix of promotions to drive category expansion and sustainable share. It used test-and-learn approaches to design the offers (flavors, pack sizes, and promotion types) that would be most attractive to each segment: nonusers, light users, and potential switchers.

The result was a significant increase in sales and household penetration for the category. Furthermore, the company was also able to provide a new suite of insights to some of its retail partners, significantly strengthening those relationships.

Success factors for precision RGM

If a company identifies significant consumer differences at a granular level—such as large differences in consumer preferences across regions or different needs of different shopper segments, then precision RGM can unlock significant value. Companies, however, require access to rich data sets as well as sufficient talent—not just data scientists and analysts but also "translators" to help business leaders understand the insights.

3. RGM capability building at scale

Expanding RGM across the organization can help translate pockets of excellence into a truly global capability, potentially including rolling out strategic RGM or precision RGM. Developing

Exhibit 3

Next-generation promotion analytics enable shopper segment-level strategies.

What a typical CPG does on promotion	What advanced analytics can enable
• Find things that worked well for the promotion investment in aggregate	• Understand promotion performance at shopper segment level, including switching between brands and packs
• Disaggregate drivers of direct performance (price, execution, etc)	• Understand longer-term performance drivers (eg, see what drives household penetration by segment)
• Therefore, optimize discount depth, mechanics, etc across all consumers	• Therefore, target shopper segments in a granular way with tailored promotions

this organization-wide capability is dependent on broad capability building, achieved through "belt"-like training and certification across RGM practitioners and the broader marketing and sales organization. This requires effective central coordination, often through a global "center of excellence" (CoE). The CoE consists of a group of RGM expert practitioners who own and champion RGM within the company, disseminate best practices, build capabilities, and partner with RGM owners in each market and business unit to support them in building in-market RGM strategies. They help standardize RGM processes, approaches, systems, and tools, resulting in higher speed and consistency of decisions, while the "answers" remain market specific. If done well, the CoE influences local RGM teams through the value it delivers and the pull it creates, rather than requiring direct reporting lines.

What RGM capability building at scale looks like in action

A global CPG company, with a large product portfolio spanning all price tiers and a broad range of market types and channels, was struggling in the face of volatile regulatory, foreign-exchange, and economic conditions. The company's in-market RGM capabilities were lacking: each market used ad hoc tools and analytics, data were limited, and there was only a handful of fully dedicated RGM resources.

Recognizing the success others had achieved through RGM, the company decided to expand its RGM capabilities into a key lever for company-wide transformation. It ran a series of in-market interventions while building end-to-end RGM capabilities and designing robust training materials and playbooks. More than 100 practitioners across 20 markets received "black belt" training in RGM, mixed between the central RGM team, local RGM teams in the markets, and a centralized RGM analytics hub. This empowered them to identify RGM opportunities and develop detailed recommendations and execution plans. In addition, a broad base of marketing and sales teams in each market received "green belt" trainings on RGM concepts, including how to sell RGM initiatives to customers. The company also invested resources in RGM enablers such as data, centralized sets of tools, and performance tracking.

Within a year, the program doubled the global impact of RGM and contributed more than 2 percent revenue growth. Crucially, even though the company took different actions across markets, the fundamental RGM approaches were consistent. The capability-building program created a strong foundation for the company to sustain and grow its RGM capabilities and impact year over year.

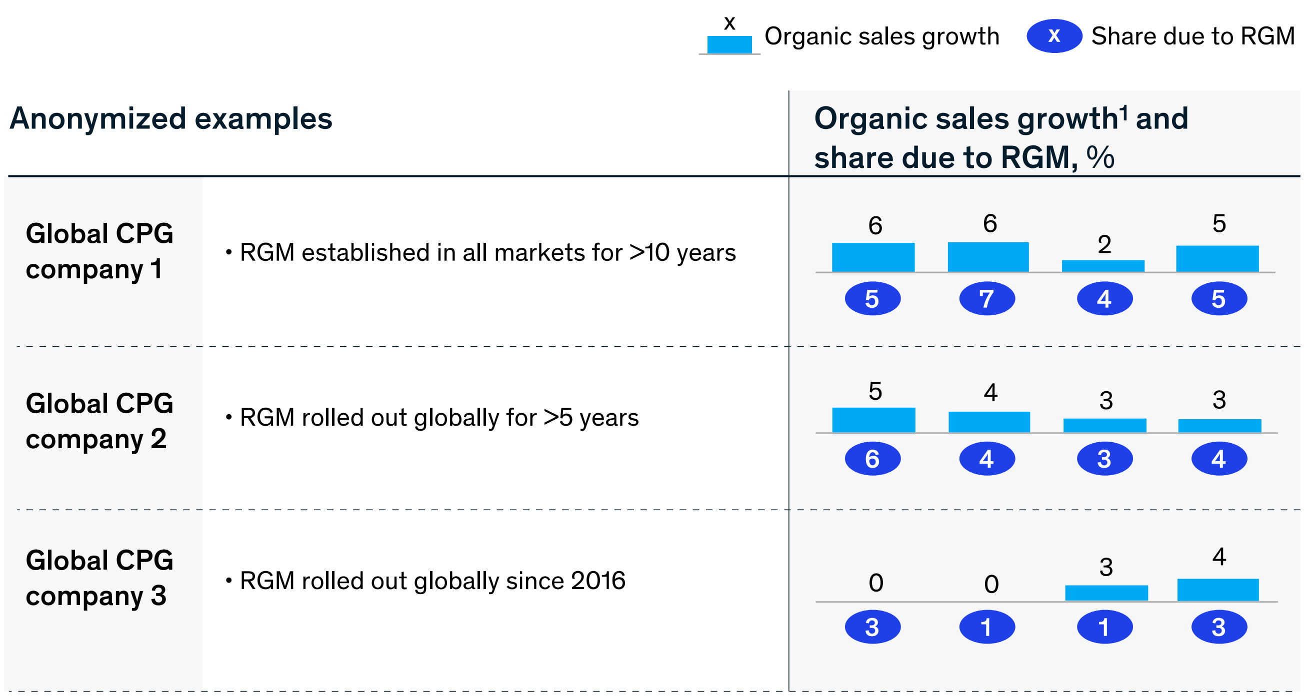
Success factors for RGM capability building at scale

If a company is ready to invest in RGM to substantially increase performance, and RGM excellence exists in selected markets or business units, then building RGM capabilities at scale can be a significant driver of value (Exhibit 4).

Success in RGM capability building at scale depends on top-team commitment, consistent communication, and a well-supported central team to coordinate and drive adoption globally. Pilots in a few markets are required to demonstrate the potential impact of RGM and build the company's RGM approach. Subsequently, RGM capabilities can be rolled out to all markets over a period of one to three years, depending on the size and complexity of the business. Having RGM teams in those markets during the implementation phase will be key to sustainably delivering impact and building capabilities.

Exhibit 4

RGM capability building at scale generates sustainable growth for consumer-goods companies, helping to increase their long-term value.



[1]Assuming constant exchange rate.

Source: Company annual reports and press releases; McKinsey analysis

Advanced capabilities in pricing, promotions, assortment, and trade investment will only increase in importance as competition intensifies in the CPG industry. CPG executives should ask themselves: Are we getting full value from RGM? Is our net revenue realization outpacing inflation? Are our capabilities improving faster than our competitors' and retailers' capabilities? Are we integrating RGM into our overall strategy? Are we sufficiently leveraging data and analytics to grow our revenue? Do we adapt our RGM approach to online? Are our RGM capabilities in all our markets and teams at the same level? Depending on the answers, companies should then commit to one or more of the three paths toward RGM differentiation today, to position themselves well to become the commercial winners of tomorrow.

Kevin Bright is a partner in McKinsey's Denver office, **Josef Kouba** is a partner in the Vienna office, **Sheldon Lyn** is a partner in the Southern California office, and **Pieter Reynders** is an associate partner in the Brussels office.

The authors wish to thank Marc Frederick, Simon Land, Stefan Rickert, and René Schmutzler for their contributions to this article.

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