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Winning the shelf war

How consumer goods companies can drive cross-functional success through Revenue Growth Management

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We know what to do, we just can't get teams to do it all the time.

–Chief Financial Officer of a Consumer Packaged Goods organization

SPEND-A-LOT RETAIL TO FOOD CORP

To: Green, Andrew (Widget Corp. Sales)
From: Jones, Frank (Spend-A-Lot Retail)
Subject: Trade promotion: Urgent!
Andrew – We have the ability to put Widget Corp. into this week's BOGO themed circular. We think this would be a great mover for you and could allocate a half-page. We need an answer by EOD today.
—***Frank Jones,*** Spend-A-Lot Retail

FOOD SALES TO MARKETING

To: Anderson, Nancy (Widget. Corp. Marketing)
From: Green, Andrew (Widget Corp. Sales)
Subject: Trade promotion: Urgent!
We should move on this… need answer asap!
—***Andrew Green*** Widget Corp. Sales

FOOD MARKETING TO SALES

To: Smith, Lisa (Widget Corp. Finance);
From: Anderson, Nancy (Widget. Corp. Marketing)
CC: Green, Andrew (Widget Corp. Sales)
Subject: Trade promotion: Urgent!
Lisa – we need to hit our numbers and are currently behind with Spend-A-Lot. This is certainly a costly promotion, but the volume will help overall. Additionally, it is important for us to be a good partner to Spend-A-Lot Retail.
—***Nancy Anderson,*** Widget Corp. Marketing

FOOD FINANCE TO FINANCE

To: Nancy (Widget. Corp. Marketing)
From: Smith, Lisa (Widget Corp. Finance)
CC: Green, Andrew (Widget Corp. Sales)
Subject: Trade promotion: Urgent!
We can do 10% off, but we cannot support a BOGO – it's way too expensive.
—***Lisa Smith,*** Widget Corp. Finance

FOOD SALES TO SPEND-A-LOT RETAIL

To: Jones, Frank (Spend-A-Lot Retail)
From: Green, Andrew (Widget Corp. Sales)
Subject: Trade promotion: Urgent!
Sorry, we cannot get the approval for the BOGO this time around.
—***Andrew Green,*** Widget Corp. Sales

RGM performance can look different depending on vantage point

Consumer packaged goods (CPG) companies have struggled for years to grow organically amid increasingly challenging markets. This has been compounded by conflicting viewpoints across sales, marketing, and finance on how to achieve growth, reinforced by different incentives, metrics, and functional leadership priorities. This misalignment manifests itself in behaviors and decisions that sub-optimize a revenue growth strategy with clear linkage of promotional activities with long term pricing, mix and margin plans. Identifying these motivations can be critical in realigning the organization around a better way to cross-functionally look at the trade spend issue: Revenue Growth Management (RGM).

RGM is focused on continuously improving the organization's pricing, promotional activity, and mix in the market. This capability develops the strategy, aligns the organization, builds the right systems and tools and ensures a forward-looking mindset necessary for CPGs to optimize trade spend and achieve long-term pricing goals.

Below are examples of such vantage points across functions and levels:

	Sales	Marketing	Finance
Corporate	"We have to have a more comprehensive strategy than just issuing list price... how are we thinking about innovation and growing premium?"	"The real issue is our lack of investments in core brand-build activities... we need to get back to our roots."	"We've taken cost reductions across most of the P&L... we have to start looking at what we can do to reduce our trade rate."
Regional	"Our key competitor is making investments across the board... I don't like it but we have to follow suit."	"Our main priorities have to be share and operating profit... we are making the tough choices in trade investments to keep those both on track."	"I built the plan based on repeating last year's trade rates, but we are over budget and need to pull back."
Account	"The competition has given a last-minute aggressive deal... we will lose the ad if we don't invest, and I need an answer in an hour."	"I have to find a way to increase account-specific marketing plans so that we have to rely less on trade."	"How can we justify negative EBIT investments, even at key accounts? We have to have controls on trade spend."

Building a program for purposeful promotions

RGM should be at the heart and soul of a CPG company's commercial activities for these four reasonss:

1 CPG companies operate in a margin-challenged environment. Categories across the store are facing intense pressure from traditional competitors and start-up consumer brands. A rapidly changing brick-and-mortar retail environment exacerbates this condition as consumers seek more innovative and personalized products and services.

2 Promotions are often the second-largest line item on the P&L, after cost of goods sold. Forrester estimates that CPGs spend upwards of 25 percent of revenue on promotions. That nets to $1 trillion globally and requires a strategic focus to managing this spend.

RGM by the numbers

Global consumer goods companies spend $1 trillion on trade annually

of CPG revenue is spent on trade promotion

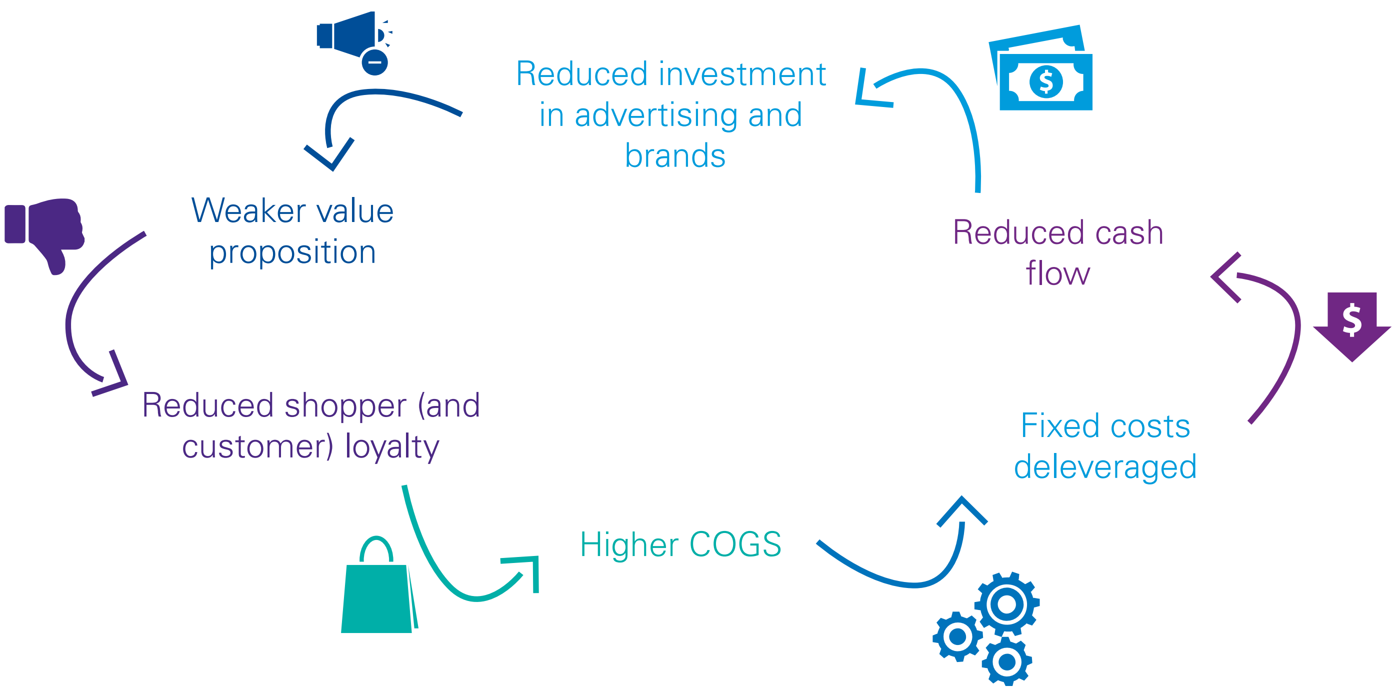
of promotions don't break even[1]

3 As we have seen in many companies, making a shift to a strategic RGM capability is hard. Long-term planning, cross-functional challenges, and unpredictable customers and consumers can drive people to revert back to short-term behaviors. In order to increase success of sustaining an RGM capability, a foundational set of change management levers should be embedded and reinforced. First, compelling leadership vision and commitment from the top is needed to mitigate a return to short-term tactics. Second, clearly defining ownership and accountability drives collaboration across functions as people better understand how their decisions impact the broader organization. Third, incentive systems across consumer, customer and internal metrics need to articulate the value for all stakeholders in order for strategic RGM actions to take hold. Lastly, education and development programs must reinforce behaviors and actions that empower employees to develop creative solutions. Without these change tactics, RGM will remain squarely in the realm of good intentions.

[1] Market Guide for Trade Promotion Management and Optimization (Gardner, August 10, 2015)

4

Continuing to take short-term cuts in investments to a brand will result in a vicious cycle where the value proposition to the consumer and the customer are lost. This creates more pressure at the shelf and drives the need for more cuts, thus perpetuating the cycle. Instituting a strategic RGM capability breaks the cycle and creates a longer-term view of opportunities to drive growth that resonates with consumers and retailers.



Five strategies for RGM success

While industry insiders agree that there are multiple challenges to a best-in-class RGM program, there is less alignment on exactly what "good looks like." However, based on our work helping companies transform their RGM capabilities, we have observed that effective RGM programs share a few similar characteristics outlined below:

1 Connect your "pockets of excellence."

Many companies have "pockets of excellence," or certain aspects of RGM that are done exceptionally well but not shared across the organization. For example, a company might be skilled at pricing, but field teams do not have access to underlying pricing elasticity analytics.

RGM is most effective when it is seen as an enterprise discipline rather than a set of capabilities. That means managing RGM under a centralized and coordinated operating model, rather than as disjointed functions. Under such a model, marketing, sales, and finance will share the same metrics and goals, and be aligned with the same point of view about how to improve revenue results.

2 Look ahead, not behind.

As disappointing sales results come in, sometimes the quickest way to fix the problem and hit this quarter's numbers is to increase trade spend to bolster the top line. However, boosting trade spend for short-term revenue gains is not a sustainable long-term strategy, as it destroys brand value and erodes market pricing power.

A more effective strategy is long-term revenue planning, with processes and governance that link to annual budgets and tie those results to short- and long-term incentives.

Long-term revenue planning is a critical piece of a thorough RGM program as it enables more intelligent trade spend decisions—including major, long-lead operational changes like new product innovations, capital expenditures, and packaging changes that take time to develop and implement—even 18 to 24 months down the road.

"We are so focused on this year that no one really does three-year planning in a meaningful way. Everything looks like a hockey-stick in year 2."

–Global CPG Head of Sales

3 Use technology, but do not expect a silver bullet.

Many companies have made significant investments in trade promotional management and optimization tools (TPM/TPO). But while results have improved slightly, the expectations for these sophisticated and expensive systems often are not met. The technology is only effective if teams within the organization have the right analytical skills, meaningful reports, and decision rights to monitor and evaluate system recommendations (and tweak them when necessary).

An effective RGM program leverages the organization's judgment and experience—as well as technology—in making pricing, promotion, packaging, and mix decisions. It is a perfect balance of art and science, taking into account the talent, skills, and capabilities in the sales and marketing departments. It is focused on developing the new sales and marketing skill sets today's digital world demands, including an omnichannel perspective and the analytical skills and understanding of technology to leverage data and tools to draw insights that drive the right RGM decisions.

4 Put the retailer first.

Too often, joint business planning sessions between manufacturers and retailers quickly turn into transactional discussions around trade funding. These meetings rarely have a win-win outcome.

Rather, manufacturers should frame retailer discussions as an ongoing dialogue that is laser-focused on growth—how to improve customer satisfaction as a team to drive sales and margin for both parties. The growth story helps retail customers understand why the product category will grow, why the brand will take market share, what the value of the product is to the shopper, and what will compel the shopper to buy more or pay more for the product. It is critical for convincing retailers to accept price increases, mix changes, and other innovations in order to achieve value and growth for both the retailer and manufacturer.

To elevate retailer relationships from merely transactional dealings, leveraging meaningful analytics can be especially helpful, as they steer the conversation toward sophisticated growth levers which require greater collaboration with the retailer. Consumer insights, such as point-of-sale trend data, provide CPGs with compelling joint growth stories that can lead to a more strategic relationship.

5 Build self-reinforcing systems.

Getting RGM right once is difficult. Getting it right everywhere consistently is at least an order of magnitude more difficult, given the complexity of the trading environment and the rapid pace of industry change.

The most successful RGM programs are designed not only to solve the problem at hand, but also to deliver the solution multiple times with different teams.

A good system is flexible and agile. It can do scenario planning that can assist users in understanding potential risks and outcomes of a decision and allows them to develop new processes that fit current conditions. Furthermore, it is also critical to make use of metric-based mechanisms, such as pre- and postmortems, to challenge thinking before and after events, measure actual results against initial expectations, and learn from both successes and failures.

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Bringing RGM to life

Consumer organizations with some of the most mature RGM capabilities have realized significant results by keeping the five key success factors in mind.

A beverage manufacturer attributed a

3%

global increase in prices to its recent focus on smaller sizing.

This was in part due to their focus on strategically looking ahead at what opportunities exist to increase price and coordinating their functions to drive a smaller pack/size to the consumers.

A global CPG attributed a

70bps

increase in share for one of its categories by focusing on mix. The company established a new mid-tier price tier by rethinking their brands across all price tiers, shielding that brand from an ongoing base price war, enabling shelf pricing to be sustainably increased without forfeiting share. This required a cross-functional effort taking a longer-term view of their product portfolio rather than favoring shorter-term solutions that may have hindered their ability to find a more strategic game plan for growth.

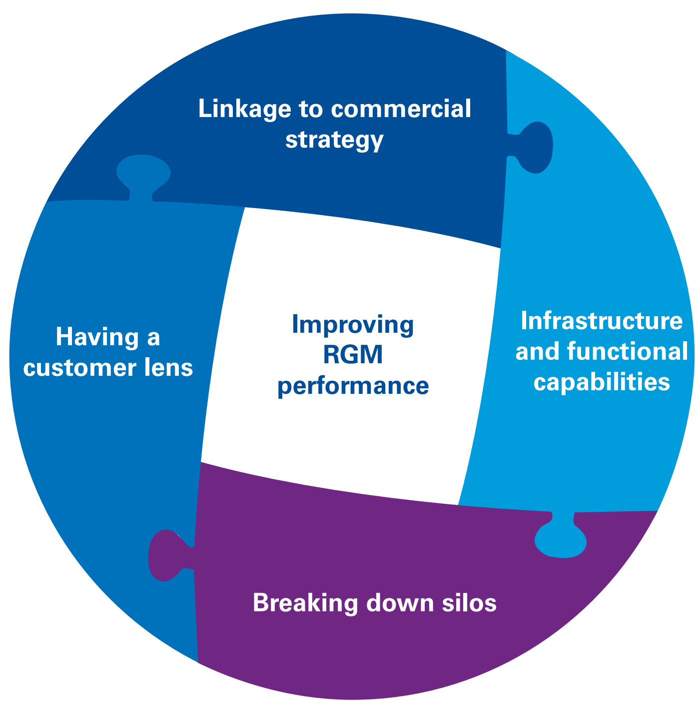
> **Breaking down silos is the whole reason we created the Chief Growth Officer position.**
>
> *–CPG CEO*

Getting started

How do CPG companies begin to develop and manage leading-practice RGM programs that result in long-lasting growth?

It starts by taking a thorough view of the organization, including people, processes, and technology, to define the core problem. Rather than focusing on one-off pricing opportunities or analytics implementations, companies should assess the overall strength of four key areas of the organization that together drive RGM performance:

1. **Linkage to commercial strategy** with a forward-looking mind-set
2. **Having a customer lens** to build more strategic relationships with retailers
3. **Infrastructure and functional capabilities,** including not only data analytics but also the ability to interpret and make smarter decisions
4. **Breaking down silos** with shared metrics and collaborative targets across the organization



> **We can’t expect a computer to run our whole trade program.**
>
> *—CPG executive*

RGM:
A self-assessment

Ask yourself these four questions to see if there are areas to improved your RGM program.

1

Our revenue growth strategy is:

A. A documented, long-term (three-year) price, promotion and mix plan used as an input to the budget

B. The result of top-down growth and margin expectations

2

Our event ROI analysis is:

A. Done regularly before and after events with sophisticated tools and techniques (e.g., game theory planning)

B. Done mostly before events to help ensure that we do not exceed the trade budget

3

When it comes to RGM, sales, marketing, and finance teams are:

A. Well-aligned on strategy and execution with some useful functional tension

B. Misaligned with strong and differing points of view on how to improve revenue results

4

Joint business planning meetings with customers are:

A. A meeting of the minds with both teams coming to the table with ideas to grow the business

B. Transactional and focused on incremental programming to last year

Any response in the B column is a prime opportunity for improvement and warrants further analysis.


cake mixes
coffee
sugar
cocoa
flour
food storage

RGM in practice

Case study

How a CPG company faced growth barriers

Client challenge

A national CPG company was facing extreme profit decline as volume shifted to heavily commoditized products with low margins

— The company believed that pricing in market had reached maximum levels that would be accepted by consumers and was therefore increasingly relying on trade to meet top-line goals, which was eroding price perception of the category even further.

— Cost cutting had reduced marketing budget to below 2 percent of net sales and eliminated key "growth positions"(e.g., innovation team lead).

KPMG's approach

We reviewed GTM strategy and team structure over 12-weeks

— 4 steering committee meetings with CEO and key stakeholders to align on major changes to operating model

– Structure: COO hired; assessed sales team, trade marketing reporting structure revised

– New incentive structure (incl long-term plan) developed

— Developed new price-pack architecture

— Developed new Global Innovation COE to support product launches

— Assessed new trade promotional planning tools to support business planning and execution

— Revamped corporate governance to embed change/track progress

Results

— Organic sales increased by 8 percent in first 12 months while earnings before interest and taxes grew by nearly 8X

— Premium sales achieved 25 percent growth over 3 years; new premium product launches doubled portfolio

— Replaced half of the sales team

— Significant effort devoted over 6 months to educate customers of pricing and promotional changes, including visits by CEO and COO

— Intensive training program across sales, marketing, and finance to support launch of new promotional planning tools; lasted three months with dedicated team

Driving growth through RGM

Price, promotion, packaging, and mix activities should not be off-the-cuff decisions. Companies cannot just improvise. When they do, trade investments often fall short and growth may stagnate.

That is why now is the time to consider implementing an advanced RGM capability. A robust RGM program can help CPG companies overcome common internal roadblocks and transform trade decisions from an improvisation to a planned, strategic process that generates top-line growth—and sustain the results.

RGM is a complex topic and a relatively new discipline in the CPG industry. We do not claim to have a crystal ball that shows exactly what leading practice always should look like holistically or road map with turn-by-turn directions to get there. But by embracing the five strategies detailed in this paper as well as our tips for getting started, we think CPG companies will see marked improvements in trade effectiveness.

About the authors

Joel Rampoldt is a principal in KPMG Strategy with more than 15 years of experience in strategy and operations consulting, focused in the retail and consumer sectors. He specializes in value creation for retailers, ranging from broad-scale turnarounds to engagements on specific topics such as corporate strategy, assortment, pricing, promotions, format innovation, and supplier negotiations. He has led major engagements with retail clients in North America, the United Kingdom, and continental Europe.

David Roszmann is a managing director in KPMG Strategy, specializing in growth planning and marketing effectiveness in the consumer markets segment. David has extensive sales, marketing, and operational experience as a consultant and industry executive. He has been president and COO at Chicken of the Sea International; a principal with the Boston Consulting Group, leading transformation and growth engagements; and an officer, fighter pilot, and strategic advisor with the U.S. Air Force.

Leila Shin is a director in KPMG's People & Change practice with a background in consumer markets strategy. She has more than 12 years of experience in change management and organizational design within the context of innovation, growth strategy, and operating model changes, driving executive alignment and executable change tactics to drive adoption across transformational programs.

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