



Real and Practical Challenges of Revenue Management:

From design to implementation



Integration

Together, for the change you need

Foreword

While revenue management is familiar and widely practiced by many companies, when business leaders are tasked with designing and implementing a new strategy in practice, we consistently encounter the need to apply numerous changes, tweaks, adjustments and lessons that aren’t covered by standard “textbooks”. This experience spurred us to start writing in an attempt to consolidate the new knowledge we’d accumulated over time. But we failed – miserably.

Initially planning to launch in three months’ time, it would take three years to arrive at the present report, with the involvement of ten different leaders and input from many additional revenue management projects executed together with CPG companies across a broad range of portfolios, geographies and commercial models. The challenge lay in logically synthesizing these lessons, trials & errors and best practices for design and implementation in a structured way to support our clients.

Despite the time it has taken, the insights presented here are far from outdated. On the contrary, in today’s market context,

they are more relevant than ever – with the benefit of having gone through countless rounds of refinement and reflection in the hands of experienced professionals who invested a great deal of care and attention.

This exercise led us to identify a number of key success factors:

1. Having **clear and aligned goals** for the revenue management strategy as well as clarity regarding possible trade-offs
2. **Understanding the business context** and reality in which these goals will be pursued
3. Guaranteeing **sponsorship from the leadership** and internal stakeholders while respecting cultural aspects
4. Considering the **non-technical elements** that are indispensable for effective strategy design and implementation
5. Defining the **implementation premises from the beginning** considering trade-offs between speed and risk
6. Establishing a **governance model for staying on track** and adjusting

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INTRODUCTION

What's so tough about revenue management?

After years of focusing on methodologies for cutting costs, business leaders have come to realize the **benefits of placing revenue management at the heart of their overall strategy**. As experience with clients has shown that even small price increases of 1% can lead to net margin increases of 10-15%, it's undeniable that revenue management is highly relevant as a lever for achieving better overall results.

Leaning on a growing number of playbooks and theories in circulation, consumer-packaged goods (CPG) companies have been investing heavily in developing their revenue management strategies. Common channels include paid market research, big-data analytics, consumer reports and evolving technologies – anything that can help read and crunch an enormous amount of data on sell-out and sell-through information, price-to-consumer (PTC) opportunities, promotions efficiency, competitor discounts levels, cross elasticity and more.

Despite this diversifying landscape of solutions, we often see **companies struggle with the challenge of capturing and effectively analyzing the needed data as well as knowing how to effectively apply it in practice**. Even the most well-conceived and detailed revenue management projects can fail to play out as intended – and not for a lack of technical expertise.

When taking stock, the key takeaway from the cases we've experienced unequivocally shows us that **non-technical elements are a key make-or-break factor for effective strategy design and implementation, assuming a much bigger role than business leaders are often aware of**. Our intention in this

report is to explore and share these elements to help businesses find their path to success in revenue management.

The practical and more human-centered considerations presented here are as important as any theory, concept or system when designing and implementing a revenue management model. While solid math must undoubtedly underlie the methodology in any context, this is not enough to consistently deliver results and truly drive transformation. We're convinced that **any methodology must be crafted to match the reality of the business and especially the variables of people and culture**.

Based on our experience supporting clients in translating revenue management theory into implementation, this report consolidates the key success factors we've identified together with numerous non-technical painpoints. The knowledge we share here is not about the theory, systems or tools behind revenue management but rather the real and practical challenges of the revenue management process – from design to implementation.

The report is divided into two sections. The first addresses the design phase of a revenue management strategy, the foundation for which is the company's **1)** strategic context, **2)** internal stakeholders, **3)** clients/consumers and **4)** sell-in/sell-out mindset. The second section looks at two critical factors for successful implementation: **1)** choosing the right roll-out approach and **2)** ensuring long-term viability via change management, governance and periodic updates.

DESIGN

DESIGNING FOR SUCCESS AND AVOIDING MAJOR DESIGN FLAWS

I. Know your jungle

Having helped diverse clients implement revenue management strategies across various contexts, we identify three interconnected and distinct elements that should be effectively balanced and interconnected to ensure the viability of the overall initiative. These address:

- i. The lay of the land: the company’s context, overall business strategy and goals
- ii. The inhabitants: the company’s key revenue management stakeholders and their objectives
- iii. The outsiders: the clients and, more specifically, consumers

i. The lay of the land: Connecting the revenue management initiative to your context, strategy and goals

As revenue management involves different areas within the organization and directly influences the company’s bottom line, it goes without saying that having a clear understanding of the overall business strategy is essential when approaching the design phase. Where we’ve seen design get complicated is when leaders are forced to balance and incorporate often competing elements: pressure for profit from a specific product line, product positioning, innovation, the go-to-market (GTM) model, the configuration of business units etc.

While any revenue management playbook on the market will dictate that the strategy and associated initiatives need to be guided by factors such as the price-to-consumer (PTC) positioning, margin targets and overall GTM strategy, **achieving successful design and subsequent implementation requires going a step beyond the theory itself.**

The example below presents a pair of tough (but resolvable) equations to address when aligning strategic goals with the revenue management strategy. Consider the two companies

Considering the density, complexity and potential impact of revenue management as a whole, these three elements are entangled in what we may very well call a “jungle”. As such, we often see clients struggle to gain a clear picture of these factors and the relationship between them. The following section addresses each one in detail and presents key considerations for designing a robust and effective revenue management strategy that’s set up for successful implementation.

below operating from very different contexts yet pursuing the same objectives:

	Objective	Approach
1	Expand market share	Decrease PTC positioning while respecting the brand strategy
2	Increase bottom-line profitability	Raise sell-in prices
Context		
Company A	A business losing market share due to a PTC positioning above its competitors and in urgent need of increasing bottom-line results	
Company B	A market leader seeking to reprioritize its value chain investment levels	

Apart from having a clear understanding of the company’s strategic goals, **it’s extremely important to take the company’s context into consideration, as different contexts call for different responses.**

The way that Company A will need to perform a revenue management review is clearly going to be quite distinct from Company B. While the latter is in a much more comfortable position that grants the company space to pursue its next investments, Company A will need to carefully consider the timing of changes to its PTC positioning and prioritize the most critical negative impacts on the business.

Regardless of the context, one element will invariably be present for both: pressure on bottom-line results. All companies have requirements in this regard and seek to optimize cash generation. The level of pressure they face does, however, vary in response to several factors: crises, turnaround, shareholder pressure for dividends, a need to maximize cash generation for strategic initiatives, poor profitability compared to competitors and more. The level of pressure at any given moment will dictate the size of any planned adjustments to the commercial policy.

CREATING A CLEARING IN YOUR JUNGLE: KEY SUCCESS FACTORS

Faced with increasingly competitive markets as well as more specialized and fragmented organizational structures, business leaders often struggle to reconcile strategic goals with a (needed) update of their revenue management model. Concurrently, the company’s context can often limit what’s feasible within a commercial policy update.

As we’ve seen time and again, success lies in finding ways to overcome conflicting goals while respecting the given context. Key success factors among companies that excel in designing and implementing new revenue management strategies do the following:

- **Incorporate the business’ strategic goals** while considering the revenue management perspective
- **Secure buy-in from the CEO** and the board
- **Set limits** on the strategy in terms of its contribution to results – accepting that no strategy is capable of resolving all problems or delivering on all goals

In addition to these, there are specific context-related success factors that must be analyzed and reflected in the revenue management design:

1. **the PTC strategy**
2. **“existential” long-term goals**
3. **timing**

Context factor 1: the PTC strategy

Having clarity on the price-to-consumer (PTC) positioning strategy set by the marketing area is crucial when making changes to the revenue management model. However, many marketing areas lack a solid perspective on the PTC strategy as well as clarity regarding competition for product lines by region, future claims for new products or the internal value propositions of substitute product lines. In a concrete case we served, the way to resolve this involved organizing a workshop with the marketing team to position the different product lines (i.e. their design orientation) in order of “consumer-perceived” value to provide the pricing project with more coherence in this regard.

Achieving an optimal PTC at the point of sale (POS) calls for alignment between the company’s commercial policy, sales force incentives as well as effective control over what actually happens at the POS. PTC positioning strategies demand broader consumer and marketing discussions while commercial policy definitions should draw from a clear GTM strategy that sets out the best way to reach and serve your sales channels for selling goods at the defined PTC.

Context factor 2: Making sacrifices for the greater good

In another case, our client’s top management was unsatisfied with the margins being generated by a specific channel and sought to establish a process that would fix the controls in place and enhance profitability. However, after digging deeper into the company’s overall strategy, we identified with the client that this specific channel was being utilized as a communication channel to consumers at the POS – serving the greater overarching objective of guaranteeing exposure and high visibility. While improvements could certainly be made, the point was to allow this channel to lose money for the sake of boosting brand visibility and ultimately generating more profit among other channels.

Context factor 3: Timing the transition

Finally, understanding the timing of the strategy is critical. It’s one thing to design a process for a company seeking to enter a new market with money in hand and quite another to design a process for a company with limited capacity and a shortage of cash. As such, the goals set out in the revenue management strategy should always possess a clear understanding of the company’s financial health and cash-flow situation so that the size and timing of implementation reflect the reality at hand.

By moving beyond standard textbook theory and diving deeper into the business’ reality and context, your professionals can start to create a clearing in the revenue management jungle.

With the lay of the land mapped, the next front to tackle involves the inhabitants within it – namely, the various stakeholders with (potentially) divergent interests and views.

The bottom line

The first step in designing a revenue management strategy that works requires business leaders to know the lay of their specific jungle. As there are as many ways to design revenue management as there are companies in the world, success will rely on deep diving into and incorporating:

- 1. the company’s short, mid and long-term strategic objectives, including the price-to-consumer strategy set by marketing
- 2. the “moment” in which your company finds itself in terms of financial health and capabilities
- 3. alignment among the leadership for the movement needed

ii. The inhabitants: reconciling the irreconcilable among different stakeholders

Time and again, experience has taught us that, without the relevant professionals on board, aligned and won over, even the technically best-designed revenue management strategy will simply fall flat. Numerous stakeholders can be influenced by changes to the revenue management strategy, many of whom have distinct priorities and agendas. Paving the road to successful implementation based on a well thought-through strategy design means getting these stakeholders on board with the changes and establishing an adequate degree of involvement from the very beginning – something that can prove extremely complex.

With organizational structures becoming increasingly specialized and fragmented over time, a higher level of specialization among companies also brings with it more division and diversified agendas. From a revenue management perspective, this means that strategy design set up for successful implementation requires businesses to undertake a sizeable coordination effort.

Proper coordination is also essential for dealing with frictions that typically arise among the inhabitants of our revenue management jungle. Flashpoints can emerge from:

- **Exposing past management issues** – e.g. over product or channel management

- **Requiring areas to provide concrete, detailed input** – potentially exposing a lack of criteria/methodology
- **Forcing the commercial area to have tough conversations with long-term or problematic clients** – regarding discounts, margins or information exchanges
- **Pushing through critical organizational decisions**
 - **Strategic:** reviewing annual sales targets
 - **Cultural:** shifting the mindset of sales teams
 - **Leadership:** replacing leaders for lack of capabilities
 - **Tactical:** changing trade investment levels, prices etc.
- **Calling for difficult internal negotiations between the marketing, commercial, finance and trade marketing areas**
 - 1. Can we accept an inferior brand position to sustain volume and growth?
 - 2. Are we willing to sacrifice our bottom line to adjust margins along the value chain?
 - 3. Are we prepared to accept that changes will not happen overnight due to different turnover levels along each link in the value chain?
- **Implementing margin/sell-in adjustments for certain clients** – to ensure uniform price and brand strength that can require uncomfortable negotiations

Among stakeholders, internal areas and clients, such conversations and ensuing adjustments can be sensitive and raise politically relevant questions. In our experience, companies that manage to “reconcile the irreconcilable” do so by identifying the right balance and degree of involvement for each stakeholder in designing what’s to come.

This can be pursued on the basis of four relatively straightforward principles that are relevant in both the design as well as in the implementation phase:

- 1. Secure CEO sponsorship so that the initiative is seen as a company-wide effort, with concrete actions to monitor stakeholders
- 2. Enforce collaboration so that each decision is analyzed considering the view and impact on all key stakeholders
- 3. Adhere to reality by making sure recommendations are viable, exposing and negotiating the necessary impacts
- 4. Set a unified goal for the future towards which everyone is pulling, without finger-pointing for past decisions

CASE: COORDINATING STAKEHOLDERS FOR THE GREATER GOOD

One illustrative case of how these principles work in real life involved a global food company we supported in dealing with a commercial policy that was causing serious cross-channel discrepancies and noise. A major flashpoint related to the client’s small cash-&-carry outlets selling key products for as much as 35% less than its key account retail chains nationally.

Frustrated by the ability of the small cash-&-carry outlets to undercut their business, the national retailers began selling the products at the same deeply discounted prices, expecting the global food company to make up for the difference. To complicate matters, these large key accounts represented a much greater share of the company’s business, suggesting the need for an immediate price correction among the cash-&-carry outlets.

However, economic factors had increased the relevance of this smaller channel in the company’s portfolio, with a new cash-&-carry channel director appointed to achieve ambitious targets. To resolve this impasse, we helped the client implement the four key principles outlined above within their commercial policy review.

Backed by sponsorship and engagement from the CEO and stakeholders, the client ultimately chose to enforce a 20-percent price increase among its cash-&-carry outlets.

However, this decision would have substantial ramifications that were predictable from the outset: Many clients refused to buy the product altogether, generating serious short-term impacts on the company’s bottom line. However, the leadership was prepared beforehand and avoided sliding into panic mode. The CEO developed a plan to actively communicate the decision of increasing prices together with a sound rationale along with a company-wide message to minimize misunderstandings. Additionally, an open panel was set up with the sales team to clarify any questions or concerns about the decision.

The importance of creating a clear communication strategy should not be underestimated here, especially as impacts will likely be felt across areas: The sales teams’ annual targets may be missed, marketing efforts can be compromised due to loss of product presence in key locations, the supply chain area could face extra inventory levels to handle and finance might receive nervous calls from headquarters. For this client, making a plan to communicate clearly and openly to reinforce unity within the company and highlight the long-term business needs was crucial.

To avoid conflicts of interest among areas, **every decision that went into the strategy was analyzed from the perspective of as well as its impact on key stakeholders**, meaning the company first assessed the financial impacts of the decision in question. As full recovery would take a year, the leadership began planning for how to mitigate specific impacts on all areas in collaboration with stakeholders from each. To prepare for a tough road ahead during the design phase:

- targets for sales professionals were adjusted so they would not end up competing against one another for accounts
- an internal communication area created instruments to reinforce the company’s objectives
- bonuses, rather than penalties, were set up for successfully implementing a new price in the market
- trade marketing made plans to adjust product communications
- finance reduced volume expectations while ensuring rewards would be given for the year’s approved budget

To help curb sales losses, marketing was asked to create new promotions with help from the sales force to sponsor these among clients. This type of cross-area collaboration from the beginning was a critical success factor for the subsequent implementation of the new strategy.

Finally, with an eye to respecting the given reality and accepting necessary risks, the choices laid out in the strategy were modeled

and tailored based on the amount of acceptable financial and market-share risk considering the company's portfolio, size, profitability etc. While not all CPG companies can necessarily withstand a price increase of 20% that costs them a valuable channel, many can implement incremental pricing changes – from positioning to discounts – or combine these with other incentives.

There are two important design considerations worth highlighting here:

1. When planning for changes, it's important to fully understand how a decision will affect the entire organization, ensuring that the business isn't assuming more risk than it can handle.
2. Despite having a solid plan in place, leadership must be ready to resist urges to give up at the first sign of adversity so they can actively manage the outcomes that subsequently arise during implementation.

In the case above, the cash-&-carry outlets were slowly reengaged with promotional opportunities after the plan was implemented. Just six months later, the client achieved the desired volumes at the new and adjusted price. Even though the company's results during the two implementation quarters were lower (as planned), the following two quarters set records in terms of sales and profitability.

These four principles on how to reconcile the irreconcilable inside a company when designing a revenue management strategy were key for success. But that's just part of the puzzle: The project also had to consider the company's external reality and arrive at prices that were well-founded and palatable for all involved, as we discuss in the following section.

The bottom line

As with any area of business, the people involved in a change or transformation are the ultimate make-or-break factor for success.

As such, the best-designed revenue management strategies:

1. Seek out and incorporate the views of the internal stakeholders and areas involved – from finance to sales and trade marketing

2. Anticipate potential frictions and use communication as a tool to resolutely address these
3. Put in the required effort to strike the needed balance between stakeholder interests and changes demanded by the new strategy
4. Guarantee clarity and visibility regarding any short-term negative impacts of the decisions and movements

iii. Outsiders: Understanding and respecting the dynamics of the value chain

With the jungle mapped and cleared, and its inhabitants aligned and content, we should remember that the revenue management strategy doesn't exist in isolation from the outside world. On the contrary, it's a living organism that interacts with and should respond to dynamics across the company's value chain.

Despite this, when setting prices within their revenue management strategy, we frequently see companies do so using an inward-facing logic, either based on costs or on "ideal" mark-ups for each product category, sales channel and region. While this approach can be quite simple and effective – especially in smaller companies with little knowledge of pricing methodologies – it loses out on highly relevant information

that could offer the business far superior revenue results. **At whatever level of "information maturity", we always recommend that companies begin taking an outside-in perspective when defining their price-to-consumer (PTC) strategy**, which starts by tackling some key questions:

- How much value does my product deliver to the end consumer?
- What are my competitors' PTCs for similar products?
- How elastic is demand for this type of product in relation to its price?
- What are typical margins for the channel?
- How big should contracts be and are these transferred along to prices?

Depending on the company's level of information maturity, there are more and less complex ways to gather information for a more nuanced and optimized PTC. These can include survey techniques aimed at better understanding your consumers, consumption occasions and the influence of different external variables as well as mathematical approaches using specially designed tools. One point to always bear in mind is that **pricing is not a purely mathematical or exact science**: Consumer behavior and attitudes toward products as well as qualitative aspects such as "commercial gut feeling" also play a role.

Whenever designing a revenue management strategy, a discussion must take place about how to balance the time, energy and resources needed to gather this qualitative and quantitative input. Rather than going "by the book", it's important to define focus areas and pricing techniques based on your company's specific reality and needs that ensure implementation takes root in the future. The following examples illustrate how adopting this approach can lead to concrete results.

CASE 1: BUILDING AN IDEAL PTC STARTING WITH ZERO INFORMATION

A middle-market pharmaceutical manufacturer we worked with to develop its first PTC strategy faced the challenge of doing so without the information necessary to conduct a well-grounded analysis of its external context. The company had grown significantly in recent years based on the success of one key product that generated over USD 200 million in annual revenue. At the same time, the client didn't have a market research database, had no PTC visibility over its other products and lacked the resources to buy the kind of information needed to refine its PTC. Pricing was done based on a cost-based

approach with few data points and competitor prices were only collected in a single region.

For this case, using a traditional method and waiting for market research or investments into industry-standard pricing databases was not an option. Together with the client, we decided to carry out a targeted project in phases. The first phase involved taking a simplified approach to gain information: their sales and trade marketing teams carried out PTC data collection with a small, regional client sample. Based on this first-hand input, numerous workshops were held with a multifunctional team to discuss the best pricing alternatives and arrive at a new, preliminary strategy.

After doing the first pricing overhaul and implementing changes that addressed serious price deviations, the second phase involved using more advanced tools and research to arrive at an optimal PTC in a step-by-step manner. Over the medium term, strategy implementation turned out to be a success and the client used the results to invest in new research, data collection systems and processes that improved pricing and revenue.

CASE 2: CONSIDERING CLIENT PERSPECTIVES IN REVENUE MANAGEMENT

The leadership of a multinational kitchen appliance company was well aware that effectively constructing its commercial policy would mean connecting the PTC to the sell-in conditions offered to its retailers. In other words, the retailers needed to be able to buy at a net sell-in price that would provide them with the desired margin when selling the product at the recommended price – thereby respecting the price positioning proposed and advertised by its marketing area.

When the project started, the company had designed a system with over ten variables for controlling product families at the client level in order to arrive at suitable discounts and margins for these clients (the retailers). However, field visits to many of these retailers revealed that the system was too complex to actually be implemented, and the clients weren't achieving their target discounts. As the system had too many variables, the company decided to adjust the set of variables but still ended up falling short on the full discounts that had been agreed to.

To arrive at a more implementable approach, we simplified the pricing system, which included client segmentation, and also recommended one to three KPIs to measure. While these didn't

necessarily provide the company with complete visibility, they were more than sufficient for incentivizing sales and manually controlling the pricing process. The company ran a successful pilot that led sales teams from across the organization to adopt the system and even request accelerated implementation.

CASE 3: BOOSTING SALES WITH AN EFFECTIVE PRICE

After investing efforts into incentives that would push the sales of a new product category, a multinational soft drink company found that it was unable to achieve the desired results. When this client requested our support to help fix pricing issues among their products, we discovered that the types of incentives given to most retailers were being considered as rebates instead of entering into the PTC calculation.

Together with the company, we reformulated the discounts and, using the “same money”, we were able to set an optimal price

for the products at the point of sale. These adjustments led sales to increase by over 30% in just three months.

KNOWLEDGE AS A BASIS

Apart from these three examples, one of the most common factors we’ve seen that result in unbalanced price architectures is a lack of knowledge regarding the mark-ups practiced by players along the value chain. As there is a mathematical relation between sell-in prices, discounts and the PTC, basing markups on the correct assumptions is key for guaranteeing that theoretical recommendations reflect reality. Having sufficiently considered the lay of the land, your internal stakeholders and players along your value chain, there is a final element needed to round off your revenue management strategy: the right setup for achieving equilibrium between sell-in and sell-out – as addressed in the next section.

The bottom line

Revenue management cannot be treated in isolation: your consumers, sales channels and players along the value chain are just as integral to creating an effective strategy as your company’s context and internal stakeholders. A robust revenue management strategy that reflects the reality in which you operate rests on:

- 1. Defining your price-to-consumer based on an outside-in rather than an inside-out perspective
- 2. Using the resources at hand to start gathering more and deeper information about your external context, including how competitors define their mark-ups
- 3. Creating simple KPIs to ensure your price-to-consumer stays aligned with sell-in conditions for your retailers

II. Movement across frontiers: balancing a sell-in & sell-out mindset

Another fundamental point to consider within the revenue management strategy has to do with movement across your “frontiers”: generating a healthy and growing flow of sales boosted by a balanced sell-in and sell-out strategy. In other words, beyond simply getting the sales force to push volume, the most high-performing revenue management strategies also take into account how well products are going to move off the shelf and into the carts of the end consumers.

We frequently encounter companies with processes in place that only consider half the story. Some focus their commercial policy on sell-in, leveraging the sales team to push volume along the value chain via on-invoice discount strategies. What they miss is **that having a more refined approach that considers elements such as execution at the point of sale (POS), the price-to-consumer (PTC), the sales mix and how well you’re controlling client stocks also goes a long way in improving revenue and results.**

At the end of the day, a commercial policy predominantly focused on sell-in can generate two main negative consequences for the business:

- 1. difficulty in executing a consistent PTC strategy across different channels and retailers – meaning products are unlikely to be correctly positioned vis-à-vis competitors on the shelves of your retailers and
- 2. dependence on receiving high discounts without proper conditionality, generating a downward spiral of low sell-in prices that can be hard to escape.

On the other hand, commercial policies predominantly dictated by a sell-out mentality drive volume along the value chain by activating conditional levers while assuring correct execution of the PTC strategy.

Companies that fail to balance sell-in with a broader sell-out perspective run a number of serious risks:

- large discrepancies in discounts granted between different channels or between clients within the same channel
- price conflicts between channels, and even regions
- the need to provide sales teams with large degrees of discount autonomy to correct distortions
- a vicious cycle of more discounts for the same volume

Conceptually speaking, companies need to balance both of these mindsets to succeed. While that may be self-evident, real-life experience shows that finding this balance can be tricky on account of some circumstantial factors:

- A high tendency among commercial areas to be **pre-conditioned for adopting a sell-in mindset**. One reason is that these areas commonly rely on remuneration models based on sell-in KPIs.
- **A lack of knowledge** within companies regarding their value chain. This involves their ability to properly read flows of cash and margins (both from the shelf to the invoice and from the invoice to the shelf) as well as to influence the value chain in order to implement a defined PTC.
- **End-of-the-month sales pressures** that are a reality for most companies. While balancing both the sell-in and sell-out mindsets doesn’t necessarily eliminate these monthly pressures, including conditionality in discounts based on a sell-out mindset is effective for maintaining coherence with the value chain.

Based on our past projects, we’ve identified four pillars that help companies overcome these circumstantial factors and find the desired balance.

1. Aligning the remuneration policy in the sales area: With a sell-in mindset deeply ingrained in the day-to-day reality of the sales team, working to achieve a balance starts by setting targets to nudge behavior in the right direction. In practice, this means adding the right incentives within the sales policy. For example, rather than merely focusing on dumping a large volume of products at their retailers’ front doors, the sales team can pursue incentives to make sure the stock moves off the shelf faster and reorders happen sooner.

It’s important not to get carried away with a large number of KPIs here, as this will make things hard to control, monitor and measure. Finding the ideal number of effective KPIs will depend on the context of your company: Less mature organizations can start with just a couple while more mature ones can move towards refining results with a greater number.

2. Getting to know the dynamics of your market: This entails gaining a better understanding of which products enjoy faster turnaround, which move slower, which margins you’re achieving

across the value chain, the average size of your stocks and end-consumer behavior.

Looking into these elements will take you beyond a narrow sell-in view and start understanding sell-out factors that actually move your products off the shelf. This will allow the sales force to drive more demand and sales – which ultimately comes back to boost sell-in over time, but without undermining the tenets of your commercial policy.

3. Including revenue management within the company’s governance and rituals, including S&OP: This may, for example, call for inverting the logic of incentives and sales targets – granting room for more discounts at the beginning of the month instead of the end. Stabilizing the sell-in of goods throughout the month will also benefit the stability of your S&OP by eliminating large fluctuations at certain times of the month.

4. Implementing practical and specific change management: This should target the sales team as well as the client – as the latter may be accustomed to certain dynamics and reluctant to change a long-established relationship. Establishing a greater sell-out mindset will require some finesse, such as when making changes to the way the sales team works, e.g. by implementing dynamic remuneration or when ensuring the client is disposed to working with you in a different way. For example, as information on market dynamics held by the client is key to refining the pricing strategy, you can incentivize the sharing of information by offering small discounts.

FINDING A SWEET SPOT TO NURTURE YOUR JUNGLE

After dedicating the time and care to develop a well-rounded revenue management strategy that considers context, stakeholders,

the value chain, sell-in and sell-out, it’s important to decide on the right degree of detail and investment for moving forward. Eager to get to work, we’ve seen companies rush to two extremes: overly simple or overly complex.

Those that want to hit the ground running – especially when starting from a low level of information – tend to oversimplify things by enforcing the same markup for everyone across the board, failing to differentiate among clients and contexts. At the same time, there often isn’t sufficient information to sustain this. Setting hard margins for certain categories runs the risk of overlooking important considerations such as:

- if the channel can absorb the increase
- if the price corresponds to competing products on the market
- if a certain product serves as a low-margin anchor that should be maintained for the overall strategy

On the other hand, companies we’ve worked with that already enjoy a larger basis of information often get starry-eyed and want to roll out a state-of-the-art pricing and commercial policy in line with global multinationals. Reaching this point, however, requires a series of internal upgrades to allow the organization to handle the added complexity, from systems to enabled professionals.

The point is, your business neither needs to go at it 100% nor be disappointed if you’re only advancing to 60%: getting to 100 may not be realistic (or necessary) at this moment while getting to 60 may already represent a huge leap forward. As such, finding the sweet spot that speaks to your reality, your business and your professionals will be essential in paving a frictionless path for the next big challenge: implementing the strategy you’ve designed.

The bottom line

Don’t fall into the trap of running half the revenue management race: while your sales force may be well trained to push volume, not placing enough focus on sell-out could be leading to an unsustainable revenue management strategy. To avoid price conflicts, discount discrepancies and distortions, while allowing your products to reach their full sales potential, it’s important to:

1. Set a remuneration policy for the sales team that also promotes sell-out
2. Have a good understanding for how your products move off the shelves and adjust based on quality information
3. Challenge conventional approaches and ideas about sales targets while practicing good change management among the sales team and clients

IMPLEMENTATION
IMPLEMENTING WITH CONFIDENCE AND FOR THE LONG TERM

I. Plant the strategy on fertile ground

With the jungle tamed and a robust revenue management strategy designed based on the considerations outlined above, how do you effectively implement this strategy and ensure it gets planted on fertile ground? Before diving in and applying elements of your newly designed revenue management model in practice, establishing a separate implementation strategy will be fundamental, one that specifically addresses two elements:

- the **speed** at which you will implement these changes
- the **scope** of the changes you plan to implement

Here, once again, guidance should be taken from the context in which the company is operating along with its business objectives. In our experience, four variables are key to finding the right implementation strategy:

1. The **relevance of your categories** vis-à-vis clients, which determines your bargaining power
2. The **market share** of a given category within the competitive landscape
3. The company’s **financial health**, e.g. cashflow and bottom-line targets
4. The company’s **risk appetite**

Based on the mix of these four variables, we recommend opting for one of two overall approaches when implementing a new revenue management model: a big-bang approach or a phased approach. Below we outline when each is more suitable along with a piloting sub-approach that can be used to test the waters within either.

i. Approach 1: Going big, going quick

As the name implies, taking a big-bang approach means implementing all (or at least most) elements of your new revenue management strategy at once and within the short term. Organizations enjoying the wherewithal to go all in often prefer this approach as it avoids the need to keep giving clients “bad news” of price changes time and again. This strategy also allows companies to capture the benefits of the new strategy more quickly.

At the same time, a big-bang approach will only work if a couple of prerequisites are met:

- Sufficient capacity among commercial teams to lead coordination among clients across all regions – i.e. by thoroughly training the entire commercial team before making adjustments
- The internal ability to make all necessary system adjustments at once, without needing to implement them

over time – i.e. by configuring and testing systems before implementing the new strategy

Additionally, the business should enjoy a sufficient degree of “adjustment power” in order to pull off a big-bang approach. Apart from the relevance of the category in the competitive landscape and your ability to leverage bargaining power to push through potential price increases among clients, financial health and risk aversion are two critical considerations.

If, for example, the company operates with a very tight cash flow, pricing strategy adjustments resulting in volume losses for a period of time could prove unsustainable. Increases across your price tables could generate significant impacts on the bottom line and put the financial viability of the company at risk – especially if the category is not a market leader or there are many alternatives. Even if the category is strong vis-à-vis competitors and clients,

and the business’ financial health is solid, a company whose culture has a low appetite for risk or nervous internal stakeholders may not be able to pursue such a bold approach.

Even if your business is in a position to take this leap, one of the main disadvantages of the big-bang approach is that it

ii. Approach 2: Taking things step by step

Phased implementation can offer companies more control and room for trial and error, allowing the business to react to moves made by competitors and clients. We should, however, emphasize that implementing in phases will not work if treated as an à la carte solution: a lack of consistency and discipline to ensure that the different phases are being executed and that adjustments are identified and implemented can lead to a broken and, ultimately, failed strategy. This likewise implies being resolute in addressing three interrelated workfronts: the commercial policy, the distributor network and internal governance.

Rather than a one-size-fits-all solution, there are different ways to organize and execute the phases in this approach, considering distinct products, regions and channels. Phasing the deployment of your new strategy doesn’t necessarily have to address all categories, clients and regions in exactly the same way. To name a few examples:

- For less challenging categories in which your company has a stronger competitive position, implementation can very well be done nationwide.
- For challenging categories with more competition, less market share, regional variation etc., strategy deployment may need to be adjusted region by region.
- For categories facing a certain challenge in a specific channel, the first phase of implementation can focus efforts on fixing the given problem before subsequently addressing other categories.

The point here is that the implementation strategy may need to be adjusted in line with specific characteristics of different categories, regions and channels – some could present acute problems that require immediate attention while others may benefit from longer-term adjustments, e.g. to withstand the shock of a sudden price increase. Again, the scope and speed of the implementation strategy

doesn’t allow the company to test and adjust. As it’s impossible to predict all elasticities and the impacts of price and condition adjustments among clients and final customers, one option is testing in controlled regions or with specific clients so that the strategy can be adjusted to reality with a lower risk of unpredicted negative impacts.

applied per category should reflect the competitive environment and your relative positioning in each region, channel and client.

Moreover, as opposed to adjusting prices all at once and once and for all, increases can be carried out by percentage points over a set period of time. Defining these pricing adjustments can be oriented by:

- the maximum permissible price increase per product line
- the maximum permissible price increase per client
- the minimum permissible margin increase for the year

While not as potentially significant as in the previous approach, different phases of this implementation approach can still lead to drops in volume that will require level heads and patience among the leadership. As this approach provides for greater control and room for adjusting, it’s better suited for companies with less relevant categories, stiffer competition and greater pressure on their bottom lines.

A medium-sized FMCG client in the segment of hygiene and cosmetics opted for a phased implementation approach when faced with a specific pricing dilemma. With cash-&-carry prices undercutting those set for their distributors and the indirect channel, the client needed to implement an increase of 20-30% among its cash-&-carry. As this category represented a high percentage volume for this client, imposing a 20% price increase all at once risked generating drops in volume that could cause the business to go bankrupt considering the cashflow situation. The solution, then, was to implement these increases in waves of 5 percentage points, resolving the issue in a timespan of two years.

Finally, there is also a “sub-approach” that can serve as a tool to help companies decide whether a big-bang or a phased approach is more appropriate for their business.

iii. Sub-approach: testing local waters

To be clear, this sub-approach of piloting elements of a new revenue management strategy is not the same thing as implementing them in phases, nor is it a “lite” version of the phased approach. On the contrary, piloting elements of a pricing strategy or commercial policy is there to allow for controlled testing among a specific region or client – and it may be just as difficult as a full-scale rollout. Piloting these elements can subsequently be leveraged in either the big-bang or the phased approach outlined above.

We recommend utilizing a pilot for implementing the strategy in distinct competitive scenarios, especially when dealing with a large market characterized by different regional contexts (be it a country or an economic zone). A pilot could be pursued, for example, when testing the effectiveness of a price-to-consumer strategy in a more competitive region to gain the needed assurance for applying the strategy in less competitive regions. While a pilot could be used to determine whether it’s better to pursue big-bang or phased implementation, pilots can also be

utilized after starting one of the two implementation approaches to address specific challenges.

A pilot can be used, for example, whenever the business has a low level of confidence regarding the historical market data on which the strategy was based for a specific region (e.g. prices-to-consumer or competitor prices) – casting doubt on whether the elasticity of prices and volume are accurate for that region. In this scenario, it’s advisable to “test” the impact of a price adjustment on consumer behavior and provide space for adjusting, if needed, before rolling out the update.

Suited	Not suited
Distinct markets	Uniform markets
Need for a barometer	Testing entire strategy
Multi-regional contexts	“Lite” phased approach
Piloting effectiveness	Trying before buying in

The bottom line

Setting implementation up for success is more than just an afterthought. Just as in the design phase, building a suitable implementation strategy that reflects your internal and external reality is critical. The best-suited approach will depend on your category relevance, market share, financial health and risk appetite. These factors will decide which of two broad paths implementation should take:

1. A big-bang approach for companies in a strong financial, competitive and risk position, allowing adjustments to be all-encompassing and one-off
2. A phased approach for companies starting from a less advantageous point or with category realities that may require adjustments to be made along the way

II. Ensuring thoroughness and perpetuity

With implementation now being carried out either all at once or in waves, it will likewise be essential to address a few elements that will ensure your new strategy is being implemented correctly and that its effects will stick around for the long term:

i. Active **change management** to secure the involvement and ensure peace of mind among the entire organization throughout the journey

i. Managing change from the outset

Any new revenue management strategy will only really take root and bear fruit if those involved within the organization are convinced about the new approach and brought on board when implementing the changes – beyond the key stakeholders that took part in the previous phase. Ensuring broader involvement and connection applies in the strategy design phase as well as in the implementation phase. As the transformation process was designed with a collaborative mindset, it must also be rolled out in collaboration with professionals in the organization. As such, introducing critical organizational decisions ranging from the strategic (annual sales goals, go-to-market objectives, the sales culture etc.) to the tactical (trade marketing investments, regional price adjustments and promotions) demands that attention is turned to change management along the entire journey.

As shifts in your revenue management strategy can raise sensitive and/or politically contentious issues, actively taking account of people and the company’s culture throughout the implementation process is an absolute must. Implementing the new strategy may, for example, require restructuring the company’s sales culture, placing restrictions on long-term clients or accepting a diminished brand position to sustain volume and growth. None of these will happen overnight and they will likewise represent profound and difficult transitions for many professionals within (and even outside of) the organization— which is where change management can help.

Three change management principles can be utilized to ensure such changes are effectively implemented and enforced:

- ii. **Governance** with a well-structured set of rituals addressing and reviewing the strategy at fixed intervals
- iii. **Clear pricing** policies and support systems to provide discipline and control over the use of off-invoice investments

- CEO sponsorship and stakeholder engagement
- Collaboration among the different areas involved, specifically commercial, finance and marketing
- Adherence to reality and risk acceptance

These three enablers are foundational during the design as well as implementation phases, allowing for decisions to effectively be carried out while ensuring everyone understands, accepts and is executing the strategy behind them.

GETTING SPONSORSHIP FROM THE CEO AND ENGAGING STAKEHOLDERS

Let’s think back to the example of our global food company that was dealing with cross-channel discrepancies due to its commercial policy, with the client’s small cash-&-carry outlets selling key products for up to 35% less than its key retail accounts.

After imposing the 20% price increase, the company’s CEO expected that their cash-&-carry clients would refuse to buy the product altogether – with serious short-term implications for the bottom line. When this prediction proved true, instead of allowing panic to ensue, the CEO actively communicated the decision to increase prices along with a sound rationale and deployed the company-wide communication strategy that minimized reactions when the financial consequences hit – ensuring unity behind the long-term needs of the business.

The importance of this should not be underestimated. Tough decisions made for the sake of achieving long-term objectives can lead to conflicts of interest between areas. Establishing executive-level sponsorship and a consistent communication plan will allow otherwise conflicting areas to come together to problem-solve and collaborate.

PROMOTING COLLABORATION

After accepting the year-long financial impacts this pricing adjustment would bring, the company began planning how to deal with impacts across all areas during the strategy implementation phase, which would require them to work together for a mutual goal. Along the rocky road ahead, targets for the sales teams were adjusted to prevent competition for accounts. Bonuses (rather than penalties) were also granted when the new price was successfully implemented in the market. These measures required cooperation from the finance area – to reduce volume expectations while still ensuring rewards. Finally, to help mitigate sales losses, the marketing area created new promotions and relied on the sales teams to push them with clients.

ii. Getting governance right

With an active change management plan in place ensuring sponsorship from the CEO, engagement among stakeholders, collaboration between areas and an objective view of potential risks, the next step involves setting the organizational foundations to ensure this project will stick in the long term. When addressing governance, we are specifically referring to

ADHERE TO REALITY, ACCEPT NECESSARY RISKS

Adjusting your commercial policy will always imply risk. Facing down these risks, however, means accepting and adhering to the reality at hand — which brought about the need for change in the first place. It’s important to fully understand how a decision will affect the entire organization when implementing it and clearly communicate the strategy as well as the progress being made along the way.

When the solid implementation plan is being rolled out, it’s even more imperative to stay the course and not give up at the first sign of adversity. In the case of the global food company cited here, actively pursuing change management allowed the client to bring peace of mind and a sense of purpose internally as well as successfully reengage the cash-&-carry outlets – in this case by using promotional opportunities. After just six months, these outlets began purchasing the company’s products again – with the targeted price increase – while the organization as a whole could celebrate the effort and sacrifice they had put in.



Roles and responsibilities

Roles and responsibilities
Who’s responsible for ensuring each of the routines needed to sustain the strategy?



Rituals

How should the routines be structured to ensure the strategy is maintained?



Systems

What support will be necessary for the routines to perform with the best possible quality and reliability?

One common pitfall we have seen time and again is when leadership adopts a mentality of “we’ve done it and now we can forget about it”. Revenue management is a living organism and it needs constant review and adjustment in order to effectively serve the company’s overall strategy. This is not a strategy to be implemented and simply left to age for 10 years or more.

The mindset of constantly reacting to change must be a concerted effort. Revenue management strategies serve a variety of areas, beyond just pricing. While the latter plans and supervises the designed policies as well as coordinates different areas to define prices and the commercial policy, other areas need to be involved and incorporated in the strategy and the governance as well:

- **Sales:** execution with clients and control over off-invoice investments
- **Trade marketing:** trade investments and joint business plans with principle clients
- **Finance:** control over financial results, portfolio profitability and use of budget and contracts
- **Marketing:** pricing and brand strategy
- **Pricing:** Planning and control to coordinate elements of marketing, execution, brand strategy and financial risks while safeguarding prices

With all of these areas involved, establishing a governance model to orchestrate processes, ensure coherence and guide the company along a common path is essential. This model is important so that

iii. Keeping things on track

While the governance model and rituals described above are essential for quickly responding to external movements, alignment likewise needs to be maintained internally among stakeholders to keep consistency and sustain the overall strategy. We often see elements of a new revenue management strategy easily get undermined due to a lack of systematic oversight and enforcement.

This particularly applies to the use of off-invoice investments, which are often distorted in practice when, for example, the commercial team goes out and negotiates prices and discounts that are not in accordance with the defined strategy. Setting up and calibrating an IT system that controls pricing will ensure

all decisions related to revenue management are effectively applied with full alignment among internal stakeholders.

The governance model should consider two aspects:

- **KPIs:** to capture and analyze granular information from the adjustments made and impacts in volume and competitor behavior
- **Rituals:** to guarantee that these analyses are provided for the areas involved (i.e. commercial, finance and marketing) and turned into action plans and adjustments for reducing negative impacts and reacting to external changes

These periodic rituals can address a number of issues:

- The pricing strategy
- Margins along the value chain
- Discounts and budget levels for each channel
- Tactical uses of the budget
- Policy execution monitoring

While external support may be required for this initial setup, the rituals defined here should be directly aligned with the strategy and fixed at regular intervals to ensure autonomy and consistency moving forward. As pricing is in a constant state of flux due to movements in the market and among competitors, having these periodic rituals in place that bring together different stakeholders to assess and develop appropriate responses is key.

everyone across the company is on the same page, pulling in the same direction and strictly adhering to the elements of the new pricing strategy and commercial policy.

An effective pricing system coordinates and guides professionals in the use of the new policies while also automatically blocking actions that deviate from the strategy. While this can be designed either internally or contracted from a third party, it must fully incorporate, update and enforce the different elements of the commercial policy and pricing strategy.

This likewise involves defining approval hierarchies to allow for the needed degree of price and discount flexibility when

dealing with real-life negotiations and changing demands. As an example, if a pricing system grants local sales personnel wiggle room of up to 5%, regional managers can approve price adjustments of up to 10%, directors can authorize variations of up to 15% and anything beyond that would need approval directly from the CEO. As relying only on a system to dictate price levels would be impractical, the approval hierarchy allows for needed price and investment adjustments to be made with authorization from leaders across the organization in stricter observance of the strategy.

Failing to address this final element of implementation by setting up the corresponding control system and approval hierarchy will leave your sales and trade marketing professionals prone to offering prices or discounts out of line with the strategy. We frequently see this occur in relation to off-invoice discounts, as sales or trade marketing professionals seek to make up for margin losses, lower the prices for promotions or offset costs that have been incurred by the client. This is problematic as discounts are offered on a case-by-case basis for some clients and not for others, throwing off the entire PTC equilibrium.

Without systematically controlling what’s been designed, things can quickly get off track and the strategy could falter altogether. Once you’ve designed your deployment, implemented the deployment and set up the support structures, pricing control systems will serve as the binding element that ensures perpetuity.

Apart from this control function, systems are also needed to ensure long-term viability by feeding strategy adjustments with critical data and market insights. We recommend introducing dashboards and reports that monitor factors such as sell-out prices (your own and those of competitors) by channel and region. This is important, for example, when doing research on pricing to map the market and create sell-out reports – which serve as a basis for any pricing strategy. Alternatively, POS research can be conducted by your sales team within their normal routines and consolidated into a corresponding dashboard.

In sum, dashboards and business intelligence from reports will provide the visibility needed to maintain the strategy and can keep an eye on competitors. They show you how the company is doing vis-à-vis the overall strategy as well as in relation to the competition.

The bottom line

Achieving an optimal design and implementation strategy for your new revenue management model is not the end of the story. Despite the best preparation efforts, bumps are inevitable on the road ahead. This makes it crucial to put structures into place that ensure the strategy is implemented as intended and that your professionals are set up to accept and maintain the envisioned changes into the future. Three elements are needed for this:

1. Change management that ensures people are on board and kept on the right track
2. Governance structures that are ready to deal with hiccups and adjust along the way
3. Support systems that guarantee your pricing strategies are followed and effective

CONCLUSION

The lucrative revenue road ahead

Our aim in this report was to move beyond a theoretical, textbook understanding of designing and implementing revenue management strategies. One of the key takeaways from our discussion is that serious and profound consideration of your business’ given reality as well as the individual human beings who collectively bring the business to life are just as important as the technical elements of the strategy.

The design of any revenue management strategy should always take these elements into account with regard to the **1)** business context, **2)** the company’s internal stakeholders, **3)** external supply chain dynamics and **4)** the right sell-in/sell-

out mindset. And that’s only half the battle: Success also rests on a well-designed implementation strategy along with a plan for executing it – a point where many consultancy textbooks stop. Implementation needs to go beyond a one-off strategy rollout and recognize that pricing is a living organism in constant flux. Long-term success and viability rely on having the right governance, rituals, processes and systems in place that allow your organization to quickly react to changes in the market and ensure that the strategy is being implemented correctly.

Taken together, this will pave the way for your business to enjoy a lucrative revenue road ahead that delivers long-term results.

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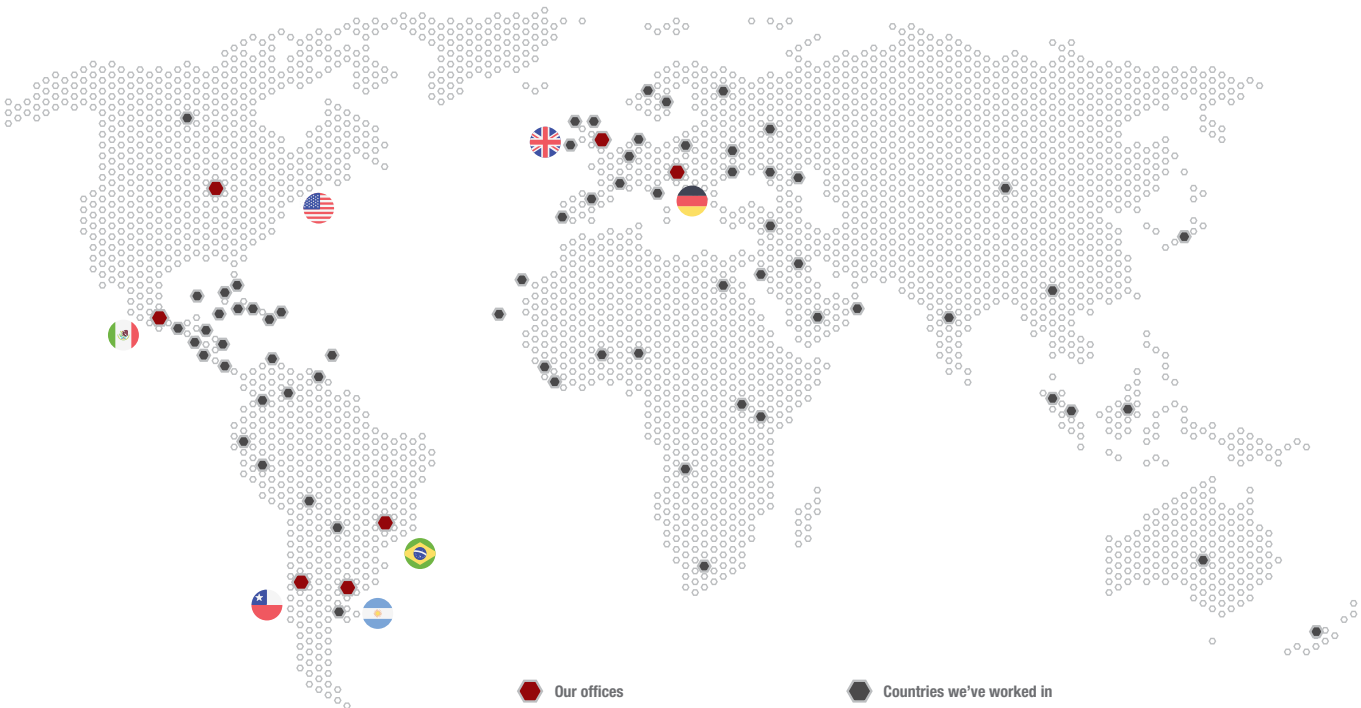


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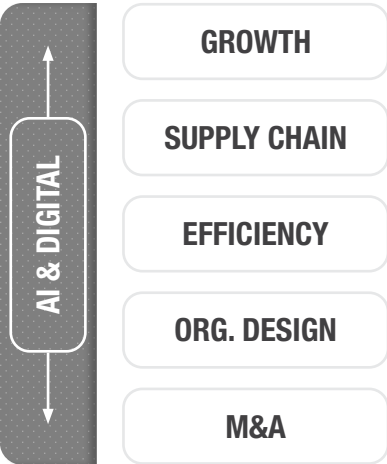
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