



# Revenue growth management

Finding sustainable growth in the new CPG landscape

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**WHEN ASSESSING THE CURRENT STATE OF THE RETAIL SPACE**, the U.S. finds itself in an interesting moment. After a period of single-digit growth, demand for consumer packaged goods (CPG) categories became extremely strong following a post-pandemic consumption boost. Though this has leveled off in many categories, a profound restructuring of the supply, retail and pricing/promotion landscape has left CPG companies facing a new business reality that demands a different way of approaching revenue as a tool for growth.

At times, revenue growth management can be perceived as a strategy for merely increasing

revenue/top-line results. What many business leaders overlook, however, is that this strategy can be a vital ally for navigating one of the key challenges facing CPG companies: achieving real growth that translates into sustainable volume and profitability.

Rather than just increasing prices, revenue growth management can help businesses consider all the different levers available for expanding revenue and profit. Unlocking the benefits of this requires a holistic approach built on three pillars: 1) creating an integrated strategy across price, promotion and assortment, 2) becoming more agile in planning, budgeting and forecasting and 3) using real-time data and analytics for continuous adjustments.

### Growing pains and the need for a new approach



Many CPG companies are still finding it **difficult to meet consumer demand** due to national and global supply chain constraints.



While expectations for sales growth are strong, the supply challenges impacting product availability mean that many companies are having **difficulty meeting their sales targets**.



Over the last few years, many companies have relied heavily on price increases to grow/maintain revenue and profit – yet now they’re finding it **increasingly difficult to rely on price increases to boost revenue and profit**.



After a period of reduced promotion spend, things are starting to “**return to higher spend**” and it may be unclear how to adjust.



Post-Covid, everyday-low-price (EDLP) and hybrid models are more prevalent – yet, many companies **lack clarity on how to align EDLP and high-low promotions** with their RGM strategies.



Pricing, promotion and demand (as well as supply) uncertainty are making it **harder for companies to plan for the future**.

## REVENUE GROWTH MANAGEMENT (RGM) CAN BE A TOOL TO ENABLE SUSTAINED PROFITABILITY

– boosting unit volume in addition to top and bottom-line results. This involves a rather complex interplay of different elements.



In our experience, striking the right balance between these factors means acting across the following three pillars:

**Think holistically:** Build an integrated price, promotion and assortment strategy by product and channel that is closely linked to your overall go-to-market approach. Though many companies may be aware of this option, it is often not put into practice.

Rather than looking at one lever at a time, the three levers should be planned and brought together under the banner of revenue growth management. This can go a long way in making the business less reliant on a single lever (such as price) and better positioned to sustain profitability in the face of changing market dynamics.

**Act agilely:** Plan, budget and forecast on a more agile basis using shorter timeframes through more frequent decision-making cycles – planning based

on annual or semi-annual promotion calendars is not enough. While planning can still be done further out, companies need to keep a constant eye on market dynamics and have processes in place that are ready to shift direction when needed. This is best supported by a governance model that facilitates ongoing decisions.

**Adjust frequently:** Operate a continuous-adjustment approach using real-time analytics that incorporates supply and demand visibility, including price/promotion elasticities and simulation models. The accelerated and more volatile dynamics characterizing the marketplace (even beyond supply chain considerations) are here to stay, favoring those capable of adjusting fast.

Businesses now need to react more quickly when things change – be it on the side of competitors or prices – by skillfully activating one (or all) of the three levers as appropriate.



## CASE STUDY

The following case study involving a leading CPG company in the U.S. illustrates how this can work in practice.

### A STRATEGY FOR GROWING FROM COAST TO COAST

A manufacturing company in the household products category was looking to accelerate growth among its retailers and wholesalers. To effectively do so, the company needed to further develop its revenue growth management capabilities in response to COGS increases, rising transportation costs, competitive price movements and inflation. As many competitors were taking or looking to take price, the company needed to optimize its pricing, promotion and assortment strategy – i.e. RGM – as a mechanism to help achieve its desired growth.

To place the business on a healthy and sustainable growth path, Integration helped develop a revenue growth management strategy addressing the following questions:

- What should the portfolio be in each category and channel?
- Which base and promoted prices should be set for the portfolio across each category and channel?
- How great would the impacts of the suggested changes be on volume, revenue and profit?
- What gaps could be identified between existing trade terms policies and leading practices?

**Thinking holistically:** With retailers starting to push back on price increases, the client needed to reconsider how to use their price, promotion and assortment levers. The project set out a new paradigm for managing revenue at the company: look at all three levers together as one rather than isolated from one another.

**Acting agilely:** Through a series of workshops, new instances were set up in the company's governance model for making pricing, promotion and assortment decisions across functions, supported by newly created elasticity models and a simulation tool.

**Adjusting frequently:** Data collection and analytics were used as a basis for enabling agile pricing, promotion and assortment decisions. This leveraged price elasticities and the simulation model that considered COVID-related impacts, the results of previous price increases and what-if price/promotion scenarios for defining new price points and promotion strategies/tactics.

Apart from defining discontinuations and the necessary portfolio additions/adjustments, the company returned to a sustainable growth path with a new pricing strategy, an approach to promotions and a bracket pricing trade terms policy.

- Everyday price decisions were reached across 6 channels for items representing around 80% of the business.
- The data analysis set out recommendations including everyday price increases on nearly 30% of items and channels, representing 70% of revenue.

The pricing adjustments set by the new RGM strategy are projected to reduce unit volume by 7% while concurrently improving revenue and profit by over 3%.

**MARKET VOLATILITY DOESN'T NEED TO BE AN OBSTACLE IN THE WAY OF STEADY AND SUSTAINABLE GROWTH.**

Despite widespread uncertainty about how to manage the new post-pandemic business reality, revenue growth management offers a clear solution beyond price increases. We advise business leaders to take this seriously for a few reasons:

- At some point things will settle down, especially inflation. Promotion spending is already rebounding, and we are seeing companies trying to figure out how to use trade promotion to offset the impact of price increases.
- In many cases, a price-centered approach can boost revenue, but it doesn't always grow the business or add volume. Though an attractive short-term solution, failing to do this right can often lead to a drop in market share and volume.
- An overreliance on price/promotion tends to ignore innovation and assortment, to the long-term detriment of business viability and differentiation.

Moving forward, executives really need to think about how to grow their businesses in a healthy and sustainable manner. As we've seen, a well-defined revenue growth management approach offers attractive returns for those willing to make the investment:

- The ability to increase revenue and profit while improving, maintaining or minimizing the impact on unit volume.
- Achieving greater visibility into the impacts of everyday pricing and promotion, allowing for more and better-informed decision-making.
- More agility to react based on what-if scenarios, providing critical stability in a volatile market landscape.



## Our experts

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**ALEJANDRO VELEZ-MEJIA**  
Sr Manager  
avelez@integrationconsulting.com



**JÚLIA FUKUSHIMA**  
Sr Manager  
jfukushima@integrationconsulting.com



**GUIDO SOLARI**  
Partner  
gsolari@integrationconsulting.com



**LUIS BERNAL**  
Director  
lbernal@integrationconsulting.com



**HUGO RIBEIRO DE ALMEIDA**  
Partner  
halmeida@integrationconsulting.com



**MARÍLIA JOSÉ**  
Sr Director  
mjose@integrationconsulting.com



**IAN MATIUSSI**  
Sr Director  
imatiussi@integrationconsulting.com



**QUENTIN GIRARD**  
Partner  
qgirard@integrationconsulting.com



**JORGE GOMES**  
Sr Director  
jgomes@integrationconsulting.com



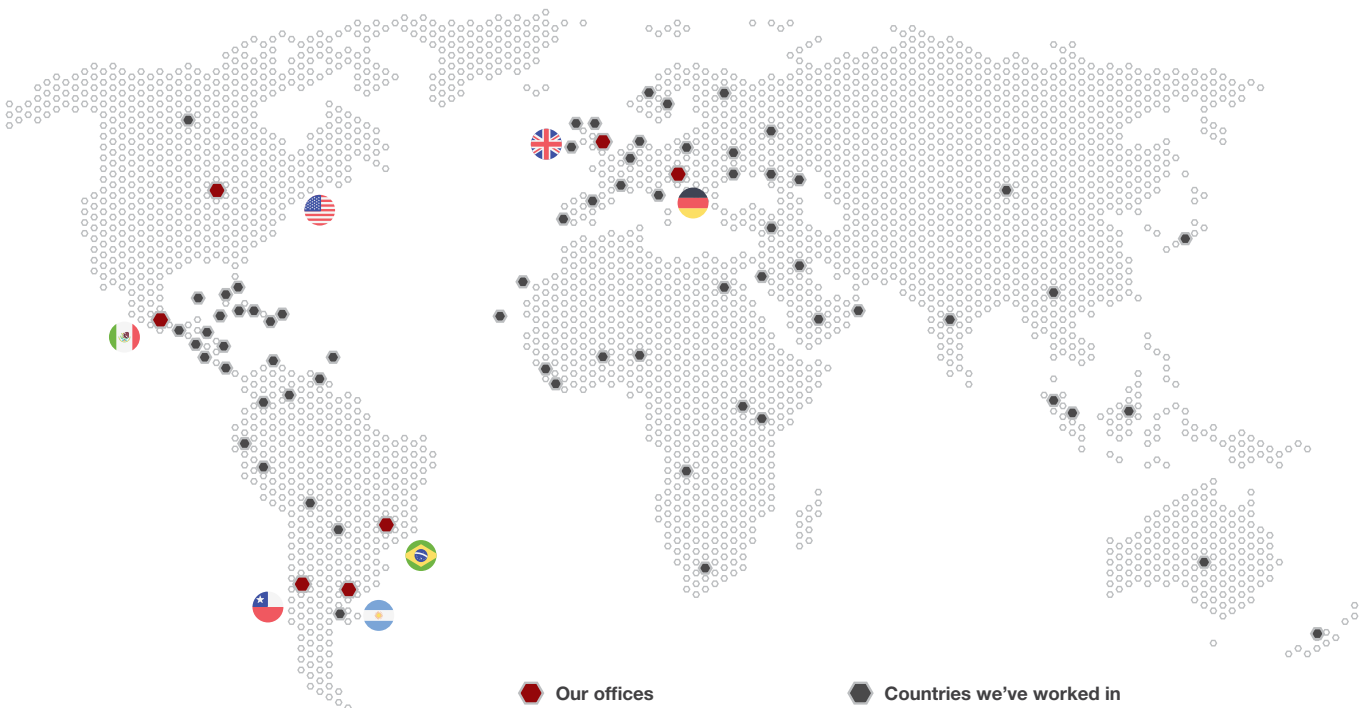
**VIRGÍNIA RUGGIERO**  
Sr Manager  
vruggiero@integrationconsulting.com

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**Buenos Aires**

olga cossettini 771  
piso 3 puerto madero  
buenos aires argentina c1107cda  
tel 54 11 | 5352 3784

**Chicago**

311 south wacker drive  
suite 6125  
chicago IL 60606 USA  
tel 1 872 | 250 9671

**London**

53-64 chancery house  
chancery lane  
london uk WC2A 1QS  
tel 44 20 | 3606 0835

**Mexico City**

av paseo de la reforma 115 piso 16  
col. lomas de chapultepec m. hidalgo  
ciudad de méxico c.p. 11000  
tel 52 55 | 5520 6300

**Munich**

design offices atlas  
rosenheimerstraße 143C  
81671 münchen germany  
tel 49 89 | 5521 39690

**Santiago**

isidora goyenechea 3000  
oficina 2408 las condes  
santiago chile 6760215  
tel 56 2 | 2405 3248

**São Paulo**

r jerônimo da veiga 45  
5°, 11° e 15° andares itaim bibi  
são paulo SP brasil 04536 000  
tel 55 11 | 3078 1144



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