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Revenue growth management: Reinforcing competitive differentiation

Prioritizing RGM investments to build sustainable advantages

A growing desire to expand capabilities

Revenue management continues to be a high priority area of focus across many of today's consumer-facing organizations. For example, over the past two years, pricing and revenue growth management (RGM) have ranked in the top three most discussed topics across management teams presenting at the annual CAGNY Conference[1]. This emphasis suggest an ongoing desire to expand differentiated RGM capabilities across skilled personnel, effective processes, and innovative new technology. As a result, many organizations find themselves in a resources race—both externally and internally—as they look to prioritize the RGM areas that seem most likely to drive sustainable top-line growth. Recently, this has most often resulted in a deep focus on pricing, but as these gains lapse, there has been a shift towards areas such as promotions, assortment, trade terms, and price pack architecture. This shift underscores a need to carefully consider the prioritization of RGM efforts, grounded in an understanding of competitive differentiation and resilience against counteracting forces from competitors and customers. Grasping these key issues at play can help organizations focus on their highest-value resource investments, guide decisions around the most appropriate RGM service model, and lead to more sustainable long-term growth opportunities.

[1] Deloitte. 2024 & 2023 CAGNY Conference Highlights

Revenue Growth Management Levers

1	2	3	4	5
Pricing	Promotions	Trade Terms	Assortment & Mix	Price Pack Architecture

Prioritization approach

Traditionally, revenue growth management has focused on five topics: pricing, promotions, assortment/mix, trade terms, and price pack architecture. Each of these topics requires a unique set of analytics, insights, and process integration points (e.g., sales planning or marketing) to drive outcomes. Each is also subject to unique timeframes and "execution windows" during which retailers can make in-store changes. While pricing capabilities have sharpened due to pandemic-related cost pressures, forward-looking organizations are expected to increasingly leverage other areas to achieve RGM results. For example, only 2% of companies are relying on price to drive growth this year[2].

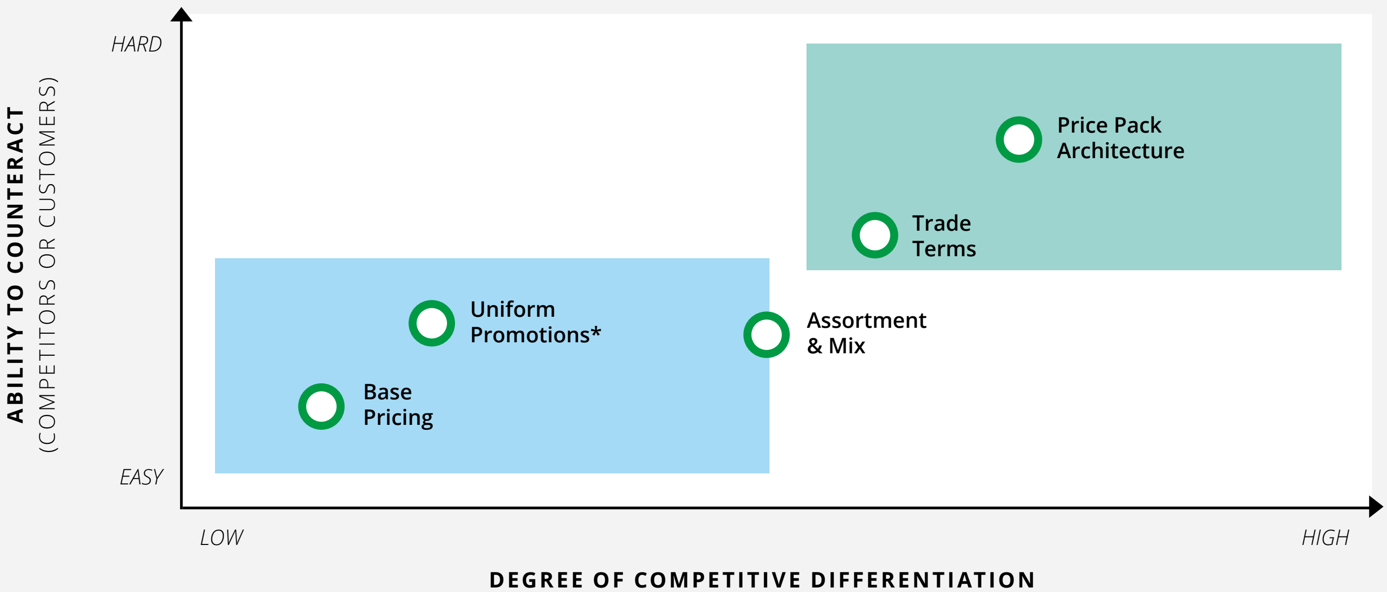
This shift demands prioritization, tailored to each organization's unique starting point. It is important to view this prioritization through the lens of competitive differentiation and the ability to limit counteracting forces. Each of the five areas of RGM can be understood through this perspective, helping guide investments and focus. As an example, uniform promotional optimization can increase the return on internal trade investment. However, since most companies measure success in a similar manner and competitors can quickly respond, it may not yield lasting competitive differentiation. Promotional optimization is still a worthy goal to limit wasteful spending and can lead to significant financial benefits, but it may be unlikely to drive true competitive differentiation.

In the chart below, you can examine how each of the five primary RGM areas rate in their ability to create differentiation and limit competitive reactions. This frame can be useful as organizations allocate scarce resources to building new capabilities.

The approach to prioritization also influences how organizations can determine the right revenue growth management "service model" for each area. Returning to the example of uniform promotions, automating or outsourcing parts of this process can help maximize returns on resources invested. Tasks such as planning, execution and reconciliation, post-event analytics, and reporting are generally standardized and highly automatable. An efficient service model allows for fast processing speed and optimized spend but does not over-allocate highly-valuable RGM talent in areas where differentiation may be more difficult.

[2] Deloitte. 2024 Consumer Products Industry Outlook: As price-taking runs its course, the industry may turn to "profitable volume"

RGM PRIORITIZATION MATRIX



* Includes shelf-based promotions or digital promotions available to all shoppers

Increasing differentiation

While this initial view may provide a useful starting point for RGM prioritization, there are also opportunities to strengthen differentiation across each topic.

PRICING: Pricing capabilities have received considerable attention, yet they still hold potential for differentiation. For example, this could include the ability to generate more localized, granular pricing recommendations at a channel, region, or store level. This could manifest in terms of more detailed MSRPs or, as a more advanced option, through an ability to dynamically sync price suggestions to retailers' store zones with custom price planning hierarchies for each retailer. The second avenue for differentiation lies in the capacity to understand and capture consumer value accurately. This is especially pertinent when launching new innovation, where an organization's ability to gauge value delivered and consumer willingness to pay results in optimized pricing outcomes. Such precision in pricing considers the product's unique attributes and targets the audience that values those attributes the most.

PROMOTION: While baseline promotional effectiveness remains important to limit waste and maximize gross-to-net margins, many of the ROI analytics are now relatively standardized. Creating differentiation in the market now requires focusing resources in areas such as personalization or segment-based promotions. This is increasingly possible in a world where promotions can be pushed to mobile wallets for in-store redemption. Return on investment thus becomes less about one-time lift and more about long-term, longitudinal behavior of the shopper—with the ability to suppress or as needed.

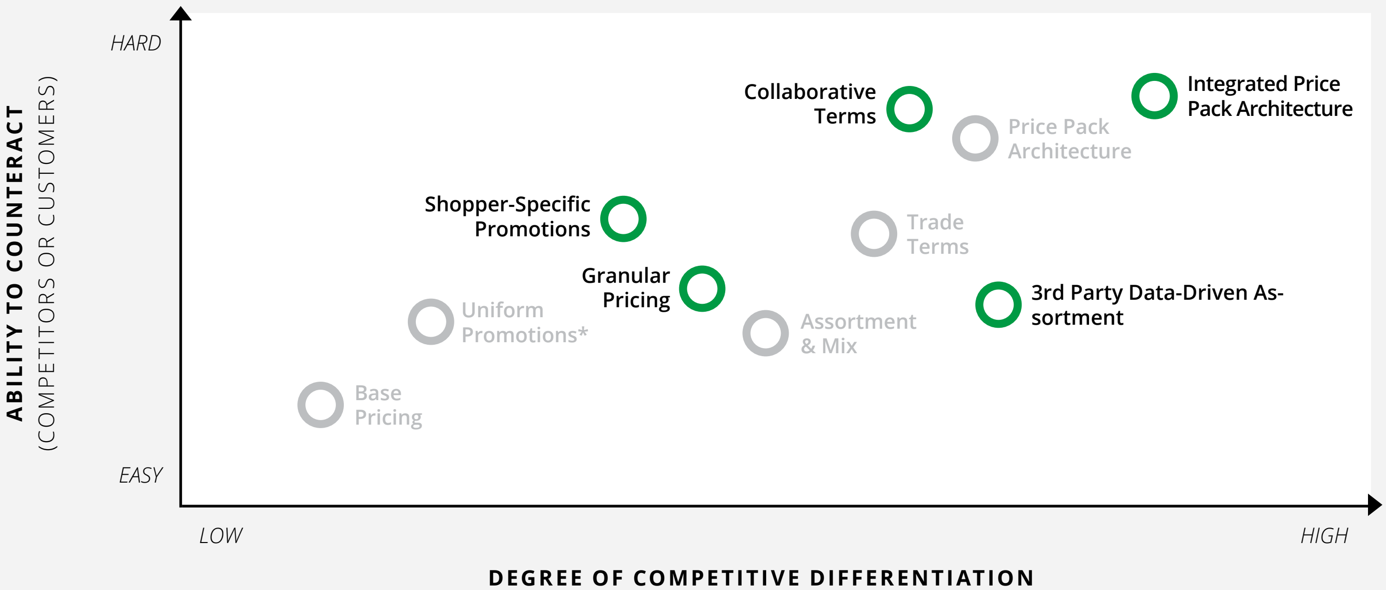
Another area of promotional differentiation is the ability to view this spend alongside areas such as digital spend and retail media. Organizations with an ability to work with partners (e.g., retailers, agencies, etc.) to determine appropriate trade-offs between in-store, digital, personalized discounts vs. retail media advertising will be able maximize internal resources as well as overall market outcomes.

ASSORTMENT: Revenue growth management strategies for assortment and mix have advanced with better access to customer data. Consumer organizations are rapidly using this data to inform SKU allocation, product velocities, and product placement strategies. As these data-driven approaches become the norm, further differentiation may come from integrating additional, external data sources. For example, this can include complementing internal and customer data with comprehensive information on the shopper. Insights such as demographics, habits, preferences, and more can enrich overall recommendations as well as allow for assortments localized for specificities of a particular neighborhood or shopper cluster.

TRADE TERMS: Trade terms can be a source of more sustainable competitive differentiation given the ability to tailor outcomes to specific company objectives. Rather than viewing trade terms as a rigid zero-sum scenario, manufacturers are increasingly treating these negotiations as a platform for fostering mutual benefits through collaboration. Such collaboration might encompass data and insights exchange to improve consumer knowledge, order efficiency, forecasting, planning, and more. It also extends to creating shared value through category growth outcomes as well as considering a holistic view of spending (i.e., trade, media, etc.) as retailers become both buyers and sellers of media. The bespoke nature of trade terms means that there is no universal template, which provides savvy organizations the opportunity to use this aspect of RGM strategically to create a distinct market position.

PRICE PACK ARCHITECTURE (PPA): With the recent upswing in consumer prices, consumer-facing organizations are poised to confront growing demands to deliver value, both from shoppers and public commentators. Enhanced PPA capabilities are instrumental for understanding varied consumer occasions and crafting appropriate packaging and price points across the value spectrum. Differentiation in PPA can be created through a strong integration of RGM and adjacent processes. This includes a close link to areas and functions such as shopper insights, marketing, and competitive intelligence. The strategic combination of these inputs enables RGM teams to offer price points that resonate well with specific target segments, convey a compelling value proposition on the shelf, and maintain a competitive edge over available alternatives.

POTENTIAL RGM SHIFTS



Organization-specific considerations

The framework established above can be enhanced by considering unique, organization-specific strengths, which can help further guide RGM priorities and reinforce competitive positions the market. Examples include:

CATEGORY CAPTAINSHIP: Organizations with strong category leadership are well-positioned to benefit from prioritizing trade terms. Their strong position with retailers affords them the leverage to foster deeper collaborative relationships, facilitating the design of mutually beneficial growth strategies. These companies can use their influence to negotiate terms closely aligned with their strategic objectives, and disproportionately allocating RGM resources to this topic can further strengthen competitive advantages.

INNOVATION AND SPEED TO MARKET: Organizations with robust and rapid innovation capabilities may have the ability to benefit greatly from prioritization of PPA. These capabilities are crucial for ensuring that new products are priced accurately upon launch, effectively targeting the appropriate consumer segments and purchase occasions. A well-executed PPA strategy, particularly when integrated with the aforementioned functional processes, can serve to reinforce differentiation via innovation.

DEMAND GENERATION AND BRAND BUILDING: Consumer-facing organizations that excel in brand building stand to gain by emphasizing sophisticated pricing and promotion strategies. Advanced pricing capabilities can help these organizations capitalize on the strength of their brands, securing full value through precise price points. Furthermore, this strategic focus helps prevent value dilution through indiscriminate, broad-based promotions, which fail to reflect the premium nature of the brand.

Getting started

Given the increasing focus on revenue growth management, the prioritization of capability development and ad resource investment will continue to proliferate the market. There are three steps leaders can take to ensure that priorities are well-aligned internally and against competitive forces.

DEFINE: First, it is important for organizations to consider their unique competitive strengths and map these against the five major areas of RGM. This will ensure companies are not building capabilities based on perceived importance or a fear of falling behind, but rather based on a vision of how to best differentiate in the market.

ENHANCE: As a vision of differentiation becomes clear, organizations can begin to define how they will enhance priority areas of RGM. This starts with an understanding of current capabilities and a comparison against the desired end states. Such a comparison will help teams develop a robust roadmap of activities, which can outline the talent, data, insights, technology, and more require to maximize competitive outcomes.

DELIVER: Once prioritized, teams can then determine the appropriate service model for each RGM area. For example, an organization that is likely to benefit most from PPA or trade terms can focus high-value resources in these areas. In contrast, foundational areas such as baseline pricing and conventional promotion effectiveness might be more efficiently managed through automation or outsourcing. This strategic allocation allows teams to access the necessary inputs without expending more resources on fundamental activities, thereby focusing their efforts on creating and maintaining competitive differentiators.

Authors

Drew Gaputis
Principal
Deloitte Consulting LLP
dgaputis@deloitte.com
Atlanta

Ed Johnson
Principal
Deloitte Consulting LLP
edwjohnson@deloitte.com
Miami

Deloitte.
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