REVENUE MANAGEMENT

STRATEGIES FOR GROWTH

FMCG companies find it hard to generate growth. This document describes 3 winning strategies of Accuris clients, based on advanced analytics.

Analytics for Revenue Management

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STRATEGIES FOR GROWTH

01

Win the zero-sum game

Organic growth in most categories is low and volumes show often no growth at all. How to thrive in a zero-sum environment.

02

Leverage your category-building assets

Brands, stores and commercial practices all contribute to increasing category value. But some do more than others.

03

Stop ‘one size fits all’, increase differentiation

A blanket approach to promotions, pricing and pack mix may be costly and leaves opportunities untapped.

Many fast moving consumer goods suppliers have adopted revenue management in some form. Still, it proves hard to change a mature organisation in search for growth. Strategies that have been successful for decades no longer deliver.

This document describes three strategies Accuris clients have followed to find growth where competitors did not.

01

Win the zero-sum game

Organic growth in most categories is low and volumes show often no growth at all. What you win, your competitors lose. It is a zero-sum game, with lots of sales switching back-and-forth. Shoppers do switch all the time between stores, brands, packs. This switching can be used to your advantage.

Use switching to your advantage. The Accuris Source of Business® model is a data-driven analytical approach to optimising switching. It identifies sales switched between packs, brands, stores etc. However, not all switching is “equal”. When a shopper choses brand A over brand B, he may actually spend more for his purchase if brand A is a premium brand and B is not. Similarly, net revenues may be different when shoppers chose store X over store Y, product C over product D and so on.
By meticulously mapping all switching and understanding which marketing activities stimulate shoppers to spend more while switching, you can grow revenues in spite of zero-sum volume sales.

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Shoppers are promiscuous, you can benefit from it.

Use Accuris' switching analytics to drive shopper spend and revenue per unit

We all strive to have loyal consumers, but loyalty in the FMCG industry is very rare. Shoppers are bombarded daily with advertising messages and promotional offers. They are switching between packs, brands and stores all the time. Accuris' unique Source of Business® methodology was developed with this specifically in mind. It measures when shoppers switch, where they switch to and whether they spend more or buy less. Switching patterns are used to stimulate *positive* switching, towards more valuable, more profitable sales. With zero-sum growth, use Accuris switching analytics to direct shoppers to more profitable purchases.

Accuris' switching analytics stimulates shoppers to trade up to a more profitable mix

Use a price change to encourage positive switching. It is likely you will lose some shoppers upon a price increase. However, most shoppers will stay in the segment and certainly in the category. You can recover their spend by encouraging them to switch to your secondary pack or brand, rather than to a competitor. Accuris analytics reveals product switching and shows which campaigns work best to recover lost shoppers.

Promotions to upgrade shopper spend. Price discounting is commonly destroying category value. More often than not it is even net revenue-negative for the promoting supplier. Still, premium brands can balance a promotional discount with volume increases and seduce shoppers to spend more money per unit.

02 Know your category-building assets

We all love our brands but truth is that some are building category value and many others are just challengers. A well-known growth strategy is to focus on strong brands. We like to point out, however, that there is a difference between a strong brand and a strong brand that has category-building capacity. The same is true for stores, advertising and types of promotions. Some are more category-building than others. Category building assets need to be central to all aspects of a category strategy.

Some stores excite shoppers to spend more, others do not; some brands bring in new shoppers, others do not: know your category-building assets.

Consumers like exciting brands. There is a reason why these brands became preferred in the first place. Settling for second best is a constant trade-off consumers need to make. The joy of a low price does not last long. How many [fill in the name of a mainstream-but-not-so-exciting car brand] owners would not love to drive a BMW? Who believes Private Label shoppers are proud to be identified with their choice?

Identifying brands that build category value is not straightforward. You may listen to what consumers say or analyse how shoppers act. Accuris Source of Business® measures category growth (as opposed to back-and-forth switching) coming from new product introductions, advertising and promotions. It gives evidence of which brands build consumption and increase category value, versus those that simply cannibalise the leaders.
Let's emphasize the difference between a strong brand (known and preferred by many) and a brand that has strong category building capacity (brings in new shoppers and makes shoppers buy or spend more). Consider the example of soft drinks. Pepsi and Coke are both strong brands. Still, the category-building capacity of either brand is very different in most markets.

Pepsi and Coke are both strong brands. But they have very different category-building capacity.

Identifying strong assets is even more difficult. It requires advanced analytics to understand the category-building capacity of one retailer brand and store type versus another; media types and campaigns that bring in new consumers and others that do not; promo offers that increase weight of purchase versus offers that don't.
At Accuris, measuring the category-building capacity of your assets is a core discipline. We employ dedicated models to measure the net impact of brands, retailers, promotions and media on category sales.

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Half price or buy one get one free? Which one brings in more shoppers?

Tesco's share of category expansion (right) **was distinctly lower than its overall share** (left) **because it was not leveraging its strongest assets in promotion.**

A few years ago, Tesco in the UK followed a strategy to assign prime display space to suppliers offering the deepest discounts. This often led to challenger brands or even struggling brands being placed in large displays at the entrance of Tesco stores or on gondola ends. Shoppers where no longer seeing their most preferred brands. They started to perceive the promotional offers of Tesco as less attractive. The distributor was not leveraging the power of its strongest assets. It was not focusing on the biggest category builders. It lost promotional share, share of category expansion and overall market share. The decline came to an end only when Tesco reversed course and started to assign premium display space to the strongest category-building brands again.

Put strong brands at the heart of your category strategy:

- Assortment
  Strong brands at the heart of the assortment provide guidance to the shopper. She or he understands how to navigate across the shelf and uses strong brands as a point of reference to compare value and choice.
- Price
  Strong brands tend to be much less price elastic and are the first choice to create a price premium in your offering. A price increase, often on the back of innovation, can lead to an overall increase of value and upgrade of price points throughout a category. Strong brands can be the driver to restore and grow margins (and mass of margin) for both suppliers and retailers.
- Merchandising
  Category builders should occupy prime shelf and space locations. Anything else confuses shoppers, leads to missed sales and undermines value.
- Promotions
  Prime promotional slots should go to the strongest brands. Key consumption moments in a category should be linked to promotions for leading brands. Leading brands grow category consumption typically by a quarter more when promoted than any other type of brands.

Accept trade-offs. Focusing on category-building assets is obvious, but not easy. The hardest part is to be consistent. Consistency means making trade-offs. Putting your strongest brands at the heart of a category means moving your challenger brands to secondary spots. For retailers it means giving up slotting fees, promotional discounts etc. in return for stronger overall category growth and profits. For suppliers it may mean reduced market shares for me-too brands in return for stronger gains on their leading, category-building brands.

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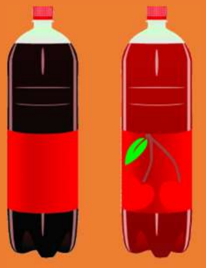

For every €1 spend on advertising brand A adds 3 times as much extra to the category as brand B

Measured in terms of category expansion, for every increase of market share of Brand A, 12.0% was sourced from new shoppers or shoppers increasing their purchases in the category. For Brand B the comparable number was 4.1%. Therefore, brand A is a much greater asset in growing revenues than brand B.

Accuris provides a 360 degrees analysis of what drives revenue and how to effectively serve shoppers to generate further revenue growth.

Revenue drivers

What are the revenue drivers?

Our unique Source of Business® methodology identifies which are the volume, revenue and profit drivers.
Relative and absolute contribution of media spend, brands, retailers, strategies and programs is measured.

Assets

Which category-building assets to deploy?

Accuris helps identifying the strongest mechanics, stores, brands, packs, etc you can use to build category value and generate revenue growth. We analyse which tactics to focus on to generate value growth rather than just cause back-and-forth switching.

Shoppers

How to target shoppers and shopping trips?

Which shoppers are we targeting and how is this driving value and consumption?
What programs (pack / price / media / promo) to target each shopper segment? How to effectively serve each shopping trip and not miss out of each shopping and consumption occasion?

03

Stop ‘one size fits all’, increase differentiation

One of the key competitive advantages that established consumer goods companies own, is scale. They can advertise, distribute, merchandise and promote at a very large scale and make a gigantic impact. Over the past decade this advantage has been eroded. In a digital age, advertising and distribution has clearly been disrupted, with many alternative, fragmented channels existing today. Shoppers have more choice than ever and expect to be treated as individuals. One size fits all no longer works.

Align with shopper missions. It is common practice for suppliers to tailor category strategies to their retail customers. Still, in reality the same products are being sold and merchandised at the same price points across many stores. This ‘one size fits all’ offer is trying to please a diversity of shoppers with very different shopping missions.
Today’s shopper has many faces and behaves very differently depending on where, when and why he or she is shopping.
Consider how much revenue is lost in the following ‘one size fits all’ examples:

- Tesco UK is running a half price impulse offer for ice cream sticks … on tesco.com
- At the start of Summer 2018, Asda is running a category promotion on sun care products: discounts of 50% and more on all major brands right at the time when shoppers cannot do without the product

The actors in the above examples certainly have strong arguments to justify their decisions; we argue that any possible benefits of these strategies are secondary

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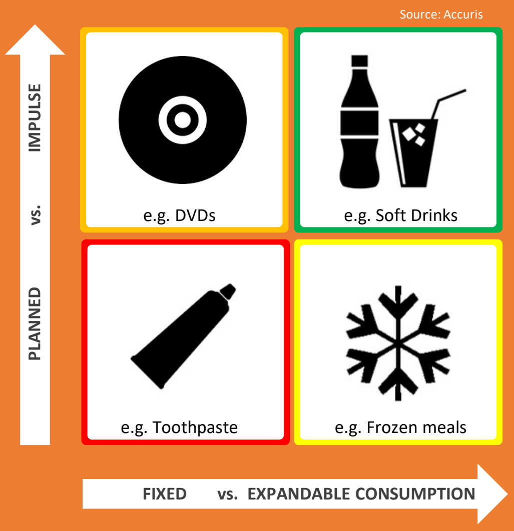

Which price and promo strategy?

When revising your strategy, the main consideration is to respect the nature and the inherent capabilities of the category (and your brand).

High-low (promotional) pricing makes sense when it creates additional consumption. Categories with expandable consumption and impulse buying see consumption growth with promotions. Fixed consumption categories are better of with balanced everyday fair pricing and less promotions. Many home and personal care products fit this description, even though some have amongst the highest levels of volume on deal.

Similarly, we need to respect nature and capabilities of brands, stores and even pack types. Consider hypermarkets vs convenience stores: very large stores offer a more expandable consumption environment (or at least expanded purchasing); convenience stores can also stimulate impulse buying, but are much less suitable for large pack sizes or ways for increasing weight of purchasing.

and a proper alignment of assortment, price, promo with shopper missions yields far greater results. It is reason for concern that some industry insiders privately admit they are unable to even measure the overall outcome of these actions.

The role of a product needs to be defined clearly. Within your brand, you may have a ‘hero pack’, which appeals to most consumers. But not to all. An ‘entry pack’ may command a relatively lower price and brings in new shoppers to your brand. Upsize and upscale packs make loyal shoppers spend and enjoy more of your brand. Impulse packs secure additional purchase occasions. And convenience and forecourt stores may be less price sensitive environments and require handy pack sizes. Still, too many stores largely offer the same assortment at very similar prices. This leaves shopper needs unaddressed and money on the table.

Retail customers demand custom offers, too. Many suppliers work closely with their customers and develop tailored strategies. Still, many continue selling largely the same products in the same varieties at the same prices at many retailers. Over the long run, this does not serve retailer’s objectives. Like suppliers, they, too, are looking for ways to differentiate. A one size fits all approach to retailers is just motivating them to innovate with private label for differentiation.

In a ‘once size fits all’ world, suppliers leave retailers no choice but to innovate with private label in search of differentiation

Accuris provides analytics for promotions, pricing and revenue management.

We provide data and modelling services on a monthly basis, as well as software and consulting to help suppliers and retailers track and improve the effectiveness of promotions, pricing and assortment strategies.
Our clients are consumer goods companies across Great Britain and Europe, including many regional champions and two thirds of the top 10 FMCG multinationals.

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