

HOW FMCG

Can Generate Profitable
Growth Faster?



It's time to raise the bar in Revenue Growth Management (RGM) in Fast Moving Consumer Goods (FMCG) or else risk losing 4 – 9 additional percentage points in return on sales. But what, how and where should RGM teams start? What is the best approach in FMCG revenue management?

Heightened inflationary pressures, cost-of-living increases and lower consumer confidence are hitting FMCG hard. But, the fundamental RGM capabilities developed over the past decade – i.e., fundamental pricing, promotions, assortment and trade investment – are not adequately addressing these economic pressures.

What's more, these RGM capabilities are struggling to capitalise on shifting consumer behaviours, customer value drivers, advances in data and analytics and shifts to online; and just as pressure to get results faster heats up from investors, private equity and the board.

In this article, we will continue to discuss the limitation of established RGM capabilities in FMCG businesses and how RGM teams can move safely to next-level RGM capabilities in the best way possible.

At Taylor Wells, we argue that in order for FMCG to maintain a competitive advantage in the market, companies must act fast and invest in building strategic RGM capabilities across the business.

We strongly believe that customer and consumer behaviour and macroeconomic conditions are at a unique inflection point right now and that the best way to build RGM capabilities (and weather the current storm and recover more) is to turn shifts in end consumer behaviour and customer value into actionable and profitable pricing decisions faster.

BUILDING AN EFFECTIVE FMCG REVENUE MANAGEMENT FOR TOTAL PROFITABLE GROWTH

THE NO. 1 MISTAKE OF FMCG COMPANIES WHEN MANAGING PROFITABLE GROWTH

The number 1 mistake an FMCG firm can make right now is viewing pricing and product innovation as two separate entities. This is because when RGM and product teams make critical strategic decisions in siloes, decision-making is often compromised and loss-making as teams work at cross purposes.

In fact, our consulting research shows that when RGM teams do not have critical insights from product innovation and marketing, pricing setting and decision-making become myopic and cost-focused and pricing strategy is short-term and reactive. What's more, we find that teams often use polarised and outdated pricing skill sets and disparate approaches and datasets that do not leverage consumer insights; and, worse still, lead to daily margin loss.

Reading the market correctly, and working within an optimised commercial system to align operations across key departments is key to generating sustainable FMCG revenue management and growth faster. Developing a strategic price pack architecture based on up-to-date and multiple data and information sources, SKU-level analytics, and optimised commercial models will enable more profitable and precise RGM decisions.

CHANGES IN KEY CONSUMER TRENDS INFLUENCING FMCG REVENUE MANAGEMENT

Currently, we are seeing economic pressure influencing consumer spending in significant ways. Overall, consumer spending is getting tighter as consumers actively cut back on household spending.

For instance, total real consumer spending is trending downward as post-covid consumers remain price sensitive. Interestingly, the majority of consumers (>75%) believe prices for essential segments like groceries have gone up significantly due to inflation when our modelling shows that overall price increases in this area are tracking below CPI.

What's more, since interest rate hikes began, consumers across most groups have begun to trade down across categories regardless of brand. Many consumers are now seeking less expensive alternatives to cut household spending and are very price sensitive about price increases on essential items and best sellers. At the same time, there are some examples of customers trading up in spite of growing economic pressure.

For example, higher-income earners are spending more in both essential and discretionary segments. Interestingly, across all customer groups, household spending has increased in essential subcategories related to health and healthier options: e.g., vitamins, vegetables, free-range meat and eggs, rye and wholemeal bread, healthier option convenience meals.

There are also generational differences in spending. Younger generations, for example, are spending more on niche new-entrant brands and are willing to pay more for brands that offer unique experiences relating to sustainability, health and well-being.

Older consumers, conversely, are much more fearful of the future and perceive greater value in known and established brands.

Across customer groups, then, price responses and sensitivity data are changing as a result of key shifts in consumer behaviour and value drivers. The consumer shifts above indicate key attitudinal changes regarding health and spending that have been spurred on by tough economic and war-torn times; and an underlying risk aversion and uneasiness stemming from legitimate concerns for the future.

Clear price rise planning and communication strategies will be key to appeasing consumer concerns about price rise strategy on essential items. A consumer-focused pack price architecture will enable FMCG businesses to charge higher average prices per kilo and litre without driving consumers away. Strategic price promotions will entice brand switchers and brand-loyal shoppers to choose new brands.

Immediate Risks To Profit Associated With Changes in Consumer Trends

Based on our consulting experience, when FMCG companies do not put the customer and consumer insights at the centre of pricing strategy, legacy price structures quickly become a major source of margin loss.

Take a typical FMCG pack price architecture as an example. Our research shows that when leaders attempt to drive the average price per kilo or litre using a legacy pack prices architecture this costs them between 2–5 per cent margin each year.

Primarily, our findings show losses are more significant when: pack price architecture is not structured on how, what, and why consumers buy; and/or when the structure does not allow for price tiers and price point relativities optimisation as shifts in consumer behaviour and customer value occur.

A body of consulting research also finds that when FMCG firms do not align price, promotions, and product innovation resources to make decisions, they consistently lose margin. The most staggering finding though is that 80% of FMCG firms are experiencing declining margins YoY and only 6 per cent of FMCG firms maintain steady growth.

This means that 94% of FMCG businesses are losing margin consistently because they are attempting the impossible: Driving new commercial strategy using legacy pricing structures as their teams work within broken, unproductive and largely siloed businesses.

ADDITIONAL RISKS TO FMCG REVENUE MANAGEMENT

Price rise

When pricing is not aligned to end consumers, price increases often fail to offset inflation. This is because fixed price increases derived from bracket price structures do not address the impact of inflation for semi-discretionary categories (where consumers may be more hesitant to spend) and discretionary categories.

The main problem with fixed prices is that they do not take into account the evolving value equation required for consumers trading down or up.

The main problem with bracket price structures is that price breaks are determined by movements in logistics costs rather than consumption patterns.

A bracket price structure, therefore, is an inadequate basis upon which to set retail prices during times of inflation. Businesses attempting to anchor prices to customer value must set price breaks to critical consumption levels. Firms that want to determine new value channels must do so based on customer value discovery, price trials, experimentation and end-specific consumer research.

Caution is advised, however, when setting up experiments, price trials and tests; and when choosing end consumer research providers, as the design, samples and approaches used may not be in line with strategic RGM capabilities and therefore be rendered largely unusable from a pricing perspective.

PACK PRICE ARCHITECTURE

When pack price architecture is either outdated or misaligned to end consumer value and buying behaviours, FMCG firms struggle to give consumers an appropriate selection of products that meet their needs at the price points they are willing to pay.

Research shows, for example, that a large majority of shoppers across all income groups value smaller portion sizes for salty snacks because sizing helps them reach their individual health targets.

The higher price point for smaller amounts of product also provides the required psychological price response from health-conscious shoppers who need a higher price per unit to remind them to stick to their health regimes. At the same time, the optimised price points and products are small enough to provide 'non-health focused' shoppers a guilt-free experience when spending is tight and they impulse buy.

This means that, even in spite of price inflation and interest rate hikes, willingness to pay has increased in specific customer groups and for specific snack based products such as: salty snacks, fizzy drinks, biscuits and cereals.

Some consumers value the reminder of their health goals on the packaging and through the pricing and product sizing itself while others are willing to pay more for the convenience of small indulgences.

Outdated pack price architectures are problematic for FMCG firms for three main reasons, therefore: They lose sight of the end consumer; and the subtle shifts that mean a lot in terms of willingness to pay.

They also lose SKU level granularity required to optimise price bandwidths, prices, pack sizing, and product price relativities based on changing end consumer preferences – the fundamental requirements and sources of margin protection and expansion strategies.

It is impossible to create a competitive price structure within the pack price architecture to optimise price floors or price ceilings based on customer value and consumption.

Price Promotions

A further risk to strategy is blanket promotions that fail to attract the right or enough customers. This is because blanket promotions are very much a scattergun approach to FMCG revenue growth management; lacking RGM precision and over-relying on low prices to drive revenue.

The main aim of blank promotions is to shift products quickly and drive volume by leveraging significantly lower price points. Often, however, why, what or how consumers buy the product is not the main concern.

Quite the opposite in fact.

- The products that are being promoted are often based on an internal view on what products to promote and/or revenue targets, rather than an outward view on what end consumers want to buy from retailers.
- Many price promotions target the wrong products, using the wrong pack sizes and price points because assumptions have not been tested and/or informed by consumer insights.
- To-good-to-be-true trade incentives are largely offered to retailers and supermarkets alike to run promotions. It is still very seldom FMCG and supermarket work together to run targeted promotions based on compelling evidence on consumer spending or changing customer value drivers in different groups.

From our consulting experience, trade incentives are like a double-edged sword for both FMCG and retailers alike. For one, incentives train both parties that the product is not stand alone to attract new customers.

Secondly, giving more discounts to shoppers that would have bought the product is handing over margin for nothing. Finally, in spite of all the incentives and margin banked by supermarkets in the process, a large proportion of promotions are loss-making for all concerned.

In fact, research shows that over 54 percent of promotions do not cover the cost of the promotion or have the desired sales impact.

This is a staggering statistic and largely avoidable if teams worked together to deliver personalised promotions and optimal pricing.

The Costly Recovery In FMCG Revenue Management

At Taylor Wells advisory we have worked through the entire FMCG business transformation; advising leaders and supporting RMG and Innovation teams to move from a cost-based to value-based pricing.

This journey includes a whole range of challenges:

- Average prices per basket decreasing as customer basket sizes were increasing
- A whole series of high-cost promotions failing to drive enough revenue to cover costs, grow market share or capitalise on an easy share of wallet opportunities
- Fixed pricing strategies that exposed the business to massive price discrepancies in highly visible subcategories and product ranges.
- Inefficient and basic pricing techniques that were eroding margins daily
- Pack sizes that were completely opposite to how consumers were buying

- A core product portfolio of household brands losing margin YoY
- Pricing decisions based on 1 or 2 individual's personal views on the __ market
- Online pricing strategies that completely contradicted and often cannibalised in-store and local pricing strategies
- Loss-making price negotiations with supermarket retailers that focused on net price reductions

When teams don't have the tools or know-how to fix broken processes and price structures; and operate in siloed businesses, it takes them 18 months to generate FMCG revenue management and growth; with many costly mistakes along the way. And a further 24-36 months to build a sustainable RGM capability across the business.

During this time, consultants are often employed to address one or two of these problems above – leaving the teams to interpret PowerPoint Presentations with endless bubble charts and price elasticities output.

Consultants leave within their contracted time frae, with no detailed or clear handover or guidance on how to make it all happen. The business assumes that teams don't need additional skills development as 'experts' have fixed their problems.

However, the real problem is not really fixed at all. As teams continue to operate with a siloed company culture with the wrong tools and methods.

Within a matter of months, other FMCG businesses have caught up or gained an advantage; isolating the activities that led directly to optimal revenue growth faster. By the end of year, successful firms are reporting a 4 to 9 percent gain in annualised gross margin. The rest of the industry are explaining why they didn't reach expected earnings to the board and investors.

HOW TO ACCELERATE COMMERCIAL STRATEGY FOR TOTAL GROWTH AND PROFITABILITY

All FMCG firms can make improvements now to drive profitable and sustainable revenue growth faster. The worst thing to do with pricing and RGM is to wait and see.

Take action now to build commercial capability at scale by focusing on these 9 RGM capabilities:

- Diagnosing margin leakage & value capture opportunities 2
- Data retrieval and Big Data management
- Data manipulation and analysis
- Customer Value Discovery
- Consumer research – design and execution of insights
- Price pack architecture development
- Advanced commercial modelling
- Hypotheses testing
- Experimental design & set-up

These capabilities encompass new skills development, new behaviours, value-based mindsets, and strategic pricing techniques to support and further expand the company's RGM strategy across pricing, promotions, assortment, and trade investment.

RGM Capabilities are both built and informed by the customer and end consumer and take into account shifts in customer behaviour, customer value drivers, volume, simulations of the impact of price moves on profits, competition, and measurement of net elasticities.

The Solution To The Challenges In Gaining FMCG Profitable Growth and Revenue Management

Build and embed strategic RGM capabilities across the business. This includes establishing the right organisation structures, integrating FMCG revenue growth management into core business processes, implementing incentives, such as performance reviews and evaluation scorecards for RGM teams and capabilities, and—critically—building, embedding and maintaining these capabilities at scale.

Inevitably, the proficiency level will vary across teams, companies and roles, from RGM, sales and marketing to finance and supply chain, but the core RGM capabilities for sustained impact remain the same. Across the organisation, these new strategic RGM capabilities will provide all teams with the ability to manage, react to, and meet current commercial challenges like rising inflation.

However, building capability without embedding it does not deliver revenue growth faster. In fact, great ideas are lost and great RGM teams are under-leveraged.

To prevent the RGM strategy from becoming a short-term or one-time initiative led by a few consultants and leaders in the business. You need a process of building and embedding next-generation RGM capabilities across the business in order to build sustainable value even when new challenges arise.

THE PROCESS OF FMCG REVENUE MANAGEMENT

To build and embed RGM capability across the business, you need an optimised commercial system:

Starting with:

- Centralising problem solving
- Integrating customer-focused RGM and product team structures.
- Building a multi-year pricing roadmap with clear horizons, priorities, deliverables and milestones across a 3, 9, 12 month period and across 3 years, 5 years and 10-year periods
- Shifting revenue-generating team plans that feed into the pricing and RGM roadmap
- Developing integrated workflows, with cascading workstreams and tasks that achieve shared revenue targets faster
- Communicating and coordinating consumer insights across the business more efficiently
- Testing value-based pricing methods, customer-focused approaches and personalised promotions
- Tracking systems for everything including dashboard visualisations for every team and department
- Embedding proven resources, methods, models and processes in BAU

IMPLICATIONS

Consumers are increasingly discerning and empowered. They like clear and logical price promotions, cues and signals. They do not like pricing or promotions that are confusing or misleading.

Simpler, more consistently achievable alterations to price pack architecture are required – such as changes in pack size, packaging or bundling—to safely generate more revenue and margin faster.

A profitable pack price architecture must be aligned to overarching market and consumer trends like increased spending on essential items, seeking larger sizes as they make lesser visits to the store; smaller sizes for healthier snack options; shelf-stable and easy-to-prepare products, as well as products that deliver a higher value or better or new experiences.

Promotions should be based on multiple inputs and data sources, not just costs or simplistic price ladders. Consumers buy for many different reasons and occasions. Different segments display different purchasing behaviours. It is important to capture all of these subtle differences in order to set the right prices for consumers. Otherwise, price promotions will forever fall short of desired volume, revenue and margin targets.

BOTTOMLINE

Strategic RGM capabilities are built on a foundation of deep customer, consumer and shopper insights, and supported by sophisticated analysis of category, competitors and consumption data.

Investing in strategic RGM capabilities enables FMCG businesses to make more granular choices about where to play and how to win in the face of new challenges. Indeed, companies that invest in capability building are 2.4 times more likely to capture and sustain value, according to the latest research.

By developing a nuanced understanding of how consumers shop in the category, FMCG businesses can build highly specific short- and mid-term pricing strategies by region, channel, and stock-keeping unit (SKU).

With detailed insights into what types of consumers are buying your products; including, where, why, and when shoppers buy products; FMCG businesses can introduce new brands, packs, and products that better align with consumer needs.

Developing RGM capability across the business is dependent on broad capability building; only achieved through targeted coaching and integrated team structures, systems and processes across the RGM team and the broader product, marketing and sales organisation.

Embedding RGM capabilities, requires effective central coordination, ongoing testing and standardising proven RGM processes, approaches, systems, and tools, that deliver higher speed and consistent decisions.

TAYLOR WELLS IS A GLOBAL PRICING & ORGANISATIONAL ADVISORY FIRM

Since 2014, our single focus and mission is to help our clients deliver increased profitability today and ongoing through our end to end approach to pricing transformation initiatives.

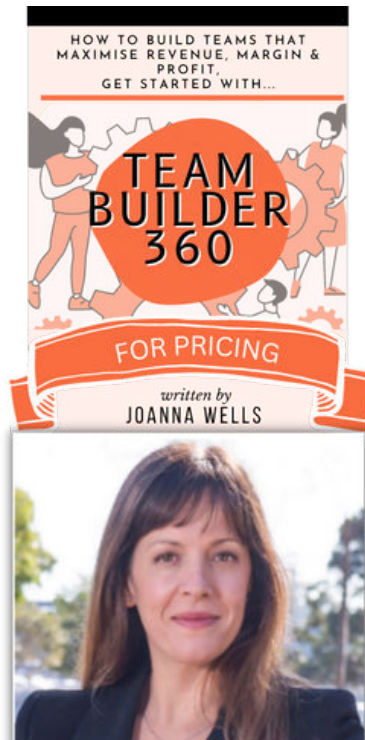
We work with leaders and pricing teams to develop pricing strategies, tests and trials to drive profitability. We work with sales directors to isolate the activities that lead to revenue growth and then build the tools, structures and processes to get there faster. We work with HR and marketing leaders to design organisational structures, roles and responsibilities to accelerate business outcomes and embed sustainable EBIT growth. We work with HR to hire the right pricing managers and advise them on how to build, reward, develop and motivate their pricing teams and commercial function. And, we help pricing professionals navigate and advance their careers.

SERVING CLIENTS ACROSS THE GLOBE



THE ROI THE REAL FINANCIAL BENEFITS

The key differentiator of our offer is that we enable our clients to internalise the pricing expertise so that they can build a sustainable pricing system that generates at least 3% - 10% additional margin each year.



JOANNA WELLS

Director

BA / MA Arts, Msc Science
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"My passion is building world class pricing organisations using the latest pricing strategy, people and operations. My mission is to maximise and combine the power of strategic pricing, teams and culture to help leaders and teams drive profitable revenue growth."



FOUNDER MANAGING DIRECTOR

Joanna Wells is the founder and managing director of Taylor Wells Advisory, a pricing and organisational advisory firm that supports Fortune 500, private Equity and ASX Listed companies in pricing & organisational strategy, commercial capability building and talent strategy and recruitment since 2014.

A Cambridge University qualified psychologist with over 12 years' experience in latest pricing and organisational consulting across B2B and B2C markets in Australia, the USA, the UK and Ireland; 25 years experience in industrial psychology & hiring; Joanna's sole focus and specialisation is helping business leaders build world class pricing organisations.

Joanna has worked on > 23 major pricing transformations, studied > 100 firms' pricing strategy and culture, evaluated 7,000 global pricing skills and capability assessments, and interviewed over 4,000 executives and managers around the world to answer complex pricing and commercial problems:

- How can we accelerate the ROI in pricing in < 12 months?
- How can we move the business from cost plus to value based without disrupting teams, customers and operations?
- How can we build high performance pricing organisations?
- What's the best way to integrate a new pricing team and/or system in the business?
- Why do over 70% of price change / improvement initiatives fail?

EVIDENCE

OUR RESEARCH

Our findings show that with the right strategy, set up and pricing team in place, incremental earnings gains can begin to occur in less than 12 weeks. After 3 months, the team can capture at least 1.0 to 3.25 per cent more margin using better price management processes. After 6-12 months, businesses are very often generating between 3 to 10 per cent additional margin each year as they identify more complex and previously unrealised opportunities, efficiencies and risks.

OUR CAPABILITIES

Our unique strategy advisory de-risks pricing strategy development. Our optimised commercial system ensures your teams drive an efficient and effective transformation process. Our scalable design structures and processes; and research and experience that spans over 25 years and over 23 major pricing transformations around the world, ensure your teams learn and embed the right skills, at the right time to drive the right outcomes - no matter how tough the challenge or how challenging the business culture.



PRICING & ORGANISATIONAL STRATEGY

Our focus is to enable leaders and pricing teams to develop and implement best-in-class pricing strategy. Unlike traditional consultancy, we strongly believe that the pricing transformation is powered through your teams from start to finish, not consultants. Our advisory, expertise and optimised systems support and guide teams to reach outcomes faster. Our expertise lies in enabling and supporting teams to be the best they can be using best-class pricing strategies, structures and practices.



COMMERCIAL CAPABILITY BUILDING

Unlike traditional consultants, we specialise in unlocking the value of your teams & culture to drive & capture commercial strategy faster. Our optimised commercial system covers the basic pricing skills. Just like a fitness programme. Then, it builds up from there as teams master new skills, kick key milestones, reach personal and team goals, and achieve shared outcomes.



PRICING TEAM ASSESSMENT & EVALUATION

We are world leaders at identifying and evaluating the pricing talent you need compared to the talent you have to prepare teams for a pricing transformation. Our founder, Joanna Wells, started her undergraduate research in devising multi trait assessments & evaluations to identify high performance leaders and specialist financial teams at the University Of Cambridge, Great Britain, 22 years ago. She further developed her research as a post graduate at Manchester Business School; and continues to invest in research and development at Taylor Wells Advisory. We have now collected millions of data points and valuable insights on high performance pricing strategies, teams, business culture and pricing transformations. Our objectivity and unique research and data is crucial to strategic decision making at the executive and board level. Our clients rely on us to mitigate risk and safely forge a clear path forward.



PRICING RECRUITMENT

Our consultants are all highly qualified executives with backgrounds in pricing, economics, finance, psychology at the post graduate level. Our consultants also hold professional industry certificates in accountancy and industrial psychology and testing and all practice best-in-class value based pricing. We know exactly what great pricing talent looks like, and have worked with world leading pricing functions and executives around the world to find the right pricing professionals for their pricing and revenue management roles and transformational projects.



SCALABILITY

We have created a scalable and optimised commercial system called Value Culture to enable leaders to build and embed commercial strategy development and price-setting capability across all teams in a business.



SELECT TAYLOR WELLS CLIENTS

Taylor Wells has had the pleasure of working with many top companies in a variety of industries.



SELECT TAYLOR WELLS PRESS ARTICLES & NEWSPAPER FEATURES

Taylor Wells has had the pleasure of working with many top newspapers, magazines to educate on business, teams, psychology and pricing related topics.

