Executive Insights

Volume XVIII, Issue 41

Price Pack Architecture: Democracy in CPG Innovation

What do 7.5 oz. Coke "mini cans," Heinz "Fridge Fit" ketchup bottles and Campbell's Ready-to-Serve soups have in common? All are food-packaging innovations born of consumer demand, as well as customers' willingness to pay extra for unique features and benefits that have ultimately led to profitable bottom-line growth in flat or declining categories. In many instances, these breakthrough concepts required only minor changes to existing packaging and size, yet paid major dividends in terms of added convenience and sustainability.

While successful innovations are often hit-or-miss propositions, the emergence of cutting-edge research known as price pack architecture (PPA) has helped take the guesswork out of the process, allowing CPG companies to design new product variations based on consumer demand. Using a multistage process that includes category diagnostic, ideation, conjoint testing and simulation, executives are able to determine which product enhancements are likely to yield the best results. These basic but effective PPA-based variations can be used to supplement or replace more resource-intensive investments in innovative packaging.

The PPA process

The PPA framework combines consumer insights, competitive dynamics and a company's capabilities to identify ideas, simulate/test results and, in turn, drive new price pack architecture solutions. The diagnostic phase includes a detailed review of current market conditions, customers, consumers and competitors. From there, a list of potential ideas for capitalizing on opportunity gaps is compiled, and the best prospects are subsequently tapped as suitable targets for the ensuing consumer conjoint survey and conjoint analysis phase. Consumers are presented with a select group of product profiles that can be repeated using various combinations to help determine which attributes would be most attractive to them and therefore capable of driving higher potential volume.

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Although conjoint analysis is not new, simulation advances this process by creating a more efficient and predictable outcome. The last phase of the PPA process is to transform the results from the prior phases into solutions and a PPA strategy for the category. This begins with building a "simulation engine" by effectively re-creating the shelf of the evaluated category in order to test volume "lift" from the newly designed SKUs through third-party software. The volume lift is combined with fully loaded P&Ls (derived from detailed cost modeling completed in parallel) to generate an accurate revenue and profitability forecast. Armed with this data, CPGs can subsequently invest in new SKUs with greater confidence,

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Figure 1
Price Pack Architecture – 7-step process

Price pack architecture step		Process description
1.	Diagnostic	Compile a category “fact-pack,” channel dynamics, consumer insights and “outside in” market perspectives
2.	Ideation and prioritization	Develop a long list of ideas, considering occasions and consumer unmet needs and prioritization of attributes to test in the conjoint
3.	Testing	Design and field a consumer survey with conjoint (to test attribute utilities) and nonconjoint portions (e.g., occasions)
4.	Simulation engine	Develop an advanced category simulator to derive “lift” of PPA attributes tested and deep understanding of cannibalization
5.	Financial impact	Develop P&Ls for new SKUs to couple with estimated lift and quantify the impact with forecasted revenue and EBIT for PPA innovations
6.	PPA channel strategy development	Develop an overall price pack architecture strategy with channel “swim lanes,” price/pack curves and overarching goals to achieve
7.	Training and implementation	Create an implementation plan (with names, key milestones), retail selling presentations and training/simulator handoff

Source: L.E.K. research and analysis

and they can easily create selling materials to share with retailers in order to activate the strategy.

PPA innovation in the food industry

A compelling example of PPA in action is the case of Coca-Cola, which sought to offset the effects of a decline in soft drink consumption at the start of the decade. Through PPA, Coke discovered that consumers not only liked the idea of a more compact serving size (including 7.5 oz. mini cans as well as 8 oz. glass bottles), but were also willing to pay more per ounce for a smaller Coke than for the traditional 12 oz. cans or larger containers. While Coke's annual revenues for its standard sizes fell 1%-2% from 2011 to 2015, its mini-can counterparts registered 10%-15% increased sales through the period.

Other leading CPG companies are realizing how small changes conceived through PPA can deliver substantial increases in profitability. Weighing in at just over 15 ounces, Campbell's Healthy Request® Ready-to-Serve soups were priced 10% lower than the company's iconic 22 oz. cans, yet netted an additional 30% price-per-ounce over the standard size. Kraft's Slim Cut cheese singles packs featured 18 thinner singles (in resealable packaging) versus the traditional pack's 16 slices, and at a 30-cent cost savings to boot, while still delivering an impressive 61% price-per-ounce increase for the company. Capitalizing on the “ease of use” trend, Heinz gave consumers a unique 32 oz. upside-down “Fridge Fit” version of its iconic “Red Rocket” 24 oz. bottle and scored a mammoth 68% per-ounce price uptick in the process.

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PPA perks

PPA offers a number of proven benefits that can help CPGs maintain momentum in the face of evolving consumer trends and general market challenges. Rather than focus on more costly, build-from-scratch innovations, companies can make strategic “tweaks” based on key attributes within existing product lines that can lead to higher margins and cost-effective quick wins. With PPA, optimal price curves can be established across channels by configuring “swim lanes” of different product configurations, which are ideal for the food, club, mass, dollar and value consumer. Additionally, CPGs can use PPA-based product enhancements to attract consumers who have remained outside the core customer base.

Best of all, by allowing consumers to have their say, CPGs gain valuable insight into the likely evolution of the market. In this way, CPGs can determine with greater clarity whether consumers are willing to pay extra for premium, economy and middle-tier offerings, then set good/better/best pricing gaps accordingly.

It's important to note that PPA isn't just about creating new SKUs, but rather using this unique architecture to improve existing SKUs in order to gain market share and grow the category. With the insights gleaned through PPA, CPGs can decide with greater confidence whether they should discontinue certain SKUs or, by contrast, implement margin-enhancing SKU alterations with the goal of bringing newer and/or additional customers into the fold in order to grow the category.

About the Authors

Manny Picciola is a Managing Director and Partner in L.E.K. Consulting's Chicago office. He has more than 14 years of experience managing and directing client engagements that include corporate and business unit strategy, channel management, consumer segmentation, corporate turnaround, and merger and acquisition transaction support.

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