Management Solutions

Ramping Up Revenue Management for CPG Firms

Revenue management (RM) is gaining ground as an emerging capability and organizing principle for consumer packaged goods (CPG). Once the province of internal brand teams, RM's data-driven approach has caught the imagination of industry leaders eager for new ways to expand margin in a low-growth environment. In response, a growing number of consumer-facing firms are making room in their enterprises for a formal RM function.

But pulling together traditionally disparate people and resources to achieve a common RM goal is more complicated than moving lines and boxes around on a page. The organization must be realigned so that RM team members have the authority, tools and resources they need to succeed. This includes establishing influence and decision rights, some of which may overlap with other functions. To avoid communication breakdowns, political infighting and other familiar stumbling blocks, you'll need a strategy to anticipate and deal with these issues — even before you sit down at the drawing board.

Responsibilities

To get an idea of the complexity that RM involves, let's consider the landscape in which it operates. Revenue management requires a strong understanding of the customer, the brand and the bottom-line implications of bringing these two together. In other words, RM effectively sits at the intersection of sales, marketing and finance (Figure 1).

In practice, companies define and organize RM in different ways. But the function often includes responsibilities such as:

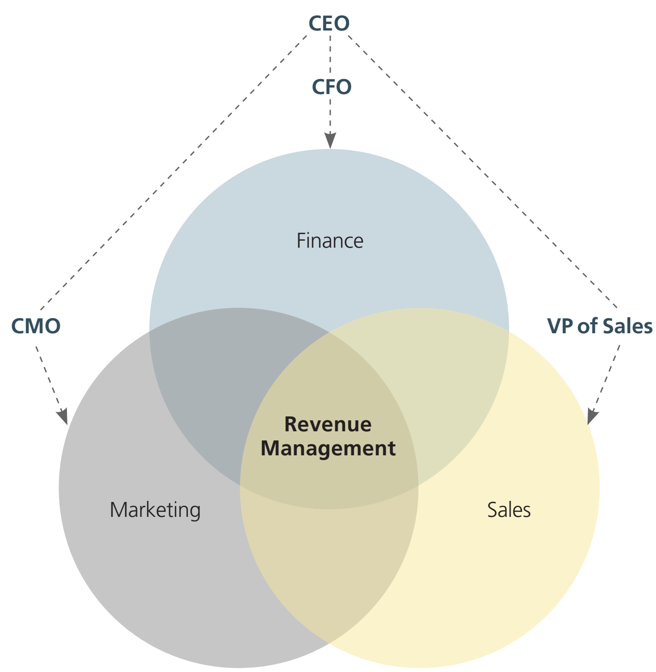
- **Pricing and elasticity analysis** — analyzing customer behavior to help determine the most profitable price points
- **Price pack architecture (PPA) and pack size innovation** — designing new, higher-margin product variations based on consumer needs
- **Promotion and trade budgeting analysis** — gauging how retail partners and consumers respond to tactics such as display fixtures, demonstrations and discounts
- **Product mix and assortment optimization** — optimizing the number and types of SKUs in the marketplace to maximize profitability

The common thread is the use of data and analytics to pull the levers of product and packaging design, promotion, and price in ways that maximize revenue at different places along the customer journey.

Organizational structure

Amid all this complexity, we've seen CPG firms approach the RM discipline with varying levels of effectiveness. Those firms that get the most from their efforts — with RM becoming a significant profit lever in the organization — avoid scattering RM capabilities across traditional functions. Instead, they take a structural approach that involves dedicated resourcing and decision authority. The result is an operating model that spans the classic centralization-decentralization continuum, with CPG companies' choices boiling down to three basic approaches.

Figure 1
Conceptual role of revenue management



Source: L.E.K. research and analysis

- **Centralized.** In this model, RM is a central capability that serves as a resource across brands.
- **Hybrid.** A hybrid RM function has a central but limited RM team to drive best practices across brand teams.
- **Brand-led (decentralized).** In the most decentralized model, brand managers lead and own the revenue management projects in their respective business units and/or geographies.

These choices also represent varying levels of sophistication, from simplest (brands taking the lead) to most complicated (a single problem-solving powerhouse supporting all the brands the company may take to market). Figure 2 summarizes the advantages and drawbacks of each option.

Getting started

So what does it take to start up a revenue management function? As we've seen, there's no one-size-fits-all template. Each structure will be unique, like the company itself.

But decision-makers needn't break new ground. L.E.K. has created an approach that we use to help our clients build RM capabilities, whatever their current state happens to be. This approach involves four key steps.

Step 1: Capabilities diagnosis

First things first: Know what your revenue goals are. We help you articulate these and then map out any RM activities already taking place within the organization, identifying any missing actions and/or capabilities along the way. With that information, we arrive at a clear assessment of the current state of the business and its revenue management-related capabilities.

Step 2: Vision and capabilities assessment

After sizing up your current capabilities, we help you home in on the specific problem the RM function needs to address. Based on that, and using industry best practices customized to the specific operating rhythms of your organization, we identify the most effective RM approach for your organization — be it centralized, hybrid or brand-led. Our methodical, structured and documented process helps your organization quickly align on key gaps in capabilities.

Figure 2
Revenue management organizational structures

Centralized Centrally held capability serves as a resource for brands	**Hybrid** Limited, centralized RM team drives best practices across brand teams	**Brand-led (decentralized)** Brand managers in business units lead and own RM projects
Advantages		
Provides greatest efficiency through sharing of best practices and basic PPA functions across brands	Allows for efficiency in sharing best practices while tailoring to specific brands and circumstances	Informs RM decisions with category-specific insights into sales, customer relationships and brands
Enables dedicated teams to serve as "centers of excellence" to help brand owners make better decisions	Facilitates direct linkage to innovation by connecting the central team to brand-level decision-makers	Facilitates direct linkage to innovation by enabling quick implementation of new RM ideas
Drawbacks		
Requires shifting some decision rights from brand teams	Delegates some RM responsibilities to non-RM-focused employees	Can duplicate resources and hinder sharing of best practices across brands

Source: L.E.K. research and analysis

Step 3: Organizational design

Now it's time to plan. From the results of our information-gathering, we work with you to arrive at the optimal organizational model for your RM function. This includes deciding which activities are to fall under RM — and of those activities, which ones are to be centralized versus maintained at a brand level. This model helps clarify where the RM work will get done in the new function. As the model is solidified, we work with you to specify roles, responsibilities, reporting relationships and decision rights that teams need to achieve the company's revenue management objectives.

Step 4: Implementation rollout and performance management

The final step is to spell out what must happen to make the new RM organization a reality. This means crafting key performance indicators and metrics for tracking revenue management performance. It also means determining capability and competency gaps, creating job descriptions for new positions, and mapping key processes that the RM function will undertake. Meanwhile, we help you determine the implementation timeline and cadence, and then support the organization with communications to keep employees informed about the new function.

Considerations going forward

RM is a journey with multiple considerations for the organizations that seek its rewards. It requires pulling together elements of sales, marketing and finance into a discipline that has a significant degree of variability in practice. The upshot is that building an effective revenue management organization requires a methodical examination of the company's current capabilities, industry best practices, organizational design options and processes for ongoing management. Getting these elements right can make the difference between a function that falls short of expectations and a dominating engine of revenue growth.

Contact

Ramping Up Revenue Management for CPG Firms was produced by **Maria Steingoltz** and **Rob Wilson,** Managing Directors in L.E.K. Consulting's Food & Beverage practice, and **Dan Horsley,** Managing Director in L.E.K.'s Organization & Performance practice.

For more information, please contact strategy@lek.com.