REVENUE GROWTH MANAGEMENT: A CASE FOR EVEN CLOSER RELATIONSHIPS

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"There is nothing either good or bad, but thinking makes it so."

You may have heard that line many times; it's a quote from Shakespeare's Hamlet. The reason it gets used so often is because it is one of those eternal truths, echoed in almost all philosophy and modern psychology. The concept is simple. You can't control what happens to you, but you can control how you react to it. A situation isn't good or bad until you make a judgement about it.

Even a cursory glance across the retail landscape today reveals an environment in flux. Omnichannel and non-traditional routes to market. Retail consolidation, discounters, direct to consumer and e-retail. Raw material margin pressures, reduced footfall and price deflation. Buying groups and alliances and the harmonisation of trading terms. And I've only just started…

Whether you are a retailer or a supplier, you cannot escape the changes that are occurring and are predicted to continue. Perhaps never before does the phrase "change is the only constant in life" apply so fittingly to the retail market of today.

So, is this situation good or bad? That will depend on the judgement that you make. Irrespective of your view, what is certain however, is the need for both retailers and suppliers to adapt and quickly.

Against this background many suppliers, faced with market or category stagnation (and even decline) and struggling therefore to drive sustainable profit growth have turned to Revenue Growth Management. RGM, the pursuit of growing revenue faster than volume, has become a primary focus for many businesses.

Increasingly we are seeing companies apply disciplined analytics that predict consumer behaviour at the micro-market level, enabling them to optimise product availability and price in order to maximise revenue. To simplify, the overall aim is to sell the right product in the right pack, to the right customer, in the right place at the right price, incorporating the right promotional mechanics.

In order to achieve this, RGM requires a fundamental change within suppliers. Traditionally diverse functions have needed to unite. RGM requires a structural approach that builds and embeds a cross-functional capability into the organisation and is supported by the right analytical tools and methodologies. This is not always easy and needs a commitment to internal change. If we are to believe studies however, the results can outweigh the initial disruption. According to The Boston Consulting Group, in the three years from 2014-17 more than two-thirds of revenue growth - and an even bigger share of profit growth - among the top 50 global fast-moving consumer goods (CPG) companies has come from pricing and mix rather than from volume increases.

If this is a true reflection of the CPG landscape, then the pursuit of RGM seems an advisable course of action. You only have to look at the number of consulting organisations who are actively providing the business process transformation services and analytics required, coupled with the number of companies who have, and are still, engaging with them. RGM is here, it is well established and shows no sign of slowing down.

The success of RGM cannot however lie solely in the hands of the supplier. In order for both supplier and retailer to succeed within this ever-changing environment the two will need to work together. Cooperation and mutually beneficial action will be needed. This becomes even more pertinent (and potentially difficult) when it is recognised that many of the challenges the supplier is facing, and seeking to address, have originated from the retailer's actions to adapt their organisations to the changing landscape they face.

This leads to an inescapable conclusion. All the analytics and changes to product offering to best meet both consumer and retailer needs will only come to fruition if implementation takes place. If RGM is to provide its intended aim of revenue (and profit) growth for the supplier, then it has to deliver value for the retailer as well.

In its discussions on RGM, Bain and Company acknowledges that this is one of the most powerful yet also difficult corporate capabilities to master and succeed with. In order to deliver significant and sustainable results it identifies five RGM principles that need to be adhered to. It is no coincidence that the fifth principle is, and I quote, "that value is created or lost in the negotiation with the customer".

The key element of effective RGM is a capability within an organisation to develop joint business plans that create value for both you and your counterparty. Given that even when interests coincide, the process of developing practical plans to achieve them can be a sometimes fraught and frustrating one, companies with well-developed negotiation plans and a finely tuned negotiation capability will consistently achieve better results. It is perhaps an interesting reflection that in an area of increased analytics and decisions being even more data driven, the place of negotiation still remains preeminent.

More importantly perhaps is the recognition that the retail landscape is changing. Whether this is good or bad, depends as I stated earlier, on the way you judge this. Regardless of your position, what is not debatable is that successful businesses will need to adapt and continue to do so. Revenue Growth Management is one approach many companies are taking to do just that. But whether it is RGM or other initiatives being pursued, ultimately the crux for success will lie in two businesses successfully negotiating a set of agreements which will provide mutual benefit to both.