VIEW POINT

# NEXT-GEN RGM: HOW CPG COMPANIES CAN USE AI-LED RGM TO FUND FUTURE INNOVATION

Infosys equinox

# Executive summary

The pricing equation for CPG companies is impacted on multiple dimensions. Suppliers are passing the rising cost of material, labour, and transportation to the CPG companies. Consumers are feeling the pinch from rising gas prices, increase in rents and the end of pandemic-led government relief and stimulus.

Economists are predicting recessionary conditions for 2023 amidst rising inflation, declining consumer confidence and the lowest average household savings levels in 10 years. Consumers are already shifting their spending habits and trading down from premium brands and "nice to have" products to value brands and staples.

While some CPG companies have proactively raised prices in step with the consumer price index, others have been holding back on price increases. Many CPG companies today use some degree of Revenue Growth Management (RGM) methodology, yet most are still making pricing decisions with rudimentary processes and tools, such as manual analysis of historical, internal data via spreadsheets.

Progressive CPG brands are adding AI and machine learning capabilities to their RGM toolkit. Advanced technology enables these brands to make ideal pricing and promotion decisions down to the regional, channel and customer segment levels. This enables more accurate forecasting and more granular pricing strategies that can help CPG brands capture consumer surplus, grow share and maintain category leadership.

**In response, CPG brands must find the right balance between, pricing to meet profit expectation, and achieving market share ambition based on consumers willingness to pay. Those that get this right can use the profits for future innovation.**

# Introduction

Growing market share and meeting profit goals, achieving category leadership and maintaining strong channel partnerships are the goals of every CPG company. Central to realizing these objectives are the strategic mix of pricing, assortment, price-pack architecture and trade promotions.

In times of inflation and rapidly shifting consumer behavior, even the most seasoned data analysts are at risk of making the wrong pricing decisions – adjusting prices too soon, too late, too high or too low. While most CPG leaders utilize some degree of Revenue Growth Management, it is often insufficient to uncover granular insights that help shape more detailed and precise pricing strategies, optimized for markets and channels.

New tools and processes are required to fully optimize CPG pricing strategy. AI technologies enable CPG leaders to optimize pricing strategies across channels, customer segments, product lines and individual SKUs. Companies that leverage AI achieve a strong competitive advantage, with greater capability to make data-driven decisions confidently, with less risk, and to retain profits to invest in future growth.

 

# Problems with traditional RGM

Revenue Growth Management describes the practice of developing strategies around pricing, assortment, price-pack architecture and trade promotions to optimize for sustainable growth and profit. The range of Revenue Growth Management capabilities are broad, and organizations may fall anywhere on the spectrum of RGM maturity.

Traditional RGM programs may suffer from any of the following:

### Incomplete data

When data is limited to historical, internal data without insight into consumer and competitors, decision makers must rely on guesswork.

### Lack of precision data

Aggregate level data hides granular insights around brands, product lines and SKUs at the customer, channel and competitor levels that drive segment-specific optimizations.

### Operational silos

When individual business units use only their own data, tools and processes, they miss the "big picture" of shared knowledge and validity and validity of a harmonized single source of truth.

### Manual processes

Manual data analysis, reconciliation and reporting is slow, error-prone and does not scale. Today, RGM can be easily automated.

# How AI-Led RGM delivers results

To win in today's fast-moving, inflationary environment, CPG companies need to move past simple RGM processes and pricing elasticity models to comprehensive, AI-led and econometric predictive tools. Such tools must track consumer behavior across markets, channels and competition using data that can be drilled down to the brand, product and SKU levels. This can be used to model and predict the impact of pricing adjustments across brand and product portfolios.

With AI-driven RGM, it's possible to:

### Capture consumer surplus

Models that factor consumer surplus identifies which products are over or under-indexed on pricing. These products can be optimally repriced so you can safely raise prices to pass the impact of inflation while preserving (or growing) market share.

### Automate decisions with predictive modeling

Using econometric models, self-learning and predictive algorithms, you can run pricing simulations head-to-head, analyze short-and long term revenue impacts, and dynamically implement pricing changes at the channel, geography or individual retailer level.

### Strengthen competitive positioning

The ability to monitor competitor pricing across markets, geographies and channels in real time and incorporate this data into your simulations provides more accurate decisioning and better responsiveness.

### Identify price-pack opportunities

Running simulations on your existing price-pack architecture allows you to gauge demand and profit potential for new price-pack ideas to drive portfolio growth and strengthen your value positioning.

### Optimize pricing across your portfolio

Understanding cross-elasticities and how a change in one brand or product's price impacts performance across your portfolio helps you make disciplined decisions across the board.

### Optimize trade promotions

Analyzing trade discounts helps uncover which are profitable or losing money, and enable you to reduce inefficient coupon and rebate strategies across channels and channel partners.

### Effectively influence stakeholders

Data-driven insights produced by sophisticated data models can help strengthen visualization and recommendations to increase stakeholder trust and buy-in.

### Strengthen retail partnerships

Sharing insights with retail partners around trade promotion effectiveness and performance can bolster trust, improve negotiations and lead opportunities for more successful programs.

# RGM's impact on sustainable growth

"We've seen many instances where brands were able to simultaneously increase prices and improve margins while protecting market share with strategic RGM. This translates to sustainable competitive growth.

For example, you may identify that price increases will result in growth due to the inherent pricing power of the brand. You can take these decisions in line with data driven algorithms, because you can market share, revenue and margin growth impact for a given price increase.

Another example is with price packs. When you do mindless innovations, it tends to eat into your own portfolio. Using algorithms one can easily test if the new innovation, will bring incremental market share before deciding to bring that innovation to the category."

***Rahul Ubgade***
*AVP, Consumer, Retail & Logistics, Infosys*

# RGM's function within the organization

**What are the short- and long-term benefits and objectives for RGM strategy?**

The ultimate objective for RGM is to grow business and revenue in a profitable way, and developing a long-term pricing and price-pack architecture strategy. This means understanding where to play, what it takes to win, and designing pricing and packs from a guideline that grows the business.

In the short-term, the focus is on tactical initiatives. For example, the RGM function may have a target to find X million euros of growth each year, spread across pricing and promotions, assortment optimization, downsizing and upsizing, and optimizing trade investment. These tactical optimizations happen throughout the year, but they all fit into longer-term commercial strategies developed typically for a 2-3 years horizon.

***Maksym Roshchyn***
***Global RGM lead at Kraft Heinz***

# AI-Driven RGM in action

## CPG Industry Use Cases

### Helping a CPG brand with strong brand equity

A CPG Brand from a large multinational corporation was witnessing squeezed margins due to high inflationary environment. Based on the revenue data gathered, the AI-led RGM tool RGM tool suggested that owing to the brands strong equity, it can lead a price increase.

### A CPG brand with over-indexed pricing

Another CPG brand from the same multinational corporation held back price increases, as AI analyzed the data and suggested over-indexing of prices against its equity compared to the competition. The brand took the decision to invest in its equity before going for a price increase.

### Results:

- Led an increase in price position by 8%, grew its market share by 4%
- Protected its margins that were squeezing due to high inflation.
- Witnessed incremental profitability within 6 months.
- Held back price increase with respect to competition.
- Protected significant market share loss.
- Invested in uplifting brand equity and repositioning.

# The role of digital solutions in RGM

**What are the critical layers of digital tooling in RGM, and what is required for an RGM platform to scale and become a true business capability?**

First, one must view digital tools for RGM as business tools, rather than IT technology tools. The volume, velocity and variety of data is exploding. The ability to harness this data, harmonize it, and bring it into one coherent layer to drive meaningful insight is the first foundation for any digital capability in RGM.

The second layer is about advanced algorithms, including the econometric models, which are proven today and are getting increasingly "smarter." These models can understand the switching pattern and stickiness of the brand to determine the consumer surplus factor (CSF) which is the spread between retail price and the maximum the consumer is willing to pay. Price can be safely increased without hurting market share, so long as the CSF is better than the competition. You can also use this model to find your sweet spot between margin and market share tradeoff.

The third layer is the user experience, in that it hides the data science from the user and fits the tool into the natural user journey.

Lastly, the digital RGM capabilities should be API-enabled so that recommendations can be consumed by downstream and upstream systems.

***Rahul Ubgade***
*AVP, Consumer, Retail & Logistics, Infosys*

# About Infosys Equinox Strategic Pricing

Infosys Equinox Strategic Pricing, powered by Consumer Surplus Factor (CSF), supports next-generation RGM for leading consumer packaged goods companies. Available through the cloud-native Infosys Equinox platform, the strategic pricing capability leverages leverages AI modules to help you simulate, enact, adjust, and track pricing and promotion strategies at the brand, pack and channel level. Using CSF, our offering provides offers over 90% accuracy in predicting your brand's growth and market share in 12 months.

## Get in Touch

To learn more about Infosys Equinox Strategic Pricing, contact us at contactus@infosysequinox.com

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