



POINT OF VIEW

Prescriptive: The Future of RGM Driven by AI

The serious gaps in your RGM program are exposed by inflation, disrupted supply chain and inefficiency. With our prescriptive RGM solution, we help you strengthen key commercial muscles and boost decision confidence.



Successful CPGs continuously look for ways to sustain topline and bottom-line growth. Revenue growth management (RGM) provides the strategies and tactics that can help CPGs achieve up to 5% additional revenue and 5-15% margin expansion by effectively managing costs, products, and prices while directly impacting customer value through effective marketing programs in an omnichannel environment by uncovering granular opportunities and reducing inefficiencies.

When it comes to making decisions, CPG companies often turn first and foremost on the data. However, they derive insights from periodic studies viewed through heavy playbooks, which includes:

- National consumer preference studies (done every 12-24 months)
- Rudimentary segmentation
- Unoptimized portfolio assortment
- Price and promotion elasticities from static data and aggregated insights

CPGs are always on the go

CPGs spend a lot of time and effort driving action, collaborating with other departments, and developing joint plans with customers. They constantly plan for seasonality and events while fending for local and national innovations, including strong private label offerings.

What if CPGs' frontline analysts could see trends at the granular store segments, new products in each and competitor pricing actions?

- They'd have an advantage over other companies since they can determine if the changes are ad hoc or sustained
- They can use this intelligence to take granular actions to achieve higher revenue

These changes are rarely spotted on time, resulting in lost revenue and increased costs, but they have a huge impact when they do.

ML models powered by artificial intelligence improve agility for CPGs

With millions of data points available, the CPG accounts team, category/RGM analysts, finance analysts, and supply chain analysts can take prescriptive action. The secret is in being **holistic**, going **granular**, making it **dynamic** and **prescriptive**. CPGs need to identify the **foundation** and the **sustaining** elements of Prescriptive RGM:

■ **Foundation:** building benchmarks and optimizing assortment based on micro-market segmentation

■ **Sustaining:** creating competitive pricing strategies and optimized trade promotions

Exhibit 1: The Prescriptive RGM framework– setting up the Foundation and Sustainable

Foundational

Forecasting and Planning

■ **Create transparency** within the organisation with dynamic forecasting

■ **Understand the impact** of commercial elements

■ **Visible value realization** on various business parameters

Sustainable/ongoing

1. Segmentation & Assortment

Automated segmentation and assortment recommendations

- Dynamic models
- Curated assortment
- Identify package & segment opportunities by channel/customer/market

2. Pricing

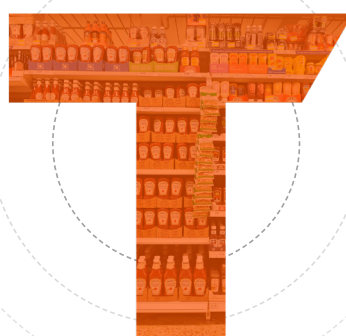
Pricing analytics and coordination

- Optimize EDV price using elasticities within a segment
- Incorporate and maintain pricing ladder for channel coherency
- Leverage Price Pack Architecture

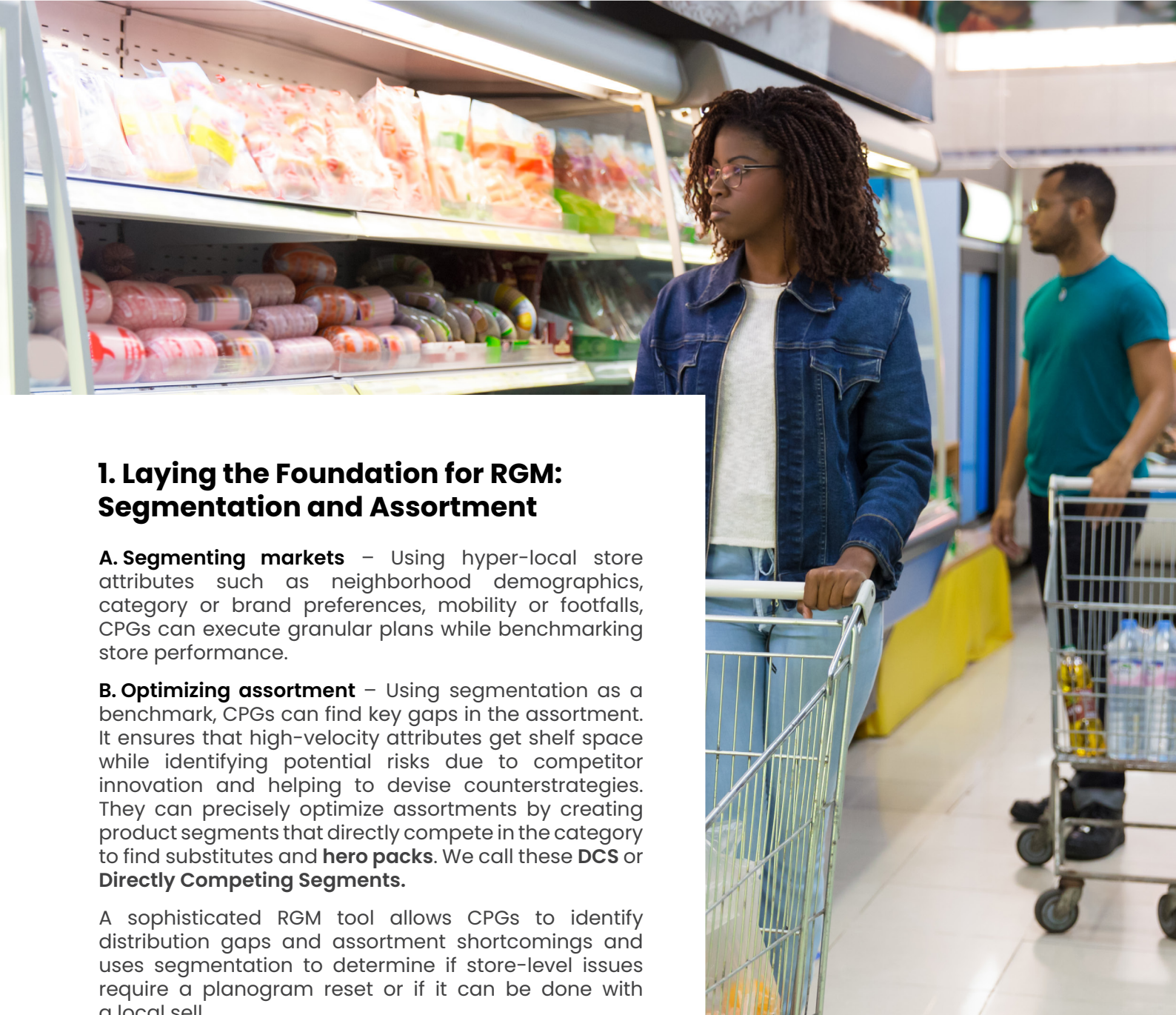
3. Promotion

Trade promotion management

- Quickly identify inefficient promotions in the downhill, review & implement changes
- Understand the “why” & impact behind the recommendation



Prescriptive



1. Laying the Foundation for RGM: Segmentation and Assortment

A. Segmenting markets – Using hyper-local store attributes such as neighborhood demographics, category or brand preferences, mobility or footfalls, CPGs can execute granular plans while benchmarking store performance.

B. Optimizing assortment – Using segmentation as a benchmark, CPGs can find key gaps in the assortment. It ensures that high-velocity attributes get shelf space while identifying potential risks due to competitor innovation and helping to devise counterstrategies. They can precisely optimize assortments by creating product segments that directly compete in the category to find substitutes and **hero packs**. We call these **DCS** or **Directly Competing Segments**.

A sophisticated RGM tool allows CPGs to identify distribution gaps and assortment shortcomings and uses segmentation to determine if store-level issues require a planogram reset or if it can be done with a local sell.

2. Dynamically Manage the Sustainable of RGM: Pricing and Promotion

A. Pricing involves developing and testing dynamic models to provide elasticity within the **Price Pack Architecture (PPA)**.

- It guides strategic pricing using price gap to competition and ideal price to maintain channel coherence and avoid diluting brand equity
- It requires scenario planning using various elasticities and cross-elasticities for macros factors, CPG PPGs, category, and competition
- It also depends on whether the CPG is a price leader or follower

B. Although trade and consumer promotions are a great way to get short-term revenue, customer targeting for acquisition, retention, or reactivation, **optimizing the promo strategy** is key to ensure the highest ROI and retain brand equity. CPGs should employ a baseline projection to better understand their sales and profit margins. This will allow in understanding which event types generate higher ROI and have a **Halo Effect** on price across time periods or channels with different brands/packages available.

Holistic Prescriptive RGM in Action

Segmentation allows for **benchmarking** and identifying gaps, both in the execution and performance of the store against assortment, pricing and promotion.

CPGs can use traditional attributes such as channel, region, market and revenue per outlet or leverage location intelligence, including mobility/footfall, neighborhood population and demographics, store density, etc.

1. Assortment optimization

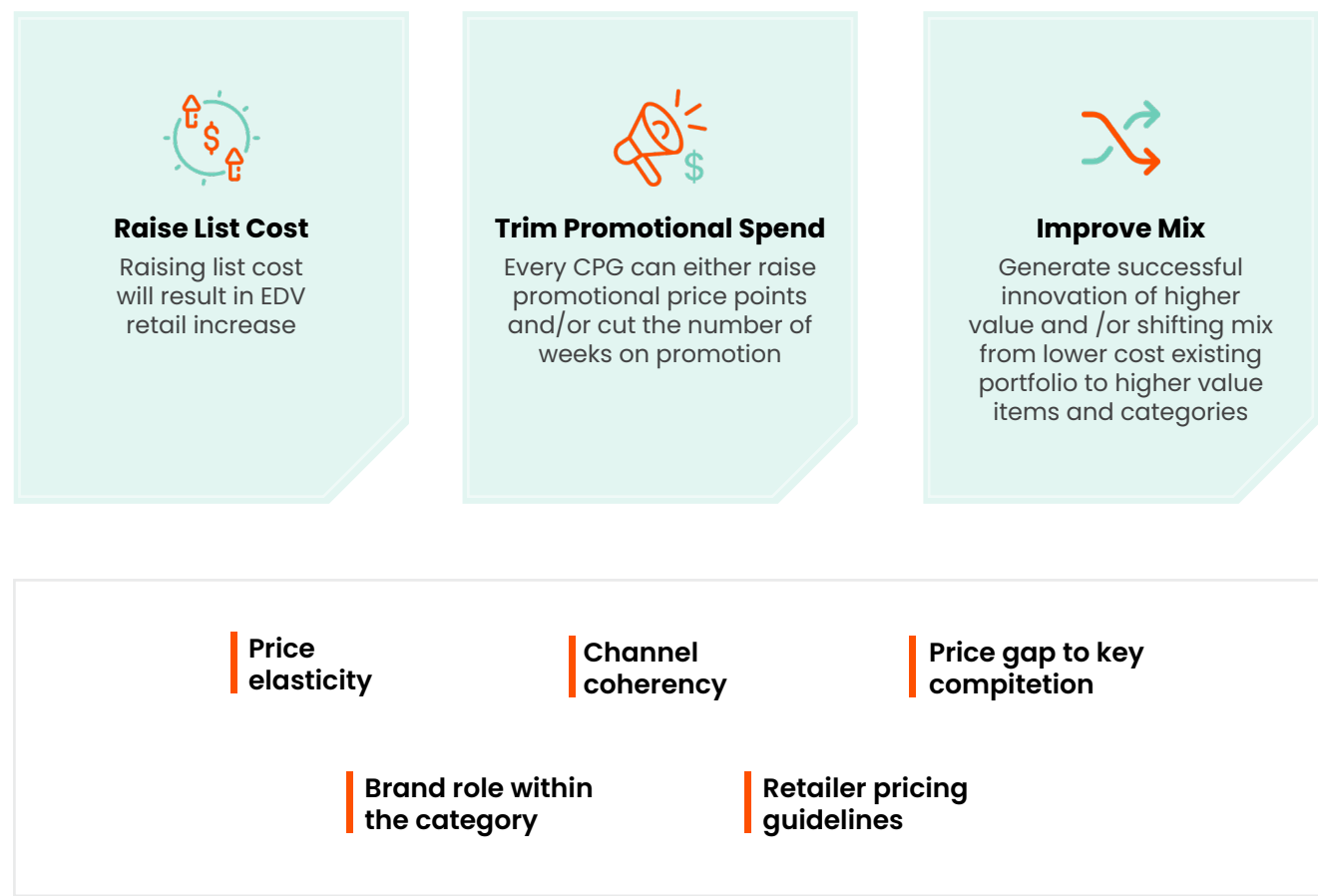
To optimize assortments, CPGs can use conjoint or other consumer research, such as market structure, to identify key attributes, build the right product segments within the category (DCS), and identify gaps within a store segment.

2. Price optimization

Dynamic pricing requires proof of impact, making pricing decisions difficult for CPGs. Calculating the PPG elasticities within the defined **price zones** and predicting the sustained impact, on the other hand, can give them and their customers the confidence they need. As input costs rise, brands with high equity can make pricing decisions with more certainty.

With robust dynamic pricing based on ML models, Everyday Value (EDV) pricing opportunities can be determined, and revenue realization can occur through three key steps.

Exhibit 2: Pricing variables and actions for revenue realization



3. Trade promotions optimization

For trade promotion optimization, multiple factors can be incorporated into ML models. The RGM UDM (Unified Data Model) optimizes trade promotions by monitoring multiple levers via RGM pricing guardrails, promotion constructs and exception management.

Exhibit 3: Lever for optimizing promotions



Gradually raising promotional retails

Move promotions up a pricing level to maintain optimal percentage saving to EDV



Reducing number of weeks on deepest promotions

Ability to scale back weeks of total promotions and/or deepest levels of promotions



Leveraging digital and physical coupons

Replace open buy promotions with coupons that offer lower take rates but better perception of value



Moving to complex offers

Moving from open buy promotions to “when you buy”, “must buy” offers



Evaluating and eliminating unproductive promotions

Real-time analysis of promotions’ ROI to enhance downhill promotions for the balance of the fiscal year

Prescriptive RGM Advantages

Optimize promotion levers

Identify the best performing events

Create new promotional constructs

Simulate and understand the impact

Get event recommendations to boost their top or bottom line, market share, or profits

Deploying Prescriptive RGM

Prescriptive RGM goes beyond the above modules. It drives quick and effective decisions by unifying data assets and processes. How?

1. **RGM Unified Data Model (UDM)** captures all data needed to derive additional features and is able to interface with both upstream and downstream applications
2. **Person-defined User Interface** enables quick prescriptive recommendations and connected workflow

Exhibit 4: The end-to-end Prescriptive RGM

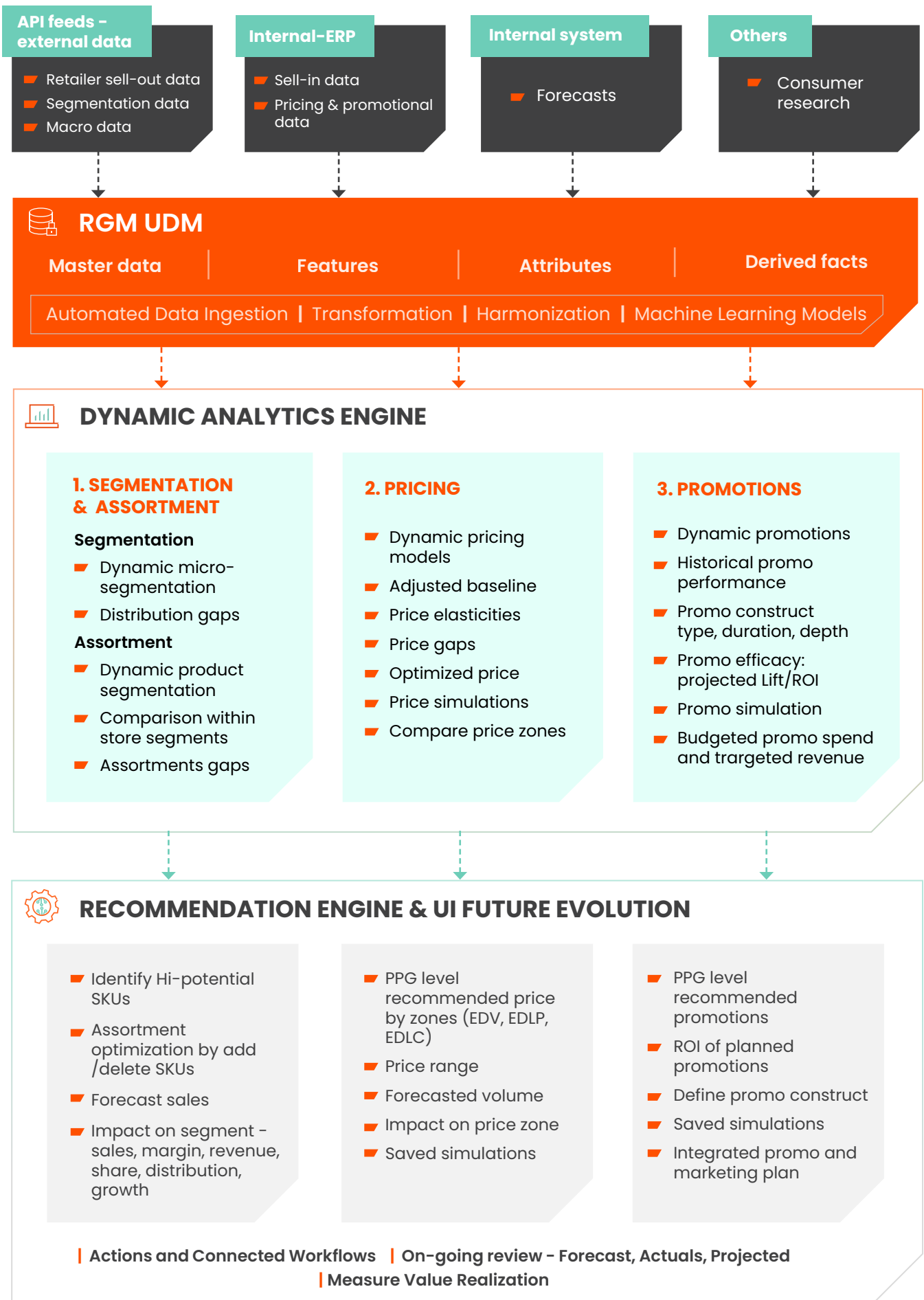


Exhibit 5: Differentiators of holistic Prescriptive RGM



CPG Uniqueness

Solution with the ability to expand to account for unique metrics & ways at looking at the business



Opportunity Assessment & Value Realization

Impact Metric Opportunities down to a granular level. Over time understand the impact of those decisions against performance



Improved Decision-making

Teams & Management have better transparency to the “why” behind decisions which allows teams to become more autonomous & accountable



Evolving with your Business

A solution with a CORE team behind it allows the AI & UI to evolve with the ever-changing CPG landscape as well as continued engagement with CPG partners to enhance the customization

Acting on thousands of granular recommendations help CPGs ride the ripple effect and stay ahead in ever-changing macro environments

If CPG offerings and prices aren't relevant and convenient, consumers will switch brands. CPGs also need accurate demand forecast models that align supply chains to prevent stockouts and write-downs, especially during promotion events. **Therefore, it's time for them to leverage prescriptive Revenue Growth Management to turn insights into sustained profitable growth.**



About the authors



Jason Villano

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Jason has almost two decades of experience in the CPG and retail industries in different sales and leadership roles. His expertise includes Customer Development, Category Insights, Trade Execution, and Marketing. As a strategic, highly engaged professional, valued partner, and motivated national sales team leader, he has championed several enterprise-wide initiatives that have had an immediate impact. He is an Ex VP of Coca-Cola for the North American market and has driven \$400M of value growth at Target and Kroger, taking the business to \$2B+.

Jason is regarded by many as a giant in the business world, providing provocative business ideas, re-evaluating current practices, halting unproductive patterns, and progressing enterprises beyond their comfort zones. He has developed multimillion-dollar relationships and built sales teams from the ground up.



Kashyap Kasinarasimhan

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Kashyap has over 18 years of experience in the CPG industry, focused on advanced analytics and insights to uncover business opportunities and solve problems. Keeping the business user/application as the focus, he has used various AI/ML solutions across multiple functions within CPG like – Revenue Growth, Sales, Marketing, Supply Chain, and Human Resources.

Kashyap has driven various strategic initiatives that have significantly impacted CPG companies' top and bottom lines. In addition, he has strong organizational skills, has managed large teams, is a strategic thinker, and has extensive expertise in market research and using various CPG data sources to drive business value.