Adapting to a Post COVID-19 World through Revenue Management

Building resilience with a purpose-centric strategy for the new beginning

CPG AND DISTRIBUTION

PURPOSE-DRIVEN

RESILIENT

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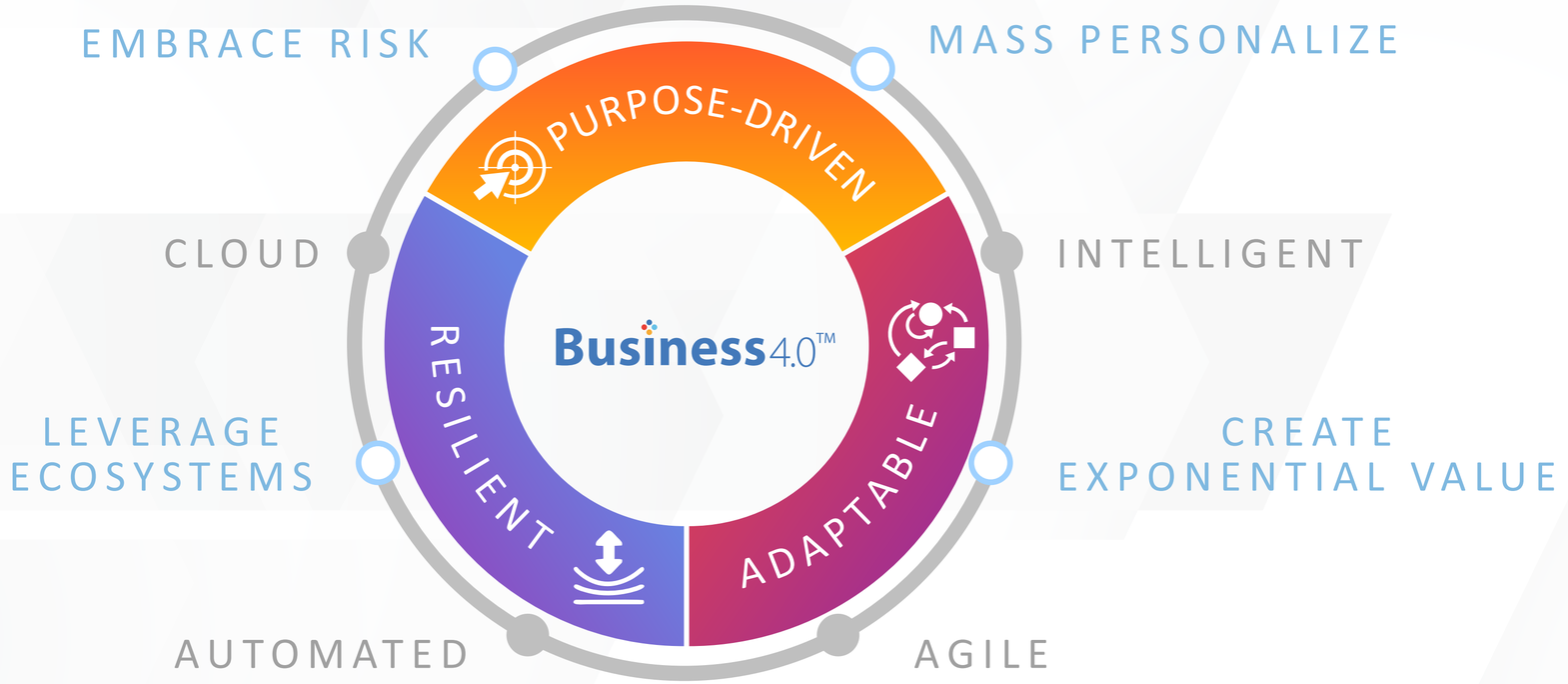
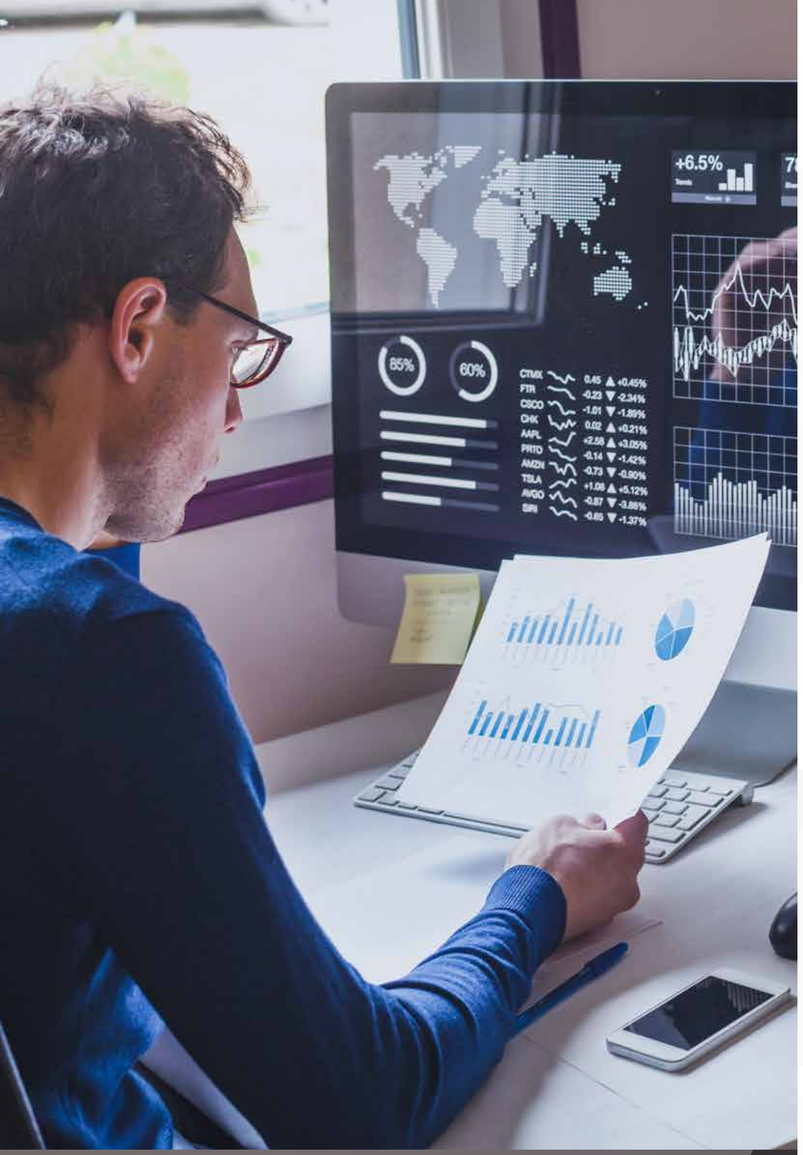




PURPOSE-DRIVEN RESILIENT ADAPTABLE

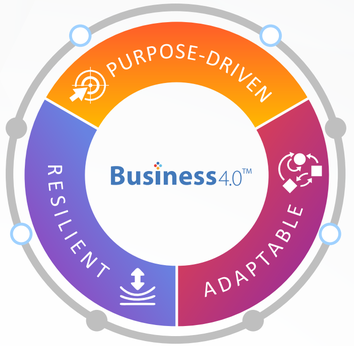
Executive Summary

The COVID-19 crisis has led to an uncertain, volatile and dynamic business environment. It is placing immense pressure on Consumer Product Goods (CPG) companies to stay true to their purpose, enhance adaptability to the fast unfolding situation and demonstrate resilience. The crisis requires companies to closely monitor fast-changing trends across channels and products. The imperative is to enhance conventional revenue management insights by measuring and monitoring volatile and fast changing attributes at high frequency and granularity. This will enable CPG companies to preserve cash and protect their top-line and bottom-line. This paper focuses on the revenue management tools and techniques that consumer goods companies can leverage to stay resilient in the face of crisis and frame a purpose-centric strategy for a new beginning.

The key to being adaptable, purpose-driven and resilient

The post COVID-19 era has seen a dramatic shift in consumer behavior with changing preferences in product, channels, pricing, and promotions. The sales growth for health and safety products such as anti-septic liquid and hand sanitizers has increased by over 200% and 300% respectively whereas products for stay-at-home living such as frozen foods grew by 36%[1]. Similarly, ecommerce and supermarket sales grew by 62% and 23% respectively while sales of convenience stores declined by 31%.[2] These are figures from mid-May, and they continue to dynamically change every week as the economy re-opens.

For CPG companies, the ask is to be agile and quickly adapt to the fast-changing consumer behaviors, shifting product preferences, spike in ecommerce sales, altered shopping frequency and size of purchases. At the same time, it is crucial to build resilience by preserving cash and mitigating the COVID-19 impact (see Figure 1).



Purpose-driven
Bring value to consumers
Focus on trusted brands
Do what is right

Adaptable
Measure at high frequency
Measure what matters
Adjust continuously

Resilient
Preserve cash
Protect top & bottom-line
Emerge stronger post crisis

Figure 1: Purpose-driven, adaptable and resilient framework

[1]Nielsen, COVID-19 Intelligence round up, *https://www.nielsen.com/us/en/insights/video/2020/covid-19-intelligence-roundup/,* 2020, accessed on July, 2020

[2]Numerator, The Most Complete Insights on Consumer Behavior, Period, *https://www.numerator.com/coronavirus,* 2020, accessed on July, 2020

Insights driven decision making with revenue management

Revenue management helps CPG companies drive insights from multiple sources such as consumer sales data from Nielsen and other POS sources, out of stock data from ecommerce sites, internal sales and demand data from ERP and demand planning systems and macro trends from varied sources. Once the environment is monitored, revenue management tools equip CPG companies to focus on the assortment of products to offer, the various channels to sell through, and how they can counter competitor moves resulting in improved agility and resilience (see Figure 2). Here are four ways revenue management can adapt to a fast-changing situation:

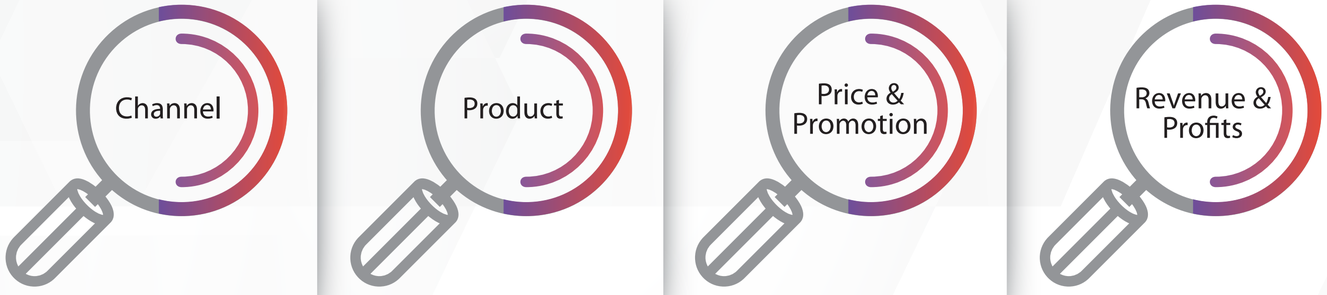


Figure 2: Revenue management lens

1. Managing shift in channel preferences

Given the restricted lifestyles with lockdowns in the past few months, there has been a surge in ecommerce purchases. Changed lifestyles has resulted in altered channel preferences. Consumers have increased their visits to large format grocery stores and supermarkets but reduced visits to convenience and specialty stores[3]. In the alcohol beverages segment, bars and restaurants have taken a major hit and most of the sales is happening instead through retail channels. Due to closure of institutional establishments, CPG companies' ability to cater to food services channels is severely impacted.
As sales figures change every week and are different across markets, close monitoring of channel demand across markets is crucial (see Figure 3).

Revenue Management Lens

- What is the channel- wise demand post COVID-19?
- What is the product-wise channel demand?
- What is the week-on-week shift in demand by channel?
- What is the channel demand by market?

Figure 3: Monitoring channel shifts in demand

[3]Numerator, The Most Complete Insights on Consumer Behavior, Period, *https://www.numerator.com/coronavirus,* 2020, accessed on July, 2020

2. Meeting changing product demands

As consumers adjust to the post-COVID world, CPG companies will also have to consider the shift in product preferences and consumer buying behavior. For instance, demand for product categories for at-home consumption has soared with sales of household care products going up by 32% and groceries by 24% compared to the last year[4]. In addition, consumers prefer buying value products over luxury products and larger pack sizes over small pack sizes. For example, 12% consumers have switched to larger pack sizes as they are stocking up larger quantities due to infrequent shopping trips.[5] This has also resulted in brand switching, given the out of stock scenario; changes in consumers' preference for value brands; increased demand for brands that provide health and safety benefits. Consumers are also relying on trusted brands rather than exploring lesser known brands given the uncertainties in the macro-environment. To address this situation, CPG companies need to preserve cash by focusing on fewer SKUs. The rapidly changing product demand scenario requires leveraging high frequency and granular data, and using revenue management tools for identifying the right assortment of SKUs across brands and pack sizes (see Figure 4).

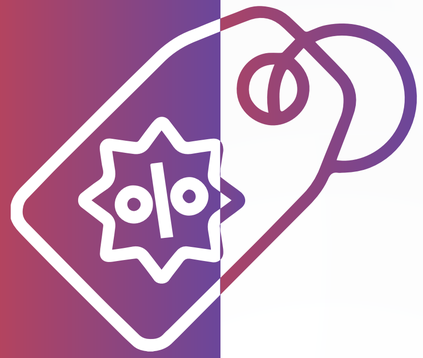
Revenue Management Lens

- What is the change in demand across categories?
- What is the change in demand across brands?
- What is the change in demand across pack sizes?
- Which SKUs are candidates for rationalization?

Figure 4: Managing change in demand

[4]Tabs analytics, COVID-19 Total Store Impact Tracker | Consumer Packaged Goods, *https://www.tabsanalytics.com/covid-19-total-store-impact-tracker,* June, 2020, accessed on July 6, 2020

[5]LRi, Covid-19 impact on CPG retail-Anticipating life after Covid-19, April 17, 2020, accessed July 17, 2020, *https://www.iriworldwide.com/IRI/media/Library/COVID-19-Thought-Leadership-4-17-2020.pdf*



3. Managing pricing and promotion

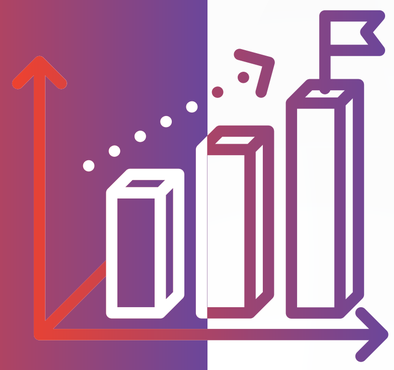
As pricing of products has become volatile, it is important for CPG companies to monitor competitor pricing in order to respond with agility. In a typical scenario, syndicated data from sources such as Nielsen is used to monitor competitor prices. But in a volatile business environment, high frequency monitoring based on sources such as ecommerce data and COVID-19 community mobility reports[6] is imperative. Although demand for certain categories such as hand sanitizers has shot up tremendously, CPG companies must avoid price gouging. This is crucial to maintain long term trust with consumers. Promotions can also be used selectively to revive demand in products where there has been a sharp fall in demand, but there is also potential for recovery. Revenue management tools that can closely monitor prices and promotions can enable companies to stay agile and adapt to changing requirements. (see Figure 5).

Revenue Management Lens

- What is the price variance of the monitored brands?
- What are the most promoted products?
- What are the sales trends by price tier?
- What is the price and income elasticity of key brands?

Figure 5: Monitoring pricing and promotions

[6]Google COVID-19 Community Mobility Reports, *https://www.google.com/covid19/mobility/, Accessed on July,2020*



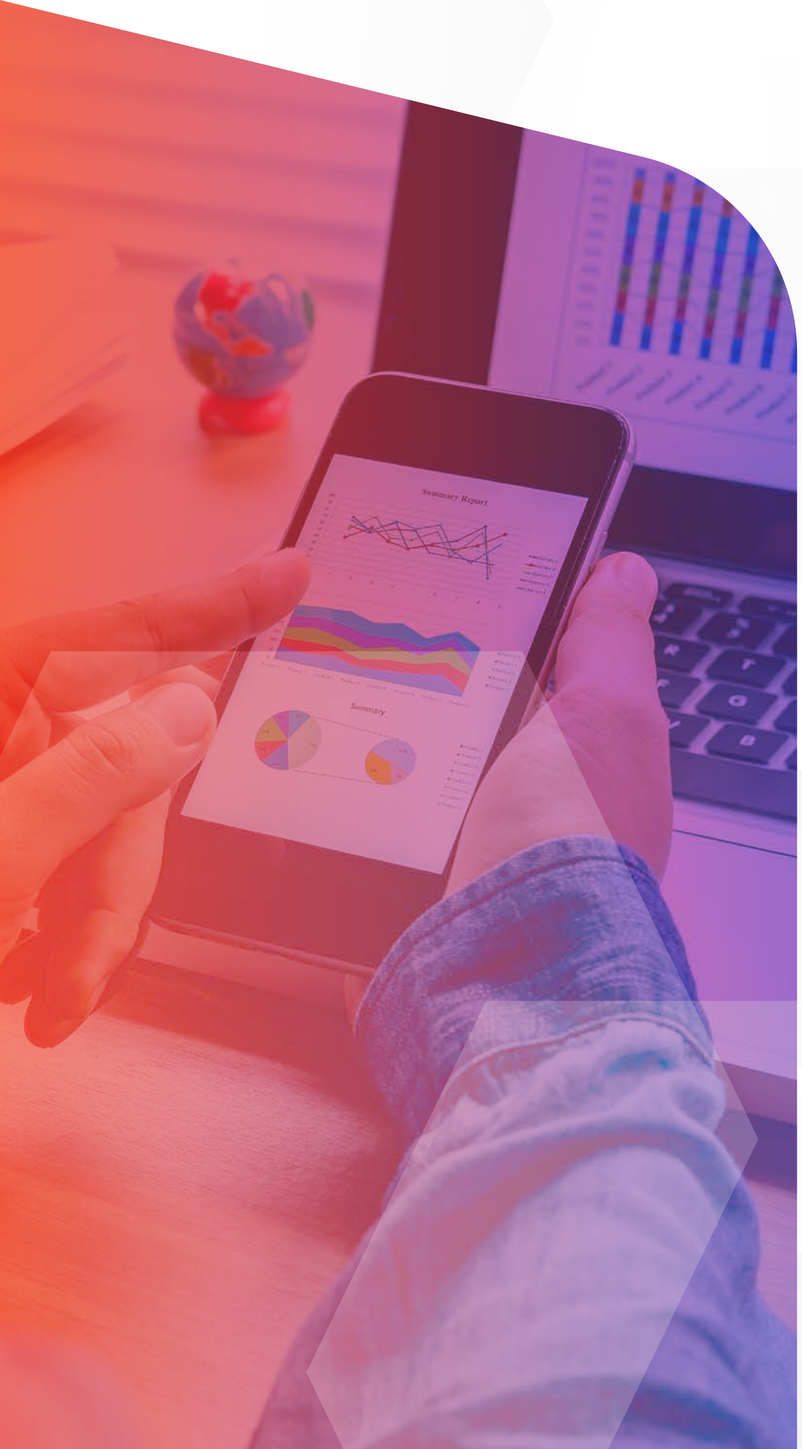
4. Protecting revenue and profitability

The pandemic has necessitated a scrutiny of the top-line and bottom-line and a need to closely track and manage the demand parameters from a revenue and profitability lens. Companies need to look at what-if scenarios and simulate the different situations which impact their top-line and bottom-line (see Figure 6).

Revenue Management Lens

- What is the profitability impact of moving specified products to ecommerce channels?
- What is the optimum new assortment for COVID times that maximizes revenue and profitability?
- What is the impact of shifting products from one channel to another?
- What is the revenue and profit impact of a price change?

Figure 6: Revenue and profit impact analysis



Enabling resilience and growth through revenue management

"I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis. The great point is to bring them the real facts."

- Former US President Abraham Lincoln

Revenue management tools and techniques provide the means to monitor insights at high frequency, thereby helping CPG companies to be adaptable, and emerge resilient after the pandemic. Measuring and rapidly responding to the shifting channel and product preferences, dynamics pricing and promotions, SKU rationalization are imperative to stay resilient in the post-COVID era.

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Amitabha Saha Roy is the Global Practice head in the Sales and Marketing area for CPG industry vertical at TCS. He focuses on helping CPG companies achieve best in class commercial capabilities through initiatives like net revenue management, route to market, trade promotion management and advanced analytics, AI/ML and automation.

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