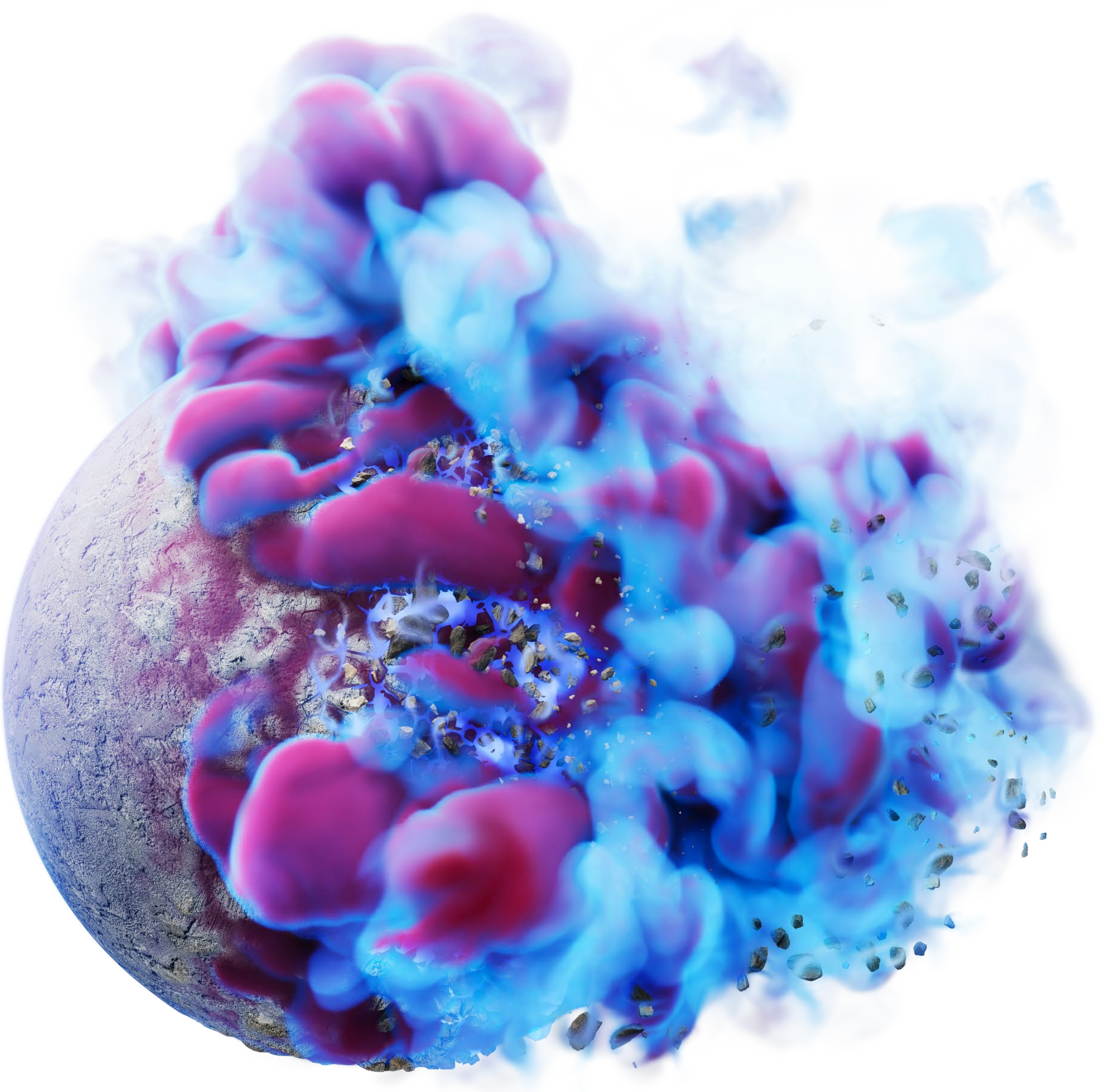
Deloitte.



Beyond the Easy Gains with Revenue Growth Management

Following years of relying primarily on price during the inflationary cycle, restaurant and hospitality brands must return to a more holistic commercial strategy for continued profitable growth

A NEW ERA is beginning for commercial leaders across the restaurant and hospitality industry. A pandemic yielded cost inflation not seen in decades and forced most brands to increase prices out of necessity or (let’s be honest in some cases) choice. Those price actions, while successfully driving short-term revenue growth, were nonetheless often blunt responses that proved to be unsustainable over time.

Today’s consumer is challenged by income not keeping pace with the rate of price inflation, and consequently is experiencing a disconnect between price and value perception. Many restaurant and hospitality brands are finding it harder to achieve sustainable gains with across-the-board price actions—the easy gains have passed. Commercial leaders now confront a more complex environment in which a more holistic approach to revenue growth management is required to deliver profitable growth.

Recent conversations with executives across a variety of sectors highlight the varying approaches being taken in response to new market dynamics. Most brands are rethinking, or at least moderating, pricing actions. Many are quickly developing value-oriented offers to counter the negative brand perception on affordability. Some are investing in market-sensing capabilities to better understand consumer sentiment. A few are turning toward improvements in loyalty programs and personalization to retain existing customers. Yet very few brands are looking at all of these value levers in a holistic fashion to develop an integrated revenue management strategy. As a result, most brands are missing significant revenue (and margin) growth opportunities due to uncoordinated responses to changing consumer sentiments and a more challenging competitive environment.

A new moment for revenue growth management

Succeeding in this environment requires establishing a more complete and coordinated set of revenue growth management initiatives, a holistic approach that restaurant groups aren't often accustomed to or organized well for. Those efforts can span pricing, value and promotions, check management, merchandising, and customer insights and experience.

The challenge for today's commercial leaders is to set the right vision for those efforts by aligning leadership, choosing the right collection of value levers, and focusing day-to-day activity and investment accordingly. Doing so can drive significant value, contributing to both top and bottom-line growth at a time when neither is easy to come by.

The need to act is urgent—cost pressures are unrelenting, inflation remains volatile, competitive pressures are high, and a changing consumer will all continue to challenge the growth ambitions of any brand.

Modern revenue growth management levers

The landscape for value levers that can be pulled as part of a holistic revenue growth management strategy have evolved over just the last few years. Today, revenue growth management constitutes traditional value drivers like pricing and promotion, but also extends to digitally enabled capabilities like loyalty and rewards programs. Expansion of the breadth and depth of levers increases the complexity associated with getting commercial strategy right, and further necessitates a holistic approach.

Below summarizes perspective on today's value levers in the restaurant space and our experience with the most common forms of activation today.

- **Pricing and Margin Management**
- **Value Positioning**
- **Menu and Check Management**
- **Merchandising**
- **Customer Insights, Experience, and Loyalty**

Pricing and Margin Management

Pricing has been and will continue to be a critical value lever. While some cost pressures may be easing, others (like labor) will continue to pressure P&Ls across the restaurant and hospitality industry. Robust pricing strategy and tactics should be informed by a deep understanding of price elasticity and willingness-to-pay. That, in combination with understanding where consumers are at, forms the basis for targeted and strategic price actions. Our most recent work with quick-service restaurants and fast casual brands, for example, on pricing centers on the balance between continuing to pull price as a value lever to address ongoing cost pressures (e.g., minimum wage hikes), while meeting the consumer where they are at with regards to a stretched wallet. Moderation in the level of price taken in combination with selecting the right parts of a menu for price opportunity are both critical in today's market.

Value Positioning

This includes both value-oriented offers, as well as value messaging and communication. Many consumer businesses "unwound" value offers as part of managing profitability over the last several years. Heightened consumer price sensitivity now requires a rethinking of offer configuration (and potentially pricing adjustments). Equally as important is the approach and vehicles for communicating value to "get credit" for new strategy. Recently, we've seen brands breaking down silos to start new revenue growth initiatives that look at both price and promotions together, balancing price taking with value offers and optimizing promotional activity with an emphasis on affordability. This is a logical adjacency that can be a good starting point for more integrated decision-making, though requires critical thinking to answer the question "what type of brand do we want to be?"

Menu and Check Management

Products and services should earn the right to be in the portfolio. That requires an understanding of the role and profitability of individual offers, as well as the interaction between offers across a portfolio. Customer-product cohort analysis can highlight differences in behaviors and key trends in a business that underpin opportunity to shape and influence mix and drive attachment to check. We've seen this playout with designing the right value offers that, when combined with existing regular menu items, can increase traffic while still promoting healthy check (or check building).

Merchandising

How products "show up" is more important than ever as consumers became more accustomed to product and brand switching during the pandemic. Merchandising choices reflect strategic choices that should reflect a range of considerations from consumer psychology to the role and placement of products within a broader portfolio. Value communication and messaging similarly play a role here, and defining a "value vision" can get a good starting point for defining merchandising opportunities. Our recent work with brands has highlighted critical gaps in value messages and visual signals to improve brand perception. Addressing such gaps can play a critical role in promoting a healthy price/value perception with consumers.

Customer Insights, Experience, and Loyalty

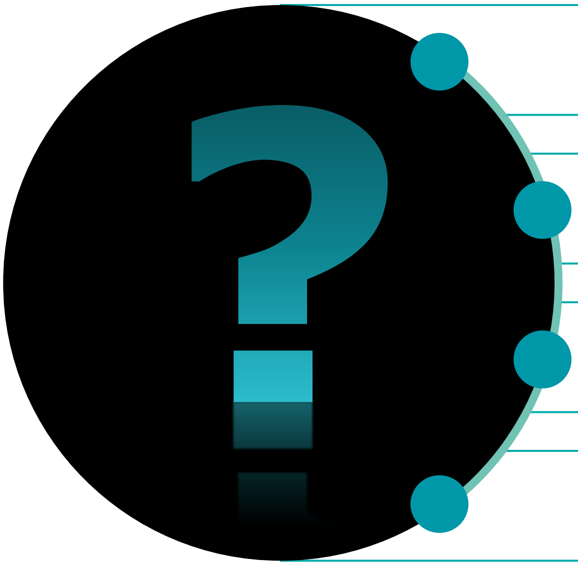
This includes many digitally enabled value levers like loyalty and rewards programs that become the front lines of engagement with consumers day-to-day. Historically, many brands have underinvested in loyalty programs with many now trying to play catch-up in designing programs that cater to the right occasions and rewards models for particular consumers. Loyalty and rewards programs are getting a fresh look to help increase frequency and capture higher share of consumer purchases as spending behaviors change.

Consideration should also be given to the quality and availability of regularly report customer insights and approach to identifying triggers or warning signs that indicate changes in behaviors. Augmentation of 1P data with 3P data has become more of a necessity (and focused area of investment) to deliver the right insights that guide commercial strategy and activation. Many brands are investing in customer data platform efforts to organize data and information accordingly.

A more holistic commercial strategy

An important aspect to succeeding in activation of a more holistic revenue growth management strategy in the restaurant and hospitality space is the need to address silos and competing incentives in an organization. Recent experience has highlighted this as the most important organizational hurdle for commercial leaders to overcome. Behind this challenge is the fact that many modern commercial leaders have not had to apply interdisciplinary strategy and thinking given the relative "ease" of taking more siloed actions recently (as with pricing). Additionally, brand team structures have historically placed revenue growth levers in disparate parts of an organization. A fundamental rethinking of team structure, resourcing, and ways of working is often required to overcome historical gaps.

To help overcome such shortcomings, successful companies may consider taking an approach that proactively identifies and prioritizes overlapping (or competing) priorities across functional areas that touch commercial strategy. In doing so, they focus on answering several key questions that begins to shape the right go-forward and holistic decision-making:



- What are common questions being explored across disparate parts of the organization?
- Where can insights be democratized for application in a variety of commercial functions?
- What are the inherent tradeoffs or shortcomings in not looking at opportunities cross-functionally?
- Where are incentives aligned to tackle challenges/opportunities collaboratively?

Answers to those questions can begin to create a model for commercial intersections and where opportunity for more integrated collaboration exists across an organization. Pricing, for example, is considered alongside margin through mix and merchandising discussion. Pricing and promotions strategy start to be evaluated together. Customer insights begin to inform a broader set of strategic choices, not just insights for their own sake. Enablement and activation of commercial strategy is considered through a more robust digital lens. A set of common questions leads to a list of potential intersections that will vary by organization but begins to structure the right commercial thinking.

The illustration below is an example of such intersections and how they relate to typical functional groups within restaurant and hospitality organizations. It highlights several intersections that are common starting points from our experience for opportunity to drive more holistic commercial strategy through revenue growth management efforts.

	Finance	Marketing	Digital	Customer Insights	IT/ Enablement
What are the right traffic drivers in today's market, especially in the near-term?		Traditional owner	Modern collaboration	Modern collaboration	Modern collaboration
Who are the right customers for increasing frequency? Through what actions?	Modern collaboration	Modern collaboration	Modern collaboration	Traditional owner	
How can margin best be managed within the right value strategy	Traditional owner	Modern collaboration		Modern collaboration	
What are the right actions to influence a better build of check?		Traditional owner	Modern collaboration	Modern collaboration	
What is the right level of price to take?	Traditional owner	Modern collaboration		Modern collaboration	
What opportunity exists to increase "stickiness" of customers?			Modern collaboration	Traditional owner	Modern collaboration
What is the potential to gain market share by holding price?	Traditional owner	Modern collaboration		Modern collaboration	
What model of a loyalty program suits different customer cohorts?		Traditional owner		Modern collaboration	Modern collaboration

● **Traditional owner** ● **Modern collaboration**

Moves right for the moment

Restaurant and hospitality groups who adopt this broader revenue growth management mindset can more efficiently and effectively respond to changing market conditions. Activating on these opportunities starts with the following imperatives.

Setting the right vision at the top

Commercial leadership in today's market requires a clear and committed agenda from the very top of an organization. Ownership of revenue growth management capabilities and day-to-day activity often resides in disparate functions (finance, sales, marketing customer insights) across an organization. The type of complete and coordinated retooling of commercial activity that is necessary today should start with belief and buy-in from the full C-suite. This will often require a fundamental shift in thinking from macro to micro, from short-term to long-term, and from functional to cross-functional. A clear case for change, including an understanding of related value at stake, should set the stage for common understanding and communication across a leadership team.

Rethinking your org structure

Translating the right vision into day-to-day operating models often requires a reconfiguration of existing organizational structures. If critical gaps exist, this may require building a new team or function to focus on revenue growth management efforts. In other cases, ways of working and teaming need to change to bring together siloed parts of an organization for more integrated insights and decision-making. The choice of what's right depends on the current level of maturity across capabilities and teams related to revenue growth management, as well as the degree of change required from current ways of working. An outside perspective can be helpful here to inform options and approaches.

Prioritizing the right commercial intersections

Not all commercial intersections are created equal in the restaurant space depending on a brand's sector and current maturity along dimensions of revenue growth management. So even as a holistic approach is necessary, a successful approach typically starts with prioritizing a select set of intersections to drive the necessary changes and deliver value.

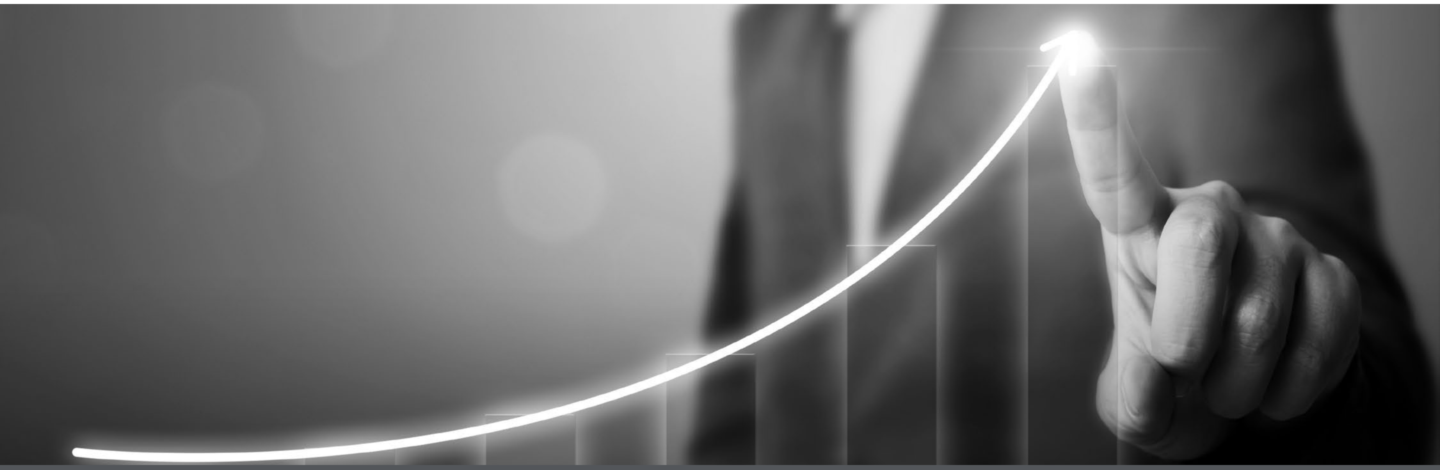
For example, cohort mix and profitability analysis to identify the most price sensitive customers for adjustments to pricing strategy may be a logical starting point for companies concerned with having "sped" in recent price actions. In other cases, establishing a north star vision for value offers and messaging that relies on more granular customer segmentation may address the lack of a value platform. Reversing declines in customer frequency may require redesigning rewards programs that better integrate with pricing signals. Intersection points can shift and expand over time as maturity evolves and market dynamics dictate. Clear priorities at the outset start building momentum in the right direction.

Investing in consumer sensing and signals

Foundational to a more integrated approach to revenue growth management is typically a more robust set of consumer insights. Many companies have ample opportunity to better leverage existing data for actionable insights. Enhancing first-party data with additional third-party data assets can create more comprehensive data models that further enhance the ability to build customer profiles and understand changes in behavior that inform revenue growth management opportunities. Common focus areas include customer segmentation, measurement of price elasticity and willingness-to-pay, competitive data tracking, and customer data platforms. Use cases that support prioritized commercial intersections can guide the right investments. Current market dynamics require a level of differentiation in commercial actions by consumer (or cohorts) that can only be found in more targeted and granular understanding of consumer preferences and behaviors..

Building a test and learn mindset

With a more complex set of value levers at play in commercial strategy, the ability to test and learn becomes more critical. Test and learn includes both a culture that seeks to continuously explore, as well as a set of supporting capabilities that enable successful execution. Learning plans, hypothesis-driven strategy, actionable customer insights, and measurement and evaluation tools are the building blocks of a culture of innovation.

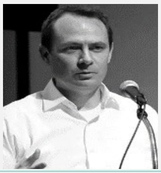


Revenue growth management continues to lie at the intersection of strategy and execution, giving it (when done well) the opportunity to disproportionately drive impact in the restaurant and hospitality space. The right priorities and a data-driven organization aligned top-to-bottom to meet today's new moment in the restaurant space provides opportunity to leverage more than just price for delivering profitable growth and long-term value-creation.

Please contact benhess@deloitte.com if revenue growth management is of interest to you and your organization. We look forward to continuing the dialogue!

Authors

Georg Muller
gemuller@deloitte.com
Managing Director
Chicago



Jeffrey Tull
jtull@deloitte.com
Managing Director
Chicago

Ed Lee
elee@deloitte.com
Managing Director
Chicago

Benjamin Hess
benhess@deloitte.com
Senior Manager
Chicago

Deirdre O'Connell
deoconnell@deloitte.com
Senior Manager
New York