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# THE TETRIS GAME OF REVENUE MANAGEMENT

*How can retail companies manage costs and revenue effectively without oversimplifying their business processes?*

## THE AUTHOR

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## ABSTRACT

Retail companies face significant challenges in managing costs and revenue due to the complex nature of their operations. With thousands of products, numerous suppliers, and countless customers, effectively managing these variables is like playing a game of Tetris, where each piece represents a different pricing element, discount, or condition. Various departments, including purchasing, category management, finance, and analytics, are involved in revenue management, each facing unique challenges that are interconnected. Inefficiencies in one area can have ripple effects across the organization, making it crucial for these departments to work collaboratively.

To address these complexities, retail companies must implement a comprehensive revenue management system that integrates upstream and downstream processes. Such a system offers six key benefits: real-time visibility, the ability to simulate, analyze, and track outcomes, error reduction through automation, enhanced collaboration across departments, end-to-end integration for tracking profitability, and consolidated reporting for data-driven decision-making.

By adopting a robust revenue management system, retailers can reduce costs, improve operational efficiency, and drive profitability. Embracing technology is essential not only for surviving the complexities of modern retail but for thriving in a competitive landscape.

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## UNDERSTANDING THE TETRIMINO OF RETAIL COST MANAGEMENT

Managing personal expenses can feel overwhelming at times — there are bills, subscriptions, insurance and everyday purchases to juggle. But imagine scaling that complexity to the level of a national retail company. With thousands of products, numerous suppliers and countless customers, the challenge of managing costs in retail is magnified exponentially. For retailers like you, calculating profit margins involves far more than simply subtracting the cost of goods sold from the sales price. Each product carries its own unique pricing elements, discounts, terms and conditions that must be carefully managed.

In a retail organization, departments like purchasing, category management, finance and analytics all play a critical role in revenue management. Each department faces different challenges, but they are interconnected, and inefficiencies in one area can ripple across the organization.

For example, the **purchasing department** doesn't just negotiate product costs — they also have to manage discounts, which might come in the form of on-invoice or off-invoice discounts, prompt payment discounts, or other negotiated conditions. These discounts could be calculated based on various factors like amounts, percentages, volumes or growth targets. The complexity of managing these variables grows as the number of products and suppliers increases.

Meanwhile, **category managers** are constantly balancing a range of factors to maximize profitability. They need to consider the MSRP, competitor pricing and whether a promotion should be run on a particular brand. Promotions require funding, and decisions must be made about stock levels, the cost of running a clearance, and how much inventory is too much. Seasonal products add another layer of complexity, as timing becomes crucial in managing stock and pricing.

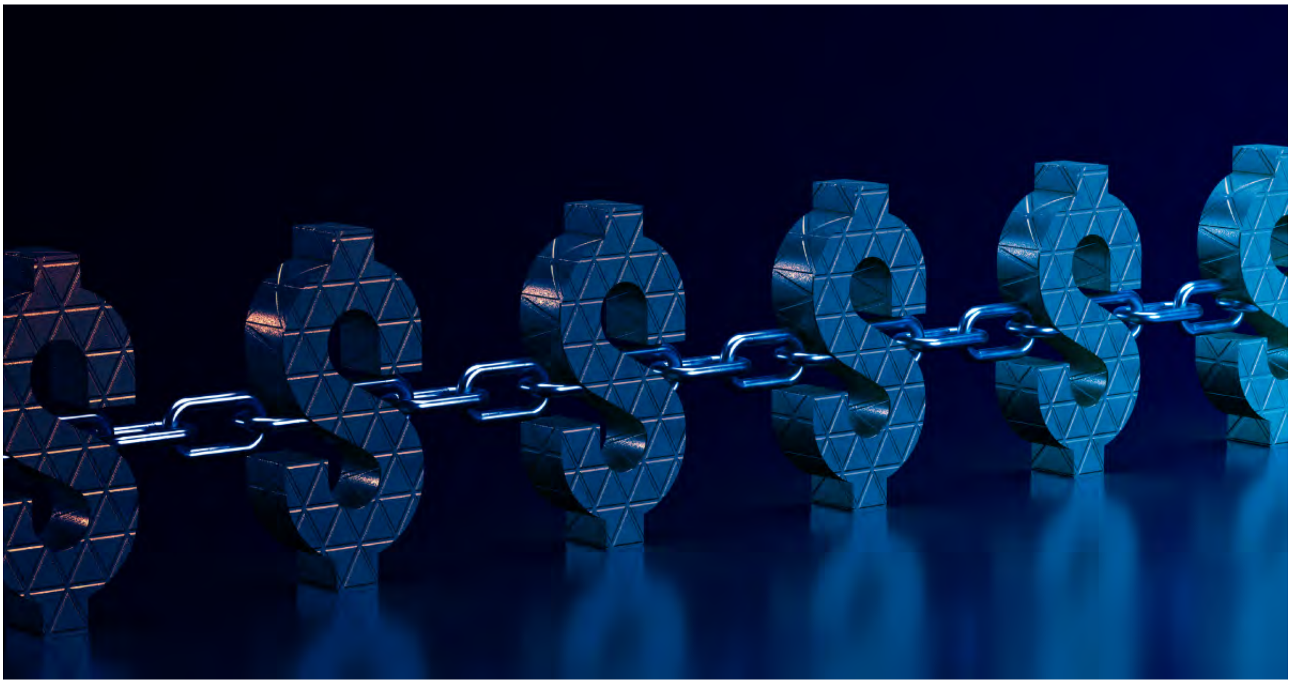
The **finance department** needs visibility into all negotiated terms, including rebates, off-invoice conditions and promotional funds. Accurate and timely accruals are essential to ensure that revenue and expenses are properly accounted for. Finance teams must also reconcile payments and claims, which can be complicated by the sheer volume of transactions and the varying terms for each product or supplier. Missing or inaccurate data can lead to significant financial discrepancies.

Finally, **analytics teams** rely on real-time data to conduct profitability analyses. They must understand the full range of conditions that impact each SKU in every product category, including prices, discounts, funds, rebates and marketing activities. The complexity of retail data makes it challenging to draw meaningful insights without a system that can aggregate and analyze all of these variables.

One of the biggest challenges in retail revenue management is that the terms and conditions associated with products often have different periodicities. Some discounts or rebates are immediate and transactional, while others might be applied monthly, quarterly, or even annually. Tracking and managing these varying timelines adds another layer of difficulty to an already complex system — it's like constantly playing a game of Tetris.

## IS YOUR REVENUE MANAGEMENT SYSTEM ON LOCK DOWN?

Given the complexities described above, how can retail companies manage costs and revenue effectively without oversimplifying their business processes? I believe the solution lies in implementing a comprehensive revenue management system that integrates both upstream and downstream processes. This system should seamlessly connect with logistics and financial systems, ensuring that all stakeholders have access to the information they need in real time.



A robust revenue management system can provide 6 key benefits:

### 1. REAL-TIME VISIBILITY:

Business users should have access to all terms, conditions and performance metrics in real time. This includes information about suppliers, distributors, customers and products. By having immediate access to accurate data, business users can make informed decisions and respond quickly to changes in the market.

### 2. SIMULATE, ANALYZE AND TRACK:

A modern revenue management system allows companies to simulate potential outcomes before committing to a course of action. They can analyze the performance of their incentive and discount programs, track the true cost of each product and calculate the actual profitability of each sale. This helps eliminate inefficiencies and identify opportunities for cost savings.

### 3. ERROR REDUCTION:

Manual processes are prone to errors, and in a retail environment, even a small mistake can have significant financial consequences. Automating revenue management processes reduces the risk of manual errors and ensures that data is accurately recorded and analyzed.

4. ENHANCED COLLABORATION:

A comprehensive system fosters better collaboration across departments as well as your supplier network. For example, purchasing can easily share data with category managers, who can then work with finance to ensure that all terms and conditions are properly accounted for. By breaking down silos and improving communication, companies can streamline their operations and improve overall efficiency.

5. END-TO-END INTEGRATION:

The system should provide end-to-end visibility into revenue, Gross-to-Net profit and program effectiveness. This enables business users to track money leaks, exploit opportunities and understand the complexity of their business across all partners, categories, articles and conditions.

6. CONSOLIDATED REPORTING:

With all data centralized in one system, companies can generate both standard and ad-hoc reports, giving them a comprehensive view of their operations. Consolidated reporting helps businesses identify trends, track performance and make data-driven decisions that improve profitability.

## TECHNOLOGY WILL TAKE YOU TO THE NEXT LEVEL

In the fast-paced world of retail, managing costs and revenue effectively requires more than just good intentions — it requires the right tools. A comprehensive revenue management system is no longer a luxury; it's a necessity and a game changer. By automating processes, improving visibility and providing real-time insights, such a system can help retailers reduce costs, improve operational efficiency and drive profitability.

In short, it's about giving business users the ability to see the whole picture — to understand where the money is going, where it's being wasted and where it can be saved. For retailers, embracing technology in this way isn't just about surviving the complexities of modern business — it's about thriving in them.

*Want to gain deeper insight into revenue management?*
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EPP Pulse offers another valuable platform for the Pricing and RGM community by bringing to light successful practices and strategies, enabling expertise exchange, fostering connections among pricing professionals, and engaging the community in dialogue and content sharing. Furthermore, EPP Pulse serves as a tool to identify market needs and interests for topics that could be developed in future EPP forums and events."

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