

PRESS RELEASE

Price wars steadily advancing – but someone else is always to blame

International study reveals dangers of strategies based on reducing prices of UK and European companies

London, February 17, 2010 – More than half of European companies surveyed said that they have been involved in a price war and reduced their prices significantly in 2009. Yet according to 95 percent of respondents, competition was to blame for starting or driving the price war. These findings are two key results of a pan-European survey conducted among 1,200 executives from eight countries by the global consulting firm Simon-Kucher & Partners – global pricing and marketing strategy consultants – in cooperation with leading business schools.

More than two-thirds of all respondents assumed that price cuts would not sufficiently increase volumes to offset the lower margins, yet still almost 40 percent of the companies reduced their prices during the financial crisis. Stephan Butscher, Managing Partner of Simon-Kucher & Partners, UK commented, “the fact that managers mostly blame competitors for having cut prices first – supposedly forcing them to react – shows that often these cuts were not necessary as cost was the real culprit. In a crisis, when budgets are low, lower prices are simply not going to create the necessary demand increase.”

Strategic Priorities

Active cost management was a top priority of 55 percent of the companies surveyed, yet they tended to neglect their price management strategies. The survey also found that only 1 in 25 of respondents understood how much they should increase volume to offset price cuts. Mr Butscher commented, “This gross underestimation of how much volume has to pick up to offset lower prices means

that price decreases were performed too quickly. A little time and accuracy spent on calculations could have kept a lot of companies from serious mistakes. Profit could have been higher and jobs could have been saved.”

The survey also found that in more than two thirds of all cases, demand is estimated to be inelastic. Nonetheless, 39 percent of companies with inelastic demand still reduced prices during the crisis, leading inevitably to a reduction of their revenues. One of the additional findings was that although the profitability of a company is directly correlated with the strategic prioritisation of price management, only 17 percent of all companies put a particular focus on their price management.

Sector Specific Pricing Trends

Within the sectors almost two-thirds of the companies from manufacturing, telecommunications and engineering sectors were engaged in a price war. Conversely only 40 percent of the providers of consumer goods, media, pharmaceuticals and information technology said they were in a similar situation. “This could be a result of hindsight by the IT providers who learned from their mistakes of the dotcom downturn”, commented Mr Butscher. “This also points to some basic issues of ‘industry specific pricing IQ’ whereby the probability of an industry entering into a price war is inversely related to the IQ of that industry.”

The Future?

It remains to be seen how price levels will develop for companies and sectors throughout 2010. About half of the respondents claim that price levels will remain stable during 2010 whilst one-third expects a decrease. Around two-fifths think – mistakenly – that it will be easier to boost prices back to their original level than to win back customers. At Simon-Kucher & Partners, 25 years of price and marketing consulting show this to be a misguided conclusion. Reality shows that customers quickly grow accustomed to low prices and that price increases are hard to implement, even in good times.

“Pricing problems are not going to diminish any time soon, but the potential and solutions are obvious. Now is the time to address pricing strategies. This entails

compensating price decreases, addressing liquidity and returning to sensible margins,” said Mr Butscher. “Companies must realise that price is the biggest profit driver in a company’s arsenal – more so than their cutting costs or driving volume. As the crisis is not entirely over, the risk of making more pricing mistakes is high – especially if the economy enters a double-dip recession.”

- END -

Simon-Kucher & Partners, Strategy & Marketing Consultants:

“Smart Profit Growth” is the focus of Simon-Kucher & Partners’ consulting work. Germany’s largest business publication Manager Magazin recently ranked Simon-Kucher as the leading consultancy in marketing and sales, based on a survey conducted among top managers in Germany (August 2007). With approximately 450 employees, the firm currently has 19 offices worldwide.

For further information: Saffi Haines (Public Relations Manager), Tel: +44 20 7841 5750 Fax: +44 20 7841 5751, E-Mail: Saffi.Haines@simon-kucher.com;

www.simon-kucher.com