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Global Pricing Study 2011: "Weak pricing cuts profits by 25%"

Short summary

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Executive summary: Weak pricing cuts profits by 25%

1

Pricing power untapped

65% of the companies are not able to charge the prices they deserve

- Only 35% of the companies have sufficient pricing power* to achieve the "right" price for their products/services.
- Low pricing power is costly. It cuts profits by 25%.
- Chemicals (14%) and transport & logistics (19%) have the lowest pricing power.
- Brand and product value are the primary drivers of high pricing power.

2

Price wars continue

46% of companies still think they're in a price war (they didn't start)

- The crisis is over, but many companies are still fighting price wars.
- The extent of price wars differs greatly by country and industry; the Japanese market has by far the highest level (84%), followed by Italy (69%) and Spain (65%).
- High level of misperception: 83% of companies in a price war blame competitors for starting it.
- *"If you ask your people to strive for volume only, you should not be too surprised to end up in a price war"* (comment from surveyed manager)

3

Inflation threat underestimated

Companies only get half of what they expect when they try to raise prices

- Only about one-third of the companies is able to achieve at least 75% of the originally planned price increase.
- Telecommunications (25%) and life sciences (29%) have the lowest price implementation performance.
- 68% of the companies plan to increase prices below or in line with inflation; given the poor price implementation performance, this will not be enough.
- Construction, industrial goods and transport/logistics plan to increase prices above inflation rate to cover higher costs.

4

Four key measures

The better the pricing know-how, the higher the pricing power, the higher the profits

1. Re-direct your price strategy to achieve higher profits, rather than volume or market share. Introduce pricing power as a new KPI.
2. Pay particular attention to the pricing of new products and services.
3. Improve pricing expertise in sales, marketing and management.
4. Make your company inflation-safe by improving the price implementation and setting high price increase targets.

* Pricing power is the ability of a company to get the money it deserves for the value it delivers

Set-up and methodology

The Global Pricing Study 2011 is the first of a series that will be repeated every year.



Methodology

- Online survey
- 15 questions in four parts:
Profit orientation, pricing power, inflation, profit outlook



Duration

- May 7 to June 28, 2011



Participants

- Mainly from Europe, the US and Asia
- From all major service and manufacturing industries
- Simon-Kucher & Partners clients, members of the Professional Pricing Society, alumni of IE Business School



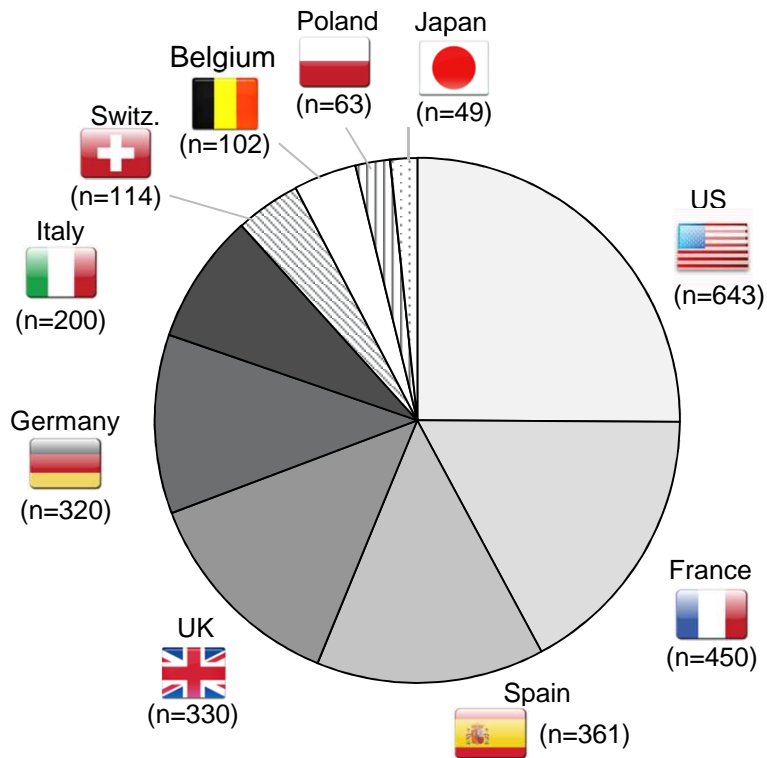
Sample size

- 3,904 valid responses

Geographic and industry distribution

Geographic distribution*

Total: 3,904 respondents



Industry distribution

Financial services (banking, insurance, private equity)	19%
Pharma, biotech/medtech	15%
Travel/hospitality	7%
Transport/logistics	6%
Automotive (manufacturers/suppliers)	6%
Media/entertainment	5%
Retail	4%
Industrial goods/machinery	4%
Construction	4%
Chemicals	4%
Telecommunications	3%
Consumer goods	3%
Energy/utilities	2%
Other (services)	10%
Other (manufacturing)	8%

* Countries with fewer than 49 respondents are not included in the graph. Among these countries are the Netherlands, Sweden, Austria, Denmark, Norway, Finland, China, Ireland, Russia, Canada, Mexico, Puerto Rico, Australia, New Zealand and Morocco. They account for a total of 1,272 respondents.

Profile of respondents

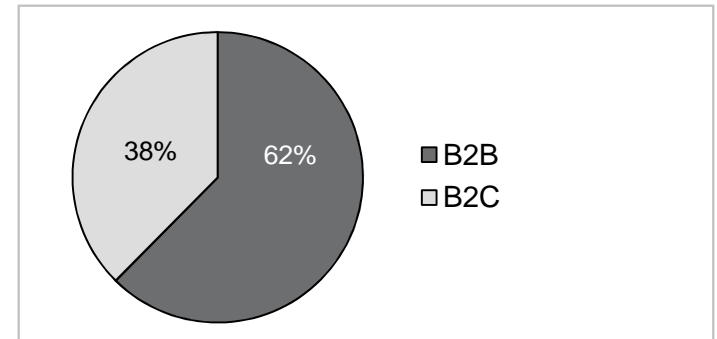
C-level executives account for almost one-third of the respondents; 41% are from €1bn+ companies.



Distribution by position in the company

Position	Percentage
C-level executives	31%
Marketing	20%
Sales	15%
Product management	8%
Finance/controlling	6%
Other (purchasing, reg. Op Co...)	20%

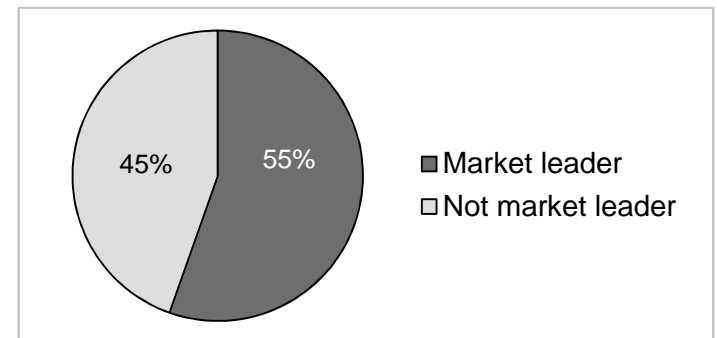
Distribution by type of activity



Distribution by company size

Company size (sales p.a. in €m)	Percentage
≥ 1,000	41%
500 to <1,000	11%
200 to <500	13%
50 to <200	17%
<50	18%

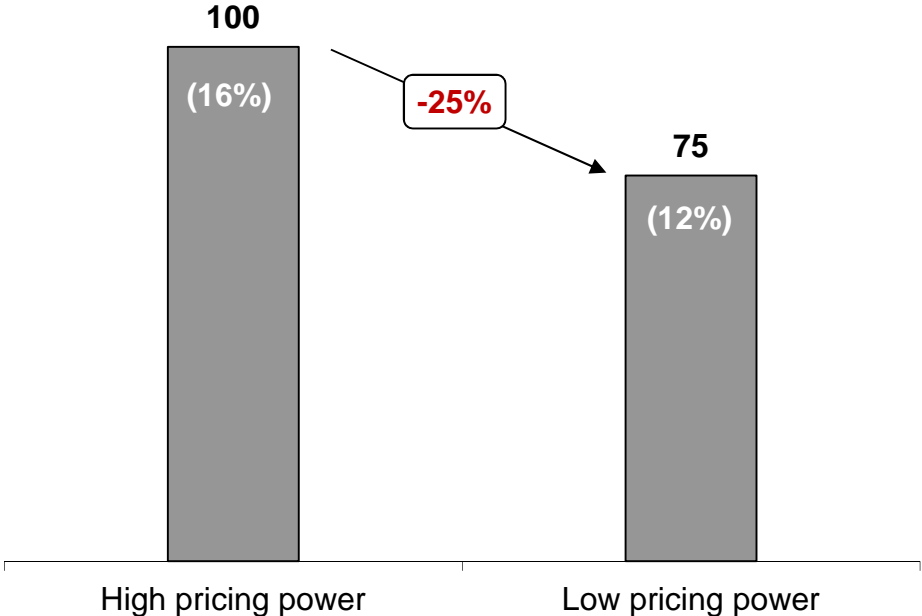
Distribution by market position*



* As assessed by respondents

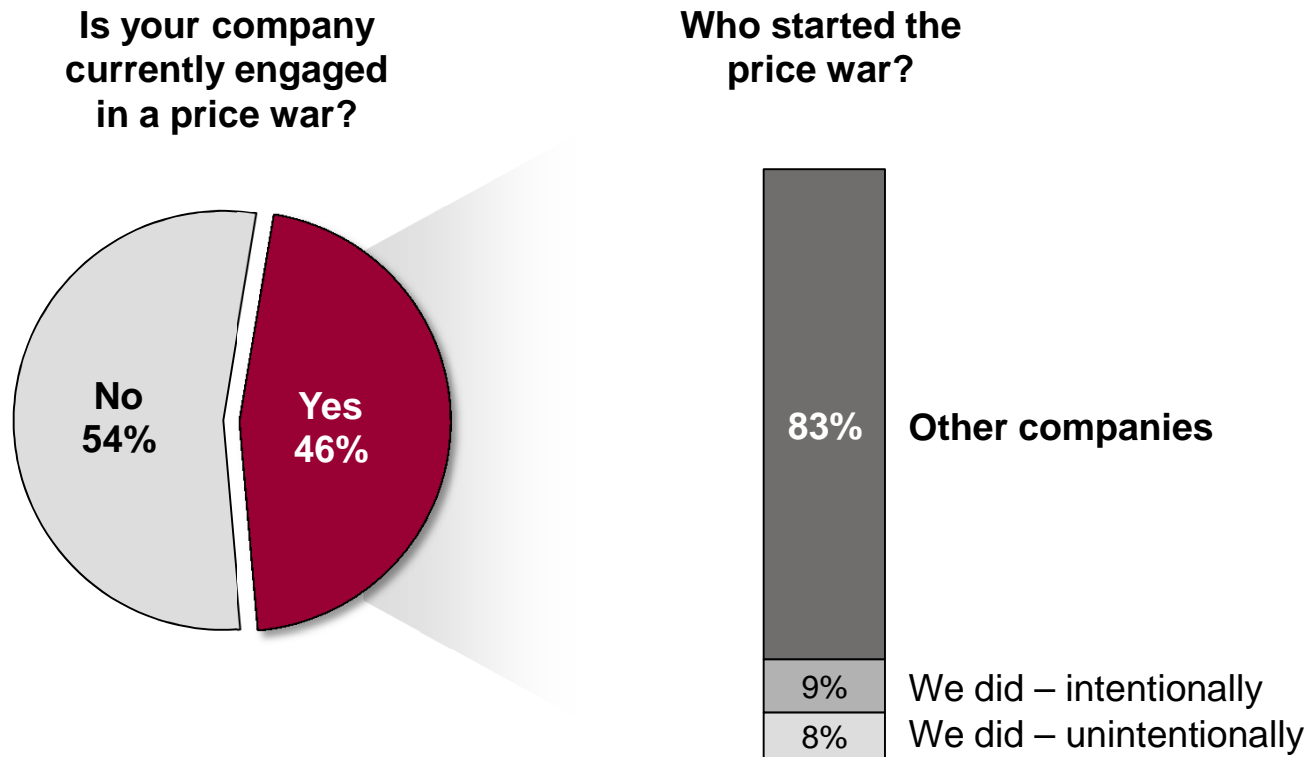
Weak pricing power cuts profits by 25%

EBITDA margin* over the last three years
(index, percent)



*EBITDA margin: earnings before interest, taxes, depreciation and amortization
Source: Simon-Kucher & Partners Global Pricing Study 2011

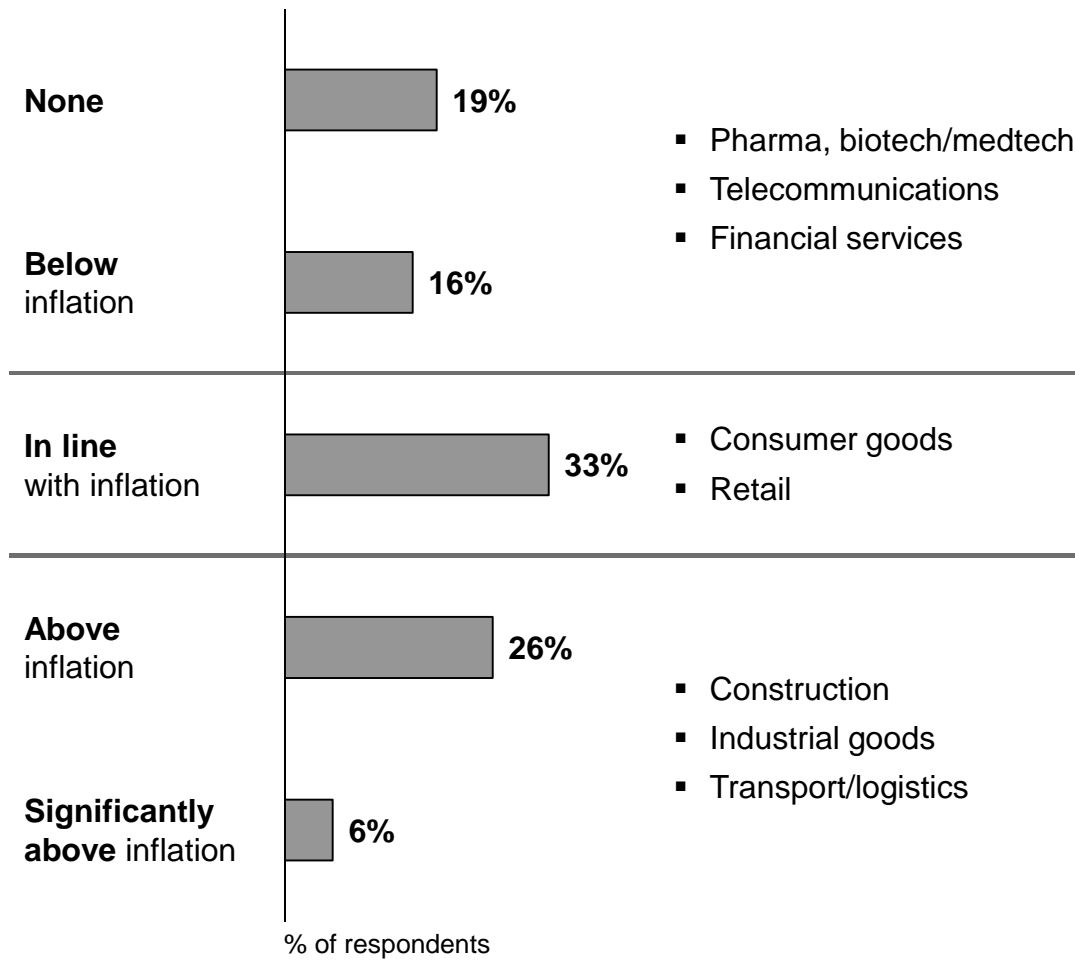
Price wars continue



Source: Simon-Kucher & Partners Global Pricing Study 2011

The majority of companies will raise prices at or below inflation rates

Target price changes relative to inflation rates



Source: Simon-Kucher & Partners Global Pricing Study 2011

Simon-Kucher & Partners: Scope and reputation

World market leader in pricing

BusinessWeek

"World leader in giving advice to companies on how to price their products"

The Economist

"The world's leading pricing consultancy"


THE WALL STREET JOURNAL

"Pricing strategy specialists"

Peter Drucker

"In pricing you offer something nobody else does."

No. 1 in marketing and sales in Germany*

Rank	Consultancy	Score	manager magazin
1	Simon-Kucher & Partners	389	
2	Boston Consulting Group	387	
3	McKinsey & Company	372	
4	Bain & Company	349	
5	Roland Berger	346	

Global presence

23 offices worldwide

Employees: 500



Revenue, 2010: €105.4m

* Maximum 500

Source: *manager magazin* August 2007/IMB (Institute for Management & Consulting); survey of 264 top managers; *manager magazin* August 2011/IMB (Institute for Management & Consulting); survey of 452 top managers

> 2,000 projects in the last three years



- Growth and competitive strategies
- Product portfolio (re-)design
- Pricing excellence
- Customer relationship and customer value management
- Sales strategies and sales channel optimization