

Global Pricing Study

Insights

2016



Simon-Kucher & Partners
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excellence scope size
participants profit revenue
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challenges price pressure
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Pricing is a C-level topic!

“If you have to have a prayer session before raising the price by 10 percent, then you’ve got a terrible business.”

American investor Warren Buffett perfectly sums up the results of the Global Pricing Study.

There has never been such immense pressure to change world-wide: Digital networking, shorter innovation cycles and global interdependencies force companies to continuously rethink their approach. And that’s not all – at the same time, companies find themselves right in the middle of increasingly intensive price wars. Only those who actively manage the situation, compensating increasing costs through successful price management and optimally monetizing innovations, can prevent declining margins and the associated cuts.

One of the strongest drivers of these widespread price wars is digitalization. Across all industries and sectors, no other mega trend exerts such high pressure on prices. Many companies are still struggling to face the challenges of the digital revolution – especially when it comes to pricing.

The consequence: Many lucrative opportunities are left untapped, whether in terms of successfully securing profit margins or establishing new business or revenue models in the market. That’s why now more than ever pricing as a topic needs to be recognized at the C-level! The companies that came out on top in the Global Pricing Study understand this. Instead of relying on a prayer session before a price increase, they make pricing a C-level topic. The outcomes are a more effective pricing organization, innovative processes, the right tools, and most importantly, 27 percent higher profitability.

How decision-makers handle change and price pressure is shown in the extract of the study provided on the following pages.

Global Pricing Study 2016

- **Scope and size:**
More than 2,000 decision-makers from over 40 countries and all major industries.
- **Participants:**
38 percent from executive management roles, 47 percent from middle management.
- **Focus on digitalization:**
Companies neglect many of the opportunities arising from digitalization, especially in price management.
- **Pricing excellence:**
Begins with executive management. The “best” companies have achieved pricing power despite increasing competition.
- **Frequency:**
The Global Pricing Study is conducted every two years.

Related books



Monetizing Innovation

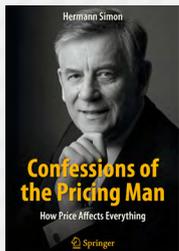
How Smart Companies Design the Product around the Price

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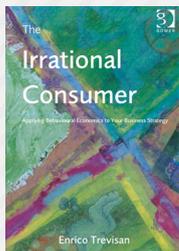
Confessions of the Pricing Man

How Price Affects Everything

Hermann Simon

Springer, 2015

ISBN 978-3-319-20399-7



The Irrational Consumer

Applying Behavioural Economics to Your Business Strategy

Enrico Trevisan

Routledge, 2013

ISBN 978-1-4724-1344-4

Learn from the best!

Taking a closer look: The Global Pricing Study shows how pricing is understood in all major industries and what this means for business models, including the recipes for success that the “best” companies follow.

There’s a clear trend: As in previous years, many industries are caught up in a price war, and only a few companies have an appropriate price strategy in place to face this challenge. This leaves them unable to successfully implement price increases! Admittedly, companies have improved in this regard versus two years ago, yet in most cases the planned price increases are still far too low. Many companies report that they are unable to compensate for cost increases with price increases and in many industries they are struggling with declining profit margins.

The Global Pricing Study shows what the “best” do differently from the “rest”.

However, this doesn’t apply to everyone! The Global Pricing Study shows what the successful “best” do differently from the “rest”. These companies have significantly higher margins and are able to position new products in a profitable way. Pivotal here is that the “best” make pricing a C-level topic and don’t shy away from investments. Pricing is already introduced at the start of the innovation process and this has proven to be a decisive success and profit factor when introducing a new product. Tailor-made methods and tools also help these companies to better understand and communicate the value of their offers to customers. That way they implement their target prices more successfully in the market.

In 2016, the study focuses particularly on digitalization. The results show that many companies are still blinded by the risks, which leaves them unable to see the many opportunities. Generally speaking, companies perceive the development of new sales channels to be the main opportunity. However, in terms of prices and margins digitalization is still perceived as a risk. The consequence: Only a few companies are exploring the price management opportunities that stem from the digital revolution.



Alarming high price pressure

82 %

of all companies complain of increasing **price pressure**. Most important causes: Stronger competition with low cost providers, customers' greater negotiating power and a higher level of price transparency due to increasing digitalization.

49 %

of companies are involved in a price war. Every fifth company reports that there is a **price war** in their industry, but they themselves are not involved.

6/10 ↗

Only six out of ten companies were able to improve their **margins** compared to the previous year.



Pricing power: Cost increases are not sufficiently passed on

30 %

of companies don't manage to **enforce** their planned **price increases** in the market.

60 %

of all companies expect **cost increases in 2016**: Yet with every second company (52 percent) the planned price increases are not enough to **compensate for these cost increases**.

0.7 %

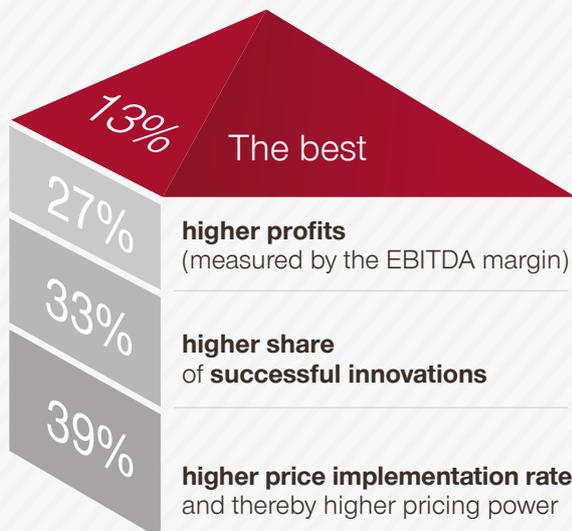
points is what **pricing weaknesses** will cost companies in terms of profit margins in 2016.

87 %

of all companies see a significant **need for improvement with price strategies** and the accompanying tools.



The "best" companies invest in price strategies and tools



Digitalization: An opportunity for sales, but a risk for prices and margins

93%

consider digitalization to be **relevant** for their business

73%

see it as an **opportunity**, mainly for sales (60 percent)

27%

see it as a **risk**, mainly for prices and margins

“It’s time to embrace change”

Interview with CEO Dr. Georg Tacke and study leader David Vidal

The most successful companies consider pricing a high priority. Why is this such an important topic?

Tacke: Price is and will remain the most important profit driver, especially as many companies have reached the end of the line when it comes to costs. At the same time, price pressure is increasing. It’s only logical that the successful companies are investing heavily in professional pricing. Otherwise they run the risk of no longer being able to enforce profitable prices in the market – and that would have a devastating impact on their profit.

What needs to be done when a company is aiming for pricing excellence?

Vidal: A basic requirement is that everyone understands the importance of price, from the CEO to the sales reps. Pricing excellence begins with the right strategy and targets: Those who only orient their company toward volume and market share shouldn’t be surprised when prices hit rock bottom. Pricing organization and processes play an important role. For

example, what is decided on a centralized, decentralized or market level? To develop optimal price strategies and implement them in sales you need the right systems and tools, and last but not least the right pricing expertise.

Why should pricing be a C-level topic?

Tacke: Pricing excellence requires a full transformation within the company: From the mindset to the strategy, from the organization and processes to human resources. This can be achieved only when backed by the CEO. It sounds like a Herculean task, however even the first small steps result in immediately noticeable profit increases.

How exactly can companies optimize their price strategy?

Vidal: There isn’t THE optimal price strategy, it’s different for every company. For example, while the budget airline Ryanair has been extremely successful with its lowest price strategy plus surcharges, the electronics

How to boost profits

Recommendations for C-levels

- ✔ **Boardroom issue:** Make your price strategy and management a top priority – no board meeting without pricing on the agenda!
- ✔ **Investment and organization:** Invest in pricing expertise and establish a pricing department. Determine roles and responsibilities in the pricing process.
- ✔ **Targets:** Plan ambitious but realistic targets. Be careful with targets that aim for excessively high volume and market share, since these often trigger price wars.
- ✔ **Pricing power:** Organize price increases as a cross-functional project.



Dr. Georg Tacke
CEO



David Vidal
Partner

company Apple has succeeded using a premium price strategy. But what all successful price strategies have in common is thought-out and effective price and offer differentiation that optimally taps the different levels of willingness to pay.

How do companies manage implementation?

Tacke: Implementation is an Achilles' heel and often underestimated. That also goes for price setting. Benefit and value communication, offer presentation and above all anchoring in sales are important factors here.

Many companies see digitalization as a threat. Where do you see opportunities?

Vidal: Digitalization and the possibilities of the internet are leading to significantly higher price transparency,

resulting in increased price pressure. Many companies see this as a cause for concern. However, digitalization opens up enormous opportunities in terms of dynamic pricing, price differentiation and innovative price models. Let's take as examples Uber's fantastic price model, or dynamic pricing as seen with Amazon and Google: All impossible without the internet! Here we are still at the start of a rapidly evolving journey.

Tacke: It's time to embrace change. The internet creates transparency not only in terms of price, but also benefit and value, since today almost all products or services are reviewed by the user. This is the most important prerequisite for value pricing and excellent news for high-quality providers!

- ✓ **Digital-ready:** Systematically check whether your revenue and business models are prepared for the digital age.
- ✓ **Monetizing innovation:** Check your entire innovation process. Set up cross-functional teams and involve pricing and monetization experts from the start.
- ✓ **Immediate measures:**
 - Invest one hour per week in pricing (review contracts, etc.).
 - Conduct a round of price increases every year – no exceptions!
 - Only agree to price cuts when three non-pricing measures have been investigated.
 - Introduce a pricing cockpit with the most important KPIs.

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To obtain your free copy of the Global Pricing Study 2016 or learn more about how to develop your own practical strategies for profit growth, please contact us at:

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