

**SIMON ♦ KUCHER & PARTNERS**

Strategy & Marketing Consultants

# REVENUE PROFIT GROWTH //

Gaining TopLine Power®  
through pricing,  
marketing and sales







Simon-Kucher & Partners





A chat with Simon-Kucher & Partners' CEO .....	4
Looking back .....	5
Excellence in pricing, marketing and sales – Examples from across the market .....	6
Highlights – Experiences from three decades of consulting .....	13
Danger ahead! Profit drains – and how to avoid them .....	24
Consulting in the future – A roadmap from Simon-Kucher & Partners .....	29
Simon-Kucher & Partners in numbers .....	34



# Growth is unlimited

A chat with CEO Dr. Georg Tacke about Simon-Kucher

*Describe Simon-Kucher in three words.*

Specialized, global, growing.

*Can you elaborate?*

Simon-Kucher & Partners is a global strategy consultancy specializing in pricing, marketing, and sales. For 35 years now, we've been helping our clients to boost their revenue and profits through innovative, fact-based, and pragmatic strategies. As our average growth rate of almost 20 percent proves, our clients really appreciate our work.

*The beauty of this?*

We get to represent the sunny side of consulting and leave cost-cutting to the others. We don't want to emulate anyone – we only give advice on topics that we truly understand.

*What does this mean for your clients?*

TopLine Power®: Growth is the name of the game. Cost-cutting only works to a certain degree and most companies have already reached their limit. In principle, growth is unlimited. We show our clients how to achieve it. ►



### *What makes Simon-Kucher stand out?*

Our recognized excellence: We have long been considered the world leader in pricing and surveys by leading business publications also rank us number one in marketing and sales.

### *What else?*

We know exactly how business leaders and entrepreneurs tick. Simon-Kucher is wholly owned by its Partners. This means that each partner is a true entrepreneur and bears responsibility for the economic success and future development of our consultancy.

### *What makes Simon-Kucher the company it is?*

Our employees. We only hire the best and the brightest. All our consultants are experts in the fields of pricing, marketing, and sales. They are also highly experienced in their respective industries. Our team works out of offices in Europe, the Middle East, Africa, North and South America, and the Asia-Pacific.

### *In other words, internationality is...*

...a core element of our identity. We think and act globally. Our employees value our open and multicultural working environment, inspiring everyone to constantly develop and improve.

### *Where are things headed?*

Same as before: up. As global specialists, we want to continue to grow well above the industry average. By 2025, we expect our revenue to reach 720 million euros. In many industries and countries, we are just getting started and current developments such as digitalization will increase the need for our services. The potential is immense. ◀



Prof. Dr. Dr. h.c. mult. Hermann Simon, Founder

## From academia to hidden champion – Journey to the origins

My studies in economics were very theoretical, but I always had the ambition to do something of practical relevance. As a doctoral student, for example, I used empirical data to measure price elasticities. Continuing my path, as a university professor I learned that my first doctoral students Eckhard Kucher and Karl-Heinz Sebastian shared my passion and so we took on consulting projects in addition to our university work. We realized that we had found an opportunity to start a promising business.

Today, 35 years later, it is obvious that the idea worked out well. Simon-Kucher is regarded as the global market leader in price consulting, a true hidden champion. But the joy we took in utilizing our scientific expertise was only one driving factor. The other one: We didn't want to have a boss. We wanted to be entrepreneurs.

The most important decision we made was to opt for a truly entrepreneurial model of ownership. Young Partners invest in the firm and are rewarded by the added value they help to create. This is a unique model in the consulting industry. Our approach is built on focus and entrepreneurship and will keep Simon-Kucher independent and growing.





# Excellence in pricing, marketing and sales

Examples from across the market



## Pricing excellence in perfection

INDUSTRY Automotive

COUNTRY Europe // USA // China

Even an essentially perfect high-tech car requires continual fine-tuning. For the industry leaders, this applies not only to the cars but also to the entire company. Their executives place great value on revenue optimization and long-term profit maximization. For years, Simon-Kucher has been helping 10 of the world's 12 top car manufacturers, for example, to develop their global positioning and price strategies with content and volume planning for new and existing models and model series. Beyond this, in after sales we also help our clients to revise their global spare parts pricing systems. Our projects do not focus just on individual results, but rather on optimizing the applied methods and perfecting and establishing the necessary processes and skills throughout the organization. These efforts pay off: Particularly the top brands are considered the benchmark for value monetization and profit orientation.

## Future-proof business model

CLIENT/INDUSTRY The Economist // Media

COUNTRY UK // USA

iPads and e-readers have thrown a wrench in the traditional business model of magazines. With the prevalence of free online content and the low proceeds of digital advertising, experts saw a gloomy future for the media world. Simon-Kucher, together with The Economist, analyzed likely market developments and created future-proof business and offer models. What's more, we determined the readers' willingness to pay and pinpointed a price strategy for print and digital offers. The result: The Economist increased its revenue significantly and led the industry in monetizing content.







## Optimized product portfolio

CLIENT/INDUSTRY PayPal // FinTech

COUNTRY USA // Europe

▼

PayPal offers payment solutions in a fast-growing, two-sided market: The customers are consumers (buyers) as well as merchants (sellers). Simon-Kucher supported PayPal in several projects globally in both of these areas. For the merchants, we helped optimize the product portfolio by creating packages to address specific market needs, thereby raising revenue and growth. On the consumer side, we came up with several strategies to accelerate growth while adding value. We also helped PayPal to create a culture focused on identifying customer value and productizing to that value. Ever since, there has been a renewed focus to only develop products for which there is proven market value and demand. Today, PayPal is considered the leading financial services provider in the digital world.

## Customized solutions for sales force optimization

CLIENT/INDUSTRY Top 5 global player // Pharma

COUNTRY US

▼

Successfully launching new products is becoming harder, even for the top global pharmaceutical companies. This was also true for our client, one of the top 5 in the market with a long history of blockbuster drugs. Any delays in time to peak sales result in high costs, so the challenge is to deploy an effective sales strategy that supports business goals from day one. Simon-Kucher worked closely with the Business Unit Leader and the VP of Sales to develop a launch strategy, taking into account both entrenched competitors and aggressive new entrants. With our help, our client optimized its sales force in terms of size, roles, and responsibilities, call plans, and territory alignment. Thanks to their more efficient set-up, they are now exceeding their annual sales targets by approximately five percent.







Top performance requires  
top equipment and support





## Global price strategy

INDUSTRY Building materials

COUNTRY 21 countries

▼

The entrance of new market players threatened a specific sector of the building materials industry with over-capacities and price deterioration, and the price pressure from downstream channel partners only made things worse. Indiscriminate, hasty actions could easily have turned the situation into a true price war. Carefully considering the situation, Simon-Kucher developed a profit-oriented price strategy for a market leader in the industry. The strategy set clear targets for all markets (e.g. customer acquisition vs. margin increase) and implementation was supported by decision-support tools, checklists, and market forecast models. Each country was thereby given the best possible profit-oriented strategy that was translated into concrete and individualized price recommendations as well as marketing and sales measures. The result: Our client defended its market position in a profitable way and successfully navigated the difficult market environment. The project was so successful that it was rolled out in 21 countries – from highly dynamic markets such as Iraq and Nigeria to mature markets such as Canada and France.

## New solutions for commodities

INDUSTRY Insurance

COUNTRY Germany

▼

Car insurance is a commodity product sold based on price, and neither customers nor insurance representatives are typically particularly motivated to deal with the minimal differences between countless offers. For this reason, Simon-Kucher worked with a leading German insurance company to create a completely new offering made up of modules that can be easily and individually put together for each customer. The customer's preferences and willingness to pay form the basis for the modules. The result: An increase of about four percent in premium revenue and about six percentage points in profitability – and even an increase in customer satisfaction. This has started a new trend in the industry: Modular products can now also be found throughout other insurance sectors.







## Optimal monetization of R&D investments

INDUSTRY Pharma

COUNTRY Global

Strong market regulation, a global market, extremely long product development cycles with billions spent on R&D investments – all of these factors make pricing for pharmaceutical firms especially challenging. These enormous investments are only paid back if the strategy is just right. Highly specialized teams on a national and international level are responsible for ensuring that pricing and monetization are factored into the R&D process from the very beginning. For decades now, Simon-Kucher has been advising 24 of the top 25 pharmaceutical companies – from classical pharma firms to biotech start-ups. We have played a significant role in pricing numerous blockbuster products and continue to support our clients in further professionalizing their pricing processes before, during, and after market launch. In doing so, we have greatly assisted in securing the entire industry's long-term profitability. Today the pharmaceutical industry, along with the software industry, are considered to be leading worldwide in pricing and monetization of R&D investments.

## Price image and new pricing model

CLIENT/INDUSTRY Shell // Oil & Gas

COUNTRY Germany

Price pressure and high price fluctuations in the declining German mineral oil market put Shell in a difficult situation. Especially because of the price fluctuations, many customers are afraid of paying too much. In other words, customers care more about price image than they do about paying a cent or two more at the petrol station. Under these circumstances, Simon-Kucher helped Shell to introduce the “Shell ClubSmart Preisgarantie” that offers a special pricing model to holders of a German Shell customer card (Shell ClubSmart Card) in Germany. Shell ClubSmart members pay at most two cents per liter more than at the cheapest brand-name petrol station near their Shell Station. This pricing model not only perfectly meets customers' expectations, but also strengthens the brand and increases customer loyalty.





## Post-merger pricing

INDUSTRY Banking

COUNTRY Switzerland // Global

▼

As a result of a major acquisition, one of the largest European private banks had to integrate about 80,000 customers across 50 locations worldwide. The customers weren't just supposed to be added, but also migrated into the new price structure. The challenge: In private banking, changes in price models and conditions have to be individually negotiated with each customer. What's more, as is typical for mergers, the purchase price was linked to the transferred customer assets. With a low price, more customers would have placed their assets at the new bank, but with a negative effect on the profitability of the acquisition and vice versa. Simon-Kucher developed a post-merger price strategy to deal with this situation, along with the necessary global transition and pricing tools to implement it. Furthermore, we thoroughly prepared customer advisors for the upcoming price negotiations. As a result, within 18 months the bank was able to transfer 85 percent of the maximum assets with a good margin. The merger is considered one of the most successful of its kind in the industry.

## Omni-channel management and trade terms

CLIENT/INDUSTRY Nikon // Consumer electronics

COUNTRY Europe // Global

▼

For manufacturers of consumer electronics products, the rapid growth of the internet poses problems that are almost impossible to solve. Many fail to successfully deal with online retailers such as Amazon and to effectively steer all (classic and online) sales channels. The manufacturers need to completely change their thinking, because past methods for steering prices and sales processes of retailers don't work anymore. Simon-Kucher, together with Nikon Europe, radically revised the company's trade terms system and the commercial policy for all retail channels – offline, online, and combined. What's more, we assessed the importance of all sales channels and retailers and developed a process for flexibly and quickly adjusting discounts and conditions based on how the sales channel develops. This approach was so successful at Nikon Europe that it has been rolled out in other regions.





# Highlights

Experiences from three decades  
of consulting



Increasing profits: 16 partners from Simon-Kucher share top insights from our many years of experience.

#### THE ROLE OF PRICING IN AN ORGANIZATION

- ▲ Pricing is a C-level topic
- ▲ There is no ONE pricing organization
- ▲ No monitoring, no success
- ▲ Pricing excellence begins in R&D

#### PRICING IN DIVERSE MARKET AND COMPETITIVE SITUATIONS

- ▲ Think before you decrease
- ▲ Dynamic pricing has pros and cons

#### OFFER DESIGN AND PRICE MODELS

- ▲ The customer loves the golden middle
- ▲ Think about digitalization today

#### OPTIMAL PRICE SETTING

- ▲ Value pricing, not cost-plus
- ▲ You MUST know your price elasticities

#### MORE SALES FROM SALES

- ▲ Promotions: risks and side effects
- ▲ Sales organizations have their own lifecycle
- ▲ Effective discounts require a system
- ▲ Customer-centric sales excellence is key

#### DIGITAL TOPLINE POWER

- ▲ Digitalization means putting your customer first
- ▲ Use “design thinking” to create successful digital offers



## THE ROLE OF PRICING IN AN ORGANIZATION



Joerg Kruetten  
Luxembourg

## Pricing is a C-level topic

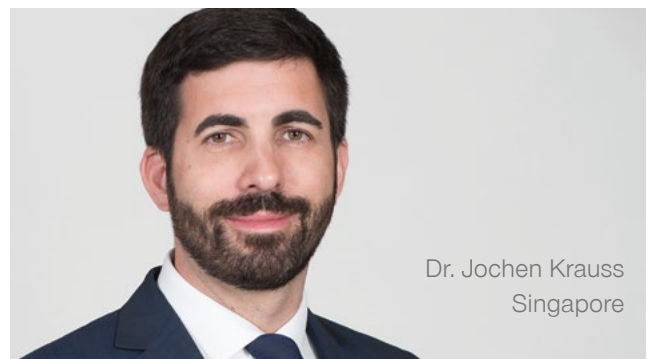
Much too often, pricing is seen as an operational task for experts, however, C-level involvement is crucial if a company wants to achieve sustainable profitable prices for its excellent performance. When C-levels are involved in pricing, their companies generate on average 25 percent higher EBITDA margins than their competitors. An executive's most important tasks are to give the price strategy a clear direction (e.g. volume growth vs. margins), create a pricing organization and instill a profit-oriented mindset among employees. A model example of this is Porsche. Pricing is one of the highest priorities for its C-levels. They take an active role in pricing thereby contributing significantly to an ROS of over 15 percent – an unusually high figure for the industry.

*Make sure that pricing is on the agenda of your board meetings and invest one day a month in the topic. Provide a clear price-strategic direction and regularly communicate the importance of pricing.*

## There is no ONE pricing organization

Should pricing responsibilities be assigned to the company headquarters or local subsidiaries? Towards the top of the organizational structure or closer to the market? Unfortunately, there is no one-size-fits-all pricing organization – there are guidelines though. The more important pricing is to a company, the further up it should be within the company's structure. More and more companies are creating small, globally active pricing teams, however, the decision content and authority level of pricing teams greatly depend on a company's culture and its business areas. In a decentralized corporation with diverse business areas such as 3M, the central pricing team may develop principles, processes and guidelines, but the resulting concrete price decisions are left to the regional organizations or business areas. In a centralized corporation such as Apple, however, it does make sense to make international price decisions out of the headquarters in Cupertino.

*Set up a global pricing team ensuring the right balance between market proximity and central function. Give your pricing organization enough power – a toothless tiger is useless.*



Dr. Jochen Krauss  
Singapore

## THE ROLE OF PRICING IN AN ORGANIZATION



Allison Dupuy  
San Francisco

## No monitoring, no success

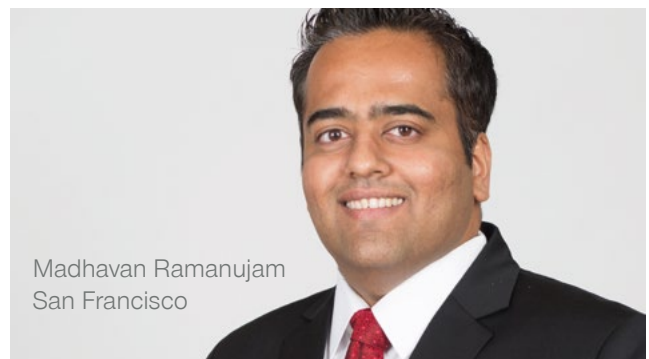
It's one thing to come up with a price strategy. It's a whole other thing though to embed it into the organization. To ensure success, comprehensive implementation and, above all, systematic monitoring are necessary. Many companies do not follow through on the latter point. Their processes do not allow them, for instance, to find out how much of a price increase was actually implemented – a risky way to do pricing. In contrast, smart companies create transparency by putting together the most important pricing KPIs of their organizations in a pricing cockpit. This way, the C-levels can continuously check to see if price targets have been met and react accordingly. Ideally, KPIs should be broken down into regions, product areas, and even individual customers. In doing so, they can be used in sales for price steering and, ultimately, in sales remuneration systems.

*Define the most important KPIs to strategically steer pricing. Develop a simple pricing cockpit that reaches the entire company – from the board to the sales team.*

## Pricing excellence begins in R&D

For most companies, new products are a way to escape rising price and competitive pressure. However: An astounding 72 percent of all new products miss their profit targets. The main reason for these flops are mistakes in the R&D process. Specifically, the market side, i.e. pricing and marketing, are completely ignored or are factored in much too late in the product development process. Pricing experts are asked to determine the best price for the product only just before its launch. By then, it's usually too late. A product configuration that doesn't meet market needs is hard to fix through the price. If customers do not value the product features, a company cannot charge for them. Ideally, companies get market, pricing, and sales experts involved from day one in the innovation process. This is the only way to factor in customers' willingness to pay for features during product development.

*Expand your R&D teams to include market and pricing experts; regularly measure product value and willingness to pay throughout the R&D process. Encourage your teams to kill features or even entire product ideas if needed.*



Madhavan Ramanujam  
San Francisco



## PRICING IN DIVERSE MARKET AND COMPETITIVE SITUATIONS



Dr. Dirk Schmidt-Gallas  
Frankfurt

## Think before you decrease

You need discipline and prudence to deal with aggressively low competitor prices. Again and again companies respond to price attacks with knee-jerk reactions, often resulting in escalation to full-on price wars. The consequences are fatal: An alarming 58 percent of companies are involved in a price war and have been for years. Worse – a price war typically has no winner – everyone ends up worse off. That's why any price reduction should always be thoroughly considered before acting. Why is the competitor cutting prices? How else can you react other than through price? How will competitors respond to your actions? What will the result be for you and the entire industry in the end? Top companies have security systems in place to avoid emotional, exaggerated, and irreparable price reactions.

*Prevent spontaneous price cuts; accept carefully planned price cuts only if your organization has presented you at least two non-price-related alternatives.*

## Dynamic pricing has pros and cons

Innovations, trends, and new technologies are emerging in increasingly higher frequency – the world seems to be turning at an ever faster pace, and price setting is naturally affected by these developments. If you adjust your prices quickly to demand, capacity utilization, the competitive situation, or the time of the day, you can tap added profit potential – dynamic pricing is the name of the game. But beware: With increasingly faster and smaller price adjustments (e.g. prices at supermarkets and petrol stations change hourly, online prices depend on which device you use) transparency, simplicity, and fairness end up suffering. Customer acceptance and trust are at risk and it's crucial to have good judgment here. For example, the travel industry has been using dynamic pricing for years now. However, whilst their customers accept the model, they do so grudgingly and only to a certain degree.

*Don't think of dynamic pricing as a cure-all. Introduce dynamic pricing in small steps and analyze customer acceptance and the lasting effects on volume, revenue, and profits every step of the way.*



Petra Knuesel  
Zurich

## OFFER DESIGN AND PRICE MODELS



Dr. Enrico Trevisan  
Milan

## The customer loves the golden middle

Customers are rarely rational when it comes to purchasing decisions and price perception. They simplify matters and in doing so act irrationally – but still predictably. Two of the approximately ten behavioral pricing effects are the anchor effect and the tendency toward the middle. With the anchor effect, customers can be subconsciously influenced by price anchors, such as high prices set early on. The tendency toward the middle means that customers typically opt for the middle product when given three choices (low, medium, expensive). New York taxi drivers use both effects. When paying, customers are suggested three tip amounts (20, 25, and 30 percent), though by no means have to choose one. In doing so, taxi drivers increased their average tips from 10 to 22 percent. That's ultimately 144 million dollars a year.

*Familiarize yourself with the effects of behavioral pricing and factor them into your offer design and pricing. You'll be able to set the best possible prices only if you know how to predict your customers' irrational behavior.*

## Think about digitalization today

Anyone wanting a profitable business today and into the future has to understand new technologies, changes in customer behavior, and their impact on existing business and revenue models. This is already recognized in the digital world, but is equally applicable to more classical industries. Companies such as Uber and AirBnB are revolutionizing the market and driving out established business models by capitalizing on the rise of the sharing economy. Taxi drivers worldwide are struggling due to new app-based competitors and hoteliers are similarly affected by the many customers now booking private apartments while the owners are away. Developments such as Software as a Service (SaaS), Industry 4.0, and cloud technologies are affecting many industries, and will drastically change the structure and requirements of future revenue models. The result: Two-thirds of companies worldwide are currently moving to future-proof their businesses, adjusting revenue models in reaction to the prevailing market trends.

*Don't lie back and relax because you have a successful revenue model – the competitor landscape is evolving constantly. Combine your experience with technological expertise and market knowledge and continually adapt your revenue model.*



Mark Billige  
London







## OPTIMAL PRICE SETTING



Dr. Rainer Meckes  
Bonn

## Value pricing, not cost-plus

If you ask companies how they set their prices, chances are they will say value pricing! But if you take a closer look, cost-plus pricing is really what they are using: Add your target margin to costs and you have a price. In true value pricing, the mark-up depends on how much the customer values the product. This value differs hugely, but it's almost always measurable, which is why value pricing has such enormous profit potential. For example, a metallic finish on a car comes with a high mark-up despite minimal manufacturing costs. In the US, a stamp for a two ounce letter (57g) costs 45 percent more than a stamp for a one ounce letter (28g), although the costs are nearly the same. It's all a question of value. But measuring customer value is borderline impossible when there is a high number of products, e.g. thousands of spare parts. That's when you need a system. Spare parts, for instance, should be grouped by various criteria such as safety relevance – their price is then higher or lower depending on the group they are in. So true value pricing is actually always possible.

*Analyze the current margins of your products: Minor deviations are a clear sign that you are using a cost-plus approach. Ensure that true value pricing is used, even if it's a lot of work.*

## You MUST know your price elasticities

Price elasticity is a tricky topic: Some companies don't fully understand it, others see it as an abstract concept. For decades now though, one thing has remained true: If you don't know your price elasticities, you won't be able to set an optimal price, especially for new products. The problem with price elasticities is that they vary strongly depending on the product and situation. There is never one constant price elasticity. But at least, the methods for measuring it have improved greatly over the years. And yet many companies choose not to measure price elasticities, thereby missing out on considerable profit potential – as history has shown. When Mercedes launched its A-class in 1997, it planned on offering the car for DM 30,000. After thoroughly analyzing the price elasticities, costs, and production capacities, we recommended a price of DM 31,000 – which ultimately generated added profits of DM 150 million per year.

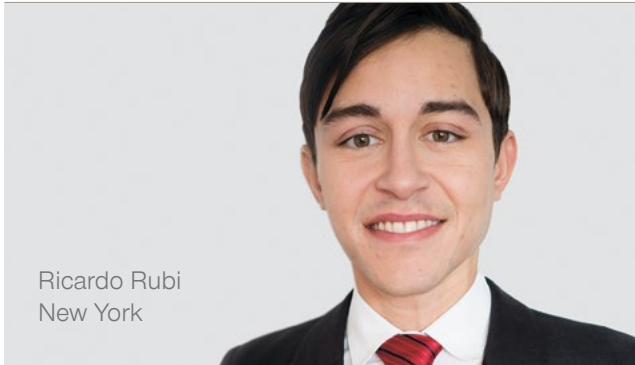
*Establish the importance of price elasticities in your organization. Conduct an elasticity analysis before launching important products or changing prices, and continuously use these results for simulations and to assess business cases.*



Dr. Andreas von der Gathen  
Bonn



## MORE SALES FROM SALES



Ricardo Rubi  
New York

### Promotions: risks and side effects

Customers love promotions, but should companies love them too? Few can resist a price promotion, however, as our analyses show, 60 to 70 percent of all promotions in retail lead to losses. In other words, the surplus sales volume doesn't make up for the profit losses caused by a lower price. Unfortunately, there is no magical recipe for a successful promotion. You need to do your homework: meaning analyzing sales and transaction data in detail before, during, and after the promotion. This is the only way to determine which articles (or groups) to discount, when, for how long, and by how much – and to really earn more money. Smart companies don't rely on gut feeling when it comes to promotions. Instead, they ascertain the relevant effects with comprehensive tools and processes. Acting without such analysis can backfire, especially if customers come to expect constant promotions. The European DIY store chain Praktiker fell into this cycle with their infamous “20 percent off everything – except pet food” slogan, ultimately leading to their declaring bankruptcy.

*Don't base your promotions exclusively on what the competitors are doing – think first. Analyze each completed promotion in detail and stay away from regular special offers.*

### Sales organizations have their own lifecycle

“Lifecycle” is a fairly common commercial term – product teams manage their portfolio according to a product lifecycle and sales people address their customers based on a customer lifecycle. Sales leaders, however, often fail to match the development of their own sales teams to their companies' lifecycles. Many sales organizations are stuck in the “pioneering phase” while their business is in a more mature phase. They use outdated compensation structures that over-proportionally reward existing sales, or their territory coverage is under-optimized with many markets left untapped. In our projects, we help B2B clients to grow into best-in-class sales organizations where resources and territories are established based on the market potential, not on pure geographic coverage, leveraging both internal and external data. Besides existing sales, optimized compensation schemes use opportunity-based metrics such as customer conversions or the market penetration rate. We also update sales processes to promote predictive task-based activities that put quality of customer engagement over quantity.

*Work with your sales, marketing, and product teams to develop your own proxies for your market's potential. Ensure your resources, compensation, and sales steering activities are aligned.*



Brad Soper  
Atlanta

## MORE SALES FROM SALES

Kai Bandilla  
Paris

## Effective discounts require a system

In the B2B area, the smartest price lists won't help a bit if sales has "discounted" away everything. Those who concentrate solely on the product price and accept chaos in their discounting process will never be able to reach their profit targets. Classic discount guidelines consisting primarily of traditional volume discounts are simply no longer sophisticated enough, especially when it comes to complex business deals and top customers. Sales needs a system that suggests the right price according to the customer, market, and deal situation. Ideally these price recommendations (target price, minimum price, etc.) are based on what top salespeople are able to achieve in comparable situations (peer pricing). This also increases acceptance among the sales team, as in the end, the price recommendations are based on real deals of fellow team members, not some theoretical model.

*Use a simple system with clear criteria to set prices and discounts individually. To do so, apply results from your own sales team and thereby increase acceptance of the system.*

## Customer-centric sales excellence is key

Taking a purely internal, cost-saving view and thereby disregarding growth potential and the voice of the customer (such as "too many unproductive contacts with sales reps") are the main reasons why sales reorganizations fail. In a recent post-merger integration project, we explicitly took into account customer expectations and revenue growth potential. Of course, we started with the sales basics: We identified time sinks and reprioritized activities before setting up consistent sales processes across all BUs, which also integrated the best elements of both firms' former approaches. But our main task was to "unfreeze" historical selling patterns and to push reps to sell products of neighboring BUs. Providing new motivational incentives that favored cross-selling and equipping teams with a sales toolbox did the trick here. The most important tool was a sales dialog app for the reps that suggested the "ideal product mix" or "best realized prices for similar customers". Prioritizing accounts from an overall group perspective and real-time progress monitoring apps further helped sales reps to achieve their ambitious revenue goals.

*Don't focus your sales initiatives on savings and efficiencies only. Real sales excellence yields higher revenues via smart cross-selling, up-selling, and customer development.*

Marie Verdier  
Paris



## DIGITAL TOPLINE POWER



Onno Oldeman  
Amsterdam

## Digitalization means putting your customer first

According to our recent studies, over 90 percent of business leaders expect digitalization to affect their business model. Still, many are unsure what precise actions they should take to succeed in a more digitalized world. The obvious trip to Silicon Valley leaves most CEOs more puzzled than inspired, as the examples they encounter tend to have too strong a focus on IT, or cannot be directly applied to their industry. We cut through this “digital bewilderment” when we guide our clients’ thought processes towards what really matters: their customers. CEOs need to understand how to adapt or reinvent their business models based on the renewed customer journey in a digital world. Following this route, we helped a multinational chemicals company to understand what their end customers value (having started to address them directly via an app), and successfully set up a B2C business whilst overcoming channel conflicts with their distributors and resellers along the traditional value chain.

*Combine new digital technologies with marketing and sales expertise: Don’t do everything that is technically feasible; do only what can be monetized and what adds value to your customers.*

## Use “design thinking” to create successful digital offers

Simplicity, usability, and relevance have never been more important than in our digital world, where product offerings have to speak for themselves. Still, many companies struggle with this, especially in the banking industry. Heavy investments in digital technologies often don’t pay off and digital sales and cross-/up-selling targets are not met because their digital offering is too complex. To avoid this, we use the “design thinking” approach. One aspect of this approach is to visualize new price and product concept alternatives within appropriate smartphone sales applications from day one on. This way of thinking focuses on the key elements, and helps create a visually appealing and easy-to-use digital offering. Using agency drafts and beta versions of digital applications in the early stages also ensures timely a/b testing and fast market launches. This approach not only convinces and inspires our clients’ various stakeholders, it ensures an agile, iterative, customer-centric concept development process.

*Visualize your digital offering from day one to ensure that it meets the requirements of the digital world, notably convenience and relevance for your customers.*



Dr. Christoph Bauer  
Hamburg

# Danger ahead!

Profit drains – and how to avoid them





## ➖ Asking your low-margin customers to pick up the bill

If you're looking for incremental profits, it's common to target customers with low-margin business and seemingly high potential for price increases. In doing so, customers with high margins tend to be spared. This thinking is wrong, though. There are usually sound reasons for some deals having traditionally low margins, e.g. because they take place in a highly competitive standard business environment. Historically profitable deals, however, often still have room to grow due to an excellent competitive position. It's just that no one has tried this out yet, because these deals are already above the target margin.

## Placing sales incentives above all else

The right sales incentive system is only one important component for commercial success, nothing more and nothing less. Even a sales remuneration system that is perfectly aligned with your company's (price-)strategic goals won't make up for mistakes in list prices, offer structures, or discount guidelines. Pricing excellence requires top performance in all price dimensions.

➔ *Check the prices of deals with above-average margins, because here there's often even more price increase potential due to good customer relations or a strong competitive position.*

*You have to see the big picture – not just the sales incentives! Profits will increase only when all pieces of the puzzle fit together.*



## ➖ Bearing the burden of small cost increases

Small cost increases are rarely passed on as price increases, particularly among existing customers. Even if companies can compensate for this in the short term by increasing productivity, profit erosion will follow in the long term. Consequently, the company will have to suddenly raise its prices substantially — usually after customers have become accustomed to price stability.

## Compensating for low quality with lower prices

A typical response of many companies to poor product quality and resulting low sales is to simply lower prices. However, this is not a promising approach, as a lower price won't resolve the underlying quality issues. The result: The customer remains unsatisfied, sales typically barely increase, and you can't get the low price back up again.

➔ *Be persistent when it comes to cost increases; secure your profits in the long term by raising prices regularly. Educate the market!*

*Make up for pricing mistakes with price adjustments – and eliminate quality deficits with quality measures!*





## – Seeing pricing software as a cure-all

While technological developments such as the internet and apps encourage us to believe it, fully automated pricing mechanisms seldom work. Buyers are people, too, and sometimes make irrational decisions. Furthermore, market situations are complex and volatile. It's therefore crucial to take advantage of personal experience, even when working with highly automated price mechanisms.

## Treating pricing like production

Most processes within a company (e.g. production) require standardization – the aim is to remove any variations. For the pricing process, however, this is the wrong approach. The goal here is to come up with the best possible variation based on customer value and willingness to pay. And that, in contrast to most other corporate processes, cannot be achieved with a one-size-fits-all approach.

➔ *Don't blindly rely on fully automated pricing – and especially not exclusively. Pricing software creates transparency and makes price implementation easier, but it also requires a well-thought-out price strategy.*

*Don't run your pricing process as you would your production process. Tailor it to your company!*





## – Letting the boss negotiate prices

Your counterparts, and especially their procurement department, will probably be thrilled if you bring your boss to price negotiations. Why? Because your boss is usually less familiar with the specifics of the deal. Furthermore, he or she can't use the line "I'll need to run this discount past my boss first" or risk losing face by letting the deal fall apart. The consequence: More often than not, top managers are much too generous with discounts.

## Throwing around percentages

Sales is often too generous in negotiations: 5, 10, 15 percent – these are typical discounts steps. And these figures don't look that big, right? They do once you finalize the business deal, as you see that very large sums are being given away.

→ *Company leaders, stay out of active negotiations! Be there for sales only as a last resort – and keep in the background!*

*Avoid discounts rounded to a whole number. They are suggestive of money being given away. Work with uneven (and the smallest possible) discounts; this tells the customer that you calculated precisely.*



# Consulting in the future

A roadmap from  
Simon-Kucher & Partners



Over the past 35 years Simon-Kucher has achieved a unique positioning that has made it successful – and we aim to keep it that way. We are constantly monitoring market developments and how they affect our consulting activities with one central question in mind: How can we continue to sustainably increase our clients' TopLine Power® in the future? In relation to this, we observe five key developments:

## 1. Quick, tangible solutions in dynamic markets

Pragmatic, tangible, and understandable project results – this is increasingly what clients demand. Overly theoretical PowerPoint concepts lacking in detail and implementability are out – and of course, fast is in. Companies want to see the initial results during the project phases, and not months later, especially in more dynamic markets. Consequently, quick wins are becoming more and more important, as they also help the company to quickly recover project costs. The longer the time to implement a solution and the higher the financial investment, the more likely it is to be rejected. While clients know that top solutions cannot be obtained without some investment, they demand a healthy balance and a focus on what's important. Speed, pragmatism, and implementability are the three attributes of the future.

## 2. Implementation or “Make it happen”

It is wrong to think that the work is over once a new strategy has been developed. The next step is the real challenge: implementation within the organization. The maxim “Make it happen” seems simple, but this generally leads to profound changes in processes and structures. The effort required to change an organization on this scale is often underestimated – one reason why some good ideas get lost on the way. A concept alone doesn't lead to anything. Therefore, consultants not only have to develop first-rate solutions, but must also ensure that they become embedded in the client organization long term. Coaching and implementation support are becoming



important aspects of a consultant's job: from sparring with C-levels on implementation issues to offering operative assistance when introducing new processes and tools. This requires consultants to develop special skills and build even closer, more trusting, and long-term relationships with their clients.

### 3. Transformation or helping others to help themselves

Our studies and analyses repeatedly prove that what separates the top companies from the rest is their consistent focus on long-term profit orientation, or TopLine Power®. This focus becomes the driving force behind every thought and action from the board to the sales department, and across every process, system, and target. Companies are increasingly recognizing the advantages of adopting such an approach, but this kind of transformation is a monumental task. It requires a fundamental mindset change, getting all employees to really alter their way of thinking. In this phase, consultants need to guide customers down the path, however, at some point companies have to be able to run things themselves. Thus, a good consultancy does not create client dependency – the goal is to jointly build an appropriate organizational structure, train the employees, and equip them with the necessary tools to deliver commercial excellence. Throughout the transformation program, good

consultancies combine quick wins with long-term change measures, boosting motivation within the company. Also, they know that change can be secured only through repetition, and important processes must therefore become embedded in workflows. True transformation is one of the most difficult tasks for both business leaders and consultants – but it's worth it.

### 4. Digitalization disrupts markets

Megatrends such as big data, cloud technology, Industry 4.0, and the Internet of Things are triggering profound changes in the markets. This affects all companies without exception (but to a varying extent), since the digital transformation also impacts core processes such as marketing, and sales. In aftersales for example, predictive maintenance now not only affects how, when, where, and by whom services are provided, but also involves changes in the underlying revenue model. In the current hype of the digital revolution, it has never been more important for companies to address core economic questions. Does a "digital" product add value for the customer? Does it make processes more efficient? Can we earn money with it? And if so, how? Some business models need to be completely transformed, in other areas optimizing the sales dialog to be digital-ready is enough. Many of our clients don't know where to start when it comes to these complex issues. Here, a consultancy's



key function is to set the right priorities and bring about changes, in a targeted way and at the right pace. This includes transferring revenue models from other industries and sharing expertise on how to avoid traps and pitfalls. In any case, it is clear that digitalization should never be exclusively an IT project. It is a topline issue, which of course involves many technical aspects. IT does have to sit at the table. But not alone, and not at the head of it.

## 5. A holistic view

Everything is connected. Achieving sustainable growth in increasingly competitive markets requires an in-depth understanding of all internal and external factors, and how they affect each other. This includes everything from supply and demand, customers and competition to products and prices, sales and marketing, management incentives and digital activities. What drives growth, and even more importantly, what gets in its way? Are country heads incentivized by market share and therefore overlooking profitability? Is the sales dialog in the online shop too complex, requiring a number of clicks that discourages customers from making a purchase rather than encouraging them? Commercial excellence requires that each piece of the puzzle be the best it can be, and that the picture aligns perfectly. Instead of optimizing each part individually, to drive growth companies have to understand how all market dimensions

work together and then strengthen the parts with the strongest overall impact accordingly. Therefore, in the future, top entrepreneurs will have to be holistic topline experts.

None of these major developments and challenges take us by surprise. In fact, they even perfectly align with our capabilities. As a global specialist for pricing, marketing, and sales, Simon-Kucher is ideally positioned to help its clients achieve sustainable growth in this difficult environment. Our projects have always been geared toward delivering pragmatic solutions that can be implemented quickly. We have been developing innovative revenue models for 35 years and we are considered the world leaders in this field. And the same is true for our holistic view on revenue, profit, and growth. Furthermore, it is our standard practice to work closely with our clients through the implementation phase: As operative assistants, sparring partners, and coaches, our work does not end with the presentation of a new concept. We help our clients achieve their full potential and as an independent consultancy we will continue to recommend only what they really need. Like today, we will not rest until our clients are at the top. ▲

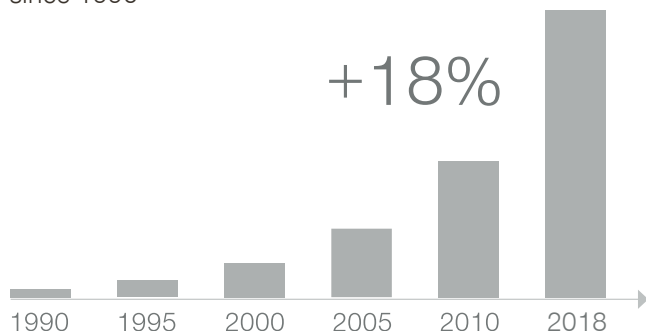




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opportunity margins conjoint measurement discounts  
negotiation machinery development semiconductors  
electronics experience industries insights know-how  
service monetize quick win thought-leader potential  
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materials capabilities best-in-class Europe software

## THE COMPANY

Average annual **growth rate**  
since 1990

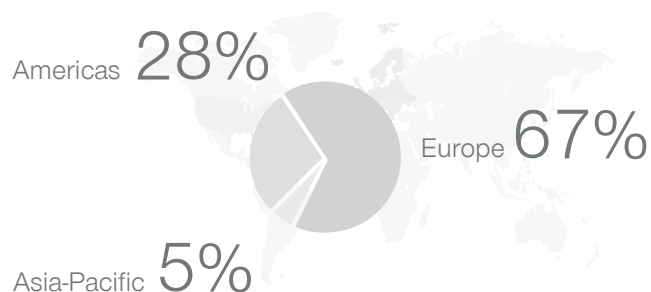


**Revenue** in 2018

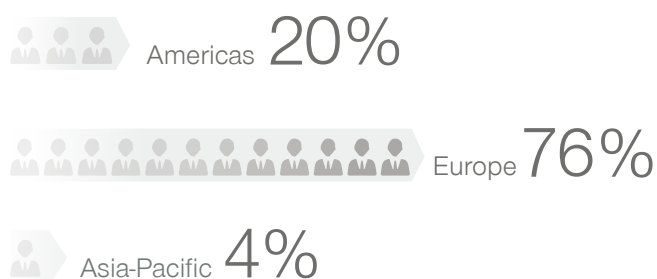
€309m



Distribution of **revenues**



Distribution of **employees**



Number of **nationalities** among our employees



Number of **languages** spoken



Average number of new **partners** per year since 2005



Average number of new **offices** per year



**Global project expertise** in

80 countries

Number of **projects** per year >1,000

1985 1990 1995 2000 2005 2010 2019 2020 2025



## CUSTOMER VALUE

- Clients' average **increased return on sales** thanks to our projects

+2 to 4% points ROS



- Due to Simon-Kucher's unique positioning, we also **advise** other **consultancies**



- Share of **follow-up projects**

72%

- Average **time** until our projects **pay off**

2.3 months

- Share of our business resulting from **referrals**

80%



- Longest **customer relationship**

30 years

- 1985, founding year

2019

- THE **unicorn** advisors

- We have worked for **30+ unicorns** like **Asana, Stripe and Uber**



## PUBLICATIONS

- Published **articles, interviews, and quotes** worldwide in the last five years

8,000



## GLOBALLY RENOWNED

- Ranked as a **top consultancy** in our focus area by **leading business magazines worldwide** such as the *Financial Times*, *Forbes*, *Capital*, *brand eins*/Statista.



“The world's leading pricing consultancy.”

*The Economist*

## EVENTS

- Number of **strategy forums** per year

79



- Number of **participants** at our **strategy forums** per year

5,800

- Since 2000, **all employees** have been coming together **each year** for our **World Meeting**



2000



The single most important decision  
in evaluating a business is

# pricing power.

Warren Buffett  
Bloomberg Business, February 18, 2011

## Imprint

**Publisher** Simon-Kucher & Partners Strategy & Marketing Consultants GmbH, Bonn **Editors** Dr. Georg Tacke (responsible), Annette Ehrhardt, Anne Angenvoort, Angela Ott, Birte Jung **Design** Petra Dietz, Regina Nobis

**Photos** Sam Armstrong, Colourbox, Eric Covez, Jennifer Fey, Thorsten Henn, istockphoto, Martin Joppen Photographie GmbH, Getty Images/Paolo Sartori, Photocase, Schafgans DGPh, shutterstock, Joern Wolter **Print shop** KPL-Team

May 2019, fifth edition

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