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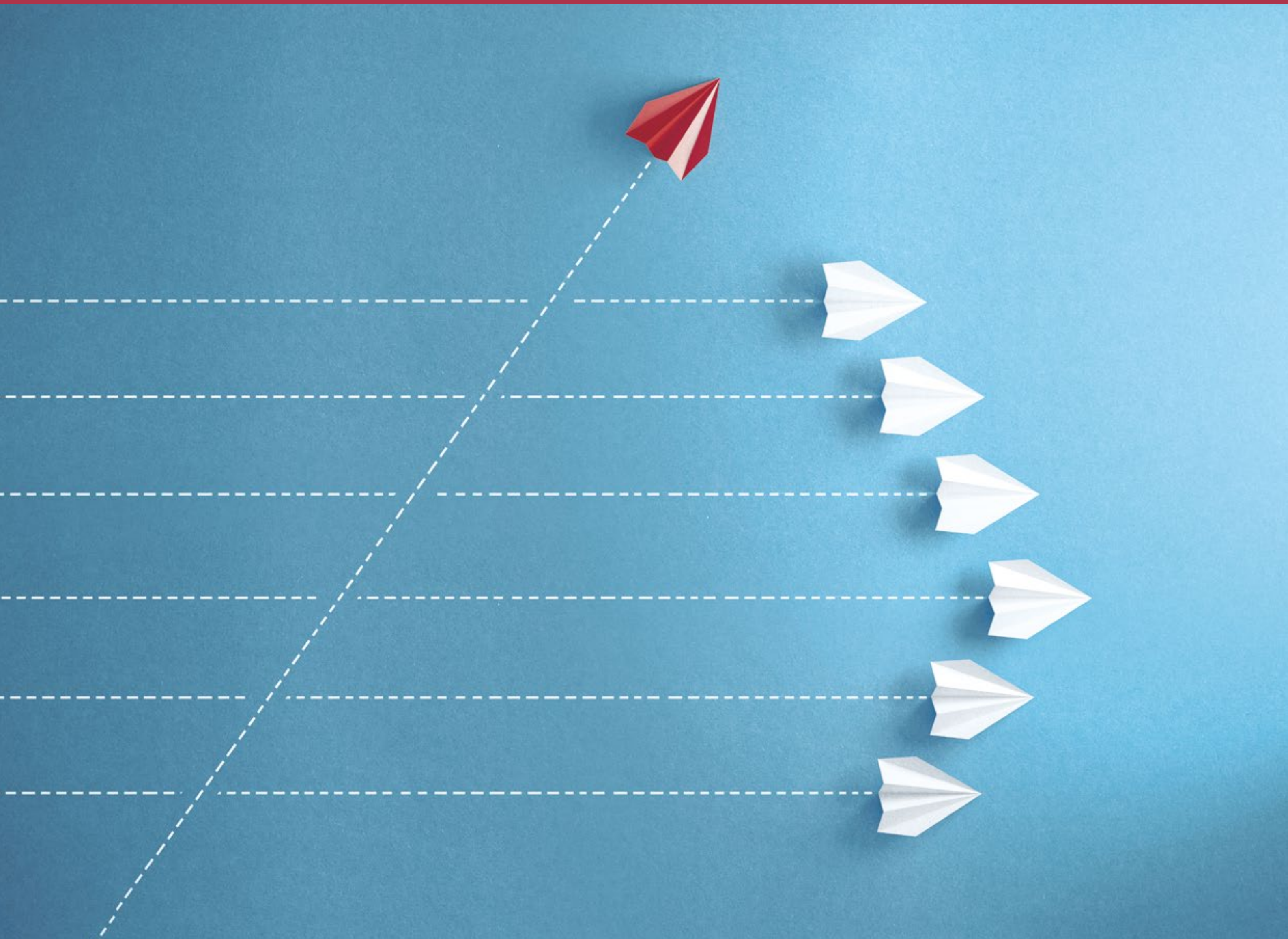
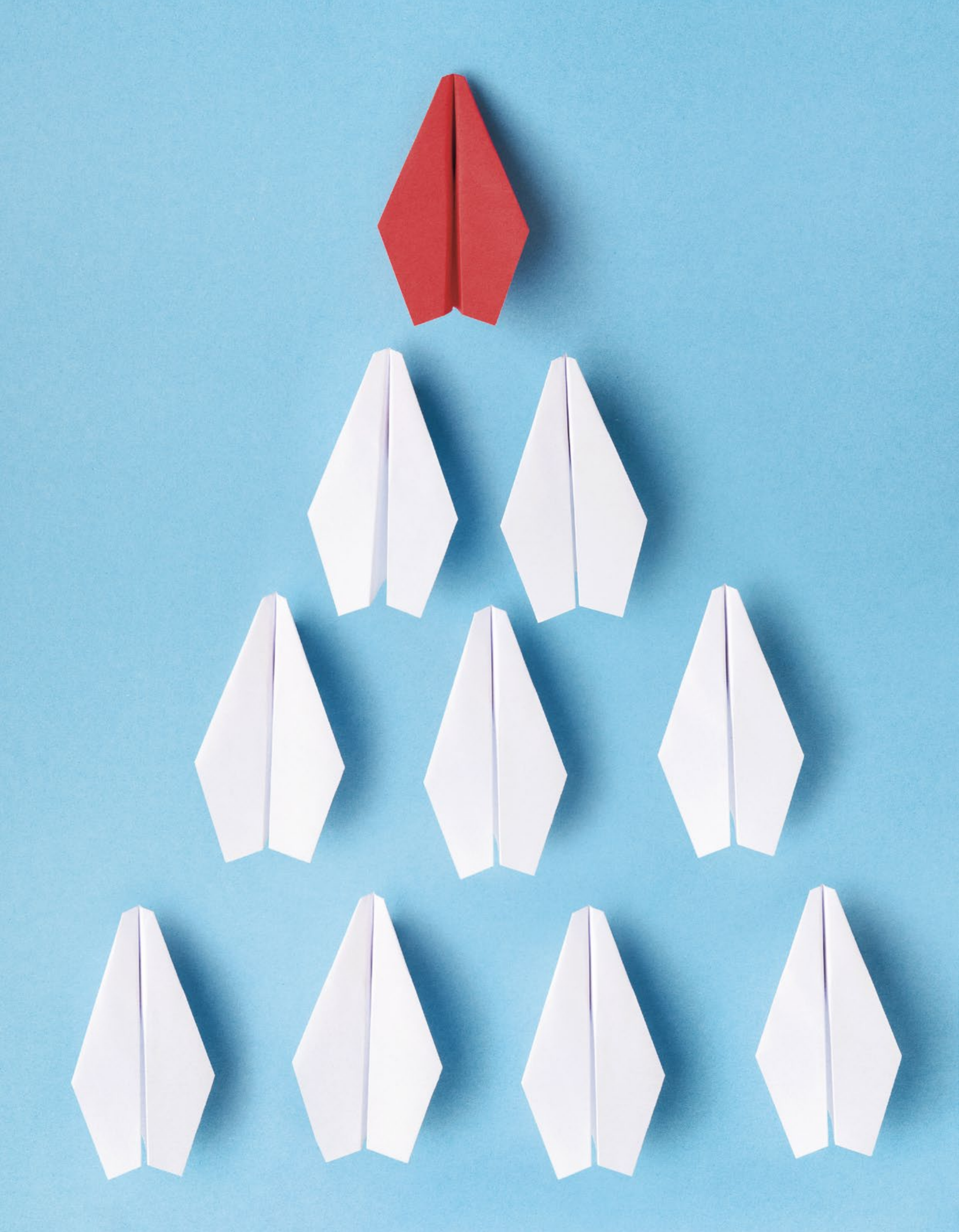
Strategy & Marketing Consultants

Global Pricing Study 2019

Cross-industry Strategies for Growth, Pricing, and Digitalization





Global Pricing Study 2019

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Introduction

Our vast cross-industry project experience has taught us that pricing and digitalization are two of the most important profit levers companies can use to achieve sustainable growth.

This is why pricing and digitalization strategies are two of our most sought-after consulting services. However, during our work with clients, we see far too often that companies don't fully realize how much potential lies in tailored pricing and digitalization strategies. And even if they do, they rarely put them into practice.

Moving beyond our project experience, we wanted to find out how important pricing and digitalization topics are to a large number of companies as well as what kind of strategies they are deploying to address price pressure, price wars, price increases, and digitalization initiatives successfully. Our Global Pricing Study provides the answers. Since 2011, we have regularly surveyed executives and managers across major industries on current pricing topics, the competitive environment, profit outlooks, and recent trends. Our unique study is the largest of its kind, and each edition reveals new and surprising insights – enjoy the Global Pricing Study 2019!

Key insights

In our Global Pricing Study 2019, we surveyed around 1,650 companies across major industries in over 30 countries.

Managers and executives gave their opinions on their company's strategies for growth, pricing, and digitalization. This year's results revealed that most firms still widely underestimate price as the main profit driver. Looking at the results from the last time we conducted the survey in 2017, this year's edition indicated that an increasing number of companies now know how to approach digitalization topics and which measures lead to success.

This year's results at a glance

Sales is still perceived as the biggest driver of growth, not pricing:
When asked about the biggest driver of future profit growth in their businesses, only 12 percent of participants answered "price," while around 63 percent cited "sales," and 22 percent said "cost reductions." This shows that companies still widely underestimate the potential of effective pricing.

Price wars are still a problem – but the cause is increasingly apparent:
This year, although more companies than ever said they were currently involved in price wars (2019: 57 percent; 2017: 47 percent; 2011: 46 percent), they are slowly starting to realize that they are actually the ones responsible. In fact, 56 percent acknowledge that they started the price war intentionally or by accident. However, while 44 percent still thought their competitors were at fault, shifting the blame is becoming less and less popular. In 2017, 77 percent said the price war was started by a competitor compared to 83 percent in 2011.

Price pressure is slowly decreasing:

Price pressure is still a core issue for many companies. Around 65 percent experienced higher price pressure over the last two years. However, in 2017, this number was even higher at 75 percent.

Companies want to increase prices but are failing to do so:

Increasing prices is a powerful tool companies can use to ensure profitable growth. According to the study, 78 percent of companies are planning to increase their prices this year. However, roughly 66 percent failed to achieve half of their planned price increases. On average, only 28 percent of planned price increases are realized even though most companies don't set very high targets for their price increases in the first place.

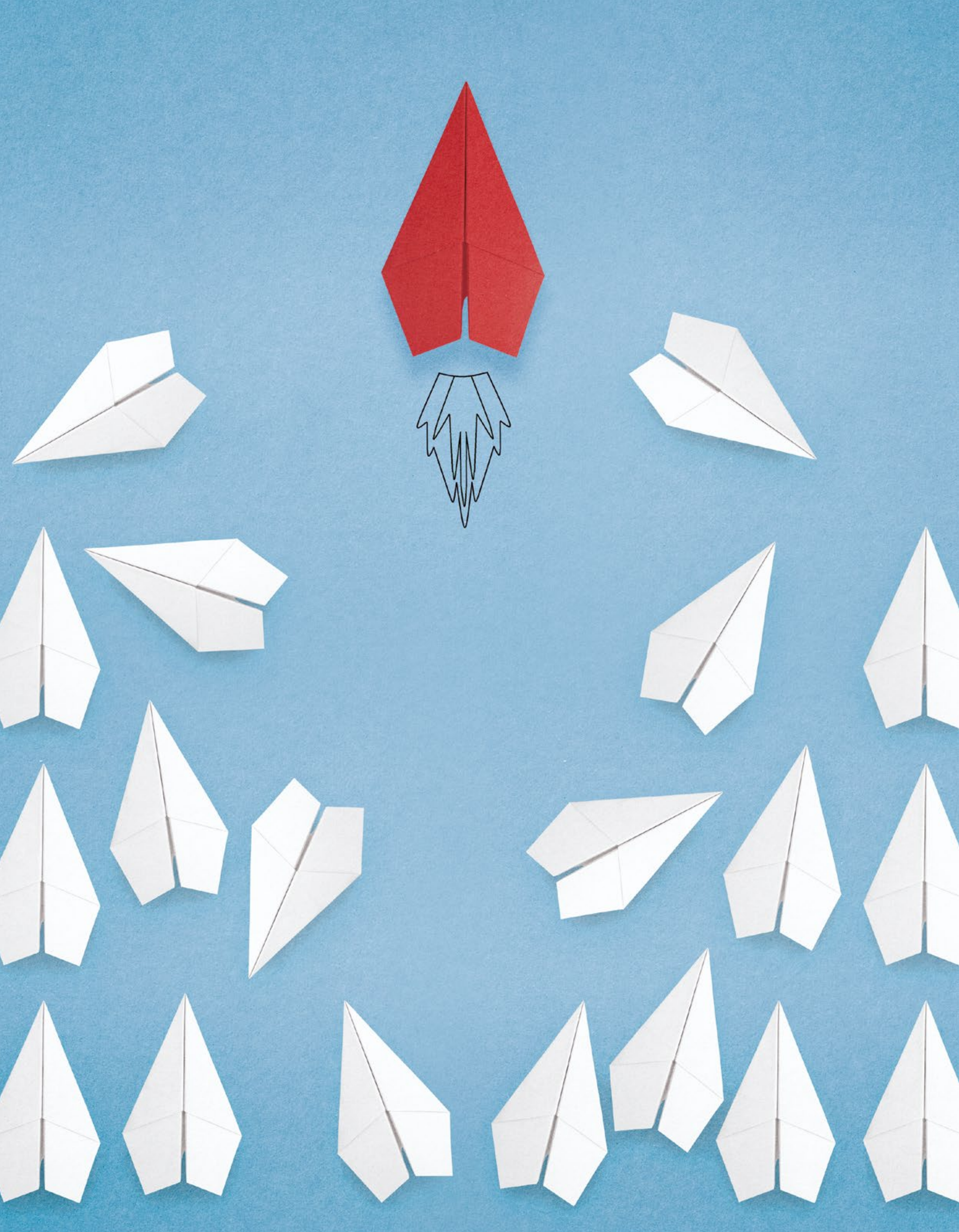
Being digital is becoming the new normal:

Almost 75 percent of companies surveyed said they had invested in digitalization initiatives in the past three years. Interestingly, this figure is lower than the result of the 2017 study, when 81 percent reported investments in digitalization – are companies simply reaching a point where they have already digitalized their most important areas?

Digital initiatives are beginning to pay off:

Overall, 61 percent of participants said revenue growth was the main objective of their digitalization initiatives, and 49 percent reported that those initiatives have had a noticeable impact on their top line. This is a clear improvement compared to two years ago, when only 23 percent reported positive revenue effects.

Many companies are **still greatly underestimating price as the most important profit driver**. The good news is that they have started systematically addressing the topic of digitalization. Clear, targeted projects with specific goals have replaced "digitalization for digitalization's sake."



Deep Dive

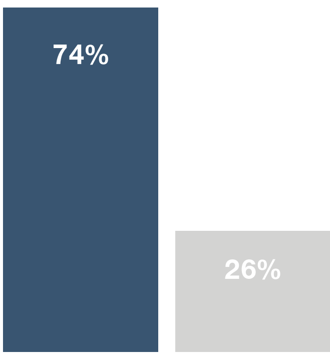
Digital Initiatives

Digitalization isn't a new topic, and companies finally seem to be making use of it in a big way.

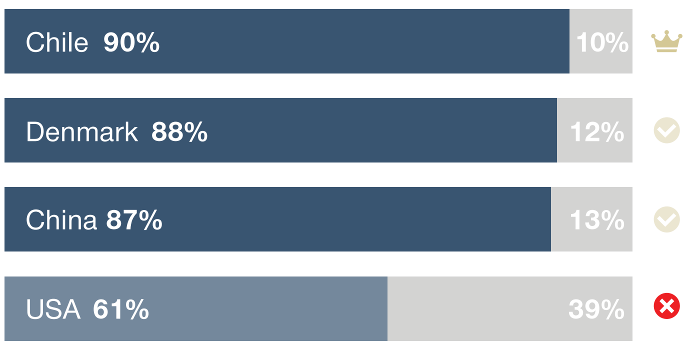
Investments in digitalization

The study revealed that 74 percent of companies have invested in digitalization initiatives in the past three years. What's interesting is which regions and industries are forerunners and which are falling behind. With around 90 percent of their companies investing in digital initiatives, China, Chile, and Denmark are leading the field. Surprisingly, the lowest share comes from the US, with only 61 percent.

Have you invested in digitalization initiatives in the past three years?



Investments in digitalization initiatives – by country

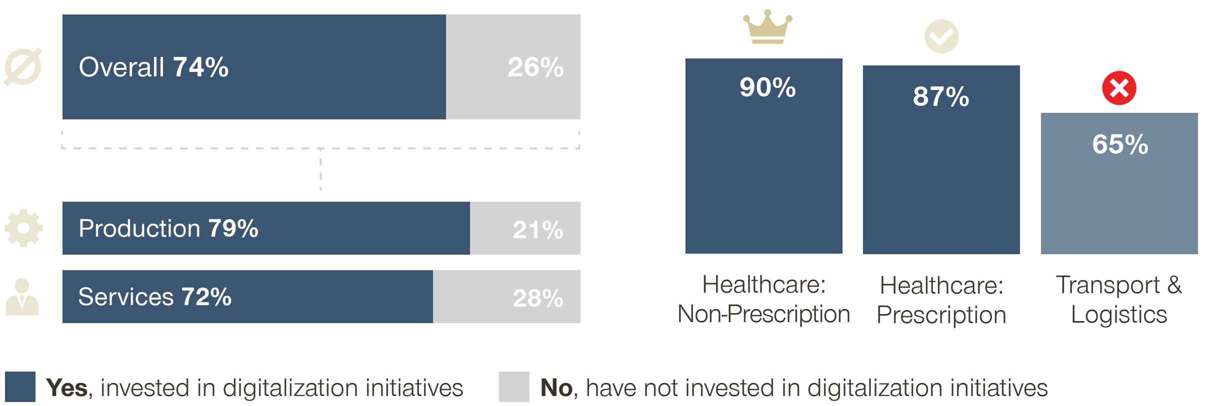


Yes, invested in digitalization initiatives

No, have not invested in digitalization initiatives

When we look at the different industries, it is clear that manufacturing industries, including automotive, construction, and machinery, have higher average spending (about 79 percent) than service industries such as banking, retail, and travel & hospitality (around 72 percent). Overall, the healthcare sector (prescription and non-prescription drugs) reported the highest share of digitalization initiatives with up to 90 percent, and industrial services and transport & logistics are the laggards with only about 65 percent.

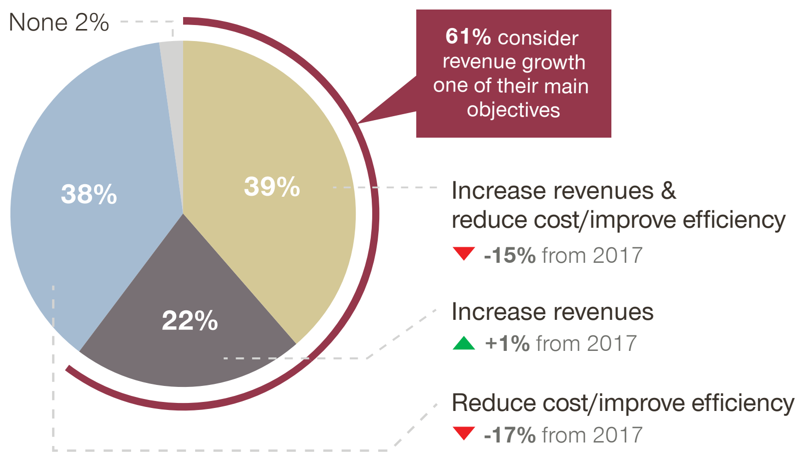
Investments in digitalization initiatives – by industry



Focus and impact

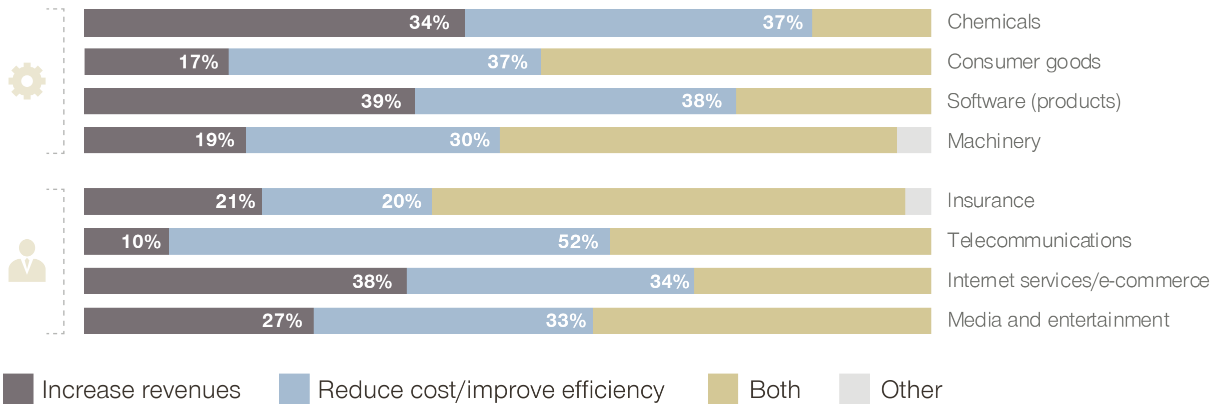
What is companies' main goal when investing in digitalization initiatives?

Around 61 percent consider revenue growth one of their main objectives, with 22 percent aiming exclusively for revenue growth and 39 percent striving for revenue growth, cost reductions, and efficiency improvements. Overall, 38 percent only cited reducing costs as their primary goal.



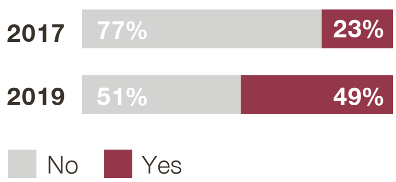
Two years ago, companies committed to increasing their top line via digital measures in a much clearer way: 75 percent of participants stated this as one of their main objectives. Since then, companies have gained more experience with digitalization and have realized that digital initiatives can serve a multitude of purposes simultaneously. They can increase their top lines while reducing costs – due to this, numbers are more balanced than before. In 2019, we saw huge discrepancies across industries, which explain why focuses differ in such a way.

Objective of digitalization initiatives – by industry



However, setting objectives and achieving them are two different matters. The good news is that nearly half of participants reported that their digitalization initiatives have had a noticeable impact on their top line. This is a clear improvement compared to two years ago, when only 23 percent reported visible effects. Moreover, it proves that almost all digitalization initiatives that focus on revenue growth also make an impact!

Have your initiatives had a visible impact on your top line?



▶ Setting clear objectives for initiatives is key. Companies shouldn't follow the digitalization trend simply "because everyone else is." They must understand that **digital strategy is also part of overall business strategy**.

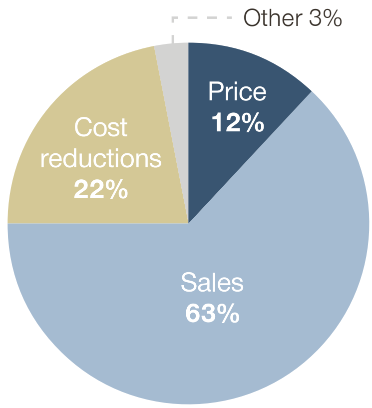
Deep Dive

Pricing Topics

Increasing revenues is more important than ever for companies because they are facing a number of significant challenges in the market. One of the most effective tools they can use to respond to them is a sound pricing strategy. How are companies doing in this regard?

So far, only 12 percent of companies have understood that price is the biggest driver of profit growth. Almost two thirds of them still see sales as the biggest profit driver, meaning that many still seriously underestimate the potential of pricing strategies.

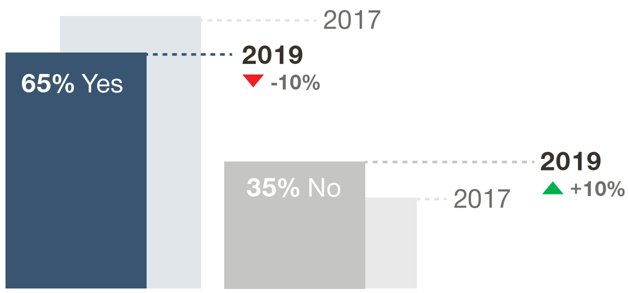
What is the biggest driver of future profit growth in your business?



Price pressure is decreasing

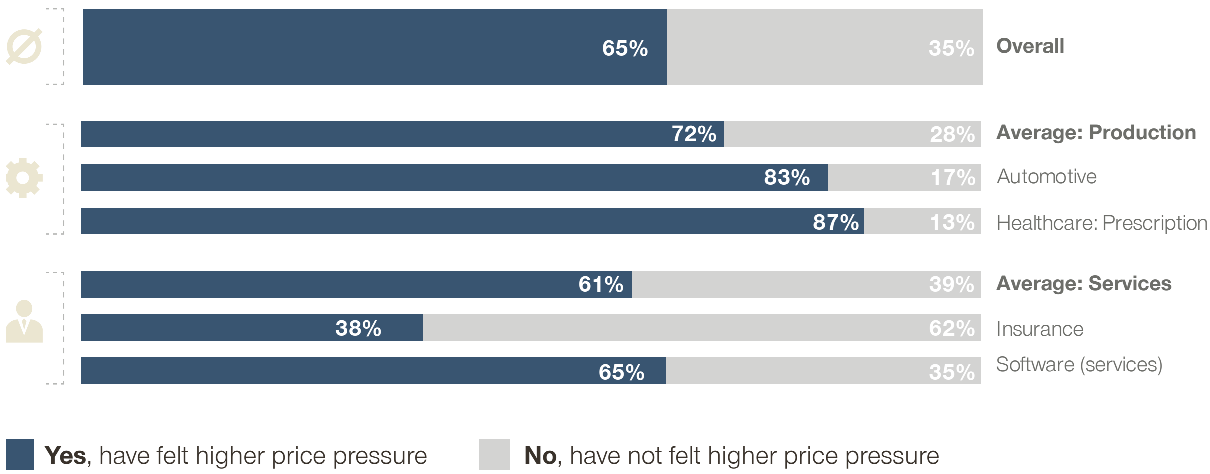
The majority of companies are still relying on sales rather than pricing strategies for profit growth, which means they don't prioritize putting a pricing strategy in place. In other words, they don't have the right tools to tackle pricing issues such as price pressure. But is this really something companies are worrying about? The answer is still "yes." According to the Global Pricing Study 2019, 65 percent of companies surveyed have experienced higher price pressure in the past two years compared to 75 percent in 2017.

Have you experienced higher price pressure in the last two years?



Looking at the different industries, we were able to see that manufacturing and service industries deviate heavily from the average, with the former experiencing significantly more price pressure than the latter. However, the healthcare, automotive, and software sectors are the ones most affected. By contrast, increasing price pressure isn't as big an issue for companies in the insurance industry.

Higher price pressure in the last two years

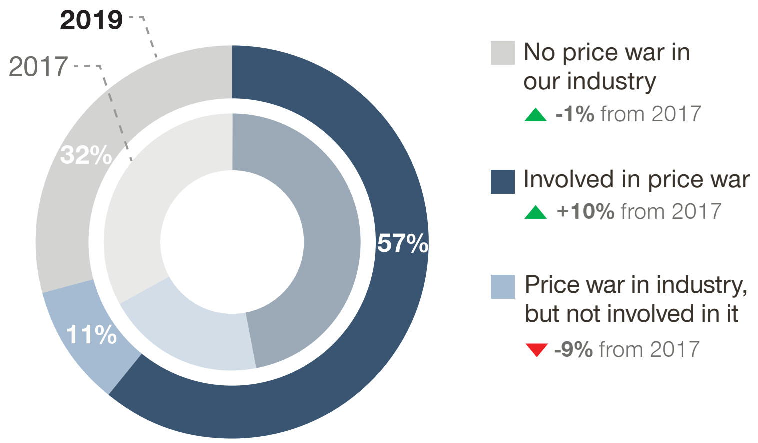


Price wars are still mostly self-inflicted

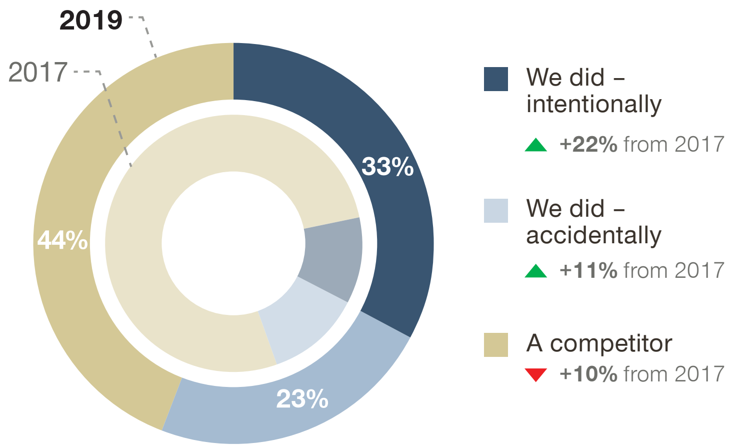
Being forced to reduce prices because competitors are doing it as well is a major constraint on any company's pricing and overall business strategy. Externally controlled pricing decisions are never as good as the ones tailored to specific requirements and situations. Unfortunately, the problem is only getting worse. In 2017, only 47 percent of companies were involved in a price war. This year, the figure rose to 57 percent.

Nevertheless, most companies caused this problem themselves: Of the 57 percent of companies involved in a price war, 56 percent agree that they started them themselves even if it wasn't their intention. The upside is that companies now acknowledge that they caused the price wars and are therefore able to do something about it. Two years ago, 77 percent blamed the problem on their competitors, while this number was 83 percent eight years ago.

Is your company currently involved in a price war?

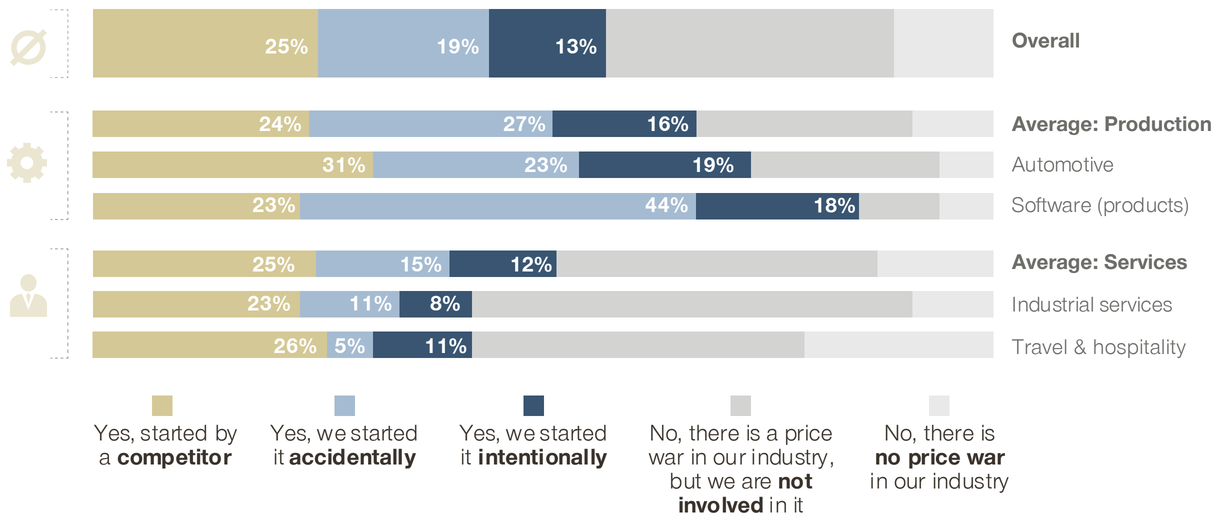


Who started the price war that your company is involved in?



Again, the situation is much worse for manufacturing industries. For example, around 85 percent of companies in the software industry are involved in a price war, while only 40 percent of those in the industrial services and travel & hospitality industries are.

Involvement in price war – by industry

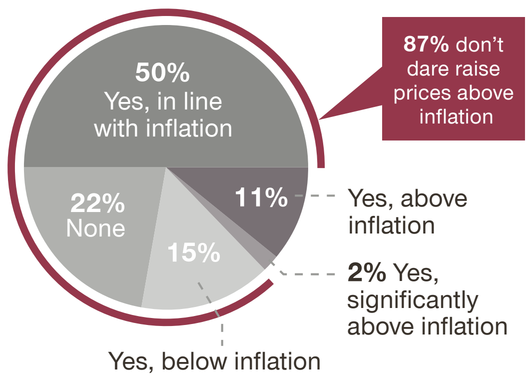


In today's increasingly digital world, production costs have never been less important. Therefore, many companies are no longer basing their prices on costs and are using pricing as a marketing tool. If they are not careful, this can result in price wars, which have no winners, only losers.

Companies are too cautious with price increases

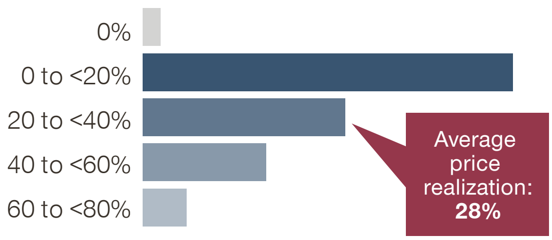
The main problem with price wars is that companies no longer set prices with their own interests in mind. Still, most CEOs are well aware of the importance of price increases, with 78 percent of companies planning to increase prices this year. However, their targets are still nowhere near ambitious enough to make any impact. Half of the companies surveyed intend to raise prices in line with inflation, and only 13 percent dare to go beyond that.

Do you plan to execute a price increase this year?



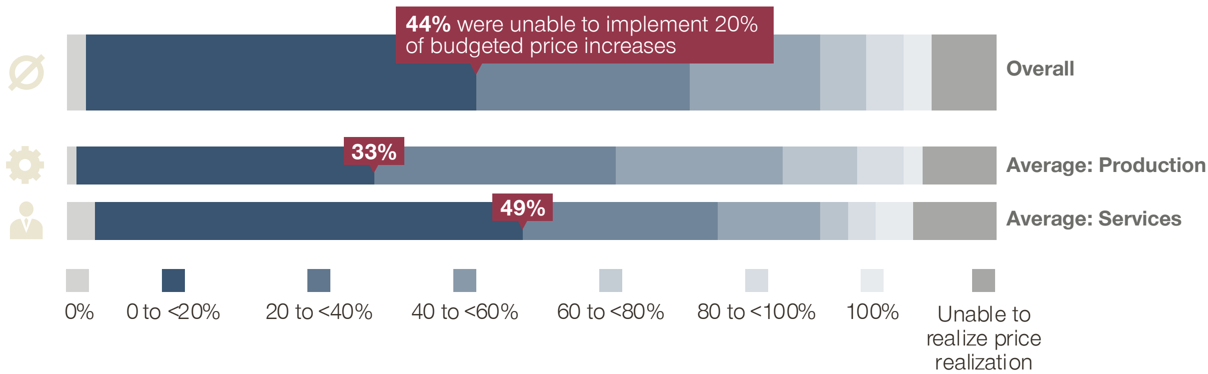
Considering the low success rates of implementing price increases, these targets are definitely not high enough to remain profitable in the long term. According to the study, two thirds of participants achieved less than half of their planned price increases last year. On average, only 28 percent of a budgeted price increase was realized. In 2011, this number was 53 percent.

How much of your budgeted price increases did you achieve last year?



On average, 44 percent of companies were unable to implement 20 percent of their budgeted price increases after deducting discounts, rebates, promotional offers, etc. In manufacturing industries, only 33 percent achieved this low target. Firms in the service industry performed a little bit better, with almost 50 percent implementing at least 20 percent of their budgeted price increases.

Realization of price increases



▶ In order to successfully implement price increases, **companies need to put a proper strategy in place**. Product value should be the core message, price and condition systems need to always be based on the companies' objectives, and sales departments must be properly trained in order to work efficiently.

Summary

The results of the Global Pricing Study 2019 revealed that a lot has changed for companies around the globe.

Although many firms are still facing a number of significant challenges, they are more equipped than ever to deal with them, particularly with regard to digitalization. Companies have set clearer goals for themselves and are more capable of reaching them.

Despite this, far too many companies are still underestimating pricing's potential and are therefore not investing enough to increase their pricing power, resulting in price wars and low and badly implemented price increases. Unfortunately, recent developments don't indicate this will change in the near future. To gain traction and fully benefit from pricing, companies need to invest in pricing expertise – only then will they be able to use the most important profit lever efficiently and grow sustainably.

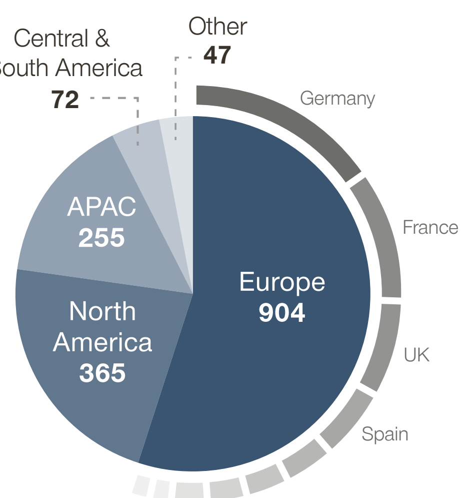
About the study

In the Global Pricing Study (GPS), Simon-Kucher & Partners regularly surveys companies from many different industries worldwide about their growth, price setting, and digitalization strategies. This year, for the first time, the GPS 2019 was integrated into the new global Simon Kucher "Trend Radar" study. Around 1,650 companies from over 30 countries completed an online survey between March and April. Whereas in previous years, it was primarily pricing managers who were surveyed, the target group for the current GPS was expanded to include companies' top management.

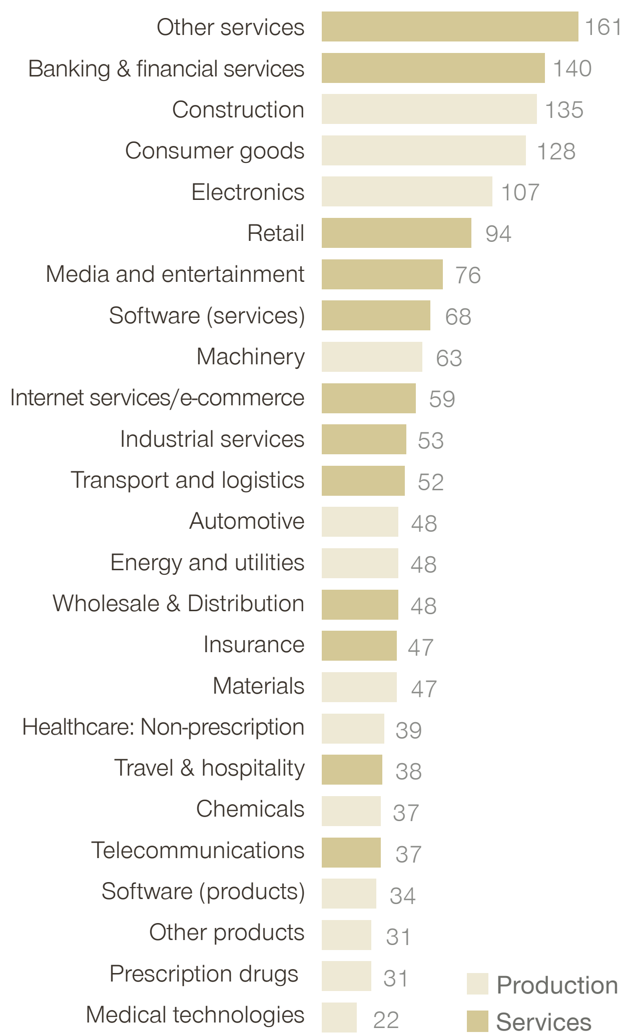
Sample information

- 1,643 respondents
- 31 countries overall
  7 countries with >25 respondents
- 33 industries
- Online survey In April 2019
- 28% Top-Management
- Balanced mix of B2B vs. B2C
- Balanced mix of production vs. services
- 29% pricing, sales, marketing

Survey respondents by country



Survey respondents by industry



Simon-Kucher & Partners, Strategy & Marketing Consultants

Simon-Kucher & Partners is a global consulting firm with more than 1,400 professionals in 39 offices worldwide focusing on TopLine Power®. Founded in 1985, the company has 35 years of experience providing strategy, marketing, and sales consulting and is regarded as the world's leading pricing advisor.

Global locations

39 offices in 25 countries

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+18%

Revenue in 2019

€358m/$401m

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

+2 to 4% points ROS

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Financial Times, list of the UK's Leading Management Consultants, 2018

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brand eins Thema special edition: Consulting – industry report from *brand eins Wissen* and *Statista*, online survey, six years in a row: 2014 - 2019

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Capital, survey of the best consultancies in France, 2016, 2018
(conducted every two years)

Forbes

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Forbes, survey of the best management consulting firms in the US, October 2016, 2018
(conducted every two years)

MT Magazine/Erasmus University

#1 Strategy Consulting

MT Magazine/Erasmus University: MT1000 2018, survey of the best strategy consultancies in the Netherlands, 2018

Bilanz

#1 Marketing, Sales

Bilanz Magazine ranking, survey of the best consulting firms in Switzerland, 2019

What others say about us

Simon-Kucher & Partners was a great partner during our research phase. We appreciated their support, expertise, and partnership throughout the process of developing Uber Rewards

Barney Harford, former COO, Uber

Simon-Kucher & Partners did some excellent work to help us break one of the great myths in our organization. They radically changed how we understood our core audience

Chris Stibbs, CEO, The Economist Group

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

BusinessWeek

Pricing strategy specialists

The Wall Street Journal

In pricing, you offer something nobody else does

Professor Peter Drucker, management thinker

No one knows more about pricing than Simon-Kucher

Philip Kotler, marketing guru

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