

PRESS RELEASE

Profits jump when CEO's take an active role in pricing

Pricing power drives higher profits when C-level executives take an active leadership role in pricing and put a pricing organization in place, a worldwide study by Simon-Kucher & Partners reveals.

Bonn, November 15, 2012 – Strong C-level commitment to pricing – combined with a dedicated pricing organization – is essential to protect and boost profits in today's low-growth economic climate. That is the key insight from Simon-Kucher & Partners' *Global Pricing Study 2012**, an in-depth survey of over 2,700 executives and managers from over 50 countries.

"Staying in a pricing 'comfort zone' is no longer an option for C-level executives in the current economic climate," said Georg Tacke, CEO of Simon-Kucher & Partners, the world's leading pricing consulting firm.

"Over 80% of companies face intense pricing pressure from competitors and customers, on top of the risk of inflation from volatile commodity prices," Tacke said.

"This underscores the urgency for C-level executives to get involved now."

Companies whose C-level executives take an active role in pricing are 35% more likely to have high pricing power, and 30% more likely to expect strong EBITDA growth over the next three years, the study showed. Pricing power is the ability of a company to get the prices it deserves for the value it delivers to customers.

"Pricing power begins at the top of the organization," Tacke said. "When C-level executives turn their attention to pricing, their companies are more likely to have a stronger profit outlook, more likely to raise prices, and more likely to make those price increases stick."

C-level involvement in pricing means setting the right objectives and incentives, driving the organizational and cultural changes to support better pricing, and taking more

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responsibility for pricing strategy as a whole. “It’s a leadership obligation for the executives, not a day-to-day operational one,” Tacke said.

Companies with active C-level involvement in pricing are 18% more likely to put through a successful price increase, according to the study. But more importantly, they are 26% more likely to get higher margins from their price increases than companies without C-level involvement in pricing.

“Every point of margin you can get from a price increase is precious in today’s tough climate,” said Annette Ehrhardt, Senior Director at Simon-Kucher and co-author of the study. “That’s why the executives not only need to put more of their own time and energy into pricing, but also equip their companies to do the same.”

That means creating a dedicated pricing organization. The study showed that such organizations also have a clear impact on a company’s ability to translate pricing power into higher profits.

“Don’t underestimate the importance of creating a strong pricing organization,” Ehrhardt warned. “Creating and exercising pricing power used to be luxury for some companies. Now it has become an essential survival skill. You need end-to-end coordination, from strategy to analytics to interpretation and implementation.”

Companies with dedicated pricing organizations are 15% more likely to increase prices than companies which lack one. They also pass on 11% more of their planned price increases than companies without a pricing organization.

But Tacke and Ehrhardt point out that the greater emphasis on pricing and the accompanying organizational changes are not merely survival mechanisms.

“You shouldn’t retreat back into your pricing ‘comfort zones’ when economic growth returns to historical levels,” Tacke urged C-level executives. “The attention you pay right now and the organizational changes you make will reward you even more when growth picks up.”

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About the Global Pricing Study 2012*

The Global Pricing Study 2012 included 2,700 high-level decision makers from companies in all major service and manufacturing industries across Europe, the Americas, and Asia. The survey covered pricing organization, pricing power, inflation management, profit orientation, and profit outlook. Simon-Kucher & Partners conducted the study in collaboration with the Professional Pricing Society (USA) and the IE Business School (Spain).

Study authors

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The management summary is available upon request.

Simon-Kucher & Partners, Strategy & Marketing Consultants:

Simon-Kucher & Partners is a global consulting firm with 650 professionals in 25 offices worldwide focusing on Smart Profit GrowthSM. Founded in 1985, the company has over 25 years of experience providing strategy and marketing consulting, and is regarded as the world's leading pricing advisor.

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