

SIMON ♦ KUCHER & PARTNERS

Strategy & Marketing Consultants

Pricing Strategies for Maximum Profitability

2022 Chief Executive PE-Backed Leadership Summit

December 2022

**Bhavin Manjee, Partner and
Board Member**

Dave Clement, Partner

New York office

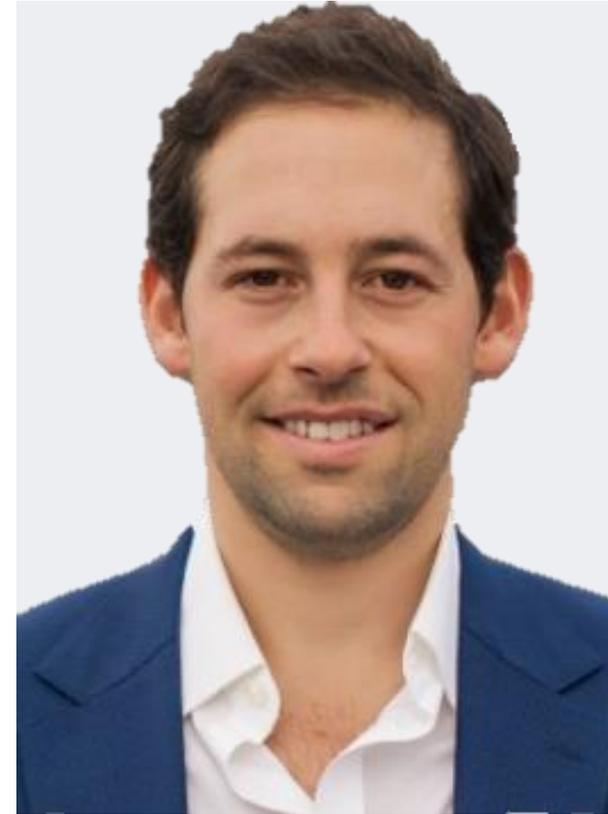
17 State Street, 37th Floor
New York, NY 10004, USA

www.simon-kucher.com

Thank you for having us!



Bhavin Manjee
Partner and Board Member



Dave Clement
Partner

Quick Simon-Kucher overview: Unlocking growth for 35+ years ears

Global experts in commercial strategy

Recognized across 12 sectors and functional areas, Simon-Kucher was one of only five consultancies in the world to be awarded five stars for the Marketing, Brand & Pricing function

Forbes, 2022, together with Statista: list of the World's Best Management Consulting Firms, 2022



What others say about us

No one knows more about pricing than Simon-Kucher.

Philip Kotler, marketing guru

Simon-Kucher is a down-to-earth consultancy, highly committed and trustworthy. They deliver what they promise.

Member of the executive board,
Bank Julius Baer & Co. Ltd

Simon-Kucher 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

Pricing strategy specialists.

The Wall Street Journal

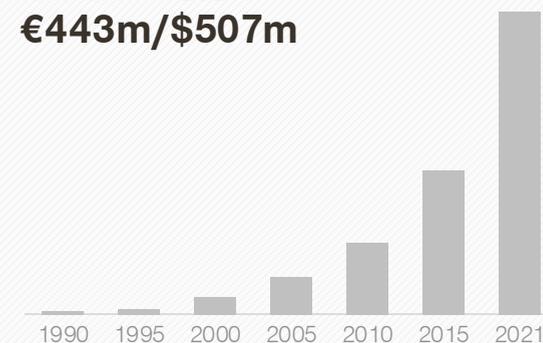
Facts and figures

Global locations:



Avg. annual growth: **+17%**

Revenue in 2021:
€443m/\$507m



Simon-Kucher profile

No one drives growth like we do.

Simon-Kucher is a global consultancy firm with more than 2,000 employees in 27 countries focused on delivering measurable revenue and profit growth for our clients.

We do this by optimizing their pricing, sales, and marketing strategies — better and more sustainably than anyone else.



*"When the storm comes,
some build walls and
others windmills"*

Chinese proverb

Current environment of high uncertainty

Forbes

Sept 21st, 2022

Is The U.S. Headed For Another Recession?

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FINANCIAL REVIEW

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 **The Economist**

Aug 31st, 2022

Europe is heading for recession. How bad will it be?

Every single warning light is flashing red. Russia's war on Ukraine, an uneven recovery from the covid-19 pandemic and a drought across much of the continent have conspired...

THE WALL STREET JOURNAL

Oct 14th, 2022

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Current environment of high uncertainty: Inflation

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Current environment of high uncertainty: Supply chain and energy shocks

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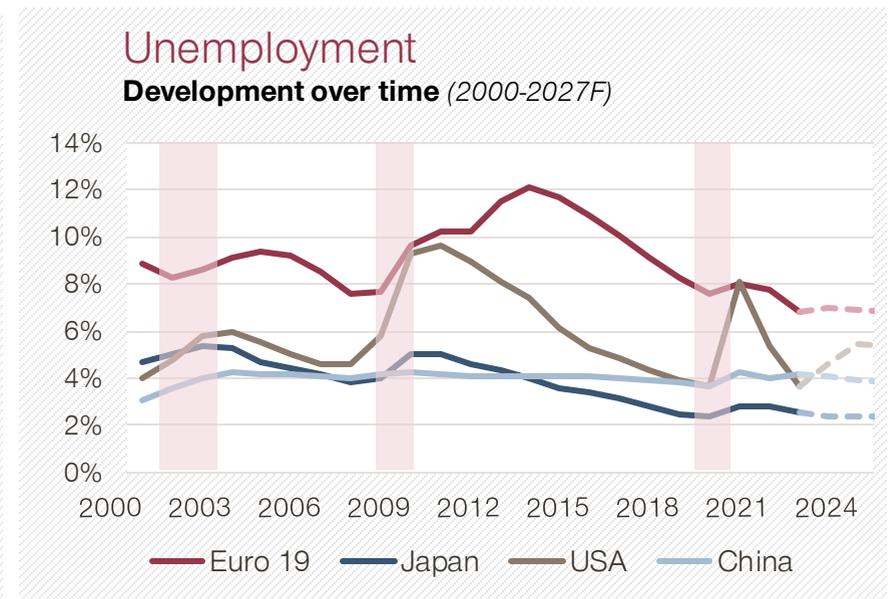
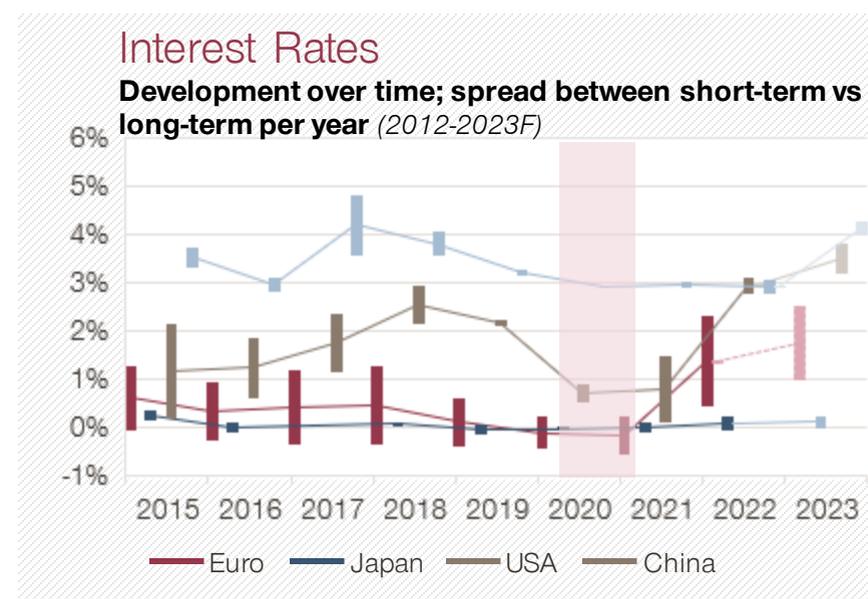
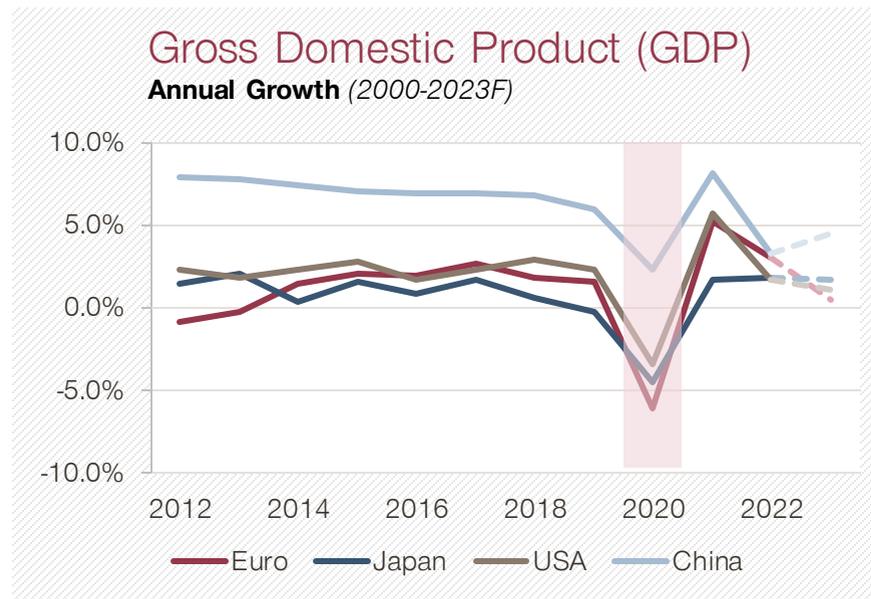
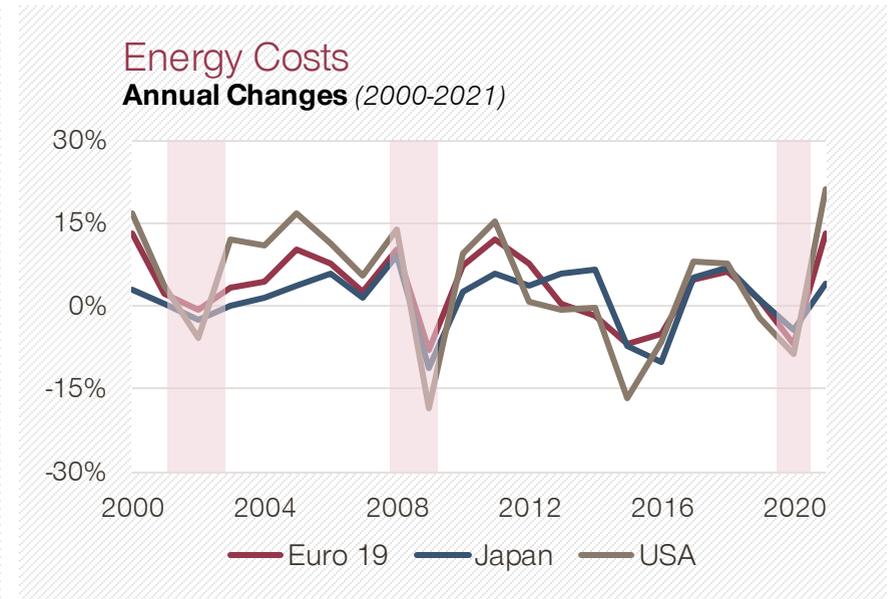
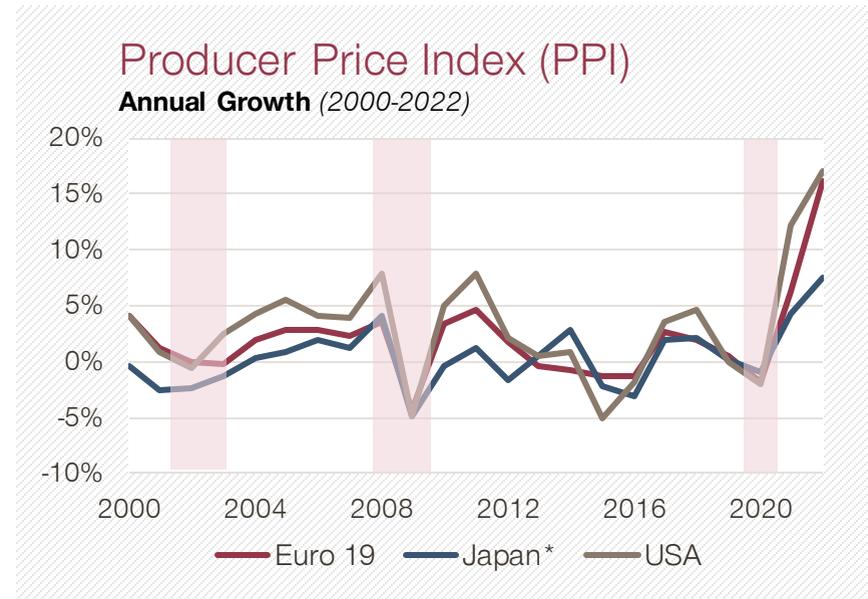
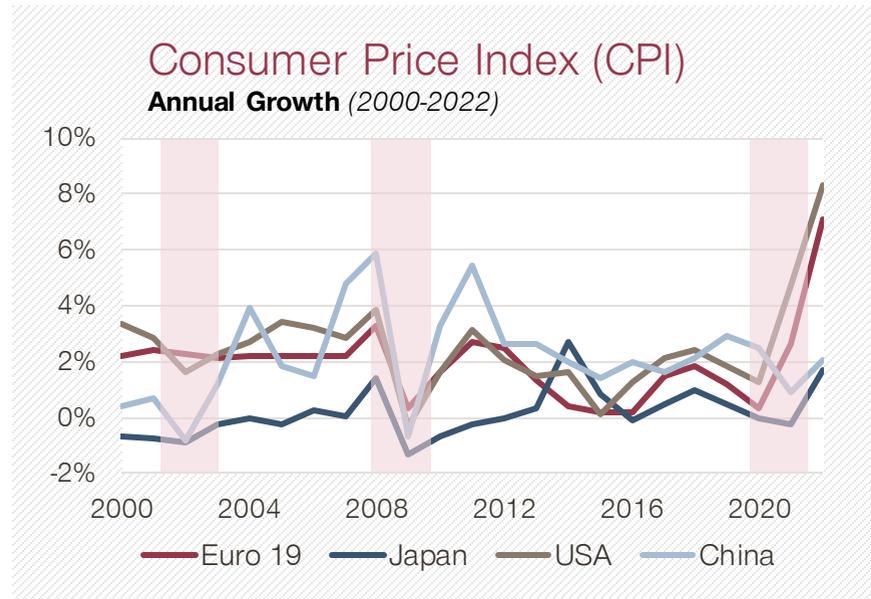
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Key business indicators reflect the current uncertainty



Source: OECD (20.10.2022). *PPI Japan: domestic production only vs. PPI Euro 19 & USA: total production. ** Dot.com = 2001-03; Financial crisis = end of 2008-09; Covid19 = 2020-21.

■ = Periods of past economic crisis (indication)**

Overlapping crises make it difficult to prioritize commercial strategies

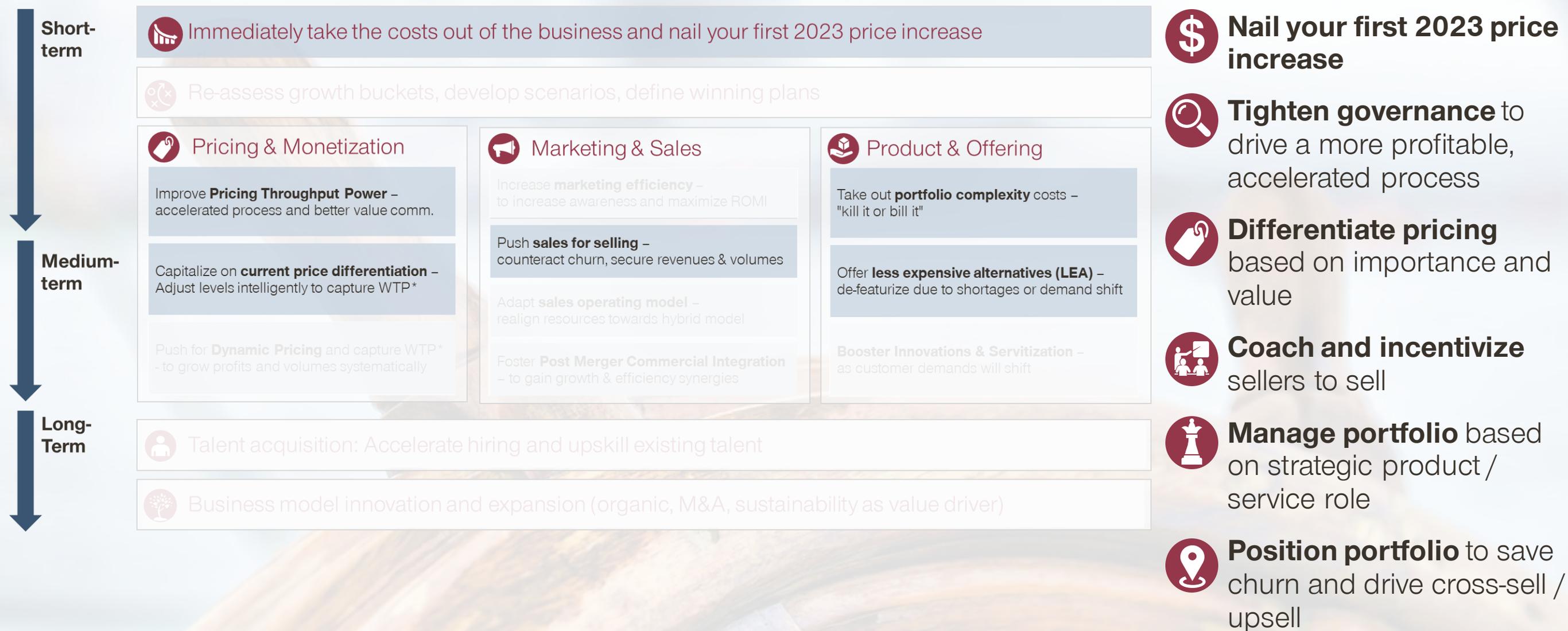


In times of uncertainty, we advise our clients to follow our crisis roadmap framework – an actionable plan that delivers proven commercial results



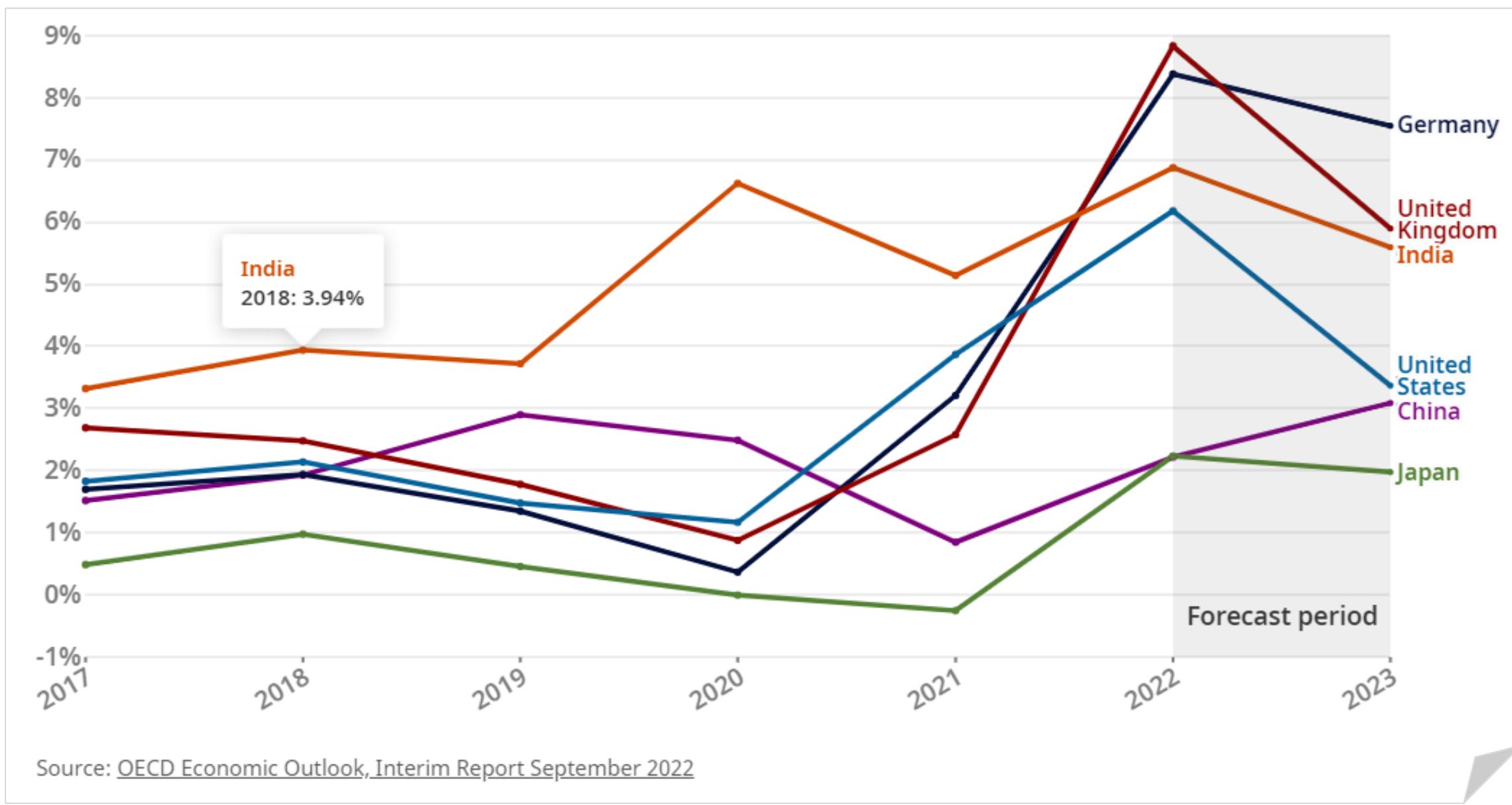
*) WTP = willingness to pay
Source: Simon-Kucher & Partners

Today we will share actionable pricing, sales, and offer tactics for you to be implementing tomorrow





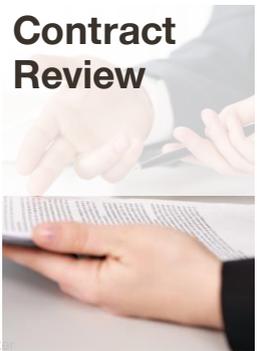
Word of caution: Inflation will remain at high levels, but a slight decrease will lead to even higher challenges for sales in implementing price increases



Source: OECD Economic Outlook, Interim Report September 2022

Successful price adjustments are the result of a complete approach at the customer and product / service level

CONFIGURE



Contract Review

Define the scope of price increases by understanding who is and is not on contract. For those on contract, evaluate escalation changes or historical price capture that has not been realized.

1



Campaign Objective

Analyze existing data on cost development and price potential, consider only relevant sales and coordinate the goal with the management level

2



Customer/product-specific goals

Differentiate by customer (segments), products, and channels primarily based on "ease of increase" (and less based on current profitability)

3

PREPARE



Alternatives and escalation rules

Develop alternatives (pricing models, price clauses, cheaper alternatives) to increases and set clear rules of consent if there is a deviation from the target price

4



Sales incentives

Reward successful price increases (in addition to the existing compensation plan)

5



Communication and training

Have management explain ambitions internally and externally; Develop sales guidelines and train relevant skills for price negotiations (including negotiation simulations)

6

STEER



Supporting material

Prepare battle cards, argumentation guides, concessions, and negotiation plans customer by customer (and/or product by product)

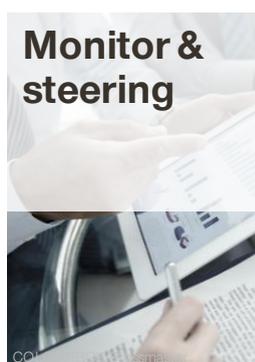
7



KPIs and Project plan

Develop relevant metrics (including roadmap/schedule for negotiations) to enable meaningful monitoring

8



Monitor & steering

Create a real-time control of the implementation progress (both process and result conformity) and react accordingly in case of deviations

9

Focus price increase communication on value but acknowledge costs

Dear Valued Customer,

As the industry's unrivaled **BUSINESS OVERVIEW / DIFFERENTIATOR**, XXX's focus is on **2 OR 3 KEY COMPETITIVE ADVANTAGES** to deliver **PROOF POINTS AND BENEFITS FOR THOSE CRITERIA**.

Beyond the investments we've made over the last several years in areas like **HIGHLIGHT KEY INVESTMENTS OVER THE YEARS**, we wanted to highlight some of the improvements we will be making to our offering in 2023, many of which were requested by customers just like you:

- **HIGHLIGHT FUTURE IMPROVEMENT AREA #1**
- **HIGHLIGHT FUTURE IMPROVEMENT AREA #2**
- **HIGHLIGHT FUTURE IMPROVEMENT AREA #3**

Small cost justification

Focus on value via competitive advantages, past investments and future value

As you are aware, we are facing a period of high inflation throughout the economy. Your price will increase to \$X or by X%, effective on XXX date. In addition to our investments described above, this will allow us to bring you even better support and performance in the future.

We appreciate that you have chosen XXX to deliver **REITERATE PROOF POINTS AND BENEFITS ABOVE** and we look forward to continuing our partnership.

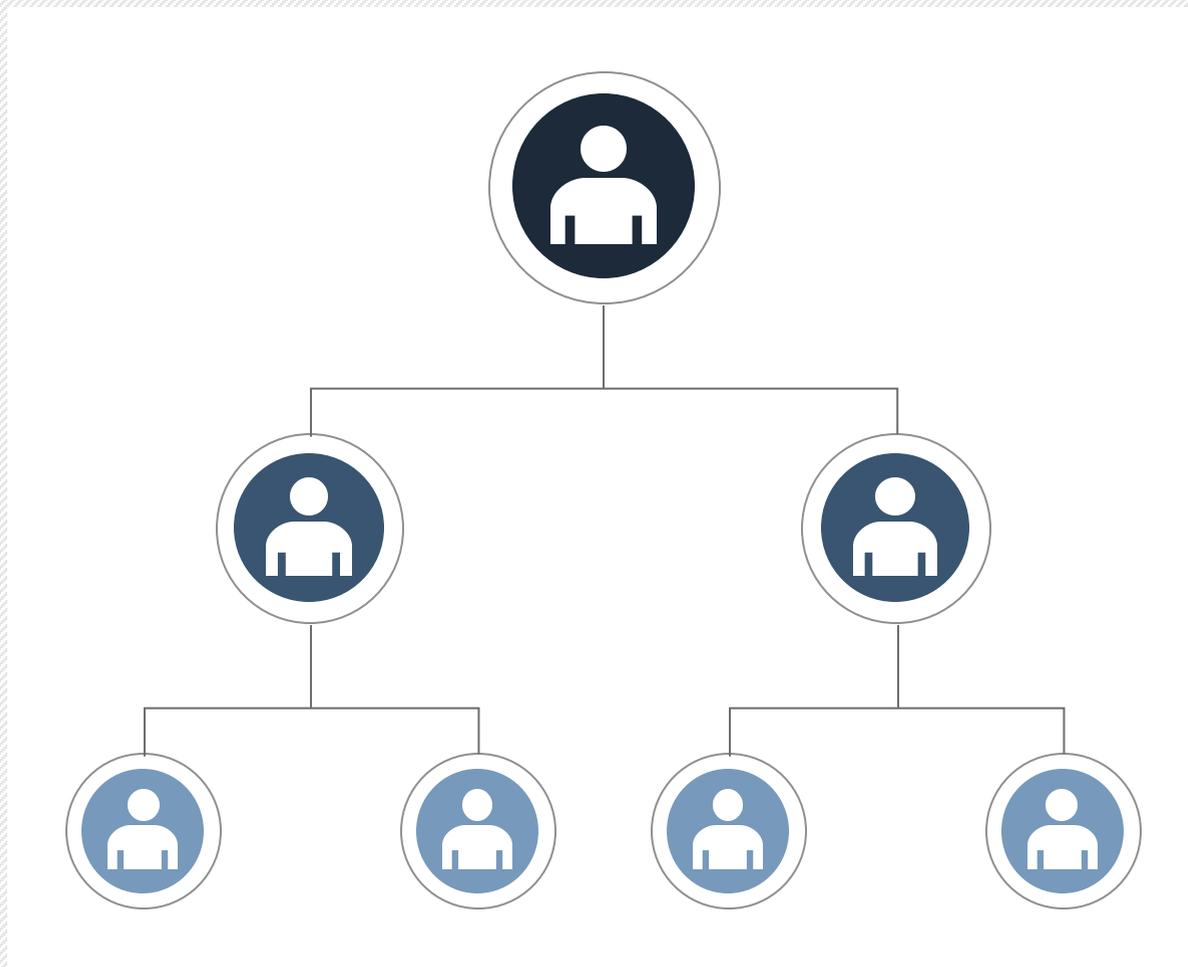
Thank you,

XXX

For consideration: Mitigate beating the system, humanize costs, use personal follow-ups if needed

Modernize your pricing organization to combine highly skilled people enabled by tools to reprice at higher frequency and greater granularity

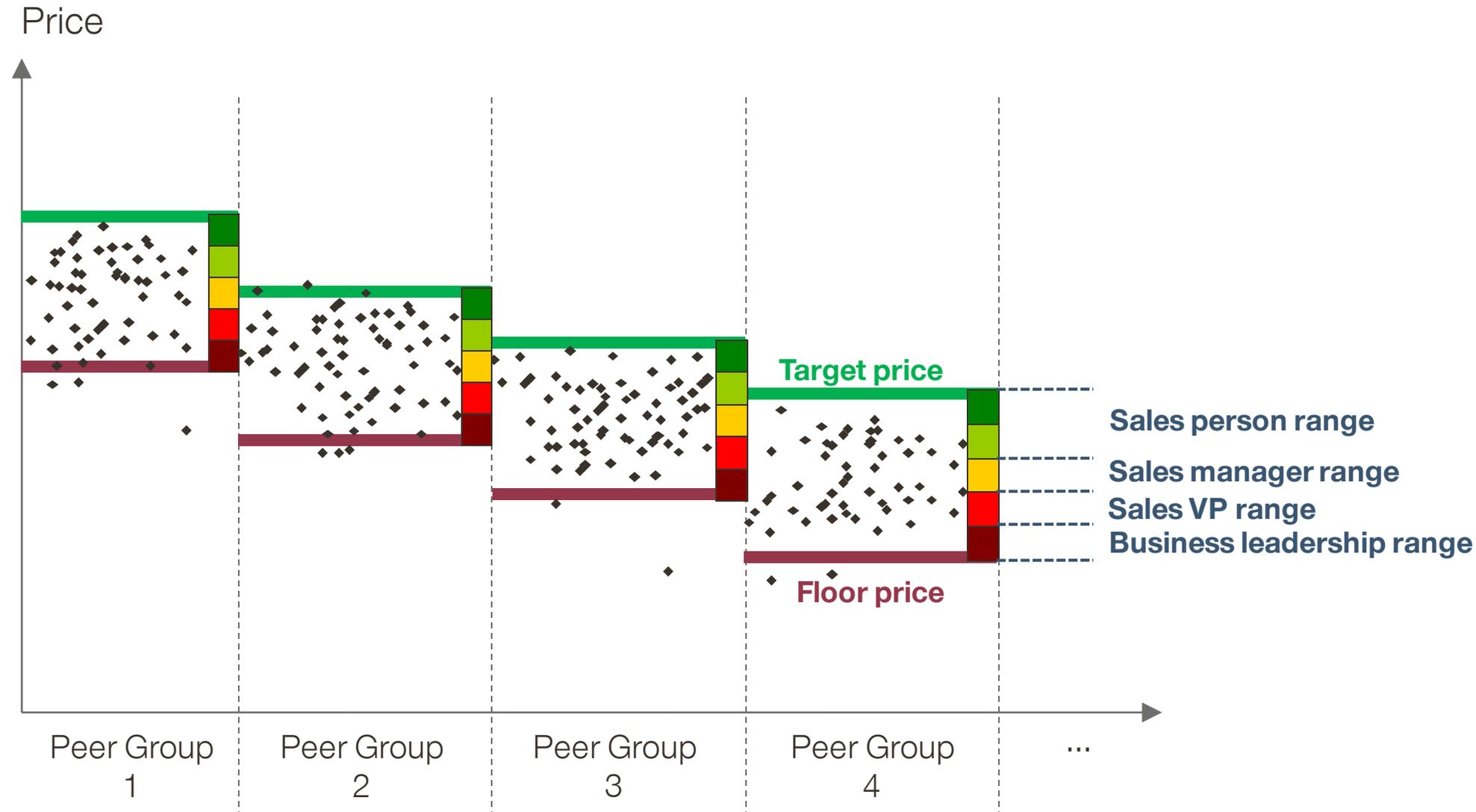
Org Design



Pricing Tools



A strategic escalation process that provides autonomy when pricing near target price will balance steering with speed



Escalation best practices

- Deals should be segmented via traffic light structure where ● = good, ● = bad; can use up to 5 levels
- The best deals should be auto-approved, while the worst deals reach senior individuals to advise
- Quantify how many deals each approver will review weekly to ensure lift in bandwidth is appropriate
- Regularly evaluate deal scores to identify pricing and win/loss improvement opportunities

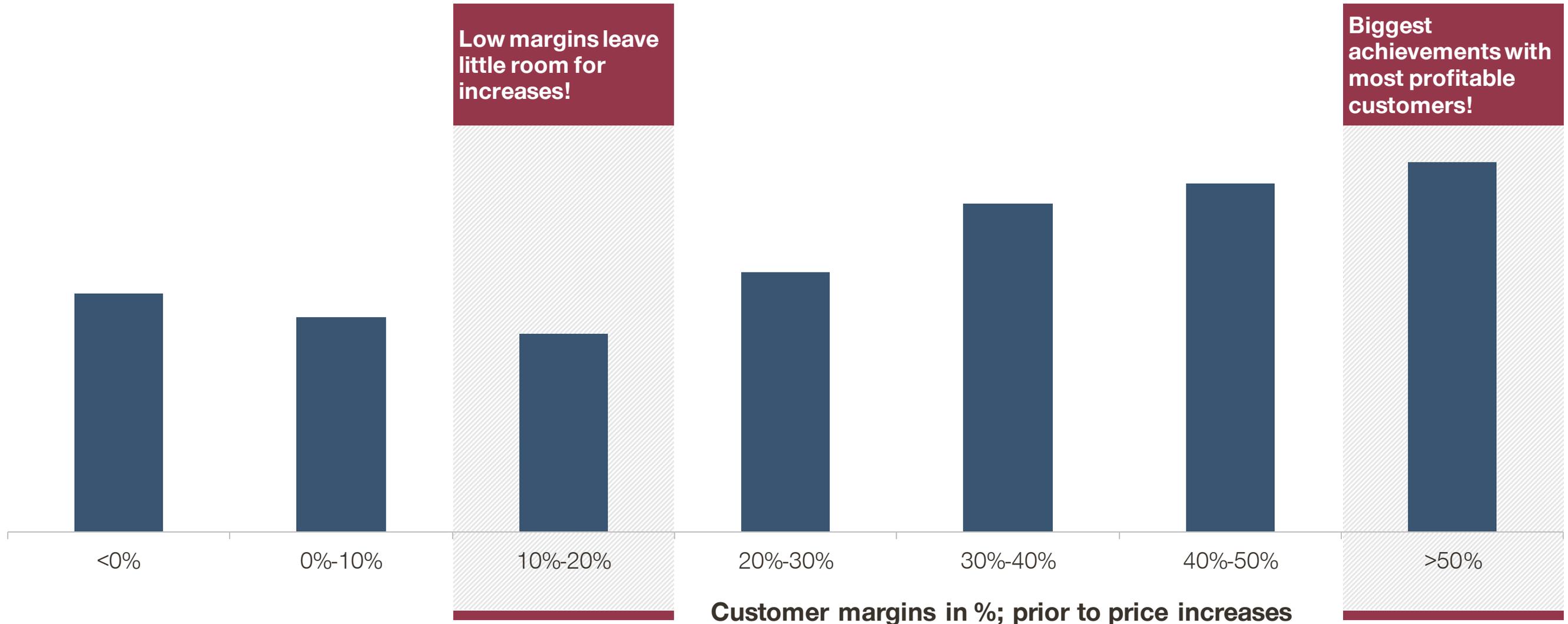
You may yield higher price increases with profitable customers, not the other way around



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Project example

Implemented price increases



Whatever you do, do not institute a “peanut butter spread” price increases

Pragmatic:
Customer importance-based price increase

Very low importance	Low importance	Medium importance	High importance	Very high importance
+12%	+10%	+8%	+6%	+4%

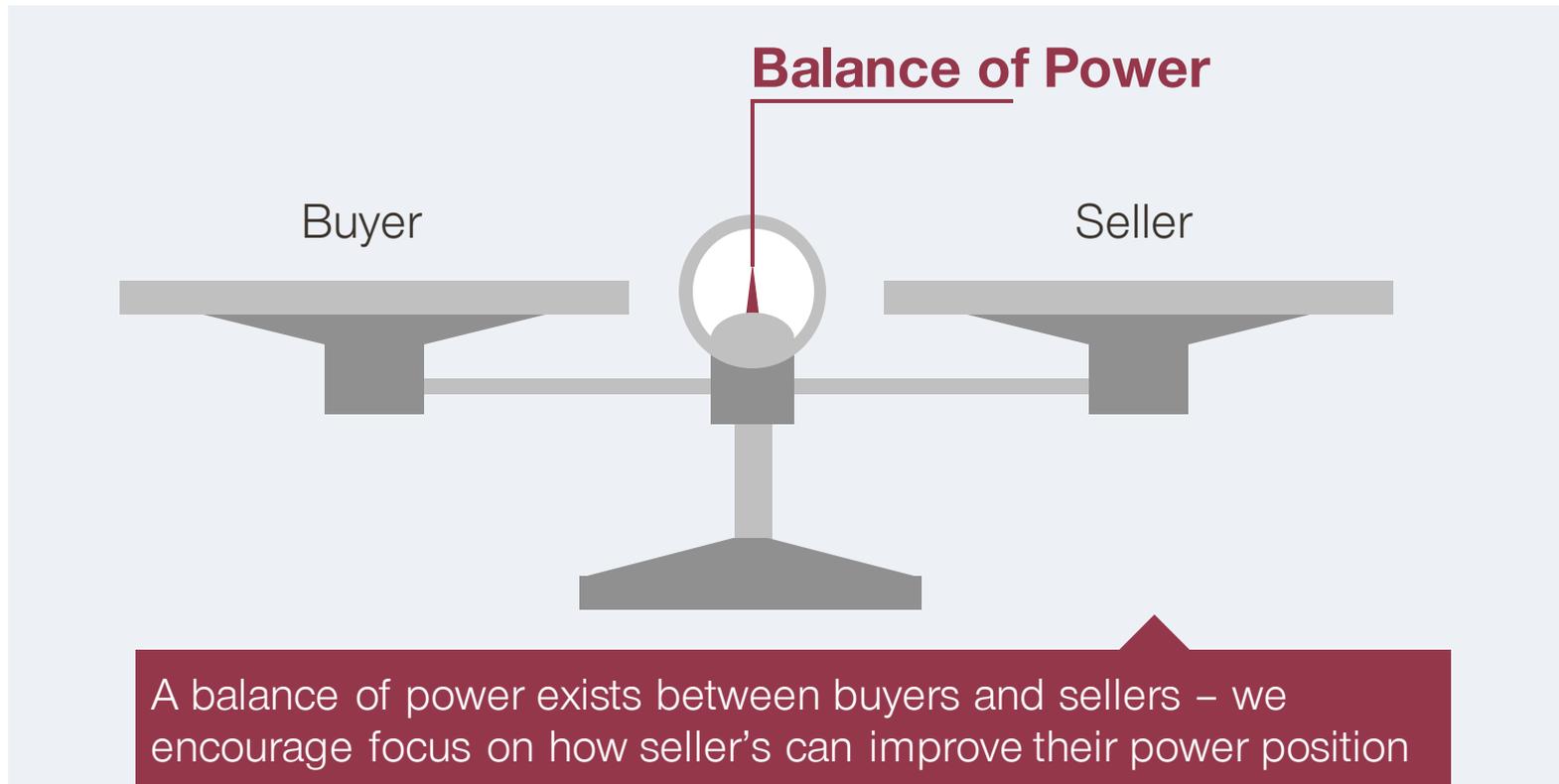
Exhaustive:
Customer importance and product / service value-based price increase

	Very low importance	Low importance	Medium importance	High importance	Very high importance
Driver / Mass-Market	+8%	+7%	+6%	+5%	+4%
Filler	+10%	+9%	+8%	+7%	+6%
Specialty	+12%	+11%	+10%	+9%	+8%

Typical customer importance segmentation factors

- Spend
- Growth
- Potential
- Service frequency
- Loyalty (tenure)
- Cost-to-serve
- Industry
- ...

Creating a framework to measure your power position will make it easier for you to achieve success in a negotiation



Many salespeople perceive that all negotiating power lies with the purchasing department.

This is often not true. Here are some reasons why:

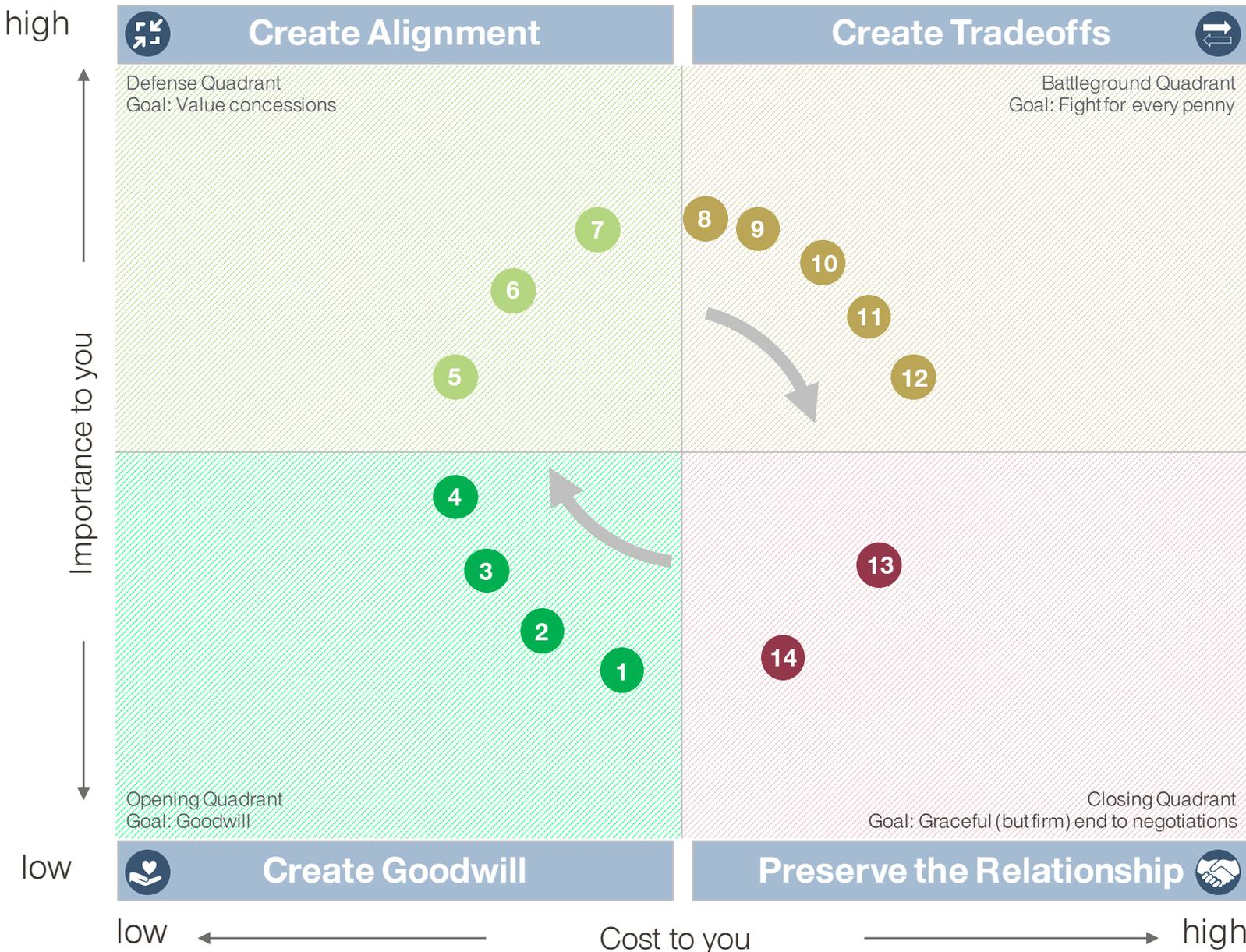
- Limited alternatives in the market
- Few solutions providers with knowledge and capability to comprehensively support
- Time pressure
- Switching costs / risk
- Lack of product competence on the part of the customer
- ...

There are 6 dimensions of power position that sellers can impact to influence buyer decision-making

- Net value – value vs. price
- Alternatives – availability and quality
- Trust – belief in you
- Goodwill – willingness to help you
- Consistency – alignment of customer actions and offer
- Feasibility – customer budget and ability to purchase



Thinking critically about concessions is the key to success – starting with smaller contractual concessions before escalating to larger giveaways



#	Concession
1	Discounts for better contractual terms (upfront payment)
2	Discounts for better contractual terms (net 30 payment)
3	Discount for better contractual terms (reduced lead time)
4	Discount to encourage adoption of >1 ancillary service
5	Discount for referral to new accounts
6	Discount for customer testimonial
7	Discount for new service testing
8	Discounts for premium service
9	Free trial on the next service tier for 3 months
10	Free premium service
11	Expedited/priority customer support
12	Customer success ROI audit
13	Vote on and share new service requests with marketing team
14	Multi-year contracts that provide price certainty to customers

Source: Simon-Kucher & Partners

Aligning sales incentives with business objectives is a top realization tool

SKP best in class compensation structure consists 3 elements

Volume



- Rewards \$ growth
- Helps to set revenue goals / quotas

Margin



- Rewards profitability
- Reduces sales discretionary discounting

Corporate Obj.



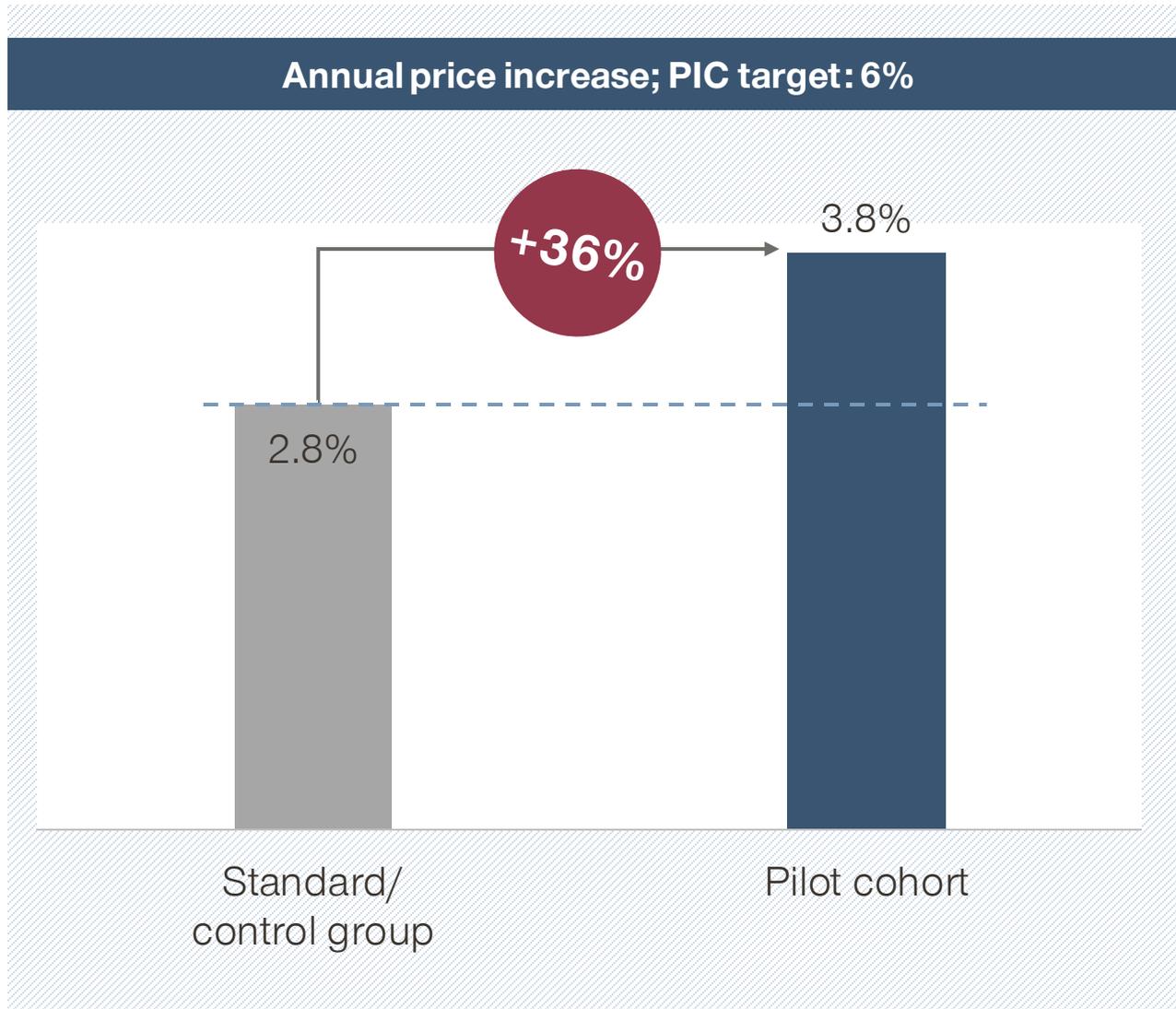
- Aligns rep behavior with corporate goals
- Helps to promote specific objectives (e.g. expanding territories, selling new products, cross-sell / upsell)

Your current compensation structure

Metrics	Compensation Elements	Include?
Volume	Revenue target	?
	Kickers / Accelerators	?
Margin	Profit Margin in Total \$?
	Profit Margin in %	?
	Price increase achievement	?
Corporate Objective	New account growth	?
	Upsell	?
	Cross-sell	?

Using a 'skin in the game' incentive may help off cycle price increase realization

Price increase campaign (PIC) pilot



Price increase incentive

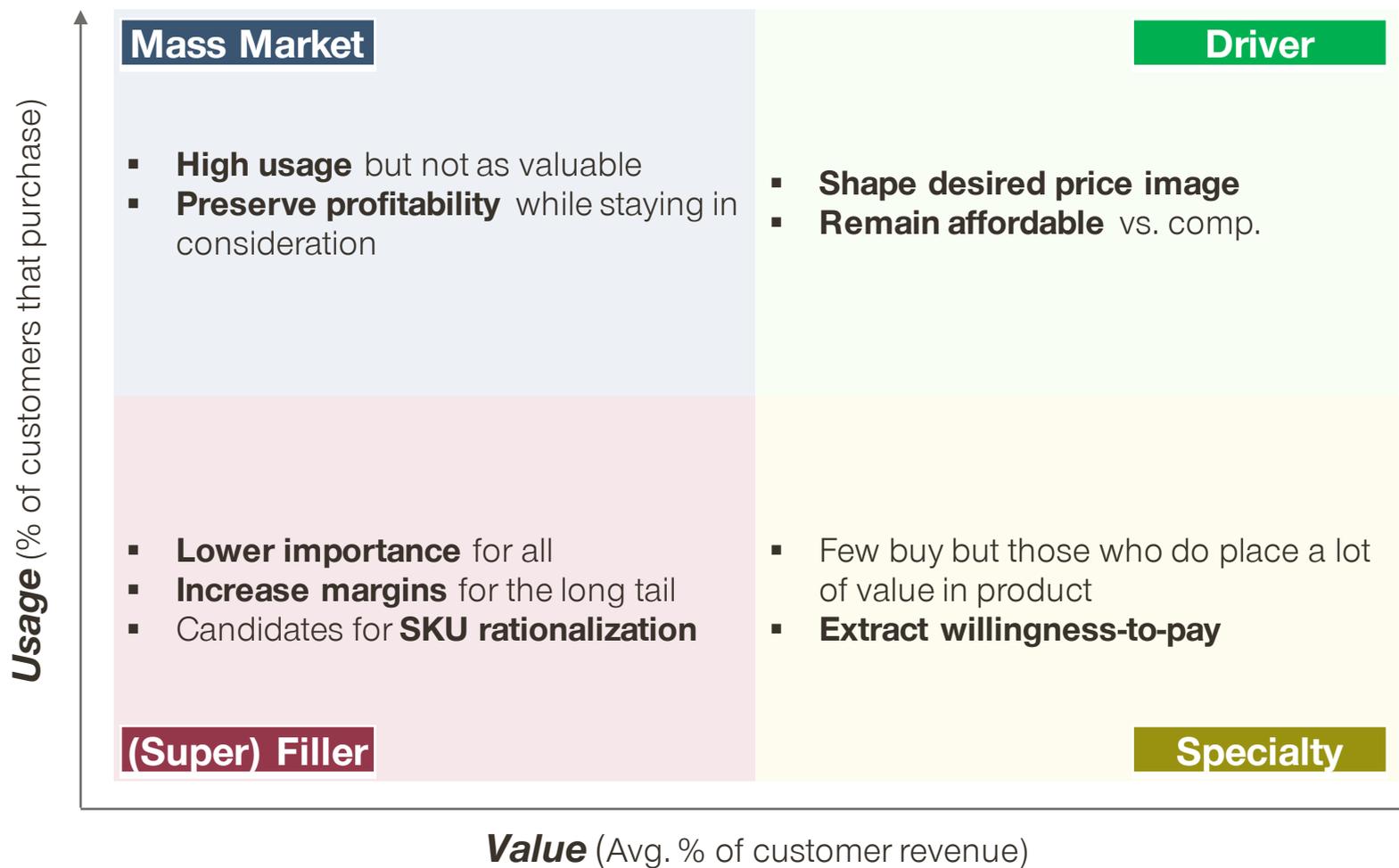
- On top incentive (no re-definition of existing compensation scheme)
- Sales reps could keep percentage of implemented annual price increase (beyond x%)
- Payment after customers begin paying the higher prices
- No budgeting necessary; self funding with no negative cost impact





Look to “Fillers” and “Super Fillers” for rationalization or heavy price increases

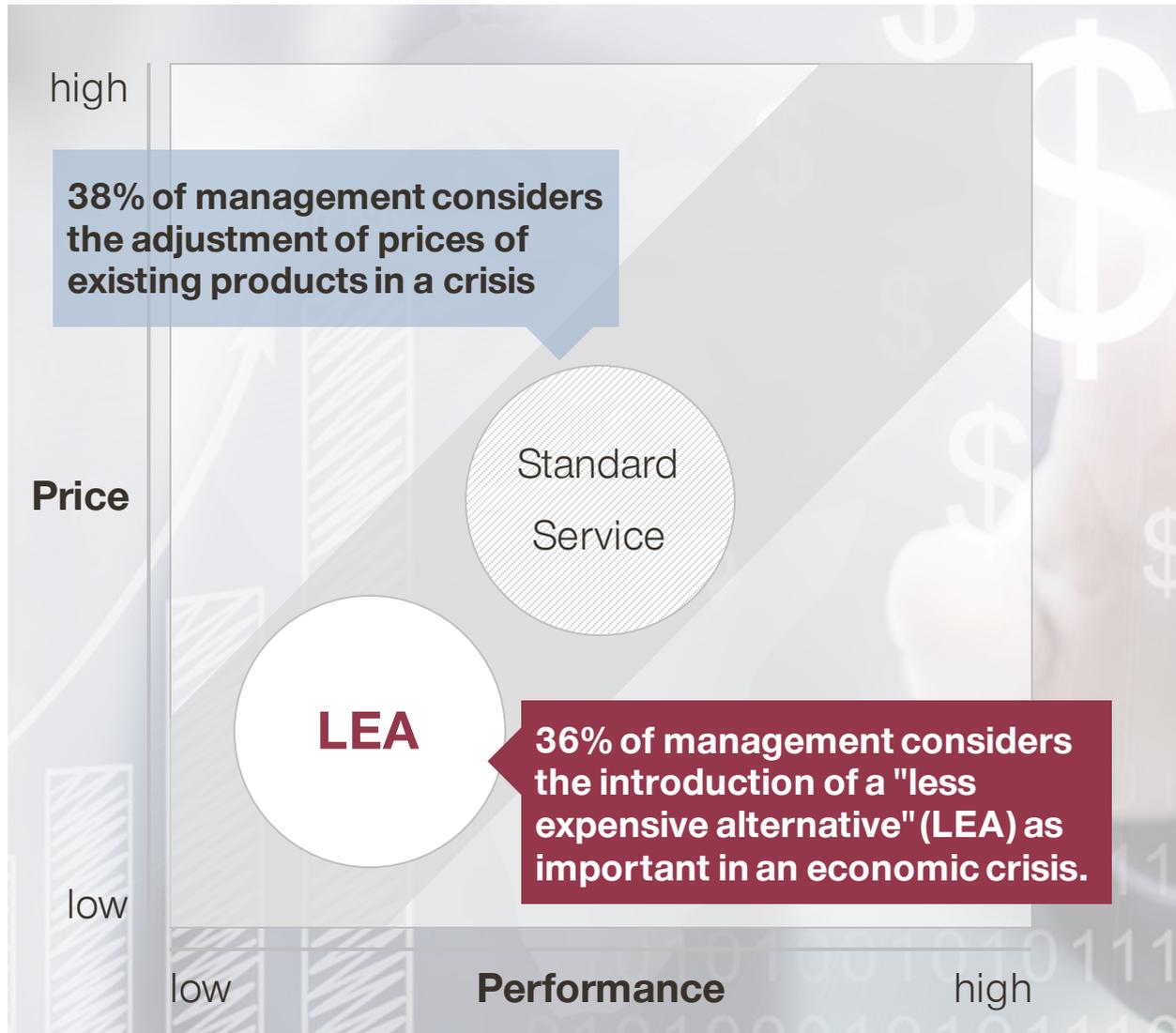
Simon-Kucher Product Role Analysis



Portfolio Mix: Project Example

Strategic Role	# of SKUs	% of SKUs	% of Revenue
Driver	8,006	8.9%	52.4%
Mass Market	7,727	8.7%	25.9%
Specialty	3,458	3.9%	2.9%
Filler	26,158	29.4%	16.9%
Super Filler	43,768	49.1%	1.8%

Preventing trade-down with a less expensive alternative will create offer optionality should existing or premium offers not align with budgets



Price trumps quality in times of crisis.

Lowering prices without reducing service offering is a recipe for a price war!

Short-term action:

- De-bundle services; kill "nice to have" extras
- Establish price lists to balance price and performance
- Reduce level of offering or comprehensiveness and offer "good enough" services, the *"less expensive alternative"*

For consideration: Balance LEA with a premium offer for anchoring and to prove your quality and value

Parting thoughts: Focus is crucial as even measures that make sense in the long term may be unsuitable in the short term

Appropriate immediate measures

- ✔ Quick and easy-to-implement measures that immediately free up cash
- ✔ Measures that immediately increase earnings through targeted price actions
- ✔ Sprint-based project approach to addressing customer and product
- ✔ Effective change management and leadership to communicate and steer internal and external behavior

Not suitable measures for a quick success

- ✘ Wait and see, it will be fine
 - ✘ Innovation
 - ✘ Diversification
 - ✘ Vertical integration
 - ✘ Change Business Model
- Long-term and costly**

Thank you!

Q&A?