

## **What it takes to become a price champion**

*Dr. Georg Tacke, CEO of Simon-Kucher & Partners Strategy & Marketing Consultants*

*Not everyone gets what they deserve: The largest pricing study ever with over 3,900 respondents sheds light on the profit culture and pricing know-how around the globe and across industries.*

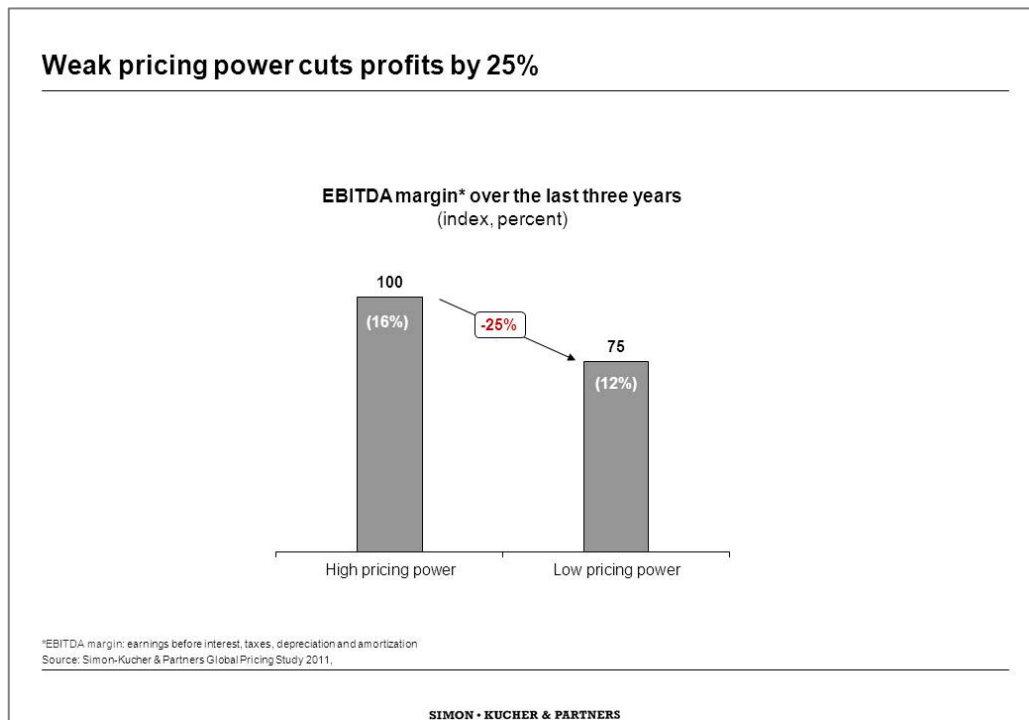
“When it comes to the prices we pay, we study them, we map them, we work on them. But with the prices we charge, we are too sloppy!” complained the CEO of General Electric, Jeffrey Immelt, in 2006. In 2011, Simon-Kucher & Partners put an end to the insecurity and shed light on pricing know-how and profit culture across countries and industries. We asked over 3,900 high-level decision makers from all major service and manufacturing industries around the world how they set their prices. Almost half of the respondents from Europe, the US and Asia are from companies with more than one billion euros in sales; C-level executives account for one-third of the respondents.

The main findings in a nutshell: 65 percent of companies are not able to charge the prices they deserve for the value their products and services deliver. As a result, they lose 25 percent of profits. Rather than focusing on profit, 46 percent of the companies fight price wars to gain volume and market share. And when companies finally bring themselves to raise prices, they only get half of what they planned. In addition, the study results show that companies underestimate the inflation threat and are badly prepared when they need to increase prices. But inflation is inevitable. To secure profits, managers need to make their company inflation-safe. Using the inflation rate as a benchmark for the price increase target is in most cases the wrong strategy.

### **Pricing power untapped**

Pricing power is the ability of companies to get the market prices they deserve for the value they deliver to customers. Only one-third has sufficient pricing power and knows how to turn value into money. The remaining 65 percent of companies admit

having only very little or no pricing power, which is why it's clear from the beginning that the target price cannot be achieved. The weak performance is costly. It cuts profits by one-quarter.



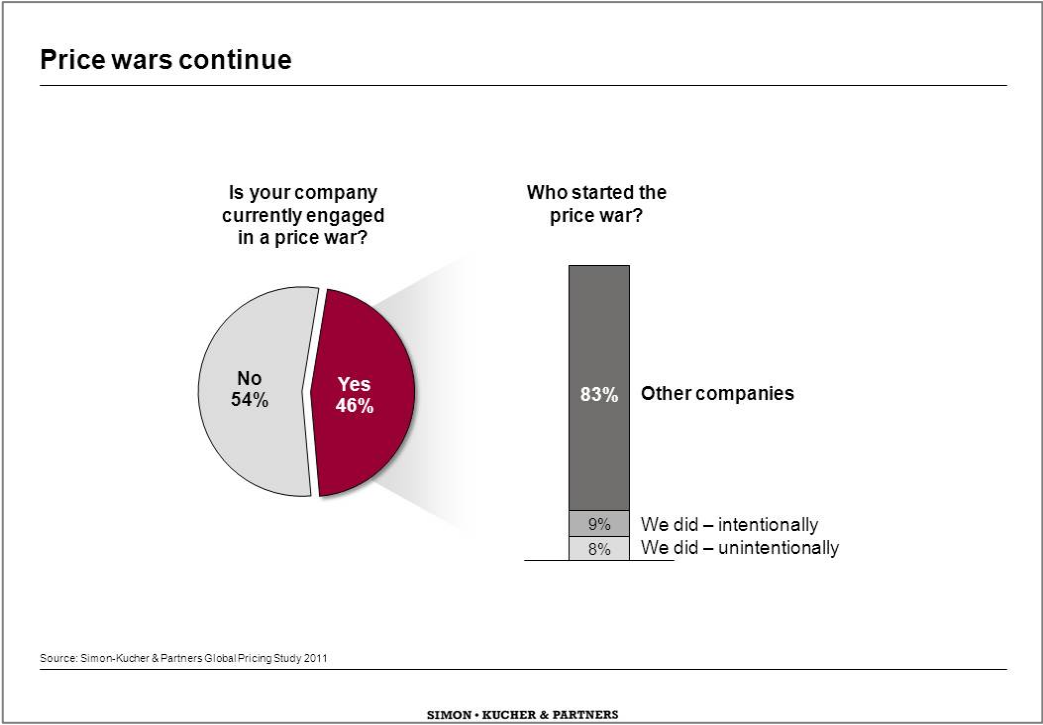
Industries and countries differ considerably in this regard: chemicals (14 percent) and transport & logistics (19 percent) have the lowest pricing power. Battered markets like Spain and Italy are the weakest countries when it comes to pricing power.

Companies in Poland, the US and France and industries such as pharmaceuticals and consumer goods are ranked best and achieve more often market prices that are in line with the value they offer. What differentiates the companies with strong pricing power from low performers? The primary drivers for high pricing power are customer value and brand. Every company has the ability to achieve high pricing power. If a company can offer its customers real value and communicates that through a top brand, this will translate into money. Companies that excuse weak performance by blaming competitors are deceiving themselves.

### **Price wars continue**

46 percent of companies are still engaged in price wars. The vast majority of managers (83 percent) blame their competitor for triggering it — although statistically

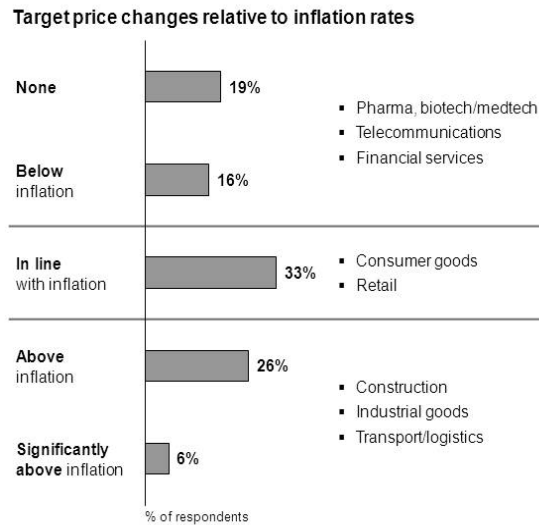
that's not possible. Leading the country comparison with 84 percent, Japan is by far the most militant price war market, followed by Italy (69 percent) and Spain (65 percent). Managers need to strive for profit, not for market share. Price is the strongest profit driver.



**Inflation threat underestimated**

Pricing is a topic that has always been neglected by many companies. With inflation around the corner, they will pay the consequences: Our survey findings reveal that the vast majority of companies are only able to get half of the target price increase. Only 36 percent of companies achieve at least three-quarters of their originally planned price increase. The telecommunications industry (25 percent) is clearly below average, but the US (31 percent) is also weak when it comes to price implementation.

## The majority of companies will raise prices at or below inflation rates



Source: Simon-Kucher & Partners Global Pricing Study 2011

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Lacking experience, managers use the inflation rate as a benchmark for price increase targets. 68 percent of managers plan to increase prices below or in line with inflation rates. It's fatal to use the inflation rate as a benchmark when you take into account that the majority of companies are weak in price implementation. This won't be enough. They'll probably end up paying the difference. Only the construction, industrial goods and transport & logistic industries plan to increase prices above the inflation rate. To cope with the inflation risk, pricing know-how differentiates the smart companies from the low performers.

### Five recommendations and lessons learned

The study results reveal the formula for success: The better the pricing know-how, the higher the pricing power, and the higher the profits. Remember: At least 25 percent higher profits are proof enough. The five key recommendations are:

1. Redirect your price strategy to achieve higher profits, rather than volume or market share. Introduce pricing power as a new KPI.
2. Pay particular attention to the pricing of new products and services.
3. Improve pricing expertise in sales, marketing and management.
4. Consider pricing implications already when developing new products

5. Make your company inflation-safe by improving your price implementation and setting high price increase targets.



**Dr. Georg Tacke** is the CEO of [Simon-Kucher & Partners](#). Tacke specializes in developing business, marketing and pricing strategies for companies in the service and automotive industries. Dr. Tacke is well-known as one of the top pricing experts in these sectors. In his over 20 years of consulting, he has worked with numerous firms worldwide and continues to support several CEOs and management boards as a personal consultant and coach.

#### ***\*About the Global Pricing Study 2011***

*The Global Pricing Study 2011 from Simon-Kucher & Partners surveyed over 3,900 high-level decision makers from companies in all major service and manufacturing industries across Europe, the US and Asia. The research reveals profit orientation, pricing power, inflation and profit outlook. Almost half of the respondents are from companies with more than one billion euros in sales; C-level executives account for one-third of the respondents. The study was conducted in collaboration with the Professional Pricing Society (USA) and the IE Business School (Spain).*

*The management summary of the survey is available on request. Please contact PR Manager Claudia Schulz at Simon-Kucher & Partners, [Claudia.schulz@simon-kucher.com](mailto:Claudia.schulz@simon-kucher.com), tel.: +49 228 98 43 372.*