

Better growth in volatile times: Master surfing the wave

SIMON 
KUCHER
Unlocking better growth



Dr. Andreas von der Gathen

About us

Simon-Kucher is a **global consultancy** focused on unlocking **better growth** that drives measurable **revenue and profit growth** for our clients.

Facts and figures

Founded	1985	Revenue 2022	€535m
Offices	45	Employees	>2000
Countries	30	Projects per year	1500

**WORLD'S BEST
MANAGEMENT
CONSULTING FIRMS**

Forbes
2022

POWERED BY STATISTA



The big wave



Learning from the best



Looking forward



Getting ahead



The big wave



Learning from the best



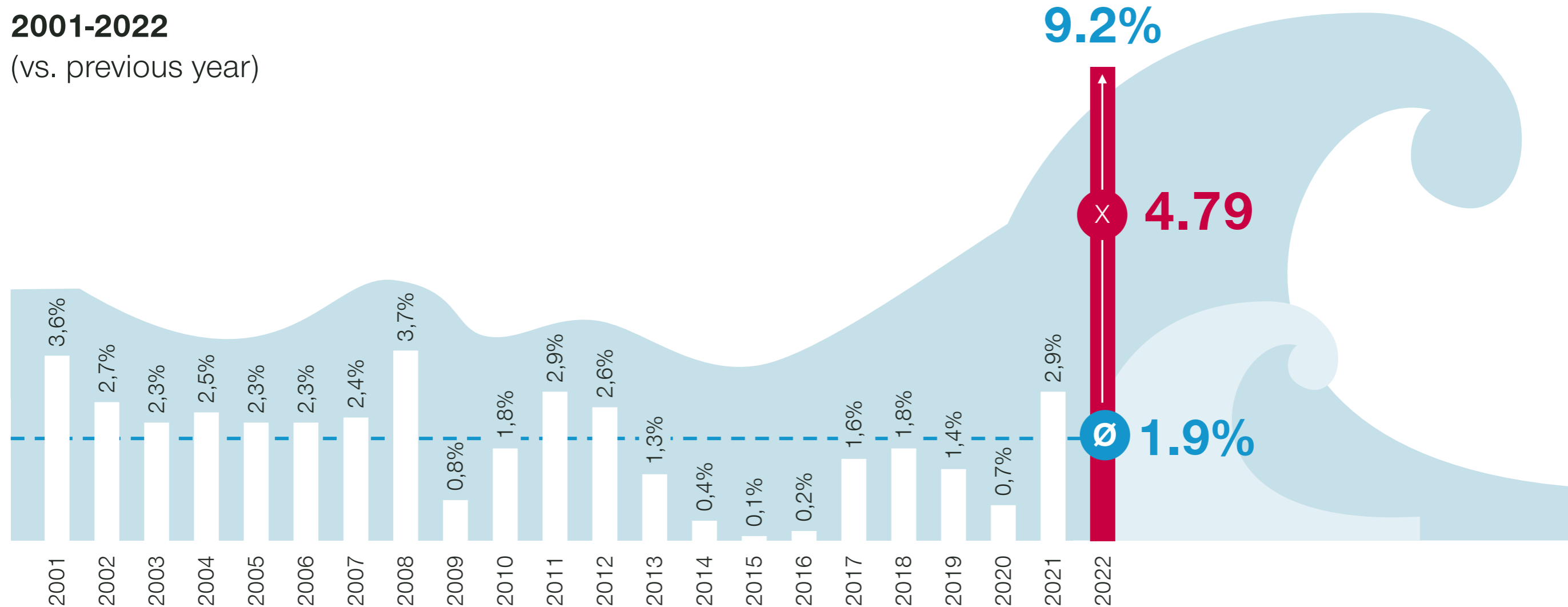
Looking forward



Getting ahead

The big wave

Inflation rate in EU 2001-2022 (vs. previous year)



Source: <https://de.statista.com/statistik/daten/studie/156285/umfrage/entwicklung-der-inflationsrate-in-der-eu-und-der-eurozone/>; Simon-Kucher

But it's not only inflation ...

**Covid-
Pandemic**

**Supply-chain
shortages**

Stagnation

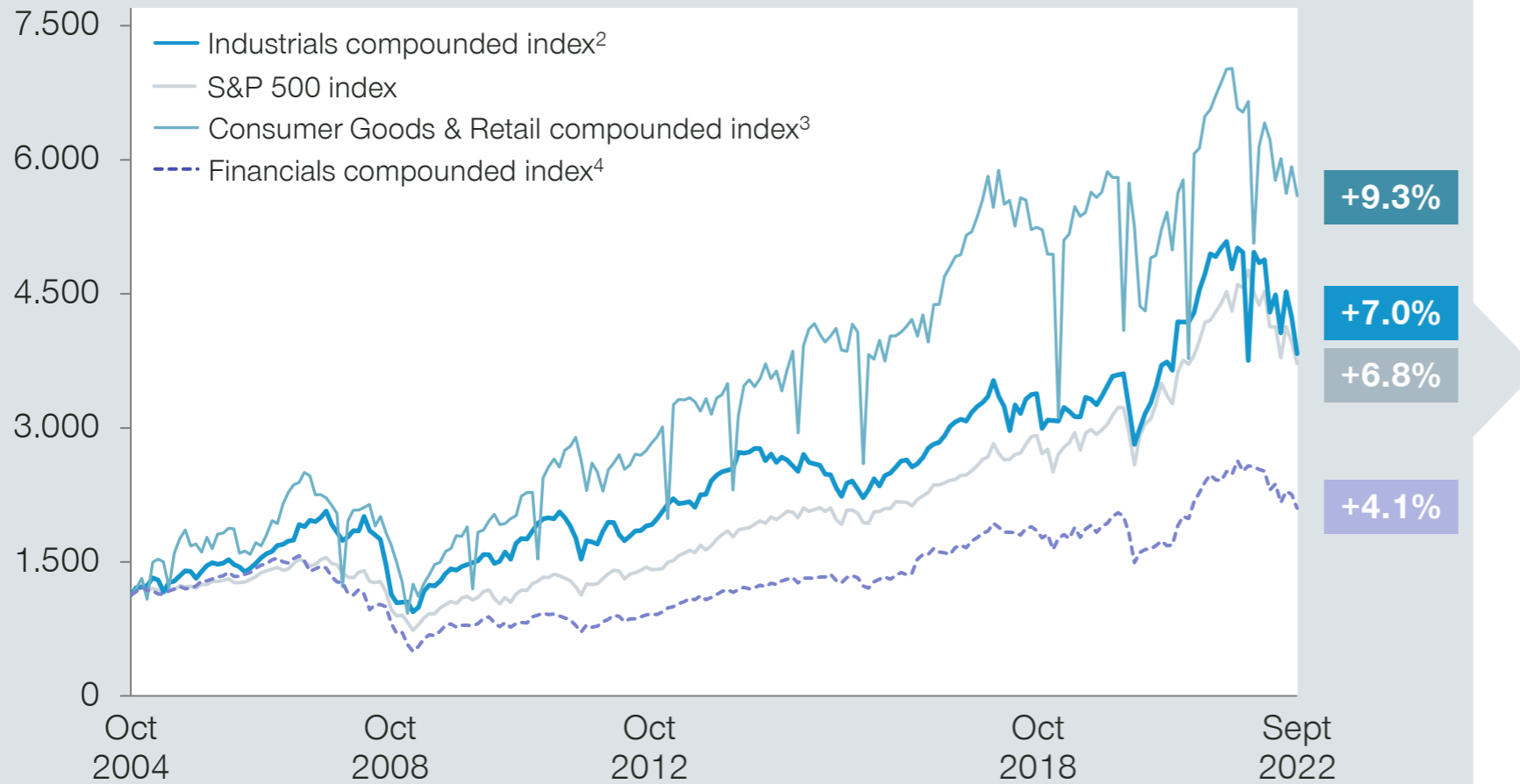
**Political
uncertainty**

**War
in Ukraine**

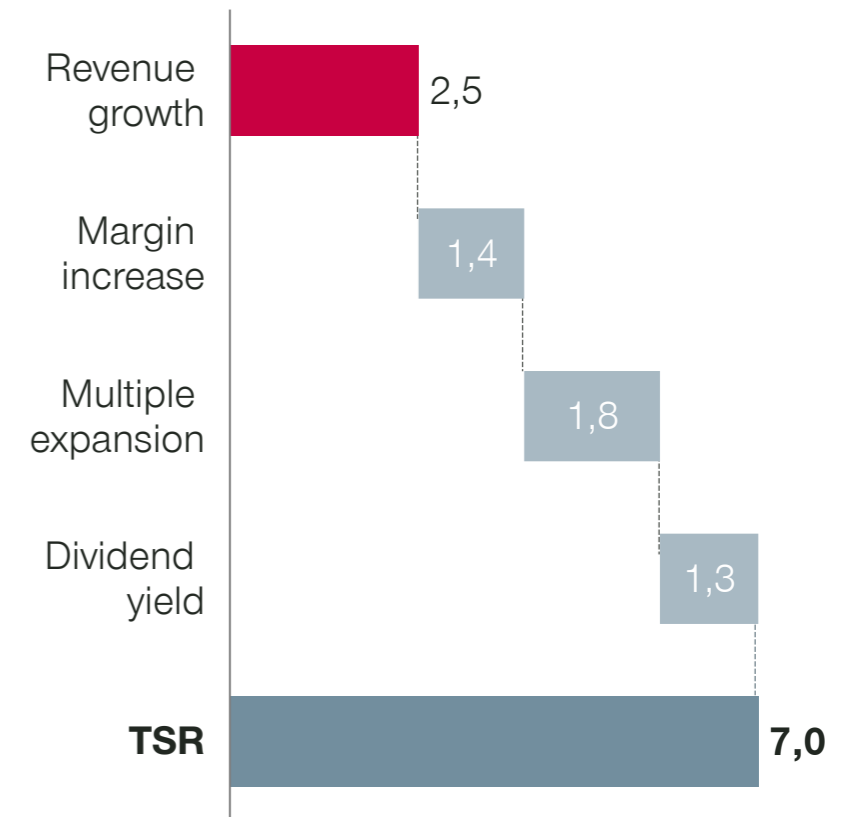
Growth has been the single largest driver for shareholder value

Revenue growth as main driver contributing 2.5pp to total TSR

Total shareholder return (TSR) 2004-2022 (%)¹



TSR disaggregation (%)⁵



1. TSR = share price appreciation + dividend yield. All sector index performances are indexed to S&P500 valuation (1130,2) from October 2004 with share prices. 2. Top100 global industrials companies (weighted), Compound annual growth in revenue, Margin increase = EBIT margin, Multiple expansion = EV/EBITDA, Dividend yield = Annual dividend / Share price. 3. Top 100 global consumer goods and retail companies. 4. Vanguard Financials Index Fund (VFAIX) . 6. Source: Simon-Kucher & Partners, Capital IQ.

And that is true under different market conditions

Post DotCom bubble
High growth period

Top quartile TSR
2004-2007 (%)

Financial crisis
Strong uncertainty period

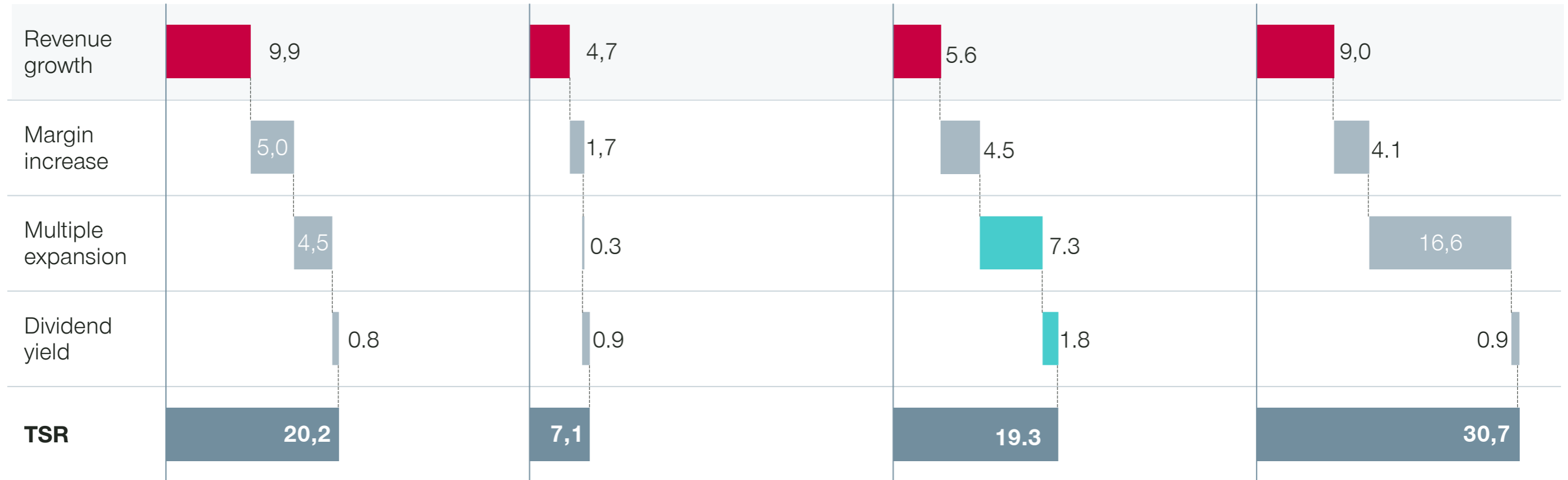
Top quartile TSR
2007-2011 (%)

Healthy growth period
Stable environment

Top quartile TSR
2012-2020 (%)

Covid year
Up-and-down market

Top quartile TSR
2020-2021 (%)



Note: Top quartile from 2004 – 2022.
Source: Simon-Kucher & Partners.



The big wave



Learning from the best



Looking forward



Getting ahead

Learning from the best

What professional surfers did
during the big wave

01

Acted fast, did not wait for competitors, and ignored customer contracts

02

Were courageous and jumped key price thresholds

03

Focused on their highest valued customers

04

Reduced net price risks with their price increases

05

Had clear redlines and budgets for conflicts to boost confidence in Sales

Quick reactions were key

Renewal of price lists
on short-notice

Already published **price lists** for Jan 1, 2022 were **substituted by renewed ones** which **bewildered trade partners**

Strict limitation
of contract validity

Limited duration of contracts and **timely issuing of new price increase** after start of Ukraine war

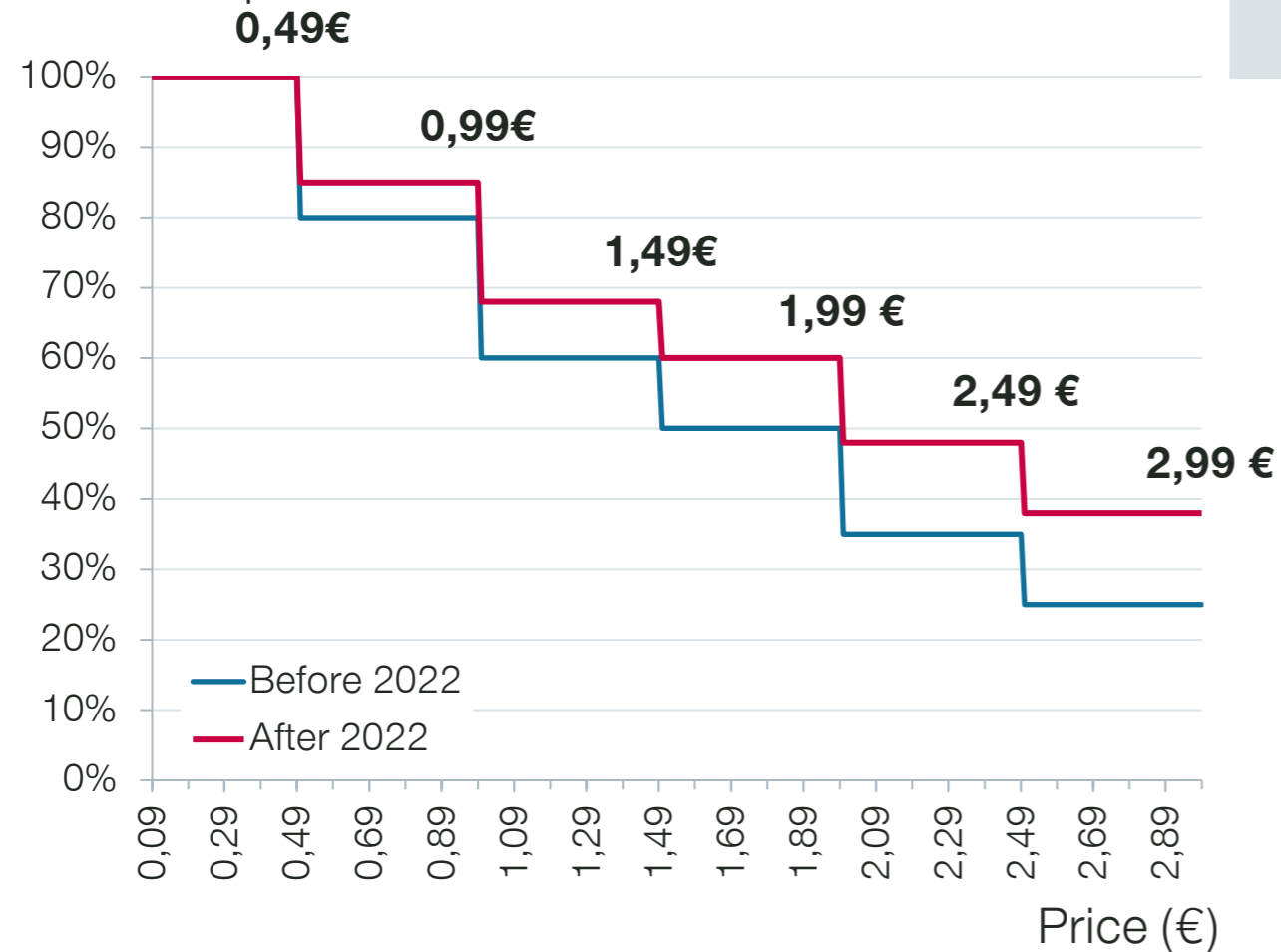
Timely closure
of negotiations

Negotiation closure with speed to ensure **no overlap with next price increase**

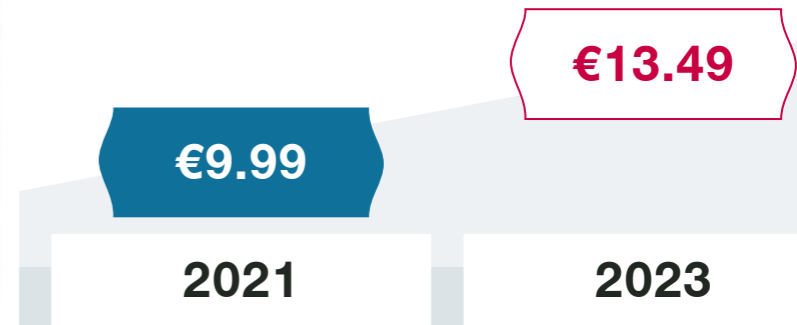
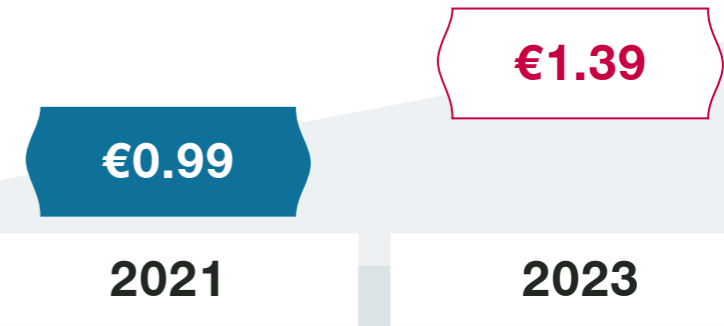
Courageous surfers jumped over former price thresholds

Despite inflation, price thresholds still exist

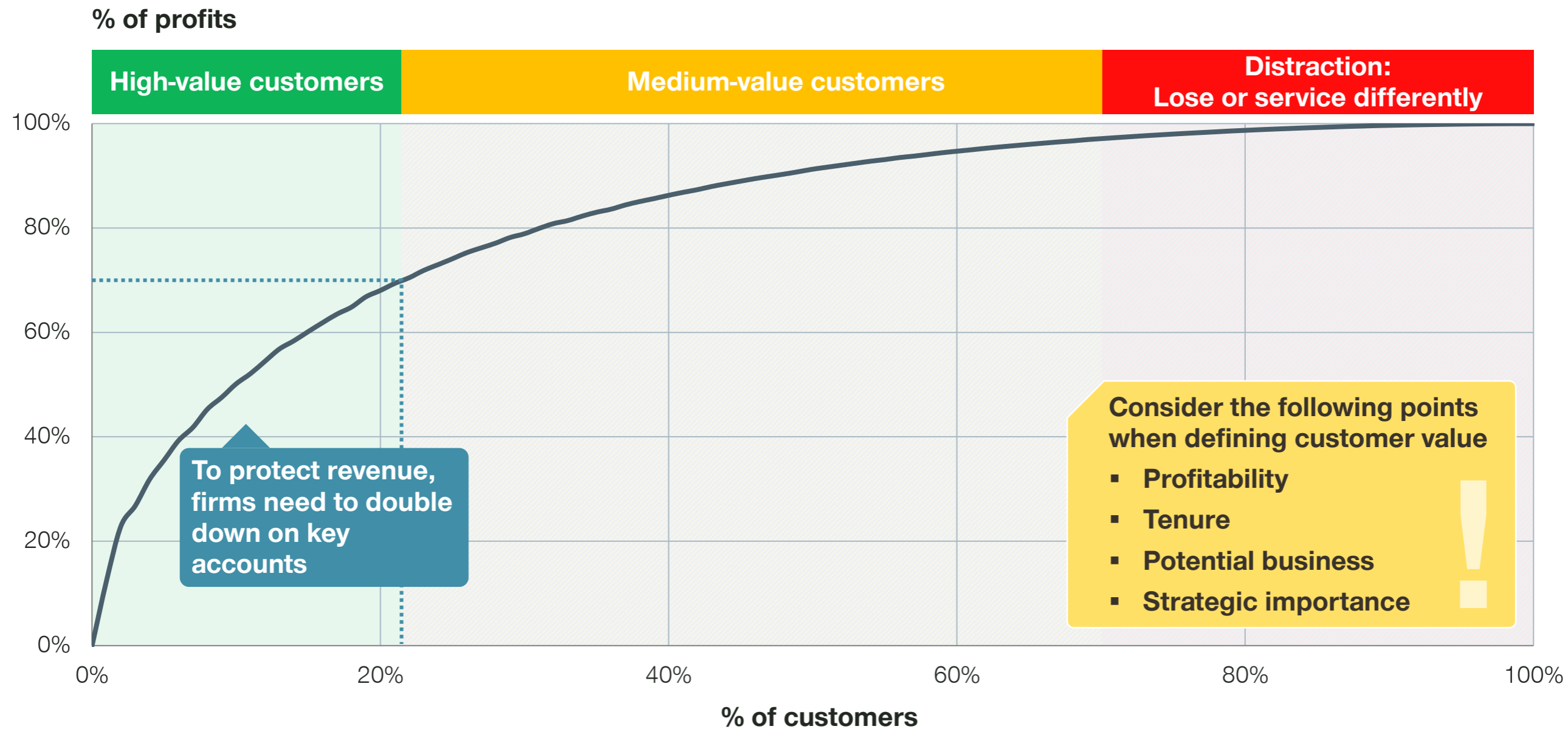
Price acceptance



...but courageous manufacturers still crossed them



Focus: Double down on high value customers



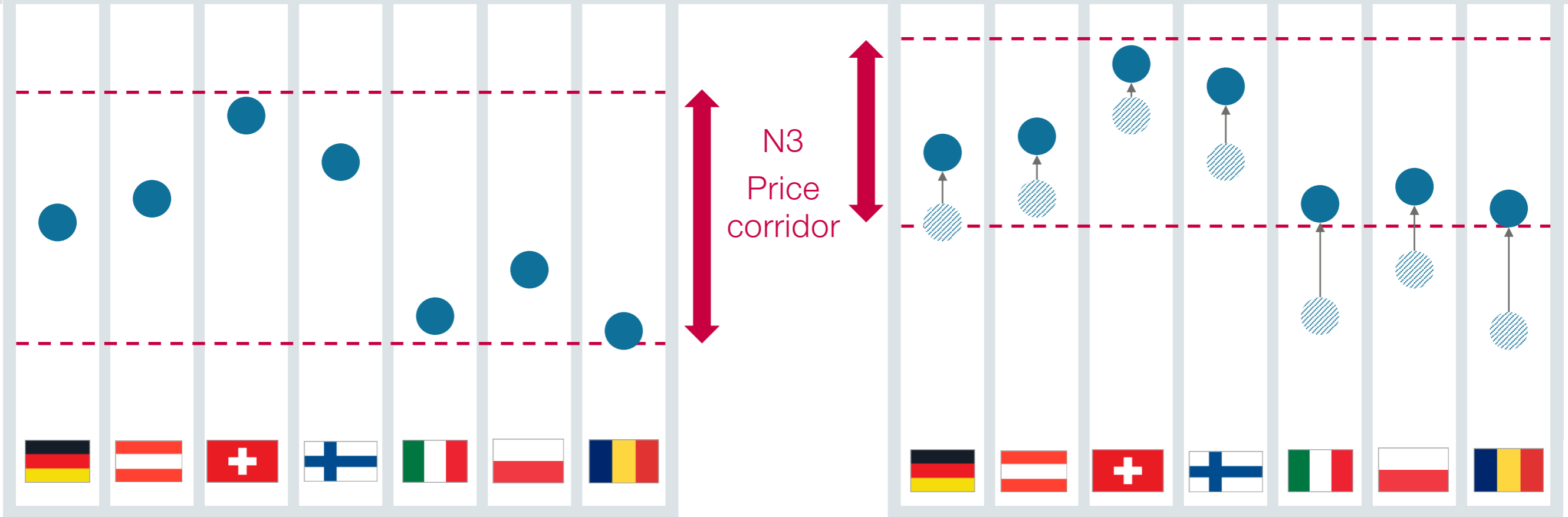
Times of change a good times to rebalance net prices

Illustrative

Net price levels and corridor

...before 2022

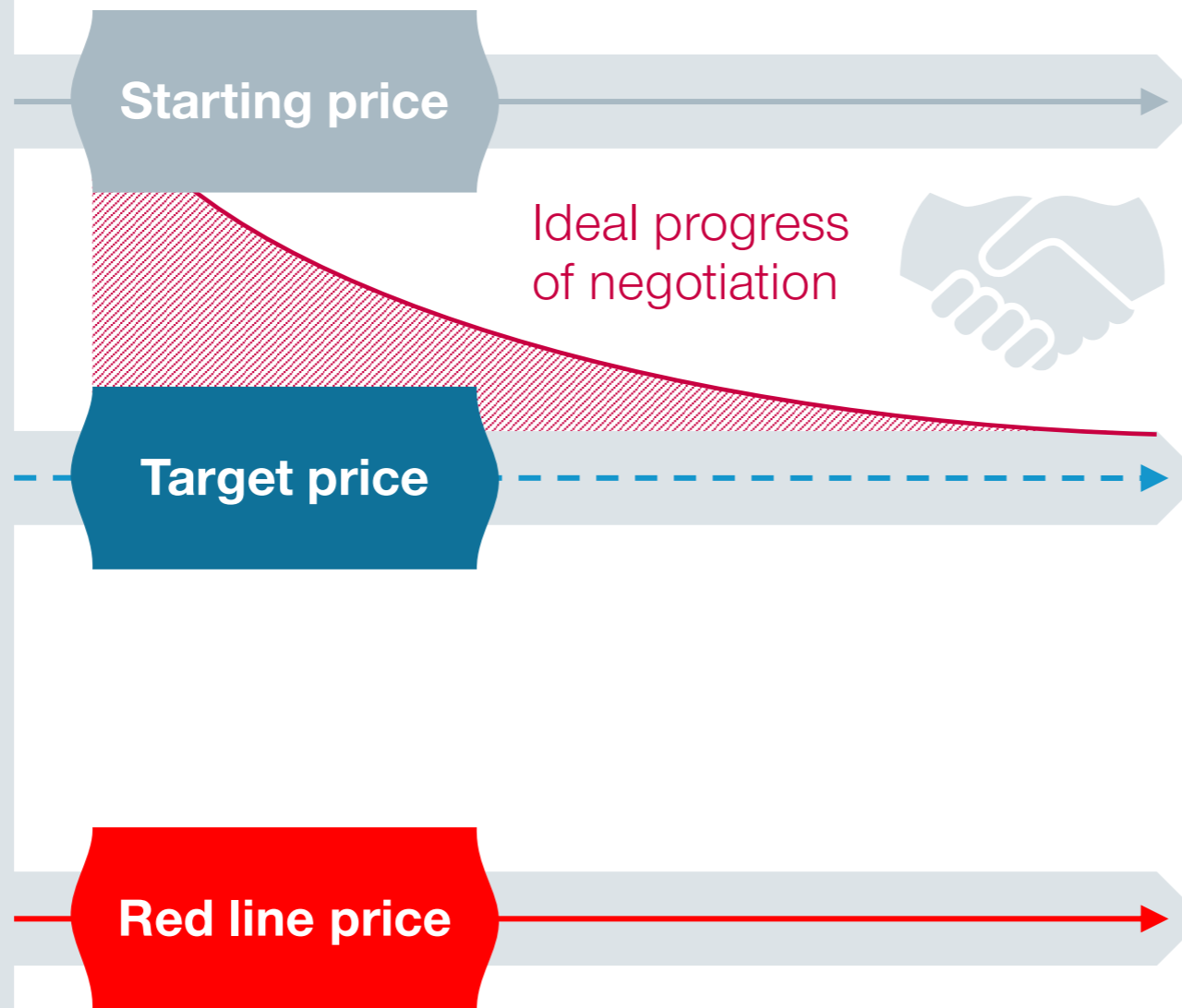
...after 2022



Negotiations with clear redlines and budgets for Sales

Define several price points

Pure focus on "red line" is often self-fulfilling



Define the anchor as strong influence of negotiations

Base target on your objectives and negotiation position (and check previous negotiations)

Set the absolute minimum and bear in mind: This is when you walk away from the table



The big wave



Learning from the best



Looking forward



Getting ahead



We expect persistent inflation levels north of 5% for the next 2 years

*"The short-term inflationary triggers [...] will vanish in the near future. However, the **longer-term cause of inflation remains:** the ballooning of the money supply."*

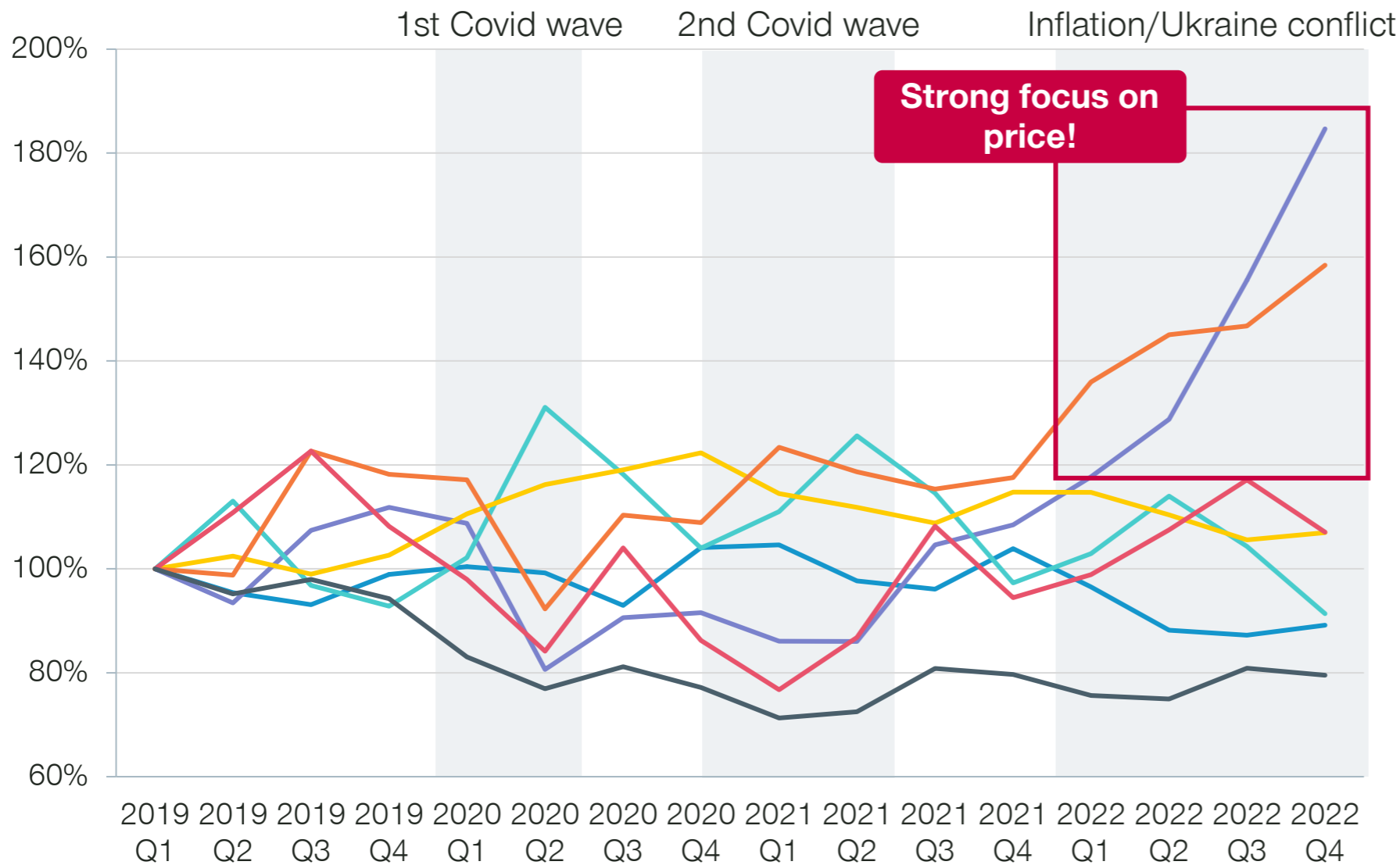
*"A return to pre-Corona inflation levels is not to be expected in the short term. I expect a **medium-term inflation level of 5%.**"*




Consumers already changed attitudes and behaviour



Budget restrictions and inflation will radically change the segments



Segment	2022 vs. 2021
Discount shopper	51%
Bargain hunter	23%
To-Go shopper	18%
Premium shopper	-3%
Fresh/super fresh shopper	-8%
Stockpiling/Weekly shopper	-10%
Unassigned	2%

A surfer in a black wetsuit is riding a wave on a colorful surfboard. The wave is breaking, creating white foam. The background shows a clear blue sky and the ocean.

... it may not be
the **BIG WAVE**
anymore

BUT YOU STILL
NEED TO KNOW
HOW TO SURF!



The big wave



Learning from the best



Looking forward



Getting ahead

Getting ahead

Steps towards becoming
a professional surfer



01

Reduce complexity of
product portfolio

02

Offer **less expensive alternative**
options to protect customer base

03

Transform the way your
products are **sold**

04

Refine the commercial
operating model

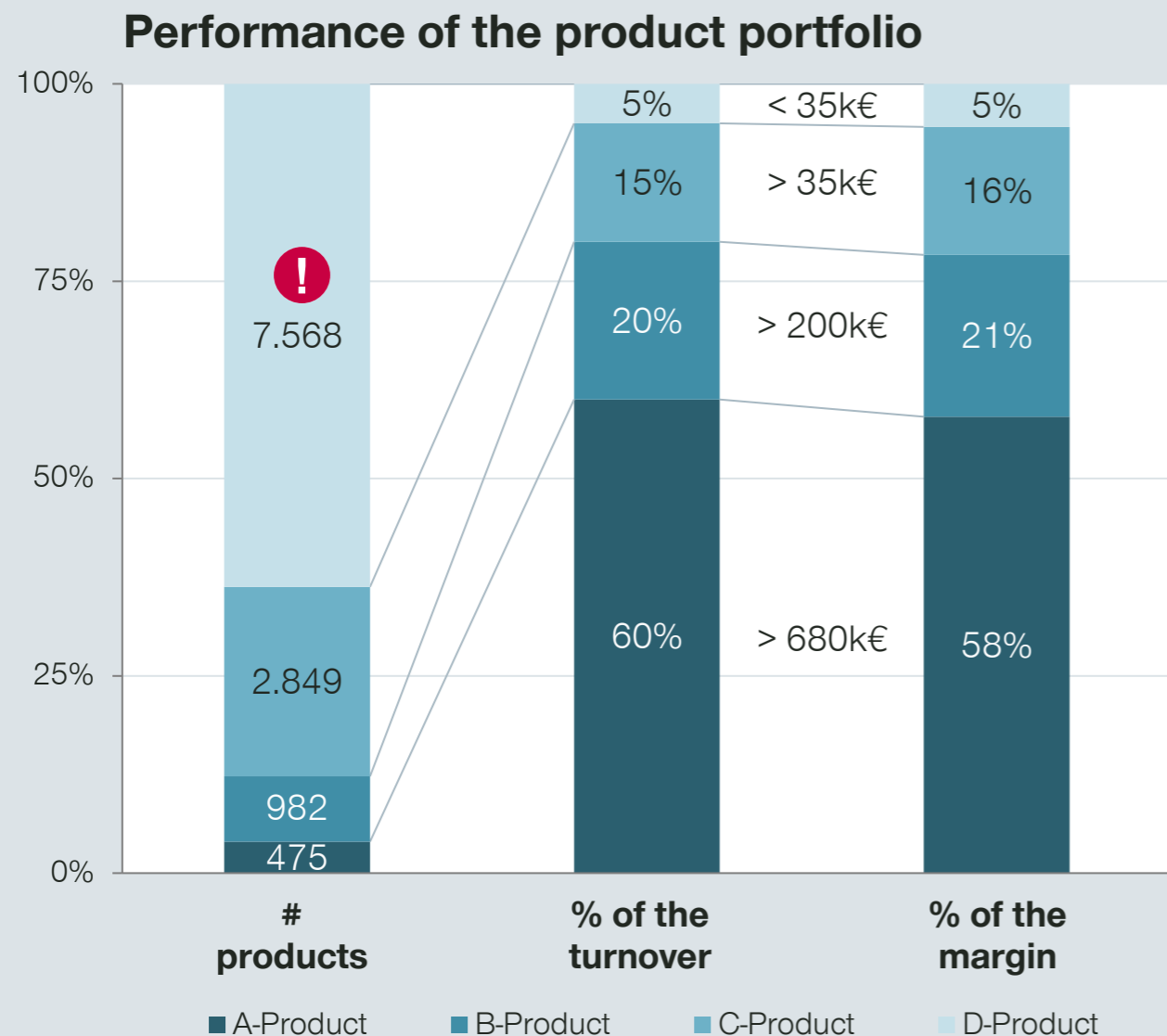
05

Use the **behavioral**
economics toolbox

06

Move into **continuous price**
increases or into **dynamic**
pricing




Reduce complexity of product portfolio



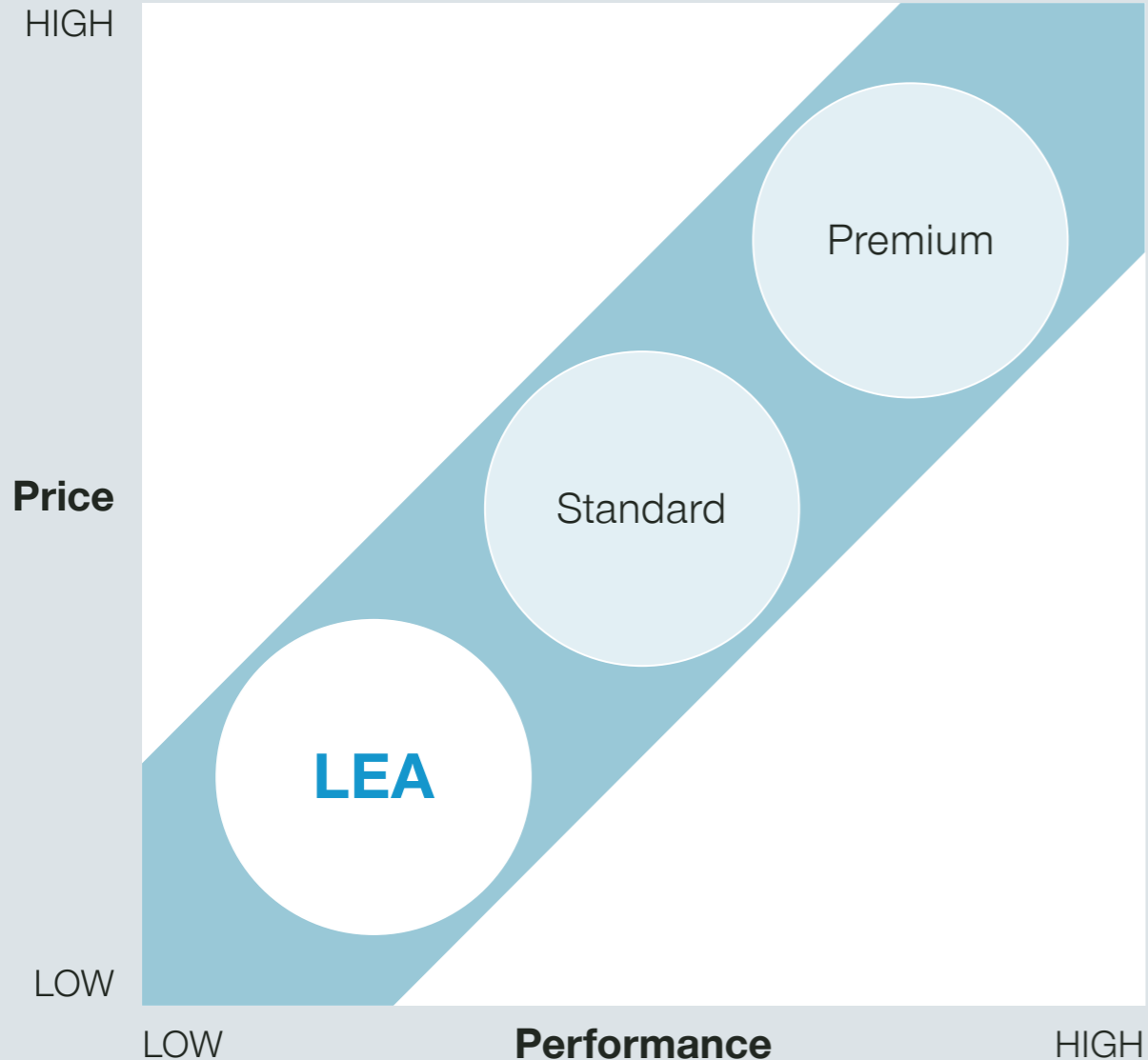
Complexity cost must be reflected in the price.

If prices cannot be enforced, complexity reduction measures should be initiated.

Short-term recommendations for action:

-  High-level analysis to identify potential
-  Large price adjustments for slow movers, analysis of cost potential for simplification
-  Phase-out process with possibility for last time buy at relevant customers




Offer less expensive alternative options to protect customer base



Price exceeds quality in times of crisis.

Price reductions without performance losses force commoditization.

Short-term recommendations for action:

-  Unbundle products and services; eliminate "nice to have" extras
-  Create price lists for services to balance price and performance
-  Reduce performance and offer "good enough" solutions, i.e. less expensive alternative

Transform the way your products are sold to mitigate price pressure and increase customer stickiness

How to sell

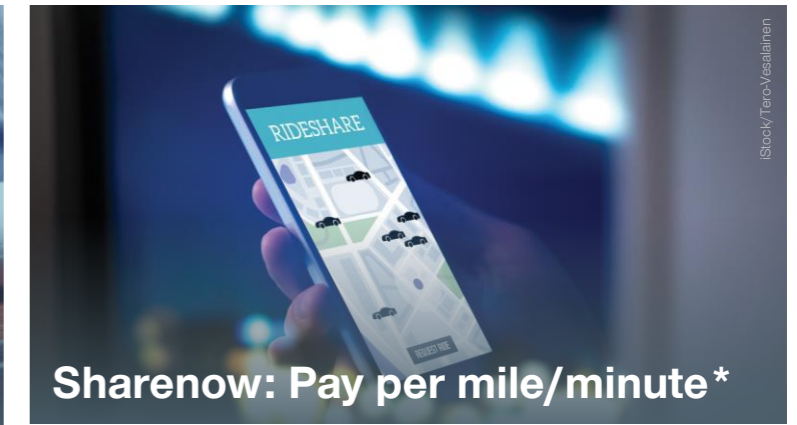
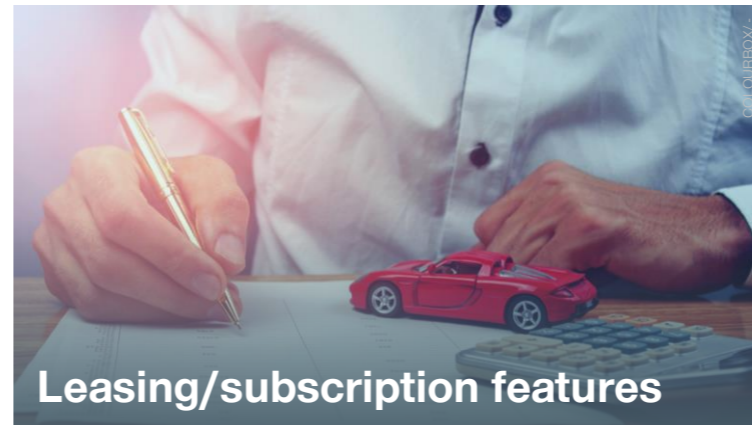
One-off payment

Subscription-based

Outcome-based

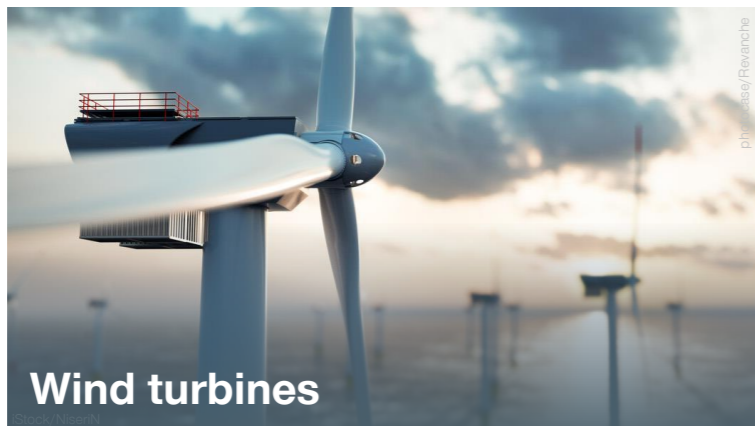
B2C

(example:
Mercedes)



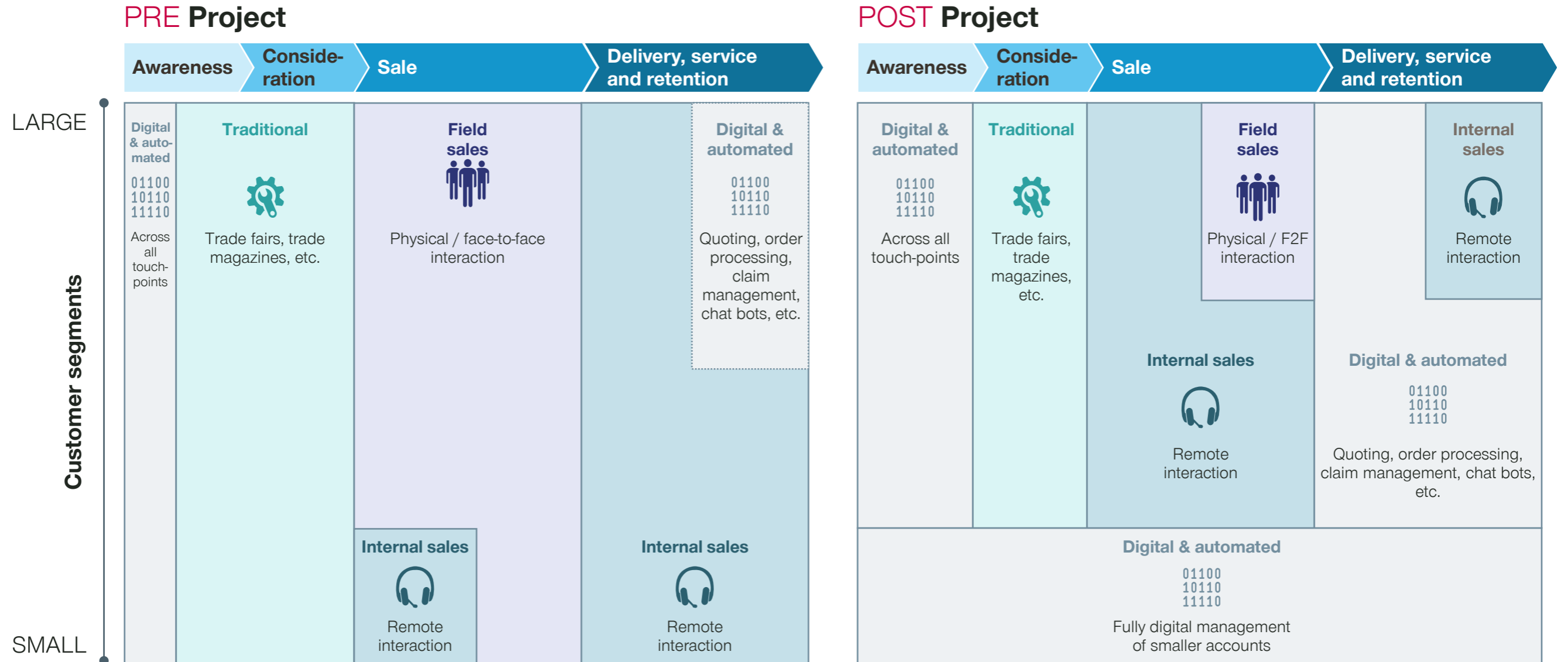
B2B

(example:
Vestas)



* sold to Stellantis
Source: Simon-Kucher & Partners

Refine the commercial operating model by doubling down on "digital" to reduce cost-to-serve and increase efficiency



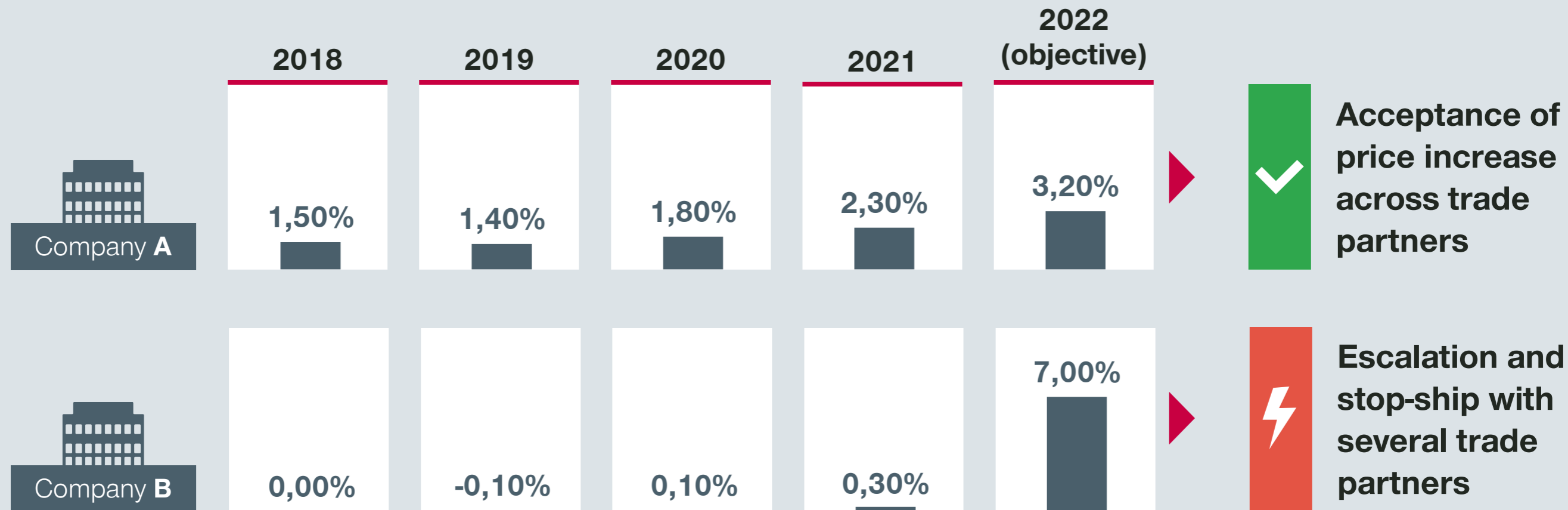
Use the behavioral economics toolbox

Examples – not exhaustive		Lead generation	Qualification	Consultation	Negotiation	Closure
Cognitive	Simplification 	Triggers Create simple ways to forward customers in a targeted manner	Order Sort products by sales frequency	Focus Reduce product information for sales reps and customers	Simplicity Remove low value adds from products (i.e., services that aren't in demand)	One click Always have an option for immediate closure
	Priming 	Referral Speak positively of the sales reps customers will meet later in the process	Habit After a successful sale, reach out to a similar customer	Expectations Mention deals just closed with other customers	Positive thinking Regularly remind sales reps of successful closures	Loss aversion Identify potential disadvantages for sales teams
	Biases 	New insights Inquire about the second most common customer need	No overconfidence Use a checklist for common disqualification points	Immediate feedback Collect customer feedback directly after the sales talk (😊, 😐, ☹️)	Reminders Create a checklist of key points to use in negotiations	Self-awareness Ask sales to perform a quick self-assessment after sales talks
Emotional	Temptation 	Positive examples Communicate good examples of customer acquisition internally	Pride Tally correctly assessed customer situations	Identification Establish a personal connection between the product and customer	Personalization Individualize offer documents for customers	Appreciation Remind sales managers to praise sales reps for successful deals
Social	Herding 	Team spirit Emphasize similarities between members of the sales team	Social proof Establish a standard for the use of product material	Role model Visualize sales managers' focus on customers for all employees	Authority Establish a standard for the application of causal clauses	Encouragement of ambition Announce the best salespeople in branches or regions

The effect is aimed at: ■ Sales reps ■ Sales managers ■ Customers

Move into continuous price increases

Net net price increases over years



Check net prices – list price increases may only be window dressing!

Do's and Dont's to consider in price increase management

DOs

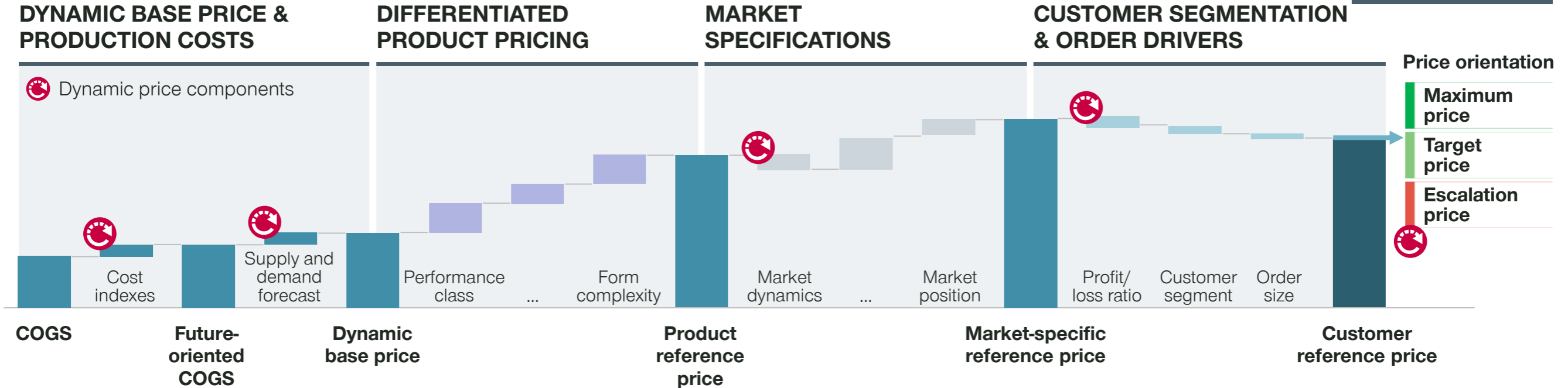
1. Prepare specific and differentiated price increase target
2. Involve C-Level into the process
3. Use all price elements to increase prices
4. Ensure close monitoring of success
5. Motivate, train and empower the whole organization

DON'Ts

6. Only one price increase per year needed
7. Acting too passively and negotiating defensively
8. Only talk about cost, not value
9. Always "the market"
10. Implement price increases without preparation

Use costs, availabilities, and market information to dynamically adjust the pricing system

Project example



Dynamic pricing factors

Cost indices

- Commodity indices
- Freight price indices
- Other cost indices
- ...

Global supply and demand forecast

- Global demand and supply forecast
- Segment-specific forecasts
- ...

Dynamics of the market

- Regional demand and supply forecast
- Regional GDP growth
- ...

Special features of the customers

- Customer specific profit/loss ratio (segment)
- ...

Price orientation

- Peer pricing logic: Price level for comparable transactions

Become a professional surfer to use the big wave for your advantage



Learn from the best ...

- ✓ **Act fast**, do not wait for competitors, and ignore customer contracts
- ✓ **Be courageous** and dare to jump key price thresholds
- ✓ **Focus** on high-value customers
- ✓ **Reduced net price risks** with price increases
- ✓ **Have clear redlines** and budgets for conflicts



... and get ahead!

- ✓ **Reduce complexity** of product portfolio
- ✓ Offer **less expensive alternative** options to protect customer base
- ✓ Transform the way your products are sold
- ✓ Refine the **commercial operating model**
- ✓ Use the **behavioral economics** toolbox
- ✓ Move into **continuous price increases** or into **dynamic pricing**

Thank you!

SIMON 
KUCHER
Unlocking better growth