

REDF Continuing Education Series with Simon-Kucher

**SIMON-
KUCHER**
Unlocking better growth



Agenda

01

Welcome and introductions

02

Growth strategy fundamentals

03

Engagement with Juma

Speakers for today's session

TODAY'S SPEAKERS

SIMON ♦
KUCHER



Nick Zarb

Partner,
Simon-Kucher

Email: nick.zarb@simon-kucher.com

Location: New York City



Meghan Butt

Director,
Simon-Kucher

Email: meghan.butt@simon-kucher.com

Location: Boston



Nare Janvelyan

Manager,
Simon-Kucher

Email: nare.janvelyan@simon-kucher.com

Location: San Francisco

Simon-Kucher is the leading global growth consultancy

PROFILE



Global leading growth consultancy

As the leading commercial value creation power-house, we boost our clients' revenue and profits by optimizing their strategy, sales, pricing and marketing.



The unicorn advisors & digital champions

We have worked for 100+ unicorns, advising them on how to improve their topline with monetization strategies and digital technologies.



Leading advisor for growth-driven deals

Delivered by our specialist Transaction Services team in close co-operation with our industry practices, our strategic DD offering with a special focus on commercial value creation potential provides a competitive advantage for growth investors.

KEY FACTS



42
offices



2,000+
employees



27
countries



1,300+
projects per year

AWARDS | Global leading advisor for commercial value creation



**Strategy, Pricing, Sales,
Brand, CRM Marketing**

Forbes



Marketing, Brand

Financial Times



**Pricing,
Sales & Marketing**

Firsthand

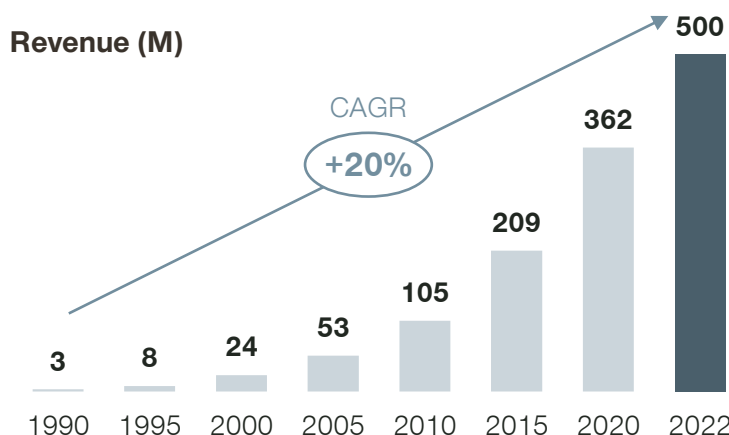


Sales, Marketing, Pricing

brand eins, Statista

GROWTH

Revenue (M)



... and we cover all the key elements of growth strategy

Product



Structure your product offering to better **reflect** your **value**, **drive upsell** and allow you to **align** pricing to client segment's **willingness** to pay

Super-charge your sales organization with the right tools, processes and KPIs to **focus on the right deals with the right people**, defending value



Sales

Pricing

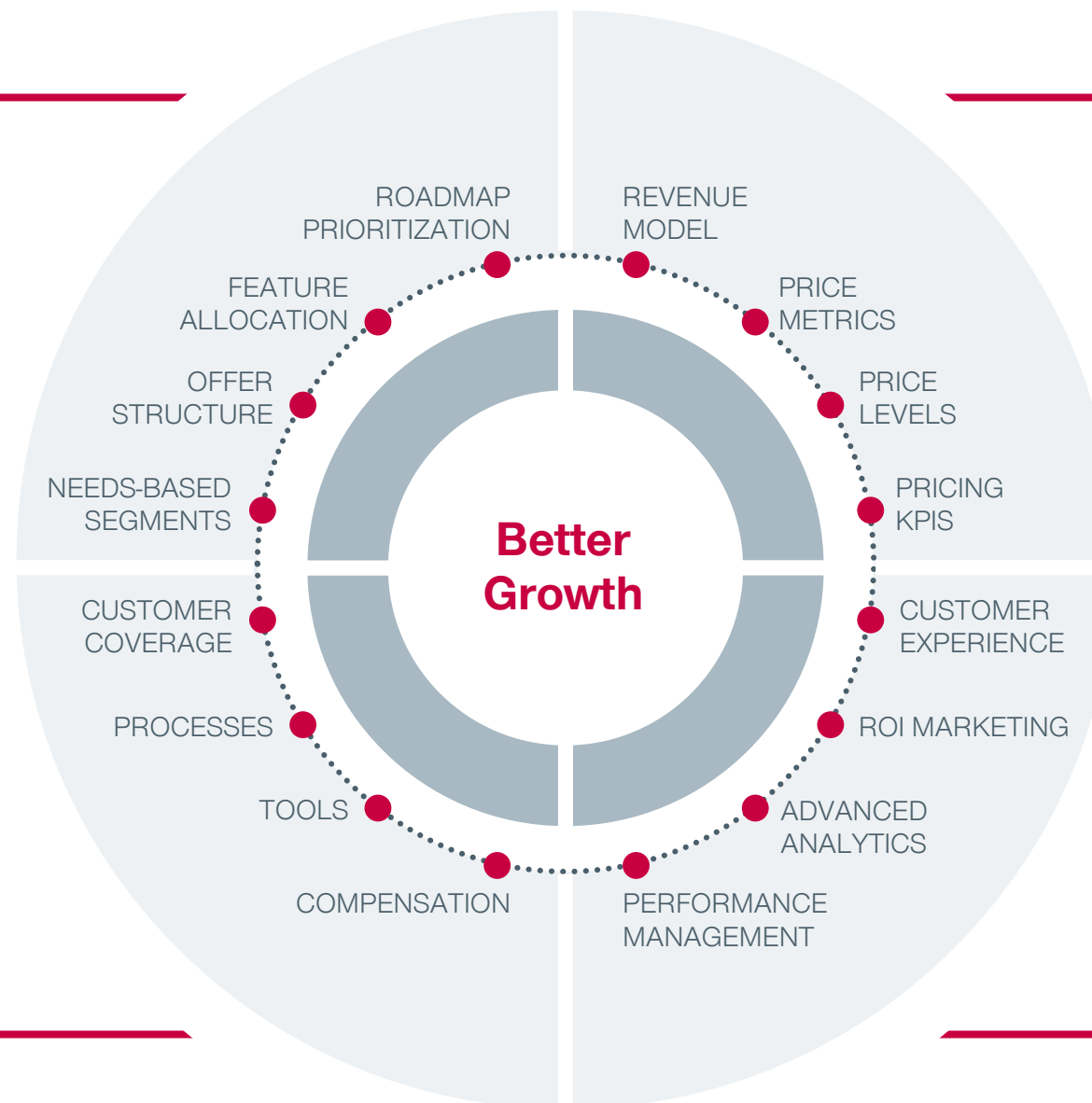


Set the price strategy that will **enable both customer acquisition and organic ACV growth**, balancing client budget constraints and value extraction objectives

Define **your Customer Experience model**, optimizing interactions and channel mix to maximize Marketing ROI



Marketing



A photograph of several people's hands raised in the air, suggesting an interactive workshop or meeting. The hands are of various skin tones and are wearing dark blue or black sleeves. The background is a blurred office or meeting room with large windows and indoor plants.

Before we dive in, we'd like to hear from you! What do you hope to get out of today's workshop?

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Importance of pricing

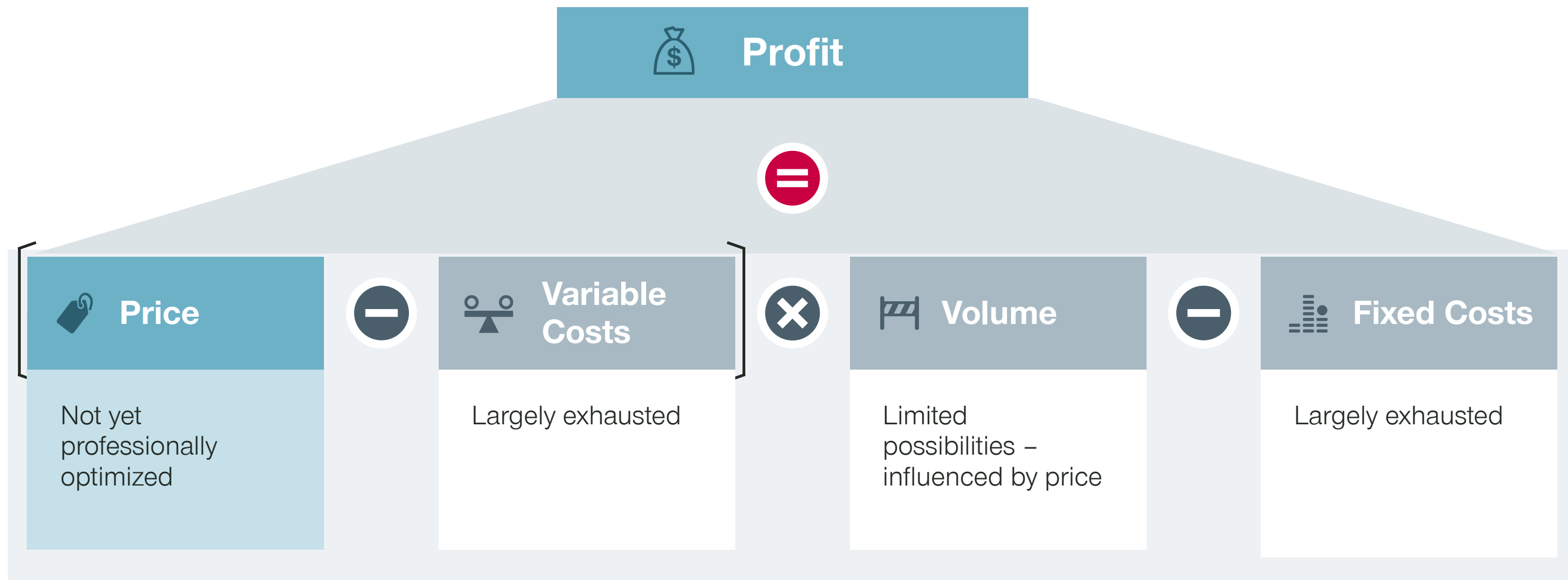
02

Segmentation & bundling

03

Pricing

Profit is a simple formula



What is the most effective profit lever?

Example

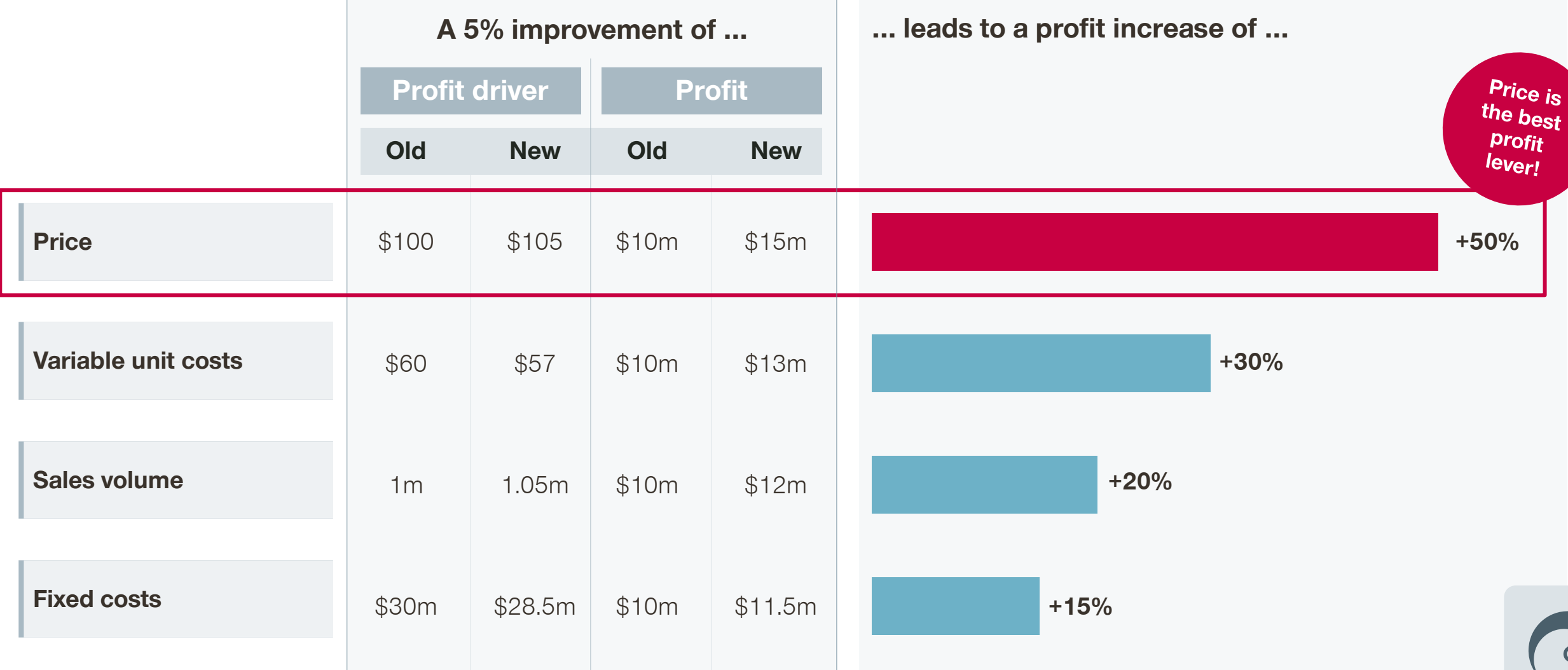
Fixed costs	\$30m
Sales volume	1m
Variable costs	\$60m
Price	\$100

Source: Simon-Kucher

Simon-Kucher | REDF | Continuing Education Series | Feb 2023



What is the most effective profit lever?



Pricing is clearly an important topic for organizations – before diving straight into pricing, thought should be placed into segmentation and bundling

Segmentation

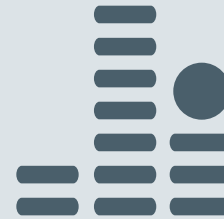
Set the right direction



- Segmenting customers
- Optimizing the product portfolio and value proposition
- Improving the competitive position

Pricing

Know the price you deserve



- Defining of strategic objectives
- Pricing methods, incl. value-based price setting
- Optimizing the price level, incl. price differentiation

Sales and Marketing

Ensure you get what you deserve



- Discounting methods, incl. trade terms, peer pricing
- Price organization and reporting
- Training and incentives

Focus of this presentation:

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Segmentation & bundling

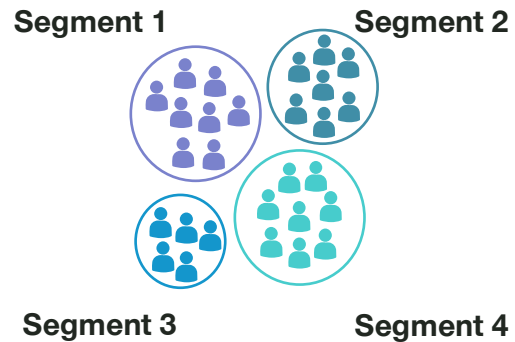
03

Pricing

Framework: To create a more effective offer structure tailored to customer segments, Simon-Kucher recommends a “deconstruct to reconstruct” approach

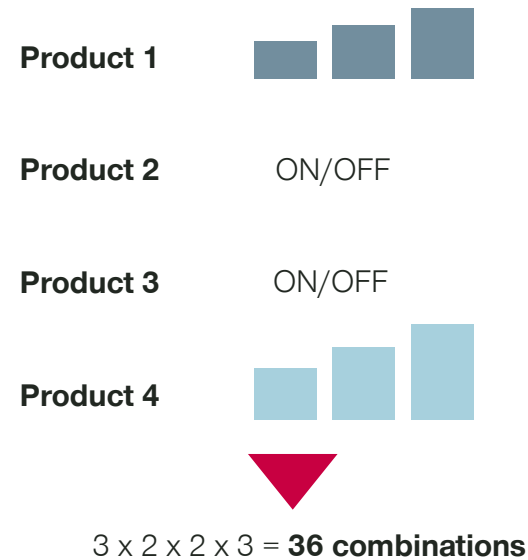
Step 1 - Understand

Identify customer segments



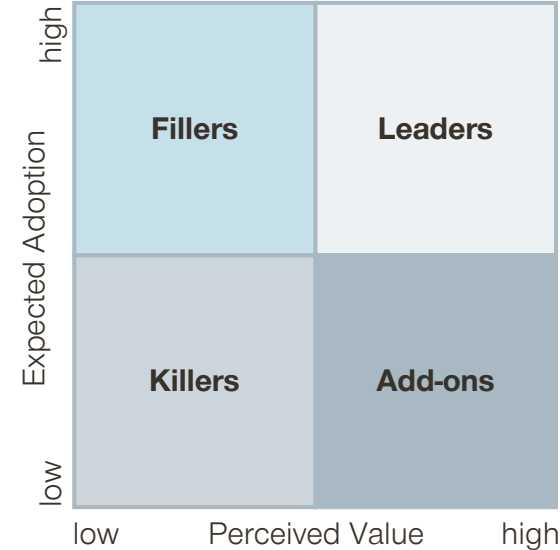
Step 2 - Deconstruct

Determine Building Blocks



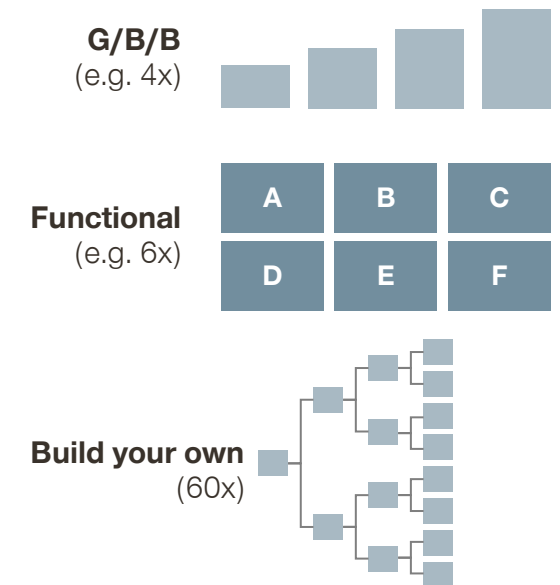
Step 3 - Analyze

Evaluate Building Blocks



Step 4 - Reconstruct

Decide on optimal bundle



While this may feel overwhelming at first, we'll dive into each section in detail!



Customer segmentation is a guiding principle for bundling & pricing

**Segmenting a market means breaking it
down into different parts on which
YOU CAN ACT DIFFERENTLY**

Your sales force
Your marketing
department
Your company

Communicate,
advertise, influence,
reach out to, etc.

There is no point in
segmenting and then
acting the same with
the entire market

A
segmented
pricing
approach
worth 2-4+%
ROS!

A customer segmentation is only valuable if you (marketing, sales, company, etc.) can act on it in a differentiated way (product, assortment, pricing, site layout, operations, communication, etc.)

So what makes a good segmentation?

Good Segmentation

- ✓ **Differentiated** – Describes homogeneous groups that want/need different things
- ✓ **Identifiable** – Enables you to measure the differences so that the groups can be identified
- ✓ **Accessible** – Allows you to reach the groups through sales channels
- ✓ **Large enough** – Justify differentiated treatment and investment
- ✓ **Valuable** – Generate higher returns than the cost of differentiating / managing them

Why segmentation fails

- ❗ **Internal Misalignment** – Segmentation is driven by mathematics (and bad data!) instead of by business goals and results to do not work across functions
- ❗ **Willingness-to-pay not factored in** – Segmentation explains how customers differ in what they value, but is not sophisticated in measuring what they are willing-to-pay for the value
- ❗ **No marketing guidance** – Segmentation is not built with commercial activities in mind and/or does not give commercial guidance for product, price, place, & promotion

A customer segmentation is only valuable if you (marketing, sales, company, etc.) can act on it in a differentiated way (product, assortment, pricing, site layout, operations, communication, etc.)

Start by setting out a long list of behavioral, demographic, and attitudinal variables

Firmographic



- Revenue / employees
- Industry
- Location
- Ownership
- Customer base (B2B, B2C)
- ...

Source: Internal transaction data & 3rd party data sources

Behavioral



- Frequency of use
- Speed of delivery
- Tenure
- Products / ACs purchased
- Total spend
-

Source: Internal transactional data from base

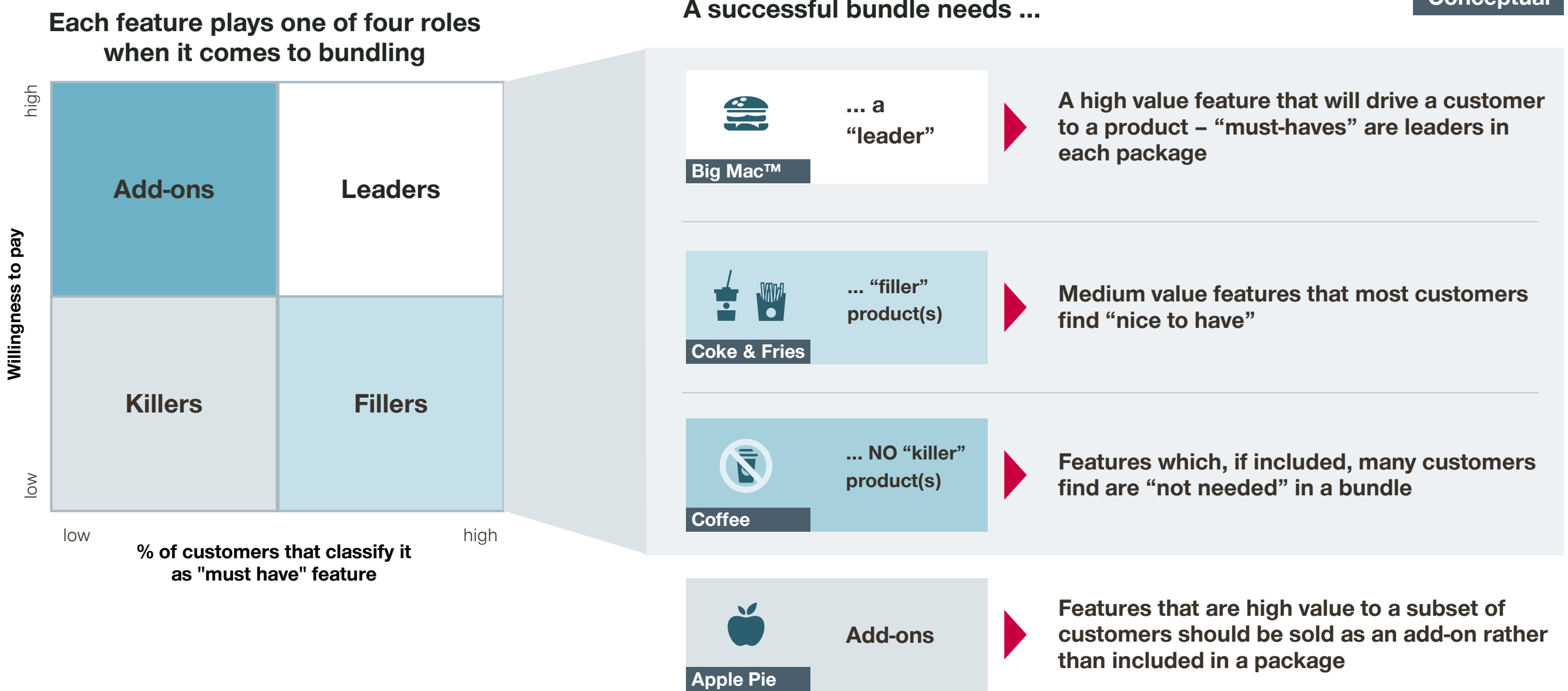
Attitudinal



- Brand penetration
- Brand awareness
- Share of wallet
- Competitive set
- Method of communication
- ...

Source: Primary research with customer base & prospects

Then, teams can evaluate feature roles in order to place products in bundles, drive additional sales, and capture customers’ full willingness to pay

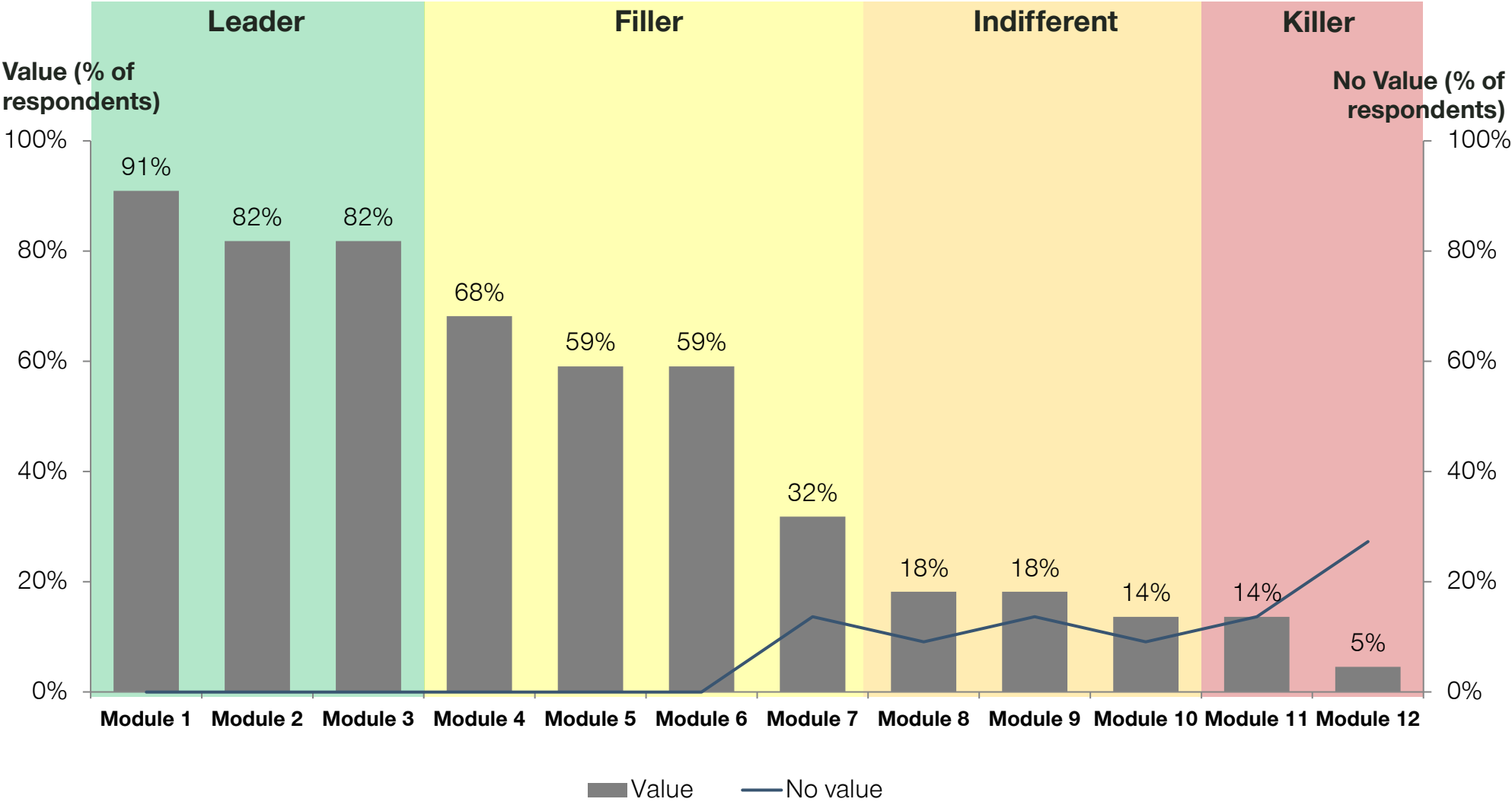


Testing what’s important to customers can identify how to place features together into bundles



Project example

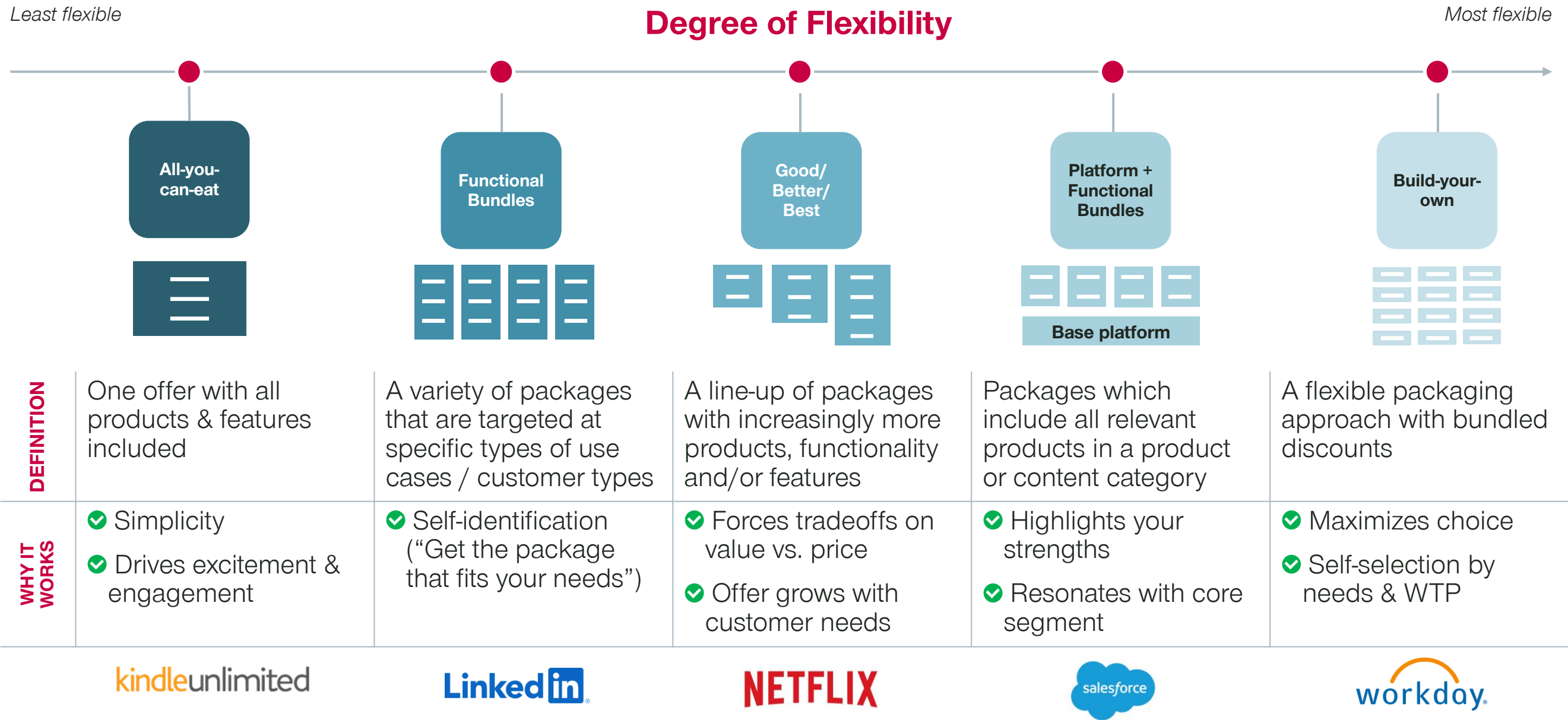
% of respondents indicating module value* (bars) and no value* (line)



Companies should turn externally to assess how customers value features

- Modules/features classified as “fillers” could be placed, for example, in a mid-tier offering

This output will help determine which bundling construct is best based on customer needs, product capabilities, and business objectives



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Pricing

Now that the bundling offer is determined, we can dive into the most important pricing element – strategy

A Price Strategy is...

...the conscious and explicit choice you **proactively** make **regarding your prices** that helps you **manage** your key strategic market pillars, which are...

1

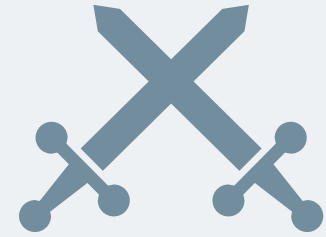
...defining
strategic
objectives

2

...focusing on
market and
customer
segments

3

...optimizing
product
portfolio
and value
proposition

4

...improving the
competitive
position

Price setting methods

To determine prices, three different methodologies can be used.

Cost-plus

Production costs as the starting point of the price



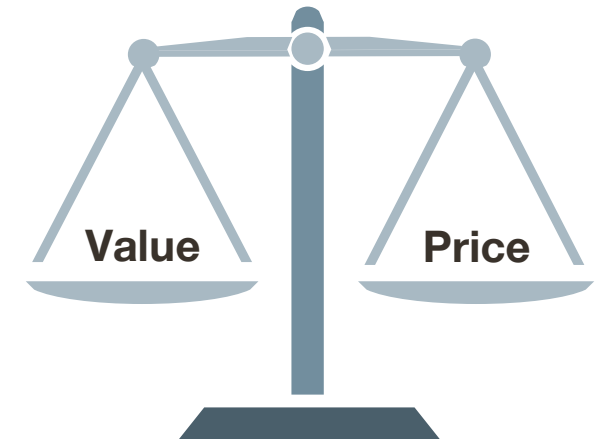
Competition-oriented

Prices of comparable competitors serve as reference



Value-based

Prices set according to (perceived) value to customer

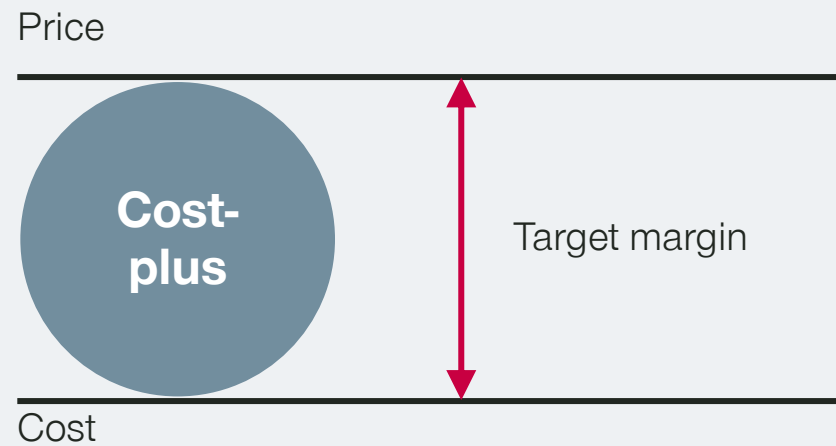


Most chosen pricing approach

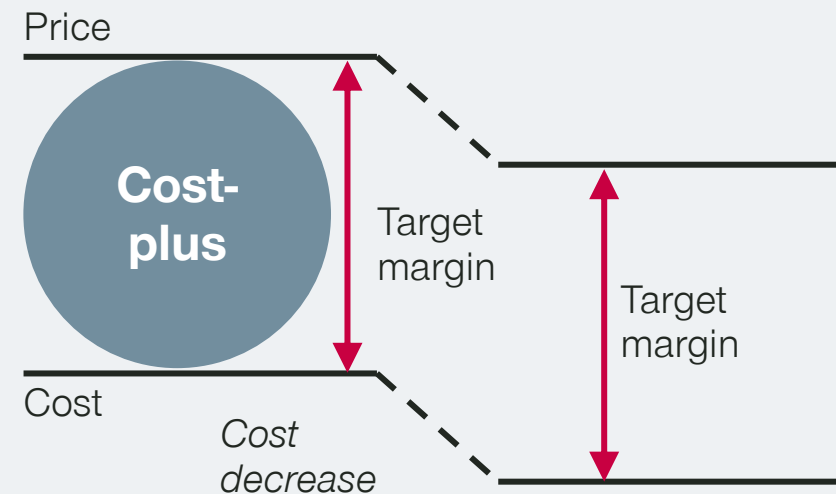
Most recommended pricing approach

Cost-plus pricing

The easiest method in price formation is the cost-plus approach. This method takes the outstanding costs as its main pricing guideline.



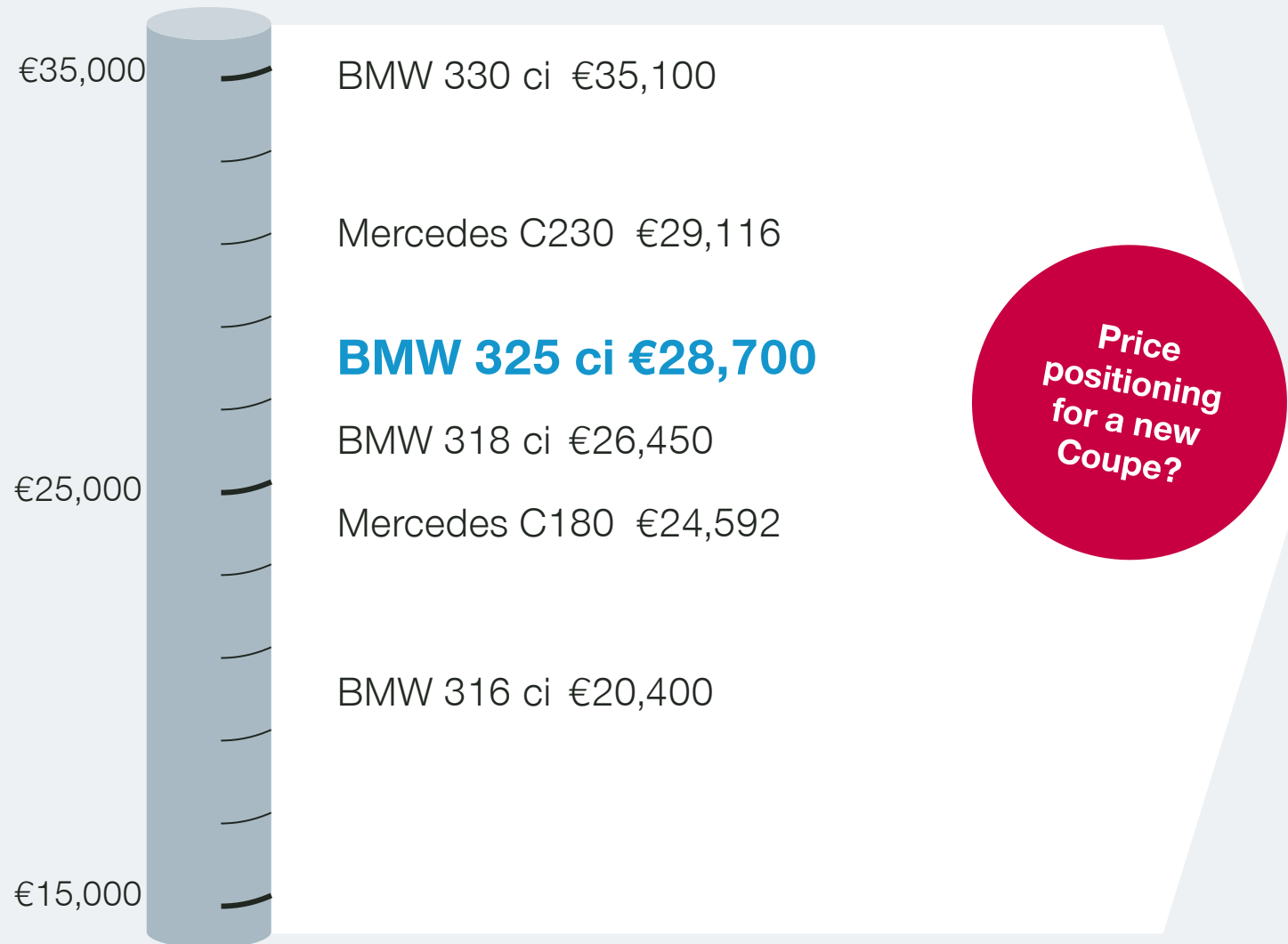
- ➕ Simple and cheap solution
- ➕ Required data is usually readily available
- ➕ Secures desired target margin



- ➖ High willingness to pay of some customers is not fully extracted
- ➖ Cost improvements are passed on to the market immediately
- ➖ Consideration of fixed cost may result in death spiral of successive price increases

Competition-oriented pricing

A price positioning based on competitor prices is cost effective as well. However, the disadvantages outweigh the benefits.



- + Simple and cheap solution
- + Required data is usually readily available (particularly in consumer markets)
- Assumes optimal price positioning of competitors
- Incomplete consideration of competitive advantage and brand premium
- High willingness to pay of some customers is not fully extracted

Value-based pricing

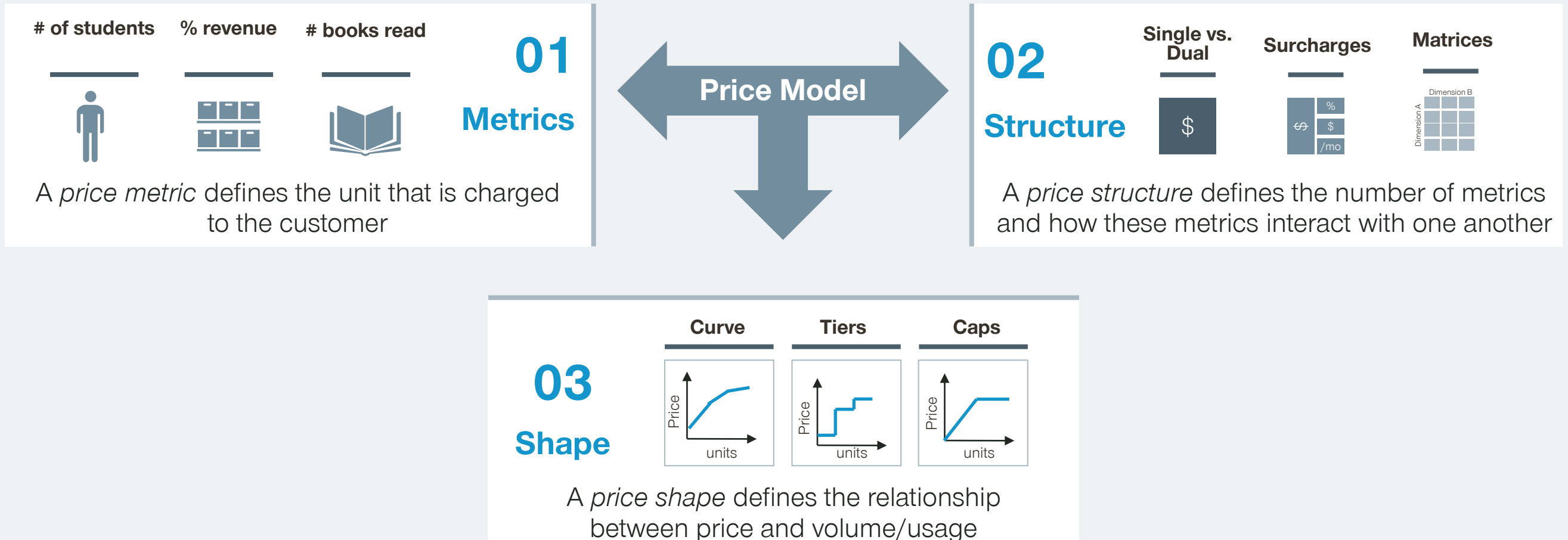
The higher the relative value, the more customers are willing to pay. Therefore, the best discussion about price is always a discussion about value.



**A customer will make a purchase if the left side
is at least as big as right side**

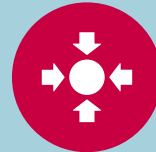
Pricing Framework: A price model defines *how* you charge for your product and is often much more important than *what* (i.e., the level) you charge

3 factors for a successful price model



Organizations should assess price metrics along internal and external criteria to determine the long-list applicable for their product(s)

Internal factors



Cost structure

- Aligned with cost drivers
- Synchronizes with fixed versus variable structure

Goals and outlook

- Fits with strategic objectives
 - Penetration
 - Revenue

Implementation

- Communicable & easily understandable
- Billable, measurable, & enforceable

Future development

- Value delivered
- Product / service roadmap
- Scalable



External factors



Competition

- Benchmarks
- Reference points in the market
- Likely competitive action / reaction

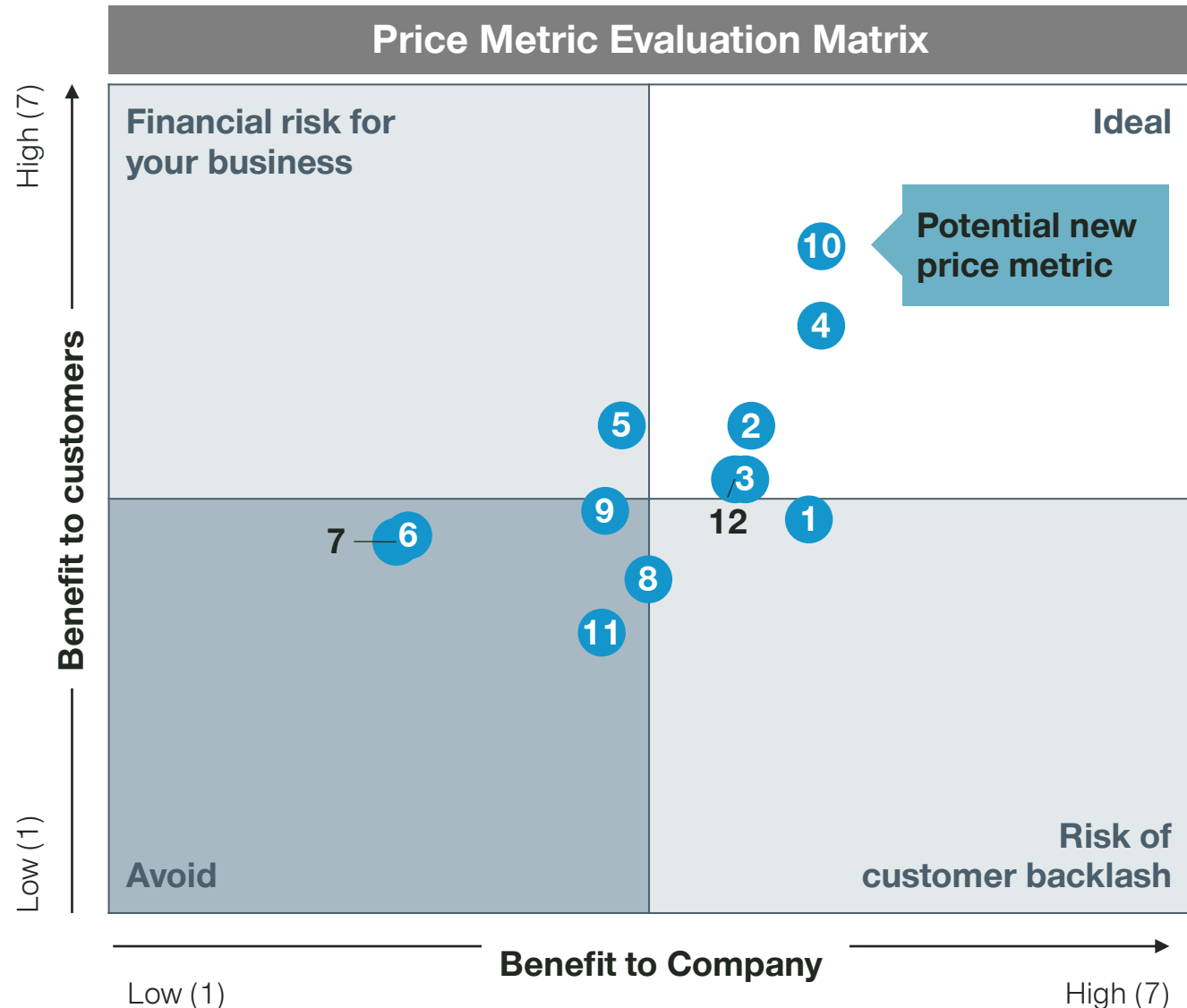
Customer

- Acceptable: Perceived fair, risk, psychological/budget barriers
- Ability to capture willingness-to-pay between segments

Distribution Channel

- Easy to communicate & and understand
- Attractive to channel partners
- Structure should be aligned with goals

The price metrics can be plotted against the criteria to determine potential options that benefit both your company and customers



Price Metric	
1	Per app – Fixed price per month
2	Per app – Variable price based on usage
3	Per GB - Fixed price per month
4	Per GB - Variable price based on usage
5	Per app monitored
6	Per user
7	% of revenue
8	Transactions – Overall
9	Transactions - External only
10	ELA (site license - regardless of usage)
11	Number of queries run
12	Volume of data flow-through

Case example: Michelin tire changing their metric to achieve recurring revenue model



Moving from charging per tire...

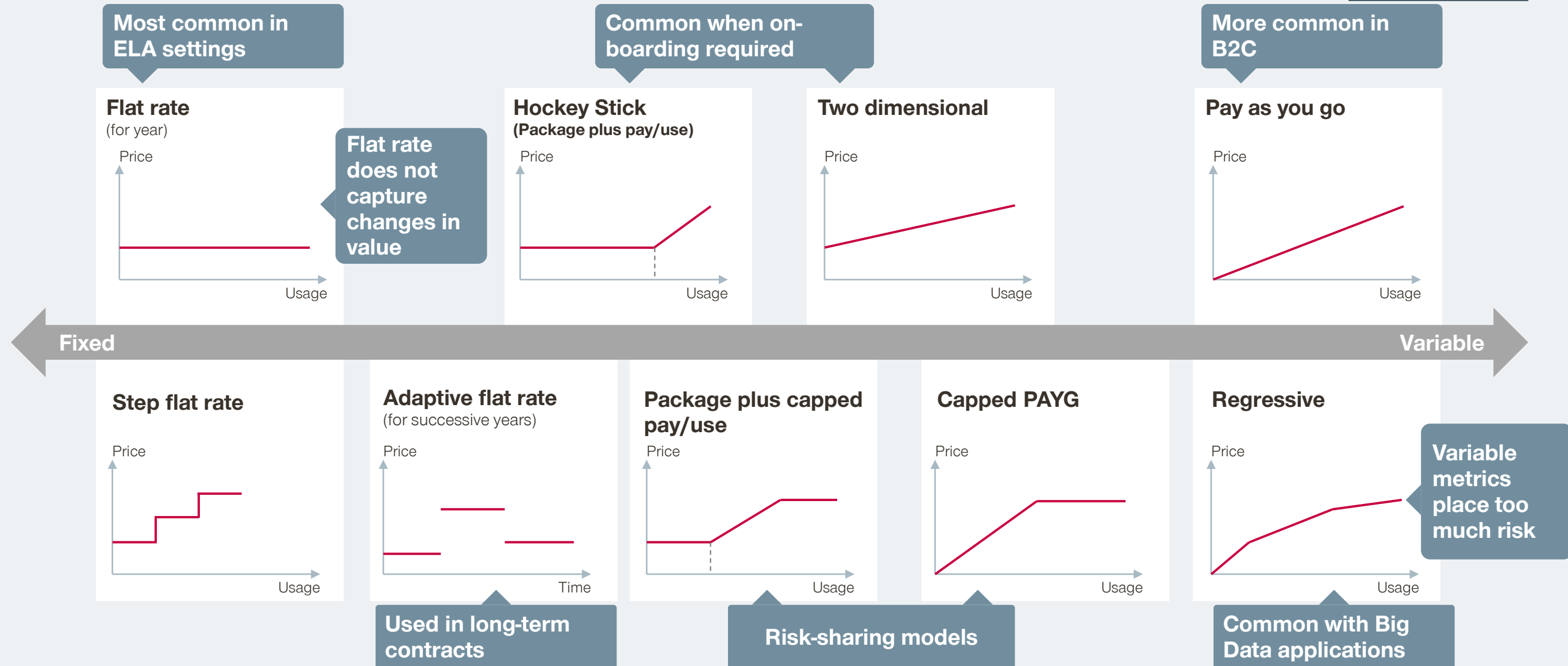
- Comparable
- Product
- Transactional

... to pricing per mile driven

- Differentiating
- Service
- Partnership

After the metric, organizations should design the most relevant price structures to align with market willingness to pay

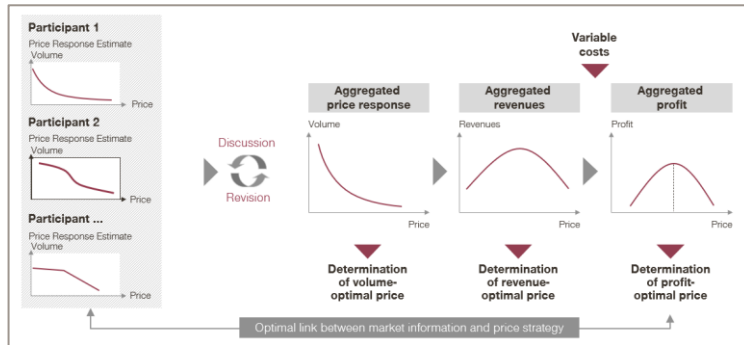
For discussion



The final step is understanding the price level aligned to how much customers are willing to pay – companies can use internal and external tools to determine this

Internal tools

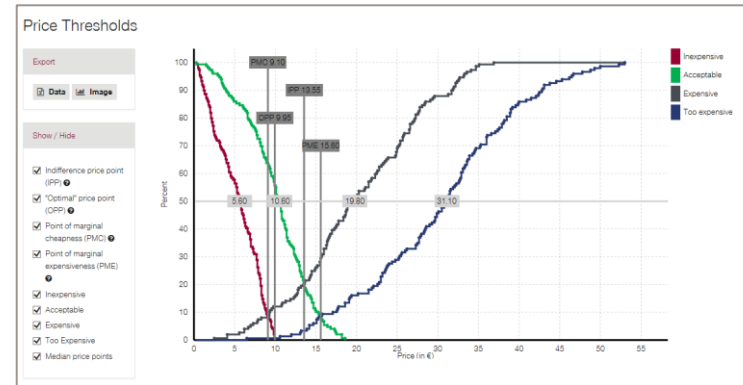
Price Strat



Estimates the optimal price point and price elasticity based on expert opinions

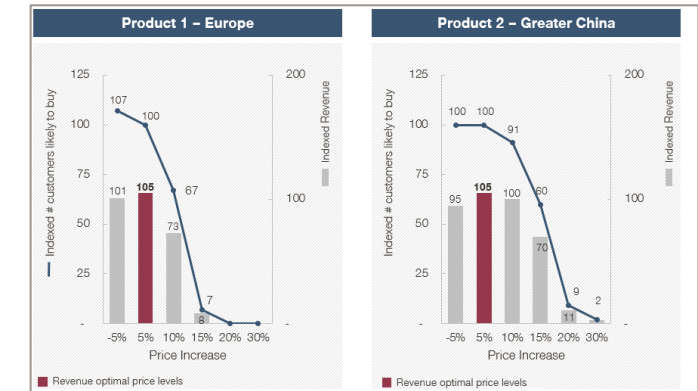
External tools

Van Westendorp



Determines key price thresholds to gauge customer willingness to pay ranges

Gabor Granger



Fine tunes price levels and enables team to understand price elasticity

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A photograph of a person from behind, with their hand raised in a classroom or meeting setting. The person has blonde hair tied in a bun and is wearing a light blue shirt. The background is blurred, showing other people and a bright, indoor environment. A semi-transparent white box is overlaid on the left side of the image, containing the text "Questions?".

Questions?

Thank you

www.simon-kucher.com