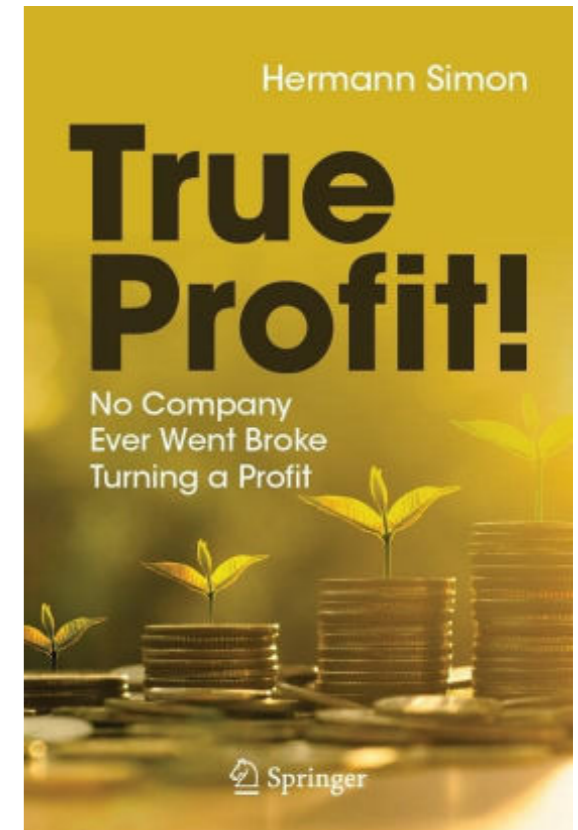


# True Profit!

## The Power of Pricing as a Profit Driver

**Boussias Pricing Conference**

**SIMON • KUCHER & PARTNERS**  
Strategy & Marketing Consultants



**February 23, 2022**

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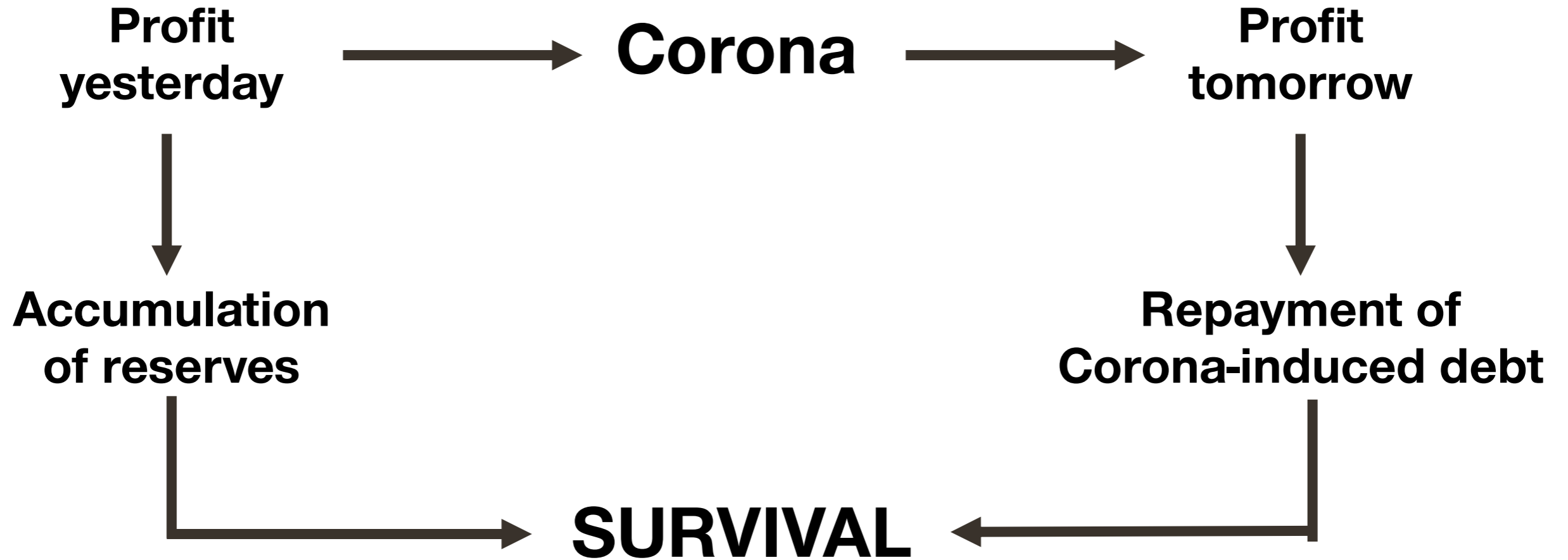
[hermann.simon@simon-kucher.com](mailto:hermann.simon@simon-kucher.com)

[www.simon-kucher.com](http://www.simon-kucher.com)

# What is profit?

**Profit is the cost of survival!**

# Profit and Corona



# What is true profit?

## Most Reporting Is NOT True Profit

- **EBIT**
- **EBITDA**
- **We Work's "Community Adjusted EBITDA", which includes marketing expenditures**
- **Uber's "Core Platform Contribution Profit"**
- **Groupon's "Adjusted Consolidated Segment Operating Income"**

**All this is deception and fogging**

# What Is True Profit?

**True profit is what the entrepreneur can keep after the company has met all contractually agreed claims of employees, suppliers, banks, and the state.**

## **A higher benchmark**

**Economic profit is the profit that exceeds the cost of capital, the so-called Weighted Average Cost of Capital or WACC.**

**Economic profit is "entrepreneurial" profit. Without an economic profit an entrepreneur had better invest the capital in the market.**



# Lesson 1

**Be cautious! Don't get deceived and don't deceive yourself about profit. True profit is only what the company can keep after it has met all contractually agreed claims of employees, suppliers, banks, and the state. If you are really serious about profit you use economic profit as your benchmark.**

# **How profitable are companies, countries, industries?**

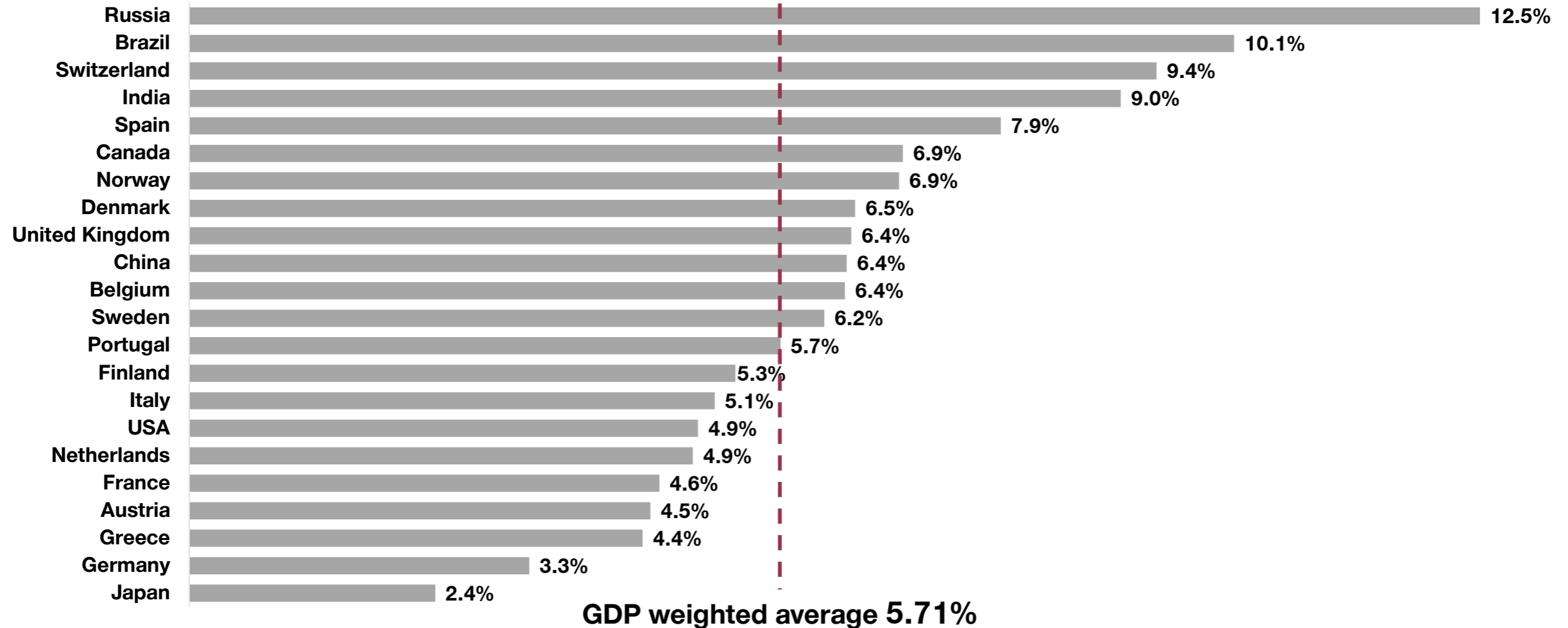
# How Profitable Are Companies? True (=Net) Profit Margins

	<b>What people believe</b>	<b>Reality</b>
<b>Germany</b>	<b>22%</b>	<b>3.3%</b>
<b>USA</b>	<b>31%</b>	<b>4.9%</b>
<b>Italy</b>	<b>38%</b>	<b>5.1%</b>

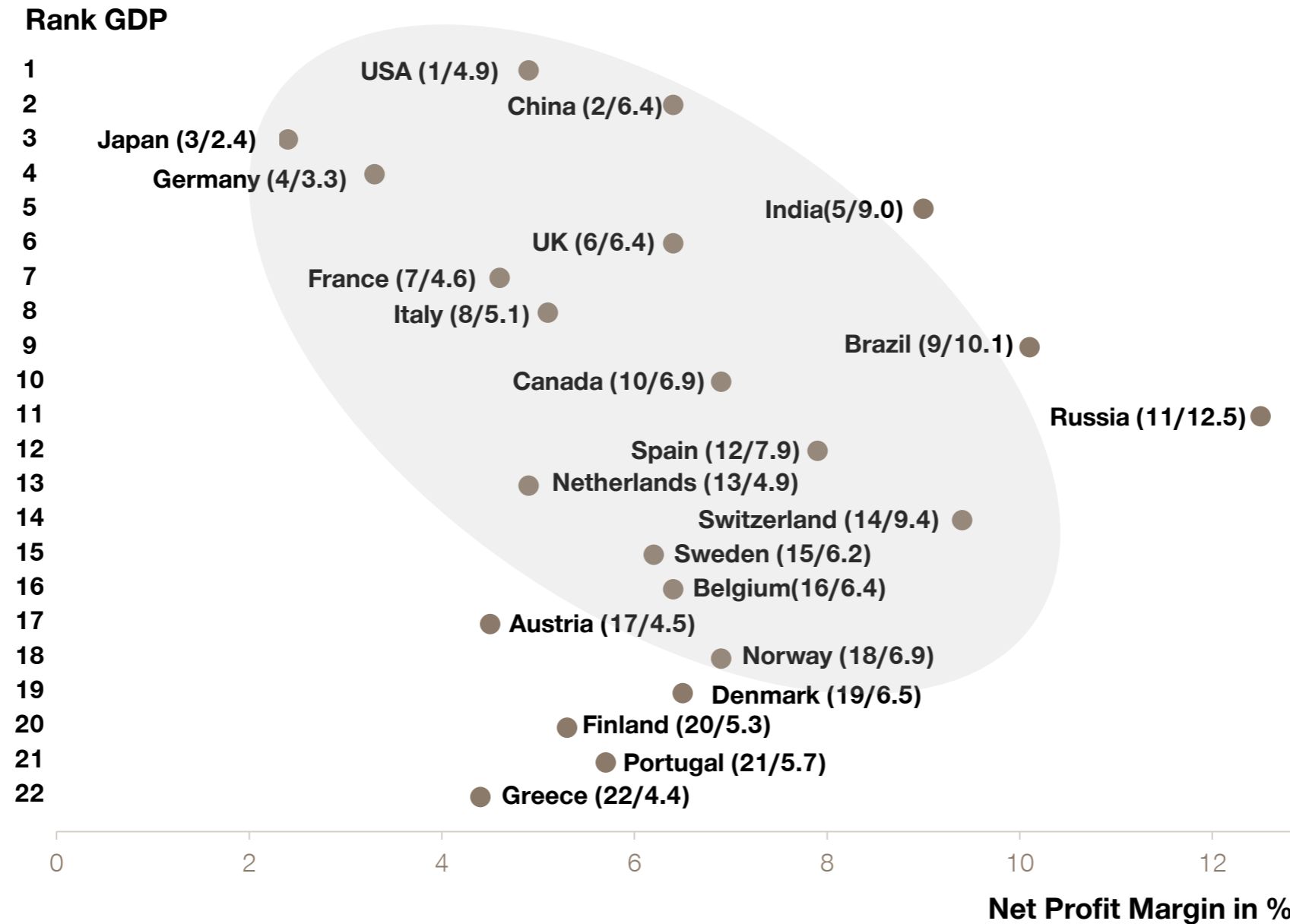
**Explanation?**

# Net Profit Margins Countries (8 Years)

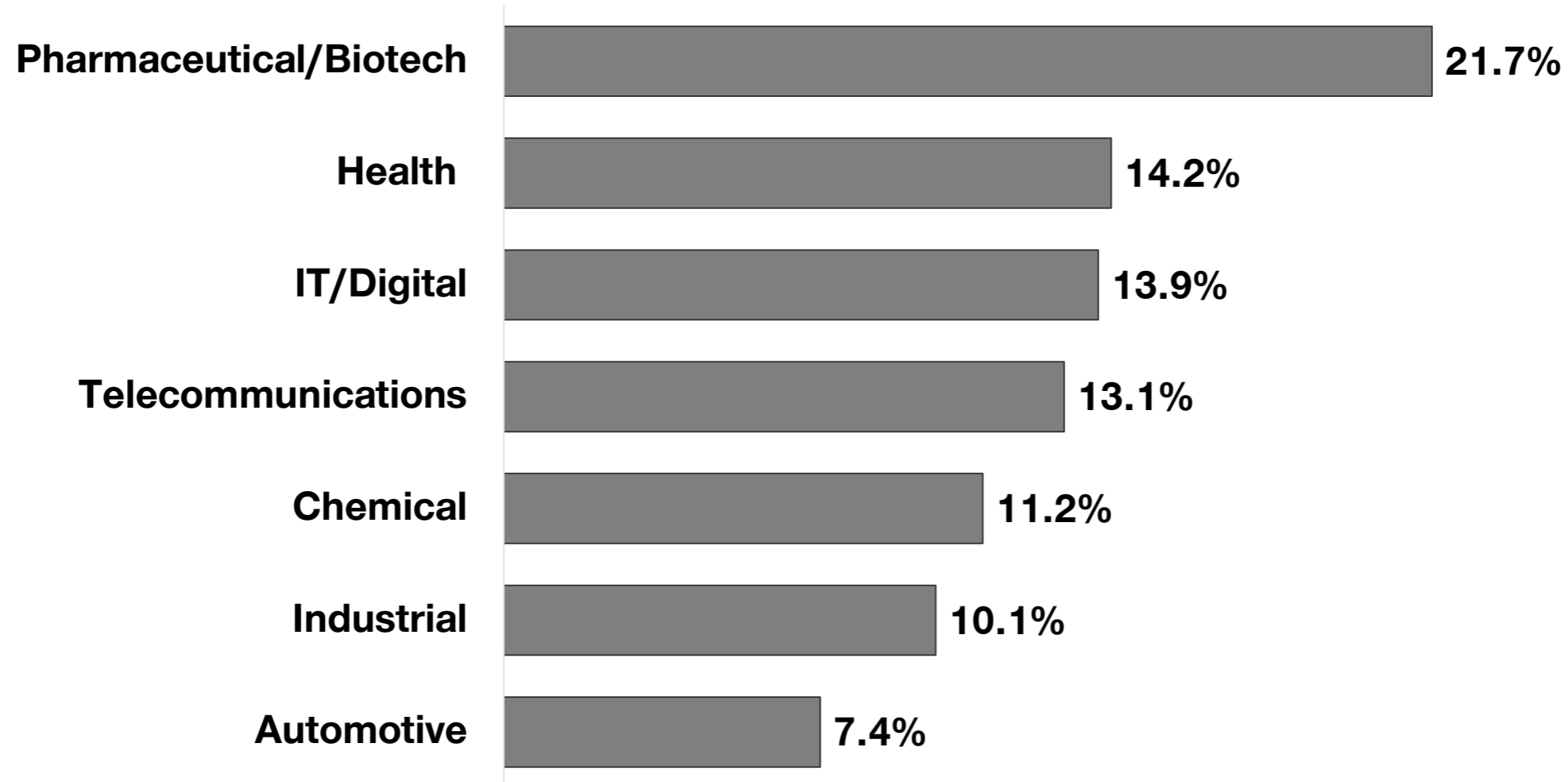
## Net profit margins



# Profit Differentials across Countries



# Profit Differentials across Industries



# True Profit Margins in Retail and Wholesale

## Retail

▪ Walmart	2.9%
▪ Rewe	0.7%
▪ Metro	loss
▪ Ikea	6.8%
▪ Zara	13.7%
▪ Primark	12.4%
▪ H&M	11.3%
▪ Uniqlo	10.4%

## Wholesale

▪ Glencore	1.2%
▪ McKesson	0.4%
▪ Würth	5.0%

# Profit Stars

Company	Annual profit (2018 \$m)	Profit per day (2018 \$m)
Saudi Aramco	110,975	304
Apple	59,531	163
Industrial & Commercial Bank of China	45,002	123
Samsung Electronics	39,895	109
China Construction Bank	38,498	105
JPMorgan Chase & Co.	32,474	89
Alphabet	30,736	84
Agricultural Bank of China	30,657	84
Bank of America Corp.	28,147	77
Bank of China	27,225	75
Royal Dutch Shell	23,352	64
Gazprom	23,199	64
Wells Fargo	22,393	61
Facebook	22,112	61
Intel	21,053	58
Exxon Mobil	20,840	58
AT&T	19,370	53
Citigroup	18,045	49
Toyota Motor	16,982	47
China Development Bank	16,744	45



- **The best 10% of superstars harvest 80% of the global economic profit**
- **The best 1% harvest 36% of the global economic profit**
- **The worst 10% annihilate as much value as the best 10% generate**
- **The gap between superstars and losers is increasing**

## Lesson 2

**The profit differences between countries, industries, and companies are huge. This points to the fact that some companies are getting it right and others are getting it wrong. So there is a real chance that within your industry you can be a profit leader or a loser. It depends on you.**

# **Profit vs. purpose:**

## **A hotly debated issue**

**Nitin Nohria, HBS:**

**"The first ethical responsibility of a business leader is to make a profit."**

**Peter Drucker:**

**"There is no conflict between profit and social responsibility."**

**Brett Donham, HBS-Dean 1919-1942**

**"We want to educate leaders who make a decent profit decently."**

## Shareholder vs. Stakeholder Concept

### Shareholder Value Concept:

- The interests of the shareholders dominate.
- Shareholder value shall be optimized.

### Stakeholder Value Concept:

**"We share a fundamental commitment to all of our stakeholders.**

**We commit to**

- delivering value to our customers,
- investing in our employees,
- dealing fairly and ethically with our suppliers,
- supporting the community in which we work,
- generating long-term value for our shareholders."

## Lesson 3

**Since profit is the cost of survival, pursuing profit is the prime responsibility of a business leader. I do not see a fundamental conflict between profit orientation/shareholder value and the stakeholder concept. Good management unifies both.**

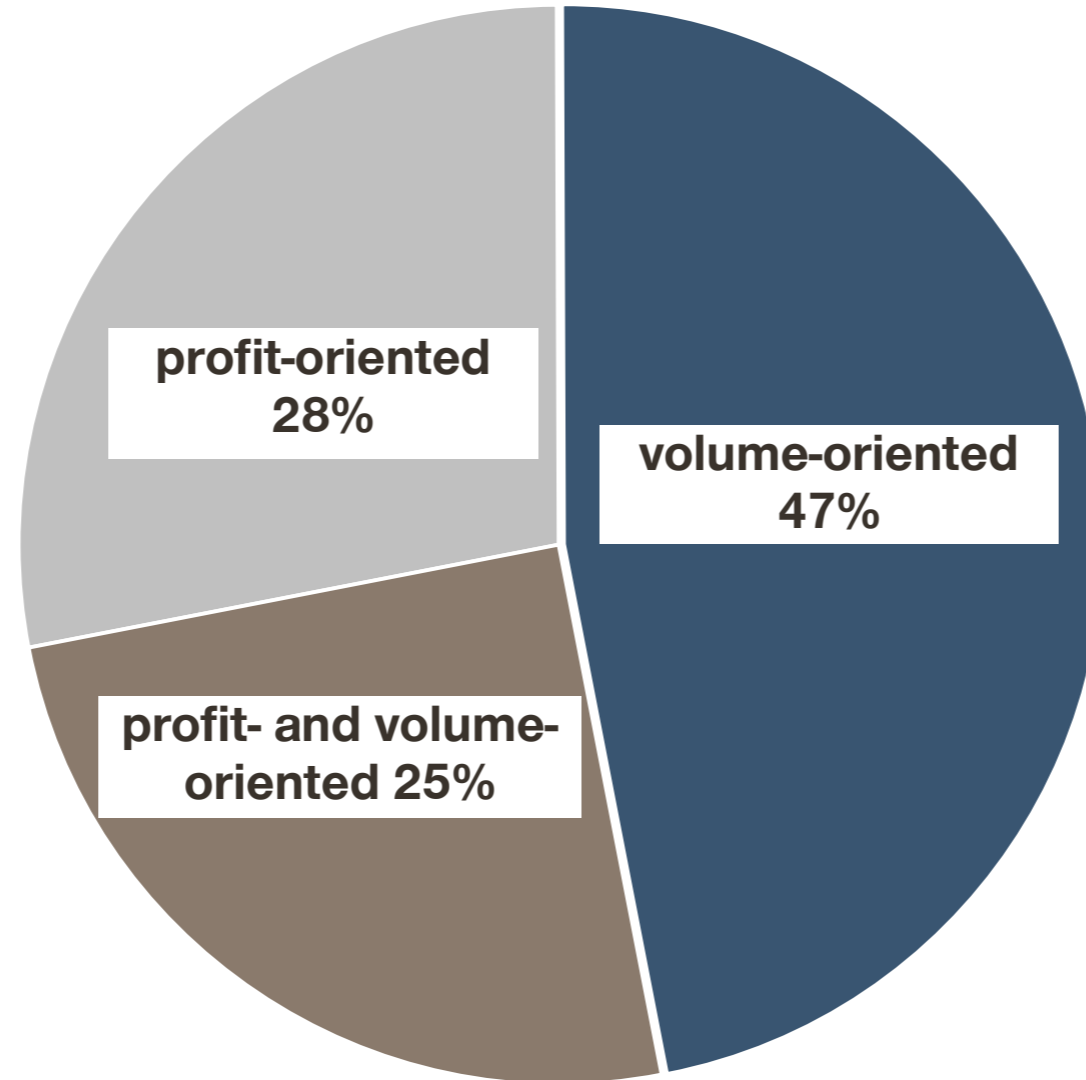
# What are the profit killers?

# The Profit Killers

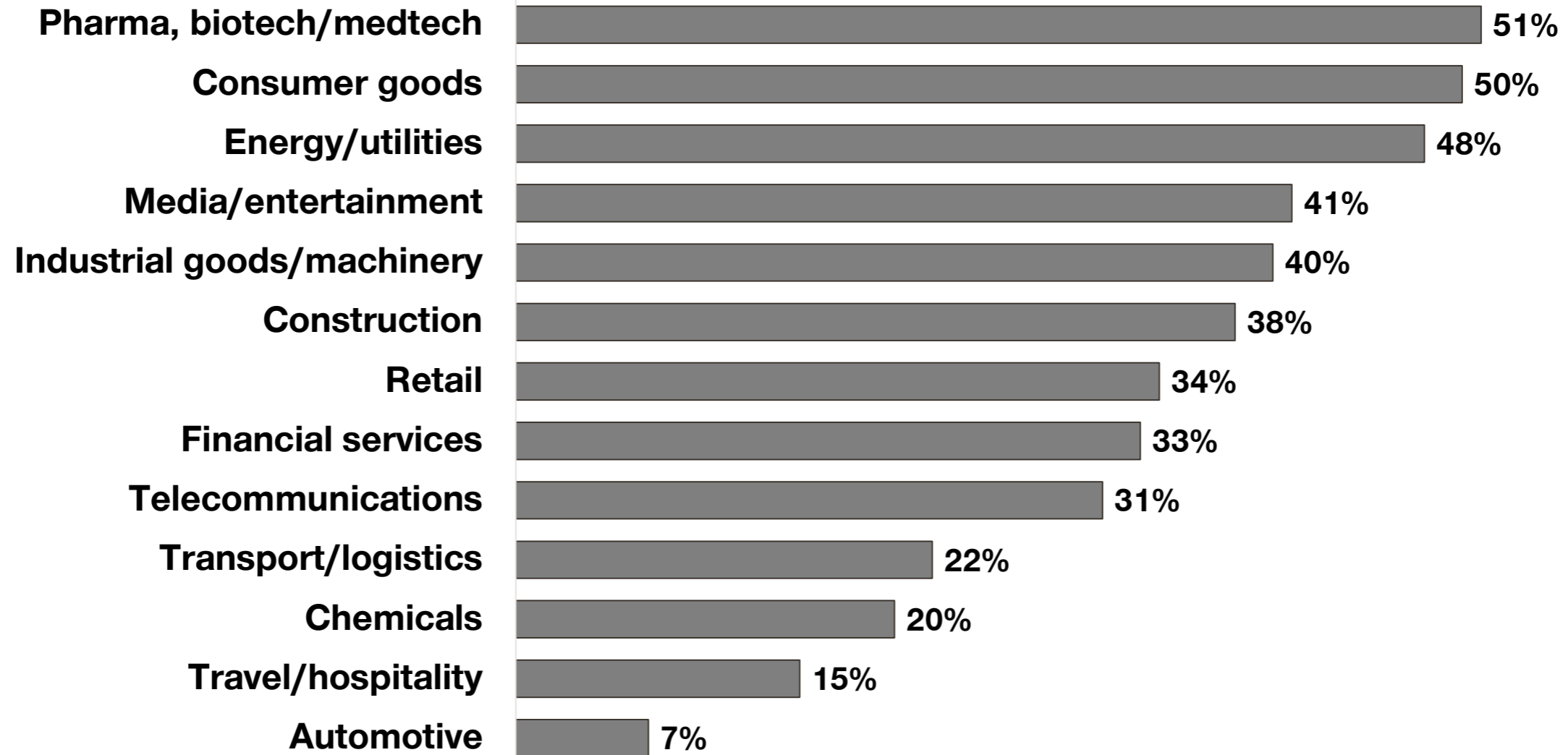
- **Wrong goals: revenue, volume, market share, market dominance, beating the competition**
- **Company-internal goal conflicts**
- **Wrong incentives**
- **Wrong industry**
- **Overcapacities**
- **Neglect of costs**
- **Aggressive pricing**



# Findings on Objectives



# Profit Orientation by Industry

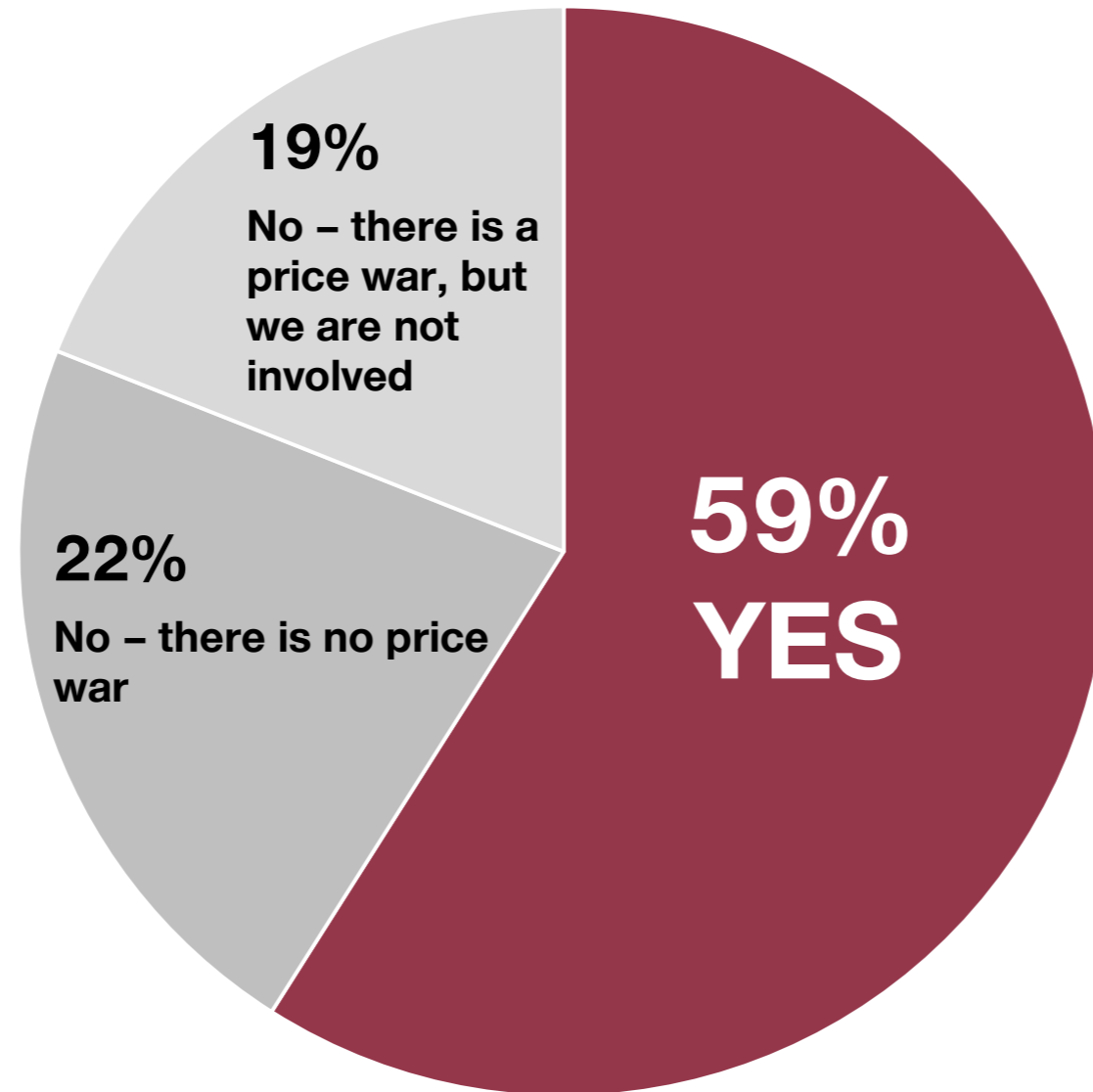


## **Profit vs. Market Share – Quote:**

**"Let's be honest. We all claim to be going for profit, but heads start rolling as soon as the market share drops by 0.1%. When profit goes down by 20% nothing happens."**

**Executive Vice President, Premium  
German Car Brand**

# Is Your Company Currently Engaged in a Price War?



## Lesson 4

**The most effective way to increase profit is to eliminate the profit killers, e.g. to avoid price wars. Profit orientation is the only meaningful goal because it is the only one that observes both the market and the cost side. Price wars are the most dangerous profit killer.**

# What are the profit drivers?

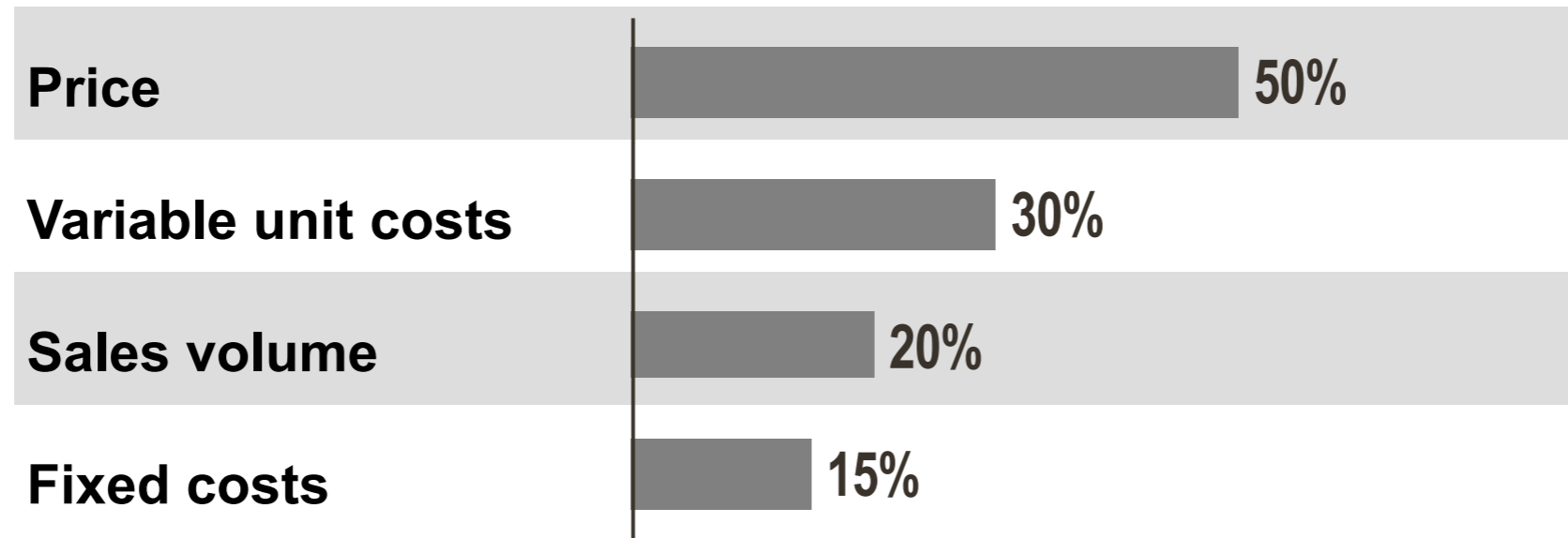
**Profit = Price x Volume – Cost**

**There are only three profit drivers!**

# Leverage of Profit Drivers: Typical Values

If the profit driver  
improves by 5%...

...profit  
changes by...





## Which Profit Driver Is More Effective?

**If we improve a profit driver by 1% how much does profit increase?\***

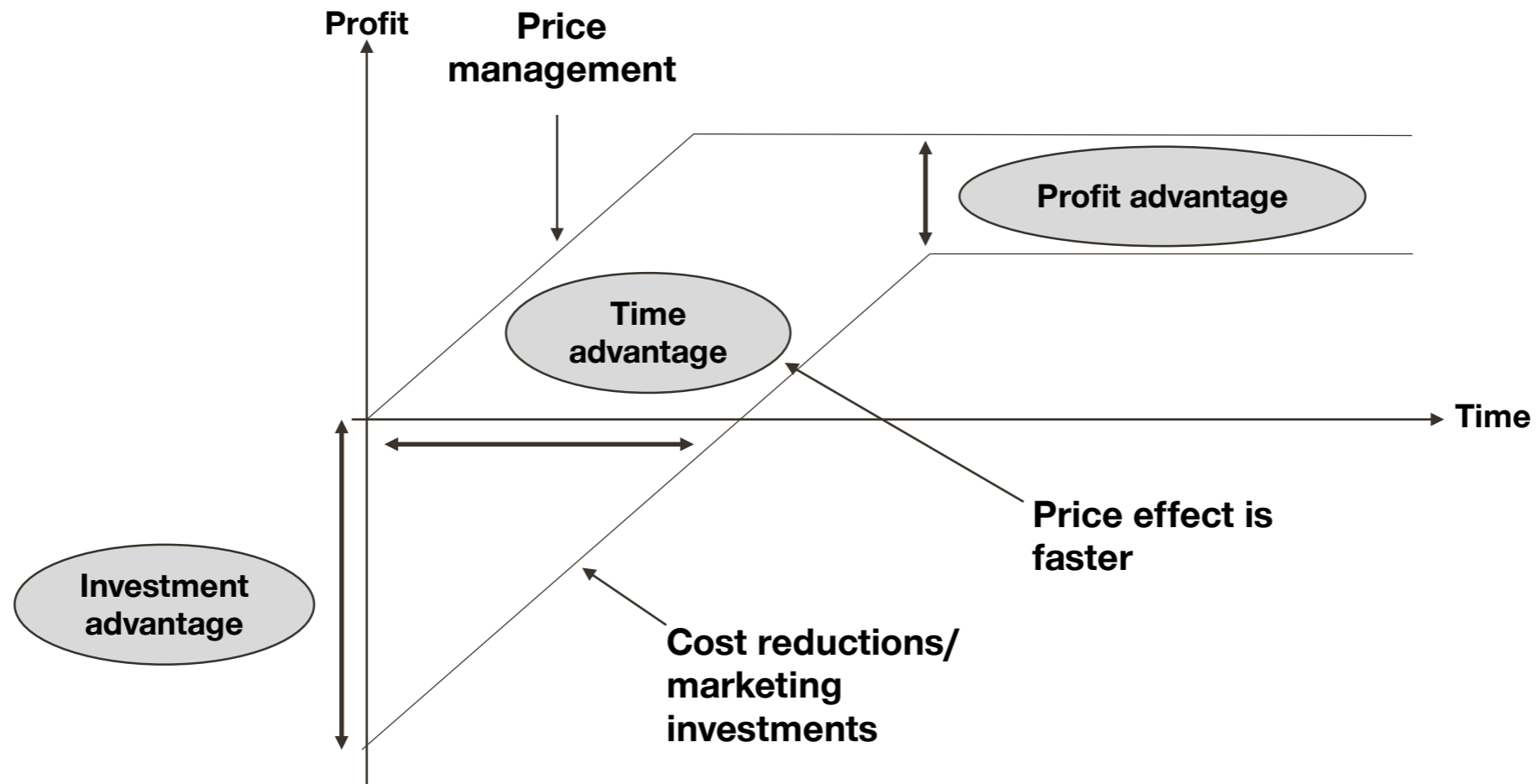
	<b>Profit multiplier (Profit elasticity)</b>
<b>Price</b>	<b>10</b>
<b>Cost</b>	<b>6</b>
<b>Volume</b>	<b>4</b>

**\*for a typical product or service**

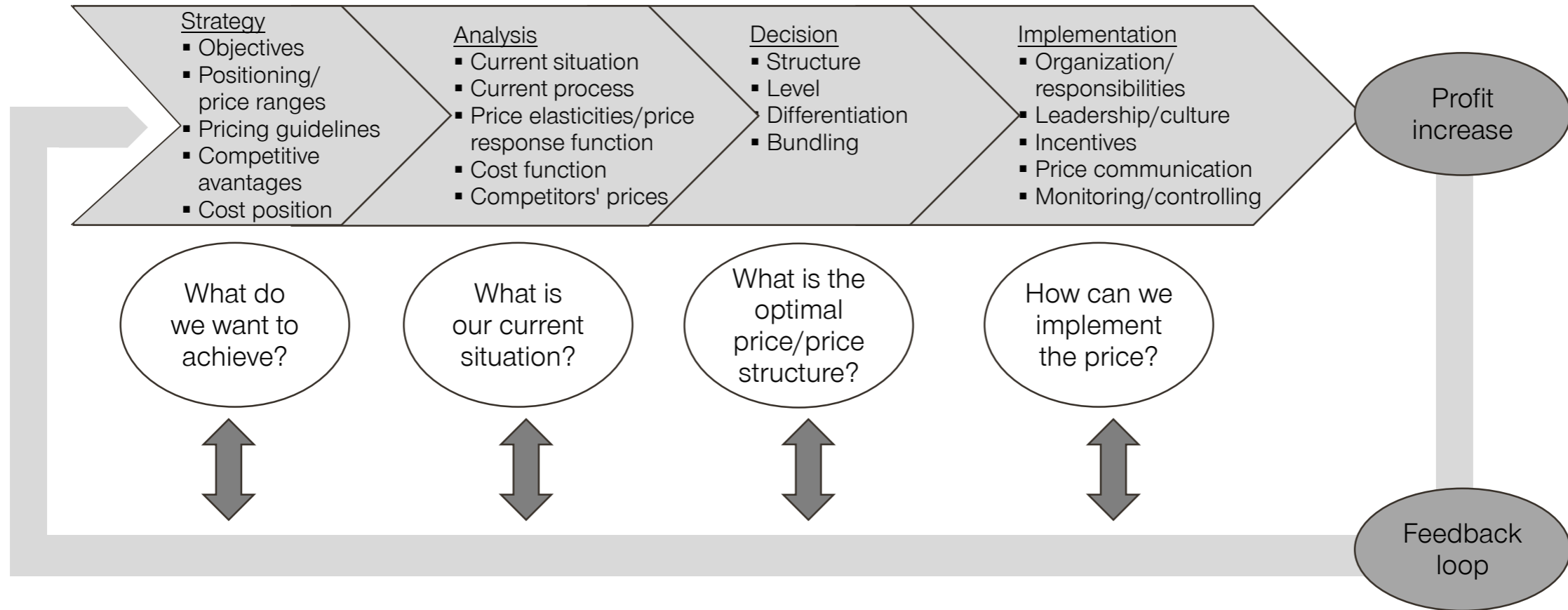
# The Keys to Profitable Pricing

- **Value-to-customer:**
  - **by far the most important!**
  - **must be quantified!**
- **Only price differentiation exploits the full profit potential**
- **From one-dimensional to multi-dimensional prices**
- **New digital pricing schemes: dynamic, freemium, pay-per-use**
- **Pricing automation: big data, artificial intelligence**
- **Pricing process: strategy, analysis, implementation, monitoring**

# Additional Advantages of Price as a Profit Driver



# Pricing must be viewed as a process



# The Ultimate Question: What Is the Profit Effect of Better Pricing?

## A concrete case

<b>Pricing action</b>	<b>Profit increase (million €)</b>	<b>Plus in (bonus points*)</b>
▪ Pricing for long-term customer loyalty	4.1	110
▪ Guidelines for discounts	3.4	90
▪ Optimising key account pricing	1.2	30
▪ Structuring mark-ups and fees	2.6	70
▪ Improved structures for product prices	3.0	80
▪ Introduction of a pricemonitoring tool	0.9	20
<b>Sum</b>	<b>15.2</b>	<b>400</b>

\* 1%-point = 100 basis points  
(Basis: 380.0 million € p.a.)

## Lesson 5

**Price is the most effective profit driver. Its profit multiplier is 10, for costs it's 6 and for volume it's only 4. Compared to costs and volume, price has the additional advantages of no upfront investment and of high speed. Pricing requires a systematic process. Profit improvement is typically 200-400 basis points.**

**In short....**

**... my personal pricing story**

# Simon-Kucher: leading in Pricing, Marketing, Sales

 **Financial Times**

Marketing, Brand,  
Pricing

1

*Financial Times*, list of the UK's leading management Consultants, 2018

 **brand eins/Statista**

Marketing, Sales,  
Pricing

1

*brand eins /thema special edition Consultancies 2021, together with Statista: Best Consultancies in Germany 2021*

 **Capital**

Marketing, Sales,  
Pricing

1

*Capital*, survey of the best consultancies in France, 2018

 **Finanz und Wirtschaft**

Marketing,  
Sales

1

*Finanz und Wirtschaft*, survey of the best management consultancies in Switzerland, 2021

 **MT Magazine**

Strategy  
Consulting

1

*MT Magazine/Erasmus University: MT1000 2018*, survey of the best strategy consultancies in the Netherlands, 2018

 **Forbes**

Marketing, Brand,  
Pricing, Sales



*Forbes*, survey of the best management consulting firms in the US, 2018



# Simon-Kucher: Global Leader in Price Consulting

”

***Simon-Kucher is world leader  
in giving advice  
to companies on how to price  
their products.***

*BusinessWeek*

”

***No one knows more about  
pricing than Simon-Kucher.***

Professor Philip Kotler

”

***In pricing you offer something  
nobody else does.***

Professor Peter Drucker

”

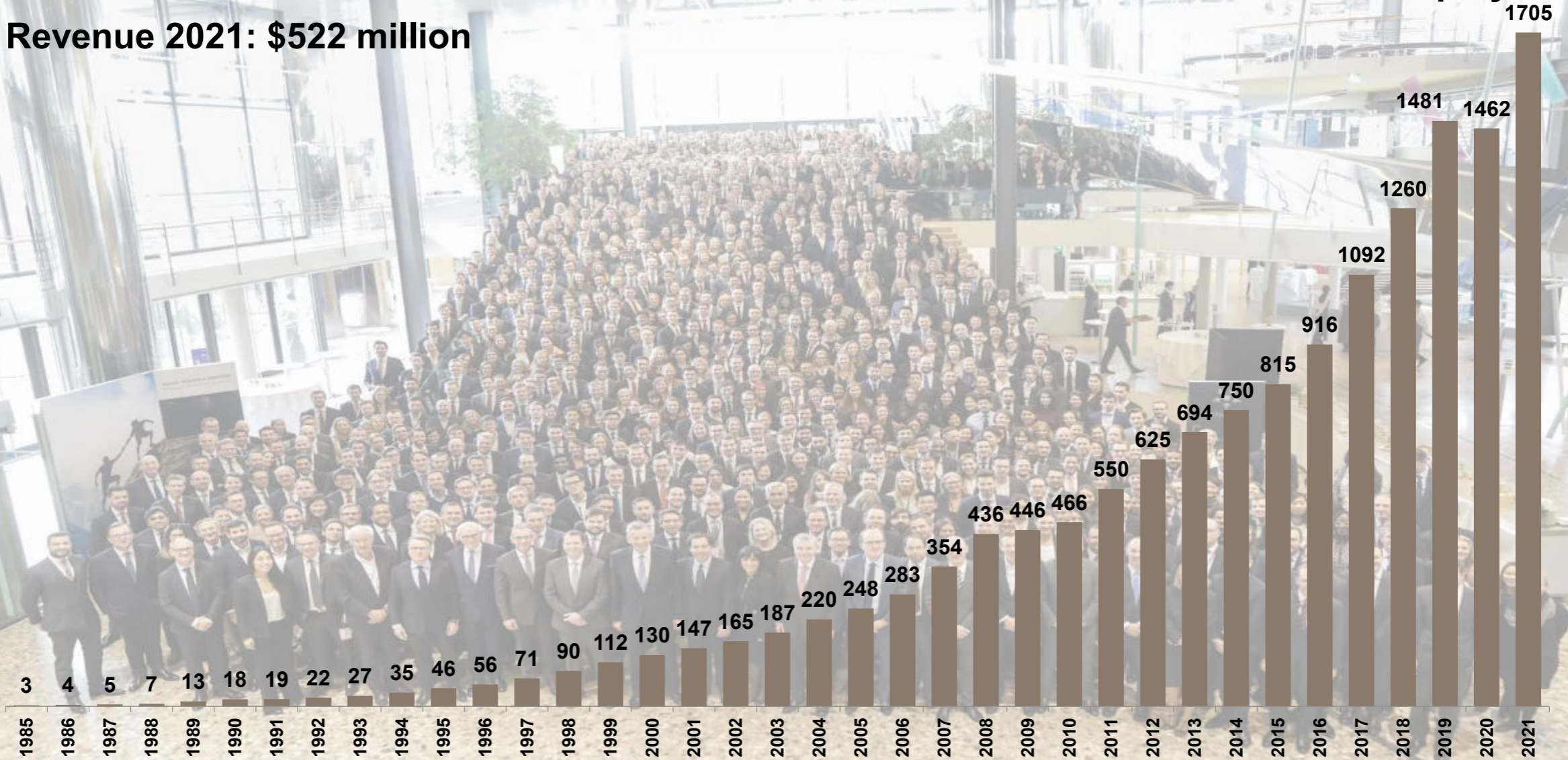
***No firm has spearheaded the  
professionalization of pricing  
more than Simon-Kucher &  
Partners.***

William Poundstone  
in *Priceless*

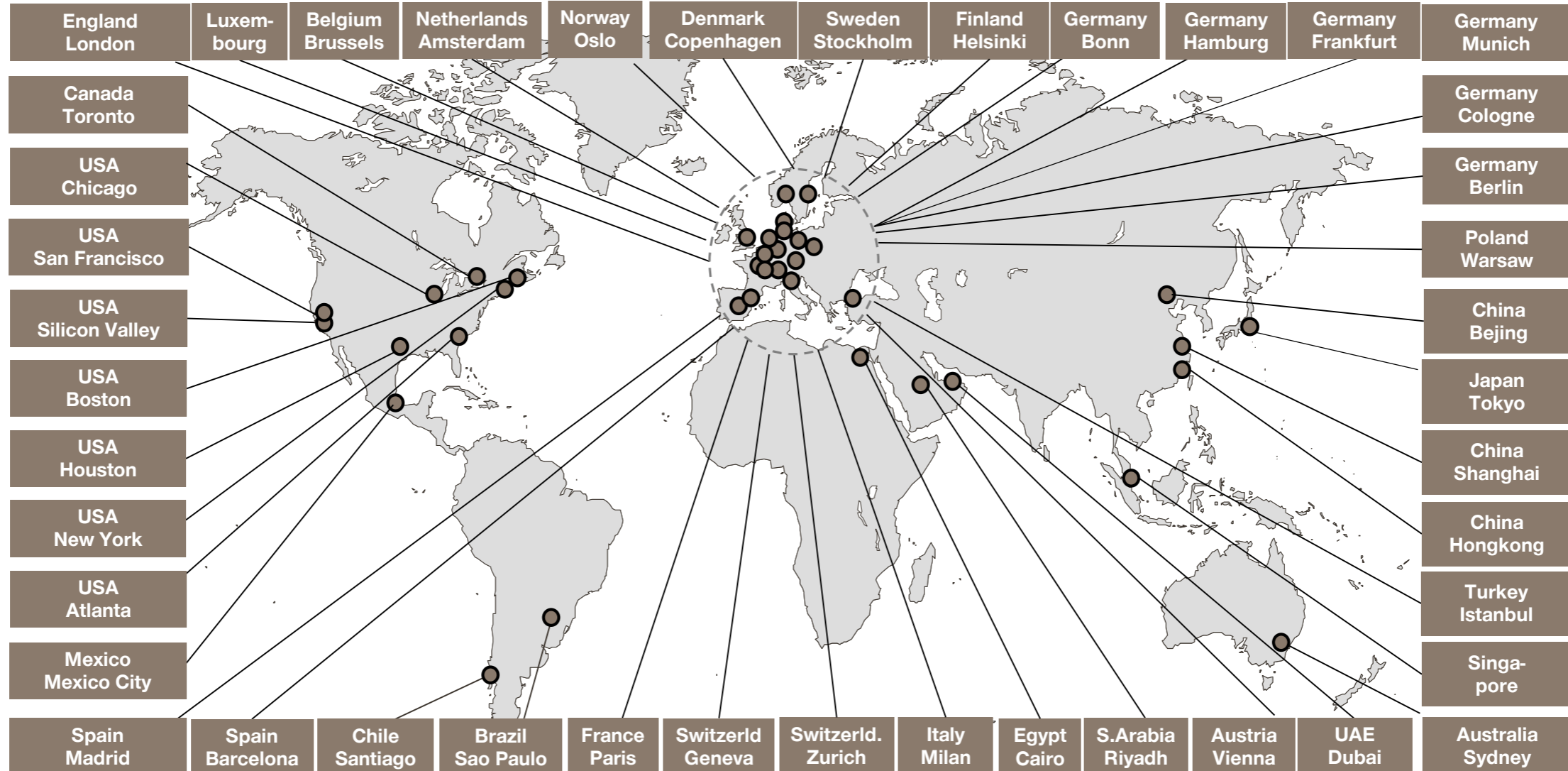
# Growth

Revenue 2021: \$522 million

**Employees**

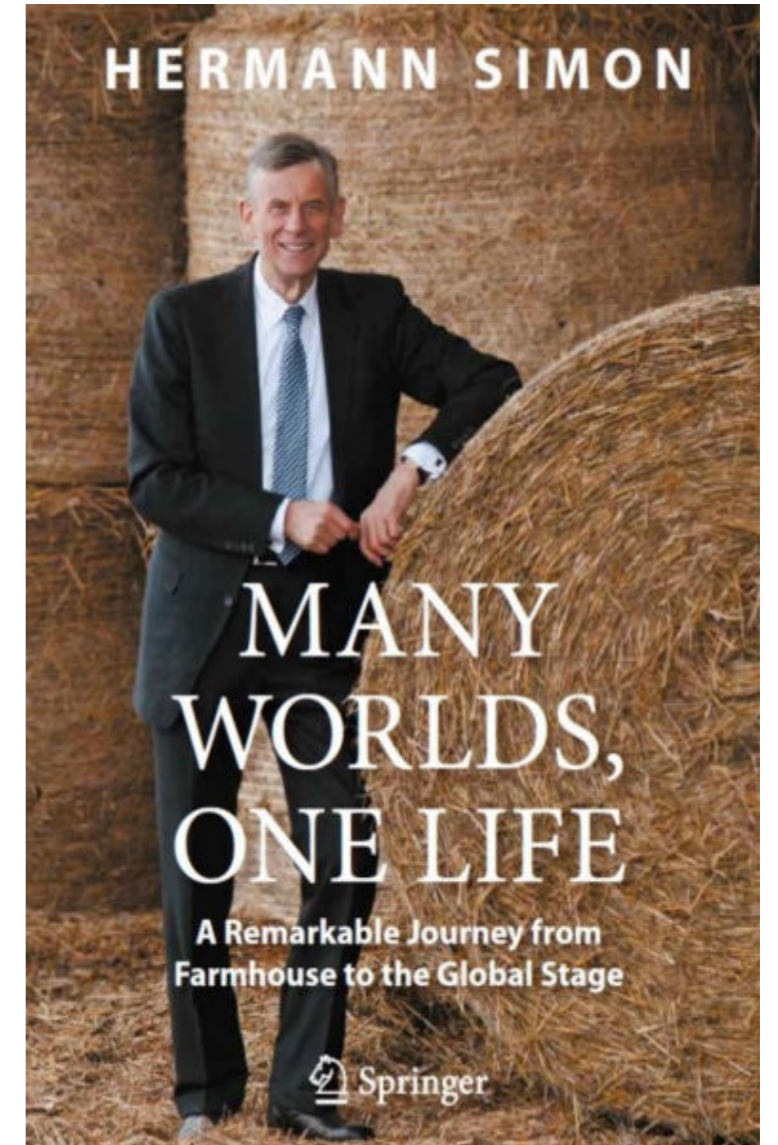
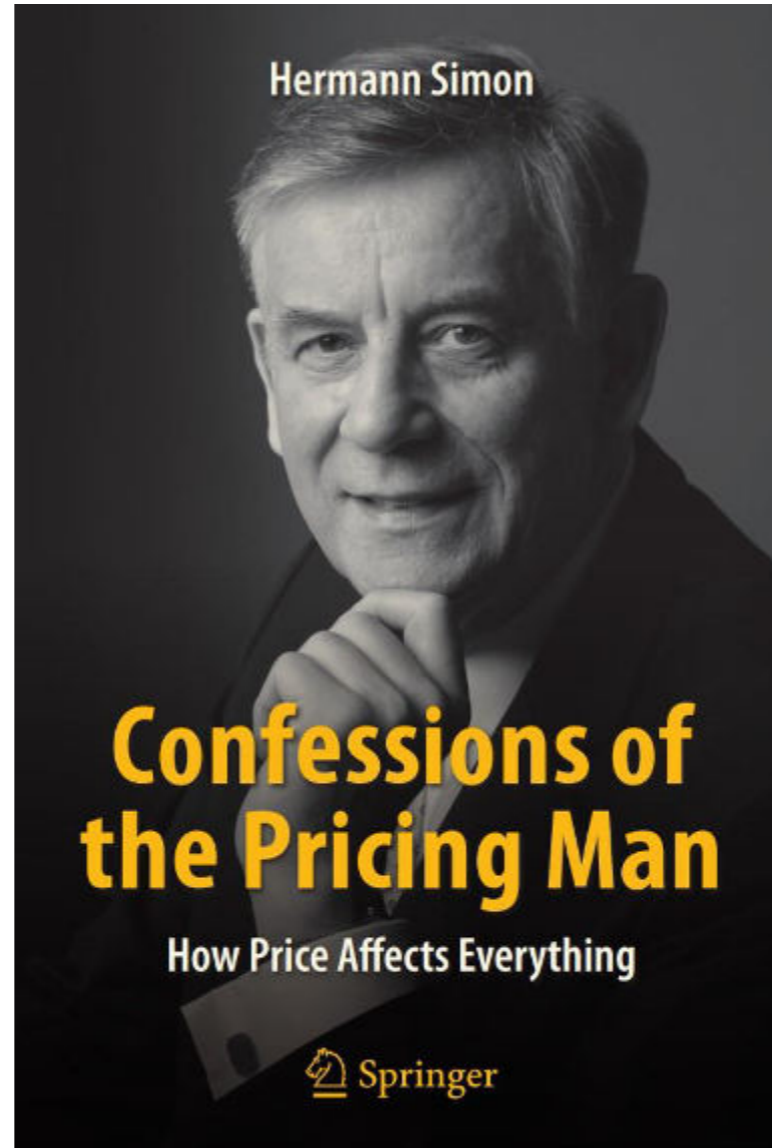
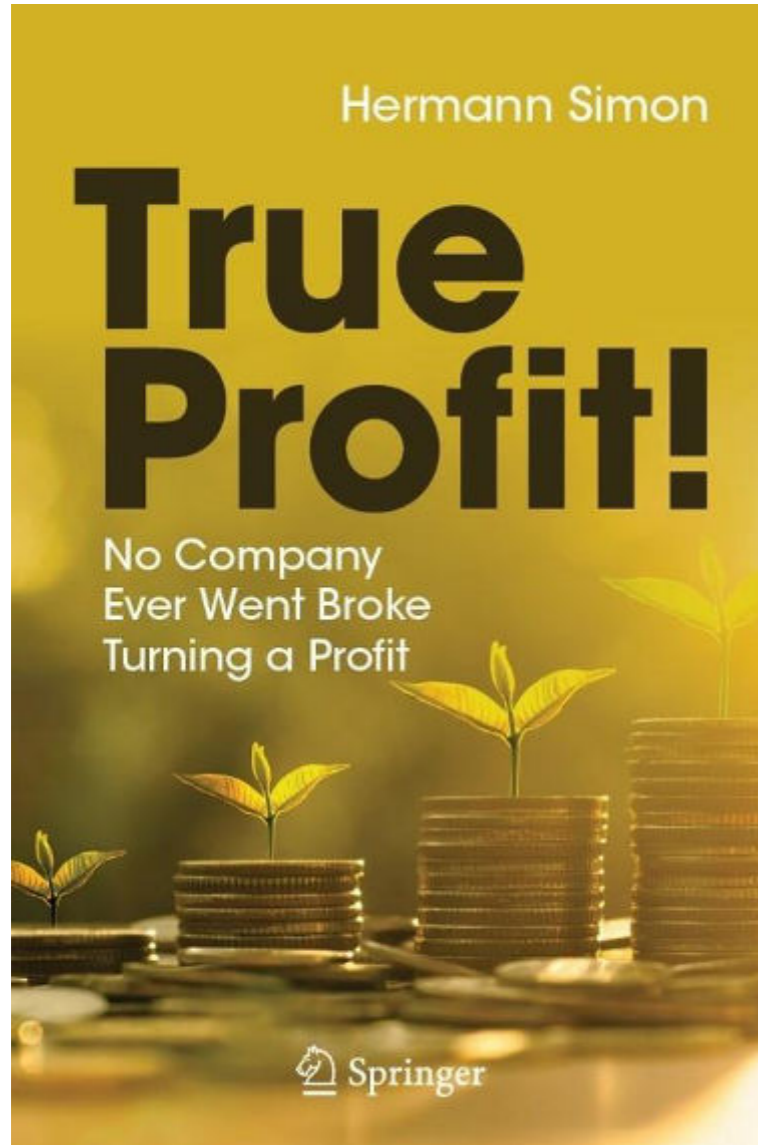


# Global Presence: 43 Offices in 28 Countries



- **Many common profit definitions do not define true profit but are deceptions.**
- **True profit is only what the company can keep.**
- **During and after Corona, true profit is more important than ever.**
- **Profit differentials across countries, sectors, companies are huge.**
- **The 10% superstars harvest 80% of the global economic profit.**
- **Making profit is ethical if it is done decently.**
- **Elimination of profit killers is the shortest route to increase profit.**
- **Price is the most effective profit driver with a profit multiplier of 10, for cost it's 6, for sales volume only 4.**

# The Books



# Hermann Simon

Hermann Simon is the Founder and Honorary Chairman of Simon-Kucher & Partners. He is an expert in strategy, marketing and pricing. He is the only German in the “Thinkers50 Hall of Fame” of the most important management thinkers in the world. In German-speaking countries he has been continuously voted the most influential living management thinker since 2005. The magazine Cicero ranks him in the top 100 of the 500 most important intellectuals.

Before committing himself entirely to management consulting, Simon was a professor of business administration and marketing at the Universities of Mainz (1989-1995) and Bielefeld (1979-1989). He was also a visiting professor at Harvard Business School, Stanford, London Business School, INSEAD, Keio University in Tokyo and the Massachusetts Institute of Technology. From 1995 to 2009 he was CEO of Simon-Kucher & Partners.

Professor Simon has published over 35 books in 27 languages, including the worldwide bestsellers *Hidden Champions* (Boston 1996, cover story of *BusinessWeek* in 2004) and *Power Pricing* (New York 1997), as well as *Manage for Profit, Not for Market Share* (Boston 2006). *Hidden Champions of the 21st Century, Success Strategies of Unknown World Market Leaders* (New York 2009) investigates the strategies of little known market leaders. Recent books are *Confessions of the Pricing Man* (New York 2015), the textbook *Price Management* (New York 2011), the autobiography *Many Worlds, One Life: A Remarkable Journey from Farmhouse to Global Stage* (New York 2021), and his latest book *True Profit! No Company Ever Went Broke from Turning a Profit* (New York 2021). His new book *Hidden Champions in the Chinese Century: Ascent and Transformation* will be out this spring.



Simon was and is a member of the editorial boards of numerous business journals, including the International Journal of Research in Marketing, Management Science, Recherche et Applications en Marketing, Décisions Marketing, European Management Journal as well as several German journals. For several decades he regularly wrote columns for the German business monthly Manager Magazin. As a board member of numerous foundations and corporations, Professor Simon has gained substantial experience in corporate governance. From 1984 to 1986 he was the president of the European Marketing Academy (EMAC). Simon is co-founder of the first Special Purpose Acquisition Company (SPAC) listed on the German Stock Exchange in Frankfurt, and the first search fund in Germany.

A native of Germany, he studied economics and business administration at the universities of Bonn and Cologne. He received his diploma (1973) and his doctorate (1976) from the University of Bonn. Simon has received numerous international awards and holds honorary doctorates from IEDC Business School of Bled (Slovenia), from the University of Siegen (Germany) and from Kozminski University Warsaw (Poland). He is a honorary professor at the University of International Business and Economics in Beijing. In China, the “Hermann Simon Business School” is named after him.