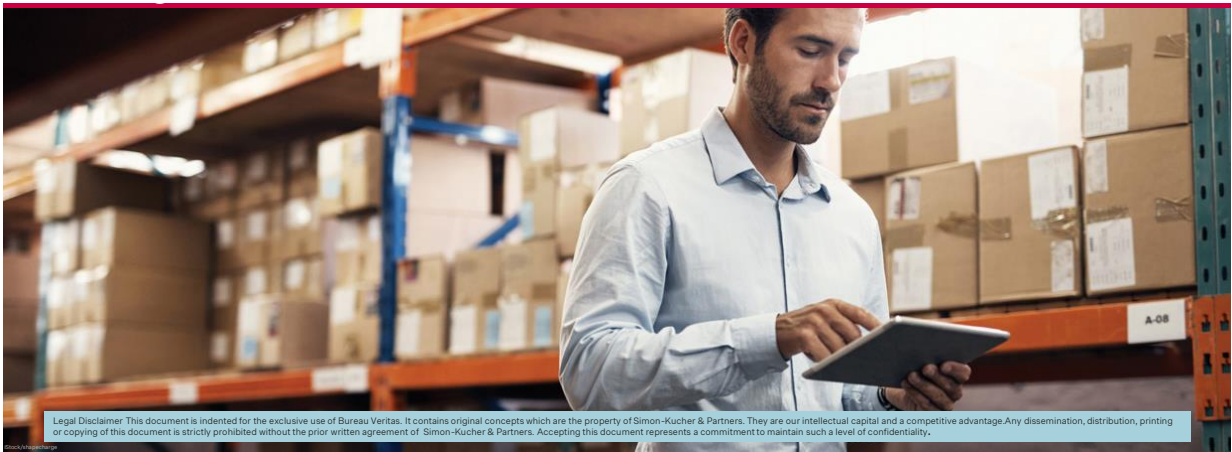


Pricing and Profitability Summit

Value Based Pricing across the Profit Waterfall



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Simon-Kucher is the leading global consulting firm specializing in unlocking better growth.



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Our people

- Specialists in Commercial Strategy & Pricing Consulting, Transaction Services & Private Equity, Digital and Software
- Our partners and experienced leadership team are hands on, delivering results at pace

Our sector expertise

- Consumer
- Financial Services
- Healthcare & Life Sciences
- Industrials
- Technology Media and Telecoms

Our clients

- Our clients come from 120+ industries and range from Fortune 500 and FTSE 100 firms to unicorns

Our reputation

- Pioneering pricing for decades, Simon-Kucher defined the discipline – it's part of our DNA



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Common Myth

We sell the same product everyone else does down the street”

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**Quality, clarity of Executive communications to markets...
is more critical now than ever**

“Robots scour company earnings calls for vagueness signals to offload shares”

Financial Times

“Traditionally funds discover alternative data”


Financial Times

“Roughly 1/3 of the content published by Bloomberg News uses some form of robot technology”

New York Times

“Company data is beaten by sentiment analysis ”

Les Echos



Alternative data increasingly important

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We developed the PPM Pricing Power Map to identify companies with Pricing Power

Industry adjusted Pricing Communication Score	DREAMERS	WINNERS
	High Pricing communication, yet no pricing power	Indication of superior pricing power and elevated communication
	No Pricing communication and disadvantaged pricing leverage	No Pricing communication, yet indication of pricing power
	LOSERS	HIDDEN GEMS
	Industry adjusted Lerner Index	

Combination of financial and hard alternative data



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Lerner Index

The Lerner Index aims to measure the extent to which price exceeds marginal cost

$$LI = (P - MC) / P$$

- The higher LI over time the more a company can realize its pricing power
 - Since marginal cost is not easy to measure, it is substituted by the average variable cost
- $LI = (\text{Sales} - \text{COGS} - \text{SGA}) / \text{Sales}$

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Hard alternative data is based on Simon Kucher NLP algos

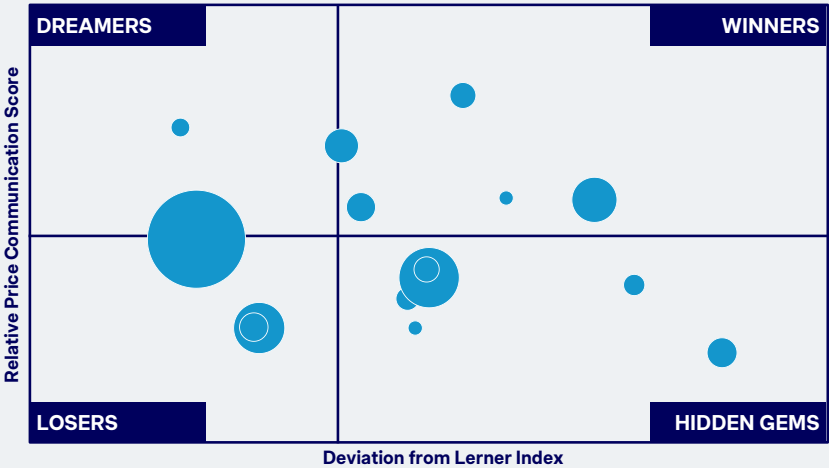
Level 2 Topic Modeling
Topic clustering based on SKP industry specific analysis

Fuzzy Matching (also called Approximate String Matching) helps identify two elements of text that are approximately similar but are not exactly the same. Fuzzy matching operates with the Levenshtein distance and Cosine Similarities.

```
# PROCESS & ORGANISATION
topics_dict['Organisation'] = ['margin manager','pricing manager', 'head of pricing', 'pricing consultant', 'pricing expert', 'pricing officer',
                               ]
fuzzy_fragments['Organisation'] = ['pricing organization', 'pricing expertise', 'pricing know-how', 'price expert']
#####
topics_dict['Systems & Processes'] = ['crm', 'pricing software', 'pricing guideline', 'pricing delegation', 'pricing authorization', 'minimum pr
'revenue management', 'yield management', 'bottom slicing', 'margin creep', 'top line management', 'customer segmentati
'price dashboard', 'price variance', 'price mix analysis', 'sales analysis', 'revenue analysis', 'pricing analysis',
'price recovery', 'price setting', 'price management','pricing discipline', 'manage pricing', 'driving pricing',
'price action','pricing optimization', 'pricing intelligence','abc analysis','pricing action', 'price indicator', 'pr
fuzzy_fragments['Systems & Processes'] = ['price tool', 'pricing tool','pricing system',
'price guidance', 'pricing mechanism', 'price mechanism','selling price revisions','revised selling pr
'working on pricing','drive pricing']
```

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How have publicly traded distributors fared?



Methodology

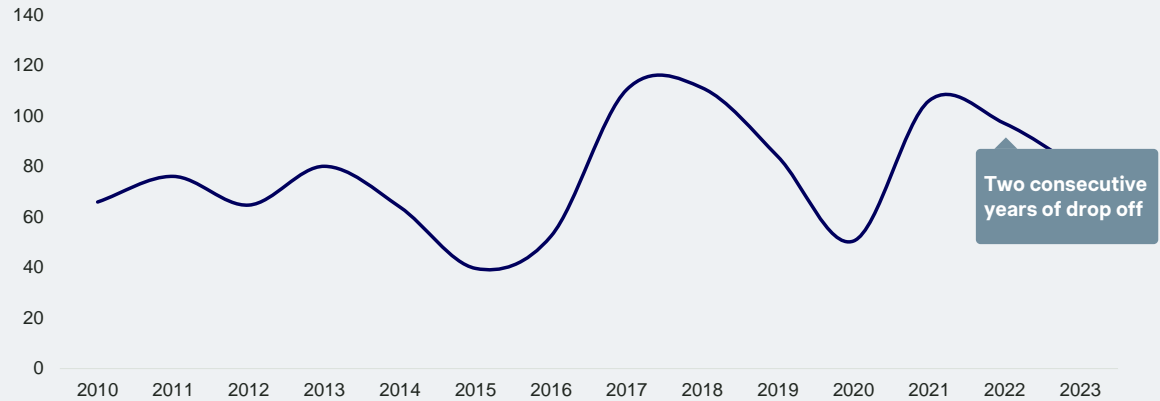
- ~15 publicly traded distributors
- Evaluated data from 2010 YTD
- Earnings releases, calls and public statements

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Price communication has dropped off recently



Average Public Price Statements by Year



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Preferences

Political uncertainty

Economic unpredictability

Geopolitical instability

 Changing customer needs and behaviors	 Changing willingness to pay	 Shifting demand and channel patterns	 Energy prices and climate policy
 2024 US Election	 Inflation	 Rate cuts	 Tax reform
 War in Ukraine	 Foreign policy	 China / Taiwan	 Trade policy

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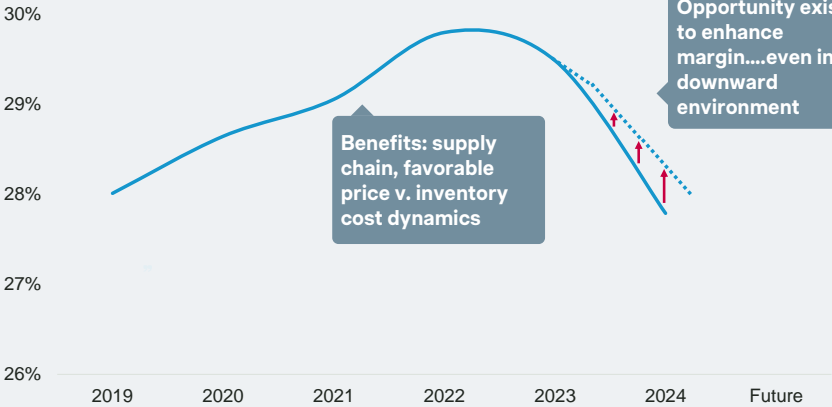
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Meanwhile, profits are reverting



Average Gross Margin over time



Profit lift due to pricing **is a relative**, not absolute benefit.

150 basis points, is 150 basis points

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Pricing decisions

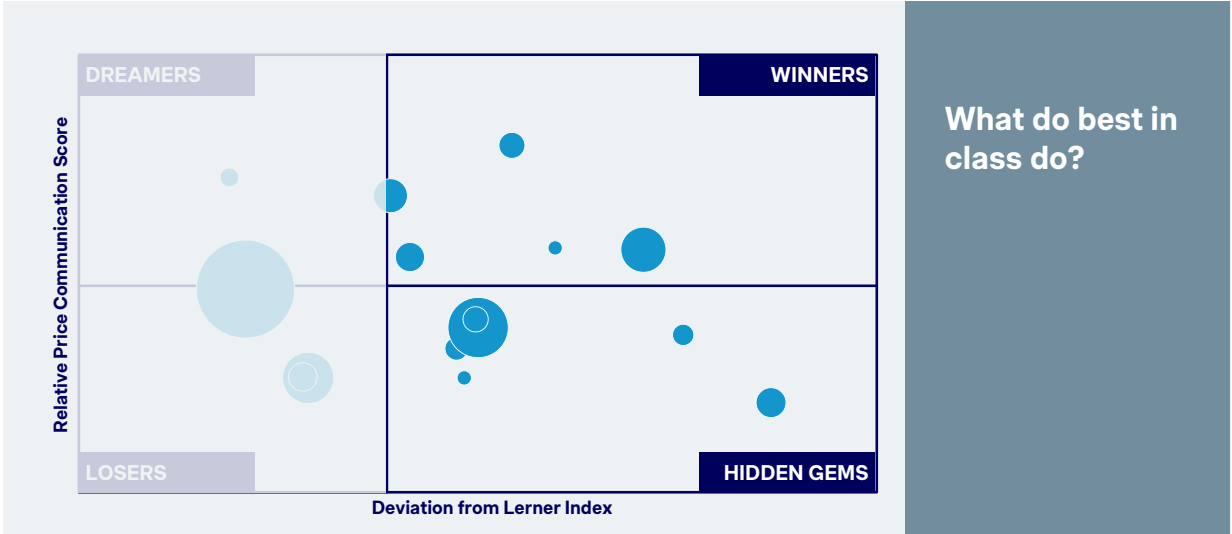


play a pivotal role in shaping a company's profitability and market position.
Pricing is the biggest **controllable** profit lever for every corporation.

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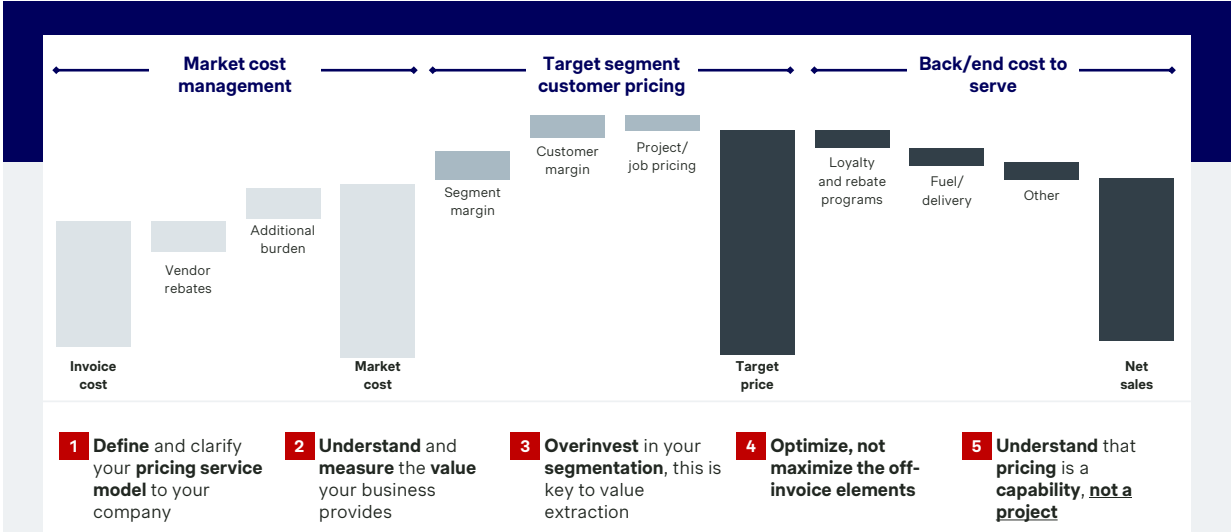
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Let's focus on being a price winner....or a hidden gem



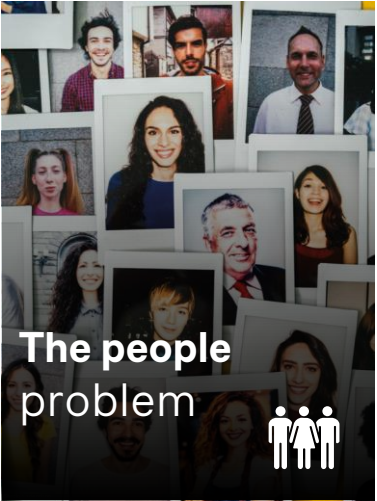
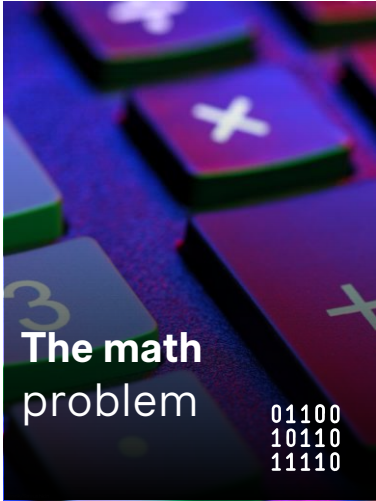
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Understanding the critical elements across the waterfall



Source: Simon-Kucher
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Three elements of major pricing transformation



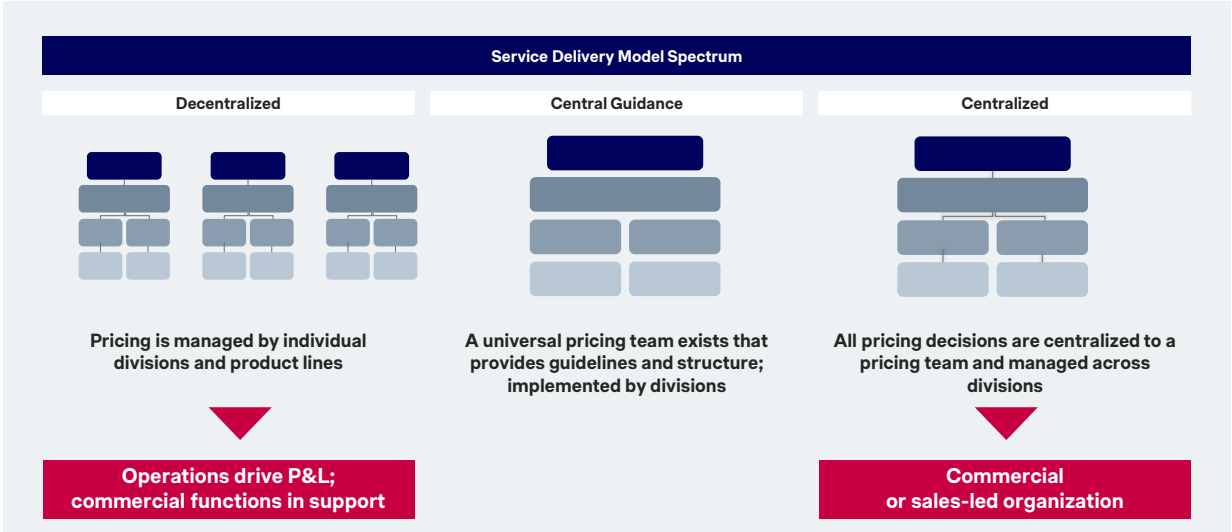
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1 Define service model

Commercial setup impacts level of change required



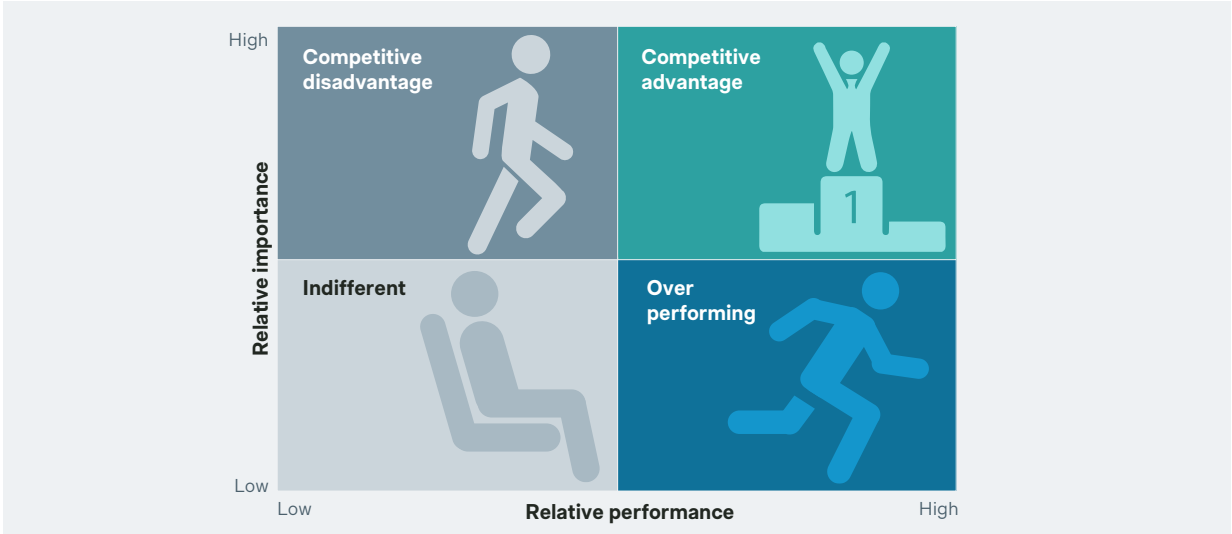
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2 Understand and measure the value

Define and evaluate purchase criteria to understand importance to customers and your company's performance relative to peers



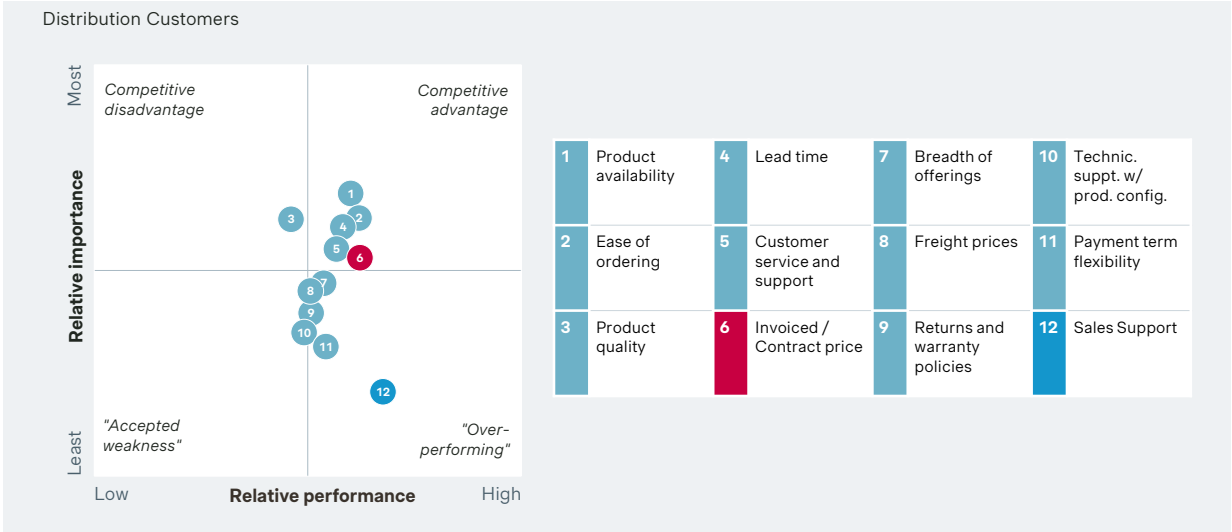
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2 Understand and measure the value

Often your customers tell a different story



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The Peanut Butter Spread

Most companies rely on a “one size fits all”

- ✔ It’s easier
- ✔ It can be faster...

...but it’s costlier in the long run and leaves money on the table



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This results in the mistakes of averages...

On average, 75 degrees is comfortable



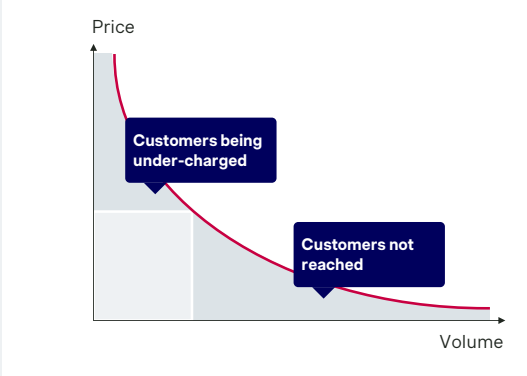
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Best Practice: Price Differentiation

One price



Differentiated pricing



Types of price differentiation



3 Segmentation



By definition, distribution is a complex business requiring more granular segmentation

Focus

One-dimensional

Singular segmentation dimension used to differentiate pricing

Profit impact

Two-dimensional

+

Dual segmentation (typically product, customer) that enables pricing in a linear manner

Profit impact

Multi-dimensional

+ + +

Segmentation that incorporates multiple variables and/or establishes pricing based off combination of dual variables

Profit impact

Source: Simon-Kucher
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3 Segmentation



Combining segmentation variables enables granular discounting and avoids “bad averages”

Customer segmentation

Type	Sub-type	
Industrial	Industrial Supply	
	Hose & Fitting	
	Fasteners	
	Fluid power	
Plumbing	Resi	
	Comm	
	Muni	

Product Segmentation

Product group
Pipe Fittings
Push in Fittings
Hose Barb, Brass
Ball Valves
Black Malleable
Black Steel
Brass Nipples
Flare
Compression

Product group	Fastener	Fluid Power	Hose Fitting
Pipe Fittings	H	H	H
Push in Fittings	H	M	M
Hose Barb, Brass	L	H	H
Ball Valves	H	H	H
Black Malleable	H	H	H
Black Steel	H	M	M
Brass Nipples	H	M	M
Flare	L	L	L
Compression	M	M	L

Source: Simon-Kucher & Partners
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3 Segmentation

Rules of thumb when defining a segmentation

Good segmentation models...

- Describe homogenous groups that want / need different things (i.e. don't just look different but **act different**)
- Can be **measured, quantified** and **acted upon** (i.e. can be identified and reached)
- Achieve organizational acceptance and **form the basis of commercial activities**
- Generate **higher returns** than the cost of differentiating / managing them
- Tend to be **'obvious'** or at least start quite simply (because to be useful it has to be *usable*)
- Focus on the money** i.e. where changing something leads to upsides



Source: Simon-Kucher project experience
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Optimize

At times, we choose to optimize over maximize



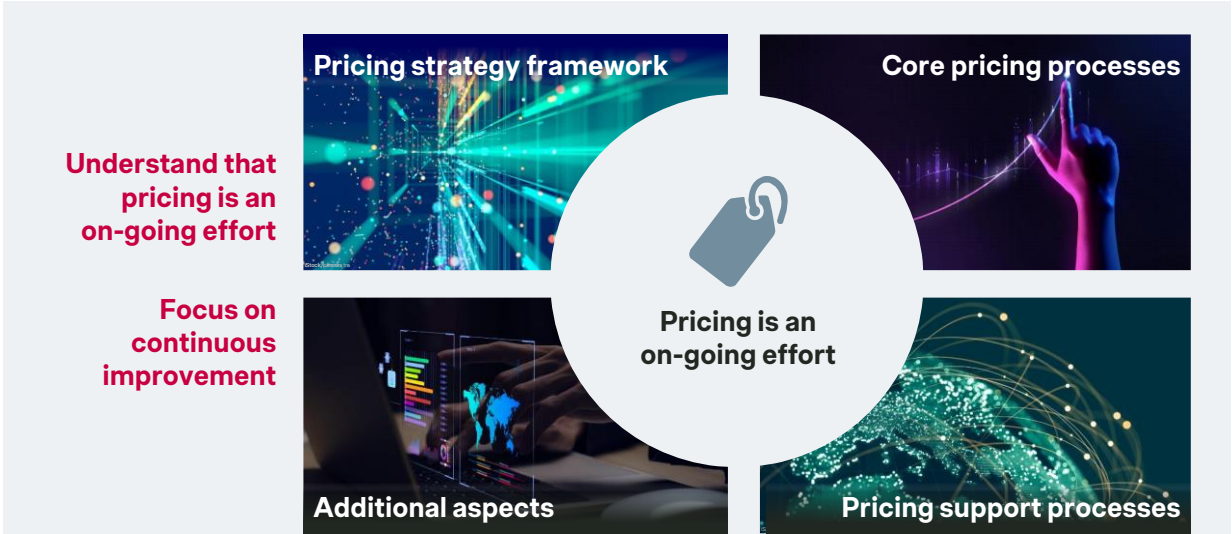
Perceived Value to Customer	Drive Growth	Monetize Selectively
	 Free Freight	
		CC Payments 
	Tables Stakes	Don't Offer
Cost to Serve		

We hear a lot from customers about freight ... it makes them feel nickel-and-dimed. I'd rather increase prices than touch freight.

We would be willing to move our volume over with an attractive freight program

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Pricing should not be seen as a one-time effort during budget cycles



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Common Myth

We sell the same product everyone else does down the street ”

Reframed mission:
Determine the **share of price/margin** you **deserve** in the **value chain** for your **value-added role** and service

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