FMCG pricing: How to differentiate value and prices to consumers

Best practices by Simon-Kucher & Partners

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Simon-Kucher & Partners at a glance

Best consultancy in marketing and sales

<table>
<thead>
<tr>
<th>Manager magazine</th>
<th>Brand eins Thema</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing and sales</td>
<td>Marketing and pricing</td>
</tr>
<tr>
<td><strong>1</strong> Simon-Kucher &amp; Partners</td>
<td><strong>1</strong> Simon-Kucher &amp; Partners</td>
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<tr>
<td>Boston Consulting Group</td>
<td>Boston Consulting Group</td>
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<tr>
<td><strong>3</strong> McKinsey &amp; Company</td>
<td><strong>3</strong> McKinsey &amp; Company</td>
</tr>
</tbody>
</table>

Source: manager magazine survey of top managers in Germany, August 2007 and 2011/IME
Source: brand eins Thema/Statista survey of approx. 1,500 partners and project leaders from consulting firms and approx. 1,500 C-level managers from German companies, May 2014 and 2015

World leader in pricing

"World leader in giving advice to companies on how to price their products"

BusinessWeek

"The world’s leading pricing consultancy"

The Economist

"Pricing strategy specialists"

The Wall Street Journal

"In pricing you offer something nobody else does"

Professor Peter Drucker

Global presence

32 offices worldwide, 900 employees, €209m revenue in 2015

>3,000 projects in the last 3 years

- Growth and competitive strategies
- Product portfolio (re-)design
- Pricing excellence
- Customer relationship and customer value management
- Sales strategies and sales channel optimization

TopLine Power®
We have extensive experience in consumer goods and retail

**Food/Beverage**
- Beam Suntory
- Drosed
- Ferrero
- Haribo
- Molson Coors
- Nestlé
- Pernod Ricard
- Peroni
- Reckitt Benckiser
- Twinings
- Weetabix
- Unilever

**Non-Food**
- adidas
- Asics
- BDF/Nivea
- Coty Prestige
- Henkel
- Kimberly-Clark
- Mary Kay
- Nike
- Nikon
- Philips
- Reckitt Benckiser
- Shiseido

**Retail**
- 7 Eleven
- Auchan
- Albert Heijn
- Barnes & Noble
- Castorama
- Delhaize/Food Lion
- Douglas
- FNAC
- Leroy Merlin
- Metro
- Office Depot
- Relay

Selected consumer goods clients – many other clients excluded due to confidentiality.
Source: Simon-Kucher
Key to selling: Balance price and value

Only if the value is equal to or larger than the price, the customer will buy the product
First step: Understand current positioning to get guidance on required price and/or value adjustments

- Define positioning of each brand or product in the ValueMap™
- Receive guidance on where price/value adjustments are required in order to balance price-value-relation
- Use ValueMap™ to discuss how brands or products in general should be positioned in relation to each other

ValueMap™: Positioning of brands or products

- **A** Price > Value
- **B** Price = Value
- **C** Price < Value

How expensive is the product perceived by the customers?

What value does it deliver to the customers?

Source: Simon-Kucher

FMCG_Ljubljana_Simon-Kucher_Price differentiation_20161003_Final.pptx
Ryanair example: Price as a competitive advantage

- Consistent low-cost positioning of Ryanair: Low perceived value is justified by a low price

- Business model adapted to support low prices:
  - Lowest price offers only a base, no frills service. Check-in baggage costs extra, there are fuel charges, no meal is included
  - Flights operate from outer-city airports only
  - ...
Lindt example: Price as a competitive advantage

- Consistent premium positioning of Lindt: High perceived price is justified by high perceived value.

- Premium positioning enforced through advertising, high-quality ingredients, premium packaging and own flagship stores to keep perceived value in balance with perceived price.
Recognition of the importance of pricing power is growing

"The single most important decision in evaluating a business is pricing power."

"If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business."

"The extraordinary business does not require good management."

Warren Buffett (2010)

"2% higher pricing power (than average) increases company value by 16%"

Credit Suisse (2011)
Value pricing is an important pre-requisite to establish price as a competitive advantage.
What most companies usually understand as pricing

What is optimal pricing?

**Task:** Define the optimal price point for a product
Pricing is much more than just finding the right price point

What is optimal pricing?

**Price strategy**
What are the goals and targets in your pricing strategy?

**Price positioning**
What is your competitive positioning and your premium?

**Price leadership**
How can you build up pricing power and lead the market? Where should you follow?

**Price-based price setting**
How to you measure the willingness-to-pay/price elasticity? What is the best price point?

**Price models and structures**
Which model best aligns with the value you deliver?

**Price differentiation**
Which customer should pay which price? Who should pay more? For what? Why?

**Price communication**
How do I communicate price change to customers?

**Discounting methods**
Includes peer pricing, big deal pricing, ...

**Price organization & reporting**
Who drives the pricing process? Who takes over which role in pricing?

**Price training & incentives**
How can you get your sales force aligned with your pricing strategy?

Source: Simon-Kucher

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Good pricing is almost always differentiated pricing

Usually it is better to invest more time in finding a good differentiation approach rather than trying to perfectly optimize an individual price level.

One price

- Customers being undercharged
- Customers not reached

Differentiated pricing

- Fencing is key
  - Premium
  - Flexible
  - Basic
  - Save
  - No Frills

Source: Simon-Kucher
There are 3 main types of price differentiation

Perfect differentiation
- Auctions
- Negotiations
- Yield management

External criteria
- Customer segments
- Regions
- Time

Self-selection
- Bundling
- Quality
- Quantity

More difficult to implement for FMCG companies
- Fencing often not possible
- No direct access to consumers (Retail as intermediary)

Best suited for FMCG companies

Source: Simon-Kucher
In bundling it is crucial to offer the right products together

**Components of an optimal bundle:**

- **Big Mac**
  - ... a "hero" product
  - A high value product that most customers want to or "must" buy.

- **Coke & Fries**
  - ... "filler" product(s)
  - Medium value products that most customers consider "nice to have."

- **Coffee**
  - ... NO "killer" product(s)
  - Products for which many have a low or no willingness-to-pay.

Source: Simon-Kucher

FMCG Ljubljana_Simon-Kucher_Price differentiation_20161003_Final.pptx
Bundling is about capturing the full willingness to pay.

Bundling makes sense only if the WTP * for individual products is less than WTP for the product bundle.

*WTP= Willingness to pay
Source: Simon-Kucher

67% more revenue!
Gillette successfully differentiates on a quality basis

<table>
<thead>
<tr>
<th>Blades</th>
<th>Sensor Excel &quot;1G&quot;</th>
<th>Sensor 3 &quot;2G&quot;</th>
<th>Mach 3 &quot;3G&quot;</th>
<th>M3 Power &quot;4G&quot;</th>
<th>Fusion &quot;5G&quot;</th>
<th>Fusion Power &quot;6G&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>✔</td>
<td>-</td>
<td>✔</td>
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<tr>
<td>Trimmer</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

Source: Simon-Kucher research

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Quality differentiation must also be communicated to the retailer to prevent the "line pricing trap"

Before: Line pricing
- All product variations were sold at the same price
- Retail was not willing to follow a planned MSRP* increase

After: Differentiated pricing
- Market research finding: Consumers are willing to pay more if whole nuts are included
- Price increase for products with nuts was successfully implemented

*MSRP = Manufacturer’s suggested retail price
Source: Simon-Kucher research
Quantity-based differentiation is a frequent measure – providing a financial incentive for higher purchase volumes

<table>
<thead>
<tr>
<th>Size (# of washes)</th>
<th>30</th>
<th>60</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>7,95 €</td>
<td>9,95 €</td>
<td>14,95 €</td>
</tr>
<tr>
<td>Price per wash</td>
<td>0,27 €</td>
<td>0,17 €</td>
<td>0,15 €</td>
</tr>
</tbody>
</table>

* Discount compared to the smallest package (30 washes)
Source: Simon-Kucher research, BIPA onlineshop

Best practice example: Persil

Discount per wash*: -44%

Discount per wash*: -37%
Price and product differentiation can be successfully used across different sales channels

<table>
<thead>
<tr>
<th>Sales channel</th>
<th>Mini Market</th>
<th>Supermarket</th>
<th>Discount store</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Impulse purchase</strong></td>
<td></td>
<td></td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Price index: 90 – 110</strong></td>
<td>Can 150mL</td>
<td>MS PET 1000mL</td>
<td>6-pack can 355mL</td>
</tr>
<tr>
<td></td>
<td>Can 355mL</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Glass bottle 250mL</td>
<td>MS PET 2250 / 2750mL</td>
<td>6-pack can 355mL</td>
</tr>
<tr>
<td><strong>Value-for-money</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Price index: 80 – 100</strong></td>
<td>MS PET 1000mL</td>
<td>MS PET 2250 / 2750mL</td>
<td>6-MP MS PET 2250 / 2750mL</td>
</tr>
<tr>
<td></td>
<td>MS PET 2750mL</td>
<td>MS PET 2500mL</td>
<td>24-MP can 355mL</td>
</tr>
<tr>
<td></td>
<td>6-pack SS PET 500mL</td>
<td>12-MP can 355mL</td>
<td>30-pack can 355mL</td>
</tr>
<tr>
<td><strong>Convenience</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Price index: 110 – 130</strong></td>
<td>Glass bottle 300mL</td>
<td>MS PET 1000 / 1750mL</td>
<td>6-pack MS PET 1000 / 1750mL</td>
</tr>
<tr>
<td></td>
<td>SS PET 500mL</td>
<td>MS PET 1000mL</td>
<td>24 box Glass bottle 300mL</td>
</tr>
</tbody>
</table>

Source: Simon-Kucher

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- **Price** can be a **competitive advantage** – for branded manufacturers **price premiums** are the direction to go for

- **Pricing** is more than just finding the optimal price point – install a **process** and **organization** to be best-in-class

- Don´t rely on a cost-plus approach, but **base your pricing** on the **value** you are delivering

- **Optimal pricing** is typically a **differentiated pricing**

- Differentiation based on **quality, quantity and bundles** are typically best suited for FMCG manufacturers
Thank you!

Your contact for additional questions:

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