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Global Pricing Survey
Managing Global Pricing Excellence



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Contents

5	Executive Summary
7	Introduction & Methodology
10	Key Observations
10	Observation 1: Competitive Advantage of Value Pricing
12	Observation 2: Varying Pricing Principles across Industries
13	Observation 3: Inconsistent Understanding of Value Pricing
17	Observation 4: Insufficient Basis for Pricing Decisions
19	Observation 5: Split Responsibilities for Pricing Strategy and Execution
20	Observation 6: Undervalued Price Harmonization
24	Observation 7: Reluctant use of Global Pricing Contracts
25	Observation 8: Diverse Approaches to Monitoring and Reporting
26	Conclusion & Outlook
27	About Deloitte

Executive Summary

Continuously increasing globalization, ever-changing competitive landscapes, global purchasing organizations introduced by customers, new international business models – marketing experiences a variety of challenges and opportunities, often on a global scale. During the past months Deloitte was talking to decision-makers from 55 companies in seven industries (automotive, machinery & parts, technology, medical devices, process industries, telecom & network, pharmaceuticals, and consumer business) about one of the most important business topics: pricing. Findings of our Global Pricing Survey 2012 reveal fruitful insights covering a comprehensive bandwidth of pricing topics from strategy to execution and monitoring. We would like to draw your attention to the eight most important results, which we are going to explain further throughout this publication:

1 Participants stating Value Pricing as their core pricing principle perceive their pricing performance as superior.

In keeping with strong promotion of Value Pricing in specialist literature and by pricing experts, our survey findings once more reveal that value-based prices are believed to lead to competitive advantages and a better performance. Participants using Value Pricing as their core pricing principle perceive their pricing performance as being better than average and see themselves as being ahead of competitors, independently of their actual implementation level of Value Pricing. They succeed in directing the customer's focus to product performance or service-related aspects rather than price.

2 Value Pricing is quite well established within medical devices and pharmaceuticals; other industries are lagging behind.

In our sample a large majority of medical devices and pharmaceutical companies use a value-based approach, while only a third of technology or consumer business participants have introduced it. The limited prevalence of Value Pricing in some industries is likely to be due to growing industry concentration and rising price pressure emerging from the economic recession.

3 Even though Value Pricing is highly regarded, inconsistent understanding of the concept and fragmented implementation levels indicate significant potential for improvement.

When looking at the understanding and implementation of Value Pricing, our results show that the approach has not been fully leveraged yet. In some areas, participants who state that they have Value Pricing in place don't differ significantly from the remaining sample. For instance, this is the case in monitoring and steering customer profitability, but also when it comes to making use of more complex customer analytics. By using the full strategic and operational potential of Value Pricing, benefits would show even more clearly than today.

4 When relying on Cost-plus or Competitive Pricing principles, pricing strategy and management are based on a too narrow array of decision-making criteria.

While participants using a Cost-plus or a Competitive Pricing principle focus on very limited decision-making criteria when setting prices (like cost incurring when providing products and services or competitive price levels), those with Value Pricing have a more holistic approach, using a multitude of different criteria. Thereby they avoid tunnel vision. For instance, competitive reviews may show that my own price levels already touch the upper limit of the price band. Nevertheless, not clearly analyzing willingness-to-pay and determining my offering's value compared to the competition runs the risk of giving away valuable margins. Hence, balanced gathering of information is essential, as confirmed by our survey results.

5 Although split responsibilities for pricing strategy and execution are common practice, effective incentives and compliance remain unresolved issues.

When organizing their international business, companies often establish affiliates with own profit and loss responsibility. Therefore, split responsibilities for pricing strategy and execution are common practice, too. However, to ensure a globally aligned price execution, compliance with existing pricing guidelines is necessary. Our results show that a scheme of effective incentives is rarely in place, indicating room for improvement to facilitate the carrying out of pricing measures in line with pricing strategy.

6 The importance of price harmonization and global account management remain undervalued, yielding risks when customers introduce and follow centralized purchasing.

Globalization does not only mean global competition and global availability of goods and services – it also means that customers have started to purchase globally: supply as well as demand is affected. Many customers have developed centralized procurement strategies in order to achieve higher value for money. When asking survey participants about their current efforts concerning price harmonization, we observe that there is a significant share of companies without a clear strategic approach or even without harmonization at all. It induces the risk of necessary, but difficult justifications for high price differences across countries, giving customers even greater negotiation power. Sometimes global customers are better aware of a supplier's global price differences than the supplier itself. The same goes for global account management, which is still leveraged too little, but offers important opportunities, also for global pricing.

7 While companies using global pricing contracts frequently confirm a positive impact, nearly one third of survey participants is reluctant to introduce them.

Global pricing contracts (GPC) offer an opportunity to intensify and tighten customer relationships, even providing the chance to access global markets and substantial growth opportunities. Nevertheless, 70% of our survey participants have never used GPCs before or have only very limited experience with them. Our results show: the more extensive the experience, the more positive the attitude toward them.

8 Price reporting is common practice, but cross-country monitoring of prices, cost and customer profitability varies in its extent from industry to industry.

To ensure continuously successful price management, state-of-the-art reporting and monitoring must be in place. Companies need to be able to react quickly and adapt pricing according to a changing environment or customer needs. Our survey reveals that price reporting is an established standard, but cross-country monitoring of prices, cost and customer profitability varies in its extent from industry to industry. Without these important components, value-based decisions cannot be implemented and the overall success of price management cannot be measured.

Introduction & Methodology

Introduction

Pricing is a powerful lever for impacting business performance, steering a company, aligning market-focused management disciplines, leveraging customers' willingness-to-pay, and putting value at the center of all considerations. Corresponding pricing capabilities and know-how must be in place in order to exploit its full potential. With ever increasing globalization of customer demands and needs, competition, as well as business opportunities, this is not only true on a local or regional level, but adds complexity through the need for effective international price management.

Becoming a true value leader means identifying and eliminating contradicting pricing practices across functions (from finance, branding, supply chain, marketing to sales) and across local business units all over the world. Therefore, organizations need to shift their focus away from volume toward understanding their customers, communicating the true value of their products and services, and harmonizing pricing practices across national borders to hinder margin leakage and fragmented positioning. Central pricing functions are becoming more and more important in order to lead a coordinated pricing presence in all markets and to solve pricing conflicts arising among local business units.

The purpose of the Deloitte Global Pricing Survey is to provide insights into how participants from different industries view and manage their pricing challenges. More importantly, it reveals where your company stands with respect to its pricing efficiency, it outlines the key success factors behind pricing effectiveness and offers approaches to how you can best meet your pricing needs.

In particular, this survey looks into three main pricing principles. Two of them, Cost-plus and Competitive Pricing are rather conventional approaches and imply basing prices on either cost factors respectively on competitor information. Value Pricing however, has gained more and more attention in recent years. As prices are based on the perceived value by the customer, this strategy is most likely to reflect customer's willingness-to-pay. At the same time Value Pricing requires a holistic foundation, including information about competitors and cost factors but also deep customer insights. Hence, as the survey has shown, the implementation of Value Pricing is a tough challenge but pays off in terms of a better (pricing) performance.

This report is an extract from the complete survey, providing an overview based on eight key observations. For further information and presentations on all survey results as well as dedicated results for each of the seven industries covered, please contact us.

Methodology

Sample

All in all, Deloitte surveyed 55 companies across Europe, coordinated by the German practice. Interviewees were recruited from different business functions, from sales and marketing, operations to finance, GMs and CEOs.

Based on a closed questionnaire format, telephone and in-person interviews of 60 to 90 minutes each were conducted in eight countries. While the survey is still consistently being extended to allow an even broader benchmark, results provided in this report are drawn from a sample of 55 participants.

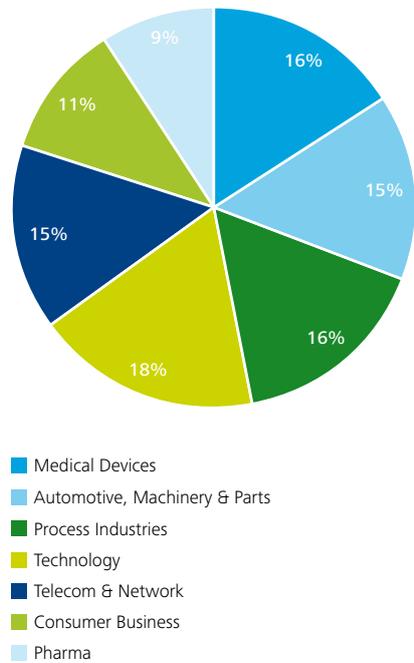
- 6 in Belgium
- 8 in Denmark
- 14 in Germany
- 5 in Finland
- 1 in Poland
- 1 in Spain
- 18 in Switzerland
- 2 in The Netherlands

Fig. 1 – Interview coverage by geographical location



To ensure a holistic view of the issue and capture non-industry-specific pricing trends, the sample covers seven different industries. This report shows the results of four industries in more detail: manufacturing (consisting of automotive, machinery & parts as well as process industries such as chemicals and paper), technology, medical devices, and telecom & network.

Fig. 2 – Interview coverage by industry



Insights, findings, and correlations between answers were analyzed and compared across all industries surveyed according to the prevailing pricing approaches. The number of responses (n) per questions may vary, as in some cases survey participants chose not to respond to specific questions. The results of a deep dive analysis of participants were then challenged and reviewed with pricing as well as industry experts. The result is a comprehensive report that reflects the true state of pricing today.

Survey framework and structure

Deloitte has applied its comprehensive pricing framework and its pricing maturity model in a broad variety of successful pricing projects. We have developed this methodology according to the Global Pricing Survey assessing the pricing capabilities of participants in five dimensions:

1. Pricing strategy

Supporting business objectives by understanding and capturing the value of a product or service offering relative to competitive alternatives and customer demands

2. Designing and deploying pricing analytics

Optimization and execution tools to enable effective pricing decisions and to enhance the quality and consistency of pricing processes.

3. Price setting

Processes and standards for determining profit-maximizing prices of products, services and solutions.

4. Price execution

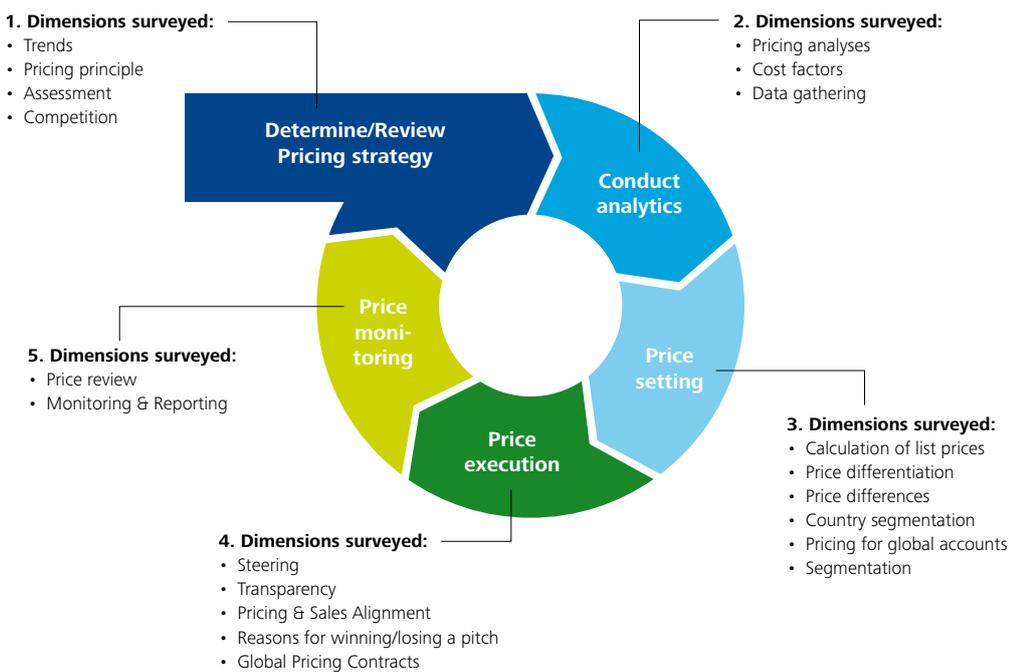
Policies and processes governing profitable decision-making on a daily operational level.

5. Price monitoring

Aligning and enforcing processes and policies to minimize margin leakage by the use of suitable systems and reports.

The survey has been structured around this framework and explores key capabilities under each dimension. A closed questionnaire format with 32 questions covered relevant pricing issues. Types of questions varied: some of them were based on maturity models to assess the maturity degree of a company, others asked for personal opinions, or requested details of current structures, processes, and policies.

Fig. 3 – Deloitte pricing wheel



Key Observations

Observation 1

Participants stating Value Pricing as their core pricing principle perceive their pricing performance as superior

Value Pricing leads to competitive advantage

Our results show that companies using Value Pricing as their core pricing principle regard themselves as being ahead of the competition when it comes to price management. They assess their own pricing performance as being better than participants using a Cost-plus or competitive approach. Moreover, it is not only their self-evaluation that turns out to be better; value-based prices seem to really pay off when it comes to closing deals. Companies using conventional

pricing approaches often win pitches by undercutting competitors' prices but thereby risking margin erosion and price wars. Participants following a clear value perspective succeed by directing their customers' focus to excellent product performance and win deals due to strong business relationships and knowledge of customer needs.

Self-evaluation of price performance

Especially important pricing areas like price positioning, price level, price approach, and price communication are evaluated clearly as above average when companies use a value-based approach. Participants perceive their pricing outcomes more positively, although we would like to mention at this point that this positive self-assessment can only partly be explained by superior pricing practices and tools, as subsequent results will show (see Observation 3).

Fig. 4 – Self-evaluation of pricing areas

Question: How do you rate your company with regards to the...?



Competitive Pricing achieves the lowest, yet still moderate ratings, and slightly underperforms the Cost-plus approach. This is an effect of its rather reactive character, limiting the ability to actively shape price execution: price levels are mostly the only lever used, which often results in a pure undercutting of competition. This makes price communication difficult, too. Even participants using a Cost-plus approach perceive their price levels and their price communication to be better.

Asking interview partners about how they assess their price management compared to the competition, they revealed that those companies using Value Pricing see themselves as slightly ahead of their peers. Conversely, those participants basing their price management on a competitive approach identified a gap in price management which they wanted to close by introducing more profound management techniques.

Value Pricing manages to shift the focus away from a discussion revolving solely around price

By applying value-based pricing, the customers’ needs, preferences and willingness-to-pay are brought into the center of attention. It means that proposals and bids focus on the advantages and the value of a solution instead of its price. Price is the means to prove that the relationship between value and cost for a customer is balanced.

Our survey results show that companies using Value Pricing win deals because of excellent product performance, strong business relationships and good knowledge of their customers’ needs. They manage to give price a significantly lower priority within pitches. In the case of Competitive Pricing, price plays the most important role when winning business. When looking at those participants who stated Cost-plus Pricing as their dominant pricing principle, knowledge of customer needs plays only a minor role – another indication of pricing and sales decisions being based on a too weak foundation when this pricing strategy is used.

Fig. 5 – Competitive comparison of price management performance
Question: Please rate: My company is one step ahead of competition when it comes to price management.

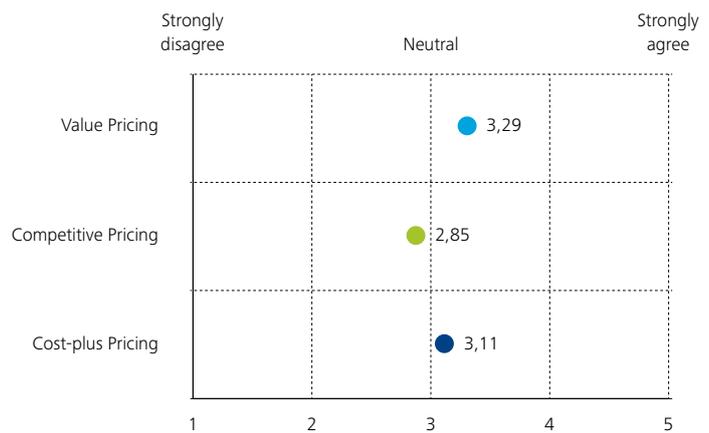
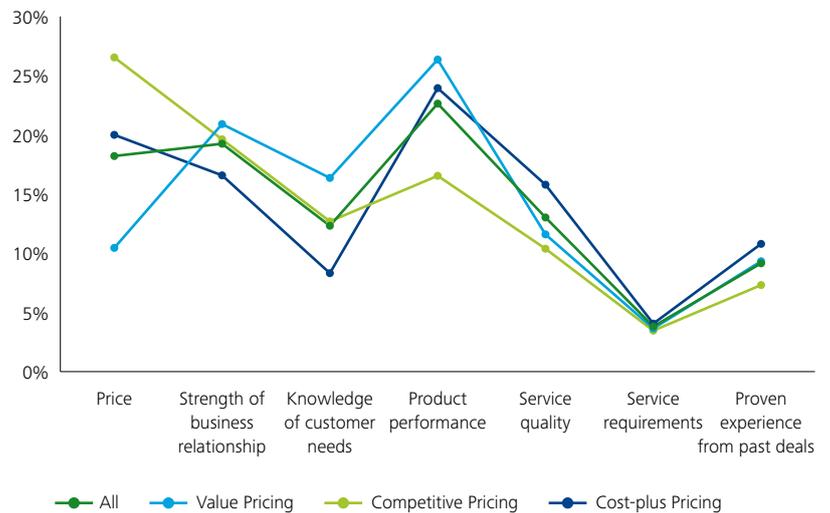


Fig. 6 – Reasons for winning a deal or customer
Question: When you are winning clients, which reasons made the difference? Please allocate percentages to each category so that they sum up to 100%.



Observation 2

Value Pricing is quite well established within medical devices and pharmaceuticals; other industries are lagging behind

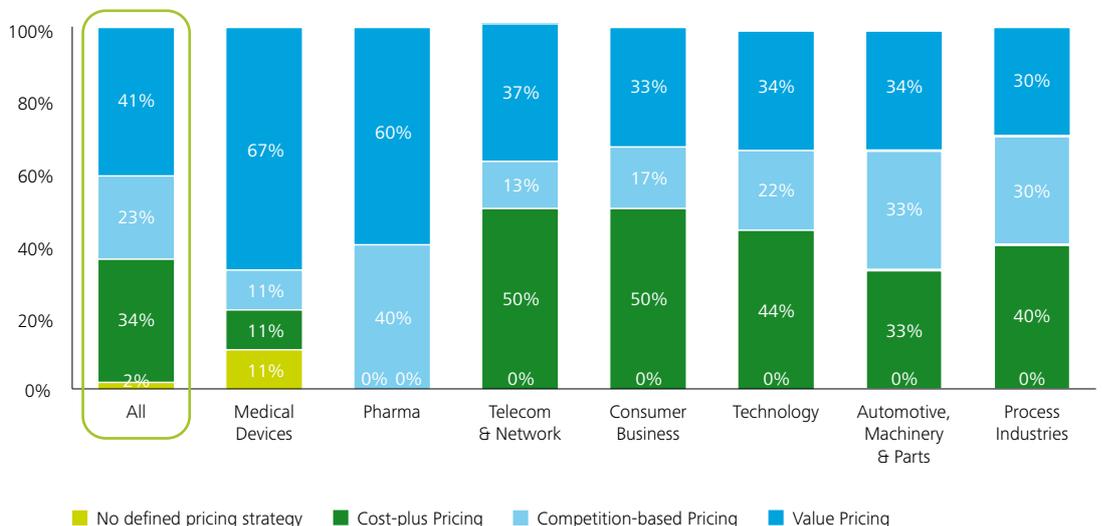
Implementation levels vary across industries

In our sample two thirds of medical devices and pharma companies use a value-based approach, while only one third of technology or consumer business participants have introduced it. The rather limited overall prevalence of Value Pricing may be explained by an ongoing concentration process in different industries, also lighted by the latest economic downturns, which put an immense pressure on prices. The industries which positively stand out are characterized by either a strong strategic commitment to following value orientation, by compliance with regulation (see the latest developments for pharma products in Germany, where a price premium on a product has to be explained by extraordinary effectiveness), or by comparatively less intense international competition, as in medical devices.

A value-based approach is recognized across the majority of the survey participants as the pricing principle which could best support profit maximization. Nevertheless, strong differences in implementation levels can be identified when comparing the distribution of pricing approaches across industries. Value Pricing does not prevail in many industries, as conventional pricing approaches are often easier to follow. They avoid complex and time-consuming analyses such as conjoint surveys and often rely on a limited set of decision-making criteria.

In our sample a large majority of medical devices and pharma companies use a value-based approach, while only one third of technology or consumer business participants have introduced it. Such a strategy enables companies to focus on what is most valuable to their customers, and price their products to meet customers' needs and their willingness-to-pay. It is of course ideal if products and services can be differentiated from those offered by competition, and the differences are honored by customers. But as figure 3 illustrates, industries also driven by innovation (like technology) have not yet predominantly adopted Value Pricing as their core pricing principle.

Fig. 7 – Core pricing principle per industry
Question: What is your company's core pricing principle?



Observation 3

Even though Value Pricing is highly regarded, inconsistent understanding of the concept and fragmented implementation levels indicate significant potential for improvement

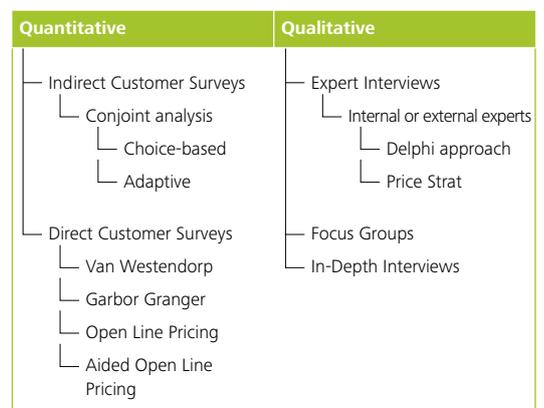
Implementation of Value Pricing is a challenge

As shown before, Value Pricing is highly regarded among survey participants and leads to high satisfaction rates in relation to a range of elements of price management: Value-based pricing has the highest potential to meet customers' willingness-to-pay and thereby not to lose margins by pricing too low or lose market share to competitors by pricing too high. Yet Value Pricing is a challenge with regard to its company-wide implementation: our survey results show that companies who state they use Value Pricing sometimes lack important requirements for this to be done. However, most have obviously begun to set the stage for a sophisticated pricing strategy in order to achieve a competitive advantage. If they further develop foundations for value-based pricing, their performance is likely to improve continuously.

Stronger consideration of different data sources necessary

One key enabler of Value Pricing is solid customer information – e.g. their willingness-to-pay, buying behavior, information needs or service preferences. In general, quantitative and qualitative research methods can be chosen to gather the necessary data. In the context of quantitative and indirect methods, conjoint analyses are often used and have experienced several modifications, helping them to become even more valid and reliable in their results. Direct customer surveys can be leveraged more easily than the often complex and time-consuming conjoint analysis, like the Van Westendorp or Garbor Granger approaches. However, the validity of their results is lower than that of conjoint analysis, as different price thresholds are directly asked for. Qualitative research such as focus group interviews may also be leveraged to derive meaningful insights. While these may cost most time, they not only provide insights into customer willingness-to-pay, but also explanations for certain purchasing behavior. Insights can also be gathered by conducting interviews with internal or external experts – deliberate selection of internal experts is mandatory, as there is always the threat that managers have their own agenda when influencing pricing.

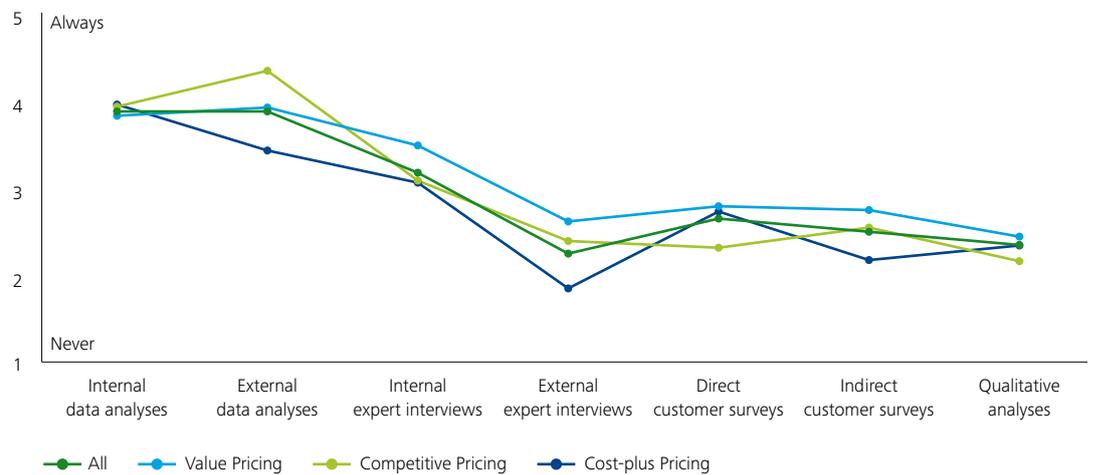
Fig. 8 – Selected research methods in pricing



Our results show that a significant amount of the analysis conducted revolves around price data analysis, both internal and external market price data, with a lesser degree of attention given to customer research. This could be indicative of a potential gap in market knowledge. The survey results relating to transparency concerning customer preferences and demands are a further reflection of this gap.

Participants using Value Pricing leverage the different data sources slightly better than other participants. However, for a significantly broader foundation, we would have expected especially customer-based information sources (direct and indirect customer surveys, qualitative interviews) to be leveraged more often. This is an area which definitely leaves room for improvement including companies already using Value Pricing today.

Fig. 9 – Analytical foundations used per pricing principle
Question: Which analyses are you using as a basis for pricing decisions?



Customer knowledge should be enhanced

When asking about the role that customer insights and related market research activities play, we see that there are no significant differences between the companies using Value, Competitive or Cost-plus Pricing: relevant areas like transparency on customer preferences, knowledge of reasons for loyalty, understanding of key and global customers' organization as well as their currently most important business issues get positive ratings in general. However, to fully leverage possible insights, research activities must be upgraded to a more standardized and regularly repeated process. All value considerations should be placed upon a solid and objective foundation; "gut feelings" often prove to be insufficient or even misleading.

Harmonization of pricing and sales approaches is a must

Price management should not be seen as detached from other management disciplines, especially from sales management. Pricing can only unfold its potential if a strong linkage to sales is assured. This is especially true when using Value Pricing: value-generating elements of a solution are not only the basis for determining willingness-to-pay. Active communication by sales executives to prospective and existing customers must be done to illustrate the advantages of a product or service. Deriving adequate value propositions for different customer segments is therefore a prerequisite for the facilitation of successful price execution.

Looking at the results in our survey, we observe that participants using Value Pricing have a better linkage and harmonization of their pricing and sales approaches. Nevertheless, there remains substantial room for improvement, as only 22% of participants using Value Pricing have very good and effective policies in place. Concerning the outcomes of an aligned pricing and sales management, i.e. to which extent price execution supports the value perception we intend the customer to make, there are only minimal differences between the pricing principles. Value Pricing does not show better results, emphasizing the need to introduce or improve value-based discounting guidelines and communication.

Fig. 10 – Status quo of customer knowledge

Question: Please evaluate to what extent the following statements describe your ability of gathering customer information.

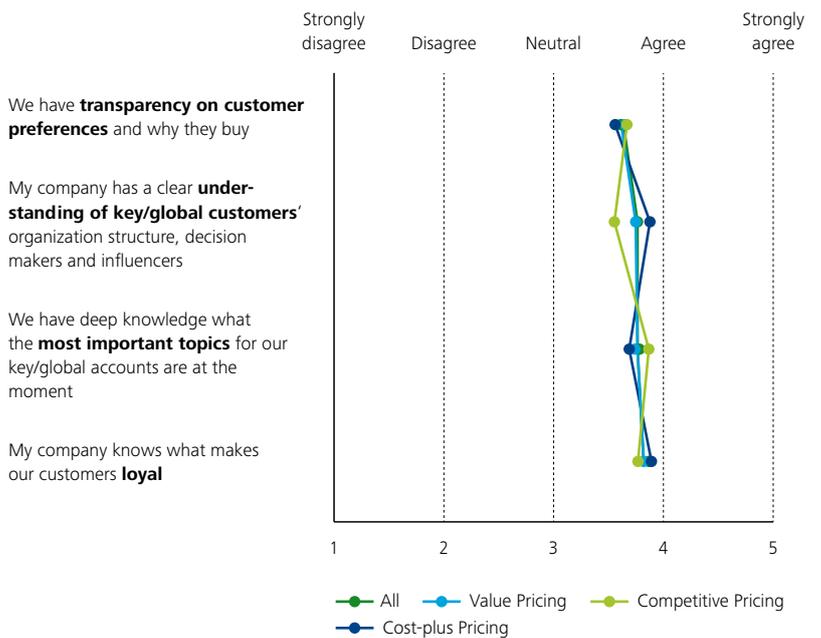
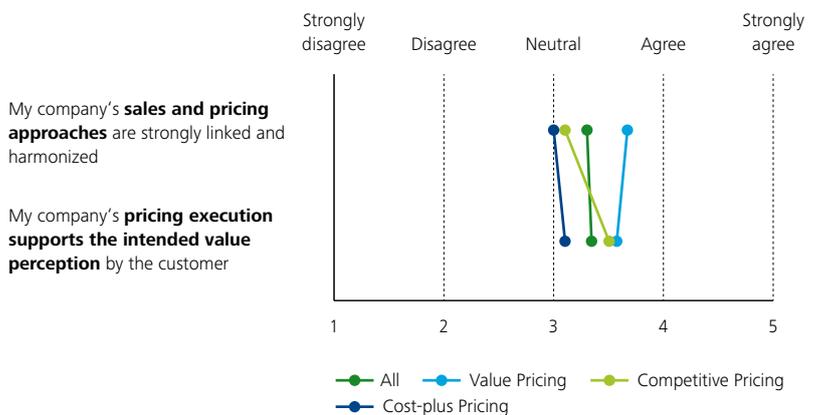


Fig. 11 – Alignment of sales and pricing

Question: Please evaluate the following statements for your company.



Reporting and monitoring as core disciplines for profitability management

Overall, the assessment of reporting and monitoring of prices shows positive results. Implementing price transparency has become a matter of course. Only 15% of all participants state that they do not have sufficient reporting and monitoring available. When looking at customer profitability, the picture is different. Those companies using Value Pricing show only a neutral rating regarding their reporting and monitoring. This is especially surprising, as value should be at the very center of attention – value not only delivered to customers, but also contributed by customers to a supplier’s success. Participants with a Cost-plus Pricing approach care considerably more about customer profitability.

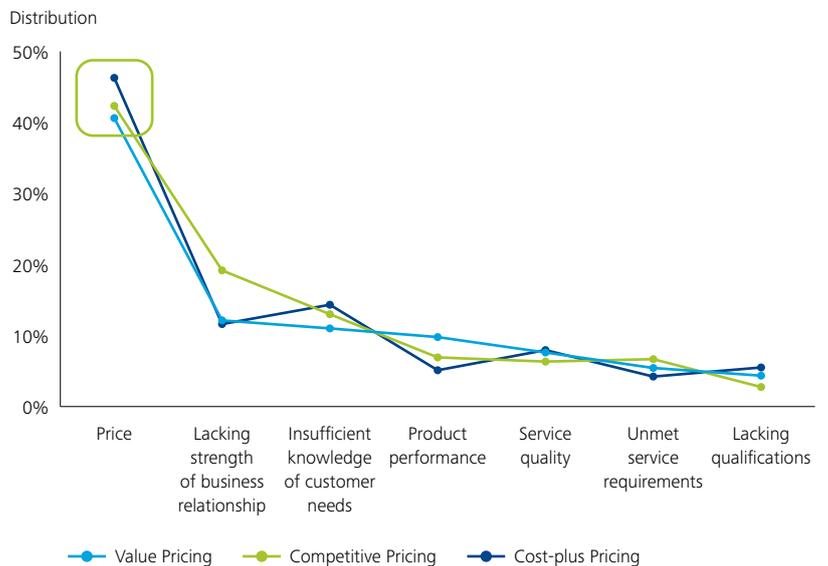
Price plays the largest role in the loss of deals when using Value Pricing as well as when using other approaches

As seen in Observation 1, Value Pricing helps to draw attention away from price and toward functional advantages of products and services when winning deals. However, when looking at the reasons for losing pitches, price plays a nearly equally important role when using Value Pricing compared to any other core principle. One reason might be that in critical sales situations the added value for the customer might not be sufficiently communicated – a possible outcome of a lacking linkage between pricing and sales approach. Another explanation could be that willingness-to-pay has not been considered strongly enough, as we have documented at the beginning of Observation 3. Improved customer intelligence is vital in order for a company to become more focused on a value-based approach. One third reason could be that the perception of price as a “deal breaker” shifts focus away from value to competitively priced products in the market (e.g. pushing down the price point), especially in the absence of good customer relationships.

Fig. 12 – Status quo of price and profitability monitoring
Question: Please evaluate the following statements for your company.



Fig. 13 – Reasons for losing a deal or customer
Question: When losing a pitch or not winning a prospective customer, which reasons would apply? Please allocate percentages to each category so that they sum up to 100%.



Observation 4

When relying on Cost-plus or Competitive Pricing principles, pricing strategy and management are based on a too narrow array of decision making criteria

Creating balanced information sources

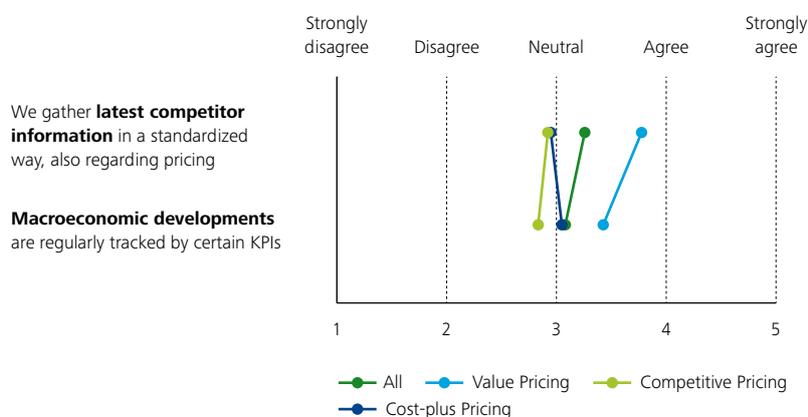
When asking about the role certain aspects play as a basis for pricing decisions, we see that companies using Value Pricing gather competitive and macroeconomic data more thoroughly than other companies. More than 50% of the participants using Value Pricing agree or strongly agree that they gather macroeconomic and competitor data. It is striking that the results are even better than for those companies who see a competitive-based approach as core to their pricing. For Value Pricing it proves to be essential to have very good knowledge about the value delivered by the competition and the prices charged for it.

Insufficient pricing criteria may result in over- or underpricing

Survey results show that if Cost-plus or Competitive Pricing is used, analytical foundations for pricing decisions will be less profound than if Value Pricing is implemented. If the focus is on a one-sided array of criteria, e.g. when relying solely on cost factors without taking information about customers and competitors into account, the threat of over- or underpricing products and services increases.

Fig. 14 – Gathering of market data

Question: Please evaluate to what extent the following statements describe your ability of gathering competitive and market information.



Looking at the answers regarding which indicators are leveraged to derive list prices, clear profiles can be differentiated which illustrate the fundamental differences between the core pricing principles:

- In Cost-plus Pricing, companies' own cost structures account for 50% of the list price decision
- Competitive Pricing mostly uses competitors' price levels followed by existing price levels and own cost structures. Customers' willingness-to-pay plays only a minor role

- Value Pricing has a nearly balanced consideration of the three variables "customers' willingness-to-pay", "competitors' price levels", and "existing price levels of comparable products and services". The company's own cost structures play a slightly less important role, defining minimum prices first and foremost.

Leveraging a multi-dimensional set of sources facilitates a more comprehensive view of market conditions and helps organizations to align their own resources and capabilities with these conditions.

Fig. 15 – Pricing principles

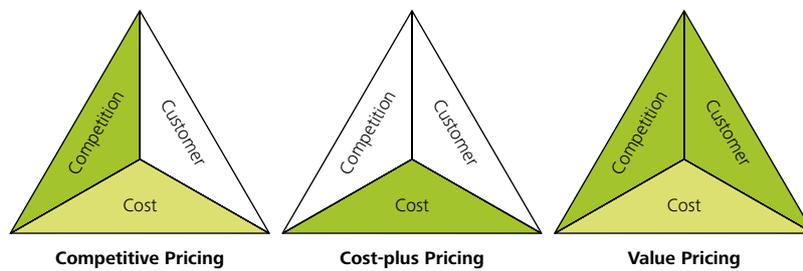
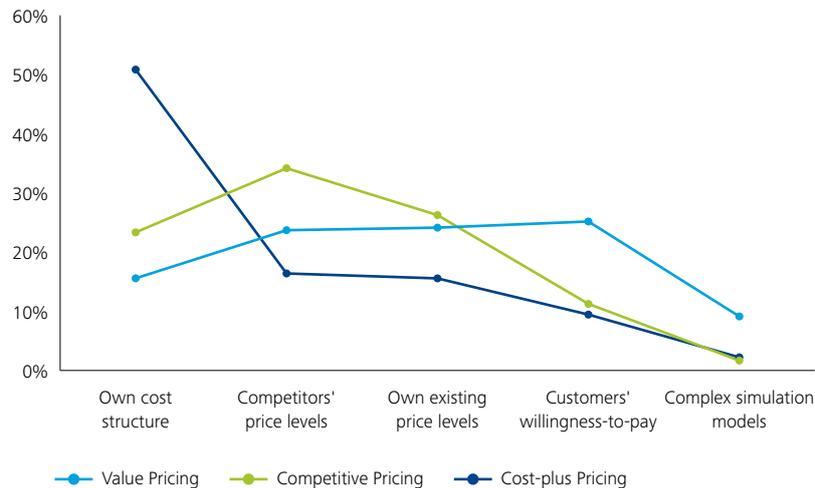


Fig. 16 – Basis of list prices

Question: How do you calculate list prices? Please allocate percentages to each category so that they sum up to 100%.



Observation 5

Although split responsibilities for pricing strategy and execution are common practice, effective incentives and compliance remain unresolved issues

Fig. 17 – Degree of centralization of responsibility for pricing strategy and execution
Question: Please state who is responsible for pricing strategy and execution of your company.

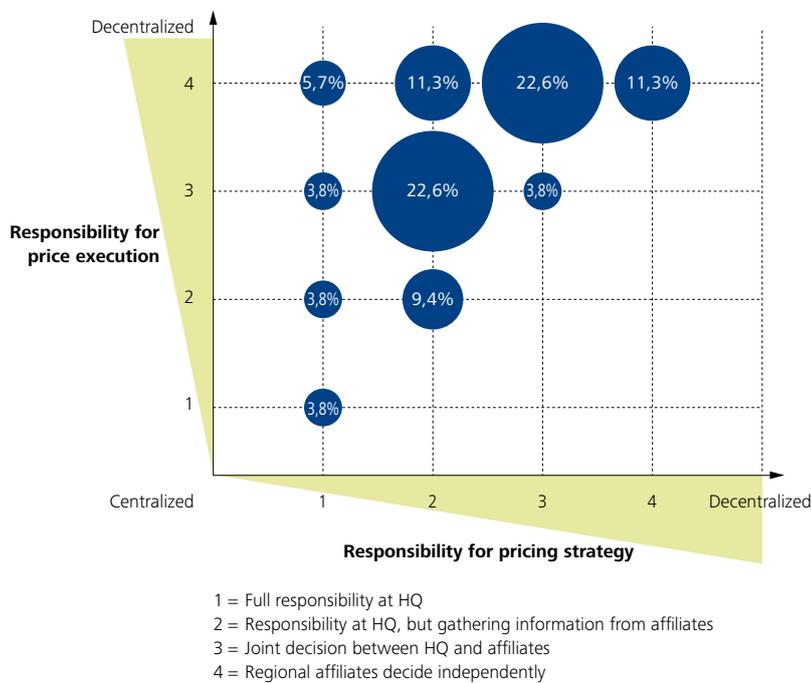
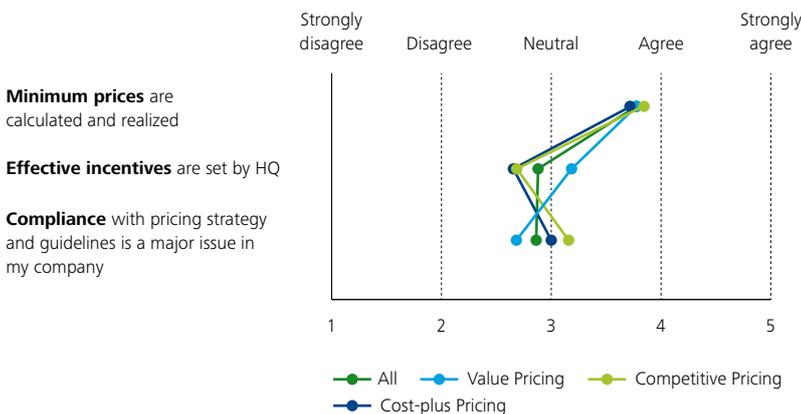


Fig. 18 – Compliance in price execution
Question: How is your price execution steered across countries and accounts?



Decentralization of price execution makes special attention to compliance necessary

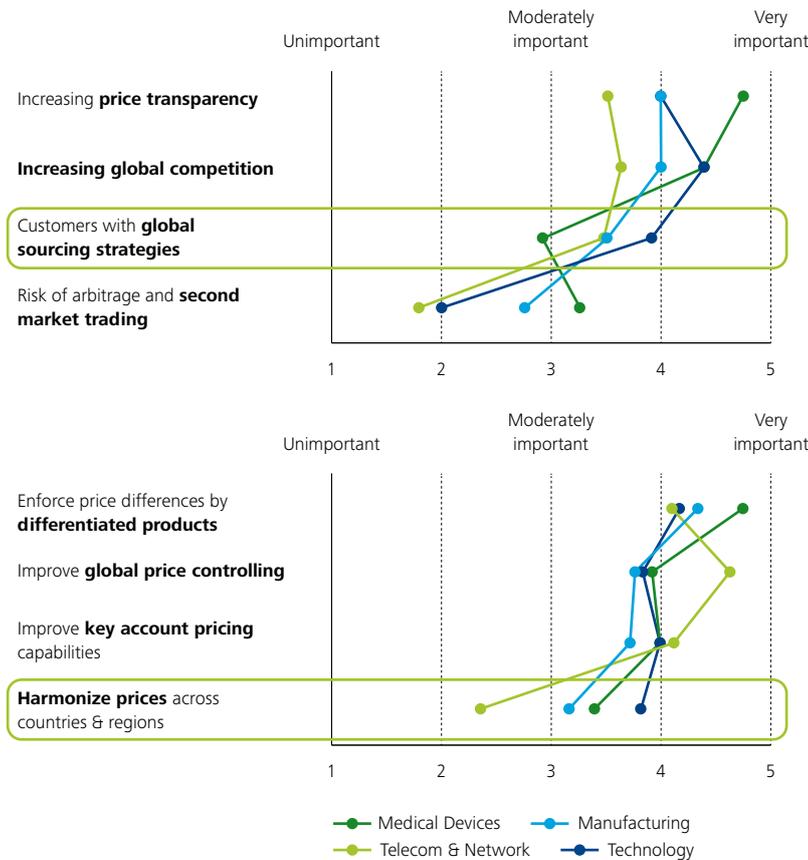
In our sample a majority of participants are dealing with split responsibilities regarding pricing strategy and price execution. On the one hand, this offers the opportunity for local executives to broadly leverage their country-specific knowledge, and adjust pricing to local conditions and circumstances. On the other hand, a strong delegation of pricing competency bears the risk of losing sight of the overall pricing strategy and of undermining strategic positioning. This might result in a fragmented customer perception of a company's offering across countries. Moreover, global customers may perceive large (price) differences between countries and try to leverage this fact to their advantage.

For nearly 70% of all participants compliance is a problem, at least from time to time. This can be due to a lack of incentive systems, insufficient documentation and training, or inconsistent usage by top management. Looking at the results by pricing principle, we can see that participants using Value Pricing have a higher degree of incentive effectiveness, and compliance seems to be less of a problem. Nevertheless, ratings are still at relatively low levels. Minimum prices have been broadly established across the sample; 75% of the participants calculate and realize them in a regular manner.

Observation 6

The importance of price harmonization and global account management remain undervalued, yielding risks when customers introduce and follow centralized purchasing

Fig. 19 – Evaluation of trends and strategic measures in pricing
Question: Please rate the importance of the following trends and the related measure for your company.



Companies hesitate to establish harmonized prices

Even though most survey respondents acknowledged the trend of customers introducing global sourcing strategies, price harmonization either across countries and regions or for global accounts has not been broadly established yet. Survey results confirm a hesitant approach toward harmonization, as most companies only offer harmonized prices if customers explicitly ask for them. However, a defined strategy that enables companies to provide price harmonization in a consistent way is advisable. Establishing global account management is a powerful potential tool for steering harmonized pricing. The majority of participants will allocate customers to global accounts if they are doing business internationally, but less than 50% of participants also takes into account whether centralized purchasing has been introduced or not.

The importance of price harmonization is undervalued

An effective pricing approach is one which incorporates strategic measures to tackle emerging market challenges. There is a general acceptance among participants that price transparency and increasing competition are the two most important external market challenges to their pricing strategies.

These challenges may sometimes be caused by the limited availability of sophisticated and affordable information technology or the rising number of mergers & acquisitions that have tightened competition in almost all industries. However, when we asked for the most important strategic measure as a response to those trends, we discovered that it is not price harmonization across countries and regions which rates highest, but enforcing price differences by means of differentiated products. Price harmonization is considered far less often to be an important strategic measure. As a result, the risk of parallel trade or arbitrage trade and price pressure executed by customers who identify significant price differences increases enormously. These findings show that the importance of price harmonization is underestimated.

In the following sections we will take a closer look at two specific forms of price harmonization: the general harmonization of prices across countries and regions, and specific global price harmonization for individual customers.

Harmonization across countries and regions

About 41% of the participants have not implemented price harmonization across countries and regions yet. It often requires co-ordination and alignment of different legal entities and functions, such as key account management, sales, controlling, product management etc. This challenging task frequently leads to discrepancy and dissonance due to conflicting objectives. Yet setting the stage, with interventions such as effective incentives, can enable collaborative and profitable pricing decisions.

Our results show that the price spread (defined as the difference from the target HQ sales price) indeed becomes smaller if price harmonization across markets is in place. However, the spread is still quite large, demonstrating that price harmonization should be high on the agenda for those companies who have introduced an initial, basic concept as well as for those which have not. The larger the price spread, the more significant problems might become with multi-national accounts comparing prices across borders and imposing pressure via purchasing organizations.

Fig. 20 – Price harmonization across countries and regions
Question: When it comes to harmonizing prices across countries and regions, which mechanism does your company apply?

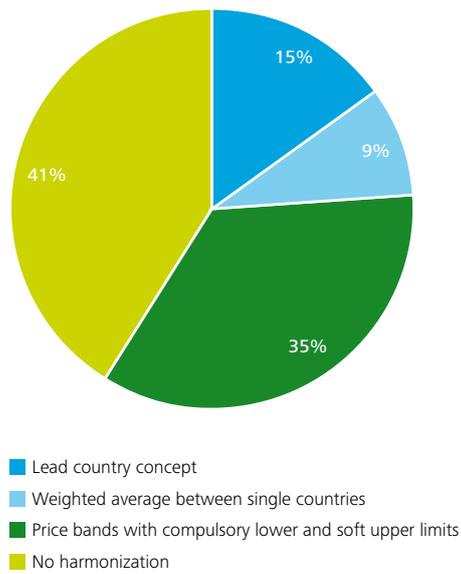
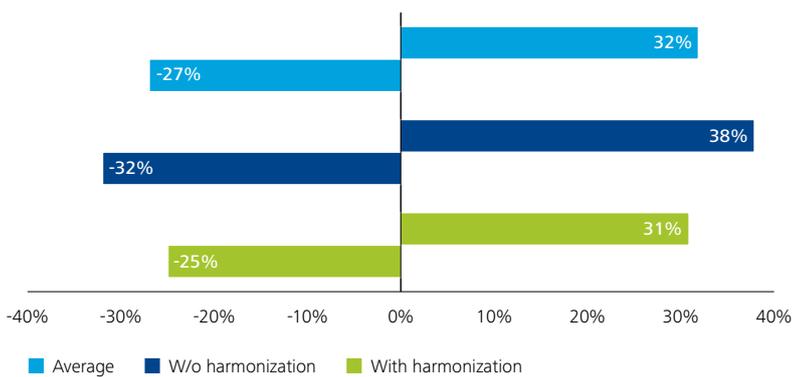


Fig. 21 – Price deviations from HQ target sales price (in %)
Question: How significant are the price differences in markets?



Price harmonization for global accounts

The management of global accounts allows for clustering and addressing customers who have business in multiple countries with one supplier. Should they have already implemented a global sourcing strategy, this special customer segment calls for further attention. Our survey shows that the share of companies using segmentation into global customers differs significantly between industries. While only 44% do so in medical devices, all in telecom & network have introduced them. Introducing a dedicated global account management more broadly could deepen relationships with multinational customers.

Technology participants have the largest share of companies offering a proactive approach to price harmonization. 40% of them offer harmonized prices to their global customers, even if they have not yet introduced a global procurement function. 38% of telecom & network companies use a defensive approach, which means that they avoid harmonization of prices even if they are pushed to implement it by their clients. This puts them into a disadvantageous situation compared to their peers who offer some sort of harmonization.

All in all, handling of prices is still often conducted in a responsive, yet ad-hoc and non-systematic way. Deferring or slowing down the process of price harmonization in order to let sleeping dogs lie is leading to competitive disadvantages in the mid-term, as the chance of actively defining and shaping prices is given away.

Implications for account management

In our sample only 42% of the participants use a centralized purchasing organization on the customer's side as a criterion for making a client a global account. To be able to meet the demands of those central purchasing organizations it would be advisable to allocate them to their own account type. Our results show that in case where global purchasing takes place on the customer's side, 90% of the participants provide some sort of price harmonization for them, even concerning services.

Fig. 22 – Percentage of participants using different account types
Question: Which levels of accounts are you differentiating between?

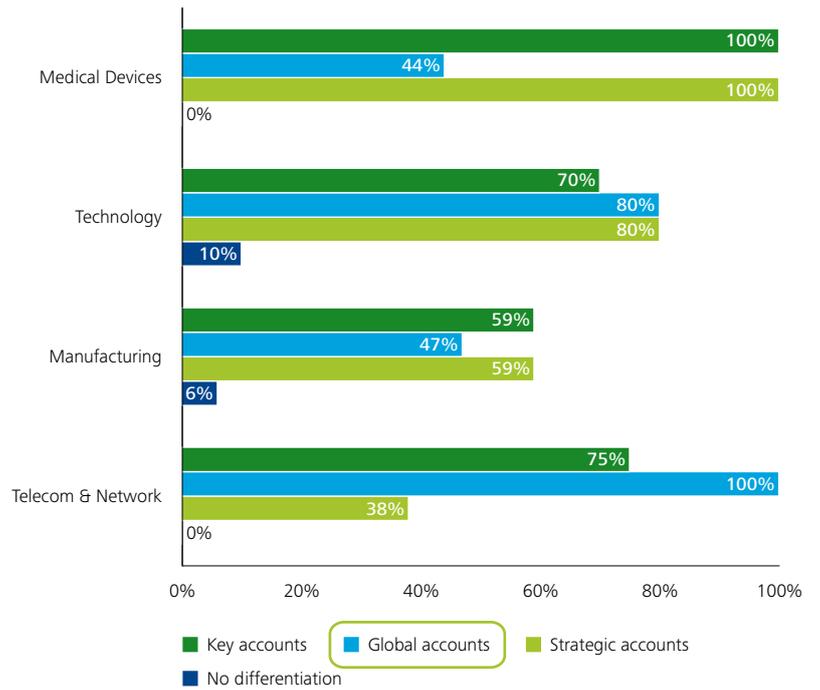
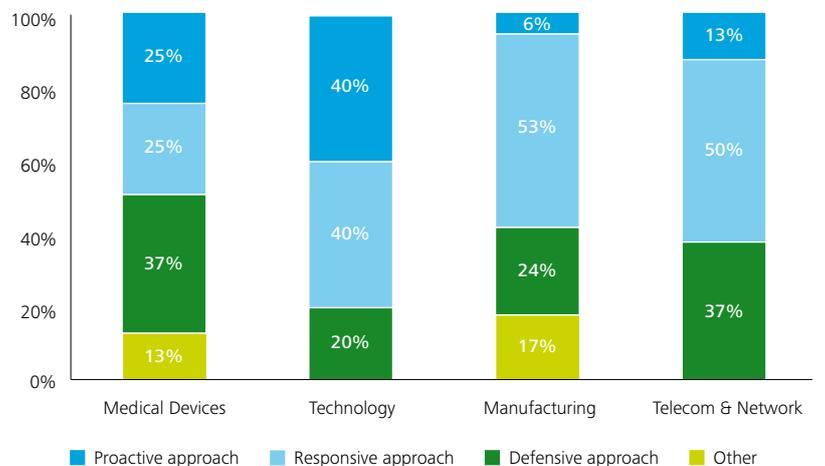


Fig. 23 – Price harmonization for global customers
Question: How does your strategy to globally harmonize products, prices and services for global customers look like?



Attitude toward GPCs is more positive if experience is in place

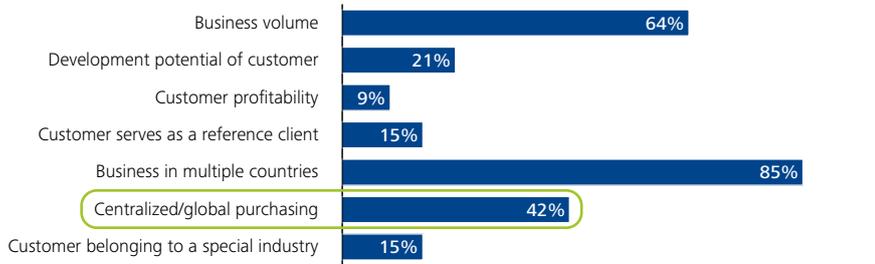
Customer recognition of procurement as a value-adding activity and the push for price transparency across the board has made global pricing a key part of customers’

procurement strategies. There is an opportunity to benefit from the establishment of GPC, provided companies take the necessary steps to build their GPC experience as well as efficient management of global accounts.

Fig. 24 – Allocation and differentiation criteria for global accounts

Question: Please select which criteria define the allocation of a client to a certain category of accounts, and what differentiates your key, global or strategic account management from the management of your remaining customers?

Allocation criteria



Account differentiation

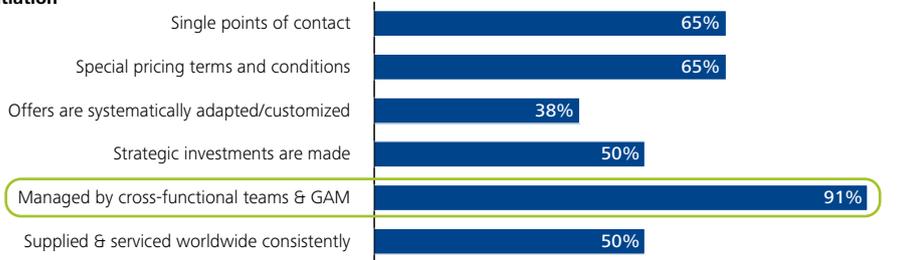


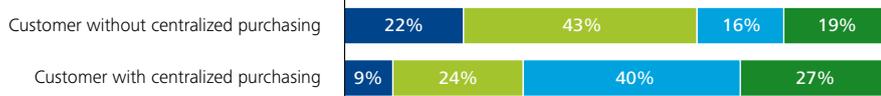
Fig. 25 – Harmonization strategy for global accounts with and without centralized purchasing

Question: How would you characterize your pricing for global accounts?

Products



Services



0% 20% 40% 60% 80% 100%

- No defined strategy, but ad-hoc decisions for individual customers
- No harmonization: country-specific prices even for international/global accounts
- Harmonized prices within regions for global accounts, but no single price on a global basis
- Single, customer-specific prices on a global basis

Observation 7

While companies using global pricing contracts frequently confirm a positive impact, nearly one third of survey participants is reluctant to introduce them

Fig. 26 – Experience with Global Pricing Contracts (GPC)
Question: Does your company have experience with GPC?

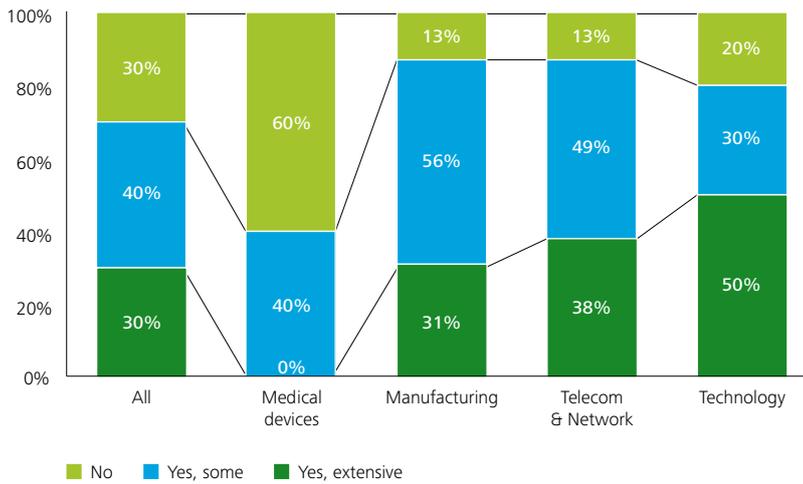
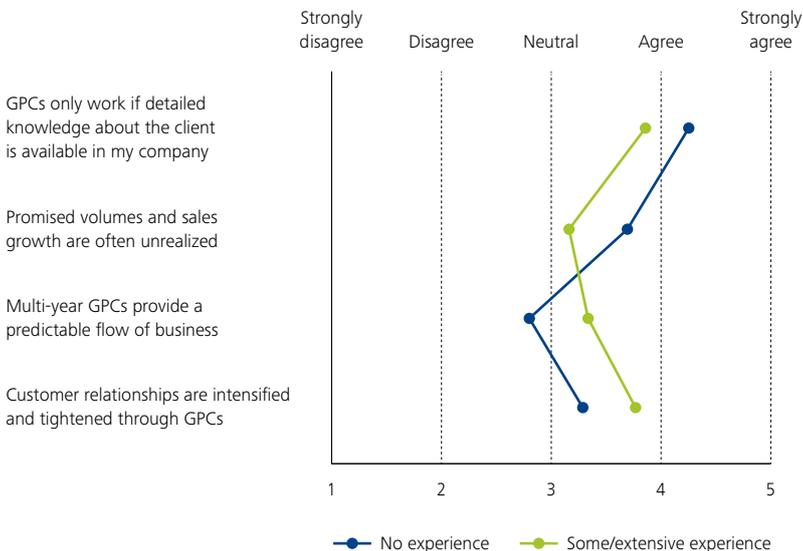


Fig. 27 – Attitude towards GPC
Question: How is your attitude towards GPCs?



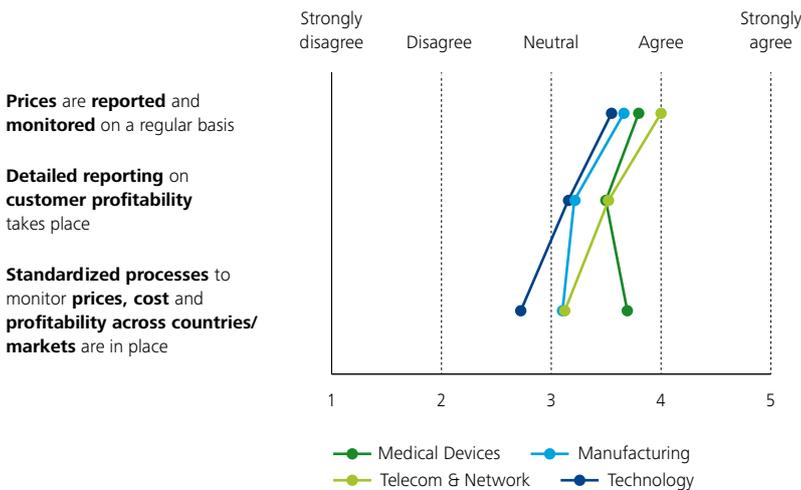
As many customers continue to join forces in global purchasing groups in the pursuit of the lowest prices, the pressure for GPC can be expected to increase over the coming years. However, the survey indicates that many companies are not in a position to respond to this trend yet. 30% of the participants do not have any experience with GPCs, 40% at least some.

In terms of attitudes toward GPCs, we observe that those participants with no or only little experience are more skeptical than those with extensive experience. Skeptics doubt the realization of the achievement of the agreed-upon volume and a predictable flow of business – more experienced participants state these criteria as advantages, combined with the development of stronger business relationships. Furthermore, inexperienced companies overrate the knowledge about clients required, which might also discourage many from implementing GPCs. Hence, companies that work with GPCs are able to derive benefits from them.

Observation 8

Price reporting is common practice, but cross-country monitoring of prices, cost and customer profitability varies in its extent from industry to industry

Fig. 28 – Approach to monitoring and reporting
Question: Please evaluate to what extent the following statements describe your approach towards price monitoring, reporting and analysis.



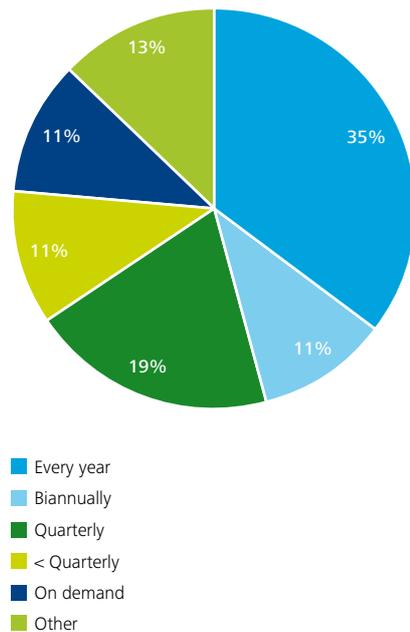
Reporting and monitoring of prices are established practices

The industry-specific evaluation of price reporting and monitoring is positive overall. International pricing is reviewed by means of price bands, but processes are not always followed as written down. All in all, measures are taken to prevent future deviations.

Across all industries customer profitability is monitored. However, most companies do not consider customer lifetime value. Especially in technology, but also in manufacturing and telecom & network companies, standardized monitoring processes across countries and markets are not determined. Here companies might rather rely on ad-hoc analyses. This is slightly better established in medical devices companies.

In general, companies have a broad span of price review intervals. One third of participants reviews prices once a year, while more than 40% do so more frequently. Smaller price review intervals provide higher transparency on prices across countries and allow for faster adaptation to changes in the market.

Fig. 29 – Frequency of price reviews
Question: How often do you review prices?



Conclusion & Outlook

The Global Pricing Survey 2012 reveals most notably three things: Firstly, Value Pricing achieves better pricing performance in comparison to other pricing principles. Secondly, Value Pricing requires a dedicated holistic perspective on the market and on a company's marketing management. This poses significant challenges to professionals regarding business policies, methodologies and alignment needs. The fragmented implementation levels outlined in our results show that this challenge has often not been met yet: the true potential Value Pricing offers is yet to unfold which can only happen if the relevant capabilities are improved. Thirdly, the trend toward centralized purchasing organizations and, in consequence of this, rising demand for harmonized prices is progressing faster than companies are changing their thus far hesitant attitude toward price harmonization.

Companies who have implemented at least the basics of value-based pricing are already benefiting from its power to direct customers' focus toward other product attributes than price alone. As they rely on a broader array of decision-making criteria than companies with conventional pricing principles do, prices better reflect their customers' willingness-to-pay. Moreover, Value Pricing leads to a higher level of compliance concerning price execution. At the same time, however, the survey results identify knowledge deficits that are due to an imbalanced use of information sources. Mechanisms for the collection of market and competitor information are largely in place, but especially those participants employing value-based pricing should make more extensive use of customer surveys than today. Value Pricing will not unfold its full potential until profound knowledge about customer preferences, loyalty reasons as well as reporting on customer profitability is available. Moreover, participants using conventional pricing principles achieve comparably poorer results with respect to alignment of sales and pricing approaches. As a consequence, the value perception the customer is intended to achieve could be strongly enhanced. With regard to price harmonization, most participants seem to find themselves in a reactive or even defensive position. It is striking that price harmonization for global accounts in particular is mostly done ad-hoc without a clear strategic approach behind it. Multinational companies continue to struggle to find a balance between their corporate and regional pricing strategies.

All in all, the survey confirms a positive attitude toward Value Pricing. Nevertheless, participants see many challenges when trying to establish and execute it. Experience has shown that companies with a good understanding of their current pricing and profitability capabilities, with a view of existing gaps and a clearly defined desired future state, are able to outperform competitors in growth and business performance within only a few months. By simply responding to customers' needs, effectively communicating the value delivered by a solution offered, and managing pricing and sales alignment, companies can develop long-term competitive advantages.

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For further information regarding detailed survey results as well as dedicated results of each of the seven industries covered, please contact us.

A comprehensive pricing report on the medical devices industry – based on this Global Pricing Survey – has been published by Deloitte in Switzerland: “The Pricing Survey – Increasing price pressure and fast eroding margins in the Medical Devices industry”, authored by Nico Kleyn and Marco Isсенmann.

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