

PRESS RELEASE

72 percent of all new products flop

Profitability at risk: Most companies fail to successfully position their new products in the market, a recent study reports. This problem is self-inflicted, but curable: Pricing and marketing need to be the top priority of the innovation process.

Bonn, September 10, 2014 – More than ever, price pressure and price wars are placing the world economy under immense strain. Companies are less and less able to achieve the prices they need. Only one-third of planned price increases actually get enforced in the market. This is the lowest implementation rate ever for price increases. Two years ago, companies achieved on average about half of their price increases. These are the results of the *Global Pricing Study 2014** conducted for the third time by the global strategy consultancy Simon-Kucher & Partners in collaboration with the independent Professional Pricing Society (PPS). By far the best and often the only way to overcome price pressure is through new products, as 77 percent of the approximately 1,600 responding managers confirm. Still, almost three-fourths of all new products miss their profit targets. "This is alarming news for companies," comments Dr. Georg Tacke, Simon-Kucher's CEO, "but nothing that can't be solved. Price pressure, price wars and competition shouldn't hold them back from achieving the prices they want. It's definitely feasible." The study confirms this. Of the study respondents, one group rose above the others. This group, the "Best", meet their price targets for new products and continue to do so in the long term because they factor pricing and marketing into the innovation process from the very beginning. The "Rest" should follow suit if they want to be competitive in the future.

Problems in the innovation process

Across the globe, companies are suffering from strong price pressure (83 percent). What's more, 58 percent admit that they are currently involved in a price war. Instead of trying to find out where things may have gone wrong internally, 89 percent point the finger at their

competitors. Either way, the respondents are not able to enforce their prices. For instance, companies that wanted to raise their prices by five percent only managed 1.9 percent. In 2012, they were able to enforce half of their price increases. It seems like regular price increases are practically impossible. The study shows that new products are by far the best means of achieving higher market prices – yet, 72 percent of all new products are a flop. One-fourth of the respondents even acknowledged that not one of their new products fulfilled the profit targets. The study reveals why: Companies have done a poor job of integrating customer value and pricing policies into the innovation process. "Most companies deal with product pricing and marketing when it's already too late – often right before the launch," explains David Vidal, study author and Partner at Simon-Kucher. "It's no wonder that three out of four new products are a bust, thus shooting down any chances of securing those profit targets." The consequences are devastating. Despite the economic recovery and attempted price increases, 39 percent of the respondents were unable to improve their margins in the last few years. The long-term profitability of companies is at serious risk here. "Before you know it, the profits necessary to finance innovations will be gone. And it's precisely these innovations that are going to enable companies to compete sustainably in the market," says Jan Haemer, co-author and Director at Simon-Kucher.

The "Best" show the way

It doesn't have to be this way. The "Best" of the respondents demonstrate how it's possible to succeed long term – despite price and competitive pressure. About 10 percent of all study respondents belong to this group. "The 'Best' thoroughly understand the value that their new products offer customers and are therefore able to achieve those desired profits. That's what separates them from the 'Rest,'" adds Tacke. The study results back this up: Their share of new products that meet profit targets is 45 percent higher; EBITDA margins are 25 percent higher. When it comes to enforcing price increases, their rate is 41 percent higher than the others. What are the "Best" doing differently? Innovation, value and price management are C-level objectives at these companies. Furthermore, they completely integrate marketing and pricing into innovation processes already from the product

inception to the market launch. The "Best" work with professional methods and customized software to measure value and set prices. "They leave nothing to chance," says Tacke. "If you know the true value of your product, you can set the right price. Besides, it's essential, that companies are able to make tough decisions when necessary – from the beginning to the end of the innovation process." This also means having the courage to kill new products if it becomes clear that they won't meet their profit targets. Everyone, including C-levels and project teams, should take this to heart. As the study reveals, every company has the power to decide if it wants to be one of the "Best" or "Rest". Now is the time to decide.

A summary of the study is available upon request.

*** About the Global Pricing Study 2014**

Approximately 1,600 participants, of which 39 percent are C-levels, from companies of all industries and over 40 countries across Europe, the Americas and Asia, took part in May/June 2014 in an online study conducted by Simon-Kucher & Partners. The study takes place every two years in collaboration with the independent Professional Pricing Society (PPS).

Dr. Georg Tacke is the CEO of Simon-Kucher & Partners. **David Vidal** is a Partner and **Jan Haemer** a Director at Simon-Kucher.

Simon-Kucher & Partners, Strategy & Marketing Consultants:

Simon-Kucher & Partners is a global consulting firm with 720 professionals in 27 offices worldwide focusing on Smart Profit GrowthSM. Founded in 1985, the company has almost 30 years of experience providing strategy and marketing consulting and is regarded as the world's leading pricing advisor.

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