

Confessions of the Pricing Man

How Price Affects Everything

Hermann Simon | Copernicus, 2015

INTRODUCTION

Hermann Simon, founder of Simon-Kucher & Partners and the world's leading authority on pricing, shares four decades of pricing wisdom. Drawing from consulting with major corporations whose aggregate revenue exceeds \$2.5 trillion, Simon reveals how price affects everything—from individual business decisions to global economics.

CORE THESIS

PRICE = VALUE

"The price a customer is willing to pay is always a reflection of the perceived value of the product or service in the customer's eyes."

The Roman word "pretium" means both price and value—literally the same thing. Managers must: **Create value** (quality, innovation), **Communicate value** (brand, marketing), and **Retain value** (post-purchase experience).

KEY CONFESSIONS & INSIGHTS

- ▶ **Never run a business where you have no influence on prices**—being a "price taker" is an uncomfortable, vulnerable position
- ▶ **Profit is the cost of survival**—making sustainable profit is "to be or not to be" for every private business
- ▶ **Price is the most effective profit driver**—stronger than costs or volume management
- ▶ **"Le prix s'oublie, la qualité reste"**—quality endures long after price is forgotten
- ▶ **Only perceived value counts**—objective value matters only if customers recognize it
- ▶ **Pricing is often guesswork**—but it doesn't have to be with proper methods

PRICING PSYCHOLOGY

- ▶ **Prestige/Veblen Effect:** Higher prices can increase demand for luxury goods
- ▶ **Price as Quality Indicator:** "You get what you pay for" mindset
- ▶ **Anchor Effects:** Context shapes price perception significantly
- ▶ **Prospect Theory:** Losses hurt 2x more than equivalent gains feel good
- ▶ **Magic of the Middle:** Buyers gravitate toward mid-range prices

PRICE POSITIONING STRATEGIES

LOW PRICE

Aldi, IKEA, Ryanair, Dell

PREMIUM

Apple, Miele, Porsche, Gillette

LUXURY

Ferrari, LVMH, Hermès

Low-Price Success Factors: Extreme efficiency, adequate consistent quality, focus on core products, no frills, procurement excellence.

Premium Success Factors: Superior value, innovation foundation, strong brands, heavy communication investment.

Luxury Success Factors: Highest performance, prestige effect, strict volume limits, no discounts ever.

PROFIT DRIVERS FRAMEWORK

+50%

PROFIT FROM 5% PRICE ↑

+30%

PROFIT FROM 5% COST ↓

+20%

PROFIT FROM 5% VOLUME ↑

10-20x

PRICE VS. AD ELASTICITY

A 2% price increase can boost profits 10-50%+ for most companies. Sony would see profits more than double; Walmart +41%; GM +37%.

PRACTICAL FRAMEWORKS

- ▶ **50-50 Value Sharing Rule:** Optimal price lies halfway between maximum price and variable cost. Pass only 50% of cost changes to customers.
- ▶ **BahnCard Model:** Two-dimensional pricing with upfront fee + usage discounts creates loyalty and steady income streams
- ▶ **Price Elasticity:** Typically ranges 1.3-3 (median ~2); a 1% price change causes 2% volume change
- ▶ **Break-Even Analysis:** Essential guard against margin-destroying discounts

FINAL TAKEAWAYS

- ▶ **Start pricing early**—at product conception, not after launch
- ▶ **Know your demand curve**—the foundation of all pricing decisions
- ▶ **Price too high is as bad as too low**—both sacrifice profit unnecessarily

▶ **Price Thresholds:** 43.5% of consumer prices end in "9"

▶ **Volume increases rarely compensate for discounts**—do the math

▶ **Avoid chasing market share at expense of profit**—revenue without profit is meaningless

▶ **Top management must own pricing**—companies with exec involvement have 35% more pricing power

"In every market there are two kinds of fools. One charges too much, the other charges too little."

— Russian Proverb cited by Hermann Simon