



Pricing & Revenue Management in Uncertain Times

Discussion Paper

NOVEMBER 2020

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Imbalance of supply and demand

The current crisis has challenged established market mechanisms and thereby also had an impact on consumer pricing



DEMAND > SUPPLY



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C-19 IMPLICATIONS

STRONG UPLIFT OF CONSUMER DEMAND IN SOME CATEGORIES AND CHANNELS

- **Consumers spending more on homeware products** (home care) and **more on home equipment** (TV, furniture, kitchen, etc.)
- **Major disruptions of supply chains** (some retailers have problems delivering orders due to the enormous increase in online commerce and the limited number of vehicles)
- Ongoing shift to remote work drives demand for **networking infrastructure and connectivity** of telecommunication companies¹

PRICE IMPACT

- **Strong price increase for certain household products** (e.g. toilet paper, disinfection, gloves, masks) and **price acceleration of consumer electronics**²
- **Media coverage of price increase creates reputation risk**³
- **Partially regulation/ limitation of prices**⁴

STRONG DECLINE OF CONSUMER DEMAND IN MANY CATEGORIES AND CHANNELS

- **Economic effect of "Kurzarbeit", job loss and economic downturn**⁵
- **Limited demand for travel** (flights, hotel, holidays, restaurants), **fashion** (business clothing) and **personal care products** due to ongoing restrictions
- Significant **decrease of energy demand** during major lockdowns in all leading industrial companies⁶

- **VAT reduction in German for all products and service until the end of 2020 to increase overall demand**
- **Overall German inflation (price level) is falling in 2020**⁷

¹ **Deloitte:** <https://www2.deloitte.com/global/en/pages/about-deloitte/articles/covid-19/understanding-covid-19-impact-on-the-telecom-sector.html>

² **Lebensmittelzeitung:** <https://www.lebensmittelzeitung.net/industrie/Coronavirus-Branche-rechnet-mit-Preiserhoehungen-bei-Elektronik-145018>

³ **Verbraucherzentrale:** <https://www.vzhh.de/themen/einkauf-reise-freizeit/wucher->

[desinfektionsmitteln-schutzmasken-klopapier](https://www.lebensmittelzeitung.net/handel/Verfuegbares-Netto-)

⁴ **Textilwirtschaft:** <https://www.textilwirtschaft.de/business/news/amazon-darf-kein-preiskontrollleur-sein-kartellamt-untersucht-amazon-praktiken-in-der-corona-krise-226894?crefresh=1>

⁵ **Lebensmittelzeitung:** <https://www.lebensmittelzeitung.net/handel/Verfuegbares-Netto->

[schrumpft-Corona-Krise-drueckt-auf-Kaufkraft-der-Europaeer-148846](https://www.iaea.org/reports/covid-19-impact-on-electricity)

⁶ **International Energy Agency:** <https://www.iaea.org/reports/covid-19-impact-on-electricity>

⁷ **Institute der Wirtschaft:** <https://www.iwkoeln.de/presse/iw-nachrichten/beitrag/markus-demary-corona-laesst-die-preise-fallen.html>

Market reactions

Following the significant shift in market dynamics, many companies put short-term pricing and offering adaptations in place

SETTING NEW PRICE POINTS

PRICING OF NEW B2C OFFERS

- Direct B2C offers to create additional demand
- Metro, a German B2B wholesaler for the "horeca" segment, has opened its stores for B2C customers and created special B2C offers during the lockdown period

PRICING OF NEW SIMPLIFIED PRODUCTS

- Simplification of product assortment to reduce complexity
- McDonald's offered a reduced menu at the reopening of its restaurants to simplify supply and operations

PRICING OF NEW PRODUCT BUNDLES

- Development of new product bundles to increase convenience
- Telcos are offering networking tools in new bundles for free or at a reduced cost to aid customers in working from home

PRICING OF NEW FORMATS

- Evolution of product and service formats
- Coca-Cola is revising product formats to better meet the needs of B2C online sales, and find alternatives to offering beverage fountains for business customers

REFINING PRICING MECHANISMS

SOLIDARITY PRICING

- Targeted offers and donations
- Rewe offered a special promotion for people working in essential jobs (hospital, etc.)
- Patagonia donates the full VAT reduction to sustainability projects

ADVANTAGEOUS CONDITIONS

- New financing options
- Ford and Citroen offered special warranties and financing conditions for new customers

PRICE MONITORING

- Tracking and freezing of extortionate prices
- Amazon has identified sellers who have committed price abuse and removed more than half a million products from its site from sellers having violated the "fair pricing" policy

PRICING ALGORITHM

- Adjustment of dynamic pricing models
- Lufthansa Group needs to manually adapt the system generated pricing suggestions due to significant change in consumer behavior and other input factors

THORSTEN ZIERLEIN | PARTNER

„We believe that some of the trends we see as a consequence of C-19 are here to stay. Shifts in consumer preferences and supply chain impacts will require manufacturers and retailers to re-think their pricing strategy and execution.“

Changing consumer preferences

Immediate shifts within the consumer purchasing behavior require an instant shift towards more value-based pricing to create a competitive advantage

LOYALTY SHOCK

Decreasing loyalty of consumers specifically regarding established brands

NEW WAYS OF WORKING

Technological development and increasing regulations support the digital work environment

LOCAL PRODUCTS & SERVICES

Increasing demand for local products & service with trusted quality & secured supply

REASONED CONSUMPTION AND PRICE IMPORTANCE

Economical impact of the crises puts jobs at risk and creates uncertainty

PRIVATE SPACE AND OWNERSHIP

Growing importance of the private space (e.g. house, flat) and ownership (e.g. vehicles)

Value Focus

HEALTH AWARENESS

Increasing awareness for health and infection risks among all consumer types

IN-HOME CONSUMPTION

More consumption in the private space due to restrictions and increased infection risk

CHANGE OF FREQUENCY AND FORMATS

Decreasing frequency due to higher basket size and preference of larger formats

DIGITAL PAYMENT SOLUTIONS ON THE RISE

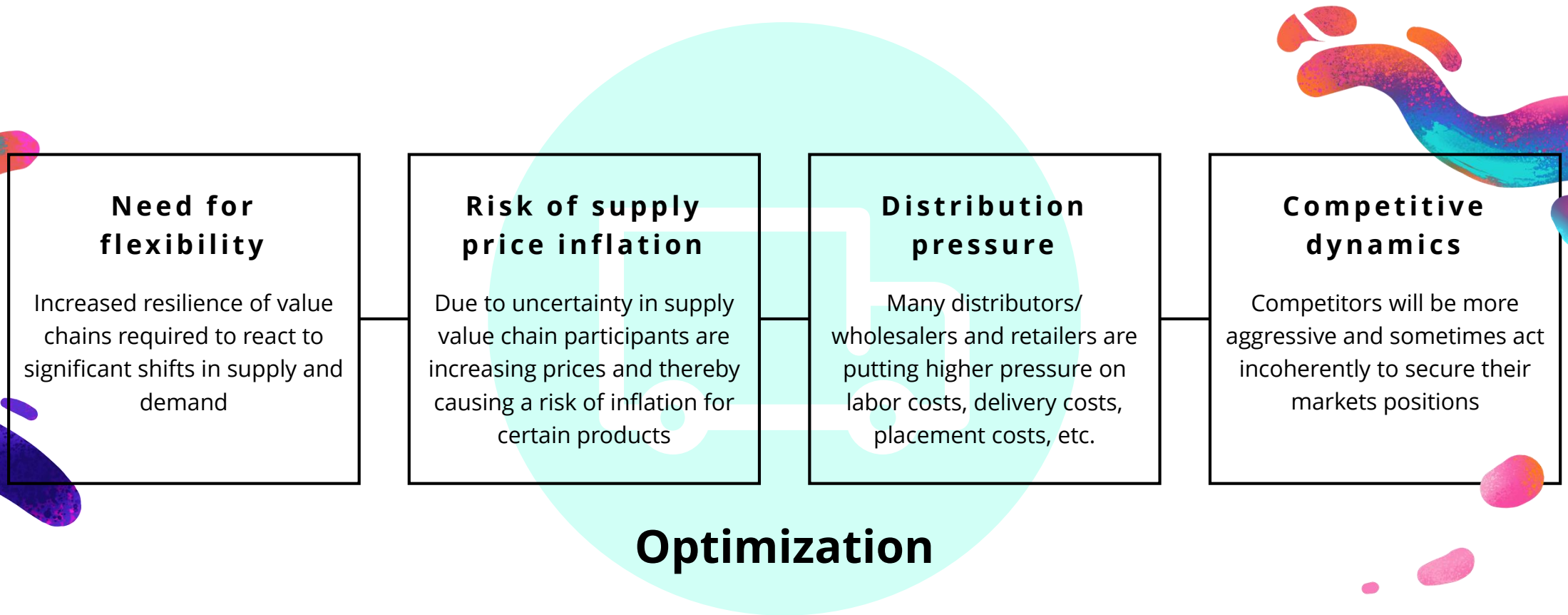
Growing affinity towards contactless payment solutions, especially in the German market

ONLINE ACCELERATION

Fast growth of the online channels for all consumer interaction from sales to services

Transformation of the value chain

Significant shifts within the value chain have a lasting impact on the commercial agenda of manufacturers and retailers



Combining value based pricing and optimization

Changes in the consumer purchasing behavior and the value chain demand companies to combine value focus and optimization to update their pricing strategy



VALUE FOCUS

CUSTOMER EXPECT MORE....

- Reasonable prices, in line with the value perception of consumers
- Simplicity of offers and prices and creation of new offerings
- Increasing price transparency and consistence
- No misuse of a dominant market position
- Consideration of social and environmental values
- Personalization of offers, prices and promotions



OPTIMIZATION

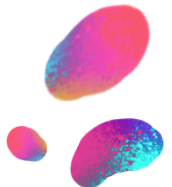
TOUGHER ECONOMIC CONDITIONS REQUIRE....

- Pricing flexibility to react to variations in demand and supply
- Quick reactions to competitor moves
- Management of supplier pricing risks and distribution pressure
- Dynamic pricing to adapt to the consumer willingness-to-pay
- Differentiated prices by distribution channel
- Artificial intelligence and analytics to outperform the market

The right analytics and technology is critical

What does a value driven and optimized pricing strategy look like?

With the right technology and analytics strategy, organizations can:



Centralize pricing data to enable a more **proactive, informed, and efficient pricing strategy**



Streamline and improve decision-making with greater pricing and investment visibility



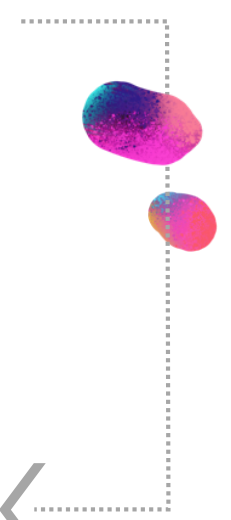
Accelerate response to consumer changes, disruptive competitors, and changing market trends



Use real-time insights to discover opportunities for **driving growth, profit improvement, and price optimization**

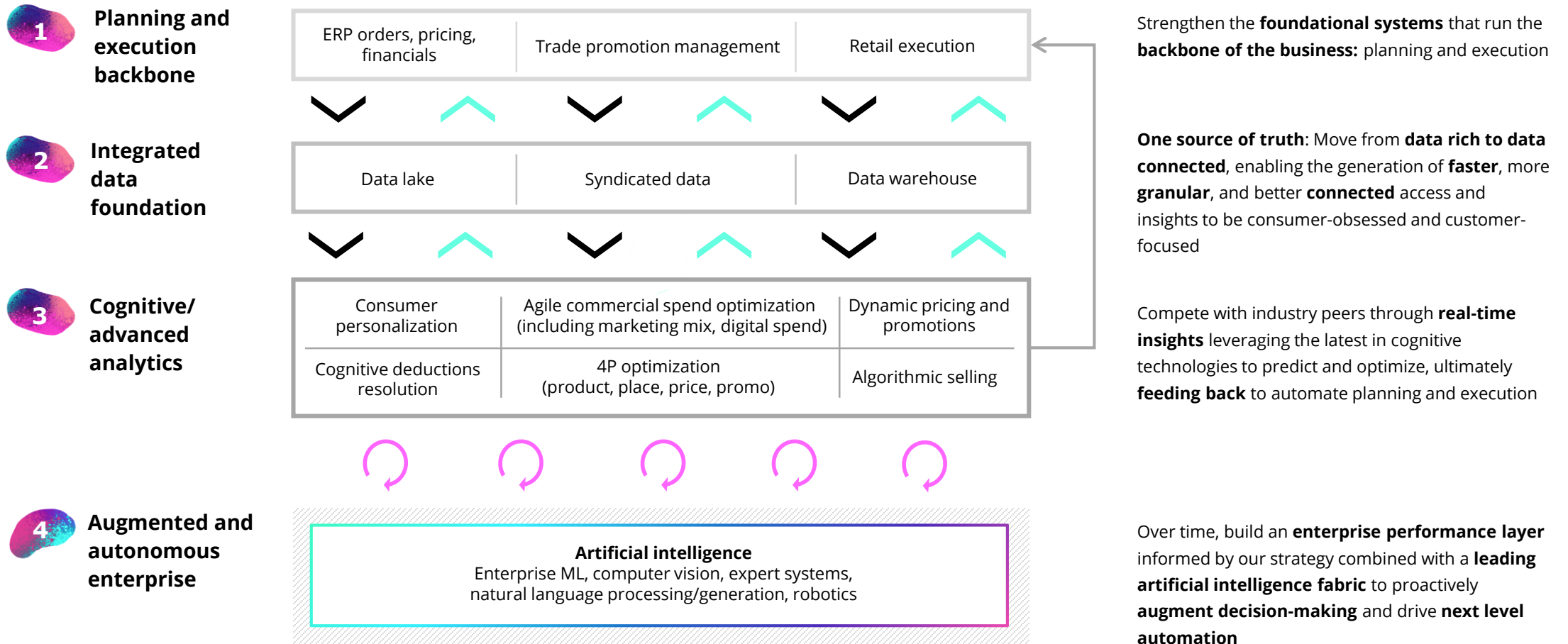


Optimize promotional effectiveness, agility, and ROI



Empower the commercial organization

Equip all levels of the organization with actionable, consumer-centric insights needed to win in the post C-19 marketplace



Strengthen the **foundational systems** that run the **backbone of the business**: planning and execution

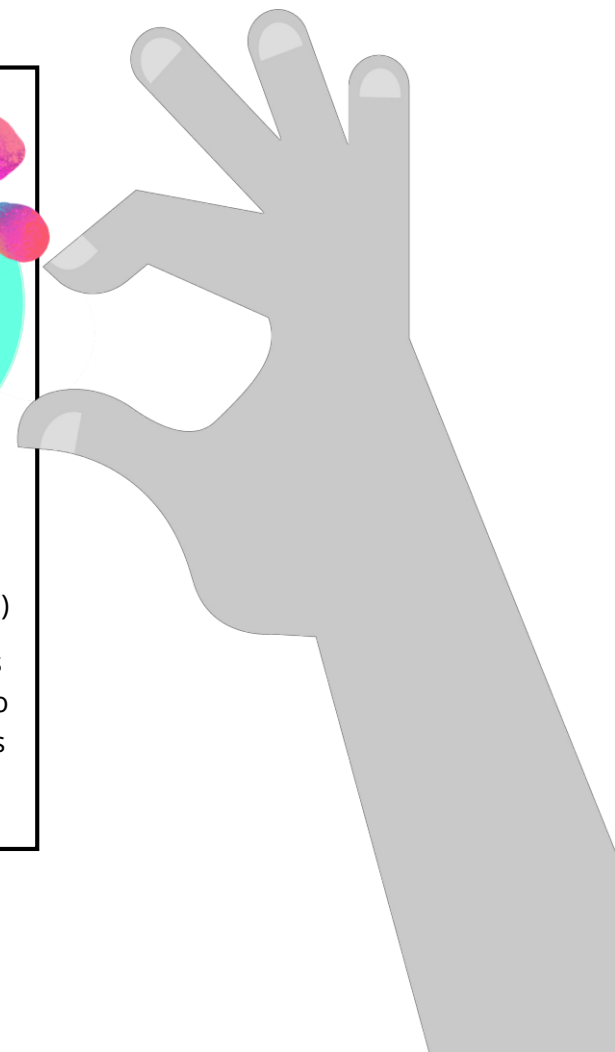
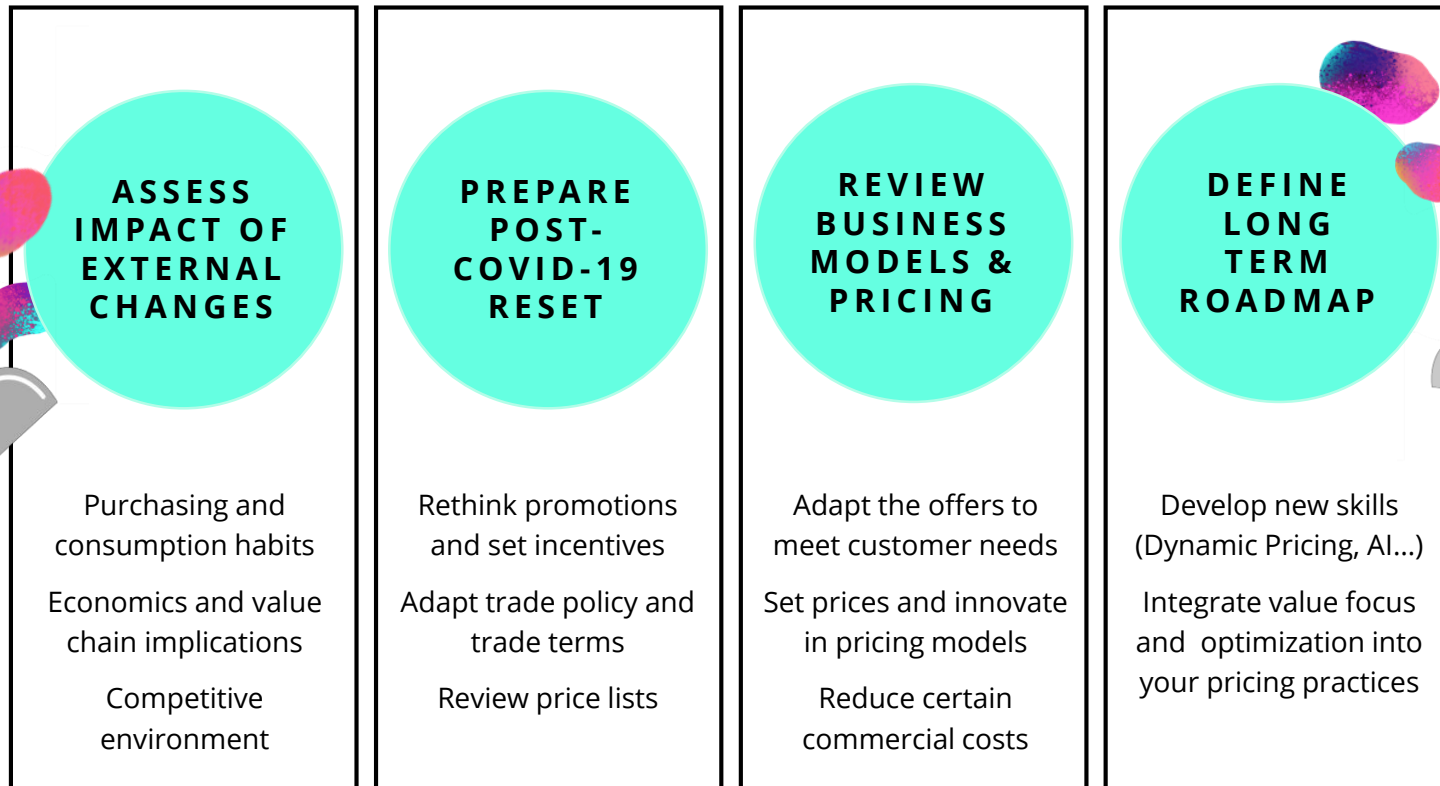
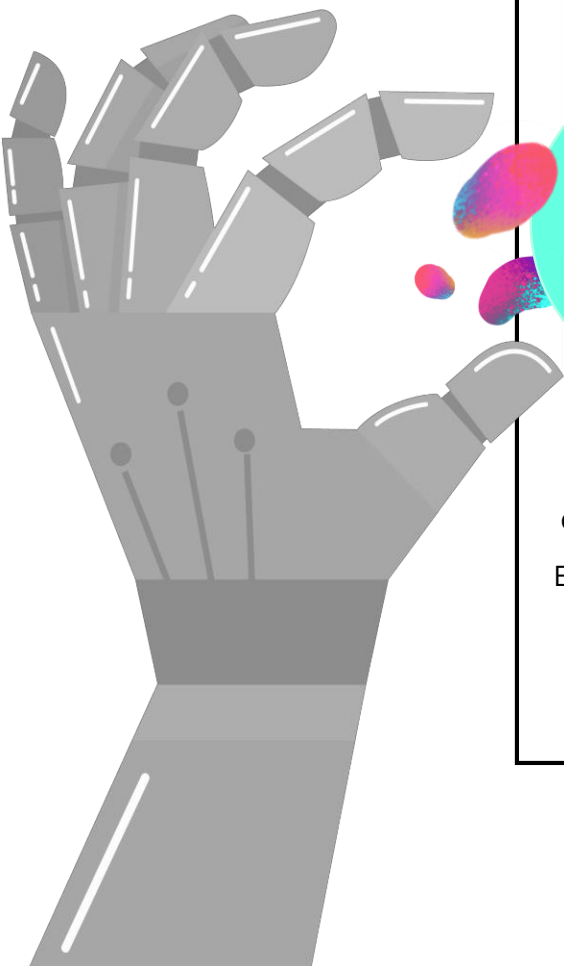
One source of truth: Move from **data rich** to **data connected**, enabling the generation of **faster**, more **granular**, and better **connected** access and insights to be consumer-obsessed and customer-focused

Compete with industry peers through **real-time insights** leveraging the latest in cognitive technologies to predict and optimize, ultimately **feeding back** to automate planning and execution

Over time, build an **enterprise performance layer** informed by our strategy combined with a **leading artificial intelligence fabric** to proactively **augment decision-making** and drive **next level automation**

Should we talk?

How Deloitte can help you to manage pricing in times of uncertainty





Thank you.

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