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Profitable Growth in a Downturn: Manufacturing Companies' Experience

Presentation for the Machine Building & Global
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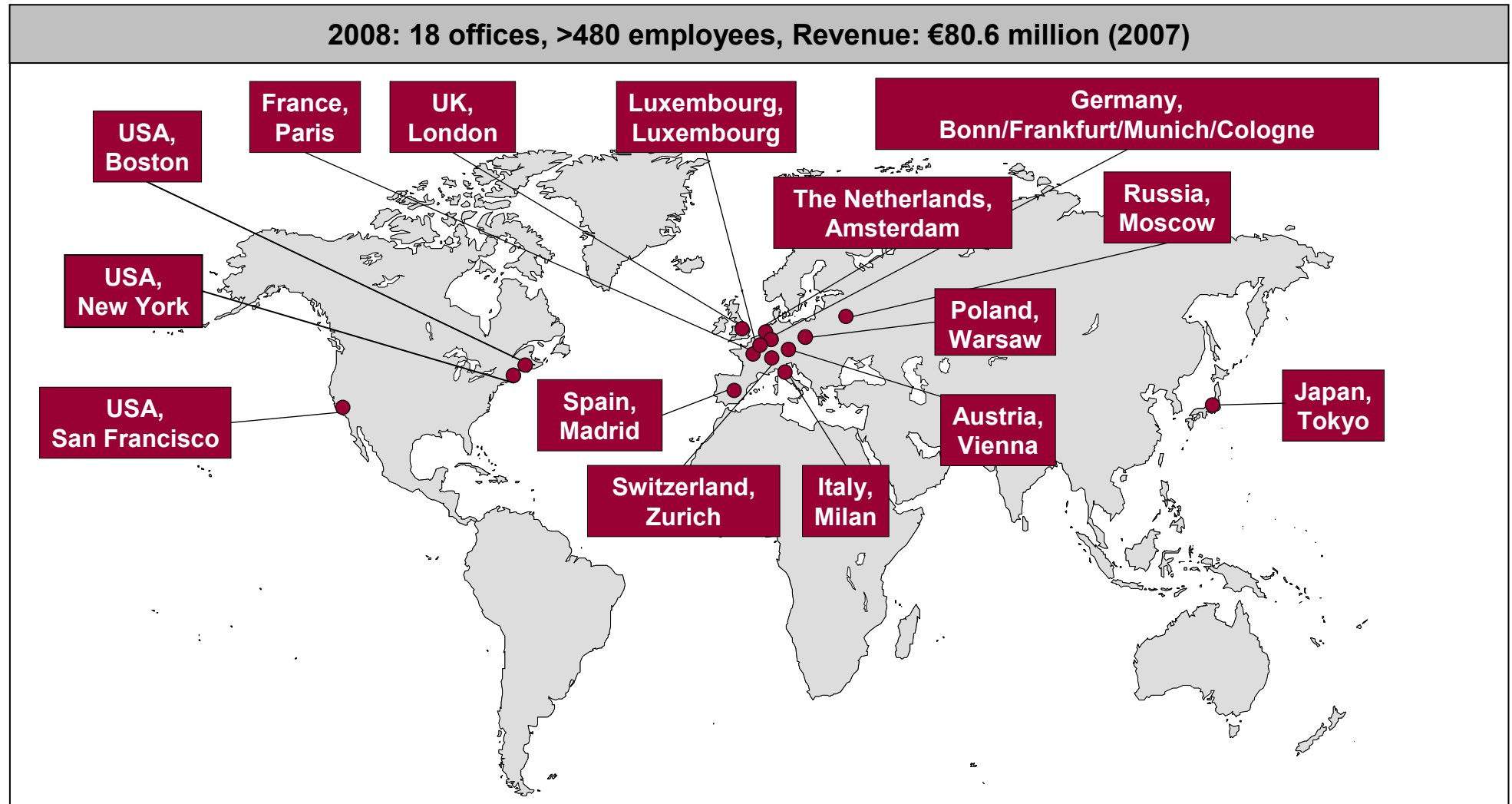
Overview

- 1. Brief Introduction to Simon-Kucher & Partners**
- 2. Profitable Growth in a Downturn:
5 Ready-to-Implement Measures and One Reminder!**
- 3. Questions & Answers**

About Simon-Kucher & Partners

- **Worldwide strategy & marketing consultants**
- **Clear focus: Revenue-driven profit growth**
- **Core competency: Sales, strategy, marketing/pricing**

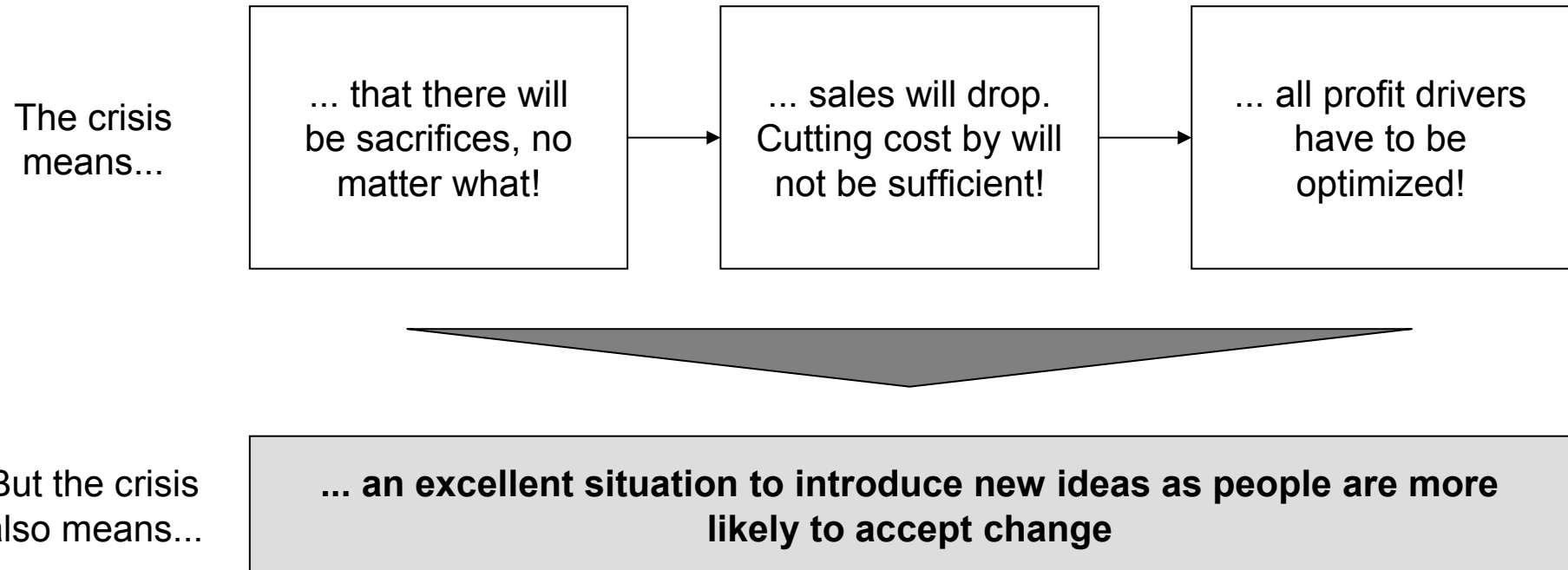
Global Presence of Simon-Kucher & Partners



What kind of crisis is this?

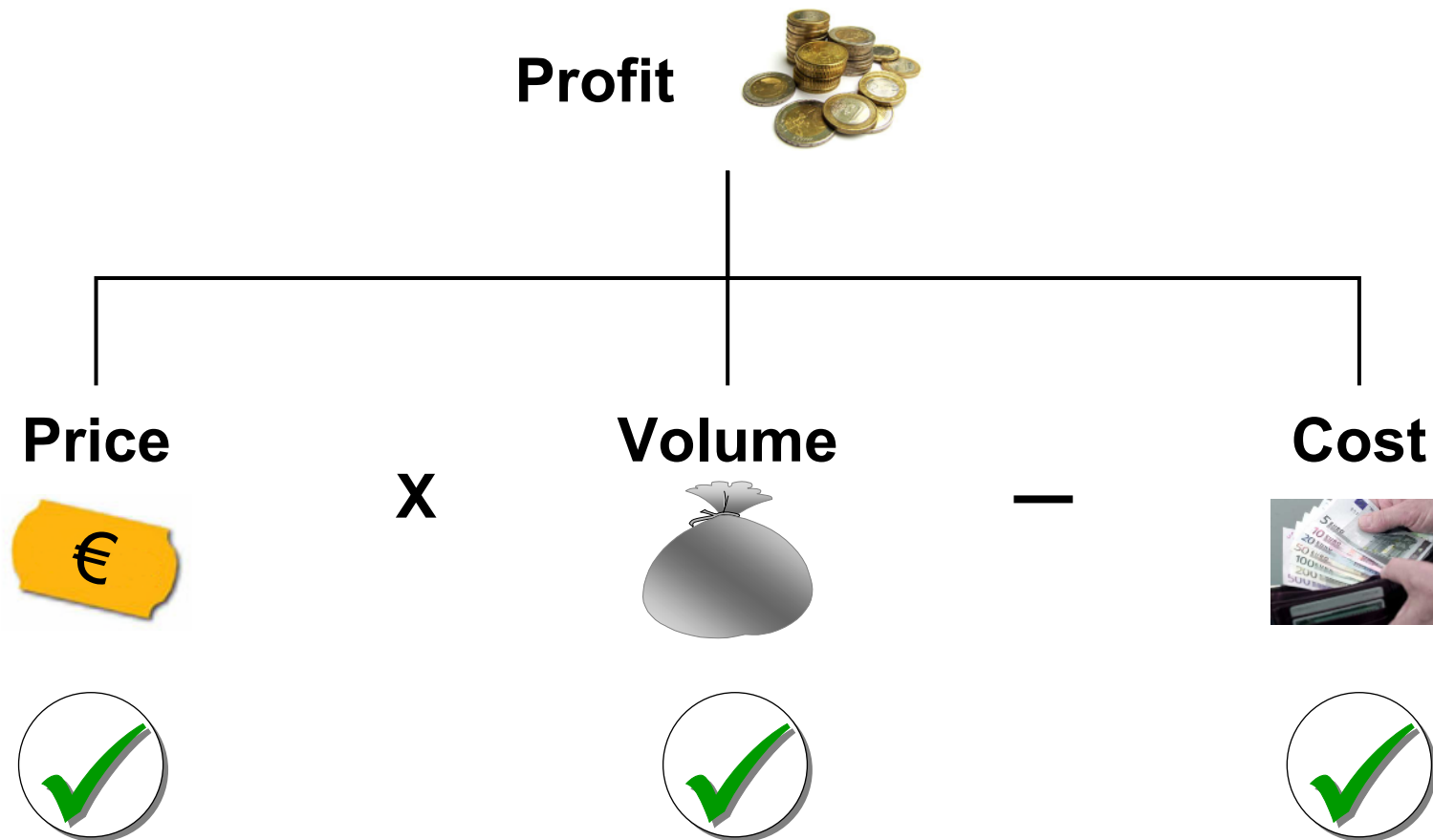
***"It is a revenue crisis,
not a cost crisis."***

Every Crisis Provides Opportunities



Simon-Kucher & Partners have over 25 years experience helping clients to plan and implement profitable growth strategies in all types of economic climate!

Crisis Management = Management of ALL Profit Drivers



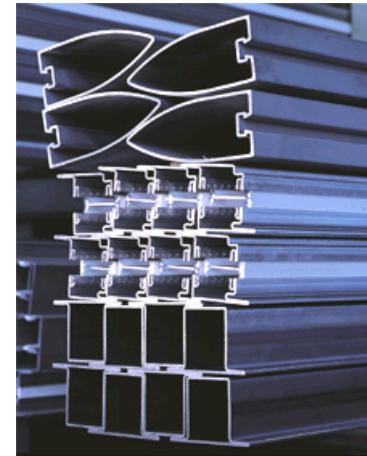
Measure 1: Actively reduce volume and aim to keep prices stable

- **Reduce capacity wherever possible**
- **Avoid to be (perceived as) capacity driven**
- **Increase flexibility and avoid fixed costs**
- **Avoid "simple" volume pressure on sales people**
- **...**

Example: Capacity Discipline in the Steel Industry



Case study: ArcelorMittal "to drastically cut monthly production around the world". Effect will "soon become evident in the spot market prices" (November 17, 2008)



Measure 2: Fight Against Aggressive Price Reductions

- **Fight against aggressive price reductions and „New Historic prices“**
- **Do not underestimate competitive reactions to your price reductions**
- **Avoid simple additional rebates or bonus and offer free of charge services**
- **Consider product and service bundles**
- **But: Communicate that you will defend your market share!**
- **...**

Example: Price Discipline of Porsche

"Fixed costs are extremely high in our industry. We realized that in a crisis we fare better with low prices than by reducing volume. After all, in contrast to some competitors, we still make money with this strategy."

vs.

"We have a policy of keeping prices stable to protect our brand and to prevent a drop in prices for used cars. When demand goes down we reduce production but don't lower our prices."



Richard Wagoner,
CEO General Motors
September 2003



Wendelin Wiedeking,
CEO Porsche
March 2004

Measure 3: Move Focus from New Product Sales to Service

- **Accept delay of investments in "post-poneables" by your customers**
- **Increase activity in After-Sales (parts and services), particularly in maintenance-related services**
- **Shift people from new equipment production and sales to After-Sales**
- **Make "availability" a service offering**
- **Train people in servicing your competitors products**
- **Service keeps you "in-the-loop" when new investments are picking up again**
- **Also: Provide low-cost alternatives if possible**
- **....**

Example: Service has Short-Term Effects on Turnover and Profits



Case study: Step up service selling activities.
Demag Cranes: 40% existing service contracts; aim to increase to 50%.



Measure 4: Increase Sales Power in the Market

- **Realign people and resources in sales to more market facing tasks (internal sales with customer hunting lists!)**
- **Increase overall sales power in the market**
- **Look for new market segments and customers that have not been in your focus so far**
- **Try to aggressively win customers from your struggling competitors (Ever thought of a special bonus program?)**
- **Exploit sales opportunities by using alternative sales channels through “intelligent” partnering**
- **Co-operate on product offerings to use existing sales force capacity for partner products (“capacity-swap”)**
- **...**

Example: Internal Support Staff of Würth Goes to Market



Case study: In the 1993 crisis, Würth sent 10% of its office staff into the sales force – with successful results.



Measure 5: Force Innovative Business and Pricing Models

- **Identify business opportunities that are growing with the crises ("ride the wave")**
- **Try to market “managed risked” and “managed insecurity” as product**
- **Use strong customer relations for cross-selling and bundling**
- **Offer free add-ons for a volume purchase**
- **Consider price bundling as a discount opportunities which is not possible for a single product**
- **Try to be stable during uncertainty: what about price guarantees?**
- **...**

Example: Managing Risk/Insecurity as an Innovative Product Offering



Case study: Service prices are linked to the profitability of the wind turbine for a 12-year period. Over 85% of customers opt for the 12-year contract.



One Reminder: Do not forget the Mid-Term Growth Perspective

Secure your market position!

- Significant market share gets distributed in a time of crises rather than when everybody can grow with the market
- Opportunities will not fall into your lap, however; suddenly many of the market players might be up for sale!



Example: Champions Outgrow their Competitors in Bad Times

Rank	Company	Primary Product	Revenues in m€		Growth Multiple
			1995	2005	
1	Bechtle	IT services	59	1,178	20.0
2	Enercon	Wind energy plants	153	1,390	9.1
3	Stada	Generic drugs	120	1,020	8.5
4	Getrag	Transmissions	332	2,420	7.3
5	Fresenius	Dialysis services	1.143	7,889	6.9
6	SAP	Standard business software	1.378	8,513	6.2
7	Interseroh	Raw materials	161	947	5.9
8	Rossmann	Chemist's shops	486	2,408	5.0
9	Hexal	Generic drugs	257	1,060	4.1
10	Gildemeister	Machine tools	381	1,125	3.0

Summary: Profitable Growth in a Downturn

Measure 1: Actively reduce volume and aim to keep prices stable

Measure 2: Fight Against Aggressive Price Reductions






Measure 3: Move Focus from New Product Sales to Service

Measure 4: Increase Sales Power in the Market

Measure 5: Force Innovative Business and Pricing Models

And One Reminder: Look for M&A and Partnership Opportunities

Key success factors for Growth Projects

Success factors	SKP performance
Expertise; project experience in analysis, strategy and implementation	 SKP conducts several hundreds sales & pricing projects every year
Industry know-how in the specific Industry	 Consulting teams with industry focus; in depth industry knowledge
Awareness of typical pitfalls in pricing concepts and implementation	 Peter Drucker: "... in pricing Simon-Kucher offers something nobody else does."
Customized instead of "one fits all" approach	 One of SKP's main principles!
Intelligent and implementable solutions	 "Must" for all SKP projects; successful implementation using a customized tool
Process moderator, "getting people into the boat"	 Sales & pricing project means convincing people – have a look at our references!