

Price Wars: how to turn it to your advantage

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Price Wars: the consumers will love it – the companies will hate it

Price Wars: some examples from different industries

Food fight: the secrets of the supermarket price war

Grocery pricing is mysterious and highly competitive. As Lidl and Aldi turn up the heat, the 'big four' have to fire again. But if we're being taken for a ride, will we notice?



Montag, 24. Juli 2017

Neun Prozent billigere Tickets Ryanair verschärft den Preiswettbewerb

Die Billigfluglinie Ryanair hat die meisten Passagiere. Doch das reicht den Managern nicht. Zum Spätsommer soll die Konkurrenz mürbe machen. Zugleich geben die Airlines Alitalia ab.

McDonald's new dollar menu to intensify price war

Lisa Baertlein 12/5/2017



Jan. 18: As part of a promotion, Intermarché — a French supermarket chain — slashed the price of a 35-ounce jar of everyone's favourite hazelnut cocoa spread by 70 per cent.



MariusS @wareny

J'ai eu les mien !!! Merci @intermarche pour la super promo à 1.47e le pot de 950gr !!! #Nutella
12:23 PM - Jan 25, 2018 · L'Isle-Adam, France
3 See MariusS's other Tweets

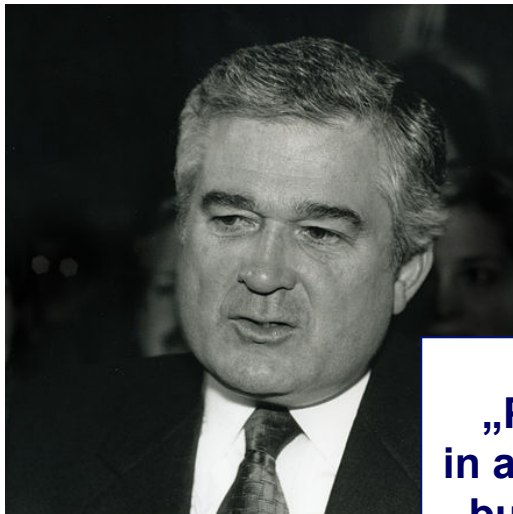
[Home](#) » [News & Analysis](#) » AWS, Azure and Google intensify cloud price war

Source: [exeo](#) Strategic Consulting AG

AWS, Azure and Google intensify cloud price war

Price Wars: how CEOs think about Price Wars – a rather typical view

Price Wars: these statements are not really consistent ...



Louis V. Gerstner, Jr
CEO of IBM 1993 to 2002

**„Price wars
in a commodity
business are
really dumb“**



Doug Parker
CEO of American
Airlines Group Inc. 2017

**„We price our
product to
match the
competition“**

Source: **exeo** Strategic Consulting AG

Agenda

1. Price War: an attempt of definition

2. The origins of a Price War

3. Examples from B2C- and B2B-industries

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5. Finding and outlook

Price competition vs. Price War: some definitions

Heil and Helsen (2001)

Required: **one or more** of the following conditions:

- There is a strong focus on competitors rather than on consumers,
- the pricing interaction as a whole is undesirable to firms,
- the competitors neither intend nor expect to ignite a price war,
- the competitive interaction violates industry norms,
- the pricing interaction occurs at a much faster rate than normal,
- the direction of pricing is downward and
- the pricing interplay is not sustainable.

Own approach of definition

We (Krämer, Jung & Burgartz, 2016) define a price war as a scenario, when

- market players try to win **market share** by utilizing aggressive pricing taking into account potential losses in short term,
- prices are **undercut** to fall below the level of **industry profitability** (at least for main players in the market) and
- actions are **driven by suppliers** rather than consumers.

This also explains the difference between

Price competition



Price War

Source: **exeo** Strategic Consulting AG

Background

- Price wars represent one of the most severe forms of competitive interplay in the market place, causing great losses. **Companies suffer losses** in terms of margins, consumer equity and ability to innovate (Heil & Helsen, 2001).
- Managers assume that a price decrease will **increase demand** for their products and fail to understand the consequences (volume increase, margin decrease).
- A study of Roland Berger (2016) identifies a so-called „**Commodity Trap**“: a Situation where complex products are degraded to commodities. Here, competition is predominantly driven by **price**.
- The figures are alarming: eight out of ten companies **complain about price pressure** across all sectors. A large proportion (49 %) sees itself in a **price war** (SKP 2016).



PRICE
WAR

Source: **exeo** Strategic Consulting AG

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Examples for Price Wars: price-aggressive offers of new players and immediate strong reactions by competitors

Railway and gas station: price erosion in the short term

Rail



- New rail provider (Westbahn) on the route Vienna - Salzburg in Austria.
- Competitor offers tickets at 50% of the standard price of the incumbent (ÖBB).
- ÖBB introduces special discount tickets "Sparschiene" as well as temporary EUR 15 flat rate tickets.
- Competitor responds with a ticket for EUR 7.5.

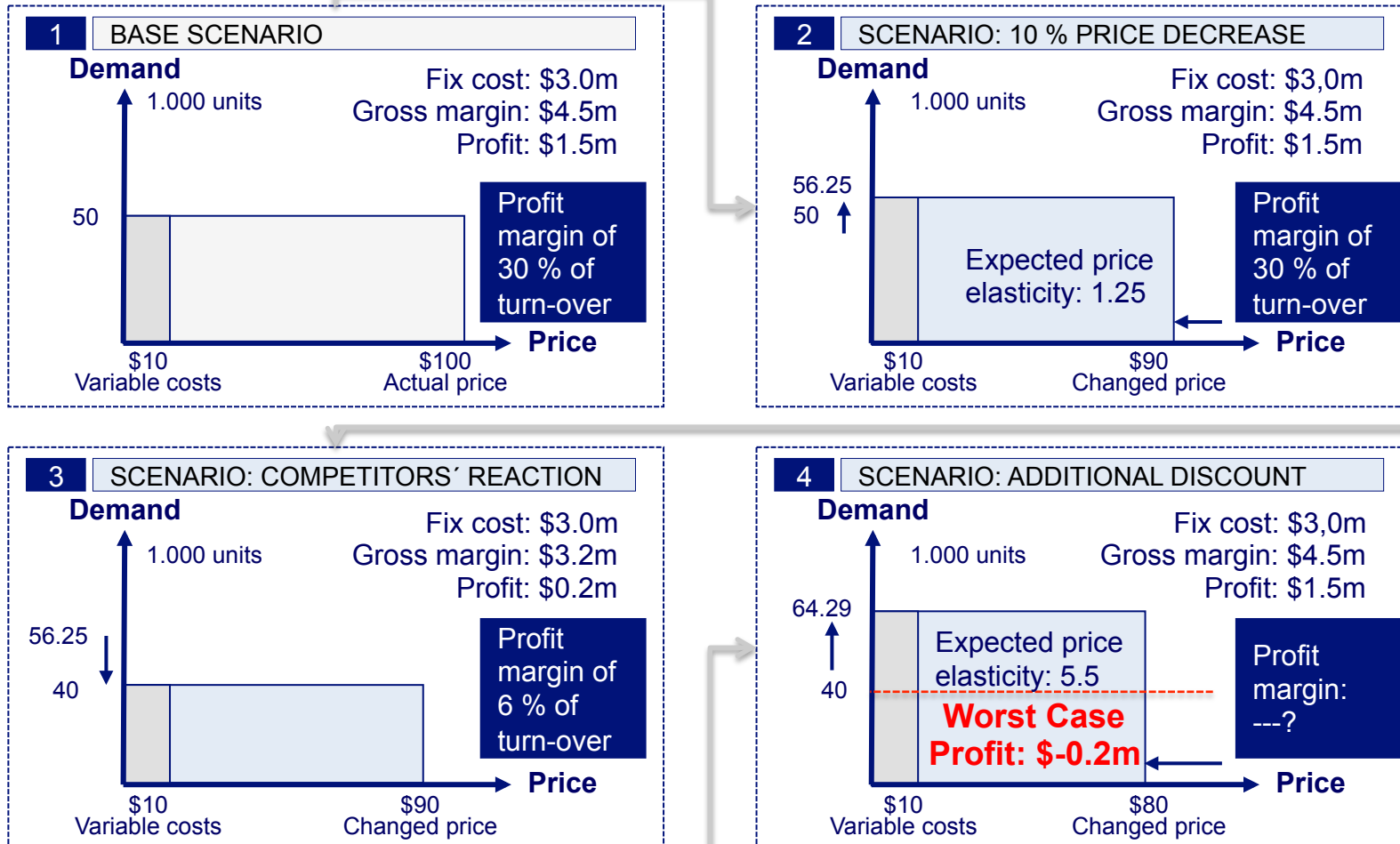
Gas station



- Motive: reopening of a petrol station discounter.
- Result: price dumping of local gas stations in / around Salzburg - reactions "every half hour".
- Final price level: one liter of diesel for 51.9 cents!
- Traffic chaos / 10 km traffic jam.
- The gas stations had to close the taps already in the early evening, the tanks were empty.

Source: **exeo** Strategic Consulting AG

A typical explanation for a Price War starting point: significant volume growth expected due to reduced prices



Source: **exeo** Strategic Consulting AG

Understanding the nature of a Price War: who triggers the breakout and what is the outcome?

Matrix: why did the price war start? vs. what is the outcome?

Typical case in the literature; beginning of a price war by accident – disastrous consequences for all players



A less considered case; beginning of a price war was targeted in order to eliminate competitors

company A = company with the first price reduction that triggered the price war

Source: Krämer, A., Jung, M., Burgartz, T.: A Small Step from Price Competition to Price War - Understanding Causes, Effects and Possible Countermeasures. International Business Research; Vol. 9, No. 3, 2016, S. 1- 13

In recent years further factors play an increasing role: new business models and platforms influence price setting

Price War: additional triggers due to IoT and Digitization

Old perspective: „acquisition costs are “sunk” and should be ignored when making forward-looking decisions.” –
New perspective: “we can offer our service at much lower cost than our competitors ...“

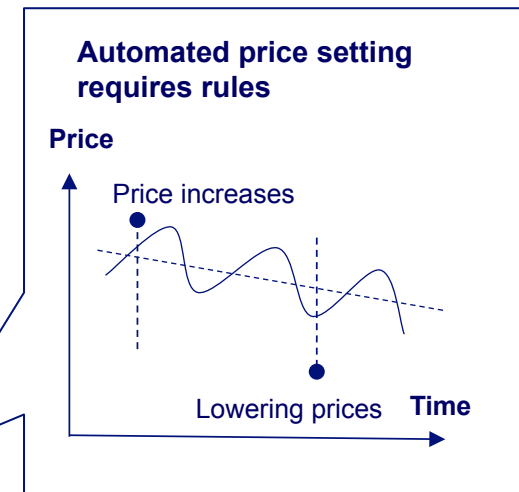
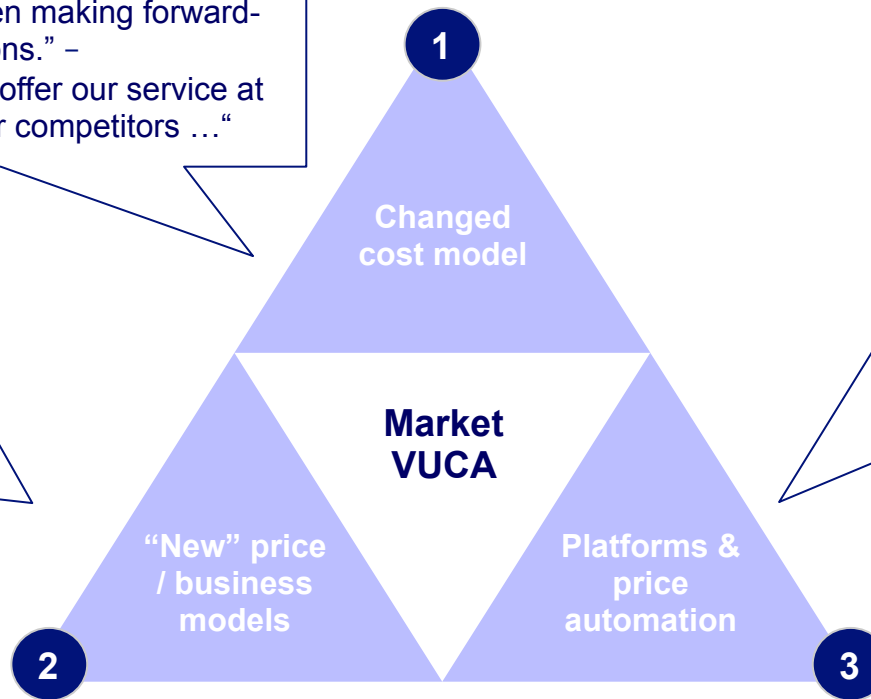
Example: \$-Shave Club

CHOOSE ONE OF OUR GREAT BLADES
 Each comes with a FREE compatible handle.
 \$1/mo \$2.05 SHAVE
 \$6/mo SHIPS FREE
 \$9/mo SHIPS FREE

LIVE THE FRESH BLADE SHAVE
 “I like shaving with a dull razor.”
 – No one ever.
 Blades arrive every month, so you can always treat yourself to a fresh blade shave.

CLUB RULES
 No fees, no commitment, cancel anytime. Satisfaction is 100% guaranteed.

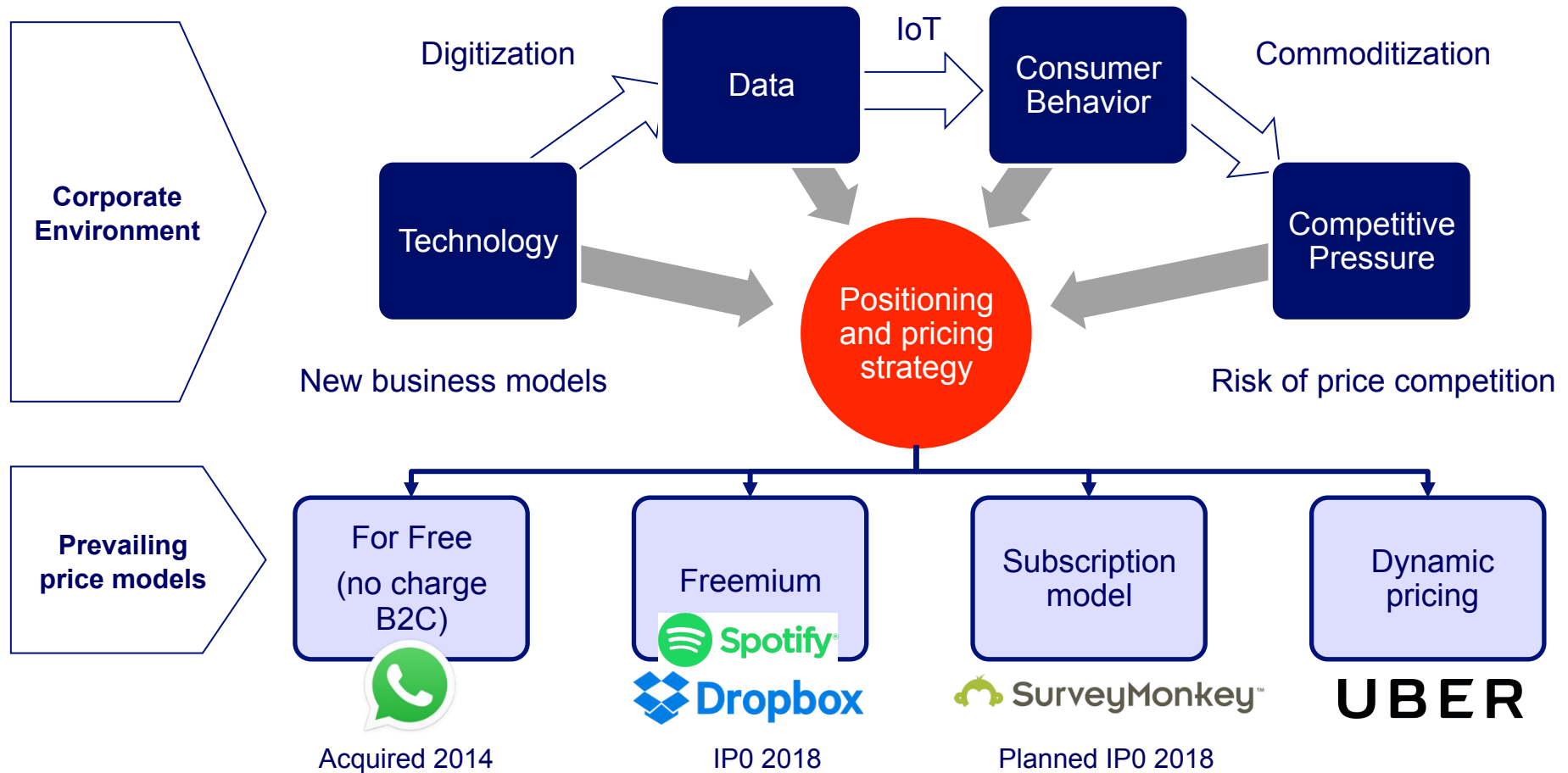
EASY UPGRADE AND DOWNGRADE
 You're free to change razor plans anytime. If you do, the new handle is FREE.



Source: **exeo** Strategic Consulting AG

A VUCA environment has an impact on prevailing price models: focus on the three top tech IPOs of 2018

Changed corporate environment and prevailing “new” price models



Source: **exeo** Strategic Consulting AG

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In the following 4 examples (B2C- and B2B-industries) are discussed

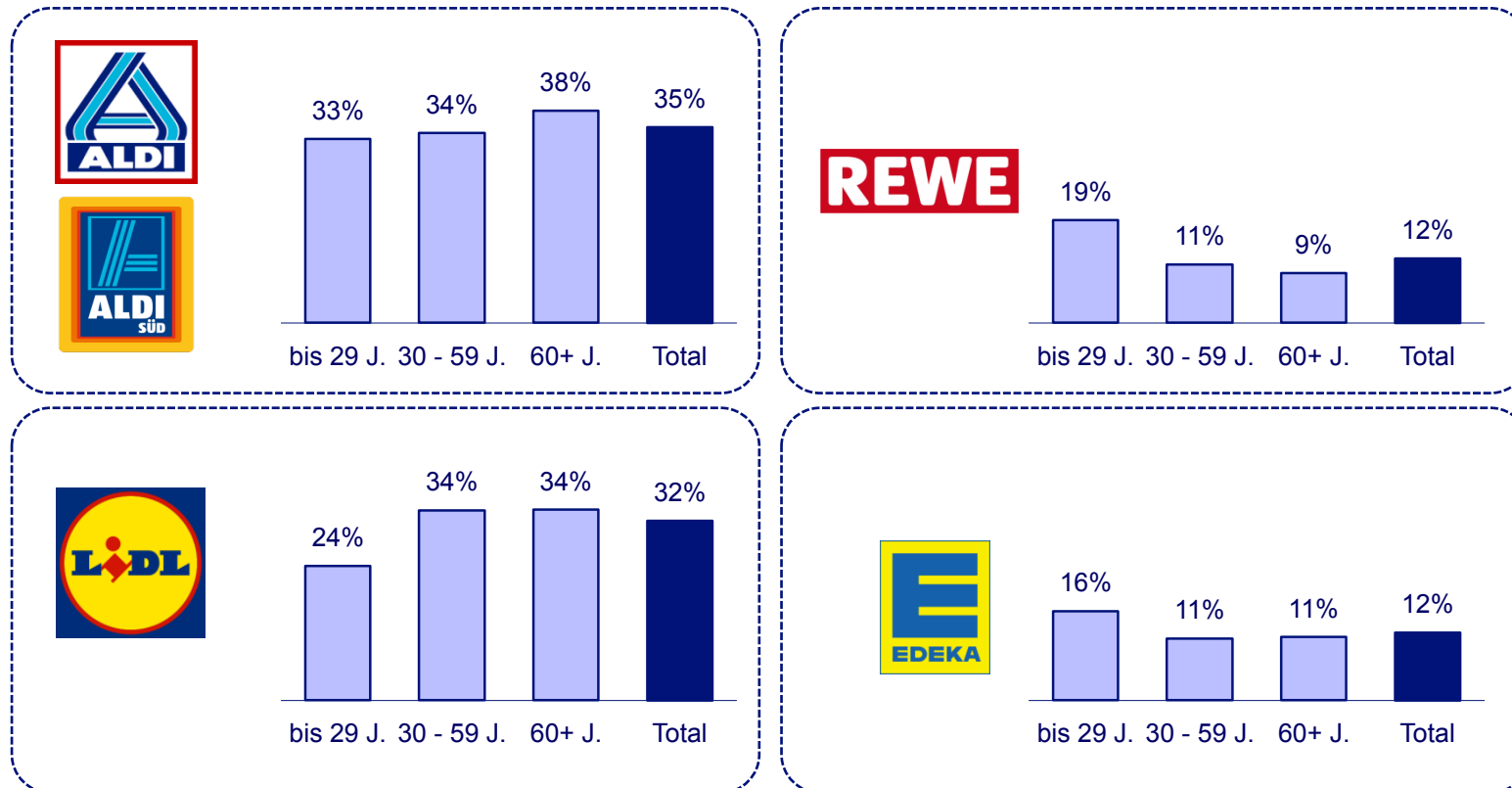


Source: **exeo** Strategic Consulting AG

Aldi and Lidl very often achieve best-in-class ratings in terms of „value for money“-ratio



Germany: Best-in-Class ratings - „value for money“ (% of respondents)¹⁾



1) When it comes to the following points, which provider do you see ahead? Please tick only one provider.

Source: **exeo** Strategic Consulting AG

Lidl is combining two strategies: price-aggressive offers and at the same time offering branded products



Germany: Lidl's competitive situation and new strategy in 2016

A typical competitive situation ...



Campaign Lidl (Sep. 2016)



Source: **exeo** Strategic Consulting AG



Intercity bus connections in Germany: From intense competition to monopoly

Market Liberalization

- The **liberalization 2013** of the long-distance bus market allows companies to offer long-distance buses on lines with a length of more than 50 km.
- At the end of 2013, about **40 suppliers** competed on the German market.
- From the beginning prices were much lower than expected by experts (break-even questionable)
- Expected market development (2015): “Since the beginning, the **number** of intercity bus operators has been significantly **reduced** as a result of the tough competition. In the future an oligopoly with about three to four large suppliers will be expected.”
- 2016: After 4 years there is virtually **no bus competition left** (market share of Flixbus > 95 %).

From competitive environment ...



... to monopolistic structures

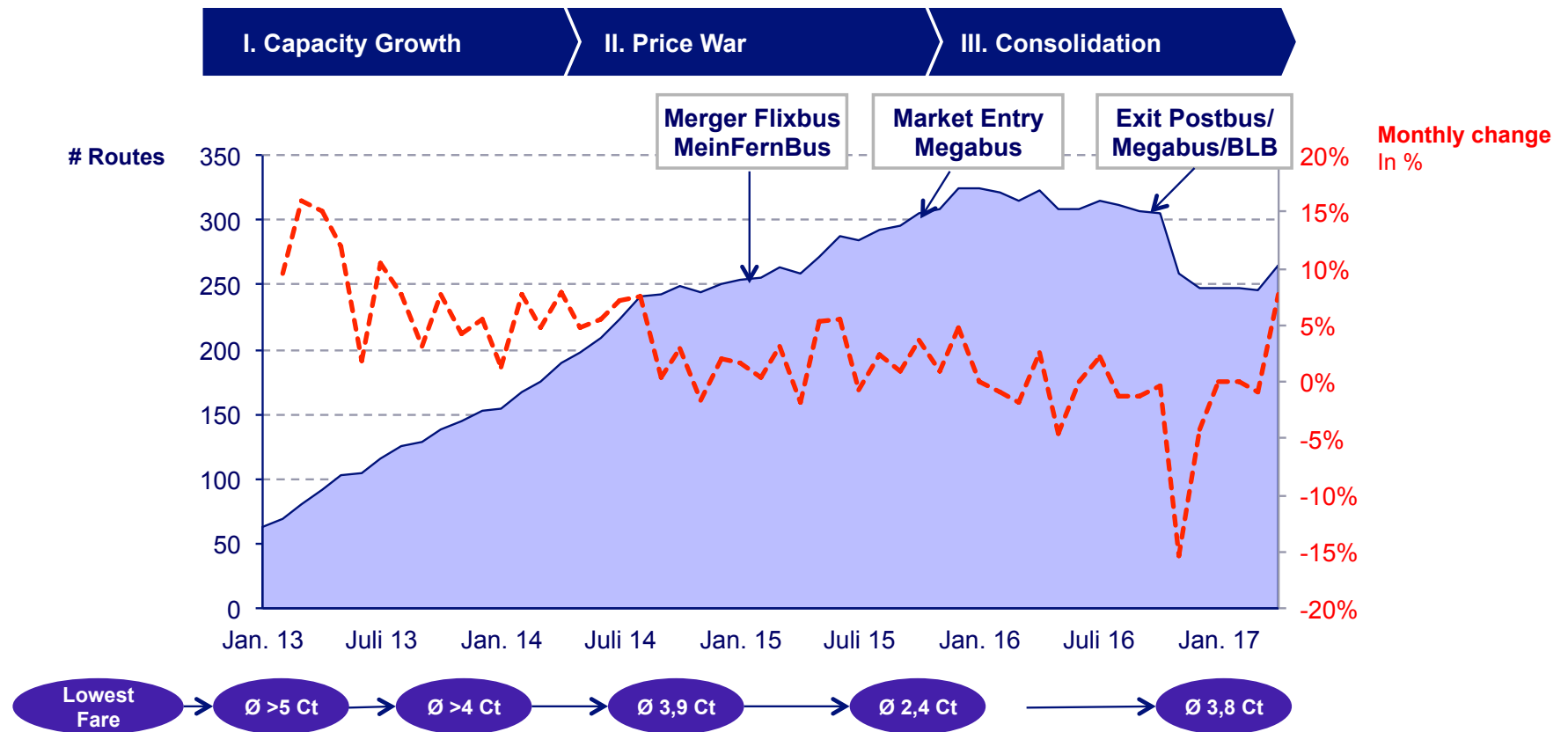
Company value:
EUR 1bn+

Source: **exeo** Strategic Consulting AG

Dynamic development of intercity bus routes until mid 2014 – sharp decline at the end of 2016



Number of national intercity bus routes in Germany (2013-2017)



Source: **exeo** Strategic Consulting AD; Simplex Fernbusreport

Some managers know better than others which costs are sunk and which are not



Amazon Prime customers and how they perceive Prime subscription fees



Jeffrey „Jeff“ Preston Bezos
President, Chairman und CEO Amazon.com

„If you look at Prime members, they buy more on Amazon than non-Prime members. One of the reasons they do that is because they’ve paid their annual fee, they’re looking around to see how to get more value out of the program.“

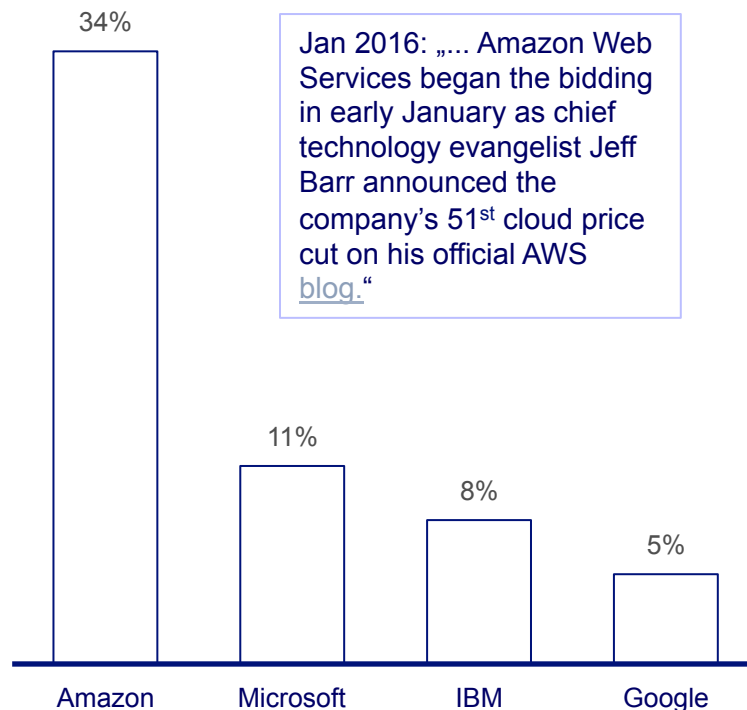
Source: **exeo** Strategic Consulting AG

Through aggressive pricing (51 price reductions in a row) Amazon Web Services (AWS) reaches the market leadership

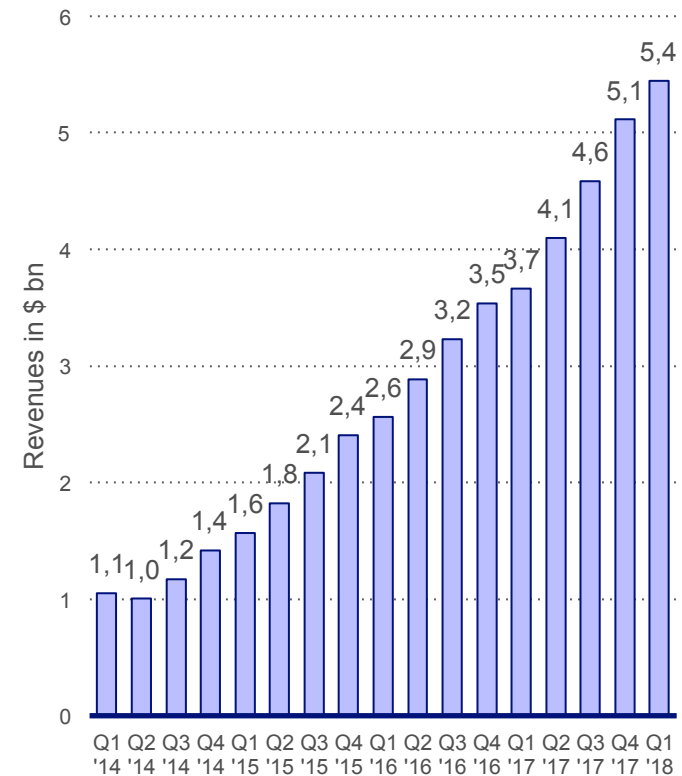


Amazons pricing in B2B markets: example of cloud services

Share of total revenues QII 2017



Amazon Cloud Computing revenues (2014-18)



Source: **exeo** Strategic Consulting AG Amazon Q1 2018 Financial Results

Company view on market research: imagine a situation where you decide to conduct a customer satisfaction survey



Market research - It is your choice: how would you decide?

1: Typical offer Market Research agency – standardized project (just descriptive... simple)

1	Project management	€ 2,000
2	Develop questionnaire	€ 1,500
3	Field / data management	€ 2,000
4	Data set (SPSS, labeled)	€ 1,000
5	Analysis	€ 3,000
6	Charts / documentation	€ 3,000
TOTAL		€ 12,500

2: DIY-Research using a web-tool – offered for free ...



Alternatively price of zero



Example

Source: **exeo** Strategic Consulting AG

After the market leadership was secured, a price adjustment took place...



Services and prices of SurveyMonkey: 2016 und 2018

	BASIC	PLUS	GOLD	PLATINUM
Kostenlos		225 € pro Jahr	300 € pro Jahr	800 € pro Jahr
Ihr Tarif	BASIC- Features +	PLUS -Features +	GOLD -Features +	Upgrade »
<i>Folgende Features sind enthalten:</i>	Unbegrenzte Fragen Unbegrenzte Beantwortungen	Unbegrenzte Fragen Unbegrenzte Beantwortungen	Unbegrenzte Fragen Unbegrenzte Beantwortungen	Unbegrenzte Fragen Unbegrenzte Beantwortungen
10 Fragen pro Umfrage 100 Beantwortungen pro Umfrage	Benutzerdefinierte Umfragedesigns und URLs	Benutzerdefinierte Umleitung nach Umfrageabschluss	Vollständige Markenkontrolle mit Research.net	
Benutzerfreundliches , webbasiertes Tool	Mehr Sicherheit (SSL/https) inklusive	Erweiterte Logik-Features:	Ihre eigenen Umfrage-URLs in Research.net	
Datenerfassung über WebLink, E-Mail, Facebook oder eingebettet in Ihre Site oder in Ihren Blog	Verzweigungslogik & andere erweiterte Features	Zufallszuweisung für A/B-Tests	Sie steuern das Design Ihrer Umfrage, indem Sie Ihr Logo und Ihre Farben hinzufügen.	
Ergebnisse in Echtzeit	Export nach Excel und druckreifes PDF	Fragenrandomisierung oder Überspringen	Sie entscheiden, wohin die Befragten nach Umfrageabschluss geleitet werden.	
Hervorragender Online-Kundendienst		Textanalyse für offene Beantwortungen	Telefonischer Support , bei dem Ihre Fragen von Experten beantwortet werden. (Nur auf Englisch)	
Alle Features anzeigen...	Alle Features anzeigen...	SPSS-Integration		

Freemium 2016

Source: **exeo** Strategic Consulting AG

Wählen Sie einen Tarif aus, der für Sie funktioniert

STANDARD	EXTRA	PREMIUM
39 € pro Monat	456 € pro Jahr	1.188 € pro Jahr
Monatliche Abrechnung SPAREN Sie mit einem Jahrestarif	Jährliche Abrechnung 456 €	Jährliche Abrechnung 1.188 €
PLUS	PLUS	PLUS
<ul style="list-style-type: none"> Unbegrenzt viele Umfragen Unbegrenzt viele Fragen pro Umfrage 1000 Beantwortungen pro Monat* Kundensupport per E-Mail rund um die Uhr Quiz mit benutzerdefiniertem Feedback Unbegrenzt viele Filter und Kreuztabellen, Datentrends Benutzerdefinierte Logos, Farben und Umfrage-URL Datenexport (CSV, PDF, PPT, XLS) Nur Verzweigungslogik Textanalyse 	<ul style="list-style-type: none"> Unbegrenzt viele Umfragen Unbegrenzt viele Fragen pro Umfrage Unbegrenzt viele Beantwortungen pro Umfrage Beschleunigter E-Mail-Support rund um die Uhr Quiz mit benutzerdefiniertem Feedback Unbegrenzt viele Filter und Kreuztabellen, Datentrends Benutzerdefinierte Logos, Farben und Umfrage-URL Datenexport (CSV, PDF, PPT, XLS) Verzweigungslogik, Frage- und Antwort-Piping Textanalyse und statistische Signifikanz Erweiterter Datenexport (SPSS) A/B-Tests, Randomisierung, Quoten Benutzerdefinierte Variablen Dateiupload SurveyMonkey Industry Benchmarks 	<ul style="list-style-type: none"> Unbegrenzt viele Umfragen Unbegrenzt viele Fragen pro Umfrage Unbegrenzt viele Beantwortungen pro Umfrage Telefon- und E-Mail-Support rund um die Uhr Quiz mit benutzerdefiniertem Feedback Unbegrenzt viele Filter und Kreuztabellen, Datentrends Benutzerdefinierte Logos, Farben und Umfrage-URL Datenexport (CSV, PDF, PPT, XLS) Verzweigungslogik, Frage- und Antwort-Piping Textanalyse und statistische Signifikanz Erweiterter Datenexport (SPSS) A/B-Tests, Randomisierung, Quoten Benutzerdefinierte Variablen Dateiupload SurveyMonkey Industry Benchmarks Erweiterte Verzweigung und Piping, Randomisierung von Blöcken White-Label-Umfragen
PLUS	PLUS	PLUS

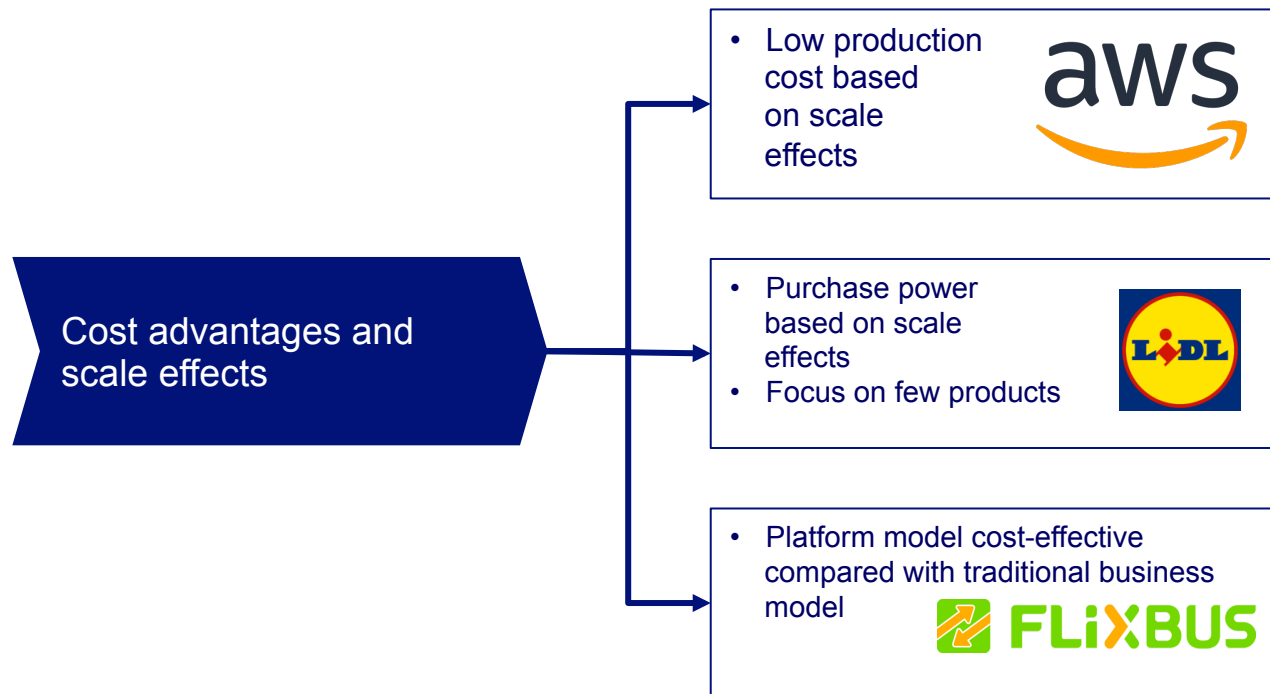
Freemium 2018

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How to turn it to your advantage: # 1: build on cost advantages and scale effects

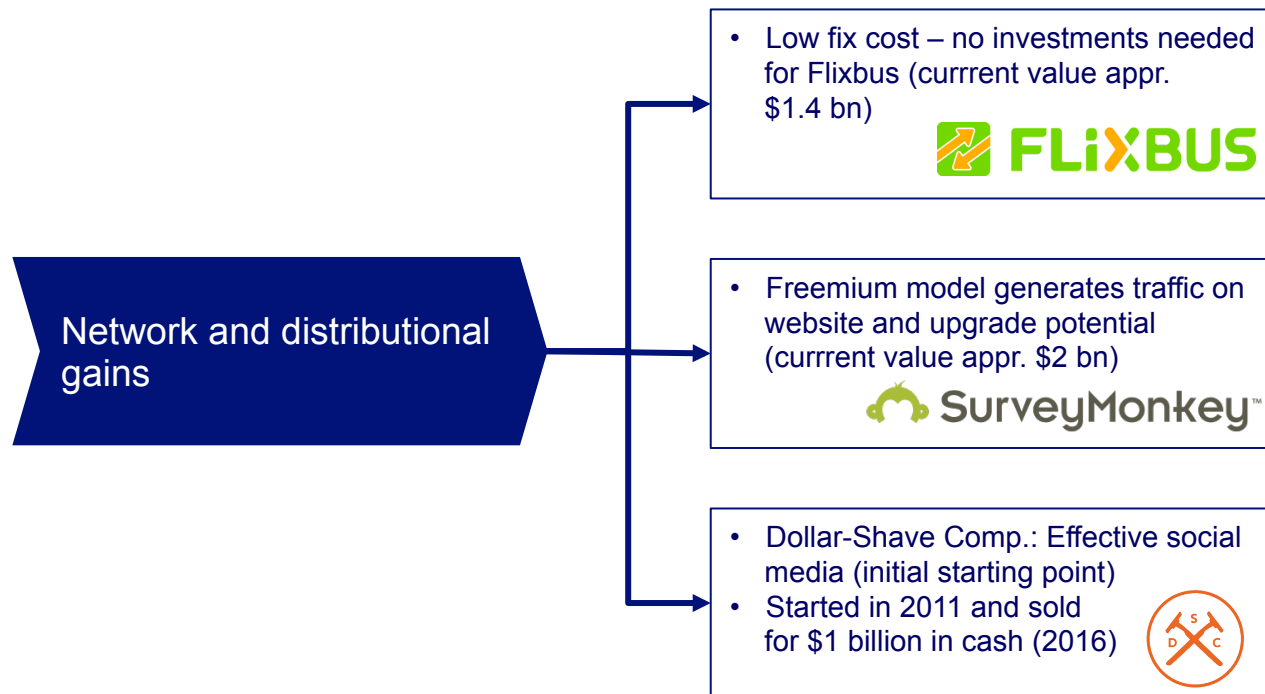
Price War: how to turn it to your advantage



Source: **exeo** Strategic Consulting AG

How to turn it to your advantage: # 2: build on network and distributional gains

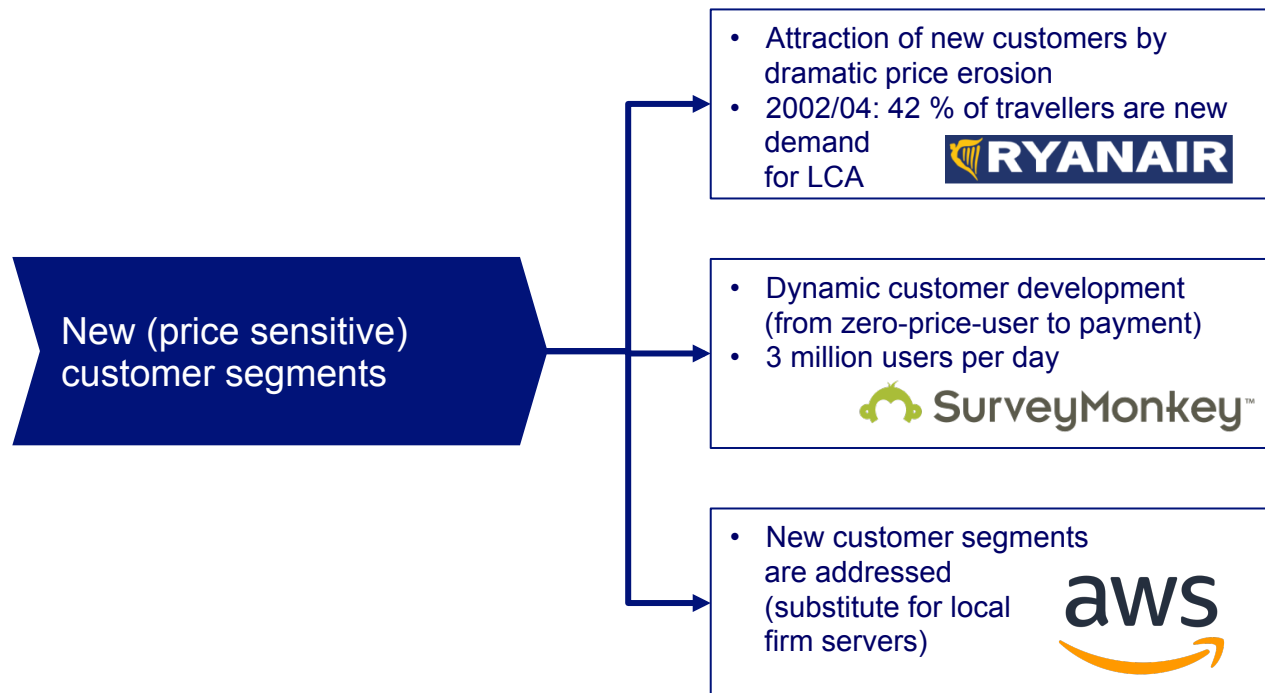
Price War: how to turn it to your advantage



Source: **exeo** Strategic Consulting AG

How to turn it to your advantage: # 3: focus on new (price sensitive) customer segments

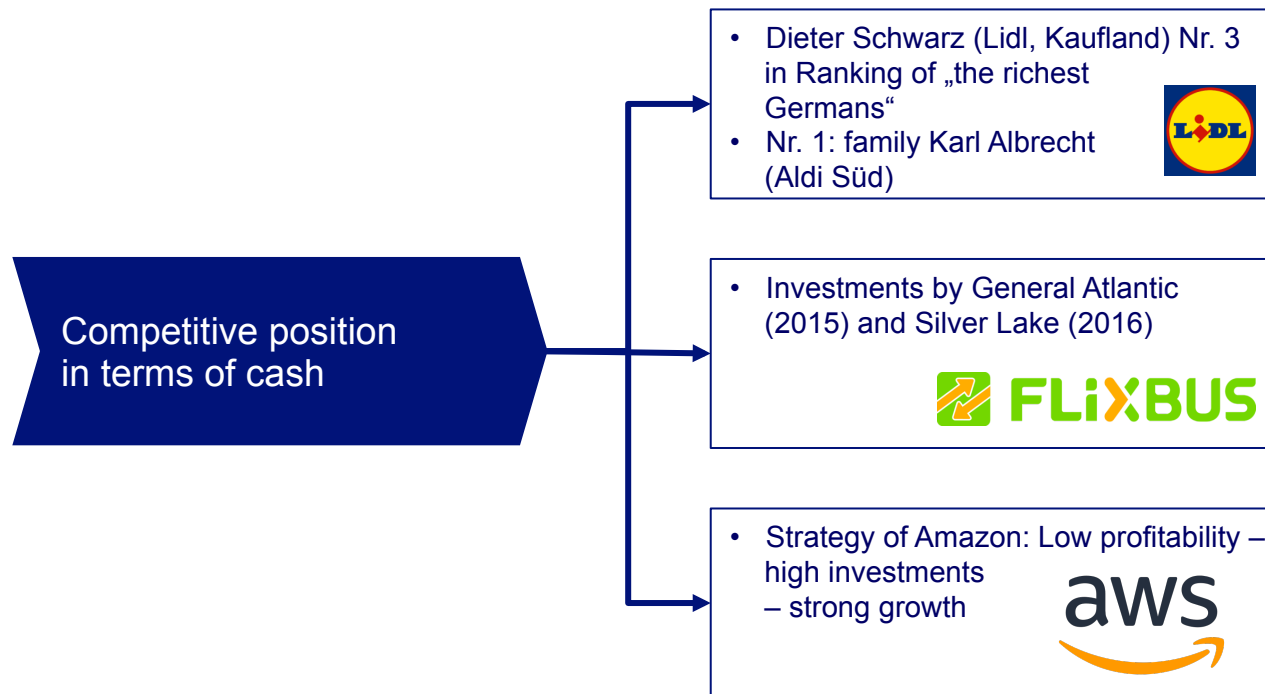
Price War: how to turn it to your advantage



Source: **exeo** Strategic Consulting AG

How to turn it to your advantage: # 4: focus on competitive position in terms of cash

Price War: how to turn it to your advantage



Source: **exeo** Strategic Consulting AG

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Price War - from a conventional to an enhanced perspective

Conventional view on Price Wars

Initiated by misunderstandings or a biased market perspective

- 1 Focus on **market share**: „we gain sales and market share by reduced prices?”
- 2 Focus on low **marginal costs**: “in the short term cost per unit is (almost) zero”
- 3 Focus on **price sensitivity** of customers: “demand will be very price-elastic, once prices are reduced”

.... and its extension

Initiated by purpose / to win strategically and damage competitors

- 1 Focus on **total market**: „we can cover the complete market? (scalability)”
- 2 Focus on real cost advantages: “our competitive advantage is **lower costs** per unit”
- 3 Focus on **new price sensitive segments**: “there is a large demand potential that can be activated.”

Source: **exeo** Strategic Consulting AG

Questions? Please Do Not Hesitate To Ask ...

