

# PRICING ADVISOR™

## Case Study: 36% Higher Portfolio Value With Behavioral Selling

*In this case study, the author outlines a portfolio optimization project for Oberbayerische Volksblatt (OVB) Rosenheim. This project helped the company transition from a confusing showcase of possibilities to a subscription store that helps customers decide. The emphasis on behavioral selling has increased the company's portfolio value by 36%. Dr. Florian Bauer is a Member of the Executive Board of Vocatus AG, an Honorary Professor at TU Munich (TUM School of Management), a Member Bundeswirtschaftssenat (BVMW), and a globally recognized Behavioral Pricing and Selling Consultant. He can be reached via [www.vocatus.de](http://www.vocatus.de).*



**by Dr. Florian  
Bauer**

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If you want to sell a product online, it is crucial to know how to design your product portfolio to maximize conversion rates and profits. To determine a lucrative portfolio structure, it is essential to understand the product elements' character from the customer's point of view first. This is the foundation for the "best" combination of elements in a product bundle.

This is demonstrated by a particularly successful project involving OVB. Considering the client's perspective and behavioral economics findings, OVB's publishing portfolio was optimized to increase the portfolio value by 36% in the empirical test. But let's start from the beginning.

#### **Status quo of subscription stores**

Up until today, many subscription stores of publishers often resemble a

showcase in which the publisher combines and presents all products and options in a variety of ways. Various offers are presented side by side under the rationalizing assumption that "the customer is of age and knows what he wants and needs." This was also the strategy initially pursued by OVB.

The OVB web shop was characterized by a large variety of choices. At first glance, this product presentation seems logical and correct. See [Figure 1](#) on page 3.

However, taking a closer look at the subscription store, several questions need an explanation for the potential subscriber:

- What is the difference between "free trial" ("Kostenlos probelesen") and "try now" ("Jetzt testen"; top row, middle)?

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- Is there also a standard or only the premium subscription (“Premiumabo”; top row, right)?
- And, what if I don’t want ePaper (as offered within the “Samstagabo”; middle of the second row)?

Of course, these are all questions that a potential customer could answer himself. However, the conjunctive will likely remain the same in this case – or would you painstakingly gather all the information you need to decide on one of the many options in the end? If it does not fail because of the lack of will, it probably does so because of the time factor. But why are so many subscription stores presented that way?

The approach “the more, the merrier” follows a widespread misconception: the “Homo Oeconomicus” – equivalent to a customer who always makes “rational” i.e., fully informed, price-driven, and influence-resistant decisions.

In fact, this customer profile overlooks essential insights from behavioral economics, which show that customers neither (can) make rational judgments, nor do they like to make decisions. Therefore, diversity is rather counterproductive for them.

For this reason, you are well-advised not to offer your customers your full range of products and services as usual. Instead, take the decision off your customers’ shoulders: “Decide for them” by tailoring your offers to the individual needs and preferences of your customers. This way, your customers don’t have to actively decide at all – YOU can decide for them. And trust us: Your customer (and your turnover) will thank you for it!

### Win customers by deciding for them

How then can the offer portfolio and the subscription store be arranged to make potential subscribers “decided?”

#### #1 Understand product elements from the customers’ point of view and combine them accordingly

The first step is to understand the individual product elements according to their significance for the customer. You can

Figure 1



only achieve this by surveying your target groups. The goal is to first determine which component is chosen most often and how much (more) respondents would pay for a bundle containing this element.

Assign your product elements to the following categories:

- **Basic elements:** They are particularly relevant for many customers but do not encourage them to pay more for the product just because it is included. These elements should thus be included in the basic bundle.
- **Tiering elements:** These product elements entice the potential subscriber into a higher-value subscription. They are especially relevant for many, but not a matter of course. They contribute to a higher price acceptance and differentiate the bundles from each other.
- **Additional options:** They are only relevant to a few people. However, they are so important to them that they would be willing to pay a higher price.
- **Question mark:** Sometimes, there may be a few “slow sellers” hiding in your product portfolio. You should take a closer look at them. Just because the majority considers them to be “unimportant,” and they only contribute little

to price acceptance, this does not mean that you should remove them from the offer. After all, even irrelevant product elements can positively influence the customer’s decision.

According to their character, this differentiation of product elements from the customer’s point of view is elementary preparatory work for creating product bundles.

#### #2 Experimental tests

After sorting and recombining your product elements, experimental and comparative testing of the new portfolio structures follows. Based on the test results, you can use the bundles that promise you maximum portfolio value. Variations include, for example, the number of bundles, the price structure, price communication, naming, and/or communication of use cases.

#### #3 Guide through the subscription process

Finally, it is crucial to design your subscription store accordingly. However, this does not mean that you simply present the “more valuable” product bundles next to

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each other (as in the initial example). You will only be truly successful if you go one step further and design your subscription store to act as a catalyst for customer decisions and thus reflect the customer's decision architecture.

OVB has implemented a new homep-

age explaining the product components in detail and hiding irrelevant offers through preliminary questions. See [Figure 2](#).

A combination of illustration and preliminary questions allows the portfolio to be displayed to the (potential) subscribers according to their specific needs. This also

prevents those interested in a print from seeing the lowest prices offered by digital services and being confused by them (negative price anchor). OVB was thus able to achieve sensational test results for its new portfolio and adapt the subscription store to suit. ❖

Figure 2

## SUBSCRIPTION STORE WITH BEHAVIORAL ECONOMICS

**Left Panel: ZEITUNGS- UND KOMBIABOS IM ÜBERBLICK**

	DIGITAL+ Für diese Abos sind weitere Zusätze und Optionen möglich	PREMIUM Unter Angebot für die Region Landesweit in alle Teile	PREMIUM+ Die all-inclusive Paket Preis OVB-Mitglieder
inkl. online.de	33,70 €	43,40 €	46,40 €
ePaper-Mitgliedsgebühr (ca. 12)	✓	✓	✓
ePaper (PDF) App (ca. 12)	✓	✓	✓
OVB-Mitglied	✓	✓	✓
gedruckte Wochenendausgabe	✓	✓	✓
gedruckte Zeitung (ca. 12)	✓	✓	✓
OVB-Mitglied (Auswärtige) (ca. 12)	✓	✓	✓
weitere Regionalausgabe (ca. 12) (ca. 12)	✓	✓	✓

**Right Panel: DIGITALE ABOS IM ÜBERBLICK**

	OVB ONLINE PLUS Das Angebot alle für alle Mitglieder	DIGITAL Die preiswerteste digitale für Landesweit in alle Teile	DIGITAL+ Die kleine Kombi aus digitalen Zusätzen und Optionen	PREMIUM Unter Angebot für die Region Landesweit in alle Teile	PREMIUM+ Die all-inclusive Paket Preis OVB-Mitglieder
inkl. online.de	14,90 €	26,90 €	33,70 €	43,40 €	46,40 €
ePaper-Mitgliedsgebühr (ca. 12)	✓	✓	✓	✓	✓
ePaper (PDF) App (ca. 12)	✓	✓	✓	✓	✓
OVB-Mitglied	✓	✓	✓	✓	✓
gedruckte Wochenendausgabe	✓	✓	✓	✓	✓
gedruckte Zeitung (ca. 12)	✓	✓	✓	✓	✓
OVB-Mitglied (Auswärtige) (ca. 12)	✓	✓	✓	✓	✓
weitere Regionalausgabe (ca. 12) (ca. 12)	✓	✓	✓	✓	✓

**Annotations:**

- All product components are clearly explained (click on +)
- The display of irrelevant packages is avoided by a preliminary query.
- The low prices of the digital-only products are not shown - so there is no negative price anchor.
- The default is set to the middle option - this supports decisions of interested parties.
- The higher-quality print bundles are displayed quite explicitly to make the digital products appear cheaper.
- Also in the digital - the default is in the middle.

**"MAKE THE CUSTOMER DECIDED" USING PRESELECTION AND GUIDANCE**

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# Preparing the Chemicals Sector for Post-COVID-19

by Jan Haemer and Kiran Pudi

Three factors will ultimately determine how prepared the chemicals sector will be for the post-COVID-19 era: how well the companies understand the current effects of the COVID-19 crisis, how the companies cope with uncertainty in the meantime, and how well they seize five key opportunities to gain a competitive advantage. Although specific to the chemicals sector, this multi-market article provides COVID recovery tactics that can be applied by pricers in multiple industries.

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Jan Haemer



Kiran Pudi

fluctuations, depending on their applications. The automotive value chain faces regional slowdowns, but plastics have benefited from a tremendous increase in demand for food-safe packaging.

## What the lingering uncertainty means for chemicals companies

The 2021 outlook remains uncertain. As companies cope with this uncertainty in their business planning, they need to pay careful attention to three commercial symptoms, even beyond the next year.

- **Increased risk aversion:** Specialty chemicals suppliers are delaying new product launches or market entries. At the same time, the accelerated push towards a circular economy is causing more reluctance to invest in upstream, e.g. petrochemicals.

- **Rapidly changing demand profiles:** The resurgent health crisis leads to sudden, massive demand changes, resulting either in excess capacity and growing inventories or supply shortages and supply chain disruptions.

- **Increased volatility in oil prices:** Sudden drops in Brent prices earlier in 2020 have led to lower downstream prices. While oil prices have partly recovered since then, the major ups and downs put producer margins at risk.

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The COVID-19 crisis not only increases the urgency for chemicals companies to overcome long-known challenges in sales, but also provides a catalyst for the required changes.

## What are the current effects of the crisis?

COVID-19 has obviously affected all industrial sectors to varying degrees. The chemicals industry has fared reasonably well, despite an outright decline in demand, because its go-to-market models have experienced less stress than other industries. Executives in the chemicals industry in Western Europe expect a year-on-year decline in revenue of between nine percent and 26 percent, according to a recent Simon-Kucher study. As of September 2020, monthly volume run rates have still not recovered to pre-crisis levels.

## How are the consequences for the chemicals industry compared to other industries?

As seen in [Figure 1](#), travel and transport and

hospitality, for example, experienced a major shock to both their go-to-market models and to their demand, primarily due to physical-distancing rules. Companies in those industries have suffered enormous losses since March 2020, and are using all means at their disposal to keep their heads above water.

In the chemicals industry, the actual impact depends heavily on the downstream industries that drive demand. Demand for upstream products and oil derivatives has built-in resilience. Fine and specialty chemicals are more exposed to demand

Figure 1: Expert estimate of impact of COVID-19 on industries



## 5 recommendations for the challenges ahead

Demand in the chemicals industry saw stronger impact from the crisis than the go-to-market model did. But a closer look reveals that “normal” field sales with customer visits has temporarily become impossible. It will continue to be very inefficient, even if travel restrictions loosen.

We estimate that 23 percent of a typical field sales representative’s time is spent traveling. While many sales teams have quickly re-organized to stay in touch with customers remotely and secure volume, the remaining inefficiencies are contributing to the “overweight” status of chemicals companies’ traditional go-to-market model, as shown in [Figure 1](#). Companies now have to re-direct that time to far more productive use and invest in reducing barriers to purchase in a physically-distanced world.

**Mastering the following five commercial levers will decide who will win and lose post COVID-19:**

**1. Increase sales efficiency:** Low transparency into the sales funnel hinders early detection of buying patterns. According to the Simon-Kucher survey, some 78 percent of chemicals companies say they have initiated actions to secure and grow volume, i.e. identifying “winners and losers.” For instance, a minerals producer established a bi-weekly routine with its ten most attractive customers per region, in order to check jointly for sudden demand changes and to adapt planning in a timely manner.

**2. Move towards digital sales:** In the

chemicals industry, there has been too much talk and too little impact from past digitalization efforts on customer interaction. The crisis has made this crystal clear to many industry executives. Consequently, digitalizing internal sales processes – such as “lead-to-quote-to-order” – is now a top topic that will make the companies more resilient. In this spirit, a fiber producer closely tracks its CRM usage to timely identify its biggest process bottlenecks.

**3. Shorten the sales cycle:** Testing and sampling activities account for up to 70 percent of the total time from initial customer request to closing. Clear prioritization rules are a quick win to reduce time-to-market for the most promising opportunities, while virtual assis-

tants like BASF’s myPharma or Evonik’s COATINOTM show the future “art of the possible.”

*“Customers have very precise ideas about the capabilities that a product should have. They can choose from over 200 properties and we can test 120 samples in 24 hours.”*

**– Dr. Gaetano Blanda,  
SVP Coating Additives, Evonik**

**4. Use new ways for customer interaction:** By now, it is clear that “digital” is indispensable in chemicals sales and dis-

tribution. Marketplaces like CheMondis in Europe, Alibaba in Asia, and Knowde in the US help to reduce transaction costs across customer segments. Increased visibility and reach help companies to capture new growth opportunities.

*“On our platform, 2,100 buyers and sellers benefit from the fully digital purchase process. Efficiency in order processing increases and manual effort is reduced.”*

**– Sebastian Brenner,  
Managing Director, CheMondis**

**5. Stay in control of pricing:** The longer it takes for demand to recover, the more the pressure on pricing will increase

**The longer it takes for demand to recover, the more the pressure on pricing will increase to secure remaining volumes.**

to secure remaining volumes. Coupled with increased volatility in oil prices, this means that producers will need to become more agile in pricing and contracting. Actionable guidance and clear governance in pricing are important to protect prices during the COVID-19 crisis and to allow the company to seize opportunities during the upturn.

Companies that seize these opportunities will build a competitive advantage in sales through greater efficiency and better customer focus, and will win more deals with more customers faster. ❖



# Design-to-Value Using Cost Integrated Conjoint Analysis

In this article, the author demonstrates the use of Design-to-Value (DTV) and Cost Integrated Conjoint Analysis as an approach for delivering winning product pricing strategies with high value to cost ratios. This article draws upon recently completed pricing consulting projects to illustrate the effectiveness of this approach. Nihit Ningthoujam is a customer strategy consultant with high focus on pricing and product optimization supported by market research and analytics methods such as Conjoint Analysis. He can be reached at [Nihit.Ningthoujam@essec.edu](mailto:Nihit.Ningthoujam@essec.edu). View animated simulations of the illustrations in the original article [here](#).



by Nihit Ningthoujam

attributes and innovative features that would drive purchase decisions and prices as well as key competitive packages to be included in the study.

- **Phase 2:** Creation of Conjoint Analysis survey using Sawtooth Lighthouse and data collection in collaboration with a panelist.
- **Phase 3:** Modelling of survey data, integration of cost data and development of a simulator.
- **Phase 4:** Extraction of competitive and consumer insights, bench-marking of current service package and creation of three service packages to maximize contribution margin.

**D**esign-to-Value (DTV) is a data driven cross-functional approach to deliver winning products with high value to cost ratio with the objective to maximize contribution margin (total earnings available to pay for fixed expenses and to generate a profit).

DTV requires in-depth consumer, competitive and operational intelligence. Application of DTV across similar products of an entire product line is much more complex, especially because of the cannibalization among similar products. The cannibalization effect is not easy to predict during the product design phase, before the launch of product.

In this article, I will use past project work to illustrate why Cost Integrated Conjoint

Analysis is a very powerful and convenient tool for Design-to-Value (DTV). This DTV approach increased contribution margin by more than 30% and significantly reduced the Service Development Time (time taken to research, design and develop a service). Conjoint Analysis of product or service attributes enables us to hit three sweet spots with the right combinations of features and prices, and enables us to answer questions such as:

- Is the current price optimal?
- Should we modify the service features?
- Can we deliver multiple service packages?

Here are the necessary project phases:

- **Phase 1:** Identification of key service

Jumping forward to **Phase 4**, [Figure 1](#) demonstrates how to measure the importance of product attributes and features to identify the key elements driving customer value perception.

**In Phase 3**, benchmark the current service package against the competitors across *Share of Customers*, *Share of Payslips* and *Share of Revenue*, as seen in [Figure 2](#).

Integrate cost data into Conjoint Analysis results in order to optimize each of the service attributes while evaluating the impact of each service feature on contribution margin. For example, the impact of

[➤ CONTINUED, next page ➤](#)

Figure 1

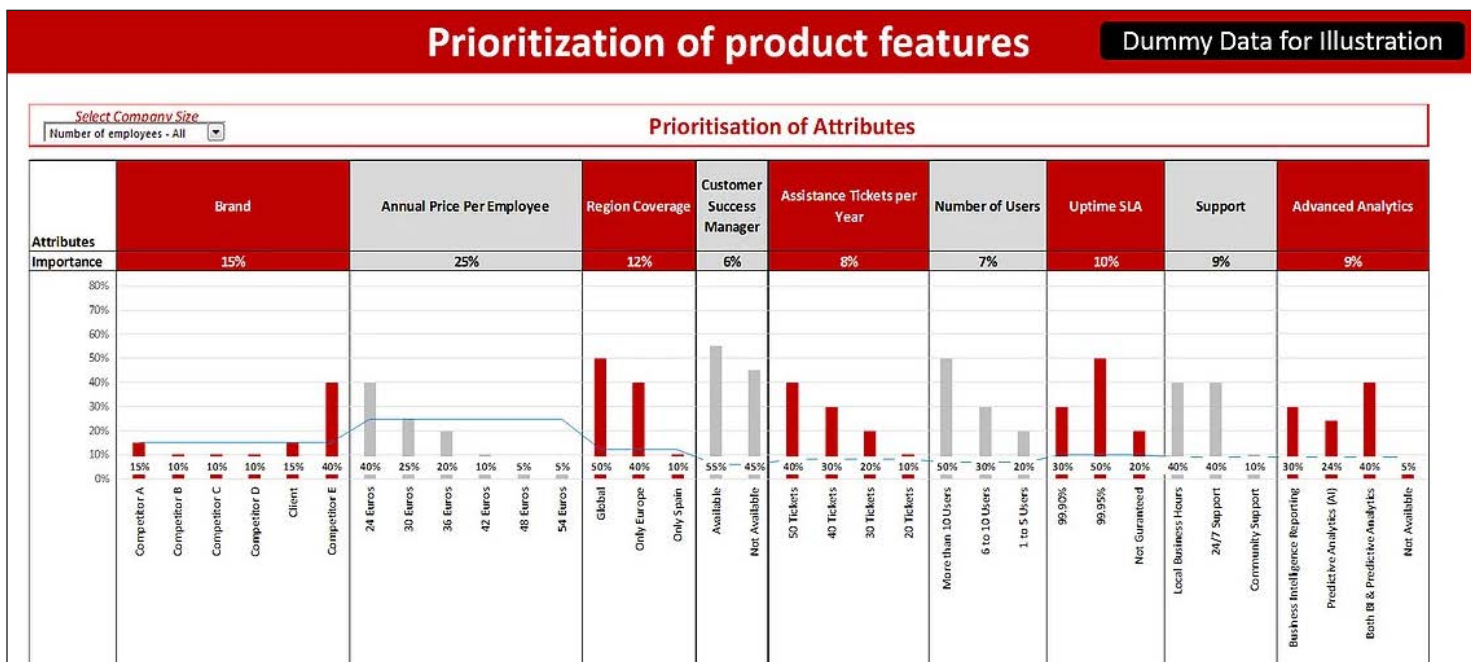
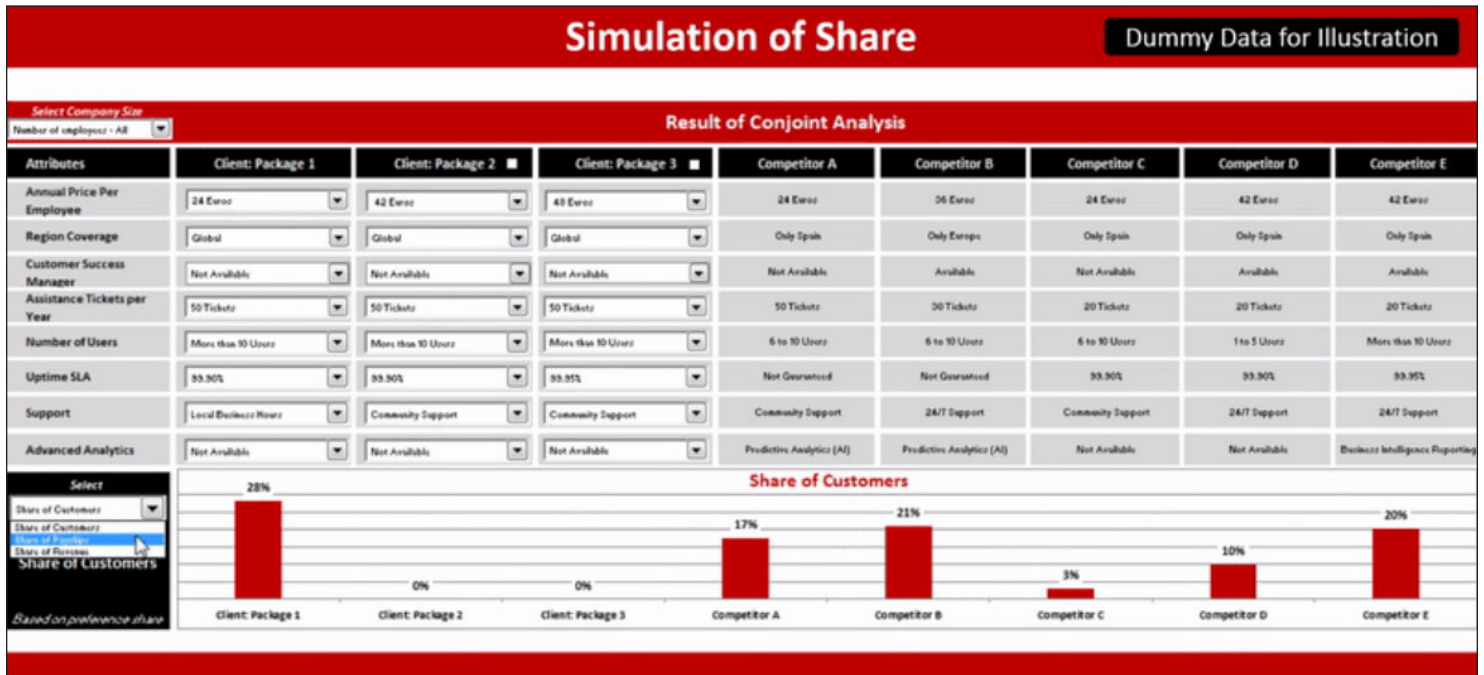


Figure 2



Advanced Analytics tools on contribution margin is demonstrated in [Figure 3](#).

By transforming a single service package into a line of multiple packages, you can optimize prices and features while taking cannibalization and competition into account.

The impact of new packages on the bottom line are directly highlighted in [Figure 4](#).

Three packages defined as Eco-

nomical, Value for Money and Premium, maximized their combined contribution margin, as seen in [Figure 5](#). Conjoint Analysis enables of product or service attributes, enabling us to hit three sweet spots with the right combination of features and prices, and to answer questions such as:

- What if *Assistance Tickets Per Year of Package 1: Basic* is reduced from 50

*tickets to 40 tickets?* What would revenue decline and cost saving levels be?

- What if *Support* is upgraded to 24/7 and *Uptime SLA* is degraded to 99.90% in *Package 2: Standard*? How would it affect margin, revenue and cost?
- Should we sell *Package 3: Premium* at 42 € or at 54 € instead of 48 €?

The cost to value ratio of the new pack-

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Figure 3

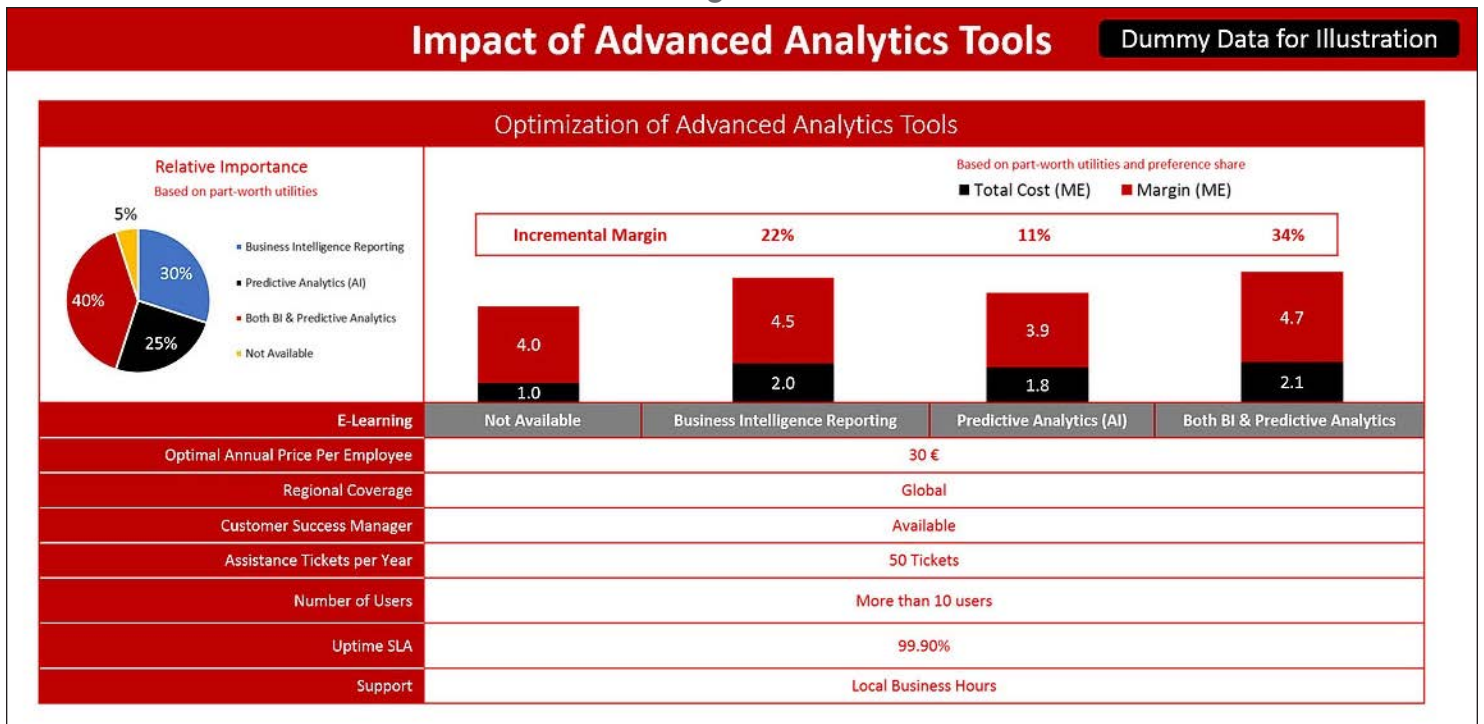
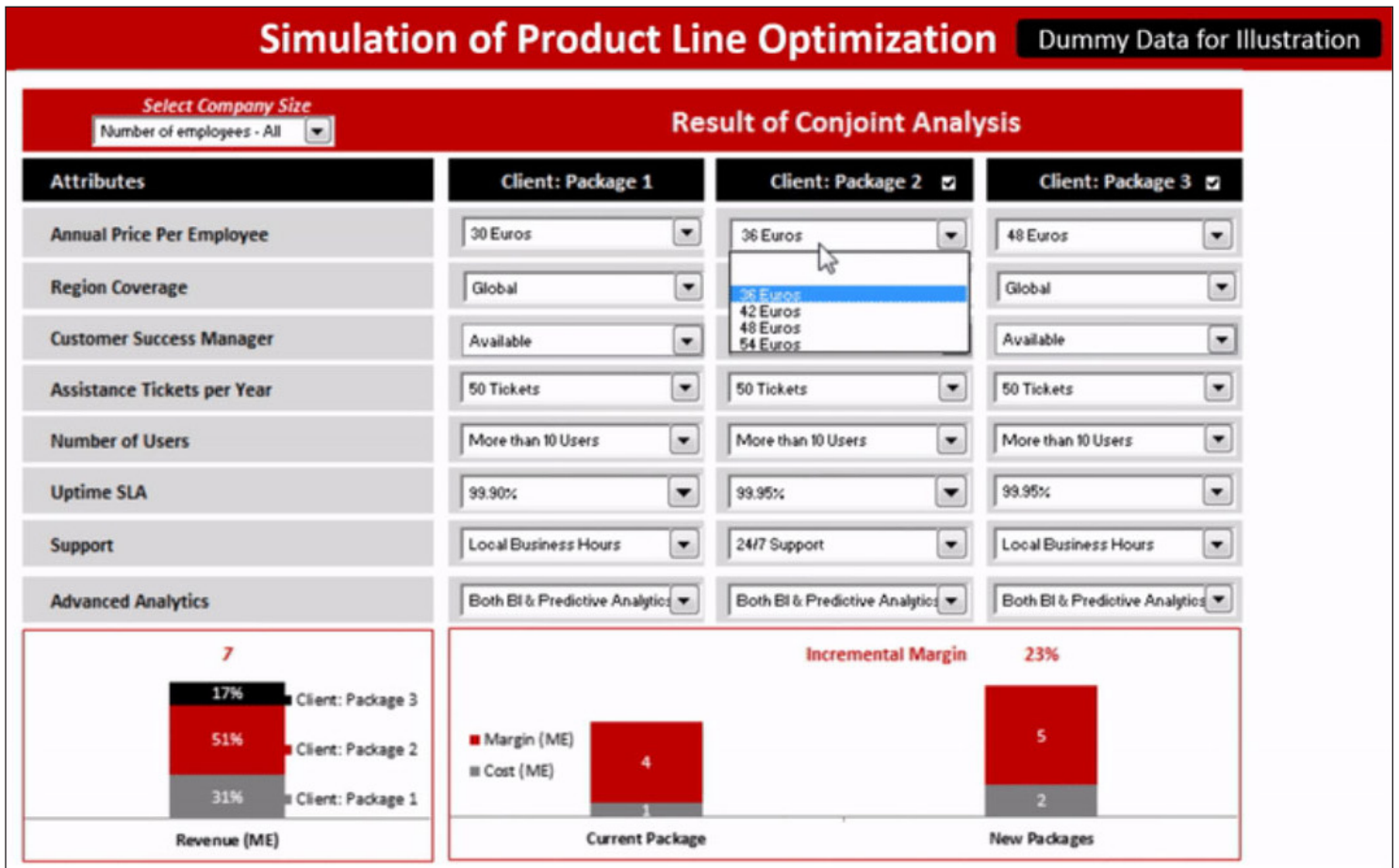




Figure 4



ages and the current package are illustrated in Figure 6. In this illustration, we can observe that:

1. Value of Package 1 is higher at a lower

cost than the current package.

2. Value of Package 2 is 1.5x higher than the current package for a marginal increase of cost by 1.2x.

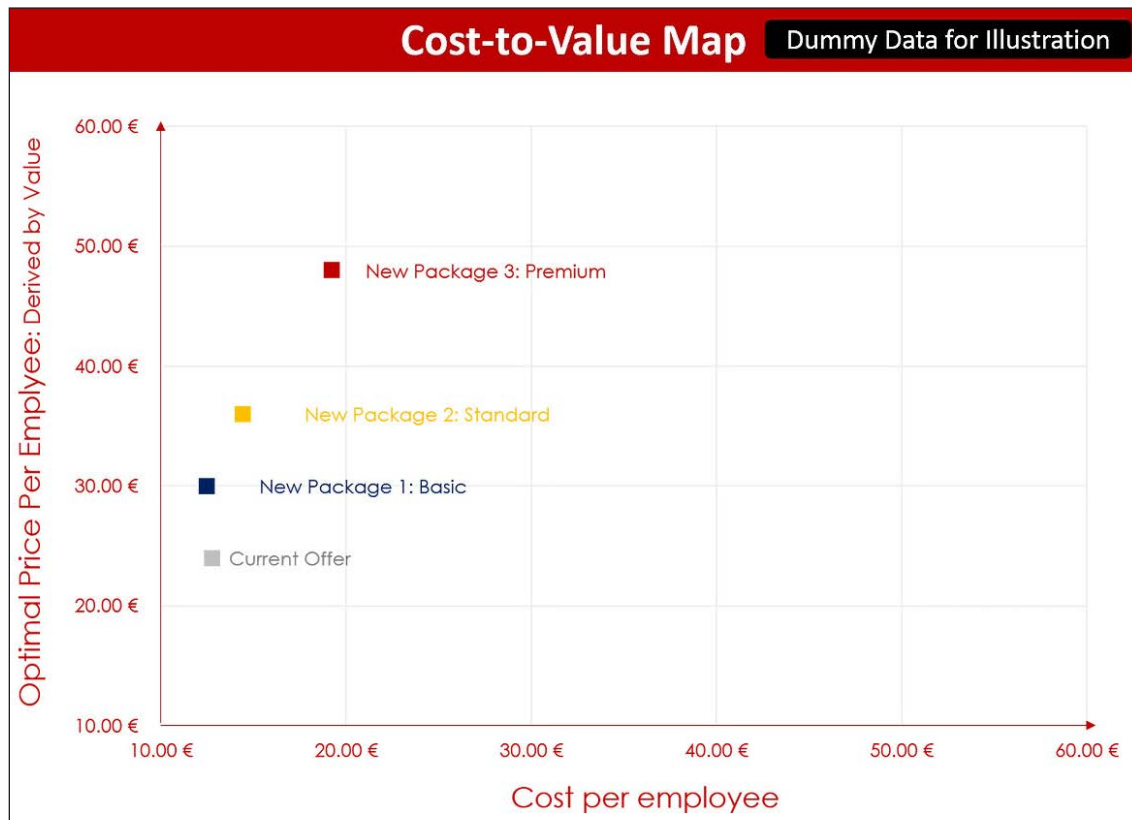
3. Value of Package 3 is 2x higher than the current package for an increase of cost by 1.5x.

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Figure 5



Figure 6: Cost-to-Value Map (Dummy Data for Illustration)



This led to estimated profitability of these packages (see [Figure 7](#) and [Figure 8](#)) and more well-informed decisions with much higher confidence.

In conclusion, a Design-to-Value (DTV) approach leads to higher value-to-cost ratio than the current package. These packages have the potential to increase

the client's contribution margin by more than 30%.

The key of the Design-to-Value approach used in this study is Conjoint Analysis: Cost Integrated Conjoint Analysis enabled us to effectively hit three sweet spots with the right mix of service features and prices. This approach permitted us to ef-

fectively skim multiple customer segments with different needs and willingness to pay.

In this example, there are seven service attributes with two to four different service features each, excluding price and brand. In other words, there were 1728 possible packages (i.e. all possible combinations

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Figure 7: Impact on Annual Contribution Margin (Dummy Data for Illustration)

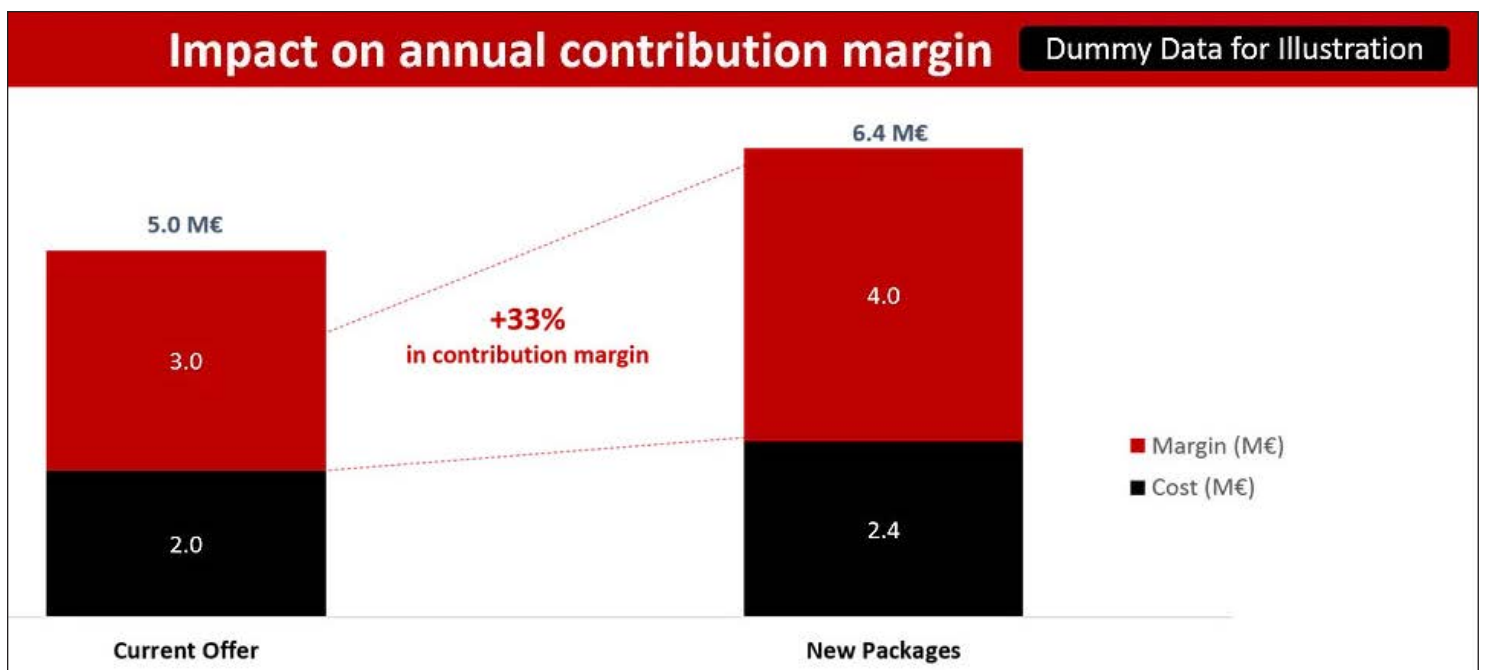
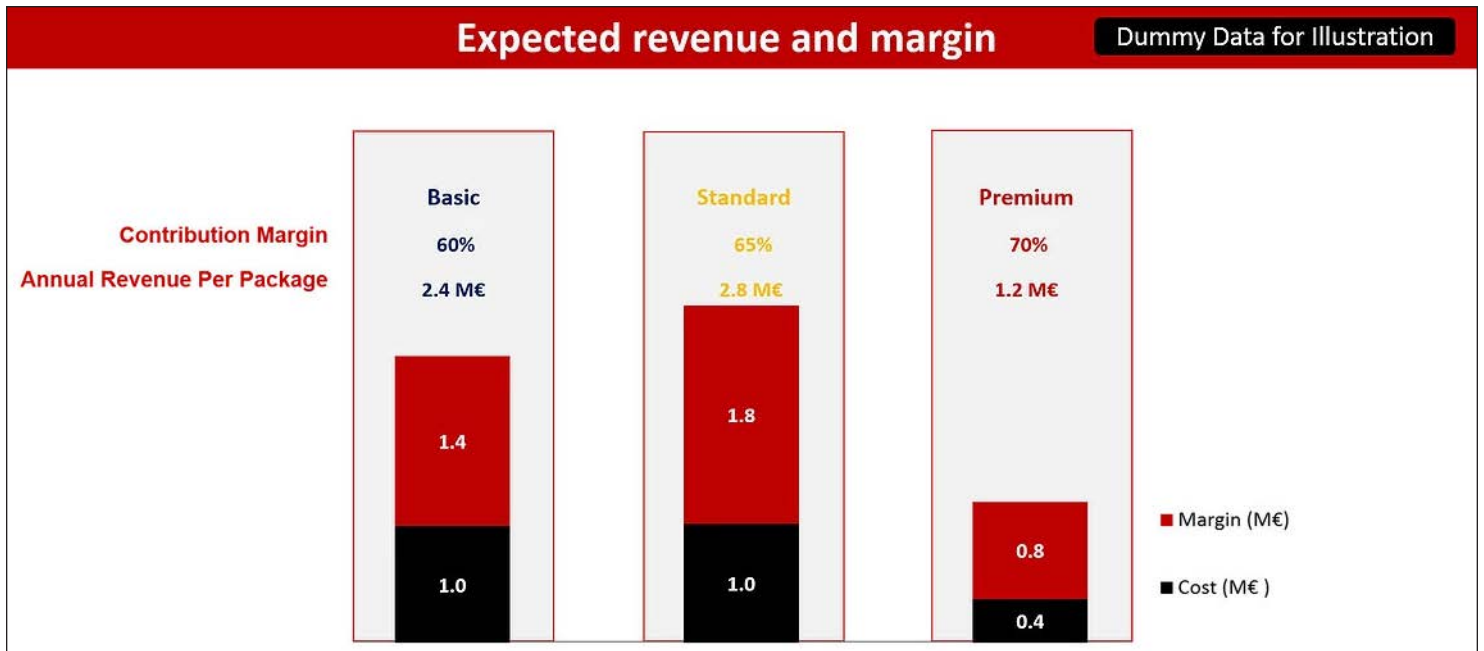


Figure 8 Expected Revenue and Margin (Dummy Data for Illustration)



of service features).

Out of all these possibilities, three optimal packages were chosen and their price points were defined maximizing their

combined contribution margin while taking cannibalization and competition into account.

Imagine the time and costs that your

team would incur to the test market acceptability and economic feasibility of 1,728 possible packages without using Cost Integrated Conjoint Analysis. ❖