

Conversations with Consultants

Hermann Simon

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A podcast by **D2CG**

Beginning

Liz 0:04

Hello and welcome to Conversations with Consultants. Whether you are an aspiring consultant, veteran in the industry, or somewhere in between, we're sure this is the right podcast for you. Throughout our episodes, we'll be bringing you conversations with some of the most accomplished consultants. In short, these conversations will shine light on their career paths, starting from their first steps in the industry, right up until their current work today. So, if that sounds good, grab a coffee, sit back and enjoy the show. Hi, guys, I'm Liz. I'm your host today and in this podcast, I am privileged to be speaking with Mr. Hermann Simon, the founder and previous CEO of Simon-Kucher, a leading global marketing and pricing strategy firm. Hermann has had quite a fruitful academic and professional career, ranging from being a visiting professor in many Ivy League schools such as Harvard and MIT, to shaping Simon-Kucher into what it is today, a leading global marketing and pricing strategy firm, with nearly 1,500 employees across 39 Global offices.

So, considering the humble nature of Hermann's roots, I've decided to start this conversation with exploring his childhood first. And then of course, we'll explore his path from early years, right up until his time at Simon-Kucher. I must say that I personally really enjoyed this conversation, and I am delighted to be able to share his story with you guys today. Enjoy.

So, Hermann, I suppose you've stated that you've lived two lives. So your first being your upbringing in the bucolic village of Eifel in West Germany. And then the second of course, being your well-travelled, experience, you know, both in the academic and corporate realm. So as I said, is a student from rural Ireland, I find this personally quite humbling. Could you give our listeners I suppose a bit of insight into your early childhood growing up on your family farm?

Hermann 2:09

I grew up in the Middle Ages. How can that be? The Eifel which is the westernmost region of Germany was part of the state of Prussia, before the World War and it was called the Siberia of Prussia. Why? The reason was, it was really a backward region, that Germany fought a war every couple of years with France. And this was a region where as German troops marched into France, so there were two plays, etc. So, there was no industry, nobody invested there. I grew up in a small village of 400 people and we had no machines on a small farm. So the life form was more or less so like in the Middle Ages, not much had changed in the last 100 years and the big progress came only when I was 1520s, that we got a tractor and some machines, etc. So I really know the rural traditional life from my childhood, which then had disappeared 20 years later, in my village, over 38 families who all left agriculture. Today, there's not a single farmer left but land is still cultivated by farmers from other villages. With big machines, one farmer can cultivate as much land as the whole village by hand 70 years ago.

Liz 3:53

That's certainly something to appreciate and to hear first-hand as well. And I think a lot of our listeners will, will find it quite inspiring that I suppose that's where you started off, following on from this later on, I suppose during your teenage years. So after gymnasium, you were then of course, enrolled in the Air Force. So something that I'm quite interested in is, you know, seeing as strategy is often cited as developing from military origins. Could you tell us a bit about your exposure in the air force to strategy?

Hermann 4:26

I go back to the Eifel again, because there was another characteristic of the Eifel, it was called the fortress Eifel Why? Because it was the most western region of West Germany. And of course, attacks were expected from the east from the Soviets, the Russians. And so all of the airbases, German and American air bases were in the western part. So I saw the Jets all the time flying in the sky and my dream was to become a jet pilot, Star fighter pilot stuff like that was the main plane of set time. So applied to the Air Force I failed due to some problems with my eyes. But I still joined the airforce. And that was a formative time for me. Because as a young man, I became an officer, you learn to lead. We had in 1968 extreme situations when the Russians marched into Czechoslovakia, there were always NATO alarms, and the only mission of our bomber Fighter Wing was to drop nuclear bombs on certain targets on the other side of the Iron Curtain. So during that time, I really learned to to lead. Because in one such emergency situation, half of our Squadron were in trunks and NATO alarm came at midnight, they were equipped with sharp ammunition to protect the nuclear weapons. And you can imagine, for a 21-year-old guy, it was a somewhat challenging situation, but I do not regret my time. I have good memories that still have good relations to my old bomber fight. And I actually will have a call with the commander in chief of German Air Force next Monday. So I'm still in close contact with them.

Liz 6:27

Wow! Lovely to hear. So I suppose, yeah, you mentioned leadership there. Obviously, you became quite the leader throughout your life. And looking back and connecting the dots, do you think that had a lasting effect on your career?

Hermann 6:42

Yes, in terms of leadership, but also, in terms of of learning, for instance, I still use a definition of strategy from my time as the officer School of the German Air Force in Munich, where an old Colonel defined strategy is the capability of a nation to defend its territory and to inflict damage on an on an aggressor. And so I use strategy as the capability of a company or prevail against competition to satisfy their customers, etc. So I even learned for my later profession as a Professor, just consultant during that time

Liz 7:33

Wow okay, insightful! And straight after the Air Force you started studying economics in the University of Bonn, if I'm correct, so may I ask what made you go and go into economics, particularly that course?

Hermann 7:48

Actually, immediately after my high school exam, I would have studied engineering because an older cousin of mine, he started at a very good Technology Institute in in Aachen. And so he was kind of a role model for me. But during the time in the in the Air Force, I developed more interest in societal political economic issues, and started to read books. And then I decided to study economics. And I choose the University of Bonn because that's the number one in economics in Germany, and currently number 129 in the world. So it's pretty pretty reputable. But very theoretical, very quantitative.

Liz 8:35

Nice. Okay. And do you think then, this is where your interest into particularly pricing strategy began?

Hermann 8:42

At the Crossroads was my doctoral dissertations on pricing strategies of new products, but at that time, I would never have thought that would become my kind of vocation and lifelong activities, but it developed together with my Professor I worked on so on a couple of projects. For instance, one was for an English company, Welcommm which is now GlaxoSmithKline one of the leading pharmaceutical research companies in the world they now have had four Nobel Prize winners, and we accompanied some of their marketing strategies during that time. So I kind of smelled plots into sophisticated pricing challenges. And that turned out to be quite fruitful area for me.

Liz 9:34

It absolutely did. So I suppose yeah, not only with your thesis, but you've also published the other books, I think 35 and total throughout your career, and, and you talk a lot about pricing strategy and one area in particular, you're talking about, you know, the importance of increasing price or price as a driver within the profitability equation. Therefore, something you know that I've picked up in your previous podcast, or reading some of your books? something I'd like to know is, what are your personal thoughts on why, you know, a lot of managers would perhaps ignore increasing price and just focus more on increasing sales volume or reducing costs when looking at trying to increase profitability?

Hermann 10:17

Yeah. So, several reasons for that. The effects of price are very complex. *Visa-vis* customer *visa-vis* competition, it's it's game theory. So combined with a very high uncertainty, and I say, actually, managers are afraid to touch the price. Because they do not know in advance how the customer will react with a vulgar way, if we increase price, if we cut price will enough customers buy our products to compensate for the lower margin by a higher volume. And for costs, that's very different, because costs are internal. Costs of employees, wages and costs of vendors, suppliers. So they think they have more control of costs as a first priority when they want to improve profitability. And sales is also different because sales are driven by advertising by a sales organization of sales reps, etc. on which they also have controls. They don't have real control on the effects but on the on the resources, they have control. And then it's very different for price. And what you said is right, price is the most effective driver of profit. And if I can express it in numbers, if we can, there are only three profit drivers: price, sales volume and cost. If we can increase in isolation each of them by 1%. What happens to profit? 1% price increase usually leads to a 10% profit increase. So in theoretical terms, for the economic students, we call that the profit elasticity of price, it's 10 times higher as a percentage change in profits and in price. For sales volume, it's only four. Why is it so low? Because the margin costs go up. If we increase the volume, we have to produce more. So the marginal costs are eating up a large part of the increase in revenue from an increase in sales volume. And for cost, it's about six. So price is if most effective profit driver was a multiplier of 10. For cost six for volume, it's four.

Liz 12:51

Very interesting. When you say it like that, you know, that makes so much sense.

Hermann 12:55

Yes, but then it took me 30 years of research to express it in that simple way!

Liz 13:01

And I appreciate that a lot. And when I'm sure our listeners do as well. So I suppose speaking you know, following on from that another area of your research included looking a lot into the *Mittelstand*, please ignore my incorrect pronunciation. But I suppose a term that you've now coined as the 'Hidden Champions', so perhaps not only a German phenomenon, but they're also you know, existing elsewhere globally. And these low profile companies are, I suppose, driving a lot of the trade surplus within Germany at the moment. But without saying too much more, could you perhaps define the term Hidden Champion for our listeners and thus expand on the phenomenon?

Hermann 13:42

First, your pronunciation of Mittelstand was perfect! Champions are the elite of the Mittelstand and I define a hidden champion as follows by three criteria. So first is one of the top three companies in the world or number one on its continent. Second criterion is less than 5 billion euros in revenue. That sounds large. But if you look at the 500 largest companies of the world, as a Fortune Global 500 average of 65 billion these are large, mid sized companies but small relative to the giants. And the third criterion is little known or unknown in the general public. And we have about I detected about 3,500 of these Hidden Champions in the world. They exist everywhere but Germany has by far the largest number. This is the backbone of the German economy. And they're mostly not in consumer goods but in industrial goods. So nobody knows them in spite of the fact that many of them have global market shares of more than 50%.

Liz 14:53

Wow, I love just the title in general, the juxtaposition of the word.

Hermann 14:57

Of course, that was a lucky choice this contradiction you normally know champion, Hidden Champions and creates interest. And when you enter Hidden Champions was quotation marks in Google today, you can test it. Yesterday, there were 1.4 5 million entries in Google often champion. So this term really has become a global global business term.

Liz 15:26

Okay, impressive. I suppose then Hermann to naturally, you know, follow obviously, I could talk about your your, your experience in academia all day, but I'm seen as this is a consulting society as well, we'd love to explore your time with Simon-Kucher. So something I'd like to look at now is, you know, looking at your years, as you know, a so called entrepreneur, so you are in a unique position, we feel and you know, as the founder of Simon-Kucher, and you are one of the few entrepreneurs who has, you know, built their consulting firm into a global business in such a short space of time, and I think just the span of a few decades. So what we'd love to know is when or what was the moment that you decided, I now want to start my own consulting firm?

Hermann 16:14

I always even during my studies and my doctoral research, I had the ambition to do something which is practically relevant, not to confine myself to theoretical work. And as I said, together with my Professor, we worked already on projects, for instance, this project for for Welcomm, today GlaxoSmithKline and when I became a Professor, companies

approached us and we did little consulting projects, but I, I found that out of the university, you can't really do it professionally, and with the confidentiality you need. So together with my first doctoral student, Dr. Eckhard Kucher, I set up Simon-Kucher and Partners. We started in 1985, with three people, my second doctoral student Karl-Sebastien Heinz joined shortly thereafter. Today, we have about 1,500 employees who work in 40 offices all over the world, we are on all five continents, and we are also a Hidden Champion, we are the global leader in price consulting. But of course, when we started, we did not have this vision to become a global company. And this is my very important advice to students for your career for your plans. I don't think much of the plan for your whole life, I always had short term goals during my studies. For my doctoral research, then becoming a Professor, so called, was a time horizon of three to five years, and focused on these goals. And when you do that, you will achieve the next step and new opportunities open. When I was a young Professor would never have thought of leaving the university, which I did in 1995. And then devoting my time full time to our company. Think, develop and do the job with pride with which you do now. Have a goal which can be achieved within a foreseeable timeframe. And then new opportunities will open up and don't think what you're doing for the next 40 or 50 years. Because that's unpredictable. Short term, a few years, a concrete project is manageable, predictable, and you will also have a feeling of success. If you master the next barriers and next challenge the next step.

Liz 18:55

I find that quite grounding. So I really appreciate that advice. And I think it's similar. I think to something Bill Gates said, you know, it's impossible to connect the dots looking forward, you know, in the long term, you know, you have to connect them looking back as well. So, yeah.

Hermann 19:10

Bill Gates is a good example. I don't think so it started out with a vision to become the richest man or one of the richest. But he devoted a lot of time. This guy wrote his book on a diet, you have to exercise 10,000 hours to really become perfect. For 10,000 hours on the computer as young man it became perfect. Yeah. I think I also devoted more than 10,000 hours surprising.

Liz 19:42

It takes grit. Absolutely. And so yeah, you mentioned there as well. You know, you coming from a theoretical background, it's potentially the transition was hard straightaway, you know, did your expectation of running a business and of course, founding the Simon-Kucher Partners. Did that match the reality?

Hermann 20:04

And not in the beginning, we had a totally different idea what we will do. For people who are familiar with econometrics, that's a methodology. You use historical data to measure correlations, collection, connections, causality. So our original idea was to use historical data, sales price, advertising data, to measure the effects of price and advertising etc. But this method did not prove useful in practice. Why? Because most companies who approach us with a project have a new situation, and new competitors entering the market, a patent expires, e-commerce is emerging etc. And in these situations, where you have a structural break with the past, you can forget historical data. So we had to develop new methods and one of our most important methods became conjoint measurement. Conjoint means that we measure the value of a product, brand and the price conjointly. By doing very, very complex interviews, computer assisted interviews, and from these interviews, we can quantify the effects of these marketing instruments, effects of competition, etc. So our original idea did not prove useful. And we had to be innovative to find another solution. But that obviously worked. Last year, we had revenue of 358 million euros, and this year, we will come close again, in spite of COVID-19.

Liz 21:51

You mentioned value there and really understanding the value of the market segment as it's termed. In your eyes, could you give us I suppose, an example of a client project your team worked on and created the most value during your time in Simon-Kucher?

Hermann 22:08

One of the most spectacular projects in Germany was the so called BahnCard, a card which we developed for the German Railroad Corporation. It's called BahnCard 50 - bahn means rail. And when was the first class, his card costs 500 euros and it gives you the right for a 50% discount on all tickets you buy within one year. And that card has become a huge success. Today, we have 6 million card holders and half of the revenue in passenger traffic from the German Railroad Corporation comes from this card. So that's many, many billions from this very, very successful product. And we add a lot of value in pharmaceutical innovations. That's actually our biggest division Life Sciences and pharmaceuticals. Companies invest a billion euros or dollars into doing R+D, and they want to get that money back. And we have 48 of the 50 largest pharmaceutical companies as clients. Another very important area is automobile for instance, we accompany each new model of culture, since 30, years positioning, pricing, etc. And there we have also generated millions, billions in profit.

Liz 23:44

In just in just those few seconds of your response, you've already mentioned you know copious industries. So I think that sums up consulting as well. So as well from reading a bit about you, Herman I've seen that in your early days to academia and of course, throughout your career, we've noticed that you've made a lot of close ties with extremely interesting people. So to name a few you've met Bill Clinton, of course, Marvin Bower, the so called

father of management consulting, and became close with Theodore Levitt and Philip Kotler, all people we would religiously cite here in Trinity Business School. So after reading about it, I'd love for you to share with our listeners a bit about the story where you published an article critiquing management science, so obviously, the work of Kotler and which ended up in I suppose a friendship. So could you share light on that story, please?

Hermann 24:33

That was in 1978 and Philip Kotler was already the global marketing guru at that time because he published the most popular textbooks on marketing. And I was an absolute nobody from Germany. And yet, a few years earlier published in Management Science, it was the top A+ journal at that time on a dynamic marketing model over the over the product lifecycle. It was mathematical. And so I, I checked it, and it was quite complex mathematically. And I could show that the consequences over the lifecycle are completely nonsensical, but nobody has detected that. So Management Science published this paper, and I spent a year at Massachusetts Institute of Technology and visited some American University, also Northwestern in Evanston where he was a Professor, but he took it easily said, it's good that you detect it, and I didn't know it myself, nobody else has detected it. And since then, we have been in very close contact, even today, we exchange mails, I would say, once, once per week. So this shows me that he is a great man was not insulted. But he is, it was kind of grateful that this consequence, unintended consequence of the model was revealed. So we are on very good terms since 42 years by now,

Liz 26:15

I really enjoyed that story. I think it's nice to hear from a Trinity student's perspective, as well, we're always told to be critical of the work we're reading. So I really, really appreciate that.

Hermann 26:25

It would not have gone well if it's Trump that had been Kotler!

Liz 26:30

Of course, it depends on the person, absolutely. So I'm also aware of your your close friendship with Peter Drucker, who of course lived an extraordinary and impactful life. May I ask, what are the main things you learned from Drucker? Not only Drucker, but all of these inspirational people throughout your life.

Hermann 26:49

Peter Drucker is a very, very special case. And I asked him one time, what are you how do you use, you see yourself and he said, I am an historical writer. Strange, because we think he was a management or business. And he draws on many of these insights from his knowledge of research his deep knowledge of history, and found analogies. For instance, in one book published five years before he passed away, he drew analogies between the printing revolution after 1415 and the internet revolution. And for instance, he made one prediction very early, he said, the, the companies which which will profit from the intellectual usually are not the hardware and the software companies, but to companies who own the content. And today, we know, the oil in the internet is data and not software or hardware as such, and he made this prediction in 20 years ago, and that's really visionary, I think. And that was concluded and inferred from his knowledge of history. He always surprised me. When I when I injected a name and untold discussion, he always knew about these people. So this is a very specific competence that you can relate things from history, learn from history and apply them to your current or future situations. And the end was very sad, because I had an appointment with him on November 12 2005, November 12 2005. And the day, before I was in Mexico City gave a talk there and I called his home in the evening of November 11, Friday. His wife, Doris answered the phone and I said, is the appointment standing for tomorrow? We had made it a couple of weeks before. And she said he passed away this morning. Well, I was shocked. And so I took the next plane and flew back to Germany instead.

Liz 29:21

Thanks for sharing that with us. It's such a nice story, I suppose moving on from that talking from your learnings from these people, but also from your experience within the consulting realm. From my understanding it was perhaps only once you delved into consulting as a career and you were working on physical client projects that you perhaps understood the impact, like we discussed of value creation and customer centricity. So in saying this, I'd love to know how much weight you would place on experiential learning versus theoretical learning?

Hermann 29:59

I think are important. When I look back at my studies, they were extremely theoretical, quantitative, mathematical. For instance, one of our professors who by education was a physicist, so applied physical models from physics to economics. And one of his courses was that he expressed Karl Marx's 'Das Capital' in mathematical equations! And this adds a lot to understanding. And I think it's still important for me today that I have a rather deep understanding of these theoretical concepts, etc. But then my challenge and my ambition was to apply these things to practice that not everything can be applied. I mentioned econometrics. But I think it tells me beyond that experiential learning is extremely important, especially when it comes to the the most relevant aspect of managing that is people. When you ask me, why are we have we been successful with Simon-Kucher, because the people. First I mentioned the first two doctors joined, job students and as a third and the fourth joined

and these four people together with me, have worked their whole life for Simon-Kucher. So they started in the 80s and they just retired because they are 60 now or over 60, this year or a few years ago, and we have had the same luck with hiring people in other countries where we set up offices, especially in a knowledge company. Consulting is knowledge, nothing else. It's not factories, or machines. People count, and that is experiential learning how to guide how to lead people. That's not a thing, what you can learn from some books, or even even speeches, I think.

Liz 32:10

Absolutely, I agree. Hermann, throughout this talk, I suppose already we've gained copious amount of advice and insight from your story so far. If I had my way I could I'd love to spend a bit more time talking with you. But obviously, I respect that you've a lot on at the moment. And I suppose on a lasting note, could you please share with their audience any advice for students out there who also are quite ambitious and want to have an impactful career?

Hermann 32:37

Yes, then I make that very short. My motto is borrowed from Seneca the old Roman philosopher and it's 'Per Aspera Ad Astra' that means on rough roads to the stars, you need an ambition. But assume that the roads are not smooth but rough, you have overcome various resistances you will experience setbacks, etc. So I recommend this model 'Per Aspera Ad Astra'. And of course, I also recommend if you want more, we talked about these things from 'Farmhouse to Global Stage' my autobiography, which is coming out in January, next year, because there I provide many more episodes and also advices for young people. So I think actually, it's most interesting for young people to read such a book. A guy, a village boy, who came from the Siberia of Germany and somehow made it modest with also with a certain degree of modesty to the global stage is now interviewed by Liz Doyle.

Liz 34:02

Thanks, I suppose yeah, to sum up. This has been extremely a novel experience for me to hear, you know your fascinating story first hand. So once again, I really appreciate your time this morning. And of course, on behalf of the listeners. Thank you very much.

Thanks for tuning in guys. To enjoy more Conversations with Consultants, be sure to hit the subscribe button. See you next time.

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