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The Emerging Pricing Capability

- A Multi Case Study of Business-to-Business Companies -

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Abstract

Title:	The Emerging Pricing Capability – A Multi Case Study of Business-to-Business Companies.
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Authors:	Katarina Berggren Malin Eek
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Keywords:	resource-based view, multi case study, semi-structured interviews, pricing capability, perceived value, cost/plus strategy, customer value
Purpose:	The purpose of this thesis is to try to understand, with the help of existing theories and empirical findings, the parameters in a vis-a-vis customer aspect that are of importance in the development of the pricing capability among business-to-business companies.
Methodology:	We have used a qualitative and abductive methodology approach. The empirical findings have been collected via semi-structured interviews which we have conducted through personal and telephone interviews.
Theoretical perspectives:	Seeing pricing as a capability within the company, our theoretical framework mainly consists of the resource-based view and an article explaining and providing proof on how pricing can be seen as a capability. We also describe the most used pricing strategy today within business-to-business companies, the cost plus strategy.
Conclusions:	We argue that the companies must build routines and structures in three main fields to ensure the customer that they offer products with customer value. The three fields are guaranteeing quality, having sales people with good selling competence, and building good customer relations.

Sammanfattning

Titel:	The Emerging Pricing Capability – A Multi Case Study of Business-to-Business Companies.
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Nyckelord:	Resursbaserade synsättet, multi case study, semi-strukturerade intervjuer, prissättningsförmåga, upplevt kundvärde, cost/plus strategi, kundvärde
Syfte:	Uppsatsens syfte är att försöka förstå, utifrån existerande teorier och med hjälp av insamlad empiri, vilka parametrar i ett kundperspektiv som är av betydelse vid utvecklingen av en prissättningsförmåga bland business-to-business-företag.
Metod:	Vi har använt oss av en kvalitativ metod vars ansats är av abduktiv karaktär. Den empiriska datan har samlats in genom semi-strukturerade intervjuer vilka har genomförts via personliga möten samt via telefon.
Teoretiska perspektiv:	Då vi betraktar prissättning som en förmåga, vilken återfinns inom företaget, så utgår det teoretiska ramverket främst från det resursbaserade synsättet vilket styrks av en akademisk artikel som beskriver och förklarar bakgrunden till att prissättning kan ses som en förmåga. Därutöver beskriver vi den vanligaste prissättningsstrategin företag emellan; cost/plus-strategin.
Slutsatser:	Vi argumenterar för att företag bör införa rutiner och skapa en entydig struktur, med särskild fokus på tre områden, för att försäkra kunden om att de erbjuder produkter med kundvärde. De tre aspekterna vi anser bör stå i fokus och erhålla särskilt intresse är att garantera kvalitet, se till att säljarna har adekvat säljkompetens samt förmå att bygga goda kundrelationer.

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Preface

When we started writing the thesis, we were part of the Learning Partnership Studies between Lund University and the company Trelleborg AB. In this partnership two different groups are invited each semester to write their master thesis on a business matter concerning Trelleborg AB. Normally the masters are written on different subjects concerning Trelleborg AB, however this year, the two groups chose to do a deeper and more thorough investigation on the pricing capability within Trelleborg AB. Unfortunately external impacts in the American market occurred and therefore we had to change our focus whilst in the middle of our investigation. Group members within Trelleborg were accused of cartelizing operations on the American market and this resulted in some people being taken into custody. As a direct consequence to these circumstances the underlying subject of the thesis was not an area open for in-depth investigation. Instead of only focusing on Trelleborg AB we are now writing an investigation focusing on six companies and how they handle the process of pricing. An English business unit within Trelleborg is still found among the case companies, but isn't in any way subject for special attention. Each case objects enjoy the same status and attention respectively. The companies are; Alfa Laval, Arboga-Derenth, BE Group, Lindab, Rottne Industri AB, Trelleborg as well as a consultant bureau called AFK Value. We believe this event has had a positive effect on this master thesis due to the fact that we will now get a broader understanding of the subject concerning this thesis because we have had contact with different companies and have seen different pricing strategies. The companies involved have been very helpful and have given all the information necessary to be able to carry out this investigation.

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1 Introduction

This chapter introduces the reader to the subject and will give an understanding of the problem that is later analysed. We begin with a shorter background about the subject which will follow by the problem discussion and the purpose of this study. The chapter is completed with an overview regarding the intended structure of the remaining part of the thesis.

1.1 Background

“Pricing is not about setting a price. It’s about selling a price”

Berndt Berndtsson, Pricing General Alfa Laval (2007-05-15)

Many books have been written on the subject of pricing and the normal perception of this subject is that pricing is one of the relatively easy and straight forward tasks a company has to deal with. There are different pricing strategies companies can use depending on what product they sell or in which industry they operate. Pricing has always been an essential issue in businesses worldwide, but so far companies don’t seem to invest all the required time and knowledge involved in the price setting procedure. As Duke states, still today, pricing is a relatively unexploited area and companies need to focus more on this subject as the competition intensifies (Duke 1994). Further, researches argue that changing prices has even become more difficult today. In the past customers experienced a set price as fixed whereas nowadays the increased competition and inflation forces the companies to be more flexible and more open to discuss the price (Nagle & Holden 2002). Moreover pricing is one of the most essential parts in a company’s strategy because it’s the only variable¹ in the marketing mix that actually generates profit (Monroe 2003). The difficulties companies experience with the price setting procedure has started to show in the service industry. Various consultant bureaus have started teaching companies on the subject of pricing and the demand for this service is increasing (Håkan Fahleryd 2007-05-16).

¹ The other variables are advertising and promotion, product development, selling effort, distribution and packaging.

Research has been made about pricing, but it has mostly been concentrated on the pricing process regarding business-to-consumer-products. The strategy concerning consumer products is of different kind and it is hard to generalize it and apply it to business-to-business products. This strategy differs in three ways; business-to-business customers are more sensitive to the quality of the product, they are less price sensitive and normally they hold more information of the product than business-to-consumer customers. These factors normally make the price setting process seem more complex for industrial products (Forman & Lancioni 2002). This can also be one of the reasons why pricing for business-to-business products is not as studied as pricing on business-to-consumer products. Today business-to-business companies usually use a cost-plus perspective (Noble & Gruca 1999) which enables them to cover the cost, but don't fully exploit the opportunity to maximize the profit. This insight attracted our attention to the price setting procedure for business-to-business companies.

During the history of strategic management, many views and theories have been in focus in different times. The first view was the traditional view which focuses on the business environment of the firm where Porters' different models are the cornerstones. Later views have instead concentrated more on the company itself and its internal environment. The change of views and focuses in strategic management can be seen as a pendulum which swings back and forth (Hoskinson, Hitt, Wan & Yiu 1999). During the late 80's the resource-based-view came to light and it focused on the resources and capabilities within the company. The resource based view theory suggests that it is more appropriate to describe companies like organizations possessing different combinations or levels of strategic resources and capabilities (Wernerfelt, 1984). This means that companies can develop a competitive advantage with the use of its internal capabilities. Seeing pricing as an internal capability a company possesses is a new angle in the price setting discussion. This new view involves two different perspectives, the price setting procedure within the company and the price setting procedure vis-à-vis customer (Dutta, Zbaracki & Bergen 2003). This view broadens the subject of pricing and can explain the complexity of pricing from another perspective. Little research has been conducted where focus has been on the resources of the company and even less stating pricing as a capability a company can have. Despite of all research in business we still today know more about business markets than about resources: *"we have a rich taxonomy of markets and substantial technical and empirical knowledge about market structures. In contrast, "resources" remain an amorphous heap to most of us"* (Wernerfeldt 1995: 172). Due to this fact, scholars around the world have demanded more qualitative studies that can capture the nature and functioning of intangible resources (Rouse & Daellenbach 1999).

The literature on how to contemplate the price setting process and its underlying elements and, in the broader sense relate it to the reality within companies, is surprisingly scarce. What parameters, or rather resources, serve as valuable foundations and can they be managed or even developed? Pricing Management alone though, seems to be a constant source of ideas on how to pursue the best practice. Typing “Price Management” in a well-patronized searching engine leaves the finder with 196,000,000 results (www.google.com). Apparently, the subject is a favoured topic not only by academic researchers but also among laymen.

1.3 Problem Discussion

The price setting process might at first glance be viewed as noncomplex regarding the fact that costs generally are known and can be addressed. One other factor which makes it seem noncomplex is the matter that many companies in advance have implemented a margin policy guiding the sales persons when setting prices. However, after conducting the interviews we found this process to be much more complicated than we first expected. If one starts outlining the parameters that need to be considered as prices are determined, from the initial to the final phase, it's obvious that the entire process is a complex series of events. The picture includes considerably more than a cost-plus perspective, where various factors are to be considered and taken into account before setting the price. Rottne for example takes into consideration the fact that if the industry the customers are working in is suffering from recession, they will lower the price. Lindab on the other hand has worked out a system where considerations are taken to how far the product has to be transported and for how long it is tied in stock. These two examples show that various aspects will be of various importance for different companies.

Despite the character of the branch one operates in, there is a synonymous feature affecting more or less all participants, namely the increasingly environmental dynamics. Due to greater complexity in market variables like the entry of new competitors, globalization, cross competition between products, the business being a mixture of business and so on, companies need to excel in a number of ways (Burgess 1982). Good is no longer a sufficient criteria that guarantees survival. One must deliver solutions embedded with uniqueness in order to satisfy customers' needs and desires. Making this a day to day assignment, creativity becomes a useful skill as well as the growing source of knowledge and overall competence. Whether a company embraces the task

of developing sophisticated equipment or coming up with advanced solutions in varying business projects, the question remains; how can companies develop a skill to set a price which takes more than the costs involved into account? Studies have shown that both the environment of the firm and what type of product a company sells are variables that matter regarding what pricing strategy a company has. For example, it is critical to set the right price in high technology industrial products (Grunewald & Vernon 1988) because that market is very transformable, consists of shorter product life cycles and is dependant on technological break troughs (Mohr 2001).

As mentioned earlier, pricing is a complex and relatively understudied subject. However, pricing is highly important for companies' profitability. Richards Reynolds & Hammerstein (2005) have shown that senior management doesn't see pricing as their responsibility and they often leave this important decision to mid-level technicians who often don't possess the understanding of pricing. This neglect from senior management often ends up in wrong decisions and bad results. Moreover, companies which possess superior knowledge have difficulty integrating this specific skill in the price, and will naturally ask for less from the customer. Our advisor, professor Lars Bengtsson, used a metaphoric picture to characterize the price setting where he meant it is to be looked at as an *art*. It is not something you simply learn by reading an instruction about it in one of the many books available in the area. Seeing pricing as a capability within the firm is a new view and by only concentrating on one of the perspectives, the procedure vis-à-vis customers, we aim to get a clearer picture of this phenomenon. When it comes to pricing, the customer is of course a main part and should therefore be meticulously considered. If the customer believes the price to be too high, the customer will try to negotiate the price with the sales person. Dutta et al. (2003) states that it can be a difficult part for the inexperienced person to communicate a price increase to the customer and make the customer realize that the increase has logic behind it. This is a valuable ability for a company, because the convinced customer will experience that the increase makes sense and will not argue about it. According to past research, the ability to convince this logic to customers varies among companies (Brandenburger & Stuart 1996). So, if one considers the above discussions, the question to be asked then is:

How can companies actually develop the capability of pricing and do this vis-à-vis customer?

At this state it should be said that the companies involved do not suffer financially from their current strategy. Rather, we investigate how their pricing strategies are constructed and use these as examples in this thesis.

Keys Issues raised and Analyzed: This diploma project aims to provide answers to the questions raised within the limits of this thesis in varying degree of detail: the overriding questions are to be seen as an invisible hand guiding the reader through this thesis and should function as a supportive background to the discussions.

Overriding Areas

There are three levels of information provided within the framework of this thesis:

1. Detecting what a pricing capability means in a vis-à-vis customer aspect
2. How the pricing capability can appear in an industrial business-to-business company
3. The degree of variation among the companies' pricing strategies

1.4 Purpose

The purpose of this thesis is to try to understand, with the help of existing theories and empirical findings, the parameters in a vis-à-vis customer aspect that are of importance in the development of the pricing capability among business-to-business companies.

1.5 Target Audience

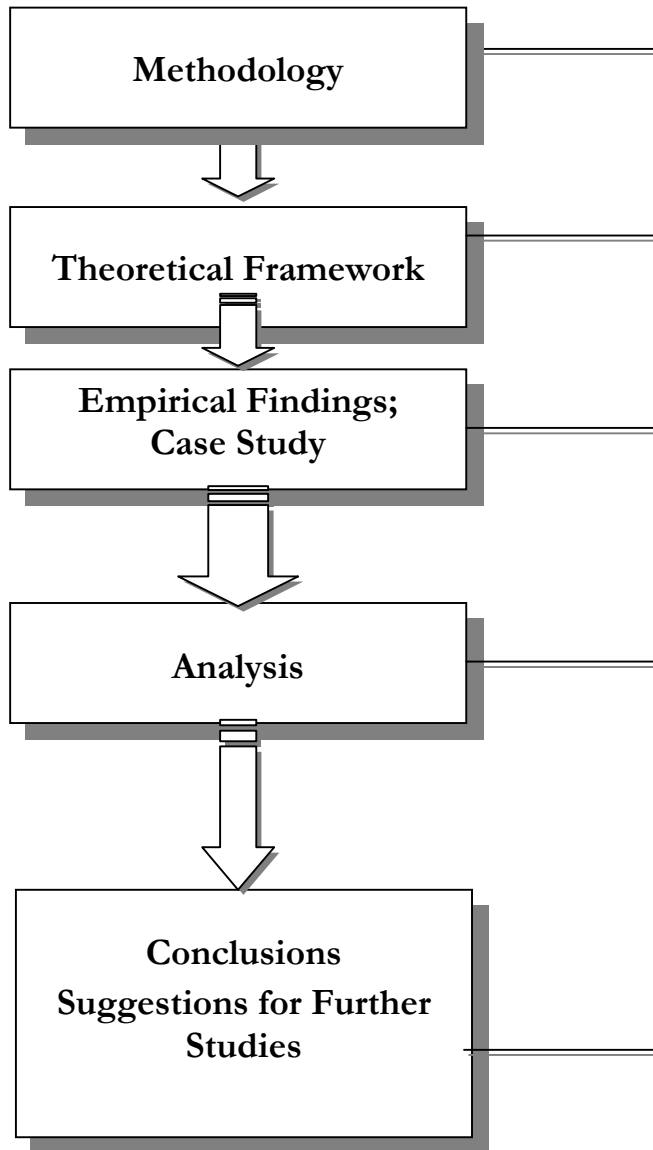
By looking at pricing in terms of a capability we are hoping to contribute to a broader interest of the subject of pricing. Bringing focus to this relatively new perspective will hopefully open up an awareness that facilitates the identification of resources that can lead to an enhanced ability of price setting, which in a longer run can help companies achieve greater profits. This thesis hopes to contribute to a better comprehension on what action industrial companies can take in order to strengthen their ability of pricing. Target audience will therefore involve persons who are responsible for the price setting procedure in the companies involved. The thesis might also be of interest to people interested in how companies actually determine their pricing and want to get a deeper understanding of this complex subject.

1.6 Delimitations

Our chosen perspective concerns *the vis-à-vis customer aspect* thus we concentrate on shedding light on which variables seem to be of importance in the work of establishing a pricing capability. Consequently we leave the internal aspect unexamined, i.e. for the partner group to investigate. At this point it should be said, that both aspects are equally important when it comes to mastering the price setting process. We hope the both perspectives will provide the reader with a more complete picture of the actions to take in order to let the pricing capability flourish.

Moreover, we are only studying the companies' point of view and investigate their perception of pricing as a capability. The focus of this study is the phase of the price setting process where the actual meeting with the customer takes place. Based on the chosen perspective, no attention is paid to other aspects. The ambition is to keep a strategic point of view regarding the chosen perspective, rather than taking a marketing approach.

1.7 Structure and Disposition



The figure outlines the continuing structure and disposition of this thesis, starting with a chapter devoted to the methodology where the reader will learn how the data was collected and later analyzed. The third chapter comprises theories which the authors have found relevant for this study, mainly focusing on the Resource Based View. Significant literature as well as research articles is the basis of the theoretical framework. In the empirical part of the thesis, the authors present the findings from the case study conducted at Trelleborg AB. Further, the chapter will provide the reader with suggestions on how Trelleborg can build their knowledge into the pricing process vis-à-vis customers. Finally, in the last chapter details emerging insights together with general conclusions and a suggestion for further studies.

2 Methodologies

This chapter will give the reader an explanation of the methods used. We describe our course of action with this thesis to give the reader a better view of how this research is conducted and finish off with methodology reflections.

2.1 Methodological Approach

2.1.1 The Abductive Way

In order to conclude scientific solutions, two ways are to be used; the deductive or the inductive way. The deductive approach aims to prove something by already established theories while the inductive way strives to attack the problem without any prejudice, collect new empirical findings and thereafter construct new theories (Jacobsen 2002). This study started by the search for relevant secondary data and theories that could be applied for this thesis. Throughout the investigation we have tested existing theories against our empirical findings (interviews) and a combination of the two theories above has been applied. This so-called abductive approach is a combination of the methodological approaches mentioned above (Gustavsson 2004). When building our theoretical framework we started reading articles concerning the main areas of pricing. After a meeting with our advisor we were introduced to an article which we have mainly built our theoretical framework around. After doing some interviews and analyzing our findings we realized we needed to complement the framework with other theories. A new process started where we read more articles in order to broaden our framework which, in the end, we did.

Brief overview of the working procedure:

Step 1 – Conduct research by reading articles

Step 2 – Build the theoretical framework

Step 3 – Conduct interviews

Step 4 – Analyze interviews

Step 5 – Search for new theories which apply to our empirical findings

Step 6 – Update the theoretical framework

Step 7 - Analyze the data and draw conclusions

The advantage with the abductive approach is that the researcher is able to make model adjustments when new facts emerge (Johansson, 2002). In our case modifying and reworking different parts in the thesis both texturally and theoretically was necessary in order to create an adequate structure. Our increased knowledge in the pricing area also contributed to modifications in our study. This called for us to search for appropriate literature and interesting articles when working and processing other parts of the thesis but the theory chapter. By applying this approach we were able to work with a greater amount of flexibility thus we didn't have to follow a certain definite pattern.

2.1.2 Case Studies

The case study is often associated with descriptive or exploratory research; it is, however, not restricted to descriptive or exploratory research (Yin 1994). Case study research is considered appropriate in business studies when the area of investigation is difficult to observe outside its natural setting and also when the variables of interest are indefinite (Ghauri & Grønhaug, 2002). In order to determine which variables that actually impact the price setting process we decided to investigate this with help of selected case companies. We define case research as by the definition of Ghauri and Grønhaug (2002) who argue that case research refers to qualitative and field-based construction and analysis of case studies. We estimated the accessible material at Trelleborg AB insufficient and therefore we broadened our approach by including other companies with various lines of business' into our study. Yin (1994) argues that there is no methodological distinction between single-case and multiple-case designs. Instead, they are variants within the same methodological framework. Adopting Yin's point of view supported our choice of changing the research design. Yin (1994) further argues that changing methodological focus is triggered when the obtainable information turns out to be lacking in quality. Shifting from a single focus to a multiple approach called for great sensitiveness on our part in order to assure that the purpose and theoretical framework remained unaffected (Yin, 1994).

2.1.3 Multi Case Studies

Multiple case-studies are becoming more widespread. This approach calls for careful selection of the objects to be investigated so that the research objectives are met. The purpose of multiple designs is either to reach similar results, so called *literal replication*, or contrasting results but for predictable reasons, so called *theoretical replication* (Yin, 1994). Since we are interested in learning how certain variables impact on the price setting process and, from that come to a conclusion on pricing as a capability, each case is considered a part of a single entity. However, one can not neglect the fact that our case companies are found in contexts that provide them with different sets of conditions and consequently that they operate under different terms. Three of the companies are listed on the stock exchange and some presents high annual turnovers. On the other hand, the other companies show characteristics due to the ownership structure typical from being a smaller actor, such as being influenced by their family-owned history. The complexities in the products also differ as well as their respective bargaining power. However, the similarities are significant and enable us to conduct a uniform study. All the companies operate in a manufacturing industry with more of less advanced engineering products. They all have customers in other industrial branches, i.e. business-to-business selling. Above all, we believe that a pricing capability exists in every company, but it may not be evident. We will focus on necessary actions to take in order for the capability to emerge, emphasizing on the companies as a whole, but we will not take the research to the point where we try to determine any possible correlation between given factors and a certain pricing capability. Naturally we can assume that larger corporations probably spend more money and effort in trying to improve their price setting.

2.1.4 Qualitative Approach

The general approach for a case study is the qualitative approach which enables the writers to get more details and a deeper understanding of the problem involved. This study concentrates on certain areas of interest and the interviews we conducted were done in an exhaustive way. The advantage with this approach was that it provided us with comprehensive information and will explain our findings deeper (Patel & Davidsson 1995). The advantage of choosing the quantitative approach is that we would have found more generalised results which can be applied to other business-to-business companies. However it wouldn't give us the depth and detailed

results aimed for (Holme & Solvang 1997). Therefore our results in this study can only be used as an example of how different companies in the Swedish industrial market construct their price setting strategy and might, in some cases, be applied as a benchmark or a guideline for other companies.

2.1.4 The Dual Track Approach

We are two groups concentrating on how pricing can be seen as a capability, but we focus on different areas. From an internal position our attention is drawn to external factors concerning customer related issues, whereas the other group fully concentrates on internal matters (e.g. processes, decisions etc.). We hope our chosen approach will result in a more complete picture on how companies can develop their pricing capability. Working alongside each other, and investigating a similar problem, can lead to both negative and positive effects which we will discuss in this section.

Having a close and open collaboration between the two groups was a necessity for this project. By having regular meetings where potential problems were discussed and give advice to each other was the most important way of avoiding misunderstandings and make sure we investigated the problem with different approaches. This collaboration enabled both groups to get a deeper and better overview of the problem discussed when covering details from both the internal as well as the external perspective. Another advantage by working together is that the two groups could perform the interviews at the same time. As a result this saved time for the companies involved as well as for the two groups. Naturally there are potential pitfalls when making two similar investigations. The most obvious pitfall is that the two groups end up producing almost identical investigations. By meeting regularly and discussing problems that might have arose we believe this has been avoided.

2.2 Research Working Process

2.2.1 Empirical Data

After building a theoretical framework and, by doing so, getting a deeper understanding of the subject of pricing the following step called for data collection. We have used two different kinds of data; primary and secondary. Primary data is material collected by the researcher whilst secondary data is material collected by someone else (Lundahl & Skärvad 1999). Secondary data was collected via the internet, annual reports, literature and articles. The primary data was collected via interviews.

In order to obtain relevant information concerning the actual situation at the companies, it was considered the best practise to interact with employees representing different roles within the companies. One of the most significant sources of case study information is the interview (Yin, 1994). By collecting data with the help of interviews, one is able to obtain valid information from the most appropriate person (Ghauri & Grønhaug, 2002).

2.2.2 Interviews

First of all an interview guideline was made to act as support when we actually conducted the interviews. This guide was constructed from our theoretical framework and we aimed to ask questions that were both related to it as well as more open questions that were designed to discover new findings. We tried to focus on the most important parts concerning the framework where some areas were given more attention than others. The guide was constructed by the two groups who first made the overview questions together and then constructed their separate questions by themselves. This guide made us ask questions covering the same area to the different persons we interviewed. A mutual agreement between the two theses groups resulted in both groups acting as a team (with different agendas though) and thus enabled us to work efficiently. The two groups synchronized the interviews and thereby avoided taking too much of the respondents' time and achieved efficiency. Furthermore, by coordinating the interview sessions the chance of getting to interact with a larger number of respondents increased since the

time usage then could be optimised.

Data was preferably acquired by the help of personal interviews thus we believe that the interviewee had a better understanding of our purpose and aim with the thesis. Face-to-face verbal exchange also allowed for some important spontaneous interaction, which is harder when conducting interviews over the phone and, to an even greater extent, pursuing interviews by mail. However, as the time frame was limited and because of big geographical distances, we had to conduct some interviews over the phone. In these cases we were careful and paid special attention striving to eliminate the disadvantages as far as possible. In the specific case when one interview was conducted with the English business unit, Trelleborg CRP, the interview guide was translated into English. The interviews were recorded to assure that no information would have been missed out when the collected material later was to be processed.

If any difficulties emerged in the transcribing phase as the collected material was interpreted, a second attempt to contact the person of interest for additional answers was made. The same action was taken in the proceeding work with the thesis if any insufficiencies appeared in the collected material. In one case, though, we were not able to establish contact to Lindab for a few additional answers, despite several attempts to reconnect. We judge this loss of data to be insignificant to our findings. After collecting the data we appointed one person from the two groups to transcribe the interview. This was done after 48 hours to limit information losses and to be able to relate body language. The transcribed material was then sent out by email to the other group members, and if it needed more detailed information, the persons who conducted the interviews complemented the transcripts and then sent the new version to the group members. This made the transcriptions handled with great care. The transcription served as the source of data as we entered the analysis phase in the working process. When analyzing our empirical results, we first analyzed the interview as a whole and then looked into more detail to what was said during the interview. Once these findings were compared to our theoretical framework, we were able to extract conclusions. When looking at the whole picture, hesitations, body languages as well as the apparent avoidance of answering questions were influencing our analysis of the data. When looking at more detailed information, straight answers and examples of how companies actually handled different situations were looked upon and analysed.

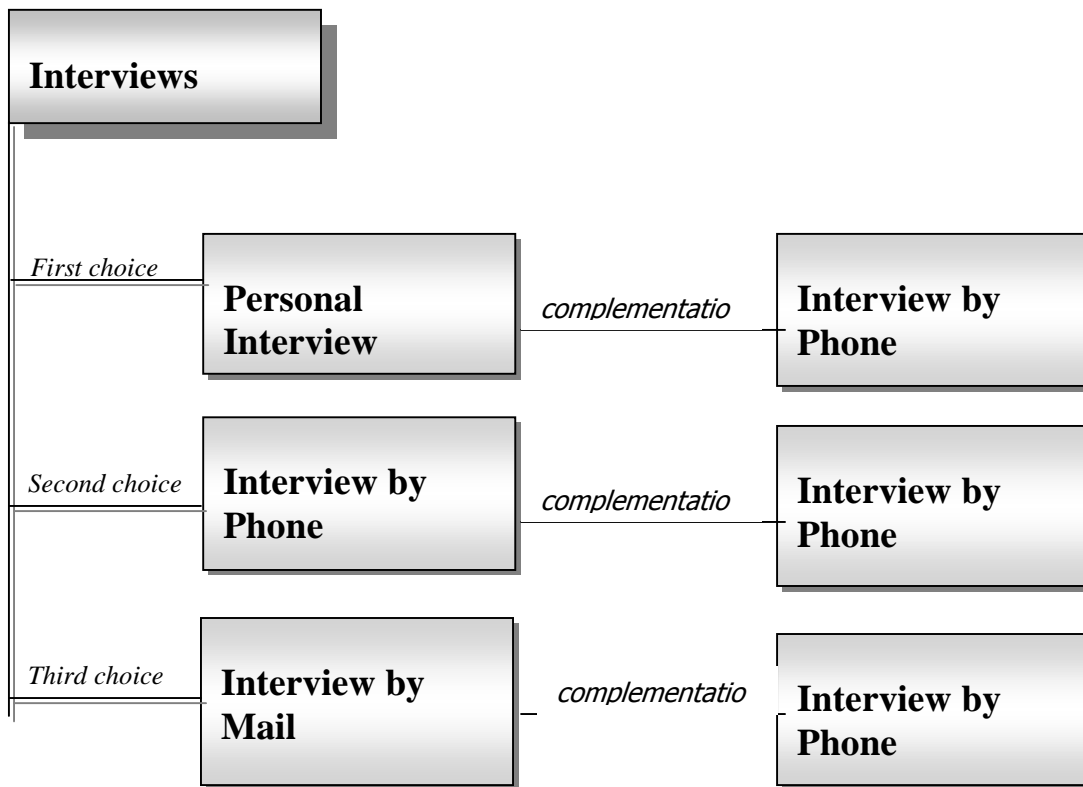


Figure 1, Preference matrix: approaching interviewees

2.2.3 Semi-structured Interviews

There are several advantages by collecting data via direct interaction with respondents. The accuracy and the clear picture of a respondent's position and behaviour are viewed as important strengths considered this method. Conducting interviews is often viewed as the best collection method, but the complexity involved is not to be underestimated (Ghauri & Grønhaug, 2002). The so-called *semi-structured* approach has been considered the most appropriate interview type in terms of this thesis. By adopting this technique we were allowed to gain the advantages of both main types of interviewing methods; the structured approach and the unstructured approach. The first is characterised by a standard interview format with fixed response categories, systematic sampling and often structured with quantitative measures. The unstructured approach is characterised by its unrestricted form of letting the respondent review reactions and specific behaviour, linked to the issue discussed, only guided by an overall lead question. The aim by the latter approach is to understand "how" and "why". The lack of coded questions makes the task to systemise the answers afterwards more challenging compared to the former approach where

the respondent him-/herself categorizes the answers as a natural result to the standard format (Ghauri & Grønhaug, 2002). In this study however, the topics and issues to be covered were defined in advance. The origin of the questions that were to be answered is found in the purpose of the thesis and more generally in the problem discussion. Due to the fact that the respondents and their job titles were known in advance the interview questions were somewhat designed to absorb the certain profile of the interviewee. Through a diversified question frame, with the ambition to collect a wide range of facts and opinions, the aim was to capture the actual picture of the current pricing situation within the companies.

Since the answers in semi-structured form might be value-laden and strongly affected by personal opinions, we understood the challenge and the need for sensitiveness when choosing this approach (Ghauri & Grønhaug, 2002). Both groups entered each interview session with an open mind and the ambition to gather information irrespective of whatever facts came to light. Each interviewer focused on finding answers to critical questions, strongly related to obtained facts on the subject beforehand, but did indeed try to remain objective.

Although we conducted the interviews with an interview guide, there was still scope for spontaneous supplementation on the account of both parts. The open-ended questions that enables the respondents to answer according to their own thinking is an obvious benefit of semi-structured format interviews (Ghauri & Grønhaug, 2002). The interviewers have, on the other hand, made an effort to stick to the prepared questions as effectively as possible but didn't for that matter dismiss different answers apart from the interview guide. The strive has been to collect attitudes, beliefs and opinions among the present work force and by doing so the respondents needed some time for personal reflection. This is one of the benefits when choosing to follow a semi-structured approach. By sending the respondents a question sheet in advance, covering the headlines that we were interested in (see Appendix I), the interviewee got a chance to acquaint oneself with the underlying orientation and thus was given an interview frame.

2.3 Quality of Research

2.3.1 Validity and Reliability

Before the interviews took place, the interview guide had been carefully reviewed and on several occasions had been altered to make sure that it was in line with the research problem by both these groups. The reason behind doing so was to assure the consistency between the research topic and the questions to be asked. In order to do this we constructed the interview guide from the framework as described earlier in the chapter. We believe that asking questions that were built upon the theoretical framework, made them more accurate and consequently the answers were consistent to our research question. This allowed us to test whether the questions were accurate enough to actually provide the information we aimed to collect (Ghauri & Grønhaug, 2002). The questions had been sorted in different categories for the cause of more adequate processing afterwards. In addition, carefully constructed questions are considered a good way to avoid bias (Yin, 1994). The risk of selection bias is a serious threat to validity when interview candidates are chosen through self-selection. A countermeasure to the potential threat could be random selection (Ghauri & Grønhaug, 2002).

Coding unstructured interviews is considered a difficult task to handle (Ghauri & Grønhaug, 2002). Non coded answers will be interpreted and analysed by the interviewer who then risks the loss of the actual essence in what has been said during the interviews. We believe that by being a group of interviewers, the risk for misinterpretation is considerably reduced. Moreover, the information selected was processed within 48 hours in order to avoid inaccuracies due to poor recall (Yin, 1994). The transcribed materials were then distributed among the thesis members in both groups and that meant the end of the close collaboration. Both groups then focused on the relevant material regarding each perspective. Throughout the interviews we were able to speak with representatives with insight into- and knowledge about the pricing area which make the thesis more reliable. One area that might have affected the validity of the research is the translations from the Swedish spoken interviews to the report written in English. Some small errors in translations might have occurred, but we believe the whole picture has been captured.

2.3.2 Verifying our conclusions

When doing this investigation we were privileged to do an interview with experts in this area, AFK Value Management consultant bureau. The information we received from the consultant we interviewed has been critical to us in many areas and gave this research a better picture of how the price setting procedure is constructed for companies in real life. For the analysis, the findings in the interview done with AFK Value Management confirmed some of our findings from the interviews made with the companies, and gave a deeper explanation into why the pricing procedures differ between various companies. We have also got a better understanding of the main problems other companies experience regarding pricing and why they contact external consultants in order to improve their pricing capability. By comparing the empirical findings with the answers from AFK Value Management, we believe the conclusions we will draw will be more valid and the results more reliable when we can put them in relation to one another.

2.4 Methodology Reflections

When conducting research, different approaches can be used to investigate the problems involved. The choice of which method to use is essential in determining what the outcome is likely to be. Below we present our methodology reflections and alternative ways in how we could have tackled the problems involved.

2.4.1 The Methodology Approach

We chose to conduct a qualitative study and collect our empirical findings with the help of interviews. By only collecting our information with representatives from the different companies, we might not get fully objective answers. The representatives may disguise some critical areas and highlight others for the purpose of not revealing too much information about their strategy. Making a quantitative study, looking at an already finished project and how the price setting was made in that specific project, would have been an alternative approach. Nevertheless this would not have provided us with all the essential information acquired for this kind of investigation. We

needed to look into how the price setting procedure is made at present within the studied companies and that would have been difficult without interviewing relevant people inside the organisations.

By only focusing on the company and not investigate how customers actually experience the changes in price is an obvious downfall. It would have been interesting to interview the customers of the different companies and see how they would react when, for example, they are told of an increase in price. However we are aware that this can be really hard to collect due to the resistance amongst the customers in sharing this information with us.

3 Theoretical Frameworks

This chapter will give the reader an introduction of the theories involved in this research. The theories will be explained and will later be used when we analyze our empirical findings. We will finish off the chapter with theoretical reflections.

Our thesis investigates how one can see pricing as a capability a company possesses which is a new view in Strategic Management. This view has erupted from a Dutta et al. article which is the main source in our theoretical framework. We will look into the pricing process as a capability vis-à-vis customer and what main areas companies need to possess in order to acquire this capability. We have developed this framework from both theories and information collected via the interviews. The theories we have used have been carefully selected after both theoretical research in the beginning of the process as well as research after collecting the empirical findings.

3.1 The Resource Based View

The traditional view in strategic management is the Industrial Organization view, which suggests that different forces in the business environment of a firm influence the firm's performance. During the last 20 years a new view has gained more focus, the resource based view (RBV), which states that a firm can influence its performance with efficient use of its own internal capabilities. The RBV tries to explain how companies can create long term competitive advantages when the use of their internal resources is done as effectively as possible. The purpose is to develop or obtain valuable resources in order to be able to gain a competitive edge (Barney 1991).

Observing economic units in terms of their resource endowments has a long tradition in economics (Wernerfelt 1984), but it has typically been a matter of categories such as labour, capital and perhaps land instead of pricing. The RBV has been met with criticism due to the difficulties of measuring some resources, and thereby difficulties in the matter of modelling purposes, such as technological skills (Wernerfelt 1984). This criticism could very well be influenced by the relatively small amount of studies conducted that saw companies as a set of resources.

3.1.1 Different Kinds of Resources

Resources within companies can be classified in two main schools, Grant and Barney. The first divides them into tangible (*financial, physical*), intangible (*technology, reputation, culture*) and human (*skills/ know-how, motivation, capacity for collaboration and communication*) (Grant 1991) and are shown in figure 2. Barney on the other hand divides companies' resources into three groups: physical, human and organizational resources (Barney 1991). These resources are all related to each other and according to Barney it is not the resources themselves that are important, but the way a firm can make the optimal use of them and translate them into an organizational capability (Barney 1991).

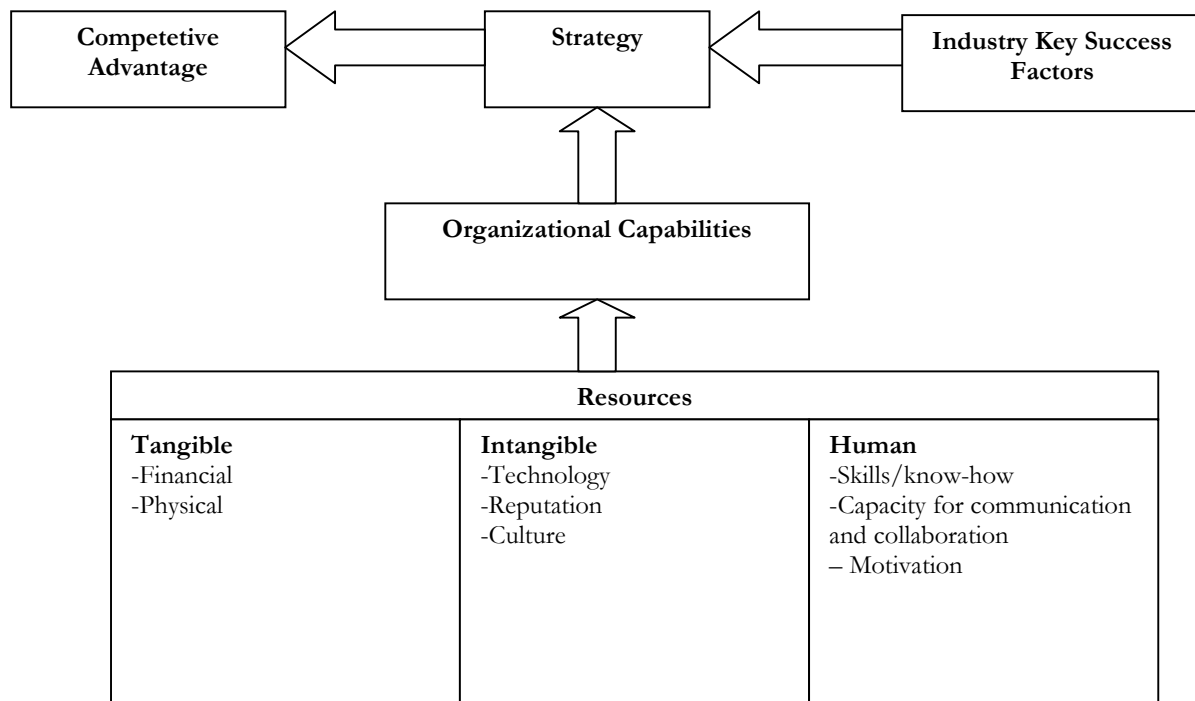


Figure 2 (Grant 1991) p.139

Figure 2 shows the relationship between resources, capabilities and competitive advantage (Grant 1991). The first step is that the companies' resources must be transformed into organizational capabilities. These capabilities, as well as the industry's key success factors, impact on the strategies companies develop which hopefully will lead them to a competitive advantage in the industry.

A further issue is how companies can sustain a competitive advantage? Barney means that these resources have to be of four kind; rare, valuable, imperfectly imitable and not substitutable (Barney 1991). By conducting analyses determining whether the resources fulfil these criteria or not, potential threats can be discovered. If the resource isn't rare, competitors have the same access to it and it's not a competitive advantage. If the resource isn't valuable it can even be a cost for companies thus they are focusing on the wrong area. A resource which is imitable can only be seen as a temporary competitive advantage until competitors imitate it and a resource which is substitutable can easily be exchanged for another resource and lose its competitive advantage.

3.2 Seeing Pricing as a Capability

This master thesis emanates from the view of the article "Pricing process as a capability-a resource based view" written by Dutta, Zbaracki and Bergen in 2003. The resource based view argues that companies can generate rents² through value creation and in order to create value, the companies must invest in resources and capabilities. These resources have to fulfil different criteria ; non imitable, non tradable and non substitutable for competitors. The study is also influenced by "The behavioural of the Firm"-view, which argues that prices might be set to balance competing assets (Cyert & Marc 1963). We will follow their structure and apply the theories on our studied companies.

Dutta et al. (2003) see pricing as capabilities within companies. This is in contrast to the more general view which assumes that companies can readily set the right prices. As mentioned above, companies must create value and even if they do so, it might not capture the potential rents associated with that value. By creating capabilities in their pricing process the companies will be able to capture that value.

In addition to compete with value created resources, Dutta et al further suggests that companies can invest in resources of appropriate value. In order to keep the advantage the companies have created, they must maintain an appropriate balance between value creation, capabilities and value

² Rents, definition: return in excess of a resource owner's opportunity costs (Rumelt 1987:142)

appropriation capabilities.

The authors have concentrated on two dimensions when looking at companies' price setting processes; pricing capability within the company and pricing capability vis-à-vis customers. The two dimensions describe different areas that are of equal importance when companies evaluate their processes. The first dimension, pricing capability within the company, consist of three components, identifying competitors prices, the actual price setting strategy and performing analysis of proposed prices and gaining commitment to the new prices. The latter investigates the pricing capability vis-à-vis customers, where focuses are on how companies can communicate and negotiate with the customer (Dutta, et al. 2003). This thesis concentrates in the pricing process vis-à-vis customers which will be further explained.

3.2.1 The Price-Setting Capability vis-à-vis Customer

Focusing on the price setting process concerning the customer, there are two major activities companies have to develop; how to convince customers of the logic behind the price change and how to negotiate the price change with companies' major customer.

3.2.1.1 Communication and Negotiation

Communicate the Price Change

Customers will react negatively to a price increase. Questions and thoughts will arise with the customer and answers are needed for the customer to understand the new situation. To solve this problem, Dutta et al. suggests clear explanations of why the increase has occurred. By doing this the customer will understand why the increase has been made and will hopefully accept the change (Dutta et al 2003). There are further issues to be addressed regarding pricing and Monroe (2003) suggests that the price structures of companies should be flexible, understandable and relatively easy to administer. A price change must be communicated openly and straightforward to the customers to avoid dissatisfaction.

Negotiate the Price with Major Customers

The other important issue to be addressed is how companies can negotiate the price increase.

This is an essential capability when companies try to raise the prices of their products whilst at the same time retain their customers. The sales person has to have good bargaining and negotiating skills. Studies show that the skill will vary between diverse companies (Brandenburger & Stuart 1996). Dutta et al extend this argument and show that value appropriation through bargaining is a capability, and that it does vary amongst firms (Dutta et al 2003).

3.3 The Development of an External Pricing Capability

Price changes will result in new challenges for companies. How can companies extract value by making effective price changes across a variety of products and customers and against competitors? To be able to develop that capability, Dutta et al argues that the coordination skills across various participants in the pricing process are essential. For companies this means the development of systems, structures and routines which can generate effective price changes as well as find out which price is equal to the customer's value. Due to the fact that companies can't just abandon existing mechanisms, these developments must happen with already established systems, structures and routines (Dutta et al. 2003).

Within companies there are different departments fighting for different target aims. For example, the sellers within the companies want to make as many deals as possible and rather lower the prices instead of losing the deals. The business departments on the other hand want to have high margins and keep the prices up. Instead of focusing on the different departments' aims, it is important to focus on the customers' value.

Before companies set prices or makes price changes, investigations and evaluations of the customer have to be performed. Critical questions will be, "how much is the perceived value?" and "how much are the customer willing to pay for the products?" The most important factor determining the customer's incline for one product over another is the perceived value of the product. Companies should aim for setting a price equal to the perceived value for customers rather than the economic value (Monroe 2003). The ambition is to focus on the customers and in accordance with the customers' value, set the price. By establishing market segmentation of companies' customers, different customers' perception of a product can be revealed. For example, in one segment customers will experience a higher value for a product than for another

one and thus different prices in different segments can be applied (Mohr 2002). However, another view argues that it doesn't make good economic sense to establish long-term relationship to all customers. Instead, companies need to prioritize those customers that hold a high lifetime value and in particular keep customers whose value exceed the costs for having a relationship with them (Rust, Zahorik & Kenningham 1996). On the other hand, how can companies distinguish between major and small customers by doing customer segmentation? For major customers it is easier to negotiate price changes, due to the fact that smaller customers are price takers. When changing prices for the major customers an individual estimation of the effects on each major customer is relevant. This capability requires members with rich knowledge of the relevant players in the pricing process within the companies, and an equally rich knowledge of their customers (Dutta et al 2003).

On the next page we will show a diagram where Dutta et al present the activities, routines, skills /know-how and the coordination mechanism associated with price setting vis-à-vis customer.

The diagram shows the two major activities, the routines, the skills and know-how and the coordination mechanism involved to be able to develop a price setting process vis-a-vis customers. The first section describes what routines the company must possess when they convince the customer of the logic behind the price change. The skills and the know-how are must haves for the company as well as the ability to coordinate this whole process. The section below the first section describes the same procedure but here the action is considering price changes with major customers. As one can see, companies must possess various factors and skills in order to do a price change successfully.

Activities	Routines	Skills/Know-how	Coordination Mechanism
Convincing customer of the price change logic:	<p>Information exchange with customers pricing system</p> <p>Identify effects on customers</p> <p>Send information to pricing team</p> <p>Prepare price change presentation: -educate pricing team for customers presentation -develop customers presentation -educate customers</p>	<p>Technical skills: pricing tool kit and price change effects</p> <p>Know-how on customer response</p> <p>Tacit know-how to separate sincere concerns from negotiating postures</p>	<p>Learn about different perspectives</p> <p>Learn of customer response</p> <p>Develop consensus within firm and sales force on new prices</p>
Negotiate price changes with major customer:	<p>Organizational hierarchy approval of new prices</p> <p>Customer assessments -past discounts -past performance -alternatives available -information accuracy</p> <p>Development of negotiation materials (repeats overall firm analysis at customer level)</p>	<p>Knowledge of firm members biases and relations with customers</p> <p>Know-how about competitive offerings</p> <p>Knowledge of customers negotiate strategy</p> <p>Cross functional negotiating expertise</p> <p>Customer price sensitivity analysis -systems knowledge -data analysis -finance -customers</p>	<p>Consensus among participants on new prices</p> <p>Consensus in negotiating team on negotiation strategy</p>

Figure 3, (Dutta et al. 2003) p. 624

3.3.1 How to deliver customer value to the customers

We believe that in order to negotiate and communicate a price increase or a price change a company and the sales persons must prove to the customer that their products or services creates customer value for the customer. Customer value is the key factor why customers choose products over others even if the product is more expensive. In order to give customer value we

argue that the companies must deliver or have specific skills. After conducting the interviews we could draw some conclusions as to what these skills might be. The companies must be able to guarantee quality, have good customer relations and have skilful sales people. If the companies can't guarantee quality in their products customer will hardly buy them. In order to guarantee quality products, support systems or functions and on time delivery are factors that will guarantee a quality product. Good customer relations is another factor which help companies when communication and negotiating price changes. If the relationship is good, customers are less sensitive to price increases. Business relationship strengthens if the partners get to know each other which can be achieved through events as well as to having continuous contact with each other. The last factor, a skilful sales force, is crucial as this is where the interface with the customers takes place and the sales force need to have good product knowledge as well as sales skills.

3.4 Understanding the Customer

We have in the previous section underlined the importance for companies to focus on customers' value and try to understand their needs. When trying to develop the three main factors described above, quality guarantee, skilful sales staff and good customer relations the companies must be aware that other factors influences customers as well. This section aims to raise an awareness of these factors and how much they actually influence the customer. Customers buying products in one industry might experience one specific factor crucial to them as to why they might change the product if a price increase occurs, and will be less sensitive towards another factor. By doing customer surveys, companies can find out about customer preferences and by knowing this, a development of the factors behind quality guarantee, the skilful sales staff and the good customer relations can easily be done. Below we will present conditions that influence the customers before buying the product.

Price Sensitivity

When measuring how price sensitive customers are to price changes, economists normally talk about price elasticity. It is the ratio of the proportional change in one variable with respect to a proportional change in another variable. In this case it is the sensitivity of quantity demanded or supplied to changes in prices (Perloff 2004). Will price increases always lead to customer losses?

Monroe points to an indifference zone, which is an area that consists of an upper and lower threshold. Raising the price within this area will result in risk-free revenues. This range will decrease with the more information customers have (Monroe 2003). Customers are sceptical to price changes and one way to attack the problem of how sensitive customers are is to look within the firm and ask; how big is the minimum demand of elasticity our company can accept? By doing this, the company can save money on customer research. Moreover it's useful to investigate whether the market structure is higher or lower than the companies' inner structures and margins. (Nagle & Holden 2002). The latter authors emphasize nine other factors which influence customers buying patterns. These are presented below:

- 1 *The quality of the Product*
- 2 *The value of the Product*
- 3 *Perception*
- 4 *Shared Costs*
- 5 *Fairness*
- 6 *Reference Price*
- 7 *Benchmarking*
- 8 *Expenses*
- 9 *Switching Costs*

The Quality of the Product

Normally customers associate price with quality. Low prices indicate less quality while higher prices symbolize high quality products. For high technology products, price is normally not the most critical factor why customers choose one product over another. Quality, support systems and ability to deliver within specific time limit are the most important factors for customers because a lack of any of these criteria might hamper the customers' production chain. Therefore buyers of high-price products are less sensitive to price increases than low cost customers (Nagle & Holden 2002).

The Value of the Product

Business-to-business products are often part of a chain where all parts are essential for the finishing product. The added value gained by the finishing product affects the value of the component product. This added value can be divided into two parts, the proportion of the price

and the demand for the product. If the cost of the product constitutes of a large part of the finishing product the customers are more likely to be price sensitive. The demand is the relation between the desired value of the finishing product and the price elasticity of the customer on one of the components. The larger the sensitivity against the finishing product the more sensitivity the customer will be towards the component (Nagle & Holden 2002).

Perception

Sometimes customers' perception of price is either a missed profit or a loss. If they perceive it is as a missed profit they are less sensitive. Moreover customers tend to be more sensitive to the price if the products are sold separately than as a bundle (Nagle & Holden 2002).

Shared Costs

Customers become less sensitive to the price if they share the cost with another party. If the part they pay is small relative to the whole amount, they will be less sensitive towards the price (Nagle & Holden 2002).

Fairness

If customers perceive the price as fair they will become less sensitive (Nagle & Holden 2002).

Reference Price

If customers know about the price of an alternative product and could measure the prices between them, they become more sensitive to the price of the product (Nagle & Holden 2002).

Benchmarking

Customers become less price sensitive depending on how cheap and accurate it is to measure the performance of the alternatives. If the customers know about the products performances they are more likely to keep the product they know, instead of trying new and cheaper products, which they have no reference regarding the performance (Nagle & Holden 2002).

Expenses

Customers' desire to investigate if cheaper alternatives are available depends on the costs of the products relative to the costs of the investigation and other expenses. If the products' costs are small relative to other costs, the customer will not be very sensitive to the price (Nagle & Holden 2002).

Switching Cost

Customers are less likely to switch business partners if the expenses of changing partners are high. Companies might need initial investments to start use other partners' products, which will require money, knowledge and time for the companies to implement. Avoidance of these factors is a good reason to stay with an already established producer (Nagle & Holden 2002).

3.5 Pricing

Companies' uses different pricing strategies depending on how long they have been established on the market, what types of products they sell and how intense the competition is. We believe the companies we have interviewed use the cost plus approach and then add other factors to their pricing strategy. We will only present that approach below because it's the only strategy that is needed for the reader to understand the companies involved in the study.

3.5.1 Cost Plus Strategy

Cost plus pricing is the most common price strategy within business to business companies (Noble & Gruca 1999). A predetermined surplus is added to the companies' product costs and the margin will therefore always be the predetermined margin. The benefits with this strategy are that the company will always cover their production cost (Forsman & Hunt 2004). It is also less time consuming when there's no negotiations involved in the process and it is both objective and fair because it's based on real cost (Lantz 2000). The downside is that it doesn't give companies room to set a price which will reflective their special capabilities or expertise which makes them superior in the market. It doesn't either give room to motivate the companies to improve the process and thus be more cost efficient (Lantz 2000).

The most difficult problem regarding cost plus strategy is that the cost per unit varies with the volume. The cost per unit consists of both a fixed and a variable cost. A large volume will decrease the fixed cost per unit which will lead to an overall smaller price, while a smaller volume will increase the fixed cost and the end cost (Nagle & Holden 2002). This means that the only scenario when a cost plus approach is most profitable is when the average cost per unit is

constant over time. The cost plus strategy is best suited in markets where it's hard to estimate the demand (Noble & Gruca 1999).

3.6 Theoretical Reflections

The area covered in this thesis is a relatively new and unexploited area which might be a disadvantage for this study. Due to the fact that this is a new area and a small amount of research has been made within it, our theoretical framework might turn out to be thin and not fully exhaustive. We have read various articles and taken them into consideration when constructing our theoretical framework but have only used one article as the main source and structured this study along its structure. We believe this can make the study a bit biased. The authors of the article we have used have knowledge and experience within pricing and strategic management and have published academic articles within this area before. Another point to bear in mind is that the resource based view, one theory that we will use to analyze the result with, is a joint name for various researches' theoretical arguments and therefore differences amongst these arguments exist. We have used various authors and their arguments to make as broad a picture as possible to the reader, to prevent the research to become too focused on one specific view.

4 Empirical Findings

Chapter 4 presents a brief presentation of the companies involved in the study as well as the empirical findings that was collected via interviews. This will give the reader an idea about the different price setting strategies within the companies involved.

4.1 The Investigated Companies

Since we are interested in understanding how the pricing capability can be developed amongst business-to-business companies, we naturally turned to the industrial arena and expressed our intentions to a couple of market actors about our wish to investigate their pricing capability. Six manufacturing companies were willing to participate as case companies. The common denominator amongst this specific selection of companies regards the offer of products/solutions to other companies. In other respects they differ considering their operating areas, their size, their annual turnover and other general conditions such as, for example, if they are listed on the stock exchange or not. We find these diversified conditions interesting, thus it gives us a possibility to see if the selected companies approach the price setting process differently.

As mentioned in section 2.3.2 we have used a consultant bureau, AFK Value Management to verify our findings and to get a better understanding of the price setting procedure. This has proven helpful and interesting due to the fact that we could set our findings in relation to other companies, not just industrial companies. This will enable us to compare these results with real case scenarios. By taking opinions from experts into consideration when the empirical findings together with the theoretical framework were analyzed, we hope to ensure our conclusions have better accuracy.

4.1.1 Alfa Laval

Alfa Laval was founded by Gustaf de Laval in the late 19th century. Its success was based on his brilliant invention of the continuous separator and today they are a leading global provider of specialized products and engineering solutions. Alfa Laval is a global market leader with its three

key technologies; Centrifugal Separation, Heat Transfer and Fluid Handling. These products help their customer to cool, heat, separate and transport a variety of products like water, oil, chemicals, beverages and pharmaceuticals. Alfa Laval has more than 20 000 customers in 100 different countries. The annual net sales for 2006 was SEK 19 800 millions (www.alfalaval.com).

4.1.2 Arboga-Darenth

Arboga-Darenth was established 1982 in Sweden and is a privately held company. They operate in the metal industry and offer products which help the customer to take care off and recycle metal scrap and cutting oil. Arboga-Darenth helps companies to deal with today's increasing costs for metal, coolant and labour as well as higher quality demands and environmental issues. Their products are low cost, easy to maintain, have high resilience and product life as well as are flexible to integrate. They have one manufacturing plants in Sweden and one in the United Kingdom, a sales office in France, and distributors around the industrial world (www.arbogadarenth.com).

4.1.3 BE Group

In 1885, Hans and Jöns Edstrand founded the company Bröderna Edstrand in Malmö, Sweden. They have always been involved in the metal industry and today they offer value-creating distribution and services in steel and other metals to industrial companies in Northern and Eastern Europe. They are one of the leading Nordic trading and service companies and are expanding in Eastern Europe. BE Group are proud to deliver outstanding service in areas such as delivery performance, integrated customer solutions and the best availability based on a customer-oriented product range (www.begroup.se).

4.1.4 Lindab

Lindab is an international group of companies divided in two business areas; Ventilation and Profile. Sheet metal and steel are the common denominator for the Lindab Group. The Profile division focuses mainly on the construction industry whereas the Ventilation division offers

everything from ventilation components to complete indoor climate solutions. The company develops, produces, distributes and markets products and system solutions in sheet metal, mainly in Europe, for simplified construction and improved indoor climate. Lindab is one of Sweden's major purchasers of steel and sheet metal with a total of 4 900 employees in 29 countries. In 2006 the net sale amounted to SEK 7,609 M. (www.lindab.se).

4.1.5 Rottne Industri AB

Since the foundation of the company in 1955, Rottne Industri AB is now one of the leading manufacturers of logging machinery with an annual turnover of approximately 450 million SEK. The predominant markets like Europe, North America and Australia are supplied with a wide range of forwarders and harvesters, developed and manufactured by Rottne at one of the three production plants in Sweden. The main company activities include operations like product design, manufacturing, spare part warehousing, service and training programmes. The main office of Rottne Industri AB is situated in the southeast of Sweden and together with the three production plants the workforce totals approximately 155 employees (www.rottne.com).

4.1.6 Trelleborg AB

Trelleborg AB is a Swedish public limited liability company, established in 1905, in Sweden. The company is divided into four business areas with a work force of approximately 24 000 employees that develops high performance solutions that seal and protect functions that are vital for customers within selected segments of the global markets, in demanding industrial environments. The products and solutions are currently found in a wide range of branches and contexts worldwide. These sectors are for example aerospace, agricultural, automotive, infrastructure/construction and the oil and gas industries. The Trelleborg Group has annual sales of approximately SEK 27 billion (www.trelleborg.com).

4.1.7 AFK Value Management

AFK Value Management is a consultant bureau which specializes in the profit procedure of technical companies. They offer education in this area to middle and top management in international companies (<http://www.netcompetence.se>).

4.2 Empirical Findings from the Interviews

When the empirical data was processed a pattern was deduced in the transcribed interviews. Considering that the interview guideline had been structured with respect to the theoretical facts, our aim at this stage was to detect similarities between what had been said during the interviews and the academic view, but also to form a clear picture in a real life context. The three headings have been compiled as a result of what the respondents emphasized the most during the interviews, i.e. what they regarded to be crucial factors when considering the perceived customer value. The higher the perceived customer value, the better are the presuppositions which in turn will increase the chances for successful interaction vis-à-vis customers.

4.2.1 Alfa Laval

Price setting is today one out of three priorities³ at Alfa Laval. In 2005 the management decided that they were going to improve their capability to optimize customer prices. Alfa Laval has an official price list to all customers, but the prices on the list are normally not the final price due to various discounts to different customers. Alfa Laval wants to send the message to their customers that the customer value offered for their products exceeds the price. Previously, Alfa Laval has been dependent on some key people in the pricing area and now they want to develop tools which make them less dependant of human competence. In the future they want everyone being involved in the price setting to have the relevant education, competence, the tools and information necessary to be able to set a price which takes various factors into account. They want the price setting process to be a structured process and not a kind of art that only a few

³ The other two priorities are time to market and parts and services.

people can handle. The people who actually set the prices are a mix of people depending what kind of product it is. If it's a very complicated product, the price setters are very experienced, comparing to a less complicated product where less competence is required. Different perspectives and a great deal of understanding of the different internal and external processes are combined when setting the price.

The Sales People

The sales people are a mix of engineers, business professionals and other qualified people. The most important skill for the sales people is to get a good contact with the customer, be able to understand how different things work and the ability to know what the customer is really looking for. These things are important for Alfa Laval and they think about this when they recruit new sales people.

Customer Relations

Since 2001, Alfa Laval has been a customer focused organization which means various improvements have happened within the organization. They are organized in such a way that the division which is involved with the customer has special knowledge about the customer's industry. The customers will then only be involved with people from Alfa Laval who work in the same area as the customers. These people from Alfa Laval easily understand the customer's needs and know the products the customers might be looking for. They have different customer events, but this area tends to be less and less important. Instead they are more focused on having continuous contact with the customer and understanding its needs. They think it's important to have several contact persons towards the customer and be in contact with various people in the customers' business. Depending on the size and scope of the customer a different amount of people are involved. If they make a price change, they will inform only those customers that they have a price deal with.

Quality Control

Alfa Laval have a great deal of focus on internal quality control and considers themselves to have a reasonable standard in this area, but improvements can be made. They chart and measure customer satisfaction on a local level with an index. In 2005 they hired an external consultant bureau to investigate how they could improve their price setting.

4.2.2 Arboga-Darenth

At Arboga-Darenth various people are responsible for setting the actual price of the product. The CEO is the main person responsible but the project leader as well as the retailer has impact on how this process is done. The price is based on the costs involved, the competitors' prices and past experiences. The people responsible for the price setting work out a price range, where a minimum price is stated. They work after a fixed structure, but are flexible towards their customers depending on various circumstances. Discounts are common to bigger customers and old transactions are considered.

The Sales People

The sales persons have an influence on the pricing decision. Working within a price range means that they are somewhat responsible for what price they will sell the product for. If the sales persons want to finish a deal under the minimum price, they have to contact their boss, who then can decide what actions to take. Their wages are based on how many orders they receive and is then related to the budget. The sales people are all engineers due to the technical features of the products they sell, but combine this role with a business oriented approach. They, and the other staff, have a close collaboration and meetings are held continuously and sometimes informally. If they notice that the price range is wrongly constructed and not in accordance with market prices they will inform the Managing Director about it.

Customer Relations

Arboga-Darenth strives to build long time relations with their customer and in order to do this, they have good support systems. Every customer has a special contact person, normally the sales person doing the sale, they work with and that they can contact in case of any problems. Larger customers have more influence in the price question, due to more potential for bigger sales and the fact that they might have more skilled people doing the negotiation. However, smaller companies have smaller budgets and, therefore, a lowering in the price to these customers is sometimes necessary in order to be able to make the deal. Due to the fact that their business consists of many one time customers it's hard to communicate a price change directly to each customer. When they notice the retailer about the price change they send out a price list and if the retailer doesn't understand the price change, they will explain why this has happened.

Quality Guarantee

In order to be associated for good quality and make sure they offer quality products, they are careful when taking care of customers complaints regarding the product. They are not ISO-certificated or do customer surveys regarding product satisfaction, but have an active dialogue with the customers to find out areas of improvement.

Arboga-Darenth sells products which are valuable for the customer in the long-term perspective. They know that their products might not be valuable for the customer in the short-term perspective, but they want to offer the customer a valuable payback. Value creating for the customers is an essential issue for Arboga-Darenth.

4.2.3 BE Group

BE Group is a trading company and therefore pricing is an essential issue. They work in a highly competitive industry where they act as market leaders for some products. Today the price of their products is set by the purchasing manager and five production managers. When setting the price, BE Groups develops an official price list for all customers. However they are pretty flexible and different customers have different discounts depending on order size, the size of the company and their collaboration history. Different factors are to be considered when setting the price but the most important factor is the perceived value on behalf of the customer. Another factor is how attractive the products are on the market. BE Group offers additional services in areas like product advising and service, which justifies their high price. Issues of importance are an understanding of the customer's needs and the customer's customers.

The Sales People

The sales people have some degree of freedom when deciding upon the price. They have a specific price range where they are free to set the price and a discount larger than stated must be noticed to the responsible managers in order to go through. The wages are constructed differently depending on the salespeople. Every seller has a personal budget, however some sales representatives have result based wages where they work towards a specific sales budget. This budget doesn't consider the volume of the orders but instead focuses on the income range.

By constructing the salary structure like this, BE Group makes sure the sales people don't give

the customer a lower price, due to a close relationship. If the headquarter notices that one particular sales person is charging a customer a smaller price than normal, they will take actions and investigate why this has happened. The sales workforce consists of around 10 % who have engineering background and this number is increasing. They continuously have sales education but no real education regarding price setting. The regional manager thinks a good seller should be business oriented, have social skills, and have the ability to sense customers' needs and be enthusiast to engage and solve customer needs. The seller is the person who deals with the close customer relations and is responsible of establishing good relations. BE Group organises ice hockey games, seminars and so forth to further encourage collaboration. In case of larger customers with established relationships, the head managers will probably join these events too. It's also important for the sales representatives to have good working relations with the customer or with the retailer because in this way the sales persons can find out about the competitors prices. The customer or the retailer will sometimes tell the sales person how their price is compared to competitors and, in this way, actions can be taken faster. The seller has an up to date system where he can find out how profitable one specific customer is. This enables the seller to know about the customers' needs and preferences for the next transaction.

One area in which BE Group can improve is to offer additional services to their products. The sales person has to investigate whether it is possible to sell that additional service to the customer and BE Group has sometimes experienced that the sales persons doesn't fully investigate what the customer actually wants.

Customer Relations

BE Group experiences that they have long and good relations with their customers which they carefully maintain. With their largest customer they have special agreements which will guarantee them some deals. This is a reciprocal agreement so that the customer will in accordance receive better service and also be prioritized if some products might be out of stock. Having good communication with their customers enables them to be prepared for the future. They sometimes receive forecasts from the customer so they can estimate the quantity of how much the customer will order.

Quality Guarantee

In order to make sure BE Group offers qualitative products they have some procedures which will guarantee this. First of all their products are certified in order to prove quality and they have

a complaint system called *hot line*, where customer can call in and make complaints. Their suppliers get evaluated on their performance and if they don't fulfil the standards, BE Group will change supplier. The company also do customer surveys every year where they construct an index which measures the satisfaction amongst the customers. In this way they will notice when dissatisfaction occurs.

4.2.4 Lindab

Three years ago Lindab started to see pricing as an important subject in the organization. They raised an awareness of their superior knowledge to the staff. Normally the prices are based on the costs involved but Lindab considers two other factors when they set their prices; how far the product has to be transported and for how long it is tied in stock. Lindab mentioned three points that differentiate them from their competitors and these are their geographical spread, their ability to deliver on time and the customer relations they have. Lindab is aware of their technical knowledge for which they charge extra for and they will never cut down on their quality to save money.

Prices vary according to volume, how fast they need to be delivered, whether it's a primary- or a complement order, from where the order is handled (geographical storage unit, central warehouse etc), address of domicile and previous relationship with the customer. A natural result to this means that the margins differ between various orders and contracts. "There's a price within every dimension" (Mr. Persson, 2007-05-11) which is to be interpreted as a strategic pricing approach of the point of view of Lindab. The strategy is however to fill the role as price leader and simultaneously grow and keep existing customers. In order to do so, Lindab emphasizes on keeping the scheduled delivery date, guaranteeing the quality of the products, maintaining a good geographical spread and assuring availability.

At Lindab, the management can see how the sales persons are doing through a computer system. According to current perception, this has raised the awareness in the company and nowadays they are better in price setting. They have also hired a German consultant bureau which systematically looks into the operation and sees where they have problems in order to make sure they remain efficient.

Sales People

Lindab is a very price focused organization and they have had training for the sales people since 2004. A lot of time and effort is invested in mental training; the sales staff must constantly remind themselves and be reminded of the nature of their “mission”. A special software program, *Business Acumen*, provides continual development and helps employees within various areas to keep focus on important objectives i.e. what the customer wants, encouragement to think differently and identify business opportunities and let these ideas be acknowledged. Also included in this active training is the development of an ability to recognize potential and learn to identify risks. Through training in the form of case assignments, the sales people learn how various approaches (margin adjustments and rebates) impact the balance sheet. Lindab also educates the sales people to understand that they don't sell just the product, they sell an extra value to the customer; this is what is to be emphasized when the sales people meet with the customers. In a negotiating process, the first thing the sales person has to do is to investigate what the customer wants and then try to figure out how much the customer is willing to pay, but never let the conversation turn into a pure price discussion. They also sell a computer program to customers where they can simulate a transaction and see how much money they can be saving. The sales people have some possibilities to affect the price, but it remains limited. There are certain rules they have to follow and they can never make a deal without some margin. Sometimes they will make a deal with low profit margins with the aim to raise awareness of Lindab or get some customer references, but this has to be approved from the top responsible.

Customer Relations

A part of Lindab's philosophy is to understand the customers' wishes and requirements. The guiding principle is that a good piece of business is achieved when both parts are happy. A sense of superiority, on behalf of the customer, should always be a part of the deal after fulfilling a project. Lindab works through its own branches and through a number of distributors and, in certain markets, through building material chains who, on their part, handle the final customer contact. Lindab therefore depends a great deal on their distributors to handle the interaction with the final customer adequately. Lindab offers support throughout the planning process to the actual construction phase in form of architects, engineering consultants and practical training.

Quality Guarantee

The extra value the products offers, like supreme sealing solutions, energy efficiency and the fact

that the systems are easy to maintain are emphasized towards customers. It's a top priority within the company to guarantee "the right product in the right time at the right place" (Mr. Persson, 2007-05-11). In the construction industry it's crucial that products and components are available at the right time to avoid delays. Thanks to an efficient logistics system, Lindab is able to serve customers according to their philosophy. (98% of deliveries take place on time). In Denmark, Lindab has set up a competence centre that counts as one of the world's leading audio laboratories for ventilation systems from where experiments are ran and solutions are tested in order to guarantee the promised value in their solutions offered. In Grevie, located in Sweden, Lindab has another laboratory for product development, measurement and customer tests.

4.2.5 Rottne

At Rottne the price lists are being distributed to exclusive retailers who, in the Swedish market, only offer equipment for sale from Rottne. The unequipped machine carries a defined price, exclusive of VAT, and the buyer is then able to equip the machine according to personal wishes and according to certain conditions within their own business. List prices are a result based on the calculated cost of certain inputs e.g. cost of raw material, labour costs, time of production etc. On top of that a margin is added which also should cover costs like buyer education, guarantees, R&D and documentation (for operating manuals). About four times a year the price lists are updated as a response to increases in raw materials costs, e.g. increased steel prices or the like. In case of the existence of a supplier agreement, regulating prices of components, the list prices are adjusted according to such agreements. The current state of the industry is also taken into consideration, before price adjustments occur. The after sales market accounts for about 15-20% of the annual turnover. This is an important market thus it enables the company to make profit in other areas than the normal machine selling area. The respondents strongly emphasize to avoid pure price discussions with customers. Instead, calculations estimating operating costs, on the behalf of the customer, are viewed as an appropriate tool when interacting with the customer in a sales situation. The sales people are trained to sell a function, instead of just a physical machine. The customer should always feel that a good piece of business has been accomplished.

Sales People

All the selling takes place through exclusive retailers with presence in several parts in Sweden.

The foreign market is somewhat different since the retailers offer other machinery alternatives but the Rottne-ones. The exception is the US-market at where the retailers operate under Rottne's own management. Retailers are being referred to as members in the "family" and are often well known in their local surroundings due to a long history as salesmen. The communication between Rottne and the retailers takes place on a continuous basis. On several occasions, Rottne has arranged training sessions for the sales representatives with the intention to strengthen and increase their competence, e.g. calculation and core product education.

The retailers very seldom disregard the predetermined list prices. In exceptional cases this happens, but not without advisement from the management at Rottne. The retailers must keep up with selling a certain volume of machines in order to ensure their own survival. A company with the size of Rottne lack the presupposition to compete with competitor giants, like John Deere, if the rival considers a certain deal to be of strategic importance.

Customer Relations

Customers are referred to as "the blue clientele" (the main colour of the Rottne-machines) and relations are handled very personally. Rottne depends a great deal on their retailers and their ability to satisfy the needs of the customers. The tradition within the industry, considered the customer-seller relation, show similarities with a pattern recognized from "the earlier days". The sellers seem very much to be in agreement with the needs and individual conditions concerning each customer and focus on the assignment to fill the needs in a familiar way. In order to back up the local retailers, different sales promoting activities are arranged and provided by the management at Rottne. In order to reach out to a wider scope of potential customers Rottne started cooperating with Danske Bank which resulted in *Rottne Finans*; a service offering financing to customers wishing to purchase a product.

Quality Guarantee

Within Rottne there is a unique system handling spare parts. Thanks to the way Rottne has chosen to handle and administer service, maintenance and repair the company is able to guarantee limited down time which is a crucial factor within the industry since each hour of non-use costs around SEK 1 000. Some components are bought externally and then modified whereas many of the machinery parts are manufactured in house by Rottne's own employees. The reason behind this approach is by no means a cost advantage action but rather a measure to insure the quality; on one hand regarding the actual quality of the machinery parts and on the other hand to

keep up the quality of the competence among the workers.

Included in each purchase, education for the buying company is included. The driver of a logging machine must execute more decisions than a pilot flying a combat aircraft. A certain school, *Rottneskolan*, has proven to be most efficient for both the customer and Rottne itself. Further, the construction of the machines is designed in a way that enables the driver to make basic maintenance on his own in the middle of the forest. When buying a Rottne machine a service package is included in the machinery price, providing the buyer free service and a thorough check up after a certain amount of time.

4.2.6 Trelleborg CRP

At Trelleborg CRP two aspects are considered when setting the price; the costs involved and the state of the market. When setting prices, they estimate various factors involving costs; the amount of effort involved in engineering design, the costs of the materials etc. and then compares and relate it to previous experiences. In terms of the actual sale price to customers they will take a view on whether they have bought the product before, the premium market conditions and the volatility of raw materials and make an estimation of the price they think they can sell the product for. They believe that they have a fair amount of “market intelligence” about the competitors’ positions and take that into account fairly often when setting prices and, in some cases, they even change their whole approach depending on who the competitor is.

Trelleborg CRP mentions different factors that are crucial when setting the price. First of all it’s the costs for material, time and labour. Then it’s the nature of the product itself; the level of uniqueness in the product which is in respect to their competitors’ positions and finally how eager the customer is to buy the product. Trelleborg CRP thinks they could be better at estimating the time involved in manufacturing and designing their products. One of the reasons why they are not particularly accurate at estimating this is that they are missing good management system. They could also improve recording information from previous jobs as a basis for estimating new work and be smarter in how they hedge their prices against volatility of raw materials prices. Today they sometimes put escalation clauses into their contract to be sure they will not loose money if some raw materials increase in price.

The pricing process is for an overwhelming majority of the products a standard process and only the appearance of something unique will make them change it. One of their superior skills is the fact that they are very good in technological knowledge and that their products are fit for a purpose for the customers.

Sales People

The sales people within Trelleborg CRP are people with a technical background and mostly engineers. It's almost unavoidable not to have this kind of background because they sell technical products and they need to have a strong knowledge of how the products work. Sometimes engineers can be less focused in the business area and are more interested in the technical areas, but at Trelleborg CRP they have spent time and effort during the last couple of years in educating their sales people in the selling area. They have sales training for the sales people where they look at, for example, how to make a cold call, how you prepare for a visit and how you are supposed to conduct yourself at a sales meeting. This training will make the sales people get a better understanding of the customer buying behaviours and their perception in terms of the buying processes.

In order to control that the sales people don't go below a certain margin when making a deal, they have specific thresholds and charging a price under this requires the senior management's clearance to do it. The sales people have bonuses that are set on profit. Larger contracts are dealt by senior persons in the organization.

Customer Relations

They have a good customer relations department and the collaboration can almost be described as a friendship. With this close connection there are both positive and negative effects. The positive impact is that they would like to think that they can influence the customers more than they would have been able to do if they weren't so close. The negative side is that the customers might influence them too much. Due to the good relations they can sometimes find out about their competitors pricing from their customers.

Quality Guarantee

In order to give the customer good service, Trelleborg CRP has a structured process in handling complaints. They also offer extra services with their products even though they think it's

significantly more difficult to get a good price for services.

4.2.7 AFK Value Management

Today companies are more aware of the difficulties involved with pricing. The demand and competition amongst consultant bureaus dealing with pricing has intensified. The customers are often people within companies in technical industries who feel that their business knowledge is limited. Below are aspects that AFK Value Management has come across as important issues which companies can develop in order to build up a pricing capability. The two main areas where customer can improve are; how to understand their customer and competitors better.

It's important for companies to see how much value the product is creating for the customers and this is one area where AFK Value Management teaches the companies in how to think differently. They don't want to generalise, but feel that companies have a trend towards thinking too much in terms of cost based strategies.

The biggest problem regarding customer relations is that the contact base is too narrow. One company might only be in contact with one person in their customers business. It's important to broaden the contact base and be involved with numerous people. They also see a problem with how the sales people's salary is based. It is hard but very important to construct a bonus system which can maximize the companies profit and make the sales people happy with their wages.

Companies which are good at pricing their products have some shared characteristics. They are methodical, strong willed and have considered various aspects before setting the price and may also have good knowledge about their customers and their competition. To continuously and methodically work with pricing is essential and most often companies want to develop this area but they don't have a concrete plan about how to do it. One barrier for companies to overcome whilst developing their pricing capability is the struggle with a natural inertia within the company. The resistance to transform and think in new patterns might hamper companies and make them unwilling to change in order to be more effective.

5 Analysis

In this chapter we will analyze the price setting procedure vis-à-vis customer. We will mainly use the article “Pricing as a capability-a resource based view” presented earlier, however all theories presented will be important tools when processing our information. The analysis will consist of a review of the empirical matrix as well as empirical material which is related to the theoretical framework.

Review of the Empirical Matrix

In the following section we will comment on the empirical findings with the help of a matrix and further explain the chosen areas with examples that we found in the collected material. The areas of focus are formulated as a result of *acquired knowledge in the literature* as well as factors being thought of as essential in a pricing *perspective among the respondents*. Both these aspects have then been considered from a pricing perspective in a resource based view-modus and resulted in the matrix. The three main headings are to be considered as the core parts in the idea of customer value in a vis-à-vis customer perspective. Further, the subheadings are important cornerstones which constitute the body of the customer value.

Underneath the three headings in the matrix below, which in the empirical findings appeared as crucial to the overall customer value, different activities are listed. This listing is a result from the identification of certain actions, taking place on a more or less occasional basis among the case companies, in order to enhance the customer value. We have given each one of these activities a status of being an important factor for the perceived customer value, and thus positively affect the pricing capability, and then mapped out whether the specific activity occur in each of the case companies. As the table reveals many of the reviewed companies show proof of arranging/undertaking requested activities, but in many cases this seems to have been a one-off action. With the help of the table we argue that it reveals that a pricing capability reside in every company. Whether it's present or not depends on the focus it enjoys, i.e. if the important factors are structured, made into routines and coordinated. An explanation to each of the listed activities follows after the matrix in form of examples collected from the interviews.

5.1 Customer Relations

Customer Activities

A majority of the companies interviewed arrange official activities in varying forms in order to strengthen their bond to existing and potential customers. It's being thought of as an effective way to increase the awareness of the operational business and to put across an appealing vision towards customers. The examples of such sales promoting activities vary in approach to either be more of an entertaining character or to show more of product focused elements.

On several occasions each year Rottne arranges so called "Rottne days" where (potential) customers are invited and picked up by bus from different locations around the country and sometimes from abroad. After arriving at Rottne, an extensive program is at hand starting with an introduction of the company and the underlying business where the customer gets to visit the production plant and experience the genuine assembly of the machine. An afternoon excursion takes the visiting guests to the contractor with the intention to demonstrate the machine in action and how it is guided with help of its sophisticated computer system. Arrangements like these are highly appreciated among customers.

Customer Need and Value Creation

The interviews reveal that the companies seem to focus on the understanding of customer needs more thoroughly than just pursuing a quick overlook. Observing the wishes and wants of the customer seems like an important matter, but taking the step further and really acting upon the needs being highlighted calls for coordination between the sales people and the management, and sometime also between the production unit. We stress the importance of adopting routines that make the consideration of customer needs more of a rule rather than an expectance. BE group emphasized an awareness of the need to adapt routines in order to support the sales people when interacting with customers. Consequently, they can improve their ability to chart and determine how they can serve customers additionally or add on products or services and thus increase the experienced value. The point is not to heap on products, but rather to manage the situation appropriately by screening and identifying areas that would benefit from an improvement. The interests of the customers need to be looked after and clearly communicated in order to cement the relationship. Successfully managed a win-win situation is created.

Continuous Dialogue

The customer care should not end with the transaction. Neither should it be regarded as a focal point in times of potential fluctuations in the market. Maintaining the relationship with customers even in times of transaction silence ensures the relationship stays alive. It's better to keep a candle lit than curse the darkness. However, in some industries the transactions seem to be of a non-recurring character, as in the case Arboga Darenth for example, which of course aggravates the conditions of adapting appropriate routines. Regardless of the likelihood of ever doing business with a particular customer again, standardised routines that enable the connection to further the relationship will have a positive impact on the overall relationship, and increase the possibility of interacting with that same customer again in the future. Depending on the practice in the branch and also on previous contacts with the customer, the routines should be adjusted to an appropriate level of presence considered after the transaction phase. Maintaining contact and keeping dialogue with the customer opens up for lucrative opportunities to act upon. Being aware of one customers' situation and needs allows one to come up with solutions which will benefit the control over the pricing perspective. About half of the companies seem to have established some kind of channels that promotes continuous dialogue. However, Trelleborg CRP indicate that the relationship between the sales people and the customers sometimes are too intense and actually needs to be handled with care in order to prevent overgenerous prices. In this respect, we again stress the need for implementing routines in order to obtain distinct policies and thereby reduce the dependence of a certain individual.

5.2 Quality Guarantee

Customer Support

In this context customer support is to be understood as a certain function with the task to handle customer related issues like technical support, administrating service and maintenance, offering consultation and advice about product solutions etc. All of the case companies show proof of offering customers support of this kind. One could presumably argue that a customer support function has become more of a need than an option among players in the market. On one hand customers seem to expect the presence of help and support and on the other hand companies have a special unit for such matters that handles customer related issues efficiently. In a pricing perspective we like to emphasize the intrinsic value within the support function. If the company

is able to gather its various skills and coordinate these in an optimal way this market player should be able to provide a unique function. A support function being made up of explicit resources is harder to imitate which prevents other market players to copy it. If the company is able to offer its customers added value within the support function we argue that the quality is guaranteed which in further extent positively affects the pricing capability. However, Trelleborg CRP emphasize that there is a distinct distance between pricing unique constructing solutions and getting an appropriate price for different services. We stress both the potential in the support function area as well as the need to learn how to effectively manage the function in a pricing perspective. We believe that the support function could be a source of unique value which will contribute to guarantee the overall quality and positively affect the pricing capability if routines, appropriate skills and the coordination to the general operation are well managed. The support function is very likely to add value to the main products/ solutions being offered to customers if it also is well managed. The lack of adequate routines could instead leave the company with an expensive solution of handling customer related issues.

Ensuring On Time Delivery

A common denominator today within various industries is time. Time is an expensive factor and needs to be managed with absolute priority and is mentioned again and again as an important variable to consider in various regards. Lindab refers to the building industry where market terms can change rapidly and transform the current conditions completely. In order to keep up with a dynamic market one need to be flexible and be able to offer the right item at the right time. Rottne for example, have a unique system regarding how they handle reparations and service. The system pays attention to the fact that each hour of down time amounts to a cost of SEK 1,000 which makes the owner vulnerable and this could be detrimental to the enterprise. Rottne has coordinated their system with their after sales market, which approximates about 20% of the annual turnover. Implementing routines that ensures the customer an efficient care in as many aspects as possible i.e. customer contact, product delivery, administrative matters, consulting, service and repair etc. will contribute to a high quality product and service package and positively affect the pricing capability. In some cases though, for example Alfa Laval, the company may lack influence over time. Being dependent on different input materials e.g. metals like titanium steel, which is a scarce resource and therefore is a matter of ration, affects sales negatively. However, the company may instead take advantage of the occasion and make use of the implemented routines in order to facilitate the dialogue with the customer. Occasionally providing the

customer with updated information face to face, the bond with the customer will strengthen the relationship between the two parties and hopefully signal a high quality approach on behalf of the company which will benefit the pricing capability.

Customer Surveys

Only two companies, Alfa Laval and BE Group, appears to conduct customer surveys on a regular basis, two other companies have done it in the past but not in the last couple of years. However, the majority of the respondents claim that customer surveys are important and valuable for improving the business. The reason behind us emphasizing surveys among customers is due to the fact that this is a relatively simple routine to implement and an effective way of collecting opinions and points of view amongst customers. By making a routine of doing surveys the company also insures continuous focus on improving the everyday operations. The pitfall we see in not having a special routine for collecting customers' views and measure customer satisfaction is that such opinions risk to be left unnoticed. Opinions may be observed but the absent of certain routines that allows employees to act upon feedback, might result in important information being left without attention.

Accreditation and Renowned Standards

Legal regulations, like EU directives, detail compulsory actions that need to be taken in order to meet certain claims by legal means. Beside that, companies have the opportunity to initiate optional actions that further verify a certain degree of quality. International standards signalize reliability and affirm that the quality has been tested according to defined standards within the industry. Especially larger corporations take peculiar interest in environmental protection as key stakeholders increase their demands for such activity. With help of a distinct standardized document the company is entitled to confirm the quality of their products, policies and systems and these standards serve to safeguard the buyership and users in general. As an example of in-house initiations, Rottne has introduced their own CE-marking. Controls and testing have been conducted by third party to secure the marking. For example the safety regarding the machine cabins are a crucial point when the buyer considers buying a machine. It's in the companies' own interest to be able to verify that a machine has undergone sufficient testing and offer the machine operator satisfactory safety. Tests like OPS⁴ and FOPS⁵ are examples of industry specific test

⁴ Operator Protective Safety

⁵ Falling Object Protective Safety Roll Over Protective Safety

generally requested by buyers. In addition to other quality certifications mentioned earlier, standards are helpful arguments when the added value is to be verified. Quality is an important ingredient in the surplus value and will positively affect the pricing capability. In this matter we accentuate the need for the company to implement routines which make sure the obtained accreditations are managed in such way that the overall value is supported and emphasized.

5.3 Selling Competence

The Education among the Sales People

All the case companies in this study operate in businesses featuring elements of engineering competence. The degree of advanced engineering solutions varies which correlates the respectively importance of adequate education among the sellers. According to our current understanding the more advanced solutions a company offers the greater is the need for the sales person to have an appropriate education within the area, i.e. engineering graduate. Lindab is one company confirming this but also stresses the need to find people with an ability to socialize and possessing genuine selling skills. An engineering background is a presupposition whereas to possess an instinctive feel as a sales person is a must. Over the years this has become more evident within Lindab where selling qualities today are taken into consideration to a greater extent when people are recruited. In Rottne's case however, there is not the same need for engineering competence among the authorized resellers. Indeed it is important with the right qualities among the selling agents but in Rottne's case this dimension focuses on other values, like understanding customer needs and the ability to be flexible when handling the interaction. Lindab expresses a word of caution about the importance of having an appropriate mix of pure engineers and enterprise oriented managers to insure that the right goals are in focus in the right context.

Sales Training and Interaction Skills

Within the sales training dimension we believe a great value is to be found. Looking at the current situation among the companies which show that the sales people in most of the cases have an engineering background, but not necessarily have cutting edge skills in the selling aspect, we believe that with the help of continuous training a selling competence can be developed. This training should include various parameters; including calculation, negotiation, communication,

branding awareness and a lot of focus on mental training. In 2004 Lindab officially implemented a programme, Acumen, in order to strengthen the overall leadership. A part in this programme focuses on the sales people positions and their ability to interact with customers. Within the framework of this programme larger training arrangements take place on a regularly basis, but in addition to these large scale activities the mental training is supposed to take place continuously. By constantly strengthening the perception about the brand and its intrinsic value and thereby creating a stronger image in the mind of the sales person, this person will eventually be absorbed by the added value incorporated in the company and its offers. In addition to this, other sales promoting knowledge will make a difference when meeting with customers, according to Mr. Persson (Lindab, 2007-05-10). Implementing routines in order to build up skills connected to the sales role may be beneficial in a vis-à-vis customer situation and thus positively impact the pricing capability. With the right skills, the sales person will radiate a sincere point of view in the sales meeting and mediate a clear picture considered the worth in the product that the potential customer is about to get his hand on. Several respondents clearly emphasize that the sales persons should never put themselves in a position where the discussion is focused on specific price components and where they are forced to justify their calculations. That sales situation is already doomed according to some respondents.

Customer Segmentation and Dialogue Structure

Different kinds of rebates almost seem to be common practice within the industries where our case companies are found. The two biggest companies, Alfa Laval and Lindab, have advanced computer systems that support the seller with information about previous closed deals; like volume and the frequency in the purchase pattern etc. Some companies handle rebates more fortuitously. Rottne however, only admits under list prices in exceptional cases. Moreover, the rebate system does not seem to be homogenously handled considering the absence of guiding routines among some of the companies. We believe that there should not be rules without any exception. The sales people should be supported by a guiding system that helps them determine whether, and in which order of size, the customer should enjoy a lower price or not. However, the deal shouldn't fall through because of a marginal divergence. But by playing the cards right, according to the above mentioned arguments, the discussion should never end up in a negotiation over the price. Sometimes particular deals are strategically important and implicate worth for the company in other terms than monetary profit. However, such projects are generally viewed as exceptions rather than occasions occurring frequently. But most importantly, not all customers are worth keeping. The company should have a supporting system that makes it easier

to whittle away unprofitable customers. Again, external factors, like economic slowdown at the market, may be taken into consideration if the industry generally is strained. Decisions like these should come from the managerial staff rather than being a decision at a sales persons level. Implementing routines that keep track of customers' specific information and clearly let those routines reflect on the overall company guidelines will make the sales person's role more consistent and reduce the dependence of single individuals and their relationship to specific customers. Furthermore, coordinating the interaction between the management and the sales people with the help of well-timed communication channels will also have a positive effect on the conformity considered in the sales role. All in all, defined routines and adequate coordination of the communication will be helpful to the company in their attempt to shape a uniform sales role so that the dependence of certain individuals becomes less obvious. Instead, desirable skills should be attached to the sales person's role rather than to explicit individuals. By combining the sales role, which should include desirable skills, with focus on the right segments, we believe that this will allow the sales person to better direct his/hers sales effort. Actions taken in this direction will benefit the overall selling competence which will positively affect the pricing capability.

Hiring External Consultants

Interestingly, the two companies with the most advanced pricing system are those who also have consulted external professionals to optimize the way they handle price related concerns. Further, among all case companies Alfa Laval and Lindab are without hesitation those two who ascribe most importance to pricing related activities and those who manage and practice the pricing area most extensively. Both companies have kept a strong focus on the price procedures even after the consultants were brought in. In many respects certain activities have evolved into routines, and skills have been defined. Alfa Laval puts a lot of effort in approaching their customers with the same amount of transparency in order to leave customers with a feeling of getting the best price and receive the greatest value. Skills, routines and coordination obviously support their dialogue and relationship vis-à-vis customers.

5.4 Empirical Findings Related to the Theoretical Framework

After interviewing the companies involved we could draw some parallels between them related to the theoretical framework. The involved companies tend to use a cost plus perspective but are

considering other factors as well before setting the price. This is in accordance with the theoretical framework, which stated that cost plus pricing is the most common price strategy within business to business companies (Noble & Gruca 1999). The most obvious case is Rottne where the cost plus approach is used for the majority of the products they sell. A greater part of the companies have recently started to focus more on the actual price setting process which indicates that pricing is getting more and more attention in companies.

5.4.1 Communication and Negotiation

The theoretical framework states that the two major activities for companies are; how to convince customers of the logic behind the price change and how to negotiate the price change with the companies' major customers (Dutta et al. 2003). These two aspects were considered more or less important depending on which company we interviewed. Every company in this investigation strives to build long term relationships with their customers. They do activities, hold seminars with the customers as well as try to understand the customers' need and offer products which create value for them. We believe a close relationship will most probably help them in communicating and negotiating the price with the customer as well as give them other benefits.

Communicate the Price Change

When it comes to communicating a price increase, the theoretical framework has argued that companies should give clear explanations of why the increase has occurred (Dutta et al. 2003). The companies involved use official price lists which they give to the customers. This list can be changed very often for some companies, normally associated with fluctuations in raw materials, and more seldom for others. Normally they will submit an offer to the customers where the customers can see whether the price has changed comparing to previous times. Examples of a company that explains a price change for the customer is Alfa Laval, but explanations are only made if the customer asks for it. Arboga-Darenth who has many one time customers only informs about and explains the price change to the retailer. For companies like Alfa Laval, BE Group, Trelleborg CRP and Lindab who are very dependant of the price of raw material, their customers are up to date with the raw material prices and know if a price increase has occurred. BE Group for example give their customers suggestions on special magazines where forecasts can be read about raw material prices. They also have their own magazine where price fluctuations can be addressed. This is to make the customer understand and be prepared of a

price change and they will therefore be less likely in need for explanations regarding a price increase. One can also compare the nature of the different companies' customers. Companies which tend to have many one time customers can't give their customers notice when a price increase has occurred compared to companies which have close and frequent collaborations who can regularly inform their customers. These two examples give some explanations why some companies do inform their customer and why others don't.

Moreover, the theoretical framework suggests that the price structure of a company should be flexible, understandable and relatively easy to administer (Monroe 2003). As mentioned earlier, the investigated companies all have official price lists. These lists don't state the final prices due to various discounts for different customers. Rottne is the only company where the list price is close to the final price and seldom gives discounts to customers. The other companies which give various discounts depending on the relationship with the customer and other factors have in our eyes a flexible price structure. They have a price range they are willing to close deals within, and in some cases they may accept a price which is lower than the pre stated minimum price. Rottne changes their price list four times per year and when they do this, they take into consideration factors like raw material prices, R&D costs etc but also how the industry is developing. If they notice that small entrepreneurs have difficulties and are struggling in an industry in recession, they will take this into account when they calculate the new price list and this also shows a sign of flexibility.

In order to make the price structure easier to administer, the companies send out official price lists which are the same for every customer. "It's an administrative nightmare to have unique price lists" (Berndt Berndtsson, 2007-05-15). Sending out unique price lists to different customer would take too much time and effort for the companies, so giving out a uniform price list will facilitate the administrative work.

Negotiate the Price with Major Customers

The next activity that is of importance is the capability regarding negotiating prices with major customers. The theoretical framework states that the sales persons' bargaining and negotiating skills are essential and these skills will vary between firms (Brandenburger & Stuart 1996). All the companies except Arboga-Darenth have continuous sales training for the sales persons where they learn various skills which will help them in a negotiation scenario. The companies sell technical products which require specific knowledge about the product and most of the sales

people consist of engineers and other qualified persons. By training the sales people with selling skills as well as educate them in the technical areas concerning the product, the sales people will feel more prepared, skilled and self confident which will, in turn, help them in a negotiation process. It is important to hire the right person and Alfa Laval and Lindab look at specific characteristics when recruiting sales people. BE Group, Alfa Laval and Trelleborg CRP emphasize that the sales person should know what the customer wants and should be able to see the customers' needs. This is also confirmed by the consultant bureau which states that the two most important factors companies are missing today are how to understand their customers and their competitors. Lindab goes one step further and have a special software program which will help the employers to remain focused on specific objectives. They have a form of psychological training where the employees look into themselves and work with psychological factors which might hamper them in a sale situation. These activities help the sales people keep up their motivation levels and give them a good standard of negotiation. It's important to have the right sales persons in a negotiation but Alfa Laval, Lindab and Rottne say that a valuable rule is to never start discussing the price in a negotiation. Instead one should focus on explaining the superior advantages with the product.

Bonus Systems

Due to close collaborations between sales persons and major customers, the relationship can sometimes be less formal and the sales persons might charge the customers lower prices than they would normally do. BE Group and Trelleborg CRP have salaries based on results and profits instead of large volumes. By having a system which is structured like this, they try to limit the deals with low margins. Lindab has a computer system where the management can see how the sales people are doing and, according to them, this has stopped sales person under charging. AFK Value Management does also see a problem with how the sales peoples' salaries are based. They try to teach companies how they can construct a bonus system which can maximize the companies' profits and at the same time keep the sales people happy with their wages.

5.4.2 Structures, Routines and Systems

There are different actions to take for the companies to develop a pricing capability. In order to help the companies remember all the knowledge involved as well as to make the process go smoother, the theoretical framework emphasizes that structure and routines are crucial to be able

to coordinate the pricing procedure. These activities will help the companies know when a price best matches the customers' value and these developments must happen with already established systems (Dutta et al. 2003). While interviewing our representatives from the different companies we realized that they were all somewhat aware of the importance of giving the customers good value and fulfil their needs. Another question was whether they had established routines and structures for it. Our target companies all have some kind of systems, and structures, but may not have fully established routines yet. Good support systems will enable the companies to give the customers better service and this is something the companies have realised. Most of the companies also have special telephones complaints line where customers receive instant help as well as gives the companies information about faulty products which can directly be addressed.

In the industry where Rottne operates in, every hour the machines are not in operation is a huge loss for the customer using the machines. As a result Rottne has developed a system handling spare parts which make the down time minimal. This system will guarantee the customer extra value and can therefore be an argument for Rottne to charge a higher price to their customers. Arboga-Darenth on the other hand uses its goods support system to build good relations with the customers. At BE Group the sales person has an up to date system where he can find out how profitable one specific customer is. This enables the sales person to know about the customers' needs and preferences for the next transaction. At Trelleborg CRP they are lacking a good management system and therefore they are not very good at estimating the time involved in manufacturing and design, which results in a less effective product line.

Having structured routines that focus on how to find out about customer needs and customer value can be crucial when developing a capability with sustainable advantage. Some of the companies we have studied have started to develop routines and are at present implementing them into the organization. Alfa Laval and Lindab are the two companies which are in the leading when it comes to having incorporated routines. Alfa Laval for example wants to decrease their dependency on human competence and want the price setting process to be structured. This way everyone can learn how to set good prices and not rely on a few specific people's knowledge and skills.

Further the theoretical framework says that the qualities of technological products are more important to the customer than the price of the product. Quality, support systems, and the ability to deliver within specific time limit are more important factors than price due to the fact that a

fault in any of these factors will most probably delay the customer's production chain (Nagle & Holden 2002).

5.4.3 Market Segmentation

Conducting market segmentation is an efficient way to investigate different customers' perception regarding products. Alfa Laval uses this strategy and charge for example a customer in the pharmaceuticals industry more than a customer working in the drain-industry. BE Group is one company that really emphasizes the perceived value which they think, is the most important factor when setting the price which is in accordance with Monroe's view⁶. Every company except Rottne have their official price list and then offer various discounts to different customers and by doing so they have probably been investigating which customers are willing to pay more than others for the same product.

Further the theoretical frameworks states that market segmentation can also help companies distinguish between major and smaller customers. Major customers are easier to negotiate price changes with than smaller customers (Dutta et al. 2003). However after interviewing our target companies this view wasn't shared amongst the companies and most companies gave larger discounts to major customers and rather let go of a deal with smaller customers than lowering the price to the customers' desired price. This view is more in correspondence with Rust, Zahorik & Kenningham (1996) who says that the companies should prioritize their efforts on the customers who hold a high lifetime value and in particular keep customers whose value exceed the costs for having a relationship to them. Before cutting customers loose we believe that currently unprofitable customers need to be scrutinised in order to find out whether they are likely to turn into profitable segments in the future.

In order to save both money and time on customer surveys Nagle & Holden (2002) say that the companies can look within themselves and see how big the minimum elasticity of demand is that companies can accept.

⁶ The most important factor why a customer chooses one product over another is the perceived value of the product. Companies should aim for setting a price equal to the perceived value for the customer and not the economic value (Monroe 2003).

Other areas of improvement are to investigate customers' perceptions and behaviours to see what they think is important. Nagle and Holden (2002) have nine different factors which influences customers before buying a product. It could be important to arrange them in the order of how valuable one specific factor is for one company's customer, to make the process more structured and facilitate focusing in specific areas of improvement. The factors are as mentioned in chapter 3; the quality of the product, the value of the product, perception, shared costs, fairness, reference price, benchmarking, expenses and switching costs.

6 Conclusions

The final chapter includes our results and conclusions with the research. We will finish off by describing our research reflections as well as give suggestions for further investigations.

We believe that a pricing capability starts emerging in that very moment when pricing is being considered an area that needs special attention and exclusive investments in form of time and other resources. This is to be thought of as the first step. Thereafter the management has to keep an ever burning fire around the pricing area and make it a concern that constantly needs attention. Achieving this means that value triggering activities must be described, be brought to light and also be evaluated in order to transmute the activity into a solid routine. Furthermore, we believe that consciousness at all levels must be drawn to pricing as an individual prioritised subject. Sales people are of particular interest within the framework of our chosen perspective; vis-à-vis customers. Training them in negotiation tactics and pure calculation should not be underestimated, but most importantly, there has to be a distinct focus on mental training in order to optimize their perception so that they are able to emphasize on the added value in front of a potential customer. The management is responsible for the interest taken in the pricing area and should, as in many other restructuring related matters, take on the inspirational and guiding role. They are responsible for the continuous training and attention attached to the pricing area. “You must be the change you wish to see in the world” (Mahatma Gandhi)

We started off with the literature review, inspired by the experts in the field and their research, and with help of existing articles on the subject built ourselves a frame that we surrounded around six different companies, all operating in the engineering industry and serving other businesses. Focal points expressed during the conducted interviews complemented the platform initially acquired from the literature, primarily from the previous work of Dutta et al (2003). This required us to pay extra attention in some areas that we think are crucial when developing a pricing capability. In most regards the empirical data collection emphasises on the same reflections mentioned in the academic research. We reflected a while around the actual views of the case companies and tried to understand which current activities among the interviewed companies had the potential for growing into routines and thus contributing to the development of a pricing capability. Further, we tried to understand essential skills that could benefit the sellers’ mission when interacting with customers and suggested that by equipping the sales

role with those essential skills the company could decrease the dependence of individual characters and instead create a uniform sales role that has better chances of being successful at any time. Our ambition has been to anchor the thesis subject and our chosen perspective in real life conditions and combine the literature foundation with opinions among the interviewed companies. It is from within the company that the pricing capability should be developed and, hopefully, emerge from it.

6.1 Results

We believe all the companies have the presupposition to create a pricing capability. They do see pricing as an important area and investments have been made in this area during the last couple of years within the majority of the companies. The results of these investments have been an acknowledgment of the importance of price setting, and other factors than just the costs involved in making the product are now considered before setting a price. The companies possess some of the factors or resources described in the previous chapter which is the basic step to develop a sustainable pricing capability. These factors must all be coordinated with each other which is probably the most difficult task for companies to do. In the literature we have found key areas or parameters which are important for companies in order to manage a pricing capability and these we have focused on during the interviews. The key areas are:

- 1 Customer Relations
- 2 Quality Guarantee
- 3 Selling Competence

According to our view customer value consists of the above mentioned parameters. In order to be superior we argue that routines must be established within these areas.

Customer Relation

Customer relations benefit from bonding activities, i.e. sales promoting arrangements, where we argue that the companies should take charge of activities like these, review them and see how they can be optimised before turning them into solid routines. Focusing on tying customers closer to the company is probably something every market participant in any industry strives to

do. However, by doing this effectively, by focusing on customer needs as well as expectations and approaching the customer candidly, the customer should feel prioritized and take a greater interest in contributing to maintain a good relationship. At this point the situation is more open for the company to take advantage of the situation, and with the right skills, e.g. be sensitive to- and understanding the value creation aspect, they have better presuppositions to impact the sales moment towards the desired outcome. We would like to clarify, that this shouldn't be interpreted as neglecting the interest of the customer. The consequence of neglecting the true aspect of customer interest would most likely undermine the relationship with the customer base in the long term. Having a continuous dialogue with customers fosters the relationship and facilitates the flow of information so that the company is up to date in respect of what is going on concerning the customer's business. Paying attention to customer relationship affects the pricing capability positively.

Quality Guarantee

Guaranteeing a high quality and a professional handling of products, services, delivering commitments etc. is crucial for the overall impression considered the degree of quality. One way to actively communicate the standard level is with the help of authorized accreditation standards. Emphasizing obtained standards within various areas like quality, e.g. ISO 9000 or environmental management, e.g. ISO 14000, or other standards guaranteeing safety aspects in the product we argue is good considered that these standards are universal. We recommend that companies should establish communication routines, to accentuate the standards and to make sure that attention is drawn to the quality aspect in the interaction moment vis-à-vis customers. The value added aspect is thus being promoted. Offering customer support further contributes to adding value. The support function should be deliberately considered since a great competitive advantage rests in a company's ability to effectively offer services. Establishing routines that concentrate on handling customer related concerns with minimal amount of time as well as with great flexibility, may be significant for the development of a pricing capability since time, as a factor, has a huge value in the engineering-, building- and forestry industry.

Selling Competence

The ability to convince the customer about the superiority in the product the customer would receive if a purchase came about starts in the mind of the seller. If he or she is not absorbed by the quality surrounding the product, he or she will unlikely be successful in the interaction vis-à-vis the customer. Making sure there's a structured reappearing programme for the sales people to

participate in, with the aim to drill the sales force by strengthening their selling competence and provide psychological coaching, amounts to huge potential in the attempt to make the pricing capability emerge. Thus we stress the implementation of routines towards training in various forms as well as establishing a structured dialogue between the management and people in the field. One respondent stressed the importance of training the sales people in identifying profitable customer segments. With help of adequate training routines, we believe that an appropriate guidance will help the sales people recognise the potential in a relationship and have the strength to cut loose unprofitable segments. When the sales role is characterized with desired skills and appear in a uniform manner, we believe that the sellers are able to appear professionally vis-à-vis customers. This will benefit their attempt of highlighting the added value, for example the value the customers will be able to offer their own customers. As any organizational change, there are hurdles to overcome and new thinking to adopt. The larger the company is the greater the number of organizational members needs to take on the new design of thinking. The interviewed consultants affirm the problem area regarding internal resistance. Taking into account that those companies who consulted professionals are also the respondents with the largest focus on the pricing area, we believe that engaging external help has a positive influence on the emergence of the pricing.

Study Observance

Moreover the pricing capability within a company must be a resource that is rare, valuable, imperfectly imitable and not substitutable (Barney 1991). We believe that if the capability has the routines necessary and is focused in the above mentioned key areas the capability will fulfil Barney's criteria's. Naturally the company structure, the industry they operate in and other external or internal factors might make it difficult to develop or obtain all the necessary skills that are needed, but by actively working and bearing these factors in mind, this can be overcome.

To find a generalized answer which may apply to all the studied companies we asked AFK Value Management's opinion as experienced experts in this area. They said that the biggest obstacle is the companies' natural inner inertia and the resistance to change. Sometimes on an assignment they will give companies' advices on how they can change in order to be better at pricing, but the customers are not receptive to the advice given. Another factor they underlined in order to establish better customer relations, is that the contact base of the customer is sometimes too small. If the only contact the company has with a customer consists of one person and if this specific person might be unavailable or quits the company, years of invested customer contact could be lost. This base must extend and involve numerous people for the establishment of a

broad contact base. To become a company with an excellent pricing capability AFK Value Management thinks that three characteristics are fundamental for companies to have. They have to be methodical, strong willed and must have considered various aspects before setting the price as well as having good knowledge about their customers and their competitors.

Sometimes customers ask for add-on products or services while negotiating a business deal. Rottne for example offers help with financial matters to small customers that might be in the start up phase and don't yet have a large financial capital. By doing this they can capture a larger customer arena. We believe that by offering extra services or products, the customer will experience a greater customer value and might be willing to pay a higher price for the specific product.

In conclusion we can say that the companies need to focus on how they can create customer value. They have to work actively to establish routines and these routines will help them in the process of creating customer value. By having routines the companies will be ensured to offer quality products, establish good customer relations and have sales people with high selling competence, factors which in the end will create customer value. Also the companies must be structured and open to changes if needed in order to develop a pricing capability.

6.2 Research Reflections

After finishing this research some reflections of areas that could have been improved came into our minds. The investigated companies are of different characters and an investigation only including companies within the same industry and sharing the same characteristics would have given deeper conclusions regarding companies in one specific industry. Conducting several interviews for the same company would also have given better results because more information would have been collected and we would have had a better picture on the price setting procedure for each company. We would have had better insight into what questions would be valuable to ask the interviewees and important areas we could have concentrated ourselves on.

6.3 Suggestions for Further Investigation

During the last years pricing has been given more and more attention and companies have made improvements in this area. At present the capability of price setting varies amongst the companies and they have all areas where improvements can be made. It would be interesting to study either of the companies in a couple of year's time to see if and how they have developed their price setting process. Have the companies involved restructured some procedures or established new routines that were highlighted in this study and if so, what effect has this led to? Other areas to look into are to see how the customers have responded to this change? Are they still faithful customers and do they see the logic behind the changes and are they willing to pay a higher price?

One area that one of the interviewees pointed out was the ability to charge customers for additional services. He thought it was harder to charge the customer for the extra service they provided and by making an investigation where one can look at the differences with charging customers for products or services could be interesting. The focus of this study could be to see if the sales person needs to approach the customer differently and have a different strategy when negotiating with services or products.

Further suggestions are to make a quantitative study comparing different companies in different industries and see how their price setting procedures differ. Is it easier in some industries relative to others to make customers pay for the perceived value of the product? Why are some companies in different industries better than others concerning pricing? As mentioned in the introduction, this is a relatively unexploited area in strategic management and further studies are vital if we will get a better understanding in how the capability of pricing can yield profit for companies.

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Interviews:

Alfa Laval

Berndt Berndtsson, Pricing General (2007-05-15)

Arboga-Derenth

Karl Bråtegren, Managing Director (2007-05-09)

BE Group

Tore Andersson, Regional Manager (2007-05-11)

Mats Lidgren, Purchasing Manager (2007-05-09)

Lindab

Ander Persson, HR/IR Director and Group Communication Manager (2007-05-11)

Rottne Industri AB

Rolf Andersson, CEO Rottne Industries AB (2007-05-14)

Jan-Eric Änghede, CFO (2007-05-14)

Roland Axelsson, Controller (2007-05-14)

Trelleborg AB

Alan Wilson, CEO CRP (2007-05-16)

AFK Value

Håkan Fahleryd, Consultant (2007-05-16)

Appendix 1, Interview guide

Inledning

- 1 Kort presentation av intervjupersonen samt dennes position och ansvarsområden.

Strategi – Nuläget

- 2 Hur prissätter ni era produkter?
 - Hur har ni gått tillväga historiskt, kan Ni nämna ett exempel?
 - Vilka för- och nackdelar ser Ni med detta tillvägagångssätt?

Ansvar- och rollfördelning

- 3 Vem bestämmer hur priset sätts?
 - Vem har formellt och informellt inflytande på priset?

Kultur och attityder

- 4 Hur uppfattas prissättningen i företaget?
 - (Ev. Vilken utbildningsbakgrund har prissättarna?)

Understöd och information

- 5 Vilket informationsunderlag och stöd har prissättarna?
 - Använder ni några understödjande datasystem?
 - Vilken information tas i beaktande?

Förmågor

- 6 Vilka kunskaper behövs för att sätta pris?
 - Besitter prissättarna relevant utbildning i nuläget?
 - Beaktar ni in ert varumärke och tekniska kunnande vid prissättning?

Kundrelation

- 7 Beskriv er relation till kunderna.

Kommunikation

- 8 Hur kommunicerar ni era prisstrategier till övrig personal?
- 9 Hur gör ni när ni vill ändra ett pris?
- 10 Sker någon intern kvalitetssäkring?
- 11 Tillgänglighet (support)

Förhandling

- 1 Varierar priser mellan olika kunder?

Appendix 2, Interview guide in English

Introduction

- Brief presentation concerning the interviewee's position and areas of responsibility.

Strategy

- Please describe the process of how you price your products.
 - Looking retrospective, have you always done like this? Please reflect on a historical example.
 - What are the pros and cons with this method?

Responsibilities and Roles

- Who decides the end-price?
 - Who has formal and informal influence on the end price?

Culture and Responsibilities

- How is the price setting considered in the company?
 - (Poss. What educational background do the sales people have?)

Support and Information

- What information and support do the sales people have access to?
 - Do you use supporting computer systems?
 - What information is taken into consideration when setting the price?

Skills

- What knowledge is needed to set prices?
 - Does the people responsible for the price setting possess the relevant education at the moment?
 - Do you consider your brand when setting prices? In what way?

Customer Relations

- Describe your relationship to your customers.

Communication

- How do you communicate your pricing strategies to the company's employees?
- How do you go about it when changing a price?
- Do you have any internal ways of ensuring the quality?
- Availability (support)?

Negotiation

- Does the price vary between different customers?