



**SCHOOL OF ECONOMICS
AND MANAGEMENT**

Lund University

DEPARTMENT OF BUSINESS ADMINISTRATION
SCHOOL OF ECONOMICS AND MANAGEMENT
LUND UNIVERSITY

MASTER'S THESIS
JUNE 2006

HOW TO DEVELOP A PRICING CAPABILITY

A CASE STUDY OF TRITON

AUTHORS:

MARIA LEIFLAND

ANNA GUSTAVSSON

ADVISOR:

PER-HUGO SKÄRVAD

ACKNOWLEDGEMENT

We would like to thank everyone that has supported and helped us in making this study. We would especially like to acknowledge our advisor Per-Hugo Skärvad and Nicklas Hallberg for his help in choosing theories and the interviewees, for the time they spent helping us in our study. Finally we would like to thank our family for their support and help. We are satisfied with our contribution and with the result of the study and find that we have learned a lot from the experience.

Anna Gustavsson

Maria Leifland

“The fastest and most effective way for a company to realize its maximum profit is to get its pricing right. The right price can boost profit faster than increasing volume will; the wrong price can shrink it just as quickly.” (Marn 1992)

ABSTRACT

- Title:** How to develop a pricing capability - A case study of Triton
- Seminar date:** June 7th, 2006
- Course:** Master's thesis in Business Administration, 10 Swedish credits (15 ECTS)
- Authors:** Anna Gustavsson
Maria Leifland
- Advisor:** Per-Hugo Skärvad
- Key words:** Capability, Pricing Capability, Pricing, Transaction, Case Study
- Purpose:** The purpose of this master thesis is to investigate how a pricing capability can be developed on a general as well as on a practical level in an industrial company working on the international business-to-business market. We present an overview of relevant pricing theories and examine how a pricing capability is developed in real life. By doing this we will contribute to the understanding of a pricing capability and we will also suggest which actions can be taken towards gaining a pricing capability in a company.
- Methodology:** We have conducted a case study of the work on pricing at Triton. After mapping the events we have evaluated the results. We have conducted interviews with people with information concerning Tritons work in the Pricing area.
- Theoretical perspectives:** The theory includes organization and structure, pricing for the market with emphasis on transactions and theories on how to understand the customer. We conclude with our own model for pricing capability, which we will use in our analysis.
- Empirical foundation:** In this chapter the case study is presented. We also present some comments on pricing capability.
- Conclusions:**
- Once you start with your price work you will find more areas to take care of if this is combined with increasing knowledge in pricing.
 - Courage to change prices is needed in combination of knowing when and how to raise prices.
 - Creating a positive attitude towards pricing is crucial in order to get the organization with you in the process. One way of doing it is by demonstrating positive results already at an early stage.
 - A structure is needed where it is clear what should be prioritized, what results are expected and who is responsible.
 - With help of a software system a company should be able to create an overview of the business to identify the errors, analyze the errors and implement changes to abort the errors.

TABLE OF CONTENTS

| | |
|---|-----------|
| I INTRODUCTION | 8 |
| 1.1 Background | 8 |
| 1.1.1 Pricing – the principal question | 8 |
| 1.1.2 Pricing – the practical issue | 9 |
| 1.2 Problem discussion | 9 |
| 1.2.1 Purpose | 10 |
| 1.3 Disposition | 11 |
| 2 RESEARCH METHOD | 12 |
| 2.1 Comprehensive method | 12 |
| 2.1.1 Case study | 12 |
| 2.1.2 Interviews | 12 |
| 2.2 The course of action | 12 |
| 2.2.1 Collection of primary data | 13 |
| 2.2.1.1 Interviewees | 13 |
| 2.2.2 Secondary data | 14 |
| 2.2.3 Data Analysis | |
| 2.3 The theoretical frame of reference | 14 |
| 2.4 Research quality | 15 |
| 2.4.1 Validity | 15 |
| 2.4.2 Reliability | 15 |
| 3 THEORETICAL FRAMEWORK | 16 |
| 3.1 Theory overview | 16 |
| 3.2 Organization and structure | 16 |
| 3.2.1 Building pricing knowledge into the organization | 16 |
| 3.2.2 How to develop and implement an organizational capability | 17 |
| 3.3 Pricing for the market | 17 |
| 3.3.1 The business view | 18 |
| 3.3.2 The market view | 18 |
| 3.3.3 The transaction view | 18 |
| 3.4 Price transactions | 18 |
| 3.4.1 Price structures | 18 |
| 3.4.2 Segment pricing | 19 |
| 3.4.3 Illustrating the transactions | 19 |
| 3.5 Understanding the customer | 20 |
| 3.5.1 Price sensitivity | 20 |
| 3.5.2 How to communicate the price to customers | 20 |

| | |
|---|-----------|
| 3.5.3 Avoid volume focus | 21 |
| 3.5.4 How to raise the price | 21 |
| 3.6 A model of pricing capability | 21 |
| 4 PRICING AT TRITON | 23 |
| 4.1 Products offered | 23 |
| 4.2 Sales channels | 23 |
| 4.3 Prices set on the Recommended Customer Price List | 24 |
| 4.4 Customers and competition | 24 |
| 4.5 Pricing power | 24 |
| 4.6 Former pricing process at Triton Iberica | 24 |
| 4.6.1 The internal computer software system | 24 |
| 4.6.2 Discounts | 25 |
| 4.6.3 Costs off the invoice | 25 |
| 5 CASE STUDY OF PRICING AT TRITON | 26 |
| 5.1 Initiative | 26 |
| 5.2 Start up | 26 |
| 5.3 The Iberica pilot price project | 27 |
| 5.3.1 The first phase | 27 |
| 5.3.2 The findings in the consultant report | 27 |
| 5.3.3 The second phase | 29 |
| 5.3.4 Results of the Iberica project | 30 |
| 5.4 Ongoing and future projects | 31 |
| 5.5 Interviewee analysis of Triton pricing capability | 31 |
| 6 ANALYSIS | 32 |
| 6.1 Organization and structure | 33 |
| 6.2 Pricing for the market | 34 |
| 6.3 Price transactions | 35 |
| 6.4 Understanding the customer | 35 |
| 6.5 Results of the Triton Iberica pilot price project | 36 |
| 6.6 Summary | 37 |
| 7 CONCLUSIONS | 38 |
| 7.1 Comparison of the internal and the theoretical analysis | 38 |

| | |
|---|-----------|
| 7.2 Theoretical contribution and practical implications | 38 |
| 7.4 Suggestions for further research | 40 |
| <u>8 REFERENCES</u> | <u>41</u> |
| 8.1 Literature | 41 |
| 8.2 Articles | 41 |
| 8.3 Electronic references | 41 |
| 8.4 Interviews | 41 |
| 8.5 Pricing theory expert | 42 |
| <u>APPENDIX 1</u> | <u>43</u> |
| Interview guide for the interview with the PPD on 4/18 | 43 |
| <u>APPENDIX 2</u> | <u>45</u> |
| Interview guide for the interview with the SE on 4/28 | 45 |
| <u>APPENDIX 3</u> | <u>46</u> |
| Interview guide for the interview with the DM on 5/11 | 46 |
| <u>APPENDIX 4</u> | <u>47</u> |
| Interview guide for the interview with the PPD and the SE on 5/11 | 47 |
| <u>APPENDIX 5</u> | <u>49</u> |
| Interview guide for the interview with the EVP on 5/11 | 49 |

1 INTRODUCTION

In this chapter we will introduce the pricing theories relevant to our study. We will thereafter give a short presentation of our case company and their problems in pricing. In our problem discussion we will provide a discourse regarding the theoretical problem and combine it with the practical problem. This will finally lead to our thesis statement and the purpose of our study.

1.1 Background

Before the work with this master thesis started we contacted the Swedish industry and asked what was new and interesting in the business world at the moment. We found out that pricing constituted a rather unexplored subject. However many companies are interested in improving their pricing routines. Some industrial companies have already started to look into the issue while others still set prices the same way they always have done. In the business education at Lund University the subject is only considered briefly. Though knowledge about pricing is important to companies:

“The fastest and most effective way for a company to realize its maximum profit is to get its pricing right. The right price can boost profit faster than increasing volume will; the wrong price can shrink it just as quickly.” (Marn, 1992)

We found the subject area interesting and wanted to investigate both theories and pricing in practice. Below we will present our two points of departure, one in theory and one in practice.

1.1.1 Pricing – the Principal question

Out of the four P:s in the marketing strategy, price is the one variable which has been given the least consideration by managers. It has been misunderstood and under managed (Marn, Ro-

egner and Zawada, 2004), even though it is the only one of the four P:s that actually generates revenue (Monroe, 2003). According to Marn, Roegner and Zawada (2004) very small changes in price can lead to large profit gains.

According to Dutta et al. (2002) and Richards, Reynolds and Hammerstein (2005) companies need a pricing capability in order to set the right prices. They include different factors in their pricing capability model. There are however some common areas: there should be more expertise in the organization, a person responsible for pricing should be appointed, a group of different people should be involved and a system that can handle the information is needed.

Marn, Roegner and Zawada from the company McKinsey have been very active in the pricing area. They have written the book *The Price Advantage* (2004) where they use their experience from working with hundreds of companies in order to make a guidebook for managers. The authors believe there are three different levels of price management: *industry strategy level*, *market/product strategy level* and the *transaction level*. *Industry strategy level* is about knowing your industry, your company compared to competitors and when to be a price leader and when to be a follower. *Market/product strategy level* regards knowing your customers and what value they see in your products. The last level is the *transaction level*, which means deciding on an individual price for each customer. Duke (1994) has presented a si-

milar description of the levels mentioned. Transaction theory explains how to give the customer the optimal discounts derived from a list price as well as the optimal payment terms and volume bonuses in order to maximize your profit. If you try to overcharge, your customer will definitely tell you about it and make the process longer and hence more expensive. The problem is that you undercharge just as often as you overcharge. Though in the case of undercharging the customer will not tell you about it and you will lose an opportunity to make a larger profit. Monroe (2003) believes that price is important to manage and he suggests that changing the price could consist of changing the discounts or the time of payment as well as many other things.

According to Nagle and Holden (2002) changing prices has been considered hard in later years. Earlier the sales companies acting as market leaders could set prices and the customers would consider them as fixed. Due to increasing competition and inflation, companies had to start with negotiable prices to be able to react faster. Nowadays the buying company has the power. If you ask a salesman if prices could be raised he will tell you that the customers will buy from someone else.

“Managers must relearn the art of managing non-negotiable price policies while still responding to changing market conditions.” (Nagle & Holden 2002:201)

1.1.2 Pricing – the Practical issue

One company that has acknowledged the opportunity to improve the pricing processes is a big industrial company working in the international business-to-business market. The company wishes to remain anonymous and will therefore from here on be called Triton. To clear the situation we will give a short explanation of the background of the company. Triton is market leading in its three key technologies. The company's products, systems and services help to optimize its customer's process performance. Triton is present in 100 countries, has more than 20 000 customers and offer approximately 500 000 different articles. (Triton company webpage)

In 2004 it was decided by group management that the pricing processes at Triton had to be investigated and evaluated. One of the executive vice presidents (EVP) got the responsibility to run this. He appointed a price project director (PPD) to assist in the analysis and the implementation. The shortcomings in Triton's current pricing process were targeted and one of the European markets, the Iberica market consisting of Spain and Portugal, was selected as test market for a first pilot price project. The consulting firm McKinsey was appointed to evaluate the opportunities and shortcomings in the test market in the summer of 2005. (PPD)

When the pricing process at Triton Iberica was investigated it was confirmed that the company had shortcomings concerning pricing. The overall problem was the lack of structure in the pricing process (EVP). Problems that were pointed at were the large and unstructured discounts given irrespective of order size and costs not shown on the invoice, like freight and credit costs (McKinsey report). It was discovered that some customers got such a high reduction in price that they caused a negative margin for the company (McKinsey report). Apart from the pilot project in Iberica, other projects on different parts of the pricing strategy at Triton have already started or are being planned for the near future (EVP).

1.2 Problem Discussion

Well thought out pricing capabilities are often overseen in management decisions despite the theories that say pricing capability can yield great revenues for a company:

“For a host of reasons, few ever develop anything resembling a superior, business wide, core capability in pricing. In other words, few companies build pricing into the distinctive business advantage it can be.” (Marn et al 2004)

Today many companies price their products without making further investigations into how to set optimal prices. There are many aspects concerning pricing but if you are not capable of setting prices the process of changing them may be complex. What constitutes a pricing capa-

bility and how this capability can be developed raised our curiosity. We wanted to start in theory and examine what elements are mentioned when discussing a pricing capability. Further we also wanted to investigate what elements were not included and whether these could actually be incorporated in order to get a greater understanding of how a true capability in pricing can be developed. At this point we knew about a company, which was aware it needed to improve its capability in pricing. By tracking the actions it was possible to get an insight into how the price process developed and how the company moved closer to gaining a pricing capability. Our problem definition is therefore as follows: **How can a pricing capability be developed on a general and on a practical level?**

1.2.1 Purpose

The purpose of this master thesis is to investigate how a pricing capability can be developed on a general as well as on a practical level in an industrial company working on the international business-to-business market. We present an overview of relevant pricing theories and examine how a pricing capability is developed in real life. By doing this we will contribute to the understanding of a pricing capability and we will also suggest which actions can be taken towards gaining a pricing capability in a company.

1.3 Disposition

1 Introduction

In this chapter we will introduce the pricing theories relevant to our study. We will thereafter give a short presentation of our case company and their problems in pricing. In our problem discussion we will provide a discourse regarding the theoretical problem and combine it with the practical problem. This will finally lead to our thesis statement and the purpose of our study.

2 Research method

In this chapter the research method of the study will be described. First the comprehensive method will be presented, followed by the actual course of action in the study. Finally the methodology will be critically evaluated.

3 Theoretical framework

In the theoretical framework we will give you an understanding of pricing capability. We present theories on organizational structure, pricing to the market with emphasis on the transactions and theories about how to understand the customer. The last part consists of our model for pricing capability, which we will use in our analysis.

4 Pricing at Triton

In this chapter the company Triton will be presented. We will describe their business and give a retrospect view of the former pricing processes at the company.

5 Case study of pricing at Triton

Below the course of actions in the price work at Triton will be mapped. We will present comments on pricing capability in the company and the action and results of the pilot pricing project in Iberica.

6 Analysis

In this chapter we will use our model for pricing capability to analyze how the work on creating a capability has progressed at Triton.

7 Conclusions

In the conclusion we will compare the internal analysis to the theoretical analysis, give our theoretical contribution and present some practical implications. We will also give some suggestions for further research.

2 RESEARCH METHOD

In this chapter the research method of the study will be described. First the comprehensive method will be presented, followed by the actual course of action in the study. Finally the methodology will be critically evaluated.

2.1 Comprehensive Method

You can never be free from bias. Therefore it is better to choose an analytic approach where we are aware of our bias and prepared on the subject as Jacobsen (2002) suggests. This way we will be able to focus on what is important and know

what is already acknowledged in the subject area. According to Hallberg the research so far in this area of expertise is somewhat scarce and if that is the case Jacobsen (2002) finds an intense design to be appropriate. This way a thorough understanding of the problem will be attained. With this design we will get relevant results (Jacobsen, 2002), which we consider more important in

this case than the ability to generalize.

In order to understand a system we agree with Jacobsen (2002) that several units need to be interviewed on the individual level. This is done to be able to understand the process and get honest opinions about the results.

2.1.1 Case Study

We have conducted a case study, which is distinguished by few units and several variables (Andersen 1998). Our case is the work on pricing at Triton but our focus will be on one of their projects, the price project in Iberica. In line with what Lundahl and Skäravad (1999) suggests we will accomplish a study of the course of events, where the purpose is to exemplify and illustrate. We have conducted a deep examination of one case only, since we wanted to get a total under-

standing of the phenomena as Jacobsen (2002) believe you get by focusing on few variables. The case study is followed by an evaluation.

2.1.2 Interviews

In order to collect first-hand information of the case that is as accurate and fresh as possible we have conducted interviews with persons working with pricing at the moment at Triton. This has provided us with the latest information about how the projects proceed and has kept us up to date. According to Jacobsen (2002) the qualitative interview approach allows openness in the interview situation, which leads to a broader understanding of the course of actions described. Jacobsen claims this approach often gets “high internal validity”. These are our reasons to carry out interviews.

2.2 The Course of Action

We have conducted a classic case study, followed by a second phase: the evaluation. We have examined the company’s pricing work, focusing on the project in Iberica. Theory is compared to practice. We have followed the process from senior managers down to sales personnel over time, from the start to present day.

We started our study by examining the consultant report from the Iberica project. We had help from the representative from the group management at Triton who explained it to us. We then continued by asking an expert in the pricing

area what theories could be interesting in our study. After that we began our first phase of the mapping of the case. We interviewed the price project director about the start of and the further development of the project and the system expert about the software systems developed. During this time we studied scientific literature in the area to get a good overview of theories. We also studied the company in annual reports and on the home page to get a company overview. Based on our literature review we developed a model of pricing capability that we then have used in our analysis.

At a later date we interviewed the division manager from the sales company and discussed the implementation and his view of the results. In the last phase of the study we interviewed the representative from group management, the price project director and the system expert about the development of a pricing capability. In this phase we have used our model of pricing capability to formulate questions so that we later could evaluate the pricing work at Triton.

2.2.1 Collection of Primary Data

We made sure none of the interviews lasted for longer than two hours. According to Jacobsen (2002) both the interviewee and the persons interviewing would otherwise get too tired. In total our interviews took about ten hours since we interviewed some of our interviewees twice. Jacobsen believes that in order to get the whole view of a case you need to interview the same person more than once. This way you will establish trust between you and the interviewee and thereby get more open information. Since part of our purpose is to map the course of events we had to interview the same person twice.

We have done personal, semi-structured interviews in all cases. According to Jacobsen (2002) open interviews allow everything that is relevant to be brought out, because of this we wanted the interviews to be rather open. But, we did not want them to be too open since that would make the analysis too complex, according to Jacobsen (2002).

We let the interviewees choose were they wanted

to be interviewed in order for them to be relaxed. One of us has been responsible for asking questions and the other one acted as a secretary during the interviews. The reason for this was to give the image of a relaxed conversation while making sure everything of importance was noted.

Triton has given us access to their internal quantitative data. The data consists of information about customers, the sales staff, orders placed and financial results. The information is sensitive and because of this we were only allowed to examine it while we were at the company.

2.2.1.1 Interviewees

Our interviewees are some of the most important people involved in the pricing process at Triton. We chose them because we thought they could be able to give us the information we needed and because we knew they were willing to participate. This group consists of:

The representative from group management has been involved in the work on pricing from the start. He knows how the topic first became an issue and how the price work has developed in the organization. Apart from the CEO, he is the top leader of the project in Iberica. In the text this person will be designated as executive vice-president (EVP). He told us to speak to the next interviewee.

The price project director (PPD) is working for the EVP. His assignment is to find improvements to the pricing process of the line organization. He also helped us contact the other interviewees. The PPD has been interviewed twice since he has specific knowledge about overall price work and the project in Iberica.

The system expert (SE) is a part of the pricing group that includes him and the PPD. He is involved in developing the software systems. He has helped us to understand the computer databases and software systems and how they work together.

The division manager in the Iberica market (DM) is the one out of four division managers

who is the most involved in the project. He is the manager of three segment managers. He is our closest contact with the sales staff and has taken part in the day-to-day implementation of the pricing project in Iberica.

2.2.2 Secondary Data

The secondary data on Triton consists of company information found on the company homepage, in company brochures and in the annual report.

The consultant report contains information about the former price setting at the company. It also illuminates problems with the old process and gives recommendations on how to work in the future.

We have conducted a literature review based upon those sources we have found most relevant for our study. Theories used in this report have been derived from articles published in academic and management journals and from recognized books on pricing. We have also got help to find sources from Nicklas Hallberg who is studying for his doctor's degree in Pricing at Lund University. This makes us believe that we can put trust into the theories.

2.2.3 Data Analysis

After every interview the person acting as a secretary during the interview transcribed her notes into a Word document and the other person complemented them. Already after the first interview the course of events in the change in pricing process at Triton were mapped. This way we knew what parts were missing and knew what to ask about during the following interviews. Parallel with this the literature study was made. In the literature study we looked for theories useful for this type of company and related to the kind of changes Triton were making. We used the chosen theories to develop our own model of a pricing capability. In our model we included some new aspects that were not included in the term "pricing capability" by earlier researches, since we wanted the model to show the strategic considerations needed and the importance of understanding the customer as well as capitals or

resources needed.

This model was used to formulate questions in the later interviews in order to cover all aspects in a pricing capability. After these interviews we transcribed the information into Word documents and complemented them. Some of the information was used to describe the case and some of it was put into the interviewee analysis. After mapping the case we made a timeline with the most important events in the case. It is used to increase the reader's understanding of the course of events in the case.

After completing the mapping of the course of events we started to analyze the case by using our pricing capability model. We compared theory to the empirical findings. By comparing the case to our model we evaluated the development of a pricing capability in Triton.

At last conclusions were drawn from the entire work process. We started with a comparison of the interviewees own analysis concerning whether or not they have a pricing capability with our own analysis of their development of a pricing capability. After this we complemented theory with our own theoretical contribution which consist of aspects found in the case but not in theory.

2.3 The Theoretical Frame of Reference

We have used theories about capability, pricing capability and pricing. These have been put together in a model for pricing capability. We have used several different theories in order to reach a higher understanding level as Jacobsen (2002) interprets Gareth Morgan. We do not wish to investigate whether one theory is correct, but rather we wish to put several theories together and let them complement each other.

2.4 Research Quality

2.4.1 Validity

One important part, according to Jacobsen (2002), when studying a phenomenon is to choose the right units to study. All units in our study have contributed to the result by giving information the others did not fully have or by giving their own opinion. There might be other people who could have been interesting to interview: The CEO who initiated the price focus, the sales company CEO who was responsible for the project in Iberica, the sales force in the Iberica market who has the closest contact with customers concerned and people on different levels in the Triton group working with this or other pricing projects in the company. This was unfortunately not possible. However, we believe the persons interviewed possessed the necessary information. We have considered their closeness to the events discussed and trusted the person closest to a particular event more in that particular case. According to Jacobsen (2002) different versions or opinions do not mean that the validity of the research is questioned. It can mean that different interviewees interpreted events in different ways. We also put more trust in things later on in the process since our own understanding had developed along with the process.

2.4.2 Reliability

There is a risk that there will be an interview effect; that we affect the interviewees with our biases and opinions while talking to them (Jacobsen 2002). The data collected might then unintentionally tilt to one or the other side. We have tried to formulate the questions in a way that does not lead the interviewees and we also started the interviews with open questions where the interviewees could speak freely for as long as they wanted. We let the interviewees choose where to be interviewed, this way they were in surroundings comfortable to them. The fact that we did not use a tape recorder might have led to some missed aspects. In order to avoid this as much as possible we had one person taking notes while the other person listened carefully. Afterwards the person listening complemented the notes im-

mediately. We believe our notes were better than they would have been while using a tape recorder since Jacobsen (2002) says that taping it often leads to fewer notes during the interview. We also believe that using a tape recorder only makes us do the interpretation listening to the tape recorder instead of doing it during the interview. There are more things involved than the words and the way they are said.

Since all of the interviewees were responsible in one way or another they might, according to Schwenk (1984), have been more positive to the results than what was justified because of the feeling of personal responsibility.

Consultants from McKinsey are some of the most quoted authors in the area of transactional pricing and they have also been involved in the case. This could have made our research single-tracked. We have however chosen to include other authors and this was also one of the reasons for choosing to widen and comprise more than the project in Iberica and transaction theories.

3 THEORETICAL FRAMEWORK

In the theoretical framework we will give you an understanding of pricing capability. We present theories on organizational structure, pricing to the market with emphasis on the transactions and theories about how to understand the customer. The last part consists of our model for pricing capability, which we have developed from the theories presented and which we will use in our analysis.

3.1 Theory Overview

A wide range of pricing theories exists, related to separate areas of business. The theories discuss a variety of different pricing areas from new product pricing to cost-plus pricing. In this chapter we will present the theories related to the area studied: how to develop a pricing capability.

The first part of the theoretical framework will consist of theories on organization and on structure. In this part the term *capability* will be explained from different authors' point of view. The chapter then continues with suggestions of how to set prices for the market with emphasis on transactions. We will then proceed by describing theories about how to understand the customer. At the end of the theory chapter we will present a model for pricing capability based on the theories presented, constructed by the authors of this report.

3.2 Organization and Structure

The term *capability* is central to this report. In order to explain the term we will present different authors views of the concept. By studying a diverse selection of theories on the subject we will be able to clarify how the term capability has

been explained.

“Capabilities are what the firm can do...it is capability that is the essence of superior performance”
(Grant 2005:139)

Grant (2005) believes that in order to have a capability you need resources that work together. While discussing pricing capability Dutta et al (2002) suggests that examples of resources are: routines, coordination mechanisms, systems, skills and other complementary resources.

3.2.1 Building Pricing Knowledge Into the Organization

Pricing capability is a term discussed by Dutta et al (2002) and Richards, Reynolds and Hammerstein (2005). They each have a different approach on, and definition of, the subject. According to Dutta et al there are three capitals that contribute to a company's pricing capability: human capital, system capital and social capital. To attain a pricing capability that is hard to copy all three of them are needed. To invest in human capital you should hire a price expert and to improve the system capital a company must invest in a useful software system. In order to make it all work together there must be a group of employees from different areas working together in setting prices.

Richards, Reynolds and Hammerstein (2005) believe that senior management are neglecting decisions about pricing. They do this by delegating the decisions to lower levels in the organization, under-analyzing the situation or putting too much trust into new systems of revenue optimization. To resolve this issue the authors suggest that companies should build a *strategic pricing capability* which contain five important areas: *talent, strategic management process, roles and decision rights, information and technology and mindset and culture*. By *talent* they imply that managers need to become educated through some form of corporate training programs where they can acquire adequate pricing skills as well as become informed about the company strategy. In the strategic management process area the authors believe a pricing group needs to be established in order to set prices according to the company strategy. By *roles and decision rights* the authors suggest a person responsible for setting the price should be chosen. Extensive information should be gathered about customers and competitors. A system should then put the information together. *The mindset* stands for senior managers acting as role models and implementing an incentive program where not only volume is rewarded.

Even though Dutta et al (2002) and Richards, Reynolds and Hammerstein (2005) include different factors in their pricing capability model there are some common areas. There should be more expertise in the organization, a person responsible for pricing should be appointed, a group of different people should be involved and finally there is a need for a system capable of handling the information.

3.2.2 How to Develop and Implement an Organizational Capability

A company can obtain a capability through the acquisition of or by a strategic alliance with a company that has already developed the desired ability. Another alternative is for the company to develop it by itself. If one chooses the latter, Grant (2005) suggests that the development should take place in a separate part of the orga-

nization. One would thereby become less dependent on existing norms, structures and systems whilst enjoying access to existing resources and capabilities.

Problems usually occur when the new capability needs to be applied to the big organization. When introducing the new capability it is of importance that everyone in the organization supports the idea:

“If the internal participants fail to agree on a price change, then pricing decisions made in one part of the organization are not implemented. While value is created, leading to potential rent, goal conflict (Cyert & March, 1963) results in prices set lower than necessary.” (Dutta, Zbaracki & Bergen, 2003)

Putting a computer system into place can be done quickly even though it may take longer before you gain advantage out of it. According to Dutta, Zbaracki and Bergen (2003) it took nearly five years for the case company they studied to implement the systems. Some advantages were not discovered until after several years of using the systems. To enjoy some of those advantages data was needed from several years back. In the same study the senior pricing manager says that he had no information about the exact prices customers had paid. The sales force could decide upon special discounts if they wanted and the discounts used where not specified in any records.

3.3 Pricing for the Market

Different models can be applied in order to understand the big picture of how prices are set on the market and get an overview of opportunities and threats of pricing issues. Marn, Roegner and Zawada (2004) have developed a model called *the three levels of price management*. The three are closely related to each other and they are:

1. Industry strategy
2. Product/market strategy
3. Transaction
(Marn, Roegner and Zawada, 2004)

Duke (1994) describes a similar approach to pricing decisions, called *the standard linear approach*. It appears as follows:



The two models describe similar ideas which are closely related to each other. They will therefore be described parallel to each other.

3.3.1 The Business View

Marn, Roegner and Zawada (2004) believe factors such as supply, demand, costs, regulations and technical shifts are central at the *industry strategy level*. Insights into forces like these will give managers knowledge about industry pricing trends both in a long and short run perspective. The own company, competitors and new entrants have to be evaluated and examined in order to create the big picture of the market prices.

Also Duke (1994) suggests that the overall pricing objective of the company should be set first. This could be compared to Marn, Roegner and Zawada's (2004) industry level. Philosophies or goals at this level could be profit maximization or sales volume goals. The policies on pricing explain how to reach the set objectives like bundle pricing or below competitor prices.

3.3.2 The Market View

Customer perception of product benefits and the price positioning on the market are according to Marn, Roegner and Zawada (2004) the fundamental issues at the second level called product/market strategy. They require research of the market, customers and competitors. Each product should be positioned at the optimal price level for the consumers. When understand-

ing the achieved insight of pricing the company can customize the list price for each customer segment and avoid price wars.

According to Duke (1994), prices on the third level, the list price, in the standard linear approach model could be based on demand or production costs. He describes the same phenomenon as is described in the model by Marn, Roegner and Zawada (2004). The list price level in the standard linear approach model is based on the first two and describes how the list prices for publication are set.

3.3.3 The Transaction View

Marn, Roegner and Zawada (2004) suggest that the third level of price management, *transaction*, considers the exact prices appointed to each individual customer. It involves the discounts given, payment terms and other issues regarding the transaction. The transaction level is detailed and often time consuming because it involves every individual transaction. (Marn, Roegner & Zawada, 2004)

Discounts are, according to Duke (1994), given from the original list price depending on varying issues like quantity purchased, credit or contracts. The reductions adjust the price due to customer and situation. Finally adjustments are made. These may, according to Duke (1994), depend on geographic considerations like transport and insurance.

Since our case company has focused on the transaction level in their price project we will devote a special chapter to this level.

3.4 Price Transactions

Below some of the most important aspects of transaction theory will be explained.

3.4.1 Price Structures

According to Monroe (2003), a price structure consists of four pillars:

- The nature of discounts
- The time and condition for payment
- Where and when buyers will take title
- Who pays for the transportation of the goods and how the charges are determined

According to Monroe (2003), these four “provide the foundations for prices” since they identify how the different characteristics of a product or service should be priced. By using this structure individual prices can be set for different customers. The pricing becomes more complex than if one price was set for all, but the firm will be able to become more flexible when competing on the market.

Deductions from the price list can be made in many different ways and for different reasons. The customer can get a lot of different kinds of discounts depending on what kind of purchase is performed and the kind of business. According to Monroe (2003) quantity discounts are offered because of lesser administration costs for large orders, the possibility of longer production runs and the positive impact on channel cooperation between the channel members. Cash discounts are offered to customers who pay within a specified period of time.

Geographic pricing is based on the customer’s geographic closeness to the factory where the goods are produced. “The costs of performing ... supply activity range well into billions of dollars annually for transportation alone.” (Monroe, 2003:459) The conditions of who is paying for freight and insurance depending on the agreement are often not a large pricing post, but in the long run transportation costs add up.

3.4.2 Segment Pricing

Segmenting means to have different margins for different products and objective customers and fixed discounts for volume long-term contracts and bundled purchases (Nagle & Holden 2002).

“It is better to serve different market segments with separate price points rather than serve the entire market with one price point.”
(Nagle & Holden 2002:228)

Nagle and Holden (2002) believe companies should segment their markets by volume. The large buyers demand a large discount or they will change supplier or start manufacturing by themselves. Small customers and those who are not very well served by competitors do not need a large discount since they do not have much choice. The larger buyers are also less costly to serve since one order needs about the same amount of administration irrespective of size. Nagle and Holden (2002) also suggest that some customers have unique demands that are more costly and therefore need to be billed a higher amount for the transaction to be profitable at all.

The optimal way of pricing according to Simon and Butcher (2001) is to, in every individual case, give the customer a price that matches his willingness to pay based on his perceived value. Since this could be fairly difficult they suggest companies bundle their customers into different segments with about the same value perception. These segments must be separated so the ones who are willing to pay more cannot find out that a lower price is available. The authors claim that every time we choose one price for all customers we leave out some customers that could have contributed to a higher degree to the company’s profit.

3.4.3 Illustrating the Transactions

The model *the pocket price waterfall* is used to give a picture of and explain the discount system used at Triton. One way to increase revenues is to give customers smaller discounts. The price increase becomes part of the profit – a one percent increase in price can boost revenues by an average of eleven percent (Marn & Rosiello, 1992). At a big company where transactions are worth millions of euros the slightest change in percentage share is worth a great deal in lost or gained revenue. Having a system that illustrates the transactions is critical. The Pocket price waterfall can illustrate the discounts given to a customer.

“In the pocket price waterfall each element represents a revenue leak.”
(Marn & Rosiello, 1992)

The pocket price waterfall is illustrated in diagram 1.

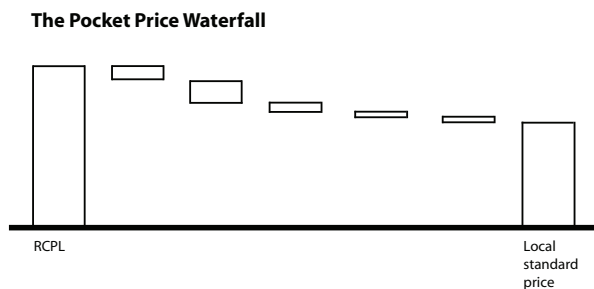


Diagram 1, The pocket price waterfall

The dealer list price is the starting point and the pocket price is the actual amount of money that is paid by the customer in the end (Marn & Rosiello, 1992). Pocket price is defined as the “price after all allowances, refunds and discounts” and the list price is defined as the “published or generally quoted price” (Monroe, 2003:436). Usually a standard dealer discount is given combined with a competitive discount negotiated between the salesman and the customer. When these discounts are subtracted from the dealer list price the invoice price is left. The invoice price can be described as the “price after usual volume, trade and cash discounts” (Monroe, 2003:436). The actual transaction amount is often lower than the invoice price because extra discounts off invoice are given. These discounts may consist of payment term discounts, cash discounts, annual volume bonuses, off-invoice promotions, cooperative advertising and freight. What is left after these discounts are subtracted is called the pocket price, which represents what is “truly left in the company’s pocket as a result of the transaction” (Marn & Rosiello, 1992). By thoroughly managing every element in the model price performance can be improved (Marn & Rosiello, 1992).

The pocket price may vary between customers. By arranging the amount paid by customers in a Pocket price band, management can get an overview of the pricing opportunities existing. If the underlying reason for a wide pocket price band is understood it can be managed to increase future profits. (Marn & Rosiello, 1992)

3.5 Understanding the Customer

To be able to charge the customer you have to understand how the customer thinks. We therefore believe that understanding the customer is an important part of a pricing capability.

3.5.1 Price Sensitivity

“Retailers set prices as if they believe the market is much more price-sensitive than it actually is.”
(Urbany 2001:141)

Price elasticity is a term often used in economics. It is used to explain how much demand, measured in volume sold, is changed when price changes (Monroe 2003). According to Marn, Roegner and Zawada (2004) there is an indifference zone and raising the price in this zone will lead to “risk free revenues”. Monroe (2003) means that there is a range of acceptable prices and explains that there is an upper and a lower threshold. The more information the customer has the smaller this range gets. If the price difference is insignificant the customer will act as before. Monroe also means that price has often been considered a “negative attribute” to a product or a “disincentive to purchase”. But he means that price can be either an indicator of quality where a high price symbolizes high quality or as an indicator of sacrifice – the higher the price the bigger the sacrifice. A buyer in a rush will use heuristics and believe a high price indicates quality and thus buy the more expensive product when choosing between two products.

3.5.2 How to Communicate the Price to Customers

Monroe (2003) emphasizes the importance of being straightforward with your customers. Price structures ought to be “understandable, flexible and relatively easy to administer”. He wants the company to clearly inform their customers about their price structure. For example discounts should be clearly defined. Also Dutta, Zbaracki and Bergen (2003) discuss how to communicate the price to customers. They indicate that the

customer needs a good explanation if he is to accept a price change.

3.5.3 Avoid Volume Focus

Despite the fact that the goal of most companies is to maximize profit they still believe that setting a low price and selling larger quantities is better than setting a high price and having a high margin. They trust that in lowering their price they will obtain customers from their competitors, not thinking of the possibility that competitors will lower their price to match theirs. In reality competitors often do lower their prices as well – the result is lower profits for everyone. This is something Monroe (2003) and Marn, Roegner and Zawada (2004) label “Price war” which should be avoided. (Urbany, 2001)

3.5.4 How to Raise the Price

The difference between the maximum price a consumer would pay and the actual price is called consumer surplus. This is the value the customer gets out of the transaction. Monroe (2003) believes that companies should focus on this value instead of costs while setting prices.

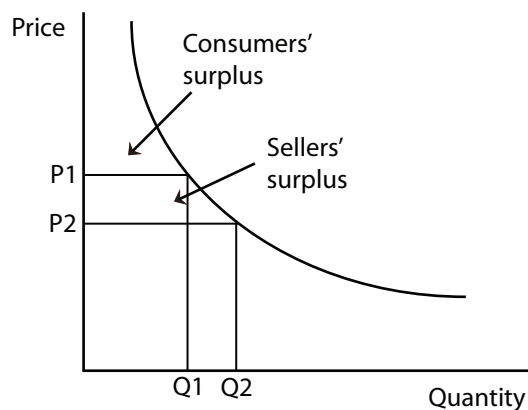


Diagram 2, Consumer surplus

Nagle and Holden (2002) propose that if a customer requests a lower price he must be prepared to get less value. On the other hand, those customers who are paying more than the average should get something extra in return: education or perhaps an extra service. Customers who are not prepared to get less value in order to get a lower price are not profitable to the company and should therefore not be served by the company. It is acceptable to let go of unprofitable custo-

mers. Urbany (2001) also suggests this tactic. Nagle and Holden (2002) believe that only commodity products should have a negotiable price. They also believe that it is necessary to have an incentive program to promote profitable sales. To make customers accept the higher prices you should change the price slowly. Nagle and Holden (2002) claim that it is necessary to separate price negotiation from identification of needs. Urbany (2001) suggests an alternative to starting a negotiation by giving a price and asking if it is acceptable – instead you should concentrate on the identification of the customers’ needs and give them a list of everything they will get and then present the price when you have convinced them that you truly understand their needs.

3.6 A Model of Pricing Capability

As we explained above *capability* and *pricing capability* are often described as a set of resources working together in order to create an ability to set prices. We want to expand this term and include what you are supposed to be able to accomplish when in possession of a pricing capability. We want to include the importance of strategically taking all three levels into consideration and the importance of truly understanding your customer to be able to set the optimal price. In order to do this we have constructed a pricing capability model with a number of focus areas. In our definition of a pricing capability we start with accepted theories in *pricing capability*, continue with *the three levels of pricing* and then conclude with the *understanding of customers*.

As mentioned in the research method chapter the theories in our theoretical framework are actively chosen by us and then put together in our model of pricing capability. The different boxes in the model constitute parts of a capability and they are all needed in order to develop a capability in pricing.

The model is presented on the next page:

PRICING CAPABILITY MODEL

Organization and structure

Have expertise in the organization, a person responsible for pricing, a pricing group and a system that can handle the information.

Pricing for the market

The business view

Know the competitors moves and other factors on the market to be able to understand the big picture and know when to raise prices.

The market view

Price products based on how customers perceive their benefits and add features that customers value.

The transaction view

Discounts and freight costs can add up and become a considerable cost for the company if not properly managed.

Price structure

It is useful to have a well thought out price structure, since that makes the company flexible on the market.

Segment pricing

Set the right price for every individual customer.

Systematic discount

Manage the different kinds of discounts, be aware of revenue leaks and steer customer behaviour with appropriate discounts. The pocket price waterfall is an example of an analyzing tool that could be used for this purpose.

Understanding the customer

Know your customers to be able to set optimal prices.

Price sensitivity

Use the indifference zone to set higher prices without losing volume.

Communicate value

Be able to explain price changes to customers.

Volume focus

Avoid volume focus and focus on pricing instead.

Raising prices

Treat customers on basis of what they are willing to pay and adapt incentive program for profit maximization instead of focusing on volume

4 PRICING AT TRITON

In this chapter the pricing at Triton will be presented. We will describe their business and give a retrospect view of the former pricing processes at the company.

Triton is a global business-to-business company based in Sweden. It provides the industrial market with products, components, individualized process solutions and related services. In total Triton provides an assortment of about 500 000 products and spare parts (SE).

4.1 Products Offered

The products of Triton can be segmented into three product categories: category A, B and C.

- The A-products are market leading in their category and holds close to half the market share globally. The market share for the A-products is five to six times greater than their closest competitor. This category represents about 50 percent of the turnover at Triton. (EVP)
- The B-products consist of two product categories, both market leading in their product class. On the market the categories hold a share

of about 20-25 percent and 40 percent respectively. The competition varies on different markets depending on applications and main local players. (EVP)

- The C-products are also market leaders but face a more diverse competition which makes this product category the most price sensitive category. The market share is estimated at about ten percent. (EVP)

All three categories grow along with or faster than the gross national product. (EVP)

4.2 Sales Channels

The end user can place the order directly with the sales crew at the central unit in Sweden or buy products from Triton through different sales channels, see diagram 3. About 25 percent of the orders are direct sales and the rest go through the sales channels. The purchase can go through a

Sales channels

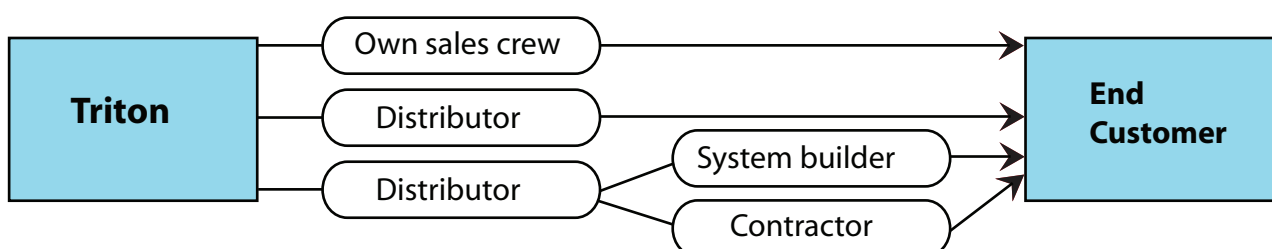


Diagram 3, Sales channels

distributor, or a distributor in combination with a contractor or a system builder. Some customers with special needs place their order directly with the factory. The price of the products varies depending on how close the customer is to the “end user level”. The closer the customer is to this level, the higher the end price (PPM). (EVP)

4.3 Prices Set on the Recommended Customer Price List

Prices set on the Recommended Customer Price List (RCPL) represent the highest prices used for Tritons’ products, set in Euro. Depending on a range of different variables, for instance the country the products are sold in or the type of industry the customer represents, the customer can get a discount from the list price. (SE)

The RCPL is set by the product managers located at the corporate head quarters. They also set a limit for the maximum discount to be offered to the customer. Customer specific discounts are set by the division managers and the sales crew at the sales companies. These discounts consist of a standard discount combined with a negotiable discount available for the sales staff to offer. The sales companies are responsible for the final price (EVP). (SE)

4.4 Customers and Competition

The technical performance of the products at Triton is evaluated continuously during the development process. However it is not systematically investigated what the customers value in Tritons’ products and how much they would be prepared to pay for them. (EVP)

The competition is considered but not emphasized when the product managers set prices. Most products are priced by the cost-plus method. The sales companies at the local level meet the competitors at the market, and thus have

knowledge about them, but there is no existing central knowledgebase about the competitors pricing strategies at Triton. (EVP)

According to the Executive Vice-President there exists an insight into the areas above mentioned, but there is an improvement potential to both of them.

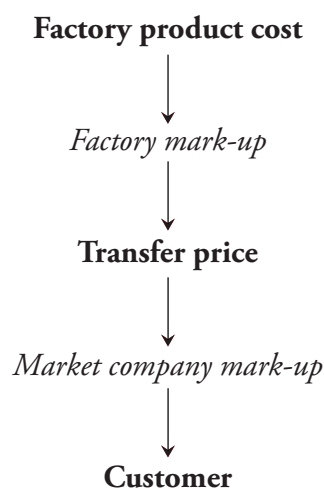
4.5 Pricing Power

If a company has pricing power it means that competitors follow its price changes. Triton possesses a pricing power at 70 percent of the volume, largely derived from the A-products and the larger product category of B-products. This indicates that the competitors follow the price changes of Triton. (EVP)

4.6 Former Pricing Process at Triton

4.6.1 The Internal Computer Software System

Before 2000 the Enterprise Resource Planning (ERP) systems demonstrated only the margins for local sales companies separated on customer segments. The EVP at Triton explains the internal price setting process as follows:



The system did not show the size of the factory mark-up per product. Only the market company mark-up was reported in local gross margins. Also the sales and administration costs were demonstrated and hence, the actual income for the sales company could be calculated. In some exceptional cases the customer bought the products directly from the factory, but paid a corresponding price to the customers buying through a sales company. (EVP)

The EVP explains that in 2001 the system was refined to also report results based on consolidated gross margin (the factory mark-up added to the market company mark-up) on a country performance base. With this new report system a profit factor could be calculated by dividing the consolidated gross margin with the local sales cost. This measures the added value contributed by the local sales organisation.

The software report system was further developed in 2003. Prior to this point in time every sales company had made their own RCPL. Now it was decided that there should be only one central RCPL that all sales companies should base their sales on. Management hoped to be able to measure not only margin but also price by using this new system. Today about 70 percent of Triton's sales use the RCPL. The remaining 30 percent concerns the process business where quotations are built on cost and mark-up. The process business consists of individual solutions made in special projects together with the customer. Since the projects are different every time it is difficult to prepare a list of prices. (EVP)

4.6.2 Discounts

The discounts given at Triton were not adjusted to each customer's characteristics but set by general rules of thumb. Irrespective of order size most customers got about the same share discount. The sales staff paid most attention at the discount given to the large customers and let the smaller ones get away with high discounts not representative of their order size. Some customers got such a high reduction in price that they caused a negative margin for Triton. The standard discount given constituted around 80 percent of total reductions from the RCPL. After that

discount was given additional discounts ranging from zero to ten percent of the new local standard price could be negotiated. (PPD, McKinsey report)

4.6.3 Costs off the Invoice

Some of Triton's costs did not appear on the invoice, as freight and credit costs. In the former pricing process Triton paid all freight costs regardless of order size, even for minor orders where only small spare parts were bought (PPD). Freight costs constituted about four percent of the invoice value. In this case also the policy of how to charge was unclear. Furthermore, there were no clear policies for the credit costs, which constitute about two percent of the invoice value (McKinsey report). The customers were granted long collection times. Customers in southern Europe were notoriously bad at paying on time. At the time the McKinsey report was written nine percent of the orders stood for 32 percent of the freight costs and some customers consistently exceeded payment time (McKinsey report). These two transactions, in combination with commissions to agents, yearly rebates and demos, lowered the actual pocket price for Triton. (PPD)

5 CASE STUDY OF PRICING AT TRITON

Below the course of actions in the price work at Triton will be mapped. We will present comments on pricing capability in the company and the action and results of the pilot pricing project in Iberica.

5.1 Initiative

In 2004 a new CEO entered the post at Triton. By interviewing employees in different parts of the business group he realized that the company had an improvement opportunity regarding pricing. At the end of the same year group management decided to investigate a potential new pricing structure to be used at Triton. One person in group management was appointed to lead the price work. A project director was engaged to assist him in making an analysis of the current pricing situation and decide how to continue. The project director did not have a line function but was tasked with improving the price processes of the line organization (EVP). (PPD)

The project is illustrated in a timeline in diagram 4.

5.2 Start up

The project manager made an overall analysis by interviewing all segment, product and selling managers within the group. In March 2005, managers and the IT-section were invited to attend a meeting called Dialog for growth (Dfg) to discuss the question: *How to improve our pricing process?* The group meet every year to discuss pressing issues on various subjects. During the meeting the pricing project was defined and a “project catalogue” containing eight themes for pricing improvement within Triton was identified. The eight themes are:

1. Value based pricing models
2. Competence development
3. Measurement of price
4. Sales performance measurement



Diagram 4, Timeline

5. Process, organization and roles
6. Price analysis information
7. Speed in price change
8. Review of RCPL and discounts (PPM)

It was decided the new pricing structure would focus on three of these themes from the catalogue. The themes chosen were:

3. Measurement of price
4. Sales performance measurement
7. Speed in price change (PPD)

It was initially necessary to work on these themes since without measuring you cannot set up clear goals about any of the others. The attendants also believed that in choosing these themes some of the other problems might be solved too during the process. (PPD)

5.3 The Iberica Pilot Price Project

It was decided that the three themes chosen at the Dfg meeting would be the core of a pilot pricing project. We will now describe the course of events during this project since it is one of the first price projects conducted at Triton. (PPM)

The Iberica market (Portugal and Spain) was chosen for the project because of its representative characteristics of the whole group. The Iberica market is large, virtually carries all products and segments, use both the central ERP system ONE and the local computer software system TWO, and is “complex enough to be representative for other Triton sales companies” (PPM). Another important reason the Iberica market was selected was that the management there was enthusiastic about the project and were willing to participate. (PPM)

When the criteria for the project had been set up, the price project manager got external help from the consulting firm McKinsey to make an analysis and to contribute with a concept on points 3 and 4. Triton would handle point

7 internally. The consulting firm was asked to attain three achievements mentioned above with the assignment. These were to *confirm a pricing improvement potential*, *give input for creating a price analysis tool* and to *provide a template for further implementations*. In the second phase of the project Triton would design the necessary tools and implement the new pricing process in the Iberica sales company. (PPD)

5.3.1 The First Phase

During the first phase of the project in Iberica a group of McKinsey consultants analyzed the pricing situation. The division managers of the sales company helped them by giving input. At this stage the division managers and the segment managers were involved. At a later stage the sales staff was interviewed about discounts given to some customers and was involved in the analyzing. (DM, PPD)

A software tool was developed by the consulting firm to help analyze the current situation at Triton Iberica. The program creates an overview of chosen parts of the business and illustrates it with graphs and diagrams. Every individual product and customer can be lifted out and be separately analysed. The range goes from the acts of individual salesmen and customers to the performance on the whole Iberica market. McKinsey also gave recommendations and with the help of these recommendations Triton could set the new discounts. The division manager expresses his thoughts about the recommendations like this:

“Some of the recommendations were clear. We have tried to work with all of these recommendations but have realised that some are more important than others.” (The Division Manager)

5.3.2 The Findings in the Consultant Report

In the consultant report five areas of opportunity were identified. These were:

1. Introduce volume staircases and more clearly incentivize sales force to capture pricing upsides from small/medium

- customers.
2. Improve product and customer mix.
 3. Introduce growth program for selective customers.
 4. Introduce surcharges to reduce cost to serve.
 5. Implement approach to define RCPL equivalents and improve cost assessment discipline.
- (McKinsey report)

Opportunity area 1 through 4 concerns the RCPL based component sales while area 5 concerns the project business. Because of the complex pricing structure in the process division this area required more time to investigate and has not yet been implemented in the price project (EVP). Hence the details of area 5 will not be covered in this case description.

Opportunity 1

By developing “discount staircases” a higher revenue can be received from small and medium customers. The staircases should be adjusted depending on channel or segment. Discounts given should be plotted as in diagram 6 instead of the current situation illustrated in diagram 5. The sales force should also push for higher prices from the very beginning. The measurable effect would be higher average prices but low losses in volume. According to the consulting firm the improvement potential for this opportunity is between about 0.5 and 0.7 millions of euros. (McKinsey report)

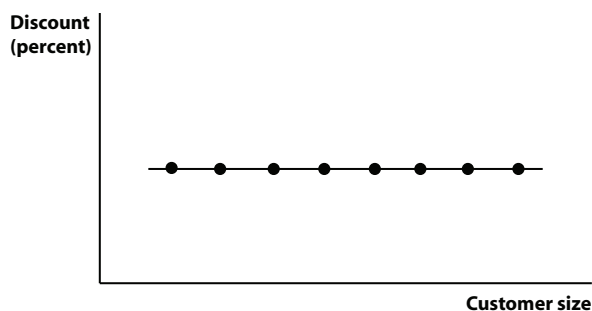


Diagram 5, Opportunity 1 (before)

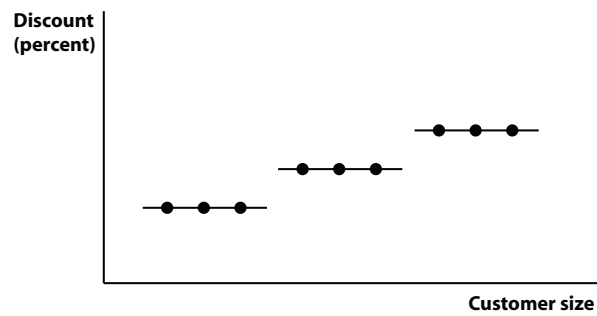


Diagram 6, Opportunity 1 (after)

In order to follow this recommendation Triton set up new lower discounts. The discounts for small customers were lowered by three to six percent, the discounts for medium by two to five percent and the discounts for large customers by zero to two percent. A new discount system was supposed to be in place in November but was delayed until February. Triton has also started to develop a new version of the pan European system. (PPD)

Opportunity 2

If Triton would prioritize the most profitable products, applications and channels they would be able to collect more revenue. The sales force should also prioritize the profitable accounts and offer customers a product mix with high margins by using a mix index. The index should be built of products ranked by average of sales. The effect of this can be measured by the “improved average profitability by segment” (McKinsey report). The improvement potential for this is between about 0.7 and 0.9 millions of euros. (McKinsey report)

Triton decided to improve the customer mix and target certain products and customers. The prices of the products with lowest profit were to be raised or the products should not be offered even if that would mean losing the customers buying only those products. (PPD)

Opportunity 3

The third opportunity is closely related to the first opportunity mentioned. By establishing a growth program for certain high potential customers they can “grow together with Triton” (see diagram 7, the development should go from point 1 to point 2). If the customers order larger

volumes they will receive larger discounts. The measurable effect of this opportunity would be seen in increasing volumes and share of the customer's wallet. The improvement potential of this opportunity is between about 0.2 and 0.3 millions of euros. (McKinsey report)

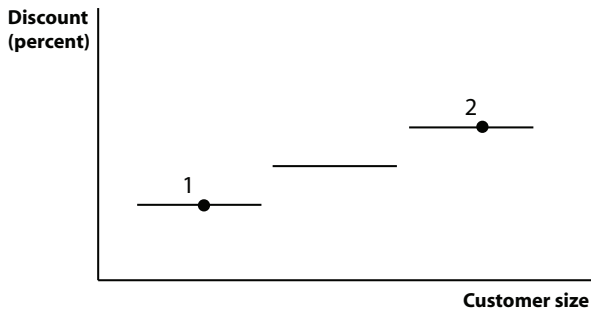


Diagram 7, Opportunity 3

Triton chose six customers to be part of the growth program. (PPD)

Opportunity 4

By introducing surcharges for smaller orders and late payments such costs can be lowered. Triton should also specify freight costs on the invoice. Average order size would increase and the company would gain additional revenue for the credit cost mark-up without losing volume. The consulting firm believes the potential for improvement is about 0.1 millions of euros. (McKinsey report)

This opportunity was to be managed via the new

discount matrixes at Triton Iberica. (PPD)

Total improvement potential

The total improvement potential for the different opportunities lies between 1.0 and 1.4 millions of euros which is equivalent to between three and five percent of return on sales. (McKinsey report)

The price waterfall

The standard discount was examined in detail and it was then proposed that the reduction should be divided in smaller parts that better explained what it consisted of, see diagram 8. By breaking up the discount into sub-components the consulting firm hoped it would be easier to think it through when giving discounts and also to “secure a consistent pricing strategy across segments/channels” (McKinsey report). In the future it would be less complicated to compare the pricing and it would be easier to “avoid inconsistent pricing across countries” (McKinsey report) if the same matrixes are used. (McKinsey report)

5.3.3 The Second Phase

When McKinsey was done at Triton and the software analysing tool was ready it was time to start implementing it into the organisation. The sales staff got access to the analysing tool together with recommendations on what actions were needed. Old data collected from earlier periods were already included in the tool for

Suggested Pocket Price Waterfall at Triton

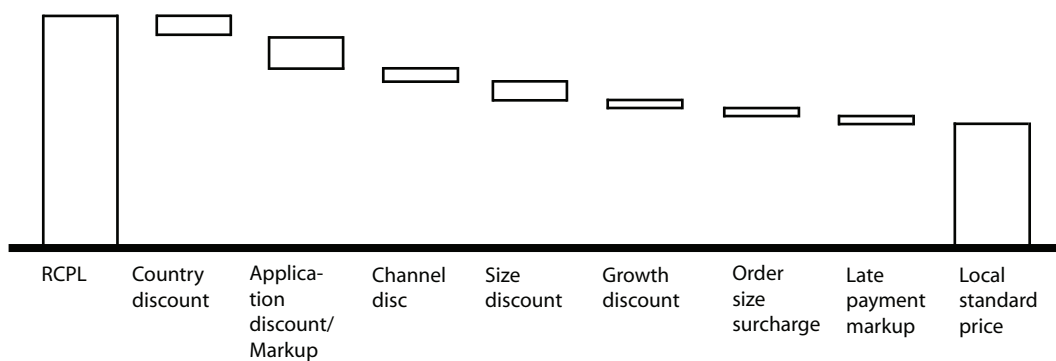


Diagram 8, Triton pocket price waterfall

the sales crew to look at. The division manager describes the reaction of the sales staff when they were shown the pattern of previous sales:

“Their first reaction was surprise. They found it hard to believe that what they saw was what they had been doing in the past. Earlier, they sometimes had too little information.” (DM)

The sellers have now changed their way of working. Earlier they classified their customers into five different groups and checked the discounts in a matrix provided by the managers setting the RCPL. Today, a different system is used, where several parameters are put into a program that classifies the customer into a category. By putting this category into another matrix similar to the one formerly used the appropriate discount can be found. If a seller registers an order and then tries to fill in a discount that exceeds a limit set by the managers, the system gives a warning. If this happens a sales manager has to give a special permission for that sale. It is still the people responsible for setting the RCPL who decide the discount maximum. The sellers do not know the margin of the products. (DM)

The incentive program was changed, as well. Prior to the project there were three parameters: volume, gross margin and payment terms. The parameter measuring profit still has the same share size but instead of basing the bonus on gross margin there are individual discount targets. (EVP, DM)

The customers have not been officially informed about the change in how discounts are set. According to DM the larger customers have probably not even noticed the change since they get about the same discount as before whereas the PPD says that large customers must be informed when new contracts are made. The DM tells us that some of the small customers have complained but most of them do not seem to have noticed the change either.

5.3.4 Results of the Iberica Project

The DM from the sales company in Spain seems satisfied with the project even though he is not thrilled: *“Yes we are rather happy. It is working quite well.”*

The gross margin in the Iberica market has increased by 5.3 percent units, which is more than other European markets, according to the PPD and the PE. The average growth in the rest of Europe is 2.5 percent units. Before the project start the sales company in Iberica had a declining growth curve (see diagram 9). (PPD, PE)

The discounts are now 1.9 percent lower than before the project. According to the simulation done comparing the old discount matrix with the new one the discounts would be about two percent lower. (PPD, PE)

According to the PPD the goals were to lower the discounts for small customers by four percent and for medium customers by three percent.

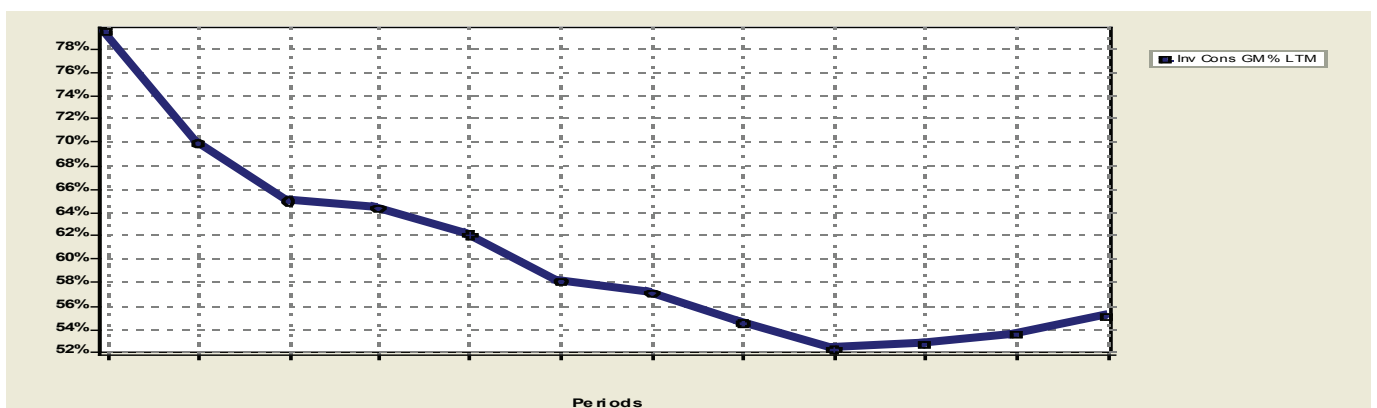


Diagram 9, Iberica gross margin for the last twelve months

Because of the delay in the introduction of the discount system it is still too early to assess the results of it. What the PPD believes can be seen is that the difference between the highest and the lowest discounts has diminished.

At the product mix opportunity Triton raised the prices of the products with too low margin. So far no customers are lost according to the DM. Triton has however stopped selling some of the less profitable products. (the PPD)

According to the PPD, the third opportunity, *grow with us*, has not developed as well as planned, mostly because this was not something new. A similar program with the exact same customers had already been carried out at Triton and thus there were no new energy put into the matter. The PPD still believes it can be interesting for other markets to include this opportunity, especially since they are not doing anything like it at the moment.

The fourth opportunity, the freight and credit costs, is now included in the discount matrix. The PPD would prefer to keep the freights and credit costs as separate fees. The PE explains that the customers still do not pay the freights because it is not custom in Spain and Portugal. Instead there is a lower discount of about five percent.

The volume has also increased, like the profit, but not as much. In fact all of Triton has had both an increase in profit and an increase in volume. Some part of the increased revenues during the time for the pricing project in Iberica may be attributed to the general economic upswing during this time and the fact that they finally have managed to get paid for the increases in material costs. (PPD, SE)

5.4 Ongoing and Future Projects

According to the EVP, Triton plan further pricing projects. Some of these projects have been initiated and are ongoing projects. Others are yet to be started.

The project in Iberica has been considered successful enough to let sales companies in other countries begin working on the same changes in pricing. The changes will be implemented in all sales companies. This will be done in different “waves”. Eleven countries have been chosen for the first “wave” and the work on developing specific discount tools for the different markets has begun. The process part in Iberica will also be developed as a next step and it will then be exported to other regions.

Another part of this project is for the SE to develop a price analysis tool that can be used by all the Triton sales companies. By using this it will be possible to compare the performance of different sales organizations.

At the product pricing level a new project is coming which focuses on reworking the way the prices in the RCPL are set. To a higher extent the starting prices are going to be based on customer value instead of costs. A person responsible has been assigned.

The price list for spare parts in one category has been examined and changed in order to have a more logical structure in grouping the different products. This will now also be done at another category of spare parts. Products that are easy to copy will be grouped and priced in one way and products that are harder to copy will be grouped and priced in another way.

There is also an ongoing project where focus is speed in changing prices. At the moment changing the price list takes months. Triton wants to reduce this time to be able to respond faster to market signals and material cost increases.

A project is coming up where Triton will find criteria for what the collaborators in every part of the organisation need to know about pricing. There is a person responsible and his first mission is to establish what the CEO:s of the sales companies need to know concerning pricing and then educate them.

Triton will also conduct a project where the limits of discounts will be evaluated and coordinated.

5.5 Interviewee Analysis of Triton Pricing Capability

In the interviewee analysis we will present the answers received on the question Have Triton developed a pricing capability? Answers on attendant questions about pricing capability have already been presented in the case description.

A year ago the common opinion at Triton was that lowering the costs was the best way to get higher profits (EVP). Today there is a “higher awareness”, as the PPD expresses it, about the influence of pricing. He also believes the understanding of when to set a higher or lower price has improved. Also the EVP talks about the increased awareness and describes it as a “skill”. The attitude has changed and, most importantly, the sales crew is now less afraid of raising prices. Triton has now started to create a pricing structure. The DM expresses that they “have the capability to manage things now”. The DM also believes that Triton has developed a pricing ability, and that they now better understand what pricing stands for.

According to the PPD pricing is a more widely discussed topic today and many companies are searching for opportunities to improve their pricing abilities. “Since we measure and benchmark now there is more focus on setting the right price. Earlier it was all about volume, volume, volume,” he says. The EVP also believes that they have developed a pricing capability. He explains that a price increase can occur based on three different reasons: material cost increases, fluctuations in the exchange rate and smarter pricing. What is new is the smarter pricing, where the average price is increased by diversifying the price depending on products, costumers or applications. Earlier this was not done in a structural way, according to the EVP.

According to the EVP it is the sales companies who meet the competitors on the local market and thereby know their moves and their prices. However, he would prefer if the product managers gathered more information from the sales companies in order to set prices which are better matched to competitors.

According to the EVP there is also a potential in improving the knowledge of the market. The EVP tells us that the company does not know what the customers value. According to him Triton does not lack market prices, but they can still be better at setting them. Recently it was discovered that despite earlier belief customers are less price sensitive than Triton thought (EVP). It was not the price project on the Iberica market that gave this insight but the fact that Triton succeeded in raising prices due to increases in material costs without losing volume (EVP).

The EVP believes that when the new structure is in place it will be a permanent part of the organisation. He believes they have already done much the past year.

6 ANALYSIS

In this chapter we will use our model for pricing capability to analyze how the work on creating a capability has progressed at Triton.

In this chapter the development of pricing capability will be examined with help of the pricing capability model. It will also contain evaluations of the actions involved in the pricing project at Triton in regard to all parts of a pricing capability. The structure of the analysis chapter will follow the pricing capability model since every part of a pricing capability will be analysed. Every company is unique so conclusions drawn for this specific case are of course explicit for our case. Other companies can however learn from the accomplishments and errors of Triton.

6.1 Organization and structure

In order to develop a capability the company must acquire resources suited for the purpose and coordinate them (Grant, 2005). According to Dutta et al. (2002) and Richards et al. (2005) the resources needed when creating a capability in pricing is pricing knowledge, computer systems making the process more structured, and making sure the different parts of the organisation cooperate in a structured way. If the company wants to develop the capability by itself it should start it off as a pilot project in a separate part of the organisation (Grant, 2005).

By hiring a price expert Triton has developed a resource and hence acquired more knowledge in pricing. There is also a new focus on pricing in the organisation and as the PPD describes it “an

increased awareness”. Education in pricing for the collaborators is lacking. The sales companies’ managers have been educated during the dialog for growth but there has been no training for the sales staff or for the product managers. According to theory more education is needed. If the sales force had more education they could understand the customer better and get an advantage when negotiating prices with customers.

Triton has also developed a software system that enables the personnel to set discounts better adjusted to the costs of serving the customer and to the customer’s willingness to pay. This system will give the price process more structure, which will lead to faster and more accurate price setting. It will not be necessary for sales people to consider every detail when deciding on a discount to a specific customer but the outcome will be correctly calculated discounts. Since the discount software system was not in use until February it is hard at present to draw any definite conclusions about the outcome.

Triton also developed a software system that will enable them to make a more detailed analysis. It will take time before the total sales of all sales companies will be in the system but when it is accomplished it will be possible for Triton to set prices that are better coordinated at all the sales companies around the world. The system will also make it possible to compare sales between different sales companies, as for example the sales in Iberica with sales in France. This will lead to a better understanding of how prices are set and

give a possibility to follow the development over time.

The work on integrating these new systems with the business system of the company has begun. There is much more to do but Triton has a system that works initially and fully developed it will be an important resource. If all systems used can be integrated the common business system will be a powerful tool.

When acquiring a pricing capability an important resource, according to Dutta et al (2002) and Richards et al (2005), is to let a group of people from different parts of the company work together when setting prices. At Triton, it is the product managers who construct the RCPL. In some cases they discuss the price with other parts of the company but there is no structured way of deciding who is to be involved or what information needs to be given to the product managers. The product managers have access to competitors' list prices but it is only the staff at the sales companies that know the discounts of the competitors.

Just like Grant suggests, Triton has developed the capability in a separate part of the organisation. This way a pricing capability has been developed in the Iberica sales company. As far as the interviewees are concerned Triton Iberica is now better at setting prices. Resources such as software systems have been developed and as the systems start to work together a pricing capability will be developed. The problem will be implementing this into the whole organisation. Triton will solve this by taking small steps and implement the new strategy in different "waves". Since this process has just started it is hard to tell what the result will be.

6.2 Pricing for the market

In order to develop a pricing capability it is essential to administer all *three levels of price management* (Marn, 2004). The levels address different issues on pricing but are closely interrelated and build upon each other. It is hard to manage a lower level perfectly when the level above is not complete. The same idea can be found in

the linear approach—theory where it is suggested that the list price (market strategy level) should be well worked out before the discount system (transaction level) is looked into. (Duke, 1994)

All three levels are broad and demand much attention to be truly functional. When all three levels work together the company possessing them has an advantage compared to companies that has only been concentrating on one or two of them.

At Triton, issues regarding transactions have been thoroughly evaluated and improved while the business and the market views have been disregarded. The reason for this could be the common belief at Triton that the company has a leading and stable market position and that it possesses pricing power in the business. Even though this is true, Triton can not be sure to hold this stable position forever. Competitors may take the chance to develop a competitive advantage if Triton neglects keeping an eye on the industry and the market. The managers at Triton may be so sure of their leading position that they fail to acknowledge such a threat.

Since the three views build upon each other changes in one view must lead to adjustments in the others. When the prices of raw materials were raised the conditions on the industrial market changed. Despite this the prices set at the market level were kept at the same level, which caused a drop in revenue. With a broader understanding of the whole industry the price increase for raw materials could have been matched earlier by a raise in market prices.

The pricing project at Triton was started with the transaction view and thus the first two views have not been methodically worked through yet. The prices have been refined by advanced discount systems and improved changes in payment terms, but the overall customer value has not been investigated and the routines concerning the list price is still the same as before. There is no existing database, where information about customers and competitors is collected, which makes it difficult to get an overview of the industry.

The discounts from the list prices vary widely which indicates that some of the prices could be set in a new way. If the list prices were based on market demand instead of cost-plus pricing the prices would be adapted to what the customers are willing to pay. Then the prices of the products would not be lower than what the customers are willing to pay, nor would they be so high that it is necessary to set a large discount.

The sales crew is closest to the customers and the market but has been given no responsibility for suggesting prices. Decisions are set top-down in the organisation and there is no structure for integrating the price setting. The sales crews' knowledge about the market could be useful when constructing both the RCPL and the discount system. On the other hand the sales crew often oppose raising prices because they believe customers would turn to other suppliers. It would affect the incentive program negatively if customers were lost. This leads to risk aversion within the sales crew when it comes to pricing.

Both the model of the three levels of price management and the linear approach model indicate that it is important to start at a broader level such as the industrial strategy, and then proceed to the market level where the RCPL is set and finally narrow down to the detailed transaction level (Marn, 2004 and Duke, 1994). If the upper levels had been thought through prior to the changes at the transaction level it would have had a greater impact, on the overall profitability at Triton. Since the company is now working on setting list prices in a new way it is moving closer to gaining a pricing capability at the market level as well. It is nonetheless important to notice that despite what established theories suggest Triton has managed to carry out the change in the transactions rather well, without focusing on the upper levels first.

6.3 Price transactions

In order for a company to possess a pricing capability at the transaction level the different parts of the *price structure* (Monroe, 2003) should work efficiently individually and together. Every part is important and contributes to a healthy pricing at

the transaction level. By creating a clear structure for discounts and payment conditions, where the customer will take title and transportation costs, a company can save money that otherwise would slip through their fingers because of weak structures. One example of a useful comprehensive structure of company discounts is the *pocket price waterfall* that clarifies the discount given to everyone involved in setting it (Marn 1992). The discount system should be based on the varying willingness to pay between different segments (Nagle & Holden, 2002). Segments that are willing to pay more for the same product should get a lower discount.

The transaction issues are well worked through at Triton. The theories within the transaction area have been rigorously followed with help from the McKinsey personnel. Many of the theories used have actually been developed by consultants working for McKinsey. Some of the transactions at Triton have been improved. Much effort has been put into improving the discount system and since it was revealed how considerable the payment for freights is, Triton has started to work on lowering it. However, there is still a long way to go before the new transaction structure will flow smoothly. The customers in Iberica would not accept the freight conditions recommended by McKinsey. The five percent lower discounts covering the freight costs means that there is still no difference between small and large orders. Additionally, the project concerning growth of chosen customers has not had the planned impact. Furthermore, the project already existed at Triton regarding the same customers and the sales crew has not been working as actively with it as they could have.

6.4 Understanding the customer

It is important to understand the customer and realize that price is not everything to the buyer. Prices and discounts should be communicated to the customers in a transparent way (Monroe, 2003), the focus on volume should stop and customers and products that contribute in a negative way to the revenue should be avoided

(Urbany, 2001). One way of making these changes is by changing the incentive program for the sales crew.

Triton has realized that customers are not as price sensitive as they initially thought. This discovery was not connected to the price project in Iberica. Mostly it was due to the fact that Triton was forced to raise prices because of increased material costs on several occasions and succeeded in doing it.

The new discount system has not been communicated to the customers, according to the division manager in Iberica. The PPD states that telling the bigger costumers was inevitable. Most customers have not noticed the change and it is then better to tell them only when they ask about specific discounts. The reason why it is possible to raise prices, is because of the existence of the indifference zone where the customers do not notice the price change. When used correctly it is a powerful tool in negotiating prices. On the other hand, since the new discounts are supposed to be easier for the customers to understand they could successfully be communicated to explain the thought behind the discount.

There is still much emphasis on sales volume in the incentive program, just like before the work on pricing begun. The only difference in the incentive program is a bonus the sales crew gets if they reach a certain level of discounts instead of a certain level of gross margin. The sales staff's way of working has not changed much. They still use a matrix prepared for them to find the recommended discount already set by managers. The discount levels are changed, but the sales crew does not change the level of service to match the different customers' willingness to pay.

6.5 Results of the Triton Iberica pilot price project

According to our interviewees the pilot price project has created a positive attitude to managing price and working on price strategy in the organisation. All interviewees describe the events in the project positively. According to the PPD

this is the greatest gain made from the project since it has created a curiosity for changing the older pricing thoughts in the organisation.

It is hard to find out if the price project at Triton Iberica has been financially successful. The people responsible for the project believe an increase in revenue can be distinguished, but the result consists of financial information extensive enough to be hard to get an overview of. Although it can be interpreted that the gross margin had increased more in Iberica than in the rest of Europe since the project start.

At the moment it is impossible to trace the reason for this economic upswing: It could depend on the positive economic development in the rest of Europe instead of on the change in price. The upswing can also depend on that larger product orders or products that happen to have a high margin have been sold disregarding of special programs and plans this period.

The progress has been rapid since the project started. Soon after the first evaluation of the Iberica market it was decided that the change in pricing strategy should be implemented at other sales companies as well (PPD). The fast development has both negative and positive sides. Since the Iberica project is not yet evaluated, any flaws in the project could be passed on to the other markets before the problems are spotted and solved. It is an advantage though, to implement the new strategy as fast as possible in the entire organisation if it looks like it will increase the revenue and in order to get first-mover advantage.

The importance of a functioning structure was brought up repeatedly during the interviews. Generally it seems like there is a lack of structure when it comes to collecting information for creating an overview of pricing at the group. The problem has been spotted and a central software business system is now under construction. When this issue is solved management will be able to get a wider view of the pricing at all levels at Triton. This overview will give perspective on the business and make it possible to spot trends earlier.

6.6 Summary

Triton has focused on the systems and on hiring people with knowledge in pricing. They have carried it out one part at the time and put emphasis on gaining knowledge and getting an overview. Triton has hired a price expert but they have not yet acquired education for the organisation. The awareness of the importance of pricing has however increased. Software systems have been developed as a first step, but there is still more to be done. Triton does not set prices according to theory: with a group of people from different parts of the organisation. They have however according to theory started in a separate part of the organisation with the development of a pricing capability.

The three levels of price management build upon each other but can be developed one at a time. Triton has focused on cooperation and communication. The sales staff is closest to the customers but is not really included in setting prices or discounts. Triton has shortcomings in the work on the first and second level since they have not thoroughly considered these levels and do not set prices to match the customers' preferences. On the transactional level they have followed the established theory in the Iberica project, although some details were harder to deal with in reality than in theory.

The prices are not communicated properly to the customers. Triton has however realised that their customers are not as price sensitive as they thought. The volume is still as important as it used to be in the incentive program, which indicates that the volume focus is still present. There is a change in attitude towards pricing. People have realised that it is important. It is hard to tell the financial results of the Iberica project, so far. The step from the pilot project to implementing the new pricing into the rest of the company was taken quickly.

7 CONCLUSIONS

In the conclusion we will compare the internal analysis to the theoretical analysis, give our theoretical contribution and present some practical implications. We will also give some suggestions for further research.

The conclusion is divided into three parts. First, the internal analysis will be compared to the theoretical analysis of a possible pricing capability at Triton. After that the theoretical contribution of the master thesis will be presented together with concrete practical implications. Finally we suggest subjects for further research.

7.1 Comparison of the internal and the theoretical analysis

If the conclusions of the interviewee analysis of Triton's pricing capability and the model-based analysis are compared, both similarities and differences can be found. The interviewees at the company all believe Triton has developed a capability in pricing, but in the model based analysis it was concluded that there are shortcomings in how the company has followed all the focus areas in the theoretical model.

In the model based analysis it is made clear that Triton still focuses too much on volume instead of revenue. Further, the capacities of the sales crew is not fully used since the sellers work closely with the customers but are not involved in the general pricing decisions. Most of the interviewees are located at the main office and have rather vague ideas about the opinions of the customers. They do not make use of the know-

ledge within the sales crew to the extent they could.

In the model based analysis it was concluded that Triton has made progress regarding organization and structure and in the transaction area. However it is shed light on that the company still needs to work on foremost its industry and market strategy since it has not been enough focus on these areas and they contain unused potential. The interviewees at Triton concentrated on details regarding improvements of the transactions. While focusing on this area they have put less interest into the other strategies. When they believe they have developed a pricing capability they refer to the development in the transaction area. The company internal view of the situation is significantly narrower than the broader theoretical view of the same circumstances. However they do know their shortcomings in pricing and are planning to deal with them on a later stage. If they do Triton will be able to develop a pricing capability in the future.

7.2 Theoretical contribution and practical implications

In this part the theoretical contributions of the master thesis will be summarized. Every part will end up in a practical implication for companies to take into practice. Getting started is the first and often most chal-

lenging obstacle to overcome when a pricing capability is to be developed. Despite what presented theories suggest it is less important in which end the project starts. When one or several pricing issues are actively worked on in the organization other problems and opportunities to improve the pricing process will be discovered if this is combined with a continuous acquisition of knowledge in the area. Triton started with the project in Iberica and while performing that project the company realized that many other issues in the pricing area also needed to be examined. If the project in Iberica had not been started the problems with for example the RCPL would probably not have been noticed or understood. In combination with the hiring of a price expert they have developed the capability to identify shortcomings in their price process.

Once you start with your price work you will find more areas to take care of if this is combined with increasing knowledge in pricing.

The employees have to have courage to take the step and change prices without fear of losing customers. When realizing that customers are less price sensitive than what was first thought it will be easier to experiment and try new ways. When Triton raised the prices the volume did not diminish and the gross margin increased, which led to a greater profit. The courage of changing prices must of course be combined with the knowledge when to raise prices and how.

Courage to change prices is needed in combination of knowing when and how to raise prices.

An essential part of gaining a pricing capability is that people working in the organization get involved and get interested in the new way of thinking of, and working with pricing. The theories presented do not mention the importance of motivation though the reality case study shows that enthusiasm is the fuel for a project like this. Enthusiasm and a positive attitude about the change is needed to change the old pricing routines, bring the price projects forward and create a benevolent attitude towards the price work among the employees in the rest of the organization. By demonstrating positive results already at an early stage people become enthusiastic and

engaged in the project. Triton started with changing the transactions and gained relatively fast and more visible results than if they had started at a broader level. This created a positive attitude towards the pricing projects and other parts of the organization wanted to follow the example.

Creating a positive attitude towards pricing is crucial in order to get the organization with you in the process. One way of doing it is by demonstrating positive results already at an early stage.

It is also of importance to form a structure to build the new way of pricing on. The company should develop organizational systems that organizes and simplifies the pricing process. Management have to communicate to the rest of the organization that dealing with pricing issues should be prioritized and emphasize that pricing is a critical matter. The reason for this is that people working in the organization have to be aware of the importance of pricing to prioritize it. It should also be worked out and clarified what issues, concerning pricing, are to be focused on and what results are expected. It should also be made clear who is responsible for different parts of the projects and who is the decision-maker. At Triton the central issues to be dealt with consisted of the five themes brought forward in the McKinsey report and there is always a group or a person responsible for the projects.

A structure is needed where it is clear what should be prioritized, what results are expected and who is responsible.

When forming a structure the organization must know the essentials in pricing and be able to create software systems to deal with pricing issues. These issues could be the lack of overview or the difficulty in setting price at the same conditions through the whole portfolio. The software system is the tool used to implement the changes into the whole organization. It should be developed during the process of a project in dialog with people involved to implement the details needed. A software system is essential, especially at large companies, to implement complicated and detailed structures in the organization. With help of a software system a company should be able to create an overview of the business to identify the

errors, analyze the errors and implement changes to abort the errors. Examples of this taken from Triton is the analyze tool that helps distinguish which customers should be targeted and which customers should be avoided or given a higher price and the discount tool that enables Triton to set discounts in a structured way in order to have logic and more standardized discounts.

With help of a software system a company should be able to create an overview of the business to identify the errors, analyze the errors and implement changes to abort the errors.

Finally the company must be aware that it takes time to build a pricing capability. The capability has to grow within and adapt to the individual characteristics of the organization. It is not created by copying theories but through everyday work with company-unique details by creative and skilled people. A pricing capability is unique to every company although the main theoretical points presented in this report set the fundamentals for it.

7.4 Suggestions for further research

It would be interesting to examine Triton in a year or two and see if they have developed a pricing capability in the whole organization and if so, what this has led to. Another idea would be to examine the preferences and/or reactions of the customers. It would also be interesting to study and observe the sales force at Triton to see whether their behaviour change when the new pricing process is in place. This could be done in one of the countries where the new way of pricing has not yet been implemented in order to follow the development over time.

One idea would be to conduct a quantitative study to see if conclusions drawn in this case are valid for other companies as well. It could also be done by studying one or a few similar or totally different companies, such as companies performing on the business-to-consumer market.

It would be of interest to study how optimal

prices should be set to look at, for example, a company which has gone from cost-plus to value-based pricing

Another study could focus on the implementation of a pricing capability and how the parts of the pricing capability should be communicated within the organization to get the wanted result and how the capability is built into the organization.

8 REFERENCES

8.1 Literature

Andersen, Ib, (1998) *Den uppenbara verkligheten – val av samhällsvetenskaplig metod*, Studentlitteratur, Lund

Grant, Robert M., (2005) *Contemporary strategy analysis*, Blackwell Publishing, Oxford, fifth edition

Jacobsen, Dag Ingvar, (2002) *Vad, hur och varför? Om metodval i företagsekonomiska och andra samhällsvetenskapliga ämnen*, Studentlitteratur, Lund.

Lundahl, Ulf, Skärvad, Per-Hugo (1999) *Utredningsmetodik för samhällsvetare och ekonomer*, Studentlitteratur, Lund, third edition

Marn, Michael V., Roegner, Eric V., Zawada, Craig C, (2004) *The Price Advantage*, John Wiley & sons

Monroe, Kent B. (2003) *Pricing – making profitable decisions*, McGraw-Hill/Irwin, third edition

Nagle, Thomas T., Holden, Reed K. (2002) *The strategy and tactics of pricing – A guide to profitable decision making*, Prentice Hall, third edition

8.2 Articles

Dutta, Shantanu, Zbaracki, Mark J., Bergen, Mark, (2003) “Pricing Process as a Capability: a Resource-Based Perspective” *Strategic Management Journal*, 24, page 615-630

Dutta, Shantanu, Bergen, Mark, Levy, Daniel, Ritson, Mark, Zbaracki, Mark J., (2002) “Pricing as a Strategic Capability”, *MIT Sloan Manage-*

ment Review, spring vol.43 no.3

Duke, Charles R., (1994) “Matching Appropriate Pricing Strategy with Markets and Objectives” *Journal of Product & Brand Management*, Vol. 3 No. 2, pp. 15-27
© MCB University Press, 1061-0421

Marn and Rosiello, (1992) ”Managing price, gaining profit”, *Harvard business review*, September-October, page 84-94

Richards, J D, Reynolds, John, Hammerstein, Matt, (2005), “The Neglected Art of Strategic Pricing”, *Financial executive*, June; 21, 5 ABI/INFORM Global

Schwenk, Charles R., (1984), “Cognitive Simplification Processes in Strategic Decision-making” *Strategic Management Journal*, Vol. 5, 111-128

Simon, Hermann, Butcher, Stephan A., (2001) “Individualised Pricing: Boosting Profitability with The Higher Art of Power Pricing” *European Management Journal* Vol. 19, No. 2, pp. 109–114

Urbany Joel E. 2002, “Justifying profitable pricing”, *Journal of product & brand Management* 2001, vol 10, issue 3, pages 141-159

8.3 Electronic references

Triton company webpage, 2006

8.4 Interviews

The EVP (the vice-president/representative from group management) the 11th of May 2006

The PPD (the price project director) the 18th of April 2006, the 11th of May 2006

The DM (the division manager on the Iberica market) the 8th of May 2006

The SE (the system expert) the 28th of April 2006, the 11th of May 2006

8.5 Pricing theory expert

Hallberg, Nicklas (2006), PHD student in Pricing at the school of economics and management at Lund University, continuous advising during the entire work process.

APPENDIX 1

Interview guide for the interview with the PPD on 4/18

- Vad har du för arbetsuppgifter?
 - Vad har du för bakgrund inom prissättning?
 - Hur kom du in i detta projekt?
 - Hur ser ditt dagliga arbete ut?

- Vad har Triton för position på marknaden?
 - Marknadsandelar?
 - Konkurrenter?
 - Produkter?

- Varför kom frågan om prissättningsstrategi upp på dagordningen?
 - Hur såg den gamla prissättningsstrategin ut?
 - Vad var problemet?
 - Var det någon särskild person som hade uppmärksammat problemet?

- Varför anlätade ni McKinsey?
 - Hur formulerades uppdraget till McKinsey?
 - Hur var samarbetet med McKinsey?

- Hur ser den nya strategin ut?

- Varför valdes Iberia (Spanien/Portugal) till testmarknad?
 - Hur ser organisationen ut?
 - Hur många säljare finns det?
 - Finns det en projektledare för just detta projekt?

- Hur har implementeringen av den nya strategin sett ut?
 - Är det allmänt känt i organisationen att ni provar en ny strategi?
 - Hur har strategin kommunicerats hela vägen ut till säljarna i Spanien?

Praktiska frågor

- Finns det en fullständig rapport?
 - Finns det något nedskrivet om den gamla strategin?

- Hur kan vi få tillgång till nödvändiga data?

- Vilka bör vi prata med?
 - Initiativtagaren?
 - Någon i ledningen?
 - Projektledaren i Spanien?
 - McKinsey?
 - Säljchef i Spanien?

- Säljare i Spanien?
- Systemexpert?

- När kan vi träffas igen?

- Vilket språk föredrar ni att vi skriver vår rapport på?

APPENDIX 2

Interview guide for the interview with the SE on 4/28

Personligt

- Vilka är dina arbetsuppgifter?
- Vad har du för tidigare erfarenhet/utbildning?

Datorsystemet

- Vad visar de olika systemen?
- Vilka variabler mäter ni?
- Hur såg systemen ut innan?
- Vad är det för skillnader mellan de gamla och de nya systemen?
- Vilka var kriterierna när det nya systemet skapades?

Förändringar

- Vilka synliga förändringar har skett?
- Vad förändringarna bero på?

Rabattsystemet

- Hur är rabattsystemet uppbyggt?
- Vad kan mäter rabattsystemet?

Övrigt

Vill du visa oss systemen?

APPENDIX 3

Interview guide for the interview with the DM on 5/11

Personal

- What is your position in the company?
- What is your background?
- How long have you been at Triton?
- What is your role in the pricing project?
- When and how were you first contacted about the project?
- Why did you show interest in the project?

The cooperation with McKinsey

- How did McKinsey work to find the background information for the project?
- What was your role?
- What was their role?

The sales staff

- In what way is the sales staff involved in the project?
- How did the sales staff work before this project started?
- How do they work now?
- In what way have their behaviour changed?
- How was the project presented to the sales staff?
- What was the first reaction of the sales staff?
- What are the incentives used to motivate the sales staff?
- How was it before the project started compared to now?
- Do you use statistics to evaluate the sales staff?
- Does the sales staff have access to the statistics? If yes, how do they use it?

The discount system

- Who set the discounts before?
- What criteria did they base the discounts on?
- How did you change the discount system?
- What different kinds of discounts were chosen to be a part of the new system? Why?
- What criteria were primarily chosen for the computer based discount system?
- How much freedom does the sales staff have when setting discounts?

The customers

- How did the customers react?
- Did the sales staff explain the price change?
- How did they explain it?
- Have you lost customers because of the price change?

Pricing

- Has Triton Iberica developed a pricing ability?
- In what ways?
- Why do you think that?

APPENDIX 4

Interview guide for the interview with the PPD and the SE on 5/11

Har Triton utvecklat en prissättningsförmåga?

- På vilket sätt?
- Varför tycker du det?

Hur sätts RCPL?

- Vilka sätter dem?
- Varför dessa människor?
- Vilka kriterier går de efter?
- Bestämmer de även rabattnivåerna?
- Har de redan ändrat sitt arbete? Säljarna i Iberica får ju nya rabattgränser.

Hur ska organisationen utvecklas?

Industry level/Konkurrenter

- Hur tar ni reda på deras agerande när det gäller pris?
- Vilka har koll på dem?
- Är ni prisledare? Hur använder ni det isåfall?

Market/Product level

- Hur ska ni ta reda på hur kunderna uppfattar era produkter och värdet på dem?

Customer

- Har ni höjt priset och behållt volymen?
- Har ni förändrat ert sätt att se på kundens priskänslighet
- Ser ni annorlunda på kunden nu?
- Hur kommunicerar ni priset till kunden?
- Var det tänkt att det nya rabattsystemet skulle kommuniceras till kunderna? Har detta skett?
- Ändras servicenivån med priset?

Sales

- Hur kommunicerade ni till säljbolagen-säljcheferna-säljaren
- Incentive programs – är det något ni varit med och beslutat om?

Resultat

- Hur tycker du att projektet har gått?
- Vad baserar du dessa slutsatser på?
- Hur kan man se en förändring?
- Är det en relevant förändring?
- Vad kan resultaten annars bero på?
- Hur kan resultaten tolkas?

Framtiden

- Framtida projekt
- Vad arbetar ni med inom pricing?

Systemen

- Hur jobbar systemen med varandra?
- När började de använda verktyget de använder för att ta fram rätt rabatt?
- Vem/vilka har utvecklat det systemet?
- Hur gick det arbetet till?
- Varför just dessa kriterier?

APPENDIX 5

Interview guide for the interview with the EVP on 5/11

Personligt

- Vad är din position i företaget?
- Varför kom prissättning upp på dagordningen?
- Hur blev du involverad i prissättningsprojektet?
- Hade du tidigare erfarenhet om prissättning?

Företagets positionering

- Vad har Triton för position på marknaden?
- Marknadsandelar?
- Konkurrenter?
- Produkter?
- Prispositionering?

Har Triton utvecklat en prissättningsförmåga?

- På vilket sätt
- Varför tycker du det?

Industrinivå/Konkurrenter

- Hur tar ni reda på deras agerande när det gäller pris?
- Vilka har koll på dem?
- Är ni prisledare? Hur använder ni det i sådana fall?

Marknads/Produktnivå

- Hur ska ni ta reda på hur kunderna uppfattar era produkter och värdet på dem?

Kunderna

- Har ni höjt priset och behållit volymen?
- Har ni förändrat ert sätt att se på kundens priskänslighet?
- Ser ni annorlunda på kunden nu?
- Hur kommunicerar ni priset till kunden?
- Var det tänkt att det nya rabattsystemet skulle kommuniceras till kunderna?
- Ändras servicenivån med priset?

Försäljning

- Hur kommunicerade ni till säljbolagen – säljcheferna – säljaren
- Incentive programs – är det något ni varit med och beslutat om?

Resultat

- Hur tycker du att projektet har gått?
- Vad baserar du dessa slutsatser på?
- Hur kan man se en förändring?
- Är det en relevant förändring?
- Vad kan resultaten annars bero på?

- Hur kan resultaten tolkas?

Framtiden

- Framtida projekt
- Vad arbetar ni med inom prissättning?