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Identifying barriers in pricing capability

- A multiple case study in six industrial companies -

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Abstract

Title:	Identifying Barriers in Pricing Capability
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Authors:	Oscar Edelsvärd, Filip Lindvall, Johan Uldall-Jørgensen
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Key words:	Barriers, Capability, Case Study, Pricing, Resource-based-view
Purpose:	The purpose of this study is to examine the price-setting processes in order to uncover barriers that prevent industrial companies, from improving their pricing capability. Besides finding barriers we aim to give a theoretical contribution to the understanding of how industrial companies can improve their pricing capability, with particular focus on how to overcome barriers.
Methodology:	We have conducted a multiple case study at 6 industrial companies and one consultancy firm. Our approach was abductive and we started our study with developing a theoretical framework that was the foundation of the thesis.
Theoretical perspectives:	The theoretical framework includes a variety of literature regarding pricing, pricing as a capability and RBV theory. Special focus was given to the Dutta et al (2003) framework.
Empirical foundation:	This study is based upon interviews with 9 individuals at our respondent companies. We conducted 4 phone interviews and 4 face-to-face interviews.
Conclusions:	The variation in pricing capability depends on barriers. We have identified five barriers: The information barrier, the poor incentive structure barrier, the too close customer relationship barrier, the mindset barrier and the "one time thing"-barrier.

Sammanfattning

Titel:	Att identifiera barriärer i en prissättningsförmåga
Ämne:	Strategic Management
Seminariedatum:	8 juni, 2007
Kurs:	Magisteruppsats i Företagsekonomi, 10 poäng (15 ECTS)
Författare:	Oscar Edelsvärd, Filip Lindvall, Johan Uldall-Jørgensen
Handledare:	Lars Bengtsson
Nyckelord:	Barriärer, Fallstudie, Förmåga, Prissättning, Resource-based-view
Syfte:	Syftet med denna uppsats är att undersöka prissättningsprocesser för att finna barriärer som förhindrar industriföretag att förbättra sin prissättningsförmåga. Förutom att hitta gemensamma barriärer ska vi även ge ett teoretiskt bidrag gällande hur företag kan förbättra sin prissättningsförmåga, med speciellt fokus på barriärer.
Metod:	Vi har genomfört en multipel case-study på 6 industriföretag samt ett konsultföretag. Vårt tillvägagångssätt var abduktivt och vi inledde vår uppsats genom att utveckla ett teoretiskt ramverk som lade grunden till vår studie.
Teoretiskt perspektiv:	Det teoretiska perspektivet innehåller varierande litteratur gällande prissättning, prissättning som en förmåga samt det resursbaserade synsättet. Vi fokuserade speciellt på Dutta et al (2003).
Empiri:	Studien bygger på intervjuer med 9 individer på våra respondentföretag. Vi genomförde 4 telefonintervjuer och 4 face-to-face intervjuer.
Slutsats:	Variationen i prissättningsförmåga beror på barriärer. Vi har identifierat fem barriärer: Informationsbarriären, Incitamentsstrukturbarriären, kundrelationsbarriären, synsättsbarriären och engångsbarriären.

Acknowledgement

We would like to thank all of the respondent companies for taking part in this study. AFK Value Management, Alfa Laval, Arboga-Darenth, BE Group, Lindab, Trelleborg CRP and Rottne. Furthermore we want to extend our gratitude to our advisor Lars Bengtsson and Niklas Hallberg for valuable support and advice. Finally we would like to thank the families Edelsvärd, Lindvall and Uldall-Jørgensen for supplying us with accommodation, transportation and nourishment.

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Filip, Johan & Oscar

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1 Introduction

In this chapter we introduce the reader to our choice of subject. In the first section we discuss the theme on an overall level with the intention of explaining how the subject pricing comprises many problematic issues although it is a commonly known subject. The problem discussion concretizes and specifies the framework of this study and will end with the purpose of this study.

1.1 Background

Prices are something which most human beings get in touch with on a daily basis. All things we buy have a certain value – a price. Even if we do not actively think about it, prices are central in the societies of today because the price measures the value of a product. Even if we as consumers might regard prices as very important, they are at least as important for companies. This is so because the prices companies succeed in retaining will - after subtracting the costs - comprise the profit for the company. However, in the recent years market globalization and increasing costs for raw material and energy has created a challenging marketplace for many companies. This increased competition has initiated large cost-cutting programs in many companies, i.e. rather cutting costs than raising prices in order to maintain competitiveness (Cressman, 2003). An example of this would be the American grocery retail chain Wal-Mart which has pushed the low-cost pricing strategy very far and indeed done it with great success. Marn & Rosiello (1992) means that although low-price strategies can be successful, only one company in every niche can possess the real low-price advantage. But what about thinking the other way around? In order to counter the increased competitiveness perhaps a better solution would be to raise prices rather than holding them still or lowering them. Marn, Roegner & Zawada (2004) means that increasing the price is the fastest and most effective way for a company to increase profits - increasing the prices by only 1% can have a leveraging effect on the results. Mr. Håkan Fahleryd, a pricing consultant at AFK Value Management, also regards pricing as important:

“Pricing is the single most important factor influencing the profits of a company”

Besides Mr. Fahleryd, also Mr. Mats Lindgren, who is Vice President of purchasing at BE Group, a steel trading company, says that pricing is an issue companies definitely should put effort into:

“We have noticed that when we actively work with our pricing [...] it gives good results [...] it is very rewarding”

Thus, also people from the business world confirm the importance of pricing for companies. Although pricing seems to be an important issue for companies, Lancioni (2005) state that many companies tend to overlook pricing and that pricing decisions often are made quickly without due consideration to market and cost factors. Many companies would simply set a price, stick to it and hope for the best. The main reason that companies take such an approach is because pricing is difficult (Raju & Zhang, 2003). An illuminating example is when IKEA introduced their first warehouse in Japan and encountered an unexpected problem with their price-setting strategies. Low prices were considered as a sign of low quality in the Japanese culture whereas high prices on the other hand conveyed quality (Myrsten, 2007). This example shows that the price setting process is complex.

When examining pricing in the past, the most common pricing methods used have been cost based pricing methods (Carson et al, 1998; Kublin, 1990; Nagle & Hogan, 2006; Noble & Gruca, 1999). The cost-plus pricing method practically means calculating the production costs and adding a mark-up to arrive at the price (Raju & Zhang, 2003). Thus, cost-plus pricing fails to take anything more than cost information into account when calculating the price. Shipley & Jobber (2001) state that the frequent use of the cost-plus pricing method is due to the simplicity and convenience of the method.

All together it seems that pricing is an important factor for companies to consider because of the impact on their profits. Interestingly, companies tend to overlook pricing. Regarding prior research within pricing, many different pricing theories exists, but the research on the actual price setting process seems limited - what further made us curious about the subject (Dutta et al, 2003).

1.2 Problem Discussion

An interesting phenomenon is why companies, who offers almost identical products, can charge the customer different prices. What makes it possible for some companies to add a higher mark-up than others? An example would be Caterpillar, an American company which builds machines for construction work. Caterpillar prices their products significantly higher than similar products from competitors and at the same time possesses about 40% market share (Armstrong & Kotler, 2006). Is it reasonable to assume that the caterpillar machines are that much better than their competitors – or can the answer perhaps be found by looking into the company itself? Do Caterpillar perhaps possess skills or abilities that other companies lack? If that is the case, what are then the reasons for this variation? Turning to conventional pricing theory like the cost-plus pricing in order to answer these questions does not seem sufficient. To examine why companies may differ in their ability to set prices we search for an approach which takes more factors into account than just the cost and the markup – thus, we search an approach which provides more depth. Interestingly, Dutta et al (2003) introduces a new concept where pricing is considered as a capability. The approach is based on the Resource-based-view which states that companies possess resources which need to be developed in order to gain a *sustainable competitive advantage* (Barney, 1991). Dutta et al (2003) argue that pricing should be regarded as a combination of multiple resources which need to be combined into a capability. Thus, seeing pricing as a capability implies that pricing has a more active role that need to consider more factors than cost information. Further Dutta et al (2003) argue that companies in possession of a successfully developed pricing capability often are good at extracting the value they create for the customer. We find the approach from Dutta et al (2003) to be interesting because it seems to take far more factors into account than conventional pricing methods. Since we are collaborating with another thesis group (more on this in the section Dual Track Approach, chapter 2.1.3) we have decided to divide our joint-research into two perspectives – the pricing capability within the firm and vis-à-vis customer. We have chosen to study the pricing capability within the firm.

However, even if Dutta et al (2003) presents an innovate approach to pricing – and explains that companies in possession of a successfully developed pricing capability often are good at extracting the value, the question still remains: What do companies that manage pricing successfully possess that other companies lack? It is also possible to rephrase the question as well:

What barriers can exist among companies that prevent them from improving a successful pricing capability? And moreover, is it possible to overcome these barriers in order to develop the pricing capability. Although Richards, Reynolds & Hammerstein (2005) discusses common problematic issues within pricing we do think that there is more to be revealed within this area. Therefore we aim to analyze pricing at companies by using Dutta et al (2003) et al in order to fins out why companies pricing ability differ? Now the time has come to provide the reader with the purpose of our study.

1.3 Purpose

The purpose of this study is to examine the price-setting processes in order to uncover barriers that prevent industrial companies from improving their pricing capability. Further we intend to provide a theoretical contribution to the understanding of how industrial companies can improve their pricing capability - with particular focus on how to overcome barriers.

1.4 Disposition

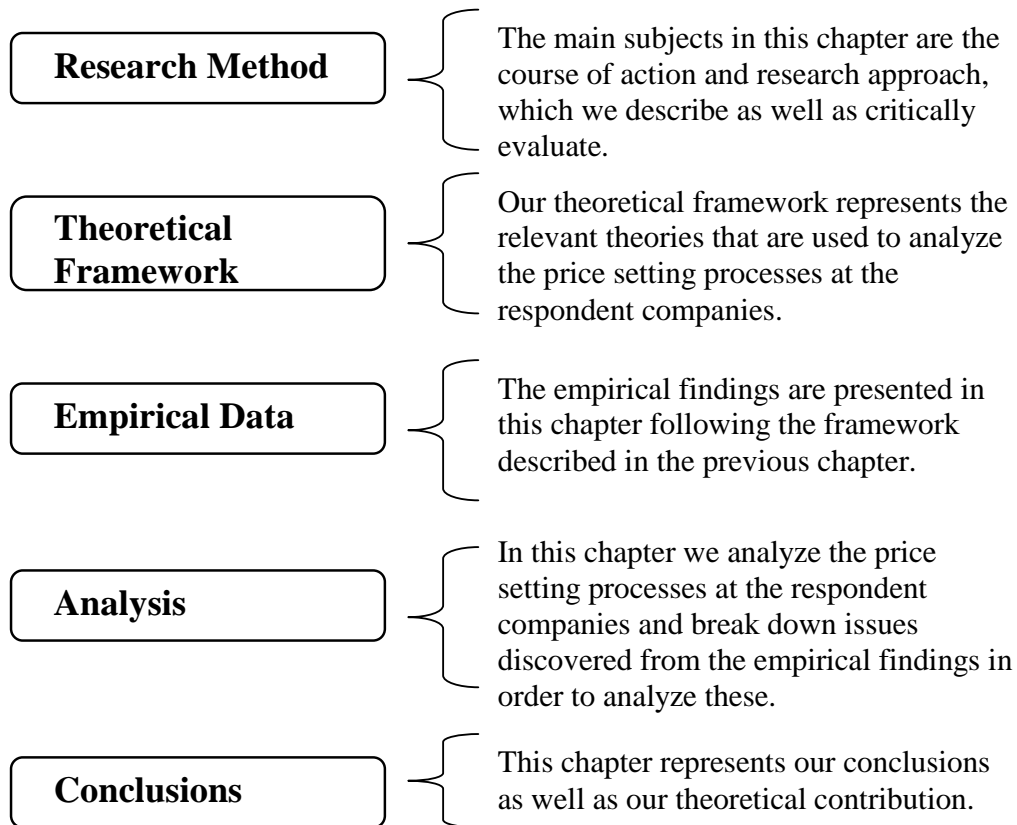


Figure 1: Disposition

2 Research method

“The spectators see more than the players”

Chinese proverb (<http://www.quotationspage.com>, 2007-05-27)

The research method section is designed to give the reader our perspective on the different steps and precautions taken in order to make this study valid and reliable. It is impossible to be completely free from bias but through providing the reader with our thoughts and choices we aim to give the reader the opportunity to assess the validity and reliability of this thesis. This chapter starts with our choice of subject and moves on to explain our choice to conduct multiple-case studies. Thereafter, the rationale of the dual track approach is explained followed by a description of the respondent companies. We then move on to our Five-Pronged-Approach where every “prong” is explained separately. The section ends with a discussion and summarization of the Research Method section.

2.1 Course of action

This section will describe the practical course of action that we took. Furthermore our choice of companies as well as the choice to conduct a multiple case study will be explained. Finally the “Dual Track Approach” will be illuminated.

2.1.1 Choice of subject

It was during the first meeting with Anders Grahn at Trelleborg AB that the subject of pricing emerged. Mr. Grahn described the current pricing methods at Trelleborg AB and explained his intention to develop these. As the subject appealed to us and had a valid theoretical connection we deemed it a good subject for a master thesis. Our choice to study Trelleborg AB was determined in large part due to the fact that we had the opportunity to be a part of an ongoing project called “The Trelleborg Learning Partnership Studies”. The project was initiated in year 2004 as a collaborative project between the Lund University School of Economics and Management and Trelleborg AB. The studies have since spawned a number of master theses on a

wide variety of subjects. However, due to unfortunate events we were more or less forced to abandon Trelleborg AB as our primary source for empirical data. On the third of May 2007 the U.S Department of Justice arrested four Trelleborg AB co-workers in a French subsidiary company under suspicion of violating US anti-trust legislation (<http://www.usdoj.gov>, 2007-04-30). Consequently, Trelleborg AB would not be able to discuss their pricing routines whilst being investigated for being part of a cartel. As all our efforts had been concentrated on Trelleborg AB, we were faced with a quite severe problem. We had to change our focus - fast. Considering the situation Trelleborg AB did their very best to keep up their end of the bargain and supply us with interviews but we realized that we would need to contact other companies as well. At this point the study changed from being a deep study in one company, to a study involving many companies. The companies were chosen based on two criteria. Firstly they had to be industrials and secondly they had to act on B2B markets. With the help of personal connections, family and friends and the two groups managed to get six new respondent companies and one pricing consultancy firm within a few days. The companies were, Alfa Laval, Arboga-Darenth, BE Group, Lindab, Trelleborg CRP and Rottne Indeed, all of the companies are industrials and act on B2B market, thus serves the purpose of this study. The interviews were carried out during two weeks. Besides these six companies a pricing consultant was contacted and interviewed. The events described above did have a big impact on the two groups as it required a sudden change in thinking and focus, but we believe that we managed quite well and that the study *per se* was largely unaffected.

2.1.2 Multiple Case-Study

As this study was conducted as a multiple-case study we feel the need to explain this choice further. We will start off by explaining case-studies in general and then discuss the multiple-case approach. Yin (1994) defines case-study as:

“...investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident...”

Since the theoretical problem that we were confronted with was embedded in real-life context and exhibits the characteristics that are described above, we concluded that a case-study would prove to be the most insightful and interesting approach. Further, the case-study has been the method of choice in the research field of Strategic Management according to Hoskinsson et.al (1999). There are many aspects to the case-study approach. The positive aspects are that the case-studies tend to lead to living descriptions where the innate complexity of a phenomenon can be uncovered. One of the negative aspects is that it is difficult to come to empirical generalizations from a case-study (Yin, 1994). However, Kärreman (1999) explains that this is not the purpose of the case-study, the purpose is instead to lay the basis for future theory and theory building, which is line with the purpose of this study. The reason for us taking a multiple case-study approach was due to the unfortunate event with Trelleborg. We realized that we would not get enough empirical data from Trelleborg alone, and thus we contacted other companies. However, the change was not as big as we firstly thought. The initial idea was to conduct a multiple case-study within Trelleborg and study a number of subsidiary companies. To change this approach to a number of independent companies proved quite easy. One can even argue that it improved the quality of our research as it gave us a greater breadth in respondent companies. Yin (1994) posits that even though single-case studies and multiple-case studies are different in many aspects they are still part of the same methodological framework, they belong to the same family. Yin (1994) means that the choice to conduct single- or multiple-case studies must be determined by what the researcher wants to achieve. The cases need to be chosen so that they either a) predicts similar results (*literal replication*) or b) produces contrasting results but for predictable reasons (*theoretical replication*). We have chosen cases on the assumption that we can predict similar results, choice a). However, the companies chosen show differences as well as similarities. The companies differ in size, complexity of products and ownership structure. They also act in markets with differing competitiveness. Naturally a company that is bigger in size has more resources to invest in pricing. Furthermore, a company in a highly competitive market might be forced to follow the prices of competitors, whereas a company in a market with low competition consequently has larger possibility to influence the market price. However, the similarities outweigh the differences. The companies are similar in the way that they all produce industrial products and act, to a large extent, on B2B markets – making the cases possible to compare.

Furthermore we choose to interview a consultancy company. The interview was conducted after the other interviews and thus not a part of the development of the initial theoretical framework. The reason for conducting the consultant interview last was to give us a perspective on pricing, i.e. we wanted to discuss and confirm our empirical findings and conclusions with someone possessing experience in pricing. However, we remained critical since the pricing consultant was only one source and thus represents only the view of one consultancy company. The risks with the multiple-case study are that the researcher is unable to achieve the same depth as a single-case study and that they require extensive resources and time (Yin, 1994). This is a valid criticism to multiple-case studies in general but especially in this study. The unfortunate events with Trelleborg AB described above limited our time to a great extent. Because of this we define our approach as a multiple case study with certain constraints regarding depth. However, since we have chosen to describe our research as being of an *exploratory* nature, we believe that exploring many units will provide us with more empirical data than when exploring one single case. Thus we sacrifice depth in order to explore. An alternative approach could have been to conduct a larger number of interviews and research the average pricing capability of many units. Two factors stopped us from doing that. Firstly we did not have enough time, secondly this would have forced us to sacrifice even more depth.

2.1.3 The Dual Track approach

There were two theses which were written within “The Learning Partnership Studies” this semester. Both focused on pricing as the main issue. Further both theses used the same interviews to extract empirical data from. The fact that two theses were written about the same subject and dealing with the same empirical sources opened up great opportunities - but also potential pitfalls. In this section we intend to discuss these.

The first thing we considered a necessity was to have discussions between the two groups so that not two identical theses would be produced. To avoid two identical theses, the two groups pursued the subject of pricing following two different tracks – pricing capability within the firm and vis-à-vis the customer which will be further discussed in the theoretical section.

Through the focusing on one of the two tracks each group were able to deliver a thesis with more depth and focus. Another advantage was that the two groups met regularly to discuss

pricing theories and exchange experiences regarding this matter – enlightening and expanding both groups' view of the subject. Finally, this dual track approach also offered a great advantage for our respondent companies as they received a more complete, detailed and informative investigation of pricing which covered both perspectives.

As well as advantages there were also problems and potential pitfalls with this dual track approach. The most obvious risk was that the two theses risked strongly interrelating and not producing different and unique products. We believe to have overcome this risk by meeting with the other group on a regular basis and discussing the progression of the theses.

2.2 Research approach

This section will describe our approach to the research, how we planned our study and our “Five-Pronged Approach”. Then we will move on to the development of the theoretical framework, the interviews and the transcription of the interviews. Finally we discuss reliability and validity in the study and the section ends with a summarization.

2.2.1 Abductive approach

After the initial meeting with Mr. Anders Grahn we immediately concluded that our knowledge of pricing was inadequate and that we had to gain the relevant knowledge as quick as possible. With help and guidance from Professor Lars Bengtsson and PhD candidate Nicklas Hallberg we started a primary study of the existing theories to expand our understanding in the field of pricing. This initial study gave us the necessary general insight into the subject of pricing and formed the foundation of the thesis. With a general theoretical foundation we then designed the subsequent research, i.e. interviews and further theoretical research. Alvesson & Sköldbberg (2000) defines a general look through the broad outlines of theory followed by empirical research as an *abductive approach*. The abductive approach is in some aspects similar to the inductive approach but where the inductive approach starts without any hypotheses the abductive approach presumes that the researcher has certain knowledge of the subject (Bryman & Bell, 2003). The abductive research is often designed as a “riddle”, i.e. the researcher finds something puzzling and tries to gain enough knowledge to explain the riddle. The strengths with the abductive

approach are that it is well suited for a case-study and enables the researcher(s) to adjust their model when new facts emerge (Johansson, 2002). We have baptized our working process to the “Five-Pronged Approach”, which we visualize in following model.

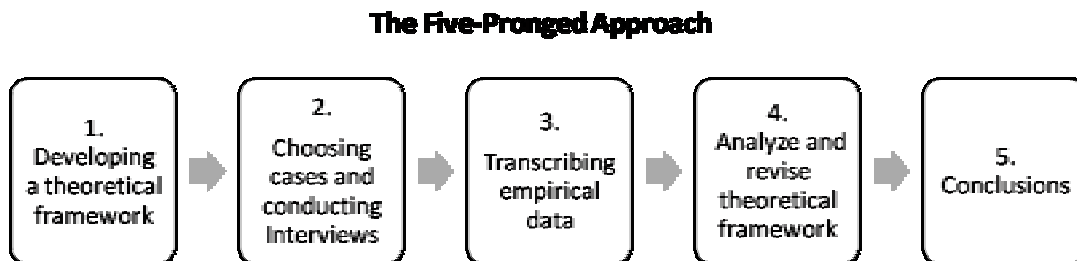


Figure 2: The Five-Pronged Approach

It must be noted that our approach was somewhat changed by the problems with Trelleborg AB described in the introduction. Our initial approach was in large part followed but somewhere between step 1 and 2 we were forced to contact new respondent companies, thus there should be a step 1,5 called “Contacting new companies”. However, this did not change much of our initial planning because we had not yet conducted any interviews with Trelleborg AB. After a short period of furiously contacting new companies we were back on track again.

2.2.2 Developing a theoretical framework

Especially the first part (Developing a theoretical framework) but also the fourth part (Analyze and revise theoretical framework) of our approach required rigorous attention to existing literature. The development of a theoretical framework would prove quintessential to our study and this framework would in large part determine the design of the interviews. A substantial part of the reading was conducted in the beginning of the thesis but at times, during the later stages of the thesis, we returned to the literature in order to double-check or develop parts of our theoretical framework. Because of the limited timeframe for the thesis we had to make the reading process efficient, thus we took three different focuses. Filip read up on the numerous consulting reports and pricing books that are available on the subject whereas Johan focused on the academic literature published in respected and well-know publications, for instance Harvard

Business Review etc. Oscar started out in basic strategy, worked his way through Resource-based view and met Johan in the current literature. The approach gave us three perspectives, i.e. Filip took a contemporary and pragmatic approach, Johan a current and practical/theoretical approach and Oscar a historical and theoretical approach. The result of this process was that we choose to focus on theories from Dutta et al (2003). The consequence of this choice was that we set the conventional pricing theories aside and focused on the new approach presented by Dutta et al (2003). We combined Dutta et al (2003) with theories describing problematic issues in developing a pricing capability.

A negative aspect of the approach is that not all members were up-to-date with every aspect of every member's special perspective. The discussions and explanations that resulted from this information asymmetry forced every member to explain their view in an easy and comprehensible manner. This further facilitated the development of a correct and easily understandable theoretical framework. Another flaw in this approach was that we sometimes had different words to describe the same concepts. Through discussion we managed to achieve a degree of uniformity and avoid misunderstandings.

2.2.3 Primary Data – Conducting interviews

Our primary source for data, and the second part of our Five-Pronged Approach, was interviews, thus giving the study a qualitative character (Bryman & Bell, 2003). In qualitative research the interviews is the dominating method to gather information and this section will critically discuss the use of interviews. In-depth interviews are well suited for case-studies because they are targeted and insightful (Yin, 1994). An alternative would have been to conduct a survey. Although a survey would have provided us with a broader empirical base, the lack of depth would be insufficient to fulfill the purpose of the study. We conducted in-depth face-to-face interviews and phone-interviews with nine individuals at the six respondent companies plus one at the consultancy firm. At Alfa Laval, BE Group, Lindab and Rottne we conducted face-to-face interviews and at AFK Value Management, Arboga-Darenth and Trelleborg CRP we conducted phone interviews. One follow-up phone interview was made at BE group as well. It was our initial intention to use face-to-face interviews to the largest possible extent but due to the unfortunate events with Trelleborg AB we were forced to use phone-interviews as well. As

mentioned earlier, the multiple-case study requires more resources and time, thus the time-saving phone-interviews proved to be a good alternative solution. Negative aspects of phone-interviews are for instance that the interviewer is unable to see facial expressions and body language of the interviewed thus risking missing subtleties in the interviewees' answers (Bryman & Bell, 2003). Furthermore, the phone-interviews might be accused of not providing enough depth and since depth is crucial in case-study this is of course is a big weakness. However, since we used a combination of face-to-face interviews and phone-interviews we believe that we managed to combine two methods that complemented each other. The time-consuming face-to-face interviews gave us the depth and subtleties needed, whereas the time-saving phone-interviews gave us breadth and variety. A general weakness with interviews is that they can be biased, either through influence from the interviewer or from poorly designed questions (Yin, 1994). We took great precautions to prepare for the interviews, i.e. through writing a well-planned interview guide (explained below), and discussing different approaches - we believe that this limited the risks described above.

We took a *general interview guide approach* or *semi-structured approach* and designed an interview-guide (see appendix) that covered a number of specific themes. We designed the interview-guide with the help of our theoretical framework but attempted to make the questions comprehensible and practical, i.e. not theoretical. The design gave the interviewee enough space to be able to associate and talk freely (Bryman and Bell, 2003). We believe that this method gave the interviews a great deal of flexibility, an assumption that Bryman and Bell (2003) supports. An alternative would have been to conduct structured interviews. The reason for not conducting structured interviews is that we believe that such an approach would have obstructed interesting themes from surfacing during the interviews.

The interviews were recorded on a tape-recorder and then transcribed to script-form. Bell (1995) means that using a tape recorder is good since it enables the researchers to return to the recording or transcription to deeper analyze what has been said. One of the risks when using a tape-recorder is that it might effect what the interviewed says during the interview. For instance the respondent might withhold important information because he or she is afraid to be quoted (Bryman & Bell, 2003). This might of course have been the case with our interviews as well but we noticed no such effect during the interviews. We always asked the respondent for permission

to use the tape-recorder and offered to send the script, allowing the respondent to correct the manuscript as he or she saw fit. We assume that this minimized the effect of the tape-recorder.

2.2.4 Secondary Data

Secondary data was collected through annual reports and articles. This information was used to present the companies in the empirical section and to give us an overview before interviewing. Since secondary data is data that has been designed for a special purpose, for example annual reports are written for the shareholders there is a risk for bias (Bryman & Bell, 2003). However, since we have not used secondary data to any great extent and are aware of the problems described above, we believe that the used data is reliable.

2.2.5 The Dual Track approach complicating the interviewing

Due to the fact that both groups had the same respondent companies as a base for extracting empirical data, the interviews were conducted jointly with members from both groups. The primary reason for this approach was that many interviewees at the respondent companies otherwise would have to be interviewed twice. Except the time saving advantage for the respondent companies there were risks associated with this approach as well. A potential pitfall was that one of the groups would be more dominating during the interviews than the other group, which would lead to insufficient data collection for the less dominating group. We overcame these risks through setting up a meeting before the interviews where we discussed which topics each group wanted to cover during the interview. This facilitated the interview process because both groups were aware of which topics that needed to be discussed.

2.2.6 Analyzing and transcribing empirical data

The final part of our Five-Pronged Approach entails analysis and transcription of the data. The act of translating the spoken word from a tape or digital recording to text is described as transcription (Bryman & Bell, 2003). As soon as an interview was done we sat down and compared notes, discussed the interview and noted things that we felt had special significance. We then delegated the job of transcribing the interview to a single group member who transcribed

the interview within 48 hours. The reason for doing it relatively quickly is that the transcriber would remember and could note different aspects that we noticed in the interview right into the transcription. The transcription then served as the foundation for the analysis. We then compared the pre-designed theoretical framework with our empirical findings, i.e. the transcription, and from these comparisons drew conclusions. We also took the opportunity to revise put theoretical framework and tailor it to our purpose. This is a part of the abductive approach. An alternative could have been to categorize the transcription using a highly systematic approach. For example code the data and then look for casual conditions, in line with Grounded Theory (Bryman & Bell, 2003). However we argue that this was unnecessary due to the fact that we wanted to use our theoretical framework to analyze the empirical data.

2.2.7 Reliability and validity

When conducting research it is very important to research the right things and to go about it correctly - this is what validity and reliability addresses (Yin, 1994). Reliability addresses the issue whether the results in the study can be replicated by another researcher (Bryman & Bell, 2003). Our reference point for reliability was the consultancy firm that we interviewed after the respondent companies. Through discussing our findings with the consultants we could make sure that our findings were in fact reliable in the sense that the consultants too had noticed the same things that we had noticed.

Validity on the other hand has to do with whether the conclusions are viable, if they can be generalized to other areas and if the conclusions are causal. The role of validity is debated within qualitative studies. Some researchers argue that it is only applicable in quantitative study and some that it must be considered in qualitative studies as well (Bryman & Bell, 2003). We hope to have achieved validity through interviewing individuals that were crucial to the price setting process in the respective companies. The results and conclusions in this study are possible to generalize to companies in the same industries, i.e. industrials on B2B markets. However, we recommend companies to use our conclusions to create awareness rather than to generalize straight onto their own business.

A researcher can write elaborate argumentative texts that with stunning logic tries to convince the reader of the thorough precautions taken to ensure reliability and validity, but one

impediment will always remain – the fact that the researcher is biased and thus not to be trusted. Kärreman (1999) mean that the aspect of trustworthiness is very relevant in case-study research. Does the research explain what it sets out to explain? Can we trust the research and its conclusions? As we wrote in the introduction we hope to achieve trustworthiness through giving a detailed account of our methodological choices, decisions, what motivated these choices and our lines of reasoning.

2.3 Summing up Research Method

Finally to sum up our research method we would like to emphasize that even though the unfortunate events with Trelleborg did have an effect on this study, the effect was small and the end result was largely unaffected. The fact that we interviewed several companies instead of one could make the study possible to generalize and to some extent more interesting.

As noted in the introduction to this section, bias is always a factor to be considered in research. It is a natural effect of researchers being human and not machines. However, it is the same effect that enables innovative and critical thinking, ideas, reason – all things that constitute the basis of an interesting thesis. Our goal as researchers is to balance the dangers of bias without hampering the innovativeness and critical thinking. We hope to have provided the reader with enough and adequate information to form an opinion on the validity and reliability of our research – as the introductory quote implies, you (the spectators) might see more than the players (us).

We have now come to the end of the research method section and will move on to the theoretical framework.

3 Theoretical framework

In this chapter we will provide the reader with our theoretical approach to pricing. Our approach to pricing will not be based on the cost based pricing theories, rather we will build our framework on the Resource-based-view (RBV). Following the RBV we will introduce the concept of capabilities with focus on the newly introduced theories about pricing as a capability. Thereafter a short presentation of cost- plus pricing and competition based pricing will be given. Finally, we will give the reader a brief review of pricing related problems.

3.1 RBV and Capabilities

Barney (1991) argues that a firm's ability to create value for the customer stems from certain firm resources. In order to create value these resources need to be valuable, rare, imperfectly imitable and imperfectly substitutable. If this is the case then it is possible for a firm to gain a *Sustainable Competitive Advantage* which is the basis of profitability (Barney, 1991). Amit & Schoemaker (1993) further divide resources into two categories, *Resources* and *Capabilities*. The difference between resources and capabilities is that resources are tradable, an example would be financial and physical assets. Customer records serve as a good example, the actual records can be defined as a resource (physical asset) and can be traded. Capabilities on the other hand are not tradable and refer to the firm's ability to deploy resources, e.g. product innovations, manufacturing flexibility etc. Capabilities are firm-specific, often invisible and are developed over time (Amit & Schoemaker, 1993). The ability to use a customer record is a capability, as well as to be able to deploy it and to maintain it. In theory then all companies consist of resources and capabilities, although the capabilities varies between companies. Gaining a competitive advantage is associated with attaining resources and capabilities that are scarce (Dierickx & Cool, 1989). Since the goal of a company is to gain a unique combination of resources and capabilities that serve a group of customers in a specific way – a way in which no other company does - one could argue that to gain a competitive advantage is equivalent with gaining a monopolistic position. When a company is in this position or niche and can sustain the position through scarce resources and capabilities, this company can obtain above normal returns (Dierickx & Cool, 1989).

Dierickx & Cool (1989) posits that a basis for a sustainable competitive advantage could be *time decompression diseconomies*. Time decompression diseconomies exist when a company has developed a resource or capability over a long period of time. The capability or resource cannot be quickly imitated even though a competitor invests substantial amounts of money since the development requires time and not only money. Time that cannot be replaced by large investments. Dierickx & Cool (1989) uses the example of R&D. For example crash R&D programs are typically less effective than programs where annual R&D outlays are lower but spread out over a proportionally longer period of time.

Eisenhard & Martin (2000) further expands the notion of capabilities with the introduction of the concept *Dynamic Capability*. Dynamic capability is concerned with learning and change, it has the ability to change the sustainable competitive advantage and turn the company in a new direction. For instance, a product development capability can – and hopefully will – lead to new products that change the competitive advantage for the company (Winter, 2002).

Winter (2002) introduces *zero-level* capabilities to explain the difference between “normal” (zero-level) capabilities and dynamic capabilities. Zero-level capabilities are the “how we earn a living now”-capabilities, thus the capabilities that make day-to-day business possible, the capabilities that collect revenue from the customer and allows the company to buy more inputs and do the whole thing over again (Winter, 2002). Zero-level capabilities are vital to the company but it is the dynamic capabilities which extend, modify or create zero-level capabilities. To illuminate the text above we use the example of a company arriving at a price for the customer. If a company only would use a computer system to extract the costs for a product in order to calculate a price we would consider this as a zero-level capability. On the other hand, if the company uses the product costs together with many other variables when calculating the price, i.e. customer perceived value and so forth, this would be considered a dynamic capability. We consider pricing capability a dynamic capability since it is concerned with learning and require a patterned approach whereas simple cost-plus pricing methods (computer example above) should be considered a zero level capability. Winter (2002) emphasizes the importance of developing a patterned approach to facilitate the development of dynamic capabilities. For example the ability to use a well patterned approach to new product development, an approach which can be replicated and used again and again.

The RBV and capabilities approach thus leads us to assume that the respondent companies consist of a set of resources and capabilities, which includes the pricing capability. However, before we can start to investigate the status of their pricing capabilities and how they can improve it, we need to develop a framework on the concept of pricing capability.

3.2 Pricing Capability

In the section above the RBV was presented, which focuses on value creation. However, even if a company creates value it does not necessarily imply that the company successfully will capture the value created. Dutta, Zbaracki & Bergen (2003) have developed an approach which explains how companies can appropriate value through developing a pricing capability. Further Dutta et al (2003) states that companies have to balance their resource allocation between capabilities for value creation and for value appropriation. Investing in resources for appropriating value can enable a flexible as well as an accurate price-setting ability, thus leading to that a company can respond more effectively to competitors' actions and better match prices to what the customer is willing to pay (Dutta et al, 2003).

A price can quite easily be changed, the challenge on the other hand is to make effective price changes that extracts value as well as follows the company strategy. According to Dutta et al (2003) empirical findings indicate that the pricing process frequently is complex and has to take into account a range of products, customers and numerous competitors. Dutta et al (2003) consequently argues that the price-setting process is a capability based on a combination of routines, coordination mechanisms, systems, skills and other complementary resources. However, Dutta et al (2003) argues that the development process of a pricing capability always must have its starting point in existing systems, structures and routines. This will also be our approach when analyzing the pricing capability of the respondent companies, i.e. to use the existing systems as a base and rather than constructing a complete new framework. To visualize the complex pricing process, Dutta et al. (2003) divides the concept of pricing capability into two dimensions, one dimension describing the pricing capability within the firm and the other vis-à-vis customers. In accordance with the dual track approach this thesis focuses on the capability within the firm, which we will now explicitly present.

3.2.1 Pricing Capability within the firm

The price-setting capability within the firm consists of three activities: identifying competitor prices, setting pricing strategy and translation from pricing strategy to price (Dutta et al, 2003). Each of these activities further consists of a set of routines, skills/know-how and coordinated mechanisms. These interrelationships are visualized in the model below. In the next section each of the activities will be explained in more detail.

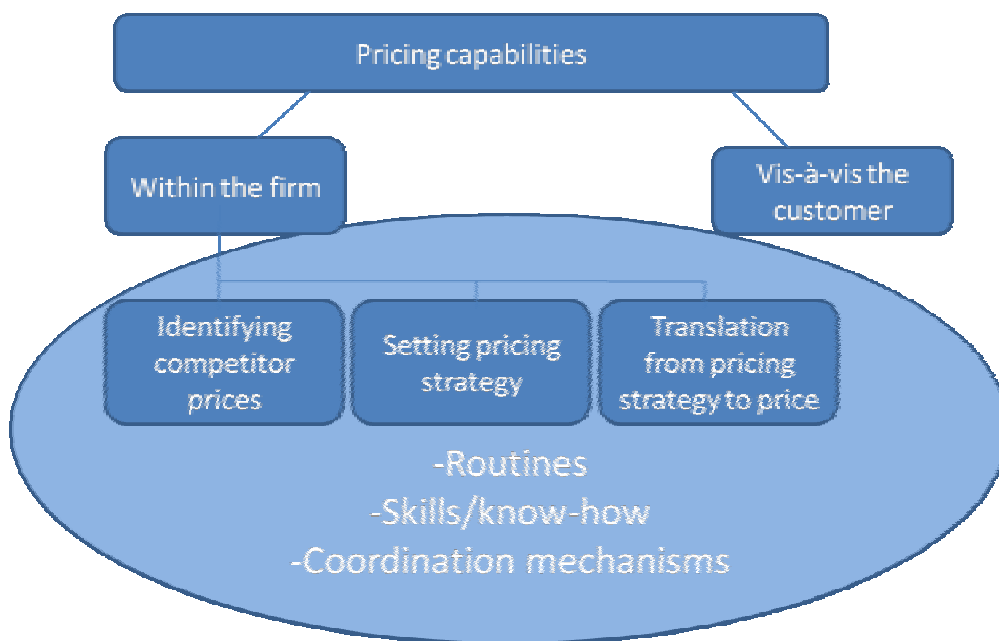


Figure 3: The Pricing Capability within the firm (modified after Dutta et al, 2003).

Identifying competitor prices

This activity is primarily about gathering and processing relevant pricing information. The pricing decision makers in a company need to be provided with accurate information in order to make effective decisions. Dutta et al (2003) posits that improving the information flow within the organization is a major issue. However, the gathering of competitor information entails numerous challenges and identifying the competitors pricing strategies could prove difficult. In addition, it is complicated to detect the actual prices because discounts can be hidden within prices in B2B situations. Another thing that makes identifying competitor prices hard is the difficulty to find functionally equivalent products because different products and technologies can offer the

customer the same solution. Dutta et al (2003) states that it is important with a certain technical skill in the company in order to understand what products actually are functionally equivalent.

Richards et al (2005) also mention the importance of gathering accurate information about customer's attitudes, behaviors and overall economic setting in order to improve the pricing capability. Hallberg & Gibe (2007) explains that the focal actors, i.e. the employees within the company, need to have access to key strategic information. It is further important that the employees possess the right skills and know-how in order to handle and gather information correctly (Dutta et al, 2003).

Setting pricing strategy – overcoming goal conflicts

It is important to consider whose interests that have been satisfied when a price has been set. For example, could internal interest conflicts lead to that the price is set too low which results in lower profit allocation? An example of this problem is if the sales force only is rewarded after sales volume without consideration to the profit of their sales. In order to overcome such goal conflicts, which can lead to suboptimal pricing and time waste, a variety of systems and routines for support need to be developed so that commitment to the new pricing actions can be gained within the organization (Dutta et al, 2003). Dutta et al (2003) base their view of the price setting process on the behavioral theory of the firm. The behavioral theory of the firm was first published by Richard Cyert and his colleague James March in 1963. They came to the conclusion that the organizational structure and the information flow within that structure must have an influence on the decision-making in an organization. Cyert and March (1963) therefore argue that a firm consists of different individuals and groups with different interests and goals that often are in conflict with each other. Dutta et al (2003) states that balancing competing internal interests is a big issue when improving the pricing capability. Translating this into our study we intend to investigate whether such goal conflicts can be identified within the respondent companies. Hallberg & Gibe (2007) name the goal conflict issue the “control” aspect, which means that companies need to balance competing interest and goal conflicts among internal stakeholders.

Translation from pricing strategy to price

Once the company has deployed a uniform pricing strategy and balanced competing internal interests, still all routines and activities need to be nested together – thus coordination mechanisms must be developed. One way to coordinate assumptions about pricing is to conduct

scenario analyzes¹ in order to study the effects of pricing on different groups of customers (Dutta et al, 2003). This is an opportunity for a company to test if the different elements of the pricing capability functions in symbiosis. With scenario analyses the company can test how a potential customer will react on different prices, i.e. forecast the total financial effect of price changes. Therefore it is important that the company has routines to record this kind of information (Dutta et al, 2003). Scenario analyzes are especially important when a company serves many different customer segments or sell very different types of products because this naturally involves different customer groups with different preferences. Thus, cross-functional working teams have to be set up, the sales force has to coordinate assumptions and information about customers (Dutta et al, 2003). Hence, translating pricing strategy to price also means coordinating resources and activities.

3.3 Our theoretical framework

The basis for our theoretical framework is Dutta et al (2003), with specific focus on the pricing capability within the firm. Through discussion of the Dutta et al (2003) approach we have formed our theoretical framework, which we will use to analyze the pricing process at the respondent companies. The aim of interpreting, i.e. not directly apply the framework of Dutta et al (2003), was to make the analytical toolbox somewhat more concrete. Our interpretation of Dutta et al (2003) has resulted in that we have focused on the following activities at the respondent companies: Information gathering, Skills and know-how, Conflicts of interest and Coordination mechanisms. Before describing each of the activities in detail we want to provide the reader with a visualization of our theoretical framework.

¹ “A means of attempting to forecast developments in an industry by using expert opinion to formulate a qualitative view of the future. It should identify major trends and analyze long-term environmental influences. Many factors need to be balanced against each other to produce a range of possible scenarios. From the final scenario managers should be able to examine the strategic options and challenge existing assumptions and practices.” (<http://www.oxfordreference.com>, 2007-05-10)

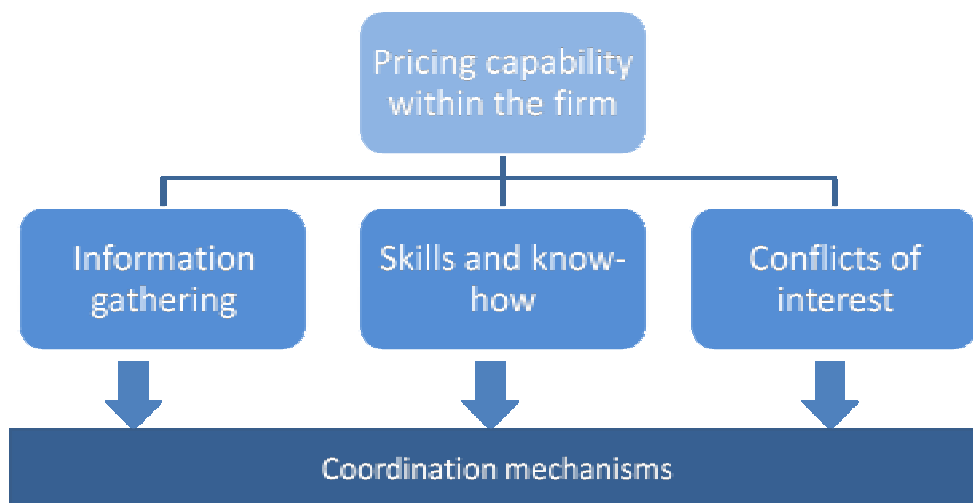


Figure 4: Study objectives (modified after Dutta et al, 2003)

By *Information gathering* we mean that we will examine what information is taken into account at the respondent companies when they calculate prices. Both Dutta et al (2003) and Richards et al (2005) state the importance of being in possession of adequate information when making pricing decisions. But before being able to incorporate information when calculating the price, a company must first come in possession of this information – gather it. Therefore we will explicitly ask questions during the interviews on what information the company considers important and how they collect this information. Finally, like mentioned before, we want to find out if the collected information is incorporated when calculating prices.

With *Skills and know-how* we turn the focus to the employees. Above we explained that we will examine what information is gathered at companies. But in order to gather the relevant information, employees need to be able to judge what information is relevant - i.e. possess certain skill. We therefore intend to ask management questions during the interviews regarding what skills they consider important that their employees possess. Moreover, we intend to discuss what skills they consider to be of importance when setting prices.

By *Conflicts of interest* Dutta et al (2003) states that balancing competing internal interests is essential when developing the pricing capability within the firm. Therefore we will give this topic great attention during the interviews. More concretely we want to examine if the sales force have incentive to work in the best interest of the company. Further we want to find out

if companies have a unified approach to pricing, i.e. if all employees address pricing the same way.

Like visualized in the model above, *coordination mechanisms* is not an activity like the other three. Instead coordination mechanisms comprises the activities a companies use to coordinate and communicate pricing within the company. We therefore intend to examine what activities companies use to spread knowledge throughout the organization. Further we want to find out how management makes sure that all employees commit themselves to pricing? By asking these questions during the interviews we intend to examine what coordination mechanisms the respondent companies use.

Summarized we would like to stress that the presented framework is our interpretation and synthesis of Dutta et al (2003) complemented with the views of other authors. Both the empirical data and the analysis will be presented according to the four headings presented above. This will be done both to aid understanding for the reader, but also to gain consistency throughout the thesis. We will now continue this chapter by shortly describing the more conventional pricing methods.

3.4 Conventional pricing approaches

In order to describe the pricing at the respondent companies we want to give the reader an overview of two conventional pricing approaches: the cost plus pricing- and competition based pricing method.

3.4.1 Cost-Plus Pricing

Historically, the cost-plus method has been the most commonly used pricing method (Carson et al, 1998, Kublin, 1990, Nagle & Hogan, 2006, Noble & Gruca, 1999). The cost-plus method, which belongs to the group of *cost based pricing methods*, can be visualized like below:



Figure 5: Description of cost based methods (modified after Armstrong & Kotler, 2006)

Like illustrated above, the cost based pricing method is product driven and ignores consumer and competitive market information (Noble & Gruca, 1999). Once a product has been designed and produced the total cost of the product is calculated, and a mark up is added. Thus, cost-plus pricing means adding a mark up to the product cost. Historically, this method has been very popular, which is due to the simplicity of the model and its interrelation with financial reasoning (Kublin, 1990, Nagle & Hogan, 2006). Interrelation with financial reasoning means that company managers adhere to the logic that every product has to yield a fair return over its cost, thus - receive a mark up. Although regarded as a simple and adequate method, the cost-plus method suffers from great flaws. One of the most severe disadvantages with the model is that the unit cost is very hard to calculate correctly (Nagle & Hogan, 2006, Richards et al, 2005). This problem is rooted in the fact that fixed cost per unit vary with volume. Volume in turn often varies with price, which makes the unit cost a moving target. To deploy the cost-plus method, assumptions about the price-volume relation therefore is needed. Nagle & Hogan (2006) posits that these assumptions are difficult to make, and even worse, can lead to wrong decisions regarding pricing. Kublin (1990) points out the risk that companies can price themselves out of the market. Finally, cost-plus pricing in weak competitive markets will lead to overpricing, whereas the result will be the opposite in strong competitive markets (Nagle & Hogan, 2006).

3.4.2 Competition Based Pricing

The concept of competition based pricing is to charge your customer a price based on the prices of your competitors (Fulton, Foltz & Cole, 2006). When considering competition in pricing strategies, the goal is to evaluate competitors' capabilities to act and react (Lambin, 1993). Two influential aspects regarding how well competitors can act and react are the competitive structure

of the market and the product's perceived value in the market. The competitive structure of the market suggests that the more competitors on the market the higher the loss of autonomy, i.e. the degree to which the company can influence their prices, when setting the price. The best way to regain autonomy is to differentiate the product. Competitive structure is depending on the number of competitors and their market power (Lambin, 1993).

Companies using a competition based pricing approach must choose whether to price above, below or set the price equal to that of their competitors. When taking this decision, market information is necessary. Companies can use the market information to compare themselves with competitors, i.e. relating their own product offer with that of competitors. Comparing offers allows the company to find a niche that can be occupied and held with the help of price. Focusing too much on price competition, thus setting the price low could damage the product's reputation and also attract the wrong kind of customers. However, price competition can be an alternative when the reputation of a company and product is weak as well as when it is hard to differentiate the products (Brassington & Pettitt, 1997).

It could be tempting, especially to small companies, to price as everyone else does rather than to invest in market research, although running the risk of getting the price wrong (Brassington & Pettitt, 1997). For example, a small industry company producing machines for a specific industry sector is unlikely to price differently than their bigger competitors, unless they manage to differentiate their offer. Thus, competition based prices is about gathering competitor information and setting price in relation.

3.5 Barriers when developing a Pricing Capability

Since we need to analyze the current situation at the respondent companies, i.e. the status of the pricing capability, we need a theoretical framework which also includes theories on specific barriers which needs to be resolved in order to improve the pricing capability. When evaluating the empirical findings we aim to expand these theories with other potential barriers according to our empirical findings.

Richards et al (2005) posit that one common problem is that managers delegate pricing decisions too far down in the organizational hierarchy, a barrier called *the over delegation problem*. The risk with over delegation is that employees who are to take important decision

about pricing lack awareness of the company pricing strategy. The result of over delegation is often that pricing decisions are made without any references to the company strategy (Richards et al, 2005). Besides, when top-management over delegate pricing decisions it could give the impression that top-management do not invest much attention in pricing. This can result in that pricing will be regarded as a low prioritized issue within the company.

Another problematic issue is *The under-analyze problem*, which means that companies do not sufficiently analyze their customer base, product costs and potential pricing level when setting the price. Because companies do not have the information they require they tend to use simple price methods like competition based pricing and the cost plus method.

Richards et al (2005) argue that none of these methods are optimal because all of them have downsides – because insufficient information is considered.

The silver bullet problem is a further potential problem that occurs when companies rely too much on technology when they set prices. Computer software and technology can be a powerful complement when constructing pricing systems, but trying to systemize pricing through computerization is not a good idea. Technology should be seen as help, but never as replacement of human judgment (Richards et al, 2005).

Another thing that often prevents companies from evolving is their own history. Academics call this phenomenon *path dependency*, which means that something that happened in the past can have a significant impact on how the company will evolve in the future (Arthur, 1994). The concept of path dependency was initially established by economists in order to explain the adoption processes of a technology and industry evolution.

3.6 Limitations of theoretical framework

Now that we have presented the theoretical framework we intend to use throughout this thesis we find it necessary to shortly reflect over limitations arising from our choices. First we want to address the fact that the dual-track approach limits us to focus on one out of two dimensions – the pricing capability within the firm. Even though applying only one dimension is limiting, it also offers the opportunity to focus and gain depth. The chosen theoretical framework represents the theories which we found relevant for our study. There may exist other theories that could also have proven useful to our study, however, due to the relatively small research conducted within

the area of pricing capability we feel that we have explored the subject well. In the next section we will summarize the theoretical chapter.

3.7 Summary of theoretical framework

The cornerstone in our framework is built upon the RBV. Alongside RBV we introduced the concept of capabilities, with special focus on the pricing capability. The next step was to explain explicitly what activities of the pricing capability within the firm we aim to study. Thereafter two conventional pricing methods, the cost-plus pricing method and the competition based pricing method was explained. Furthermore a presentation was given of common barriers that exist among companies when improving a pricing capability. Finally, we reflected over our synthesized theoretical framework and potential limitations. This summary ends the theoretical chapter and in the following chapter we will present the empirical data.

4 Empirical Data

In this chapter the empirical data from the interviews will be presented. In order to extract the relevant empirical data from the interviews we will structure this chapter according to our theoretical framework, i.e. we will present the empirical data under the headlines: information gathering, skills and know-how, conflicts of interests and coordination mechanisms. The information will not be aggregated – instead we will present one company at a time.

4.1 Introduction

All together we interviewed six industrial companies. A short summary of the companies' characteristics will introduce every company presentation. Further, a table in the beginning of chapter five provides an overview. On occasion we use quotations to point out interesting lines of reasoning from the interviews. Besides the six companies we had the opportunity to interview an experienced consultant who works with pricing at a consulting firm. We saw this interview as an opportunity to discuss pricing with the consultant, i.e. the goal was not to investigate how the consulting firm prices their services, but rather to use this knowledge about pricing to gain an expert view on pricing. The data from this interview will be used in order to confirm our conclusions. The interview with the consultant was made as the last interview and is consequently presented at the end of this chapter. Now the first respondent company Alfa Laval will be presented.

4.2 Alfa Laval

On the 15th of May we had the opportunity to interview Mr. Berndt Berndtsson, Project Director at Alfa Laval. The face-to-face interview was held in Lund at the corporate headquarters of Alfa Laval.

Company characteristics

Alfa Laval is a global provider of specialized products and engineered solutions. More specific Alfa Laval provides solutions for customers to heat, cool, separate and transport products oil, water, chemicals, beverages, foodstuff, starch and pharmaceuticals. The company is divided into two divisions: The Equipment division and Process Technology division. The company is present in over 100 countries of the world. Alfa Laval is noted on the Stockholm stock exchange, achieved net sales of 19, 8 billion SEK in fiscal year 2006 and has about 10 000 employees (www.alfalaval.com, 2007-05-12).

Introduction to pricing at Alfa-Laval

From the interview we can conclude that Alfa-Laval has a highly structured approach to pricing. A project to improve pricing was instigated in 2005 with Mr. Berndtsson as supervisor. The tools, systems and processes developed in this project are used in approximately 90 % of the company. Products are defined and placed on a continuum depending of their inherent complexity, the continuum is illustrated below.

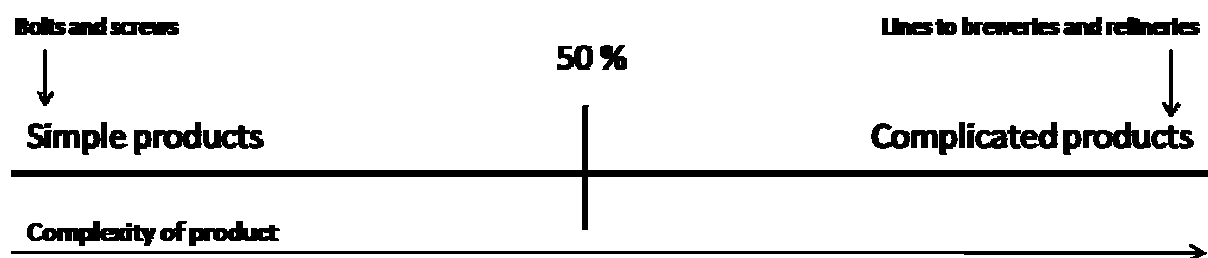


Figure 6: Continuum (Visualization after Mr. Berndtsson).

Simple products that are sold in large quantities, for example bolts and screws, are placed on the left side of the model whereas highly complex products like complete lines, i.e. for breweries or refineries, are placed on the right side. Products placed on the left side are assigned a certain list price which is the same in the whole world. This price is then subject to discounts depending on four different factors. The first factor is depending on the land and application that the product is sold in. The second depending on the volume bought, the third is the cost to serve and the fourth depends on if the customer is a distribution channel for Alfa Laval. Products on the far right side of the continuum are priced on the basis of three considerations. The cost of the offer, next best alternative for the customer, and the certain customer value that the products from Alfa Laval

offer in terms of saved space, efficiency improvements etc. Mr. Berndtsson summarizes that it is important to figure out how much money their products saves for the customer and to develop arguments for a higher price.

Information gathering

The gathering of competitor information is done on a country basis and Alfa Laval has no central system or unit which deals with that. Some countries are better than others, and a few units have developed structured approaches to gather competitor information. Because of this Mr. Berndtsson could not give a general description of how Alfa Laval practically gathers competitor information. However, Mr. Berndtsson mentions that there are plans for a central system but this system is not in place yet. Another thing that complicates the gathering of competitor information is that products on the right side of the continuum are hard to compare. Some of the processes or solutions might never have been built before. For instance an Alfa Laval customer that is looking to buy a production line for a brewery might be considering a wide array of different solutions and processes, some employing completely different technologies. Internal information, i.e. regarding cost, is easy to gather. Alfa Laval has well developed systems and a long tradition of cost focus. A wide array of different methods is used, for instance Activity-Based-Costing. However, the use of systems for gathering internal information is decided on a country or even facility basis and thus not centralized. Mr. Berndtsson considers this problematic and would welcome a central system for gathering internal information.

Skills and know-how

When it comes to the skills of the sales force Mr. Berndtsson posits that some of the products need highly trained personnel but he also mentions that the ability to sell might be even more important than formal training. Mr. Berndtsson thinks that any of us would be able to sell some of the products offered by Alfa Laval. The focus on selling rather than formal training is reflected in the recruitment which focuses less on formal education and more on the personal qualities of the applicant. According to Mr. Berndtsson this focus on personality instead of education is the reason for the great customer relationships that Alfa Laval have. Throughout the interview Mr. Berndtsson emphasizes that the new systems and processes that was the result of the project in

2005 should render the company less dependant on individual sellers, even though he mentions that this is a goal that is impossible to completely reach. Mr. Berndtsson says:

“The customer should not be dependant of if Olle [The Seller] has a bad day. From the perspective of the customer Olle has only good days.”

As the quote above describes, the customer should not in any way be affected if an individual seller has a bad day. Mr. Berndtsson describes this as achieving a balance in the pricing that will give Alfa Laval a reputation of pricing professionalism. The customers should know that they always receive a fair price from Alfa Laval no matter the education, mood or skill of the seller serving them. Mr. Berndtsson means that, through the development of systems and processes that are uniform throughout the company, pricing professionalism can be achieved.

Conflicts of interest within the company

When asked about conflicts within the company Mr. Berndtsson does not really see any such problems. The sales force at Alfa Laval consists mostly of engineers. However, products on the right side of the continuum are often highly complex and require an overall view which often can be supplied better from employees with business education, according to Mr. Berndtsson. Since the products offered by Alfa Laval can be anything from highly complicated products needing the expertise of an experienced microbiologist to simple products, Mr. Berndtsson does admit to certain flaws in communication, even though he would not define it as a conflict. The incentive structure at Alfa Laval is a mix of volume based and profit based and varies with country, unit and strategy.

Mr. Berndtsson also describes two different mindsets regarding prices and selling that are widespread among the employees at Alfa Laval. One mindset views pricing as a form of art that is highly dependent on the individual employee, whereas the other mindset comprises the more structured approach that is less dependant on the individual employee. Mr. Berndtsson admits that the mindset of selling as a work of art still exists within the company, however the project started in 2005 attempted to move from this mindset to a more structured approach.

Coordination mechanisms

Coordination appears to be of highest priority at Alfa Laval. Mr. Berndtsson says that working with pricing is highly rewarding and a prioritized topic in the company. The coordination project, presented in the introduction, started in 2005 to improve the pricing processes, is a testament to the company's dedication to coordinate their efforts. Alfa Laval developed a set of models and systems in cooperation with a consultancy firm but is handling the implementation themselves. One of the purposes of the project was to coordinate the price list so that customers in different countries should receive approximately a similar price for an Alfa Laval product. However the list prices are subject to a set of discounts and therefore the end price practically never equals the list price. When asked if he sees any problems with this more structured approach to pricing Mr. Berndtsson says that he sees no such problems. Further, Mr. Berndtsson said that education is considered important at Alfa Laval. However, the education is conducted on a country basis and is product specific.

4.3 Arboga-Darenth

We have conducted one phone interview with Arboga-Darenth. Karl Bråtegren, the CEO, was interviewed the 9th of May 2007.

Company characteristics

Arboga-Darenth AB offers the metal working industry a way to recycle metal scrap and cutting oil. The company wants to help companies turn their scrap handling into a competitive advantage. To achieve this, Arboga-Darenth offers a comprehensive range of products and is divided into three divisions: Swarf Handling & Processing, Coolant Filtration and Oil/Water Separation. The company, which was founded in 1982, is Swedish and privately held. Arboga-Darenth has two manufacturing plants in Sweden as well as in the UK and distributors around the world. Although small, the company sells to well-know customers like aircraft manufacturer Airbus. The turnover in the fiscal year 2006 was 44 Million SEK and the company employed 33 persons (<http://www.arbogadarenth.fr/>, 2007-05-08).

Introduction

Since Arboga-Darenth produces complicated products and the sales force is relatively small (5-6 individuals) the pricing process is largely informal and involves staff from all parts of the company. Mr. Bråtegren describes how the company tries to move from a cost-based pricing approach to a competition based, and that this was something he himself initiated when he was appointed CEO.

Information Gathering

Arboga-Darenth bases their prices on a mix of production costs, competitor prices and old comparable prices. Production costs are relatively easy to attain but on complex products the company uses a specific software program to arrive at the right price. The software is a program that basically adds a certain mark-up to the costs. However, Mr. Bråtegren emphasizes that the prices can – and should – be varied individually to each customer. Another important aspect when Arboga-Darenth calculates prices is competitor information. Gathering competitor information is described as hard and it seems as though Mr. Bråtegren is somewhat reluctant to talk about this. Some competitor prices are attained simply because customers tell Arboga-Darenth as a favor. However, sometimes customers use competitor prices to pressure Arboga-Darenth to lower their prices, according to Mr. Bråtegren. Moreover, competitor prices can be figured out on the basis of if the customer accepts or declines the offer. Historical prices are kept in an Excel file and are considered if the order is repeated. Mr. Bråtegren motivates this with that it would be embarrassing if repeated orders would be given dissimilar prices.

Skills and know-how

The company employs a highly trained sales force and gives them the relevant education needed to sell the products. The majority of the sales force has an engineer education. Moreover they are described by Mr. Bråtegren as competent and willing to sell and are given education based on what product they have specialized in. As Mr. Bråtegren put it:

“We are selling technological products – thus we need technological sales force”

When asked about what he believes is the most important knowledge when setting a price Mr. Bråtegren answers that one needs to know competitor prices and the cost. However, the strategic aspect is also important, what goals the companies want to fulfill with this product or this segment. Sometimes Arboga-Darenth prices to create volume and sometimes they price in order to sell as little as possible of a particular product. Another important skill is the ability to understand the perceived customer value. An example of this is that Arboga-Darenth understands that customers wants a short payback time and emphasize this when selling.

Conflicts of interest within the company

Mr. Bråtegren describes a conflict between the sales force and the production. He says that the sales force is the ones that get the blame if the results plummet. Either the sales force have sold too few products or sold the products too cheap. He also describes the absurdity of the conflict as the sales-people blame the production and vice versa. Mr. Bråtegren seems to be considering the conflict as funny rather than a genuine threat to the company. Mr. Bråtegren describes the company system for delegation of authority as key to solve the problems with the sales force. He further explains that delegation of authority systems means that the sellers can price within a certain price range and when price go below this range sellers have to ask the sales manager for approval.

Coordination mechanisms

Coordination mechanisms within Arboga-Darenth seem to be more or less redundant. The company sales force which consists of 5-6 individuals works closely and has more or less exactly the same information when pricing. Instead of formal coordination mechanisms Mr. Bråtegren emphasizes the use of informal meetings, short chains of command and a flat hierarchy as sufficient to reach coordinated price decisions. To facilitate the exchange between units and divisions sales-meetings are held quarterly event though Mr. Bråtegren mentions that they are sometimes postponed. However, most of the information sharing is done on an informal basis.

4.4 BE Group

We conducted two interviews with BE Group (BE), one face-to-face interview and one phone interview. Mr. Mats Lindgren, who holds a position as a purchasing manager, was the person we interviewed during the face-to-face interview on the 9th of May at BE headquarters in Malmoe. Regarding the phone interview we interviewed Mr. Thore Andersson who is head of sales for the Nordic region on the 11th of May. We will not separate the two interviews but instead present the two interviews as the aggregate received information from BE.

Company characteristics

BE is a Swedish nationwide trading company within steel and metals. The company stock, pre-process and distribute all kinds of steel, pipes and tubes as well as aluminum. The company also delivers integrated customer solutions, i.e. not only mass selling of plain steel. BE was founded in 1885 and has been active on the Swedish market ever since. Through the years the company has expanded, with special focus on East-Europe. The headquarters is located in Malmoe and BE has about 900 employees. BE is noted on the Stockholm stock exchange and achieved net sales of 6, 7 billion SEK in fiscal year 2006 (www.begroup.se, 2007-05-08).

Introduction to Pricing at BE

At BE the purchasing department has a major role in the pricing process because their purchasing price to a large extent will determine the product price. After the purchasing of products, headquarters calculate the “transfer price” which also serves as the base price for the sales force. According to Mr. Lindgren, the transfer price is based upon the purchasing costs plus a margin. However, when calculating this margin BE takes many different factors into account:

“When setting a price we consider the competitiveness of the situation, the current market supply and demand of steel, and of course how attractive the product is for the customer.” (Mr. Lindgren, BE)

So, besides considering only costs when calculating prices, BE takes into account factors like the situation of competitors, the market situation and how dearly the customer needs the product –

thus, pricing at BE is competition based. Due to the volatile steel market Mr. Lindgren said that price changes are carried out almost every month, but theoretically can be undertaken anytime.

Information gathering

To keep themselves updated with the market, BE subscribe to several industry-specific magazines where market and price trends are analyzed. Further sources of information according to Mr. Lindgren are the customers. For example, when customers tell BE that their proposal is too expensive, i.e. competitors has made a more competitive proposal, Mr. Lindgren said that it is often possible to ask customers how much BE has to lower the price in order to be competitive. In this way it is possible to receive information about competitor pricing. Mr. Andersson also confirmed that the most common way to receive information about competitors is through gossip or via customers. Mr. Lindgren said that sometimes competitor pricelists can be found on their homepages, however, these cannot be regarded as a reliable source of information because discounts tend to alter the price.

During the phone interview we also asked questions about how the sales force retrieves information about customers. Mr. Andersson said that if a seller needs information they are supposed to search for information themselves. Supplying the sales force with information was not considered a task for the headquarters.

Skills and know-how

As mentioned in the introduction, the transfer price is the base price for the sales force. However, when negotiating potential deals with customers, sellers are free and hopefully able to raise the final price above the transfer price. Subsequently, the negotiating skills of the sales force become important. Mr. Lindgren said that the sales force at BE receives education during the year which comprises workshops, conferences, seminars and computer education. Further, Mr. Lindgren said that the current focus is to provide the sales force with education about how they can increase the sales portion of service when making deals. But regarding the education of the sales force Mr. Lindgren seemed not entirely satisfied. What he meant was that although BE headquarters tries to educate the entire sales force, there are always individual sellers who do not agree with what is taught - i.e. are not willing to learn. Mr. Lindgren continued to explain that sellers are the kind of people who like speed and consider the moment of a deal when the contract is signed as

important. However, he meant that sometimes the sales force love of speed is not always advantageous because it can lead to that prices are set too low and potential cross-selling may fail. Cross-selling, i.e. training the sales force to sell complementary or extra products in a deal, was also one of the abilities Mr. Lindgren would like to develop at BE. When we addressed this question during the phone interview Mr. Andersson also confirmed that the sales force receive different kinds of education throughout the year. Regarding the skills of the sales force Mr. Andersson said it is important that they have the ability to develop relationship with customers:

“We do a lot with our customers - hockey, education, seminars, travelling to suppliers...you name it, we do anything that is legal”

Finally we asked Mr. Andersson how the sales force could improve their ability to set prices. He meant that BE already are good at it, and that setting the price is not rocket-science, but concluded that BE could improve their control and follow-up of the sales force in order to improve pricing.

Conflicts of interest within the company

Regarding the incentive structure for the sales force Mr. Lindgren said that they partially receive compensation based upon the margin of their sales - however, he pointed out that the portion could be greater. When discussing incentive structure with Mr. Andersson he confirmed what Mr. Lindgren said. Besides the incentive structure we also asked if the headquarters really are able to control the sales force so they do not price products too low. Both Mr. Lindgren and Mr. Andersson confirmed that it does occur that individual sellers price products too low. Mr. Lindgren explained that reasons for this could be that the sales force makes their calculations too optimistic, or that the customers influence the seller. Mr. Andersson on the other hand said that these low-priced deals happen because sellers have too friendly relationship with customers. Mr. Lindgren said that there is a fine line between playing golf but at the same time being able to charge the customer a high price. Mr. Lindgren acknowledged the risk with this and said that sellers have to use sound judgment.

Coordination mechanisms

During the interviews we also discussed pricing on a general level with both Mr. Lindgren and Mr. Andersson. Mr. Lindgren said that pricing has not been prioritized within BE. However, nowadays BE consider pricing an important tool for success and therefore pricing has received its own chapter in the annual business plan. Further Mr. Lindgren continued to speak about how delighted he was that BE has started to work with pricing seriously:

“I mean, we have noticed that when we actively work with our pricing, which has been the case lately, it gives good results...it is very rewarding”

Mr. Andersson said that pricing always has been important at BE because they are a trading company and their sales force has to deal with prices all day long. However, on the contrary to Mr. Lindgren, Mr. Andersson had not noticed that pricing has received increased attention at BE lately. Because BE is a dominant market player within their area of business, Mr. Lindgren considered it important that BE does not initiate any unnecessary price wars, because other smaller players closely monitor the behavior of BE and follow their moves. Regarding communication at BE Mr. Andersson described the relationship between the sales force and the headquarters as somewhat static.

4.5 Lindab

On the 11th of May, we had the opportunity to interview Mr. Anders Persson, Human Relations and Investor Relations responsible at Lindab, face-to-face at the headquarters situated in Grevie. Mr. Persson has worked within the Lindab Group for about 20 years and has occupied various positions within the organization. He has constantly been in contact with pricing issues and has further received corporate education in the subject.

Company characteristics

Lindab International AB is an international corporate group that produces and offers system solutions of sheet metal. The company was founded in 1956 and is divided into two units, Ventilation and Profile. The Lindab Group has approximately 4 900 employees in 29 countries.

In the fiscal year 2006 the Lindab Group reached a turn over of 7, 6 billion SEK. The head office is situated in Grevie (www.lindab.se, 2007-05-08).

Introduction to pricing

Lindab sells their majority of their products to retailers or building networks but also partly directly to end customers. When setting the price Lindab consider cost, competitor and customer information, and price are set through discussion and analysis, according to Mr. Persson. Further Mr. Persson said that pricing is a high prioritized issue at Lindab and many investments have been made in order to improve their pricing.

Information gathering

Since the products produced by Lindab, to a large extent are made of steel, the development of the steel price is important for the company. Because of this Lindab continuously monitors the steel price development and reflects it in the price.

Lindab uses a computer system to gather vital information in order to set the price right. Mr. Persson means that gathering cost information is basic when setting a price. First of all the material cost and the salary cost per unit produced must be identified. According to Mr. Persson traditionally the price in this business has been based solely on cost information, missing for example to reflect quick delivery of components and supporting tools like instruction programs, software for calculation, as well as other services. Since these things also incur costs for a company they have to be reflected in the price. This way of thinking is described by Mr. Persson as strategic pricing. In order to achieve strategic pricing the relevant information, i.e. more information than just cost information, must be gathered. Subsequently Mr. Persson means that you must also consider how the competitors consider prices – in order to cope with the hard competition in the market. Mr. Persson stresses the importance to differentiate Lindab in relation to its competitors, thus adapting the price to the specific market situation. According to Mr. Persson, the leading company on the market set the price and other smaller players will adjust themselves accordingly. Lindab is seen as the market leader in their main business sector. However, sometimes Lindab enter markets where competitors lead the market, which means that Lindab has to adopt their price. When adapting the price to the specific situation, tactics becomes

important, according to Mr. Persson. In order to achieve successful pricing, Mr. Persson means that a specific feeling is needed a feeling that can be developed with experience.

Skills and know-how

Mr. Persson states that it is easy to forget to analyze and apply gathered information. Mr. Persson described an example where Lindab analyzed historical transaction information and came to the stunning result that some of the big loyal customers were unprofitable for Lindab. In order to develop skills among the employees, Mr. Persson states that education is important.

The Business Acumen program was initiated 2004 as a result of extraordinarily high steels prices. The program, which was supported by a consulting firm, aimed to educate the employees and give attention to pricing. 500 employees were divided into 30 teams, which were given different pricing cases. The teams were working with cases where they simulated what effect price changes have on the profit and loss statement in order to understand the importance of pricing. According to Mr. Persson this program has increased the ability of Lindab in how to set prices. The executive management participated in the education, which further clarified the importance of price setting within Lindab. Mr. Persson stresses the importance to educate the sales force in how to increase prices. Traditionally the companies in this business have set prices with cost based methods, according to Mr. Persson. The problem with cost based methods according to Mr. Persson is that price discussions with customers tend to get stuck on cost topics – instead of focusing on the perceived customer value delivered by Lindab.

The importance of building customer relations was also mentioned. When building customer relations the word of mouth enables Lindab to find attractive distributors that wants to sell Lindab products.

Mr. Persson means that the mentality of the sales force often is a bit negative and cautious. By this he means that the sales force get stuck in the thinking that the product is simple and that the price increases therefore cannot be motivated. Instead Mr. Persson means that a more optimistic and confident way of thinking is required. Value added like for instance quality, exceptional research and technology as well as energy savings must be promoted. However, Mr. Persson emphasizes that new technology and features should not be randomly added without considering whether they actually increase the perceived customer value. According to Mr.

Persson, the sales force is able to convince the customers to pay a higher price for the value added.

Lindab has over the years worked to develop a capability to price strategically. One tool that has been developed is called “Fill the Gap” and describes a way for Lindab to reach strategic targets (see graph below).

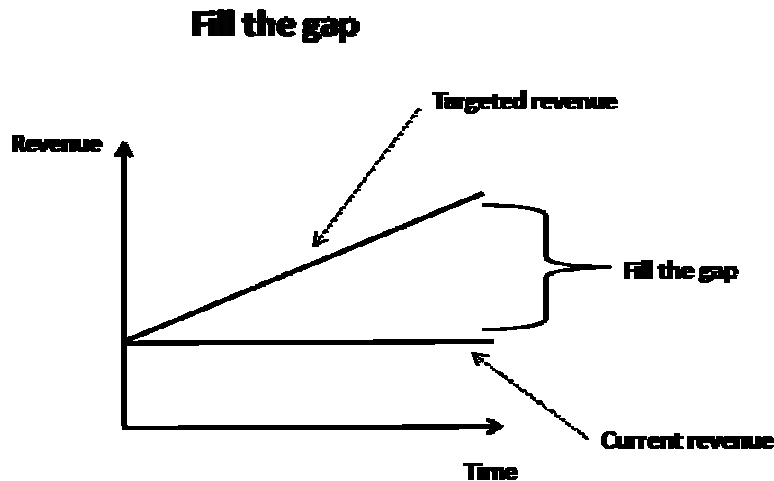


Figure 7: Fill the gap (visualized after Mr. Persson).

In order to fill the gap between the current and targeted revenue, Mr. Persson reasons that a set of activities that creates increased revenue must be defined, i.e. new value adding activities must be created so that prices can be increased. For each activity a result must be predicted as well as assumptions of how price changes influence the profit and loss statement as well as the balance sheet. These predictions are programmed into the business system so that management can follow up.

Conflicts of interest within the company

Even if the sales force at Lindab has possibilities to influence the price by themselves, limitations exist. Sales men want to sell, says Mr. Persson. The risk exists that the sales force tries to maximize the sold volume in order to gain higher bonuses. However, Mr. Persson means that this risk is typically low because most employees want to appear loyal to the company. Mr. Persson also adds that it sometimes can be motivated to agree on a low price when it is strategically important. This could be the case in special projects of commercial value that can be used as

reference projects to customers. The development of the prices is centrally controlled through a computer system and thereby bad business conducted by the sales force can be identified.

Coordination mechanisms

According to Mr. Persson, Lindab takes three actions to coordinate their pricing: they assign a product manager, they try to make business concepts understandable for everyone and finally they organize the Business Acumen program.

Every product is assigned a product manager. The product manager has an important role to coordinate and gain commitment to new prices worldwide, it is his/her responsibility to coordinate pricing strategy and price changes throughout the organization. According to Mr. Persson it is crucial that the product manager is able to spread information about price and strategy throughout the organization and that lower level managers then spreads this information further down the hierarchy.

Since employees involved in the pricing decision processes have a wide variety of educational backgrounds, communication problems sometimes arise. According to Mr. Persson, the new Group chief executive strives to solve these communication problems through making business concepts understandable for everyone.

Information and knowledge is spread and coordinated within the organization through meetings and education. Through the Business Acumen program cross-functional teams are created and Mr. Persson thinks that through the cross-functional teams, knowledge and information can be coordinated within the organization.

4.6 Trelleborg Industries: The CPR Division

On the 16th of May we had the opportunity to interview Mr. Alan Wilson, who is president for Trelleborg Offshore CRP (CRP). The interview was conducted via phone from his office in the UK.

Company characteristics

Trelleborg CRP is the leading manufacturer of cable and buoyancy solutions for underwater use. The company supplies the Offshore, Marine, Subsea, Telecommunications and Defense

industries (www.crpgroup.com, 2007-05-22). The company was acquired by Trelleborg AB in 2006 and is now a part of the division Engineered Systems. The company has about 500 employees and turnover of approximately 1 Billion SEK (<http://di.se/>, 2007-05-13).

Introduction to pricing

Mr. Wilson has about 25 years of experience from pricing. CRP has split their price setting process into two categories depending on the order value. Small deals up to 500 000 pounds are settled by low level employees whereas larger deals are handled by the more experienced sales force. When asked to describe the pricing process at CRP, Mr. Wilson said that they consider two aspects when they construct prices – the cost and the market aspect. Thus, we conclude that CRP uses a competition based pricing approach. Regarding the oil and gas business, the business which CRP is in, he said that the focus historically has been to use a cost based pricing approach and that companies to a large extent has applied the same principles. Finally he explained that the majority of their business is handled through a standardized pricing process whereas larger deals may require a more unique and customized approach.

Information gathering

CRP gathers information about costs through a computer system. According to Mr. Wilson the cost aspect includes factors like manufacturing costs, labor costs, engineering design and front office services. These costs are applied through a standard cost system². Lately the raw material prices have become a big issue for CRP because the market has been volatile and is characterized by increasing prices. Mr. Wilson said that it to some extent is possible to hedge oneself against rising raw material prices – but sooner or later price increases has to be passed on to customers. To address this issue, CRP has started to anticipate the raw material prices for the nearest future and use these assumptions as a base in their standard cost system. It appears that computer systems play a fundamental part in calculating price at CRP.

Regarding the second aspect of pricing at CRP, the market aspect, Mr. Wilson said this means adjusting the price for general market conditions which he basically describes as finding out the general desperation of the customer. Finally, Mr. Wilson said that CRP take competitor

² A standard cost system is a system which calculates product costs based upon different variables. Inputs of these variables are based upon historical manufacturing costs (Mr. Wilson, CRP)

information into account when setting prices. According to Mr. Wilson competitor information can be retrieved from customers during price negotiations.

Skills and know-how

The majority of the sales forces at CRP are engineers or people with a technical background. According to Mr. Wilson this is necessary since the company sells directly to engineers. We continued to ask questions whether it could be negative that the sales force consists of engineers. At first Mr. Wilson did not see any problems with this and told us that the sales force at CRP do selling for a living and therefore are focused on doing a good job. However, he then admitted that CRP has had a problem with lacking business sense in their sales force a few years ago but has overcome this through extensive training. Further, CRP educates their personnel how to make a cold call, which is important for the smaller deals. Mr. Wilson also said that management regularly receives education. However, this education focuses on understanding customer buying behavior and dealing with the pricing process. When we addressed the issue customer relationships Mr. Wilson said that this becomes especially important in larger deals, whereas in smaller deals it is not always important to maintain deep relationships with the customer. Thus, sellers working with the larger projects at CRP need to be able to develop long-lasting customer relations.

Due to the heavy reliance on computer systems when calculating prices, we asked Mr. Wilson questions about what skills the sales force should possess. Mr. Wilson answered:

“...costs only provide half the truth, you can not program everything...”

By this Mr. Wilson meant that although computers has an important role when calculating prices they can not anticipate factors like the market attitude, competitor behavior and so forth – therefore the sales force at CRP need sound human judgment.

Conflicts of interest

We started out by asking questions about the sales force incentive system. Mr. Wilson said that the sales force receives their compensation solely based on the profit of their sales. Further he argued that rewarding the sales force based upon sales volume is not a good idea. Regarding

building customer relationships, we asked Mr. Wilson if it could be problematic if sellers develop too deep relationship with customers. Mr. Wilson said that the customers of course have the possibility to influence the seller, i.e. try to lower the price. However, Mr. Wilson concluded that the sellers need to apply sound judgment and that it is dangerous once you start to comply with requests of the customers because the requests then tend to increase all the time. To address the potential issue with sellers setting the price too low, CRP has created a threshold margin that sellers not are allowed to go below – unless they receive the approval of management. We note that the concept of threshold margin appears to be similar to the delegation of authority system described by Mr. Bråtegren at Arboga-Darenth. Mr. Wilson continued to say that sellers setting prices too low generally is a problem companies need to be aware of, but for the time being the oil and gas market is running hot and therefore CRP do not experience any problems with low margin at the moment.

Coordination mechanisms

Mr. Wilson concluded that it is important that the sellers are well prepared when they are heading for a negotiation with a customer. By this he meant that they should spend adequate time to study the relevant information necessary to conduct the specific negotiation successfully - i.e. the seller should make sure that he is more informed than the customer.

Mr. Wilson said that the management's main task is to monitor the development of the margin. Finally we asked Mr. Wilson questions on how CRP could improve their ability to set price. Mr. Wilson said that CRP could improve their ability to estimate the time involved in manufacturing and design, i.e. improving the standard cost system. Besides that he would like to improve the ability to pass on raw material price increases to the customers.

4.7 Rottne

Rottne is a privately owned company with a long history and is controlled by the founder, who owns 52% and the rest split among the management. Thus, Rottne has only to cope with the demands of these owners. The Interview with Rottne was held at their headquarters in Rottne on the 14th of May. From Rottne CEO, CFO as well as the Director of Sales was interviewed – hereafter named “management”.

Company characteristics

Rottne Industries manufactures and develops forwarders and harvesters for the logging industry. The company was established in 1955 and its headquarters is situated in Rottne. Further, Rottne also sells modified versions of their standard vehicles to satisfy special customer needs. The company has about 250 employees and realized a turnover of 450 million SEK in fiscal year 2006. Rottne is represented through retailers all over the world – although the dominant markets are Europe, North-America and Australia (www.rottn.com, 2007-05-10).

Introduction to pricing at Rottne

Rottne does not sell their logging machines directly to customers, instead they sell through a worldwide chain of retailers. Buying a Rottne logging machine is much like buying a car – the buyer pays a certain base price depending on which machine he wants and then additionally equips the machine with extra equipment. For example, if a customer wants a GPS installed it is considered as extra equipment. Thus, pricing at Rottne is about setting list prices without having any direct contact with the customer. Management said that Rottne uses a cost based pricing method when setting price and that pricing decisions at Rottne is taken care of single-handedly by the management. According to them there is no automatic obligation to raise the list prices annually. However, management discusses the necessity of raising list prices once a year. Management did not further provide details about how often prices are changed, however, they said that prices have not been increased for a long time.

Besides selling machines Rottne sells spare parts as well. This business constitutes about 15-20% percent of the annual turnover. Contrary to the prices for the machines - prices for spare parts are reviewed quarterly. However, management said that raising spare part prices aggressively is not an option. This mindset – that the customer should not feel he is overpaying – is related with the philosophy of Rottne: The philosophy of Rottne is that the customer should always get the feeling of having made a good deal.

Information gathering

When Rottne set prices they use production costs as a base. Management described the process as a pyramid, at the bottom the production costs are calculated, then administrative costs, marketing, guarantees and costs for writing manuals are added. According to the management this

information is extracted from the computer systems. The management of Rottne considered the steel price to be of great importance to the company because the construction of logging machines requires many components made out of steel. We therefore asked questions if the company keeps itself updated with the raw-material markets and the development of future prices of steel. This seemed not to be the case, however, when buying components Rottne has alternative suppliers to turn to in order to test the competitiveness of their proposals. But at the same time management said that it is difficult to change supplier because many components the company uses are very specific.

According to the management it is important for Rottne to gather information about how competitors price their machines. This information is gathered when customers compare offers. The management meant that although it is not possible to receive detailed information about competitor pricing, relatively accurate information is often provided from the customers. Even though Rottne collects information about competitors we were left with the impression that this information is set a side when calculating prices.

Skills and know-how of the employees

We asked whether the management has any specific education in pricing. This was not the case. However, the sales force, i.e. the retailers, receive education on a regular basis and further have the opportunity to participate in conferences at Rottne headquarters. Moreover, management explained that it is important that the retailers possess technical knowledge because the machines today are very sophisticated, but first and foremost because the customer often has technical knowledge. However, the management explained that there are unique sellers who actually do not have any clue about how Rottne machines work but anyway can be very successful in selling them. Rottne management has instructed their retailers to communicate to their customers that Rottne machines operate at a lower cost than competitor machines. Subsequently we discussed with management if they believe that Rottne sufficiently communicate their advantages of Rottne machines to customers. Even if they at first said yes, they did not seem fully convinced of their answer.

When it comes to the recruitment of the sellers, which is conducted by the retailers, Rottne does not influence this process at all. Management did not consider this to be a problem.

Conflicts of interest within the company

The retailers who sell Rottne logging machines are only allowed to exclusively sell Rottne. We asked whether the management at Rottne has the possibility to evaluate and check how well the retailers succeed in negotiation with customers, how they behave and so on. Although the management said that they do not have this possibility, they were confident that the retailers fully act in the interest of Rottne because they have incentive to do so. Further they said that although they cannot influence the recruitment of the sellers, or check how sellers negotiate with customers, they look at the sales statistics on a regular basis – and if these look suspicious, Rottne take action. We further asked the management if they could specify the incentive structure of the retailers. Management told us that the incentive structure rewards high volume rather than high prices, i.e. the retailers earn more money if they succeed in selling many machines instead of succeeding negotiating a high price on fewer deals.

Coordination mechanisms

Management said that due to the fact that the headquarters only consist of 15 people they have no need for recurring meetings. Instead management emphasized flexibility and arranging meetings when necessary.

Rottne has created something they call the Rottne-Academy, which means that customers who have bought a machine receive a few days education on how to use and repair the machines at Rottne headquarters in Sweden. However, Rottne academy also serves an educational purpose for the employees of Rottne where they can discuss and exchange information with customers in an informal environment.

Due to the fact that Rottne sells logging machines worldwide, we also addressed the topic of coordinating global sales during the interview. Apart from minor differences Rottne prices their machines the same all over the world. Although the machines are priced the same, they are differently equipped depending on country. For example management explained if Rottne sells a machine to Russia, the logging machine is delivered with less equipment, i.e. lower standard, than in Sweden – but priced the same.

This concludes the empirical data from our respondent companies and we will now move on to the AFK Consulting, and get an experts view of pricing.

4.8 AFK Consulting – “an experts’ view of pricing”

The last interview was conducted on the 16th of May via phone with AFK Value Management (AFK). AFK is a consulting company with special focus on pricing. AFK has only two employees, which also are the owners. Håkan Fahleryd, who is consultant and co-owner, has worked with pricing since the nineties. Although small, the company has a respectable list of clients: Tetra Pak, Ericsson, Sandvik, Haldex, Besam, Cardo, Skanska and SCA are examples.

We saw this interview as an opportunity to use Mr. Fahleryd's extensive experience in pricing, not to investigate or ask question about how AFK prices their consulting services. We specially focused on discussing what Mr. Fahleryd consider as important factors for being successful at pricing, but also what the barriers to improving pricing capability are. We will use the same four headlines we used with the other respondent companies in order to give the reader an easy overview. Lately Mr. Fahleryd has noticed that pricing has received increased attention among companies, which also explains the increased competition for assignments AFK is experiencing at the moment.

Company characteristics

AFK Value Management is a consulting company that specializes in pricing. The company supports the entire revenue process within technology companies, delivering complex solutions in B2B markets. AFK Value Management offers customer value chain analysis and competitor analysis. Further the company coach product managers and sales teams to develop methods and tools for value based communication, negotiation and price setting. In the fiscal year of 2005 the company achieved net sales of 6,6 million SEK. We find it necessary to stress that AFK Value Management was interviewed as a way to get an expert perspective on pricing and should be viewed apart from the other six respondent companies. Therefore this was the last interview conducted by the two groups (www.afkvalue.com, 2007-05-10).

Introduction – Cost based pricing vs. perceived customer value approach

Mr. Fahleryd said that AFK generally recommend their clients to adopt a perceived customer value approach rather than a cost based approach regarding pricing. However, he said that cost based pricing can suit certain competitive environments well and thus not necessarily need to be bad - he mentioned IKEA as a successful user of the cost-plus method. Although AFK do not

recommend their clients to use the cost-plus method, Mr. Fahleryd said that it still is the most common pricing method used at companies.

Information gathering

Mr. Fahleryd said that one of the major issues a company must focus on, if they want to improve their pricing capability, is to regularly retrieve information about competitors and the perceived customer value of their own products. Hence, companies need to have good information about competitors, but also understand the value they bring the customers. Mr. Fahleryd said that many companies often lack this information, and that the lack of information could be one of the reasons that companies turn to cost based pricing methods.

In order to obtain the necessary information, adequate and modern computer software systems are required. During the interview Mr. Fahleryd stressed the importance of this, and also said that gathering information via computer system will become even more important in the future. However, according to Mr. Fahleryd companies need to watch out when they collect information about competitors because competitors sometimes try to distribute misleading information in order to confuse.

Skills and know-how

According to Mr. Fahleryd, companies which are successful within pricing demonstrate the following skills: they approach pricing in a persistent and structured way, are clever, and possess great willpower. However, the first thing companies need develop is a pricing strategy. This strategy should preferably be developed with the involvement of the top-management and then must be communicated throughout the entire organization. When discussing strategy, Mr. Fahleryd said that a common mistake many companies make is that the pricing strategy only comprises "*fancy words*" without being concrete enough. This is a problem because the employees do not understand how they are supposed to act and only feel lost in a plethora of fine words.

Regarding the sales force Mr. Fahleryd said that it is important that they understand and feel loyal to the pricing strategy. The sales force should also receive education on a regular basis. Further, Mr. Fahleryd said that a common misinterpretation that exists among sellers is that they do not think it is possible to raise prices:

“Yes, sometimes I think they [the sales force] are afraid to raise prices and they do not think it is possible to charge a higher price because of the ‘So it has been and will always be’ mentality”

Mr. Fahleryd stressed that it is very important to eliminate this mindset and old-fashioned way of thinking. Besides being able to charge high prices, it is important that the sales force is able to develop long relationships with their customers according to Mr. Fahleryd.

Conflicts of interest within the company

Mr. Fahleryd said that one of the most severe and common problems companies face when improving pricing is that their compensation structure for the sales force is designed completely wrong. For example, a company who only rewards their sales force based upon sales volume or number of orders instead of contribution margin will be the perfect victim for experiencing conflicts of interest within the company. Mr. Fahleryd said:

“Yes, this kind of problems is very serious. I mean, there are not many people who honestly say: ‘I do not care about my salary as long the company which I work for is doing well’”

With this expression Mr. Fahleryd meant that if a company only rewards the sales force based upon sales volume, i.e. sellers can actually sell at prices which incur losses for the company, the company should assume that the sales force will not work in the best interest of the company. Thus, Mr. Fahleryd points out that designing a proper incentive system is extremely important. In practice the change towards a margin-based incentive system can result in that seller receives lower salary, according to Mr. Fahleryd.

Further potential problem areas are the sales force relations with their customers. It is important that sellers are able to establish long relationship with customers, however, they also must have the ability to keep a certain level of professionalism to avoid that prices are set too low, according to Mr. Fahleryd.

Coordination mechanisms

If a company is eager to increase profitability Mr. Fahleryd said that pricing is the most powerful lever a company can pull. The way Mr. Fahleryd recommends a company to work with pricing actually requires the involvement of the whole company and management commitment to the pricing strategy – something he also expressed:

“It is very important that everybody understand and grasps the bigger picture [...] you have to have seminars and stuff like that so that people understand. You have to constantly work with pricing, you got to change the attitudes of people”

Thus, according to Mr. Fahleryd pricing is about changing the attitudes and the way the employees think and act. So, being successful in pricing requires management, the sales force and the other employees to cooperate and strive for the same goals.

Further, we had a discussion with Mr. Fahleryd about why he thinks companies fail to become successful in pricing. First and foremost he said that a common mistake is that companies do not consistently work with pricing in a structured way, i.e. there might be short periods of time when companies address the issue but that is not the same thing as consistently having pricing on the agenda. Another problematic issue Mr. Fahleryd mentioned is that companies tend to hesitate to change, since some individuals always regard change as something negative. Therefore the willingness to change can be a problem in improving pricing capability according to Mr. Fahleryd.

5 Analysis

In this chapter the empirical findings are thematically synthesized in order to analyze and achieve depth. The chapter is based on the model from our theoretical framework and follows the thematic structure presented in the previous chapter. To facilitate the reading we will start by providing the reader with a table (see below) that summarizes the empirical findings.

	Alfa Laval	Arboga-Darexoft	BE Group	Lindab	Rottne	Trelleborg CRP
Ownership Structure	Public listed	Privately owned	Public listed	Public listed	Privately owned	Public listed
Type of business	Solutions for customers to heat, cool, separate and transport a variety of products.	Solutions for recycling metal, scrap and cutting oil.	Customer solutions and trading company within steel and metals.	Producers and office system solutions of sheet metal.	Manufacturers and tools inventors for the logging industry.	Manufacturers cables and buoyancy solutions used under water.
Pricing method	Customer perceived customer value	Competition based method	Competition based method	Customer perceived customer value	Cost-plus method	Competition based method
Own sales force	Yes	Yes	Yes	Yes	No	Yes
Net sales (2006, million SEK)	19 960	44	6 709	7 600	456	1 009
Information gathering	Cost information is gathered through computer systems. Competitor and customer information is mainly collected through customers.	Cost information is gathered through computer systems. Competitor information is gathered through customers.	Cost information is gathered through computer systems. Competitor information is gathered through customers.	Cost information is gathered through computer systems. Competitor information is gathered through customers.	Cost information is gathered through computer systems. Inbound and non-systematic gathering of competitor information.	Cost information is gathered through computer systems. Competitor information is gathered through customers.
Skills and know-how	Technical skill, the ability to define customer value, building customer relationships and analyze information strategically.	Technical skill and building customer relationship.	Technical skill, building customer relationships and analyze information strategically.	Technical skill, the ability to define customer value, building customer relationships and analyze information strategically.	Technical skill and building customer relationship.	Technical skill, building customer relationship and analyze information strategically.
Conflicts of interest	Incentive structure varies with current strategy, country and division.	The company suffers from a conflict between sales force and production.	Sales force sometimes set prices too low. Conflict can occur when too close relationships between sellers and customers develop.	Lindab is aware of the risk that the sales force maximizes sold volume in order to gain higher bonuses.	Rottne receive compensation based on number of machines sold rather than profit.	The major part of the sales force consists of engineers. Conflict can occur when too close relationships between sellers and customers develop.
Coordination mechanisms	Coordination highly prioritized, international coordination program initiated in 2006.	Since the company is small coordination is informal.	Sales force and headquarters cooperation to a limited extent. Coordination described as static.	Coordination highly prioritized. Information and knowledge is spread through meetings and the Business Account Program.	Since the company is small coordination is informal.	Coordination through education.
The companies own reflections over their pricing ability	Alfa Laval runs a program started in 2005 that continuously deals with pricing issues. The program aims to systemize pricing within the group giving the individual seller less influence when setting price.	Arboga-Darexoft takes a very informal approach to pricing, i.e. through the use of informal meetings, short chain of command and a flat hierarchy.	BE realized that working actively with pricing increased their profitability. BE wants to improve e-commerce and selling of services.	Lindab recognizes pricing as a crucial factor in order to achieve sustainable profits. To achieve successful pricing a specific finding is needed – which can be developed with experience.	Rottne considers it difficult to raise prices although the company provides great service and constructing close customer relationships. Rottne management is not satisfied with the current situation.	Trelleborg CRP sales force has a technical focus and computer systems are important when calculating prices. The company gaining information advantage when negotiating price with customers.

Table 1: Company overview

5.1 Introduction

In this thesis we assume that a pricing capability within the firm comprises the factors we have presented in the theoretical framework – our modification of Dutta et al (2003). When we extracted the relevant empirical data from the interviews to be inserted into the thesis we used the theoretical framework. To achieve consensus, the analysis chapter will also follow this disposition. Consequently, we will analyze the pricing capability within the firm through analyzing the following elements at the respondent companies: Information gathering, Skills and know-how, Conflicts of interest and Coordination mechanisms. The factors presented in each of the tables are based on the analysis of the empirical data and are consequently not predefined in the theoretical framework. The factors were chosen on the basis that at least two of the respondent companies expressed the importance of these.

5.2 Information gathering

Dutta et al (2003) states that collecting information is one of the most important tasks a company has to undertake in order to be able to make good pricing decisions. Through analyzing our empirical data we identified three different kinds of information: cost, competitor and customer information. In the table below we present a short summary of which information the respondent companies gather. The crosses in the table mean that the company uses this information when setting price.

	Alfa Laval	Arboga- Darenth	BE Group	Lindab	Rottne	CRP
Cost information	X	X	X	X	X	X
Competitor information	X	X	X	X		X
Customer information	X			X		

Table 2: Company overview, Information gathering

From the table above it can be concluded that all companies use cost information when calculating prices. However, even if all companies gather and use cost information there are major differences in the attitude and how much weight the companies' give the respective kind of information. During the Rottne interview we received the impression that the company considers everything as costs – even the innovative extra service Rottne Academy was regarded by management as extra costs that need to be taken into account when prices are calculated. All other respondent companies only regard cost information as a starting point for calculating prices. The president of CRP said that costs are only half the truth. However, at Rottne costs appeared to be the whole truth. Another similarity between the companies is that they all gather cost information through computer systems. Richards et al (2005) calls this problem the silver bullet problem and states that relying too much on computer systems when calculating the price is a common problem among companies. However, we feel that the empirical data is insufficient to further evaluate this potential risk at the respondent companies.

During the interviews the majority of the respondent companies expressed the importance of monitoring raw material prices i.e. steel. The companies were differently affected by the current volatility of the raw material market because they were differently dependent on raw materials.

Arboga-Darenth, Alfa Laval, BE, Lindab and CRP do not solely rely on cost information when calculating prices, but they also take competitor information into account. Dutta et al (2003) stresses the importance of competitor information to provide the company pricing decision makers with information. Interestingly, all of the above mentioned companies use the same sources to gather this information – their customers. The respondent companies said that they have possibilities to extract this information when potential customers compare offers from competitor companies. BE even described that competitor information can be received through gossip. Although none of the respondent companies mentioned it, we think there might be a risk that competitor information can be biased. For example the customer would have incentive to play out the companies against each other in order to get the lowest price possible. BE expressed another source of retrieving competitor pricelists is through homepages. However, Dutta et al (2003) states that one must be careful with pricelists because discounts and extra services can make the list prices obsolete. Furthermore Mr. Fahleryd said that competitors' information need to be treated with caution because competitors sometimes send out misleading information. Alfa

Laval said that they find it hard to set prices when they deliver complex solutions. By this they meant that finding comparable companies that deliver functionally equivalent products can be hard – therefore making it hard to anticipate how much the customer actually would be willing to pay. Especially BE and Lindab pointed out that it is important to consider competitor information when prices are set because it gives you an extra advantage over the customer. Mr. Wilson describes this advantage as finding out the general desperation of the customer.

Besides taking cost and competitor information into account we noticed respondent companies who also take information about customers into account when setting prices. First it should be said that by taking customer information into account we do not mean that some customers should receive more discounts than others because of larger order take – taking customer information into account is about analyzing the perceived customer value. Mr. Fahleryd said that companies who want to improve their pricing capability should focus on quantifying the customer value they bring the customers and then aim to incorporate this when they set prices. Two of our respondent companies claimed to do this - Alfa Laval and Lindab. The interesting question is of course how do the companies gather this information? Alfa Laval mentioned that if they for example install a new brewery line, they try to estimate how much the savings for the customer will be with this new line instead of holding on to the old one. Because if Alfa Laval can become aware of how much money the customer saves they can take this into account when calculating prices. Lindab explained that they work in a similar way to incorporate customer information when setting prices.

Another interesting phenomenon we noticed among the respondent companies was that all companies seemed satisfied with the current situation, i.e. Rottne appeared just as satisfied as Alfa Laval and Lindab although they only gather and incorporate cost information when setting the price.

Wrapping it up, we identified three kinds of information our respondent companies gather and use when they set prices - cost, competitor and customer information. However, the companies differ in what extent they gather the different kinds of information. Finally, we noted that Rottne, the company relying only on cost information, did not seem less satisfied with the current situation than the other respondent companies which gather competitor and customer information as well.

5.3 Skills and know-how

In the previous section we analyzed differences at the respondent companies in what kind of information they gather. To be able to judge what information that is relevant, the company needs employees who possess the adequate skills and know-how. Dutta et al (2003) mean that employees need the skill to understand what information is needed, skill of how to gather the relevant information, and finally skill is needed in order to be able to analyze the information. Because the focus for this thesis is the pricing capability within the firm we will not explicitly focus on what skill the sellers should have in order to be successful in negotiation, rather we will investigate the step before the actual selling and examine the relevant skills associated with gathering information. From the empirical data four different skills were mentioned that the respondent companies consider particularly useful. Technical skill and the ability to define customer value are needed in order to know what information to gather. Skill to build customer relations is needed because companies use customers as a source for information. Finally, a company needs skill to analyze the gathered information and relate it to the company pricing strategy. Before examining each skill in detail we want to provide the reader with an overview of which combination of skills each company considered important, which is presented in the table below:

	Alfa Laval	Arboga- Darenth	BE Group	Lindab	Rottne	CRP
Technical skill	X	X	X	X	X	X
The ability to define customer value – “a feeling”	X			X		
Building customer relationships	X	X	X	X	X	X
Analyze information strategically	X		X	X		X

Table 3: Company overview, Skills and know-how

Technical skill

Because of the relative complex business that all respondent companies operate in, they emphasized the importance of technical skills among their employees. Dutta et al (2003) describes that it is important to ensure that the competitor information gathered comprises functionally equivalent products, i.e. products that can be considered as comparable. In order to identify functionally equivalent products the employees need to possess a certain level of technical skill. Alfa Laval and Lindab said that they have been experiencing difficulties in gathering this information because their solutions sometimes tend to be complex and unique. Following, they said that it is important that the employees involved in gathering competitor price information possess enough technical skill so they are able to evaluate if the competitor solutions are functionally equivalent or not. Rottne said that it is important that their retailers at least possess as much knowledge about their machines, i.e. technical skill, as their customers do because with less knowledge than their customers, Rottne would not appear trustworthy. Summarized all companies found technical skills important, however, we noticed that Arboga-Darenth, Rottne and CRP regarded this skill crucial when setting price.

The ability to define customer value – “a feeling”

The second skill that the respondent companies mentioned as important is harder to define. We name this skill the ability to define customer value. Lindab described this skill as a “feeling” – something talented employees can develop over time. This skill in some way describes the employees’ ability to think innovative about satisfying customer needs. The pricing expert Mr. Fahleryd said that their clients often turn to them for advice because they lack the skill to understand customer value. However, this skill is not about increasing customer value, but to appropriate the already created value through price. For example, Rottne and Arboga-Darenth are good at creating innovative new machines well suited for customers needs, however, this does not automatically imply that they also incorporate customer value information when calculating the price. Arboga-Darenth and Rottne exemplify this phenomenon. Arboga-Darenth for example found out that customers appreciate machines which provide a short payback time and therefore construct their offer accordingly. Regarding Rottne, they have invented “Rottne Academy” where interaction and education of customers take place – thus, both companies appeared to create high customer value. However, they do not take this information into account when calculating prices.

Regarding BE and CRP, we received the impression that they do not consider this skill as important. Another issue mentioned by Lindab was that the mentality of the sales force can be problematic as they were sometimes limited in their thinking and did not see opportunities to increase prices.

Building customer relationships

Besides technical skill and the ability to define customer value, all respondent companies also regarded the skill to build customer relations as important. If we move back to the information gathering section and recall that all respondent companies gather competitor information from customers it seems reasonable that companies seek to maintain a good relationship with their customers. Also Mr. Fahleryd said that building customer relations is important for companies since tying the customer close to the company can be advantageous. However, he also said that companies must be cautious so that not too close relationships develop. Among the respondent companies especially Lindab and BE said that they put great effort into building customer relations. BE even said that they undertake all kinds of activities to strengthen customer relations as long as these are legal. Rottne considered customer relation skill important because customers are a great source of information when it comes to developing new machines. Summing it up, all respondent companies regarded the skill to build customer relations as important.

Analyze information strategically

Simply gathering competitor or customer information is not enough, companies must also know how to relate this information to the company strategy (Dutta et al, 2003; Richards et al, 2005). Therefore, it is important that the employees have the ability to understand and relate the gathered information to the pricing strategy of the company – something Mr. Fahleryd confirmed. During the interview it became obvious that Alfa Laval, CRP, Lindab and BE analyses and uses information strategically, hence, possess this skill. For example, BE and CRP said that they price their products in relation to how dearly the customers need the product – thus, using customer information in a strategic way. Moreover, Lindab said that a while ago they initiated an investigation about the profitability of their customers in order to either increase prices or get rid of the unprofitable customers – thus, also analyzing and using information strategically. Regarding Rottne and Arboga-Darenth, we received the impression that they do not regard this

skill as important. Rottne does not even collect competitor information in a systematic way. On the other hand, Arboga-Darenth does, but they do not use this information to take strategic pricing decision.

Summing the skill section up, we identified four skills the respondent companies emphasized as important regarding the pricing process within the firm: technical skill, the ability to define customer value skill, the skill to build customer relations and the skill to analyze information strategically. The combination of skills each of the respondent companies consider as important is presented in the table first in this section. Technical skill and building customer relation skill was considered important among all respondent companies. Regarding the other two skills the respondent companies had different views whether these were important or not. According to Mr. Fahleryd it is important that companies try to equip their employees with the skill to define customer value. Interestingly, we noted that some respondent companies who found it important that their employees' possess' skills to define customer value do not incorporate this information when calculating prices.

5.4 Conflicts of interest

Dutta et al (2003) states that solving conflicts of interest within the company is one of the most important issues regarding the pricing capability within the firm. Dutta et al (2003) refer to Cyert and March (1963), who mean that a firm consists of different individuals and groups following different interests and goals that often are in conflict with each other. Practically, these conflicts of interest mean that employees do not act in the best interest of the company. Through discussing this issue with the respondent companies we have identified three different kinds of goal conflicts among our respondent companies: poorly designed incentive structure, too close customer relationships and differing mindsets about pricing within a company. Before we describe each one of them more in detail we want to provide the reader with an overview of which conflicts the companies suffers from – this is done in the table below.

Conflicts of interest	Alfa Laval	Arboga-Darenth	BE Group	Lindab	Rottne	CRP
Incentive Structure (volume/margin/mix)	Mix	N/A	Mix	Mix	Volume	Margin
Company admits risk sellers set prices too low	N/A	No	Yes	Yes	No	N/A
Different mindset about pricing in the company	Yes	Yes	Yes	N/A	No	No

Table 4: Company overview, Conflicts of interest

Incentive structure

When we interviewed Mr. Fahleryd from AFK he said that one of the most common and severe problems companies face when working with pricing is that the incentive structure for the sales force is poorly designed. Many companies do not realize the danger of rewarding the sales force based upon sales volume. The problem with rewarding the sales force based upon sales volume is that sellers receive higher salary the more deals they make – without any consideration to the profit of these deals, according to Mr. Fahleryd. Practically speaking, sellers have incentive to set prices low because it makes the customer satisfied, and at the same time give the seller a deal, which all things equal – results in higher salary for the seller. The negative aspect of this is of course that the profits for the company eventually will erode. According to Mr. Fahleryd the solution to this problem is to base the incentive structure upon margin instead of volume. Only CRP among our respondent companies has an incentive structure purely based on margin. All other companies except Rottne, who solely base the retailers’ reward on volume, have a mix of volume and margin as a base for the incentive structure. Although Lindab did not consider the risk to be high, they acknowledged that the risk does exist that the sales force tries to maximize sold volume in order to gain higher bonuses. Even if Rottne did not see any problems with their volume based incentive structure it could be the case that they suffer from this conflict of interest without being aware of it. Alfa Laval uses a mix of volume and margin based incentive system depending on the strategy the company follows at the moment. For example, if Alfa Laval wants

to increase market share they may increase the portion of the volume based reward for the sellers – and vice versa. The flexibility of such a system is of course advantageous, however, we think that there may be some negative aspects of altering the incentive structure the way Alfa Laval does. If the salaries of the sales force become volatile, which would be the case if the strategies changes often, it would probably be disliked by the sellers. As mentioned before, CRP was the only company among the respondents who only rewards their sales force based upon the profit of sales. Moreover, the president of CRP proved the company's awareness of this problem by telling us that it is not a good idea to reward sellers based upon sales volume.

Too close relationships with customers

Most respondent companies emphasized the importance of building customer relations. However, when interviewing Mr. Fahleryd he pointed out that too much wining and dining with customers is not good. We discussed the issue too close customer relationships with the respondent companies. BE acknowledges that it is problematic with too close customer relationships and advises their sales force to use sound judgment regarding this matter. However, they confirmed that they have experienced problems with sellers setting too low prices, which they believe was due to too close customer relations. Also CRP recognizes this risk and the president of the company said he would regard it as serious misconduct if he would find out that sellers had given "friends" good prices. Rottne on the other hand said that they were confident that their retailers fully act in the interest of Rottne although they actually do not have any possibility to interfere when retailers negotiate with customers. Although mutual trust is fundamental in the world of business we do think there might be risks associated with the fact that Rottne do not have the possibility to directly supervise the retailers because it practically means that Rottne relies to the honesty of their retailers. Lindab did acknowledge that there is a risk with too close customer relationships, however, they were eager to mention that Lindab does not suffer from this problem. Although we put our trust in the words of Mr. Persson, we do consider it a bold statement to fully rule out the possibility that this problem may exist in a company with the size of Lindab.

In order to address the problem with too close customer relations, which according to the respondent companies can lead to low pricing, many of the respondent companies have introduced something they name a "threshold margin" - which is the lowest margin the sellers are allowed to apply in a deal. If the seller wants to lower price below this margin he or she needs to

receive the approval of management. Practically this threshold margin means the more valuable a deal, the more high level management is involved in the price discussions.

Different mindsets regarding pricing

According to Dutta et al (2003) there should exist consensus about customer assumptions among the employees in a company. Mr. Fahleryd said that it is important that all the employees of the company need to feel committed and loyal to the pricing strategy of the company. We interpret Mr. Fahleryd's statement as it being important having a unified mindset of pricing within the company. Arboga-Darenth openly told us that the sales force and the people in the production do differ in their mindset and attitudes towards pricing. Interestingly, the interviewee at Arboga-Darenth regarded these differences in mindset and attitude as "funny" rather than being an actual problem. Our impression is that Arboga-Darenth neither classifies the conflict as a problem - nor wants to solve it. Alfa Laval told us that there historically have existed two different mindsets about pricing in the company. One mindset comprised the picture that selling is some "kind of art" and the other view comprised a more structured view of pricing. Alfa Laval said that the result of these differing mindsets was that sellers acted differently when interfering with customer – which they saw as negative. Further negative aspects was that sellers produced different results and saw themselves having different roles within the company depending on which mindset they "belonged to". Alfa Laval said that this situation no longer is acceptable and the company has therefore taken the initiative to unite the mindset within the company. Apparently it seems as if though it could be problematic if a company does not have a unified mindset regarding pricing. Although other companies did not explicitly mention that they have had problems with different mindsets of pricing within the company, some companies mentioned problems almost identical to the former. At BE Mr. Lindgren said that sellers are kinds of persons who like haste and the closing moment of a deal. Although Mr. Lindgren did not explicitly say it, we got the impression that he did not share the sellers thoughts, nor did he regard this view as optimal because he meant that the haste and the love for the closing of a contract may lead to that prices are set unnecessary low. Apparently it seems that Mr. Lindgren does not have the same mindset about pricing as the sales force.

Summarized, we identified three different conflicts of interests at the respondent companies: the incentive structure, too close customer relations and differing mindsets about

pricing. In many of our respondent companies the incentive structure for the sellers do not always provide them with incentives to achieve a high price – in fact they sometimes give incentive to set prices low. Regarding too close customer relationships many respondent companies saw the danger with this. Some of them even related their sellers setting low prices to this. Finally, several of the respondent companies have experienced differing mindsets within the company regarding pricing. Arboga-Darenth did not consider this a problem whereas Alfa Laval did.

5.5 Coordination mechanisms

Coordination is closely tied to the distribution of information in the organization, especially in order to develop assumptions regarding customers (Dutta et al, 2003). One can conclude that in order to coordinate pricing, a company needs to establish routines regarding distribution of information. Another purpose of coordination mechanisms is to supply the focal actors with crucial information (Hallberg & Gibe, 2007). Further the distribution of information has an influence on the decision-making in an organization (Cyert & March, 1963). Our empirical data shows that two views on coordination exist at the respondent companies. Either the companies try to formalize as much of the coordination as possible or they rely on informal ways of coordination. Before becoming more specific we provide the reader with a table showing which coordination system each of the respondent companies rely on.

	Alfa Laval	Arboga-Darenth	BE Group	Lindab	Rottne	CRP
Informal coordination		X			X	
Formal coordination	X		X	X		X

Table 5: Company overview, Coordination mechanisms

Since Arboga-Darenth is small and only 5-6 employees work with pricing, the company relies on their flat hierarchy, short chain of command and informal meetings or even discussions to coordinate and distribute information. At Rottne the management meets once or twice a year to

discuss list prices. This might seem far too seldom. However, since only 15 people work at the Rottne headquarters, information is distributed informally, the same way it is done at Arboga-Darenth. At these two companies there simply is no need for formal coordination since all employees involved meet on a daily basis. At Alfa Laval an entirely different approach is used. Alfa Laval uses big scale projects, seminars and conferences to distribute information on pricing. Since the people involved in the pricing process are located all over the world and do not meet on a regular basis, this is necessary. The approach is highly formalized and the company has the intention to systemize as much of the coordination as possible – quite the opposite of Rottne and Arboga-Darenth. BE, Lindab and CRP also relies on formal coordination systems.

Gaining commitment, i.e. developing consensus on pricing in the company, is described by Dutta et al (2003) as important. This is about that all employees set price according to the same strategic logic. This is confirmed by Mr. Fahleryd from AFK who emphasizes that it is important that everyone at the company understands and grasps the bigger picture. Through analyzing the empirical data we identified that the respondent companies used three coordination mechanisms: education, management commitment and simplifying concepts. Finally, we explain the problem with lack of continuous focus in pricing strategy

Education appears to be an important way to distribute information regarding pricing. Some companies in our study consider education and distribution of information exactly the same thing. However, all respondents said that they provide their employees with some form of education. At CRP focus is given to educate sellers so that they are well prepared for negotiating with customers – giving the sellers an informational advantage over the customer. Even though this education is designed for practical use, i.e. preparing sellers, this education also serves to distribute information in the organization. Another example of distribution of knowledge through education is The Business Acumen program at Lindab, which both serves as education, but is also an opportunity for employees to discuss a wide variety of pricing related topics. The way they go about it is that cross-functional teams are set up, something that Dutta et al (2003) also mentions as crucial for coordinating pricing. The cross-functional teams enable the sellers to learn from each other. However, management also participates and thus adds interesting perspectives and experiences.

Gaining commitment, developing consensus and making sure that everyone understands the bigger picture at the respondent companies, appear to be achieved by showing that

management considers pricing important. At BE pricing has been given an own chapter in the internal business plan. The business plan is then spread throughout the organization and employees are encouraged to read it. This has two effects. Firstly it is an efficient way of spreading pricing related information throughout the organization. Secondly – and maybe even more importantly - this signals that management considers pricing an important issue. It lifts pricing, that used to be an issue on worker level, to a management level – but enables both workers and management to take part. Showing that management considers pricing an important issue is further something that Richards et al (2005) mention as crucial to battle the over delegation problem.

Another coordination mechanism is to simplify business concepts. The new company Chief Executive at Lindab has an outspoken ambition to simplify business concepts so that everyone understands them. This has two effects, firstly it enables everyone in the organization to understand quite abstract concepts, thus making coordination possible. Secondly it signals that management is determined to make sure everyone in the organization understands pricing, thus giving the issue a high priority. Mr. Fahleryd described the problem with *fancy words*, something Lindab has countered with the above mentioned approach. Another approach taken by Lindab in order to show management commitment to pricing is that every product is assigned a special product manager who is responsible for the specific product. This manager is responsible for coordinating and gaining commitment for pricing strategies regarding this specific product. The product manager is also a link from management to lower hierarchical levels in the company. By assigning a responsible manager to every product, management shows their commitment to pricing while simultaneously giving employees the opportunity to discuss pricing related issues with these managers.

Our empirical data suggests that - although no company mentioned it as being a problem – the respondent companies do not continuously work with pricing coordination. For example, the project at Alfa Laval, no matter how ambitious, appears to be a one time consulting event. Another example is when CRP noticed lacking business sense in the sales force and did a targeted educational effort to counter this. However, no continuous approach to improve business sense was taken. It appears as if though our respondent companies do targeted efforts to counter pricing problems but fail to implement continuous improvements.

5.6 Summary of analysis

In this chapter we have analyzed the empirical data using our theoretical framework. The respondent companies gathered three types of information: cost-, competitor- and customer information. However, the companies differ to what extent they gather this information – some only consider costs information whereas others gather all three kinds of information. When it comes to the skills of the employees, all companies considered technical skill and building customer relations important, whereas skill to strategically analyze information and skill to define customer value were only considered important by some companies. It further became obvious that some of our respondent companies suffered from conflicts of interest within the company. The majority of the respondent companies seem not to have optimal incentive structures for the sales force. Furthermore, some respondents admitted that some of their sellers perhaps have too close relationships with customers. Finally, the mindset regarding pricing widely differed among the employees at some of the respondent companies. When the respondent companies coordinate their pricing efforts they choose to do it formal or informal. Regarding coordination mechanisms companies educate their employees, try to simplify pricing concepts and show management commitment to pricing. After having summarized the analysis chapter we will now turn to chapter six – the conclusions.

6 Conclusions

In this chapter we will describe the conclusions that we have come to in this thesis. Our conclusions consist of the concept of barriers. Firstly, we will describe this concept and exemplify what barriers we have identified in our respondent companies. Thereafter we will discuss the concept of barriers on a more general level, thus explaining our theoretical contribution with this thesis.

6.1 Introduction

From the analysis chapter we can draw the conclusion that the pricing capability varies at our respondent companies. This seems to be in line with our theoretical framework where it was argued that resources and capabilities are firm specific – thus, they vary (Amit & Schoemaker, 1993). Besides concluding that the pricing capability varies among the respondent companies, we have identified barriers at our respondent companies – barriers that prevent the respondent companies from improving their pricing capability. Although pricing capabilities are firm specific, we argue that the barriers we have identified are not firm specific and can be overcome. As mentioned in the methodology section the respondent companies differed in characteristic like turnover, number of employees, ownership structure, and competitiveness of their markets. However, what appeared to be a barrier for one company was not an issue at all for another one – this is the reason why we believe that the barriers can be overcome. Moreover several companies suffered from the same barrier, which further convinced us of that the barriers should not be considered firm specific.

6.2 Barriers

We have identified and selected five barriers that are relevant for the respondent companies: The Information Barrier, The Poor Incentive Structure Barrier, The Customer Relationship Barrier, The Mindset Barrier, and finally The “One-time-thing”-Barrier. We mean that barriers symbolize obstructions that need to be overcome. By overcoming these barriers companies can improve their pricing capability. Now the barriers will be presented one at a time.

6.2.1 The Information Barrier

From the empirical data we can conclude that the companies in this study all are aware of the importance of competitor- and customer information. Furthermore, the companies are able to attain the information they want, through gossip, good customer relationships or other sources. However, a barrier exists in how companies use the information when setting the price. As the table in the analysis section shows, not all companies use competitor- and customer information when setting the price. Competitor information is gathered for strategic purposes, i.e. when the management researches strategic options. Unfortunately, this information is not always used in the price setting process.

It is common that customer information is gathered for product development purposes, like for instance at Rottne, a company renowned for great products - products that are practically customized for the customer. However, no matter how good they are at using customer information to develop products, this information is not used in the price setting process. Richards et al (2005) calls this issue the under-analyze problem whereby he means that when using too simple pricing methods, which only considers cost information. The Information Barrier is about using information that is already in the company and with the help of this information get a higher price. By becoming aware of this barrier a company can overcome the barrier and establish linkages and exchanges in order to make sure that competitor- as well as customer information, which is already in the company, is used in the price setting process.

6.2.2 The Poor Incentive Structure Barrier

It has become apparent that a barrier in developing the pricing capability is a poorly constructed incentive system for the sales force. Poorly designed incentive structure is often justified with the argument that it is necessary in order to gain market share. However, if companies' rewards their sales force based on volume of sales, the sales force will have no incentive to achieve high prices from customers – in fact they will have incentive to set prices low. This traps the company in a low-price trap in two ways. Firstly, customers that once have received a low price are unlikely to pay a higher price in the future, if this cannot be motivated by higher perceived customer value. Secondly, the sales force is unlikely to be positive to a change from volume based incentive structure to a margin based incentive structure, as it will negatively affect their salaries. We argue

that companies must overcome the barrier of poorly designed incentive structures as it traps them in a low-price trap. The theories of Cyert & March (1963) state a company must balance competing interests within the organization. A well balanced incentive structure unifies the interests of the individual seller with the interests of the company. To combat this barrier companies need to develop an incentive structure which does not give incentive to the sellers to set too low prices.

6.2.3 The Too Close Customer Relationship Barrier

What further has become obvious during the interviews is that too close customer relationships not always are advantageous. If the customer and the seller get too close this can have the effect that sellers “happen” to set low prices, or to put it more clearly - the relationship has become too friendly and lost the necessary professionalism needed to conduct business. This is the customer relationship barrier. However, we would like to clarify that good customer relationships are necessary but too close relationships can affect prices in a negative way. In order to ensure that the seller does not set prices too low, a system for delegation of authority must be developed. Actually, many of our respondent companies have begun to approach this problem by introducing a threshold margin. This is a step in the right direction but since many of the respondent companies still consider this a problem – more needs to be done, the barrier of too close customer relationships need to be combated with systems for delegation of authority.

6.2.4 The Mindset Barrier

The fourth barrier deals with the differing ideas of what selling actually is. Alfa Laval described selling as both a “kind of art” as well as a system that can be standardized and taught, this captures the essence of the differing mindset barrier. We can conclude that several companies admitted that the mindset differs among their employees. Further, one of the companies admitted that this have had negative effects. The problem with differing mindset was also considered an issue within coordination mechanisms. Indeed, we argue that a differing mindset within the company is negative. However, a company can be successful independent of which mindset the company has as long as it is unified within the company. Thus the companies need to overcome

different mindsets regarding pricing and unite the employees on the company pricing strategy. A strong unified mindset is an important part of a pricing capability.

Another issue with the mindset barrier is that companies tend to get stuck in old traditional ways of acting and thinking. For example, Rottne could not explicitly explain why they priced as they did, it was rather something that was no longer questioned. Lindab expressed that the mindset of the sales force hindered them from raising the prices. They were stuck in old ways of thinking and acting and thus could not develop new arguments for raising the price. This barrier was further described by Mr. Fahleryd who meant that sellers sometimes are afraid of raising the price because they do not think it is possible due to the “so it has been and will always be”-mentality. This is a sign of what Arthur (1994) calls path dependency, i.e. it shows that companies have got stuck in an old mindset. This can only be overcome by getting aware of the issue.

6.2.5 The “One Time Thing”-Barrier

Finally a company must take a continuous approach to pricing, making it a part of everyday life. We can conclude that our respondent companies tend to view pricing as a one time thing - something that a consultancy firm can develop or something that can be countered by a targeted education. Mr. Fahleryd says that successful companies have pricing on the agenda, show management commitment and constantly work with it. Richards et al (2005) state that lacking management commitment is a common problem within pricing. Richards et al (2005) call this the over delegation problem. We argue that if management commitment is not present the company will suffer from the one time thing barrier. A company that wants to develop a pricing capability that in fact is sustainable needs to look far into the future and really give the development of the pricing capability the time it needs – thus overcoming the view that pricing is a one time thing. Through showing management commitment to the pricing strategy and have a long-term focus, a company can overcome the one time thing barrier.

Now that we have presented our main conclusion, the concept of barriers, we would like to discuss this issue on a more overall level and relate back to our theoretical framework. Further, we will shortly discuss if and how we think a pricing capability can lay the foundation for a

competitive advantage. The goal with the upcoming discussion is to provide the reader with our theoretical contribution and to answer the second part of our purpose.

6.3 Concluding remarks

To conclude our thesis we would like to discuss the effects of the barriers in a broader company strategic perspective. The barriers identified in this thesis can and should be overcome by any company. We argue that the barriers are what lie between the zero-level capabilities, for instance the cost plus method, and the development of a dynamic capability, i.e. pricing capability. Through working continuously with pricing and overcoming barriers a company can develop what Dutta et al (2003) call a pricing capability. For example, Alfa Laval and Lindab manages to combine information gathering, skills and know how and being aware of conflicts of interests – thus, laying a basis for a dynamic capability, i.e. a pricing capability. With a dynamic pricing capability Alfa Laval and Lindab has many strategic options and with these the possibility to adapt to different and changing pricing challenges.

However, we now urge the reader to take one step back and consider the implications of the pricing capability from an overall RBV perspective. Remember from the theory that RBV states that any knowledge that is imitable is insufficient to provide a sustainable competitive advantage since other companies can imitate this knowledge. Imitable knowledge provides no uniqueness, and uniqueness is the basic foundation of the sustainable competitive advantage. We argue that any company can overcome the identified barriers in this thesis. But overcoming the barriers alone does not provide the company with a sustainable competitive advantage. However, there are two other aspects that are the result of a developed pricing capability can lay the foundation for a sustainable competitive advantage. The two aspects are time decompression diseconomies and the strategy aspect. With the first aspect we argue that a company that manages to develop a pricing capability on an earlier stage than the competition gains a head start in relation to competitors. They can use their highly developed pricing capability in order to capture business opportunities that other companies miss. We mean that this head start gained by a company can be difficult for other companies to catch up. This phenomenon is called the time decompression diseconomies. This concept was described in the theoretical section and means that catching up a head start only through increased investment may be difficult. Although time

compression of diseconomies can provide a great advantage, we argue that a company should not solely rely on this, but also integrate the pricing capability with the company strategy – which leads us to our second aspect.

By developing a pricing capability a company opens up a virtual toolbox of possible strategic pricing options. For example, the strategic pricing options available for a company using only cost plus pricing are few. However, a highly developed pricing capability gives the company the possibility to choose between different “tools” from the strategic pricing toolbox, thus providing the company with more strategic opportunities. If a company succeeds in integrating and combining its pricing capability with the right strategies needed for different markets, products, and environments, we mean that the foundation for developing a sustainable competitive advantage is provided.

Summarized we argue that a company which has a highly developed pricing capability can enjoy the advantage of time decompression diseconomies – at least for a while. Secondly, the development of a pricing capability provides the company with a broader range of strategic pricing options to choose from. To fully utilize the advantages gained through a highly developed pricing capability the company needs to relate the pricing capability with the overall company strategy. We mean that this lays the foundation for a sustainable competitive advantage.

6.3.1 Theoretical contribution

In this thesis our modification of Dutta et al (2003) was applied in six industrial companies. Thus, we argue that we have tested, and even more importantly, concretized the Dutta et al (2003) framework in order to study how it applies in the real world. In line with the abductive approach we have moved back and forth between theory and empirical data when developing the theoretical framework. The reader can return to the “Five-Pronged Approach” in the research method section to see that step four is “Analyze and revise theoretical framework”. When we analyzed companies with the theoretical framework, we identified barriers, which we mean companies should overcome. Hence, we have used our theoretical framework to identify a new phenomenon connected to pricing capabilities – barriers. Finally, we argue that overcoming barriers and reaching a pricing capability alone is not sufficient to create a competitive advantage. To achieve a competitive advantage, companies must combine their pricing capability with the

company strategy, thus realizing that these two elements need to be integrated. Only then can companies be able to develop a competitive advantage. Hence, we argue that the approach introduced by Dutta et al (2003) need to be combined with a strategic approach in order to enable the development of a true competitive advantage.

6.4 Critical reflection

You have now come to the end of our thesis. However, we find it important to critically review our conclusions, i.e. are our conclusions a result of logical reason? What strengths and weaknesses do our conclusions possess?

It is important to note that the conclusions drawn in this thesis are reliable for the respondent companies and are not to be uncritically generalized onto other companies. Nevertheless, one could possibly generalize to companies within the industrial sector. However, we would like to recommend the reader to use these results in order to create understanding and awareness of the barriers rather than uncritically generalize to other companies.

Our conclusions are built upon theories of pricing capability with Dutta et al (2003) as the most dominating source. It is important to raise the awareness of that this thesis is built upon assumptions made in those theories and could consequently serve as an extension of possible errors in those theories. Further we would like to point out that since we only use one of the two dimensions in the Dutta et al (2003) framework, the results in this thesis must be complemented with that of the thesis dealing with the vis-à-vis-customer dimension.

The fact that we only interviewed one pricing consultant should be critically addressed. Since we only interviewed one consultant we cannot verify that his opinions represent the opinions of other consultants as well.

One last critical reflection is connected to our empirical gathering. It is important to note that our empirical findings are based upon how a few individuals in the respondent companies relates to pricing and it is not to be taken for granted that the answers would be exactly the same if other persons were to be asked within the same company. However, we do believe that we have presented a reliable picture of pricing within the respondent companies through interviewing the persons we found the most influential in the price setting process.

6.5 Suggestions for further research

- Conducting a study on the barriers that were identified in this study but try to see if the same barriers are common in other industries, like for instance in the service sector.
- Giving pricing capability barriers a time perspective and study how barriers to a pricing capability evolve, the reasons behind this and how it could be prevented.
- Much research have been conducted on incentive structures in general but one suggestion could be to study how the incentive structure can be constructed in order to prevent the risks of conflicts of interest and take a pricing capability perspective.
- Study the interrelationship between pricing capability and pricing strategy in industrial companies in B2B markets.

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Appendix: Intervjuguide

Inledning

- Kort presentation av intervjupersonen samt dennes position och ansvarsområden.

Strategi – Nuläget

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

Ansvar- och rollfördelning

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

Kultur och attityder

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

Understöd och information

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

Skills

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

Kundrelation

- Beskriv er relation till kunderna.

Kommunikation

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

Förhandling

- Varierar priser mellan olika kunder?

Interview guide

Introduction

- How long have you worked here?
 - o What is your position and area of responsibility?
- For how long have you worked with pricing or pricing related issues?
 - o Do you have any specific education within the area of pricing?

Strategy

- Please describe the process of how you price your products.
 - o Is that the way it has always been done? Please reflect on the history of Trelleborg pricing.
 - o What are the pros and cons with this method?
- What is the current strategic logic behind the way you set price? Is the goal always to maximize sales?
 - o What separates you from the competition?
 - o Are the prices ever adjusted in order to reach operational goals? (short-sight vs. long-sight)
 - Is the pricing process well structured? Do you always go about it in the same manner?
- Does the strategy agree with the way it really happens in the company? Do you ever deviate from the strategy? Why, when?

Responsibilities and roles

- Who decides the end-price?
 - o Who has informal and formal influence on the end-price?
 - o Which stakeholders might be interested in high or low prices?
 - o Are the salesmen free to set the prices? To what degree are they free?

Culture and attitude

- How is price setting considered in the company?
 - o Is pricing a prioritized topic in the company?

- Does pricing receive the same amount of attention as for instance a new product?
- Have you noticed any substantial changes in the way you set the price as of late?
- Is it possible to communicate over the divisional borders? Do you have a language for pricing?
- What drives the salespeople? In what way are they compensated for their efforts (profit or volume)?

Support and information

- What information and support do the salespeople have access to?
 - Do you use supporting computer systems?
 - Please describe them.
 - How are they used?
 - Do all users understand the information in the system?
 - Do the systems have a supporting role or are they crucial?
- What information is taken into consideration when setting price?
 - Do you know how your competitors price?
 - Is this considered when you set price?
 - Are old transactions considered?
 - How do you coordinate information when pricing?
 - Do you use cross-functional work-groups?
 - Does everyone in the company have access to customer information or only the salespeople?
 - Does salespeople met on a regular basis to exchange information and experience?

Skills

- What knowledge is needed to set price?
 - Does the people responsible for setting the price posses the relevant education at the moment?
 - What educational background do the salespeople have?

- Do you have any educational program for the salespeople?
 - Conferences, meetings?
- Do you consider you brand when setting price? In what way?

Customer relation

- Describe your relationship with your customers
- How do you go about it when changing a price?
- Do you have any internal ways of ensuring quality?
- Availability?

Negotiation

- Does the price vary between different customers?

Finish

- May we contact you again?