

**Facilitating value-based pricing
transformation: what hinders sales force
buy-in?**

Gustav Henriksson
Kristoffer Rönnels

Företagsekonomiska Institutionen
Ekonomihögskolan, Lunds Universitet
Box 7080, S, S-220 07
Lund

Institutionen för Produktionsekonomi
Lunds Tekniska Högskola
Box 118, S-221 00
Lund

Copyright © Gustav Henriksson; Kristoffer Rönnels

Examensarbete i Technology Management - Nr 266/2014
ISSN 1651-0100
ISRN LUTVDG/VTM--2014/05/09--/SE

Tryckeriet I E-huset, Lund 2014
Printed in Sweden

Abstract

- Title:** Facilitating value-based pricing transformation: what hinders sales force buy-in?
- Authors:** Gustav Henriksson – Master of Science in Engineering Nanoscience with Technology Management
Kristoffer Rönnels – Master of Science in Business Administration with Technology Management
- Tutors:** Stein Kleppestø – *PhD and Assistant professor*, Department of Business Administration, Lund University School of Business and Economics
Lars Bengtsson – *Professor*, Production Management, Faculty of Engineering, LTH
- Background:** Today, many companies use a cost-based and sometimes competition-based pricing approach. Since academia agrees that value based pricing is superior for creating profit, the problem is not in identifying an ideal pricing strategy, but to understand and facilitate the transformation process towards value-based pricing. Only a limited amount of research has so far been put on understanding the sales force; the part of the organization which will ultimately carry out the operational changes. The authors argue that it is of great importance to get their buy-in, and therefore aim to understand what obstacles the members of the sales force perceive in value-based pricing.
- Purpose:** To refine and further develop existing knowledge on how to facilitate value-based pricing transformation.
- Method:** The study was performed using triangulation by combining qualitative and quantitative research methods. First, members of the sales force at *Informatikka* were interviewed in order to produce proposals and hypotheses on what would hinder sales force buy-in. These were then tested in a questionnaire sent out to a larger share of the total population.
- Conclusions:** The interviews found eight obstacles perceived by the sales force at *Informatikka*. The perceived severity of the obstacles seemed to be dependent on previous experience of value-based pricing, which was confirmed by the questionnaires.
- Keywords:** Value-based pricing, value-based pricing transformation, pricing capabilities, sales force, obstacles, buy-in.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

Nowadays people know the price of everything and the value of nothing.

– Oscar Wilde, *The Picture of Dorian Gray*

Facilitating value-based pricing transformation: what hinders sales force buy-in?

Acknowledgements

First of all, we would like to take the opportunity to express how interesting the process of writing this master thesis has been. Right now the field of pricing seems to be expanding at a very high pace. Exploring the academic field, from beginning to end, has given us a lot of insights and confirmed the perception of pricing as a key strategic activity.

The journey has shed light on a quite small group of academics that are driving the novel and scarcely explored academic field of value-based pricing transformation; a group of academics whose work has laid the foundation of this master thesis. After over four months intellectual grinding we have begun to question the value of researching value-based pricing transformation as a unique phenomenon. This is further discussed in chapter 6.3, but perhaps our thoughts can help explain why this academic field has only been covered to the limited extent that it has.

We would not have come this far in our analysis and in our understanding of value-based pricing transformation without the crucial and very helpful feedback from our two exceptional tutors Stein Kleppestø and Lars Bengtsson. Their guidance and integrity has prevented us from taking the easy way out, kept us questioning ourselves and our work, as well as the work by others. Without them we would have only learnt a fraction of what we have, and for that we are thankful.

We would also like to dedicate thanks to Linn Andersson and Niklas Hallberg from Lund University School of Economics and Management. Two experts on pricing whom both gave us a sober and nuanced view on value-based pricing transformation when we were still reading the value based-pricing transformation gurus Stephan Liozu and Andreas Hinterhuber like the bible.

Special thanks are directed to the managers at Informatikka for contacting us and requesting this master thesis, and to the sales force for sharing their thoughts and insights with us.

Finally, we would like to thank each other for this past semester; time has flied!

Lund, May 2014

Gustav Henriksson

Kristoffer Rönnels

Facilitating value-based pricing transformation: what hinders sales force buy-in?

Table of content

1	INTRODUCTION	11
1.1	BACKGROUND	11
1.2	PROBLEM DISCUSSION.....	12
1.3	SCOPE AND DELIMITATIONS.....	14
1.4	PURPOSE.....	14
1.5	RESEARCH QUESTIONS.....	14
2	METHOD	15
2.1	SCIENTIFIC APPROACH	15
2.2	RESEARCH DESIGN	15
2.3	GATHERING OF EMPIRICAL MATERIAL	17
2.4	ANALYZING QUALITATIVE AND QUANTITATIVE DATA	19
2.5	CREDIBILITY AND QUALITY CRITERIA.....	20
2.6	METHOD CRITICISM	20
3	THEORETICAL FRAMEWORK	23
3.1	PRICING	23
3.2	VALUE-BASED PRICING TRANSFORMATION; THE DEVELOPMENT OF PRICING CAPABILITIES.....	26
3.3	THEORETICAL FRAMEWORK	32
4	QUALITATIVE STUDY	33
4.1	PREPARING THE STUDY	33
4.2	CARRYING OUT THE STUDY	35
5	QUANTITATIVE STUDY	41
5.1	PREPARING THE STUDY	41
5.2	CARRYING OUT THE STUDY	44
5.3	PRESENTING AND ANALYZING THE RESULTS FROM THE QUESTIONNAIRE	46
6	FINALE	59
6.1	KEY FINDINGS	59
6.2	CONCLUSIONS	62
6.3	DISCUSSION	63
6.4	FURTHER RESEARCH.....	67
7	BIBLIOGRAPHY	69
8	APPENDIX I INTERVIEW GUIDE	71
8.1	FIRST ROUND OF INTERVIEWS:	71
8.2	FINAL ROUND OF INTERVIEWS:	73
9	APPENDIX II QUESTIONNAIRE	76
10	APPENDIX III CALCULATION TABLE	80

Definitions

- Value-based pricing:** Value-based pricing use the value that a product or service delivers to a predefined segment of customers as the main factor for setting price.
- Pricing capability:** To view pricing as a strategic capability, resource-based view, (Barney, 1991). See chapter 3 for further explanation.
- Buy-in:** Buy-in means the commitment of affected stakeholders to the decision to 'buy into' value-based pricing transformation. In this thesis it is used as the opposite of showing resistance, and therefore agreeing to support a value-based pricing transformation.
- Sales force:** In this master thesis the group called “sales force” are employees at Informatikka that are (1) part of the sales organization and (2) can affect the price setting process.
- Obstacle:** Obstacle in this master thesis refers to the things that the sales force at Informatikka perceive would hinder a value-based pricing transformation.

1 Introduction

In order to appreciate the scope of this master thesis, one must view value-based pricing as the superior pricing strategy, and pricing itself as a strategic capability. The ability to transform into value-based pricing by developing pricing capabilities is key for appropriating a company's produced value. This master thesis aims to refine and further develop knowledge on how to facilitate that transformation.

1.1 Background

1.1.1 Pricing Strategy

Setting prices is a key strategic activity. A price increase of 1 % will on average improve a company's profitability with 11 % according to a study carried out in 2010 by McKinsey & Company, based on a sample of 1200 global companies (Liozu S. , Hinterhuber, Perelli, & Boland, 2011). This gives pricing a far greater leverage in achieving profitability than increasing sales or reducing cost. Despite this, pricing has not been given the same attention as other marketing aspects (Hinterhuber, 2004), (Nagle & Holden, 1995). Historically, changing price has been viewed as an easy and reversible operational activity, but this has changed as the view of pricing as a strategic capability has developed (Dutta, Zbaracki, & Bergen, 2003). Possessing pricing capabilities has been shown to correlate strongly to relative firm performance (Liozu S. , 2012).

All pricing models can be boiled down into three main groups of pricing strategies: cost-based, competition-based and value-based pricing (Hinterhuber, 2008a). Value-based pricing means setting price based on the customer-delivered value. A great multitude of research support that value-based pricing is the pricing strategy that creates the most profit (Ingenbleek, Debruyne, Frambach, & Verhallen, 2003), and lead to superior relative firm performance (Liozu & Hinterhuber, 2013). Despite this only a fraction, about 17 %, of companies apply any form of value-based pricing in a structured way according to a meta-analysis of surveys carried out between the years 1983-2006 (Hinterhuber, 2008b). Instead, most companies still use a cost- or competition-based approach to their pricing (Ingenbleek P. , Debruyne, Frambach, & Verhallen, 2001). Previous research suggests that this is because of the complexity of value-based pricing, sales force management and management support in pricing decisions (Hinterhuber, 2008a).

1.1.2 Case Company

The case company in this thesis wishes to remain anonymous. For practical reasons the company will be referred to as *Informatikka*. Informatikka is a leading business-

to-business provider of communications equipment and communication services worldwide. Informatikka has planned to launch a pricing transformation project to improve margin and profits, and has asked the authors to compile a set of recommendations on what to focus on and what to avoid. The transformation process that is planned to start in 2014 for the region of western and central Europe.

1.2 Problem discussion

1.2.1 Identifying a pricing strategy for Informatikka

The case company Informatikka is active in a highly competitive industry where the trend has been that the big-business customers have consolidated. This has made opportunities larger and more important, creating greater negotiation leverage for the customers. At the same time the industry has seen the entrance of new low-cost competitors from Asia. The competition has added to the pressure on Informatikka's margins and forced the company to agree to unfavorable contract conditions in order to stay competitive, reducing profitability. Informatikka wants to change this and has decided to launch a pricing transformation project (Informatikka, 2014).

Today Informatikka is using a cost-based, and sometimes competition-based, pricing approach. Since academia agrees that value based pricing is superior for creating profit, and Informatikka is trying to break free from competing solely on price, the problem is not in identifying an ideal pricing strategy. The real challenge is to understand the transformation process from the current pricing strategy to a value-based pricing strategy. This is an interesting area to study since it offers scarcely explored academic territory that, if better understood, will help Informatikka in their transformation process.

Although pricing has been around for a very long time, the field of pricing strategy, especially the sub-fields of pricing as a strategic capability and value-based pricing transformation, are novel. There is a lack of established definitions, so in the academic work carried out so far, researchers use a plethora of different terms. This leads to a lot of uncertainty and room for interpretation when defining problems and building theoretical frameworks. There is, for example, no established definition of value-based pricing (Noble & Gruca, 1999). In Hallberg's dissertation from 2008 he criticizes Dutta's groundbreaking article "Pricing process as a capability: A resource-based perspective", for not providing definitions of the key concepts presented (Hallberg, 2008). In this master thesis the definition of value based pricing has been borrowed from Hinterhuber's Customer value-based pricing strategies: Why companies resist:

"Value-based pricing use the value that a product or service delivers to a predefined segment of customers as the main factor for setting price" (Hinterhuber, 2008a).

1.2.2 Value based pricing transformation

Value-based pricing transformation and the development of pricing capabilities has been studied by a number of academics, i.e. Andreas Hinterhuber, Stephan Liozu, Niklas Hallberg, Linn Andersson and Shantanu Dutta. The research has been focused on how to develop pricing capabilities through organizational strategy, governance, leadership and education. Most of these studies are focused on how to succeed with pricing, the exception being Hinterhuber who carried out a study to investigate the obstacles for implementing value-based pricing (Hinterhuber, 2008a).

Only a limited amount of research has, so far, been put on understanding the sales force; the part of the organization which will ultimately carry out the operational changes. Dutta talks of human capital and the necessity to educate the sales force (Dutta et al., 2003), and so does Liozu (Liozu et al., 2011). Dutta also mentions the importance of the sales force in vis-à-vis customer relations and the difficulty of convincing customers of price change logics. These aspects focus on how to help the sales force succeed, but not how to make them want to succeed or even believe in success. In an article by Hinterhuber (2008a), sales force management is described as one of five obstacles for implementing value-based pricing. The five obstacles are: Value assessment, value communication, market segmentation, sales force management and top management support. The three first obstacles can be viewed as practical and technical difficulties when implementing value-based pricing (acquiring information, communicating value, understanding the market, etc.). The last two are a result of human behavior. Understanding this behavior would benefit research on both pricing capability development (Andersson, 2013) and key success factors for value-based pricing transformation (Liozu et al., 2011).

For the authors of this thesis, it is surprising that so little has been written about the sales force. It could either be because no one has carried out research due to lack of interest or importance, or because the field of pricing transformation is novel and only a limited amount of research has been carried out. After performing a literature review it is the authors understanding that it is the latter, and that there are areas of importance yet to be explored within the field of pricing transformation. Hinterhuber (2008a) views sales force management as an obstacle for implementing value-based pricing. The fact that the sales force management can constitute an obstacle indicates that the sales force in itself holds the power to either facilitate or hinder the transformation, elevating the importance of understanding the sales force's view on pricing transformation. This is an area that the authors of this thesis believe has not been satisfactorily researched. In order to facilitate Informatikka's pricing transformation, the authors argue that improving the understanding of the sales force view on value-based pricing could be of real value. Since the sales-force will be the key-players, closest to the customers, when implementing a new pricing strategy it is of great importance to get their buy-in.

Previous research has only scratched the surface, but no one has focused their effort on understanding the sales force views on value-based pricing, nor what could make them resist a transformation. By understanding not only what has been successful in pricing transformations, but also what is standing in its way, the authors of this thesis aim to refine and further develop existing knowledge on how to facilitate value based pricing transformation through the thoughts and perceptions of the sales force.

1.3 Scope and delimitations

Presumably, there are unlimited factors that could hinder sales force buy-in to value-based pricing. However, many of these would only be revealed in a longitudinal or retrospective study. If time and resources were unlimited it would have been very interesting to perform a longitudinal study on the sales force throughout a transformation project. Understanding their perceptions upon entering the transformation, planning and performing facilitating activities and following up their effects. Since time and access was limited, a longitudinal study was not possible to perform. The study had to be carried out in the present and at Informatikka, it had to expand knowledge on how to facilitate value-based pricing transformation through the sales force and it had to create value for Informatikka.

The solution was to try to understand the sales force and what they perceived were obstacles for implementing value-based pricing before actually entering the transformation. By understanding what would hinder sales force buy-in, Informatikka and other companies should be able to better facilitate the initial part of a pricing transformation process by addressing these hinders. Since the study was performed at a business-to-business company, the scope and generalizability of the results are limited to business-to-business companies.

1.4 Purpose

The purpose of this master thesis is to refine and further develop existing knowledge on how to facilitate value-based pricing transformation.

1.5 Research question

What obstacles do the members of the sales force perceive in value-based pricing?

2 Method

The study was carried out with a theoretical deductive approach using triangulation by the combination of qualitative and quantitative research methods. The research was designed in three-steps where the aim was to find obstacles that the sales force perceived towards introducing value-based pricing.

2.1 Scientific approach

The purpose of the study in this master thesis was to “[...] *refine and further develop existing knowledge on how to facilitate value-based pricing transformation*”. The authors therefore used a deductive theoretical approach where “[...] *expectations of reality are formed before testing them*” (Jacobsen, 2002, p. 42). The study was carried out using triangulation by combining two different research methods. First a qualitative part where obstacles were discovered, and a second quantitative part where they were confirmed using questionnaires.

The study was explanatory, since the research question “*What obstacles do the members of the sales force perceive in value-based pricing?*” aims to explain what the sales forces-perceived obstacles are.

After the interviews two hypotheses were formed and subsequently tested in the questionnaires. An explanatory research question is suitable for testing a formed hypothesis. The answer will, in the ideal case, clarify the connection between different relationships (Jacobsen, 2002), in this case the relationship was between the perceived severity-level of the obstacles and previous experience of value-based pricing.

2.2 Research design

The research design was arranged in a three-step process, as shown in figure 1. The first step was to complete a literature review in order to gain deep theoretical insights of value-based pricing. This was used to build a theoretical framework that would later on be used for identify gaps in current theory. These gaps would then indicate where an academic contribution to the field of pricing could be identified. The second step was to qualitatively explore that area. This was done by holding seven in depth, semi-structured, interviews. The third step was a quantitative survey carried out to confirm the findings so that the gap in the theoretical framework could be filled.



Figure 1: The three-step process carrying out the study.

2.2.1 Theoretic foundation

The literature review consisted of academic articles, books and dissertations within the field of pricing, pricing capabilities and value-based pricing transformation. The authors also contacted two experts on the subject, Niklas Hallberg, PhD, and Linn Andersson, PhD, Lund University School of Economics and Management. A visit to a local company, Alfa Laval, which had already begun a pricing transformation project, was also carried out.

2.2.2 Qualitative research

Qualitative research is described as useful for generating theories and hypotheses, rather than for testing theories and hypotheses (Bryman & Bell, 2003, p. 41) (Jacobsen, 2002, p. 48). Emphasis is put on words rather than numbers, and data is often gathered in an open and less structured way (Bryman & Bell, 2003, pp. 297-300). This method was preferred in step two of the process, in order to, in an exploratory way, find obstacles perceived by the interviewees.

2.2.3 Quantitative research

Quantitative research puts emphasis on the data gathered or analyzed being possible to quantify. The quantitative research method is suitable testing theories and hypotheses (Bryman & Bell, 2003, p. 40). Since the perceived obstacles were generated during interviews, performed with a qualitative research method, the quantitative questionnaires were used to confirm the results.

2.2.4 Combining qualitative and quantitative research

The research design, combining qualitative and quantitative approaches was inspired by Jacobsen (2002, p. 151), who argues that the ideal research design is to combine different approaches. Bryman & Bell (2003, p. 505) also states that qualitative research can be used to provide propositions or hypotheses that can be tested by using quantitative research. The qualitative approach would also make it possible for the authors to gain a deeper understanding of the sales organization's

situation. Qualitative and quantitative research methods have been viewed as complementary rather than in competition with each other in this thesis.

By combining the two methods the principles of triangulation were applied to increase reliability of the results from the studied phenomenon (Jacobsen, 2002, p. 151). Triangulation, in a business research method context, means to control and verify results from one research method by applying another on the same studied phenomenon (Bryman & Bell, 2003, p. 503).

2.3 Gathering of empirical material

Primary data means data originally gathered by the researchers themselves, while secondary data is data gathered, and sometimes analyzed, by others in already performed studies (Jacobsen, 2002, p. 208). In this thesis the primary data was gathered through interviews and a questionnaire filled out by members of Informatikka's sales force.

2.3.1 Semi structured individual qualitative interviews

For part two of the study, seven interviews limited to 45 minutes each, were carried out. Due to the risk of not reaching all areas of interest quickly enough, fully exploratory and un-structured interviews were deselected, and the semi-structured approach chosen. Semi-structured in this context means that the authors had a list of specific themes for the questions, and questions themselves were open ended (Bryman & Bell, 2003, p. 363). Semi-structured individual interviews are suitable for a small sample of interviewees, and characterized by the interviewers and interviewees having a conversation, while data is gathered as words and sentences (Jacobsen, 2002, p. 160).

The interviews used open-ended questions in order to reveal the interviewee's views and standpoints (Bryman & Bell, 2003, p. 361), in relation to theory. The openness of interviews can be ranked from completely closed, with fixed questions and answers, to fully open (Jacobsen, 2002, p. 163). In this study the interviews were closer to fully open, i.e. the interview guide and the questions were allowed to evolve with the answers in order to progress and reach deeper insight (Bryman & Bell, 2003, p. 361). For the full interview guide, see appendix I. All the interviewees were ensured that their answers would be anonymous and that no quotes would be published without their approval.

The interviews were performed over telephone. The sole reason for performing the interviews over telephone was that face-to-face interviews would have been costly and time consuming since the interviewees were located in different offices in different countries. Negative effects of using telephone interviews is that it is an

impersonal medium where it is difficult to create a conversant atmosphere and interpret facial expressions and body language of the interviewee (Jacobsen, 2002, pp. 161-162) (Bryman & Bell, 2003, pp. 140-141). However, there are important positive effects of using telephone interviews. Since it is more anonymous than face-to-face interviews the *interviewer's effect* is decreased. The interviewer's effect is described as the effect the interviewers have on the interviewees in terms of facial expressions, body language etc. (Jacobsen, 2002, pp. 161-162) (Bryman & Bell, 2003, pp. 140-141).

The seven interviewees were selected randomly among people working in the sales organization at Informatikka, except for the precondition that the interviewees had to be spread out over different geographical locations. This was decided in order to make it possible to discover differences in attitude depending on the different areas and markets.

2.3.2 Questionnaire

In the third step of the research process, quantitative data was gathered from a questionnaire that was sent out to employees within the sales organization of Informatikka. The reasons for choosing a questionnaire for gathering quantitative data were; it was easy to send to many respondents, it was not very costly, it was easy to administrate and the interviewer's effect was eliminated. The online survey-tool Google Forms was used because it is free, and because the data could be easily exported to Microsoft Excel for analysis.

Before sending out the questionnaire to the whole population a pilot study was performed. A pilot study is carried out on a small sample of respondents in order to improve the questions and ensure the quality (Bryman & Bell, 2003, p. 191). Since the authors did not have the ability to assist the respondents when filling out the questionnaire, the pilot study was necessary in order to ensure that the questions were understood in the desired way.

A definition of value-based pricing was provided in the questionnaire in order ensure validity by having all respondents use the same definition. This was preferred over stating a full scenario describing a transformation process and its consequences in close detail. A scenario would have increased the validity in the way that all respondents would have answered to exactly the same questions. However, the scenario would have decreased the generalizability to such an extent that it was decided to settle with a hygienic level of convergence among the respondents to all understand the basics of value-based pricing. This way all respondents provided their own perception on the defined term "value-based pricing", which is exactly what the questionnaire aimed to measure.

The questionnaire consisted of 43 questions in total; where the initial questions were neutral questions about the respondents' work area, education etc. The following questions were shuffled and divided into different pages so that the respondents could not see all the questions at once. It was not possible to go back once a page was completed. The questionnaire was constructed in this way to encourage intuitive answers by making it difficult for the respondents to discover patterns in the questions. Each question was formulated as a statement that was to be ranked on a bipolar scale between 1 and 7, where 1, on most questions, stood for 'strongly disagree' and 7 for 'strongly agree'. Each statement was supplemented with a later one stated with an inverted formulation, in order to discover and remove answers not matching to increase reliability. In the end of the questionnaire an open-ended question was provided for comments about the questions or if the respondents wanted to add something or had not understood something. This was provided in order to identify if any respondents had trouble understanding questions, affecting the reliability of the answers. Please read more about how the questions were designed can be found in chapter 5.

The complete questionnaire can be found in appendix II. The sample of 65 respondents was selected randomly from the largest markets in Central and Western Europe. This was decided out of convenience and since these large markets alone still contain roughly 90 % of all sales force employees. The 26 responses amount for a response rate of 40 %. All the respondents had influence in pricing, and were contacted by managers at Informatikka.

2.4 Analyzing qualitative and quantitative data

2.4.1 Qualitative data

After performing all the interviews, the authors listened to and transcribed the recordings separately. Afterwards, the results and interpretations of the interviews were compared, to assure internal reliability. The proposed obstacles were sorted into three categories, which helped to facilitate the creation of the questionnaire for the quantitative study. After proposing obstacles, the procedure of listening to the interviews was repeated to ensure that the perceived obstacles were based on what the interviewees had actually said. Please read chapter 4 to learn more about how the obstacles were proposed.

The interviews also produced two hypotheses, based on the discrepancies on the answers from members of the sales force with and without good knowledge of value-based pricing. These were later tested in the quantitative questionnaire.

2.4.2 Quantitative data

The answers from the questionnaires were gathered in an excel file. They were then rearranged into the three categories and then analyzed. By analyzing the answers in frequency diagrams the severity of the obstacles were determined. In order to keep the analysis consistent for all diagrams, mathematical definitions were calculated based on the results from the analysis which produced a *severity ratio*. This severity ratio was subsequently used to analyze the two hypotheses by comparing severity of perceived obstacles between sales force personnel with, with sales force personnel without, previous experience of value-based pricing. For further information on the calculations and the processing of data, please see chapter 5.

2.5 Credibility and quality criteria

Validity is the extent to which a concept, conclusion or measurement corresponds to what it is actually meant to correspond to, and that it is relevant for the purpose (Bryman & Bell, 2003, p. 48) (Jacobsen, 2002, p. 21). Reliability is the extent to which a concept, conclusion or measurement is reliable and can be trusted, with no obvious errors (Bryman & Bell, 2003, p. 48) (Jacobsen, 2002, p. 22). All choices in this study were carefully considered and motivated as described in this chapter, to ensure valid and reliable results. All interviews were recorded and transcribed so that no information would be lost. By ensuring that the authors had heard and interpret all the responses in the same way the internal reliability was kept under control.

The choice to combine qualitative and quantitative research was made in order to ensure the quality of this study. Jacobsen (2002) states that the ideal method is to combine qualitative and quantitative approaches. By testing the results of the qualitative approach quantitative the validity and reliability were improved by triangulation (Bryman & Bell, 2003, pp. 502-503).

2.6 Method criticism

No method is perfect, but awareness of the choices made and taking possible weaknesses into account during execution can help improve the objectivity of the study. Not all researchers agree with the advantages of combining qualitative and quantitative research. The most common arguments against using a combined approach are that different research methods are based on epistemological theses that differ and the perception of that qualitative and quantitative research stands for different paradigms (Bryman & Bell, 2003, pp. 501-502). Of course, these opinions were carefully considered when designing the study. Since the qualitative research was used to formulate hypotheses and the quantitative could then test the

Facilitating value-based pricing transformation: what hinders sales force buy-in?

more accurately, the triangulations upsides were considered to outweigh the criticism that sometimes opposes using a combined scientific approach.

An important aspect to illuminate about the method is that some choices had to be made because of the limited time and budget for the project. Even though it would have been useful with face-to-face interviews with focus groups, the limitations did not make it possible. Since this was known from the start of the project, the choices in designing the study took the limitations in time and budget into consideration.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

3 Theoretical Framework

This chapter provides a theoretical framework based on previous studies within pricing. The fields of pricing capability development and value-based pricing transformation are presented, as is the framework connected to the purpose of the master thesis.

3.1 Pricing

3.1.1 Pricing strategies

All pricing models can be categorized into three main strategy groups: *Cost-based*, *competition-based* and *value-based pricing* (Hinterhuber, 2008a),

1. The cost-based pricing approaches base their price primarily on cost, using cost-plus pricing, mark-up pricing or target-return pricing as method for setting prices. The benefit of cost-based pricing is that the data needed is easily available, the weakness is that it does not take competition or customer willingness to pay into account.
2. A competition-based pricing approach uses anticipated or observed price levels of competitors as primary source for setting prices. Examples are parallel pricing, umbrella pricing, penetration/skim pricing etc. The benefits are that data usually is available, albeit this is not the case for Informatikka. The downside is that it doesn't take customers willingness to pay into account.
3. Value-based pricing use the value that a product or service delivers to a predefined segment of customers as the main factor for setting price. Examples of VBP is perceived value pricing and performance pricing. The greatest benefit is that customer value is taken into consideration. Improved customer knowledge also provides companies with an upper-hand, both towards customers and competitors. By communicating and explaining the value to customers, value-based pricing can improve the captured share of the produced customer value. Putting focus on customer value also improve the understanding of what creates value; this will make it easier for companies to design products, services and solutions that better meet customer's needs (Hinterhuber, 2008a).

The weaknesses of VBP is that the data needed for quantifying customer value can be very difficult to acquire and to interpret. Second, value is not a given for customers themselves, it has to be communicated. And third, the

optimal size and granularity of the segments can vary largely depending on many different market factors. Since there are costs associated with measuring or understanding customer value there comes a point when the gains no longer surplus the cost.

The three pricing strategies are defined in the matrix below (Hinterhuber, 2008a). The matrix was sent to interviewees in order to align definitions before the interviews.

Strategy	Definition	Examples
Cost-based pricing	Prices primarily based on cost	Cost-plus pricing, mark-up pricing, target-return pricing
Competition-based pricing	Prices primarily based on anticipated and observed prices of competitors	Parallel pricing, umbrella pricing, pricing according to market prices
Value-based pricing	Prices based primarily on the value the product delivers to a predefined segment of customers	Perceived value pricing, total cost of ownership, performance pricing

Table 1 A matrix of the three main pricing strategies that was sent out to the interviewees in order to align definitions (Hinterhuber, 2008a).

Out of the three pricing strategy categories value-based pricing is viewed as the superior pricing strategy (Ingenbleek P. , Debruyne, Frambach, & Verhallen, 2003), (Liozu & Hinterhuber, 2013) a view that has gathered academic consensus over the past decade. Despite this only 17 % of companies use VBP according to a meta-analysis of surveys carried out between 1983-2006 (Hinterhuber, 2008b), instead cost and competition based pricing still dominate (Ingenbleek et al., 2001).

3.1.2 Pricing capabilities

Prices are set in order for the seller to appropriate the value of a product or service, and ideally as much of that value as possible (the maximum being the maximum willingness to pay, equivalent to the customers perceived value). The reason why the field of pricing is so interesting is because this is a lot easier said than done; either one sets the price to high which will deter possible consumers from buying, or the price will be set to low leading to un-appropriated value (Nagle & Cressman, 2002). Pricing gets more complicated if one takes into account the difference in experienced value for different customers. Delivering the desired value or appropriating the customer value is not something that can be done simply by adopting a value-based pricing strategy.

In an article from 2003, *Pricing as a Strategic Capability*, Dutta et al. presented the idea that pricing should be viewed as a strategic capability, referring to the Resource Based View (Wernerfelt, 1984) (Dierickx & Cool, 1989) (Barney, 1991) (Peteraf, 1993) (Makadok & Barney, 2001)). By doing this Dutta questioned the view of pricing as something “easy, quick and reversible”, arguing it to be something much more complex. Building and maintaining pricing capabilities is key for appropriating value. Also, building pricing capabilities and practicing value-based pricing will raise awareness of, and improve match between, customer’s desired value and value created (Hinterhuber, 2008a). This was supported by a study later carried out by Hinterhuber and Stephan Liozu in 2012, that shows a correlation of higher profits for companies that have developed pricing capabilities (Liozu S. , 2012).

Resource Based View and Pricing Capability definitions:

The resource based view defines a capability as “a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm” (Makadok & Barney, 2001). “Pricing capabilities allow the firm to appropriate economic value created by other firm resources and capabilities by setting prices that better match the perceived benefit of the product sold ...” (Hallberg, 2008). Dutta, and the authors of this thesis, chose to define pricing capabilities as: “[...] a firm’s capacity to deploy Resources, usually in combination, using organizational processes, to effect a desired end. They are information-based, tangible and intangible processes that are firm specific and are developed over time through complex interactions among the firms Resources.” (Amit & Shoemaker, 1993). And according to Dutta, pricing capability is built up by three types of capital; human, structural and social, “... like three legs of a stool: if one is missing, the whole thing topples over”. Building these capabilities is complex and take time, making them difficult to imitate and thus a source of competitive advantage (Dutta et al., 2003).

3.1.3 Pricing Management

As a consequence of viewing pricing as a capability, a lot of literature discussing how to manage pricing has emerged. Companies are encouraged to not just set, but also manage their prices (Nagle & Cressman, 2002), (Sodhi & Sodhi, 2005). In the article “Don’t just set prices, manage them” Nagle & Cressman introduces the “domain of strategic pricing”. The ultimate goal is to charge customers *maximum willingness to pay*. By applying a *price structure* that determines what products and services add differentiating value, a company can charge for the value, and by this either improve profits, or change customer behavior to eliminate cost. Another part of that structure could be to segment customers better to offer the right value for different segments. The third domain is *pricing processes*, by making sure that there are processes for setting and changing prices, and that there is a clear delegation of

responsibility in the organization. The final domain is *communicating the value*. Another example of pricing management is Sodhi & Sodhi's article where the "six sigma" method is used to manage prices, a method otherwise mostly used for reducing cost.

This literature usually exhibits success stories, and there is only limited effort put on proving the correlation of the pricing management to the success. Also, there is no research on whether or not the same methods would work in other companies, on other markets or in other industries. There is a field that has tried to understand how to develop these pricing capabilities, and this field is called value-based pricing transformation. This is why the authors have chosen to not focus on pricing management, but instead immerse in value-based pricing transformation, covered in the following section.

3.2 Value-based pricing transformation; the development of pricing capabilities

3.2.1 Transformation strategy

Pricing transformation has been covered by a number of academics over the last decade. After Dutta, the literature has mainly focused on how to successfully implement value-based pricing by developing pricing capabilities. Dutta and most other researchers do not explicitly aim to develop pricing capabilities in order to reach value-based pricing. However, all researchers that aim to develop value-based pricing after Dutta, aim to do so by developing pricing capabilities.

Due to the novelty of this academic field, there is a lack of established definitions and terms in the academic work (articles and dissertations) that have been carried out. There has been a plethora of different terms and definitions describing similarly defined occurrences, and it has therefore been a challenge to arrange the pre-existing research into a theoretical framework. Following a review of the literature on development of pricing capabilities, the authors found that most researchers agree that a successful implementation of value-based pricing is dependent on succeeding with two operational activities; (1) introducing and maintaining a pricing information system and (2) negotiating with customers. The different researchers have tried to understand how to develop these activities from different perspectives, i.e. strategic (Hallberg, 2008), (Hinterhuber, 2004), governance (Andersson, 2013), managerial, organizational and causal (Liozu S. , 2012), (Liozu & Hinterhuber, 2013).

Pricing information systems (Andersson, 2013), also called IT-based, price parameters (Hallberg, 2008), Statistics (Sodhi & Sodhi, 2005) (Richards, Reynolds, & Hammerstein, 2005), platforms and tools (Vogel, Bright, & Stalk, 2002), structure

Facilitating value-based pricing transformation: what hinders sales force buy-in?

capital (Dutta et al., 2003), decisions based on data (Liozu & Hinderhuber, 2012) are used to successfully quantify what the customer value is and to understand the value competition is offering. By doing this a value-based price can be reached. In order to succeed with this, academia points to the necessity of producing pricing skills, also called human capital (Dutta et al., 2003), tacit know-how (Dutta et al., 2003), commercial experience (Hallberg, 2008) and talent (Richards, Reynolds, & Hammerstein, 2005).

Negotiation with customers is the second part of implementing VBP. The sales force is responsible for selling the value and for convincing the customer of price change logic (Dutta et al., 2003). In order to succeed with this academia points to the necessity of producing pricing skills. An obstacle for succeeding with this is deficient sales force management (Hinterhuber, 2008a).

The two operational activities will develop from the chosen pricing strategy through governance and management
1. Pricing information system
2. Negotiation with customers

Table 2: Operational activities.

3.2.2 Value-based pricing transformation stakeholders

According to the literature on value-based pricing transformation the stakeholders can be arranged into three categories. (1) Top management (and owners), (2) pricing organization and sales force and (3) customers and competitors.

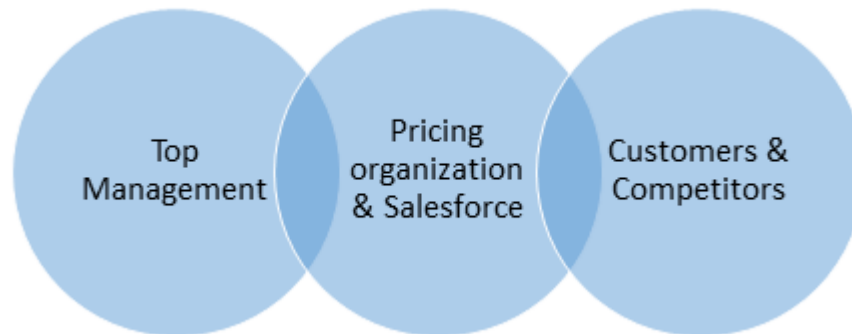


Figure 2. The three main stakeholder categories in value-based pricing transformation.

- Top management are the decision makers in an organization. In order to be successful with a pricing transformation they need to openly support the transformation (Liozu et al., 2011).
- A pricing organization needs to be established, also called Pricing authority (Hallberg, 2008), centralized pricing team (Liozu et al., 2011), pricing management team (Richards et al., 2005), pricing council with seniors (Vogel et al., 2002). The pricing organization together with the sales force will carry out the operational part of the transformation.
- Finally the external parties that will be affected by the transformation are customers and competitors.

Out of these stakeholders top management are responsible for creating governance structures and for supporting the transformation, i.e. allocating resources. Customers and competitors are the two external parties that will be affected by the change in price strategy. The stakeholders that will carry out the operational part transformation are the pricing organization and the sales force.

Pricing organization - The most important role of the pricing organization is to be in charge of the **pricing information systems**.

Sales force - The sales force is responsible for **negotiation with customers**, and are therefore responsible for convincing the customer of price change logic. The sales force is also the entity that will use the data, analyzed by the pricing information system, towards the customers.

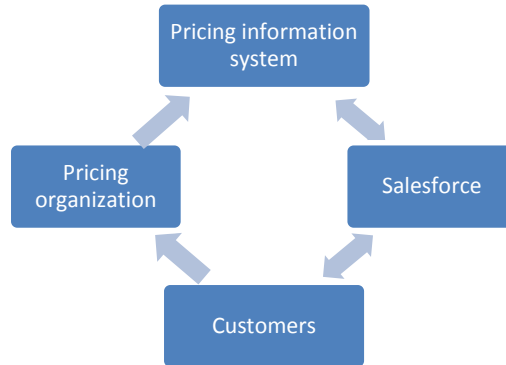


Figure 3: The pricing organization take information of customers and put in the pricing information system. The sales force, however, will give and receive information from the system and use in the vis-à-vis relationship with customer.

Almost all the literature has focused the pricing organization-function and pricing processes; there has only been very limited research carried out on the sales force. But as we can see in figure 3, all operational activity towards the customers will be carried out by the sales force. This creates a theoretical gap that the authors wish to explore further.

3.2.3 Organizational processes

According to the studies, organizational processes need to change in three ways in order for a transformation to be successful:

1. A methodology to set appropriate prices needs to be created, either by introducing a pricing tool kit (Andersson, 2013), Dutta) or by using segmentation and price discrimination (Hallberg, 2008), (Urbany, 2001).
2. A clear delegation and clear roles between the pricing organization and the sales force need to be established (Andersson, 2013), (Sodhi & Sodhi, 2005), (Richards et al., 2005).
3. Align incentives with the pricing strategy (Andersson, 2013), (Hallberg, 2008), (Vogel et al., 2002) and limit the possibility for giving discounts (Sodhi & Sodhi, 2005), (Richards et al., 2005).

According to Dutta the interaction between all parts within the company is of key importance for a successful implementation of value-based pricing, social capital, (Dutta et al., 2003). Since this has not been highlighted in any other work, the authors of this master thesis have chosen to not include this in the theoretical framework.

Another supplement to the organizational processes is the article *“Mindful pricing: transforming organizations through value-based pricing”* (Liozu et. al., 2011) where a

study for identifying key characteristics common in firms that has successfully implemented VBP was performed. The found characteristics were:

- *Companies ability to organizational change*
- *Championing leaders*
 - Executives characterized as driving the internalization of VBP throughout the firm and motivating organizational changes required to support it. Sales and marketing managers reported that the support and conviction from top leaders was essential for the adoption to value-based pricing.
- *Creation and diffusion of organizational mindfulness*
 - Firms in the study empathized importance of training and specially designed training programs for existing and new personnel.
- *Organizational confidence*
 - All VBP firms reported increased confidence of employees when they strongly believed in the team's ability to implement value-based pricing and if they had strong beliefs in the firm's products, technologies and values. This gave sales staff greater courage to stand firm to customers pricing objections. Value-based pricing firms used people development activities such as coaching sales staff, designing specific performance management programs and talent development plans where targeted around value orientation.
- *Center-led pricing teams of experts supporting pricing process*
 - All VBP firms created specialized units of highly skilled professionals with the mission to support the pricing decision-making process.

The center lead pricing teams and importance of training has been discussed earlier, but the other four indicate that there are other areas that are very important to succeed with a pricing transformation. This is something that other authors also refer to: Top management support (Hinterhuber, 2008a); etc. The operational entities that experience the top management support and feels the organizational confidence are pricing management and, as indicated in the article, even more importantly the sales force. The lack of focused research on the sales force once again strike the authors as strange.

3.2.4 Obstacles for implementing value-based pricing

Apart from all literature trying to understand how to develop pricing capabilities and how to introduce value-based pricing Andreas Hinterhuber (2008a) conducted research on what obstacles there were for value-based pricing transformation. The five identified obstacles are: Value assessment, value communication, market segmentation, sales force management and top management support. The three first obstacles can be viewed as practical and technical difficulties when implementing value-based pricing (acquiring information, communicating value,

understanding the market, etc.). The last two are a result of human behavior. The one the authors would like the reader to focus on is the following:

Sales force management is divided into the five areas (Hinterhuber, 2008a):

1. *Level of authority for sales discounts*
Controlling the authority of sales personnel to give discounts when setting prices can enhance profitability. In some circumstances, the sales force should be allowed to set prices in a bigger extent in order to increase profitability. These circumstances include cases in which; the sales force has greater insight of the customers' willingness to pay, they possess outstanding negotiating skills, the willingness to pay varies significantly among different customers and when products are complex.
2. *Sales force remuneration systems*
Value-based pricing strategies require a system that rewards profitability, rather than sales volume or market share.
3. *Fixed and variable remuneration systems*
If management wishes to encourage the sales force to focus on sales quality, such as developing customer relationship, a higher percentage commission should be offered, while a lower percentage should be offered if the focus ought to be on sales volume.
4. *Sales force training and development*
A fundamental shift in the attitude of the sales force is required for an effective implementation of value-based pricing. This entails a change in the way the sales personnel is trained and developed. In order to identify the wishes of customers, the sales force have to learn how to become good listeners and become comfortable in selling solutions rather than products or services.
5. *Sales force monitoring*
Value-based pricing requires that excessive discounts are discouraged in order to maintain target prices. Therefore, sales personnel should be monitored in order to detect price discrepancies. One way of controlling the occurrence of price discrepancies is to use financial incentives or penalties to sales personnel in order to maintain list prices.

Once again the sales force is noticed as the entity that can facilitate, or stand in the way, of value-based pricing.

3.3 Theoretical framework

Going through the literature the focus of studies has been on setting price; understanding the pricing information system, describing previously successful governance and finding the most efficient pricing processes. Successfully communicating price, negotiation with customers, has received a fair share of attention as well, where the need of educating the sales force and aligning incentives have proven to be important. Thus, the theoretical framework looks as the following:

Pricing transformation process		
Before	During	After
Setting price: processes and pricing information system		
Establish pricing management function	Maintain pricing management function	
Governance and delegation		
	Develop price setting process	
	Collect and interpret data from competitors and customers	
Communicating price: Negotiation with customers		
	Educate salesforce	
	Align incentives	
Establish and maintain sales force buy in		

Table 3. The pricing transformation process, divided in its different stages.

There is however, in the authors view, a part that is missing. The pricing management team will be newly assembled and made up of employees hired or promoted to implement value-based pricing. The sales force on the other hand, will have to change their way of work, their routines and the way they approach customers. This is not something done simply by adopting a new strategy. These things take time and demand resources. Based on the studies carried out by Liozu where top management support is key for success (Liozu S. , 2012); or by Hinterhuber that pin-points sales force management as a possible obstacle (sales force monitoring) (Hinterhuber, 2008a); Indicate that external motivational factors have effect on the sales force ability to transform into value based pricing. However, there has not yet been a study trying to understand how to get the sales force buy-in. The sales force is the stakeholder that ultimately needs to adopt the value-based pricing concept and us it in vis-à-vis customer contact. Getting the sales force buy-in early in the transformation process should, as a result, lead to a smoother and more efficient transformation process.

The authors would like to develop the framework by including the sales force. This will be done by understanding what hinders buy-in to value-based pricing. Understanding the sales force before entering the transformation defines the scope.

4 Qualitative study

The exploratory qualitative study in this thesis was carried out on members of the sales force at Informatikka. It consisted of seven semi-structured interviews with sales representatives from across the west- and central Europe region and resulted in eight perceived obstacles for implementing value-based pricing, as well as two hypotheses.

4.1 Preparing the study

The areas covered were chosen in order to form answers to the research question:

What obstacles do the members of the sales force perceive in value-based pricing?

4.1.1 Choosing areas to study

To understand what could hinder sales force buy-in to value-based pricing before an actual implementation was a big challenge when designing the interviews. By understanding what the sales force expected would become “worse” with value-based pricing, the authors hoped to get an idea of what would eventually hinder buy-in. The approach was to understand the expected *delta* (difference) between working with the present pricing strategy and working with value-based pricing. If this *delta* was positive, sales force buy-in would be expected, otherwise, it would be hindered.

The areas were identified from value-based pricing transformation and development of pricing capabilities theory, where the questions were based on the expected operational and organizational changes.

4.1.2 The different areas that were studied

- **Influence** - Questions about influence were asked to better understand how the sales force expected their influence would change if Informatikka were to implement value-based pricing, and how that change in influence would affect their *delta*. This was asked since the sales force pricing authority usually changes as value-based pricing is introduced (Hinterhuber, 2008a), “*Level of authority for sales discount*”.
- **Well-being** - this area was chosen in order to understand what kind of personal impact the sales force expect if Informatikka were to introduce value-based pricing. To do this, the authors tried to detect the first associations the sales force personnel had. It is strongly connected to the

delta, and what perceptions the sales force have of how their situation could change if implementing a new pricing strategy.

- **Rewards** - the area was used to investigate how the sales force expects output of a change to value-based pricing strategy, with emphasis on monetary remuneration. The change is closely related to the sales force *delta*, and also to what Hinterhuber (2008a) terms as *sales force remuneration systems* and *fixed and variable remuneration systems*.
- **Relationship with customers** - since the sales force personnel are the ones responsible for negotiating with customers questions were asked about how a potential transformation to value-based pricing would affect the relationship with current and new customers.
- **Skills/education** - the skills and education area was used in order to see how the sales force experience the expected need of education in order to gain the skills necessary for implementing value-based pricing. This can be related to what Hinterhuber (2008a) terms as *sales force training and development*.
- **Technology** - the questions within this field were asked to find out how the sales force would react to using new technology for quantifying value and what the sales force expected would be needed in terms of technology and pricing information systems.
- **Organizational confidence** - the questions asked within the field of organizational confidence were used in order to understand whether or not the sales force felt confident in Informatikka's ability to transform pricing strategy, and the confidence in products in relation compared to competition and value delivered. The questions were asked since previous research points out that a price transformation towards value-based pricing is more likely to succeed if the employees have a strong belief in the company's products, and the team's ability to implement value-based pricing (Liozu et al., 2011).
- **Price setting** - this area was used in order to understand the current way of setting prices within the interviewees' field of work and what they considered most important for Informatikka to change in order to facilitate value-based pricing. The questions asked within this area were very open in order to detect if something had been missed when asking the other questions.

All themes were broken down into a number of different questions, see the full interview guide from the first and final interview in appendix I.

4.2 Carrying out the study

4.2.1 The interviews

During the interviews a pattern in the way the interviewees' answered was identified. There was little or no constructive response to the questions related to the sales force expected *delta*. There were, however, strong views on whether or not value-based pricing would work, and if Informatikka was capable of change. The sales force had trouble trying to anticipate the *delta* in an implementation scenario, but these "perceived obstacles" were clearly something that kept the interviewees reserved towards the possibility of implementing value-based pricing. These views were pursued more and more as the interviews evolved, and finally an initial framework of what the sales force perceived as obstacles for implementing value-based pricing could be put together.

All seven interviewees were men, even though they were selected randomly from different locations (e.g. UK, Belgium, Austria and Germany). Three of the interviewees had previous experience of value-based pricing, the others had none.

4.2.2 The data from the interviews

The interviewees discussed a number of topics during the interviews, which could be divided into six categories organized into three different areas. The areas were *external factors*, *marketing factors* and *organizational factors*.

External factors	Marketing factors	Organizational factors
Competition	Customer segmentation	Management
Customer procurement	Value proposition	Pricing processes

Table 4. The topics divided in external, marketing and organizational factors.

External factors:

The external factors competition and customer procurement were perceived as obstacles.

"Network operations are increasingly seen by the customers as a commodity. [...] there are attempts of value-based pricing, but it is resisted from customers not acknowledging differentiation. [...] customers are trained and experienced in commoditizing any supplier. Whatever the true value is they are doing the right thing professionally, for their own organization, when driving prices down"

- Interviewee nr. 6.

According to a majority of the interviewees, fierce competition would make it impossible to charge more than competitors, and that customer procurement quickly erases any margin by holding competitive tenders.

“If you get in a competitive position, I think value-based pricing becomes quite difficult. If you want to be successful [...] you need to develop more one-to-one opportunities with customers. But [...] as soon as you open that relationship up [customer relationship] and it becomes a competitive tender, value-based pricing probably falls away”

- Interviewee nr. 2.

Marketing factors:

Some of the interviewees saw the current customer segmentation as an obstacle since it did not facilitate a good value proposition to all customers.

“The biggest challenge is to identify values that are perceived by the customers. We are not segmenting well enough [...] I think we need to rethink the way we segment and the way we define our product development strategies [...]. We are already trying to [sell value], main issue is [...] we are pushing value that is not perceived as value for customers.”

- Interviewee nr. 8.

“[...] one of [the obstacles for implementing value-based pricing] is dedicating enough time to understand the customers’ business; you only understand their value when you understand their business. I feel that we probably spend too little time these days to focus on that angle. [...] that is one thing that we lack a lot inside Informatikka is the competence of our sales guys and their ability to [...] look deep.”

- Interviewee nr. 4.

“[...] you ask us to work out the value, I’m not sure we would understand that on most occasions. [...] but we don’t do the analysis, we understand what we do but not what we deliver to customer. [...] i have never seen or heard a calculation that says “we know that this much more performance mean X€”. We don’t quantify, [...] we will only cost on what we know and this can be a problem.”

- Interviewee nr. 6.

The ability to offer the, by customers, desired value was important. However, the product portfolio was questioned.

“[...] In Europe and other parts of the world, with exception from Japan and US, the customer requirement is cost efficiency. [Our business is] based from offering high

quality instead of offering cost efficiency. We need high quality but still cost efficiency. [...] We are not addressing the most of our customers.”

- Interviewee nr. 8.

This was considered a large obstacle since value-based pricing is to charge a price based on the value perceived, not offered. If there is a mismatch between how Informatikka and its customers value a product, Informatikka will find the products difficult to sell.

Organizational factors:

Some of the interviewees also considered management as an obstacle for the transformation. The previous experience was that change is not always carried all the way through.

“It would be nice to see something that starts with a change actually be carried through. [...] start with the leadership that doesn't just talk about it. You need [...] consistency. Doing away with old. Keep explaining, not just say that the change has been made, [...] measurements of the change in open and transparent way.”

- Interviewee nr. 6.

There were also concerns regarding Informatikka's ability to change its governance and its price setting processes.

“I don't think Informatikka is a company that can change anything. We haven't changed anything effectively. There is no real commitment underneath to change, there is no real belief in change. [...] quite conservative company [...] that is a broad generalization. [...] change does not come easy, a high level message is not enough. If you have a win it should be taken around the organization and people should be able to ask questions, get the skepticism out of the way.”

- Interviewee nr. 6.

“We need to find a way to simplify processes [...] and make sure that the people [sales force] get the trust from the rest of the organization [...]”

- Interviewee nr. 3.

The knowledge level on co-workers at Informatikka was also a concern.

“We [the sales force] need to be able to better define the value that we bring with the price [...] we have to be able to better quantify the value in order to come to this price in order to defend this price and to argue for this price. [...] we need to improve on that. I think what we need is some kind of basic training or basic principles. Most of the people don't always understand [...] TCO [Total Cost of Ownership].

- Interviewee nr. 5.

4.2.3 Finding obstacles and forming hypotheses

Based on the data derived from the interviews eight perceived obstacles, and two main hypotheses regarding implementing value-based pricing, were formed. The two hypotheses were:

1. Lack of knowledge about value-based pricing will lead to the relative perception that competition, customer procurement and product differentiation are perceived as relatively larger obstacles. These three obstacles were arranged in Category 1.
2. Lack of confidence in Informatikka's ability to transform into value-based pricing will be higher among those who have previous experience on value-based pricing. These obstacles were arranged in Category 2.

All the obstacles are presented in figure 4.

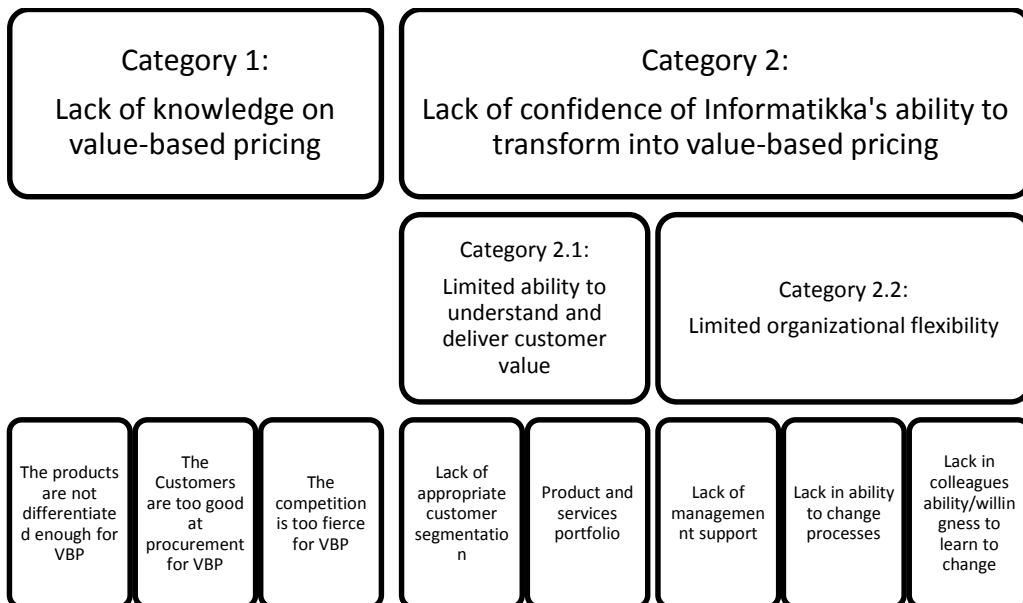


Figure 4. The figure illustrates the eight obstacles and their hypothesized antecedents.

Category 1: Lack of knowledge

During the interviews a number of assumptions among the interviewees were revealed. There seemed to be an almost unanimous view that value-based pricing would be incredibly difficult to implement at Informatikka, due to the fierce competition and skilled customers procurement. A common assumption among the

interviewees was that Informatikka's products do not have sufficient differentiation in order to successfully implement value-based pricing. It is correct that it might be more difficult to successfully practice value-based pricing if the customers do not share information of what they need, or to match competitors' prices if there is no transparency. This is, however, nothing that hinders a company from pursuing a value-based pricing strategy. Collecting data on customers and competitors would rather be more important in a more competitive environment. In short; it might be an obstacle for acquiring the maximum willingness to pay, but it is not an obstacle for implementing value-based pricing as a strategy and with that deliver and acquire more value that better match what the customers desire. Hypothesis 1 was tested by comparing the answers between respondents with and without previous experience from value-based pricing quantitatively.

Category 2: Lack of confidence

Hypothesis 2 is based on the interviews, but also on the fact that building and maintaining pricing capabilities takes a lot of work and effort. Previous experience of value-based pricing should have raised awareness of the difficulties, and therefore increase the possibility for skepticism on Informatikkas ability to manage the transformation.

In the interviews, the sales force lack of confidence in the organizations possibility to adapt to value-based pricing anteceded from two things: firstly the perception that Informatikka had an incorrect segmentation of customers in regards to their value proposition, and secondly from the perception that Informatikka's organizational flexibility was limited. The latter due to lack of leadership, un-flexible pricing processes and a lack in colleague's willingness- or ability to practice value-based pricing. Hypothesis 2 was tested by comparing the answers between respondents with, and respondents without, previous experience from value-based pricing.

4.2.4 Rating of the obstacles

All the proposed obstacles were perceived by at least one interviewee. They severity of the obstacles were, however, perceived differently. After analyzing the interviews, the perceived obstacles were rated ranging from "small obstacle" to "large obstacle", based on the interviews. The rating and explanation can be seen in table 5:

Facilitating value-based pricing transformation: what hinders sales force buy-in?

Proposed obstacle	Severity	Explanation
Competition is perceived as an obstacle for implementing value-based pricing	Large obstacle	Competition, skilled customer procurement and insufficient product differentiation were perceived as the biggest obstacles for implementing value-based pricing. There was a general agreement that these areas made it very difficult to change prices. Competition was perceived as the greatest obstacle for value-based pricing, followed by customer procurement. The customer's view of products as commodities was perceived as part of customer procurement and in itself not deemed an equally large obstacle.
Customer procurement is perceived as an obstacle for implementing value-based pricing	Large obstacle	
Insufficient product differentiation is perceived as an obstacle for implementing value-based pricing	Obstacle	
Inadequate customer segmentation is perceived as an obstacle for implementing value-based pricing	Small obstacle	Informatikka's inability to deliver the desired value to different customers was perceived as a large obstacle. Product portfolio was perceived as a bit less severe, i.e. the product portfolio lacked low cost products for the low cost segment. Segmentation was perceived as the smallest since most interviewees did not mention it. However, among those who perceived segmentation as an obstacle, it was considered a large one.
A product portfolio that does not offer the desired value for all customer segments is perceived as an obstacle for implementing value-based pricing	Obstacle	
Leadership at Informatikka is perceived as an obstacle for implementing value-based pricing	Small obstacle	All the interviewees mentioned lack of confidence in Informatikka's ability to change, as a large obstacle for implementing value-based pricing. The interviewees did not think Informatikka would be able to change its price setting processes, and that managements had a track record of not pushing things all the way through. The biggest perceived obstacle was Informatikka's ability to change price setting process, second largest was co-workers ability to practice value-based pricing. Leadership, (lack of leadership), was perceived as a large obstacle among the interviewees that talked about it, but not all did.
Current pricing processes at Informatikka are perceived as obstacles for implementing value-based pricing	Large obstacle	
Knowledge among co-workers at Informatikka is perceived as an obstacle for implementing value-based pricing	Obstacle	

Table 5. The perceived obstacles and the expected ratings.

5 Quantitative study

The quantitative study was carried out by sending a questionnaire to members of the Informatikka salesforce in the west- and central Europe region. The perceived obstacles from the interviews were confirmed, as were the two hypotheses.

5.1 Preparing the study

5.1.1 Testing the findings

After conducting the qualitative research and analyzing the results, eight perceived obstacles and two hypotheses were generated, as presented in chapter 4. The hypotheses-testing quantitative study was carried out on members of the sales force at Informatikka. It consisted of a questionnaire with 43 questions sent out to 65 recipients across the western and central Europe region. The questionnaire had a response rate of 40 % with 26 respondents. All questions were based on the proposed obstacles from the interviews. The questions were formulated as statements which the respondents were asked to answer by selecting a rating between two stated views, separated with Likert-scale between 1 and 7.

5.1.2 Formulating the questions

A Likert-scale between 1 and 7 was chosen in order to give the respondents an opportunity to answer in a more nuanced way than if only three or five alternatives had been offered. The full questionnaire can be found in appendix II. The questionnaires were sent out electronically using *Google questionnaire*, where questions were shuffled and divided into different pages which prompted the respondents to answer intuitively.

Category 1: Lack of knowledge

In order to test the hypothesis about the sales force's lack of knowledge of value-based pricing, six questions were asked on customer procurement, competition and product differentiation. Each area was investigated by comparing the current experienced level with the perceived severity of the obstacle it posed for value-based pricing transformation. The difference would then be compared between members of the salesforce with and without previous experience of value-based pricing. The difference would indicate whether the obstacles were "over-rated" or not.

In the questionnaire, the extremes, 1 to 7, were formulated: "*no competition*" to "*perfect competition*" or "*no obstacle*" to "*impossible to implement value-based pricing*". These strong formulations were motivated by the fact that almost all the

interviewees mentioned these areas as obstacles. It would therefore be interesting to see how close to these strongly formulated extremes the answers would be.

Customer relationship - The first questions on customer relationship focused on customer procurement skills and the customer's ability to drive down prices in the current business relationship. The second question aimed to understand the perceived level of obstruction customer procurement pose towards introducing value based pricing.

Competition - The respondents were asked to rate the perceived level of competition and then to what degree they expect competition to be an obstacle for implementing value-based pricing.

Product differentiation - To understand how the respondents view the current level of product- or service differentiation offered by Informatikka, they were asked to rate the level on a scale from "*highly differentiated*" to "*commodities*". In the second question the respondents were asked if they would expect the level of differentiation to be an obstacle for implementing value-based pricing.

Category 2: Lack of confidence

For testing the hypothesis within Category 2, three groups of questions were asked on *ability to understand and deliver customer value* and three groups of questions were asked on *lack of organizational flexibility*. All questions related to these areas were formulated as statements that the respondents ranked between 1 and 7, where 1 was 'strongly disagree' and 7 'strongly agree'. Every question in this section was asked twice, where the repeated version of the question was inverted. This structure was chosen in order to confirm the reliability of the answers. By repeating the same question with an inverted formulation, the authors could detect if there was consistency in the answers, and by that determine if the question had been understood correctly. For example a '3' on a regular question should logically correspond to a '5' on the inverted question if the respondent fully understands the question and answers consistent, see equation 1 in 5.2.2.

Category 2.1: Ability to deliver customer-desired value

The questions about segmentation and product portfolio were asked in order to investigate if the respondents have confidence in Informatikka's ability to understand their customers and match the product portfolio's value offerings to different segments of customers. The original question; the ability to deliver the, by customers, desired value, was also enquired.

The product portfolios ability to offer customer desired value - The respondents were asked to rank Informatikka's ability to offer, the by customers desired, value.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

To follow up this question they were also asked to rank whether or not the company's ability to offer desired value would be an obstacle for implementing value-based pricing.

Knowledge on customers - They were also asked to rank Informatikka's knowledge of what the customers perceives as value, and how this knowledge or lack of knowledge could be an obstacle for implementing value-based pricing.

Customer segmentation - Questions were also asked on if the current customer segmentation at Informatikka can facilitate creating good value propositions for customers, and if not, this could be an obstacle for implementing value-based pricing.

Category 2.2: Lack of organizational flexibility

Finally, the sales force was asked questions regarding the Informatikka's organizational flexibility and ability to change.

Lack of management support - To investigate the sales force's perception of managerial support, the respondents were asked two questions: to what level resources were provided in transformation projects and the endurance of managers carrying out change. Finally the respondents were asked if they perceived lack in top management support would be an obstacle in value-based pricing transformation at Informatikka.

Ability to change processes - In order to understand the perception of Informatikka's processes and the organization's ability to change price-setting processes, the respondents were asked to rate their confidence in Informatikka's flexibility towards different customers and changing processes. They were also asked to rate to what degree they perceive this ability to be an obstacle for implementing value-based pricing.

Co-workers abilities and willingness to change - Questions were asked about the abilities and willingness of co-workers to change, in order to facilitate an implementation of value-based pricing. These questions were asked in order to investigate the sales force's knowledge and education needed, and the perceived attitudes of co-workers. These questions were asked in a way where the respondents first had to rank the current situation, and then rank how much of an obstacle they consider it could be.

5.2 Carrying out the study

5.2.1 Testing and sending out the questionnaires

Before the questionnaire was sent out to the respondents it was tested on three of the interviewees from the qualitative part of the study. This was completed in order to make sure the questions were understandable. After a rewriting and adding some questions the final structure, as described above, was put together.

The questionnaire was sent out to 65 members of the sales force. These were randomly selected and together represented an absolute majority of the sales force in the region. The aim was to receive responses from at least 50%, which means a minimum of 33 responses in total. Unfortunately only 26 responded, amounting for 40 %.

5.2.2 Gathering and processing of raw data from the questionnaire

The data was gathered and then imported into an excel file. The data was then processed in order to produce results, which could be presented and interpreted.

The questions, which had been shuffled, were rearranged and divided into three separate spreadsheets according to the eight proposed obstacles. The three spreadsheets were:

1. Lack of knowledge
2. Lack of confidence in Informatikka's ability to understand and deliver customer-desired value
3. Lack of confidence in Informatikka's organizational flexibility

Since the data was gathered similarly within the groups of proposed obstacles believed to be anteceding from lack of knowledge (Category 1) and lack of confidence (Category 2) the processing of the data will be presented group wise. All the data was processed, in order to be arranged and presented in frequency diagrams and level of obstacle severity.

Frequency analysis

In common for all was that all the results from the questionnaires were presented using frequency analysis; for every question the frequency of respondents for every number on the Likert-scale was calculated.

Category 1: Lack of knowledge

In the six questions on "lack of knowledge" no further processing had to be carried out. The results of the frequency analysis were presented, first describing the

current level of perceived [competition, procurement or differentiation], and the anticipated level of obstacle this would lead to.

Category 2: Lack of confidence

All five questions on proposed obstacles, as well as the questions regarding ability to deliver customers desired value had another corresponding inverted question, formulated to ask the complete opposite. By combining the two, using the second question (that itself would not be analyzed) to confirm, or slightly alter, the answer to the first question (that would be analyzed), a more nuanced answer was reached. This was done mathematically by comparing the numbers on the Likert scale. The formula used to calculate the final value for the final answer that would be analyzed was:

$$\text{Final answer Q1} = \text{answer Q1} + \left(\frac{(7 - \text{answer Q1}) - (\text{answer Q2} - 1)}{2} \right)$$

Equation 1. Q1 is the question that will be used and Q2 is the inverted question. Please see appendix III for further information and a calculation table.

Using this equation provided a possibility of producing “halves”, i.e. 4.5 as *final answer Q1* if *answer Q1* was 4 and *answer Q2* was 3. The authors decided to remove this possibility since “halves” probably would appear less frequent, giving misleading projections in the frequency diagrams. Every time a “half” appeared, the reversed question was simply removed and not used in the alignment. This increased the leverage for the actual question that was being analyzed. If value of the parenthesis reached three or more the entire question was removed since this indicated that the question had not been properly understood. This was performed in order to improve the reliability of the questionnaire.

Quantifying the severity of the perceived obstacles

Since the questionnaires were produced to prove or disprove the proposed obstacles and the two hypotheses, the severity of the obstacles had to be rated. By looking at the respondents who perceived obstacles, how many they were and to what degree they perceived the obstacles, the severity of the obstacles were quantified. Using the linear relationship from the Likert-scale, every response connected to perceiving an obstacle was summed up.

Example: *Question 38. Limitations in Informatikka’s product- and services portfolio is an obstacle for implementing VBP.* (1 is “Strongly disagree” and 7 is “Strongly agree”).

The response ‘7’ would correlate to the obstacle severity of (3), ‘6’ to (2) and ‘5’ to (1). All other responses would correlate to 0, since these respondents did not

perceive an obstacle. The perceived severity of the obstacle were then summed up and a severity ratio calculated using the following formula:

$$\frac{\text{Total sum of perceived severity}}{\text{Sum of maximum severity}} = \text{Severity ratio}$$

Equation 2 How to calculate the severity ratio.

In a scenario of 25 responses, the maximum severity would be $3 \times 25 = 75$. Analyzing the graphs and visually determining the severity gave the following mathematical correlations:

$$\text{No obstacle} < \frac{1}{9} \leq \text{Small obstacle} < \frac{1}{5} \leq \text{Obstacle} < \frac{1}{3} \leq \text{Large obstacle}$$

The same formula was used to calculate an “agreement ratio” for the other questions.

The ratios were derived from three scenarios assuming 12 respondents. The ratios are defined by looking at the maximum number of respondents that could perceive an obstacle at all:

1. “No obstacle” correlates to a response where up to 4 respondents of 12 ($\frac{1}{3}$) at all perceive the obstacle.
2. “Small obstacle” correlates to a response where up to 6 ($\frac{1}{2}$ of all respondents) at all perceive the obstacle.
3. “Obstacle” correlates to a response where up to 12 (all of all respondents) at all perceive the obstacle.
4. “Large obstacle” correlates to a response where more than 12 (all respondents) perceive the obstacle, which means that some respondents need to perceive the obstacle to an even larger extent.

5.3 Presenting and analyzing the results from the questionnaire

The data is presented in two ways; frequency diagrams where all the responses are included, and in tables where the severity ratios of the perceived obstacles are presented.

The analysis was carried out in two steps, where in the first step the following categories of obstacles are presented and investigated:

- **Category 1:** Lack of knowledge on value-based pricing
- **Category 2:** Lack of confidence of Informatikka’s ability to transform into value-based pricing

Facilitating value-based pricing transformation: what hinders sales force buy-in?

- *Category 2.1: Limited ability to understand and deliver customer value*
- *Category 2.2: Limited organizational flexibility*

Each category was investigated and analyzed individually before, in the second step, it was used to test the two hypotheses. In this second step of the analysis the answers were compared between sales force respondents with previous experience of value-based pricing, and the respondents without any previous experience.

5.3.1 Category 1: Lack of knowledge on value-based pricing

The three proposed obstacles in Category 1 were:

1. *Competition is perceived as an obstacle for implementing value-based pricing.*
2. *Customer procurement is perceived as an obstacle for implementing value-based pricing.*
3. *Insufficient product differentiation is perceived as an obstacle for implementing value-based pricing.*

The currently perceived level of competition, customer procurement skills on driving down prices, and current customer perception of Informatikka's product and service differentiation are displayed in Chart 1 below:

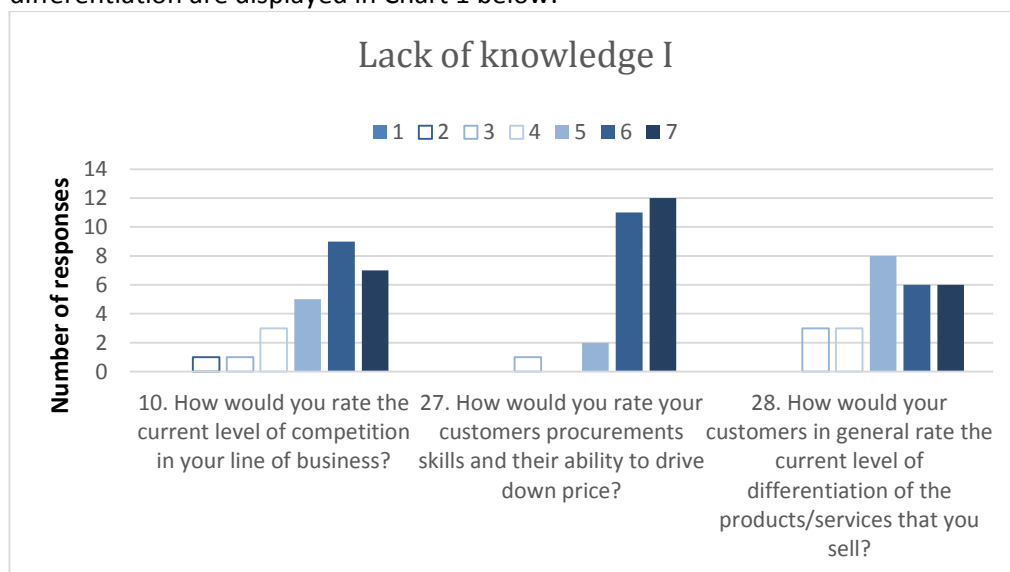


Chart 1. The responses to Q10, Q27 and Q28.

As seen in Chart 1, overall the ratings are very high towards high competition, skilled customer procurement and commoditized products. To investigate whether or not the current levels would be expected to pose an obstacle for implementing value-based pricing, the respondents were asked to rate the statement from "not an

obstacle” to “impossible to implement”. Chart 2, below, shows the answers to questions 43, 3 and 36.

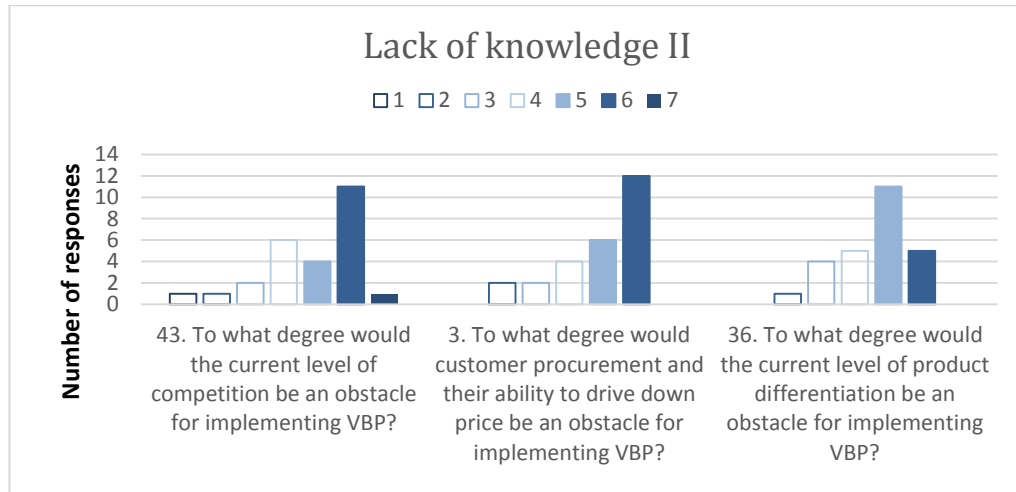


Chart 2. The responses to Q43, Q3 and Q36.

The calculated severity ratio for the three perceived obstacles is presented in table 6 below:

Question	Ratio	Severity	Prediction after interviews
Q. 43	0.35	Large obstacle	Large obstacle
Q. 3	0.38	Large obstacle	Large obstacle
Q. 36	0.25	Obstacle	Obstacle

Table 6. The table displays the severity ratio and the expected severity ratio for Q43, Q3 and Q36.

The severity ratio was in line with the author’s expectations after performing the interviews. However, the customer procurement turned out to be perceived as a larger obstacle than the competition, albeit by a small margin. This was surprising given the data collected during the interviews. The level of product differentiation, correlated to customer procurement was, as expected, perceived as a lesser obstacle. Another observation was that none of the respondents answered 7 on the Likert-scale (formulated “impossible to implement”). This indicates that the three obstacles were all perceived as possible to overcome. Comparing how the respondents rate the current level of competition, procurement and differentiation a similar pattern appears, as for the three parameters being obstacles for implementing value-based pricing. Overall the responses confirm the three parameters above as perceived obstacles. Customer procurement is, with a small margin, perceived as the biggest obstacle, and product differentiation is, with a considerable margin, perceived as the smallest within Category 1.

5.3.2 Category 2: Lack of confidence of Informatikka’s ability to transform into value-based pricing

Category 2.1: Limited ability to understand and deliver customer value

The two proposed obstacles in Category 2.1, believed to antecede from lack of confidence in Informatikka’s limited ability to understand and deliver customer value, were:

1. Inadequate customer segmentation is perceived as an obstacle for implementing value-based pricing
2. A product portfolio that offer the desired value for all customer segments is perceived as an obstacle for implementing value-based pricing.

Chart 3 below displays the respondents’ perception of Informatikka’s ability to understand and segment customers and offer the desired value to all customers:

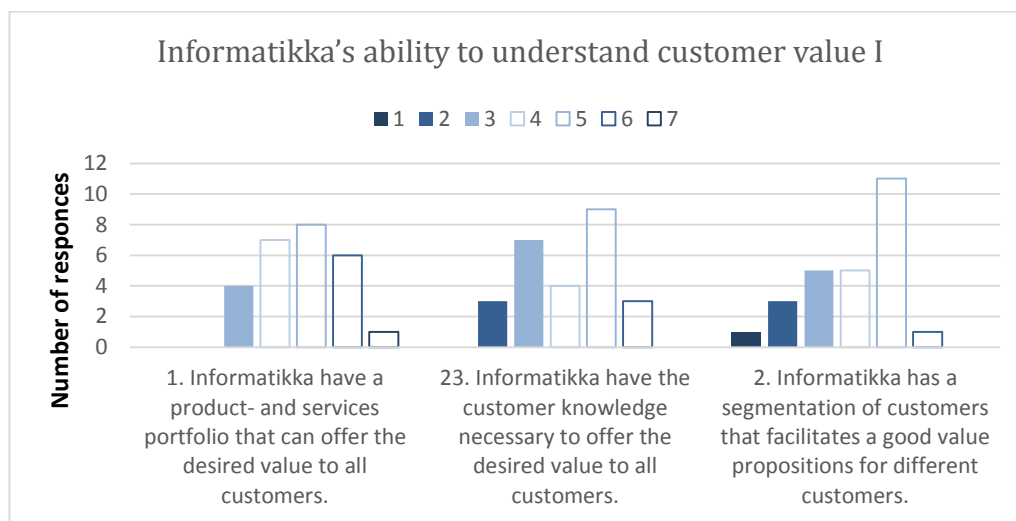


Chart 3. The responses to Q1, Q23 and Q2.

As seen in the chart above, only a few of the respondents disagreed to these questions, most of them were either indifferent or agreed to some level. The calculated severity ratio for the three questions is presented in table 2 below:

Question	Ratio	Disagreement
Q. 1	0.05	No disagreement
Q. 23	0.17	Small Disagreement
Q. 2	0.18	Small Disagreement

Table 7. The table displays the disagreement ratio to Q1, Q23 and Q2.

When looking at chart 4 below, the questions related to obstacles within this field, one can see that similar patterns arise:

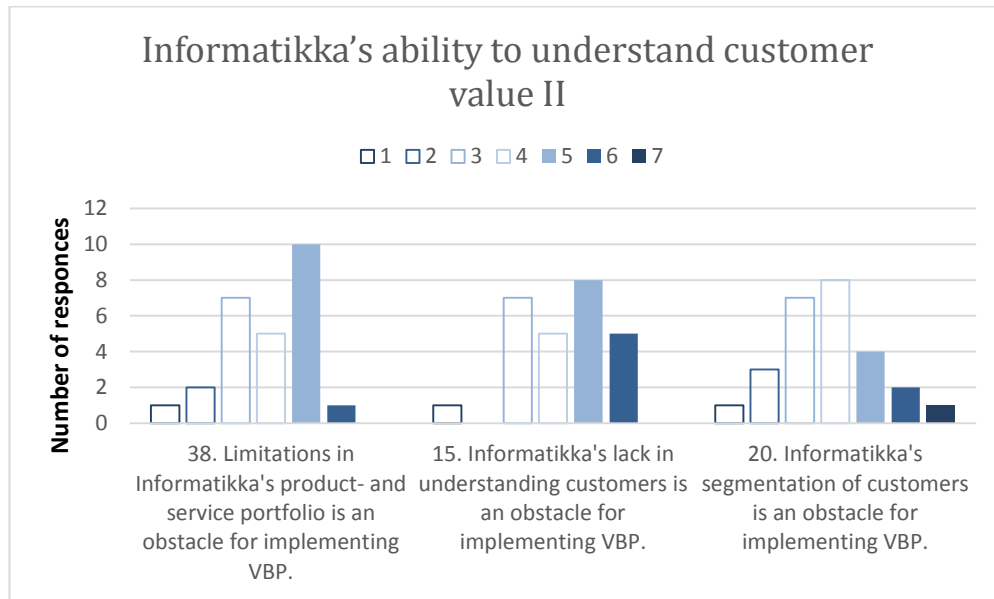


Chart 4. The responses to Q38, Q15 and Q20.

By looking at the severity ratings displayed in table 3 below, the results were in line with the expectations, although the perception of Informatikkas lack in understanding customers being an obstacle (Q15) seemed to be even larger than expected. Q38 on the other hand was perceived as a lesser obstacle, which came as a surprise for the authors given the results from the interviews.

Question	Ratio	Severity	Prediction after interviews
Q. 38	0.15	Small obstacle	Obstacle
Q. 15	0.23	Obstacle	Small obstacle
Q. 20	0.14	Small obstacle	Small obstacle

Table 8. The table displays the severity ratio and the expected severity for Q38, Q15 and Q20.

The fact that question number 15 was perceived as the greatest obstacle was reasonable since understanding and delivering customer value is what defines value-based pricing. Segmentation was perceived as the smallest obstacle. One interpretation of this is that a certain amount of understanding of value-based pricing is needed to connect customer segmentation to successful implementation

Facilitating value-based pricing transformation: what hinders sales force buy-in?

of value-based pricing. This could have prevented many from perceiving it as an obstacle, leading to the low severity rating of 0.14.

Category 2.2: Limited organizational flexibility

The three obstacles stated in the last category were the following:

1. Leadership at Informatikka is perceived as an obstacle for implementing value-based pricing.
2. Current pricing processes at Informatikka are perceived as obstacles for implementing value-based pricing.
3. Knowledge among co-workers at Informatikka is perceived as an obstacle for implementing value-based pricing.

Chart 5 below shows the questions and answers, related to the area of organizational flexibility:

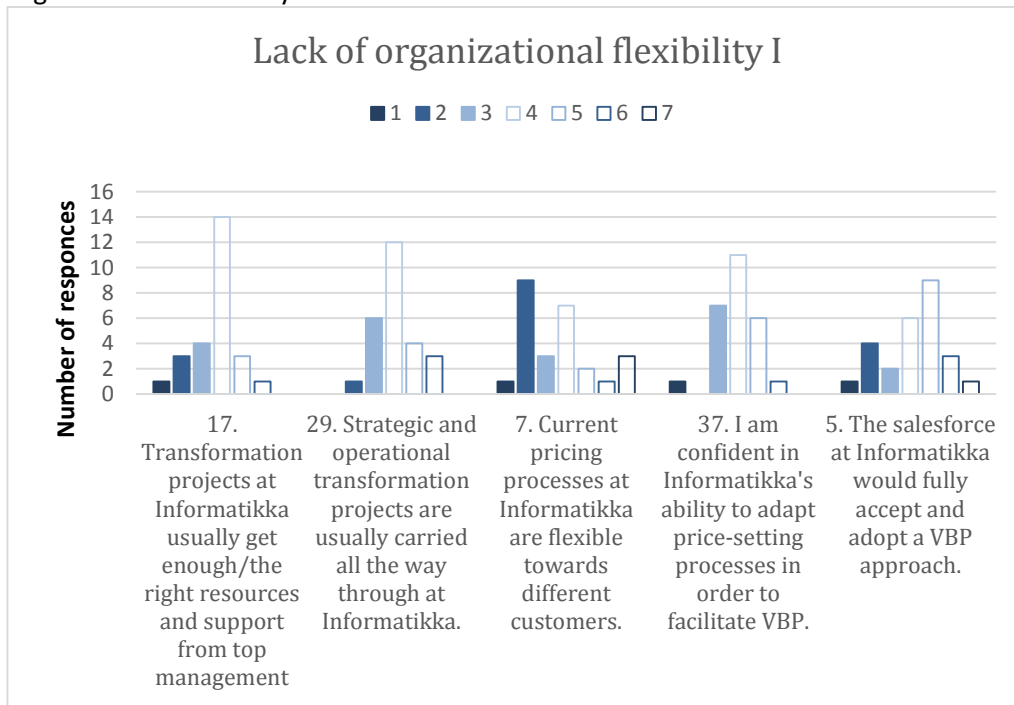


Chart 5. The responses to Q17, Q29, Q7, Q37 and Q5.

When looking at the quantified ratios, presented in table 4 below, it becomes clear that the current pricing processes at Informatikka are not perceived flexible towards the company's different customers. It can also be seen that there is small disagreements to all the statements, indicating that they are antecedents of perceived obstacles.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

Question	Ratio	Severity
Q. 17	0.17	Small disagreement
Q. 29	0.10	Small disagreement
Q. 7	0.31	Disagreement
Q. 37	0.13	Small disagreement
Q. 5	0.17	Small disagreement

Table 9. The table displays the disagreement ratio to Q17, Q29, Q7, Q37 and Q5.

In chart 6 below, questions connected to the statements regarding to what degree they would pose an obstacle for implementing value-based pricing, are presented:

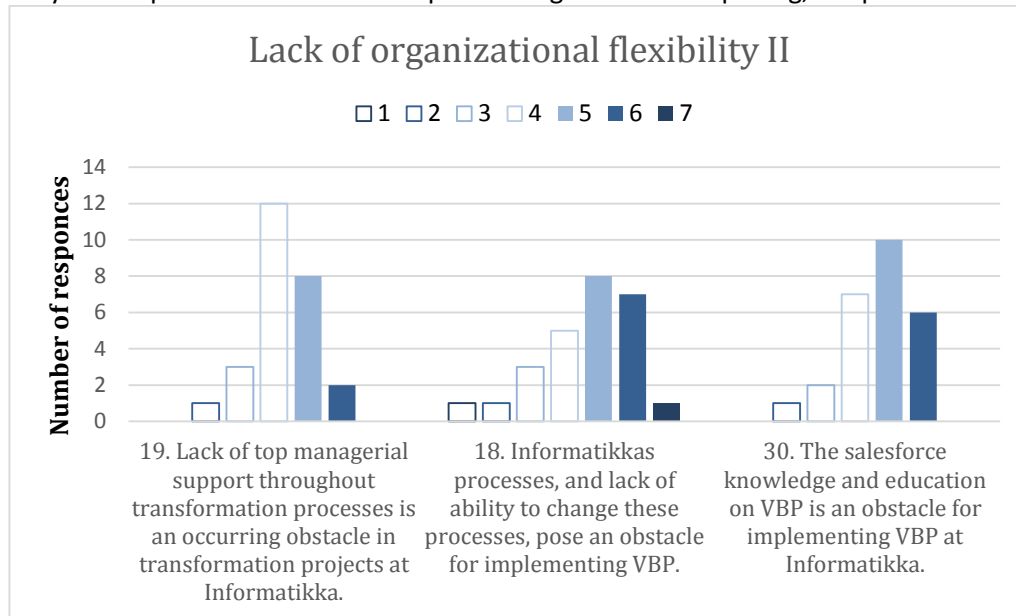


Chart 6. The responses to Q19, Q18 and Q30.

The results seen in chart 6 were in line with the expectations after performing the interviews, presented in table 5 below, although Informatikka's processes was perceived as a slightly smaller obstacle than expected.

Question	Ratio	Severity	Prediction after interviews
Q. 19	0.16	Small obstacle	Small obstacle
Q. 18	0.32	Obstacle	Large obstacle
Q. 30	0.28	Obstacle	Obstacle

Table 10 The table displays the severity ratio and the expected severity ratio for Q19, Q18 and Q30.

There was a clear connection between the view on whether or not transformation projects received enough resources and the perception of top managerial support as an obstacle for transformation projects. The problem of projects not being carried all the way through, which was heavily discussed during the interviews, was hardly perceived at all.

The respondents disagreed to the statement that Informatikka had flexible pricing processes towards different customers, which was expected. However, there seemed to be only little doubt towards Informatikka's ability to adapt these processes. In this question the processes were not specified to be pricing processes, therefore the finding is that the sales force believe that Informatikka has the ability to change the price setting processes, but that a lack of ability to change processes overall pose an obstacle for implementing value-based pricing.

As a complement to the question regarding the sales force level of knowledge and education, a question regarding whether or not the sales force would accept and adopt value-based pricing was asked. There was, as expected, a substantial share of employees questioning the quotation of the sales force "fully accepting and adopting value-based pricing".

5.3.3 Comparing responses between respondents with and without previous experience of value-based pricing

By comparing the answers between members of the sales force that have experience from working with value-based pricing and those who do not, the hypotheses would be tested. The two hypotheses were that lack of knowledge would increase the severity of the perceived obstacles in Category 1 and that lack of knowledge would decrease the severity of the perceived obstacles in Category 2.

From the 26 answers of the questionnaire, 17 respondents had, and 9 respondents lacked previous experience of value-based pricing.

Due to the low number of respondents the results were tested for statistical significance. This was done using randomization test where the answers from the two populations were randomly mixed 200 times, producing a normal distribution curve. The center of this curve represented the "null value", the value that would be expected if all the individual answers had been produced randomly, without any underlying difference between the populations. Based on this data a statistical probability for the actual results, if they had been random, could be derived. This percentile figure represents the probability for the difference in results being random. The lower the percentile is, the more significant the difference is.

Hypothesis 1:

Looking at the results from the three questions in Category 1, the following can be seen:

Question	Severity ratio with experience	Difference between questions	Severity ratio without experience	Difference between questions	Probability for same or greater difference
Current competition	0.65	0.65-0.37= 0.18	0.41	0.41-0.37= 0.04	6.70 %
Competition as obstacle	0.37		0.37		
Current procurement	0.78	0.78-0.37= 0.41	0.74	0.74-0.41= 0.33	43.25 %
Procurement as obstacle	0.37		0.41		
Current differentiation	0.57	0.57-0.27= 0.30	0.33	0.33-0.26= 0.07	18.65 %
Differentiation as obstacle	0.27		0.26		

Table 11. Comparison between experienced and non-experienced sales personnel

The rating of the obstacles are quite similar, but if also looking at the current level of experienced competition, procurement and differentiation, which will affect the perception of the obstacle, one can see that the sales force personnel with experience of value-based pricing currently experience much larger difficulties. The perception of these much larger difficulties as obstacles are, however, equal. The one exception is procurement, where the level of difficulty is perceived to be almost as large.

Looking at the difference between the current level of difficulty and the perceived severity of the obstacles one can see the following: Members of the sales force without previous experience of value based pricing rate the three obstacles higher than members with previous experience of value-based pricing, if compared to the current experienced difficulty. A higher difference indicates a more severe perception of the obstacle.

This analysis clearly shows that lack of experience of value based pricing, and thus lacks of knowledge, will increase the perceived severity of the obstacles in Category 1. Statistically, the greatest difference in answers was found in competition.

Hypothesis 2.1:

The values were not compared in the same way as with Category 1. This is because the variables under Category 1 (level of competition, skill level of procurement and customers view on product differentiation) are easy to relate to, regardless of background of value-based pricing. The variables under Category 2.1 are, however, easier to relate to if one have practiced value-based pricing before. The answers to the first three questions should therefore vary, not only with the current work situation, but also with previous experience of value-based pricing. The answers are included since they illustrate the close relationship between the current situation and the perception of the variables as obstacles.

Question	Ratio for sales personnel with experience	Ratio for sales personnel without experience	
1. Informatikka have a product- and services portfolio that can offer the desired value to all customers.	0,06	0,04	
23. Informatikka have the customer knowledge necessary to offer the desired value to all customers.	0,22	0,07	
2. Informatikka has a segmentation of customers that facilitates a good value propositions for different customers.	0,24	0,07	
Question	Severity ratio for sales personnel with experience	Severity ratio for sales personnel without experience	Probability for same or greater difference
38. Limitations in Informatikka's product- and service portfolio is an obstacle for implementing VBP.	0,14	0,19	34.85 %
15. Informatikka's lack in understanding customers is an obstacle for implementing VBP.	0,33	0,04	2.30 %
20. Informatikka's segmentation of customers is an obstacle for implementing VBP.	0,18	0,07	29.20 %

Table 12 A direct comparison of ratios between sales personnel with and without experience.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

When comparing the level of disagreement of the statements it can be seen that members of the sales force with previous experience of value-based pricing disagree to the two last statements (Q23 and Q2) to a much larger extent than sales force members without previous experience. The same is true for the perception of these parameters as obstacles for value-based pricing, which supports the hypothesis.

The results show that the product and services portfolio is perceived as an almost equally big obstacle for both groups. This is not considered a big revelation since, according to the interviewees, this was one of the largest obstacles over all. The interesting thing to notice is the discrepancy between Q1 and Q38, although there was a low disagreement rate on the lack of ability to offer desired value to all customers, it was still perceived as an obstacle. This could be a result of the way in which the question was formulated; of course limitations will be an obstacle, regardless if Informatikka has them or not. This might be the reason for the low statistical discrepancy.

The big surprise in category 2.1 was that the personnel without experience of value-based pricing did not perceive “lack in understanding customer” as an obstacle. Although this is in line with the hypothesis, the extremely low level of severity was un-expected. Statistically this was the most undisputable difference in answer between the two populations.

To summarize the results confirm the hypothesis since the severity of the perceived obstacles is very low sales personnel without experience of value-based pricing and high for personnel with experience. The exception is limitations in Informatikkas’ product and service portfolio. This might have been caused by an unfortunate formulation when phrasing the questions.

Hypothesis 2.2:

Category 2.2 was analyzed in the same way as Category 2.1.

Question	Disagreement ratio for sales personnel with experience	Disagreement ratio for sales personnel without experience	
17. Transformation projects at Informatikka usually get enough/the right resources and support from top management	0,18	0,15	
29. Strategic and operational transformation projects are usually carried all the way through at Informatikka.	0,10	0,11	
7. Current pricing processes at Informatikka are flexible towards different customers.	0,35	0,22	
37. I am confident in Informatikka's ability to adapt price-setting processes in order to facilitate VBP.	0,12	0,15	
5. The sales force at Informatikka would fully accept and adopt a VBP approach.	0,18	0,15	
Question	Severity ratio for sales personnel with experience	Severity ratio for sales personnel without experience	Probability for same or greater difference
19. Lack of top managerial support throughout transformation processes is an occurring obstacle in transformation projects at Informatikka.	0,16	0,15	51.75 %
18. Informatikka's processes, and lack of ability to change these processes, pose an obstacle for implementing VBP.	0,37	0,22	44.95%
30. The sales force knowledge and education on VBP is an obstacle for implementing VBP at Informatikka.	0,27	0,30	47.40 %

Table 13 A direct comparison of ratios between sales personnel with and without experience.

Viewing the first five statements the only one with clear difference between sales personnel with/without experience of value-based pricing is Q7. This is also the one question about customer value, which, according to the hypothesis, suggests that personnel with previous experience of value-based pricing should have a stronger opinion. The other questions are all related to Informatikkas ability to change, and there is a very similar perception of this between the two groups in the answers.

Looking at the perceived obstacles a similar distribution can be seen, where both groups perceive management support as an equally large obstacle. The same goes for knowledge of the sales force. This is surprising and does not support hypothesis 2. The perceived obstacle that received different answers was Informatikkas lack of ability to change processes pose an obstacle for value-based pricing transformation. This supports the hypothesis. Statistically, however, no clear difference in how the answers were distributed could be seen.

The results significantly show that the confidence in Informatikkas' ability to change is questioned, and it is clear that this is perceived as an obstacle or a large obstacle. There is, however, only one aspect that to any degree could supports the hypothesis, and that is the ability to change processes (which was one out of only two predicted obstacles from the interviews that was not confirmed in the questionnaire!). The fact that the other two obstacles did not show any difference comes as a surprise. The hypothesis was built on the idea that sales force personnel with experience to a larger extent would question Informatikkas ability to change, since experience on the difficulty of implementing value-based pricing should increase the demanded level of flexibility and ability to change. The fact that this only slightly could have affected processes, and not managerial support or co-workers knowledge or expected adoption of value-based pricing was a surprise. One explanation might be the fact that managerial support could be too general, after all, all transformations need managerial support, and that co-workers knowledge might is a very obvious obstacle for implementing value-based pricing compared to i.e. segmentation.

6 Finale

In this section the two key findings; eight perceived obstacles and two hypotheses, are summarized. The conclusions are presented based on the research question, the fulfillment of the purpose is discussed and implications for Informatikka revealed. Finally, the validity, reliability and implications of the study is discussed, as well as recommendations for further research.

6.1 Key findings

6.1.1 The eight perceived obstacles and their severity

The first finding of the study was the eight perceived obstacles that were observed during the interviews, and later confirmed by the questionnaire¹.

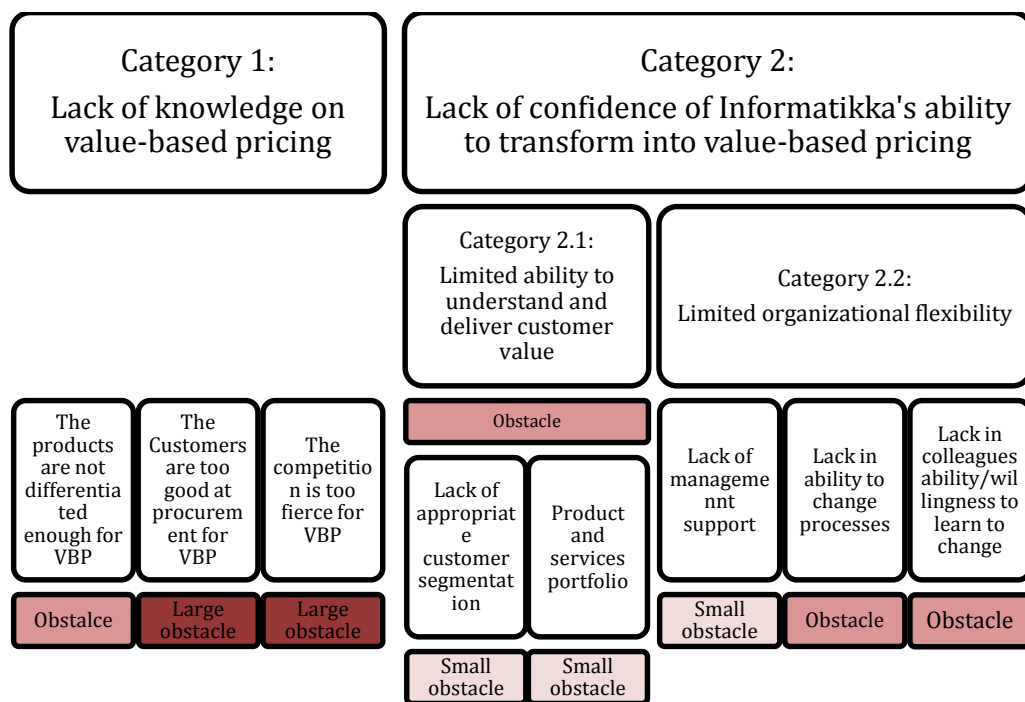


Figure 5. The eight perceived obstacles and their severity.

- The two parameters competition and customer procurement were perceived as large obstacles.

¹ Please note that the definitions on what responses leads to what severity level is described in 5.2.2.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

- By customers perceived product differentiation, limited understanding of customer value, lack of ability to adapt price setting processes and co-workers limited knowledge on value-based pricing were perceived as obstacles.
- Lack of top management support, inadequate segmentation and insufficient product portfolio were perceived as small obstacles.

If companies entering this type of pricing transformation wishes to create sales force buy-in, these perceived obstacles should be addressed.

6.1.2 The two hypotheses

In hypothesis 1 derived from the interviews, lack of knowledge on value-based pricing was expected to be the antecedent to the obstacles in Category 1; competition, customer procurement and customer’s perception of product differentiation. Comparing responses between respondents with and without previous experience of value-based pricing strengthen this hypothesis. The difference between the perceived levels of these obstacles varied largely depending on whether or not the respondent had previous experience of value-based pricing, where sales force personnel without previous experience perceived the obstacles as much more severe than the personnel without. This was especially true for competition and level of product differentiation.

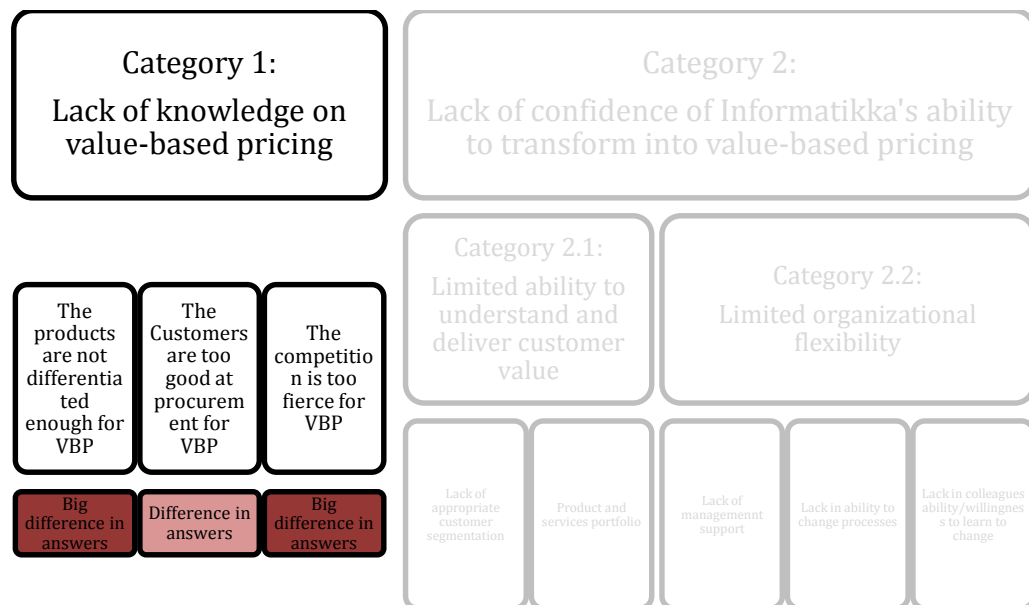


Figure 6. The three perceived obstacles in Category 1.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

The opposite was hypothesized in hypothesis 2 where the obstacles in Category 2 would be less perceived by the sales personnel without previous experience of value-based pricing. This correlation proved to be true for some obstacles, but not for all. The correlation was especially strong for the perceived obstacle of understanding customers, segmenting customers and the ability to change pricing processes, but none existent for the other three.

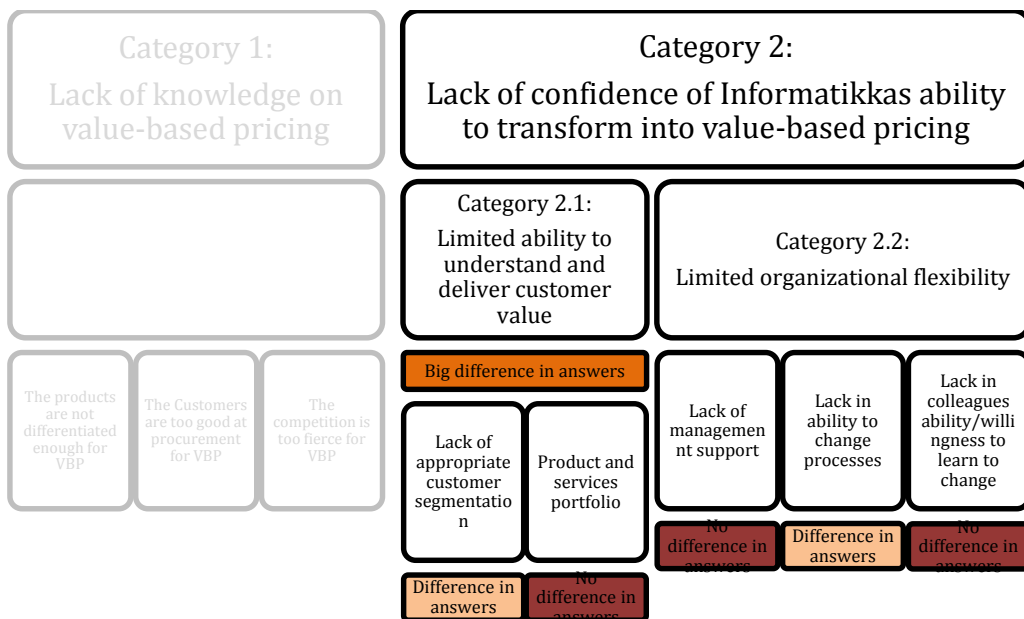


Figure 7. The perceived obstacles in Category 2.

All six obstacles were still perceived by the sales personnel with experience of value-based pricing. However, we could see that lack of understanding customers and inappropriate segmentation of customers were not perceived as obstacles at all for personnel without experience of value-based pricing, and the overall perception was that the obstacles were less severe.

Question	With experience	Without experience
38. Limitations in Informatikka's product- and service portfolio is an obstacle for implementing VBP.	Small obstacle	Small obstacle
15. Informatikka's lack in understanding customers is an obstacle for implementing VBP.	Large obstacle	No obstacle
20. Informatikka's segmentation of customers is an obstacle for implementing VBP.	Small obstacle	No obstacle
19. Lack of top managerial support throughout transformation processes is an occurring obstacle in transformation projects at Informatikka.	Small obstacle	Small obstacle
18. Informatikka's processes, and lack of ability to change these processes, pose an obstacle for implementing VBP.	Large obstacle	Obstacle
30. The salesforce knowledge and education on VBP is an obstacle for implementing VBP at Informatikka.	Obstacle	Obstacle

Table 14. The difference between value-based experienced and non-experienced sales personnel.

The common denominator for the three questions that received different answers in the two groups were that they all evolved around customers or changing price, which are central concepts in value-based pricing.

The authors finally determine hypothesis 2 to be proved. The main reason for this is that all six obstacles were clearly perceived by the sales force personnel with experience of value-based pricing. The second reason is that personnel with experience perceived three obstacles as larger compared to sales personnel without, where the common denominator was that unique and central concepts from value-based pricing were part of the obstacle.

6.2 Conclusions

6.2.1 Answering the research question

The research question:

What obstacles do the members of the sales force perceive in value-based pricing?

Eight perceived obstacles were identified during the interviews, and these were rated on severity. The obstacles and their perceived severity turned out to be

dependent on previous experience on value-based pricing. The perceived obstacles and their rating can be seen in figure 5.

6.2.2 Fulfillment of purpose and academic contribution

The purpose of this master thesis was to refine and further develop existing knowledge on how to facilitate value-based pricing transformation. The purpose was fulfilled by developing the theoretical framework presented in 3.3, and expanding it by explicitly adding sales force buy-in. This was based on two things; the important role of the sales force in value-based pricing transformation presented in academic work, and the simple fact that close to all operational activity towards customers is carried out by the sales force. Getting their buy-in is a make-or-break transformation activity.

By investigating what would hinder sales force buy-in to value-based pricing, an important step has been taken in facilitating the transformation. According to our study, the only thing driving skepticism and reservations towards value-based pricing before a transformation are the perceived obstacles with implementing it. By further investigating these obstacles their severity was established. The obstacles in Category 1 were perceived as large obstacles, and the obstacles in Category 2 were perceived as smaller obstacles, but still obstacles nonetheless. Fully understanding what antecedes these obstacles would bring further insight on how to address them. Providing a methodology for addressing them and testing it would be the final step for harvesting the findings in this thesis.

Understanding these perceived obstacles in a nuanced way before a transformation will provide an opportunity to resolve them. This opportunity is further improved by the finding that the obstacles are perceived differently depending on previous experience of value-based pricing. This will help companies anticipate what obstacles will be perceived as most severe, and with that offer the opportunity to address them even more proactively.

6.2.3 Implications for Informatikka

Since the research has been carried out at Informatikka, some of the results are company specific. This affects the generalizability, but provides a unique insight to what the sales force at Informatikka perceives as obstacles for implementing value-based pricing prior to commencing the transformation project. The findings indicate the importance of spreading knowledge of value-based pricing within the sales force. By improving elementary knowledge of value-based pricing, rudimentary conceptions of the pricing strategy being difficult to implement can be resolved.

When looking at the results, it becomes clear that fierce competition and customer procurement skilled at driving down prices are perceived as the obstacles largest obstacles in Category 1. Overall, the proposed obstacles in Category 1 were perceived as more severe by sales force personnel with little or no experience of value-based pricing. This highlights the importance for Informatikka to educate the sales force, not only to increase knowledge of value-based pricing, but also to increase the buy-in since the results show that sales force personnel with experience of value-based pricing did not consider the obstacles to be as severe as the non-experienced. The journey to implement a value-based pricing strategy can be long and tough, and Informatikka has to convince the sales force that it is possible and worth the effort. By using success stories, initial customer collaboration projects and business cases etc. the buy-in should increase prior to the transformation.

The results from Category 2 indicate that the lack of confidence in Informatikka's ability to transform will be a tough challenge to deal with for the company. It is shown that the confidence in the ability to understand and deliver customer value is low within the sales force, as is the confidence in Informatikka's ability to change processes. These proposed obstacles are perceived as even larger for sales force personnel with previous experience of value-based pricing. Even though these individuals could be used to spread knowledge to colleagues at Informatikka, there is still a need to spread confidence in the company's abilities to change into value-based pricing. By showing that management is dedicating the right resources and efforts to carry the transformation process all the way through the confidence could be improved. It would also be important for Informatikka to understand the customers better, not only in order to increase the confidence among the sales force but also to facilitate a successful implementation of value-based pricing.

It is important to notice that the perceived obstacles in Category 2 are not necessarily specific for value-based pricing transformation. The ability to understand customers and offer the desired value to the different customer segments is important for any company in any situation. The same goes for confidence in Informatikka's ability to change and for manager's ability to support change. This research has highlighted strategic management issues from a pricing transformation perspective, but these issues will most likely show themselves anytime Informatikka attempts to sell or change anything. These obstacles should therefore be addressed right away.

A pricing transformation project is a strategically important project that needs all resources and time necessary to be successful. Transforming into value-based pricing is not done in a day, or even a year. This is important for Informatikka to understand. Beyond the scope of this academic report, the authors have also provided recommendations to Informatikka on how to resolve the perceived

obstacles based on the company-specific information retrieved during the interviews and the survey.

6.3 Discussion

6.3.1 Internal validity and reliability

In order to produce an academic contribution on how to facilitate value-based pricing without looking at an actual transformation, the authors chose to look at what could bring down buy-in too value-based pricing before the transformation within the sales force. The validity is, thus, (1) dependent on the assumption that sales force buy-in before the transformation is important for facilitating the value-based pricing transformation, and (2) that knowledge on what brings down buy-in can improve the level of buy-in.

After a thorough literature review the authors consider this totally unexplored territory, providing academic height.

The reliability of the thesis is questionable through a number of perspectives. The interviewees were chosen by Informatikka, and although this selection was supposed to be random it is impossible for the authors to know for sure. The interviews were limited in time (~45 minutes), which limited the possibility for a fully exploratory approach. There might have been more to find. Another thing that limits the reliability is the preconditions under which the interviewees partook in the interviews. Some of them were very aware of the fact that Informatikka would launch a pricing transformation project and that our contact at Informatikka were in charge of that transformation. This could have made them biased in their answers, i.e. making it easier to discuss obstacles than expected personal outcome of the transformation.

The response rate from the questionnaires was low, only 40%, which could be partly explained by high workload and adjacent holidays, but which still lowers the reliability of the results.

The severity ratio is a personal interpretation, which essentially is based on a linear correlation with the Likert-scale. The frequency diagrams have been included in the results and analysis section in order to give the reader the opportunity to interpret the answers him- or herself.

6.3.2 Limitations and generalizability of the study

The generalizability of the first finding, the eight obstacles, is considered to be good. These obstacles were all clearly perceived and should be looked at if a pricing

transformation is planned to be carried out. The severity, however, is perceived to be less generalizable since the parameters within companies can vary a lot.

The second finding, the hypotheses, are considered to be good as well. The change in perceived obstacles based on the level of knowledge should not be dependent on anything company specific to Informatikka.

The general conclusion is thus that all eight hypothesized obstacles can be perceived by the sales force. The severity will, however, depend on the level of previous experience from value-based pricing according to the findings above, as well as other company specific preconditions not researched in this study.

6.3.3 Observations and speculations from researching value-based pricing

The field of value-based pricing transformation is novel and only scarcely researched. This, combined with the fact that pricing has received a lot of attention lately and that many companies are undergoing or plan to undergo pricing transformation, has led to a the rise of a small but concentrated group of academics and consultants (sometimes both at the same time) dominating the field.

The authors managed to come over a copy of the recently released “The ROI of Pricing” written by Stephan Liozu and Andreas Hinterhuber, perhaps the most prominent, or at least the most archetypical, members of this group. On the inside of the cover, a number of academics and other established members of the value-based pricing society has written comments on the book and its content. We did not only find kind words from Niklas Hallberg and Paul Ingenbleek (both frequently referred to in this thesis), but also from Todd Snelgrove (SKF Global Manager in Value, who travels around the world giving lectures on value based pricing, lectures that Informatikka actually recommended to us), and Berndt Benrdtsson, Marketing Process director from Alfa Lava, who we actually met in February. It is a small world...

After working towards this academic field for so long the authors has altered their perception of value-based pricing a number of times, and finally [hopefully] reached some insights. The view on value-based pricing has gone from nothing, to “a revolution that will change to world” to something a bit less revolutionary. Our conception today is that value-based pricing transformation in many respects is a redundant academic field. In the following lines we hope to explain why we believe this.

In the authors perception value-based pricing is simple. It is a way to structurally gather information on (1) what customer's value, and (2) to what degree they value it.

What customers value is important to know since it will allow you to segment your customers in a clever way, and help you offer the right products and services for the different segments (if you manage to let information diffuse from the pricing intelligence department to R&D and production!). Knowing to what degree customers value your products and services is important since it gives you an information advantage towards them, regardless of other preconditions in your relationship. This advantage will help you to appropriate as much value from your products and services as possible. The value-based pricing transformation, however, is simply a change-management undertaking. To specifically studying value-based pricing transformation seems, in retrospect, a bit redundant since the only thing making the transition itself unique are the specific actions that will be undertaken (see the theoretical framework under 3.3); the same thing that makes any transformation unique. The only distinguishing thing that seems to drive difficulties with value-based pricing transformation is the lack of understanding of what value-based pricing actually is. Perhaps studying these misconceptions, and trying to define value-based pricing, had been a more rewarding area to study?

The authors believe that, apart from the findings just presented in 6.1.1, the great value of this thesis is the literature study and theoretical framework that was produced. In this framework the specific actions that, according to previous studies, should be undertaken in value-based pricing transformation are gathered and presented; effectively including everything that is unique with value-based pricing transformation. The authors then chose to investigate the one unexplored part of that framework; what could hinder salesforce buy-in. This was the best that could be done in a tricky situation, studying change without the time to perform a longitudinal study is difficult. However, managing to establish sales force buy-in as a part of a value-based pricing transformation was a major academic contribution. The study delivered a complex answer, but the quick answer to the same question (without any hard academic proof, but as a result of four months of intellectual grinding) is that no one really knows what value-based pricing is, or at least have the same definition as anyone else. The way to solve this would be to align everyone's definitions, preferably so one similar to the one stated above. Most should be able to agree to the idea that more and better information is something good.

6.4 Further research

Further development and investigation in the theoretical framework would, in the authors view, be an interesting area of future studies. This would bring clarity in the one thing that is unique with value-based pricing transformation.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

As mentioned previously it would also be very interesting to see a longitudinal study on what hinders sales force buy-in or creates resilience towards value-based pricing, furthering developing the findings of this study.

Based on the findings in this master thesis it would be interesting to take the findings one step further and see how the obstacles could be addressed in order to better facilitate sales force buy in, and in extension value-based pricing transformation.

7 Bibliography

- Amit, R., & Shoemaker, P. (1993). Strategic Assets and Organizational Rent. *Strategic Management Journal*, 14(1), 33-46.
- Andersson, L. (2013). *Pricing capability development and its antecedents*. Lund: Institute of Economic Research, Lund University.
- Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17, 99-120.
- Bryman, A., & Bell, E. (2003). *Business Research Methods*. Oxford: Oxford University Press.
- Dierickx, I., & Cool, K. (1989). Asset Stock Accumulation and Sustainability of Competitive Advantage. *Management Science*, 35(12), 1504-1511.
- Dutta, S., Zbaracki, M. J., & Bergen, M. (2003). Pricing process as a capability: A resource-based perspective. *Strategic Management Journal*, 615-630.
- Hallberg, N. (2008). *Pricing Capability and Its Strategic Dimensions*. Lund: Lund Business Press.
- Hinterhuber, A. (2004). Towards value-based pricing - An integrative framework for decision making. *Industrial marketing management*, 765-778.
- Hinterhuber, A. (2008a). Customer value-based pricing strategies: Why companies resist. *Journal of Business Strategy*, 29(4), 41-50.
- Hinterhuber, A. (2008a). Customer Value-Based Pricing Strategies: Why Companies Resist. *Journal of Business Strategy*, 29(4), 41-50.
- Hinterhuber, A. (2008b). Value delivery and value-based pricing in industrial markets. *Advances in Business Marketing and Purchasing*, 381-448.
- Informatikka, P. m. (2014, 01). (Authors, Interviewer)
- Ingenbleek, P., Debruyne, M., Frambach, R. T., & Verhallen, T. M. (2003). Successful New Product Pricing Practices: A Contingency Approach. *Marketing Letters*, 289-305.
- Ingenbleek, P., Debruyne, M., Frambach, R. T., & Verhallen, T. M. (2003). Successful New Product Pricing Practices: A Contingency Approach. *Marketing Letters*, 289-305.
- Ingenbleek, P., Debruyne, M., Frambach, R., & Verhallen, T. (2001). *On cost-informed pricing and customer value: A resource advantage perspective on industrial innovation pricing practices*. Pennsylvania: University Park, PA: The Pennsylvania State University, Institute for the Study of Business Markets.
- Jacobsen, D. I. (2002). *Vad, hur och varför?* (G. Sandin, Trans.) Lund: Studentlitteratur.
- Liozu, S. (2012). CEO championing of pricing, pricing capabilities and firm performance in industrial firms. *Industrial Marketing Management*, 633-643.
- Liozu, S. M., & Hinterhuber, A. (2013). Pricing orientation, pricing capabilities, and firm performance. *Management decisions*, 594-614.

- Liozu, S., & Hinterhuber, A. (2012). Industrial product pricing: a value-based approach. *Journal of Business Strategy*, 28-39.
- Liozu, S., & Hinterhuber, A. (2013). Pricing orientation, pricing capabilities, and firm performance. *Management Decision*, 594-614.
- Liozu, S., Hinterhuber, A., Perelli, S., & Boland, R. (2011). Mindful pricing: transforming organizations through value-based pricing. *Journal of Strategic Marketing*, 197-209.
- Makadok, R., & Barney, J. (2001). Strategic Factor Market Intelligence: An Application of Information Economics to Strategy Formulation and Competitor Intelligence. *Management Science*, 47(12), 1621-1638.
- Nagle, T. T., & Cressman, G. E. (2002). Don't just set prices, manage them. *Marketing Management*, 29-33.
- Nagle, T., & Holden, R. (1995). *The Strategy and Tactics of Pricing*. Prentice-Hall, Englewood, Cliffs, NJ.
- Noble, P., & Gruca, T. (1999). Response to the Comments on "Industrial Pricing: Theory and Managerial Practice". *Marketing science*, 458-459.
- Peteraf, M. (1993). The cornerstones of competitive advantage: A resource-based tangle. *Managerial and Decision Economics*, 14(3), 179-191.
- Richards, J. D., Reynolds, J., & Hammerstein, M. (2005). The Neglected Art of Pricing. *Financial Executive*, 26-29.
- Sodhi, M. S., & Sodhi, N. S. (2005). Six Sigma Pricing. *Harvard Business Review*, 135-142.
- Urbany, J. (2001). Justifying Profitable Pricing. *Journal of Product & Brand Management*, 141-159.
- Wernerfelt, B. (1984). A Resource-Based View of the Firm. *Strategic Management Journal*, 5(2), 171-180.
- Vogel, H., Bright, K., & Stalk, G. (2002). Organizing for Pricing. *BCG Perspectives*.

8 Appendix I Interview guide

Appendix I consists of the first and last used interview guides for performing the qualitative interviews in step two of the research process.

8.1 First round of interviews:

The aim of the interviews is to better understand what the sales force thinks of value-based pricing. This is interesting since understanding their thoughts can help facilitate the implementation of VBP and the development of pricing capabilities. Previous studies has shown that not enough focus has been put on the sales force.

All questions based on hypothetical scenario where VBP is implemented

After an introduction with five short questions to we ask six longer questions. We ask questions 1-4 in order to better understand the immediate associations that VBP produce. Questions 5-6 are more about what the sales force thinks about the actual strategy and its implications for Informatikka as a company.

Execution:

- *Short introduction of who we are and what we are working on*
- *Information regarding where the work will be published and that the interviewees will be anonymous.*
- *Ask if it is OK to record for our own purpose (will be deleted within a week).*
- *We don't expect you to have the correct answers to these questions, since there are none. We just want to hear about your intuitive answers to the questions.*

Introduction questions:

- i. Age
 - ii. Education (field and level)
 - iii. Years at Informatikka
 - iv. What type of products do you sell?
 - v. Years with current customer
 - vi. Previous experience of working with VBP
1. **Technology:** How are prices set today? How would VBP affect the technological requirements for setting prices?
 - a) What do you think it would take in terms of technological improvements?
 - b) Will Informatikka be able to do what is necessary to implement VBP?
 - c) Do you think we will make more money on these investments?

Facilitating value-based pricing transformation: what hinders sales force buy-in?

(We want to understand the, by the sales force, expected value of VBP. The last question is basically a cost-benefit analysis.)

2. **Skills/education:** What do you think you, and others within the sales force, would need in terms of education and support in order to implement VBP?

How would VBP change the competence requirements at Informatikka?

(We want to understand what kind of education the sales force expect they have to go through and how they expect the company will have to change. This part will get the interviewee to focus on the cost of implementation.)

3. **Relationship with customers:** Describe the current relationship to customers *(begin with open questions, but end up in: What do the customer prioritize? Price, value, quality?)*.

a) How do you think your relationship to customers would be affected by a change in pricing strategy?

b) How do you think the customers would react to the change in pricing strategy?

(We want to know what the current relationship with customers look like, and understand how the sales force expects this relationship to change with VBP.)

4. **Influence:** How would you describe your current level of influence at Informatikka, specifically regarding pricing? How would your influence be affected by a transformation into VBP?

a) Will your ability to influence pricing change?

b) Will your ability to influence Informatikka's success change?

c) Will your position as xyz (KAM or other) become more or less important?

d) How do you think this would affect hierarchy at Informatikka, how would influence shift?

e) How do you think your relationship to your senior managers would be affected etc.?

(We ask these questions to better understand what kind of influence the sales force experiences today, and how they think that that influence would change if Informatikka were to implement VBP)

5. **Well-being:** How do you think your work situation would change?

Elaborate:

a) Longer/shorter hours?

b) More/less rewarding?

c) More/less fun/interesting?

d) Easier/more difficult?

(We want to really understand what kind of personal impact the salesforce expect if Informatikka were to introduce VBP. We want to understand the first associations the salesforce have.)

6. **Rewards:** Do you believe your work would become more or less rewarded:
- More/less salary?
 - Uncertainty of bonuses, variable salary etc.?
 - Benefits?
 - Other rewards?
- (We want to know more about how the sales force expect output, with emphasis on their monetary remuneration, to change with VBP)*

8.2 Final round of interviews:

The aim of the interviews is to better understand what the sales force thinks of value-based pricing. This is interesting since understanding their thoughts can help facilitate the implementation of VBP and the development of pricing capabilities. Simply put create buy-in. Previous studies has shown that not enough focus has been put on the sales force.

All questions based on hypothetical scenario where VBP is implemented

The first two questions are asked in order to appreciate the interviewee's knowledge and understanding of VBP.

Execution:

- *Short introduction of who we are and what we are working on*
- *Information regarding where the work will be published and that the interviewees will be anonymous.*
- *Ask if it is OK to record for our own purpose (will be deleted within a week).*

Introduction questions:

- Age
- Education (field and level)
- Years at Informatikka
- What type of products do you sell? Commodities of differentiated products?
- Years with current customer
- Previous experience of working with VBP – more questions if possible.

7. **Price setting:** Could you give us a short description of how prices are set today? How would VBP change the way you set prices?
- How would VBP change the competence requirements at Informatikka?
 - Do you think Informatikka has the organizational flexibility to implement VBP?
 - How do you view Informatikka's ability to implement strategic changes?
 - What do you believe is important to succeed with change?

- h) Do you think we will make more money on the necessary investments?
- i) Is Informatikka able to communicate and appropriate the value it creates?
(We want to understand the, by the sales force, expected value of VBP. The last question is basically a cost-benefit analysis. We also want to understand what kind of education the sales force expect they have to go through and how they expect the company will have to change. This part will get the interviewee to focus on the cost of implementation.)

8. Competitiveness: How competitive is Informatikka today? How will competitiveness be affected by a transformation into VBP?

- a) What is the competitors pricing strategy?
- b) What makes Informatikka competitive and how will that be affected by VBP?
- c) How will competitors react to a transformation into VBP?

9. Organizational confidence: Does Informatikka sell more Value/price than competition?

- a) What would R&D say?

10. Relationship with customers: Describe the current relationship to customers

- c) What do the customer prioritize? Price, value, quality? What do they say and what do they actually do?
- d) How do you think the customers would react to the change in pricing strategy?
- e) Would it be possible to change customer behavior? Joint ventures instead of tenders.
- f) Is it worth investing in customer relationships?
- g) Would customer loyalty be affected by VBP?
- h) How do you think your relationship to customers would be affected by a change in pricing strategy?
- i) Discounts?

(We want to know what the current relationship with customers look like, and understand how the sales force expects this relationship to change with VBP.)

11. Well-being: How do you think your work situation would change?

Elaborate:

- e) Longer/shorter hours?
- f) More/less rewarding?
- g) More/less fun/interesting?
- j) Easier/more difficult? Do you think the sales force would be comfortable selling on value rather than on price?
- h) More/less salary
- i) Bonuses

Facilitating value-based pricing transformation: what hinders sales force buy-in?

j) Benefits

k) Other rewards

(We want to really understand what kind of personal impacts the sales force expect if Informatikka were to introduce VBP. We want to understand the first associations the sales force have. We also want to know more about how the sales force expect output, with emphasis on their monetary remuneration, to change with VBP)

12. Influence: How would you describe your current level of influence at Informatikka, specifically regarding pricing? How would your influence be affected by a transformation into VBP?

f) Will your ability to influence pricing change?

g) Will your ability to influence Informatikka's success change?

h) Will your position as xyz (KAM or other) become more or less important?

i) How do you think this would affect hierarchy at Informatikka, how would influence shift?

j) How do you think your relationship to your senior managers would be affected etc.?

(We ask these questions to better understand what kind of influence the sales force experiences today, and how they think that that influence would change if Informatikka were to implement VBP)

Final question: What are the obstacles for introducing VBP?

9 Appendix II Questionnaire

Appendix II Consist of the questionnaire sent out to members of the sales force at Informatikka:

Pricing transformation questionnaire

This questionnaire is part of the research carried out by to Master Thesis students from Lund, Sweden. The findings will be used in Informatikka's pricing transformation project. Please answer all 43 questions/statements. Definitions: Value-based pricing (VBP) = Prices based primarily on the value the product delivers to a predefined segment of customers. Examples of VBP are "perceived value pricing", "total cost of ownership", "performance pricing". Please read the questions and statements carefully. In the end of the questionnaire a text box will be provided where you can leave a comment if any question is unclear or difficult to understand. In that case please note the number of that question. All answers are anonymous and will not be presented individually, but as statistics

Many thanks for participating!

*** Required**

Questions:

Please indicate your role at Informatikka*:

Please state your educational background: *

Which country do you work in? *

What is your primary business area? *

Do you have any previous experience of working with VBP? *

1. Informatikka has a product- and services portfolio that can offer the desired value to all customers.

2. Informatikka has a segmentation of customers that facilitates a good value propositions for different customers.

3. To what degree would customer procurement and their ability to drive down price be an obstacle for implementing VBP?

4. Limitations in Informatikka's product- and service portfolio is not an obstacle for implementing VBP.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

5. The sales force at Informatikka would fully accept and adopt a VBP approach.
6. Informatikka lacks the customer knowledge necessary to offer the desired value to all customers.
7. Current pricing processes at Informatikka are flexible towards different customers.
8. Transformation projects at Informatikka do not usually get enough/the right resources and support from top management
9. The sales force knowledge and education on VBP is not an obstacle for implementing VBP at Informatikka.
10. How would you rate the current level of competition in your line of business?
11. I am not confident in Informatikka's ability to adapt price-setting processes in order to facilitate VBP.
12. Strong support from top management would increase my confidence in Informatikkas ability to implement VBP.
13. I am not confident in Informatikka's ability to carry organizational and strategic transformations projects all the way through.
14. A product and services portfolio that can offer desired value to all different customers would increase my confidence in Informatikka's ability to implement VBP.
15. Informatikka's lack in understanding customers is an obstacle for implementing VBP.
16. I am confident in Informatikka's ability to carry organizational and strategic transformations projects all the way through.
17. Transformation projects at Informatikka usually get enough/the right resources and support from top management
18. Informatikkas processes, and lack of ability to change these processes, pose an obstacle for implementing VBP.
19. Lack of top managerial support throughout transformation processes is an occurring obstacle in transformation projects at Informatikka.
20. Informatikkas segmentation of customers is an obstacle for implementing VBP.

Facilitating value-based pricing transformation: what hinders sales force buy-in?

21. A customer segmentation that better facilitates a more accurate value proposition would improve my confidence in Informatikkas ability to implement VBP.
22. Current pricing processes at Informatikka are not flexible towards different customers.
23. Informatikka has the customer knowledge necessary to offer the desired value to all customers.
24. VBP success stories would increase my confidence in Informatikkas ability to implement VBP.
25. Informatikka lacks a product- and services portfolio that can offer the desired value to all customers.
26. The sales force at Informatikka would not fully accept and adopt a VBP approach.
27. How would you rate your customers' procurements skills and their ability to drive down price?
28. How would your customers in general rate the current level of differentiation of the products/services that you sell?
29. Strategic and operational transformation projects are usually carried all the way through at Informatikka.
30. The sales force knowledge and education on VBP is an obstacle for implementing VBP at Informatikka.
31. Informatikka lacks a segmentation of customers that facilitates a good value propositions for different customers.
32. Lack of top managerial support throughout transformation processes is not an occurring obstacle in transformation projects at Informatikka.
33. Increased information-flow of customer knowledge from the sales force to product development would increase my confidence in Informatikkas ability to implement VBP.
34. Changes in the pricing processes towards more flexibility and less central pricing would increase my confidence in Informatikkas ability to implement VBP.
35. Informatikka's lack in understanding customers is not an obstacle for implementing VBP.
36. To what degree would the current level of product differentiation be an obstacle for implementing VBP?

Facilitating value-based pricing transformation: what hinders sales force buy-in?

37. I am confident in Informatikka's ability to adapt price-setting processes in order to facilitate VBP.

38. Limitations in Informatikkas product- and service portfolio is an obstacle for implementing VBP.

39. Closer collaboration with customers that increase understanding of what they perceive as value would increase my confidence in Informatikka's ability to implement VBP.

40. Strategic and operational transformation projects are usually not carried all the way through at Informatikka.

41. Informatikka's segmentation of customers is not an obstacle for implementing VBP.

42. Informatikka's processes, and lack of ability to change these processes, do not pose an obstacle for implementing VBP.

43. To what degree would the current level of competition be an obstacle for implementing VBP?

This is the last question. If any question was unclear or if there were something you did not understand, please leave a comment here and include the number of the question. If you have any other comments or suggestions, please leave them here. Thank you for your participation.

10 Appendix III Calculation table

Appendix III consists of a calculation table used for weighting the values gathered from the responses of the questionnaire.

Answer to regular question	Should correspond to: inverted question	Answer to inverted question	If	Final value for regular	If	Final value for regular	If	Final value for regular	If	Final value for regular
1	=	7	1&7	1	2&7	2	3&7	2	4&7	3
2	=	6	1&6	1	2&6	2	3&6	3	4&6	3
3	=	5	1&5	2	2&5	2	3&5	3	4&5	4
	4=4		1&4	2	2&4	3	3&4	3	4&4	4
5	=	3	1&3-1	Invalid answer	2&3	3	3&3	4	4&3	4
6	=	2			2 & 2-1	Invalid answer	3 & 2	4	4 & 2	5
7	=	1					3 & 1	Invalid answer	4 & 1	5