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**School of Economics and Management**
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# The dominant logic of an industry: exploring a holistic view of value capture

Master Corporate Entrepreneurship and Innovation
Internship and degree project (Master's thesis 15 ECTS)

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# ABSTRACT

**Title:** The dominant logic of an industry: exploring a holistic view of value capture

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**Keywords:** Value Capture, Value Appropriation, Organizational Capabilities, Pricing Capabilities, Culture, Industry Dominant Logic.

**Thesis purpose:** The purpose of this thesis is to explore the relationship between environmental factors and value capture capabilities and their effect on value capture.

**Methodology:** A qualitative Case Study based on interviews from five Key Account Managers and the CFO and CEO of a Business to Business firm operating in the Nordic region. This thesis uses semi-structured data collection as well as observations and iterating between literature and empirical findings to address the gap in the literature.

**Theoretical perspectives:** Exploring both the Resources Based View (Barney, 1991) of the firm and the relationship to Porter's Five Forces (Porter, 1979).

**Conclusions:** Despite having a superior value offering and high customer satisfaction, industry dominant logic is linked to culture (organizational capabilities) which influence the way a company approaches pricing strategies, negotiations with customers, communication of value and gathering and use of knowledge. These in turn, affect value capture.

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Adele Cummings, Babak Vahidi and Petter Hallberger

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# CHAPTER 1 INTRODUCTION

## 1.1 Background

The current changing business environment with globalization, advancements in technology and new management practices have created a need for firms to constantly reassess, adapt their business model and how they create and capture value (Bitner, Ostrom and Meuter, 2002). Michel (2015) argued that companies focus more on the creation of value but often forget to think innovatively about how to capture value. He uses the example of Facebook by stating: *"With 1.3 billion active monthly users, Facebook has an undisputed ability to create value for customers. But as the highly volatile share price testifies, it is not at all clear that the company will figure out how to capture enough value to justify its hefty market capitalization and price-earnings ratio"* (Michel, 2015, p. 80). This statement is supported by Amit and Zott (2012) who state *"Simply creating exceptional value however, is not enough*". Every firm aims to create as much profit as possible and according to Amit and Zott (2012) and Michel (2015), the business model is crucial for determining the size of the 'value pie'. The business model defines how much value is created and the more value created the more potential there is for value capture. It would seem that if a firm has a large and superior value offering that they would be able to maximize value capture, but is this really the case?

In today's complex environment the business landscape has changed. Firms are now no longer able to secure competitive advantage by merely having a superior offering and exceptional customer relationships (Michel, 2015). Firms must understand every intricate process and activity in their activity network, that value is created via the chain of three 'players': suppliers, firms and buyers (Porter, 1979), and how to capture value from each step (Brandenburger and Stuart, 1996). Brandenburger and Stuart (1996) looked at how the value is divided up amongst these players and therefore how much value can each player expect to capture. By breaking down this chain even further and examining what happens at each step along the chain; for example when prices are set, negotiated, communicated (Dutta, Zbaracki and Bergen, 2003), or how organizational change capacity, firm size (Liozu, Hinterhuber and Somers, 2014) and bargaining power (Töytäri, Rajala and Alejandro, 2015) influence the ability to capture value then firms are more likely to be able to capture more value (Michel, 2015). This sentiment is echoed by Bowman and Ambrosini (2000); companies must have a thorough understanding of the capabilities and resources that can be used and leveraged in unique ways in order to sustain and gain competitive advantage. All of this centers on

the concept of value and how it is created and captured and what firm specific factors and industry factors can influence this process. But Michel (2014) suggest that the issue is that most firms focus on developing capabilities that create value, while capturing value falls out of the strategic thinking. Do firms really know what they need to do? Are they aware of what routines, processes, analyses and other factors they need to be aware of in order to maximize their value capture?

## 1.2 Problem Discussion

Delving further into the literature on Business Models, Teece (2010) describes a business model as a design of how a company creates value, delivers it to their customers, and in the end, captures value. According to the earlier literature, through a proper value chain and value proposition, the company should manage to turn those payments into profit (O'Cass and Ngo, 2011). An exploration of more recent literature shows that companies actually struggle to capture value despite having exceptional value offerings and delivery. For example, Joseph Pine II and Gilmore (2014, p. 25) state that if, after revising a business model's offering and pricing strategy results in the addition of services, and firms are unable to charge for those services, it might be time to ask the crucial and fundamental question "*What could we do differently...*"? This focus on value creation and capture in order to gain competitive advantage is becoming increasingly relevant in today's business climate (Michel, 2015). The gap between creation of value and capture of value and what constitutes the abilities that allows a firm to maximize value capture is the area that this thesis will explore.

As previously mentioned, there is an undeniable shift in the business model literature towards a greater focus on the customer value proposition (value creation) but also value capture (Michel, 2015). This has risen out of the volatile external environment in which companies today are operating. Competition is fierce and advancements (particularly in technology) are constantly changing the way the game is played, forcing firms to adapt and rethink how they create and capture value in order to sustain competitive advantage (Michel, 2015).

Although value creation and capture have been the focal point for recent business research, very little is known about how firms actually capture value and what influences a firm's ability to capture value. O'Cass and Ngo (2011) focused on how the value offering influenced the customer-centric performance, i.e. value that the firm captures in terms of customer retention, satisfaction and add-on sales. Their conclusion is that firms that have a good value offering are able to capture value (ibid.).

But this view is simplistic and neglects to take into consideration factors that are external to the value offering itself. The environment in which a firm operates is a very complex one, which begs the question:

*If a firm creates superior value but still does not capture value, which factors are inhibiting this?*

Previous studies suggest that other factors might include elements of five forces (Porter, 1979) such as bargaining power and competition but also pricing strategy (Dutta et al., 2003) and customer perception of value (Bowman and Ambrosini, 2000). These factors have been studied in isolation from each other, hence, a holistic view is needed where the relationship between these factors are explored in order to really understand how firms capture value.

Several authors have commented on factors other than the value offering that could affect value capture. Brandenburger and Stuart (1996) discuss that the actual value captured is decided by the bargaining relationship in the value network. Similarly, Porter's (1991) highlighted that the bargaining power of buyers can decrease industry profits, hence, it can reduce a supplier's ability to capture value. Kim and Mauborgne (1999) discuss the effect that strategic focus on the competition has on the ability to capture value. They state that this strategy leads to imitation rather than innovation and actually regresses towards the competition rather than maintaining a competitive advantage (ibid.). In terms of value capture, it leads to firms offering 'overdesigned and overpriced' products that the customer does not want or need (ibid.). This is one way that competition can have an effect on a firm's ability to capture value. Bowman and Ambrosini (2000) further explored the customer's view of the value offering, which they found subjective and individual. They further found that only in rare monopolies will the customer pay the entire monetary value (Bowman and Ambrosini, 2000) therefore affecting value capture.

Many scholars studying value capture take inspiration from resource based view (Barney, 1991) and see the ability to capture value as bundles of resources and capabilities that lead a firm to competitive advantage (Bowman and Ambrosini, 2000; Lepak, Smith and Taylor, 2007). Dutta et al. (2003) are stressing the resources and routines such as analyzing competitor data, cataloguing and gathering information on pricing and customers and routines to resolve internal goal conflict that a firm would need to invest in, in order to get the most out of their pricing strategy. Scholars like Liozu et al. (2014) categorized these resources and routines as capabilities and further examined the ascendant of the capabilities and could through empirical studies link them to a positive impact on a

firm's ability to capture value. With this in mind, it can be seen that the complex firm environment has many factors, outside of the value offering, that affect a firm's ability to capture value. After a review of the literature, the authors of this thesis compiled a list of most common factors influencing value capture. The authors of this thesis then decided to categories the factors into *value capture capabilities* and *environmental factors* and distinguish them as a firm's ability to affect them. Value capture capabilities includes firm-specific capabilities that help a firm get more paid for its services and products from customers. Pricing capabilities and organizational capabilities (Liozu et al., 2014) are examples of factors that are classified as *value capture capabilities* by the authors of this thesis. Pricing capabilities are routines, skills and know-how that firms use to inform pricing strategy, price changes, negotiations and customer and competitor analysis. Organizational capabilities encompass elements such as the ability of a firm to adapt to changes and align the workforce behind a common goal. In contrast, factors that a firm cannot control such as number of competitors and economic conditions are classified as *environmental factors*. These factors also influence how much profit a firm retrieves for its services and products from its customers, but are industry specific as opposed to firm-specific (i.e., impacts all firms within an industry) and nothing that a firm could control.

These factors have been examined (in previous literature) in isolation from each other, pricing capability is an example of an ongoing stream of research examining the capabilities that influence pricing and therefore value capture (Dutta et al., 2003; Liozu and Hinterhuber, 2013; Liozu et al., 2014; Töytäri et al. 2015). These capabilities are translated into activities that a firm undertake in order to get more paid from its customers, e.g. convincing customers of the fairness of the price and setting the right pricing strategy. Other authors have examined organizational capabilities such as: how the CEO's championing behavior influence pricing capabilities, organizational change capacity that helps a firm to change and adapt to new opportunities and threats and sales force management (Hinterhuber, 2008; Bowman and Ambrosini, 2000; Hinterhuber, 2004; Töytäri et al., 2015). These capabilities are not pricing related but influence pricing capabilities and therefore, a firm's ability to capture value. The authors of this thesis wish to gather these factors together under the title 'value capture capabilities' thereby looking holistically at what a firm does in terms of value capture and examine the relationship between these capabilities and the environmental factors surrounding the firm. As previous literature has treated these elements in isolation the aim is to give a more holistic view of what influences a firm's value capture and how these factors overlap and influence each other. This is the gap in the literature which the authors of the thesis hope to contribute to. Bowman and Ambrosini (2000) go some way to addressing this gap in the literature by looking at value

creation and value capture as distinct concepts. They argue that value is created by the firm in the form of employee labor however, value capture is determined by economic factors such as the bargaining relationships between suppliers and buyers (ibid.). This gap is also identified by Ellegaard, Medlin and Greerbro, (2014) who state that researchers from different fields have deliberately ignored each other's findings and that by comparing different factors there are opportunities for researchers to learn and get inspired by each other.

## 1.3 Research Question

The key aim of this thesis is to provide further insight into how firms can capture more value by understanding the relationship between different factors influencing value capture. This has led to the formation of the following research question:

*What is the relationship between environmental factors and value capture capabilities, and how do they affect a B2B firm's value capture?*

## 1.4 Purpose

Due to the researchers having completed a project within a company this puts them in an optimal position for conducting a case study. By utilizing this position the researchers hope to be able to add fresh evidence to the literature surrounding value capture and answer the research question stated above. Ellegaard et al. (2014) argue that there is a lack of understanding of value appropriation (capture) mechanisms and the plethora of value appropriation options available make value appropriation a managerial nightmare. Based on this, they (Ellegaard et al. 2014) identify the need for further research on value appropriation processes, mechanisms and activities. It is this area that the authors of this thesis aim to contribute to.

Dutta et al. (2003) used non-participant observations of a case company, semi-structured interviews and data collections from existing records in order to conduct their qualitative study on pricing capability as a mechanism for value capture. This thesis aims to add to this research and therefore sees the benefit in using similar data collection methods. Through these data collection methods we hope to identify the value capture capabilities that exist at the Company and also any environmental

factors that either facilitate or inhibit the ability to capture value. In this sense, the study will be exploratory in nature. Literature in this field is lacking a focus on isolated value capture and therefore an exploration into this area is necessary (Ellegaard et al., 2014). This research followed an iterative process moving between gathering data from interviews and other sources and delving further into literature (Bryman and Bell, 2011; Eisenhardt, 1989). The process can be seen in figure 1.

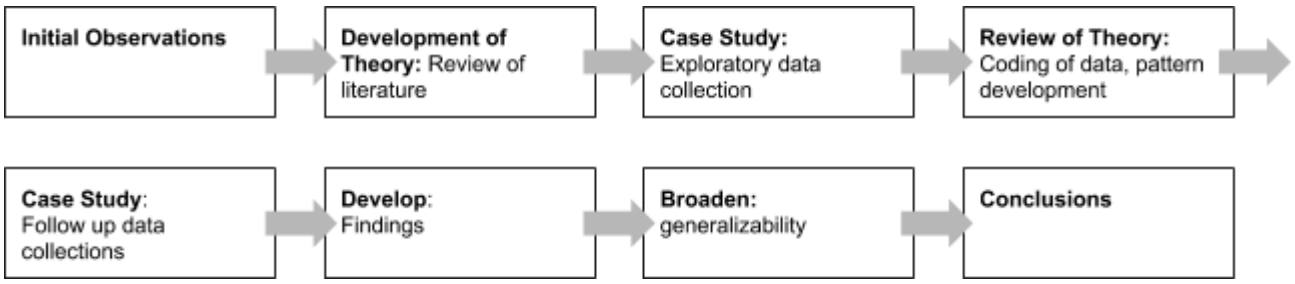


Figure 1. Case study process

The case company (from here on, referred to as 'the Company and the case Company') has been a market leader in Sweden within the industry of corporate branding since 1983. Over this time they have managed to adapt to changes and keep their market position unlike any of their competitors. They have expanded their company globally with offices in Hong Kong, France, US and several locations in Sweden. The Company prides itself on its strong customer relationships (customer retention) and its superior value offering (customer satisfaction).

Out of the initial exploratory interviews and observations of the case Company, it can be seen that that in the Company there are many other factors involved in not only creating and delivering value, but also capturing value, and that is a challenge for the Company. The Company is also active in an industry where there exists low differentiation between companies but where prices are different. One of the current challenges of the Company is be able to charge as much as possible for its products and services as the competitors do. Therefore the Company makes an appropriate choice in which to conduct this research. In addition the authors hope that a practical implication from this research can be taken and used by firms to help them identify and develop value capture capabilities and minimize the influence of environmental factors on value capture.

## 1.5 Key Concepts and Structure of the Thesis

In order to understand the research question and its context there are a number of terms and key concepts which will require definition and elaboration before any conclusions can be made.

Key concepts that the authors have deemed as important include:

1) Value

a) Value creation

b) Value capture

2) Value Capture Capability

a) Pricing capability

b) Organizational capability

3) Environmental Factors

The literature surrounding value is somewhat complex and has been defined in a number of different ways. Previously value creation and capture have been studied in tandem with the literature on value creation outweighing that on value capture (Ellegaard et al., 2014). The authors of this thesis define value creation as the development of a product or service by a firm that a customer is willing to pay for (Bowman and Ambrosini, 2000). Value capture, on the other hand, is what a firm actually receives in exchange for the value created (most often expressed in monetary form) (ibid.). Previous literature deals with value capture in many ways and with many different names. Some authors use rent, value appropriation, capture, claiming and sharing (Ellegaard et al., 2014) and the topic has been approached from a variety of perspectives, such as: industrial marketing, justice, negotiation, Resource Based View (RBV) and strategic alliances (ibid.).

Value capture capabilities is a term that the authors of this thesis have coined to encompass pricing capabilities and also organizational capabilities. Pricing capabilities, as mentioned previously, include competitor data gathering and analysis, price setting strategy, convincing customers, negotiating price changes and making value assessments (Dutta et al., 2003; Liozu and Hinterhuber, 2013; Liozu et al., 2014; Töytäri, et al. 2015). Organizational capabilities denote such activities as: championing behavior, organizational change capacity and sales force management (Hinterhuber, 2008; Bowman and Ambrosini, 2000; Hinterhuber 2004; Liozu and Hinterhuber, 2013; Töytäri et al., 2015). There is also evidence that large clients use information asymmetries to get

better prices (Ryals and Holt, 2007; Ellegaard et al., 2014), which results in that firm's with large clients have less ability to capture value. The length of the relationship also influences value capture (Wieseke, Alavi and Habel, 2014).

Environmental Factors is a term defined by the authors of this thesis that consist of factors that a focal firm does not have any control over but that influence the firm's value capture. Porter (1979) contributed to this area by defining the five forces model that influences industry rivalry. Through this it can be seen that factors like bargaining power and competition in the industry influences a firm's ability to get well paid for its product and services (Porter, 1979), hence its value capture.

# CHAPTER 2 THEORETICAL FRAME OF REFERENCE

The aim of this chapter is to familiarize the reader with literature of interest for the topic discussed in this thesis. An extensive literature review has been done in area of *value capture.*

Business literature is flooded with terms such as value capture, value creation, valuable resources, and value offering however, the area of literature related specifically to value capture remains relatively small. The literature on the topic of value has previously been preoccupied with value creation and although the two concepts of value creation and value capture are closely Ellegaard et al. (2014, pp. 186) state that *"managers have an inadequate understanding of value appropriation mechanisms and lack an overview of the many value appropriation options available"*. These authors reviewed the literature specifically associated with value appropriation (Capture) in an attempt to further define this concept and build a platform for further research into the processes, activities and mechanisms surrounding value capture (ibid.). From this research five streams of literature dealing with value capture were identified: industrial marketing, justice, negotiation, resource based view and strategic alliances (ibid.). This thesis will be dealing with the mechanisms and capabilities associated with value capture as a competitive advantage of the firm, therefore the theoretical view will be based in the resourced based view of the firm.

Various authors looked at value capture and value creation as a tightly linked topic where effective value creation can be a unique resource and a source of competitive advantage (O'Cass and Ngo, 2011). Value creation and its relation to value capture will be explored before attempting to tease these two concepts apart.

O'Cass and Ngo (2011) explore what elements make up a value offering, in the form of four constructs of value and then measure the relationship between these constructs and the ability to capture the value created using four key performance indicators. In this study the four constructs of value become the resources for competitive advantage (ibid.). The literature that looks at value creation as a source for competitive advantage is discussed below.

## 2.1 Value Creation

Value creation is a term that is widely used in modern business research, but still few have tried to understand the elements of value creation. Lepak et al. (2007) argue that the source of value creation comes from individuals, organizations or society. At the organizational level, value creation starts with combining individuals and resources into actions (Bowman and Ambrosini, 2000). Resources could be capital, labor or material that needs to be transformed into a product or service (Brandenburger and Stuart, 1996). Creating value for customers is then, the cyclic task of choosing what features the firm's product/service should have and the value of that for the firm's customers (Teece, 2010). Customers look for different elements of value when evaluating an offer, great performance in terms of product/service features, quality and preference and also a superior price. Customers also look at the value of working closely with another firm in terms of having a valuable relationship and being able to create more value together. O'Cass and Ngo (2011) argue that performance, pricing, relationship and co-creation value can be regarded in terms of "what can we do for you?" and "what can we do with you?" It is these four constructs of value that they deem as being central to a firm's creation of value (O'Cass and Ngo, 2011). Their pioneering study defined and examined different elements of value creation and value capture and were able to through an extensive study link these to a firm's financial performance.

It is important in the literature to distinguish between value *created* by firms and value *captured*. Bowman and Ambrosini (2000) examine value further by exploring two terms: 'perceived use value' and 'exchange value'. They define these as what customers are prepared to pay for a product/service given that they have no bargaining power (perceived use value) and what actually is paid at the point of exchange (exchange value).

Like Bowman and Ambrosini (2000) and Dutta et al. (2003), this thesis will also explore the concept of value capture from a Resource Based Theory (RBT) perspective. The Resource Based View (RBV or RBT) focuses on a company's internal environment and its resources, capabilities and ability to create a sustainable competitive advantage (Szymaniec-Mlicka, 2014). According to Barney (1991) and Clark (2007), referenced to in Szymaniec-Mlicka (2014), the success of an organization is created by the organization itself and it's ability to take advantage of its VRIO conditions. The VRIO framework is based on four questions of how an organization can utilize their resources and capabilities in order on creating competitive advantage. This is achieved by examining each resource and capability and asks the questions (Bogdan, 2014): does this add value

by enabling opportunity exploitation or threat neutralization? Is it rare and only in the hands of one or very few companies? Is it difficult and costly for others to imitate this? Are we organized to extract value from this? Bowman and Ambrosini (2000) identified a number of capabilities, which they believe give a company competitive advantage with regards to how a value is created and also captured.

## 2.2 Value Capture

In the previous section the authors of this thesis used the definition by Bowman and Ambrosini (2000) of exchange value as being what a firm actually gets paid. Most frequently value capture is referred to as not only what a firm gets paid for their value offering (although this is a crucial factor) but more specifically, how much profit is made. This implies that value is an economic unit, at least at the moment of exchange. Brandenburger and Stuart (1996) also supports value as an economic model by defining a firm's value share as the price buyers give for goods minus the cost of producing and delivering the goods to the buyers. The price is determined by bargaining between the buyer and the seller. Lepak et al. (2007) argue that competition will decrease the price to the point where supply meets demand, which results in that value that was created must be shared with other competitors. The term "value slippage" introduced to define that value not always goes to the creator. This suggests that exchange value does not only depend on perceived use value by a party but rather subjective judgment of the bargaining relationship between buyers and sellers (Bowman and Ambrosini, 2000). Bowman and Ambrosini (2000, pp. 8) further clarify the issue of measuring value creation and link that to value capture as *"It is like trying to determine which blade of a pair of scissors does the cutting"*. This finding indicates that there are other components that link value capture to financial performance measures, which will be examined further in the next section.

Ellegaard et al. (2014) state *"managers have an inadequate understanding of value appropriation mechanisms and lack an overview of the many value appropriation options available"* (Ellegaard et al. (2014) pp. 186). These authors who interchangeably use the phrases "value appropriation" and "value capture" for the same definition, reviewed the literature specifically associated with value capture in an attempt to further define this concept and build a platform for further research into the processes, activities and mechanisms surrounding value capture (ibid.). From this research five streams of literature dealing with value capture were identified: industrial marketing, justice, negotiation, resource based view and strategic alliances (ibid.). This thesis will be dealing with the

mechanisms and capabilities associated with value capture as a competitive advantage of the firm, therefore the theoretical view will be based in the resourced based view of the firm.

The resources based view, in broad terms aims to provide an explanation for why some firms have a competitive advantage over another. To make this advantage sustainable, firms must identify and build on their unique strengths, sometimes referred to as resources and capabilities (Tidd and Bessant, 2014). According to Tidd and Bessant (2014), a resource is something that an organization has and owns or controls. Capabilities on the other hand are related to the potential for actually undertaking activities, which could be processes or routines (ibid.). Capabilities related to value capture identified in previous literature include: pricing capabilities (Dutta et al., 2003; Hinterhuber 2004; Hinterhuber, 2008; Töytäri et al., 2015) and organizational capabilities such as: sales force skills management (Hinterhuber 2008; Bowman and Ambrosini 2000; Hinterhuber, 2004), organizational change capacity (Liozu et al., 2014; Töytäri et al., 2015) and organizational confidence (Liozu et al., 2014). In contrast to this Porter (1991) took the perspective that if every firm is homogenous in terms of resources, strengths and weaknesses then it is environmental factors that have an effect of the competitive advantage of the firm, hence, value capture.

## 2.3 Value Capture Capabilities

While environmental factors influence an industry's average profitability, there are also firm-specific factors that influence a firm's ability to get paid more from clients. The authors defined this as Value Capture Capabilities. In this view, value capture is a capability that could give a firm competitive advantage. This indicates that some firms are better than others at bargaining and that bargaining requires the right capabilities and skills. In similar way, Coff (1999) argues that resource based view can be deployed to predict how value will be shared. These capabilities are tangible and intangible processes developed and deployed by a firm to increase its productivity (Amit and Schoemaker, 1993). Some firms have a better capability to set and justify the right price and can therefore capture more value and generate more profits (Dutta et al., 2003). The authors of this thesis distinguish between capabilities that are related to pricing (pricing capabilities) and organizational capabilities that consist of the collective knowledge and culture that enhances the firm's competitive advantage which leads to better value capture.

### 2.3.1 Pricing Capabilities

Being able to set the right price and justify the price is essential for a firm's profitability (Dutta et al. 2003); successful firms develop specific pricing capabilities that help them to do so. Still, many managers avoid working on pricing capabilities because they believe that increasing prices means a loss for customers and that prices are set by the market rather than firms (Hinterhuber, 2004). A successful pricing strategy requires actively working against this myth. Scholars like Dutta et al. (2003), Liozu et al. (2014), Töytäri et al. (2015) examined activities by which firms actively engage with enhancing value from pricing.

Dutta et al. (2003) discuss two sets of capabilities, setting the price internally and negotiating the price *vis-à-vis* customers. Setting price internally requires that the firm must possess knowledge about competitor prices, this requires routines for getting the prices, being able to compare different offerings to the firm's own offering and documenting prices so that they can easily be retrieved when necessary. The process becomes more difficult when the offering is complex, consists of many different products and services and is spread geographically and more time consuming in crowded markets with many sellers (Ryals and Holt, 2007). Hinterhuber (2004) suggest that the way firms can overcome this is by comparing with the alternative that customers perceive as the best option and calculate a differentiator value for all the factors that differentiate the firm's offering from the best alternative. This practice may help some firms to set a price that is perceived as fair, but does not consider the difficult work required to pinpoint the best perceived alternative or that different customers may have different preferences when finding out the best alternative. Firms with good pricing capability develop routines that analyze competitors' prices and assumptions about how the customer will analyze the offering to set the price internally (Dutta et al., 2003).

The firm must also set a pricing strategy within the firm that is to decide and communicate the price to its employees. This might be difficult since various employees might have different goals. An account manager who wants to keep a good relationship with the customer might argue that prices should be lowered, while a CFO wanting to satisfy shareholders might want to see prices raised. Liozu et al. (2014) found through a survey of 748 manager in large global firms that having a center-led pricing team tasked with enhancing and communicating pricing strategy not only led to better pricing capabilities but also better organizational confidence. Firms that deploy a value-based pricing strategy, where the price directly reflects the value for the customer, engage with customer value assessment activities to figure out the right value of their offering for their customer, i.e. finding out perceived use value (Hinterhuber, 2008). This activity requires manager to clearly communicate the

value created by the firm and working on unlocking hidden value knowledge from the various departments (Ellegaard et al., 2014).

Firms must also be able to ‘sell’ the price to customers, this requires capabilities and routines to convince customers that price changes are logical and also negotiating prices with large customers (Dutta et al., 2003; Töytäri et al. 2015). Convincing customers about the price change logic require know-how about how customers will respond and also know-how about how price changes will affect the end-consumer. If the price change have a too big effect on the client’s organization, then accepting price changes might be more difficult since it requires internal agreement by the client before accepting price changes. Similarly, negotiating with big clients require different set of routines and know-how. Large clients are in good position since they can use information asymmetry when negotiating (Ryals and Holt, 2007; Ellegaard et al., 2014). Clients can then control what information should be released and use that as means for bargaining (Coff, 1999). A typical way is by hiding the perceived use value while at the same time focusing on the internal costs connected to the product/service. Clients also use this strategy to require extra services and higher quality (Ryals and Holt, 2007). Firms must develop know-how to distinguish customer’s real concerns from negotiation strategy to capture as much value as possible.

### 2.3.2 Organizational Capabilities

Firms develop capabilities to enhance their ability to set and ultimately receive higher prices. Firms have also other capabilities not directly linked to pricing that enhances their ability to capture more value. Liozu and Hinterhuber (2013) and Liozu et al. (2014) found a positive relationship between championing behavior of a CEO and the firm’s performance. Champion activities like allocating resources, motivating teams and lifting up pricing on the agenda not only leads to better performance but also to strengthen the firm’s confidence which is crucial in negotiation with clients (Liozu et al., 2014). Organizational confidence is the organizational belief of their capacity to overcome barriers and succeed with their goals, a sense of “Yes we can” mentality that powers the organization. This asset has a positive effect on a firm’s profitability but Liozu et al. (2014, p. 70) raise the question when does “...organizational confidence becomes arrogance, thus potentially decreasing firm performance”.

Firms encounter opportunities and threats that affect their business. Firms that are good at sensing and adapting to changes have more advantage than slow-moving firms (Teece, 2007). Liozu et al.

(2014) denote this capability as *Organizational Change Capacity*. This has a positive influence on a firm's performance as well as pricing capabilities and organizational confidence (ibid.). Hinterhuber and Liozu (2014) found that firms that adapt pricing experimentation during negotiations have a better change capacity. They also defined the term organizational mindfulness, which describes a firm's ability to sense, search for and identify new opportunities and also to be open to changing their current activities (ibid.). The definition of mindfulness includes *'welcoming more than one view and being aware of multiple interpretations'* (Liozu and Hinterhuber, 2013, pg. 635). Kuratko, Morris and Covin (2011) explored a similar concept called 'creative abrasion' which explores the friction that can arise from groups of people with different backgrounds and the new opportunities that can arise from this.

### 2.3.3 Environmental Factors

The five competitive forces (Porter, 1979) that affect an industry's profitability are well known in business literature. Porter (1991) explains that the purpose of the forces is to explain sustainability of profits against bargaining power and competition. Specifically the forces labeled "bargaining power of buyers" and "industry rivalry" are of interest to this thesis. Porter's (1979) original work discussed several factors influencing bargaining power. Industries with many sellers compared to buyers tend to generate lower profitability since buyers can play out sellers against each other. If buyers also easily can switch between different sellers with low cost, profitability tend to get lower because of the bargaining position of buyers, this is especially the case when there are low differentiation between sellers. Porter (1979) also found that large volume buyers are in a good position to bargain down the price. Cost and profitability of bought products/services will also determine the bargaining power, if products/services form a significant share of the buyer's total costs and generate lower profitability the price tend to go down.

## 2.4 Summary of Foundational Concepts

The table below is a summary of the mechanisms influencing value capture and their origin in the literature.

| **Mechanism** | **Factor** | **Author** |
|---|---|---|
| Competitor data | Pricing capability | Dutta et al. (2003), Hinterhuber (2004) |

| | | |
|---|---|---|
| Price setting strategy | Pricing capability | Dutta et al. (2003), Hinterhuber (2008) |
| Convincing customers | Pricing capability | Dutta et al. (2003) |
| Negotiating price changes | Pricing capability | Dutta et al. (2003), Töytäri et al., (2015) |
| Making value assessments | Pricing capability | Hinterhuber (2008), Töytäri et al. (2015), Hinterhuber (2004) |
| Communicating value | Pricing capability | Hinterhuber (2008), Töytäri et al. (2015), Ellegaard et al. (2014) |
| Sales force management | Organizational capability | Hinterhuber (2008), Bowman and Ambrosini (2000), Hinterhuber (2004) |
| Championing behavior | Organizational capability | Liozu et al. (2014) |
| Communicating Complex Offerings | Organizational Capability | Ryals and Holt (2007) |
| Center-led pricing mgmt | Pricing capability | Liozu et al. (2014) |
| Organizational change capacity | Organizational capability | Liozu et al. (2014), Töytäri et al. (2015) |
| Organizational confidence | Organizational capability | Liozu et al. (2014) |
| Value protection capabilities | Organizational capability | Töytäri et al. (2015) |
| Exploiting information asymmetries | Pricing capability | Ellengaard et al. (2011), Coff (1999) |
| Powerful (large) Customers | Environmental factor | Porter (1979), Ryals and Holt (2007), Ellegaard et al. (2014) |
| Relationship length (excluding customer satisfaction) | Pricing capability | Wieseke et al., (2014) |
| The 5 forces (Buyer bargaining power, Industry rivalry) | Environmental factor | Porter (1979) |

*Table 1. Mechanisms influencing value capture.*

## 2.5 Visualization of the summary of factors from the literature

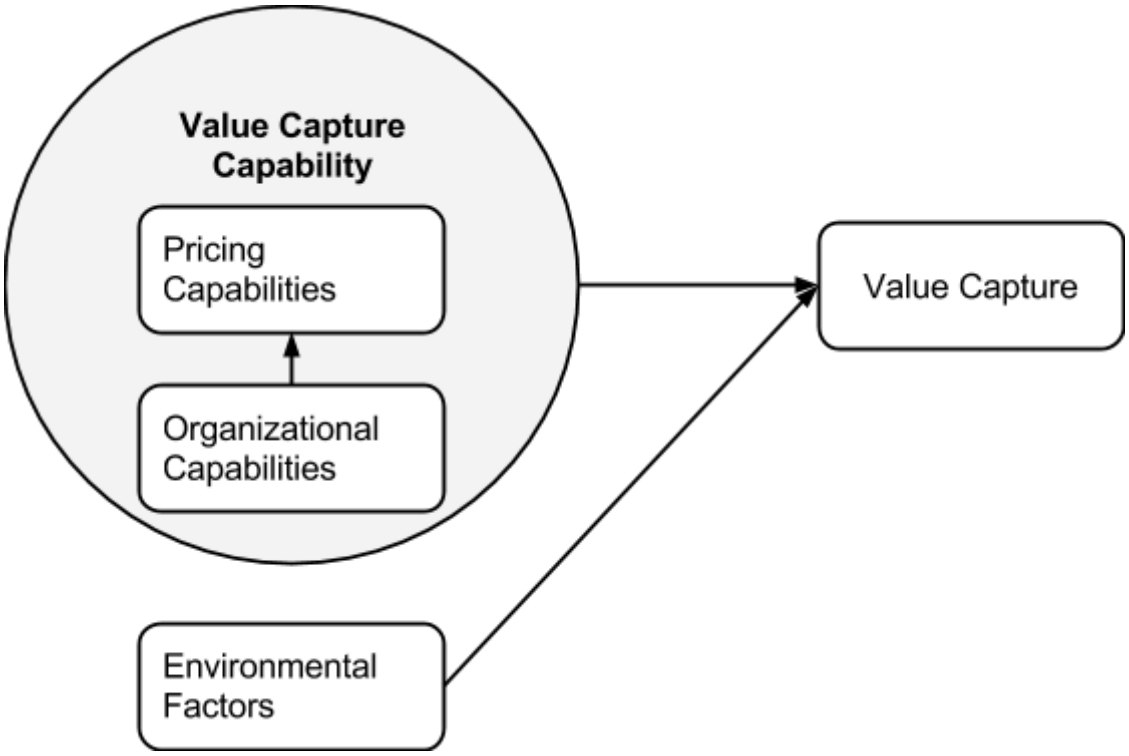


*Figure 2. Visual representation of the factors influencing value capture from the literature review*

# CHAPTER 3 METHODOLOGY

In this chapter the way the authors conducted their research will be explained and justified. Firstly the overall approach and strategy will be explained leading to a description of the research design; a case study. The process of data collection will follow this and specific data sources used will be identified. Methods of analysis will follow which will give a brief overview of how the researchers completed the analysis, which will lead to the results being presented in Chapter 5 (Findings) and the outcome of the analysis in Chapter 6 (Conclusions and implication).

## 3.1 Overall Research Design and Process

### 3.1.1 Research Strategy

Typically a positivist approach favors quantitative data and an interpretivist approach favors qualitative data (Bryman and Bell, 2011). The nature of the research question, which aims to gather a holistic view of the factors affecting value capture, lends itself to an interpretivist view, where the researchers are relying on the participants interpretation of the way the firm does business in order to define the factors which could affect value capture. An interpretivist epistemological position towards research acknowledges that the researchers will influence the results of their data and vice versa (Bryman and Bell, 2011). In order to ensure the reliability of data collected it was important for the researchers to be aware of the challenges that come with being situated within the Company and doing a case study such as the possibility of subjectively ‘going native’ and the problem to replicate the study (Bryman and Bell, 2011). However, in the approach to conducting the research, a major advantage was to be positioned in the Company as interns. This allowed the researchers to gain a deep understanding of the company culture and internal happenings of the case Company via formal and informal observations, conversations and interviews.

### 3.1.2 Inductive research

Inductive research is a reversal of this process, where researchers begin with observations and preliminary findings and from there develop a theory. The process of research is hardly ever a linear one (Bryman and Bell, 2011).

This thesis followed the logic of an inductive one and the process was an iterative process,
After a few weeks of informal observations, conversations and some semi-structured formal interviews at the Company, the authors began to develop an interest in particular areas of research. This was followed by a literature review during which the research topic was continually refined. Due to the initial interest in our research area coming from the observations made at the case Company we deem this process to be an inductive one. Bryman and Bell (2011) echo this statement, stating that the *"process of induction involves drawing generalizable inferences out of observations."*

### 3.1.3 Research Design

As stated by Bryman and Bell (2011) the case study is a commonly used method for business research. This particular case study took place in a single organization but spread over several locations in Sweden (Lund, Borås and Stockholm). Due to a signed agreement between the authors of this thesis and the Case Company, the name of the Case Company was agreed to be treated anonymously so also specific company information.

Case studies tend to lend themselves to qualitative data collection methods such as semi-structured interviews and observations (Bryman and Bell, 2011). This case study aims to observe the mechanisms for value capture in the Company using qualitative research methods. Bryman and Bell (2011) encourage these methods as a way of examining a case in particular detail for example, qualitative research is used to understand the underlying reasons, opinions and motivations from the respondent's point of view. The researchers of this particular case study used semi-structured interviews and informal observations and the aim of the research was not to generalize the results to the population, but rather to in-depth understand a single setting in order to get new perspectives, however, the researchers aim to contribute a certain amount of theoretical generalizability (Bryman and Bell, 2011)

### 3.14 Research process

The research process began with a number of exploratory interviews at the case Company regarding a general understanding of the business model and the Company's entrepreneurial capabilities. From these interviews a general topic of interest was identified: value creation and value capture, from this point the researchers followed the inductive process outlined by Eisenhardt (1989). The reason for choosing this particular method was the strength of the within-case analysis and the cross-case pattern finding technique, which strengthens the analysis process and the

reliability of the study (Eisenhardt, 1989). An extensive literature review was undertaken in the field of interest while informal observations and conversations were underway. Several research questions were defined and redefined in the inductive style as a part of this process. Once the research question (presented in Chapter 1) had been selected, seven semi-structured interviews were completed (the process of selection of these interviewees will be explored under 'interviewee selection') and the data was coded and analyzed using the techniques developed by Eisenhardt (1989). The findings and process of analysis can be found in the following information.

## 3.2 Data Collection

The authors of this thesis began collecting data about the Company before starting with the thesis in order to familiarize themselves with the Company. The process of data collection then continued at the Company were the authors of this thesis spent around four days of week for roughly four months. This was possible due to the position of the authors as interns at the case Company. This position became valuable especially because of the access to useful data that was granted from the CEO of the Company. Being present in the Company, having access to data and having informal conversation with employees involved in different areas of the Company was useful in order to gain an overall understanding of how the Company worked and the different activities that took place within the organization.

### 3.2.1 Data Collection Method

Bryman and Bell (2011) stresses that participant observation and unstructured interviews are seen as being the most useful for gaining an in depth insight into a case company which also was the case for this thesis. Data collection consisted of qualitative interviews with employees from the Company, academic journals of a theoretical nature, informal company observations and company reports such as annual reports and previous request for proposals.

### 3.2.2 Qualitative Interview

Qualitative interviews are used in order to collect rich data from the respondent and understand the research field from the interviewee's perspective, understand the details and what the respondent thinks is important and relevant (Bryman and Bell, 2011). The authors of this thesis saw an advantage in taking a semi-structured approach of the interviews with the employees at the

Company. Due to the respondents' long experience within the market and their knowledge of the business, the semi-structured interview was preferable.

### 3.2.3 Interview Guide

The authors created an interview guide for the seven interviews conducted which was in line with semi-structured interview described by Bryman and Bell (2011). They outline the approach of a semi-structured interview as having specific topics and questions to be asked but questions are designed to be more open to encourage the interviewee to respond freely and also that flexibility with the order of questions asked and deviations from the guide to follow up interesting tangents is deemed acceptable (Bryman and Bell, 2011).

With this in mind the researchers structured the interview guide in the following way. Introductory questions consisted of two open questions aimed to settle the interviewee into the interview context in an easy way. The interview was then divided into three different sections: pricing capabilities (Dutta et.al. 2003; Hinterhuber, 2008), organizational capabilities (Hinterhuber, 2008; Bowman and Ambrosini, 2000; Hinterhuber 2004; Ellegaard et al., 2014; Liozu et al., 2014; Töytäri et al., 2015) and environmental factor (Porter, 1979). These sections allowed the researchers to keep a particular train of thought and explore themes that had emerged from the literature. It was these themes that helped the authors determine what was needed to know in order to answer the research question (Bryman and Bell, 2011) and to determine what was important from the point of view of the interviewee (ibid.). The included questions can be categorized as introductory questions, follow-up questions (in italics), probing and direct questions (questions 4 and 5) and interpreting questions (e.g. '*would you say these are the clients you get the most profit from?*' (Bryman and Bell, 2011). A full interview guide can be found in the appendix (See Appendix A).

In addition to this the researchers allowed the interviewees access to the general topics of the interview and three sample questions which is supported by Bryman and Bell (2011) in order to strengthen the dependability of the research and also to instill confidence in the interviewees. Special consideration was taken in order to craft the interview questions in such a way that would be understandable to the interviewees - eliminating as much business jargon as possible (Bryan and Bell, 2011). To test this, a pilot interview was conducted in order to gain feedback on how understandable and relevant the questions were from the perspective of the interviewee. From this pilot interview and pretesting, questions were revised and upon reflection there was a conscious

effort to construct the questions in a more open way. This was to ensure that we could gather information that was from the perspective of the interviewees and not guide them into talking too specifically about certain topics (Bryman and Bell, 2011). From the pilot interview we could also estimate that interviews would last from between 45 minutes and one hour.

### 3.2.4 Interviewee Selection

The selection of interviewees came about by deciding who at the Company would be most relevant to our research topic. As the researchers had been positioned in the case Company for some time there was a familiarity with the different positions, departments and knowledge at the Company. The researchers used a nonprobability purposive sampling, outlined in Bryman and Bell (2011) as a kind of sampling that allows researchers to choose their sample based on the knowledge and potential contribution to a topic. This of course has an element of bias as the interviewees are not randomly selected and to some extent the interviewees have some idea how much the respondents know about the topic (Bryman and Bell, 2011).

It was decided that the department of 'sales' would be most useful in order to gather data to answer our specific research question. From this department the authors of this thesis contacted all the Key Account Managers (KAM) at the Company, of which there are seven, located at two different offices. The entire population of KAMs was contacts. There was an element of non-sampling error as due to illness and time constraints the authors were able to obtain interviews with five of the seven KAMs. It was important to speak with the KAMs as they are working with the company's largest clients and are directly involved with the contracts, payments and negotiations with clients. In addition to this we contacted the CFO and CEO from the management. The CFO has a detailed understanding of how the Company captures value and the CEO is heavily involved with the sales team and holds a dual role as Head of Sales which means that he is also often involved in negotiation practices and the writing of client contracts. Through this selection process the sample is unbiased as the total population of sales representatives were given the opportunity to participate in the interview process.

### 3.2.5 Interview Preparation

In order to ensure the participation of the interviewees and the validity in their answers, the authors asked the CEO of the Company to communicate to all employees that he expected everyone to engage in this thesis work. This also helped to get fast access to the employees and being able to

schedule interviews with short notice. When scheduling the interviews the authors chose to disclose a subset of the topics that would be discussed, Bryman and Bell (2011) refers to this action as a way to strengthen the dependability of the research.

The geographical distance to the interviewees played a role when choosing the site of the interview. For interviewees at the same location as the authors', a conference room was used to conduct the interview. This ensured a quiet and safe environment where the interviewee would not be distracted by things that could affect the quality of the interview (Bryman and Bell, 2011). In cases where the interviews were held with persons at a different location, the interviewee was asked to find a calm environment without any distraction. These interviews were conducted through telephone and when possible through a videoconference system that allowed the authors observe the body language of the interviewee.

All interviews were recorded and transcribed[1] in order for the authors more deeply analyze the data and be able to analyze the data several times (Bryman and Bell, 2011). This also allowed the interviewer to focus more on the answers and follow up with questions to interesting points made. Since recording might discomfort the interviewee (Bryman and Bell, 2011), the authors chose to start the interview casually in order to open up the interviewee and then ask for permission to record the interview and state that all answers would be strictly anonymous and only used in the academic context.

Being a group of three, the authors chose to take "active" and "passive" roles in the interview. This denomination derives from Bryman and Bell (2011) where the active interviewer will ask questions while the passive one observe, make notes and occasionally breaks in with follow up question. The role of the passive interviewer became slightly obsolete in cases where the interview was held over telephone, in those cases, the passive interviewer focused more on making sure that the interview guide was followed and that potential follow up questions were not missed. Bryman and Bell (2011) discuss the advantage with being two interviewers as creating a more informal environment where trust is higher between the participants. On the other hand, being too many could possibly intimidate the interviewee making it harder to get honest answer from them. Since this group consisted of three researchers it was decided that only two participated in the interviews with the key account managers, while all three participated in the interviews with the CEO and CFO.

[1] Available upon request.

## 3.3 Method for Data Analysis

The authors followed the process outlined in Eisenhardt (1989), which suggests this process is crucial for building theory from case studies. The process of analysis consists of within-case analysis, searching for cross-case patterns, sharpening of constructs and finally enfolding literature.

Eisenhardt (1989) explains within-case analysis as a way of dealing with the sheer volume of data collected. In general, it is important to deeply understand each set of data on its own. The researchers of this study chose to do this by separately coding each interview. Areas of interest were recorded and eventually translated to a common excel spreadsheet document. The respondents were treated anonymously following the logic of being named 'respondent' and given a number then their role as either a Key Account Manager or a Top Manager (See Appendix B) and the various company names mentioned in the interviews was also treated anonymously and referred to as XXX in text. By approaching the analysis in this way individual patterns were able to emerge from the data (Eisenhardt, 1989). This method also aided the researchers in their cross-case analysis (Eisenhardt, 1989) as they already had a deep understanding of the data and the information was carefully coded in one place. The table below represents the coding process from within case analysis to cross case analysis.

| **Column 1** | **Column 2** | **Column 3** |
|---|---|---|
| **Within-case analysis coding** | **Initial collapsing of codes** | **Further collapsing of codes after initial cross-case analysis** |
| Contracts | Contracts | ~~Contracts~~ |
| Knowledge sharing<br>Knowledge<br>Expertise | Knowledge | Knowledge |
| Pricing<br>Margin<br>Experimentation | Pricing strategy | |
| Competitor data<br>Competition | Competition | |
| Culture<br>Confidence<br>Org change capacity<br>Customer experience | Culture | Culture |

| | | |
|---|---|---|
| Reference customers | Reference customers | ~~Reference customers~~ |
| Negotiating<br>Communication of value | Communication | Communication/justification |
| Lack of routines | Sales force routines | ~~Inconsistent ways of working~~ |
| Industry culture<br>Status<br>Positioning<br>Client industry | Industry culture | Industry culture |
| Bargaining power<br>Customer size | Relationships | |
| Organizational change capacity | Organizational change capacity | Organizational change capacity |
| Other | Other | ~~Other~~ |

*Table 2. Development of constructs (the strike-through constructs represent constructs that were later merged or rejected.)*

In order to carefully analyze the data without jumping to conclusions and to limit outside influences the authors followed the process of cross-case analysis suggested by Eisenhardt (1989). This process consisted of the three researchers discussing together the outcomes of the isolated within-case analysis and gathering information under the headings of inhibitors and facilitators to value capture. As described in Eisenhardt (1989), one strategy is to use categories to help search for similarities and differences amongst cases. After the data was coded a first time the researchers then opted to code a second time with a greater focus on the research question and not just looking for similarities but also differences, this was in order to go beyond initial impressions and gain greater insight into the data (Eisenhardt 1989). Follow up interviews were undertaken to gain greater insight into emerging patterns. During this second round of coding a two-step process was used. Firstly, a list of most important findings was created under the headings facilitators to value capture and inhibitors to value capture. Secondly this list was color-coded based on the collapsed codes (see column 3 of table 2) and the data was then consulted and quotes taken and copied into an excel document under each of the collapsed code headings.

This process helps to ensure that there is evidence for each construct thereby establishing construct validity (Eisenhardt, 1989). Revising these constructs and evidence was then the next step and one that saw the researchers critically examine each construct to see whether it was supported by a suitable amount of evidence in the case (ibid.). The researchers then rejected some constructs and

verified others based on the amount of evidence available. For example the construct ‘inconsistent ways of working’ was rejected based on only four quotes able to be extracted as evidence from the data. ‘Contracts’ and ‘organizational change capacity’ and ‘reference customers’ were deemed too similar to other constructs and were collapsed further. The researchers are also aware of other interesting data that they coded under ‘other’ but decided not to analyze based on the sheer amount of data to deal with and having to get themselves some limitation in order to maintain focus. An example of this was the link between the relative size of competitors and economies of scale.

Follow up informal interviews were then conducted to determine the underlying reasons for emerging relationships. Eisenhardt (1989) state that this is crucial for establishing the internal validity of the study (ibid.). The final step in the process is to compare and contrast the findings to the literature in this field. It is important to both compare and contrast the literature in order to show that the authors were aware of conflicting literature and still believe their findings are relevant (ibid.). During this process the authors were confronted with the decision to relabel their constructs with labels identified in the literature or to continue with the labels developed during the coding process. The authors made the decision to continue with their own label but to create sub-dimensions to help clarify each construct (see Chapter 4). The constructs developed through the analysis process share similarities with concepts explored in the literature. The exact similarities and differences will be elaborated upon in Chapter 5 however the decision to keep their own labels was decided upon, as differences were present. This is in keeping with the inductive nature of the research, making sure the researchers were open to new data and findings. This will be further developed in Chapter 5.

### 3.3.1 Quality Criteria

External reliability refers to the degree to which a study can be replicated. Due to the authors positioning within the case Company, the social circumstances may differ over time, that is something that makes the study hard to replicate (Bryman and Bell, 2011). However, the authors aimed to be as transparent as possible with regards to the approach to the methodology so that future researchers may be able to replicate the study if they choose to do so. According to Bryman and Bell (2011) this transparency is important for increasing external reliability. Internal reliability refers to the extent to which the multiple authors can come to a consensus on what they are studying and the findings they have uncovered (Bryman and Bell, 2011). Having multiple authors was both an advantage and a disadvantage. As Bryman and Bell warn, having multiple authors can increase the level of subjectivity when making decisions about certain aspects of the study (2011).

In contrast to this, Töytäri et al. (2015) stated this as an advantage saying that many insights are better than just one perspective. The authors of this thesis worked very closely together constantly discussing and challenging each other on the data collected. When reviewing literature or analyzing data the authors worked together and often had guidelines to follow so as to keep each researcher aligned.

Internal and external validity are crucial for measuring the quality of the thesis and how it contributes to wider literature (Bryman and Bell, 2011). An advantage of qualitative research is that the internal validity is usually strong (ibid.). This is due to the placement of researchers within the 'society' (ibid.) or in this case, within the case Company. This allowed the authors were able to tightly link their observations and experiences with the theory developed. Generalizability or external validity refers to the ability to make assumptions about other context and settings where these same findings might apply. This tends to be much more difficult when the research design is a case study, due to the specific context and also the small sample size (ibid).

### 3.3.2 Source Criticism

When basing a thesis in academic literature and research, it is important that the sources are correct and trustworthy. Lund University's library (Libguides) had pinpointed a few pointers to think about when evaluating a source; the authors used the following questions for all the sources used in this thesis;

- Who has written it? (Libguides, 2015)
- What is written? (Libguides, 2015)
- Why is it written? (Libguides, 2015)
- When is it written? (Libguides, 2015)

These questions were used as input to evaluate the sources and to strengthen the reliability of the thesis (Bryman and Bell, 2011).

Academic journals were approached in a systematic way in order for the three researchers to be aligned in their approach to reviewing the literature. This process consisted of a series of questions that the researchers were required to answer when reading an article (see Appendix C).

### 3.3.3 Databases used

While collecting academic literature and theory, numerous databases have been used. Mostly business source complete and Google scholar were used to get access to a broad range of literature and research. One advantage with using Google Scholar was that it shows number of citations and also where the citations were used; this was helpful for finding further literature within the academic field. Ulrichsweb was a good tool to see that the article was scientific or not.

- EBSCOhost Business source complete
- Google scholar
- Ulrichsweb

### 3.3.4 Keywords used

In order to find useful articles for this thesis, various databases were used as well as specific keywords, below follows the keywords used, both used individually and in combinations.

- Bargaining power
- Customer relationship
- Organizational capability
- Pricing capability
- Value capture
- Value appropriation
- Value appropriation capability
- Value capture capability

# CHAPTER 4 PRESENTATION OF EMPIRICAL FINDINGS

This chapter aims to give an overview of the case Company and the empirical data gathered in the data collection. The chapter first gives an overview of the Company and identified elements at the Company that are of importance for the outcome of this thesis. The final part of this chapter goes through and defines factors influencing value capture that were found during the data collection. The factors have been divided into sub dimensions to help clarify and define each factor.

| Labeling of Constructs/factors | Sub-dimensions | Environmental factor or internal factor |
|---|---|---|
| **Industry dominant logic** | Bargaining Power<br>Rivalry | Environmental factor |
| **Culture** | Organizational mindset<br>Organizational champions<br>Organizational change capacity | Internal factor |
| **Communication and Justification** | Pricing complex offerings<br>Price sensitivity<br>Direct communication | Internal factor |
| **Knowledge** | Customer analysis<br>Competitor analysis<br>Business knowledge and tools | Internal factor |

*Table 3. Identified factors influencing value capture at the case company.*

## 4.1 The Case Company

The case Company started in 1983 and is now one of the biggest suppliers of promotional merchandising in Sweden. According to the Company, promotional merchandising products *'are a*

*unique relation building channel'* and are used for specialized campaigns, which solve a promotional 'problem' for the client. The Company has a diverse set of products that range from pens to clothing collections all printed with the customer's logotype. Although the core business is still to create promotional merchandising products that companies hand out to their clients, employees and partners. The Company has developed many services to support its clients throughout the years, a strategy that allowed them to stay in business while many of their competitors from previous decades are gone. Besides offering branded promotional products, The Company offers extensive CSR activities (that includes factory visits in foreign countries to ensure that no child labor or prohibited material are used), continuous updates and coping with regulation and alignment of suppliers with regulation, as well as ISO certification that help the Company to address all deviations. The Company also offers a global solution, which consists of offices in Sweden, USA and China where they can offer local services to their clients. The Company also provides warehousing and logistics which allow their clients to store purchased products in The Company's facilities and get fast delivery of the products on demand when needed. Recently, The Company launched online shops for their customer where employees of the customer could log in to and order products needed without having to go through an account manager. The cost of this bundled offering is most of the time an added margin to the product price however; contractual agreements and pricing strategies vary from customer to customer. The Company works with 30 large clients from industries like banking, manufacturing and insurance. The Company also has three different offices in Sweden, but is still considered as a small/mid sized company with less than 50 employees.

The Company prides itself having survived so many years although many of the competitors from the last decades are out of business. Respondent 7 mentioned the recipe for this being the ability to adapt to changed customer needs. This also explains how the Company has been able to retain customer for long time, many of them being clients for decades, moreover, during the interviews the authors were able to only find one client that have left the Company. The Company, on the other hand, have terminated several contracts for customers that demanded to high service level and were not profitable enough.

The Company has grown through several mergers and acquisitions, which is the reason that the Company has three offices in Sweden with the management team spread out in different locations. This has also led to different working processes and culture emerging at the difference offices, which was evident during the data collection part of this thesis. The different offices had distinctly different ways of describing the value proposition and different level of profitability.

## 4.2 Empirical Constructs

The data presented below arose from the semi-structured interviews conducted at the case Company. As mentioned in Chapter 3, four constructs were identified and chosen for analysis, these are: Industry Dominant Logic, Culture, Communication and Justification and Knowledge. In Chapter 1 the researchers discussed the complex firm environment and the environmental factors that affect value capture. The authors chose to distinguish between these environmental factors and factors over which the firm has control, called value capture capabilities. After collecting data at the case Company the researchers have found one environmental factor (industry dominant logic) and three value capture capabilities. The relationship between the environmental factor and the value capture capabilities will be explored in Chapter 5. The researchers managed to collect rich data and it was clear that within these constructs were a combination of elements coming together to define each construct.

### 4.2.1 Construct 1: Industry Dominant Logic

From the interview data, the researchers saw references to Porter (1979) on how bargaining power from the client and rivalry affect the way the Company were able to do business within the industry. The clients were using their bargaining power to maintain their high service level and premium standards delivered by the Company. However, the reason for labeling the construct industry dominant logic was that the respondents saw the industry as historically deeply rooted standards and expectations that were hard to change. The authors associated this to how strong a dominant logic is for a firm and how similar this dominant logic was for this particular industry.

Another take on this issue was explained that the management at the Company and other companies within the industry was more like laissez-faire, that it is not serious enough. Respondent 2 had experience of working in a large corporation, within the industry, and drew conclusions based on the different types of management and ways of doing business.

The construct of *industry dominant logic* emerged from the interviews touching upon the historical way of doing business and the industry standard. For example respondent 5 said *"And also, of course we could be like media agencies and charge for hours, but that is not the culture in our business, you don't charge for hours in our business. Maybe we can turn that around, but I'm not*

*sure if The Company could do that on their own."* Another respondent, respondent 1 expressed similar opinions about problems of just getting paid for the product, not the actual time and effort that the employees put into the project. Respondents 3 mentioned that this customer expectations also is an element that makes the Company fall into routines that are hard to challenge, he said *"Yes and this is specific for the industry not just the Company. The customers think that this should be included in the package, the sketches, the design and samples and other things. They believe that this is standard and we don't think about it - we just deliver."* A related problem of being the first mover and changing the way of doing business (e.g. the payment model) in a mature and established industry was also mentioned. This issue of not getting paid for the work provided was something that was mentioned in all the interviews. The way of doing business seems to be deeply rooted in this industry and something that bothered the respondents.

#### 4.2.1.1 Bargaining Power

Respondent 4 explained where these roots come from, *"From a historical reason, like we have come from selling products, and if you are selling products you are paying for the product, not for the service."* The low status of the industry also influenced the price; respondent 2 reflected upon this "But to be honest, the thing we sell are not on their top agenda. Like if there are a new marketing manager who would say "no giveaways this year" and nobody would even raise their eyebrows".

#### 4.2.1.2 Industry Rivalry

In this industry with tight competition the rivalry between companies was very apparent. Respondent 3 talked about the competition and said, "In our business we have a tradition of not to get paid for what we do. Because for instance you are selling Christmas gifts, there is always a competitor that says that they wrap it in for free. But we don't wrap it for free because we have the cost."

### 4.2.2 Construct 2: Culture

The factor 'culture' has not been explicitly mentioned in the reviewed literature. This factor consists of three main themes, which emerged from the data: CEO championing, organizational mindset, and organizational change capacity. These sub-dimensions have a strong relationship to the three of the five organizational resources developed and explored by Liozu and Hinterhuber (2014) and thus the researchers have chosen to use similar labels for these (e.g. CEO championing and organizational

change capacity). The data presented here will be analyzed in relation to Liozu's et al. (2014) organizational resources in chapter 5.

#### 4.2.2.1 CEO Championing Behavior

The construct of culture includes the Company's values. Respondent 7 described how the Company culture was based on a former CEO's upbringing of coming from a charitable background, and how this affected the common values and team spirit within the Company. He saw this as the explanation to why the Company does not really work with bottom line incentives, simply because it does not promote a we work together feeling. To tie in within this subject, respondent 6 said *"We haven't looked that much if we are earning money or not, more that we have good time and pleasing our customers and so on, we have like, been kind of a strange company for all year, and If you ask our accounting company, XXX, the former accounted we had, he is now retired, he said that we are probably the only communistic company he have had."*

Respondent 3 talked about the how the Company had created a mentality that *"Everybody is equally important and everybody has the same importance."* This charitable mindset can be related to the focus on serving their customers and the importance to customer relationships mentioned above. The focus is not on profit but rather how to serve your customers. Respondent 1 mentioned, "*We only hear about the customers that we have a lot of volume, but I don't know how much profit we make. If I guess I think it is XXX and XXX, because we are always talking about volume, we are not talking about the bottom line.*" In addition to this, there are some respondents with economic incentives to encourage a mindset away from the top line to focusing on the bottom line. Respondent 6 said, *"The main incentive I hope is that the can do better than their budget - and when its comes to economical incentives there are few of those. We only have three sales persons who have a commission salary".* Although not many financial incentives existed the respondent 6 recognized that those who had incentives made a positive contribution to the Company's profit. In summary, the Company culture stems from the charitable upbringing of the founder and has infiltrated the way they do business, focusing on relationships and pleasing the customer rather than the bottom line.

#### 4.2.2.2 Organizational Mindset

The above dimension has an impact on the employees at the Company and this manifests itself in a mindset that focuses on pleasing customers rather than making money. One example is the focus

on fostering personal relationships with the clients and how that affects the way the Company can do business with the client. Respondent 2 expressed that in some cases, the relationships required more work than it actually generates back in terms of profit. When discussing the effect of relationships with customers, the answer was "*Could be, could be. That you are not acting like a businessman. You act like family and that is not good."* The issue of personal and close relationships with the client was prevalent and respondent 4 claimed that, *"I guess we are afraid to charge them too much because we are afraid to scare them. And I'm not sure that they will leave us if we charge more, I have no idea." and respondent 7 said, "We haven't looked that much if we are earning money or not, more that we have good time and pleasing our customers and so on, we have like, been kind of a strange company for all year, and If you ask our accounting company, the former accounted we had, he is now retired, he said that we are probably the only communistic company he have had."* Another reason for the high client retention was explained in a metaphor of hunters and farmers, the hunters was characterized as salesmen that were good in attracting new customers and the farmers were the kind of salesmen that took well care of the clients and made them loyal to the company. The following quote explains the employees within the Company, respondent 2 said *"And then of course if we want to attract people that, with [the Company], we have a lot of farmers, if we talk about salespeople there is two types the farmers and the hunters. We don't have hunters."* The lack of sales mentality also was also present when the salespersons were asked to describe one particular "good deal" that they made. All the respondents' answer focused on a good deal where they had helped a client, with no one lifting occasions where they were able to make a good profit.

#### 4.2.2.3 Organizational Change Capacity

A strong pattern emerged around the topic of the ability for the Company to initiate change and the learn new ways of working. The construct of organizational change capacity was a merging of the respondents' opinions and comments surrounding the issue of whether a mature company has the ability to sense and adapt to changes. The evidence collected here serves as an explanation for the dominant mindset at the Company.

A number of the respondents highlighted the age of the employees and the low employee turnover as something that forces the Company not to challenge the routines and current way of doing business. For example respondent 2 said that, *"This is the problem, we just work the way we have always done, we use the margin but they are the same as they have been for the past 20 years."*

Respondent 5 also emphasized the problem of creating more value than they are able to capture by saying, *"Maybe if we got a new era with younger people they wouldn't even thought about it, they would take it for granted that this should be extra cost."* The age of the employees was also something that was also mentioned in relation to that younger people tend to have higher ambitions in contrast to the current situation where many employees has been employed for over 30 years. Respondent 7 said that these people only want to work from 8-5 and does not create as much result as in a company where the employees are younger. Although the Company had opportunity to experiment with pricing in order to get a higher margin, this was something that was not initiated unless customers asked for it. When respondent 4 were asked if the Company itself could try to experiment with different payment models, she responded "*I guess it could be possible, because we accept everything today and we all agree that we can't do that but we still do it.*" The long term relationships with the clients, and the loyal employees is something that respondent 1 saw as an issue. He explained how the clients stay with the Company as a supplier and the differences that means in terms of changing they way to approach the customers and change the way of doing business with them. He described a situation where the relationship and the routines create expectations of how to do business, he said, *"And the problem is also, we have so extremely different deals with all the clients, and we are not changing clients, we have had the same clients that we have had for a long time, and then it is different to change your way of working as well with your clients, this is my headaches, so you know what will happen if we change the way, a lot of clients would say, what is happening at the Company?"*.

Another thing that was mentioned and covered under the organizational change capacity was how the lack of diversity in an organization, and a homogeneous group of employees tends to prevent innovation in terms of working routines. In relation to this, respondent 3 emphasized that it is important to make a drastic change if the purpose it to make an effect. He said that in order to make a change and create diversity within an office, there is a need to hire at least two persons within the same office at the same time, otherwise he was afraid that this single employee would go native and adjust to the company culture which would end up in extending and strengthen the current company culture. Organizational change capacity centers around the ability of an organization to sense opportunities and ultimately change the way they work.

### 4.2.3 Construct 3: Communication and Justification

From the interview data, the researchers saw many references to how the sales team go about communicating price and value to their customers and the authors found supporting evidence for the following sub-components: Communicating complex offerings and direct communication. These overlap with the concepts explored by Ryals and Holt (2007) Dutta et al. (2003) but are ultimately more concerned with the communication of price rather than the routines and skills required to set prices and therefore will be named 'Communication and Justification'. The relationship between these findings and pricing capabilities will be further explored in chapter 5.

#### 4.2.3.1 Communicating Complex Offerings

Many of the Company's clients have been around for a long time; some of them have even been doing business with the Company since the very start in 1983. In addition to this the Company prides itself on its strong customer retention. A number of respondents explained that they often faced challenges to justify the prices to their clients. For example one respondent 6 said, *"They don't want the price that we need, they just want to pay for the product. So they want us to cut down the price all the time and some of the value of keeping the products at the warehouse is to keep them in stock, financing and analytics".* According to the respondents, the clients are focused on getting the products and to get it at the best possible price, this issue was explained by respondent 4 as *"I think that people don't understand what we are doing, the don't see all the things that we are doing."* The nature of the offering of the case Company played an important role in the justification of the price. Many of the respondents mentioned that they had to inform the client several times about what exactly was included in the package when the client questioned the price. This made the Company's offer perceived as more expensive than competitors, which made it hard for the salesperson to try to negotiate a higher price. The clients are cost aware and they compare the Company's prices, this is something that the Company often has to deal with and respondent 5 expressed herself like this: *"Normally when I hear customers they compare us with catalogues that they get from our competitors and they can say that - you are so expensive compared to that one. Then your argument is that we finalize it, then we design it, then we store, then most of them buy it."*

#### 4.2.3.2 Direct Communication

Another issue that many of the respondents touch upon was the problem about having the right relationship with the right person with the power to actually take any important buying decisions. Respondent 7 said that, *"I have a good relationship with the customers that I have and the people*

*that I talk to, but sometimes they don't make the decision, sometimes it could be their purchasing department that makes the decision and our contact person doesn't have anything to say about the decision."* This communication issue made it hard for the salespeople to sometimes reach the right person when doing business. The construct of communication and justification of value is a combination of a number of skills and capabilities and routines that salesmen develop in order to be able to negotiate with clients. These include skills such as building relationships, access to communicate with the right employees at the client organizations, an understanding of the value offering and negotiation skills.

### 4.2.4 Construct 4: Pricing Capabilities

As mentioned above, the pricing capabilities mentioned in Liozu and Hinterhuber (2013) and Dutta et al. (2003) include reference to specific routines, skills and know-how in order for firms to effectively change, communicate and negotiate their prices. Through this study, patterns have emerged that show that knowledge in the areas of: convincing customers, negotiating prices and competitor data affect how The Company communicates and justifies its prices to customers. This factor overlaps heavily with the literature on pricing capabilities and the similarities and differences will be explored further in chapter 5.

#### 4.2.4.1 Convincing Customers

Respondent 4 expressed herself *"I must be able to know the customer's brand. I also need to meet the customer and discuss if that is correct. And we register that and create knowledge about how the client want to be recognized."* Respondent 1 talked about this kind of knowledge and related it to an opportunity to take advantage of the client's brand in order to sell more expensive products, he said *"You must know why they would for example want a pen for 2.50 SEK, maybe it is better to choose a pen for 5 SEK that is more consistent with their brand."* According to the respondents, the clients were also price sensitive and used their negotiation power to keep the margin at a low level, for example respondent 5 expressed herself *"But you can't always raise the price, it depends on the client, the agreement and how price sensitive they are."* In this way, it was important for the respondents to have and understanding of their clients and know which ones are particularly price sensitive.

#### 4.2.4.2 Negotiating Prices

Throughout the interviews information was gained about the extent of respondent's knowledge about the margins on products and how much they knew about using that knowledge to get better deals. Respondent 6 talked about their knowledge margins by explaining an excel tool that helped the salespeople to know exactly what margin they sold their product on. This tool was mentioned as a solution that some of the respondents used and actually was able to raise the margin. Respondent 2 based and supported his comment in numbers and said *"And some have really good margins and some have raised the margins and so on. And you can see the skills there"*. The interviews showed that although knowledge and tools existed which could help the salesperson get a higher price; there existed an inconsistency in knowledge across the employees, which was a result of knowledge not being shared. When an individual found a way to more easily justify the price this knowledge was often not communicated to others and in cases where best practices were shared, many employees did not embrace the new way of working. This was also the case with the tool used to calculate the margin, respondent 7 stated that only some people used the tool and that the tool was not mandatory although positive result had been achieved by using the tool; *"we haven't said that they must use this one but it should be very useful to them but people are very different…"* The best margin was explicitly said to occur for the orders that were outside the contract that generally includes the warehousing, the logistic solution and a webshop. Respondent 6 said *"The margin is always bigger on, I work with a customer that you can produce something in china and you can sell it here without the webshop and the logistics. Then you have the highest margin."* Another comment supporting this was from another respondent, respondent 3 that said, *"If I know which items we make most money from? Yeah it is the special production we make in Asia".* In summary, the construct of *Knowledge* includes acquiring knowledge about customers and applying knowledge of product margins in order to capture more value.

#### 4.2.4.3 Competitor Data

The respondents often found themselves in positions where they had to justify the price compared to competitors. Since competitors often had a price that only reflected the cost of the products and not the additional services like warehousing and quality assurance, the respondents found it hard to compare and justify the price. The lack of knowledge about competitors was present in many interviews with respondent 5 stating that *"I never focus on our competitors and I know very little about them. Maybe that is wrong and a weak point that I have but I don't really care about our competitors"*.

# CHAPTER 5 ANALYSIS AND DISCUSSION

Having presented the empirical findings in chapter 4, the purpose of this chapter is to analyze and discuss findings with focus on answering the research question. Using the literature review presented in chapter 2, the authors will analyze and discuss key findings and relate it to previous findings by other scholars. This chapter is organized according to the constructs defined in the previous chapter and continues with a discussion about how these are linked together.

In order to create context for the analysis this is the updated and more detailed framework based on the findings:

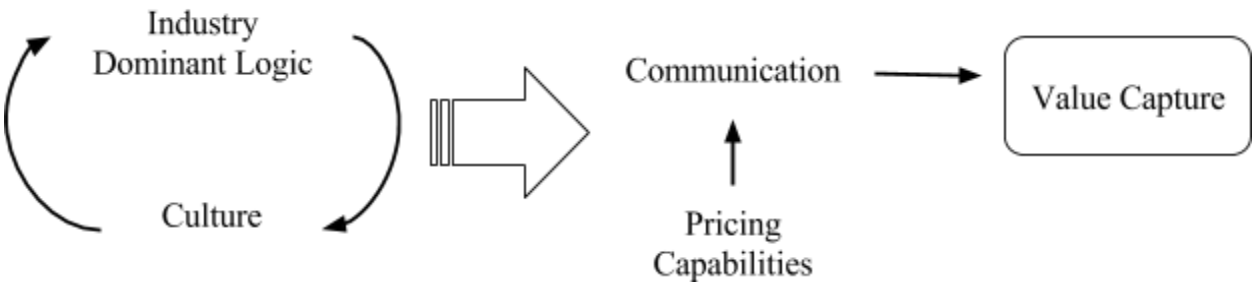


*Figure 3. Value capture framework.*

Here it can be seen that 'Culture' and 'Industry culture' are interlinked and these factors set the context for the other capabilities. The mindset that permeates the culture and therefore the employees at the Company has an effect on how they set their prices, approach their communication and negotiation with clients, gather knowledge about clients and competitors and approach change within the firm. The answer to the research question and further explanation of this framework will be elaborated upon in Chapter 6.

## 5.1 Industry Dominant Logic

The notion of industry dominant logic that arose from the interviews is partly related to the dominant logic of a firm (Kuratko et al., 2011) which describe how managers conceptualize the business, the prevailing mindset of the Company and its drives and routines. Similarly, industry dominant logic, describes the culture and mindset of an entire industry, both suppliers and customers, how business is done in the industry and the expectations of the customers. The industry dominant logic in the

researched industry showed to be very homogenous. Industry dominant logic is highly influenced by the expectations of customers in this industry, where high service level is a norm and that the case Company and other suppliers have difficulty charging for it. This leads to lower profit margin, hence, influencing value capture. Most of the employees at the case Company were aware of the difficulty to get fully paid for the services they provided, but stated that the bargaining power of the buyer made it hard to differentiate since customers would threaten to change supplier. It this sense, the industry dominant logic does not just influence the price, but the entire business model. As opposed to Porter's (1991) findings, the companies in an industry with an industry dominant logic are limited in their ability to adapt different business models since they will be penalized by the customers. This can be related back to a firm's dominant logic that is harder to break the longer it has been in place and often needs a crisis before it can change (Kuratko et al., 2011).

### 5.1.1 Bargaining Power

When bargaining power of buyers is high, it is difficult to break the industry dominant logic. This was possible in the Case Company's industry, since the buyer leveraged the high supplier concentration compared to buyer concentration and the low differentiation between competitors, these factors are directly linked to bargaining power of buyers (Porter, 1979). The fact that the status of the industry is low, which is shown by the fact that promotional products usually is the first thing that is was cut out off the marketing budget and that profitability of promotional products are difficult to prove, also relates to low average profits in the industry that Porter (1979) examined.

### 5.1.2 Industry Rivalry

The fact that the industry's high supplier density, meant that there was always at least another competitor who would try to offer free services to win over the customer, which also supports Porter's (1979) view on buyer power. The case Company tried to address this issue by writing long-term contracts with high service level and a fixed low profit margin that would ensure that no competitors could win the deal, but this influenced value capture negatively since it did not give them the ability to negotiate the price for services in the future and customer used the opportunity to get as many free services as possible as a reward for their loyalty.

The notion of industry culture is tightly linked with environmental factors identified in chapter 2. These pose obstacles that the companies in this industry cannot by them self control, but that ultimately affect value capture. Since this industry contains many suppliers in relation to buyers and the differentiation is low, value capture is affected negatively by the environmental factors.

## 5.2 Culture

The construct ‘culture’ is something that has emerged from the data and has an effect on how a company maximizes value capture. The case Company prioritized other pursuits such as ‘fun’, a relaxed working environment and satisfied clients above value capture. This construct defines a firm's ability to focus on priorities other than the “bottom line” which has a profound impact on the mindset of employees when entering negotiations, selling to clients and even acquiring new customers. This construct includes similar concepts to the literature by Liozu et al. (2014) and Liozu and Hinterhuber (2013). These authors discuss the effect of organizational capabilities such as centre lead pricing management, organizational confidence, CEO championing behaviors and organizational change capacity on firm performance. The authors of this thesis can draw links from these constructs and the data found in their study however the concept of ‘culture’ itself is not mentioned in the literature as a factor that affects value capture and was something that was very present throughout our interviews with employees at the case Company. Liozu and Hinterhuber (2014) quote Forbis and Mehta (1981) discussing the implementation of new pricing approaches as being not simply a change in process but ‘a new way of life’. This reflects that the way firms approach pricing strategies is in fact deeply ingrained in the culture of a company.

### 5.2.1 CEO Championing Behavior

Hinterhuber et al. (2014) explored the effect of various organizational capabilities on value capture and found that CEO’s behaviors and the overall organizational confidence of a company have a positive effect on value capture. Although these findings are not directly related to the culture observed at the case Company a link can be made by drawing a similarity between the effect a CEO has on creating a culture within an organization, creating a culture of organizational confidence and the culture identified at the case Company. Liozu and Hinterhuber (2013) and Liozu et al. (2014) found champion activities like allocating resources, motivating teams and lifting up pricing on the agenda not only leads to better performance but also to strengthen the firm’s confidence which is crucial in negotiation with clients. Respondents from the Case Company mentioned the approach and focus of the original founders was one of ‘having fun’ and satisfying customer needs. This resulted in a lack of championing behaviors related to prioritizing value capture.

### 5.2.2 Organizational Mindset

The effect that the CEO had on the case Company was to instill a collective mindset to focus on the customer when doing business. Making sure the customer was happy and building a strong relationship was of the utmost importance. This centre-lead customer focus has had an effect on the way the employees work, working in different ways to please their different customers and has resulted in 'doing favors' and adding services that the Company can't charge for. A strong presence of power of buyers in long relationships (Wieseke, Alavi and Habel, 2014) meant that the long-term customers often requested for higher discounts and free services as a reward for their loyalty, which affected the profitability negatively. The case Company did not often challenge why they should try to capture more value from these customers out of fear for losing the customer or harming the relationship. Links can be made between this concept and Liozu's, Hinterhuber's and Somer's (2014) Organizational confidence is the organizational belief of their capacity to overcome barriers and succeed with their goals, a sense of "Yes we can" mentality that powers the organization. According to Liozu, Hinterhuber and Somers (2014), this asset has a positive effect on a firm's performance. In contrast to this we can see that the case Company in question does not possess an organizational confidence in relation to maximizing profit, nor does the top management team have the championing behaviors that are required to maximize value capture. Moreover, due to the low organizational change capacity this mindset is hard to change. In contrast to this the top management team, currently and also in the past, have supported and 'championed' an 'everybody is equal mentality' at the company. With a lack of incentive to praise and differentiate employees, this created a lack of drive and focus on value capture and reinforced the 'laissez faire' industry culture.

Dutta et al. (2003) talk about developing the routines to resolve conflicts that arise from different price setting goals such as the raising of prices from a marketing perspective and the lowering of prices from an ease of selling perspective. This can be linked to the findings in this study where the culture very clearly affected how the pricing strategy was implemented (without a focus on the bottom line) and how this has permeated all the way through the Company to the sales people. So while Dutta et al. (2003) discuss the resolution of goal conflict as a facilitator to setting prices, we can see at the case Company this is not an established routine as there are no goal conflicts. The culture of the Company and the mindset is so ingrained that these goal conflicts don't seem to arise. There therefore has not been an identified need for a centre-lead pricing (Liozu et al., 2014) expert (or champion) to guide the focus of pricing strategy and initiate change in this area to encourage a greater focus on value capture. The case Company showed a high level of confidence on the work

that they do and the value that they provide for their customers however this did not translate into value capture. Once again, the prioritization of customer satisfaction over value capture saw that confidence was indeed, high but misplaced.

### 5.2.3 Organizational Change Capacity

Liozu et al. (2014) found that an organization's ability to adapt to changes influenced its value capture positively; they denoted this as organizational change capacity. Similarly, organizations that sense opportunities and threats and are able to adapt have a competitive advantage (Teece, 2007). Although the CEO of the case Company state that the reason that the Company has been able to survive so long is due its ability to change, hence high organizational change capacity, the findings show that the employees have high ability to adapt to changing customer demands while the opportunities that arose internally had very low probability to be accepted and adapted to by the employees. This implies that a high level of organizational change capacity is present at the case Company as well as a high level of individual change capacity as long as the change is directly requested by the customer, as opposed to by the organization. Furthermore it was seen at the Case Company that these changes were rarely shared throughout the organization making organizational learning seldom possible. Although Liozu et al. (2014) do not reflect of the ascendants of change capacity, the findings in this thesis show that they are important in order to understand how change capacity influence value capture. The authors of this thesis found many examples of opportunities that were neglected because the individual employee did not want to change, while the same individual easily changed if the change was requested by a customer that he/she worked with. Many employees linked this to the high age of the employees and the low renewal of employees. Many of the case Company's employees have been employed for decades and work similarly to the way they did when they started. Two top managers identified this as an obstacle to change for better and were aware that new younger employees would help the company move forward. This shows a low creative abrasion (Kuratko et al., 2011) where assumptions were not challenged in order to find improved ways of working and best practices from other employees were not shared and adapted.

## 5.3 Communication and Justification

As mentioned above, this construct encompasses factors that affect the communication of value with clients at the point of sale. From the interviews, respondents discussed: negotiating ability, the effect of building a strong relationship with the client and also different strategies in which to

communicate and justify value to clients. This construct is closely interlinked with the *'pricing capabilities'* construct (discussed later).

### 5.3.1 Complex Offering

Respondents often mentioned the difficulties associated with communicating the value of a complex offering when negotiating prices with customers. This finding is echoed by Ryals and Holt (2007) who found that the negotiating process becomes increasingly difficult when the value offering consists of many different products and services. This is further exacerbated when operating in an industry with a lot of competition such as the case Company industry. In this instance many of the statements regarding justification of price to customers, offered by respondents, mentioned this difficulty. For them it meant that negotiations were a longer, more time consuming and complex process due to the constant reminding and justifying of what clients were paying for and the value that was being offered. In this way greater communication skills were necessary in order to achieve value capture and often the Case Company was perceived as expensive.

### 5.3.2 Direct Communication

The problem of communicating a complex offering was made increasingly difficult when salespeople were unable to contact the end purchaser at the client company. There were many complaints that communication of value was lost on the purchasing manager and would have been better directed to a marketing manager where the real value of the product could be 'sold'. This issue of 'direct communication' was not mentioned in the literature however the authors argue that this was a significant difficulty to overcome in order to gain the full benefit of communicating the real value of the product.

## 5.4 Pricing Capabilities

Pricing Capabilities, defined in the literature as sets of routines, skills and know-how that allow firms to identifying competitor prices, setting price strategies, translating price strategies to price, convincing customers of price change logic and negotiating prices with large customers (Dutta et al. 2003), were closely linked to the above construct (communication and justification). For example, respondents stated that in order to justify the price to customers they required in depth knowledge about their customer's brand, way of working and also their need. This was closely interlinked with

building and maintaining relationships to gain that knowledge and then be able to communicate and justify and negotiate certain prices to customers more effectively. This can be more easily expressed in the table below. The data below comes from respondent 1-7.

| **Communication and Justification Capabilities** | **Pricing Capabilities (knowledge, tools, skills, know-how)** |
|---|---|
| Negotiating ability | Knowledge of the complex value offering,<br>Margin tool to target the right products<br>Relationship - tacit know-how/experience with customer |
| Communicate/Justify price | Knowledge of customers brand,<br>Knowledge of customers ways of working,<br>Identification of customer need/problem<br>Visualization and segmentation of offering on invoice |

*Table 4. Relationship between communication and justification factors and pricing capabilities present at the Case Company*

Comparing the evidence at the Case Company with the Pricing Capabilities expressed by Dutta et al. (2003) and also Hinterhuber (2008) and Hinterhuber et al. (2014) it can be see there are a number of overlaps but also some differences. The data collected in this study showed the Company did not have any formalized processes for collecting competitor data, which could be related to the decrease in value, capture as described by Dutta et al. (2003). Setting pricing strategies according to Dutta et al. (2003) was about investing in routines that lead to goal conflict resolution between the different departments that set the prices. This was not something that was present in the data. Translating price strategies to price encompasses routines for customer impact analysis. These routines were not present at the case Company which could also be an indication of support for Dutta et al.'s (2003) work that these types of routines do indeed lead to increased value capture.

### 5.4.1 Convincing Customers

Convincing customers of price change logic involves gathering and analyzing data about how the price changes will affect customers and then communicating these to the sales force (Dutta et al.,

2003). They also noted the importance of building relationships in order to ease the communication process (ibid). Although relationships were very important to the case Company the data explained that it was not clear to the sales people as to whether these relationship actually negatively affected their negotiations and bargain power in communicating with customers. Some respondents stated that it could result in the Company doing ‘favors’ for their customers without getting paid for them.

### 5.4.2 Negotiating Price

Dutta et al. (2003) and Töytäri et al. (2015) explore the ability of firms to ‘sell’ the price to customers, which in turn allows them to capture value. According to these researchers, this requires capabilities and routines to a) convince customers that price changes are valid and b) negotiate prices with large customers (Dutta et al., 2003) and c) analyze competitor data to use in negotiations. In order to be able to complete these routines and develop these capabilities employees require knowledge about how customers will respond and also knowledge about how price changes will affect the customer (ibid.). This is reflected by the data collected during our research where respondents discussed different ways that they expressed the value offering to the customer. Sometimes this included visualization of the segmentation of the offering on the invoice or explaining comparisons of competitor offerings. Dutta et al. (2003) discuss this routine of analyzing competitor prices to use in negotiations. They state that firms with good pricing strategies and superior value capture use this knowledge to make assumptions about how customers will perceive their prices which allows the firm to go into negotiations prepared and better able to justify prices (ibid.). While there was some evidence supporting that particular employees in the Company used such routines there was a greater need for this process to be formalized across the firm in order to maximize value capture.

In the same way, Hinterhuber (2008) suggests that by engaging with ‘customer value assessment activities’ firms are able to figure out the right value of their offering for their customer and therefore better communicate and set prices based on this assessment. For the case Company this requires an in depth knowledge of the customer and also a knowledge of product range and margin. Respondents often mentioned the importance of the relationship with the client as a means to understand their needs. Respondents also mentioned specific tools that were in place at the Company that helped them know which products have the highest margin and therefore increase value capture. It was reported that these tools were in fact helping to increase the profit margin of the Company but were not yet being implemented by all sales employees.

### 5.4.3 Competitor Data

Identifying competitor prices was a specific dimension stated in Dutta et al. (2003). This routine was not evident at the case Company with several respondents stating that they only know what their customers tell them about their competitors. This could be a reason for decreased value capture at the case Company. The competitor's data was collected by the CEO but not transferred to other employees. Dutta et al. (2003) consider a coordination mechanism needed to spread the knowledge to the sales force, but this was not present at the case company. The notion of information asymmetries (Ryals and Holt, 2007; Ellegaard et al., 2014) was often used by the clients to get a lower price, meaning that clients tried to use information about offers from competitors while withholding important differences to get lower prices. The case Company often accepted demands like these by adapting to the competitor's price level, which affected value capture negatively. Although the other way around would be possible as well, the case Company using competitor's offering to get a high benchmark of their offering, the authors of this thesis did not find any evidence of this activity happening.

### 5.4.4 Discussion

From the data collected it can be seen that the Company has difficulties communicating and justifying prices to their clients due to a complex value offering. Specific knowledge about customers is used to sell products and prices and aid in negotiations. Lastly, relationships with customers can be used to gather knowledge and target pricing discussions. These capabilities are supported in the literature by Dutta et al. (2003), Hinterhuber (2008), Töytäri et al. (2015) and Ryals and Holt (2007) however, these authors state that these skills should be formalized routines in order to achieve maximum value capture. At the case Company, although some of these capabilities are present they are yet to be formalized into routines and spread company wide. Although there was evidence that the Company had developed tools to help their sales people gather knowledge to help them convince customers and negotiate with customers there was not a formalized process for this and it was not mandated by the Top Management Team. When Dutta et al. (2003) present their findings, these routines will only lead to increased value capture if they are implemented and monitored company wide. This could be a reason for limited value capture in the case Company.

# CHAPTER 6 CONCLUSION AND IMPLICATIONS

## 6.1 Conclusion

This research examined the factors influencing value capture and how these influenced each other. More specifically, this research studied value capture capabilities and environmental factors that influence value capture and the relationship between these, hence a more holistic view was taken than previous studies.

The study showed that many of the factors previously identified by other scholars were in fact tightly linked to each other. Although the factors have been treated independently so far, there exists a tight relationship between them that describe value capture. The relationship between the Environmental Factors (industry dominant logic) and Culture (a value capture capability) is a blurry one in which they affect each other and contribute the creation and sustaining of one another. It is these two factors that create the context for the other value capture capabilities (communication and justification and pricing capabilities) which have a direct effect on value capture. This study found strong presence of value capture capabilities such as communication and justification of value, pricing capabilities and culture that all influenced value capture. A strong presence of industry dominant logic and culture also directly influenced value capture, but they also had an indirect influence on value capture through influencing value capture capabilities. This means that this study draws a more holistic view on how different value capture capabilities and environmental factors influence each other.

Industry dominant logic is considered by the authors of this thesis to be an environmental factor that companies cannot control, but the findings show that the culture was partly created by the companies in this industry from the beginning and that is now something that they have to adapt to. The initial goal of the Case Company consisted of creating a business that was sustainable as well as running a business that was considered as fun. This was also manifested by one of the founders of the case Company who stated that *"...we haven't looked that much if we are earning money or not, more that we have good time and pleasing our customers..."* This was further reinforced by the fact that the case Company turned down deals if they perceived the customer as not being fun to work with. This initial mentality was adapted by the employees of the Company who focused more on satisfying customers than value capture. This same mentality is adopted by the customers and

nothing the Case Company can control. The championing behavior of leaders have shown to have a positive effect on value capture (Liozu et al., 2014), but this study shows that it also can have a negative effect if the leader's focus is to de-prioritize value capture activities. The findings show a strong link between initial culture of the Company to industry dominant logic and to low profitability. In other industries with different conditions, industry dominant logic might have a positive effect on value capture.

Within the culture construct, the factor of organizational change capacity was strongly evident and influential. The culture and mindset of the Company has been allowed to permeate and continue at the Company for so long due to the lack of organizational change capacity. This study showed that organizational change capacity, a factor that Liozu et al. (2014) found influenced value capture positively, can also have a negative influence on value capture if the change capacity is low. Moreover, this study viewed that the origins of the need to change play an important role for its effect. A change that was requested by a customer had a higher probability of being implemented as opposed to an internal iteration for change. This was in this study also tightly linked to the culture of the Company and the lack of diversity and creative abrasion which made the employees more focused on relationship than company goals and more reluctant to challenge assumptions. The conclusion of the authors is that a low level of organization change capacity is influenced by lack of creative abrasion. This together with a culture that is not focused on value capture has a negative influence on value capture. Companies with low employee turnover risk building a dominant logic that does not focus on important company goals like revenue and profit, in order to overcome this obstacle they need to implement a culture where assumptions are challenged and processes are improved regularly.

Also, communication and justification of price and knowledge showed a tight relationship. When companies lack routines and processes to collect competitor data, assess value for the customer and share knowledge internally, then it makes communication and justification of the price more difficult. On the other hand, knowledge is not enough to ensure high level of value capture, the salesperson also need skills such as describing and visualizing the offer and using negotiation skills to understand how to motivate the right value for customers. In previous studies the emphasis was on company wide routines that would positively influence value capture. For example Liozu and Hinterhuber (2013) introduced the concept of 'company wide pricing capabilities'. These capabilities included planning, reflecting and improving the pricing capabilities and also discussed training the staff and implementing incentives to align the workforce (ibid.). This alignment of the workforce was

missing at the case Company and could go some of the way to explaining the decreased value capture. This lack of routines, knowledge sharing and adaptation in the case Company was also influenced by the culture where focus on customer relationship and fear of “rocking the boat” was placed above everything else. This means that even if knowledge and tools existed in the Company, they were not used since employees did not want to change by challenging assumptions.

## 6.2 Implications for Researchers

This study examined the gap between value capture capabilities that a firm develops and environmental factors that a firm cannot control, both which influence value capture. What interested the researchers was the relationships between different factors influencing value capture that was previously not studied. This study shows that in order to get a holistic view on factors influencing value capture, researchers must also understand their relationship to each other.

Previous scholars have focused much on the knowledge and routines that a company develops to add to value capture. This thesis emphasizes that the culture of a firm also has a great influence directly on value capture and indirectly through its influence on other factors. By focusing on examining the culture of successful companies and industries with regard to value capture, future researchers could create a better understanding about how a firm’s value capture capabilities are influenced by culture and what that makes a successful “value capture culture”.

Finally, this thesis showed that the initial culture of the entrepreneurs in a new industry highly forms future customer expectation that might be difficult to change. This could together with Porter’s five forces (1979) explain why the average profit is higher in some industries. Future researchers should examine industries with homogenous dominant logic to understand how a cemented industry culture could be broken in order for the players to be able to differentiate.

## 6.3 Practical Implications

This study has many implications for managers and industries wanting to improve their profitability. Managers must be aware that their behavior highly influences the culture, which influence organizational change capacity and the mindset of the organization. Not focusing on value capture may set a culture that is hard to break and be a long-term issue. The study shows the importance of

having a culture that challenges assumptions and focuses on value capture from the birth of the company. Not having it might have a long-term effect on performance that might be almost impossible to address due to cemented customer expectations. Specially, managers in companies with a low employee turnover run the risk of creating a culture that is hard to change. Therefore, managers must focus on a culture that is built on learning, sharing knowledge and seizing opportunities to guarantee long-term profitability.

In the same way, managers in young industries must be aware of the long-term risks of competing "too" much in order to win customers. By making too many trade-offs regarding the price and free services may set customer and industry expectations that will be difficult to change in the future.

## 6.4 Limitations

Due to the researchers' environmental constraints there are some limitations to this research. Firstly, a multi-case study would have been preferable as this would increase the generalizability of the study (Töytäri et al. 2015). This is inline with the Eisenhardt (1989) analysis method, which encourages case comparison in order to enhance the analysis process. The study was conducted from the perspective of a company that struggles with value capture. Studying a company from the opposite perspective would further enrich the data. This would have also allowed the authors to increase our sample size and therefore validate the findings further. Secondly, the position of the researchers as interns within the Case Company made it difficult to maintain distance while still gain a deep understanding of the Company. This is described in Bryman and Bell (2011) as 'going native'. Thirdly, one out of three researchers did not speak the company language of Swedish and although the thesis and interviews were mostly conducted in English, at times there were language barriers. For example many of company documents were in Swedish and many informal conversations and observations were conducted in Swedish. During formal interviews (conducted in English) although every effort was made to overcome the language barrier, at times it was clear that answers were not as detailed as they would have been in the native language and interview questions required more explanation in order to make them understandable which tended to lose some of the 'openness' that was aimed for.

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# APPENDIX A

RQ: What are the mechanisms that that lead to increased value capture for a B2B firm

## Introductory Questions

1. **Can you tell us a bit about your role here at XXX?**

2. **Can you tell us about XXX overall company goals?**

3. **Can you tell us about a time when you were able to close a good deal?**
   - Why were you successful at closing this deal? Ellengaard et al

4. **Can you explain the value that XXX offers their clients?**

## Organizational capabilities

5. **What are the skills you have gained through your experience that help you do your job?** Hinterhuber 2008, Bowman and Ambrosini (2000), Hinterhuber 2004
   - can you tell us a bit about your client base?
   - how do you approach your different clients?

6. **What interaction do you have with the Management team when working on a deal?** Hinterhuber et al (2008) Hinterhuber (2004) and Bowman and Ambrosini (2000)
7. **Have you ever experimented with clients in terms of getting more money?** Hinterhuber et al 2015, Töytäri et al 2013
   - Has this always been the case or has it changed over time?
   - Eg how does flexibility affect the negotiation process?
   - Sensing opportunities

8. **How confident is XXX in the work that they do?** Hinterhuber et al 2015
   - What influences this culture?
   - How does this affect value capture?
   - Has this changed over time?

## Pricing capabilities - *How* can a pricing capability lead to value capture?

9. **Can you explain how XXX gets paid?** *Dutta et.al (2003)*
   - Has this always been the case?
   - Why did it change?
   - Would you change anything about this? Why?
   - How does XXX capture this value in the form of payments from customers?
   - From your perspective what are factors that influence your ability to get the most payment from customers?
   - **do you think you capture good money?**

10. **Can you give us an example for when XXX was able to get extra money/more paid for their services?** *Dutta et.al (2003)*
   - How did this come about?
   - What lead to this?

11. What types of customer do you get the most money from? *Dutta et.al (2003)*
   **-What is the reason for this?**
   -Has this always been the case?

12. What types of customer do you get the least money from? *Dutta et.al (2003)*
   **- What is the reason for this?**
   - Has this always been the case?

13. **How do you think your customers perceive your prices?** Hinterhuber 2008
   - How do you deal with it?
   - Has it always been this way?

## Environmental factors

14. **Could you tell us about the long term customers that you have lost and the reason why?**
   - How could you have kept them?
   - Is there anything you wish you could have changed?

15. **What affects XXX ability to work with clients/ capture the most amount of money possible?** PORTER 1979
   - Can you give a particular example?
   - Why did it happen like that? What was the situation back then?
   - How does the length of a relationship with a customer impact the way you work with them?
   - What's the difference between negotiating with a loyal customers compared to new customers?
   - Can you think of a time when you bargaining power has affected the way you work with a client?
   - How do you lock -in you customers?

16. **Is there anything you would do differently or change?**

17. **Tell us about your most memorable relationship with a client.**

# APPENDIX B

Respondents were given a number and which role they have within the Company as either a Key Account Manager or a Top Manager.

| Respondent number | Role |
|---|---|
| Respondent 1 | Key Account Manager |
| Respondent 2 | Key Account Manager |
| Respondent 3 | Key Account Manager |
| Respondent 4 | Key Account Manager |
| Respondent 5 | Key Account Manager |
| Respondent 6 | Top Management |
| Respondent 7 | Top Management |

# APPENDIX C

Approach to reviewing literature.

Questions to be answered adapted from Ellegaard et al. (2014).

| **Summary Questions** |
|---|
| Research Q/Topic/Aim |
| Gap in the literature |
| Methodology |
| Who appropriates value |
| Level of analysis - interorganizational/interpersonal |
| factors/mechanisms - internal/external |
| aim- exploiting/protecting |