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International Marketing Management

Master's thesis

# Understanding customer resistance upon transitioning from services-for-free to services-for-fee

**Ilkka Lindqvist**

**Master's Thesis 2019**

Examiners: Professor Sanna-Katriina Asikainen
Associate Professor Joona Keränen

## ABSTRACT

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LUT School of Business and Management
Master's Degree Programme in International Marketing Management

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Title: Understanding customer resistance upon transitioning from services-for-free to services-for-fee

Master's Thesis: 80 pages, 5 figures, 6 tables and 1 appendix

Year: 2019

Examiners: Professor Sanna-Katriina Asikainen,
Associate Professor Joona Keränen

Keywords: Free-to-fee, Service monetization, Customer resistance, Industrial services, Service transition

This study aims to understand customer resistance in service free-to-fee transitions and provides mitigation strategies to reduce the resistance. Free-to-fee transition refers to companies incorporating services to their core offering and charging a fee for them instead of giving them away for free. Furthermore, this study offers suggestions on how companies can conduct free service monetization efficiently without losing their customers.

The method in this study is a qualitative research utilizing a multiple case study of five companies that explores the respondents' opinions on what causes customer resistance. Purposive sampling was used as the sampling strategy and the interviews were carried out face-to-face or via a phone discussion.

Research results indicate that customer resistance is a combination of psychological, economic and functional factors. The interview results reveal two new categories of customer resistance and suggest that there are several ways to mitigate resistance. The findings are combined to a conceptual framework that offers decision-makers a new way to identify and manage customer resistance.

Customer behaviour has been researched only a little in free-to-fee transitions and this research aims to construct a more comprehensive view on the topic. This as well as other previously done researches indicate that monetizing free services offers companies a new source of revenue and helps them to boost their service business.

**TIIVISTELMÄ**

LUT University
LUT School of Business and Management
Master's Degree Programme in International Marketing Management

Tekijä: Ilkka Lindqvist

Työn nimi: Asiakasvastustus maksuttomien palveluiden kaupallistamisprosessissa

Pro Gradu: 80 sivua, 5 kaaviota, 6 taulukkoa ja 1 liite

Vuosi: 2019

Tarkastajat: Professori Sanna-Katriina Asikainen, Apulaisprofessori Joona Keränen

Hakusanat: Maksuttomat palvelut, palveluiden kaupallistaminen, asiakasvastustus, teollisuuden palvelut, palvelusiirtymä

Tässä tutkimuksessa pyritään ymmärtämään syitä asiakkaiden vastarinnalle maksuttomien palveluiden kaupallistamisessa ja tarjoamaan keinoja vastarinnan vähentämiseksi. Maksuttomien palveluiden kaupallistamisessa yritykset yhdistävät palveluita ydintarjontansa ympärille ja aloittavat veloittamaan niistä. Lisäksi tutkimuksessa tuodaan esille suosituksia, miten yritykset voivat toteuttaa palveluiden kaupallistamisen tehokkaasti menettämättä asiakkaitaan.

Tutkimuksessa käytetään kvalitatiivista tutkimusmenetelmää, jonka avulla tarkastellaan viiden yrityksen mielipiteitä asiakkaiden vastarinnan muodostumisesta. Otantametodina käytettiin tarkoituksenmukaista otanta-menetelmää (purposive sampling). Haastattelut toteutettiin kasvotusten tai puhelimitse.

Tulokset osoittavat, että asiakkaiden vastarinta rakentuu psykologisista, taloudellisista ja toiminnallisista tekijöistä. Haastattelutulokset tuovat esille kaksi uutta kategoriaa asiakkaiden vastarinnalle ja useita keinoja sen lieventämiseksi. Tulokset on koottu viitekehykseen, joka tarjoaa päättäjille uuden tavan tunnistaa ja hallita asiakkaiden vastarintaa.

Asiakkaiden käyttäytymistä maksuttomien palveluiden kaupallistamisessa on tutkittu vain vähän ja tämän tutkimuksen tavoitteena on tuoda aiempaa kattavampi kokonaiskuva aiheesta. Tämä ja aiemmat tutkimukset aiheesta osoittavat, että maksuttomien palveluiden kaupallistaminen tarjoaa yrityksille uuden tulonlähteen, joka samalla auttaa yrityksiä tehostamaan palveluliiketoimintaansa.

**ACKNOWLEDGEMENTS**

I want to express my gratitude for the case company that allowed me to conduct this study and utilize their contacts and knowledge about the subject. Without their assistance the study would not have been possible. I would also like to thank all the interviewed companies for their time discussing the topic and constructively explaining their views.

The assistance provided by my thesis supervisor is greatly appreciated as he helped me to find new perspectives for this research and provided valuable ideas for the interviews. Moreover, I am grateful I had the opportunity to study at LUT University. I discovered it a great university to allow me to develop professionally.

Finally, I would like to thank my family and friends for supporting and inspiring me throughout the journey. Celebrating achievements feels much better when there are close people to share them with.

14.04.2019
Ilkka Lindqvist

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# 1 INTRODUCTION

The purpose of this study is to identify and examine the reasons that cause customer resistance when conducting a transition from service for free to service for fee. Academically the role of customer behaviour in service free-to-fee transitions has been neglected, whereas managerially manufacturing companies are aiming to find balance between providing services for free and overcharging for them.

## 1.1. Research background

Companies that have been producing only products have seen the need to shift into service strategies in order to maintain their competitive advantage (Mathieu 2001). Majority of existing literature treat services as pure stand-alone services and ignore the importance of hybrid offerings (Ulaga & Reinartz 2011). Shankar et al. (2009) define hybrid offerings as a combination of a service and a product that creates an innovative offering for a customer. Implementing services into core product offering i.e. making a service infusion tends to have positive outcomes for companies (Neely 2008). However, in Fang et al.'s view (2008) service infusion has notable positive effects on companies only after the value of these services reach 20-30 percent of the annual turnover.

The market environments are rapidly evolving, which creates a need for manufacturing companies to change their business strategies (Ivens et al. 2014). Service infusion is oftentimes seen as the end-result and the strategies on how it is done are researched only little (Barnes et al. 2009). This study focuses more on the process of implementing services into a core product offering.

Pricing is considered as an essential part of marketing strategy, but as Hinterhuber (2004, p. 765) notes, it has not been creating the required academic interest in the context of industrial companies. Indounas & Avlonitis (2011) conclude that product or service pricing mainly revolve around three main strategies: ”skimming pricing, penetration pricing and pricing similar to competitors”. In the literature review section, this paper introduces more recent service pricing strategies.

Free-to-fee phenomenon has been defined in recent literature as a process to include services into a current product offering and thus creating a sustainable competitive advantage for an industrial firm (Gebauer et al. 2010). This phenomenon also improves the status value of services and thus makes it easier for customers to understand the complete solution offering that companies provide. However there is a risk to lose existing sales when making the transition (Visnjic et al. 2013).

The free-to-fee transition process includes risks. Homburg et al. (2005) argue that increasing prices may cause customers to stop from re-ordering. In contrast, free services come without trade-offs, which make them appealing for customers (Ariely and Shampan’er 2004). Choosing the correct sales strategies and executing the transition requires careful analysis of a company’s current state, readiness and aspirations. Bendapudi & Berry (1997) state that there are two reasons why customers have a relationship with a supplier: the first one is the necessity to maintain a relationship and the second one is derived from the customers’ own want to stay in cooperation with the company.

To execute a service transition, companies need to have a culture that supports organizational learning throughout different parts in the organization (Ng et al. 2012). Developing services requires adopting new ideas and logics as well as a mindset shift to compete in the changing environments (ibid.). For instance, Johnstone et al. (2009) describes this as understanding the value from the customer's point of view.

Shifting to a service-led strategy comes with challenges. Companies' top management needs to be involved in the change in various levels such as setting objectives and recruiting the correct people as well as training them to sell more services. Service sales cannot be implemented as an add-on to goods sales, but it requires sales people with different characteristics, because the change is unclear and uncharted area for the company (Ulaga 2014).

### 1.2. Research gaps

Free-to-fee phenomenon has been discussed amongst scholars from the strategic point of view as well as attitudes towards the change, but research about the actual customer behaviour is scarce, c.f. for instance Witell & Löfgren (2012), Pauwels & Weiss (2008) & Kammer et al, (2008). The current stream of literature has focused on free-to-fee strategies (Witell & Löfgren 2012), internet content monetization (Pauwels & Weiss 2008), customers' attitudes for paying online news that used to be free (Kammar et al. 2014), antecedents for the intention of switching to paid content (Li & Cheng 2014) and monetization's effect on customer behaviour (Tuzovic et al 2013).

Due to little scientific emphasis on this research topic as e.g. Pauwels & Weiss (2014) mention, there exists research gaps. Firstly, the customer behaviour in

free-to-fee context is an important topic that has not been studied enough. Tuzovic et al. (2013) conclude that the customers' behaviour is highly dependent on the nature of the service or product that is being monetized. For instance, in the airline industry entertainment and baggage price increases are perceived in a different manner as a result of which behaviour is affected by service type (ibid.).

This study aims to understand better how customers react to free services' monetization and how an oil refining company that commissioned the study could conduct the free-to-fee transition. This approach builds understanding on the topic and provides a foundation for future researches to test the framework and suggested strategies in practice. Having an access to the case company's internal databases and knowledge about the industry allows to suggest suitable managerial actions and best practices from the case company's context.

Finally, there seems to be only little research on understanding what causes the resistance within customers when a free-to-fee transition is conducted. Even though inter alia behaviour, strategies and intentions to switch to paid content are researched, the reasons for resistance remain unclear. Table 1 summarizes the main researches surrounding the topic and their limitations.

| Research name | Author(s) | Main findings | Limitations |
|---|---|---|---|
| From service for free to service for fee: business model innovation in manufacturing firms | Witell & Löfgren (2012) | Eight strategies to make a shift from free-to-fee. The strategies require incremental or radical changes in current business models. | 1.) Limited number of studied cases. 2.) Customers' reaction to the presented transition strategies |
| Moving from Free to Fee: How Online Firms Market to Change Their Business Model Successfully | Pauwels & Weiss (2008) | Free to fee transition results into lower revenues when competitors have better offering, marketing communication is insufficient, free content is monetized and willingness to pay does not meet set prices. | 1.) Data limitations prevent comparison between online firms 2.) Research about free to fee phenomenon in online context is scarce. |
| The free-to-fee transition: audiences' attitudes toward paying for online news | Kammer et al. (2014) | In Denmark, young people are reluctant to pay for digital news content. To make successful transition to paid content in digital news, customers should have an option to pay only for content that interests them rather than a general subscription fee. | 1.) No price reference points, because digital subscriptions were not yet introduced 2.) The study discusses mostly the attitudes and not the actual behavior of customers. |
| From free to fee: Exploring the antecedents of consumer intention to switch to paid online content | Li & Cheng (2014) | Customers' intention to switch to paid content is derived from the following elements: loss aversion, social norms, cognitive inertia and cognitive lock-in. Moreover, advertising plays a notable role in customers' intentions to switch to paid content. | 1.) The research did not evaluate consumer brand loyalty's importance to customer's willingness to pay. 2.) The data was collected from only one company (Douban FM) |
| From 'free' to fee: Acceptability of airline ancillary fees and the effects on customer behavior | Tuzovic et al. (2013) | In order to conduct "free to fee" successfully in airline industry, companies must justify and communicate value to customers well. Different services e.g. entertainment or baggage, price increase are accepted differently. | 1.) Limited amount of responses. 2.) Focused only on one cognition, perceived betrayal. 3.) Did not study the consumers' sensitiveness to fees and its role on accepting price change. |

Table 1 List of the most notable researches on free-to-fee phenomenon.

### 1.3. Research goals

This study aims to determine reasons for customer resistance based on existing literature and build on that knowledge by making a multiple case interview study with the case company's own customers. In addition, this study seeks to answer

how industrial companies with millions of annual customer transactions can successfully monetize their free services, in particular process supporting services. Based on the empirical findings this study will also discuss potential ways to minimize customers' negative reactions. To structure these goals, three research questions were formed:

RQ1: What elements cause customer resistance when a free service is monetized?
RQ2: How can decision making influencers minimize B2B customer resistance?
RQ3: How to make a successful transition from service for free to service for fee?

By analyzing and answering the abovementioned research questions, this study will make several important findings to the existing, but scarce literature about the subject. Firstly, an industrial company can acquire the reasons of customer resistance between different categories of services with the developed conceptual framework. Furthermore, decision making influencers such as sales managers can better forecast customer responses with the framework. Finally, the interviews reveal several successful practices that are later discussed in the discussion section of this study.

This paper focuses mainly on understanding resistance amongst customers caused by service price increases, but the literature review section will also discuss how to manage internal resistance i.e. the resistance caused within the company due to the change to bring insight and more complete view of the topic. Moreover, it offers managers a way to handle the transition in a more controlled fashion.

The goal of this study is to identify reasons for customer resistance, find ways to mitigate this resistance and finally suggest ways to conduct a successful transition. Furthermore this study presents a conceptual framework for the sales team to identify, analyze and forecast the reasons for behaviour behind customer resistance. It is expected that by creating and utilizing such framework, the sales team can create a better understanding of customers and thus reduce the potential backlash and customer churn that would be caused by the free service's price increase implementation. The developed framework builds understanding on the major research gaps on customer behaviour, and provides a platform for future research regarding the topic.

The order for this study is first to identify the types of free services that the company provides to its customers, categorize them based on function and characteristic, find potential ways to monetize them and finally understand reasons that cause customer resistance in the monetization phase. To understand the root causes for customers' resistance, face-to-face and phone interviews were scheduled with the case company's own customers.

The literature review section focuses on identifying different reasons behind customer resistance based on existing literature. By studying the existing literature, this study will develop a framework combining reasons for customer resistance. For the empirical part of this study, five in-depth interviews were made to gain qualitative insight to the topic. In later chapters business model innovations and classification schemes of industrial services are discussed in detail before moving on to the analysis and discussion of the research results.

The best practices when making a transition from free-to-fee are also discussed in-depth. This is done by analysing existing literature on the topic and utilizing the developed framework of reasons causing resistance in the monetization process, which is presented in the discussion section.

### 1.4. Limitations

Due to strict research criteria, this study included five case studies. This limits the reliability of the study, since the results cannot be generalized to comprehensively explain the free-to-fee phenomenon. Furthermore, the scope of this study is limited to free services and their perception may be influenced by paid services' acceptance.

The participants chosen for interviews have already been customers for years and thus new customers' reactions to free services' monetization is not represented in this study. Moreover, as the chosen participants have been using the case company's products and services for a long period of time, it may have an effect on their overall evaluation of the service monetization process.

The scope of this study focuses on B2B-relationships in segments that are dependent on the case company's products and services to keep their operations running at an efficient pace. The case company serves also several other segments such as agriculture that are not represented in this study. Other limitations on research structure and methods are discussed in the conclusion section of this paper.

### 1.5. Definition of terms used in the study

*Free-to-fee*: Transition process in which a company makes a shift to invoice free services instead of giving them away for free.

*Hybrid offering*: A combination of a product and service that results into an offering bringing superior customer value.

*Service infusion*: A change in companies to develop and offer services on top of products to generate revenue and profit.

*Customer resistance:* Negative response that is considered in this research to be caused by a change in the current prevalent situation.

*Locus of Control:* A person's perception of whether internal or external factors control his or her life.

# 2 FREE-TO-FEE TRANSITION STRATEGIES

This chapter introduces the opportunities and challenges related to a service monetization. In order to monetize free services, one needs to understand the prevalent strategies and develop understanding on the classification methods of services in the manufacturing sector. Furthermore, several modern service pricing strategies such as the three tiered pricing strategy are introduced to support the transition.

Customer-centricity has become a dominant theme in manufacturing companies, which inevitably has also shaped their organization cultures (Johnson & Selnes 2004). Services have been identified to increase customer satisfaction, which caused manufacturing companies to innovate and invest in their development (Gebauer et al. 2011). Older literature describes customers as a receiver of a certain product, but Normann (2001) argues that customers are much more than that. He states that customers should be used in the creation and innovation part with the help of technologies that do not tie creation to a certain place or time (ibid.)

Selling services happens much closer to the customer in the sense that the relationship and trust play a notably larger role than in services (Åhlström & Nordin 2006). Moreover, as Lindberg & Nordin summarize (2007) in goods-dominant logic the relationships are much more impersonal than what they are in service-dominant logic.

## 2.1. Service pricing strategies

This sub-chapter introduces pricing strategies that have been identified in recent literature. This section aims to include more modern service pricing strategies and thus does not cover the most basic pricing strategies such as cost plus pricing.

Most companies are relying on cost-plus based pricing or following competition to make their pricing decisions (Hinterhuber 2008). However, strategic pricing within companies is found to be effective in the long-term (Nagle & Holden 2001). Furthermore, in some cases it creates a way for companies to differentiate themselves (ibid.). Indounas (2015) sees that strategic pricing should also be implemented to industrial services to create a sustainable way to become more profitable.

As customized services have become more popular also their pricing has created more interest. Robbert (2017) explains that à la carte pricing, referring to separate prices for different parts of a service, has become preferred option to consider due to its potential to drive more profit. All-inclusive price is a typical way to price a service that customers have less trouble to accept, but it does not necessarily yield best possible results profit-wise (ibid.). However, Naylor & Frank (2001) suggest that all-inclusive package containing a product and a service is perceived as more valuable than selling them separately.

Subscription based fees are typical especially in online services in which the prices are fixed for instance to a monthly basis instead being invoiced per-use basis. Subscription pricing may eventually be more expensive to a customer, but one of the main benefits is that it eliminates transactions and thus makes it a convenient way of paying for a certain package. Moreover, subscription pricing is

expected to benefit more users who use a particular service frequently. In general services that cost more, are more attractive if they are offered with a subscription option (Chun, 2014).

Ingenbleek (2014) defines value-based pricing as managers' understanding of how customers evaluate a service's or product's cost-value ratio and their ability to price accordingly. This strategy has aroused great interest since it has been proven to be a successful pricing strategy e.g. Monroe (2003). Determining a price is challenging, but can be done by utilizing available information such as interviews, analyses or accounting data (Kienzler, 2018).

Despite having created notable interest, determining a value-based price is too often connected to costs or how others are pricing products or services. The reason why it is not more often used is linked to psychological biases and difficulty to determine a price that tackles concerns related to price fairness. Moreover, other similar strategies have been introduced recently such as performance-based pricing that can be considered more fair (Kienzler, 2018).

Implementing the so called three tiered pricing strategy is a way to strategically guide and ease customers' purchase decision. Providing more options can help the buying process by streamlining it and making it easier for the customer. Companies benefit from this strategy by attracting new customers with the first "good" package and guide people to choose the middle option that is called as the Goldilocks effect. The "best" option is more about the experience and providing premium alternative that attracts the most demanding customers (Mohammed 2018).

Strategic pricing is important to consider, because it affects customer behaviour. According to Gachon (2011) chosen pricing strategy affects customers' service buying frequency, which eventually affects company's profitability. Providing customers with several pricing option can help a company's profitability as creating choices is beneficial from the customer's point of view (Chan 2014).

### 2.2. Choosing a suitable business model

Transitioning from free services to monetized services can be done in several ways that all have a varying effect on the customers' reaction. This chapter discusses the previously identified business models. For the purpose of this study, the most successful business models are highlighted with a red colour in table 2.

Osterwalder et al. (2005, p10) define a business model as a tool that allows expressing a logic behind business and the value that a company provides for its customers and partners. By delivering value and managing external and internal relationships, a company can generate a sustainable way to create turnover (ibid.). Monetizing something that was free before is a different story than increasing a price of a product. Infusing services to existing product offerings requires a careful thought on possible business models (Witell & Löfgren 2013).

Majority of firms in the manufacturing industry treat services as a cost to ensure the sales of the core product, which makes it necessary for the product to be priced high to capture enough profits to cover both product and service costs (Nenonen & Storbacka 2010). However, this type of business model is not ideal since the services are hidden behind products and it makes services' status notably lower than core product's.

There are eight identified strategies to make a switch from free services. These strategies differ in several ways and they require companies to make various decisions inter alia on their business models, transition schedules and degree of involvement. By choosing the wrong strategy, companies can lose their customers, which in turn can have devastating effects on their business (Witell & Löfgren 2013).

The greatest mistake companies can make in this transition is to just increase the prices and wait for customers' reactions to the change - this strategy is called "Yesterday it was free - today it has a price". This strategy was proven to have a negative effect on both existing product and service sales (Witell & Löfgren 2013).

Even though previous literature has emphasized the importance of bundling products and services, unbundling them seems to yield better results. This finding also gives services more status value and bring them to the same level as products. The best results in terms of business models were driven from radical business model innovation i.e. from the following two strategies: "We give you disproportional value!" and "Our new partner cannot work for free". In both of these strategies a third party is included to the value proposition and thus it results into the finding that service provision has an influential effect when shifting from free-to-fee (Witell & Löfgren (2013)

| Strategy | Description | Effect |
|---|---|---|
| Yesterday it was free - today it has a price | Change the business model of a service from one day to another – one day free, the next day with a fee | Major loss in product and service sales, then a slow recovery with increasing sales of service |
| New service - new rules! | Introduce a fee on for all new services, but keep the old services free | No effect on product sales, spare parts and repair. A slow increase in sales of the new service |
| The value of service! | Start showing customers the value of service, and then introduce ways to get a fee for the co-created value | Introduce the fee stepwise by showing its financial value on the bill. When customers get accustomed to it, start with the fee |
| We deliver a product AND a service! | The offering includes a product and a service, where the service is unbundled from the offering | Continued sales of the product and no sales of services. Services are still given away for free to |
| We deliver a basic service AND extended services | The service includes several services that now are unbundled. Basic service for free or a small fee. If more services are needed, they cost extra | Start with basic services and no sales of extra services. Then, the extra services start to sell |
| You get what you pay for! | A service given away has no value; therefore, the loyalty effect does not appear. Its price gives the service the status it deserves | The service gets a higher status and demand for the service increases |
| Our new partner cannot work for free! | Start delivering a new improved service together with a partner that replaces the old service. Introduce a fee at introduction | No effect on product sales. Most customers directly accept the fee. Major customers with power in the supply chain want the new service for free |
| We give you disproportional value! | The service has great value for the customer, which creates an obligation for the customer to pay | Create an obligation to pay. In some cases, customers paid even if the deal was free services for customers |

Table 2 Free-to-fee transition strategies (adapted from Witell & Löfgren 2012).

### 2.3. Classification of services in manufacturing companies

Services provided in industrial contexts have similar elements as consumer services and they all tend to contain four key features which are intangibility, inseparability, heterogeneity and perishability. Oftentimes a service is consumed while it is created and the intangibility makes it hard for the consumer to compare or test it before making a purchase decision. Furthermore, these services cannot be saved for later use and they are difficult to standardize, since they are highly dependent on the consumers' needs. The need for these specific services also varies by time and season and this makes it that the services can have peak seasons (Stanton et al. 1991).

Ulaga & Reinartz (2011) categorizes hybrid offering services in manufacturing context into two main categories: 1.) services that are oriented towards the supplier's goods and 2.) services that assist customers in their own business processes. This study focuses on the latter one as majority of the identified services within the case company belong to this category, with some services, such as container safety inspections belonging to the first category. Other classifications schemes have been also presented in the previous literature such as Kotler's (1994) two-categorisation model of 1.) Maintenance and repair services and 2.) Business advisor services such as management consulting. However, this study will utilize the more recent and more detailed model on the subject.

The two main industrial services categories mentioned above can be further organized to four categories. Services that are oriented towards the supplier's goods are defined as product life-cycle services (PLS) such as inspection services and to asset efficiency services (AES) such as software customizations. The PLS are often seen as a must have, but customers tend to have little or no willingness to pay for them. Another distinctive element for them is that they are important in supporting sales processes and closing deals as well as building trust with the supplier. This resulted into a problem in which the PLS were given away for free and there was little aspiration to monetize them (Ulaga & Reinartz 2011, p. 17).

The AES on the other hand provide benefits in customers' productivity, hence the promised performance improvements create a need for higher degree of customization. Moreover, AES are not considered as a necessity, but they bring important value to customers, as a result of which, customers have a demand for them (Ulaga & Reinartz 2011, p. 18).

Both PLS and AES focus on supplier's good but this study solely focuses on services that improves the customers' own processes. These services have also two sub-categories that are: process support services (PSS) and process delegation services (PDS). The PSS can be offered as a stand-alone service without even combining it to a hybrid offering. However, these services do not mean that the service provider would do processes on behalf of the customer, but it emphasizes the action of supporting in them. One example of this would be analysing certain production processes and providing suggestions on how to improve them (Ulaga & Reinartz 2011, p. 18).

The PDS are designed to do customers' processes and to able them to outsource some activities to potentially more experienced experts. For instance, a company can handle the supply management chain for providing gas to a factory on behalf of a customer. One of the main differences to PSS is that the customer does not maintain control of the activity itself. The PDS are less common to produce, since they require a large amount expertise and advanced technologies (Ulaga & Reinartz 2011, p. 19).

Following the categorization model of Ulaga & Reinartz (2011) that is also summarized in table 3, this study will build upon the understanding what causes resistance when monetizing services that assist customers in their own business processes (c.f. categories 3 and 4 in table 3). As mentioned previously these services are not considered to be mandatory cost generators, but they indeed create value for consumers, which lead to a hypothesis that monetizing these services would not cause as much resistance as monetizing services that are oriented towards the supplier's goods.

| Nature of value proposition | Service Oriented Toward the Supplier's Good | Service Oriented Toward the Customer's Process |
|---|---|---|
| Supplier's promise to perform a deed (input-based) | **1. Product Life-Cycle Services (PLS)**<br>Definition<br>•Services to facilitate the customer's access to the supplier's good and ensure its proper functioning during all stages of the life cycle<br>Examples<br>•Delivery of industrial cables<br>•Inspection of an ATM machine<br>•Regrooving of an industrial tire<br>•Recycling of a power transformer | **3. Process Support Services (PSS)**<br>Definition<br>•Services to assist customers in improving their own business processes<br>Examples<br>•Energy efficiency audit for a commercial building<br>•Logistics consulting for material-handling processes in a warehouse |
| The service has great value for the customer, which creates an obligation for the customer to pay | **2. Asset Efficiency Services (AES)**<br>Definition<br>•Services to achieve productivity gains from assets invested by customers<br>Examples<br>•Remote monitoring of a jet engine<br>•Welding robot software customization | **4. Process Delegation Services (PDS)**<br>Definition<br>•Services to perform processes on behalf of the customers<br>Examples<br>•Tire fleet management on behalf of a trucking company<br>•Gas and chemicals supply management for a semi-conductor manufacturer |

Table 3 Classification scheme of industrial services (adapted from Ulaga & Reinartz 2011).

### 2.4. Overcoming internal resistance

Resisting change is a typical form of interaction within companies when something new is introduced. There are four basic elements that cause this phenomenon which are: human nature, fear, misunderstandings and finally different interpretations of the situation (Darling & Taylor 1989). Managers prefer business models that are safe and have been proven to work. Moreover, Involving different people across divisions tends to lead to problems when for instance setting up responsibilities. (Gebauer et al., 2012).

Human nature in this context refers to the common behaviour to shift away from something that causes discomfort and in turn stick into that which has been

proven to work i.e. staying in the comfort zone. Fear can derive from an individual's perception of losing something due to the change or simply the fear can affect person's feelings about the change (Caruth et al. 1985).

The level of internal resistance can be mitigated with several strategies. Firstly, in the case of asymmetric information between parties, the other one should educate and communicate the reasons for change. Even though this strategy potentially creates a compromise between parties, it is a time-consuming task to do. Another strategy revolves around the idea of participating to the processes with people who are responsible for conducting the change. This can increase trust and thus make the transition process more successful. (Kotter & Schlesinger 1979).

In some cases, change causes advantageous position for the other party and this causes resistance to change for the other one. In such cases negotiation is essential to find a solution that satisfies both parties. If none of the described methods seem to work during the transition, then there is an option to manipulate the other party to accept the change. However, it is not a suitable way to implement change as it can cause problems in trust. Finally, if a change needs to be done quickly, explicit information flow is critical (Kotter & Schlesinger 1979).

Nielson (1981) notes that parties do not need to accept the change completely. It is enough to create some type of consensus that there is an agreement to proceed. This is an important remark as creating a situation in which all parties are satisfied is extremely time-consuming and oftentimes even impossible to implement.

# 3 CUSTOMER RESISTANCE

This chapter introduces categories for customer resistance when monetizing free services. The aim of this chapter is to first identify different dimensions of customer resistance and then conceptualize them into a framework.

## 3.1. The concept of customer resistance in price increases

In this part customer resistance in the context of price increases is defined to help the reader to follow the next sections. Crompton (2011) argues that customers become dissatisfied when a price goes over a so-called zone of tolerance which is defined to be between a bargain price and a resistance price. This evaluation is oftentimes done by comparing the price to another reference price that affects customers' level of resistance (ibid.).

Increasing prices is a challenging task for companies, because it tends to create negative emotions amongst customers (Homburg et al. 2005). These emotions are derived mainly from the size of price increase and perceived fairness of the motive (ibid.). Moreover, Calabuig (2014) states that price increases lead to a situation where customers' user satisfaction and perceived value decrease. However, by maintaining customer satisfaction at a high level, companies can control the level of satisfaction (Anderson 1996).

According to Parasuraman et al. (1988) Disconfirmation paradigm causes customer satisfaction or in turn dissatisfaction. This theory suggests that satisfaction is a combination of different comparison standards that influences customers, such as their expectations (ibid.). If a product's or a service's quality is what the customer initially expected, he or she feels satisfied and vice versa

(ibid.). Oreg (2003) defines that resistance is caused when someone does not value change and thus resists it by for instance refusing to make changes. Following these two definitions, this study seeks to find reasons for customer resistance i.e. reasons causing dissatisfaction in the monetization process.

Resisting change tends to lead into blaming difficulties and handling one's responsibilities poorly (Hon 2014). For instance, in the case or introducing new innovations, customer resistance to change leads to opposition, postponement and rejection as summarized by Cornescu & Adam (2013). For companies to increase profitability and efficiency during change, they must seek reasons for customer resistance (Herbig & Denphy 1995).

Facilitating a change requires managing different behaviour types to succeed as intended. The behaviour of people conducting a change can be managed by for instance providing trainings and making a follow-up on their effectiveness. If there is no intervention to resistant behaviour, people's morale and optimism will gradually become lower (Beal et al. 2013).

## 3.2. Reasons for customer resistance

### 3.2.1. Customer perceived value

Customer perceived value (CPV) according to Zeithalm (1988, p14) is the evaluation of how well benefits outweigh the costs of acquiring a certain product. CPV contains three dimensions that are functional, emotional and social values (Arslanagic-Kalajdzic & Zakbar 2017, p. 50). These dimensions influence consumers' perception of a company. For instance, emotional values impact customers' loyalty, whereas customer satisfaction is a combination of functional

and social values (ibid.). CPV has been proven to have a significant effect on B2B customers' satisfaction and thus also their behavioural actions. It has been defined to be a complementary factor of customer satisfaction making it an important cognitive element of satisfaction (Eggert & Ulaga 2002 p.116). As Parasuraman et al. argued (1988), if a product does not meet a customer's perception it will create dissatisfaction. In other words it will be negatively disconfirming.

Understanding what brings value for customers is a source for creating more loyalty, increase market share and improve a company's position in the market (Bearden and Teel 1983). However, CPV is a personal judgement and it is dependent on the studied context (Miao et al. 2014, p. 4822). Ulaga & Reinartz (2011, p.10-11) state that different type of services' value is perceived differently. In their research customers were willing to pay for a service, if it brought perceived value to them, whereas if a service that was expected to bring value and did not do so, resulted into customers not willing to pay for the service (ibid.). Linking these findings into customer resistance, it is evident that customers are not likely to pay for a service that does not bring perceived value and thus it creates resistance to pay for it.

As mentioned above, CPV has an important psychological role on affecting customer satisfaction, and thus it is considered as the first factor in this study for creating resistance.

### 3.2.2. Perceived price fairness

Increasing prices can create a negative response from customers, if they see that the offered prices do not correspond well with perceptions behind the rationale of pricing (Campbell 1999). In Ordóñez et al.'s view (2000) perception of fairness is made by comparing options, and judgement is based on the available reference points. Fairness and satisfaction are two different subjects and either advantageous or disadvantageous inequity create unfairness on the customers' eyes (ibid.). Urbany et. al (1989) suggest that fees which are justified with cost are perceived notably more fair than the ones that are not. In addition, Kalapurakal et. al. (1991) see that perceptions of fairness varies based on the available information on profit margins and product or service costs.

Perceived fairness is a widely studied phenomenon that affects greatly the case company's decision to monetize a free service. Perceived fairness has been proven to have an psychological effect on customers' purchasing decision (Campbell 1999) and thus it is also considered as the second category for causing customer resistance in this study. Much like CPV, this category highlights the importance of value and proves that there is a clear need to justify it to the consumers.

Price acceptance is derived from the assimilation-contrast theory, and it argues that new prices are compared to previous experiences (Martín-Consuegra et al., 2007). Past experiences influence how customers perceive price after a price increase and thus this finding provides a valuable sub-category for perceived price fairness in this study. Garbarino & Lee (2003) points out that price discrimination between different customer groups is a way to increase profitability. However Lee & Illia note (2011 p.532) that modern software allow customers to

compare prices between service providers and this in consequence has a notable effect on the companies' pricing strategies. Following this finding, this study proposes that the second sub-category for perceived price fairness is that competitors provide a service for a lower price or for free.

### 3.2.3. Communication in price increases

Communicating a complex price i.e. a price that has more than one component should be done well in advance. If a price change is not communicated well and customers assume that the price increase communication is delayed for one reason or another, it creates negative perceptions towards the fairness. If a price is communicated in a sequential fashion instead of progressive, the customers tend to perceive the fairness notably lower (Ben Amor 2016).

Customer groups that are interested about knowing all the costs related to the transaction, perceive delayed or inadequate communication as a way for a company to try to deliberately hide some parts of pricing. In addition, the asymmetric information between product supplier and customer creates an advantageous position for the supplier to conduct complex pricing (Campbell 1995). In the case of providing additional services the communication elements seem to have a great role on effecting customers' perception of the fairness. As Campbell states (1995), by communicating a relatively low price and later on adding fees to it on a sequential basis could be interpreted as a deliberate effort to deceive a customer during the purchasing process.

Communication has a considerable effect on the customers' perception of price increases' fairness, hence this study considers communication as the third category causing resistance. In the framework, communication is split into two

sub-categories to support the above-described findings. Firstly, as Campbell stated (1995), poor communication can create strong emotions amongst customers, which creates the need for transparent and explicit communication. Secondly, poorly justifying the reasons behind a price increase can create negative emotions amongst customers.

### 3.2.4. Change in status quo

Monetizing a service that had been given away for free can cause customers to feel that they prefer to maintain things as they currently are. Theory behind status quo bias suggests that people prefer to maintain status quo, meaning that they want to keep things as is and continue with the decisions they have already made (Samuelson & Zeckhauser, 1988).

When something changes, people start to think about their options, what type of effort it takes to switch to other alternatives and how large an uncertainty is associated with the current change (Samuelson & Zeckhauser, 1988). When people have uncertainty about the future they tend to prefer maintaining control of what will happen (ibid.). In case the outcome cannot be controlled it will create a need to look for other alternatives, which makes lack of control a reason for resisting change.

The locus of control theory compares how people have control of outcomes in their life versus how external factors pre-determine their future. People with internal loci see that outcomes can be affected by personal activities, whereas people with external loci tend to think that outcomes are uncontrollable (Spector 1986). Considering the free-to-fee process, people with internal loci may have especially large resistance as their world-view is more control-centric.

Herrmann et al., (2007) argue that customers who have no options can feel vulnerable, since there is a possibility for the service provider to exploit this situation financial-wise. Even if this would not happen, the customers may feel that it happens since there is an opportunity to do so. The lack of alternatives effect, affects customers' perception of fairness (ibid.).

In this study it is likely that the lack of alternatives will cause resistance as there might be an assumption that free-to-fee is merely a way to increase profits and take financial advantage of customers. For these reasons lack of choices is listed as a sub-category for change in status quo.

### 3.2.5. Perceived company's greed

The existing literature states that customers' perceived company greed is a key reason why customers take revenge on companies by for instance sharing negative word of mouth or by creating negative publicity for a company (Grégoire et al. 2010, p. 738-741). Annoyance amongst customers is created by the perception of greed and the reason for it is customers believing that companies try to take advantage of certain situations in case they cannot properly justify the reasons for their actions (Bies & Tripp 2009).

Grégoire et al. (2010, p. 742) state that consumers tend to see companies as greedy when they start to use poorly justified and poorly communicated methods in acquiring more profits. These methods include inter alia small text, unjustified fees and penalties. The methods are mainly executed by the desire of increased profits and they ignore the norms of dealing with customers respectfully (ibid.). To decrease the amount of perceived greed, companies should do actions that do not seem exploitative in the eyes of a customer (Grégoire et al. 2010, p. 754).

The research for underlying reasons behind perceived greed is scarce (Grégoire et al. 2010, p. 743). The developed conceptual model lists perceived greed as one of the reasons for customer resistance, due to its nature of creating negative emotions amongst customers. As a sub-category of perceived firm's greed, this study suggests that perceived betrayal leads to perceived firm's greed.

Grégoire & Fisher (2008, p.248) discuss perceived betrayal in their research and they define the concept as "a customer's belief that a firm has intentionally violated what is normative in the context of their relationship". This may cause even customer retaliation (ibid.). The same authors summarize this as a "love becomes hate effect". (Grégoire & Fisher 2008, p.247). This is a distinctive feature that separates perceived company's greed from perceived price fairness that is evaluated from price reference points as described before.

The second sub-category of perceived firm's greed proposed for the framework is increased fees, because it is the fundamental cause for perceived greed as also suggested by Grégoire et al. (2010, p. 742). Moreover, the case company's sales management suspected that customers think that the company's additional services are already invoiced and the costs derived from them are already included into the actual product prices.

### 3.3. Preliminary theoretical framework on dimensions causing customer resistance

This section combines the resistance factors into a framework that will be later on used as a basis for designing the customer interview questions. Adapted from existing literature, the five main dimensions causing customer resistance while

making a price increase are (1.) customer perceived value, (2.) perceived price fairness, (3.) communication, (4.) change in status quo, and (5.) perceived company's greed.

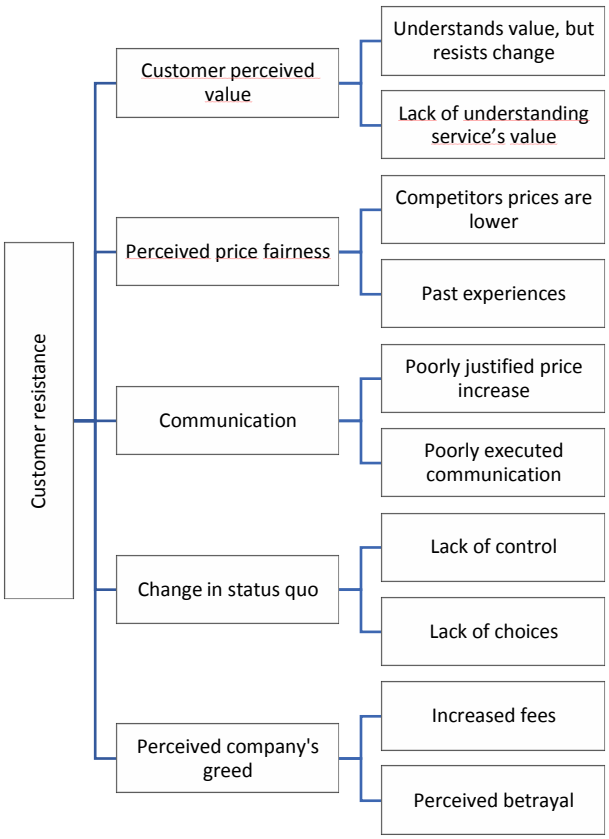


Figure 1 Reasons for customer resistance in free service monetization process. Adapted from literature surrounding the topic of resistance.

# 4 RESEARCH DESIGN

This section discusses how this study was conducted and how the case interviews were done. The goals for the interviews were to understand reasons for customer resistance and reveal methods to mitigate this resistance. With the empirical results, this study will create general suggestions based on the case company’s approach. These goals were developed together with the case company and more importantly they bring answers to the identified research gaps.

The free services were initially identified by interviewing key personnel inside the case company from different departments such as sales, marketing and back office. Identifying the free services was the starting point for this study, since after this they could be further categorized according to Reinartz & Ulaga's (2011) classification scheme. After service classification, their monetary potential was evaluated based on monthly transaction volumes and typical fees amongst competitors or companies operating on another industry but providing a similar service. The largest potential was seen in services that support customers in their own processes, such as consulting, customized reports and data processing.

The developed framework in figure 1, was discussed with the case company’s sales managers to validate its accuracy and reliability. These discussions pointed out that customers' perception of the company's greed would be a major concern for customer resistance. An example was provided in which a customer purchases products worth of two million euro annually and the sales person expected that it would be insulting to ask for small fees such as 15 euro for a customized report on top of the two million euro. This assumption provides also an important and intriguing starting point for the customer interviews.

### 4.1. Research methodology

The research approach for this paper is a qualitative one. A typical characteristic for this type of research is that the phenomena are studied in their original environments (Denzin & Lincoln 2000). Furthermore, in qualitative researches, the research is being designed simultaneously with its execution and the researcher needs to have a skilled sense of judgement to carry out the research (Van Maanen 1998). One of the main benefit for using a qualitative approach is that it reveals valuable information, such as real reasons for certain behaviour, that could not be obtained via a quantitative approach (Gephart 2004).

The preliminary understanding was developed from existing literature that there are five main categories and 10 sub-categories causing resistance in customers when including a price to previously free services. Furthermore, the case company expected that monetary factors would be causing the most resistance.

To gain understanding on a new topic, this study uses an abductive reasoning method. Dubois & Gadde (2002, p. 559) describe abductive reasoning method suitable for developing new findings and creating conclusions to an unknown issue. This method is described as a combination of inductive and deductive approaches and it is especially suitable for new theory development (ibid.). Since industrial services and especially its free-to-fee theme is a fairly new field in marketing science, abductive reasoning method allows to create new theory to the topic. First this study creates an understanding based on existing literature and then builds on that understanding with the five in-depth customer interviews.

## 4.2. Case description

The study was done in cooperation with a multinational oil refining company that had provided free services to their customers for several years. The case company already has a service price list for some additional services, such as invoicing related services, but still several services are provided for free on a regular basis.

Academic research on free services' price increase process is scarce and thus this study aims to build on that understanding by understanding the root causes behind customer resistance. In the past, increasing service or product prices have given a negative backlash from the customers. The case company's Head of Sales described this as a typical form of customer reaction that should be managed carefully. There is a clear gap of understanding the exact reasons causing resistance amongst the customers and this study was done to reveal more information on this issue.

## 4.3. Multiple case study

A multiple case study of five companies was done to gain insight on customers' current assessment of free services and what are their reactions if these services were to be monetized. The companies represented various industries to gain diverse real-world aspect to this study. With the research results, the previously set research questions could be answered. Table 4 summarizes the characteristics and interview time of the held interviews.

| | Industry based on Finnish SIC-codes | Respondent's title | Turnover | Duration |
|---|---|---|---|---|
| Company 1 | Wholesale of liquid and gaseous fuels | CEO | >2 million euro | 53 minutes |
| Company 2 | Sea freight water transport | CEO | >150 million euro | 47 minutes |
| Company 3 | Freight transport by road | CEO | >1 million euro | 48 minutes |
| Company 4 | General cleaning of buildings | Financial manager | >150 million euro | 41 minutes |
| Company 5 | Activities of other transport agencies | CEO | >5 million euro | 45 minutes |

Table 4 Background information about the interviews.

Yin (1994) describes case studies as a real-world description of a certain phenomenon, which helps the researcher to gain understanding on a certain topic and provide a basis for theory building. Furthermore, Yin defines a case study as ”an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used’’.

Eisenhardt & Graebner (2007) note that inter alia information bias and choice of wording may have an effect on the results. However, they as well as Borghini et al. (2010) point out that case studies are some of the best ways to gather qualitative information and test the existing theoretical assumptions (ibid.). Furthermore, case studies may have also other applications as to evaluate a certain case such as a program (Stake 1994).

The selected companies were chosen carefully to meet the requirements, which were that they are using process support services that are given for free to them. The choice of companies is critical for the reliability of the study and thus they were chosen by using the sales team's data to support the decision. The criteria for selecting customers was that they have been proven to use process support services or process delegation services in the past year.

The interviewed companies were chosen from different industries and their size varied in order to receive answers from a wider scale of customers. Another important criterion regarding the actual interviewees was that they are not too positive nor too negative towards price changes. This was a hard criteria to ensure, nevertheless it was done by discussing with different account managers who are in regular contact with these customers. With this approach, the goal was to ensure that they provide constructive feedback instead of having impulsive emotional answers.

Easton argues (2010) that case studies are not a suitable way to draw generalizations for the whole population. Nevertheless, Eisenhardt (1989) state that 4-10 case studies will provide enough information to understand a certain phenomenon. This study had five case studies, which according to Eisenhardt helps to understand the topic, but it is inevitably too small amount to conduct best practices or suggestions that can be applied in the larger scale.

The sampling strategy for this study is a non-probability sampling and in particular purposive sampling was used. Suen (2014) describes purposive sampling as a typical method in qualitative researches, in which the participants are carefully

chosen and they are expected to bring important results that contribute to the study. This method was used because the literature is scarce and the criteria for interviewees was rather precise.

Despite, the rich findings that case studies may reveal, there are also some constraints. For instance, Dubois & Gadde (2002) state that case studies have not been always an acceptable research method. However, to strengthen the reliability and to gain a richer and more complex understanding of a topic, there should be enough studied companies to draw conclusions (Gummesson 2007).

### 4.4. Data collection and analysis

Data collection was done by setting up appointments face-to-face or by having phone discussions. Utilizing case interviews allowed the respondents to focus better on the topic and bring different opinions and view points on the topic. The interview phase was done by utilizing qualitative methods to ensure that the findings would complement the developed customer resistance framework in the best possible way. By simply sending out the survey and categorizing data, the in-depth observations, which occurred because of the discussion, would have likely been left out. The interview guide used in this study is shared in appendix 1.

Altogether five customer interviews were organized within a three weeks period. The interviews were purposely held shortly after each other in order to prevent the effect of external factors from affecting answers such as product price changes that happen anyway on a regular basis. The interviews were recorded with the acceptance of participants and the duration ranged between 41 and 53 minutes.

The interview guide was designed to contain five main themes and an introductory theme to first identify the customer's profile in terms of what type of services they use, how often they require them and how valuable they perceive it to be. After this the aim was to find root causes why free services' monetization causes resistance. The last categories were designed to expose methods to mitigate the amount of resistance associated to the change.

The interview guide was pre-tested before interviews by choosing sales people within the case company to answer the questions. This approach allowed the researcher to see how long the interview could be expected to last and whether all the relevant topics are covered. Moreover it gave the account managers opportunity to comment on the structure. However, during the first customer interview, it turned out that some of the questions were generating similar responses to other questions. Due to this finding, the interview guide was slightly modified after the first interview to ensure that each question and category is bringing relevant results and that there would be no unnecessary reiteration.

Data analysis was done by first organizing the data according to the six main themes in the interview guide. After this the unnecessary data, meaning repetitive or unrelated data, was deleted to keep focus on the topic. The coding method used was an inductive one in which the aim was to find and develop new theory. The customers answered the questions without the researcher providing any background theory surrounding the topic. The interviews are reported with case-by-case findings and later their key findings were classified and differences as well as similarities interpreted. This method allowed to comprehensively study relations between responses and develop suggestions based on them.

# 5 EMPIRICAL RESULTS

The study was conducted together with the case company, which allowed access to customer data. With this data the researcher was able, together with the sales team, decide the most suitable customers to interview. The aim of these interviews was to gain in-depth understanding of the topic and to build on the developed framework and literature surrounding the topic.

The interview results are summarized into a table at the end of this chapter. All of the interviews below follow the same structure that is presented in appendix 1.

## 5.1. Company 1 - Wholesale of liquid and gaseous fuels

The interview was held with the company's CEO who has been in charge of the company for over a decade. The company operates in the wholesale of liquid and gaseous fuels industry and the chosen interviewee does most of the day-to-day tasks alone, since the company is fairly small. The interview was held by conducting a telephone interview.

Company 1 retails fuel, but it differs greatly with its competitive nature from the other larger scale oil retailers. The studied company has a minimal market share in the fuel retail business and it does not conduct any import activities. However, smaller size allows them to customize their service offering and price the core product based on their chosen pricing strategies rather than focusing merely on commission-based transactions.

Company 1 has had a long-term business relationship with the case company that provides services both free and paid for the customer. The free services were

notably harder to identify during the interview, since main offering for this customer revolves around the core product that is oil. However, the case company provides several process supporting services such as professional consultation on how to improve the customer's own business.

Electronic and invoicing related services provide notable value in company 1's daily operations. Electronically obtainable reports show inter alia purchase information in a detailed manner. Furthermore, the sales person responsible for the customer contact visits the interviewee every now and then. In these meetings the two analyze sales together and ways to improve it so that both parties would mutually benefit from the development. This type of professional consultation provides value for the customer, since for some questions e.g. regarding logistics the customer cannot find the answer without consultation.

The frequency for using these services varies widely depending on time of the year and thus there is no clear pattern how often the services are consumed. For instance, if a customer's customer requires more products or specialized deliveries then this may create a need to ask for more additional services, such as logistics consultation. Nevertheless, during the interview it was clearly highlighted that the most important thing is the core product and its price. Additional services are not crucial for success, but they are nice to have, hence they do not have a large effect on choosing a suitable supplier.

According to the interviewee, the main reason that causes resistance in free services' monetization is the actual **price increase and monetary losses** associated with it. The profit margins in the oil industry are low and it would take considerable amount of effort to generate enough profit to pay for monetized

additional services. Consultation provides value and some of the questions regarding, for instance logistics, could not be solved without assistance. Regarding professional services, the interviewee **has no other option** than to contact an expert. Furthermore, the respondent saw that consultation **creates mutual benefit**, and thus it is unfair if it was monetized. The respondent explains the phenomenon as follows:

*"If my business does better, I can order more products from you. This way we both benefit from consultation".*

Consultation and providing guidance was seen in certain situations as the supplier's responsibility, because they already pay a fee for deliveries. For this reason, **adding a fee for smaller inquiries** would cause notable resistance. If the case would be larger, the situation would be different. Even though monetization clearly causes resistance, the customer clarified that it would have only a small effect while choosing a business partner.

Length of the business relationship also plays a role. If a business relationship has been lasting for a long-time, it would be even more unfair to monetize the service in the respondent's view. However it was also pointed out that if the service always had a price, then the price would not be noted in a similar fashion. The customer sees this as a result of **previous experiences** that they had with the case company. The free process support services were seen as valuable, but they are not used as often as the priced ones such as delivery services. The main difference thus comes from the use frequency.

**Increased cost is the single largest factor to cause resistance** in the interviewee's view. She notes that price changes are typical especially in the oil industry since the price is floating and determined by market forces. Nevertheless, it makes no difference if the price increase comes from services or products, it causes resistance in either way. This finding was reinforced with the remark that free services such as consulting were not considered to have lower value than priced services.

The interviewee explained during the interview that **communication plays a major role** in free services' monetization process. The price change should be informed well in advance, because then a customer has time to prepare for the change and think what their options in the future are. This does not necessarily mean that customers would require time to think about changing the supplier, but to discuss the change's reasons and consequences. All in all, it is also much easier to accept the change if there is an **opportunity to influence the change** in some way even by just discussing about it. For instance, when the account manager visits a customer, the change should be discussed face-to-face to lower the amount of resistance. If the change is informed via e-mail or in an annex in the invoice then there is little chance to influence the change.

Customer prioritisation was seen as an important element when implementing the change. If a customer has had a long and functional partnership with the supplier, then there should also be some sort of different treatment. This prioritisation should mainly come in a form of providing free services also in the future to the existing long-term customers. Nonetheless, communication should be done properly by personal interaction whether a customer is old or new.

Last part of the interview focused on challenges and potential pitfalls in monetizing the services. Company 1's CEO explained the rationale behind her decision making as follows:

*"It depends largely on the pricing. If the price is negligible, such as 1 euro per month, then probably no one will have problems with that. If the price is high, then we would stop using that particular service."*

Moreover, justifying the price increase with costs was regarded as an old and worn explanation and there should better arguments to back up the transition. Interestingly the interviewee described that even if the quality of some free service such as consultation would improve, they would not be willing to pay more for it since the industry's profit margins are low.

To summarize, the interviewee saw that free services' **monetization would be justified to some extent if the prices were kept low**. An example was given for electronic services from which the company can obtain reports and purchasing information. Nonetheless, there is a clear sense of resistance when it comes to the transition due to monetary aspects, the fact that some services benefit both parties indirectly, and that there are no other options to obtain certain services such as consulting. Furthermore, early communication would help the functional matters as there would be more time to prepare for the change. Nonetheless, monetary aspects were clearly the largest cause for customer resistance in this case.

### 5.2. Company 2 - Sea freight water transport

The second interview was held with a company that operates in the sea freight water transport industry. The company has been a loyal customer and it was identified to use frequently process support services prior to the interview. The interview was held face-to-face with the company's CEO who is responsible for logistics activities, managing truck fleet, fuel purchases and driver management in both Finland and Europe.

Sea freight transport is an industry that is heavily affected by economic cycles and different areas' need for imported goods. The studied company distinguishes themselves by offering tailored service solutions to their customers by owning their own truck fleet which also offers flexibility in service schedules. Moreover, the relatively small size of the company allows them to react to market changes and their own customers' special requests with quick response time.

The case company offers fuel, AdBlue, car washes, electronic services, consulting and reporting to the interviewee's company. The products are essential for the customer to ensure their daily operations, whereas services were described more as supporting and risk-lowering elements. In addition to the core products, the CEO mentioned that consultation and electronic services bring notable value for the company. However, they are difficult to obtain if the cooperation is not tight, Moreover, the respondent felt that he could not always ask for all the services he needs, since there is not a clear list of available services. The CEO explains this as follows:

*"No one has time to search for these services while working full-time. It is the account manager's or marketing department's responsibility to bring these up."*

The main reasons why the services bring value to the customer are time savings and availability. Nevertheless, if they are priced in any form then a calculation process begins. Services need to have enough concrete value that their price can be justified. The interviewee clarifies:

*"If a service costs 200 euro then the value of that service should be 500 euro. The value needs to be able to transform transparently into the euro."*

For instance, consultation is used on a quarterly basis and if it were to be monetized then it should bring clear value that can be calculated in monetary ways. Even though services bring great value to the customer, the core product is the one that enables functional operations. Services are not a clear differentiator factor, since competitors have the same capabilities to offer such services. Nevertheless, the relationship with a company and especially with the sales person is important, since it makes the communication faster and more reliable.

Monetization immediately brings up immediately a question, "why", in the interviewee's view. The **monetization should be rationalized** to the customer for instance in the case of consultation. If marketing or sales department can clearly and openly explain what are the reasons behind this change, then the customer could accept this, but the chasm to use the service would be higher. In the case a service has a price, then oftentimes customer evaluates whether he or she could do it by themselves. If it turns out to be too time consuming or difficult then it is better to pay for the service. This type of decision-making creates a need for the supplier to offer information and examples how services can benefit the customers.

The respondent saw that the factors that cause most customer resistance in the price increase are: **lack of proper communication, monetary losses and to some extent if the value is not communicated clearly to the customer.** Interestingly, price was not seen as a major reason for resistance:

*"The world is changing. What was free yesterday can cost tomorrow and this is acceptable if the price is justified".*

If there is no prior communication before the price increase, then the desired price increase could be put into to the core product i.e. to fuel. However, this would also create similar problems and thus communication is essential. The communication can be done best by discussing it during a face-to-face meeting as well as providing the required info transparently. Lack of proper communication was clearly valued as the most important element causing customer resistance, because the respondent's company focuses on that during their price increases. Lack of communication was seen as a typical way of communication in many cases according to the respondent's previous experiences.

*"It is very cheap to increase prices without communicating it beforehand. Customers need to have at least an option to vote with their feet and discuss the change with the company. In fact, this is easy to execute and does not strain either company."*

After discussing the topic, it can be closed. However, customers need to have an option to show their emotions. Services that support daily operations should be left free, an example of this is invoicing services. The reason for this is that it slows down normal work, which creates unnecessary additional costs.

**Providing options** is an important element to reduce customer resistance. For instance, if some invoicing services were monetized, there should be an electronic option to provide them for free. In the case of no such option, the absolute value of order plays a deciding role.

*"If the invoice for products is 50 000 euro and a fee of three euro is added to the invoice then it is acceptable. However, if the invoice fee for a small product such as a windshield washer fluid is 20 euro, then it makes no sense anymore".*

In the sea freight water transport industry, costs are an extremely important subject that are constantly optimized, which leads to competitive tendering in many business functions. The interviewee further elaborates this fact and points out that **high costs are acceptable if they bring high return**. This same philosophy applies to competition as well. If the monetized services bring value for customer, there is no reason to change supplier. Making a purchase decision on services is a rational decision-making process and positive return on investment plays a decisive role.

During the interview, three categories were established to improve communication. The categories are:

1.) Marketing department demonstrates the reasons for change.

2.) Provide enough information for the customer to evaluate the relationship between value and price.

3.) Two-way communication possibilities to discuss about the upcoming change.

By ticking these categories, a customer should not have major reasons to resist the price increase. The general trend despite the industry seems to be that companies add a fee for services. It is also the customer's job to evaluate options and understand what are the value-adding factors that the supplier brings to them.

Personal relationships have an important role when communicating the change. The interviewee sees that the resistance is easier to express if the person on the other side of the table is familiar. In the case of third-party consultant or general email delivering the news about changes, controversial feelings should be expected. Furthermore, Finland has a rather small number of companies in this industry and thus the word of mouth would also have a great effect on decisions.

Changing a supplier merely because a price increase in free services was seen as non-realistic. The respondent saw that switching costs are too high in this particular case, but again it depends on how large the fee will be. Fuel products are somewhat similar between suppliers and thus changing the company does not create enough benefits to offset the cost of starting a new business relationship.

Free and invoiced services were identified to have several differences. Paid services should be available always, whereas similar availability cannot be expected from free services. Furthermore, with paid services price increases are normal and eventually they might end up unnoticed in the invoices. Free services' monetization creates more interest amongst customers, because the reasons are different. Usually this results into customers' interest to find reasons for this change. Unbudgeted and surprising costs are a notable problem in free services' monetization, because the cost structure of a company changes and sometimes it is difficult to react to these changes.

In the final section of the interview, the interviewee was asked to describe what type of services should remain free in the future. The response demonstrates that the consumed time is a deciding factor:

*"Quick consultation should remain free, but work that clearly causes additional work such as customized reports or in-depth analyses could be monetized"*

Self-service in electronic systems were seen as an extremely difficult item to monetize, since the customer is already doing work on behalf of the supplier. During the interview, the respondent noted that he had been taking the free services for granted, because they were not included in the invoices.

To summarize, lack of proper communication, monetary losses, lack of options and unclear demonstration of cost / value ratio are the factors resulting into resistance in the respondent's view. Moreover, providing alternatives was also deemed as important.

### 5.3. Company 3 - Freight transport by road

The third interview was organized with a company that operates in the case company's one of the most important B2B-segments - Freight transport by road. The interview was held via a phone discussion with the company's CEO. The company itself is relatively small, but they have more than 50 years of experience operating in the industry. The respondent oversees various activities within the company such as driving trucks and doing administrative work at the office. Since they have been a customer for decades and they use services to improve their own business processes, this company was a suitable choice to be interviewed.

Most of the company's purchases come from fuel, AdBlue and lubricants, but they are also using services on a frequent basis. The used services are in two categories: Consulting and invoice related services. The latter one concerns mostly electronic services obtainable via a portal, but also some level of customization is required every now and then. Consulting mainly concerns purchases and ways to improve their own business to a next level, which makes the service crucial for the customer. These services have greatly improved the relationship in the respondent's view.

Electronic services are saving time and bringing convenience for the customer. The case company's service portal allows the customer to for instance download reports, manage invoices and order new fuel cards. Even though the provided value is clearly recognizable, it is still hard to quantify and evaluate it. It was clarified that such data that helps them to improve their processes is extremely valuable. An example of this is reports that show consumption based on products.

Resistance during monetization was seen as a rather complex matter. The first reaction would be to immediately compare what is the situation with competitors, but eventually **value was seen as the most important indicator**. The respondent explained that products and services are evaluated together and their seamless functionality decides, which supplier to use even if the other one would have cheaper prices. The final price is compared to the benefits that it brings.

The main cause for resistance was seen to be the fact that something that was given for free is now taken away. The interviewee elaborates：

*"If something is taken away from you, it will create a feeling of unfairness."*

Linked to this, **communication plays a critical role**, because changes need to be somehow justified. An example was given from the banking industry where price increases are justified by cost increases. Companies should not pursue profits with these types of services, but only cover their costs. A typical way to hide price increases is to create a bonus rewarding system, but it is far away from transparent pricing, because there always seems to be hidden additional fees.

Stimulus to change supplier may come from minor things, from which unsatisfactory communication is one. It is not enough to communicate, but it should be done in a correct manner. Sometimes changes are communicated, but their reasoning is very difficult to understand. Therefore, the best way to communicate is face-to-face during sales visits and certainly not via an invoice appendix or email, since they get lost very easily. Additionally, the change should be communicated at least one month before, which allows needed preparations. This is mainly a question of fairness and does not have so much to do with price.

Personal relationships are important and they should be valued on the supplier side. In fact, these relationships are essential to communicate changes, because this way the company has a face instead of an unknown voice calling from the office. This type of relationship is also a service that can strengthen the business relation. Free services were perceived as the reason why the customer does not switch supplier. The interviewee clarifies the matter as follows:

*"If there were no extra services, then I would probably not be a customer. There is no reason to stay as a customer, because I can buy the same product elsewhere".*

However, the price increase is difficult to accept, because some companies already include these services to product price and others invoice them separately. Oftentimes it takes notable effort to calculate, which one might be the case. Due to this, it is also more difficult to accept a free service's price increase, since there is no certainty if it is already added to the product price.

Price increase was described to be acceptable in situations where, the value as well as cost of producing is clear to evaluate. The electronic services need some type of maintenance and they bring value and thus it is understandable that there would be a fee.  However, the prices should not be changed too often, because it creates a sense of uncertainty and makes price comparison that much more difficult.

In the respondent's view, the services should be kept free mainly for the reason that most companies do not know how to price them correctly. Monthly fee is the most typical way to approach this issue, but it just creates further resistance Transaction-based pricing is fair as long as the value is quantifiable or understandable. If the services were to have a fee, the company needs to be able to show the value with monetary terms.

*"Additional services have to be invoiced on transaction basis, because monthly fees create too large yearly expenses."*

Customer prioritisation was also noted as an important element when conducting the transition. Interestingly the prioritisation should not necessarily be considering the pricing, but more the communication. The interviewee explains:

*“It is easier to justify changes to new customers than existing customers and thus the change could be communicated better to existing customers. Time should not play a major role, but it should be noted in some way."*

Finally, the respondent told that he considers the oil industry as a very price sensitive industry in which competitors may market their services to be free of charge if one company decides to monetize them. This type of marketing strategy could be attractive to companies that wish to find the cheapest option. It was also noted that in order to avoid this type of situation a company could make a list of everything that was provided for free during a calendar year.

In summary, the respondent feels that in the end it comes down to how much value a service can bring. Poor communication, incorrect pricing (in this case monthly fees) and sense of unfairness caused by previous experiences were seen as main factors causing resistance.

### 5.4. Company 4 - General cleaning of buildings

The fourth interview was held with the case company’s customer that operates in the general cleaning of buildings industry. This company has been an active customer buying products as well as services. Furthermore, it is in their core business strategy to try to differentiate with services, which makes it an excellent choice to interview. The interview was held with the company’s financial manager who also takes care of equipment purchases in which for instance insurances and fuel products are included. The interview was held face-to-face in the customer’s company’s premises.

During the interview, the respondent noted that he is almost certain that there are no free services, but that they are included in the core product price. He elaborates on this matter further as follows:

*"Consultation services are never free. If we were to increase service prices, we would increase current service prices and not send any additional invoices."*

The reasoning behind this is that customers tend to assume that services are included in product prices.

In case free services were monetized the respondent would immediately put focus on two things: a.) **why is the price increase happening**, since the services have been free beforehand, and b.) the service itself probably does not become better and thus it is **difficult to justify the change**. The respondent told that most likely he would not immediately change supplier, but would certainly more actively look for other offers. The supplier needs to have an acceptable explanation for the price increases, if they expect customers to accept the change.

Free and monetized services were deemed to have noteworthy differences. The biggest one was that in the case of free services, the expectations are not as high and thus, for instance, delays are somewhat acceptable. However, in the case a service has a fee, it should always be delivered on time. The services were bringing value for the customer, but he still would not accept price increases:

*"How can a company's cost structure suddenly change, is it because of increase in salaries? A company should not become greedy and add prices that did not exist before"*

Moreover, the competition is so tough that there will be other suppliers who do not charge for services separately. The price increases should always reflect to costs and there should not be any attempts to make profits.

The interviewee saw that it would be very odd to invoice from self-service, which is done via the electronic platform. Main reason for this is because if a customer does something on behalf of the supplier, it lowers their cost structure significantly. Furthermore, since the business partnership has lasted for years it would be unfair to invoice from services. To support this thought, it was clarified that the annual purchases are notable and thus there should be some extra benefits, which in this case should be free services.

**Communication was seen to have a crucial role** if a transition would be made. As mentioned previously it is essential to explain exactly why the change is happening. It can be done by proving that operational costs have increased as long as there is a logical explanation and it is communicated in a way that reaches the customer. For instance, invoice annexes are not read very often but separate letters would already create more curiosity amongst customers. Nevertheless, the best way is to communicate face-to-face.

Executing a **service price increase is not acceptable in any circumstance**, because it would mean that the service would be invoiced two times (also included in the core product price). The respondent also highlighted that it is highly unfair that new customers tend to receive extra benefits no matter the industry, whereas existing customers need to continue with existing terms.

In the case of consulting and invoicing services, argumentation would have the most important role or otherwise the service would not likely be used. Companies should promote and focus more on electronic services that allow automatic reporting and other supporting services. However, these services should not be invoiced either, but rather should decrease the core product price since customer is doing work on behalf of the supplier, the respondent thought.

Some of the provided services, such as invoicing services were unclear for the respondent. This is partly due to the reason that there has not been proactive communication towards him on this matter. The services should be communicated and promoted better in order to make the customer understand value. If there is no such communication, it is hard for the customer to start figuring out the benefit.

In summary, this company's interviewee saw that the factors causing most resistance are increased fees especially in the sense that the service was already invoiced in the core product, the perception that the other party is becoming greedy and poorly justified price increase.

### 5.5. Company 5 - Activities of other transport agencies

The fifth and final interviewee was with the CEO of an another logistics transportation company operating in the activities of other transport agencies industry. This company was identified to use customized services such as reporting often and they have been a customer for the case company for more than a decade. The interview with this logistics company was held via a phone discussion.

The customer is in frequent contact with the account manager who consults the customer in certain matters. However, the respondent sees that this is not actual consultation, but more of a friendly advice that is required to maintain the customer relationship. The CEO receives a consumption report twice a month, which is a necessity for budgeting and other purposes. Furthermore, he can also download certain information from electronic channels that supports daily operations. Without these reporting services, the customer should keep track of his purchases and consumption by himself.

During the years of being a customer, he has observed that the case company's core product price is amongst the cheapest ones in the market, but if all additional fees are taken into account, it is not the case anymore. The respondent saw that if a fee is taken from a service, the service must have a very notable benefit for the customer. In case there is no such benefit, he would see that it is smarter to make his own employees do the task.

Free services were identified to bring value, but still they were not seen as a matter that would affect the choosing process of a supplier since the core product prices have such a significant role in the total expenses. Furthermore, regarding self-service, he stated that there are no reasons to monetize these services since they lower the need for customer service personnel. It was noted that this type of self-service is a preferred way of obtaining certain services such as reports, because it is fast and efficient.

Concerning price increases, the factors causing resistance are **monetary losses and the psychological reflection on perceived firm's greed** in the sense that other industry players provide services for free. Interestingly the price increase

was not seen as unfair, but it would certainly influence the competitive advantage that the firm is providing. He clarifies this with an example from his own industry in which reports are provided for free and they are perceived to bring competitive advantage amongst their customers. The respondent emphasized the importance of free alternatives if fees are introduced:

*"It is rather usual that the base cost is low and afterwards additional fees are introduced such as account administration charges, which eventually make premium products or services cheaper. This is the case for instance in the aviation industry".*

These type of hidden service fees frustrated the respondent, because they were not clearly indicated when using a certain service.

Invoicing services that have a free alternative is acceptable, but if a company pushes customers to use too much self-service then the threshold to switch suppliers becomes essentially much lower, because of the lack of personal relationships. In this case, switching costs become much lower and competitive advantage achieved from personal communication is completely lost. The CEO gives an example of personal relationships' value:

*"To a certain point, customers react to changes differently (more positively) if cooperation otherwise functions and that is a benefit for the supplier. By providing additional free services, companies can build an image as a premium supplier; otherwise they are just a bulk supplier".*

The price of services is always compared to the final price, that is the provided hybrid offering. It does not matter if the service or product is relatively expensive if the hybrid offering itself is cheaper than other companies' offer. The respondent tends to calculate the annual value of their services to customers, if there is a case that their customers do not understand the value that services bring. By for instance calculating the time that customers would use to create reports, services achieve a higher status value, which in turn naturally helps the invoicing process.

**Communication was not seen as a very important element**, because there is not a correct way to inform that a price is increasing. Even if a service fee is introduced, suddenly it would not make a difference in the respondent's view. The more important thing is to communicate clearly the final price that the customer needs to pay. In specific, the respondent tends to calculate the service price to the product price. In this way every litre's total price would increase a cent or more, which is a more transparent way to evaluate competition.

Customers should be treated differently, because new customers tend to receive better prices and benefits even though there is no certainty of their loyalty. If something was given for free in the initial negotiation phase, then it should not be changed in the future, because otherwise it creates a feeling of betrayal.

Free and commercialized services were not seen as very different, but there is a clear difference in the way the company positions itself. Free services are always a fine way to create an image of a premium supplier. As mentioned before, if there are no extra benefits for being a loyal customer, then the supplier has lower competitive advantage. However, he does not see any service valuable enough that a price would be justified.

To conclude, the reasons causing resistance in this case were monetary losses caused by increased fees and perceived greed that was caused by diverging from industry standards.

| Interviewed company | Reasons for resistance and other main findings | Interviewee title |
|---|---|---|
| Company 1 | ○ Monetary losses and perceived greed are the main reasons for resistance.<br>○ Free services provide mutual benefit and thus they should not be monetized.<br>○ Personal communication is a way to reduce resistance.<br>○ Monetization is justified if the new prices are kept low. | CEO |
| Company 2 | ○ Poor communication and monetary losses are the main causes for resistance.<br>○ Services need to bring notably more value than what they cost.<br>○ Monetization can be accepted if it is communicated honestly and with well thought arguments.<br>○ Free electronic alternatives would mitigate resistance for instance in the case of invoicing services. | CEO |
| Company 3 | ○ Taking away something that used to be free is the main reason for resistance.<br>○ Service prices are compared to the benefits<br>○ Communication and explaining the reasoning behind change is essential. | CEO |
| Company 4 | ○ Monetary losses and perceived financial greed are main reasons for resistance.<br>○ Increasing free services' prices is an indication of a company's financial greed.<br>○ Free services are considered as earned bonuses for larger purchases.<br>○ There are no free services, but their price is always included in product prices. | Financial manager |
| Company 5 | ○ Monetary losses and diverging from industry pricing standards cause the most resistance.<br>○ Price increase was not seen as unfair but would lower competitive advantage.<br>○ Free alternatives should be introduced if monetization happens. | CEO |

Table 5: Main findings of customer interviews

# 6 DISCUSSION

This chapter discusses and analyses the results that were presented in the previous chapter. In particular it aims to answer the previously set research questions by utilizing the interview results as a guiding tool to provide suggestions:

RQ1: What elements cause customer resistance when a free service is monetized?
RQ2: How can decision-making influencers minimize B2B customer resistance?
RQ3: How to make a successful transition from service for free to service for fee?

## 6.1. Answers to research questions.

The five interviews resulted into several intriguing findings that bring value to the existing literature, but also differ from the set expectations. Firstly, three of the five companies felt that free-to-fee is unfair to some extent. The other two companies, Company 2 and Company 5, thought that it is acceptable, but in this case the final product's and service's combined price plays the deciding role. If this final price is higher than competitors', it will cause a serious consideration to change the supplier. This finding indicates that the customers are very price sensitive and calculate the final price in order to choose the most cost-efficient supplier.

Free services were seen as supporting elements that bring value, reinforce image of a premium supplier and save time amongst other things, but they were not considered as a source for competitive advantage. Only Company 3 thought that this is a clear positively differentiating element. These results may occur due to lack of promotion and knowledge about the free services, which was also noted

by Companies 1, 2 and 3. For instance, Company 3 suggested that all the provided free services should be listed and brought to customers' attention at the end of the year. Moreover Company 2's respondent noted that none of the free services are listed in invoices. This finding indicates that the free services should be clearly listed and communicated to the customers.

The main underlying differences were that free services do not have as high expectations as priced services, they are a way to keep customers satisfied, their availability does not have to be so prompt and they are a great way to reinforce an image of a premium supplier. Only Company 1 stated that free and priced services are similar in their value and characteristics. Finally, none of the customers praised the free services during the interviews.

*Classifying answers between different value determinants*

To provide a better overview of the responses, this study proposes a classification of responses to three categories: psychological, economic and functional. The five previously identified resistance categories (CPV, perceived price fairness, changes in status quo, perceived company's greed and communication) are positioned to the value determinant they represent the most.

Psychological values are not clearly quantifiable and they are highly dependent on people's perceptions. Furthermore, they are not always rationally justified, but have more intuitive factors and emotions involved. For these reasons changes in status quo, CPV and perceived price fairness are included in this category.

Functional values are more rationally defined and can be affected by the case company. As for instance, company 3's representative stated communication is important, because it has a great importance on the functional aspects of change since customers need to have time to adjust for change. The other resistance categories are not suitable for functional category, because they are not that easy to manage by companies as communication is.

Economic category covers perceived company's greed, since greed is associated to monetary aspects as defined in the literature review section. Perception of firm's greed includes inter alia increased fees that are easier to quantify rationally. This three value determinant classification is used also later in this study to complement the conceptual framework of customer resistance.

The reasons for resistance were very mixed between respondents as visualized in table 5 below. This table lists the interviewees' responses into three abovementioned categories: psychological, economic and functional.

| | Psychological | Economic | Functional |
|---|---|---|---|
| Company 1 | | x | X |
| Company 2 | | | X |
| Company 3 | x | | |
| Company 4 | | x | x |
| Company 5 | x | x | |

Table 6 The major reasons causing customer resistance categorized based on the interview results.

Three companies felt that monetary i.e. economic reasons are the main cause for resistance. The same number of responses were listed to the functional category, whereas psychological factors were highlighted by only two companies. These results indicate that there is not a clearly dominant category for resistance, but the reaction is a combination of categories. This conclusion has significance in the sense that all the categories should be considered when conducting a transition.

In three of the five cases, the resistance was caused by a combination of two categories such as in Company 5's case where the reasons were psychological and economic. The complexity behind customers' decision-making is multi-faceted and managing it requires thorough understanding of customers' emotions. This also suggests that customers take the change very seriously.

Monetizing complex and time-consuming services were generally accepted better than less complex services such as automatized reports. These complex services as consultation and analyses generate value that is also quantifiable for customers by for instance breaking down how much time they save and what is the potential uplift of these services. Based on these findings, it is likely that the magnitude of resistance is higher in smaller and less time-consuming services.

In some cases, the respondents were suspecting that the service price is already included into the product price and for that reason they are currently free. For instance. Company 4's interviewee explained that the cost would be double for customers if free-to-fee transition was conducted. This finding demonstrates that there is a level of scepticism if something is changed suddenly. This scepticism may be a result of lack of communicating services' value and a lack of an ability to separate services' price from the core product price.

Only one of the five interviewees felt that existing customers should not be prioritized over new customers. The others saw that there should be prioritisation, but interestingly for varying reasons. Companies 4 and 5 explain that new customers tend to receive already better treatment in terms of prices, and thus existing customers should be at least in this case treated better. Company 1 implied that existing customers should continue to receive free services, whereas Company 3 felt that communication should be better for existing customers. This outcome suggests that there is a need to create a feeling of prioritization for existing customers to show that they are not in the same line with new customers.

All five respondents stated that communication and reasoning behind change is required, if the case company aims to minimize resistance. More importantly, the communication must be handled personally instead of notices on webpage or invoices. As for example Company 2's CEO highlighted, the logic for this is that companies have time to discuss about the change, evaluate options and feel as their voice is also taken into account. This was one of the most dominant findings of the interviews, which makes it critical factor to consider when increasing prices.

Argumentation and justification for the price increase intrigued the customers, which resulted into them bringing their suggested approach for the change. All of the interviewees wanted to know the honest reasoning behind the change and clear communication of the final price, i.e. the invoice for complete product and service offering. Furthermore, providing information, such as a value calculator to measure service benefits and costs, was discussed with Company 2. Communication had clearly the largest role in mitigating the resistance.

Several significant findings derived from the interviews that are used to complement the developed conceptual framework. Two new sub-categories were generated from the findings: Invoicing a mutually benefitting service and diverging from industry standard. The complemented conceptual framework is presented below in figure 2.

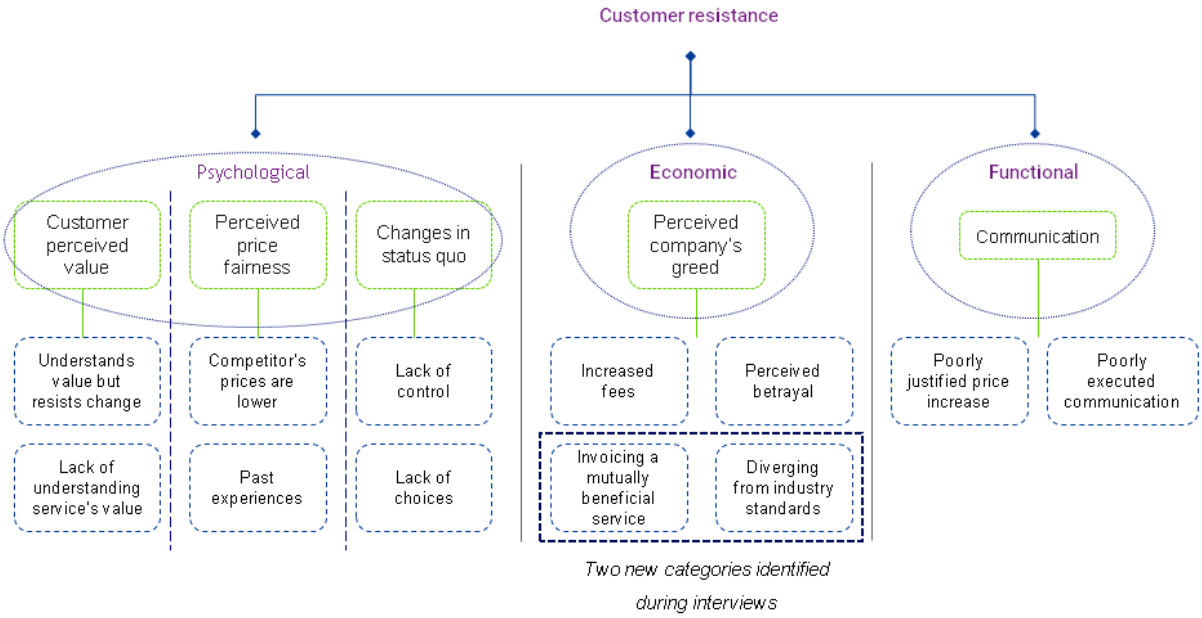


Figure 2 Reasons for customer resistance. Complemented with empirical results.

### 6.2. Mitigating customer resistance

The first category “Understanding of value” was discussed during the interviews in the sense that the *value needs to be clearly communicated* to make customers understand what they are paying for. All respondents felt that the value of a service is not clear enough and it could be communicated better. For this reason, *creating a value proposition* for each service would help customers understand services' value better. This would also greatly improve the consistency of communication.

In the case, a customer understands the value but still resist change, this study proposes that companies should *promote positive traits of change*. It is likely that customers are not resisting the change itself, but what they will lose because of it. If a company decides to improve their services, such as analysis work, they should also inform about the changes. Moreover, the extent of service portfolio, its availability, flexibility in customization and delivery time may become better than before, which should be promoted as positive traits

Perceived price fairness and especially its category past experiences turned out to be an important reason for resistance. Company 3 suggested that by *providing information of all the provided services* at the end of each year would make it easier to understand what type of free services are provided. However, Witell & Löfgren (2013) suggest that the fee should be introduced step-wise to the invoice. If the service is provided for free, its *value should be indicated in the invoice as a zero cost*. The invoice may show the price of a service and then show the deduction resulting into a zero cost for the customer.

If a customer pleads that other companies have cheaper prices, it is not worth competing with the price. As company 2's CEO explained, they are willing to pay for the service as long as it provides more benefits than what it costs – high costs need to result into high returns. For this resistance factor, this study suggests that companies should *compete with the value* they are bringing to the customer and not with its price. To do this companies need to be able to *quantify their value in monetary and time terms*. The best way to do it is by identifying the needed alternative process i.e. the process that customer needs to do without the service and explaining all the steps that can be cut out due to the service.

Poor communication and increased costs turned out to be the main reasons for resistance. To communicate properly all the interviewees suggested that the change should be informed face-to-face. Even though this is time consuming, it was brought up in such a clear way that it should be used at least to some extent. Furthermore, the reasoning for change needs to be stated honestly, because a rational price increase will result into better acceptance (Martín-Consuegra et al. (2007). For instance, in time-consuming services it is easy to *justify the cost*, because working time is a mandatory element. Moreover, if a third-party guidance is needed, it is easier to justify the price, which also Witell & Löfgren (2013) noted.

The interviews also revealed that the respondents are concerned what the total product and service price is going to be after the price increases. Thus *communicating the final price transparently* is equally as important as explaining the reasons for change. Changes in the prevalent status quo was discussed in the interviews especially concerning the topic of lack of choices. The responses highlighted that *there should be an alternative way*, such as an electronic portal, to receive certain invoicing related services and they *should be promoted more* to understand their functionalities.

Regarding the topic on lack of choices, *a free alternative* would make the customers less hesitant to accept changes. This assumption is supported also with Cziehso et al.'s findings (2014) which state that free-to-fee changes are better accepted if an alternative is offered. For instance, a lighter version of a report could be provided for free to reduce resistance, while the comprehensive version would be priced (ibid.).

The interviews also revealed that customers may feel as if they have no way to influence the change. *By communicating early enough* of the upcoming changes, customers have time to evaluate their options and make needed preparations as for instance Company 3's interviewee stated. Communicating early enough clears suspicions of deceptive intentions and is also a way to create an *illusion of control* since in the end customers are making the decision whether they stay or not.

Perceived company's greed was a key theme in interviews and two new sub-categories were revealed. Company 5 noted that it is unfair to start invoicing for additional services, since the contract terms have already been negotiated in the contract-signing phase. These unexpected changes may lead to a feeling of betrayal on the customer side. Overcoming this issue *requires modifications to contract terms when contracts are renewed*. Contract renewals are a great chance for companies to bring up and explain services' new prices.

Diverging from the industry standards was noted by Company 5. The respondent felt that it is unfair to invoice for a service if other players in the same industry are not asking for a fee. The interviews also revealed that customers want to better understand the cost structure and thus this study suggests that *breaking down the cost structure* will help to overcome this resistance factor. Breaking down costs may include aspects such as explaining the cost of working hours, system management, data collection and data combining amongst other things.

Invoicing a mutually benefitting service was seen to be unfair by Company 1's CEO. The logic behind it is that if a service, such as consultation, benefits customer, then the customer can purchase more products to support the growth. To reduce this sort of resistance, a company should *emphasize to the customer*

*that the achieved benefits are in balance*. This can be done by breaking down cost structure and showing how much monetary value the service brings. The results indicate that customers are likely to calculate the cost-benefit ratio, which leaves little room for attempts to pursue large profits. Keeping the price increase to an explainable level lets companies to demonstrate that benefits are in balance.

Increased fees are the fundamental starting point of customers' perception of firm's greed. According to the empirical results, companies may suspect that the service fee is already included to the core product price and the company aims to invoice the services two times. To prove this is not the case, the *cost structure needs to be explained honestly*. Furthermore, the interviews brought up that existing customers should be prioritized to some extent as Company 1's CEO noted. *Prioritization can be done by first starting to invoice new customers and then after for instance six months begin invoicing existing customers.* This a clear statement from the company that they appreciate existing customers' loyalty.

To summarize, figure 3 below illustrates the identified resistance categories as well as the suggested mitigation actions that are presented below the resistance categories.

| Understanding of value | Perceived price fairness | Communication | Change in status quo | Perceived firm's greed |
|---|---|---|---|---|
| • Define your service's value proposition.<br>• Promote positive traits of change.<br>• List and categorize all the provided services. | • Compete with value and not price.<br>• Start showing services' financial value with zero invoices.<br>• Show provided free services to the customer. | • Use personal communication<br>• Be honest about the reasoning behind change.<br>• Deliver consistent and unified message. | • Inform your customers before it is too late.<br>• Provide a free electronic alternative.<br>• Start invoicing during contract changes. | • Consider prioritizing existing customers.<br>• Break down your cost structure.<br>• Show achievable savings with a value calculator. |

Figure 3 Identified mitigation actions for the developed resistance categories.

### 6.3. Suggested managerial actions

Firstly, managers should identify their service offering and the benefits it brings. Customers need to be able to search and compare services that a company provides or otherwise they will have little or no value. This is also a suitable way to drive transition internally within a company, because it is much easier to rationalize the monetization if one first identifies how much the free services are already provided.

After identifying free services' cost structure and creating an estimation of financial potential, the company's management ought to create a service process description to inform internal stakeholders such as sales, invoicing and marketing teams of the change. Modifying a practice that has been done for years, i.e. providing free services, must be communicated well also internally to avoid a situation in which it is too hard to start the invoicing process. To ensure the usefulness of the process description, it should be done together with the beforementioned stakeholders.

Consistent communication both internally and externally is essential and it should be reinforced with work that has already been done. Providing examples to internal stakeholders of for instance customized reports and consultation allows the management and sales personnel to provide consistent and unified message to customers. When customers receive a similar message from all personnel and channels, they are likely to become more used to the change over time. In a situation that stakeholders are unclear of the practices, the sales process will become notably more challenging and time consuming.

When a company is charging for a service, a customer needs to be able to evaluate the service's benefits as the results indicate, and thus a value proposition for each service is needed. Value proposition clarifies what is the actual benefit that the service brings. This helps both sales team as well as the customer to understand concretely what the service's value is. It also supports marketing efforts and clearly distinguishes the service from the product offering.

Pricing a service is a challenging task. The research results revealed that the price should be less than the benefit that it brings. However, at the same time the service's price needs to cover all costs associated to it, otherwise services will never become a profitable business function. Services could be priced based on the value they bring or the costs that they generate. It is advisable to identify the nature of the service, for instance consultation, data analysis, and electronic services have very different characteristics and thus their pricing mechanisms could also be different. The evidence shows that customers are willing to pay more if one can explain in plain terms how much a service helps their own operations. For instance, in the case of customized reporting companies could emphasize their industry expertise, translation capabilities and fast delivery times.

Aligning the interests between sales and marketing teams may turn out challenging, since there can be a conflict of interest in some respects such as pricing, service delivery and customer prioritization. In larger organizations convincing all sales personnel at once could result into a backlash, since everyone is not ready to conduct a change. To tackle this issue a company may choose few of the most suitable and motivated service sales people to start the transition. The identification of these people may be done for instance by conducting an interview or sending out a questionnaire to the sales people. With

this slower type of approach gathering feedback, measuring performance and eventually convincing the initially reluctant stakeholders to participate to the change is much more manageable.

To further strengthen the severity of the change, the top management needs to support it and mutually agree on the goals. Continuously measuring the performance during for instance monthly status meetings commits personnel to drive the change until it becomes business as usual. Measuring the success of monetization should be systematically monitored by creating automatized reports of the quantity of services invoiced and correspondingly a list of services that were not invoiced. With this information decision-makers have actionable data to support decision-making and have a clear perspective what is the current situation and how it could be improved.

Reinartz & Ulaga (2008, p.93) argue that a financial incentive would motivate sales force to sell more services. This approach is certainly advisable, but also non-monetary incentives such as rewarding service sales person of the month would motivate personnel as it is a clear recognition of good performance. Sometimes recognition works as a better motivation method than financial incentive, hence both approaches combined would yield the best results.

The results indicated that at times changing fees is considered unfair, because certain contract terms were negotiated at the start of the business relationship. To solve this problem, companies should focus on communicating new price lists and terms when contracts are updated or renewed. Service fees should be brought up during negotiations if there is such possibility.

According to the interview results, communication is key element to reduce customer resistance. All respondents considered that with proper communication the transition is more justifiable. The easy way would be to update service price list to a company's webpage, but it would likely cause resistance. Instead it is advisable to make the communication as personal as possible. The results indicate that the best way to do this is by informing of the change face-to-face. However, in larger companies this is hard to do due to limited resources and thus some sort of customer prioritization is inevitable.

Personal communication method ought to be used at least with important customers that the company is not willing to lose. Nevertheless, creating a transparent flow of communication is also advisable for other customers. This can be done by utilizing several communication channels such as inter alia phone call, email, annex in invoice and updates on webpage. Despite the channel, the message should be consistent, and it should inform the customers of the reasons behind the change.

In the B2B-context customers are likely to evaluate whether the explanation is acceptable, as the interviews also revealed, and thus designing the message is crucial. There are several reasons for explaining the change such as increased cost structure, improvements in service quality, possibility for a free electronic alternative and demonstrating the value that the service brings. Figure 4 structures the suggested actions as steps and describes what key actions are needed to conduct the change. These actions reflect on the suggested steps within the case company.

| | Description | Actions needed |
|---|---|---|
| Identify potential and categorize your services | • Create an estimation of the project potential based on service transaction volumes multiplied by example prices.<br>• Categorize services based on function - for instance consulting services, analysis services and invoicing services. | • Discuss with team leaders about the estimated transaction volumes of free services.<br>• List all the provided free services and categorize the ones with similar functions. |
| Clarify the service process | • Service process description helps stakeholders to understand their and other parties' roles in service delivery.<br>• After the roles are clear, there should be no arguments of complexities in invoicing. | • Create a proposal of the process and agree on roles with back office and sales.<br>• Collect the needed invoicing system modifications and agree on them with system development team. |
| Agree on goals and monitor them | • Agree on schedule and milestones with stakeholders and top management.<br>• Monitoring sales performance on a frequent basis keeps the project ongoing. | • Involve top management and earn their support by frequently communicating the progress during status meetings.<br>• Design an automated process to measure the ratio of free and invoiced services. |
| Focus on communication | • Communicate to your customers before monetizing your services, preferably several months before.<br>• Use several channels, but focus primarily on personal channels. | • Start by introducing the service on invoice without a price.<br>• Design supporting marketing material that clearly states the value proposition.<br>• Create a service price list to increase transparency with customers |

Figure 4 Key steps to consider while making a transition from free-to-fee.

Managing the transition will likely cause difficulties and thus the change should be introduced step by step instead of trying to force the sales team to sell all services at once. This approach is also suggested by Reinartz & Ulaga (2008, p.92), thus the case company should first sell services that bring the most customer value.

*An example of invoicing free services in the case company's context:*

The interviews and preliminary data revealed that the case company offers inter alia professional consultation, electronic services, invoicing services, analyses and customized reports. The results indicate that the customers are more willing to pay for services they cannot do themselves. Furthermore, it was rather clearly stated that self-service is a preferred option and thus it is hard to monetize services that could be done by utilizing this method.

To demonstrate the two previously stated findings, this study proposes an example of how the transition should be done keeping in mind the step-by-step transition and monetizing the most value bringing services first. Figure 5, illustrates a way to conduct transition that ranks four service types in order based on the expected difficulty of their monetization the first one being presumably easiest. The four developed service types are: 1.) Expert work, 2.) Customized reports 3.) Professional consultation and 4.) Invoicing services. This figure demonstrates how the change could be conducted in a real-life context.

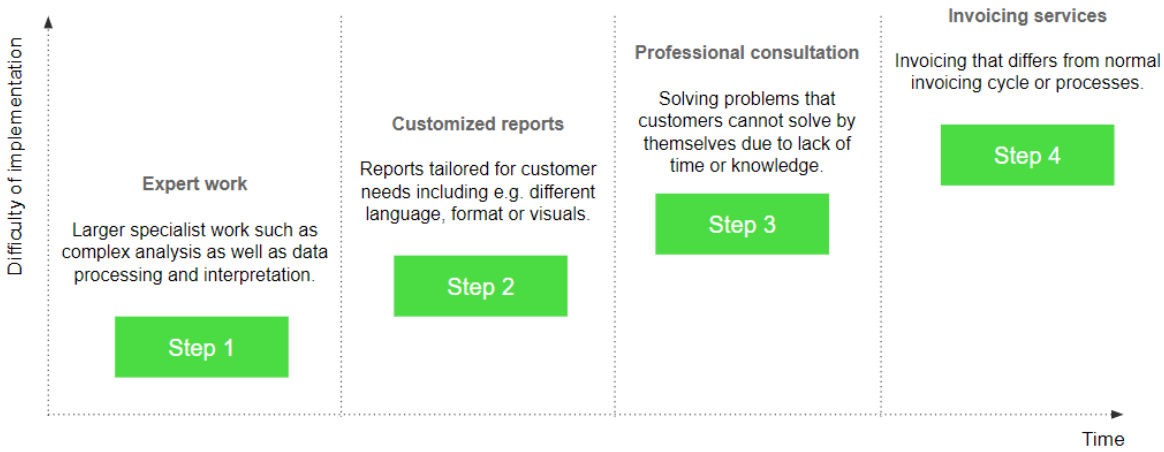


Figure 5 Suggested way to start invoicing free services in the case company.

In conclusion a shift from free-to-fee should not be taken lightly and it does not happen overnight. The shift requires communication, marketing efforts, process alterations and management dedication amongst other things. To accustom customers for an upcoming change, free services should be shown on invoice as a zero cost as also suggested by Witell & Löfgren (2013, p. 524). This way customers see which services have been provided, and it works also for the company's favor when customers evaluate invoices between suppliers.

# 7. CONCLUSIONS

Monetizing a free service was expected to cause resistance, but this study revealed that the topic is much more complicated than just a discussion of monetary value. The results indicate that resistance is multi-faceted and oftentimes a combination of psychological, functional and economic aspects.

A lack of transparent communication and a perceived firm's greed were the main reasons for resistance. Moreover, the results raised two completely new categories causing resistance: invoicing for a mutually benefitting service and diverging from industry pricing standards.

There is a trade-off when conducting the transition. Companies are likely to lose customers when increasing prices, but there are several ways to improve the transition's success rate. This thesis brings a structured tool to identifying the reasons for resistance and taking counter-measures by for example communicating openly the reasons behind the change, providing electronic alternatives for self-service, designing benefit calculators to specify value and designing value propositions.

Conducting the transition takes time and requires efforts throughout the organization. Companies ought to identify their service offering and make the transition in phases. Starting monetization with services that bring the most customer value reduces negative customer reactions. Identifying and defining the service process is needed to clarify practices and to motivate the stakeholders.

Aligning strategic intentions between departments and top management prevents misunderstandings, thus significantly expediting the process. Shifting from free-to-

fee is a team effort that requires setting goals and measuring them. To accustom customers to the change, services ought to be included into invoices as zero costs even before any intentions to increase prices in order to better communicate their value.

A multiple case study of five companies from different industries was used as the research method. The limited number of responses inevitably led to a situation in which the results cannot be generalized. As a suggestion for further research, the conceptual framework should be tested in different empirical settings.

### 7.1. Theoretical contributions

This study provided several previously unstructured methods to identify, categorize and mitigate customer resistance. Recent literature has identified that customer behaviour has been neglected in free-to-fee transitions and in particular there has been no previous research on analyzing customer resistance in these transitions. This study offers a new view on customer behavior in free-to-fee transitions by implementing five customer interviews and discussing their importance to existing literature. The three set research questions were 1.) What elements cause customer resistance when a free service is monetized? 2.) How can decision making influencers minimize B2B resistance? 3.) How to make a successful transition from service for free to service for fee?

Five resistance categories and twelve sub-categories were developed to answer the first research question. This study combines and categorizes the existing literature's understanding about resistance in price increases in a structured manner that has not been done before. Moreover, this categorization is further explored with customer interviews that revealed two completely new sub-

categories causing resistance: invoicing a mutually beneficial service and diverging from industry standards. The study found out that these resistance categories can be further categorized according to different value determinants that are psychological, economic and functional. These new findings and the structured conceptual framework bring a new way of understanding resistance in the transition process and more importantly, the findings shed light upon managing the customer reactions.

Concerning the second research question, the initial understanding was that economic factors, e.g. monetary losses, are the dominant reason for resistance in this context, but the study provided different results. Economic reasons indeed had a notable role in resistance, but both psychological and functional factors proved to have a great role in customer resistance. Specifically, communication, changes in status quo and the perceived greed of a company were the leading reasons for resistance. These and other resistance categories were discussed in-depth by providing three ways to mitigate each resistance theme. These methods were generated by analyzing the interview results and following the respondents' suggestions. These findings bring a new way to look at the transition from the customer's point of view.

For the third and final question, strategies on making a successful transition are presented in the discussion section and are developed utilizing the interviews' data. This type of concrete step-by-step plan has not been presented previously. Furthermore, many of the steps presented, such as collecting requirements for system modifications, agreeing on roles with service process descriptions and setting up status meetings to earn trust have not been discussed in other researches. This type of model presenting the required actions from start to finish

is an extremely useful tool both academically and managerially to increase understanding on the transition's complexity especially in the context of a larger company.

Concerning the suggested managerial steps, the results had similar characteristics that Witell & Löfgren (2012) found. During the change customers need to be informed early and the value of the service needs to be communicated well in order to reduce complaints. This finding reinforces the previous understanding of the topic. Moreover, this study points out that the customers were more willing to pay for services that bring measurable monetary or time value. These types of services were for instance professional consultation, certain electronic services, data analysis services and customized reports. This finding suggests that in order to minimize resistance, the transition should be started with these clearly value-adding services.

To summarize customer behaviour used to be an uncharted territory for managers and academics in free-to-fee context. The findings build concrete suggestions and models that are based on existing literature and the five conducted customer interviews.

### 7.2. Managerial implications

For managers, this study serves as a guide to execute the transition to paid services in a systematic and controllable fashion with emphasis on reducing customer churn. The journey starts by identifying all the services provided for free, clarifying a service process to help with task assignment and by agreeing on goals at the top management level. Without setting up status meetings and milestones

for evaluation it is hard to engage the stakeholders and so the process will take longer than expected.

Defining services' value proposition proved to be an effective action to implement in the transition phase. In the case company's case, it was best to start with the services bringing the most value to the customer such as consulting and other time-consuming expert services. For the less time-consuming services, such as alterations to normal invoicing, customers preferred to use self-service.

The change should be conducted in phases to keep the transition manageable and measurable. Accustoming customers to a change is easier after introducing the services to invoice and listing their value. At the start the price can be marked as zero, but the invoice should show the service's normal price as well. The developed conceptual framework works as a guiding tool for sales managers to manage resistance. Lacking an understanding about customers' decision-making patterns and emotions can lead to a drastic outcome for a business.

One of the most dominant findings of this thesis is that proper communication is the main way to reduce resistance. Customers may perceive a company's actions as greedy if the price increase is not justified and there is no cost breakdown. One way to prioritize existing customers is to start invoicing with new customers and only inform about the changes to existing customers. This is a way to show appreciation to long-term customers and create a positive negotiation element in future price increases.

### 7.3. Research limitations and suggestions for further studies

This research paper has several limitations, because of the chosen research method and the environmental context. The study was done by interviewing five Finnish companies operating in different industries, where some of them had international operations and some operated solely on the Finnish market. Culture plays a large role in reacting to change, hence a similar study could provide different outcomes in other cultural contexts.

The sample size was restricted to five companies due to interviewee criteria. Even though the companies represented different industries well and their size and services' usage varied, it is still evident that the results cannot be generalized. With a limited number of respondents, the data cannot be reliably categorized to explain the phenomenon, however it works as a suitable platform for further research. The developed framework should be tested in a larger scale and with more industries to prove its validity.

Oil industry is very competitive in terms of prices as it is a commodity product and this fact may have influenced customers' responses to the price increases. To generalize the model, it should also be studied in other industries that provide services assisting B2B-customers' processes.

Two of the interviews were done face-to-face, whereas three were done via phone interviews. Even though the interview structure was the same, this may have caused some discrepancies between the provided answers due to the interview method. However, there is no clear reason to assume that this was the case in this study.

Customer resistance is a widely studied concept, but not in the context of monetizing free services. Previous literature was adapted from customer resistance in general, and thus there is a need to study this phenomenon from this specific context in more depth. Finally, the developed conceptual framework and managerial suggestions were not tested in the execution phase.

Free-to-fee phenomenon is a fairly new topic in industrial companies that is creating interest amongst scholars and managers alike. This thesis discovers several new findings and assists in conducting the transition more successfully by analyzing customer behaviour in a real-life context. As a recommendation, further research should focus on exploring how the identified resistance themes and ways to mitigate resistance work in other industrial settings.

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Appendices:

**Appendix 1. Interview guide**

| Theme | Questions |
|---|---|
| Background information | 1) Could you tell information about you and your role in the company?<br>2) In what type of industry does your company compete?<br>3) How is your company positioned towards the competition?<br>4) What type of services does the case company provide to you?<br>5) Do you think that the mentioned services improve your own business? If yes, how? |
| Understanding free-to-fee phenomenon | 6) What type of additional free services does the case company provide to you?<br>7) How would you describe the additional free services?<br>8) How valuable or useful are these free services to your company?<br>9) How important is the fact that you receive these services for free of charge?<br>10) How often do you require these additional free services?<br>11) How much do you take into account free services when comparing product supplier / business partners? |
| Customers' reaction to monetization of free services | 12) What type of reaction would you likely have if the case company monetized its free services?<br>13) In your opinion, what factors cause the most customer resistance when monetizing a service that used to be free?<br>14) Do you value these resistance factors somehow differently?<br>15) Would monetizing some specific additional services cause more resistance than others?<br>16) Would a decision to monetize free services be a negatively affecting factor when choosing a product supplier / business partner?<br>17) Think about the most important free service that is provided to you. Would you feel that it is unfair if this service was monetized? If yes, why?<br>18) How does the role of personal relationships affect your resistance if free services were monetized? |

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| Differences between free-to-fee and a traditional price increase | 19) What do you think are the main differences between monetized and free services?<br>20) In your opinion, do you feel that monetizing a free service is harder to accept than a “traditional” price increase (the service or product already has a price prior to price increase)?<br>21) Do you feel that free services have lower value to you than the ones that the case company already invoices (e.g. delivery services)?<br>22) What type of reaction have you had to other companies’ (operating in different industry) price increases, e.g. banking industry? |
| Communication and customer prioritization | 23) Do you think that companies should communicate “free-to-fee” intentions to their customers well in advance?<br>24) Would you be more likely to accept a price increase if it was communicated well?<br>25) What types of communication methods / channels are the best when contacting customers of an upcoming service price increase?<br>26) Do you think that existing and new customers should be treated somehow differently in terms of providing free services? If yes, how? |
| Challenges in monetizing free services | 27) What type of challenges could arise when monetizing free services?<br>28) What type of arguments would you want to see from the case company, if free services were monetized?<br>29) Should additional services be improved somehow before monetization process? |