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THE PRICING OF CUSTOMIZED INDUSTRIAL PRODUCTS

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ABSTRACT

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The main objective of this study was to examine the pricing of customized industrial products in international markets, and to understand what pricing decision making consists of. Another purpose of the study was to identify the main factors that affect the pricing decisions of industrial companies, as well as the different pricing strategies industrial companies may choose when pricing customized products.

The research was conducted as a qualitative single case study, and a Finnish industrial company specializing in indoor environment solutions, Halton Marine Oy, was used as the case company in the study. The primary data was collected through semi-structured theme interviews with the key management personnel of the company, and the results were discussed and analyzed in the light of the existing literature.

The results of this study indicate that the pricing of customized industrial products consists of several dimensions, and is influenced by a large variety of factors that are both internal and external to the firm. In addition, it was found that the choice of a pricing strategy is largely dependent on the chosen segment, the product category, and the stage in the product life cycle. The results also suggest that customizing companies should consider using the value-based pricing orientation, since customization is closely linked to customer value.

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Tämän tutkimuksen tarkoituksena oli tutkia kustomoitujen teollisuustuotteiden hinnoittelua kansainvälisillä markkinoilla, sekä selvittää mistä hinnoittelun päätöksenteko koostuu. Tarkoituksena oli myös tunnistaa tekijät jotka vaikuttavat teollisuusyritysten hinnoittelupäätöksiin, sekä erilaiset hinnoittelustrategiat joita teollisuusyritykset voivat käyttää kustomoitujen tuotteiden hinnoitteluun.

Tutkimus toteutettiin kvalitatiivisena tapaustutkimuksena, ja case-yrityksenä tutkimuksessa oli suomalainen teollisuusyritys Halton Marine Oy, joka on erikoistunut sisäilmastoratkaisuihin. Tutkimuksen primääriaineisto kerättiin haastattelemalla yrityksen johtohenkilöitä, ja tuloksia pohdittiin ja analysoitiin olemassa olevan kirjallisuuden valossa.

Tutkimuksen tulokset osoittavat että kustomoitujen teollisuustuotteiden hinnoittelu koostuu useasta eri osa-alueesta, ja siihen vaikuttaa suuri joukko erilaisia yrityksen sisäisiä ja ulkoisia tekijöitä. Lisäksi tutkimuksessa havaittiin että hinnoittelustrategian valintaan vaikuttaa merkittävästi valittu segmentti, tuotekategoria, sekä tuotteen elinkaaren vaihe. Tulokset osoittavat myös että kustomointia harjoittavien yritysten tulisi harkita arvoperusteisen hinnoittelun käyttöä, sillä kustomointi liittyy läheisesti asiakasarvoon.

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I have truly enjoyed my time at LUT, and I am very excited to finally graduate and move on to new challenges.

Lahti, 18.5.2016
Ville Lantta

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1 INTRODUCTION

Despite its importance in business, pricing might be the least understood element of the marketing mix. It is a complex function, and making correct pricing decisions is difficult as there are numerous factors to consider (Hollensen 2011, 518-519). It is particularly difficult for companies that sell complex products, such as custom-designed solutions in international markets. Due to the complexity of pricing, many companies try to simplify the tasks by applying standard operating procedures, which often ignore many relevant variables (Shipley & Jobber 2001, 301).

The importance of pricing is clear, as the amount of revenue and profit a company receives is mostly dictated by its pricing policy (Hollensen 2011, 518). Yet, managers tend to neglect pricing, and ill-advised pricing decisions are often made during difficult times in an attempt to change the course of the company (Piercy, Cravens & Lane 2010, 38). It is common for companies to cut prices when searching for a quick fix, which can lead to damaging price wars and lost profits, and cheapen the brand (Kotler & Armstrong 2012, 314). Therefore, it is important to understand the nature and complexity of pricing, and all the consequences that pricing decisions have.

Warren Buffett, one of the most famous and respected investors of all time, evaluates companies based on their ability to raise prices. Buffett has stated the following: “The single most important decision in evaluating a business is pricing power. If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you’ve got a terrible business.” (Frye & Campbell 2011)

Setting the right price for a product or service is essential for a company’s success, as even a small change in price can have a dramatic effect on profitability. According to Marn and Rosiello (1992, 84), the right pricing policy is the fastest and most effective way for a company to maximize its profits, as a correctly set price can boost profit even faster than an increase in volume would (Marn & Rosiello 1992, 84). On average, a 5% increase in price increases the operating profit by 22%, which exceeds the impact of other tools of operational management by a large margin (Hinterhuber 2004, 765).

This shows the potential that pricing has as a tool if used correctly, as a small change in price can have a major impact on the company’s bottom line.

Yet the subject of pricing is neglected by both practicing managers and academic scholars (Hinterhuber 2004, 765). According to a study conducted by Accenture, 70% of financial and marketing executives thought that their companies do not have a clear pricing strategy, and 64% said they have inadequate tools to support pricing decisions (O’Sullivan 2011). Hinterhuber and Liozu (2014) recommend companies to invest in pricing, and claim that any company can increase profits and customer satisfaction, and create an advantage over competitors through an innovation in pricing.

This thesis has both theoretical and managerial aspirations. The purpose of the study is to add to the existing research on pricing in the context of customized industrial products, which is an area that has received little prior attention. In addition, the aim is to provide insights for industrial organizations dealing with pricing decisions of customized products in an international, business-to-business context. This study is conducted as a qualitative single case study, and a Finnish industrial company specializing in indoor environment solutions, Halton Marine Oy, is used as the case company in the study.

1.1 Research objectives and questions

The objective of this study is to examine the pricing of customized industrial products in international markets, and to understand what pricing decision making consists of and identify the main factors that affect the pricing decisions of industrial companies. Another purpose of this study is to examine the influence of pricing decision making on the pricing orientation of the company, and to identify the different pricing strategies industrial companies may choose when pricing customized products.

The main research question of this study is:

How to price customized industrial products in international markets?

The aim of this study is also to look for answers to the following sub-questions:

What does the pricing decision making of an industrial company consist of?

What are the internal factors affecting pricing decisions of industrial companies?

What are the external factors affecting pricing decisions of industrial companies?

How does pricing decision making affect the pricing orientation?

What are the different pricing strategies an industrial company can choose when pricing customized industrial products?

1.2 Delimitations

This study has a few delimitations that need to be acknowledged. Due to the fact that pricing is a very broad concept and the pricing of different types of products and services may differ greatly, the study concentrates on customized industrial products that are being sold in international markets. Therefore, services and consumer goods are not discussed in detail. In addition, transfer pricing is a concept that is out of the scope of this study. The study focuses on customized products, but other types of industrial products are discussed as well, because of the lack of academic literature in the area of customized industrial products.

The aim of the study is to understand the concept of pricing in the above mentioned framework with the help of existing literature, and by studying and analyzing a selected case company. The case company used in this study is Halton Marine Oy, which offers indoor environment solutions for ship building, oil and gas, energy, and naval markets. Due to the nature of qualitative research and the fact that there is only one case company used in this study that operates in a specific industry, generalizability of the study is limited.

1.3 Literature review

Pricing is a wide topic that has been studied from different perspectives and in different contexts over the years. The studies and articles that are most relevant for this study are the ones that discuss pricing in an industrial context, and the pricing of customized products. Industrial pricing and consumer pricing are similar in their basic nature, but some differences also exist.

Despite the importance of pricing as one of the essential elements of marketing, it has received surprisingly little attention from practitioners and academics in the past. Nagle and Holden (2002) consider pricing the most neglected element of the marketing mix. The number of publications on other areas of marketing such as advertising, promotion and distribution has far exceeded the number of publications on pricing (LaPlaca 1997; Hinterhuber 2004, 765).

An analysis conducted by Malhotra (1996, 293) shows that less than 2% of the articles published in the Journal of the Academy of Marketing Science between 1986 and 1995 covered the subject of pricing. Similarly, the topic of pricing accounted for less than 5% of the articles published in the Journal of Business-to-Business Marketing between 1993 and 2006 (Dant & Lapuka 2008, 195). Besides the fact that pricing has received relatively little academic investigation compared to other elements of marketing, pricing literature is considered to be fragmented, and the theoretical understanding of pricing decisions of companies is said to be limited (Ingenbleek 2007, 441, 454).

Over the past decade, interest towards pricing has slowly started to increase among the scholars, and pricing has become a regularly explored topic in academic journals. Pricing today is seen as a strategic function, and a modern, sophisticated and progressive discipline, instead of a clerical and administrative chore it was treated in the past. (Liozu 2015, 4-5, 10) Many articles highlight the potential of pricing as a competitive advantage for companies, if used correctly (Lancioni 2005a; Ingenbleek 2007; Sahay 2007). Hinterhuber and Liozu (2014, 413) even claim that “pricing may be a company’s most powerful – and in many cases, least explored – source of competitive advantage”.

Companies differ greatly in their price setting, and in how they approach it. Orientations to pricing are most often divided into three main categories in the pricing literature: cost-based pricing orientation, competition-based pricing orientation, and value-based pricing orientation (Hinterhuber 2008, 41; Liozu, Hinterhuber, Boland & Perelli 2012, 12). They are also referred to as pricing methods, pricing practices, pricing strategies and pricing approaches in the academic literature, which shows that there is a lack of consensus among the scholars regarding pricing terminology.

One of the first articles to contribute to the development of different pricing orientations was an empirical study by Hall and Hitch (1939), who discovered that firms set their prices by assessing full costs and adding a profit margin, which is a practice that is today known as cost-based pricing. Even though cost- and competition-based pricing orientations are still the most popular approaches to pricing among the industrial companies (e.g. Noble & Gruca 1999; Avlonitis & Indounas 2005; Hinterhuber 2008, 43), value-based pricing has received the most interest out of the three main orientations during the past few decades.

Scholars seem to agree that the value-based pricing orientation is superior compared to cost- and competition-based pricing orientations (e.g. Anderson & Narus 1998; Nagle & Holden 2002; Hinterhuber & Bertini 2011). Value-based pricing concentrates on the value delivered by products and services, and is said to lead to long-term sustainable relationships and win-win situations between buyers and sellers, which is something that conventional pricing orientations fail to do (Macdivitt & Wilkinson 2012, 105-106). According to Liozu and Hinterhuber (2012, 29), managers in industrial companies using a cost-based or competition-based pricing orientation often rely heavily on intuitive patterns in their price setting, whereas most industrial companies that have adopted a value-based approach make pricing decisions based on scientific methods.

Ingenbleek, Debruyne, Frambach and Verhallen (2003, 300), however, argue that there is no such thing as the best approach to pricing, as the success of a pricing approach is contingent upon competitive intensity and relative product advantage. In addition, Johansson, Hallberg, Hinterhuber, Zbaracki and Liozu (2012, 9) remind that value-, cost- and competition-based approaches to pricing are not mutually exclusive, and Smith (2012, 54) points out that all industrial markets are not alike, and therefore the organizational structures and pricing functions of industrial companies are also dissimilar.

The pricing decision-making process and the factors affecting it are an essential part of the pricing practice. Factors that influence pricing decisions can be divided into internal and external factors. In his international pricing framework, Hollensen (2011, 519) further divides internal factors into firm-level factors and product factors, and external factors into environmental factors and market factors, which all have an impact on the selection of the pricing strategy.

Forman and Hunt (2005, 135-136), in turn, name factory capacity utilization, internal cost structure, and market contribution rate as internal decision-making factors, and price sensitivity of customers, switching costs, and barriers to entry as external decision-making factors. Unlike Hollensen's (2011, 519) international pricing framework, Forman and Hunt's (2005) model includes factor determinants, such as international experience and market share, which affect the relative weight the managers place on the internal and external factors when choosing the pricing strategy. Lancioni (2005b, 113) also highlights the importance of the balance that managers place on different factors in developing and executing pricing strategies.

As mentioned earlier, industrial pricing and commercial pricing are similar concepts, but some differences have also been acknowledged in the literature. One of the main differences between consumer and industrial pricing is the level of knowledge that the buyer has about the product and the market, as industrial organizations often have several people involved in the buying process. Industrial buyers are also less price sensitive than the buyers of consumer products. (Forman & Lancioni 2002, 32) Another difference between industrial and consumer pricing is the nature of prices, as the list prices in industrial markets are rarely the ones the buyers pay, because of different discounts (Tzokas, Hart, Argouslidis & Saren 2000a, 194). Forman and Hunt (2005, 139), in turn, point out that industrial transactions are mostly influenced by the goals of the company, not by sociocultural needs.

While there are numerous studies about customized pricing as well as customized products, particularly about mass customization, only a few studies exist that discuss the pricing of customized products. Pricing of customized products refers to situations where no comparable market prices exist, as all the products are unique to some extent (Drury 2012, 230). According to Drury (2012, 230), many companies that produce customized products set their prices based on the product costs, using an approach called cost-plus pricing.

The results of the study by Dewan, Jing and Seidmann (2003, 21, 25) suggest that the investments in customization provide advantages for the early adopters in terms of pricing and profit, and may establish barriers to entry. Customization also enables companies to create added value for customers and retain market power, which can be utilized with appropriate pricing (Novshek & Thoman 2006, 971, 997). Pricing of customized products has also been studied from the point of view of collaborative prototyping (Terwiesch & Loch 2004), as well as in a situation where a company also offers standard products (Syam & Kumar 2006), but to the researcher's knowledge, no studies exist that solely address the pricing of customized products in an industrial context.

1.4 Definitions of key concepts

Listed below are brief definitions of the main concepts of this study, which are price, pricing, customized product, and industrial product.

Price

The term price essentially refers to the amount of money that is charged for a product or a service, and it is the only element of the marketing mix that produces revenue. The importance of prices in business is undeniable, as they affect the buying decisions of consumers, and have a big impact on a firm's market share and profitability. (Kotler & Armstrong 2012, 314)

The concept of price can be viewed from the standpoint of costs or the marketplace. When price is viewed from the standpoint of costs, a company ignores the marketplace and concentrates on covering the manufacturing and distribution costs of a product, and earning a return on investment. From the point of view of customers, price is a monetary expression of the value for the quality and benefits that is gained for having or using a product or service as compared with other products or services. (Hanna & Dodge 1997, 7-8)

Pricing

Pricing essentially means the action of setting a price for a product or a service, and it should be treated as an important strategic tool used to create and capture customer value. Prices can be set by using different strategies and by putting emphasis on different factors, ranging from costs to customer value perceptions. (Kotler & Armstrong 2012, 314-323) The main pricing orientations include value-based pricing orientation, cost-based pricing orientation and competition-based pricing orientation (Hinterhuber 2008, 41). According to Liozu (2015, 10), pricing is a “sophisticated, modern, and progressive discipline that includes value-based pricing, strategic pricing, and advanced pricing science”.

Customized product

Customized products, also called custom-designed products, are “designed and built with the objective to fulfill the unique needs of one individual customer”. Customized products range from capital goods, for example production equipment, to different types of consumer goods. (Terwiesch & Loch 2004, 145) A term closely linked to customized products is mass customization, which is a technique that combines the benefits of customized products and mass production. Mass customization enables companies to offer custom-designed products that satisfy each individual customer’s needs with relatively low unit costs. (Tseng & Jiao 2001, 685)

Industrial product

Besides being a physical entity, an industrial product can be defined as a complex set of economic, legal, technical and personal relationships between the seller and the buyer. Industrial products are a combination of tangible and intangible elements, such as product features and technical assistance. (Havaldar 2006, 115-116)

Industrial products are produced by a large variety and number of organizations operating in diverse fields, and purchased for example by institutions, government agencies and Original Equipment Manufacturers (OEMs) for the purpose of value addition. One of the main differences between a consumer product and an industrial product is the fact that consumers of industrial products are guided essentially by a profit motive. (Govindarajan 2009, 29-31)

1.5 Theoretical framework

The theoretical framework of the study is based on Hollensen's (2011, 519) international pricing framework, as well as on a study conducted by Forman and Hunt (2005) about the influence of internal and external determinants on international industrial pricing strategies, and Liozu and Hinterhuber's (2012) study on how pricing orientations are linked to the price-setting process for industrial products. Theoretical framework (Figure 1) illustrates the scope and goals of the research, and presents the main concepts of the study.

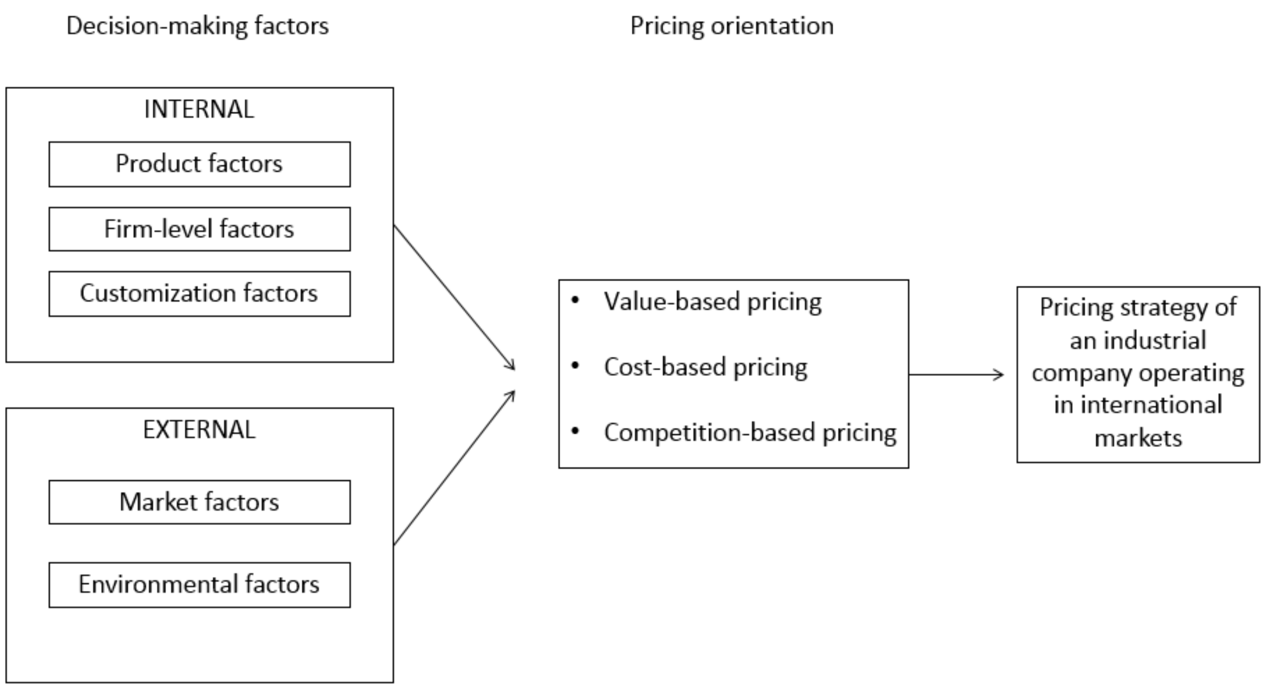

Figure 1. Theoretical framework

The theoretical framework of the study consists of decision-making factors and pricing orientations, which influence the pricing of customized industrial products. The three main orientations to pricing used in industrial markets are value-based pricing, cost-based pricing, and competition-based pricing (Liozu & Hinterhuber 2012, 28). The pricing orientation of a company is linked to the decision-making process and the different decision-making factors, which are divided into internal and external factors. Internal decision-making factors consist of product factors, firm-level factors, and customization factors, and external decision-making factors are divided into two subgroups: market factors and environmental factors.

Each of the five subgroups of decision-making factors contains multiple factors, which will be discussed later in this study. All the factors in the subgroups are derived from Hollensen’s (2011, 519) international pricing framework, Forman and Hunt’s (2005) study, as well as Morris and van Erkom Schurink’s (1993) study about pricing behavior in industrial markets, and the impact of environmental dynamics. Customization factors are not mentioned in any of the literature listed above, but have been included in the theoretical framework because of their importance for this research.

Finally, as depicted in Figure 1, a company selects a pricing strategy and makes pricing decisions based on the pricing approach and different decision-making factors. Pricing strategies include strategies such as cost-plus pricing and first-time pricing, and they will be covered later in this study. The most important factors that have affected the selection of different components of the theoretical framework are the international scope of the study, industrial business-to-business context, and customization as one of the main concepts under study.

1.6 Research methodology

This study is conducted as a qualitative single case study and it consists of a theoretical part and an empirical part. The purpose of the study is to examine the pricing of customized industrial products, for which the qualitative method is the most suitable form of research, as it tries to understand the research subject and explain the reasons behind its behavior and decisions (Lee & Lings 2008, 209). In addition, according to

Yin (2009, 4), the case study approach is an appropriate method when there is a desire to understand “why” or “how” a certain phenomenon works. The case study method involves collecting of detailed and intensive information about a single case or a group of cases with the objects of interest often being different processes, which is why the case study was selected as the research method in this study (Hirsjärvi, Remes & Sajavaara 2007, 130-131).

The empirical data is collected by interviewing case company managers who are in charge of the pricing decisions or affecting them at Halton Marine Oy. Only one case company, Halton Marine Oy, is used in this study, as the purpose is to develop a deep understanding of the case, and do detailed analysis of the case company’s processes and decision-making with regard to the topic of the study. Analyzing only one case company instead of two or more enables the researcher to fully focus on the in-depth analysis of the company and its processes. All the interviews are conducted as semi-structured theme interviews, which is a method that allows the required topics and questions to be covered, but does not control and restrict the interview too much (Koskinen, Alasuutari & Peltonen 2005, 105). The secondary data is mostly collected from academic books and journals, and it is the basis for the theoretical part of the study.

1.7 Structure of the thesis

The study consists of seven chapters, and is divided into three parts: Introduction, theoretical part, and empirical part. The first chapter is an introductory chapter which describes the background of the study and the importance of the topic, and presents the research objectives and questions. The first chapter also includes delimitations of the study, review of the relevant literature, definitions of key concepts, the theoretical framework, and a brief description of the research methodology.

Chapters two, three and four form the theoretical part of the study. Chapter two concentrates on the theory of pricing in an industrial, business-to-business context. Pricing orientations, pricing and profitability, pricing as a strategic capability, and pricing as a part of the marketing mix are some of the areas that are covered in the second chapter. Chapter three focuses on pricing decision-making in an industrial context, and discusses the internal and external decision-making factors, as well as the influence of internationalization on pricing decisions. Chapter four covers customization of products and the strategic decisions regarding customization.

Chapters five and six constitute the empirical part of the study. Chapter five discusses the research design, the chosen research method, and the methods used in data collection and analysis. In addition, the reliability and validity of the study are discussed in chapter five. In the sixth chapter, the case company and its industry are introduced, the empirical data is analyzed, and the findings of the research are presented and discussed. The seventh chapter summarizes the results of the study, and provides theoretical and managerial implications. Finally, limitations and recommendations for future research are presented.

2 INDUSTRIAL PRICING

Professor Raymond Corey from Harvard Business School wrote in the early 1960s that “pricing is the moment of truth – all of marketing comes to focus in the pricing decision” (Nagle & Holden 2002, xix). Pricing is indeed a crucial area for a company’s performance, as it affects both the profit that is to be made and the quantity of the products that will be sold. It also clarifies the offer of exchange, since price serves as a signal to the customer of what is expected in exchange for the product being offered. (Blythe 2012, 152) More and more companies are starting to view pricing as a possible source of competitive advantage, and make pricing a strategic capability for the company by investing in human, systems and social capital (Dutta, Bergen, Levy, Ritson & Zbaracki 2002, 61-62).

Pricing sophistication has developed significantly over the past decades, as illustrated in Figure 2. Instead of being treated as a strictly clerical and administrative chore like in the past, pricing is slowly evolving into a strategic function similar to supply chain management or procurement. (Liozu 2015, 5) Nagle and Holden (2002, xx) argue that strategic pricing is much more than just setting prices, and define it as “the coordination of interrelated marketing, competitive, and financial decisions to set prices profitably”. Dutta et al. (2002, 61) emphasize the importance of a strategic view on pricing by claiming that if pricing is not a strategic capability for a company, it is most likely a strategic liability.

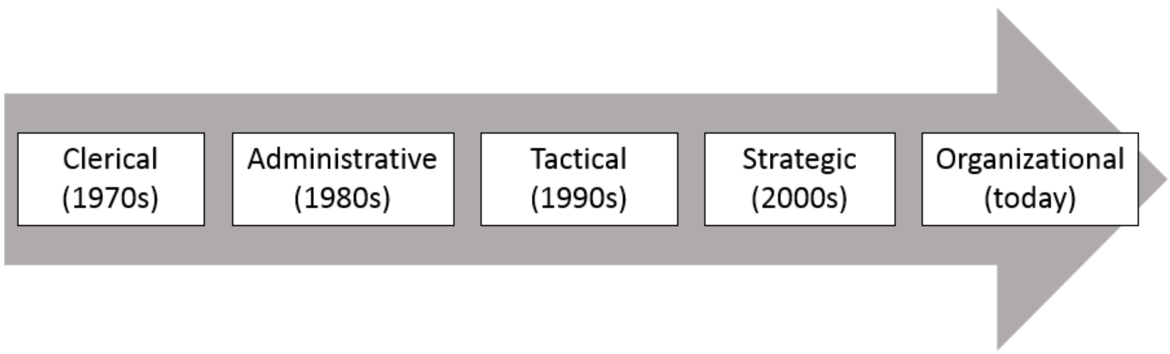

Figure 2. Evolution of the pricing discipline over the years (Liozu 2015, 5)

This chapter discusses the topic of pricing, and the different aspects of it. While many of the theories, models and concepts apply to pricing in general, there are also differences between industrial pricing and pricing of consumer goods that need to be acknowledged. After all, pricing is an area that not only differs between industrial and consumer markets, but can also vary widely between different industries, and even between companies within an industry (Özer & Phillips 2012, 4). Even though the emphasis in this chapter is on the concepts and theories related to pricing in an industrial context, some pricing fundamentals are discussed at a general level.

2.1 Pricing and profitability

Pricing decisions differ from many other strategic decisions that a company faces, since they have a direct impact on a company's bottom line. Even a small difference in price can greatly affect profitability, as profit margins tend to be slender (Gabor 1977, 3). Figure 2 illustrates the impact that an increase in price has on a company's profitability. Earnings before interest and taxes increase by 22% if the average selling price is increased by 5%, which surpasses the impact of other levers of operational management, such as cost of goods sold and research & development costs, by a large margin. (Hinterhuber 2004, 765-766) Other studies have provided similar results, for example A.T. Kearney's study of North America's largest companies, according to which a 1% increase in price translates into more than 7% increase in profits (Deans & Watanabe 2005, 1).

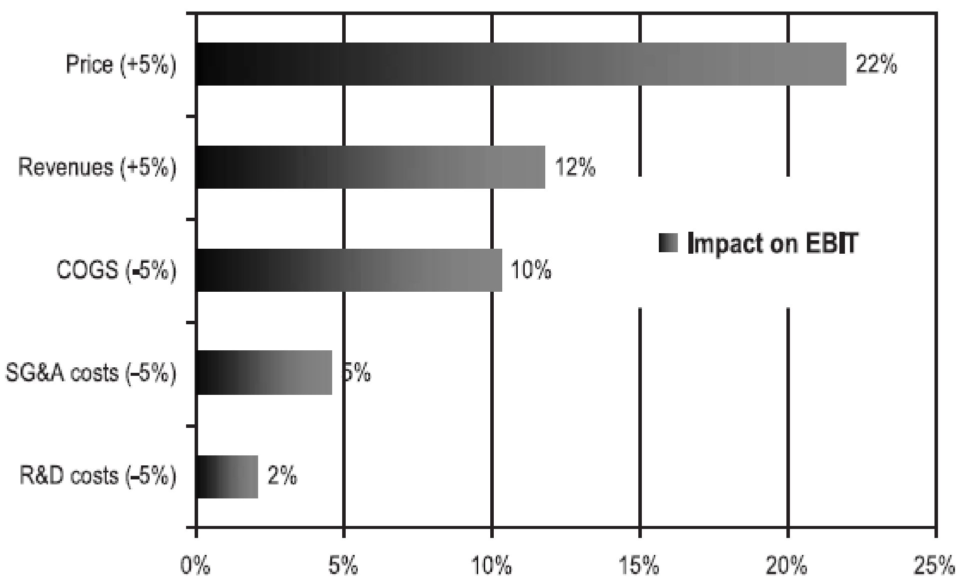

Figure 3. Pricing and its impact on profitability (Hinterhuber 2004, 766)

Besides the impact that price has on a company's profitability, what really distinguishes price from other levers of operational management and from the other marketing instruments is how quickly changes can be made. Changes to advertising, distribution, and product often require a lot of time, unlike changing the price of a product or service. In addition, the effects and results of a price change can be seen more quickly than the effects of other actions. (Simon 1992, 56) Deans and Watanabe (2005, 1) name the immediate effects of pricing as its most obvious advantage.

Price increases are a popular strategy in pursuit of a higher profitability, as most managers associate higher price with higher profit, and fail to understand the trade-off between volumes and margins (Simon 1992, 58). However, despite the apparent ease of price changes and their impact on a company's profitability, pricing is a complex area and raising prices while keeping everything else unchanged is rarely the best way to seek higher profits. Simon, Butscher and Sebastian (2003, 63) recommend companies to forget simple price increases, as they are bound to fail. Instead, the authors argue that the proper way to higher profitability is to restructure the whole pricing process (Simon et al. 2003, 63).

A key term regarding pricing and profitability is value. Buyers compare the price of a product with the perceived value, which makes price and value the cornerstones of every transaction (Simon 1992, 56). Managers must think about how customers will value the product before even starting to consider the price (Dolan 1995, 178). Simon et al. (2003, 63) claim that most companies are good at delivering value, but fail to harvest the full value from their customers. Johansson, Keränen, Hinterhuber, Liozu and Andersson (2015) highlight the importance of value assessment and pricing capabilities in companies' efforts to profit from the value they create and deliver. By value assessment and pricing capabilities the authors refer to "routinized activities or processes that ensure repeatability and reliability in the firm's assessment of the value it creates and appropriates" (Johansson et al. 2015, 179).

Nagle and Holden (2002, 150) also acknowledge the importance of value in pricing, and argue that in order for a pricing strategy to be successful, a company needs to combine a value-based marketing strategy with profit-driven competitive positioning and proactive pricing. The authors emphasize the importance of proactive pricing for a company’s performance by claiming that optimized long-term profitability requires price setting that occurs “within the context of a pricing process and structure that is proactive” (Nagle & Holden 2002, 150). Monroe and Cox (2001, 43, 46) also link proactive pricing with higher profitability, and list three steps that managers should take to become proactive pricers, which are:

1) Research the pricing environment to understand the factors that influence the dynamics of supply and demand
2) Recognize that strategic pricing decisions define an organization’s value image in the eyes of customers and competitors
3) Understand that tactical pricing decisions concern the day-to-day management of the pricing process and must be made within the firm’s overall pricing strategy

According to Ross (1984, 155), proactive pricing is relatively easy for any company to use as a tool for building and sustaining profits, as it is cheap to implement and requires limited investments and organizational adjustments. In addition, if done intelligently, the proactive approach to pricing entails only a little risk (Ross 1984, 155). The impact on profitability, however, is often substantial and quick in coming (Ross 1984, 155; Nagle & Holden 2002, 150).

Setting the right price for a product is crucial for a company’s profitability. Figure 3 depicts the optimal price range and shows that the profit curve around the optimal price is relatively flat. Figure 3 also highlights the importance of setting the price inside the optimal price range, as the downward slope of the profit curve becomes very steep if the price is too low or too high. Too low of a price is equally bad as pricing a product or service too high. Both scenarios can be devastating for the company, and at the very least lead to lost profits. (Simon 1992, 58) Dutta et al. (2002, 61) argue that determining the optimal price is always difficult, but it is a particularly challenging task when pricing radically new products in untested markets.

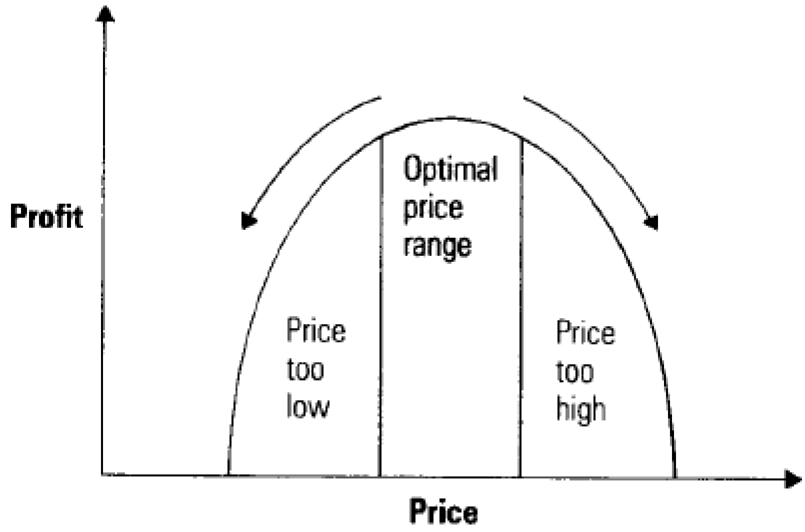

Figure 4. Optimal pricing (Simon 1992, 59)

Many managers complain that pricing is a headache, instead of an opportunity to increase profits (Dolan 1995, 174; Lancioni 2005b, 111). Measuring the results is often seen as one of the biggest challenges in pricing (Dolan 1995, 174; Liozu & Hinterhuber 2015, 137-138). Increased market share and high unit sales look good on paper, but they may also mean that the prices are too low, since forgone profits are difficult to pin down (Dolan 1995, 174). What makes pricing even more complex is the fact that it is an area that requires ongoing assessment and repeated actions, instead of a one-off decision (Shipley & Jobber 2001, 302). Dutta et al. (2002, 62) emphasize the importance of investing in resources, processes and infrastructure, in order for companies to be able to set the right price repeatedly.

2.2 Challenges and misconceptions in pricing

Pricing is an area that contains many misconceptions, and managers often fail to take full advantage of it due to a number of reasons. In many companies pricing is an ineptly administered and neglected marketing responsibility where numerous errors are made (Shipley & Jobber 2001, 301). Dolan (1995, 174) names pricing as the managers' biggest marketing headache, and lists the difficulty of setting objectives and measuring results as one of the main reasons for it. Similarly, Indounas (2006, 415) argues that "one of the most difficult decisions facing any company is how to price the products or services it renders".

One area of pricing where making mistakes is easy is price changes, which are often seen as quick, easy and reversible processes, but lead to irrational prices and angry customers if made in an ad hoc way (Dutta et al. 2002, 61). Ill-advised price changes can also lead to other severe consequences for the company, such as lost market share and decreased profits, and may even affect the profitability of an entire industry (Simon 1992, 56). Therefore, Simon (1992, 56) suggests that managers should think twice before touching price, and calls price as “an effective but dangerous competitive weapon”.

Özer and Phillips (2012, 3) claim that pricing is “a scattered and under-managed process in many organizations”, as the final price is often influenced by many different individuals from sales, marketing and finance divisions. Accountants and finance people usually have a different view on pricing than a product manager, sales manager, or top management, and unifying the diverging views is difficult (Simon 1992, 57). According to a study conducted by Lancioni, Schau and Smith (2005), the finance department puts up the most obstacles to an effective price setting process in a majority of industrial companies. Nagle and Holden (2002, 1-2) also acknowledge the fact that the marketing and finance departments usually have different objectives for pricing, and argue that both marketing and finance must have their roles appropriately defined in order for a company to achieve profitability through strategic pricing.

Nagle and Holden (2002, 370) argue that when making pricing decisions, managers must be aware of the legality and ethicality of their actions. Legal actions, such as antitrust suits can lead to big fines and even imprisonment, and are usually disruptive to the business even if the claims are successfully defended (Nagle & Holden 2002, 370). Macdivitt and Wilkinson (2012, 233) emphasize the importance of understanding competition law, so that managers do not make unwise decisions and place themselves or their companies at risk. Besides legality and ethicality of pricing decisions, managers must be aware of a wide variety of issues that can complicate pricing decision-making, such as commodization, discounting, government pressures, and price wars (Macdivitt & Wilkinson 2012, 213).

Price wars, in particular, are a common headache for managers. According to a survey conducted by Simon-Kucher & Partners, 46% of companies believe that their company is fighting a price war. However, as many as 83% of the companies that believe to be in a price war claim that their competitors started it, which suggests that in many cases the price war could have been avoided. (Liozu 2015, 15) Rao, Bergen and Davis (2000, 75) argue that price wars should usually be averted, as they can harm the entire industry, not just the companies involved. Instead of matching a price cut, companies should consider taking a different course of action, such as trying to compete on quality instead of price, or informing customers about the negative consequences of buying low-priced options (Rao et al. 2000, 75)

There are a lot of misconceptions about pricing, such as premium prices and high market share being incompatible (Hinterhuber 2004, 766), but one of the most common misconceptions concerns price as a decision-making factor. Contrary to popular belief, research has shown that price is not always an important purchase criterion for customers, and that customers are often unaware of the prices of the goods they have purchased (Hinterhuber 2004, 765).

Especially in a business-to-business context, buyers seem to place more value on other factors than price, such as product quality, product style/feature, and long-term suppliers' dependability (Ghymn, Liesch & Mattsson 1999). Similarly, Avila, Dodds, Chapman, Mann, and Wahlers (1993) found out that industrial buyers prioritize product and service over price in their purchasing decisions. Pricing misconceptions are particularly common among smaller companies, which do not have a dedicated pricing function or adequate pricing expertise (Liozu 2015, 6).

2.3 Pricing as a part of the marketing mix

Marketing mix is an essential concept in marketing, and it consists of the 4 P's: price, product, place, and promotion. The goal of every company should be to satisfy the customers' needs better than its competitors by offering the right product with the right promotion in the right place, and at the right price. (Indounas 2006, 415) Price differs from the other elements of the marketing mix because it generates revenues for the company, whereas all the other elements only involve costs (Hanna & Dodge 1997, 14).

Pricing is the only marketing instrument that does not require an upfront expenditure (Simon 1992, 65). According to a survey conducted by Samiee (1987), companies ranked pricing as the second most important element in marketing strategy, surpassed only by product. Yet managers tend to place much more emphasis on product development, advertising and distribution than they place on pricing (Lancioni 2005b, 113).

Pricing should never be isolated from other elements of the marketing mix. The price of a product reflects its value, competitive positioning, and distribution power, which is why it should always be considered within the overall marketing mix and the competitive context. (Simon 1992, 55) Each element of the marketing mix must support and reinforce the other elements, and therefore the emphasis must be on the relationship of the elements with one another (Hanna & Dodge 1997, 15). Inability to integrate pricing with other elements of the marketing mix is often the cause for companies' pricing problems (Nagle & Holden 2002, 149). Macdivitt and Wilkinson (2012, 113) argue that price should not be considered until it is clear what the final solution will be like, how the solution will be delivered to the customers, and how the whole package will be communicated.

2.3.1 Pricing and product

Price is very closely linked to the product, and neither element should be viewed in isolation when making marketing decisions. Macdivitt and Wilkinson (2012, 113) argue that managers should not even think about pricing until they know what kind of product is required to resolve the customer's problems. Nagle and Holden (2002, 253) name product as the "management's most powerful tool to influence the pricing environment", and emphasize the close connection between the nature of the product and its pricing strategy. For example, a skimming strategy is applicable when the product is designed to appeal to a price-insensitive customer segment, and a penetration strategy should be used when the product is designed for maximum cost economies. However, most companies sell multiple products, which needs to be taken into account in pricing since the sales of different products are often interdependent. (Nagle & Holden 2002, 253-254)

Product positioning is an important element of the marketing plan of a company, and it has a major effect on the pricing-decision. If a product does not have a clear position in customers' minds, it is rarely able to command a high price (Hollensen 2011, 477). In addition, Indounas (2006, 415) argues that a high-end product always requires a high price that conveys a prestigious image. However, despite the common belief among marketers, a higher price does not automatically mean that the customers will associate the product with higher quality, as the relationship between price and quality has been validated only for certain product categories (Skouras, Avlonitis & Indounas 2005, 364-365).

2.3.2 Pricing and place

The way a company distributes its products affects the way they can be priced. It is of great importance to coordinate distribution and pricing, so that the chosen distribution channel complements the price of a product. The way the product is distributed affects the image that consumers have of it, the products with which it is compared, the ability to segment its market, and the ability to differentiate it, which are all factors that are considered when determining a pricing strategy. (Nagle & Holden 2002, 274-275) Indounas (2006, 415-416) presents an example of the relationship between price and distribution, by stating that a high-priced, premium product needs an exclusive distribution strategy and limited points of sale, as the chosen distribution channel indicates the image the company conveys.

2.3.3 Pricing and promotion

Promotion can be described as a company's effort to inform buyers and make them perceive the product more favorably. As is the case with product and place, promotion is also closely linked to pricing, and many companies even use price as a promotional tool. (Nagle & Holden 2002, 260) Indounas (2006, 416) claims that companies can use promotion to influence customers' price sensitivity, i.e. the degree to which the price affects customers' purchasing behavior.

According to Nagle and Holden (2002, 260), most experts agree that the price sensitivity of customers increases if a company focuses explicitly on price in its advertising, even though the effect of advertising on price sensitivity has long been debated by researchers and managers. In practice, companies that enjoy a price advantage seek to make customers more price sensitive, while other companies use advertising to convince customers to pay a higher price and thus minimize price sensitivity (Nagle & Holden 2002, 260-261).

2.4 Pricing as a strategic capability

Tough economic times and increased competition have forced companies to rethink their approach to pricing and seek new sources of competitive advantage. While some companies have found no other option than to reduce prices during the recent economic downturn, others have kept their prices unchanged or even raised them by taking a strategic direction. (Piercy et al. 2010, 38) Even though companies are slowly starting to see pricing as a strategic function instead of a clerical and administrative chore (Liozu 2015, 5), some companies still rely on simplified formulas when making pricing decisions (Indounas 2006, 416). Piercy et al. (2010, 39) argue that pricing can provide leverage on competitive positioning if recognized as “a strategic issue with substantial long-term implications” by managers.

According to Indounas and Roth (2012, 113) strategic pricing relates to a “systematic planning process where price decision-making is derived from the overall corporate goals and strategy and is strongly associated with the company’s marketing strategy”. Similarly, Dutta et al. (2002, 61) stress the fact that pricing decisions are not mere tactics, and argue that pricing needs to be a strategic capability for a company – “a contributor to a company’s ability to devise and implement its strategy”. In addition, strategic pricing is characterized by systematic monitoring of prices and continuous attention to pricing decisions (Tzokas, Hart, Argouslidis & Saren 2000b, 103). A number of scholars also emphasize the long-term aspect of strategic pricing, as opposed to viewing price setting merely as a series of “knee-jerk” decisions (e.g. Smith 1995, 37; Lancioni 2005a, 183).

Strategic view on pricing also requires the company to consider the strategic role of price. According to Piercy et al. (2010, 42), price of a product, and particularly the visibility of the price, has a big impact on how the product is positioned competitively. The authors emphasize the importance of deciding whether the price should play an active or a passive role in the marketing of a product or a brand (Piercy et al. 2010, 42). Ravens and Piercy (2009, 363) have identified four price strategies based on the role of price and the price level, which are illustrated in Figure 5.

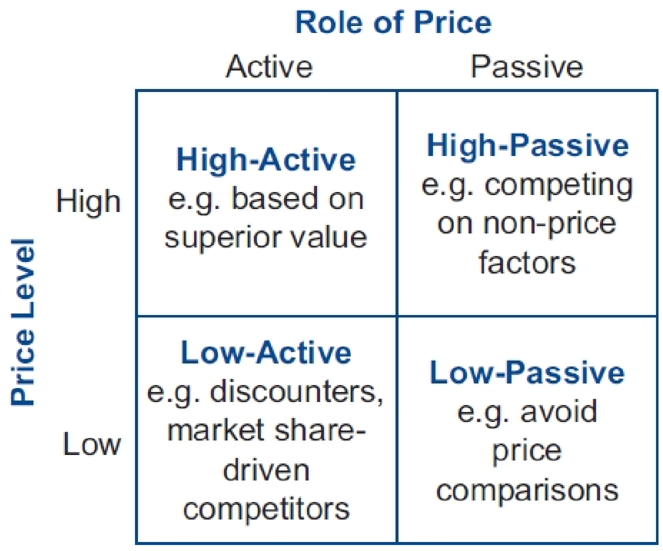

Figure 5. Price and positioning (Cravens & Piercy 2009, 363)

As is the case with any organizational change, the implementation of strategic pricing does not happen overnight, and it can take a lot of time and resources. It requires a change of culture on all levels in a company, for which the management is responsible (Lancioni 2005a, 183). Dutta et al. (2002, 62) argue that for pricing to become a strategic capability, the company needs to invest in human, systems and social capital, and give the investments time to bear fruit. According to Nagle & Holden (2002, 1), strategic pricing requires the following changes from most companies:

1) A change in when, how, and who makes pricing decisions
2) A new relationship between marketing and finance
3) Establishment of a coherent set of pricing policies and procedures, consistent with the strategic goals of the company

Many scholars associate strategic pricing with proactivity. For instance, Nagle and Holden (2002, 1) argue that “the difference between price setting and strategic pricing is the difference between reacting to market conditions and proactively managing them”, and consider it to be the reason why virtually identical companies often earn very different rewards for their efforts. Similarly, Indounas (2015, 523) states that strategic pricing is related to proactive pricing behavior, and defines it as taking initiatives to set the rules of the game, instead of just answering to competitors’ moves. Strategic, proactive pricers can be characterized as companies that pursue competitive advantage instead of market share, concentrate on profit goals instead of sales goals, and emphasize value over price (Indounas & Roth 2012, 113).

2.5 Pricing orientations

Pricing orientation is a concept that has been discussed with many different terms in the marketing literature, and it ultimately refers to the means through which companies arrive at pricing decisions (Ingenbleek et al. 2003, 289). Liozu, Boland, Hinterhuber and Perelli (2011, 2) define it as “all pricing practices, methods, behaviors and processes leading to pricing decisions with the goal of maintaining and sustaining firm competitive advantage”. According to Smith (1995, 31), managerial pricing orientation consists of four dimensions: pricing objectives, policies and beliefs; information gathering and processing; organizational responsiveness; and organizational decision processes.

As mentioned above, authors have used a wide variety of terms when discussing the concept of pricing orientation. Pricing strategies (e.g. Kotler & Armstrong 2012), pricing practices (e.g. Ingenbleek et al. 2003), and pricing approaches (e.g. Liozu et al. 2012; Macdivitt & Wilkinson 2012; Töytäri, Rajala & Alejandro 2015) are only some of the terms that have been used as synonyms for pricing orientations in the pricing literature, which shows that there seems to be confusion among the scholars regarding the official designation. In this study, only the term pricing orientation is used in order to avoid confusion.

There are also different views among the scholars regarding the different types of pricing orientation. For instance, Smith (1995) classifies pricing orientations into four categories: cost, sales, competitor and strategic. Tzokas et al. (2000a, 201), in turn, found five existing orientations in their study of UK industrial exporting companies: competitor, product, distribution, customer and production. However, pricing orientations are most commonly classified into three categories in the marketing literature: cost-based, competition-based, and value-based (e.g. Ingenbleek et al. 2003; Kotler & Armstrong 2012; Liozu et al. 2012; Macdivitt & Wilkinson 2012), based upon what factors companies primarily consider in their pricing decision-making. The above mentioned classification will also be used throughout this study.

Out of the three main categories of pricing orientation, value-based pricing has attracted the most interest among the researchers over the last decades. In addition, value-based pricing orientation is widely considered superior to competition- and cost-based pricing in the literature (e.g. Hinterhuber & Bertini 2011; Macdivitt & Wilkinson 2012; Liozu 2015). For example, Hinterhuber (2008, 42) calls it the overall best orientation, as it takes customer perspective and customer needs into account, unlike cost- and competition-based orientations.

However, some authors also point out that there is no generally best orientation. For instance, Ingenbleek et al. (2003, 300) argue that the effectiveness of each orientation depends on the relative advantage of the product and the competitive intensity of the market, and Tzokas et al. (2000a, 202) remind that industry and product specific variables should be taken into consideration when making pricing decisions. Shipley and Jobber (2001, 310) argue that focusing only on costs, demand or competitor prices is erroneous, and highlight the importance of integrative pricing.

Despite the popularity of value-based orientation among the scholars, and its alleged superiority over the so-called conventional orientations, the adoption rate of value-based orientation by industrial companies is surprisingly low. According to a literature review of almost two dozen empirical studies on pricing approaches used in practice, only 17 percent of industrial companies have adopted value-based pricing orientation, while competition-based orientation is adopted by 44 percent of companies and cost-based orientation by 37 percent of companies. (Hinterhuber 2008, 43)

According to Liozu (2015, 18-19), companies' pricing abilities can be categorized into five major categories based on their price orientation and price setting: pricing power zone, value surrender zone, zone of good intentions, price capture zone, and white flag zone, which are illustrated in Figure 5. Companies that have adopted value-based pricing orientation and are constantly able to realize the prices they set are in the pricing power zone, which means that they are able to command higher prices and profitability levels than companies for example in the white flag zone or in the zone of good intentions. However, value-based pricing orientation solely is not enough if the company is not able to realize the prices it sets, and thus companies using competition-based or cost-based pricing orientation may be more profitable than companies using value-based pricing orientation. (Liozu 2015, 18-19)

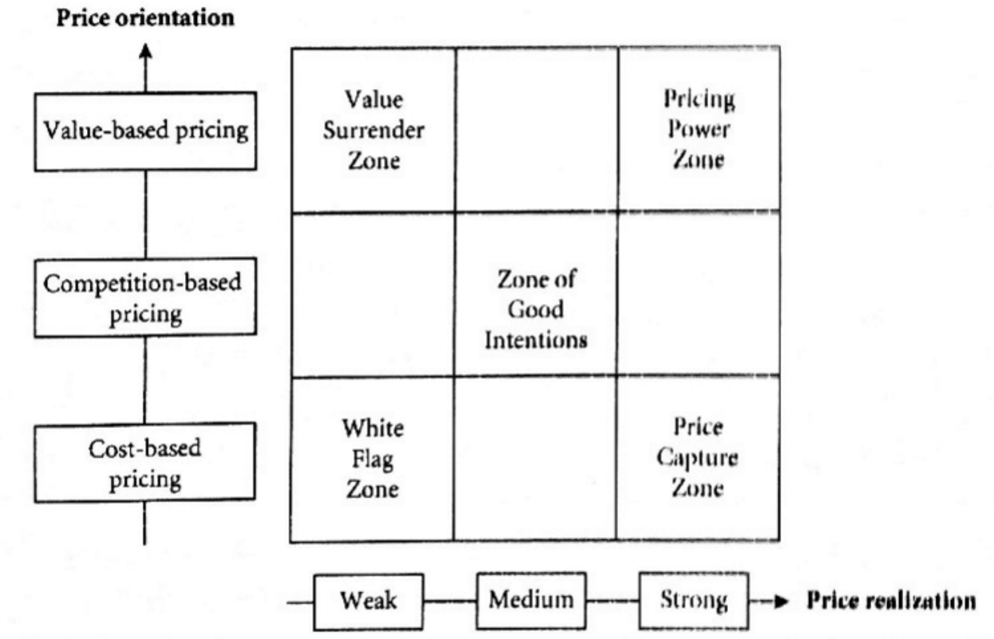

Figure 6. Pricing capability grid (Liozu 2015, 18-19)

The pricing orientation of a company greatly affects its pricing function. For example, pricing orientation has been found to have a strong influence on the pricing decision making process of a company (Liozu. Boland, Hinterhuber & Perelli 2014), as well as on the locus of pricing and the organization of the pricing function (Liozu et al. 2011). Next, cost-based, competition-based, and value-based pricing orientations are discussed in more detail.

2.5.1 Cost-based pricing orientation

Cost-based pricing orientation is a conventional approach to pricing, and despite increased criticism, it has remained very popular among the companies (Shipley & Jobber 2001; Avlonitis & Indounas 2005). Tzokas et al. (2000a, 201) name production costs as the single most important factor influencing pricing decisions. According to Liozu (2015, 19), companies that use cost-based pricing primarily use accounting data to determine prices, “with the objective of reaching a certain return on investment or markup on costs”. Macdivitt and Wilkinson (2012, 49) argue that cost-based pricing is, at its simplest, a method that is “based on our assessment of the total costs we incur in manufacturing a product or delivering a service”. The authors call it the “default pricing methodology” that is adopted by most companies, and usually applied together with competition-based pricing (Macdivitt & Wilkinson 2012, 49).

As mentioned above, cost-based pricing has received a lot of criticism during the past few decades. For instance, Hinterhuber (2008, 42) calls it the “overall weakest approach”, due to its inability to take competition, customers, and customer willingness to pay into account. Moreover, Shipley and Jobber (2001, 301) claim that the prime reason for companies’ numerous pricing errors is the extensive use of convenient, cost-based pricing methods, which “fail to assimilate the impact of the full range of effective pricing determinants”. The authors argue that the most damaging feature of cost-based pricing is its backwards logic, as cost-based pricing usually begins with a volume estimate and ends with a price, when in reality price determines volume (Shipley & Jobber 2001, 310).

Despite the weaknesses and disadvantages of cost-based pricing orientation, many managers still advocate cost-based pricing methods. According to Shipley and Jobber (2001, 310), they have given various explanations for the use of cost-based pricing methods. Some managers believe, for example, that cost-based pricing methods are simple, enhance customer relations, are fair to customers, are the most profitable methods, and provide price stability in stable markets. The validity of most of the arguments, however, is highly questionable (Shipley & Jobber 2001, 310).

While most studies have criticized cost-based orientation, there are also studies that have provided positive results. For example, Ingenbleek et al. (2003, 302) found out that the use of cost information in pricing does not affect new product performance negatively if the firm has created superior customer value, and that it has a positive effect if the competition is intense. Hinterhuber (2008, 42) and Liozu (2015, 19-20) name the availability of data as the main advantage of cost-based pricing, as the data needed to set prices is usually easy and fast to find.

There are various pricing strategies discussed in the literature that fall under the category of cost-based pricing, and they are also often referred to as pricing methods. These include cost-plus pricing, mark-up pricing, break-even analysis, contribution-based pricing, target return pricing, and marginal cost pricing. (Tzokas et al. 2000a, 195; Avlonitis & Indounas 2005, 48-49; Hinterhuber 2008, 42; Macdivitt & Wilkinson 2012, 52-58) Out of the different cost-based pricing strategies, cost-plus pricing and mark-up pricing are probably the most popular and widely used strategies because of their simplicity and ease of use (Tzokas et al. 2000a, 195; Shipley & Jobber 2001, 310; Avlonitis & Indounas 2005, 49).

Cost-plus pricing and mark-up pricing are essentially very similar pricing strategies, and the two terms have even been used interchangeably in the marketing literature. For example, Tzokas et al. (2000a, 195) discuss the mark-up pricing cost plus strategy, where either fixed or flexible profit mark-up is added to the full cost of a product. Indounas (2006, 417), in turn, calls mark-up pricing a deviation of the cost-plus strategy, and defines it as a strategy where a percentage is added to a cost of purchasing, instead of producing as is the case with cost-plus pricing. According to Indounas (2006, 417), mark-up pricing is a dominant strategy among retailers and distributors, whereas Tzokas et al. (2000a, 195) claim mark-up pricing cost-plus strategy to be very popular among all industrial companies.

2.5.2 Competition-based pricing orientation

Competition-based pricing orientation mainly consists of conventional pricing strategies, and as the name implies, it uses information about competitors as the primary source for setting prices. Macdivitt and Wilkinson (2012, 65) argue that competition-based pricing consists of strategies where “we compare the features and specifications of our product with those of the competition and make a judgment about how the product should be positioned and priced". Hinterhuber (2008, 42), in turn, claims that the main source of information in competition-based pricing is competitors' anticipated or observed price levels.

Competition-based pricing is a dominant orientation in pricing practice together with cost-based pricing. According to a survey conducted by Hinterhuber (2008, 43), 44 percent of industrial companies have adopted competition-based pricing orientation. Managers often justify the use of competition-based strategies by stating that the price is one of the most important purchase criteria for customers, although in reality the consequences of using such strategies may be harmful for customers in the long run (Liozu 2015, 20).

Similarly to cost-based pricing orientation, competition-based pricing has received criticism from scholars. Hinterhuber (2008, 42) calls competition-based pricing a sub-optimal approach for setting prices, as it does not take customers or customer willingness to pay into account. Liozu (2015, 20), in turn, claims that the biggest disadvantage of competition-based pricing is that it ignores demand. Aggressive responses to competitors' prices can also lead to a price war, which may not only hurt the profitability of the companies involved, but destroy the profitability of the whole industry and result in widespread bankruptcies (Liozu 2015, 20).

Shipley and Jobber (2001, 311), however, claim that competition-based pricing may actually prevent price wars, since rivals are aware of the fact that price cuts will be copied. The authors also argue that competition-based pricing is very simple to administer, and that it allows the company to benefit from common price increases and react to competitors' price cuts. Liozu (2015, 20) summarizes the strengths of competition-based pricing by stating that the main advantage of the orientation is that it incorporates a view of the competition. Competition-based pricing orientation is also easy and fast to implement, as the data is readily available (Hinterhuber 2008, 42).

According to Hinterhuber (2008, 42), competition-based pricing orientation could be suitable for companies that sell the type of commodities that cannot be differentiated. Similarly, Ingenbleek et al. (2003, 300) found out that competition-based pricing orientation is more appropriate if the product that a company is about to launch is similar to competitors' products in terms of perceived value, as it provides the company a better understanding of the price ceiling. However, there are only a number of companies that meet the above conditions, which is why competition-based pricing orientation is rarely the best option.

According to a study conducted by Liozu et al. (2011, 8-9), companies that use competition-based pricing orientation rely on prior knowledge and experience, intuition, and gut feeling in their price setting. In addition, competition-based pricing typically involves using of cost models and margin targets to set minimum prices, and consideration of the prices of the best competitive products. The whole price point definition process for competition-based pricing is depicted in Figure 6. (Liozu et al. 2011, 8-9)

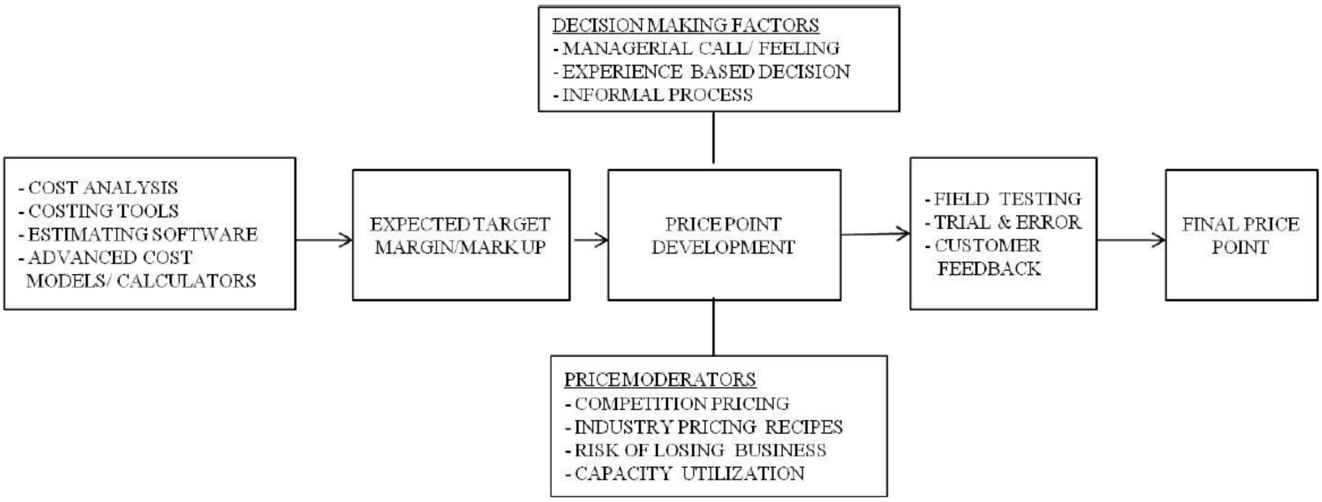

Figure 7. Price point definition process for competition-based pricing (Liozu et al. 2011, 9)

Competition-based pricing orientation consists of different pricing strategies, which determine how the information about competitors is used. Parallel pricing, penetration/skim pricing, umbrella pricing, and predatory pricing are some of the strategies mentioned in the pricing literature that fall under the category of competition-based pricing (Hinterhuber 2008, 42; Macdivitt & Wilkinson 2012, 65-71). In essence, competition-based pricing strategies differ in how the products are priced compared to competing products, as they can either be priced below, above or similar to competitors’ offerings depending on the strategy.

2.5.3 Value-based pricing orientation

Value-based pricing orientation is widely recognized in the pricing literature as a superior orientation to cost- and competition-based pricing, but only a small minority of industrial companies have adopted it (Hinterhuber 2008, Liozu et al. 2014, 402). According to Liozu et al. (2012, 13), one reason for the low adoption rate may be that managers do not fully understand the concept of value-based pricing. Value-based pricing is essentially an orientation in which prices are set based on the value a product delivers to customers (Hinterhuber 2008, 42). Value, in turn, is often defined in the pricing literature as the customer’s willingness to pay (Liozu et al. 2012, 15; Johansson et al. 2015, 178)

Macdivitt and Wilkinson (2012, 106) suggest the following definition for value-based pricing: “a value based price is designed and communicated such that all parties understand, recognize, and accept the distinctive worth of products and services purchased in the transaction and participate optimally in the gains created by their use”. Liozu (2015, 20), in turn, states that value-based pricing is simply “what the customer is prepared to pay based on what the product does for the customer, and what they perceive it will do for them”.

Value-based pricing orientation differs greatly from the so-called conventional pricing orientations that were discussed earlier. Figure 7 depicts the difference between value-based pricing orientation and the widely adopted cost-based pricing orientation. In cost-based pricing, the pricing process starts with the product and the costs incurred, and the target price is determined before the value to the customers is even considered, which makes it a product driven process. The value-based pricing process is the opposite, as it begins with the consideration of customers and value, and ends with costs and the product. Thus, the goal in value-based pricing is to design products that the company is able to sell profitably at a target price. (Nagle & Holden 2002, 3-4)

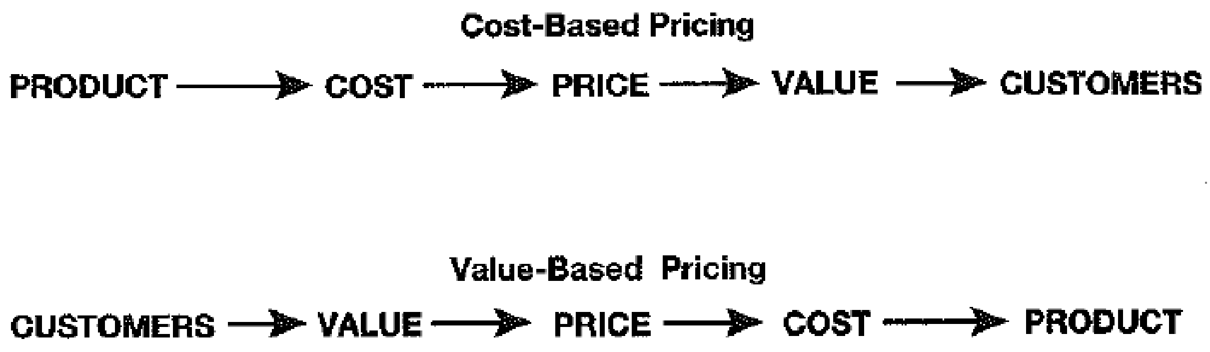

Figure 8. Cost-based versus value-based pricing (Nagle & Holden 2002, 4)

The fact that value-based pricing orientation takes customer perspective into account is often mentioned as one of its main advantages over the conventional pricing orientations (e.g. Hinterhuber 2008, 42; Liozu 2015, 21). Macdivitt and Wilkinson (2012, 13) argue that by using value-based pricing orientation companies can create customer relationships that last long and are stronger than relationships based solely on price. The authors also claim that product life cycles that are based on understanding and delivering customer value can be expected to be much longer than the ones based on other factors (Macdivitt & Wilkinson 2012, 13).

Value-based pricing orientation has been recognized as the overall best approach to pricing in several studies. For example, in their study of new product pricing practices, Ingenbleek et al. (2003, 301) found no situation in which the value-based approach to pricing could be considered a bad choice. The authors also found value-based pricing to improve new product performance, whereas cost- and competition-based pricing had no significant effect (Ingenbleek et al. 2003, 298). Similarly, Liozu and Hinterhuber (2013, 606) found value-based pricing to be positively linked to firm performance, unlike competition-based pricing.

Despite the praise value-based pricing has received, surprisingly few companies have adopted it (Hinterhuber 2008, 43). One reason for companies' reluctance might be the complexity of pricing. Many companies simplify the tasks involved by applying standard operating procedures (Shipley & Jobber 2001, 301). In addition, implementation of value-based pricing takes a lot of time and effort from the company, which may make some companies seek simpler solutions. According to Liozu et al. (2011, 17), implementation and internalization of value-based pricing orientation requires a “deep organizational change that transforms the firm’s organizational life and identity as well as the identity of actors within it”. Johansson et al. (2012, 10), in turn, argue that implementation of value-based pricing is “largely a general price-capability building process”.

Based on the survey among 81 executives, Hinterhuber (2008, 45) identified five main obstacles to the implementation of value-based pricing orientation: value-assessment, value communication, market segmentation, sales force management, and top management support. Besides these obstacles, companies might have difficulties in finding and interpreting data on customer preferences and willingness to pay, as well as on the size of the different market segments and price elasticity (Liozu 2015, 21). Hinterhuber (2008, 42) names the difficulty of obtaining and interpreting data as the main weakness of value-based pricing orientation.

Macdivitt and Wilkinson (2012, 19) emphasize the importance of differentiation in value-based pricing, and claim that value-based pricing orientation is not suitable for every company, as it is not possible to price on value if the products have no differential value compared to competing products. Liozu (2015, 21), however, claims that a common mistake made by many executives is to assume that the company is stuck in a “commodity” business. The author also reminds that almost any product can be differentiated through a thorough research of the customers’ needs (Liozu 2015, 20).

Companies that use value-based pricing orientation have certain characteristics that distinguish them from companies that use cost- or competition-based pricing orientation. In their study of pricing orientations of industrial companies, Liozu et al. (2011, 10) found out that companies that use value-based pricing have dedicated pricing functions that report to the marketing organization, as well as specific pricing KPIs and regular pricing reviews. According to the same study, companies using cost- or competition-based pricing orientation have no dedicated pricing function, and their pricing activities are highly fragmented (Liozu et al. 2011, 10).

3 PRICING DECISION MAKING IN AN INDUSTRIAL CONTEXT

The pricing decision making process, and the factors that affect companies' pricing decisions are an essential part of the pricing practice. Decisions regarding pricing are among the most difficult decisions that companies face, as they have such a significant impact on companies' performance (Shipley & Jobber 2001, 301). In addition, companies need to take a wide array of factors into account in their pricing decision making, especially when they operate in international markets, which further increases the difficulty of pricing (Forman & Hunt 2005, 133).

The complexity of pricing is the main reason why pricing practices are dominated by simplified, often cost-based formulas (Shipley & Jobber 2001, 301; Indounas 2006, 415). These practices, however, fail to take into account all the relevant internal and external variables that companies should consider in their pricing decision making (Shipley & Jobber 2001, 301). In addition, companies that rely on simplified formulas fail to perceive pricing from a strategic perspective, which reduces the effectiveness of their pricing decisions (Indounas 2006, 416, 419).

This chapter concentrates on pricing decision making of industrial companies that operate in international markets. The aim is to understand what the pricing decision making process consists of, and to identify all the different factors that affect companies' pricing decisions. Because a substantial proportion of industrial products is exported (Tzokas et al. 2000a, 191), it is also important to understand the influence of internationalization on the pricing decision making process, which is discussed in more detail in the following section.

3.1 Influence of internationalization on pricing decision making

Advances in technology and the reduction of trade barriers have resulted in increased market integration and globalization over the past decades, and more and more companies have started to seek international expansion (Cavusgil, Chan & Zhang 2003, 47, 49). This has raised the level of competition, and forced many internationally operating companies to reconsider their way of doing business and to devote more attention to pricing (Kublin 1990, 29). According to Forman and Lancioni (2002, 30), there is an urgent need for industrial managers to understand more about international pricing issues. Most of the current literature on pricing, however, concentrates on the domestic context (Cavusgil et al. 2003, 47), as well as on the pricing of consumer goods instead of industrial products (Forman & Lancioni 2002, 29).

According to a study conducted by Stottinger (2001, 57), most managers consider price to be one of the key international success factors. Similarly, Cavusgil et al. (2003, 47-48) emphasize the importance of price in international business, and its potential as a competitive tool. The use of more sophisticated marketing tools, such as promotion or product adaptation, is usually difficult in foreign markets, as the separation of distance between the home market of a company and the foreign market complicates the communication between the place of sale and the place of production. In addition, the selling of products to a foreign market usually requires bridging cultural barriers, which may be difficult and costly with product and promotion adaptation. (Cavusgil et al. 2003, 47-48)

International pricing can be divided into three main categories: transfer pricing, foreign-market pricing, and export pricing. This study concentrates on foreign-market pricing, in which a company has production facilities in a foreign market and completed products do not cross borders, as well as on export pricing, which refers to selling goods produced in the home country to foreign markets. (Myers, Cavusgil & Diamantopoulos 2002, 160) Export pricing in particular is an area that requires more attention, because of its importance to a large number of industrial companies (Tzokas et al. 2000a, 191-192).

Pricing decision making of companies that only set domestic prices differs from that of companies operating internationally. According to Forman and Lancioni (2002, 30), in addition to the common challenges of pricing, companies that do international business face complex problems that are not usually associated with domestic commerce. Kublin (1990, 29), in turn, argues that companies that operate internationally encounter the same types of market forces in the foreign markets as they do in the home market, but the impact of these forces and the constellation of components may vary in the foreign markets. The author uses customers' price sensitivity as an example of a factor that often varies between different countries and submarkets (Kublin 1990, 29).

Industrial export pricing decisions in particular are considered to be a highly complex issue, due to the large number of factors that companies need to take into account in their pricing decision making (Tzokas et al. 2000a, 192-193). According to Forman and Hunt (2005, 133), international companies face a complex and dynamic set of environmental contingencies, which leads to a high level of uncertainty in pricing decision making. In addition, Kublin (1990, 29) argues that economic, political, and geographical distances are greater in exporting than in domestic distribution, and that exporting companies usually lose some of their control over intermediate and final prices.

One of the main differences between domestic and international sales are the types and amount of costs incurred. Selling products to foreign markets involves costs that differ from those of domestic products. (Forman & Lancioni 2002, 30) According to Gabor (1977, 76), the costs involved in exporting are different due to one or more of the following reasons:

1) Modifications of the product required by the laws of the foreign country or by the nature of demand
2) Exemption from or remission of indirect taxes in the home country
3) Export bounties or duties
4) Import duties and other taxes payable
5) Cost of special packaging
6) Cost of transport, insurance, and non-insurable deterioration of the products in transit
7) Special marketing expenses and credit terms

Export pricing has traditionally been treated as an afterthought and a minor aspect of the overall pricing strategy, despite the fact that exporting companies must deal with a complex set of issues, such as the increasingly competitive global environment, gray market imports, and complex government regulations (Myers et al. 2002, 181-182). In addition, exporting companies have traditionally used cost-plus pricing methods due to the ambiguous pricing environment, even though they do not provide the flexibility that is required in the international arena (Kublin 1990, 32). Therefore, Myers et al. (2002,

182) suggest companies to take a systematic and proactive approach to price setting in export markets, and emphasize the importance of evaluating both environmental factors and organizational characteristics.

3.2 Pricing decision-making process

Pricing is an area that should be connected to strategic-level decision making, instead of viewing it only as an operational issue (Sainio & Marjakoski 2009, 368). When companies develop a strategic view on pricing, their pricing decisions are deliberated and based on a large amount of pricing-related information (Smith 1995, 37). In addition, their price setting can be described as a strategic process, instead of a series of quick decisions with a short-term perspective (Lancioni 2005a, 183). In this section, pricing decision making is discussed from a strategic perspective. The aim is to analyze the pricing decision-making process, and identify the steps of the process.

In the past, price has been treated as a given by many executives, and prices have mostly been determined by calculation, and modified through sales negotiations with buyers. In addition, pricing decisions have often been made by junior marketing and finance executives, or negotiated by salespeople, and the responsibility for pricing has been split between different units (Piercy et al. 2010, 39). The pricing decision making of companies has also been criticized for often being too intuitive and lacking the scientific and analytical side (Simon et al. 2003, 64; Liozu & Hinterhuber 2012, 35-36).

This may be due to the fact that pricing decision making is widely considered to be a difficult task. Indounas (2006, 415), for example, calls pricing as one of the most complex and difficult decisions facing any company. According to Nagle, Hogan and Zale (2011, 134), price setting requires “the collection and analysis of information about the company’s business goals and cost structure, the customer’s preferences and needs, and the competition’s pricing and strategic intent”. The authors also argue that even the best marketers struggle to take full advantage of all the data and set profit-maximizing prices based on it (Nagle et al. 2011, 134).

Figure 8 illustrates major steps in effective pricing decisions. According to Hollensen (2006, 330), the pricing decision making process involves general marketing strategy, pricing objectives, pricing strategy, and pricing tactics, as well as environmental factors, which influence all the subsequent steps in the process. The author emphasizes both long-term and short-term aspects of pricing, as well as the importance of integrating the pricing decision with the other Ps of the marketing mix. (Hollensen 2006, 329-331) Similarly, Nagle and Holden (2002, 253) argue that pricing decisions are an integral part of a larger effort, which requires coordination of different elements of the marketing mix.

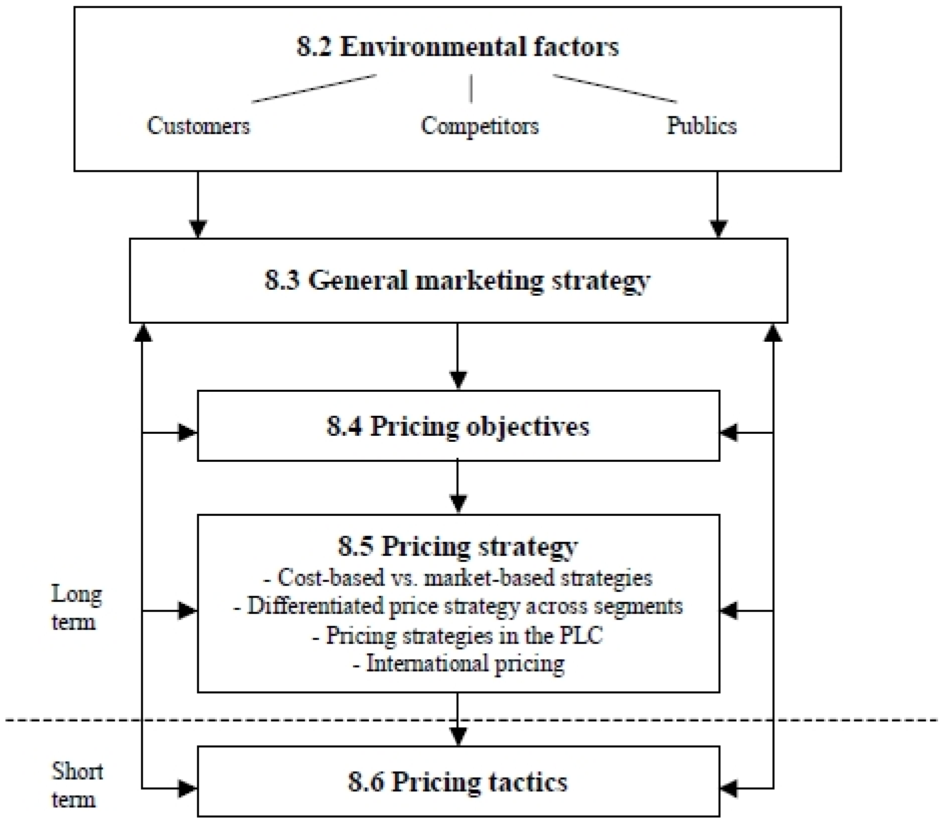

Figure 9. Major steps in pricing decisions (Hollensen 2006, 330)

According to Hinterhuber (2004, 768), an essential concept regarding pricing decisions is the strategic triangle, which has three dimensions: company, customers, and competition. In order to analyze these three key elements of pricing decisions, a specific tool should be used for each dimension: cost volume profit analysis to capture internal perspective, economic value analysis to identify sources of value, and competitive analysis to obtain information on competitors. By conducting these analyses, the company can make pricing decisions on a well-founded basis.

(Hinterhuber 2004, 768)

Besides the strategic triangle, Hinterhuber's (2004, 768) framework for pricing decisions consists of defining pricing objectives, selecting profitable price ranges, and implementing price change. Defining pricing objectives, in particular, is often acknowledged as an integral part of the pricing decision making process. For example, Indounas (2009, 87) argues that pricing objectives are important when determining prices, as they provide direction for action. In addition, by defining objectives for pricing, companies know what is expected and how to measure the efficiency of their operations (Tzokas et al. 2000a, 193).

Hollensen (2006, 336-337) emphasizes the importance of setting pricing objectives that are consistent and supportive of corporate and marketing objectives, and reminds that companies can have more than one objective for pricing as long as all the objectives are mutually consistent. The author divides pricing objectives into four categories: profit-oriented objectives, cost-oriented objectives, demand/sales-oriented objectives, and competition-oriented objectives (Hollensen 2006, 336-337). Diamantopoulos (1991, 139), in turn, classifies pricing objectives based on their content, the associated time horizon, and the desired level of attainment.

According to a study conducted by Avlonitis and Indounas (2005, 57), companies are most interested in qualitative pricing objectives, such as maintenance of existing customers, attraction of new customers, and the satisfaction of customers' needs, whereas objectives related to market share, sales, and profit are considered to be less important. In addition, the authors found that most companies pursue more than one pricing objective, and named the complexity of pricing as a possible explanation for it. (Avlonitis & Indounas 2005, 57)

Nagle et al. (2011, 181) claim that many companies define pricing processes too narrowly by involving only price setting and discount approval activities. Similarly, Shipley and Jobber (2001, 301) argue that pricing practices are often too simplified, and that pricing decisions should be based on "a comprehensive systematic multistage process that examines and integrates the full range of forces that impact pricing effectiveness". Figure 9 depicts the authors' view of the pricing process, and presents the elements involved in pricing decisions (Shipley & Jobber 2001, 303).

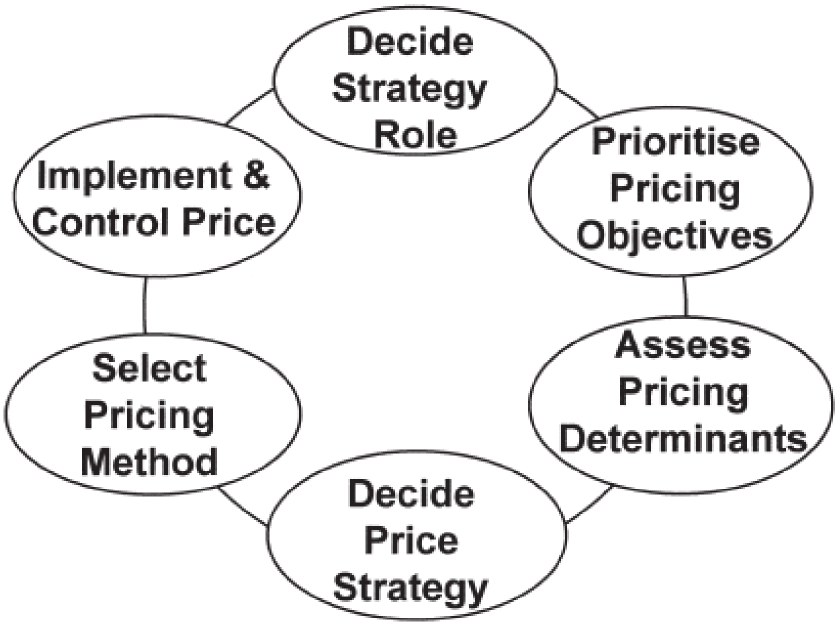

Figure 10. The pricing wheel (Shipley & Jobber 2001, 303)

For the most part, Shipley and Jobber’s (2001, 303) view of the pricing process is very similar to Hollensen’s (2006, 330) understanding of the major steps in pricing decisions, which were discussed earlier in this section. The biggest difference between the two approaches is related to the nature of the process. By illustrating the pricing process in a form of a wheel, Shipley and Jobber (2001, 302) highlight the fact that pricing is not a one-off decision, but an activity that is continuous. The authors remind that market and company conditions are not static, which is why an ongoing assessment is required (Shipley & Jobber 2001, 302).

Implementing a new pricing decision making process, or changing the old one is not easy. According to Simon et al. (2003, 67), redesigning of pricing processes requires a systematic approach and substantial changes in the organization, and may take up to nine months. However, the benefits of improving the pricing processes can be significant. Shipley and Jobber (2001, 313) argue that properly conducted pricing processes improve the quality of pricing decision making, and Simon et al. (2003, 64) claim that companies can expect substantial profit improvements if they make their pricing processes more effective. According to Simon et al. (2003, 64), effective pricing processes are particularly important when the prices are determined individually for each transaction.

3.3 Factors affecting pricing decisions

It is widely accepted that pricing decisions are highly complex due to a large number of factors that companies need to take into account in their pricing decision making. The factors that influence pricing decisions are usually broken down into two categories in the pricing literature: internal and external factors (e.g. Morris & van Erkom Schurink 1993, 29; Shipley & Jobber 2001, 304; Forman & Hunt 2005, 134; Hollensen 2011, 518). Tzokas et al. (2000a, 193), however, divide the influencing factors into three categories: company factors, market factors, and product factors. According to the authors, company factors are usually easier to control and implement than market factors or product factors, as companies have direct control over them.

According to Lowengart and Mizrahi (2000, 525), the number of factors that influence pricing decisions depends on the degree of internationalization of the company. The authors argue that the pricing decisions of companies that operate internationally are particularly complex, because of the numerous additional variables they need to take into account in their pricing decision making (Lowengart & Mizrahi 2000, 525). Similarly, Tzokas et al. (2000a, 192) name export pricing decisions as a highly complex issue because of a wide array of new factors, and due to the fact that companies must adapt a number of domestic factors to the export market context.

Morris and van Erkom Schurink (1993, 30) argue that both external and internal pricing decision making factors are influenced by environmental dynamics. By environmental dynamics, the authors refer to “energizing or motive forces in the environment and the ways in which these forces operate to effect change”. Three types of dynamic elements in the environment are identified, which include increasing heterogeneity in the sources of supply and demand, increasing pace of environmental change, and intensifying rivalry among competitors. According to the authors, these dynamics can also interact with one another, and they have a direct impact on companies’ pricing behavior. (Morris & van Erkom Schurink 1993, 30)

3.3.1 Internal factors

Internal factors that affect the pricing decision making of a company, as the name implies, refer to factors that are internal to the firm. Hollensen (2011, 519) divides internal factors into firm-level factors and product factors. According to the author, these two categories consist of the following factors (Hollensen 2011, 519):

Firm-level factors

- Corporate and marketing objectives
- Competitive strategy
- Firm positioning
- Product development
- Production locations (cost of production inputs)
- Market entry modes

Product factors

- Stage in PLC
- Place in product line
- Most important product features: quality, service, etc.
- Product positioning (USP)
- Product cost structure (manufacturing, experience effects, etc.)

According to Morris and van Erkom Schurink (1993, 29), the internal factors that typically receive the most attention from companies are the marketing mix, the costs of producing and selling the product, and the overall strategy and objectives of the company. Similarly, Tzokas et al. (2000a, 193) emphasize the importance of cost and strategy related factors, and even classify them as two subgroups. Several authors point out that corporate costs tend to influence companies' decision making more than any other factor (e.g. Morris & van Erkom Schurink 1993, 29; Forman & Hunt 2005, 134), and for some companies it might even be the only determinant in price setting (Shipley & Jobber 2001, 307).

3.3.2 External factors

External factors influencing the pricing decision making refer to determinants outside the company. According to Morris and van Erkom Schurink (1993, 29), external factors can be classified into three categories, based on whether they are concerned with competition, demand, or legal/regulatory constraints. Hollensen (2011, 519), in turn, divides external determinants into environmental factors and market factors, which consist of the following factors:

Environmental factors

- Government influences and constraints: import controls, taxes, price controls
- Inflation
- Currency fluctuations
- Business cycle stage

Market factors

- Customers' perceptions (needs, tastes)
- Customers' ability to pay
- Nature of competition
- Competitors' objectives, strategies and relative strengths/weaknesses
- Grey market appeal

Environmental factors are uncontrollable variables in the foreign markets, but it is important for companies to take them into account when making pricing decisions. Forman and Hunt (2005, 133) argue that companies that fail to understand how their pricing decisions are affected by environmental forces expose themselves to unnecessary levels of risks. Market factors, in turn, include a number of issues that companies may be able to influence to some extent (Tzokas et al. 2000a, 193). Hollensen (2011, 521) names the purchasing power of the customers as a particularly critical factor for companies that operate internationally.

4 PRICING OF CUSTOMIZED INDUSTRIAL PRODUCTS

Pricing of customized industrial products refers to situations where companies set prices for industrial products that are unique, at least to some extent, and no comparable market prices can be found (Drury 2012, 230). In the literature, customized products are sometimes also called custom-designed products or engineered to order products, and according to Novshek and Thoman (2006, 969), they allow companies to add value for their customers by meeting the special needs of individual buyers. In addition, the authors argue that customization allows companies to generate additional profit by opening new markets (Novshek & Thoman 2006, 970).

Product customization has become more common among companies, as increased competition and decreased profit margins have forced them to seek new ways of generating value for their customers. At the same time, the cost of customization has decreased in many industries due to advanced training of workers, and improvements in production and information technologies, which has made product customization a viable alternative. (Novshek & Thoman 2006, 969-970) According to Syam and Kumar (2006, 525), advances in information technology, in particular, has contributed to the proliferation of customization, as it has enabled companies to track consumer behavior and preferences.

The difficulty of customization varies significantly depending on the type of product or service that the company customizes. For example, Macdivitt and Wilkinson (2012, 20) argue that the customization of solutions, such as services, requires the company to thoroughly understand its customer’s value-adding processes or production operations. According to the authors, a deep understanding can only be obtained through a proper discovery process and in-depth examination of the customer’s business (Macdivitt & Wilkinson 2012, 20).

According to Novshek and Thoman (2006, 971), product customization requires production flexibility or agility. Production flexibility refers to company’s ability to “create value for its customers by tailoring the products to fit different individuals’ needs or desires, and then to capture some of that added value through appropriate pricing”. However, companies must offer some exclusive types of customization in order to be able to create added value for their customers. If companies fail to do so, customized products become less differentiated, which in turn leads to intensified price competition. (Novshek & Thoman (2006, 971, 997)

A popular belief is that customers are willing to pay more for customized products, because they match each customer's needs better than non-customized products. For example, Cavusoglu, Cavusoglu and Raghunathan (2007, 12) claim that by offering customized products, companies can charge higher prices. However, according to a study conducted by Syam and Dellaert (2001, 28), in a monopoly scenario, the price a company can charge for a customized product is equal to the price of a high quality standardized product. Under duopoly, in turn, the prices of customized products are less than the prices of standardized products. In addition, the authors found that by offering customized products, a company can sell more products than by offering standardized products. (Syam & Dellaert 2001, 28, 41-42)

According to Drury (2012, 230), companies that sell customized products often use cost-plus pricing method, which is based on the calculation of product costs and the desired mark-up. The size of the mark-up is related to the demand for the product, and the calculated target selling price is usually adjusted before adoption, depending on the extent of competition, knowledge of the market, and the future capacity that is available. The authors argue that cost-based pricing provides a target price for a customized product, but companies should also use other sources of information when determining the final price. (Drury 2012, 231)

This chapter concentrates on the pricing of customized industrial products, and the different aspects of customization. Customization is a broad concept, and the aim of this chapter is to understand what it consists of, what type of strategic decisions customizing companies may face, and what the different types of customization a company can choose from are. In addition, customized pricing will also be discussed in this chapter, as it is a concept that is related to product customization, and it is important to understand the difference between the two concepts.

4.1 Strategic decisions regarding customization

As mentioned earlier, customization is a broad concept that contains many aspects. Companies that decide to offer customized products need to make several strategic decisions regarding customization. According to Cavusoglu et al. (2007, 12), customization of products “requires not only an implementation of proper manufacturing systems but also a proper strategy regarding when firms should offer customized products and what the nature of customization should be”. The authors identify three types of customization strategies: mass customization, targeted mass customization, and product proliferation. (Cavusoglu et al. 2007, 12)

Product proliferation refers to offering two or more discrete product varieties, while mass customization refers to offering every possible variant of the product within the customization scope of the company. Targeted mass customization, in turn, is a hybrid strategy, which means that a company “may have multiple customization scopes, each representing a range of customized products, instead of product varieties in one continuous customization segment”. (Cavusoglu et al. 2007, 13)

Lampel and Mintzberg (1996, 26-27), in turn, identify five types of customization and standardization strategies: pure standardization, segmented standardization, customized standardization, tailored customization, and pure customization. Pure standardization refers to dominant design that is targeted and distributed commonly to all, as there are no distinctions between different customers. At the other end of the spectrum is pure customization, in which all stages are largely customized, and buyers and sellers are in a partnership and deeply involved in each other’s decision making. The authors argue that these five strategies do not only involve processes and products, but also transactions, by which the buyer comes to an agreement with the seller. (Lampel & Mintzberg 1996, 26-27)

Besides having different customization strategies, companies’ customization of products can also differ in what attributes they choose to customize (Syam & Kumar 2006). Syam, Ruan and Hess (2005, 579-580) found in their study that rival firms will customize only one attribute of a product that has two customizable attributes, and that each firms chooses the same attribute. According to the authors, if the company chooses to customize both attributes of the product, or the different attribute than its competitors, it initiates a price war as its rivals are forced to lower their prices. (Syam et al. 2005, 580)

Companies that choose to offer customized products need to examine different approaches to customization in order to find a best way to serve their customers. Gilmore and Pine (1997, 91) identify four different approaches to customization, which are illustrated in Figure 10. These four approaches are transparent, collaborative, adaptive, and cosmetic, and according to the authors, companies can either choose one approach, or a mix of some or all of the four approaches when they try to provide unique value to their customers through customization. (Gilmore & Pine 1997, 91

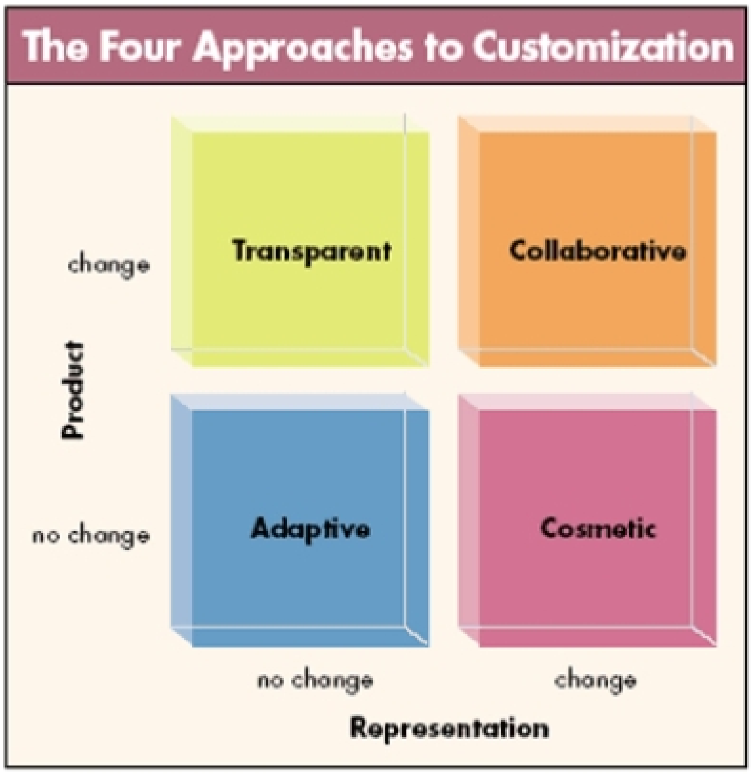

Figure 11. The four approaches to customization (Gilmore & Pine 1997)

Choosing the correct approach to customization is important, as different customers value different kinds of customization. Adaptive approach is appropriate for companies that want to offer one standard product that their customers can customize by themselves. Cosmetic customization, in turn, is suitable for companies that want to package the standard offering differently for each customer, and transparent customization for companies that want to offer unique products to their customers without letting them know that the products have been customized. The last approach, collaborative customization, is often associated with mass customization, which is discussed in detail in the next section. (Gilmore & Pine 1997, 91-94)

4.2 Mass customization

Mass customization has received a lot of interest among researchers and manufacturers in recent years. It essentially refers to offering high volumes of customized products at a relatively low cost (Gilmore & Pine 1997, 91). In other words, it combines the efficiency of mass production with the flexibility of customization (Cavusoglu et al. 2007, 12). According to Hunt, Radford and Evans (2013, 327), when compared with mass marketed products, mass customized products "offer advantages for optimizing performance outcomes, improving aesthetic appeal, and matching products' symbolic meanings with consumers' expressive desires".

Shortened product life cycles and rapid changes in markets have forced manufacturing companies to seek new ways to remain competitive (Lau 1995, 18). According to Cavusoglu et al. (2007, 12), many companies have changed the way they produce and market goods, because the advances in manufacturing technologies have improved their ability to produce customized products with a relatively low increase in marginal production cost. The authors argue that advanced manufacturing technologies such as computer-aided design/manufacturing, just-in-time, and flexible manufacturing systems are one of the main reasons why the number of product varieties of companies has increased significantly during the past few decades (Cavusoglu et al. 2007, 12).

Even though mass customization is a highly touted strategy, it may not be the best way for every company to deliver variety to customers (Zipkin 2001, 81). According to Zipkin (2001, 86-87), companies that are planning to implement mass customization strategy must first examine their capabilities on elicitation, process flexibility, and logistics, which are critical to mass-customization systems. Salvador, Rungtusanatham and Montanez (2015, 618), in turn, argue that the degree of company's customization capability depends on flexible manufacturing resources, customer involvement, and product management tools.

4.3 Customized pricing

Customized pricing is a concept that is related to the pricing of customized products, but it is important to acknowledge the difference between product customization and price customization. Customized pricing is based on estimations of consumer willingness to pay, and it essentially refers to charging each customer an individual price (Obermiller, Arnesen & Cohen 2012, 12). According to Özer and Phillips (2012, 6), customized pricing is typically used in business-to-business settings where companies usually have a considerable amount of information about each customer and their needs. In addition, the authors argue that customized pricing is typically used for highly configured products, and they name the degree of pricing customization as one of the key dimensions in determining the appropriate pricing tactic (Özer & Phillips 2012, 6, 467).

As the availability of customer information has increased, more and more companies now have the ability to customize different marketing efforts, such as price, to the tastes of individual customers (Chen & Iyer 2002, 197). According to Obermiller et al. (2012, 26), companies can use customized pricing in a variety of ways, for example “to retain loyal customers by giving them special discounts, to appeal to targeted non-users, to offer price reductions in various forms, to counter strong price threats from specific competitors, to stimulate overall demand by offering random or irregular price discounts, and to deal with higher service demanders”. In addition, the benefits of customized pricing are clear, as the individually set price allows the company to capture all potential consumer surplus as profit (Obermiller et al. 2012, 13).

Despite being a powerful management tool with many benefits, customized pricing also involves certain challenges. Obermiller et al. (2012, 26) name the ethical question of using individual customer information as one of the biggest issues that companies must address. The authors argue that companies should be honest about the pricing practice, as well as about what data they collect and how they use that data in order to avoid any negative publicity. In addition, companies should make sure that the accuracy and security are at a high level. (Obermiller et al. 2012, 26)

5 RESEARCH DESIGN

This chapter introduces the research design of the study. First, the research approach and the case study research method are discussed, as this study is conducted as a qualitative single case study. After that, the data collection and data analysis methods are elaborated in detail. The last section of this chapter concentrates on the reliability and validity of the study.

5.1 Research approach and design

The main purpose of this study is to understand how customized industrial products can be priced in international markets, and how different factors affect the pricing decisions of industrial companies. Since the emphasis in this study is on gaining better understanding and insight of the above mentioned phenomenon, an exploratory approach is adopted. According to Swanborn (2010, 30), exploratory approach is flexible and open towards the phenomenon that is being studied, and hypotheses will not be formulated in advance. The author also argues that exploratory approach enables the researcher to find interesting results and discover relevant aspects due to its flexibility (Swanborn 2010, 30).

In addition to being an exploratory research, this study also has an inductive approach, which is a typical characteristic of a qualitative study. Inductive approach involves an in-depth analysis of the data, and no theories or hypotheses exist at the beginning of the research. (Hirsjärvi et al. 2007, 160) In other words, the theory is built from the data, which makes inductive reasoning a bottom-up approach (Eskola & Suoranta 2003, 19, 83). In the next section, the chosen research method, a qualitative case study, is discussed in more detail.

5.2 Case study research

Case study is one of the most common qualitative research methods in business research, and it is a suitable method when the researcher wants to concentrate on a limited number of cases. (Koskinen, Alasuutari & Peltonen 2005, 154). Yin (2009, 18) defines it as “an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. The above mentioned definition supports the choice of a case study method, as the main purpose of this study is to acquire in-depth understanding of the pricing of customized industrial products in international context.

One of the key decisions regarding case study method is whether a single case or multiple cases are used to address the research questions. There are several arguments that support the use of a single case. Single case is an appropriate design, for example, when the case represents a critical case and can either confirm, challenge, or extend the existing theory. Another rationale for a single case is when it represents a rare or unique case, or a revelatory case which has not been studied before. (Yin 2009, 47-49)

According to Yin (2009, 50), a single case study can either have a holistic or embedded design. In holistic design, only one unit is analyzed, whereas in embedded design attention is also given to one subunit or a group of subunits. Subunits may enhance the insights into the case by adding opportunities for extensive analysis. (Yin 2009, 50) Since the pricing of customized industrial products is an area that has received very little prior attention, a single case study method was decided to be used to address the research questions. In addition, because Halton Marine Oy has divided the market into four segments that have different needs and requirements, this study will utilize embedded design and examine different segments as subunits in order to develop a more complex design, and to obtain comprehensive understanding of the phenomenon.

5.3 Data collection

In case studies, the purpose is to collect detailed information about a single case or a group of cases by using several methods, such as observation, interviews, and exploration of documents. (Hirsjärvi et al. 2007, 131) Yin (2009, 102), in turn, names six sources of evidence that are most commonly used in case studies. These sources include documentation, archival records, interviews, direct observations, participant observation, and physical artifacts. According to the author, interviews are one of the most important sources of information in case studies, and they can be classified into three categories: in-depth interviews, focused interviews, and surveys. (Yin 2009, 106-108)

Swanborn (2010, 74) makes a distinction between informants and respondents. Informants refer to key personnel being interviewed, whereas the word respondents are used for people participating in a survey. The author emphasizes the importance of interviewing well-informed individuals who have either a leading role in the company or an otherwise important position, and who can provide information about the phenomenon. (Swanborn 2010, 74)

The primary data for this thesis was collected by conducting two interviews at Halton Marine Oy's premises in Lahti. In the first interview, three interviewees were present who all have an important role in the company regarding the phenomenon under study. In the second interview, the Managing Director of Halton Marine Oy was interviewed in order to gain insight from a higher organizational level. This allowed the researcher to obtain a comprehensive and in-depth understanding of the phenomenon. The details of the interviews can be found in Table 1.

Name	Title	Date	Duration
Sami Piirainen Kimmo Piispanen Esa Romppanen	Sales Director Director of Project Management Business Controller	29.1.2016	1 hour 26 minutes
Tommi Rantanen	Managing Director	3.5.2016	1 hour 19 minutes

Table 1. Details of the interviews

The interviews were designed to be semi-structured theme interviews in order for the interview situations to be flexible and open. Semi-structured theme interview means that the questions and themes of the interview were decided in advance, but the order and the exact phrasing of the questions were subject to change during the interviews. (Hirsjärvi et al. 2007, 203) Some additional questions were also asked in both interviews, and new ideas were brought up based on the answers of the interviewees. Both interviews were recorded and transcribed for later analysis. The interview themes and questions were formed based on the theoretical part of the study, and they can be found in Appendix 1.

5.4 Data analysis

After the data is collected, it needs to be analyzed. According to Yin (2009, 127), the analysis of the data is one of the most difficult aspects of case studies, as there are not many fixed formulas that would provide guidance for the researcher. Instead, the quality of the research depends on the researcher's style of empirical thinking, presentation of evidence, and consideration of alternative interpretations. In addition, the author emphasizes the importance of having an overall analytic strategy instead of relying too much on specific formulas or tools. (Yin 2009, 127) Similarly, Hirsjärvi et al. (2007, 219) argue that there are no strict rules what comes to the analysis of the data in qualitative studies.

An essential part of the research process is the drawing of conclusions and interpretations from the analyzed data. Koskinen et al. (2005, 229) argue that one of the biggest mistakes a researcher can do is to describe the data without making any interpretations. According to the authors, research should always lead to a clear interpretation that adds to the existing research (Koskinen et al. 2005, 229). Similarly, Swanborn (2010, 114) states that "the crucial phase is, of course, the interpretation of the results and drawing conclusions".

As mentioned earlier, this study has an exploratory research approach, which is characterized by its flexibility and openness, and in which research decisions follow the data (Swanborn 2010, 30). According to Swanborn (2010, 11), "most case studies possess a more or less exploratory character". In addition, inductive analysis is applied in the study, which refers to "looking for emergent theoretical constructs or insights", and identifying "ideas and themes that emerge from the data" (Farquhar 2012, 92).

The first stage of the analysis in this study consists of getting familiar with the data by transcribing the interviews and making notes about the emerging issues. This is followed by an in-depth analysis of the data, which is conducted in order to identify different themes and categories. The analysis of the data is guided by the predetermined research questions, and relevant concepts, variables and patterns are determined in order to find solutions to these questions. Finally, interpretations and conclusions are presented and discussed in the light of existing literature, and theoretical and managerial implications are provided.

5.5 Reliability and validity

The quality of the research is judged through its reliability and validity. According to Yin (2009, 40-41), four tests are commonly used to establish the quality of the research, which are construct validity, internal validity, external validity, and reliability. Construct validity refers to "the extent to which the study investigates what it claims to investigate" (Farquhar 2012, 101), and three tactics exist that can be used to increase the construct validity of the case study (Yin 2009, 41-42). These tactics include establishing a chain of evidence, using multiple sources of evidence, and having key informants review the draft case study report.

In this study, the interviews of the key management personnel of the case company are the main source of information. The interviewees were carefully selected in order to obtain a comprehensive understanding of the phenomenon. In addition to interviews, documentation (company website) and personal experience of the company are used as sources of evidence. The second principle, chain of evidence, is established so the reader can follow the research process from research questions to conclusions.

Internal validity mainly concerns explanatory case studies, and it aims to persuade the readers that "the research findings are based on critical investigation of the data" (Farquhar 2012, 101). External validity, in turn, refers to the generalizability of the study, which is the main reason why case studies have received a lot of criticism. Unlike survey research that relies on statistical generalization, case studies rely on analytic generalization, which means that the results of the case study are generalized to a broader theory (Yin 2009, 43). Koskinen et al. (2005, 167) argue that generalizability is always a problem in case studies because of the small number of cases. Since this research uses the single case study method and exploratory approach, the generalizability of the research results is very limited, and no findings can be interpreted as a fact of general significance (Swanborn 2010, 31).

The fourth test to establish the quality of the research is reliability, which refers to “the absence of random error so if the research was repeated, researchers would arrive at the same insights” (Farquhar 2012, 102). According to Yin (2009, 45), reliability aims to “minimize the errors and biases in a study”. The reliability of this study can be considered to be good, since all the details on how the data is gathered and analyzed are clear and provided to the reader, and each step of the analysis process is explained. In addition, there is a clear link between the theoretical and empirical part of the study.

Based on the four tests that are used to establish the quality of the study, the reliability and validity of this study can be considered to be at a good level. Koskinen et al. (2005, 253-254), however, argue that too much emphasis should not be placed on reliability and validity, since they are conservative principles that easily lead to risk avoidance. The authors remind that the main purpose of doing research is to acquire new information, not to conduct a research that is flawless and error-free (Koskinen et al. 2005, 253-254).

6 EMPIRICAL RESULTS

This chapter presents the empirical results of the study. First, the case company Halton Marine, the industry in which it operates, and the four key segments of the company are introduced. After that, the data derived from the interviews is discussed and analyzed in the light of the existing literature. The discussion and analysis of the data is divided into four sections based on the main themes of the study, which are pricing, customization, internal factors affecting pricing decisions, and external factors affecting pricing decisions.

As mentioned in the previous chapter, the data was collected through interviews with the key management personnel of Halton Marine regarding the topic under study. The first interview was conducted with the Sales Director Sami Piirainen, the Business Controller Esa Romppanen, and the Director of Project Management Kimmo Piispanen. The second interview was conducted with the Managing Director Tommi Rantanen. The details of the interviews can be found in Chapter 5, under the heading “Data collection”.

6.1 Introduction of the case company Halton Marine Oy

Halton Marine Oy is a Strategic Business Area (SBA) of Halton Group, together with Halton and Halton Foodservice, which are all responsible for their own global strategy and development (Halton Group 2014a). Halton Group was founded in 1969 in Finland, and it specializes in indoor climate and indoor environmental products, services and solutions. Its turnover was 197 million in 2015, and it employed 1400 people in over 30 countries. The aim of the organization is to create safe and comfortable indoor environments with energy-efficient and sustainable life cycles. (Halton Group 2014b)

Halton Marine offers solutions for cabin and galley ventilation, fire safety, airflow management and air distribution systems, and is the one of the leading suppliers of HVAC (heating, ventilating, and air conditioning) for marine in the world (Halton Group 2014a). The company has four key segments: Oil & Gas, Cruise & Ferry, Navy, and Energy (Halton Group 2014c). In addition, Halton Marine has production facilities in Finland, China, and the US, and the biggest customers of the company are in Europe and South Korea (Rantanen 2016; Piirainen 2016).

6.1.1 Oil & Gas segment

The Oil & Gas segment consists of over 100 major oil & gas projects. For the Oil & Gas segment, Halton Marine offers products and HVAC solutions that are specifically designed for demanding applications. The products and solutions are designed to improve safety by providing good thermal conditions for the crew, and by protecting them against hazards in the production phases. In addition to products and HVAC solutions, Halton Marine offers a wide range of services for the oil & gas industry, such as commissioning, design, and maintenance services, as well as user training, mock-up installations, and verification tests. (Halton Group 2014d)

6.1.2 Cruise & Ferry segment

Halton Marine offers HVAC solutions for over 100 major cruise ship projects, such as ferries, cruise ships, and yachts, and is one of the leading suppliers of marine HVAC for cruise ships. The HVAC solutions are marketed to be energy efficient systems that provide safety and comfort for passengers and the crew. Key product categories include dampers, galley- and cabin ventilation solutions, and droplet separators. (Halton Group 2014e) Cruise & Ferry segment, together with the Oil & Gas segment generates the vast majority of the company’s revenue, whereas Navy and Energy segments are still relatively small. The company is currently among the top three companies in the Cruise & Ferry and in the Oil & Gas segments (Rantanen 2016).

6.1.3 Navy segment

The Navy segment consists of major naval projects, such as submarines, naval ships, and aircraft carriers. Halton Marine offers these projects solutions that fulfill naval standards, and several products are shock- and fire-tested. In addition, Halton Marine’s solutions are marketed to be maintenance free, or needing only a low level of maintenance. Key product categories include fire dampers, shut-off dampers, droplet separators, cabin units, and galley hoods. (Halton Group 2014f)

6.1.4 Energy segment

The Energy segment consists of projects in the energy market, such as nuclear power plants, wind farms, and power generation modules for offshore installations. In the Energy segment, it is essential that the products are certified and of high quality, and Halton Marine has invested heavily in this segment in recent years. Typical solutions in the Energy segment include HVAC dampers for nuclear business, and droplet separators, fire dampers, shut-off dampers, outdoor louvres, blast valves, and airflow adjustment dampers for power generators. (Halton Group 2014g)

6.2 Pricing at Halton Marine

Before the pricing practice of Halton Marine can be discussed in depth, it is important to understand what the sales process of the company consists of. In most cases, the sales process of Halton Marine starts with the company receiving a request for quotation from the customer, which is then responded to with a specific quotation. The process varies a bit based on whether the quotation is for a product or for a project. If the required quotation is for a product, the sales process is fairly simple and typically only involves sales people. Projects, in turn, require involvement from the different departments, and if the quotation leads to a purchase order, the order will be handed over to the project management.

The prices of Halton Marine are strongly influenced by the costs involved, which is the main characteristic of cost-based pricing orientation (Macdivitt & Wilkinson 2012, 49; Liozu 2015, 19. All four interviewees emphasized the importance of costs in determining the final price for a product or a project.

> *“Costs determine the prices of our products. Some of our products differ from those of our competitors’ … which enables us to charge a higher price, whereas with some products we are unfortunately forced to compete with price” … ”Usually we try to avoid price competition, and we justify the higher prices with additional services, with the energy efficiency of our products, and with the customization option.”* (Piirainen 2016)

> *“When it comes to dampers, in particular, it is important to make sure that the costs do not get out of hand.”* (Rantanen 2016)

The prices that the company set also vary depending on the customer category, as customers are divided into different categories such as owners, shipyards, turnkey suppliers, and design agencies. In addition, these categories contain different customer groups, such as key customers and partners, and the final price also depends on the customer group. All the basic products of the company have a list price, and the amount of the discount depends on the above mentioned factors, which is a common characteristic of industrial pricing. Tzokas et al. (2000a, 194), for example, point out that one of the main differences between industrial and consumer pricing is the nature of prices, as the list prices in industrial markets are rarely the ones the buyers pay because of different discounts.

> *“When determining [the final price], we take into account who the customer is, and of course how big the project is. So we also consider the volume of the order.”* (Rantanen 2016)

Based on the interviews, it is evident that the salespeople of Halton Marine have a big responsibility in pricing, as they are allowed to negotiate the prices quite freely. No strict rules exist what comes to pricing of smaller deals. However, if the value of the quotation reaches a certain limit, it requires an approval from the sales manager. The Managing Director of the company, in turn, makes the final decision on whether the company participates in the bidding process for the largest projects or not.

The above mentioned characteristics of Halton Marine’s pricing are often linked to the conventional pricing approach in the pricing literature. For example, Piercy et al. (2010, 39) argue that prices are conventionally negotiated by salespeople who work with major customers, and that driving forces in pricing are often cost-based calculations and comparisons with competitors prices.

The prices of Halton Marine are generally quite high when compared with their competitors’ prices. The size of the price difference, however, varies depending on the product and the product category. In addition, the nature of competition is different in each segment.

> *"According to some customers and retailers our prices are 30% higher than our customers' prices."* (Piirainen 2016)

> *"In the Cruise & Ferry sector the price competition is intense and the products quite simple … but we do not have the cheapest products in any product category." … "We cannot have the cheapest products in the market, and we do not want to have the cheapest products in the market."* (Rantanen 2016)

> *"In the Oil & Gas sector, I do not know if we have the most expensive products, but we are pretty close up there."* (Rantanen 2016)

The prices in the Oil & Gas sector are also generally higher than in the Cruise & Ferry sector because of the specific requirements placed on the materials and components of the products.

6.3 Customization at Halton Marine

Customization is one of the main themes of this study. One of the main reasons why Halton Marine is used as the case company in this study is the fact that all of the company's products are more or less customized.

> *"One of our main strengths is the ability to fully customize our products according to the customer's individual requirements."* (Rantanen 2016)

The majority of Halton Marine's products are configurable, which means that the product can be configured according to the customer's requirements. There are thousands of variations of certain products, such as fire dampers, in the system. These are fairly easy to build and do not usually require any additional designing.

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> *"None of our products are something we would have ready-made on the shelf, they all require customization, some more than the others." …*

> *“Dampers, for example, are highly configurable and may only require changing the size.”* (Piirainen 2016)

It is very common, however, that the customer’s product specification includes components and parts that are not in the system.

> *“We often get [design requirements] from customers that include new components that we do not have in the system … The customization today is mostly about changing the components of the product, and sometimes completely new components are required.”* (Rantanen 2016)

As was mentioned before, certain products, such as galley hoods, usually require larger amount of customization and designing than some other products, such as dampers. The amount of customization required also depends on the segment. The products and solutions that are sold to the companies in the Oil & Gas segment, or nuclear customers in the Energy segment, typically require the most customization. Sometimes the customer’s product specification might also require technology that none of the company’s existing products have.

> *“It is more common with the kitchen products … that we design a product specifically for a certain project” … “Sometimes we might even carry out a small-scale product development project”* (Rantanen 2016)

Halton Marine also sometimes designs and builds a prototype for a potential customer, which can help the company to get a large purchase order or a project. In addition, designing and building a prototype helps in the production phase, because the manufacturing of subsequent products will be is easier and faster after first building a prototype. Prototypes are usually a part of a larger purchase order that the company hopes to receive, and are not priced separately.

Building of prototypes is quite common for companies that offer customized solutions. According to Terwiesch and Loch (2004, 145), a prototype helps the customer to evaluate the product, and it guides the company and its customer in the search for the best possible product specification. The authors argue that the costs of prototyping are often incurred by the customizing company, which is in line with Halton Marine's decision to not price the prototypes separately. (Terwiesch & Loch 145-146)

As mentioned above, Halton Marine's customization varies between different product categories and segments, but the majority of the company's customization falls under the category of collaborative customization (Gilmore & Pine 1997, 91). Based on the interviews, it is clear that pricing at Halton Marine is largely influenced by the customization of products. Customization at Halton Marine requires many types of functions besides production, such designing, drawing of pictures, and documentation, which incur costs that are difficult to assign to specific products, projects, and customers. The assignment of costs was mentioned in the interviews as one the main challenges that the company currently has, and it was believed that by improving that area the pricing will become a simpler and easier task, and prices will be easier to justify.

6.4 Internal factors affecting pricing decisions

Internal factors that affect pricing decision making are divided into firm-level factors and product factors, and include factors such as corporate and marketing objectives, competitive strategy, firm positioning, most important product features, and product positioning (Hollensen 2011, 519). In this section, the factors that are most relevant to Halton Marine will be discussed.

6.4.1 Firm-level factors

Halton Marine is a Strategic Business Area (SBA) of Halton Group, and responsible for its own global strategy and development. Halton Group may set revenue targets and profit goals, but the means to achieve them are left to each SBA.

> *"SBAs are able to determine their prices quite freely, and have always been able to make their own decisions." … "That has always been the case here at Halton … and that is what we aim for in all of our operations."* (Romppanen 2016)

> *"It is our own decision whether we achieve [the goals set by Halton Group] for example by raising our prices, increasing our sales margins, or decreasing direct costs"* (Rantanen 2016)

The marketing department is a part of the sales organization at Halton Marine. It supports the pricing decisions by strengthening and promoting the high-quality image of the brand and the products, but it does not play an important role in the pricing decision making of the company. In addition, the marketing decisions of Halton Group mostly concern brand-related issues, which do not have a direct influence on the pricing decisions of SBAs.

In the pricing literature, marketing department's small role in pricing has been identified to be a common characteristic of cost-based and competition-based pricing orientation (Liozu et al. 2011, 10). According to a study conducted by Liozu et al. (2011, 10), in the majority of companies that use cost- or competition-based pricing orientation the locus of pricing responsibility is situated in the sales function, which is also the case with Halton Marine.

The pricing decision making of companies is usually strongly influenced by the chosen competitive strategy. What comes to the competitive strategy of Halton Marine, all interviewees stated that the purpose is to avoid price competition, which is also a suggested strategy in the pricing literature. Rao et al. (2000, 75), for example, argue that instead of matching a price cut, companies should take a different course of action, such as trying to compete on quality instead of price, or informing customers about the negative consequences of buying low-priced options. However, there have been a few occasions when the company has decided to compete with price.

> *"There have been some projects that we have identified that we must get … the purpose has either been to "kick" our main competitor, or prevent a new competitor from entering the market." … "But for most part, we "play our own game". We have good products and good service, and we do not concern ourselves too much with what our competitors are doing"* (Rantanen 2016)

Firm positioning is another factor that is closely linked to pricing decision making. Piercy et al. (2010, 39), for example, argue that price should be recognized as a strategic issue, as it can provide leverage on competitive positioning. Halton Marine strives to be first or second in the chosen segments worldwide, by selecting the most important customers from each segment and by providing them high-quality solutions and the best possible service. As was mentioned earlier, the company's purpose is not to be the cheapest provider by any means.

Based on the interviews, it could be argued that Halton Marine has a High-Passive price strategy, which includes a passive role of price in marketing, and a high relative price level. High-Passive strategy relates to competing on non-price factors, such as on product quality and features, which is an evident part of Halton Marine's strategy. (Cravens & Piercy 2009, 363)

As an international company, Halton Marine sells its products to multiple markets, and has production facilities in Finland, China and the US. The company usually enters a new market by establishing an own sales office in the market, so that customers get local service from the very beginning. Halton Marine also utilizes pricing in the market entry in certain situations.

> *"When entering a new market, we usually emphasize the whole package that we are offering and do not compete with price… but sometimes we also use price as a tool to get a project from a certain market"* (Rantanen 2016)

Price reductions have also been recognized in the pricing literature as an appropriate strategy to enter a new market. According to Hollensen (2011, 520), the Japanese companies, in particular, have entered new markets in recent years "with the intention of building market share over a period of years by reducing price levels, establishing the brand name and setting up effective distribution and servicing networks". This type of market entry strategy emphasizes the strategic role of pricing by having a long-term perspective on profit. (Hollensen 2011, 520)

Product development is an important factor in the pricing decision making, especially for a company like Halton Marine that customizes its products according to customers' preferences and offers unique solutions.

> *"The product development phase is basically where the price is determined … since product development has a big impact on product costs." … "Procurement, for example, has an important role to play in the product development phase what comes to costs."* (Piirainen 2016)

Since product costs can be identified to be the single most important factor influencing the pricing decision making at Halton Marine, it is evident that the product development phase is highly important for the company in many ways.

6.4.2 Product factors

The importance of the product in pricing is clear. For example, Nagle and Holden (2002, 253) claim that "the product is management's most powerful tool to influence the pricing environment". In addition, the product factors play a major role in pricing decision making. Based on the interviews, it can be stated that the stage in the product life cycle is one of the most important product related factors that affect the pricing decision making of Halton Marine. Pricing of a product that is in the introduction stage sometimes differs greatly from the pricing of a more mature product.

> *"If we have a new product that provides true benefit to the customer, or to the customer's customer, there is a certain time … when we can use premium pricing … particularly if we are ahead of the competition and competitors do not have comparable products." … "Premium pricing requires us to be able to sell the product right, so that the customer knows that there is added value in it for them."* (Rantanen 2016)

According to pricing literature, premium pricing refers to charging a high price that reflects value and quality, and it is an appropriate strategy when the products in the market are viewed as heterogeneous in nature by the customers (Forman & Lancioni 2002, 37). This definition is in line with Halton Marine's view on premium pricing.

However, it was stated in the interviews that premium pricing is not a strategy that Halton Marine can use for a longer period of time, as premium prices are impossible to justify when competitors are offering products that can be considered as substitutes. In addition, premium pricing can only be used for certain products and offerings. Some of the company's products do not have clear life cycles, and sometimes competitors develop products and technologies that Halton Marine is forced to imitate.

> *"Many times our products do not have a clear life cycle … for example, we have been selling certain fire dampers for 25 years, and only made small improvements in them during that time."* (Piispanen 2016)

> *"Unfortunately, we are not always in front. In fancoils, for example, we are just followers." … "You need to be a technology leader in order to be able to set a premium price."* (Rantanen 2016)

Product features is a factor that naturally affects the pricing decisions of every company. Halton Marine aims to offer high-quality products that are customized according to customers' needs. The industry in which the company operates, however, differs from many other industries, because the quality of the products does not always play a major role in customers' purchase decisions. With some products and product categories the company can differentiate itself from competitors by emphasizing the quality of the products, and with some it can not.

> *"Quality is something that is not a selling point anymore, it is a must in our field of business. It used to be an important factor … but the last 15-20 years the products and systems have had certain criteria for quality that everyone must meet."* (Rantanen 2016)

> *"Of course, if we talk about security products such as fire dampers, we use the product quality as an argument, for example in Asia" … "We emphasize the quality of the products, and the fact that they are made in Finland" … "In the Middle East, for example, they do not accept anything that is made in China."* (Rantanen 2016)

All interviewees emphasized the importance of services in pricing, and stated that the services will most likely have an even bigger role in the future, as the company aims to increase its service portfolio. Halton Marine provides high-quality service for customers, for example by establishing sales offices in new markets. When the company offers localized customer support, customers are usually willing to pay a little bit more for the product.

Halton Marine offers many types of services, both before and after the purchase order is delivered, such as documentation and technical consultation. Some services, such as certain calculations, are offered free of charge to the customers in the hope of receiving a purchase order. The type of services required varies a bit between the segments. Different calculations are common in the Cruise & Ferry segment, whereas the Oil & Gas and Energy segments often require documentation.

As was mentioned earlier, Halton Marine's pricing is strongly influenced by the costs of production. Therefore, the product's cost structure also affects pricing decision making.

> *"We aim to use market-based pricing, but the [product's] cost structure influences pricing as well." … "Let's put it this way: we start with the market price, but we must know the costs and get a certain margin."* (Rantanen 2016)

> *"Variable costs, in particular, play a major role in the pricing of our products."* (Romppanen 2016)

Besides emphasizing costs in pricing, Halton Marine's pricing has also certain characteristics that are typical for competition-based pricing orientation, such as the purpose to use market-based pricing. Hinterhuber (2008, 42), for example, identifies market-based pricing to be a typical strategy for companies that use competition-based pricing orientation. Therefore, it can be argued that Halton Marine's pricing has characteristics of both cost-based and competition-based pricing orientation, which supports the argument of Johansson et al. (2012, 9), who claim that value-, cost- and competition-based pricing orientations are not mutually exclusive.

Product positioning differs from firm positioning, and it typically has a major effect on companies' pricing decisions. If a product does not have a clear position in customers' minds, it is rarely able to command a high price (Hollensen 2011, 477). In the case of Halton Marine, product positioning varies between the different product categories. Customers of the company often consider dampers to be bulk products, whereas ventilation solutions are considered to offer more added value, which can be utilized in pricing. When the company sells large solutions that contain different types of products, it must take the product positioning into account in pricing, for example by setting a lower price for the products that the customer can easily change to competitor's products.

6.5 External factors affecting pricing decisions

External factors that affect the pricing decision making can be divided into environmental factors and market factors, which include factors such as government constraints, inflation, customer's perceptions, nature of competition, and competitors' objectives. In this section, the external factors that are most relevant to Halton Marine will be discussed.

6.5.1 Environmental factors

Since Halton operates in international markets, it must take a large variety of environmental factors into account in its operations. Many of the factors, however, do not have a direct impact on the company's pricing, which is mostly influenced by internal factors. A good example of this are the different government influences and constraints.

> *"[Government influences and constraints] do not affect our pricing, but they may have an effect on where we can and where we cannot sell our products. For example, selling to Iran was prohibited for years." … "But it does not affect our pricing, we just need to make a decision [based on the influences and constraints] on whether we sell to a certain market or not."* (Rantanen 2016)

> *"Some of the products we sell require certificates … for example to prove that our products will not be used to build nuclear weapons."* (Piirainen 2016)

Inflation is one of the few environmental factors that Halton Marine takes into account in pricing. The aim is to raise the prices every year by at least the same amount as the inflation rate. Another environmental factor that influences Halton Marine's pricing is the business cycle stage, which can affect the whole market.

> *"In the Oil & Gas sector, the falling oil price has had a negative impact on customers' willingness to make investments, which in turn affects the number of sales the company makes"* (Piispanen 2016)

The current situation in the Oil & Gas segment has intensified competition, as companies battle to win bids for the few projects that are still available. Companies are basically forced to lower their prices and participate in the price competition if they want to sell products in that particular segment.

6.5.2 Market factors

Understanding of customers' needs and tastes is essential for every company's success. Price is not the only factor that Halton Marine needs to consider, as different stakeholders value different things, and all these things need to be taken into consideration when selling the products.

> *"Each customer group values different things. For example, owners appreciate a product that requires a very small amount of maintenance … shipyards, in turn, might only be interested in the weight of the product, and turnkey suppliers in the price." … "Turnkey supplier, who buys the product, is only interested in the price. But if we do not take the other factors into account, and influence the owner and the shipyard, we would not be relevant in this business."* (Rantanen 2016)

Customers’ price sensitivity is another market factor that was mentioned to influence the pricing decision making, and it also varies between different segments.

> *“Some customers are very price sensitive, and basically buy whatever is the cheapest … while for others it is easier to justify a higher price based on the added value.”* (Piirainen 2016)

> *“Customers in the Cruise & Ferry segment used to be more price sensitive than customers in the Oil & Gas segment. But right now, because there are not many projects in the Oil & Gas segment, and there is a boom in the Cruise & Ferry segment, there is no big difference in the price sensitivity between the two segments.”* (Rantanen 2016)

Switching costs, which refers to costs of changing a supplier or a product, is a factor that Halton Marine must sometimes take into account in the pricing decision making. Some products have higher switching costs than others, and the switching costs also vary between different segments and projects. In the Cruise & Ferry segment’s projects, for example, the switching costs can be high, which in turn can be utilized in pricing. In addition, there are situations when switching to competitors’ products is relatively inexpensive, which may force Halton Marine to lower their prices in order to keep the customer.

Based on the interviews, it is evident that Halton Marine concentrates on its own strengths and on delivering high-quality solutions to its customers, and does not place much emphasis on competitors’ actions.

> *“We do not really care about what our competitors do. We are aware of their strengths and weaknesses … but we do not really analyze competitor related things, such as their goals or strategies. We try to concentrate on our own business.”* (Piirainen 2016)

Despite the fact that Halton Marine does not conduct any systematic competitor analysis, the interviewees stated that the competitors’ objectives, strategies, and relative strengths and weaknesses cannot be ignored completely, even if they do not have a direct impact on the company's pricing decisions. It also needs to be acknowledged that the competitive situation is different in each segment and in each market, and that the main competitors also differ between different segments.

> *"We have different competitors in different segments and in different product categories. We do not have any competitor that operates in all the same segments that we do, or that has the same scope as we have."* (Rantanen 2016)

Barriers to entry, which refers to obstacles that prevent new competitors from entering the market, is a factor that exist in certain segments and in certain markets. For example, certain countries have requirements for the country of origin, such as the US and Brazil. In addition, customers in some segments, such as in the Energy segment, require the products to have certificates and other documents, which may prevent new competitors from entering the market. These factors, however, do not have a big role in the pricing decision making of Halton Marine according to the interviewees.

6.6 Discussion of Halton Marine's pricing

Based on the pricing literature and the conducted interviews, several conclusions can be made about Halton Marine's pricing. First, it is safe to say that what comes to pricing and pricing decision making, Halton Marine is mostly concerned about the factors that are internal to the firm. Even though Halton Marine operates in international markets, the market factors and environmental factors have a surprisingly small influence on the company's pricing and pricing decision making. The company has a strong belief in its products and services, and competitors' actions is not a big concern and does not require any systematic analysis according to the interviewees.

Halton Marine's prices are mostly set based on cost-related information, although some differences exist in the pricing between different segments and product categories, and the company's pricing has characteristics of both cost-based and competition-based pricing orientation. Having characteristics of several orientations is not rare, as Johansson et al. (2012, 9), for example, argue that different pricing orientations are not mutually exclusive, and Macdivitt and Wilkinson (2012 49) claim that it is common for cost-based pricing to be applied in conjunction with competition-based pricing orientation.

The fact that Halton Marine does not set its prices solely based on cost-related information can be considered to be a positive thing. Shipley and Jobber (2001, 310), for example, claim that focusing only on costs, demand, or competitor prices is erroneous, and highlight the importance of applying integrative pricing. In addition, Drury (2012, 231) argues that cost-based pricing provides a target price for a customized product, but companies should also use other sources of information when determining the final price.

In order to use a truly integrative pricing approach, Halton Marine should consider collecting even more information about the customers and competition. According to Hinterhuber (2004, 768), pricing decision making consists of three dimensions: company, customers, and competition. The author argues that companies should analyze these three dimensions by using cost volume profit analysis to capture internal perspective, economic value analysis to identify sources of value, and competitive analysis to obtain information on competitors. By conducting these analyses, Halton Marine could make pricing decisions on a well-founded basis. (Hinterhuber 2004, 768)

Despite of having characteristics of both cost- and competition-based pricing orientation, it is quite safe to say that Halton Marine's pricing could be classified under the cost-based pricing orientation category. Cost-based pricing orientation refers to using accounting data as a basis for pricing decisions, and the objective of pricing in cost-based orientation is often to reach a certain markup on costs or a return on investment (Liozu 2015, 19). In addition, companies that use cost-based orientation rarely have specific and regular pricing reviews, and the pricing responsibility is usually situated in the sales function (Liozu et al. 2011, 10).

All the above mentioned characteristics of cost-based pricing can be identified in the pricing practice of Halton Marine. This is not a surprising finding, since industrial pricing practice is dominated by cost- and competition-based pricing orientations (Hinterhuber 2008, 43). However, if Halton Marine wants to move towards value-based pricing, customization provides a good stepping stone for it, since it is closely linked to customer value. Using of value-based pricing orientation is difficult if the products have no differential value compared to competing products, which is not the case with Halton Marine, as customization enables the company to easily differentiate most of its offerings (Macdivitt & Wilkinson 2012, 19)

In the pricing literature, companies are often categorized as either passive or active pricers, based on how they view pricing (e.g. Gabor 1977, 1; Baker, Marn & Zawada 2010, 100). Active pricers, for example, regularly identify pricing improvement opportunities and have a proactive mindset, whereas passive pricers only respond to the business and do not drive continuous improvement (Baker et al. 2010, 100). Based on the interviews, it could be argued that Halton Marine has taken more of a passive role in pricing, and views pricing more as a tactical tool than a strategic function.

This type of view on pricing is common, as the implementation of strategic pricing can take a lot of time and resources, and is usually applied only by large companies (Lancioni 2005a, 183). If Halton Marine wants pricing to become a strategic capability, the company needs to invest in human, systems and social capital (Dutta el al. 2002, 62). In addition, Nagle and Holden (2002, 1) argue that strategic pricing requires companies to change when, how, and who makes pricing decisions, change the relationship between marketing and finance, and establish a coherent set of pricing policies and procedures that are consistent with the strategic goals of the company.

7 DISCUSSION AND CONCLUSIONS

This chapter summarizes the findings of the research, and provides both theoretical and managerial implications. In addition, limitations of the study are discussed, and suggestions for future research presented. The aim of this chapter is provide the reader a comprehensive picture of the findings of this study, and answer the research questions presented in Chapter 1.

7.1 Theoretical implications

The main purpose of this study was to examine the pricing of customized industrial products in international markets, and to understand what pricing decision-making consists of and identify the factors that affect pricing decisions. In addition, the aim was to examine the influence of pricing decision-making on the pricing orientation of the company, and to identify the different pricing strategies industrial companies may choose when pricing customized products.

This research was exploratory in nature, since the pricing of customized products is an area that has received very little prior attention. To the researcher's knowledge, no studies exist that solely address the pricing of customized products in an industrial context. In this section, the research questions presented in Chapter 1 are discussed and answered in the light of the existing pricing literature. The sub-questions of the study are discussed and answered first, followed by concluding discussion of the findings on the main research question.

What are the different pricing strategies an industrial company can choose when pricing customized industrial products?

Pricing strategy of a company determines the way the company aims to achieve its pricing objectives in the market place (Ingenbleek et al. 2003, 302). Based on the interviews, the pricing strategy that the case company Halton Marine uses mostly depends on the stage in the product life cycle and the product features. When pricing new products that have remarkable amount of added value to the customer in the situations where no comparable products exist, Halton Marine uses premium pricing.

Premium pricing refers to charging a high price because the products in the market are viewed to be heterogeneous in nature by the customers. In addition, premium pricing is argued to be a suitable strategy for technology companies that sell unique products. (Forman & Lancioni 2002, 37)

In the majority of the pricing decisions, however, Halton Marine uses a cost-plus pricing strategy, which has been identified to be a common pricing strategy among companies that produce customized products (Drury 2012, 230). Halton Marine's pricing also has features of a market-based pricing strategy. This means that the prices are mostly determined by the costs of production, but the general price level of the market is also taken into account when deciding the final price. Customization, however, was found to have a relatively small impact on the decision regarding the pricing strategy, but it was found to provide challenges for the implementation of cost-plus pricing. The reason for this is the fact that customization requires many types of functions besides production, which incur a wide variety of costs that are difficult to assign to specific products and projects.

What does the pricing decision making of an industrial company consist of?

In the pricing literature, pricing decision making is often viewed as a process that includes multiple steps, such as decisions regarding pricing strategy, pricing tactics and pricing objectives, as well as consideration of multiple decision-making factors that are both internal and external to the firm (Hollensen 2006, 330; Hollensen 2011, 519). Pricing decision making process typically takes into account the long-term and short-term aspects of pricing, as well as the overall marketing strategy with which the pricing decisions should be integrated (Hollensen 2006, 330).

Halton Marine's pricing decision making consists of some of the same steps that have been identified in the pricing literature. Internal factors, in particular, have a strong influence on the pricing decisions of the company. The overall marketing strategy, in turn, was found to receive less attention in decision making that is suggested in the pricing literature, and the pricing decisions in general do not always follow the steps of the process in a systematic way, as the prices are typically negotiated by sales representatives. Overall, it can be argued that the Halton Marine's pricing decision making has more of a tactical approach to pricing, and the strategic aspects of pricing do not always receive as much consideration as suggested in the pricing literature.

What are the internal factors affecting pricing decisions of industrial companies?

Internal factors, as the name implies, refer to pricing decision-making factors that are internal to the firm. They can be divided into firm-level factors and product factors, which consist of factors such as corporate objectives, competitive strategy, product features, and stage in the product life cycle. (Hollensen 2011, 519) In addition, the customization factors can be placed under the category of internal pricing decision-making factors. Halton Marine's pricing decision making mostly consists of the internal factors, as the company mainly concentrates on its own business and strengths, instead of systematically analyzing the competitors' actions. Firm positioning, competitive strategy and product development were identified as the most important firm-level factors that affect the pricing decision making.

Since Halton Marine strives to be among the leading companies in all the chosen segments and avoid price competition by offering high-quality, customized products and services to its customers, both firm positioning and competitive strategy were found to have direct implications on the company's pricing decision making. In addition, product development plays an important role in Halton Marine's pricing decisions, as the company mostly uses product costs as the basis for its prices, which in turn are mostly decided in the product development phase. Customization was found to be another reason why product development is an important factor in Halton Marine's pricing, since the customization of products requires a lot of designing and product development.

Even though the amount of customization varies between different product categories and segments, customization can be argued to have a big impact on the pricing decision making at Halton Marine. Customization at Halton Marine requires many types of functions besides production, such designing, drawing of pictures, and documentation, which incur costs that influence the final price of a product or a larger solution. Correct assignment of the costs is important for Halton Marine, as the company mainly uses cost-plus strategy in pricing.

Product life cycle was identified to be one of the most important product factors affecting Halton Marine's pricing decision making. The company usually prices its products very differently based on whether the product is new or mature. When pricing new products that have no substitutes in the market, Halton Marine uses premium pricing, whereas cost-plus and market-based pricing are typically used in the case of mature products. Other product factors that were identified to be important in the pricing decision making include product features, product positioning, and product cost structure. Product cost structure, in particular, is an important factor since Halton Marine's pricing is mostly based on product costs. These findings are in line with the pricing literature, as several authors point out that costs tend to influence companies' pricing decision making more than any other factor (e.g. Morris & van Erkom Schurink 1993, 29; Forman & Hunt 2005, 134).

What are the external factors affecting pricing decisions of industrial companies?

External factors refer to factors outside the company, and can be divided into environmental factors and market factors (Hollensen 2011, 519). The importance of environmental factors in the pricing decision making is often emphasized in the pricing literature, especially if the company operates in international markets (Forman & Lancioni 2002, 30). Since Halton Marine operates in multiple markets and has production facilities in three different countries, it has to consider a large variety of environmental factors in its operations. However, surprisingly few of those factors were found to have direct implications on the company's pricing. Business cycle stage and inflation were identified to be the most important environmental factors regarding pricing, as Halton Marine aims to raise its prices every year by at least the same amount as the inflation rate. The business cycle stage, in turn, may intensify the competition in certain segments, and force the company to adjust its prices according to the situation in the market.

Customers' needs and tastes were identified to be one of the most important market factors, as Halton Marine must consider the needs and tastes of several stakeholders when selling the products and setting the prices. In addition, it was found that customers' price sensitivity influences the company's pricing decisions, and that the degree of price sensitivity varies between different segments and product categories. The switching costs were also found to have an impact on the pricing decision making in certain situations. However, it can be concluded that Halton Marine places more emphasis on internal factors than external factors, despite the fact that the company operates in multiple markets.

How does pricing decision making affect the pricing orientation?

Several characteristics have been identified in the pricing literature that distinguish value-based pricing orientation from cost- and competition-based orientations. Liozu and Hinterhuber (2012, 35-36), for example, found that companies that use value-based orientation emphasize the scientific and analytical side of the pricing decision making, whereas managers in companies that use cost- or competition-based pricing orientation often rely heavily on experience, prior knowledge, and intuition when making pricing decisions. In addition, the authors found that companies using cost- or competition-based orientation do not have a dedicated pricing function, and that the locus of pricing varies based on the pricing orientation. The strategic and tactical pricing responsibility is often situated in the sales function in companies that use cost- or competition-based orientation, whereas the pricing function usually reports to the marketing function in the companies that use value-based orientation. (Liozu & Hinterhuber 2012, 29-32)

Based on the empirical findings, it can be argued that Halton Marine uses cost-based pricing orientation. Findings of this study support many of the above mentioned findings by Liozu and Hinterhuber (2012). For example, it was found that the pricing responsibility at Halton Marine is situated in the sales function, and the company does not have a dedicated pricing function, which are both characteristics of a company that uses a cost- or competition-based pricing orientation.

The pricing decision-making process includes a variety of decisions that the company must make, as well as multiple factors that it needs to take into account, which are all closely linked to the pricing orientation. The factors that the company decides to emphasize in its pricing decision making can be claimed to determine its pricing orientation. For example, Halton Marine's decision to emphasize cost-related information in its pricing decision making is the most distinct characteristic of cost-based pricing orientation.

How to price customized industrial products in international markets?

The main purpose of this study was to examine how customized industrial products should be priced in international markets. Based on the existing literature and empirical findings, it can be concluded that the pricing of customized industrial products consists of several dimensions and is influenced by a large variety of factors. It is also important to acknowledge that most companies sell multiple products to different segments in different markets, and that companies' pricing practices may vary between different product categories, segments, and customer groups. Therefore, no pricing strategy exist that could be regarded as the best strategy for every company under all circumstances.

Pricing decisions of customized products should be based on a multi-stage decision making process which takes into account the objectives of pricing, the overall marketing strategy of the company, and the short- and long-term aspects of pricing (Hollensen 2006, 330; Hollensen 2011, 519). In addition, it is important to consider all the factors that affect pricing decisions, which are both internal and external to the firm (Forman & Hunt 2005; Hollensen 2011, 519). It was found that internal factors, in particular, play an important role in the pricing of customized products. The case company Halton Marine places a lot of emphasis on product factors, firm-level factors, and customization factors in its pricing decisions, whereas external factors receive less consideration. However, external factors should not be ignored completely, especially when operating in international markets, as it was found that they have both direct and indirect influences on pricing.

Customized products refer to products that are designed and built according to the customer's unique needs (Terwiesch & Loch 2004, 145). It was found that the amount of customization required is dependent on the product category and the segment, and that customization requires many types of functions besides production, such designing, drawing of pictures, and documentation, which incur costs that are important to assign correctly to specific products, projects, and customers. Based on the existing literature and empirical findings, it could be argued that customization provides companies an opportunity to differentiate themselves from their competitors, especially when they offer larger solutions that are designed and built according to customer's needs and tastes, which in turn should be utilized in pricing.

As mentioned above, it is clear that no pricing strategy exist that should be used in every situation and under all circumstances when pricing customized industrial products. The case company Halton Marine was found to avoid price competition and use either premium pricing or cost-plus pricing, depending on the segment and the product category, and the stage in the product life cycle. In addition, the company's prices were also found to be influenced by the general price level in the market place. Based on the pricing literature and the empirical findings, it could be argued that customization provides companies a good opportunity to utilize premium pricing and other customer value-based pricing strategies, which in turn can lead to higher profits when used correctly. Using of value-based pricing strategies, however, require companies to be able to effectively communicate the value of the offerings to their customers.

Pricing orientation is an important dimension of pricing, and it refers to the means through which companies arrive at pricing decisions (Ingenbleek et al. 2003, 289). The case company Halton Marine was found to use cost-based pricing orientation, which is common for companies that offer customized solutions (Drury 2012, 230), and the pricing practice of the company was also found to have some characteristics of competition-based pricing orientation. The utilization of different sources of information, such as accounting data and information about competitors and customers, is generally recommended (Shipley & Jobber 2001, 310; Hinterhuber 2004, 768; Drury 2012, 231). The use of different sources of information refers to integrative pricing approach, which can be argued to be a good approach for a company that has a large variety of products and solutions that it sells to different segments in multiple markets.

However, since companies are able to provide added value for customers through customization, the value-based pricing orientation could be argued to be a very suitable orientation for customizing companies as it is helps companies to harvest the full value from their customers, particularly when used in conjunction with the other sources of information. Value-based pricing orientation is also highly praised in the pricing literature, which is why it should not be ignored in the pricing of customized industrial products (e.g. Anderson & Narus 1998; Nagle & Holden 2002; Hinterhuber & Bertini 2011)

7.2 Managerial implications

A growing number of companies have started to offer customized products and solutions to customers, but the pricing of such offerings has received very little attention. The results of this study provide insights for industrial managers that deal with the pricing of customized products, and increase understanding of the phenomenon under study. It needs to be noted, however, that the pricing of customized products was studied in the context of a specific industry, and since all industries and industrial markets are not alike, the generalizability of the results is limited.

The results of the study indicate that the pricing of customized products is a broad concept, and that companies should take numerous factors into account in their pricing decision making, particularly when they operate in international markets. These factors can be divided to internal and external factors, and internal factors in particular were found to have an important role in the pricing decisions regarding customized products. Based on the research findings and the existing literature, it can be argued that all pricing decisions should be based on a decision making process that contains multiple steps and takes both short-term and long-term aspects of pricing into account, as well as the overall marketing strategy of the company. In addition, companies should consider the strategic aspects of pricing instead of using it only as a tactical tool.

What comes to different pricing strategies, it needs to be noted that there is no strategy that could be regarded as the best strategy for every company under all circumstances, since the choice of a pricing strategy was found to depend on a variety of factors. The results of the study suggest, however, that companies should use different sources of information when determining prices for customized products, such as accounting data and information about competitors and customers. By using multiple information sources, companies are able to develop an integrative pricing approach that enhances the quality of pricing decision making.

The results of this study also suggest that customizing companies should consider using value-based pricing orientation, since customization is closely linked to customer value. By offering products that are designed and built according to customers' needs and tastes, companies add value for their customers, and value-based pricing orientation could be a suitable method to harvest that value.

7.3 Limitations of the study and suggestions for future research

Since the research was conducted as a qualitative single case study, the generalizability of the results is limited. The case company Halton Marine Oy operates in a specific industry that has unique characteristics, which is why the results cannot be generalized to apply to all industrial companies. It has also been noted in the pricing literature that all industrial markets are not alike, and therefore the organizational structures and pricing functions of industrial companies are also dissimilar (Smith 2012, 54). The pricing decision making was found to differ even between the different segments of the company, which further proves that the results are context-specific and difficult to generalize.

Qualitative single case study method was found to be an appropriate method to examine the pricing of customized products due to its flexibility, and due to the fact that it enabled the researcher to obtain in-depth understanding of the phenomenon under study and find answers to the research questions presented in Chapter 1. The flexibility of the qualitative single case study method, however, is also its biggest challenge, as the quality of the research depends on the researcher's style of empirical thinking, presentation of evidence, and consideration of alternative interpretations (Yin 2009, 127).

Further research is needed to better understand the effect that different types of customization, such as mass customization, have on pricing decision making. Suggestions for future research also include examining the pricing of customized industrial products in different settings. A cross-case analysis, for example, would be an appropriate method to identify how the pricing decision making and pricing practices of industrial companies vary between different industries. In addition, future research could examine how the pricing of customized industrial products differ between international and domestic companies, between products and services, and between companies originating from different countries.

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INTERVIEWS

Sami Piirainen, Sales Director, Halton Marine Oy, Interview, Lahti 29.1.2016. Duration 1 hour 26 minutes.

Kimmo Piispanen, Director of Project Management, Halton Marine Oy, Interview, Lahti 29.1.2016. Duration 1 hour 26 minutes.

Esa Romppanen, Business Controller, Halton Marine Oy, Interview, Lahti 29.1.2016. Duration 1 hour 26 minutes.

Tommi Rantanen, Managing Director, Halton Marine Oy, Interview, Lahti 3.5.2016. Duration 1 hour 19 minutes.

APPENDICES

APPENDIX 1.
Interview questions

Yleisesti yrityksestä ja hinnoittelusta

- Millainen on yrityksen myyntiprosessi?
- Onko Halton Marinella hinnoittelupolitiikkaa/hinnoittelustrategiaa? Millainen se on?
- Miten hinnat määräytyvät? Onko tuotteilla listahinta, josta annetaan asiakaskohtaisesti alennus? (Jos on, niin miten alennuksen määrä päätetään?)
- Mikä on Halton Marinen asema markkinoilla?
- Millä tavoin hinnat vertautuvat kilpailijoiden hintoihin?
- Kuinka paljon asiakkaita yrityksellä on? Missä asiakkaat sijaitsevat?
- Kuinka suuri osa liikevaihdosta tulee viennistä?

Kustomointi

- Ovatko kaikki asiakkaille myytävät tuotteet suunniteltu etukäteen, vai vaativatko usein suunnittelua asiakkaan yhteydenoton jälkeen jotta saadaan asiakkaiden toiveiden mukainen tuote?
- Mitkä tuotteet vaativat eniten suunnittelua/kustomointia, ja vaihteleeko kustomoinnin määrä paljon tuotteiden välillä?
- Miten kustomointi tapahtuu, lähetetäänkö/esitetäänkö asiakkaalle eri vaihtoehtoja halutusta tuotteesta? Tehdäänkö mallikappaleita varta vasten asiakasta varten? Jos tehdään mallikappaleita tai erilaisia versioita tuotteista asiakasta varten, niin kuinka monta, kuka maksaa, ja kuinka ne ja lopullinen tuote hinnoitellaan?
- Miten tuotteiden kustomointi vaikuttaa hinnoitteluun?

Sisäisten ja ulkoisten tekijöiden vaikutus hinnoitteluun ja hinnoittelustrategian valintaan

- Miten seuraavat yrityksen sisäiset tekijät vaikuttavat tuotteiden hinnoitteluun?
    1. Emoyhtiön ja markkinoinnin tavoitteet
    2. Kilpailustrategia
    3. Yrityksen positiointi
    4. Tuotekehitys
    5. Tuotantolaitosten sijainnit (tuotannon kustannukset)
    6. Tehtaiden kapasiteetin käyttöaste
    7. Markkinoille meno – strategiat

- Miten seuraavat tuotteisiin liittyvät tekijät vaikuttavat hinnoitteluun?
    1. Tuotteen elinkaaren vaihe
    2. Sijainti tuoteperheessä
    3. Tuotteen tärkeimmät ominaisuudet (laatu, palvelu, yms.)
    4. Tuotteen positiointi
    5. Tuotteen kustannusrakenne
    6. Tuotteen prosenttiosuus yrityksen tuloksesta

- Miten seuraavat yrityksen toimintaympäristöön liittyvät tekijät vaikuttavat hinnoitteluun?
    1. Viranomaisten päätökset ja rajoitteet (liittyen esim. vientiin ja tuontiin, verotukseen, yms.)
    2. Inflaatio
    3. Valuuttakurssien heilahtelut
    4. Suhdannevaihtelut (esim. taantuma/talouden nousukausi)

- Miten seuraavat markkinatekijät vaikuttavat hinnoitteluun?
    1. Asiakkaiden mieltymykset ja tarpeet
    2. Asiakkaiden maksukyky
    3. Asiakkaiden hintaherkkyys
    4. Vaihtokustannukset
    5. Kilpailun luonne
    6. Kilpailijoiden tavoitteet, strategiat, ja vahvuudet/heikkoudet
    7. Markkinoille pääsyn esteet