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# **Challenges in implementing value-based pricing strategy**

**Master's thesis**

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## ABSTRACT

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<p>The decline of raw material prices as has increased price pressure and created need to develop pricing strategies for metals and minerals processing equipment vendors. Value-based pricing strategy is considered to offer best possibility to maximize revenue. However, value-based pricing is not commonly adopted in industrial markets. Organizational issues have been recognized as the key obstacles of implementation of value-based pricing strategy. The objective of this study is to provide information about the challenges and the development needs of pricing management in industrial markets especially related to the implementation process of value-based pricing strategy.</p> <p>The study was conducted using single case study method with. As a basis for the study, the current literature involving strategic pricing, pricing management and value-based pricing was studied. The data was collected by conducting eleven interviews. Data was analyzed by using open and axial coding.</p> <p>Eight main themes related to pricing management and the role of the pricing function where identified. Twelve individually and organizationally induced barriers to implementing value-based pricing were recognized. Findings correlate with current literature concerning the effects of barriers to value-based pricing strategy. The importance of senior management support and the need for co-operation in implementation process of value-based pricing strategy were emphasized.</p>	

## TIIVISTELMÄ

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<p>Raaka-aineiden hinnan lasku on nostanut hintapainetta ja synnyttänyt hinnoittelustrategioiden kehitystarpeen metallien ja mineraalien prosessointilaitteiden toimittajille. Arvopohjaista hinnoittelustrategiaa pidetään parhaana vaihtoehtona tuoton maksimoimiseen. Arvopohjainen hinnoittelustrategia ei ole kuitenkaan yleisesti omaksuttu teollisilla markkinoilla. Organisatoriset ongelmat ovat tunnistettu merkittävämmiksi esteiksi arvopohjaisen hinnoittelustrategian implementoinnissa. Tämän tutkimuksen tarkoituksena on tarjota tietoa hinnoittelun johtamisen haasteista ja kehitystarpeista teollisilla markkinoilla eritoten liittyen arvopohjaisen hinnoittelustrategian implementointiprosessiin.</p> <p>Tutkimus suoritettiin yksittäistapaustutkimuksena. Tutkimuksen pohjaksi tutustuttiin olemassa olevaan kirjallisuuteen koskien strategista hinnoittelua, hinnoittelun johtamista ja arvopohjaista hinnoittelua. Tutkimuksen aineisto kerättiin suorittamalla yhteensä 11 haastattelua. Aineisto analysoitiin avoimella ja aksiaalisella koodauksella.</p> <p>Kahdeksan pääteemaa liittyen hinnoittelun johtamiseen ja hinnoittelufunktion rooliin identifioitiin. Tämän lisäksi tunnistettiin 12 henkilökohtaisesti ja organisatorisesti aiheutuvaa pääestettä arvopohjaisen hinnoittelun implementoinnille. Tulokset korreloivat olemassa olevan kirjallisuuden kanssa koskien arvopohjaisen hinnoittelustrategian pääesteiden vaikutuksista. Ylemmän johdon tuen tärkeyttä ja yhteistyön tarvetta osana implementointiprosessia korostettiin.</p>	

## **FOREWORD**

In autumn of 2014 I was supposed to have an interview for position of Master's Thesis worker in Outotec. One week before the interview, the topic changed into job interview for position of full-time Pricing Specialist. Although I understood that it could be quite demanding to combine working and writing thesis simultaneously I decided to challenge myself and accept the position. Now, two and half years later, I can say I did it. The process of writing this thesis has been extremely humbling experience and I have learned about myself many new things. Journey has been long and challenging but at the same time rewarding, especially now on the brink of finishing my Master's studies.

This could not have happened without support. Thank you Outotec for giving me this opportunity. Especially I would like to thank Kalle Aerikkala for introducing me into the interesting yet complex world of pricing. I cannot also thank enough my supervisor from LUT, Joonas Keränen, who initially put healthy pressure on me to finish my studies and supported me throughout the process of writing this thesis. Thanks belong also to all my colleagues and friends who were always there for me when I had difficulties with the writing process. Special thanks to IBK MedA for reminding me that with winning culture only the sky is the limit.

Last, but not the least, I want to thank my family. Thank you Henriikka for sharing your tips on finishing studies. Thank you Heikki and Irene, you have always supported me whatever I have decided to do. I know I can always count on you in the most difficult times and I will never stop being grateful to you for how good you have been and still are as parents to me.

Espoo, 21.05.2017

Henri Rantalaiho

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## **LIST OF SYMBOLS AND ABBREVIATIONS**

B2B = Business to business

ERP = Enterprise resource planning

HR = Human resources

IPR = Intellectual property rights

KPI = Key performance indicator

PDM = Product data management

RFQ = Request for quotation

R&D = Research and development

VBP = Value-based pricing



# 1 INTRODUCTION

## 1.1 Background and motivation

“Price management is a critical element in marketing and competitive strategy and a key determinant of performance” (Shipley and Jobber, 2001, p.301). Despite the importance, pricing is often overlooked compared to other elements of marketing mix. Focus is seen to be just figuring out what are market price levels and trying to cope with price management towards competitors. (Lancioni, 2005a.) Same trend has been seen also seen in academics as subject of pricing has received significantly less attention when comparing number of publications on other instruments such as product, promotion and distribution (Hinterhuber, 2004). According Ingenbleek (2007) due increased market pressure towards prices more effort has been put to understand customers’ value perceptions. Value-based pricing strategy (VBP) has been seen as most superior pricing strategy towards others as it is understood that it generates best possibilities of maximizing revenues by taking account the aspect of customers’ willingness to pay (Hinterhuber 2008).

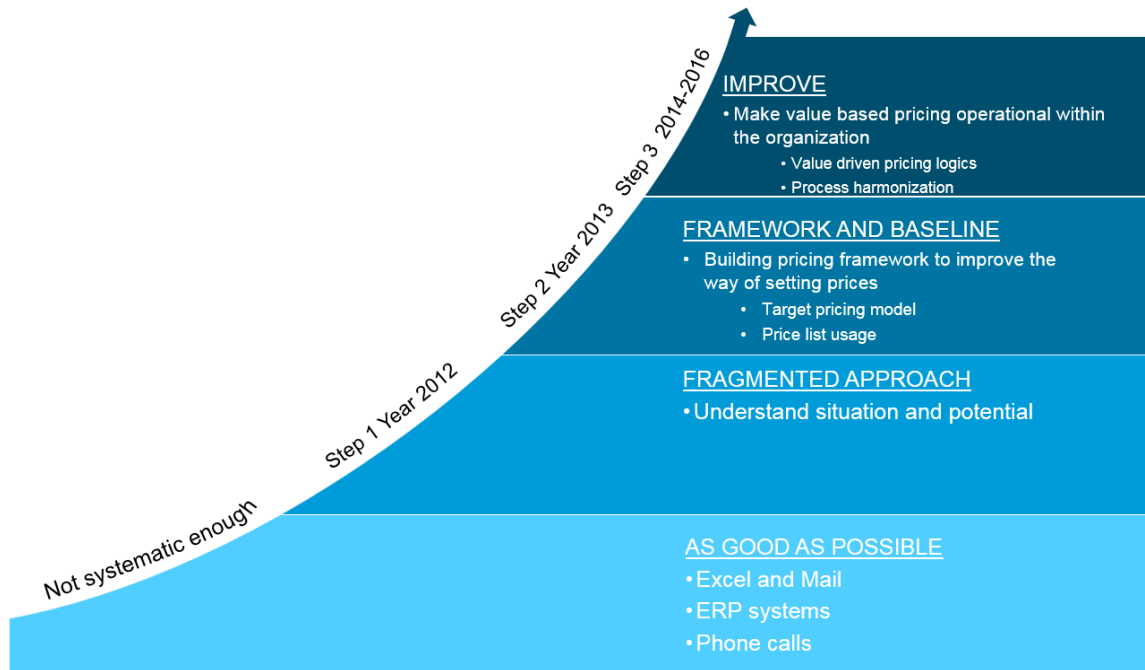
Due declined raw material prices mining and metals processing companies have had less money to invest in their operations. This has led to increased price pressure for equipment vendors in the markets. Simultaneously due globalization number of competitors has increased especially in lower cost countries providing products with cheaper prices. As the demands and the level of competition has been increasing in mining and metals equipment vendors have faced needs to develop their pricing management in order to survive in industrial markets. As the characteristics and value perceptions vary between different customers in the markets, utilizing VBP has gained the interest among industrial vendors.

Despite the benefits customer value-based pricing still plays a minor role in pricing strategies appointed especially in industrial companies whereas cost-based and competition-based pricing strategies are more common used (Hinterhuber & Liozu, 2014). In order to understand better why VBP is employed so infrequently literature suggests that

organizational issues are playing a key role in preventing implementation of value-based pricing (Hinterhuber 2008, Töytäri, Rajala & Brashear Alejandro, 2015). On a single case study in a global industrial firm Töytäri, Keränen and Rajala (2017) acknowledge that individually induced barriers have significant influences on preventing implementation of VBP.

Töytäri et al. (2017) suggests that further research might provide additional information about the barriers to VBP. In this research focus is to study what are key barriers towards VBP and recognize specific barriers from key internal stakeholder's perspective with single case study. Research aims to shed light about the challenges related to implementing VBP and to recognize specific barriers induced in Case Company. In order to recognize barriers study is also concentrating in creating understanding how pricing management is seen in Case Company.

Case Company is Finland-based global firm providing technologies and services in the field of metal and mineral process technology. Although Case Company's products are globally recognized as being highly competitive from technical and quality perspective, customers have expressed readiness to choose alternative products from competitors, even with lower quality and prices. However taking part in pricing wars is not in Case Company's interests and therefore it has been recognized that emphasis needs to be in increasing customers willingness to pay instead of "throwing the towel" on pricing. This has led Case Company to develop its pricing management during last years. Phases of pricing management development are illustrated in Figure 1. Major breakthrough towards pricing management happened in year 2014 when separate pricing team was established and sophisticated pricing management system was deployed. One of the major tasks given to services pricing team in 2014 was implementing VBP throughout Case Company's service functions. As there has been significant, progress during last three years in terms of implementing VBP it is also evident that obstacles have arisen among the journey.



**Figure 1. Steps of pricing management development in Case Company**

## 1.2 Research questions

The objective of this study is to provide information about the challenges and the development needs of pricing management in industrial markets especially related to the implementation process of value-based pricing strategy. In order to recognize obstacles to implementing VBP there is also need to explore how different aspects related to pricing management and the role of pricing function in this context are understood organizationally. To address the objective of this study single-case study is conducted and issues are analyzed in Case Company.

The research questions of this research are:

1. How pricing management and the role of pricing function is understood in industrial companies?
2. What are the key barriers that prevent implementation of value-based pricing strategy in industrial companies?

### 1.3 Research structure

Theoretical part consists of two parts that are pricing in general and implementing VBP. In first theoretical part, strategical aspects of pricing as well as pricing management from organizational perspective are discussed. This creates basis to for second theoretical part, which is to understand obstacles that may occur and prevent implementation of VBP. Theoretical framework based on literature review is then utilized in empirical part of the research.

Empirical part of this research is conducted with qualitative single case study method and data collection with 11 semi-structured interviews. The purpose of interviews is to bring together various perspectives, gather experiences and obtain understanding on how pricing management and VBP is seen in the Case Company. Based on data analysis goal is to recognize in more detail way how pricing management is understood in Case Company, what is the role of pricing function in this context, which internal stakeholders are most important in process of implementing VBP and especially to understand why implementing VBP is challenging from their perspectives. The structure of the thesis is demonstrated in Table 1.

**Table 1. Structure of the research**

Chapter	Title	Purpose
1	Introduction	Introduction of the research
2	Strategic Pricing	Theoretical chapter discussing pricing as strategic approach and pricing management
3	Obstacles in value-based pricing strategy	Theoretical chapter discussing barriers to VBP and overcoming obstacles to VBP
4	Methodology	Methodology used in the research
5	Findings	Findings on how pricing management and role of pricing function is understood, and the key barriers related to VBP
6	Conclusions	Conclusions of the research
7	Managerial Implications	Managerial implications to understand role of key stakeholders in implementing VBP and recommend actions
8	Summary	Summary of the research

## **2 STRATEGIC PRICING**

In the marketing mix concept of the 4Ps consisting price, product, place and promotion it has been argued that pricing is the most important element as it is the only one that generates directly revenue (Lowengart & Mizrahi, 2000; Indounas & Roth, 2011). Whereas industrial companies have seen that they can influence more in other elements of marketing mix, pricing has been seen as completely dictated by the markets (Lancioni, 2005a). In order to compete in markets it is argued that approach towards pricing management should be seen more as strategical rather than as tactical (Dutta, Bergen, Levy, Ritson & Zbaracki, 2002).

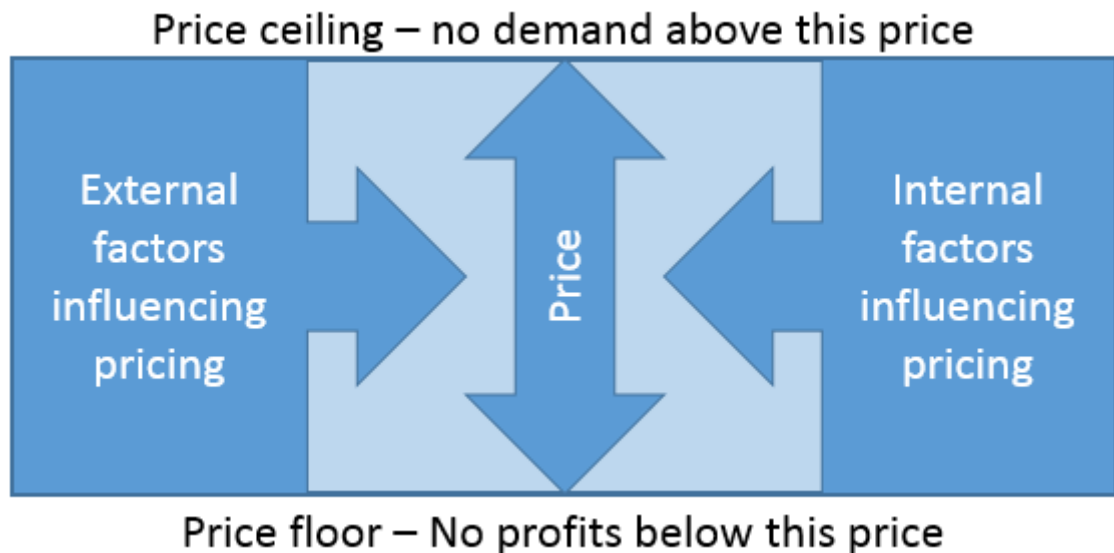
### **2.1 Pricing as strategic approach**

Kotler and Armstrong (2012, p.290) define price as “amount of money customers charged for a product or service; the sum of the values that customer exchange for the benefits of having or using the product or service.”

In order to successfully managing pricing, it needs to be understood that setting prices tactically is not enough (Dutta et al. 2002). As Nagle and Holden (2002, p.149) define it, “the difference between price setting and pricing strategically is the difference between reacting to market conditions and proactively managing them.” Whereas price setting is seen as just one tactical element in a sales process, pricing strategy refers to more comprehensive co-ordination of maximizing profitability by taking account marketing, competitive and financial decision in account (Nagle & Holden, 2002, p.149).

In order to generate profitable sales, prices will need to be higher than the costs but at the same time meet the customer’s perception of value. If the price is above customer’s perception of value, no sales will result. If the price is below company’s costs, it will result as negative margin. Price ceiling represents the maximum amount of customer perceptions of value whereas price floor is based on the cost level of company. External and internal factors such as competitors’ strategies and prices, the overall marketing strategy and mix as

well as the nature of the market and demand are needed to be addressed as well. This will serve as starting point for companies in price setting consideration process. (Kotler & Armstrong, 2012, p.291.) Framework of price ceiling and floor is illustrated in Figure 2.



**Figure 2. Consideration in setting price (adopted from Kotler & Armstrong, 2012, p.291)**

The motivation for seeing as pricing as strategic approach is inevitable. As Hinterhuber (2003) mentions the impact of price on profitability is significant. However, pricing is often seen more as source of frustration rather as an opportunity to increase profitability from industrial company perspective as it has been felt that customers are in control of the prices (Lancioni, 2005a).

In order to answer to demands of changing market environment companies often change their prices. Kotler and Armstrong (2012, p. 319) lists seven price adjustment strategies: discount and allowance pricing, segmented pricing, psychological pricing, promotional pricing, geographical pricing, dynamic pricing, and international pricing.

According Hinterhuber (2008) there is significant variance in different pricing strategies depending on industries, countries and customers. Nevertheless, different strategies can be divided into following main groups: cost-based pricing, competition-based pricing and customer value-based pricing (Hinterhuber, 2008).

Key thing to understand when talking about differentiation between cost-based pricing and customer value-based pricing is to understand chain of events in both approaches illustrated in Figure 3. (Hinterhuber & Liozu, 2013, p.108)

**Cost-based pricing**



**Value-based pricing**



**Figure 3. Pricing chain of different pricing strategies (Hinterhuber & Liozu, 2013, p.108)**

In cost-based pricing customer is considered as last objective of pricing process. This leads to situation where price is first set based on costs but not taking account customers' view. Company needs to hope that customer will value output higher than price what is charged from them. In value-based pricing chain has been inverted to reflect realities of the markets. Customers do not care about sales companies' internal costs or desired margin levels but they demand value that is higher than price charged from them. (Hinterhuber & Liozu, 2013, p.108)

When analyzing these differences it actually reveals further fact that it is not costs that should determine sales prices but it is actually the opposite; sales prices should be determining costs. A company has to evaluate whether the charged price will allow it invest in costs required to develop the product or service at desired profit level, before decision to produce product or service has been made. If costs levels prevents in making profitable business production should not be done in first place. Key thing is to understand that costs should be considered before production has taken place instead of setting price after production has been already done and costs already exist. (Hinterhuber & Liozu 2013, p.108)

### 2.1.1 Cost-based pricing

Cost-based pricing has been retrospectively the most common pricing strategy mainly due in many ways it is the simplest way to do pricing. In addition, cost-based pricing has been seen as most safest pricing strategy from profitability perspective where in a nutshell items sales price have been generated by adding desired profit amount on top of the cost of the item. (Schindler, 2012, p.21).

As Hinterhuber (2008) lists there exists wide terminology what are used when talking about cost-based pricing such as cost-plus pricing, mark-up pricing and target-return pricing. In addition, other terminology is introduced in various publications. Nevertheless essentially all of these concepts are based on adding percentage or monetary value on top of the cost. Thus in this research only term Cost-based pricing is later referred.

Reason why cost-based pricing has gained popularity is the simplicity of the strategy. Especially it has been seen important to have simple method when there is large amount of items with potentially similar characteristics to be priced such as in wholesaling and retailing. Using cost-based pricing has been also justified by maintaining prices in similar level within markets and avoiding over- or underpricing items compared to competitors. This idea has been based on impression that per-item costs are often similar to costs for ones competitors have. By adding commonly used amounts, that are thought to be used also by other companies on top of costs, prices have seen to be in competitive level thus reducing need to do proper research in competitors actual sales prices. (Schindler 2012, p.27)

Although cost-based pricing is widely used pricing strategy it has been seen also seen as weakest pricing strategy. As in theory it can look like a simple and safe method to profitable business in practice often it will actually limit level of company's financial performance. (Nagle, Hogan and Zale, 2014, p.2.) Fundamental problem with cost-based pricing is presumption that by looking first at costs when setting sales prices profitability can be insured on those items that are sold. Although this would actually mean that ones that are sold do have also desired profit percentage, it might limit more important measure



of total profits. If added amount expected to generate desired profit results prices that are considered too high from customers perspective result can be smaller sales amounts than expected. In this kind of example total profit can be extremely disappointing and not cover all costs as profits gained from sold items might be not enough monetarily compared to expected sales volumes and total profits. Vice versa by adding desired profit amount on top of cost can also result in price that is actually lower than customers would be willing to pay. In this scenario there would be potential to generate more total profit than would be expected thus limiting financial performance. (Indounas, 2006.)

Another issue with cost-based pricing is that in most industries unit costs tend to change with volume. This leads to problem where pricers need to first determine average unit cost and thus making assumption that price can be set without effecting on volume. The errors made in evaluating effects of price on volume and of volume on cost actually will lead situations where managing prices with profitability being key driver becomes impossible. Attempts to cover these errors may even create bigger problems. If costs have been underestimated in beginning in order to cover costs prices are increased. This can further increase actual unit cost as higher price may decrease sales levels. According theory prices should be still further increased though. In contrast if average unit costs have been overvalued and still resulting higher sales than expected it would mean that prices according theory should be decreased, as average unit cost would be actually lower than when cost-based pricing was done. In another words cost-based pricing results to overpricing when markets are weaker and underpricing in strong markets. This is exactly opposite what usually is targeted in sage pricing strategy. (Nagle et al., 2014, p.3)

Clear problem with cost-based pricing is also that it does not take account customers willingness to pay into account. Customers view on price does not change even selling companies costs would be changing. In cost-based pricing also too often favorable actions in sourcing and supply departments are directly transferred to customer. Sourcing and supply savings generated by negotiating better discounts from vendors should not be automatically transferred to sales prices. Instead of lowering prices, these savings could be maintained inside company making business thus more profitable. (Hill, 2013, pp. 49-50)

Although cost-based pricing is criticized, it does not mean that cost-based pricing would result failure at least in short term. Many companies exist who make profitable business with using cost-based pricing. Some companies have even developed more dynamic cost-based models to manage their pricing. Key question and issue for this kind of model would be still how much more profitable these companies could be and which margin level would be enough? (Liozu, 2016a, pp.17-18)

### **2.1.2 Competition-based pricing**

In competition-based pricing price, setting is based on examination of competitors' prices. Goal might be as well to match yourself with similar prices competitors have but also can mean setting higher or lower prices desired contrast to competitors' prices. (Schindler, 2012, p.29)

As Hinterhuber (2008) states that in competition-based pricing markets are taken account better than in cost-based pricing thus making it more sophisticated strategy. Actually completion-based pricing strategy is considered most common approach in various companies in different markets. Competition-based pricing has been seen as optimal approach in situations where company's offering cannot be differentiated in any forms with competitors offering. Example of this kind of business can be selling of commodities. (Hinterhuber, 2008)

Competition-based pricing shares similar kind of advantages as cost-based pricing does possess. It is intuitive approach as often it has seen that it is important to set prices in similar levels than competitors have in order to maintain interest of customers. In addition it is not the most complex approach setting prices as in principle it is just adding or subtracting desired amount from prices set by customers. (Schindler, 2012, p.29)

In competition-based pricing decision on desired price levels can be made in taking account different kind of competitors prices. Prices can reflect highest, lowest or average competitor prices in markets. Also price level can be pinpointed to focus in certain competitors only. Competitor to be compared can be the one that is considered to be most

similar, most dominant, most prestigious or potentially the competitor which is growing the fastest and making a difference in markets. (Schindler, 2012, p.29)

When talking about the challenges in competition-based pricing the most evident issue is obtaining competitors prices. In many markets, prices are not visible to other parties than seller and buyer. Buyer might have even incentives to share wrong information to seller in hope of decreased prices. Even the shared prices for other parties might not been the actual prices used as often prices are end results of private negotiations. Therefore, in order to be able set prices based on completion it usually is not enough to just gather information and rely on it. It also needs further evaluation in terms of analyzing what would be competitors' likely costs, strategies, profit margins and other elements of competitive intelligence. (Schindler, 2012, p.29)

Competition-based pricing also has disadvantage of potentially leaving money on the table and limiting financial performance; similar to cost-based pricing. True value of items is not taken account and thus customer's willingness to pay is not challenged. Especially in markets of items where competition-based pricing has been normal for longer period company might be facing a situation where market prices are just result of constant imitating of competitor's prices rather than truly rationale prices related to the value of item. (Schindler, 2012, p.29)

### **2.1.3 Customer value-based pricing**

Hinterhuber (2008) defines value-based pricing as following: "Customer value-based pricing approaches use the value a product or service delivers to predefined segment of customers as the main factor for setting prices." The biggest advantage of VBP that in basis of price setting is needs of the paying customers (Hinterhuber & Liozu, 2012). Liozu (2016a, p.23) states that VBP's overall goal is not in higher prices or even better pricing but it targets that price correlate with the true value of the products. When comparing different pricing strategy groups customer value-based pricing strategy is generally seen as superior to other pricing strategies in taking account customer value (Cannon & Morgan, 1990; Codini, Saccani & Sicco, 2012). .Ingenbleek (2007) states that companies have put

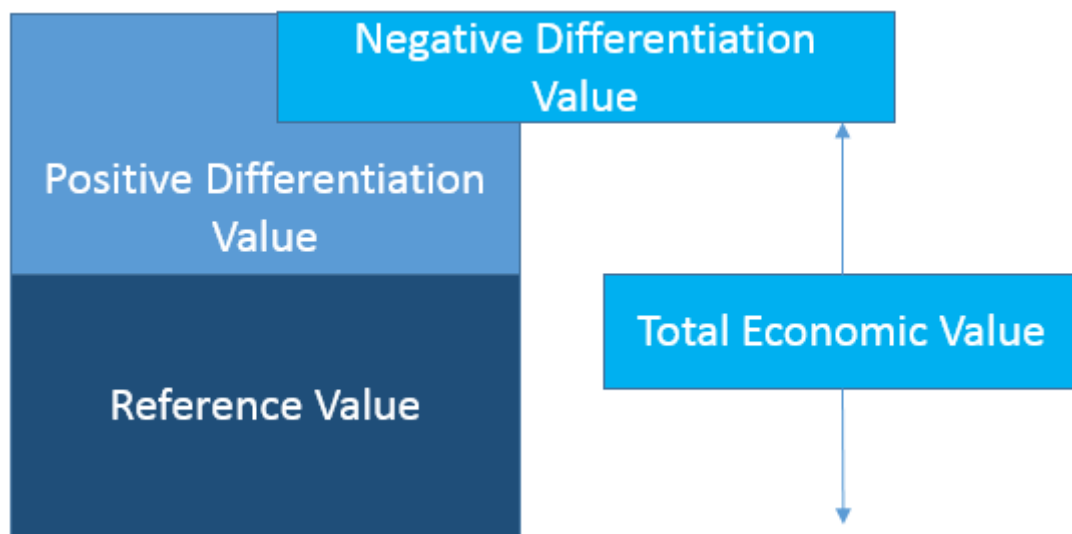
more focus in understanding customer's value perception as industrial companies have been facing price pressure. Forbis and Mehta (1981) add that offering better customer value can lead to increase of competitive position with even higher prices.

Key challenge in VBP is that obtaining and analyzing data related customer preferences, willingness to pay, price elasticity and size of different market segments can be difficult. As VBP is most often used with highly competitive industries where products generally have high level of value and products can be even unique, it generates risk that prices are set in relatively high level. This may seem tempting at the beginning but it can also create scenario where competitors may enter the markets offering similar kind of products with lower prices. Before VBP can be utilized there is need to communicate the value aspects, as customers need to recognize the value also in order to be ready to pay asked price. (Hinterhuber & Liozu, 2012)

Customer value-based pricing is still not widely used approach. Cost-based pricing and competition-based pricing are mainly adopted pricing strategies within majority of industries. (Hinterhuber, 2008). Key shortcoming recognized by Liozu et al. (2011) is that executives do not understand the concept of VBP. Another reason for the low level of adaptation of VBP is that many companies see their products more as commodities rather than value-potential products thus not seeing VBP providing any competitive advantage (Hinterhuber & Liozu, 2012). In addition, the requirement of deep cross-functional co-operation in VBP can create obstacles in implementation of the strategy (Nagle et al. 2014, p. 204).

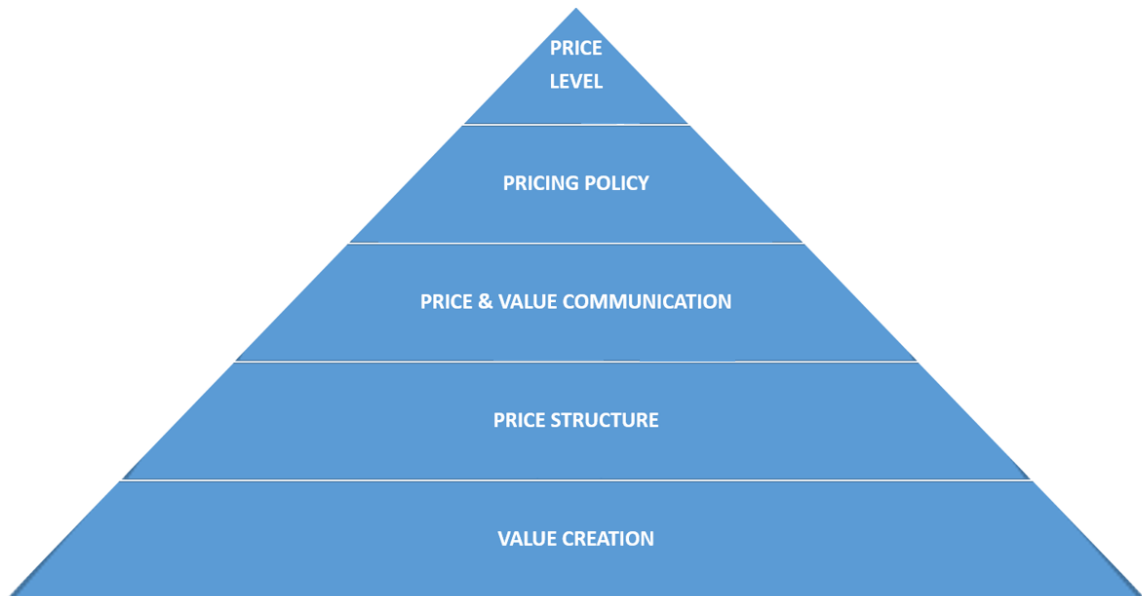
In context of VBP, it is important to understand what is meant with value. According to Johansson (2013, p.186), customer perceived value and differentiation value are the main value definitions in VBP. Töytäri, Turunen and Rajala (2014, p.122) divide perceived value into functional value, strategical value, symbolical value and social value in pricing context. Liozu, Hinterhuber, Boland and Perelli (2011) define value in VBP as “to the maximum amount a customer will pay to obtain a given product or service, in other words, the price at which the customer is equally indifferent to purchasing and to foregoing the purchase.”

Smith and Nagle (2005) present total economic value as the starting point for value communication for customer. Total economic value is calculated as the reference value plus the differentiation value. Reference value equals to customer's best alternative price. Differentiation value accounts as the incremental use value that is delivered compared to substitutes. Differentiation value can be either positive or negative based on the monetary and psychological value. Monetary value equals as the savings or income of purchasing the product and psychological value as the innate satisfaction product creates. (Nagle et. al, 2012, p. 19.) Total economic value not necessarily is the price that customer is willing to pay as factors such as uncertainty about the promised benefits, switching costs and perceptions of fairness will affect. However, total economic value will work as anchor point for measuring true value of the product and it will give comparison point for evaluating actualized sales prices. (Smith & Nagle, 2005.) Total economic value is illustrated in Figure 4.



**Figure 4. Economic value (Nagle et al. 2014, p.20)**

Nagle et al. (2014, p.7) lists that there are five distinct yet different sets of choices in the process of implementation of VBP: value creation, price structure, price and value communication, pricing policy and price level. In Figure 5 these choices are illustrated.



**Figure 5. The Strategic Pricing Pyramid (Nagle et al., 2014, p.7)**

In value creation phase, aspects estimating total economic value needs to be taken account. Estimating total economic value requires understanding of what are competitive reference prices and estimating monetary value as well psychological value for defining differentiation value. Also customers need to be segmented based on their characteristics in order to further continue with implementation of VBP. (Nagle et al., 2014, pp.7-9)

Price structure phase focuses in defining different metrics and fences to be utilized. Pricing metric is unit of which price is applied. Instead of just focusing on product of single price, with metrics such as performance-based, where price is based on the directly on the economic value and the incremental cost to serve rather than charges of installation. Another aspect in price structure phase is defining price fences. Price fence is the differentiating aspect where different customers are charged with different prices on the same products and the same metrics. Fences can be related to buyer identification, purchase location, time of purchase or purchase quantity for instance. (Nagle et al., 2014, p.55)

Price and value communication is essential part of VBP process. Even if there would have been success in earlier stages by understanding the value of the products and translated it into price accordingly, it is not enough if customer can't recognize the value. Important

aspect in value communication is to understand in which stage of buying process the customer is. Buying process can be divided to different stages based on whether customer is already comparing products before expected transaction to early stage where customer is just have become aware of possible need of a product. (Nagle et al., 2014, pp.75)

As the last stage of implementation is price setting. Even the significance of earlier stages cannot be underestimated, as price-setting task is perhaps the most challenging stage due great impact for business performance. Two most important aspects that need to be taken account before setting prices are whether prices are aligned with overall business strategy and how customer is expected to answer new prices. (Nagle et al., 2014, p. 130)

## **2.2 Pricing management**

### **2.2.1 Managing strategic pricing**

Lancioni (2005b) states that pricing is often seen so dependent on other functions that establishing single function dedicated to pricing as well as having own pricing plan is impossible. As pricing decisions are also reflecting other functions such as sales, marketing, senior management, finance, manufacturing and customer service, questions have been raised how one function would be able represent interests of everyone simultaneously (Lancioni 2005b). Common reason for pricing strategies to fail and to be inconsistently implemented is linked to conflicted motivations of decision makers without possessing enough information or expertise related to pricing management (Nagle et al., 2014, p. 205).

Dutta et al. (2002) addresses that in order to manage pricing efficiently and turning pricing into “strategic weapon” company needs to invest in order to generate pricing capabilities. Investments to human capital, systems capital and social capital create basis for company to establish routines in price setting and shift away from ad hoc pricing. (Dutta et al., 2002). In order to utilize pricing capabilities there needs be organizational infrastructure that supports successful pricing management (Baker, Marn & Zawada, 2010). Burkert,

Ivens, Henneberg and Schradi (2017) mention that even when sophisticated pricing methods, tools and systems are introduced, successful implementation is not possible without organizational backbone of pricing. Carricano, Trinquencoste and Mondejar (2010) argue that establishing separate pricing function is key step in pricing management. Baker et al (2010) add that pricing function should be separated from units negotiating with customers and serve as healthy opponent for sales units by challenging them to use set prices. Successful pricing will not happen without systematic design of pricing organization where initiative for changing organizational structure comes from senior executives (Burkert et al., 2017).

### **2.2.2 Organizational structure of pricing function**

The role of pricing function can be classified with the ownership level of pricing decisions and pricing procedures. Nagle et al. (2014, p. 208) categorize four types of roles for pricing function: expert resource, functional coordinator, commercial partner and figurehead. Expert resource role is commonly adopted approach in industries such as chemicals and manufacturing where the capability on evaluating customer value is crucial. Expert resource can be effective when business units are operate with similar kind of data but market characteristics are different. As the ownership level of pricing procedures and decisions is low, role of pricing function is rather operate as internal consultant supporting other functions. Functional coordinator role has more power in pricing procedures and serves more as tactical advisor in terms how decisions are done rather what is the end result. Ownership of pricing decisions is still obtained by senior marketing and sales executives. (Nagle et al., 2014, pp. 207-208.)

As pricing function has the role of commercial partner it has both the ownership of pricing procedures and pricing decisions. However, rarely even in commercial partner role all power given to the function but usually it works in partnership with other commercial executives. Figurehead role is seen as most difficult one as pricing function has the right to make the key pricing decisions but has lacks in power to control pricing decisions in market areas. Function has low level of credibility and it often leads to other functions to do pricing decisions without formal authority. (Nagle et al., 2014, pp. 207-208.)



Another aspect in organizing pricing function is to define the degree of centralization. Liozu and Ecker (2013, p. 31) lists four types of pricing organizations: decentralized, centre-supported, centre-led and centralized. In decentralized pricing organization all pricing power is given to sales force. Focus is in generating revenue rather than profit and discounts are commonly used. In decentralized pricing individuals possess all the information related to pricing increasing risk of losing silent knowledge if individual leaves the company. Centre-supported pricing is mainly evaluated by the success of process development. Centre-supported pricing role is often established when there is recognized a need for pricing management but giving decision making power is not been wanted to share. This will result as a function that is formally responsible of pricing yet having low level of power in terms of pricing management. Benefit of centre-supported role is that it allows flexibility for sales force to operate and simultaneously pricing processes are developed. It may give an illusion for company that pricing is actually managed but that is not true as pricing function have limited amount impact to pricing decisions. (Liozu & Ecker, 2013, p. 31)

Centre-led pricing is the most ambitious approach as there focus is establishing pricing expertise at the strategical level and share knowledge for other functions to be utilized. Collaboration exist with sales functions as well as with others. Although centre-led pricing function would not possess pricing power, it is evaluated by profitability performance of other functions hence motivating truly to share their expertise around organization. In centralized pricing organization has the maximum level of control in pricing. In bigger companies, it may provide consistent pricing for all customers. However, the strong level of governance may create disempowerment in sales force. Due the strict nature of the approach, all pricing decisions are needed to be approved by pricing functions. This may lead to situations where sales force need to buy time with customers as it takes more time before pricing approval process in completed. (Liozu & Ecker, 2013, p. 32)

### 2.2.3 Pricing council

Key step in ensuring successful price management and development is creation of pricing council. It guarantees that on regular basis a group of experts spend time dedicated to the management of pricing Pricing council creates a forum for discussion of major pricing topics such as key KPI's, competitive data and new product pricing. Often pricing council consists key experts from various departments. (Crouch & Hunsicker, 2013, p. 180)

Among pricing professionals pricing councils have become acknowledged and useful organizational tool that provides a space for thorough review of all pricing activities. When establishing pricing council, there are certain key questions that needs to be considered:

- How pricing council is framed?
- Who is part of pricing council?
- How frequently pricing council meets and for how long?
- Where pricing council meets?
- What the agenda look like?
- How council actions are communicated? (Liozu, 2016b, p. 89)

Presence of top management is one of key aspects in successful pricing council. It has been considered to be one of the best ways to elevate the conversation, to get people to participate and to get quick decisions made. Otherwise pricing council should consist people from several departments such as sales, marketing, pricing, finance, innovation, management, R&D, operations. The science and art of pricing should be distributed to as many peoples as possible. At the same time, it is also important that there is balance of topics related to cost, competition and customer value. As pricing council consists a multifunctional team, each participant is responding to different information in a unique way. (Liozu, 2016b, pp. 89-90)

Tensions and conflicts cannot be avoided when discussing pricing as a subject. Pricing council should offer a forum where people should be able to vent, share and give constructive feedback on topics related to pricing. Addressing tough issues, potential tensions and organizational breakdowns in a safe and nonjudgmental environment can help greater alignment in pricing tactics. Continuous improvement should be cherished in pricing council instead of finger pointing for difficult pricing situations or bad pricing decisions. It is important to create environment where people have mindset to openly discuss on problems and seeking resolutions as a team. Value and pricing management can be complex and therefore open and mindful discussion together can at least ease in solving the issues. Sharing scientific data supporting to price levels for instance also helps to eliminate subjectivity and judgment thus increasing level of rationality in pricing management. Most importantly pricing council should be place of creative exploration and experimentation. In dynamic and complete global business world pricing strategies have to be also developing constantly and cannot be static. Therefore in council meetings there should be always also have time to discuss where to focus and constantly challenge current pricing strategies in terms of are the effects similar as they were originally expected. (Liozu 2016b, pp. 90-91)

### **3 OBSTACLES IN VALUE-BASED PRICING STRATEGY**

Although VBP is generally acknowledged as superior to all other pricing strategies (e.g. Ingenbleek, 2007, Monroe, 2002) it still plays a relatively minor role when comparing what pricing strategies are used in companies (Hinterhuber, 2008). Therefore it is imminent that there exists obstacles and barriers why VBR has not been implemented in different companies as often as it should be based on recommendations of researchers when comparing it to alternative and less sophisticated pricing strategies and approaches.

#### **3.1 Organizational obstacles in value-based pricing**

Töytäri, Rajala and Brashear Alejandro (2015) identify three organizational and institutional barriers to VBP in B2B relationships: understanding and influencing the customer's desired value, quantifying and communicating value in buyer-seller relationships, challenges in capturing a share of the value created in industrial exchange. Hinterhuber (2008) recognize five main obstacles that prevent implementing VBP strategy from organization perspective. These are value assessment, value communication, market segmentation, sales force management and senior management support.

##### **3.1.1 Value-assessment**

The principle problem in value assessment is lack of methods, tools and information to assess customer value and it. It is also considered to be often the main obstacle towards implementing VBP. Due these obstacles, companies are often forced to choose cost-based or completion-based pricing strategy as evaluating customer perceived value reliably is not possible. Occasionally scenario can be that even marketing and sales departments are not sure from which factors customer perceived value is based on. Therefore companies often end up discussing on technical abilities and attributes instead of focusing the benefits and the value that customer would gain based on these technical aspects. (Hinterhuber, 2008; Hinterhuber & Bertini, 2011)

Quantifying customer value is often considered as challenging task especially for industrial companies (Storbacka, 2011). According to Töytäri et al. (2015) however industrial companies do not utilize comprehensively different value aspects when trying to quantify customer value. Often only operational dimension of value is systematically quantified and leveraged as basis of VBP (Töytäri et al., 2015).

Barriers in quantifying value often are reflecting from lack of trust between parties. In order to better quantify customer value seller would need to have access to customer's base line data. Other aspects such as confidentiality and rivalry also play role when customer is reluctant to share their numerical data for seller. One key reason for hesitance towards sharing information is that seller might discover an undesired value aspect from buyer perspective and utilize it by increasing prices towards customer. (Töytäri et al., 2015).

Even if value would have been successfully agreed, created and quantified dividing shares of value between seller and buyer can be difficult. Institutionalized barriers especially of cost-based pricing, appreciating of bargaining power and managing uncertainty in value creation needs to be addressed. (Töytäri et al., 2015).

### **3.1.2 Value communication**

With value communication often the basic problem is the question of what value aspect should be communicated for customer. Although product might have features and characteristics that would surpass competitors' products it is not guaranteed that it customer would perceive the value as similar. Communicating value efficiently to customers is challenging especially in inundated markets. Related to challenges in value assessment phase, communication tends to also concentrate only technical attributes instead of focus being in the performance what it actually means to a customer using the product. Off-handed communication may also lead to situation where customer concentrates more in the actual price rather than value aspects thus making it difficult to utilize VBP. (Hinterhuber, 2008; Hinterhuber & Bertini, 2011)

Buyer's desired value perceptions are often difficult to be changed. Buying and procurement operations are guided by combination of business beliefs that have been generated in the past and have strong presence. Sometimes these beliefs can be somewhat outdated but changing the current status quo cannot be executed without strong relationship between seller and buyer. Especially in mature industrial business markets, sales-based influencing is often reactive. Buyer has already determined the value factors they desire often with a strong focus in initial cost savings. This leads little room to influence desired value other than lowering price. (Töytäri et al., 2015)

If buyer is seeing the initial purchase price as the most important factor it is unlikely that more holistic measures of business performance would be appreciated. Value-based concepts such as total-cost-of-ownership are not necessarily understood making it more difficult for seller to convince true value. (Töytäri et al., 2015)

In addition, individual incentives sometimes create goal conflicts compared to whole organization performance. For instance buyers may be rewarded for price savings but at the same time it can actually hurt overall business performance through increasing total cost of ownership. It is also common that individual incentives may drive to generate results in short-term thus making it difficult convince them if value proposal focuses in long-haul advantages. Some buyers might even appreciate more long-term relationships but it needs to be understood that convincing buyer to change partner can be extremely difficult due high switching costs. (Töytäri et al., 2015)

### **3.1.3 Sales force management and senior management support**

Common problem with sales force management is the lack of incentives related to focusing in value from price perspective. Sales teams put focus is qualifying bonus targets related to sales volumes by handing out discounts without understanding the long-term consequences related to designed value-based price. (Hinterhuber, 2008)

In addition, lack of senior management plays a role. Often senior managers share a view that high market share will automatically also result high profitability. Sales managers are thus encouraged to reach market share targets and given less recognition in meeting the value-based prices. (Hinterhuber & Bertini, 2011)

### **3.1.4 Market segmentation**

Key problem related to market segmentation in industrial markets is that is often too intuitive and relying only on easily observable yet ineffective criteria (Hinterhuber & Bertini, 2011). Hinterhuber (2008) adds that marketing theory has not provided usable methods and tools for marketing practitioners to execute market segmentation effectively. Liozu (2016a) lists five challenges with B2B segmentation:

- Reliance on traditional segmentation criteria
- Lack of marketing sophistication, customer knowledge, and relevant qualitative and quantitative data
- Traditional and legacy organizational structures that are difficult to change
- Focus on 100% accuracy, leading to analysis paralysis in technically sophisticated B2B companies
- Change resistance when segmentation is not done collaboratively
- Lack of commitment to execution due to change complexity (Liozu, 2016a, p. 75)

## **3.2 Barriers to value-based pricing from individual perspective**

In order to gain better understanding of barriers to VBP Töytäri, Keränen and Rajala (2017) argue that individually induced barriers have effect in addition to organizational and institutional barriers. As often it is assumed that pricing decisions and strategies are operated by organizations, it is actually individual actors who drive implementing VBP. Barriers to VBP are divided to into types of individually, organizationally and externally induced barriers as illustrated in Table 2. (Töytäri et al., 2017)

**Table 2. Individually, organizationally, and externally induced barriers to value-based pricing (Töytäri et al., 2017, p.241)**

Individually induced barriers	Organizationally induced barriers	Externally induced barriers
Beliefs and attitudes	Product-oriented sales culture	Prevailing buying culture
Experience and skills	Governance and tools	Incompatible value conceptions
High cost and complexity of value quantification	Inefficient customer selection	Supplier's brand identity
		Incompatible time horizons
		Value sharing power within the network

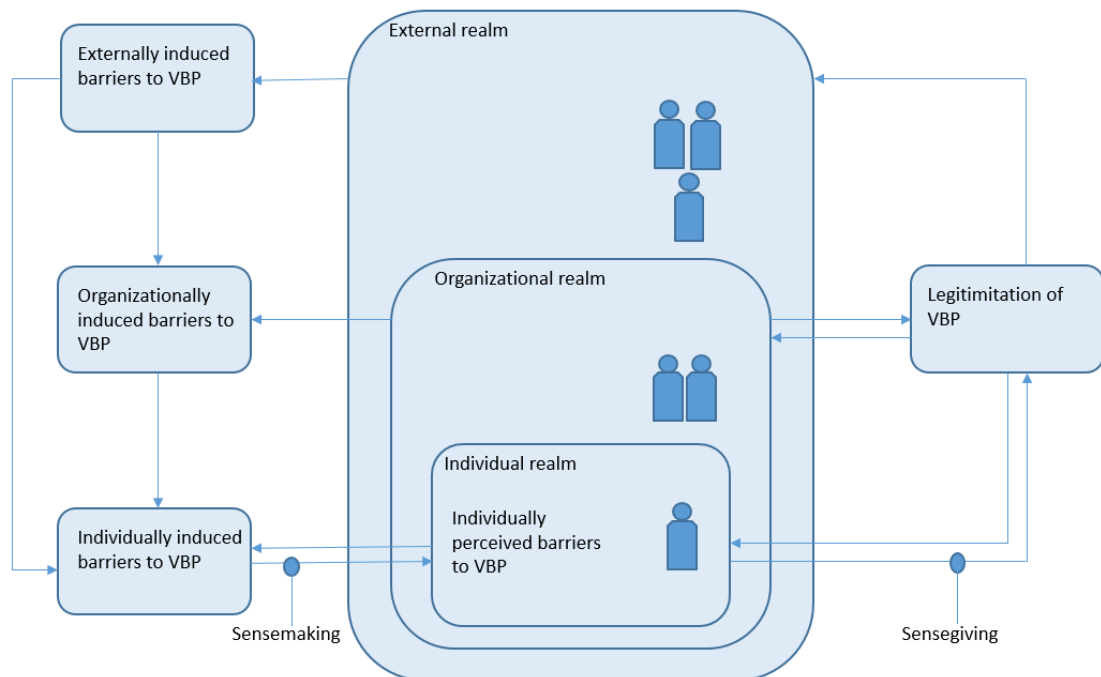
Individually induced barriers are reflections of beliefs and values an individual possesses. Both organizationally induced barriers as well as externally induced barriers affect to individually induced barriers. Externally induced barriers are reflections of general industry norms and from established customer relationships. Organizationally induced barriers are more connected to existing organizational culture. (Töytäri et al., 2017)

Töytäri et al. (2017) recognized in their study that individually induced barriers to VBP are related to beliefs and attitudes, lack of experience and skills, as well as high cost and complexity of value quantification. Individuals own deeply prevailed attitudes towards whether themselves can understand VBP compared or even hesitance towards implementing VBP occurred. In addition, it was seen that that lack of skills towards pricing based on potential value instead of perceived characteristics or technological aspects can create barriers. Value quantifying was also felt as time consuming but at the same time not generating enough beneficial results thus resulting hesitance. (Töytäri et al., 2017)

Organizational induced barriers were related to product-orientated sales culture, governance and tools, and lack of customer segmentation. For instance if company has strong heritage in concentrating product features with maximizing short-term profits implementing VBP can be difficult. Also internal processes, IT systems as well as rewarding and incentives are often designed with different requirements and to serve different purposes thus not supporting VBP. (Töytäri et al., 2017)



Externally induced barriers are based on the reflections that occur in customer interface. Töytäri et al. (2017) findings were related to prevailing buying culture, incompatible value conceptions, the supplier's brand identity, incompatible time horizons and value-sharing power within the network. Industrial buyers are often given task to obtain products with the lowest price based on predefined requirements making it difficult to influence in customers value perceptions. Due nature of customer selection being reactive it may result as generic pricing approach for every customer instead of recognizing proactively customers that might be more interested in value-based prices. It can be also difficult to convince customers regarding higher prices due value as often short-term gains are seen more important. Additionally it can be difficult to justify VBP if it cannot be explained and utilized in entire industrial value-chain. (Töytäri et al. (2017))



**Figure 6. Individually perceived barriers to VBP and the legitimation of VBP (Töytäri et al., 2017, p.244)**

Organizational and external barriers can prevent individual pricing activities. In order to overcome these barriers legitimation of VBP needs to happen in different levels through sensegiving. As individuals act together with each other's perceptions and views can have effect in more broader scope thus effecting barriers on individual level as well also in organizational and external level. (Töytäri et al., 2017) In Figure 6 both positions of induced barriers as well as sensegiving processes in different levels is illustrated.

### 3.3 Remedies for value-based pricing implementation

#### 3.3.1 Overcoming obstacles

Hinterhuber and Bertini (2011) lists set of recommendations on how obstacles to VBP could be overcome. Best practices are listed in Table 3.

**Table 3. Overcoming the obstacles to value-based pricing (Hinterhuber & Bertini, 2011)**

Main Obstacles	Manifestation	Best practice
Value assessment	Lack of methods, tools or information to quantify customer value	Customer value is quantified with robust empirical research such as conjoint analysis, expert interviews or value-in-use assessments
Value communication	Communication encourages customers to fixating on price Communication centers around product features and technical product characteristics	Communication discourages customers from fixating on price Communication translates key product features into customer benefits or business impact
Market segmentation	Market segmentation is intuitive or based on easily observable but ineffective criteria	Needs-based market segmentation drives marketing strategy
Sales force management	Lack of incentive schemes and guidelines to encourage sales force to focus on value	Sales force has capabilities, guidelines and motivation to focus on value. Training and monitoring systems are in place. Discounting is not encouraged
Senior management support	Senior management is mainly interested in top-line growth or market share and does not encourage a focus on value	Senior management provides vision, context and incentives to implement value based pricing

When there is better understanding of customer value it enables also to evaluate customer willingness to pay with higher confidence. In order to successfully implement VBP a series of empirical tools to reliably measure customer value needs to be employed. Hinterhuber and Bertini (2011) lists tools such as conjoint analysis, expert interviews and customer value-in-use assessment to be used. (Hinterhuber & Bertini, 2011)

Keränen and Jalkala (2014) identify three strategies for customer value assessment: emergent value sales strategy, life-cycle value management strategy and dedicated value specialist strategy. These strategies are used either separately or in combination of two or all of three strategies together. Best results are gained when all three strategies are used together. In emergent value sales strategy sales unit has the responsibility to assess customer value, usually only from sales perspective and ad hoc. In emergent value sales strategy value assessment is dependable on the skills and motivation of individual salesperson involved in the delivery. Life-cycle value management strategy aims to conduct customer value assessment more thoroughly in terms of involvement of different departments. Strategy relies strongly on forecasting and that responsibility of value assessment switches smoothly from one internal department to another among the process. In dedicated value specialist strategy responsibility of identifying customer value, measuring baseline and documented realized value in all phases of delivery process is given to separate value specialist team working cross-functionally within the organization. (Keränen & Jalkala, 2014)

Senior management needs to recognize profitability as more important driver than market share. It requires also that senior management define clear strategy and support salesforce for using value-based prices as starting point with customer negotiations. In addition, senior management needs to monitor development and reward as well as reinforce desired practices constantly. (Hinterhuber & Bertini, 2011)

In value communication, focus should be in turning discussion away from the price and concentrate on value. Hinterhuber (2008) lists three level of sophistication need to be recognized: communicating product features, communicating customer benefits and communicating benefits in accordance with customer needs. Communicating product

features in the most basic level of communication of value. However, the disadvantage is that customers may not be interested in technical aspects. In communicating customer benefits focus is in discussing about the benefits using product would obtain. Challenge with this approach is that companies may have problems in recognizing the benefits customer pursues. The most sophisticated approach is communicating benefits in accordance with customer needs where company recognizes the larger good what customers would obtain rather than just listing benefits. (Hinterhuber, 2008.) Töytäri et al. (2017) support development of documenting and communicating value as a sensegiving strategy.

Sales force should have capabilities, guidelines and motivations to focus in customer value. Encouragement of allowing discounts should be avoided. However, certain freedoms for discounting can be considered to be given in situations where sales personnel possess more information regarding customers' willingness to pay, products are complex or they have excellent negotiating skills. Rewarding and incentives systems in order to motivate sales force to concentrate in value and profitability instead of just sales volumes should be developed. Training of sales force is also considered as important action. As changing mindset of personnel from product-orientated sales to value-based sales is big transformation it cannot happen without proper training programs. (Hinterhuber, 2008.) Creation of value-focus training programs is also supported in Töytäri et al. (2017) findings.

### **3.3.2 Justifying VBP organizationally**

In order to implement VBP strategy in organization and developing it through internal and external obstacles confidence has been seen extremely important factor. This means that pricing strategy must be in line company's business model and long-term strategy. It is also important to understand that confidence in pricing is not something that can be created over night or something that organization could inherit. In optimal situation every person having some link to price setting have a mentality where there is strong belief in own doing, quality of offering, available tools and healthy self-confidence on level of competence compared to competitors. (Liozu, 2015, p. 136)

In building confidence recognition can be extremely efficient tool in driving pricing transformation. Recognition can be done in multiple ways and levels. It can given for example at the individual level, at the team level or enterprise level. As well there can be recognitions given on different time periods from weekly, monthly and annually as well as ad hoc. With truly recognizing personnel on their achievements there a numerous ways how individuals who are skeptic in pricing transformation can be turned into believers and those already on board with changes into pricing champions. Also based on experiences recognitions create healthy competition internally as people are more ready to work harder in order to gain some recognition. (Liozu, 2015, pp. 136-137)

Goals and incentives play always crucial role in organizational transformation and there is no difference when driving VBP strategy throughout the company. People need to be motivated and rewarded for their actions. Expecting it to all to just happen by itself would be naïve. Nevertheless too often goals, targets and incentives are misaligned with general strategy. For instance when talking about pricing transformation conflicts internally may easily rise where at the same time it is expected to increase sales volumes and profitability. It is not that rare to sales personnel to be confused these kind of scenarios where they do not actually know what is expected from them; should they be trying to convince customers by offering for instance more discounts or are they expected to stick with given prices even with a risk of losing some customers. This kind of confusion without resolved can easily hurt personnel motivation and thus prevent willingness to drive change. Therefore, it is not just enough to add incentives but choose correct targets to motivate personnel in both individual and team level; and as well set incentives in line with desired goals and strategy. (Liozu, 2015, p. 137)

In any change-management, process experimentation plays a key role. Through experimentation new methodologies and concepts, it is possible to spot best ways to further develop operations. At the same for experimentation there is need to facilitate environment where scope of project should be reasonable and not intimidating. Persons should not also fear failures that would put them in personal risk but rather be encouraged to be open-minded and treat unsuccessful attempts as learning experiences rather than as negative and discouraging experiences. Successful experiments tend to create positive atmosphere

among personnel involved in testing and thus further encourage experimenting scenarios that are more demanding. Demonstrated quick wins gained through experimentation can also create interest from other persons outside testing group. For instance through successful tests attention of senior management can be gained which may lead to increased support to further experimentation. Experimentation is also important method in bringing people with different skills and knowledge together. For instance, pricing practitioners often lack the knowledge and tools to truly measure the overall return on investment in pricing. With help of other persons however success can be measured and documented in a way that can be used to promote importance of pricing development throughout the organization. By promoting results of experimentation it is possible both boost confidence within testing group as well obtain more interest and support in order to take part in larger pricing projects (Liozu, 2015, pp. 137-138)

When implementing pricing transformation inside organization it demands more than convincing sales team to be in board. All functions need to be encouraged to co-operation. In order to be successful functions that may seem even nonstrategic to pricing projects have to be involved as well. One of these kind of operations is human resources. Role definitions, changes in job descriptions, modifications in incentive plans, internal communication plans and the integration of the pricing projects in the overall performance management system all involve HR-controlled functions and can contribute to increased level of pricing confidence. (Liozu, 2015, pp. 139-140)

Too often price changes are informed to sales personnel just by telling them new prices without any additional information. In this kind of scenario it can be difficult to get customers convinced on new prices as even sales personnel has not been explained rationality and reasons behind new price. This kind of activity should be avoided. The scientific process that goes into setting into new price should be always shown. Sharing the science, the data and the analysis that leads into new prices helps stakeholders to understand pricing has not been just made out of thin air or based on gut feelings. Sales personnel can be helped to feel more confident about the prices and thus better able to convince customers by making the price-setting process transparent. Transparency in price-setting can also encourage other stakeholders to take part in pricing development and

even provide new approaches and fresh ideas in process. At minimum relevant stakeholders should be trained to understand basic principles of pricing change. By introducing principles of price decision rationale, scientific tools and models, as well as pricing-management systems chances for successful pricing transformation can be increased. (Liozu, 2015, pp. 141-142)

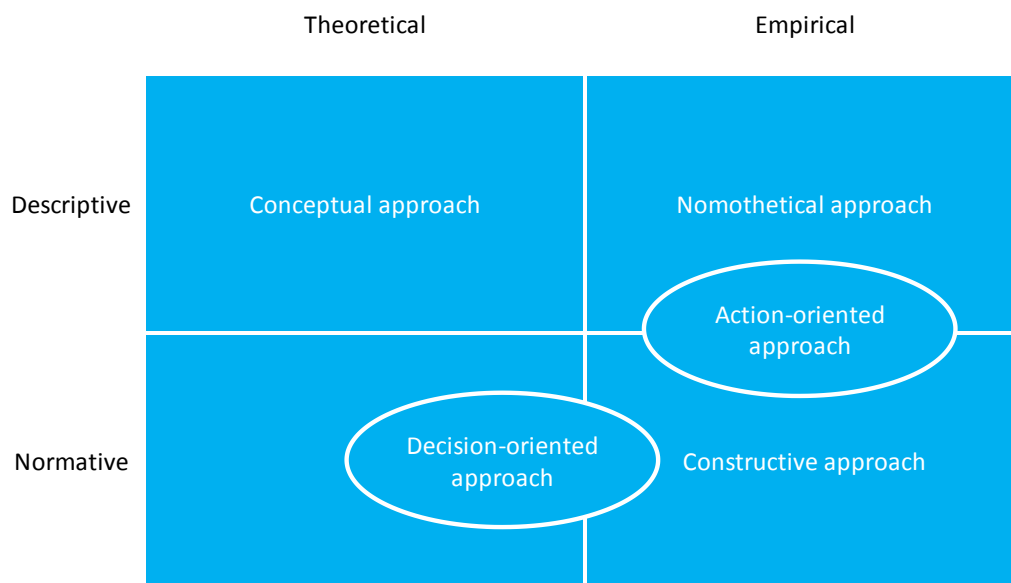
Quick way to develop personnel is to facilitate informal co-operation tasks where professionals struggling with pricing are paired with pricing experts, for example joint sales cases with sales representative and pricing specialist. This will benefit both parties as pricing experts are introduced to actual problems and realities sales expert is facing when dealing with customers. Vice versa pricing expert can offer new ideas, approaches and support that sales expert has not previously thought or has not feel there is enough resources or need to do things differently than usually. Naturally also more formal approaches are encouraged such as different kind of training and coaching programs. Especially in larger companies it is not both possible and clever to train all personnel equally in terms of pricing expertise. Nevertheless with training selected persons working inside different teams and departments the pricing message can be reached by even more people and potentially more efficiently as it is shared with peers. (Liozu, 2015, pp. 140-141)

Pricing leaders in transformational programs often underestimate importance of communication. Progress of pricing development should be communicated in order to reinforce the project's branding, goals and vision. Keeping everyone on the same page is essential when managing successful pricing transformation. With active communication there is also possibility to monitor better development of pricing transformation as well as also offer channel to stakeholders to participate in development. In wider perspective it is also possible to have effect on other personnel not directly involved in pricing development and even change company culture in more to a dimension where pricing drives operations. (Liozu, 2015, pp. 141-142)

## 4 METHODOLOGY

### 4.1 Research approach

Selection of research approach is dependent on the research task. Research approach is selected based on what kind of results are pursued, what kind of research material and data is available and what is level of information in starting point. (Hannula, Korsman, Pajarre, & Seppänen, 2002, p. 7.) Research approaches can be seen as either descriptive or normative based on the purpose of research, and as theoretical or empirical based on how information is obtained. Based on the scale research approaches can be divided to four categories: conceptual approach, nomothetical approach, decision-oriented approach and action-oriented approach. (Neilimo & Näsi, 1980.) Kasanen, Lukka and Siitonen (1993) introduced the constructive approach as additional research approach to four existing approaches. In Figure 7 location of these approaches in fourfold table is illustrated.



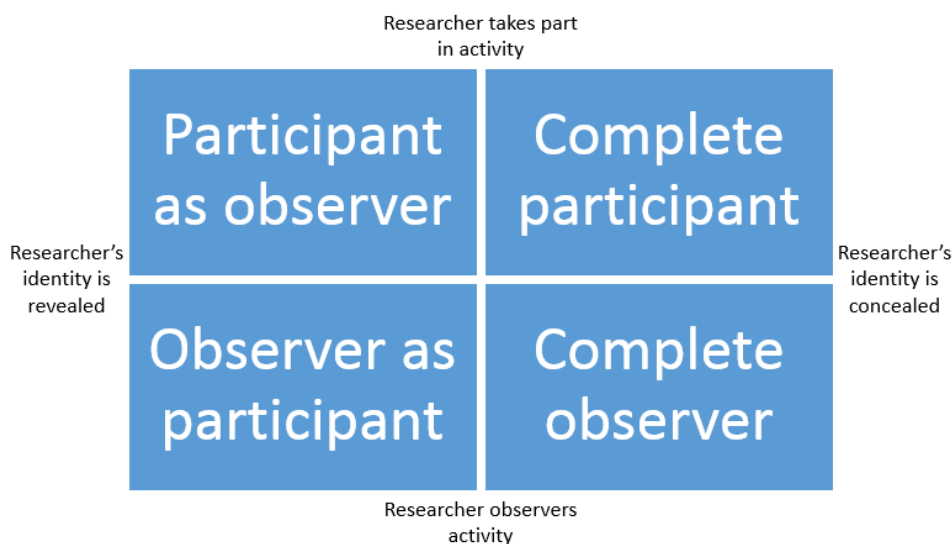
**Figure 7. The location of the constructive approach into the established accounting research approaches (Kasanen et al., 1993, p.257)**



Normative research approach pursues to find results that can be utilized in developing operations or creating new operations. Descriptive research focuses in explaining and describing a phenomenon. In theoretical research aim is to create new theories by refining already existing theories. Empirical research pursues to find observations that can be potentially derived to consist larger scope. (Hannula et al., 2002, p. 8)

Research approach used mainly in this research is action-orientated approach as target is to understand the phenomena of barriers to VBP better. Therefore, this research has both descriptive and normative perspectives. Simultaneously research has also some characteristics of decision-orientated approach as in some level research aims to provide methods to solve issues of current situation.

The role of the participant observation is divided into four categories: complete participant, complete observer, observer as participant, and participant as observer. As illustrated in Figure 8 roles are categorized based on does researcher actively take part in observed groups activities or passively observe actives as well does researcher reveal his/hers identity and position as researcher for participants. (Saunders, Lewis & Thornhill, 2009, pp. 293-295)



**Figure 8. Typology of participant observation research roles (research methods p.293)**

Since researcher was working in pricing function participant as observer was selected as the role of the researcher. Researcher openly revealed his intentions in terms desire to develop pricing management and building trust with participants. As Saunders et al. (2009) explain by building trust researcher has possibility to obtain more intimate answers from participants which otherwise could not be obtained.

## **4.2 Research method**

Case study is commonly used method to contribute knowledge of individual, group, organizational, social, political and related phenomena. Method is used when there is desire to understand complex phenomena and allows researcher to retain a holistic and real-world perspective. (Yin, 2014, p. 4) Johannesson and Perjons (2014) lists following characteristics for case study: focus on one instance, focus on depth, natural setting, and relationships and processes.

Yin (2014) divides case studies into single case and multiple case designs. Rationales for selecting single case study are that case is critical, unusual, common, revelatory or longitudinal. In multiple case design several cases are selected in order to provide information whether findings of one case occurs in other cases thus providing increased level of generalization. However, multiple case study often requires significantly more resources contrast to single case study. Another aspect of categorizing case studies is by dividing them to holistic and embedded designs based on number of units examined. In holistic design focus in examining single unit whereas in embedded design multiple units are examined. (Yin, 2014, p. 51-57)

Case studies can be divided also into exploratory, descriptive and explanatory based on the purpose of the study. In exploratory case study focus in generating research questions or hypotheses that can be utilized in future studies. The aim of descriptive case study is to provide in-depth description on examined instance and its environment. In explanatory case study researcher also tries to identify cause and effect relationships in addition to describing an instance. (Johannesson & Perjons, 2014, p. 45)

Primary method used in this study is descriptive embedded single case study. Single case study can provide more in-depth view on the phenomena (Yin, 2014, p. 57). As aim of this study is to provide information for Case Company as well as due limited resources, selection of single case study can be justified. Multiple different key stakeholders and functions are examined in the study so design is embedded case study. Purpose of the study is in providing information do it clearly has descriptive tone.

Study has also characteristics of action research. Action research method focus is on practice and examining practical problems in real world contrast to laboratory settings. Goal is not just in describing the phenomena but additionally providing input in changing the environment and have effect in problems people experience in their practices. (Johannesson & Perjons, 2014, pp. 50-51)

### **4.3 Data collection and data analysis**

For this research, semi-structured interview was selected as research method. Semi-structured method was seen as best alternative to provide efficiently deepest and most comprehensive understanding on phenomena. According to Hirsjärvi and Hurme (2011) semi-structured interview is flexible method and it suits for various different kind research purposes. It also enables to gather more material during interviews. In semi-structured interview method there is possibility to focus in answers with more detail and to examine motives behind the answers. (Hirsjärvi & Hurme, 2011, pp.34-35)

Semi-structured interview method is widely used qualitative method especially in business researches. It is excellent and efficient research method when utilized correctly. Researcher has ability to direct the interview but also interviewee has room to answer more openly as interview is not fully controlled by researcher. In addition, order of questions can differ and target of interview situation can directed to be more nature of informal discussions. If executed properly interview experience can be also extremely pleasant for interviewee. It also does not demand as much effort and resources from interviewee compared to some

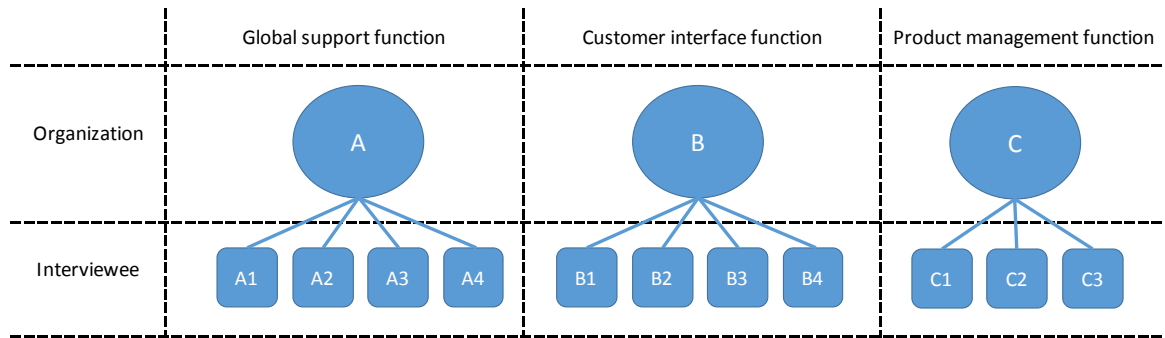
other research methods. (Koskinen et al., 2005, p.104) Nevertheless carrying out semi-structured interview takes also time as it consists finding interviewees, agreeing and executing interviews as well as coding interview results (Hirsjärvi & Hurme, 2011, p.35).

Total of eleven interviewees were selected for this research. In the selection of interviewees criterion sampling method was used. Focus in criterion selection is in selecting cases that meet some predetermined criterion of importance (Patton, 1990, p. 176). Pricing management has an effect of every interviewee's responsibilities in Case Company and this was seen as the most important factor in interviewee selection process. Interviewees and their responsibilities are illustrated in Table 4.

**Table 4. Interviewees codes, titles and responsibilities**

Respondent code	Title and Responsibility
A1	Vice President, Development & Deployment
A2	Vice President, Regional Business Management
A3	Vice President, Regional Business Management
A4	Vice President, Global Services Operations
B1	Head of Services, Market Area
B2	Head of Customer Support, Market Area
B3	Head of Customer Support, Market Area
B4	Manager, Order Execution, Market Area
C1	Executive Vice President, Business Unit
C2	Director, Services Product Management, Product Line
C3	Service Product Manager, Product Line

In order to secure that data collection consisting comprehensively different views across Case Company interviewees were selected from different functions and divided into three groups which can be seen in Figure 9. Global support function is seen as persons whose responsibility is in developing all aspects of operations inside Case Company. Personnel in customer interface function have main responsibility in supporting customers in different market areas. Product management function consists personnel working in different product lines and responsible in designing, creating and managing products.



**Figure 9. Interviewees based on responsibilities**

Interviews were conducted face-to-face during March 2017. Semi-structural questionnaire was sent to interviewees before actual interviews in order to give possibility for interviewees to prepare preliminary answers. Questionnaire is presented in appendices (Appendix 1). The researcher encouraged interviewees to focus on the questions they saw most interested to them and to view interviews more as informal discussion around the research topics. Active practitioner participation was encouraged as it was emphasized that interviewees inputs will have influence in future pricing development based on this study. Interviews lasted between 55 minutes and 97 minutes. All interviews were recorded and transcribed.

Qualitative data analysis was conducted with characteristics of grounded theory. As Johannesson and Perjons (2014) mention grounded theory can be utilized also in data analysis although it is often considered as research strategy. In open coding researcher chops data into units of texts. After open coding there is need to categorize codes into groups which is called as axial coding. (Johannesson & Perjons., 2014, pp. 48-49)

Open coding was employed first according to themes emerging from data to categorize which elements were seen as important for pricing management in Case Company as well as what is the role of pricing function in this context. This resulted recognizing seven main themes which were used to categorize interviewee answers. Material was then coded again in order to provide information which elements of pricing management causes problems and in which functions problems are seen thus preventing implementation of VBP. Based on second round of coding there were recognized total of twelve individually and organizationally induced barriers that were divided between two internal key stakeholders.

#### **4.4 Evaluation of the study**

Single case study's biggest limitation is in generalization of the results (Johannesson & Perjons, 2014, p. 45). As the aim of this study is provide information for Case Company in order to develop its pricing development main focus was not necessarily provide information that can be directly transferred as itself for other companies. Therefore in this study it has been indicated clearly that this is single case study and key details of Case Company's size, markets and field of industry are provided.

Another key aspect of evaluating study is to understand confirmability and reliability of the study. As researcher took the role of participant as observer and also works for Case Company certain characteristics of subjectivity cannot be avoided. As Saunders et al. (2009, p.297) indicate observer bias are present in a participant observation study but it is more important to understand that it creates thread for reliability exist and seek to control it. Therefore for instance direct interviewee quotes are presented to provide more reliable information but also indicate which are researchers own observations. Due action research characteristics of the study also risk of respondent bias exist. Respondents may have challenges in remaining impartial due their deep personal involvement in the study (Johannesson & Perjons, 2014, p.51). Risk of respondent bias is decreased by interviewing multiple different persons in different function of the organization with using criterion sampling method in respondent selection. In general, reliability can be increased by documenting procedures of the study (Yin, 2014, p.49). Therefore, all phases of the research have been documented.

## 5 FINDINGS

In this chapter finding of the study are presented. In first section finding related to pricing management and role of pricing function in Case Company are introduced. Second section concentrates in describing individually and organizationally perceived barriers to VBP from key internal stakeholder's perspective. Most problems related to VBP were recognized to exist in customer interface and product management functions. Focus is in individually and organizationally induced barriers although influence of externally induced barriers was also noticed.

### 5.1 Pricing management in Case Company

#### 5.1.1 Price variation between products

As indicated from interviewee answers large portfolio of different products requires that pricing cannot be too generic but it needs to be varying based on the characteristics of individual products. See Table 5.

**Table 5. Importance of product specific pricing**

Respondent	Illustrative quote
C1	"We have different kind of products in our portfolio. With products where we have IPR we can justify higher prices but with more common products we need to follow price levels of competitors more closely."
C2	"Categorizing our products only to proprietary and commercial products is not enough. There needs to be more detailed pricing on different products as customer willingness to pay varies also between different products."
B2	"Our offering consists multiple alternatives to customers. We do sell spares but we also do modernizations as well as offer customers solutions that are more comprehensive. Nevertheless pricing can't be varying too much between but they need to be in line together and support each other."

Aspect of competitor prices needs to be taken account especially when Case Company is selling products that are more common and where customers have more alternative sources to obtain those. As portfolio consists solutions that are more comprehensive and modernizations pricing cannot be varying too much with price levels of spare parts for instance but they need to support each other.

In order to set prices based on product characteristics there is need for categorization of products. This was seen also as something where pricing function can contribute. As products are categorized more comprehensively, it enables to do better pricing decisions as well as decrease risk of pricing errors. In the past categorization of products from pricing management perspective has been robust cost plus method with different factors for commercial and proprietary parts. As mentioned in interviewee answers this kind of categorization is insufficient.

### **5.1.2 Price variation between customers**

As there is need for price variation for different products the same situation is also with different customers. Multiple interviewees highlighted the fact that characteristics of customers' needs to be considered in price setting as shown in Table 6.

First, customers see in value in different things. Some Case Company's customers are willing to pay the asked price although often Case Company's prices have been considered to be more expensive than competitors. During interviews, it was pointed out that there are various aspects that can effect customer's willingness to pay in positive way from Case Company's perspective. Customer may share the view of the value, not have enough competence in their procurement to purchase commercial parts elsewhere or they have realized that products cannot be obtained elsewhere. However there are also those customers who are also pursuing the lowest prices. In those cases it would be worthwhile to evaluate is those customer relationships fruitful at all.



B2 pointed out that even at the moment it is not unusual that customer agreed prices are not in ERP or any other systems but are just recorded in single documents. Request from him was that pricing function should be responsible of uploading these prices to ERP. This was seen beneficial, as it would speed up the processes of responding to orders as well as decrease potential pricing errors if salespersons forgets to modify prices manually or is unaware on specially agreed prices customers.

**Table 6. Requirement for customer specific pricing**

Respondent	Illustrative quote
A2	"We can't treat all of our customers the same way as others, and this also means that prices need to be sometimes different. Some of our customers are more interested in other aspects and are willing to pay the asked price. Simultaneously there are also customers that are just looking for that lowest price regardless of everything else."
A1	"Although it can be difficult to say that some customers are not that important, we at least have to recognize our key customers. In building and maintaining relationship with key customers more emphasis and resources should be put also in pricing."
B3	"With certain customers we have long history of doing business together. Although in some cases we have noticed that sales history prices are differentiating with the prices we would like them to be we still need to respect those old prices. Changing prices for existing products with sales history is extremely challenging."
B2	"Agreed customer prices need to come automatically from ERP. Salesmen cannot always check from excel file what prices were agreed and manually type those but prices need to be in our systems."

With key customers it was seen that at least more resources should be available when defining pricing for them. It is essential especially as many of key customers have long relationship with Case Company and no risks in jeopardizing those relations are not wanted take. However long relationships causes also challenges as customers have been used for certain price levels. Therefore, changing prices contrast to sales history can be difficult task even if it would be recognized that prices actually should be different. It happens to both directions, increasing and decreasing prices. Naturally requesting higher prices from customers is seen from salespersons' perspective always as unpleasant discussion even if there would be some proper arguments. Too dramatic price decreases can raise questions from customers side regarding had they paid too much previously and make customer even feel ripped off although new prices would be lower than in the past.

B2 pointed out that even at the moment it is not unusual that customer agreed prices are not in ERP or any other systems but are just recorded in single documents. Request from him was that pricing function should be responsible of uploading these prices to ERP. This was seen beneficial, as it would speed up the processes of responding to orders as well as decrease potential pricing errors if salespersons forgets to modify prices manually or is unaware on specially agreed prices customers.

### 5.1.3 Price levels in different market areas

Geographical location plays a role also in price setting, see Table 7. In Case Company's perspective challenges have been arisen especially in market areas where labor prices are lower such as India, China and Poland. As price levels in general are lower compared for instance more western market areas such as North America or Western Europe, willingness and sometimes even resources to pay "normal" prices is lower. In those market areas selling for instance products with longer life cycles is seen challenging as customers may also have possibility to repair products by themselves with a significantly lower costs or even ask external subcontractors to emulate Case Company's products by producing bootleg spare parts.

**Table 7. Effect of geographical location to pricing**

Respondent	Illustrative quote
B4	"Especially in certain market areas where labor and material prices are cheaper customers are not willing to pay same prices as in some other markets. It doesn't help that we convince our products last better if customer has alternative to repair parts by themselves or copy and test locally manufactured bootleg products with a fraction of price compared to our offering."
B1	"We often think too much about product price from headquarters perspective. We haven't gone and said what is appropriate price level for particular market areas."
C2	"Many of our key customers have operations all around the world. Although in some level we can explain why prices are varying in different market areas our prices cannot be completely different for example in Finland and South Africa. Sooner or later customers will also start noticing these and asking questions. We need to be prepared for this kind of situations."

Level of competition and maturity of the markets plays also role. During interviews it was for instance pointed out that as Case Company has its origins with Finnish customers price levels are in some level too dependent on long history thus making it difficult to ask regular prices from them. However as C2 pointed out, some of the biggest customers in metals and mining industries are also global companies with operations across the globe prices. Pricing levels at least for these customers need to be figured out separately although some geographical variance is accepted for instance due to taxation levels in different countries.

#### **5.1.4 Pricing as part of sales process**

Based on interviewees' answers, it is imminent that pricing is an integral part when doing business with customers, see Table 8. Prices need to be available for all relevant parties easily in order to avoid for instance bottleneck effect in sales and quotation support function. As there are also items that are not priced or otherwise need special attention from pricing perspective, there needs to be also clear instructions how salespersons should act in this kind of situations. Pricing function needs to provide support for other functions as well as proactively keep other functions aware for instance changes in pricing procedures.

Role of pricing however should not be highlighted too much. In business interaction prices are only one part of the entirety. Aspects such as level of customer relationship or for instance supply chain management play also role. For example if the prices themselves would be seen acceptable from customers perspective lead times can have even more important effect in customers decision to buy. Cross-functional co-operation is required in order to generate competitive offerings which take account of all aspects comprehensively. B1 and C3 also shared interesting views related to prices drawing too much attention. If customer interaction is started with discussion related to prices, adding aspects of the added value can be impossible. Discussion is more likely to shift directly towards topics like discounts. Therefore, it should be emphasized for all salespersons to consider how prices should be communicated to customers and keep in mind that sometimes the quickest answer is not necessarily the best one.

**Table 8. Role of price in sales activities**

Respondent	Illustrative quote
A4	"Role of pricing function is obviously important when doing business with our customers. Prices or at least methods how prices are supposed to be set, need to be available easily internally so that doesn't generate issue in sales and quotation process."
B2	"Pricing is essential part of sales process. However, even if you would have exceptional prices it doesn't guarantee you will get that sales order. Therefore pricing cannot be seen as too separated as other functions affect as well in sales."
C3	"We focus too much in prices and not to the value. We start having discussion on price and we actually present it to customer straightaway, which then sets benchmark for whole discussion. We should rather start discussion around value and concentrate on that topic first."
B1	"When discussion with customer is too focused on prices in many cases it is consequence of other failures. You have failed to understand customer, competition situation and value quantification. If those failures would be addressed properly it would at least take some pressure away from discussion only about prices."

### 5.1.5 Co-operation with headquarters and market areas

Quotes in Table 9 illustrate that co-operation with headquarters and market areas should be cherished. Main theme arising from interviews was generating trust between individuals. Building trustful relationships between personnel in headquarters and market areas was seen in some level challenging because it is not uncommon that persons have not ever seen each other as they can be working in completely different sides of the world. Therefore, trust needs to be gained otherwise. One of suggested trust building forms was related to enhancing transparency in pricing decisions and sharing key information openly for all relevant stakeholders. Pricing function role in this context relates to demand for documenting and sharing information of pricing decisions for market areas.

A3 emphasized that co-operation's main goal should be in providing as comprehensive support as possible for individuals who are operating in customer interface, more specifically make them look like "superstars" in front of the customers. Sharing information and arranging training related to pricing management was seen to generate positive effects as sales representatives' own confidence related to prices increases. Most

likely this will result also better interaction with the customers. It was also seen that as general level of pricing expertise increases cross-functionally, eventually it will also result in better business performance as well as provide platform for more sophisticated collaboration internally in future.

**Table 9. Collaboration between headquarters and market areas**

Respondent	Illustrative quote
A3	“We need to make our frontline look like superstars. Sales people need to have sufficient information related to prices so they are also able to stand behind prices in front of the customer.”
B3	”Transparency related to pricing decisions is required in all departments and co-operation should be enhanced. It starts from building trust between persons in different organizations.”
C3	“As there are more people with better knowledge about pricing in different functions we have better chances to improve our pricing and thus improve our business with customers.”

### 5.1.6 Pricing ownership

In the past ownership of pricing decisions and procedures was scattered inside Case Company. After establishing of pricing function in 2014 pricing power was gradually taken away from market areas and centralized to under headquarters. Based on interviewee answers shown in Table 10 this approach is still considered as the best option. Especially with products that are more complex price ownership needs to be possessed by pricing function as well as by product management function.

It was also seen that in centrally managed pricing management in-depth information related to characteristics of market areas and customers cannot be necessarily utilized. Therefore, with commodities more pricing power could be shared for market areas. This would however require that market area personnel would need to be properly trained in executing more sophisticated pricing decisions. As pricing power would be shared it would also mean that market areas would be held accountable on their pricing decisions. This cannot be done uncontrolled but reporting tools for monitoring market areas would need to be developed.

**Table 10. Ownership of pricing decision and procedures**

Respondent	Illustrative quote
C1	"As pricing maturity and expertise develops internally, more pricing power could be given to market areas. This would require that in market areas there would enough personnel who have expertise on products, value and pricing. Sales managers would be also able to better utilize their expertise on separate customers when they have more tools to work with."
A4	"With proprietary products or complex solutions price ownership needs to be centrally managed. With commodities or otherwise more simple products it could be even better that market areas would handle pricing of these by themselves."
A2	"At this moment I would say centrally led pricing function is the best alternative. In future I wouldn't see no problem if market areas would have bigger role in price setting but this doesn't mean that it would not be done uncontrolled. Proper reporting tools to monitor and control market area's price set activities should be developed."

### 5.1.7 Implementing price changes

Implementing price changes are inevitable. As it can be seen in Table 11, common theme among interviewee's was that informing all relevant stakeholders on price changes can be even more important than executing those.

**Table 11. Changing prices**

Respondent	Illustrative quote
A4	"Pricing credibility is essential. There needs to be story behind especially if we are increasing our prices. We should be always be able to explain properly to customers why prices are increasing."
B2	"Price changes are sometimes inevitable. At the same price changes should be always rational and analyzed so that it's known what is tried to achieve. This means that price changes should be documented and evaluated based on whether targets of price change were achieved or not. At the moment sometimes it seems prices are just changed in order to solve ongoing issues but not necessarily evaluated the effects in longer perspective."
B3	"There needs to be enough time given to evaluate suggestions on price changes before those are implemented to our systems. Every party has to be noticed beforehand on ongoing price changes and also old price history should be kept available."

Price changes need to have story behind or otherwise they cannot be explained to customers. It was also indicated that there needs to be enough time to evaluate suggested pricing changes before they are implemented in order to avoid unpleasant surprises in front of the customers. B2 pointed out that price changes needs to be also rational and goal-directed. It is not enough that there is capability to change prices but the effects of the pricing changes should be evaluated in some level after executing changes. Pricing function role in every stage of price change was seen crucial as it possesses the pricing power but also being the only function that have access in all related data.

### 5.1.8 Value communication and prices

Several interviewees pointed out that value communication should be important part of communication with the customers especially if competitive products exists. However, as shown in Table 12 communicating value is not necessarily that simple.

**Table 12. Communicating value to customers**

Respondent	Illustrative quote
A3	"We need to first define what value we deliver before we can say that it's shown in our prices."
C2	"Usually we are not cheapest option from customers' perspective. In order to close deals we need to convince them in other terms for example by providing exceptional products or customer service. These elements can justify higher prices but we need arguments to convince customers to pay the asked price and avoid taking part in price wars with our competitors."
A2	"There is also value in that we are acting as single point of contact to our customer. That's a value thing that can be taking account also in pricing. Sometimes we don't remember that and we don't communicate it also for customers but rather focus stays only in discussion of single item prices."

Before communication related to value based prices is started, it should be first recognized what is the value-adding factor of the offering. After value aspects are defined pricing function was seen to play an important role in providing suggestions on how value aspects can be implemented to prices of the products. As A2 pointed out, Case Company's heritage as a product-orientated company sets challenges internally in recognizing offered value.

## 5.2 Barriers to value-based pricing in Case Company

### 5.2.1 Product management function's individually induced barriers to VBP

Personnel in product management function does not question the importance of customer and capturing customer value is on everyone wish list. However especially individually perceived views, beliefs and attitudes towards what is expected from them as well as how much additional work implementing VBP would require from product management function's side seemed to be the major source of hesitance regarding implementation of VBP.

#### 5.2.1.1 Complexity of VBP compared to more simple pricing strategies

Common theme arising from interviewee's working in product management function was that VBP is complex. VBP is seen much more difficult to understand compared to cost-plus method what has been used in the past as shown in Table 13. Need for VBP in this situation was slightly questioned as bigger problem related to pricing was seen in that cost levels are currently too high resulting too expensive prices for customers.

**Table 13. Complexity of VBP**

Respondent	Illustrative quote
C2	"I know cost-plus isn't the most sophisticated pricing method but it is simple and everyone can understand it. With value-based pricing, there seems to high pressure in increasing prices but at the same time, feedback from customers is that our prices are too high. In that sense justifying value-based pricing is sometimes difficult and it's just easier to use old pricing methods and historical prices."
C1	"We know that our supply resources could be strengthened and we would be able to buy parts from low cost countries. It would make it possible to lower our prices without effecting our margins and profitability."
C3	"I understand that value-based pricing is something that we should aim at but we have our known issues with item data. We in product line know our products but I can admit that there has been some errors done in documenting item data for our systems. Correcting that will take time but we need to be able to business with our customers and answer to RFQs rapidly also."



Although product management function would possess all the crucial information related to products, sometimes it is not documented properly. As mentioned by C3 expertise is more nature of silent knowledge where personnel have information known but it is not recorded properly to PDM or ERP systems. In order to record all essential information it is seen to tie lot of resources. The scope and expectations related to VBP creates also barriers. As implementing VBP is a big task sometimes especially short-term expectation of effects are set in unrealistic level. As results may not meet expectations in beginning, there is a risk that persons in product management function lose their motivation and rather continue doing work as they have been done in the past.

### 5.2.1.2 Difficulty of quantifying customer value and transferring it to prices

As mentioned in Table 14, before VBP can be implemented there should be understanding what additional value products will give to customers. Especially when then there is wide spectrum of different kind of products it can be extremely challenging to quantify customer value as it variates between products. Transferring this information as part of pricing is seen sometimes even impossible as product data management function can't even justify these aspects to themselves not to mention quantify the added value.

**Table 14. Challenges in quantifying the value**

Respondent	Illustrative quote
C1	"Our price arguments tend to be reflected by technical aspects. Sometimes we forgot to whom we are selling. Customer's site manager may appreciate these technical aspects but he/she does not always do purchasing decision. If purchasing decision is made by person who is more interested about meeting monetary budgets and where product can be obtained with the cheapest price we need to have arguments that supports those aspects as well."
C3	"If we are talking about a single spare part or even one machine it is extremely difficult to say how much customer will benefit on it. It does keep customers operations running but it is challenging to put a high price tag and try to justify it if we can't explain generated value to customer."
C2	"We will look unprofessional if we try to sell some metal parts with margins out of the roof. Our customers are not stupid. They accept that we as Case Company need to make profit as well but margins need to be on acceptable level."

Views on value and willingness to pay also variate between different customers. This means that there needs to be alternative methods to provide different kind of products with different kind prices in order to serve different customers. Especially as Case Company has heritage of more product-orientated mindset it can be challenging to even think alternative opinion regarding customer value. This leads to situation where instead of taking account all of variables motivation is more to quantify the value and set prices in generic way hoping that every customer shares these views.

Another aspect that reflects from difficulties in quantifying the value is that individuals generate views on price fairness based on costs, as for example C2 indicates. As it is difficult to quantify value that customer will receive when using Case Company's products in their operations individuals sometimes will think that with correct margin levels customers would be accepting prices. In this kind of mindset there is focus shifts more in cutting Case Company's costs, as it would enable to set prices that are more competitive to customers.

## **5.2.2 Product management function's organizationally induced barriers to VBP**

In addition to barriers induced by individual persons in larger scale there are also other issues from product management perspective that can be seen as organizational. Common theme is that there is certain lack of processes as well as tools to monitor the effects of pricing decisions. In addition, it can be seen that level of product-orientation is still strong inside Case Company compared to focusing truly in customers.

### **5.2.2.1 Inconsistent sales and pricing behavior**

As there are multiple different organizations, who are linked to sales and quotation operations there are certain restrictions in processes that leads inconsistent behavior sales and pricing behavior. Especially as different organizations' responsibilities have similarities with each other but they are not working according consistent processes there are scenarios where sales prices variate between each other depending which organization is preparing the quote as mentioned in Table 15.

**Table 15. Issues in sales and pricing processes**

Respondent	Illustrative quote
A4	“There has been occasions when different departments are sending quotes with different prices and they end up till customer. In those cases usually we need to go with the lower price but bigger problem is that we look unprofessional. If we want to communicate our value arguments with prices we first need to get our pricing processes in line.”
C3	“As there are resources put in defining value-based prices I would like to also have them in use.”

As there are multiple different organizations, who are linked to sales and quotation operations there are certain restrictions in processes that leads inconsistent behavior sales and pricing behavior. Especially as different organizations’ responsibilities have similarities with each other but they are not working according consistent processes there are scenarios where sales prices variate between each other depending which organization is preparing the quote.

Simultaneously there are some organizational challenges in terms of monitoring individual pricing decisions. As inconsistencies are noticed, it can be challenging to understand what has been reasoning behind those decisions. In larger scale, this creates a bigger obstacle to overcome, as agreed procedures between organizations are not respected and causing friction cross-functionally.

#### **5.2.2.2 Lack of trust on capabilities of other functions to fulfill their roles in VBP**

Implementing VBP is clearly co-operative task where different functions need to their part. As in the past product management function had the biggest role in defining prices for proprietary products giving away this power. Questions related to the capabilities of other functions are listed in Table 16. Opinions play a big role as it seems to generate hesitance whether there is too much sense to dedicate in implementing VBP as it may not make any difference as other function cannot deliver input enough.

Quite general opinion among personnel in product data management is that salespersons do not have enough expertise and knowledge on all products. This leads to situations where interaction with customer concentrates too much around prices as salespersons are not capable of communicating value aspects to customers. At the same time feeling is also that salespersons cannot communicate properly customers' opinions and views back to product management function. Therefore, product management functions personnel have difficulties in creating and designing products as they feel that they do not get enough information related customers' views on value, other than prices are too high. Similar kind opinions are also towards other support functions such as central pricing function. Due the great variation of requirements and characteristics of different products, there is fear that not of all these aspects are taken account properly when setting prices.

**Table 16. Questioning competences for VBP**

Respondent	Illustrative quote
C2	"In general level market areas are not capable of providing good enough information in regards what customers see valuable to them. We then start guessing what customers might see as value but answers we receive are that prices are too high and more discounts are needed. Level of communication needs to be improved."
C3	"We have complex products that are important and backbone of our product line's business. Pricing needs to be done with care and preferably by someone who is familiar with these products and understands them properly."

### 5.2.2.3 Trust in technical competence

Case Company is known for its expertise on products and organization structure supports this model. As seen this in quotes in Table 17, engineering is the main competitive force that drives the company. Therefore, it is not necessarily surprise that focus in customers is sometimes lost. History makes it difficult to change mindsets towards more service-orientation as technical expertise has been the source of success in the past as customers in the past have been willing to invest more in Case Company's products rather than selecting more cheaper alternatives.

**Table 17. Relying in technical expertise**

Respondent	Illustrative quote
A3	"We tend to love technical abilities and characteristics of our products. Too often we don't truly listen to our customers. And when we listen our customers focus is still more in selling our views and ideas to customer rather than converting our offering based on what customer needs and wants. If customer isn't able to understand our arguments we tend to see it more as their problem rather than our problem."
A2	"Core functions of our company rely on technical competence and superiority contrast to competitors, or at least we want to see it like that."
C1	"Let's face it. Engineering run this company. We have two core business units, which are focused in products and then service separately. Engineers tend to be more interested in technical aspects. We have luckily also customer-orientated engineers as well but in general, those are usually harder to find."

#### 5.2.2.4 Lack of metrics and goals supporting VBP

In order to interpret the effects of pricing decisions it is clear that there is need for set metrics and also to reporting tools to support evaluating pricing actions. As there are tens of thousands individual spare parts and wide spectrum of other more comprehensive products and services it sets requirements also to have variation in reporting and metrics. Designing one model that suits for every purpose cannot just exist.

**Table 18. Obscurity in evaluating VBP**

Respondent	Illustrative quote
A2	"No existing metric or report show us what has been effect of value-based prices. We receive from time to time some powerpoints and excel sheets but interpreting them can be challenging. And the fact that persons cannot run those reports by themselves is an issue."
C2	"There are lot of different kind products in our portfolio. If we want to price them properly there needs to be resources. Lately main message we have been receiving is that we need to increase our product line's profitability on in general. What that actually means? Where should we concentrate? Or should we just do some general price increase and hope that customers will buy products with new prices?"

These aspects seem set challenges to different organizations to do co-operation as it can be unclear what is actually wanted to be achieved as there are not common targets related to price management as shown in Table 18. From product management function perspective this leads to putting focus on their main tasks and hoping that other functions do their tasks as well resulting that prices do not generate new problems to already existing ones.

### **5.2.3 Customer interface function's individually induced barriers to VBP**

Serving customers is the core responsibility for personnel in customer interface function. Interacting with customers and justifying prices however can be difficult if it is felt that there is not possibility to change customer's views on prices as well as if there is not enough expertise about the products.

#### **5.2.3.1 Customer pressure on prices**

Although customer pressure could be seen as externally induced barrier based on Töytäri et al. (2017) classifications, in this context it refers more individuals beliefs and attitudes in towards incapability to influence customer's perceptions. As illustrated in Table 19 it was seen that some customers are not interested on anything else than the lowest price they can have.

Fear of losing customer can also sustain mentality that lowering price is the only option as B1 indicates. Although it can be considered as virtue to have ability in evaluate business transactions from customers perspective there can be a risk individual starts to believe that customer cannot be influenced price-wise other than giving accepting price reduction requests. Also the nature of the metals and mining industrial markets sets challenges, as there exists only restricted amount of customers in the industry. Therefore the risk of losing key customers can become too dominating resulting and thus accepting customer requests may seem the only option in order to generate at least some sales and profit.

**Table 19. Inability to influence customer's price requests**

Respondent	Illustrative quote
B2	"Some customers are constantly criticizing our prices. They aren't interested in anything else but the lowest price."
B4	"We lose our key customers if we aren't able to respond their requests for discounts. In this market situation we just cannot lose customers even it would require lower prices."
B1	"You may easily to start thinking there is something wrong with the prices if customers are currently complaining about the prices, although you would even understand that often buyers target is just to get best price possible."

### 5.2.3.2 Lack of value arguments and product expertise

As the product portfolio consists products from several different product lines that are by nature completely different in terms of functionality and purpose, often salespersons are not experts of all products. In those cases it would important that value arguments would be documented so individuals with limited expertise would be still able to interact with customers in some level by information being available when needed. As illustrated in Table 20 this is not however the situation now.

**Table 20. Insufficient level of expertise in product portfolio**

Respondent	Illustrative quote
B4	"We are selling all kinds of parts and even services from different product lines. They are completely different. I know fairly well products that are managed in Finland, but for instance products with Germany-technology I know only the principles. However customers are expecting the same level of service regardless from which product line we are talking about."
B1	"Everyone related to sales process needs to have understanding where our prices are based on. This doesn't necessarily mean that all details and data would need to be available. However principles on where prices are based and which value arguments are used need to be known. It's not happening at the moment"

Even if the salesperson would be expert of some products and would be able to serve customer with great expertise it will also set the standard for expected service level for all products. Customer does not care whether which product line items are talked about but they see it only as Case Company product.

If there are challenges in understanding the products that offered to customer even more difficult is to justify the price for the customer. As there is no argumentation available where price is based it limits salespersons ability to interact with customer. As focus should be more in selling the price lack of value arguments shifts the discussion only on negotiating on the price.

#### **5.2.4 Customer interface function's organizationally induced barriers to VBP**

Whereas with in product management function there were concerns about the additional work load related to implementing VBP, with customer interface function the situation seems to be quite the opposite. Common theme seem to find that they feel restricted in order to operate with customers properly and are more working with the tools they have been given rather than what they would like to have. Strong governance effecting negatively towards customer interface function was common theme during interviews.

##### **5.2.4.1 Transparency of data**

As shown in Table 21 in customer interface function it is felt that they do not enough visibility on data. It relates either to fact data is personnel are authorized to see the data or there are too many databases making it difficult to interpret.

In Case Company especially specific data related to products such as drawings are often authorized only for personnel involved in product management. Fear of data spreading to customers or competitors have resulted that in general only data that headquarters function see as necessary is shared also to personnel in market areas. However, from customer interface function's perspective it seems that it would be better if they would also have permission to more detailed data. It might ease personnel daily tasks and they would not be



so dependent on central functions. Even bigger influence could be that customer interface function would feel that they are trusted. As B3 mentions, if personnel in market areas are not treated like equal colleagues but treated more like “children”, it may increase hesitance to act according headquarters instructions but rather continue working with existing habits.

**Table 21. Limited data transparency**

Respondent	Illustrative quote
A4	“It generates risk if all data is available, for instance if our employees switch to working for our competitors or customers. But naturally we have to rely our workers and maybe sometimes we are little bit overcautious in terms of what different functions are able see and what data is limited to only headquarter functions.”
A3	“There is lot of data and there are multiple different databases, tools and softwares used. Data is so scattered. At the same time, market areas are basically trained to use only ERP but even there some authorization limits usually exists. My opinion is that limits too much market areas operations. I understand that there is a reason why some information is not wanted to be available for everyone but at least some key individuals should have more access in order to make better decisions by their own.”
B3	”Hiding important info and data regarding pricing will probably have a backlash. If people are feeling that they are treated like a child they most probably also start acting like a child. They don’t necessarily react to new instructions but rather continue doing things as they have used to do.”

Another aspect related to data is the difficulty in finding the essential information, as A3 mentions. It is not enough that data is permitted but there also should be training arranged in order to utilize different data sources as well as capture essential information from data

#### **5.2.4.2 Insufficient sales case and customer selection**

Although there are recognized key customers for Case Company that are handled with greater focus the mentality seems be still strong in serving every customer available as shown in Table 22. As it can be difficult to justify to declining customers it is still important to understand focusing on every customer is not necessarily recommended as eventually it often in some levels removes resources on serving customers that are more important from Case Company’s perspective.

Problems seem to occur also on product level. As in service business, the variety of products is large and third party products are also sold to customers, there can be situations where Case Company has problems to generate competitive offering. As B2 indicates, for customer it is easier to compare prices of commercial parts. If quotes with not competitive prices are sent to customers, accusations for price gouging may arise. This may lead to situation where customers see Case Company in general as expensive vendor and also start asking more intensively discounts to proprietary products that can be purchased only from Case Company.

**Table 22. Need for better customer and sales case selection**

Respondent	Illustrative quote
A1	“In service business you can’t just say “no” for customer but sometimes it could be said for customer selection. We spend resources with customers who are just buying from us with minimal annual spent. Nevertheless serving these customers takes time the same way as serving the more lucrative customers where our focus should be.”
B2	“Customers sometimes requests quotes for commercial spares that are definitely not our core business. We don’t necessarily have any supply sources designed or discount from vendor on these items and most probably customer would be able to obtain it more easier by themselves or from competitor. However, we send quotes even knowing ourselves that price is not competitive and most probably we will not receive order. It will also raise risk that customer sees all of our prices having some air between, even with proprietary parts.”

### 5.2.4.3 Low level of empowerment

Probably the biggest and also the most concerning barrier towards to VBP is related to lack of empowerment that is commonly felt. Based on the quotes in Table 23, personnel have clearly issues in terms of how restricted they are in terms of having an effect in prices. As governance of headquarters is seemed to be too strict. This results both challenges in interacting with customers but especially it creates unnecessary friction between individuals in market areas and in headquarter central functions. B1 however addresses that instead of blaming each other’s in decisions made emphasis should be in addressing what factors are causing these issues. If confrontation continues without taking necessary actions, implementing VBP becomes also more challenging.

**Table 23. Lack of empowerment**

Respondent	Illustrative quote
<b>B3</b>	"From market area perspective it feels that our hands are completely tied and there isn't much we can do. We need to have some tools such as freedom to give some discounts in negotiation situations. Also we need more tools and information for instance regarding margin levels so we can also evaluate ourselves what kind of pricing decisions can be done."
<b>B2</b>	"Asking permission always whether I can give minimal discount takes time but mainly it frustrates me."
<b>B4</b>	"Often it feels prices are given to market areas without any consultation from us. And even if we can indicate that our prices are completely apart from market price levels prices cannot be changed as it's been informed that our costs prevent us selling with prices closer to our competitors. In those cases it's difficult to communicate with our customers as there is so little we can do to help them."
<b>B1</b>	"Market areas sometimes feel that pricing actions coming from headquarters are more creating issues rather than supporting sales and quote activities. Simultaneously people in headquarters are wondering why market areas not acting according processes and instructions but rather are setting prices by their own randomly. This kind of confrontation needs to stop and people need to start respecting each others. Blaming others on issues doesn't lead to anything but focus should in understanding challenges of co-operation and start finding resolutions together."

#### 5.2.4.4 Lack of incentives to VBP

Although VBP has been discussed with personnel in customer interface function, there still are not any rewarding programs or even measurements regarding selling with value-based prices. As shown in Table 24, only aspect of customer value satisfaction related to incentives is in how quickly customer requests are answered. It seems that still focus is more in expanding market share or at least generating some revenue, regardless of the value aspect, as it can be interpreted from B2's quote.

**Table 24. Issues in supporting value sales**

Respondent	Illustrative quote
<b>B3</b>	"There are incentives related customer satisfaction such as KPI's for how quickly RFQ's are answered. However pricing is not included in any rewards or bonuses."
<b>B2</b>	"Value-based price or not, evaluation of performance is based on general sales figures."

## 6 CONCLUSIONS

This research has provided information about the challenges and the development needs of pricing management in industrial markets especially related to the implementation process of value-based pricing strategy. In this chapter, questions to the research questions as well as limitations are presented and followed with theoretical implications.

### 6.1 Key results of the study and the limitations

The first research question was the following:

1. How pricing management and the role of pricing function is understood in industrial companies?

Current state of understanding pricing management as well as how the role of pricing function is summarized in Table 25. It was identified that pricing management is generally quite well understood topic in Case Company and that in price setting there is need to understand different elements related variations in products, customers and market areas. Also the role of pricing function was seen essential in price management especially in terms of supporting other functions. Eight main themes were recognized from the data analysis that are:

1. Price variation between products
2. Price variation between customers
3. Price levels in different market areas
4. Pricing as part of sales process
5. Co-operation with headquarters and market areas
6. Pricing ownership
7. Implementing price changes
8. Value communication and prices

Table 25. Pricing management in Case Company

Theme	Current state	Responsibility of pricing function
<b>Price variation between products</b>	Pricing needs to variate between products but dividing products only to proprietary or commercial level not enough. Pricing needs to be rational cross-functionally.	Supporting in categorization of items from pricing perspective
<b>Price variation between customers</b>	Customer prices should be varying with customers based on their importance and willingness to pay. Changing prices of existing items with matured sales history seen as challenging.	Providing procedures to implement customer specific prices
<b>Price levels in different market areas</b>	Certain differences related to price levels in market areas needs to exist. At the moment too generic price levels in different market areas. Harmonized price levels needed for global customers operating in various market areas.	Implementing market area specific price alternations
<b>Pricing as part of sales process</b>	Pricing seen as essential part of sales process but it cannot act as too separate compared to other aspects in sales. Role of pricing with customer discussions too big.	Managing pricing by taking account other cross-functional aspects
<b>Co-operation with headquarters and market areas</b>	Desire to increase level of general understanding on pricing management cross-functionally. Supporting especially customer interface function seen as extremely important. Building trust through transparency of data and decisions.	Training and providing information related to pricing management for market areas
<b>Pricing ownership</b>	Pricing functions owns the pricing procedures and decisions due low level of VBP capabilities in other functions. Not seen as optimal approach with every product and/or customer.	Owning the pricing procedures and decisions, sharing some power for market areas
<b>Implementing price changes</b>	Price changes are needed sometimes but they cannot come as surprises for sales units. In order to secure pricing credibility, price changes needs to be rational and explanations for reasons behind price changes needs to be documented.	Implementing and informing ongoing price changes, evaluating effects of price changes
<b>Value communication and prices</b>	Understood that aspect of customer value can be utilized in price setting. Lack of value arguments and thus lack of value communication however imminent.	Providing procedures to implement value-based pricing

The second research question was the following:

2. What are the key barriers that prevent implementation of value-based pricing strategy in industrial companies?

Twelve individually and organizationally induced barriers were recognized from product management functions and customer interface functions perspective. Findings are listed in Table 26.

**Table 26. Barriers to VBP in Case Company**

Function	Individually induced barriers	Organizationally induced barriers
<b>Product management function</b>	<ul style="list-style-type: none"> <li>- Complexity of VBP compared to more simple pricing strategies</li> <li>- Difficulty of quantifying customer value and transferring it to prices</li> </ul>	<ul style="list-style-type: none"> <li>- Inconsistent sales and pricing behavior</li> <li>- Organizational trust in technical competence</li> <li>- Lack of trust on capabilities of other functions to fulfill their roles in VBP</li> <li>- Lack of metrics and goals supporting VBP</li> </ul>
<b>Customer interface function</b>	<ul style="list-style-type: none"> <li>- Customer pressure on prices</li> <li>- Lack of value arguments and product expertise</li> </ul>	<ul style="list-style-type: none"> <li>- Transparency of data</li> <li>- Insufficient sales case and customer selection</li> <li>- Low level of empowerment</li> <li>- Lack of incentives to VBP</li> </ul>

This research succeeded in providing information about the challenges and the development needs of pricing management in industrial markets especially related to the implementation process of value-based pricing strategy. In order to continue with implementation of VBP in Case Company, managerial implications are provided in Chapter 7. As this research is based on an explanatory single case study barriers in other companies may vary in other companies depending on industry and the size of company. In addition, the research was conducted from vendor's perspective without interviewing customers. Therefore, for future researches studying other companies as well including and emphasizing the role of customers is suggested.

## 6.2 Theoretical implications

In general, findings correlate with the current literature regarding the challenges of implementing VBP. According to Liozu et al. (2011) key shortcoming, why VBP is not implemented is that the concept of VBP is viewed as complex or not even understood by executives. This study supports this statement as VBP was seen too difficult and desire to continue using cost-based and competition-based pricing was still strong.

Töytäri et al. (2015) addressed that institutional barriers to VBP play significant role in B2B business and incapability in influencing customer-willingness to pay being one major barrier. As Hinterhuber (2008) states, value-assessment and value communication are the major obstacles to implementing VBP. The present study contributes in emphasizing the importance of justifying value factors internally first before they can be directed to product prices and communicated to customer. Based on interviews sales force cannot convince customers with value-based factors if they are not aware on how prices have been generated or are not convinced about the value factors what have been transferred as value-based prices. If sales force cannot justify the prices for themselves, they are also incapable to justify prices for customers. This will lead to situation where in future customer transactions historical sales prices and competitor prices are still more important rather than value elements thus preventing price changes.

Töytäri et al. (2017) stated that barriers faced by individual managers are in the core of either success or failure of implementing VBP. This present study contributes in addressing that individually and organizationally induced barriers vary between different internal functions. In central functions closely linked to headquarters operations, the biggest factors generating hesitance towards implementing VBP are related to additional input required in value quantification and sharing the pricing power obtained in the past for other functions. At the same time, for functions operating in customer interface, the source of barriers to VBP was related to lack of empowerment in influencing price setting as well as encountered distrust from other internal stakeholders. In addition, from individual perspective organizationally induced barriers were seen to have a bigger role in preventing VBP. Although individually induced barriers were also recognized, research shows that

individuals are not necessarily questioning their own capabilities to contribute in VBP as much but see organizational incapability more decisive. Findings correlate with Töytäri et al (2017) as it is clear that even if barriers to VBP would be more organizational, they have clear link to inducing individual barriers. Individual barriers are set to be arising especially in situations where there is sense of uncertainty in what is expected from the individuals.

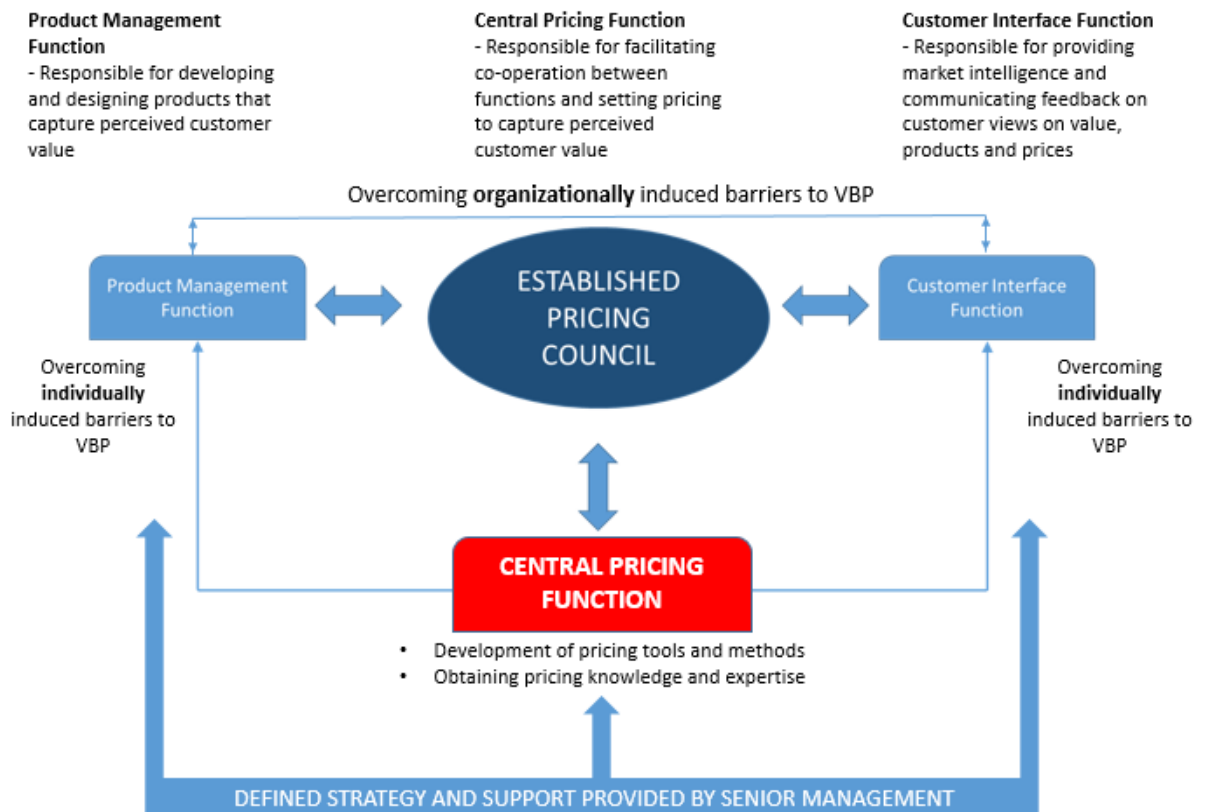
In order to overcome these recognized barriers the importance of senior management support and the need for cross-functional co-operation between internal key stakeholders is inevitable. In implementation process senior management needs to define customer-value as principle of all operations inside the company and create incentives that supports pursuing increases in profitability instead of generating more revenue and obtaining more market share. The role of pricing function in facilitating co-operation in the process of implementing VBP is extremely important. Sensegiving in legitimizing VBP needs to be done in different forms from personal interaction with individual managers to bringing different internal key stakeholders closer to each other. Increasing the importance of pricing across the whole company will generate better possibilities to successfully implement VBP.



## 7 MANAGERIAL IMPLICATIONS

Although implementing and application of VBP requires significant initiatives from other internal stakeholders it is clear that central pricing function has the role of the leader in this implementation process. Nevertheless, it is also important to understand that central pricing functions role is also in supporting other functions. Focus needs to more in convincing other stakeholders to understand the reasons and benefits of implementing VBP by themselves rather than forcing VBP. As this research illustrates both individually and organizationally, induced barriers prevent implementation of VBP. In order to overcome these barriers and further develop VBP in Case Company it needs to be first understood from central pricing function perspective where barriers exists, how they are linked to each other and where central pricing function is positioned among other internal key stakeholders. Focus is in relationship of central pricing function, customer interface function, product management function and senior management which were recognized as most important functions in terms of implementing VBP in Case Company.

In broader scope, all activities by central pricing function are targeted to support whole Case Company strategy especially in terms of focusing in customers, competitiveness of products and profitability. Simultaneously, as central pricing function is not directly operating in customer interface nor product development, focus is in supporting these functions to operate better from pricing management perspective. Supporting role does not still mean that relationships with other functions would be one-sided but central pricing function needs also support from others functions to operate better. Especially in process of implementing VBP, it is evident that central pricing function need to have its own targets and responsibilities as well. This research indicates that implementation of VBP requires central function team to separately operate with product management function as well as with customer interface function. At the same time, there is also need to facilitate co-operation between these functions, as interaction is required over function responsibilities. Position of central pricing function towards other stakeholders in VBP implementation process is illustrated in Figure 10.



**Figure 10. Pricing function's position in overcoming barriers to VBP**

In overcoming individually induced barriers to VBP central pricing function needs to address these separately with customer interface function and product management function personnel. Level of intimacy needs to be relatively high as it is important to understand in more detail from why individuals implementing VBP is seen as difficult. Building up trust plays an important role and members of central pricing function need truly to want help others in overcoming these barriers.

A concrete action in order to overcome obstacles is establishing a pricing council. It would serve purposes of addressing both individual and organizational barriers during the different stages of pricing development process. As pricing development and implementing seen as a journey, pricing council would serve as platform where constantly changing barriers could be discussed. It would also enable internal key stakeholders to discuss more comprehensively in all aspects related to VBP as well generate understanding in broader view. This way pricing council could also serve as precautionary function that prevents inducing of barriers to VBP both in organizational and individual level.

Decision to implement VBP strategy requires also that there is enough resources and knowledge available to lead and guide pricing transformation. Pricing function is, first and foremost, a support function. It does not do business directly with customers and it does not design, manufacture or create products that are introduced to markets. At the same time usually pricing function's KPIs are often tied with the performance of these market area sales teams as well as different product lines responsible of products and services. Although there can be also other metrics how performance of pricing function is evaluated the focus should be in supporting other key stakeholders and departments to achieve better results. Even if in theory pricing function would do exceeding their individual KPI targets most probably it would not get the reward and recognition if pricing actions do not truly affect positively in performance of other stakeholders.

Pricing and pricing team are affected with multiple different factors and stakeholders. Even if pricing function rarely is directly communicating with customers, it needs to understand needs, requirements and challenges related to customer in order to support customer interface function. At the same time pricing function needs to have some technical expertise in order to be able discuss with product management function convincingly. In addition to these two key stakeholders, multiple other functions are also directly or indirectly affecting on pricing. Supply, sourcing, logistics, taxation, financial controllers and legal department are just some examples that play role when setting prices. This does not mean that members of pricing function should be experts of everything but it illustrates the complexity of the environment where pricing function operates. Obtaining at least basic information of different functions and factors is naturally an advantage but more important is to understand that pricing decisions are influenced by others also affecting in many levels that can be sometimes hard to understand in first place. For central pricing function, it is crucial that it has ability to see the bigger picture and evaluate effect of functions actions in larger scale.

Instead of pricing function becoming "expertise center of everything" it needs to have focus on developing pricing first. This does not mean that pricing function should concentrate only on its own actions, not at all. Focus in acting with other stakeholders

should be in utilizing as much as possible the knowledge and skills of other departments that will help also pricing development. Sometimes this requires that stakeholders may need to act differently contrast how they have used to act in order to benefit pricing function in the most optimal way. Convincing other stakeholders on importance of VBP is important and pricing development is much easier as other stakeholders are on the same page in terms of why certain changes are needed in order to support pricing development.

Due complex environment and links with multiple stakeholders pricing function needs to operate in flexible way and be truly open minded in terms overcoming barriers that are preventing implementation of VBP. This requires that every stakeholder are given interest and their views in terms of requirements, challenges and solutions are listened. Naturally when operating with different functions opinions might be conflicting each other due various reasons. One of key tasks central pricing function is to be able to overcome these conflicts through negotiation, conversation and compromising.

One of the major factors related to implementing VBP is general company strategy set by top management. Every stakeholder in company, including central pricing function, needs to adjust their actions that it will support general company strategy. In smaller scale, it will serve also as backbone for pricing strategy and its implementation. When implementing VBP it is clear that focus of strategy needs to be in customer value. As every function and stakeholder has customer value on their agendas it gives also better possibility to implement VBP successfully. Correct goals, targets and incentives are natural requirements in implementing strategy.

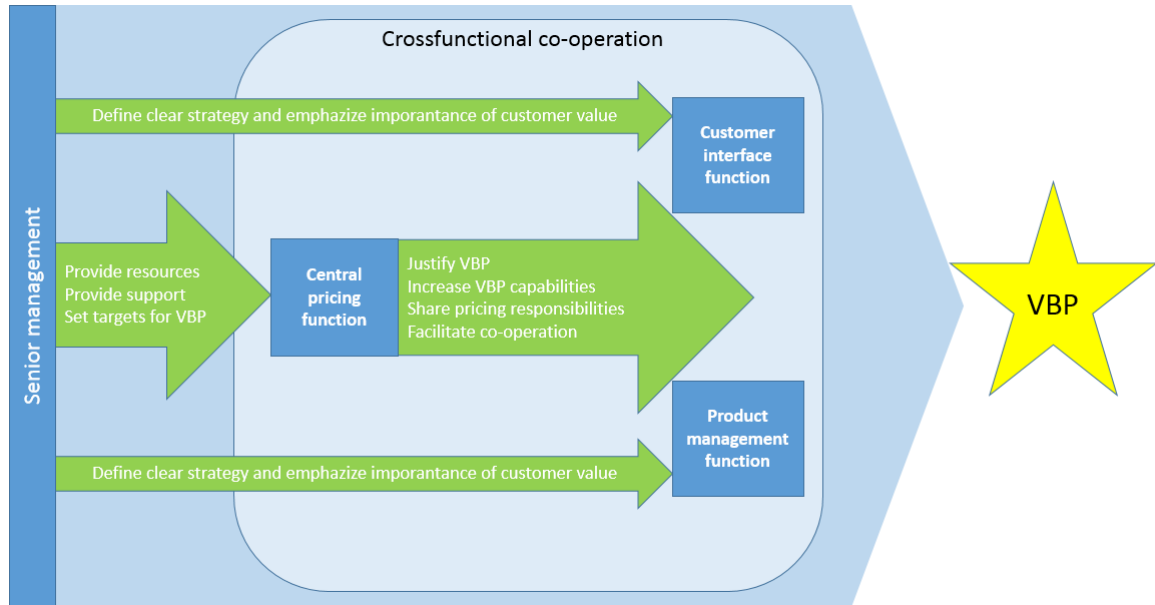
Role of senior management in implementing VBP is also significant. When developing and implementing new pricing strategy it is clear that there is targeted to have effects in Case Company's most important commercial figures such as sales and profitability. It will affect many stakeholders, require changes in organizational and individual behavior and most probably, create some conflicts. As pricing strategy is affecting so many functions, it is clear that implementing VBP is a big chance with significant influence. In order to successfully driving VBP through organization, senior management needs to support that as well.

One of key factors creating barriers to VBP is when strategies are misunderstood or not known. In larger scale, if personnel have difficulties understanding company's strategy it creates environment where common larger-scale and long-term goals and targets are blurred or do not even exist. In this kind of environment, driving any kind of change is extremely challenging, as it is difficult to motivate and justify different stakeholders to push towards same direction. Uncertainty is playing big role thus preventing change in both personnel and organizational level. In addition, stakeholders are more tempted to concentrate in spending resources in topics that support directly their operations rather than evaluating whole companies benefit. Timeframes in goals and target setting are usually too narrow as short-term results have too big role in performance evaluation.

In smaller scale these limitations or lack of general strategy creates big challenges to central pricing function in terms of setting pricing strategy and implementing it. Central pricing function can have great challenges in evaluating which aspects and details they should put more focus. No matter the situation, of course central pricing needs to able to operate also in challenging environment where developing and implementing pricing strategy is their own task. Nevertheless bigger issues occur if environment already is infected and hesitance for change exists. Justifying VBP in situation where other stakeholders are too much focused their own short-term targets when company-level targets are missing creates both individually and organizationally induced barriers.

Due the long-term nature of successfully implemented VBP and its impact in various stakeholders senior management needs to support pricing transformation but also set goals and targets to central pricing function and monitor the development. With support towards implementing VBP, it gives message to all stakeholders that it is considered as important topic and thus potentially helping central pricing function in legitimating VBP to other key stakeholders. At the same time, it also indicates to pricing function that their work really matters and in most difficult situations, they can turn to senior management in order to overcome issues.

To summarize, implementing of VBP starts from senior management as illustrated in Figure 11. Central pricing function is the leader of the implementation process but emphasis in customer value throughout organization level is the main driver of the change, and also necessary requirement for successfully implementing VBP.



**Figure 11. Framework for successful implementation of VBP in Case Company**

## 8 SUMMARY

The objective of this study was to provide information about the challenges and the development needs of pricing management in industrial markets especially related to the implementation process of value-based pricing strategy. In order to recognize obstacles to implementing VBP there was also need to explore how different aspects related to pricing management and the role of pricing function in this context had been understood organizationally. To address the objective of this study single-case study was conducted and issues were analyzed in Case Company.

Theoretical part consisted two parts that were pricing in general and implementing value-based pricing strategy. In first theoretical part strategical aspects of pricing as well as pricing management from organizational perspective were discussed from theoretical point of view. This created basis for second theoretical part, which was, which was to understand obstacles that may occur and prevent implementation of VBP. Theoretical framework based on literature review was then utilized in empirical part of the research.

Empirical part of this research was conducted with qualitative single case study method and data collection with 11 semi-structured interviews. The purpose of interviews was to bring together various perspectives, gather experiences and obtain understanding on how pricing management and VBP was seen in the Case Company. Based on data analysis seven main themes related to pricing management and the role of the pricing function where identified. In addition, twelve individually and organizationally induced barriers to implementing value-based pricing were recognized. Barriers were divided between two internal key stakeholders.

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## **APPENDICES**

Appendix 1

Questionnaire for interview. 1 page.

## **APPENDIX 1. Questionnaire for interview**

Master's thesis interview

Henri Rantalaiho

1. How do you understand value based pricing?
2. How do you understand Case Company's services pricing strategy?
3. How is pricing of spare parts/services managed in Case Company from your perspective at the moment?
4. What value Case Company adds to customers operations? How could it be reflected to pricing?
5. What should be taking account when discussing about services pricing?
6. Do you see some issues with current pricing approaches used in Case Company?
7. Who should be doing the pricing? How much negotiation freedom should sales persons have?
8. How pricing should be communicated to customers?
9. What kind of role you see pricing as part of whole sales and delivery process?
10. How customer relationship/sales history should affect in pricing?
11. How customers see Case Company's prices? What would you say are reasons for this?
12. How should pricing vary between customers?
13. How should pricing vary between different products?
14. Which approach you would prefer? Why?
  - a. Generic prices
  - b. Customer specific prices