Tampereen yliopisto

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PRICING PROCESS FOR THE GLOBAL OPERATING ENVIRONMENT

Faculty of Engineering and Natural Sciences
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ABSTRACT

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Many companies operate in an increasing number of very diverse markets where the complexities of the B2B markets are further enhanced by the international operating environment. Simultaneously, as international involvement increases so does operational diversity within the companies. Together these result in prices that vary. As the internet allows customers to compare prices with ease, inconsistencies can cause significant harm. Unfortunately, academic research lacks descriptions of good pricing practices for the global operating environment, and where such exists, theory is far from the reality of companies.

This thesis examined the global pricing of a medium sized Finnish company with the aim of identifying biggest challenges in current prices and developing a more cohesive approach for the company's global pricing. This research combined inductive and deductive research approaches by collecting interview data first, due to limited prior knowledge on the subject, and then utilizing existing literature in theory building. Both qualitative and quantitative methods where used to generate data and hence the researched uses mixed methods.

The study revealed that achieving more global pricing in the case company would require first addressing the issues in the current pricing. For each step of the global pricing process the characteristics of the global operating environment highlighted in the approach were discussed in reference to the case company and the following challenges where identified: the role of strategy requires clarification and should be connected to pricing, common pricing priorities need to be developed, segmentation could be improved, there are too many prizing methods utilized to align with pricing capabilities and lack of clear pricing polices combined with large number of products makes implementation and control of prices difficult.

Keywords: Pricing process, price management, pricing principles, price realization, global pricing, global operating environment, B2B

TIIVISTELMÄ

Lotta Suni: Hinnoitteluprosessi globaaliin toimintaympäristöön
Diplomityö
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Monet yritykset toimivat yhä lukuisimmilla hyvin erilaisila markkinoilla ja tämä globaali toimintaympäristö edelleen lisää B2B-markkinoilla toimimisen haasteita. Yrityksen toimiessä yhä kansainvälisemmin myös sen sisäisten toimintojen monimuotoisuus kasvaa. Yhdessä nämä luovat vaihtelua tuotteiden hinnoissa. Internetin avulla asiakkaiden on helppo vertailla hintoja keskenään, minkä takia epäjohdonmukainen hinnoittelu voi aiheuttaa yritykselle suurtakin harmia. Valitettavasti akateemisessa tutkimuskentässä on vain vähän kuvauksia hyvistä hinnoittelutavoista globaaliin toimintympäristöön ja olemassa olevakin tutkimus on kaukana yritysten todellisuudesta.

Tämä työ tutki keskisuuren suomalaisen yrityksen globaalia hinnoittelua tavoitteenaan yrityksen nykyisen hinnoittelun suurimpien haasteiden tunnistaminen ja yhtenäisemmän globaalin hinnoittelutavan kehittäminen. Tutkimus yhdisti induktiivisen ja deduktiivisen lähestymisen, ensin keräämällä haastatteluaineiston, mikä auttoi tuttustumaan aikaisemmin melko tuntemattomaan aiheeseen, ja sen jälkeen hyödyntämällä olevassa olevaa kirjallisuutta teorian muodostamisessa. Aineistoa kerättiin sekä laadullisia että määrällisiä metodeja käyttäen.

Tutkimuksessa selvisi, että globaalimman hinnoittelun saavuttaminen kohdeyrityksessä edellyttäisi puuttumista ensin nykyisen hinnoittelun ongelmiin. Globaalin hinnoitteluprosessin eri vaiheissa esiin nostettuja globaalin toimintaympäristön ominaispiirteitä tarkasteltiin kohdeyrityksen suhteen ja seuraavat haasteet tunnistettiin: strategian rooli vaatii selvennystä ja se olisi liitettävä hinnoitteluun, tulee kehittää yhteiset hinnoitteluprioriteettit, segmentoinnissa on parantamisen varaa, käytössä on liian monia eri hinnoittelumenetelmiä yhdistettäväksi hinnoittelukyvykkyyksiin ja selkeiden hinnoittelumenettelyjen puute yhdistettynä erilaisten tuotteiden suuren määrän vaikeuttavat hintojen toteuttamista ja valvontaa.

Avainsanat: Hinnoitteluprosessi, hintojen hallinta, hinnoitteluperiaatteet, hinnan realisointi, globaali hinnoittelu, globaali toimintaympöristö, B2B

PREFACE

This thesis project has been a long and tiring journey and I am pleased that it is now successfully completed. I have learned much, not just about pricing or real-life challenges of companies, but also about myself as a researcher. Most of all, I am grateful to have gotten the opportunity to work on such an interesting topic.

I would like to thank Timo Tallus who as my supervisor in the case company made working on the topic possible. A big thank you also to all my interviewees for giving me the time out of your busy schedules to help me gain important insights into the topic. I hope I was able to give answers or at least refocus some of the questions that provoked the start of this thesis.

I would also like to thank my examiner professor Teemu Laine for all his comments and encouragement during the writing of the thesis. You were always able to pinpoint the core issues from the areas of the thesis I was struggling with and help me move forward. I am also grateful for Tuomas Korhonen for agreeing to act as the second examiner so late in the thesis process.

Finally, I would like to thank my family and friends for their support during what in the end took a bit longer than anticipated. Without all your support this would have been much more of a struggle. Finishing the thesis marks the end of my studies. I have loved my time at TUT, but now it is time to graduate.

Tampere, 30.4.2019

Lotta Suni

CONTENTS

LIST OF SYMBOLS AND ABBREVIATIONS

B2B	Business to business
ERP system	Enterprise resource planning system
OEM	Original equipment manufacturer

1. INTRODUCTION

1.1 Motivation

Delivering value to the customer is the basis of any business activity and said value is captured using pricing to split the value created between the firm and its customers (Liozu & Hinterhuber 2014; Liozu et al. 2014; Johansson et al. 2015). Based on the cost of the product and the customers willingness and ability to pay it is relative straight forward to determine the floor and ceiling price of a good. Setting the price below the floor price means there is no possibility of making a profit, whereas if the price is set too high there is no demand at that price (Kotler & Keller 2016, p. 497). However, as Valuckaitė and Snieška (2007) state: “In B2B market the pricing problem involves a lot of dimensions making the search for an “optimal” price extremely difficult and perhaps irrelevant”. The abbreviation B2B stands for business to business. In B2B goods and services are marketed and sold between organizations for the purpose of the buyer organizations own use or to be sold to another organization for its own use (Wright 2004, p. 3). Pricing in B2B market is very complex, but doing it well helps companies get ahead of competition and gain tremendous competitive advantage (Valuckaitė & Snieška 2007).

The complexities of B2B environment become even more complex as companies operate in an increasing number of very diverse markets (Albaum et al. 2016, p. 525). In international markets companies typically earn higher rates of return than they do in their domestic market, however this higher reward does not come without the added complexity and challenges presented by the international operating environment (Albaum et al. 2016, p. 16). Nowadays the internet allows customers to compare prices between different market areas and in the long run this could cause significant harm to business using differential pricing as customers would not be happy to realize they payed more than someone else (Albaum et al. 2016, p. 493). Simultaneously, empirical research indicates that as the level of international involvement increases so does the operational diversity within the company (Albaum et al. 2016, p. 93). Inconsistent discount systems and varying negotiation capabilities as well as different levels of authorization among sales people can cause the final selling price of a product or a service to vary (Hinterhuber & Liozu 2012). At worst, despite different and sometimes elaborate analyses conducted to support managerial decision making, so called pricing “truths” still influence the pricing decisions (Smith 1995).

While performance of different marketing activities has been looked at in detail, when it comes to pricing there is little effort made to distinguish between good and bad practices in academic research (Indounas 2009). Descriptions of such common or "best practice" in pricing are limited in number and especially in the case of pricing for industrial export markets there is a significant lack of conceptual and empirical research (Tzokas et al. 2000). One could even say, that there is a complete lack of literature measuring the success of pricing practices (Indounas 2009). The lack of pricing related research is even more profound when discussing services. Fallowing the trend of servitization, where manufacturing companies add services into their core product offerings (e.g. Oliva & Kallenberg 2003; Gebauer et al. 2005; Neu & Brown 2005), many authors have focused on the organizational and structural factors influencing the development of services (Malleret 2006). However, only a few studies look at the practices of costing and pricing services when it comes to creating and measuring value of service offers (Malleret 2006). Moreover, when it comes to pricing globally, much of the existing theory seems to be far from the reality of companies.

1.2 Empirical context – Pricing challenges in the case company

The empirical context of the research is focused on the global pricing challenges faced by a globally operating medium sized company headquartered in Finland. The case company is part of a larger group that was formed through the merger of the case company and its competitor. The group has since grown to operate internationally with the case company having the prerogative to operate globally within its customer segment. It is recognized as a global brand within the group and has two distinctive roles: one in the domestic market and one in the global market. The focus of the thesis in on the global role of the company, where it focuses on clients on the high end of the commercial sector and professional end users. In its global role the company operates in the B2B market, as opposed to selling to the end consumer or retailer selling to the end consumer as is done in business to consumer market (Wright 2004, p. 4).

The company was initially formed in late 1910s and its long history is one of the biggest challenges it faces in pricing its products, as the product portfolio has developed in various directions over the years. Product life-cycles are long and as a result so are customer relationships. Some prices, though initially connected, have developed very differently, while some product have been priced completely independently to begin with. As a result, the company has a collection of varying pricing formulas and rules for a significant range of different product and products groups. The company is considering global group level pricing as viable solution and is interested in finding out more about its possibilities and best practices. For the future, the aim is to create a roadmap for execution of the new global pricing. Overall, the desire is to develop the overall product offering and its pricing and not just maximize sales of individual products.

The company sells its product through their own sales subsidiaries, sister companies and independent dealers. The signifying difference is, that of sales made through own sales subsidiaries the company is credited with the whole of the profit while through sister companies it is only credited with a part of the profits through the group. Independent dealers, as the name suggest, are completely independent of the case company and hence their sales have no direct profit impact. The sales channels can also have more than one intermediary between the so-called factory price of the company and the end customer and the profits built into the prices for all the intermediaries of the channel commonly result in varying end customer prices. Figure 1 illustrates the different sales channels of the case company and the different price levels.

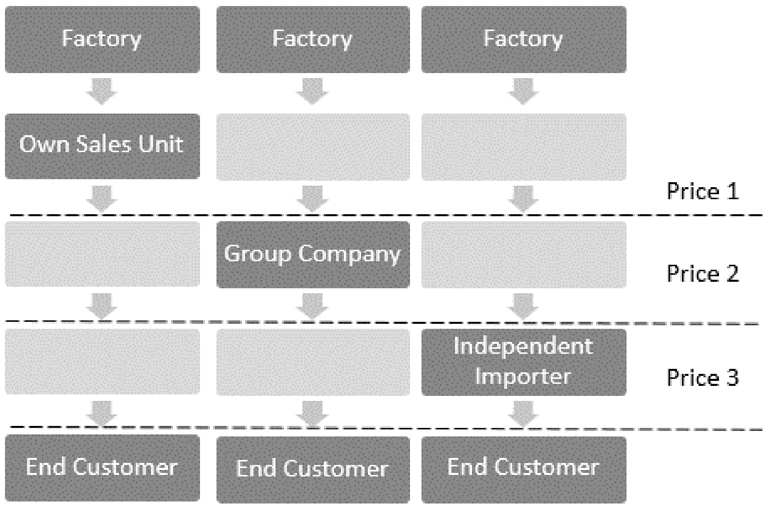

Figure 1. *Sales channel steps of the case company*

Over the last 10 years the industry the case company operates in has gone through significant growth, especially with regards to new technologies. Overall the industry is characterized by country or area specific standards leading to regional product differentiation. This has to do with not only laws and regulations but also with customer expectations when it comes to product performance. Qualifications of customers to utilize more high-tech products according to specifications can also vary. For the case company the new industry trends and high-tech solutions are expected to create new business opportunities through recurring revenue models and new services opportunities. However, at the moment especially pricing of more service-based business is relatively new to the company. When it comes to existing products, the company is interested in moving towards a more value-based pricing, instead of being limited to cost-based thinking. Some effort has been made to price additional features of products more according to their value than pure production costs and feature-based pricing is seen as a future possibility.

1.3 Research problem, objectives and scope

The goal of this thesis is to identify the biggest challenges in the case company's current prices and develop a more cohesive approach for its global pricing. Due to the long history of the company, current pricing practices are mixed and various, and the problem is thought to only increase in the future. Hence, the case company desires to investigate the possibilities and best practices for global group level pricing and the steps of building a roadmap for execution of such pricing practices.

For this thesis, the academic literatures of pricing methods, global pricing principles related to operating in a global setting and pricing management are studied. The research process itself was shaped both by time constrains due to its nature as a master's thesis and the schedule of the current pricing process of the case company. The research utilizes the mixed method and uses both qualitative and quantitative methods. The empirical data was gathered with semi-structured interviews and as numerical price data.

The research objective is to develop pricing practices appropriate for global operating environment and the research questions for the thesis are the following:

- *What kind of a pricing process supports the pricing objectives of the company?*
- *How should the pricing process take into account the characteristics of the global operating environment?*

The focus of the study is on changing already existing pricing within the company. The scope of the study is the development of pricing practices appropriate for the global environment and the implementation of said practices in only touched on a discussion level. Due to the existing price change logic of the company the initial result of the interviews and price data analyses are to be used already in the pricing of products for the year 2019. These changes are however not part of the thesis itself.

1.4 Structure of the thesis

The thesis has five chapters. The first is the introduction, that *outline*s the motivation of the research, introduces the case company and its current pricing challenges as well as explains the scope, objectives, the research problem and structure of this thesis. The second chapter builds the theoretical background. The theory building starting from pricing methods utilized in companies, looks at pricing as a process and considers the effect global operating environment has on pricing and pricing management in companies. The global price management consideration also includes relevant servitization issues. Chapter three outlines the research methodology, materials and the process used for gathering and analyzing the data for the thesis. Chapter four describes the analyses and results obtained, first based on the price data analysis and then by comparing pricing in the case company to the global pricing process approach developed in the theory section of the thesis. The last chapter concludes the thesis commenting on the achievement of objectives, reliability and validity of the research and the managerial implications of results as well as makes recommendations for future research.

2. THEORETICAL BACKGROUND

2.1 Pricing methods

Pricing decisions are quantitative, often visible across competitors, and linked more easily to revenues than other marketing decisions (Urbany 2001). The policies, activities and behaviors that businesses apply both to setting and changing prices can vary significantly, and are what Smith (1995) calls the managerial pricing orientation of a company. Smith proposes four distinct managerial pricing orientations: cost, sales, competitor and strategic pricing orientation. Each of which shows a different implementation of the pricing decision process of an organization in determining and setting price. (Smith 1995) The depictions of the four managerial orientation can be seen in the table below.

Table 1. *Managerial pricing orientation according to Smith (1995)*

Dimension of pricing orientation	Cost-oriented	Sales-oriented	Competition-oriented	Strategic-oriented
Information gathering and processing	Variable cost, fixed cost, overhead burdens	Current and previous sales, sales by account or segment, lost customers	Competitors' prices, market share, signals and capital investments	Customer, competitor or regulatory response, variable costs contribution margin
Pricing objectives, philosophies and beliefs	Financial prudence philosophy	Prices reflect what customers are willing to pay	Price is a competitive weapon, market share leads to profitability	Sustain competitive advantage, customer value, segmentation pricing
Organization decisions process	Finance function competence; formalized, centralized process; little interdepartmental connectiveness	Sales function competence; less formal, decentralized process; little interdepartmental connectiveness	Marketing function competence; more formal centralized process; some interdepartmental connectiveness	Integrated process; formalized, centralized process; high interdepartmental connectiveness
Organizational responsiveness	Inflexible, slow response to market changes	Flexible, quick response to market changes	Flexible, moderate response to market changes	Relatively influxive, slow response to market changes

Three of these four orientations to setting price can be recognized in many of the later depictions of different pricing methods used by companies. For example, according to Kotler and Keller (2016, p. 497) companies select a pricing method based on one or more of three considerations: floor price based on costs, competitors’ prices and prices of substitutes and customers’ assessment of unique features of the products. Guerreiro and Amaral (2018) state how the various price setting approaches used by companies are often divided by marketing researchers into three groups: cost-based price, competition-based price and customer-based price. Shipley and Jobber (2001) in turn talk about how many companies focus only on one of three factors, cost, customer or com-petition, when pricing, making the error of excluding all or most other relevant factors. Hence, in accordance with Tzokas et al. (2000), Smith’s concept of managerial pricing orientation is a useful starting point for a description of pricing behavior. Pricing methods themselves depend on the specific formulas used to come up with a price and such formulas can vary from very simple to highly sophisticated (Indounas 2009).

Following the common trend of diving pricing methods into three categories the following chapter is divided accordingly into three: cost-based pricing methods, competition-based pricing methods and customer-based pricing methods. With each method the focus is on the strengths and challenges of said method. The strategic-pricing orientation in this thesis is looked at under the chapter 2.2 Pricing as a process, and hence not included here.

2.1.1 Cost-based pricing

As can be seen in Table 1, in the cost orientation of Smith’s typology pricing decisions focus on gathering and analyzing cost and margin information. Pricing is viewed as a means of achieving unit profitability (Smith 1995) and desired financial caution is reached by pricing each product or service so that it achieves a fair return over costs (Nagle et al. 2011, p. 19). As the name suggests, in cost-based pricing the emphasis is on product costs. There are two common ways of doing cost-based pricing. One is the cost-plus method also known as full-cost pricing, the other is the use of what is known as variable cost, contribution or marginal pricing. The key difference of variable cost, contribution or marginal pricing to cost-plus is that the price of the product is dependent on its variable costs to which a predetermined markup taking into account fixed costs and profit is then added to determine the selling price. In cost-plus pricing the selling price should not be below the full cost, whereas in variable cost method all price levels above the variable costs are seen to contribute some profit to cover fixed costs. (Laitinen 2007, p. 179) There are in a sense two floor prices, one set by the direct cost and one by full costs (Albaum et al. 2016, p. 505). Other cost-oriented pricing approaches include methods that measure the performance of pricing decisions by variances or various return measures, such as return in sales, investment or equity (Smith 1995).

Several authors agree that the price setting method most frequently used by companies is the cost-plus method (Smith 1995; Tzokas et al. 2000; Shipley & Jobber 2001; Laitinen 2007; Nagle et al. 2011; Guerreiro & Amaral 2018). Both the profit markup and the costs in cost-plus pricing can be calculated using various methods, such as using the rate-of-return pricing method for profit and activity based costing for the costs (Laitinen 2007, p. 170-172). However, the fundamental logic behind all approaches is the same. Forecasting sales volumes and calculating fixed and direct costs to determine average full cost estimates, based on which using a predetermined profit markup the selling price is then determined (Shipley & Jobber 2001).

Key reason for the popularity of cost-based pricing is that it is seen by managers as a simple tool for profitability (Nagle et al. 2011, p. 19). Managers also view it as fair to customers, believe it to enhance customer relations and provide price stability in stable markets. Familiarity of the method also plays a part in its popularity. In many companies cost-plus methods are chosen as the standard operating procedure and used as also competitors are known to do so. Many of these reasons are however only partly valid or even completely wrong (Shipley & Jobber 2001).

As financial accounting information in most companies is easily accessible, using it to calculate the prices seems simple (Smith 1995). However, the use of purely cost based-pricing puts significant requirements on the precision of the cost calculations, as errors in the calculations directly influence both the price and products profitability (Laitinen 2007, p. 157). As most of the financial accounting information available in the financial reporting systems of companies is generally at best average, it might not represent the cost behavior accurately enough (Smith 1995). Dividing fixed cost fairly is actually very difficult when company's offering includes multiple products and it operates in multiple markets (Shipley & Jobber 2001). On the other hand, in his research into activity based costing, commonly considered the most precise way of allocating costs, Wihinen (2012) points out that the contextual, representational, and accessibility characteristics of cost information can contribute to the reasons why managers see cost information quality as poor. He states how: "the accuracy as understood in the literature appears to have little meaning for practitioners." Few managers seem interested in whether the selected cost drivers and associated costs actually go together, as long as the allocations seem fair. Similarly, the usefulness of the cost information is dependent on whether it fits a particular decision-making situation, rather than its actual quality. (Wihinen 2012) Therefore, what is seen as inaccurate cost information might not have errors per se but is not what is expected or required in the specific situation.

Shipley and Jobber (2001) argue that, due to its perceived simplicity, cost-plus pricing is sometimes left to junior managers who lack the necessary understanding of the market to make effective pricing decisions. Purely cost based pricing also not only ignores price elasticities of demand, but also competing products in the market. Focusing on the markup makes companies unable to take advantage of short-term opportunities enabled by prices below the full cost level. Not forgetting the fact that a company might have other objectives besides achieving certain markup. The belief that cost-based pricing helps with customer relations is based on the fact that customers are more willing to accept a price increase that are caused by cost increases experienced by the supplier. However, the same also applies to prices that are not determined using the cost-based method. (Shipley & Jobber 2001).

The fundamental problem with cost-driven pricing however is, that in most industries it is impossible to determine product's unit cost before determining its price. In cost-plus pricing the portion of cost that is fixed, so independent of the volume of goods or services produced, must be allocated to the produced volume to determine full product costs. (Nagle et al. 2011, p. 19) As the allocation of fixed costs varies according to the number of units sold, any cost estimate is dependent on volume. If the direct costs are high, an increase in volume will only result in an incremental change in the costs allocated to each unit. However, if the fixed costs form majority of the cost of a product a change in volume will have a significant role in determining the unit costs. (Albaum et al. 2016, p. 495) Pricing strategy in cost-based pricing is therefore in part about effectively managing the utilization of fixed costs (Nagle et al. 2011, p. 19). The method is dependent on the company's ability to accurately forecast sales in the future (Smith 1995) as pricing begins with volume estimates, but in reality, the price will end up determining the actual sales volume (Shipley & Jobber 2001). Coast-plus pricing leads to overpricing where sales are smaller and underpricing where sales are larger (Nagle et al. 2011, p. 19). When cost-based prices are deemed too high managers might try to fix them by allowing a more flexible markup. This will help reach desired sales, but on a whole it just means that the financial returns of the products remain inadequate. (Nagle et al. 2011, p. 25)

It is good to note that, defining when a company is using cost-based methods in their pricing is not as straightforward as it might seem. For example, in their study Guerreiro and Amaral (2018) state how using a cost-plus margin does not necessarily meant that the essence of the pricing is cost based. In their opinion, the pricing might have the shape and utilize cost formulas but still represent a value-based pricing process (Guerreiro and Amaral 2018). This will be discussed further later on under the customer-based pricing methods. Another aspect related to cost-based pricing to keep in mind is that, even if academics make detailed analysis and recommendations about pricing, companies still commonly fall back on old pricing "truths" and rules of thumb (Smith 1995). Many of which revolve around cost-based methods and the use of variable-cost, fixed cost and profit mark-up (Tzokas et al. 2000).

2.1.2 Competition-based pricing

In competition orientation price is set to match or beat the competitor's prices with the intention of protecting market share, customers or winning tenders (Smith 1995). When competitive conditions are used to determine where the price should be set between the floor price and ceiling price, the question is, should price be set above, below or at the same level as competition (Albaum et al. 2016, p. 499-500). Some consider this as pricing strategically but in reality the profitability of each sale might be eroded as managers aim to increase market-shares with the misguided belief that bigger market-share equals larger profits (Nagle et al. 2011, p. 20-21). The method does, however, allow companies acting as price followers to benefit from common price increases and to avoid being disadvantaged by competitors' price cuts (Shipley & Jobber 2001). In policies where pricing is dictated by the competitive conditions, pricing itself is a tool for reaching sales objectives (Nagle et al. 2011. p.20-21). A common way of executing price changes in competition-based pricing is matching price adjustments proportionately to the competitor to maintain price differentials (Shipley & Jobber 2001).

Competitive pricing is often used when from customer's point of view products in the market are not differentiated (Indounas 2015). If products are highly differentiated it is not always possible for companies to use the competitor prices as a basis for setting the price since the prices are difficult to capture (Guerreiro & Amaral 2018). Product distinctiveness, brand reputation and well-established distribution channel on the other hand can also act as barriers to enter the market and discourage new competition from entering the market. Hence allowing the company to set higher prices. Therefore, in addition to current competition, it is also important to consider potential new competitors entering the market when making pricing decision. (Albaum et al. 2016, p. 499-500).

Competitive pricing is a reactive way of pricing as the company pays close attention to competitive behavior in the market and acts accordingly (Indounas 2015). However, there are risks with putting too much emphasis on reacting to competitor's prices instead of managing prices in the market through price signaling, positioning and carefully considered price challenges (Smith 1995). In the worst case following a rival could result in pricing below costs, if a company ignores its own costs and cost differentials compared to rivals. Controversially, this could also mean lost opportunities if the company ignores opportunities of using price initiatives for its own gain. Similarly, as cost-based pricing methods, competition-based methods may ignore the actual customer demand for the offering as well as objectives other than those to do with competitiveness the company itself may have.(Shipley & Jobber 2001) In a situation where competitor reduces its prices, under competitive pricing the company is also compelled to lower its own prices to meet the lower price in the market (Indounas 2015). If all changes in competitor's prices are seen as threats and permanent, therefore requiring reaction, this can lead to price wars that at worst can destabilize the whole market (Smith 1995; Indounas 2015). On the other hand, knowing that prices will be copied might also prevent price wars in the market (Shipley & Jobber 2001).

Assuming that, accurate information about competitors' prices is readily available, competition-based pricing is relatively straightforward (Smith 1995). However, if a B2B-company does not use market intelligence, they cannot know competitors' prices (Guerreiro & Amaral 2018). Companies can also never be sure what rival prices are at that precise moment, as all recorded information is about previous prices (Shipley & Jobber 2001). In B2B markets significant part of the information about the competitor's prices can come from a customer shared by competing sellers. Hence, it is not uncommon for professional buyers to intentionally conceal or mislead sellers about competitor's prices in order to create a bidding situation beneficial to themselves. (Nagle et al. 2011, p. 20) In some cases competitive prices can be difficult to find due to, for example, industry wide practices of not publishing prices or because prices are negotiated individually for each customer. In these cases, it is necessary to consider inventive ways of gaining competitive reference prices. One such way could be polling the sales organization. (Nagle et al. 2011, p. 38)

One important consideration in the B2B setting is that discounts are often negotiated secretly and even having the same price does not mean equal competitive positions as customers preference is also affected by non-price benefits such as service levels included in the offer (Shipley & Jobber 2001). When a company's product portfolio includes numerous different products across large number of clients and multiple competitors the sheer variety of different prices makes knowing when to match a price and when not to also that much more difficult (Dutta et al. 2003). Hence, it is understandable that for a company operating in a B2B setting it might be easier to use internal data to estimate the value offered to customer (Guerreiro & Amaral 2018).

2.1.3 Customer-based pricing

Compared to the previous two pricing approaches customer-based pricing, as the name suggest, is the only that takes into consideration the customer perspective (Guerreiro & Amaral 2018). Customer-based pricing methods involve estimating how highly customers value the product or service offered and their sensitivity to changes in price. Prices are then set according to customers' ability and willingness to pay. (Shipley & Jobber 2001) Implementing customer value-based pricing strategies can offer companies significant opportunities to create competitive advantage by differentiating themselves form competition through creating, quantifying, communicating and capturing customer value (Hinterhuber & Liozu 2012). In Smith's typology customer-based pricing is represented as the sales orientation, where focus is on the markets response to price in terms of sales (Smith 1995). Customer-based pricing is often referred as value-based pricing or customer value-based pricing (Guerreiro & Amaral 2018).

To begin pricing according to customer value, the company needs to first form estimates on the value customers place on the offering (Shipley & Jobber 2001). The value placed on a product by the customer determines the ceiling price, in other words the product utility measured in monetary terms (Albaum et al. 2016, p. 496). Prices are then set and changed based on what the customers will bear (Shipley & Jobber 2001). Basically, this amounts to assessing customers' price elasticity, in other words customer sensitivity to changes in price (Albaum et al. 2016, p. 496). With highly inelastic demand prices can be set relatively high and increased without much change in demand in terms of sales volume. On the other hand, a decrease in price will also be relative ineffective in increasing demand. With highly elastic price small changes in price will in turn have a relatively large impact on demand. Where both cost- and competition-based methods were criticized for not taking into account the customer demand, customer-based pricing methods are responsive to customer concerns (Smith 1995). The method recognizes that there are differences in value perceptions and spending power between various customers, making it possible to set differentiated prices using segmentation to improve overall profitability (Shipley & Jobber 2001). However, what is often forgotten is that not all customers are in a sense equally desirable and efficiently managing customer perceptions might mean some customers are worth losing in order to maintain consistent pricing strategy and policies (Smith 1995). One of the challenges of pricing based on value is coming up with a way of producing goods and services at a low enough cost that all market segments can be served at the target price and still remain profitable (Nagle et al. 2011, p. 25). Even if customer-based pricing result in prices that customers are able and willing to pay (Shipley & Jobber 2001), B2B sellers must still take into account their cost structure and installed capacity (Guerreiro & Amaral 2018). If applied too rigidly customer-based pricing can also ignore rivals' prices (Shipley & Jobber 2001) and it is important to remember that competing products and substitutes are a key factor in determining the price elasticity of demand.

The availability of information is often a critical determinant of estimating demand (Albaum et al. 2016, p. 496) and, similarly as the two methods discussed previously, also consumer-based pricing involves the difficulty of collecting information (Shipley & Jobber 2001). In a B2B setting there are two main problems that arise when products are priced based on what customers are willing to pay. First, professional buyers are rarely completely honest about how much they are willing to pay for the product or service and can even intentionally conceal or mislead sellers to gain the upper hand in price negotiations. For the sales person this means an uphill battle in establishing close relationship and understanding what the value of the offering is to that customer. Secondly, many companies underprice more innovative products as their customers are ignorant of the actual value the product offers, and are therefore willing to pay less that the product would actually be worth. (Nagle et al. 2011, p. 20)

As was mentioned shortly when discussing cost-based methods, Guerreiro and Amaral (2018) bring forth an interesting perspective of how in B2B environments the use of cost plus margin actually enables companies to use value based price setting approach. They argue, that the mere use of cost based formula does not necessary mean that the company sets price based on costs. Wihinen (2012) summarizes how various authors point out the tendency of sellers to "revise their prices towards optimum based on profit and market feedback despite what costing practice they initially based their prices on". Evaluating whether market feedback is accurate can be challenging in the B2B setting, and hence cost information can be very valuable to pricing. (Wihinen 2012) When the contribution margin acts as the variable defining the value of the product to the customer, companies can set value-based prices while maintaining the simplicity of cost-based pricing calculations. It is important to note, that when applied to full costs in cost plus pricing the only value to be negotiated is the profit margin. Hence, for the cost based formula to actually reflect value it has to use variable cost and contribution margin, which are not solely based on cost but also on business policies and should incorporate the business strategies and conditions of the economic environment. The contribution margin should cover the total fixed cost and the overall desired profit, however how these are split between the different products can vary significantly. Different products in the company's product portfolio might hence have different contribution margins depending on their role on the company's business strategy. Similarly the contribution margins of one product can vary between customers and distribution channels. (Guerreiro & Amaral 2018) Overall, the choice between different pricing methods is not always as clear as it might seem.

2.2 Pricing as a process

Despite differences in various pricing frameworks, something all researchers seem to agree on is that successful pricing requires using multiple information sources (Wihinen 2012). By approaching pricing decision from a more strategic perspective and placing emphasis on long term consequences rather than the short-term competitive advantage, companies are able to have a balanced approach, that takes into account both the market-related information as well as the company-related information (Indounas 2015). Pricing cannot be a one-off task as constantly changing market and company conditions require an ongoing process where prices are continuously analyzed and updated (Wihinen 2012). Ensuring that the required steps and assigned responsibilities are fallowed requires some formality in the pricing process, which in turn directs participants to view the whole pricing process from a more strategic perspective, (Tzokas et al. 2000).

Pricing decisions need to be evaluated based on returns they bring compared to alternative decisions and all successful strategies are and profit-driven. (Nagle et al. 2011, p. 22) Strategic pricing is said to help companies understand why some pricing decisions under certain conditions fail and some succeed (Indounas 2015). According to the research done by Indounas (2014), companies exercising strategic pricing also perform better in aspects such as profitability of total revenue, changes in profitability, customer loyalty, brand awareness and degree of differentiation. Tzokas et al. (2000) define strategic export pricing as a concept with two basic principles. First, export pricing decisions are of an equal importance as all other decision made in the company. If pricing is not viewed strategically to be equally important it will most likely lack the required resources or motivation to be executed successfully. Secondly, strategic pricing requires that prices are monitored continuously, not in reaction to ad hoc situations. (Tzokas et al. 2000) According to

Albaum et al (2016. p.525) efforts into strategic pricing will be rewarded if they include a clear market orientation, balanced consideration between customer need and profit requirements, combined under a reasonable amount of formalization of the export pricing activities.

Already under Smith's typology the organizational decision process of a company under strategic pricing is recognized as an integrated process (Smith 1995). Hence, this chapter first explains the concept of strategic pricing through the Strategic Pricing Pyramid and looks at setting the price using an integrative pricing technique. The chapter then introduces the pricing wheel as a process for achieving systematic and constant pricing by taking into account, in addition to price setting, also other aspects.

2.2.1 Strategic pricing

Where cost, competition and customer-based pricing methods are relative easy to understand, each utilizing the information the method is named after as the basis of the pricing decisions, the term "strategic" is somewhat more complex to explain. In Smith's typology companies with strategic pricing orientation use multiple sources of information for price formulation, including cost and margin information, customer response, competitive response and regulatory response. Similarly, both internal cost data and external market data is used to evaluate pricing decisions. (Smith 1995) One definition of strategy is that it is "the coordination of otherwise independent activities to achieve a common objective" (Nagle et al. 2011, p. 21). The logic of strategic pricing also relies on companies pacing equal importance on pricing decision as they do on other decision such as new product development (Indounas 2014).

Nagle et al. represent the different independent activities related to pricing choices as the five levels of the Strategic Pricing Pyramid. Each level forms the foundation for the next choice, all five levels together leading to the formulation of a good pricing strategy. (Nagle et al. 2011, p. 22) The Strategic Pricing Pyramid can be seen in Figure 2 below. In accordance with the requirement of paying continuous attention to pricing also pinpointed by Indounas (2014), evaluation and adjustments of several levels of the pyramid need to be ongoing to sustain good pricing (Nagle et al. 2011, p. 31).

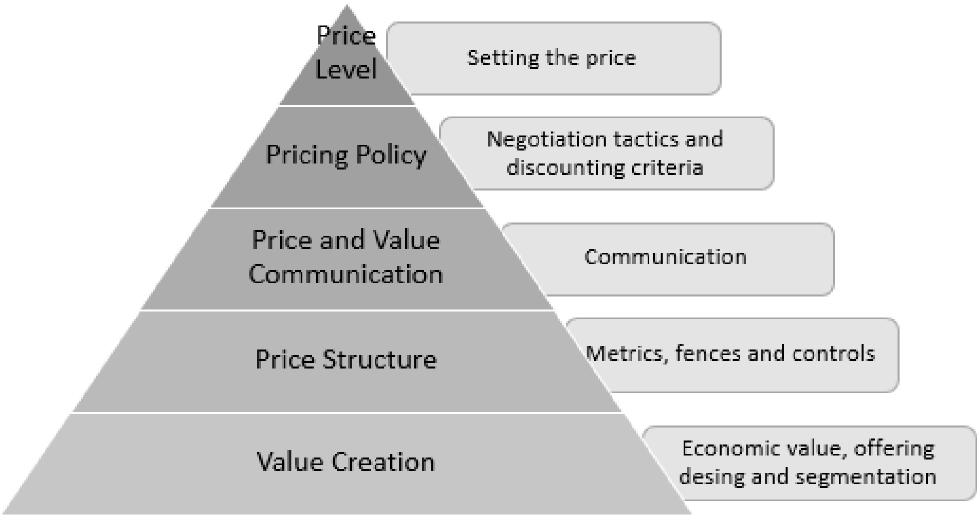

Figure 2. *The Strategic Pricing Pyramid modified from Nagle et al. (2011, p. 23)*

According to Nagle et al (2011, p. 22) all successful pricing strategies are value-based, meaning increases or decreases of price between customers or over time can be linked to changes of value offered. The strategic approach to pricing also aims to employ segmentation (Smith 1995). Overall, quantifiable estimates of customer value help companies set more profitable prices (Nagle et al. 2011, p. 37). Using competitive reference prices is one way of quantifying value, but as discussed under competitive pricing, in B2B markets this is challenging due to their complexity. Additionally, due to the B2B setting the business model of the customer has to be understood, to know how the product affects the customer's ability to reduce incurring operating costs and create value for its own customers (Nagle et al. 2011. p.25).

The purpose of a price structure, the next level of the Strategic Pricing Pyramid, is to capture the best price from each individual customer segment and/or make the sales in the market at the lowest possible cost. At its most simple, a price structure can be a set price per unit. (Nagle et al. 2011, p. 25) Strategic pricing allows companies to avoid short sighted decision such as very low prices that might maximize sales volumes in the short run but in the long run could result in price wars and overall price reduction in the market. (Indounas 2014). Generally, competitor- or customer-oriented price-setters struggle with increasing prices as it might mean loss of market-share or the loss of a customer. Price-setters using cost-plus in turn find it challenging to lower prices as it will decrease the average contribution margin of the products. Effective price setting means balancing between these two tradeoffs. (Nagle et al. 2011, p. 21) In strategic pricing, pricing is used as a strategic tool to create sustainable competitive advantage not easily copied by competitors (Indounas 2014).

The strategic approach to pricing aims to capture and communicate value to the customers (Smith 1995). Even if the products create value for customers and the company is able to reflect that value in its price structure, the company can still fail at communicating that price and value so that customers recognize it (Nagle et al. 2011, p. 27). In this case the perceived value of the product is less than the economic value estimated by the company (Nagle et al. 2011, p. 36). A successful pricing strategy is therefore also able to justify its prices in terms of benefits provided to the customer (Nagle et al. 2011, p. 27).

According to Nagle et al. (2011, p. 28) "pricing policy refers to rules or habits, either explicit or cultural, that determine how a company varies it price when faced with factors other than value and cost to serve that threaten its ability to achieve its objectives". In order to be successful pricing strategies also need to be proactive, meaning that companies aim to anticipate changes and develop strategies for dealing with them beforehand. Such change could be anything from a negotiation with a client to a new competitor entering the market. (Nagle et al. 2011, p. 22) Additionally, the final prices need to be determined through a systematic planning process and existing prices monitored regularly. It is vital that pricing decision are paid attention on a continuous basis, not in response to ad hoc situations. (Indounas 2014) However, pricing should not be considered as a process that only aims to set specific prices for products, services and markets. Instead pricing strategies, tactics and policies for achieving specific pricing objectives should be determined. (Wihinen 2012) What strategic pricing helps companies with, is to form more coherent set of pricing policies and processes that are appropriate for the overall corporate objectives and strategies, in addition to the marketing goals and strategies (Indounas 2014). It is however good to note, that due to relatively inflexible pricing decisions managed at general management or policy level, strategic pricing might be perceived bureaucratic by customers or sales representatives (Smith 1995).

How should the price level then be set? Shipley and Jobber (2001) combine the benefits of cost, competitor and demand-based pricing methods under a pricing technique they call the integrative pricing technique. The interactive pricing technique can be seen in the Figure 3 below. As can be seen from the figure it combines aspects from all of the pricing methods discussed previously. The integrative pricing has to be conducted at and individual market segment level (Shipley & Jobber 2001).

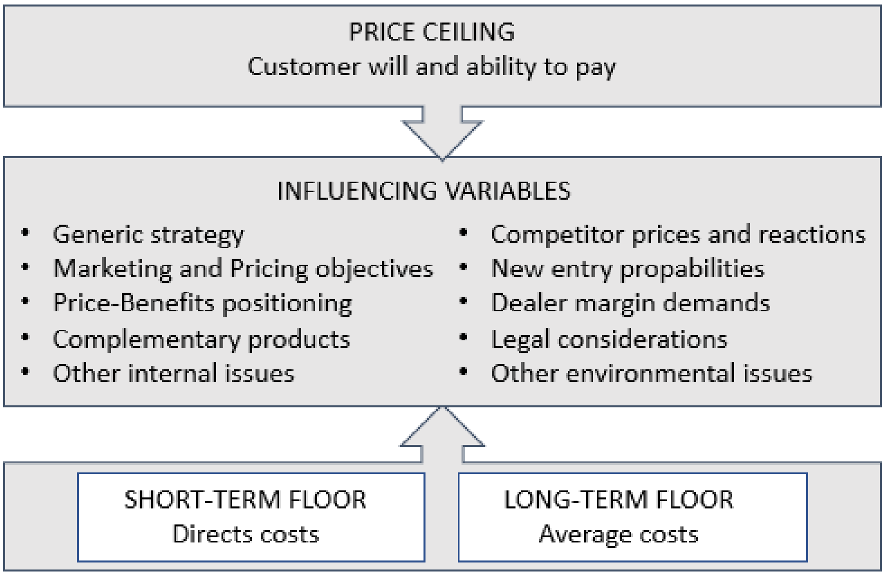

Figure 3. *The integrative pricing technique modified from Shipley & Jobber (2001)*

For each individual market segment, the company needs to evaluate whether there exists a gap between the price ceiling and the operative price floor. If no such gap exist, the company should exit the segment, unless it can either lower the floors or raise the ceiling to create and create a gap. Next criteria set by the integrative pricing technique for operating in a specific segment is whether the price gap allows the company to set a price that allows the company to reach its marketing and pricing objectives. If the price cannot meet its preferred role set by the company's strategy the segment should either be exited or the role and objectives adapted. All the relevant internal and external factors have to be considered and the company must be able to meet all constrains and still set a price that the price gap allows. Only then can the final selling price can be derived based on all the different influencing variables. (Shipley & Jobber 2001)

2.2.2 Process for effective price management

The pricing wheel by Shipley and Jobber (2001) is pricing process that aims to achieve systematic and constant pricing. The authors describe it as "a systematic means of analyzing and incorporating into decision making the strategic role of price, pricing objectives, the plethora of internal and external pricing determinants, pricing strategy, the pricing technique, and the necessary implementation and control procedures" (Shipley & Jobber 2001). Several authors agree that in order for pricing decision to be effective they have to be looked at from a strategic perspective by connecting the price determination to the business strategy of the company (Indounas 2014). Deciding the strategy role of the price is also the first step of the pricing wheel presented in Figure 4 below.

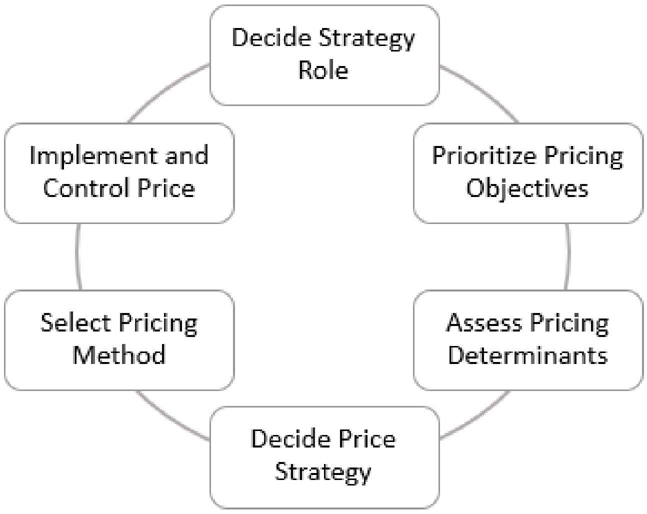

Figure 4. *The pricing wheel, modified from Shipley and Jobber (2001)*

Appropriate strategy for a company depends on the objective behind the strategic choice (Albaum et al. 2016, p. 486). Companies can, for example, highlight the superiority of their offering by choosing a high price positioning (Shipley & Jobber 2001). Interestingly it is not uncommon for companies that state specific financial or nonfinancial objectives for their international business, to not have separate objectives for pricing decisions (Albaum et al. 2016, p. 486). It is important to specify pricing objectives that follow the company's broader objectives as well as the objectives se for the products themselves. However, as the company's broader objectives and strategies will change as the environment and market conditions change, so should the pricing objectives. (Shipley & Jobber 2001) Company objectives might also not be the same across all markets. (Albaum et al. 2016, p. 508). Not all pricing objectives support each other and therefore it is critical to prioritize them (Shipley & Jobber 2001). For example, when a company is aiming to grow its service business, it is critical that the objectives for product and service sales are not in competition with each other (Reinartz & Ulaga 2008). Due to their changing nature, objectives should be prioritized every time a price is set as part of the pricing wheel (Shipley & Jobber 2001).

Effective pricing is affected by a range of internal and external factors and hence assessing all pricing determinants is important. Prominent among these are the conditions of customer demand and competition and the firm's own cost structures. (Shipley & Jobber 2001) Due to the complex nature of pricing decisions more than one type of pricing information needs to be collected (Indounas 2009). As has been discussed previously some of the information is more easily available than other, and in the B2B environment effective assessment of pricing determinant might be limited to only few that can be accessed with maintaining the credibility of results. The current business environment, where nearly all firms compete in rapidly changing, highly competitive markets, means making decisions involving some degree of uncertainty, implementing those decisions quickly, obtaining meaningful feedback, learning, and continually adapting (Urbany

2001). In the export sense of operating globally, managers should not forget to collect and use information about the profitability of the export function. It will give them a better understanding of the influence of profitability and helps them set export prices in a way that aligns with strategic imperatives of the company and export objectives. (Tzokas et al. 2000)

The fourth step of the pricing wheel, deciding on a pricing strategy, involves many dimensions (Shipley & Jobber 2001). There is a number of different pricing strategies that anticipate and react to competitors moves, instead of simply setting a selling price somewhere between the maximum price customers are willing to pay and costs (Albaum et al. 2016, p. 485). Pricing strategies in international markets are discussed in more detail in the following chapter. After choosing an appropriate pricing strategy, the next step is selecting the pricing method. It is often necessary to use more than one pricing method due to the complexity of pricing decisions. For example, one method can be used for everyday pricing decision, while another is used only under specific circumstances. (Indounas 2009)

The last step of each rotation of the pricing wheel is implementing and controlling the price. Implementation of the price involves the publication of the price list, whereas controlling it requires careful analysis of how customers, dealers, and rivals respond to the prices set. Controlling the price the internal and external pricing determinants should be still payed constant attention to, and if significant changes are apparent, the pricing wheel should be revisited from the start. (Shipley & Jobber 2001)

2.3 Implementing global pricing principles

The business environment in which a company operates includes the internal environment within the company and the external environment surrounding the business. When moving from national markets to operating globally the environmental horizon expands to include a variety of international forces, which interact with the national and local factors. (Morrison 2006, p. 4) Export pricing is found difficult, because the export price must not only somehow take into account the relevant domestic factors and adapt them to the international environment, but also take into account additional factors. The final export price has to be appealing to the foreign customer, generate profits for the company itself and fallow the appropriate international rules and regulations. (Tzokas et al. 2000)

When operating in a global market with limited resources companies often rely on a distribution channel to sell their goods to the final customer. The choice of distribution channel has an effect on the price, as channels such as independent export merchants might insist on a larger operating margin than manufacturers own export agents (Albaum et al. 2016, p. 505). The manufacturer acting as an exporter sets the cross-border price for the independent importer, but the local pricing policy of the independent importer in the foreign market is not under the exporter's control (Obadia & Stöttinger 2015). Choices regarding the distribution channel of a company therefore play a part in determining the appropriate pricing strategy for a company (Wihinen 2012) and will have an effect on the final price of the good in the B2B environment.

In this chapter the environmental factors affecting pricing are first discussed, after which pricing in channel relationships is looked at to get a better understanding of the need for price variation in international markets. Both only include aspects that are seen specific and significant to pricing in a global setting and are in no way all-encompassing. Finally, the chapter discusses the implications of market-positioning strategy and the role of market segmentation in pricing as pricing strategies in the international market.

2.3.1 Environmental factors affecting pricing

Improved transport and communications have made the concept of a global market-place more of a reality but as Morrison (2006, p. 159) notes, this does not necessarily mean that the national markets are melting away or that consumer tastes are becoming uniform. Diversity persists within the global economy, meaning that companies need to pay attention to variety of locational differences. (Morrison 2006, p. 159) Due to economic, cultural and political environments international markets tend to be less homogenous than the national markets with a larger range of income levels and different life styles (Albaum et al. 2016, p. 201). As the nature of demand between countries varies, in countries where customs duties and price elasticity of demand are high the price might have to be lower to achieve desired sales volumes (Albaum et al. 2016, p. 504). However, despite differences in consumer tastes between countries, with globalization and due to increased market accessibility in B2B markets, products between various countries tend to be very close substitutes for each other. Due to imperfect information and the costs related to changing suppliers, customers tend to purchase from the same source repeatedly. Therefore, changes in price will have a delayed effect to the amount of customers a company has. Altogether this means that, in the short run companies face inelastic demand for its products, but in the long run the elasticity can be very large. (Valuckaitė & Snieška 2007)

Economic differences are often the direct cause of significant differences between national markets (Albaum et al. 2016, p. 144). With having a uniform price across all markets, it is easy to understand how at the same time for countries with lower price level the price would be too high whereas for "rich" countries the price would not be high enough. Hence, uniform price level might cause companies to price themselves out of the market, despite the fact said country could still be profitable for the company to operate in, just with a lower markup. Setting a price for each country, would enable the company to change the price to a level that each county can afford. It is good to note that, the case of uniform price a company would earn different profit rates in different countries, due to the differences in cost involved. (Kotler & Keller 2016) A significant determinant of cost involved in operating within a country are the custom duties involved. Tariff levels between countries vary and therefore there is an incentive for exporters to price their products differently for different countries (Albaum et al. 2016, p. 504). Methods determining export prices by just adding insurance, freight, some extra to prepare for contingencies and the markup for the exporter on top of the domestic price have been commonly used, but are recognized to have the same problems as cost-based pricing. Export pricing is highly complicated and a company using what is basically cost-plus to set prices becomes unresponsive to demand and competitive actions. (Tzokas et al. 2000)

When operating globally, different currencies used in different countries must be taken into consideration. Exchange rates between currencies often change significantly even in the short run and even more in the long run. Within the Eurozone this of course has no effect, but much of international trade is done also in other currencies, typically either in US dollars or in a country's own currency. (Albaum et al. 2016, p. 511) One challenge of the B2B market is that prices tend to be predetermined. Whether it is due to common practice of having so called price lists with prices only changed typically ones a year or long-term contracts between supplier and customer, prices do not reflect the newest information about costs or exchange rates. (Valuckaitė and 2007) Significant changes in exchange rates often result in increases or decreases in profits. In theory an exporter can choose to use its own currency, the buyer's currency or a third party currency by specifying what currency is to be used in a transaction. When trying to avoid risk related to foreign exchange rates exporter would prefer receiving their own currency, whereas importers would prefer making the purchases in their own currency. In practice however, the choice of currency depends on several factors, such as buyer preferences, exchange rates and whether they are fixed or floating, freedom of exchange and governmental policies. (Albaum et al. 2016, p. 511)

Governmental policies are a significant factor governing the international markets. A good example of such governing is the concept of parallel imports, also known as gray markets, the legal import of genuine goods through other than authorized distributors. Parallel imports are supported by many countries as they are seen as means of encouraging competition in the market. Moreover, it is not only supported by individual counties, but prohibiting or limiting distributor from operating in any country within the European Union is illegal. (Albaum et al. 2016. p.508-509) Parallel imports are only illegal when they violate product regulations or country specific licensed or owned trademark use (Eagle et al. 2003). The signifying factor with such a policy is that the official distributor faces new competition selling the goods with a lower price (Albaum et al. 2016. p.339). Overall, it is good to note is that the more control government renders over a market the more difficult it is to enter and limits the freedom of individual companies to adjust prices (Venkateswaran 2011, p. 206).

2.3.2 Pricing in channel relationships

Channels play a significant role in the success of a company and influence all marketing decisions including pricing (Kotler & Keller, p. 516). The concept of marketing channel can be looked from different perspectives, which makes giving one single definition impossible. In this thesis marketing channel is understood in the context of the definition given by Rosenbloom as: “the external contractual organization that management operates to achieve its distribution objectives”. External as the marketing channel is not part of the company’s internal organizational structure, contractual referring to channel members being parties involved in negotiations, unlike facilitating agencies such as transportation companies, operates referring to management of the company being involved in the affairs of the channel, and finally the channel exists as a means of filling the company’s distribution objectives. (Rosenbloom 2012, p. 10) Figure 5 shows a typical marketing channels used in B2B marketing.

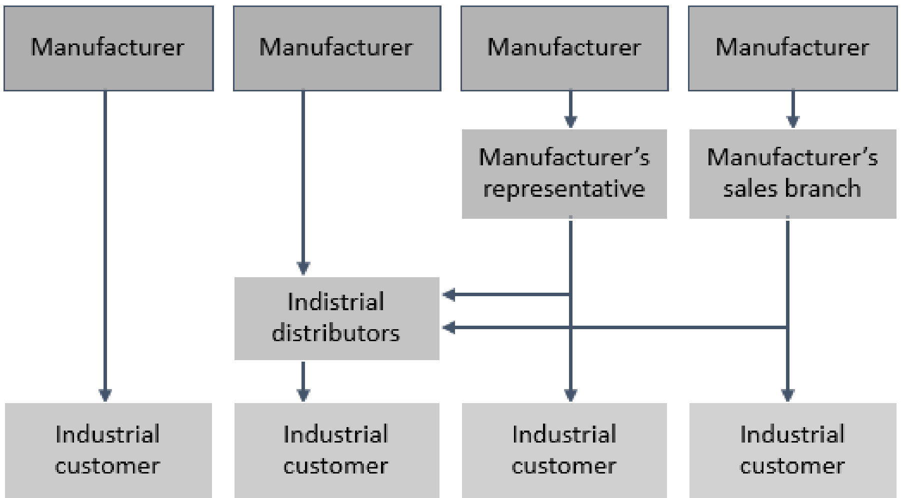

Figure 5. *Industrial Marketing Channels by Kotler and Keller (2016, p. 523)*

Different marketing channels can be evaluated based on criteria such as cost of distribution, coverage of market, capacity to provide customer service, communication with the market, and control over the channel (Venkateswaran 2011, p. 216). It is critical to understand, that the value of a product to a customer does not only depend on its physical characteristics, but also on the selling process and product related services. Factors such as demonstrating superior performance and ease of maintenance together with skilled technical representatives can enable firms to set a higher price than the competition. The deciding criteria for the choice of the marketing channel can also be the market environment. In some countries it might be nearly impossible to reach the intended customer without going through the appropriate local intermediary. Some countries in turn have higher import duties for finished products, making it sensible from cost point of view to import components for local assembly. (Albaum et al. 2016, p. 504-505)

In addition to the different marketing channels shown in Figure 5, also relationships between the channel members can vary. On the whole, channel relationships can be divided into two categories: Independent Channel Arrangements and Dependent Channel Arrangements. Under independent channel arrangements a channel member is free to make its own decisions and deals negotiated with other channel members are interim, not binding relationships. It is therefore less restrictive than dependent channel arrangements. In dependent channel arrangements channel members are linked to one another and changing the relationship setting, even if the relationship is not working for them, is more difficult. (Venkateswaran 2011, p. 216-217) Be it dependent or an independent intermediary, in B2B the manufacturers customer is the channel member. However, the needs of channel members are much different than those of the end customer. Each member that operates as an individual economic unit will need to make a profit in order to stay in business. Channel members will have their own profit objectives for the profit margin they attain from cost of acquiring the product and the price they charge to sell the product to their customers. (Venkateswaran 2011, p. 226)

When choosing the global distribution strategy for its products company has the choice of creating an integrated corporate channel so either establishing foreign sales offices or a subsidiary or using nonintegrated channels so independent agents or distributors (Bello & Lohtia 1995). When a company is using varying channels to distribute their products, they are utilizing multi-channel marketing (Venkateswaran 2011, p. 216-217). Much of international trade is handled through independent intermediaries as they often have good knowledge of the local market, already established contacts and the ability to provide marketing services (Bello & Lohtia 1995). The distinctions between distributor and agent is that the distributor is a customer of the exporter, and the distributor's income comes from the margin they make from selling the products forward (Albaum et al. 2016, p. 331) Distributors take over a larger range of functions, but are thus less under the control of the manufacturer (Bello & Lohtia 1995). Agent in turn is a representative and does not take ownership of the exporter's products at any point (Albaum et al. 2016, p. 331) Agents only perform selling-related functions and get payed a commission from (Bello & Lohtia 1995).

For the manufacturer critical factors deciding on a marketing intermediary are the sales organization of the intermediary, product lines carried, both manufacturer's and others, potential sales volumes of manufacturer's product lines, financial ability to hold inventories and extend credit to customers, willingness and ability to promote manufacturer's product lines (Albaum et al. 2016, p. 293) The marketing intermediary will be the link between the manufacturer and the customer, but the manufacturer will also essentially be competing with other products represented by the same intermediary. It is good to note that with the nonintegrated channel exporter may have limited understanding of the internal competition at the distribution level. The importer, as any other firm, will aim to maximize its profit and minimize effort and thus take advantage of internal competition by promoting product ranges that offer them the best revenues. Remaining products can be left with very little attention. Obadia and Stöttinger (2014) also point out how companies tend to overuse price discounts in motivating their distributors. The only way of motivating distributors proven efficient is helping them gain superior margins compared to competing products, not lower costs. (Obadia & Stöttinger 2014)

Exporting through intermediaries offers a higher degree of business flexibility as the manufacturer is able to change systems and approaches faster and with less cost involved (Knight & Cavusgil 2004). However, forming strong, more dependent, relationships with competent foreign distributors helps companies reach superior performance (Knight & Cavusgil 2004), whereas conventional distribution arrangements with low dependency often lead to significant conflict (Venkateswaran 2011, p. 216). Compared to manufacturer's own foreign organization, having a distributor will move responsibility for providing services for the products to the distributor. This includes well trained personnel, proper facilities and adequate stock of necessary parts. (Albaum et al. 2016, p. 331) With low dependency within the channel individual members will act based on their own goals, instead of what is best for the entire channel (Venkateswaran 2011, p. 216). Moving towards a situation where the importer is an active partner in an equal business relationship, instead of passive recipient of exporters strategic decisions, enables a more effective export pricing policy and through that an increase in export performance (Obadia & Stöttinger 2015). Such dependent approach also provides more stability and consistency as members share common goals. However, when channel arrangements become more dependent it also becomes more difficult for one member of the channel to change how their products are distributed. (Venkateswaran 2011, p. 216-217)

In a situation where company wants to establish greater control over the sales made in a specific area, they can establish a foreign sales branch to handle all sales, distribution and promotional activities within the area (Albaum et al. 2016, p. 325-326). Often such a sales branch or a foreign subsidiary is founded because the manufacturer finds it more effective or profitable after a market area has reached certain volume of sales (Albaum et al. 2016. p. 332). Research indicates that companies experiencing strong transaction cost pressures choose such vertical integration (Bello & Lohtia 1995). In a sales subsidiary all foreign orders in a specific market area are charged through the subsidiary, who then sells forward to foreign buyers at normal prices. The challenge of sales subsidiary is that it purchases all goods to be sold from the parent company at a cost or some other price. (Albaum et al. 2016. p. 327) This requires the use of some type of transfer pricing. The benefits for companies of forming their own organization abroad, include getting the full return from export sales, no worry of competing lines being bushed over own, through knowledge of most appropriate products for the specific market in question, permanent export channel so no fear of product lines being dropped from the selection and as volumes increase the per unit costs decrease due to fixed cost being spread over a larger number of units. The drawbacks include larger monetary investment required to form export market with higher risks involved. Satisfactory volumes of sales might also take some time to build up. (Albaum et al. 2016. p. 329-330)

Multichannel conflicts occur when the manufacturer has two or more channels that sell to the same market. It can be especially challenging when members of one channel get a lower price or work with lower margin. Lower prices are typically due to larger volume purchases, but the seller still risks for example, angering the independent dealers. Kotler and Keller recognize the following as causes of channel conflict: goal incompatibility, unclear roles and rights for example with large accounts, differences in perception and intermediaries' dependence on the manufacturer. (Kotler & Keller 2016, p. 541) Second challenge of multi-channel marketing is that the price to the end customer varies as different channel member will have different cost structures and market conditions between different markets vary. Prices offered to the intermediaries can in some cases be varied in accordance to their costs structures to reach somewhat uniform prices on the end customer level, but such price systems are complex and therefore difficult to implement and maintain. (Albaum et al. 2016, p. 505). When the price of the product is varied between markets, whether it is on the intermediary or end customer level, channel conflict will occur when intermediaries of low-price countries sell to high-price countries in the search of higher profits (Kotler & Keller 2016, p. 541). In order to know how well the channel is operating information on factors such as where sales are going and whether there are conflicts within the channel is required. How easy such information is to come by and how accurately, decreases as company moves from their own sales branch to foreign subsidiary and further onto dealing with an independent intermediary. (Albaum et al. 2016, p. 295)

2.3.3 Pricing strategies in international markets

All pricing strategies will attract some customers while repelling others. Therefore, choosing a customer segment and creating value to that specific segment is critical. Choosing a pricing strategy is the first step of value creation and represent the first tear of the Strategic Pricing pyramid. Shipley and Jobber (2001) highlight price positioning and new product pricing as the key issues of determining pricing strategy. To ensure an effective international marketing strategy the marketer needs to consider the role of each market and product in the company portfolio. It is also critical to look outside the traditional segmentation and differentiation issues into the overall and the company's competitive position in that market. (Albaum et al. 2016, p. 195)

In international setting skimming, penetration and holding pricing strategies are commonly recognized alternative pricing strategies for new products (Shipley & Jobber 2001; Venkateswaran 2011, p. 203; Albaum et al. 2016, p. 485-487; Kotler & Keller 2016, p. 491). In market skimming prices start high and drop over time. The strategy works when company is unveiling new technology that has high current demand and there are no competitors in the market able to compete with a lower price. The price level at each point needs to be higher than the unit costs of producing small volumes. Penetration pricing in turn aims for maximum market share. (Kotler & Keller 2016, p. 491) In this mass market approach the company relies on large sales volumes to decrease its cost to a level low enough to offset the low price (Albaum et all. 2016, p. 487). It is important to note, that for a company exercising price skimming it is often risky to completely limit themselves to that one segment as they could serve additional segments without significant cost increases. At worst, failure to serve the lower margin segment of the market can result in competitor taking over first the lower-margin segment and then leveraging the shared cost to also serve and finally takeover also the higher-priced segment.(Nagle et al. 2011, p. 65) In price holding strategy the initial price is maintained for sustained periods and only adjusted due long-term variation in market conditions, not as predetermined part of the strategy (Shipley & Jobber 2001).

Strategic price positioning is recognized as tool industrial exporters use to deal with pricing issue. Based on the positioning strategy managers set one definite price level for a market segment, which works as a guideline and overall benchmark for prices. (Albaum et all. 2016, p. 490) Price positioning considers the perceived value of the benefits offered to the customer and evaluates it in relation to competitors positionings in the market segment (Shipley & Jobber 2001). The price positioning strategies defined by Shipley and Jobber (2001) are illustrated in the figure below. According to Brennan et all. (2007) the only two viable price positioning strategies for the long-term are the market ruler and the thriver.

		PERCEIVED BENEFITS		
		Low	Med	High
PRICE	Low	Chancer	Thriver	Market Ruler
	Med	Bungler	Also-Ran	Thriver
	High	No-Hoper	Bungler	Chancer

Figure 6. *Price-benefit positioning strategies of firms according to Shipley and Jobber (2001)*

Market ruler is the low price/high customer benefits combination, whereas thriver represent a combination of low price/medium benefits or medium price/high benefits (Brennan et al. 2007). Company aiming for the market ruler position will face three potential problems. First, having a low price and still offering high benefits to the customer is extremely challenging because creating such benefits involves costs that drive the price higher or cause the company to operate at a loss. Second, company must be able to communicate the value of the products successfully to the customer so that it results in previewed benefits. Third, the company could actually be sacrificing the potential of higher prices if it is the established leader in a pre-existing market segment. If market has no leader, both of the thriver positionings are viable. However, the midnight positioning offers a more sustainable competitive advantage as it is in general easier for the competition to lower price than increase benefits. (Shipley & Jobber 2001) For a short-term also the chancer position of low price/low benefits or high price/high benefits can be a viable option (Brennan et al. 2007). However, chancers are vulnerable to attack by similar brands, which in the B2B setting of close substitutes under international competition is risky. The four remaining cells offer no differential advantage and therefore have little changes of success. (Shipley & Jobber 2001)

Critical part of the value creation tear of the Strategic pricing pyramid and different pricing strategies discussed above is segmentation. As Klompmaker et al. (2003) point out, any single price level leaves profits on the table with the existing customers, and simultaneously misses the opportunity to sell products to customers who have some potential to contribute to profits. Price differentiation offers higher profits but requires that the company is able to assess the customer value and create the market segments accordingly, after which they need to be able to capture the value with appropriate pricing and efficient separation of segments using fences (Cross & Dixit 2005). Aligning prices with customers' perceptions on value allows for the possibility of capturing the full profit potential across the segmented target markets (Klompmaker et al. 2003).Where the value or cost to serve is higher more revenue should be captured, while in some segments lower revenues would be accepted because of profitable volume increases (Nagle et al. 2011, p. 63).

For segmentation to be useful in pricing decisions the customers groupings need to be created so that each group has different purchasing motivations and prospects (Nagle et al. 2011, p. 55). A typical way of segmenting the international market is in terms of countries. This is however only one way to look at the markets, and according to Albaum et al. (2016, p. 525): "trade liberation and growing economic integration render traditional market-per-market pricing obsolete and require improved pricing strategies". In addition to geographic dimension factors such as channels, customer segments and competitors should be considered (Albaum et al. 2016, p. 200). The size of an exporter and its share of the global market also has an effect on the possibility of implementing differential pricing. For a large exporter with large international customers the risk of alienating a customer due to discontent over price differences between different purchase locations is much higher than for a small exporter with multiple smaller customers scattered in different countries. Not only is the sales volume of a large customer much more significant of a loss, but also if the market is not effectively separated the large international customer is much more likely to make its purchases in a low-priced country. (Albaum et al, 2016. p. 511)

The different marketing channels used are one key factor making differential pricing the logical choice for international markets. In a dependent channel arrangement, where company in question has part ownership of foreign subsidiaries or foreign operations, transfer pricing is a common practice. (Albaum et al. 2016, p. 510). Transfer pricing is also often used in exchange-transaction between buyers and sellers that share a corporate parent (Venkateswaran 2011, p. 207-208).The need for transfer pricing exists when each unit is responsible for its own operating profitability and the managerial responsibility and authority are decentralized. (Albaum et al. 2016, p. 510). The alternatives to setting a transfer price are choosing a cost-based price, a market-based price or negotiating the transfer pricing (Venkateswaran 2011, p. 207-208). There are three key factors to consider when deciding. First, the legal restriction imposed by different governmental controls, political policies and foreign laws to guard against practices such as dumping, price discrimination and tax evasion. (Albaum et al. 2016. p.522) In addition to ensuring that the company operates legally, corporate costs and profits can also be affected. For example, high import duties make low transfer prices desirable as negotiating the price would allow the company to minimize the custom duty and hence corporate costs. (Venkateswaran 2011, p. 207-208). Second, the competitive market prices in the area need to be considered (Albaum et al. 2016. p.522). If the transfer price set is market based, the price is derived from the price needed to be competitive in the international market. Setting a market-based price for smaller volumes can however be a challenge, especially when entering a new market. (Venkateswaran 2011, p. 207-208) Hence, thirdly, transfer pricing should consider costs, taking into account not only production cost but also costs related to elements such as distribution cost, custom duties and corporate income taxes. Using a transfer pricing method that factors in both the cost and competitive prices in the market can help reach the desired objectives without problems inherent in choosing just one of the approaches. A certain degree of flexibility should also be included as imposing the prices on managers can result in lack of morale and profit incentives. Therefore, even for prices derived from cost and prices in the market, a system of negotiations is required. (Albaum et al. 2016, p. 522-523)

All segmentation decisions should be evaluated based on their measurability, accessibility, profitability and actionability. Measurability means that the segment has to be identifiable enough to measure its size and purchasing power, whereas accessibility is about being able to reach and serve said customers. For profitability the requirement is that the segment is large and profitable enough to justify separate attention. (Albaum et al. 2016, p. 202) In many companies the segmentation focuses on customer attributes that are not useful for pricing decisions (Nagle et al. 2011, p. 55) The key is to form segments that react similarly to marketing stimuli such as price. Even if a segment is measurable, accessible and profitable, it will be completely unnecessary if it cannot have its own marketing program, hence actionability (Albaum et al. 2016, p.199-202). In theory the more segments the better, but in reality, a company is only able to have as many price segments as it is able to enforce at an acceptable cost (Nagle et al. 2011, p. 66). Maintaining price differentials between markets has become increasingly difficult as communication technologies such as the Internet increase transparency across all markets (Albaum et al. 2016, p. 525) and channel members must constantly justify their presence or they are bypassed by other members of the channel (Eagle et al. 2003).

If the barriers between markets segments are not effective enough products from a low-price market segment will find their way to the high-price market eroding the price difference. This so-called parallel importing or gray markets occur when buyer in one country are able to purchase the product at a lower-price creating an opportunity of selling the products to a higher-price area in order to increase their profits. (Albaum et al. 2016, p. 508) There must be, not only great enough price differential to make the venture financially worth it, but also access to the market and source of supply for the goods or services (Eagle et al. 2003). For the dealers or distributors of the manufacturer parallel imports mean less sales and losses of profit, with the blame placed on the manufacturer setting the purchase price. (Albaum et al. 2016, p. 508) This can be a strain to the relationship between the manufacturer and the dealers (Albaum et al. 2016, p. 340). Furthermore, parallel importers are criticized for aiming to capture market share at the expense of the authorized channels, instead of aiming to develop and expand the market as a whole .The marketing activities of the parallel importer are also out of the control of the authorized distributer and often can project image inconsistent with the message of the manufacturer and authorized network. (Eagle et al. 2003) For instance, gray market products might not meet the safety requirements of the country they are sold at. Hence, other key risk associated with gray markets are damage to the brand image, legal liabilities to the manufacturer and confusion caused to the global marketing strategy of the manufacturer (Albaum et al. 2016, p. 340).

Product line pricing is another possible reason for having differential pricing between countries. In some markets some of the products in a product line might not be valued as high as in other markets, but without having these products in their offering the exporter risks losing sales of the other products within the product line due to customers desire to purchase said products form one source. (Albaum et al. 2016, p. 510) Product line pricing is hence used when pricing reflects the benefits of parts of the product range (Venkateswaran 2011, p. 209). Products in the same product line should usually be priced so that there is a reasonable relationship between the prices of products. But such reasonable relationship, might vary between different markets as the customers can value different aspects of the product. The degree to which some product within a product line are substitutes to each other varies, which in turn changes the relationship between the products. (Albaum et al. 2016, p. 510) Overall, the challenge of pricing products that belong to a product line is setting the prices so that they fulfill the objectives set for whole product line. Analysis shows, that if products are prices individually, the optimal prices can be significantly different than the optimal prices for the product line. (Laitinen 2007, p. 289)

2.4 Global price management considerations and servitization

Pricing is an extremely important management activity that has significant strategic and operational implications for companies (Shipley & Jobber 2001). Management of prices and pricing policies becomes more complex when companies operate outside the domestic market (Albaum et al. 2016, p. 483) and several authors point out how critical pricing is to the overall performance of contemporary firms (e.g. Smith 1995, Tzokas et al. 2000). According to Tzokas et al. (2000) only few firms however, systematically aim to find ways to improve their pricing decisions.

In order to effective design and implement pricing strategies companies need to have both thorough understanding of their customers and a systematic approach to setting, adapting and changing prices (Kotler & Keller 2016, p. 483-484). Companies need to build the capabilities to routinely set prices for all of their goods and services that fit the strategic-positioning, chosen customers and suppliers as well as the changing market conditions the company operates with (Dutta et al. 2002).Companies also need to be able enforce its prices so that the final price they actually get is as close to the price they set (Hinterhuber & Liozu 2012). Time and investments into building the necessary pricing capabilities will generate organizational capital in pricing that brings sustainable and inimitable competitive advantage to the company (Liozu 2016).

Interesting aspect to take into consideration when talking about pricing management is that, many manufacturing companies are moving towards more service oriented business by adding services into their core product offerings (Oliva & Kallenberg 2003; Gebauer et al. 2005; Neu & Brown 2005). The rationale of traditional manufacturing companies' desire for integrating services into their product offerings origins from financial, marketing and strategic reasons. Financially services have high potential for revenue creation, higher profit margins and offer a more stable source of income. Strategically services provide an opportunity for more sustainable competitive advantage due to their intangibility that makes them difficult to imitate. (Oliva & Kallenberg 2003; Gebauer et al. 2005) They also offer an opportunity to increase customers switching costs and acquire new product business. Additionally, relationships with customers created through providing services give the manufacturer an opportunity to anticipate future business opportunities. (Reinartz & Ulaga 2008) Despite companies focusing substantial investment efforts into extending their service business, it is not uncommon for services to fail in delivering the expected higher returns (Gebauer & Fleisch 2007). According to Malleret (2006) the issues that challenge the profitability of services fall under three categories: confusion between profitability and competitivity, low awareness of cost and pricing. Overall, developing new set of capabilities to successfully move from traditional product manufacturer towards service provider, is a major managerial challenge (Oliva & Kallenberg 2003).

This chapter fist introduces the different dimension that need to be taken into account when developing organizational capital in pricing. Its then looks at the price realization capability of the company, both internally and externally. While doing both, the chapter takes into consideration the relevant servitization issues related to the pricing management concepts discussed.

2.4.1 Generating and developing organizational capital in pricing

Pricing capabilities are company specific routine activities or skills exercised through organizational processes that ensure repeatability and reliability of value capture through pricing (Johansson et al. 2015). By investing in the development of specific strategic capabilities companies can generate organizational capital in pricing that brings sustainable and inimitable competitive advantage. Such specific strategic capabilities relate to systems, human factors and social networks. (Liozu 2016) Figure 7 below shows the three interconnected dimensions of organizational capital in pricing.

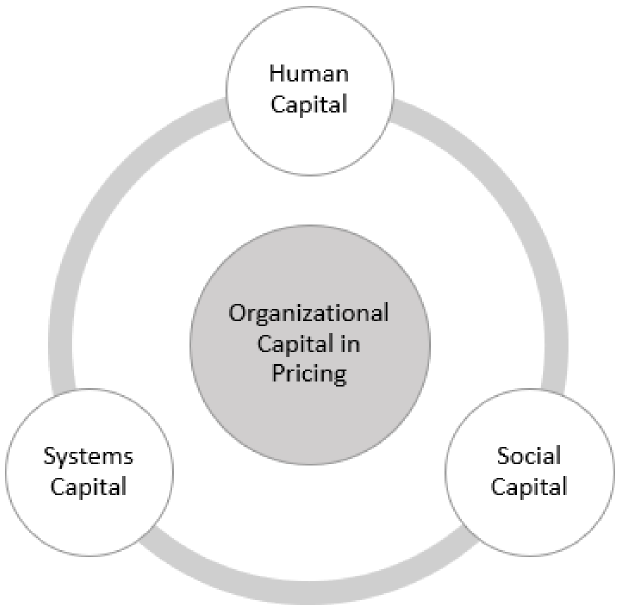

Figure 7. *Organizational capital in pricing modified from Liozu (2016)*

The dimension of human capital is about effective diffusion of pricing knowledge and value management across the organization (Liozu 2016). An effective pricing process requires people who understand the company in all its complexity, including its pricing strategies, different products and services, customers, suppliers and competitors (Dutta et al. 2002). Managerial experience and judgement are critical. In B2B markets uncertainty of customer and competitor response makes predicting how revenues change when price changes very challenging. (Nagle et al. 2011, p. 29) Seeing the effect of price changes takes time as purchaser might be unwilling to change suppliers due to factors such as long term contacts and costs of changing suppliers. On the other hand, a change in overall market demand will have an immediate effect on sales. (Valuckaitė & Snieška 2007) In foreign markets lack of established statistics, lack of existing marketing research or the costs of conducting marketing research will also further increase the challenge of estimating how a market will respond to different price levels (Albaum et al. 2016, p. 496). Despite such challenges, Nagle et al. (2011, p. 114) point out, how when looking at strategic capabilities of procurement versus sales in the B2B markets, it is not uncommon to have buyers with long-term goals and strategies for reducing procurement cost and suppliers that lack respective strategies of raising or maintaining margins. The different approaches can be seen in Table 2 below. In most cases, a large centralized pricing organization is not necessary or even needed. However, what is required, is that everyone involved in pricing understands their role in the price setting process and what decision rights they have concerning the price. (Nagle et al. 2011, p. 30)

Table 2. *Comparison of strategic capabilities of procurement versus sales in the business-to-business markets, modified from Nagle et al. (2011, p. 114)*

	PROCUREMENT	SALES
Strategy	Long-term cost-cuttin goals that drive consistent policies	Often no clear policies, leading to one off deals without long term objectives
Process	Manage process and information before pricing to commoditize sellers' offers	Price and value management begin with a request for proposal
People	Negotiation is a full-time responsibility of a purchasing agent	Price negotionation is an infrequent and uncomfortable part of sales representatives resposibility
Information Management	Systems to collect market informationa and purchase history to levarage in negotiations	Poor knowlende of competitior's prices and often lack history of account negotiations, purchases and services reveived
Measures	Measured on reducing overall costs, most easily demostrated with lower prices	Performance metrics measure and reward sales volume, not profitability
	Procurement is a strategic initiative to cut costs and achieve advantage	**Pricing** is a tactical lever to close deals and achieve sales objectives

The second aspect, systems capital, is important as poor systems will limit the effectiveness of people involved in pricing decision, where superior-systems and well trained people together will reinforce each other (Dutta et al. 2002). At its simplest a pricing system can prevent setting the intended prices, for example, by limiting the ability to vary prices across product or products lines, not just customers (Dutta et al. 2003). When it comes to theory Loizu (2016) points out how the evolution of pricing capabilities is moving to a direction where the focus is on how the intangible capabilities influence the adoption of technical pricing capabilities. If systems capital is developed in isolation, it often results in static information and expensive, underused systems (Dutta et al. 2002) and therefore integration with human and social capital is critical. On the basis of their research into pricing transformations, Johansson et al.(2015) propose a model for the adoption and internalization of pricing over time. In their model constant interactions occur between the technical and social dimensions of change as the technical pricing resources are deployed in the organization. The model describes the link between technical pricing capabilities and organizational capabilities at five stages of transformation toward pricing excellence. Feedback loops between the various stages and therefore experimenting with various pricing concept and resources are a critical element of the model. The aspects of technical pricing activities evolve from conducting training on basic technical concepts to increased adoption once technical pricing capabilities prove successful in delivering the intended outcome. In the final stage of the transformation the pricing resources are deployed at the enterprise level. (Johansson et al. 2015) It is good to note, that if pricing is not part of the company's strategy, managers might not understand the role of one system to the bigger picture (Dutta et al. 2002). Additionally, few companies have accounting systems sophisticated enough to deal with cost at a level accurate enough for pricing strategy decisions (Nagle et al. 2011, p. 114). In a B2B setting the company must also consider if its distributor's pricing system can adapt to the price changes (Dutta et al. 2003).

Superior systems and talented people will be wasted if they are not integrated efficiently to create social capital (Dutta et al. 2002). Social capital is the most difficult to develop (Liozu 2016) and cannot be bought as building social connections takes time (Dutta et al. 2002). Social capital is the aspect that holds together the different participants of the pricing process, including customers of the company. For effective pricing an individual must to have enough social capital, to not only convince internal factions within the company to implement pricing changes, but also sell the reasons behind the change to the customers. (Dutta et al. 2002) For pricing transformation purposes social capital can include factors such as change management in pricing capabilities, the development of collective confidence levels or the integration of mindful learning pro-grams in pricing (Liozu 2016). Social capital is the most difficult to imitate by competition and therefore offers the strongest sustainable comparative advantage (Dutta et al. 2002).

When talking about organizational capital in pricing a factor that must be taken into consideration is that services require new capabilities, metrics and incentives supported by appropriate organizational principles, structures and processes (Oliva & Kallenberg 2003). When providing product-related service with distinct nature and limited performance risks, services can essentially be viewed as products, which makes the input cost focus of many product-oriented companies appropriate. However, when a company moves to more complex service offerings it needs to focus on problem solving from the customers perceptive, with focus on achieved output results, and therefore also change how success of said service is measured and its basis for pricing. (Reinartz & Ulaga 2008) The whole business model of a service provider is much more relationship-based than the transactional model of a manufacturer. One suggestion of the research by Oliva and

Kallenberg (2003) is that the transformation effort from manufacturer to service provider in all successful companies was deliberate, systematic and well-structured. They also point out how trying to move directly to offering more advanced services without building capabilities in basic product related services first, often led to failure. (Oliva & Kallenberg 2003). Similarly, according to Reinartz and Ulaga (2008) companies successful in developing service businesses begin by identifying services they already provide and through charging first for those services build support for adding more complex services into their offering.

It is important that companies ensure that as their service offering becomes more complex the capabilities of their sales force also increase. The service delivery processes need to be as efficient as manufacturing ones to ensure that the delivery costs do not eat up the service offering margins. Only after should the company switch its focus from internal processes and structures to the opportunities its customers provide for new service development and to what capabilities need to be developed to provide and price those services. (Reinartz & Ulaga 2008) In their study of the machine manufacturing industry with a focus on the services relating to a product's installed base Oliva and Kallenberg (2003) noted, that the companies successful in developing a service offering, took the step of solidifying their existing services under one organizational unit. The authors considered the success to be a result of one or the other of the following: additional managerial focus received as a result of the separate organization or avoiding the cultural and managerial biases often recognized to prevent service development in companies with product focus. (Oliva & Kallenberg 2003). Malleret (2006) summarizes, that the creation of an independent organization for service business answered the challenge of learning not only to value services but also to sell, deliver and charge for them. Somewhat similarly, Reinartz and Ulaga (2008) state how most of the companies selling services profitably have made some type of distinction between service and product sales people. They do however, note that splitting the salesforce can result in a situation where the two compete against each. (Reinartz & Ulaga 2008) Overall, the transition from cost- or competition-based pricing to value-based pricing strategies is fundamentally a change-management process and therefore significantly more challenging than simply changing list prices. The implementation of new pricing approaches requires new organizational priorities, new organizational structure, new capabilities, new processes and tools as well as goal and incentive systems. (Hinterhuber & Liozu 2012) Building these new human, social and system capitals takes time. A company should always make pricing decision within the limits of its own pricing capability (Dutta et al. 2002).

2.4.2 Price realization capability internally and vis-`a-vis customer

Among industrial companies list prices are often inaccurate due to discounts, allowances, reimbursements combined with the tendency to negotiate prices individually with a customer (Indounas 2009). For a company to truly excel, it needs to build the appropriate information systems, negotiation skills, incentives, control tools and confidence among sales personnel to achieve high price realization. While price setting can be considered to represent the process of coming up with prices, price getting or price realization refers to the company's capabilities and processes to enforce its prices so that the final price they actually get is as close to the price they initially set. (Hinterhuber & Liozu 2012)

According to Malleret (2006) pricing is one of the key issues that challenges the profitability of services. When it comes to value capture, services are no different to products. The company needs to develop services that actually create value to the customer, while keeping in mind that various customers might have different priorities, buying criteria and different definitions of value. However, in general charging for services is more challenging as customers are less willing to pay for something that is invisible and intangible and more open to pricing abuse due to is measure of quality being experience based. (Malleret 2006) Service sales also often require longer, and such purchase decisions are made higher up in the customers organization (Reinartz & Ulaga 2008).

Pricing policies are critical in determining the final prices offered and the way in which they are presented to the customers (Indounas 2009). If a company has very few or undefined pricing policies, significant amount of deals will end up being handled as individual requests for price exceptions. What is not often recognized is that, while discount proposals might win business, or in the case of higher prices, have higher returns in the short run, on the whole they might have an adverse effect that is only apparent in the long run or over the entire market. Customers come to expect that by negotiating they can always achieve lower pricing, whereas instead the seller should try to reinforce good behavior. (Nagle et al. 2011, p. 115) Figure 8 below describes the interaction of expectations and behaviors when it comes to interaction between a seller and a buyer.

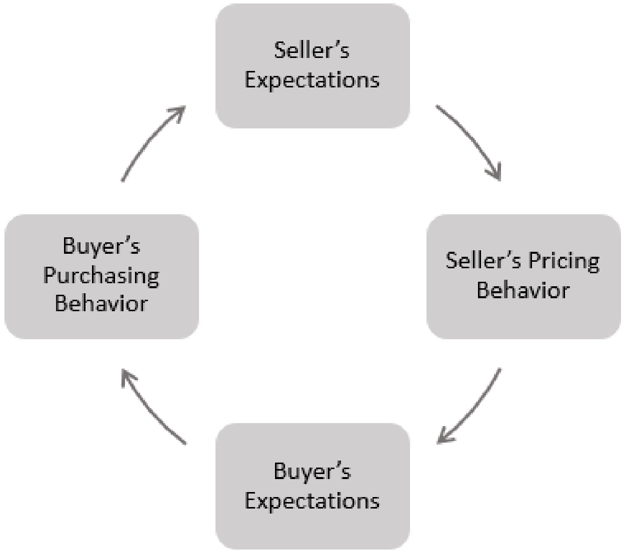

Figure 8. *The interaction of expectations and behaviors modified from Nagle et al. (2011, p. 113)*

In addition to discounting, pricing policies should define how company responds to factors such as changes in raw material costs and low price offers made to customers by competition. Policies need to be transparent and consistent so that customers are aware of what to expect. Over time policies should create expectations that drive desired behavior not only in customers and competitors, but also within the company, so that less effort is wasted on internal selling of pricing decision. (Nagle et al, 2011. p. 115-116)

As was mentioned under social capital, for effective pricing a person must be able to both convince internal factions within the company to implement pricing changes but also sell the reasons behind the change to the customers (Dutta et al. 2002). Successful price realization therefore has two dimensions, not only is it necessary to convince customers of prices, but they also have to be sold internally. Making it clear to both sales personnel and customers that ad hoc exceptions to policies will not be given will lead to pricing decision that are profit enhancing. Being flexible in negotiating prices can lead to a situation where customer takes into account also substitutes outside their preferred supplier in order to drive the prices lower. Every time the preferred suppliers matches the lower prices it sends a message that the price difference to the competitor has no justifiable economic value. At worst flexible prices can give competition the idea that prices on average are lower than the real price against which they are competing and cause them to price even lower in order to win sales (Nagle et al. 2011, p. 115-118). Performing analysis of proposed prices and gaining commitment to the new prices is one of the major components of the price-getting process within the firm (Dutta et al. 2003).

Pricing decisions that are the easiest to justify and rationalize within an organization are in line with previous practice, comparable to competitor reference points and based on clear or familiar data/criteria (Wihinen 2012). Urbanu (2001) even points out how "price inertia or rigidity -- is one of the most common empirical anomalies in economics", referring to the significant influence of company's past price distribution when it comes to determining price, despite the irrelevance of past prices to the profit-maximizing price. And while, in the context of pricing, profit maximization it commonly taken as the single goal of a company (Lucas 2003), sales personnel might be far more interested in pursuing prices that are easily justifiable to their supervisors, rather than maximizing profit in any way (Urbany 2001). It is critical to convince customers of the price change logic, but to do this successfully the company has to first agree on the price changes internally (Dutta et al. 2003). This also applies to services. It is not uncommon for product salespeople to view that the current product business is profitable, as it is or still has possibilities for growth, and fear that labor-intensive services can harm product sales due to limited resources or unsuccessful service delivery. At worst product salespeople can even be hostile towards service sales. (Reinartz & Ulaga 2008) Additionally, services that sell and support manufacturers products typically develop scattered in different parts of the organization and are considered unprofitable but necessary to sell the products. (Oliva & Kallenberg 2003) It is therefore critical to have pricing practices that prevent the use of services as extra to close products sales. Hence, when companies move away from simple product related services towards more complex customer-oriented services new sales management strategies are needed. (Reinartz & Ulaga 2008) First there needs to be control of quotations when it comes to service sales and second, the pay package structure of sales force should be such that the pay includes objectives other than products sales to encourage the sale of services (Malleret 2006).

Similarly, as internally, also customers will be more likely to accept price changes that are well justified. In general cost-justified price increases are seen as more fair in explaining competitively higher or rising prices. Argument about current or past cost increases that have accumulated and now must passed on can be used to defend higher prices. (Urbany 2001). Cost information can also be used to show how additional customer requirements that result in specific costs that could otherwise have been avoided (Whininen 2012). Even though accurate estimates of service costs are often deemed challenging, they are important, not only in their role of cost calculations, but also in providing information to the sales personnel to be used as sales pitches to customers. (Malleret 2006). In accordance with the interaction of expectations and behaviors such arguments should be consistent and transparent, not misleading, otherwise the credibility is lost (Nagle et al. 2011, p. 115-118). A strong competitive position can also allow companies to charge a higher price for their goods and services. In the case of services, this is further enhanced by the performance, quality and technicality of the products the company offers, the importance of the ser-vice provided to the customer and the level of dependence on the products the service is linked to. (Malleret 2006)

Company charging for its services through its products is thinking like a "industrial firm" while a company charging especially for its services has to think about its service policy, define its offering, segment its market, achieve a certain level of quality in services offered. Hence, they have begun to develop a “service strategy”. (Malleret 2006) High-performing companies in the industrial service sector differentiate their prices across different customer segments and set prices that represent the value as seen by the customer (Indounas 2009). According to Malleret (2006) companies can be highly dependent on the customary or industry leader appointed country or sector-specific practices when it comes to the pricing policy and pricing practices as well as the services offered. While, in their paper Lindholm et al (2017) state how in global companies the circumstances may significantly vary across areas, for example in regard to customer characteristics, and hence “the development of service business is necessary to build on country/sales company- and market area-specific financial information and performance indicators “. Reinartz & Ulaga (2008) suggest that the first step to expanding the service capability of a company is to make both the company’s managers and customer aware of the value of services the company is already providing. For such already existing services, setting and realizing the price could be something as simple as itemizing transportation and insurance costs separately, instead of the company absorbing said costs. (Reinartz & Ulaga 2008)

Smaller customers are more often price takers and would base their decision solely on the price despite the most convincing justification for price changes. For such segment of customers, the process of setting the right price is important. When it comes to larger customers, prices could be negotiated. However, it should not be forgotten that the same routines and methods that are used to estimate effects of a price change for each customer segment should now be applied to the individual customer. (Dutta et al. 2003) Such negotiations must not result in unrealistic expectations. Marketers can also influence the behavior of the markets place, not just adapt to it. When it comes to price changes controlling the conversation before the price becomes an issue is important. Having a discussion with a customer about upcoming price increases, before sending a price list with higher prices, will not only prepare the customer beforehand but also help control the conversation. Defending price changes involves directing the conversation away from price. (Urbany 2001)

By classifying companies according to their price-orientation and price-realization capabilities, Hinterhuber and Liozu (2012) identify five primary pricing zones: pricing power zone, price capture zone, value surrender zone, zone of good intentions and white flag zone. The resulting pricing capability grid can be seen on Figure 9 below. According to the authors, small improvement to either of the two determinants of pricing capabilities in the pricing capability grid lead to quick quantifiable results (Hinterhuber & Liozu 2012).

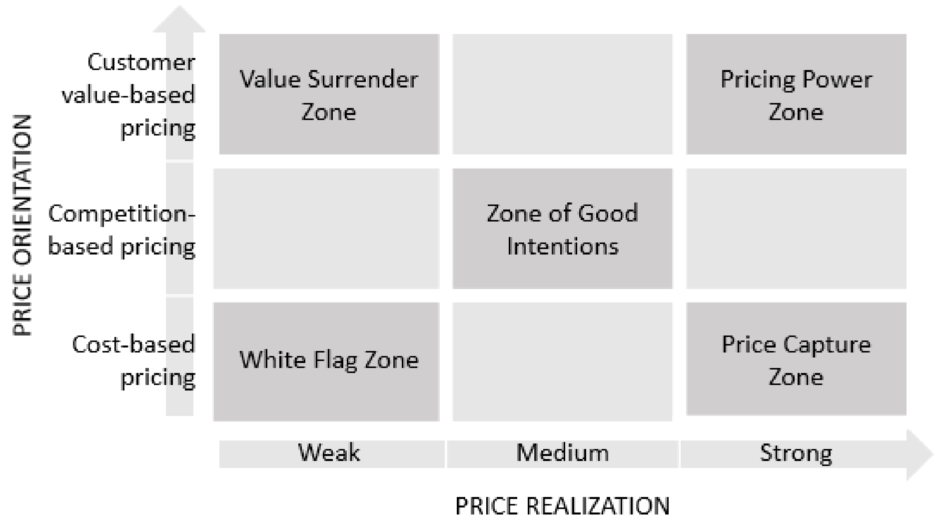

Figure 9. *The pricing capability grid by Hinterhuber & Liozu (2012)*

Companies in the pricing power zone have a culture dedicated to pricing. They have executive champions driving the internalization of customer value-based pricing and creating motivation for organizational change to support it. Compared to other companies where their involvement is limited to approving pricing deviations, large contract negotiations or conducting general business review, in the pricing power zone executives engage in improving pricing capabilities and the overall system effectiveness. There is also often a dedicated senior position with responsibility to ensure discipline in both setting and realization of price through implementing the necessary thorough organizational processes. (Hinterhuber & Liozu 2012)

High price orientation is made possible with sophisticated tools to quantify customer willingness to pay and customer price elasticities, while price realization is supported with high confidence in the ability to implement list price increases and defend price level to customers. However, while value can be determined for every customer and product combination separately, as value captured and the number of price points increases, so does the cost of managing them. (Hinterhuber & Liozu 2012) Dutta et al point out how changing an individual price is relatively easy, however making effective price changes across a variety of products and customers, and against multiple competitors is much more challenging. Such change would require coordination across various participants in the pricing process to develop systems, structures, and routines that can generate effective price changes. And importantly, existing systems, structures, and routines need to be used as the basis for developing the new mechanisms. (Dutta et al. 2003) Due to increased complexity of value-based strategies, high pricing power companies need to be careful to balance cost and benefits (Hinterhuber & Liozu 2012).

Companies not paying any attention to pricing will find themselves in the white flag zone with low capabilities in both price orientation and price realization. Prices do not reflect the customer's value and willingness to pay. Pricing power is basically surrendered to the customer, and while managers are aware of declining price levels, they lack the capabilities, vision and instruments to prevent it. As sales personnel lack the adequate guidelines, discounting is widespread and chaotic, with luck and discretion of the individual sales person basically determining to what extent theoretically established list prices translate into actual prices. Companies in the value surrender zone excel in value creation and their prices reflect customer value well. However, in negotiations with customers they are unable to capture said value. Sales personnel is encouraged to negotiate aggressively, but lack discounting guidelines. List prices do not translate to actual prices and sales personnel are unable to monitor and improve price levels, often due to not having the necessary information to do so. (Hinterhuber & Liozu 2012)

Companies in the price capture zone have the opposite problem. They have systems in play to prevent unjustified deviations from list prices, but their prices do not reflect the full customer value. And while they possess high individual or organization confidence in pricing, they use over simplistic price setting methods for determining the initial prices. Companies in the zone of good intentions are average in both their price orientation and price realization. Interestingly, one reason for companies to be stuck in the zone of good intentions is strong product-orientation with strong inward focus that, despite intentions of moving to more sophisticated pricing methods, locks the company to tradition cost-based thinking. Companies need to switch focus from internal processes and structures to the customer. (Hinterhuber & Liozu 2012) Interestingly enough, a similar change-management process as with moving towards providing more complex services.

2.5 A global approach to the pricing process

The pricing wheel developed by Shipley and Jobber (2001) is used as the base for the global pricing process to which the concepts of strategic pricing and the global pricing principles and price management considerations previously discussed in the thesis are linked to count for the challenges companies face while pricing in a global setting. The result is a systematic global pricing process that supports the pricing objectives of the company, while taking into account the characteristic of the global operating environment. Figure 10 summarized the key points of the global approach to the pricing process of companies that are discussed in further detail below.

Figure 10. *The global pricing process approach*

Th pricing within a company should be linked to the overall strategy and hence the whole pricing process needs to start with connecting the pricing to the overall business strategy of the company by deciding the strategy role. This sets the underlaying logic for the following steps in the pricing process and a company can, for example, choose to highlight the superiority of their offering with a high price positioning. In the global setting were separation between different market areas is reducing, it is important to note that choosing the strategy role might limit some of the pricing objectives and price strategies that can be chosen later on in the pricing process or otherwise risk adversely influencing the overall strategy and image the company wishes to portray in the global market place. If the environment and market conditions change so should the company's broader objectives and strategies.

Pricing objectives are more concrete goals the company has for its pricing. They should be considered and set both based on the company's broader objectives as well as product related objectives. Company objectives across all markets, product lines or even at a product level might not be the same and prioritizing is critical. The more variety, whether it is in markets, countries, offering, channels or customers, included within the pricing and hence the pricing objectives, the more challenging prioritizing all the varying objectives inherent becomes. Keeping prices separate for the same set of different variabilities is impossible and makes some type of pricing structure with its own priorities inevitable. The most common pricing objectives are those related to profits, survival, sales volume, sales revenue, market share, image, competitive advantage, entry barriers, and perceived fairness (Shipley & Jobber 2001). In the global setting companies could for example focus on diminishing problems related to gray markets by having cohesive pricing as a pricing objective. It is good to note that in some markets this could be an opposing objective to that of profit maximization. It is important to note that the following steps of the pricing process are dependent on the prioritized pricing objectives. For example, if the aim is cohesive pricing the following process should consider the pricing of the company as a whole, while aim of profit maximization might require looking at pricing in smaller sections e.g. countries.

In the global setting it is important to remember that assessing all pricing determinants for all the market areas company operates in for a large number of different products might not be possible. The global operating environment also brings new pricing determinant to consider, most importantly the environmental factors affecting pricing and channel relationships discussed in chapter 2.3. In the B2B setting, long-ago established industry or market area practices can be the deciding factors on what information is readily available and how openly prices are discussed. Cost-related methods are popular for a reason, internal information is significantly easier to come by than external. Therefore, industry and market area expertise of the people the company employs are critical. The sales channel choices will have some impact on the level of control the company has over what information it gains from the channel partner. The defining factor is the availability of reliable information that can be used for pricing decision without excessive costs involved.

Two of the most common pricing mistakes by companies are that prices are set independently rather than as important element of the market-positioning strategy and prices are not varied enough for different products, market segments, marketing channels and purchase situations (Kotler & Keller 2016, p. 506). Companies must consciously choose a positioning strategy or at least be aware of the position the company is in, instead of simply selling somewhere between the maximum price customers are willing to pay and costs. Deciding on a price strategy for the global operating environment usually means differential pricing due to the diversity of the global operating environment. In the global setting the market segmentation needs to take into consideration not only the differences in market areas to company operates in but also the different channels used to sell and distribute products in those areas. Hence resulting in the formulation of an appropriate pricing structure, the second tier of the of the Strategic Pricing Pyramid. In order to account for the value creation tear of the Pyramid, customer segmentation must form segments that have similar value perceptions of the company's products, not for example segments solely based on geographical location.

Changing an individual price is relatively easy, however making effective price changes across a variety of products and customers is much more challenging and use of multiple methods is common. Companies have limited resources and at its simplest a pricing system can limit the possibilities of what methods can be employed for the price setting. While cost based methods are popular due to their simplicity the more value-based pricing companies can achieve the better, as was illustrated by the price orientation of the pricing capability grid. Making effective price changes across a variety of products and customers also requires coordination across various participants in the pricing process. If the people involved in pricing lack the knowledge or capabilities to routinely make price changes with the chosen method and in accordance with the set price structure, how "good" the chosen method is, becomes irrelevant. In diverse global setting the importance of having a clear pricing structure and people capable of employing the chosen pricing methods according to the structure is emphasized. The final price of a products is largely a result of the method employed to calculate it. However, it is important to note that the pricing method utilized is only a tool used within the larger pricing process. Changing the method will influence what needs to be considered within the different steps of the process but the steps themselves remain the same. Company changing their pricing for example more towards value-based pricing will need to initiate a rotation of the pricing wheel with the objective of implementing value-based pricing in mind e.g. changing the logic of how value of products is essentially understood, which will most likely have an influence on the segments and hence pricing structure.

Implementation of the price involves the publication of the price list. The company must be able to communicate the price and value of its products so that customers recognize it and accept the price list. Generally, price changes linked to costs are more easily accepted, but overall the key is having consistent and solid reasons that can be explained to the customer before any changes. Critical part of the control phase is to follow the actual realization of prices. According to Nagle et al. (2011, p. 130) for control of prices, well established pricing policies are critical. Negotiation tactics and discount policies need to consider the interaction of expectations and behaviors. Walking away from the customers that do not accept any price increases and officially acknowledging it, is a sound business decision. Such a move signals both internally and externally that business is going to be only conducted with good business partners and signals to customer looking for bargains, that there is a potential cost to unnecessary games. Moving to policy-based pricing, especially in markets where most of customers are repeat purchasers, is challenging. Instead of moving from policies to fixed-policies and risking failure companies should take time test the new policies for managing price variations consistently. First the company needs to focus on the customers that currently have much lower prices than other customers.

Simultaneously customers who have much higher prices and are therefore at risks of being lost to a competitor should be identified. After identifying the customers with low prices, the next step is determining how they came to have such pricing and if the reasons are still valid. If the reasons for lower prices are no longer valid the customer needs to be contacted and informed of the intention of correcting the pricing. To avoid similar situations in the future it is important to remember to adjust the pricing policies to include the identified root causes of the faulty pricing. (Nagle et al. 2011. p.128-130) In the global setting the challenge is coming up with appropriate policies for a large number of prices and pricing situations. Overall, a common pricing mistake made by companies is that prices are not revised often enough (Kotler & Keller 2016, p. 506). It is important to remember that any changes to any of the steps of the process should result in a new rotation of the cycle.

3. RESEARCH METHODOLOGY AND MATERIALS

3.1 Nature of the research and methodology choices

Different philosophical assumptions influence the way in which a research process is thought about (Saunders et al. 2009, p. 128-129). This research adopts the pragmatism research philosophy based on the rationale that it considers the research question as the most important determinant of the epistemology, ontology and axiology. It also gives the opportunity to use a mix of different methods in the research. (Saunders et al. 2009, p. 109) The alternatives to the pragmatism philosophy would be the positivism, realism or interpretivism philosophies but these were seen as less fitting to a research initiated by the desire of a company to find answers to specific issues. Research philosophy is the outermost layer of the research onion framework that can be used to illustrate the methodology choices of a research. Figure 11 shows the research onion framework with the methodology choices of this research indicated in bold.

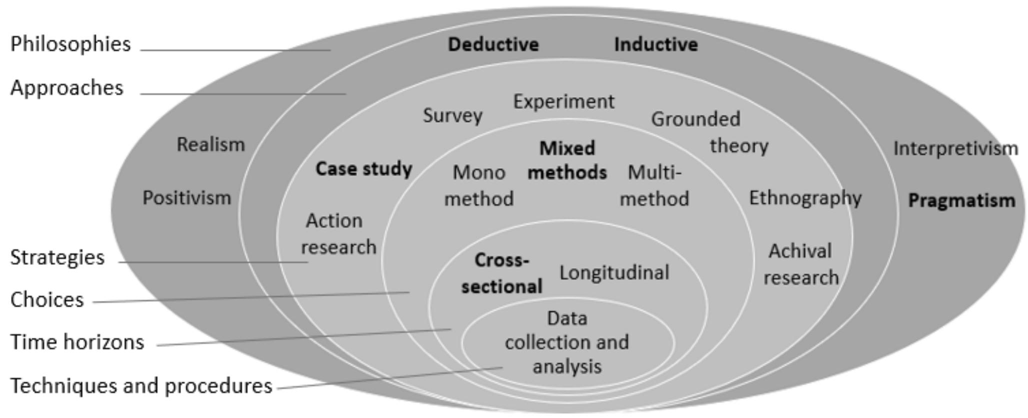

Figure 11. *The research onion adapted from Saunders et al. (2009, p. 108)*

The second layer in the research onion is the research approach. The extent to which the theory is clear at the beginning of the research process determines whether the use of deductive approach or inductive approach is appropriate. In a deductive approach the theory and hypothesis are developed first and then a research strategy is designed to test the hypothesis, whereas in the inductive approach data is collected first and then the theory is developed based on analysis of said data. (Saunders et al. 2009, p. 124) This research takes a combined approach, as limited prior knowledge on the subject, especially related to the industry in question, supports the inductive approach, while deductive approach is supported by the fact that the research clearly benefits from using existing literature in theory building. Combining deductive and inductive approached in the same research can be advantageous to the research (Saunders et al. 2009, p. 127) and fits within the pragmatism research philosophy.

The research strategy for the research is the case study strategy. Case study research is utilized in analyzing real-life phenomenon in their natural context (Wahyuni 2012) and can be especially helpful when dealing with complex issues (Gummesson 1993). Alternative research strategies include experiment, survey, action research, grounded theory, ethnography and archival research (Saunders et al. 2009, p. 141), but the case study strategy was considered most appropriate to both answer the research questions and meet the objectives in a way that also benefit the company initiating the research. Along the research approach it also allows exploring existing theory (Saunders et al. 2009, p. 147), while including inductive aspects. Having only one company as the focus of the case study is explained by the time and resource constrains of the thesis.

The practical application of doing research begins by choosing the research method (Wahyuni 2012). Research methods can be qualitative, quantitative or mixed, each encompassing several different designs (Creswell & Clark 2011, p. 105). Quantitative refers to any data collection generating or using numerical data, such as questionnaires or statistics (Saunders et al. 2009, p. 151), whereas qualitative data generation methods typically used in case study research include the use of existing material, questionnaire surveys, interviews, observation and action science (Gummesson 1993). For a case study it is beneficial to triangulate multiple sources of data to ensure that any conclusions made based on the data are in fact accurate (Saunders et al. 2009, p. 145-146). Using a variety of research methods can also be beneficial due to the fact that choosing one method will limit the conclusions that can be drawn, and each individual method has its own inherent flaws (Scandura & Williams 2000). Hence this research utilizes the mixed method and uses both qualitative and quantitative methods to generate data. Using a mixed method is also consistent with the pragmatist research philosophy chosen for the research.

The time horizon of the research, the next research onion layer, is that of a cross-sectional study. The research project studies a particular phenomenon at one particular time instead of following changes and development overtime (Saunders et al. 2009, p. 155). The research process is described in more detail in the following subchapter. The qualitative data was collected both through secondary and primary means. The secondary data entailed the research and use of relevant academic journals, books and theses on the research topic, whereas the primary empirical data included semi-structured interviews. The quantitative data was access through the ERP system of the company in the form of price lists.

3.2 Research process

The research process itself was shaped both by time constrains due to its nature as a master's thesis and the schedule of the current pricing process of the case company. As the company hypothesized, that in order to successfully change prices it would need to be a gradual process, the desire was to initiate said changes already for the following year. End of September market the deadline for any price changes for the following year and hence also set the deadline for initial findings based on the interviews and quantitative data. Figure 12 below shows the phases of the research process.

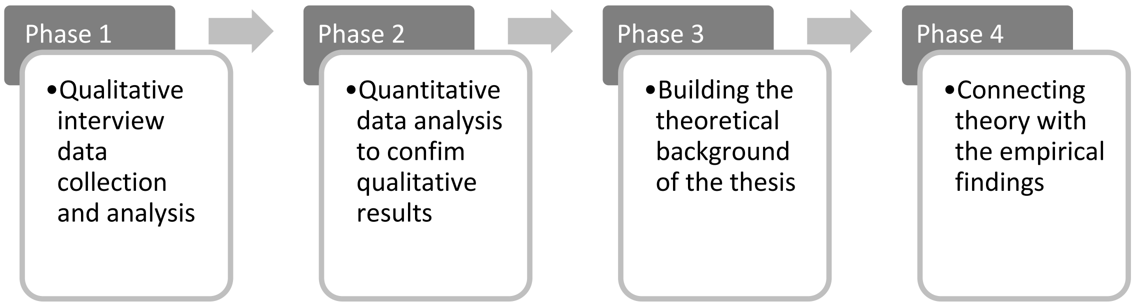

Figure 12. *Phases of the research process*

The interviews were conducted over the period of four weeks in June and July 2018. Before moving to the actual analysis the data had to be organized and categorized, which created the basis for discussions with the material, that is to say, the ability to make comparisons between analytical themes and form analysis of the interrelation-ships or theoretic models (Ruusuvuori et al. 2010, p. 9-10). In such expert interviews the primarily interest is not on the person being interviewed but on the information they possess. The answers given in the interviews can however be incorrect, as they only represent the situation as the interviewees see it. (Ruusuvuori et al., p. 373-375) Therefore, the statements made about the current problems in prices were confirmed using quantitative data. More precisely, such statements where used to form propositions which were then tested with the qualitative data. Quantitative data analysis was started in the end of July 2018.

The third phase of the research was building the theoretical background of the thesis based on relevant academic journals, books and theses on the research topic. There already exists a significant amount literature related to pricing and the research clearly benefits from utilizing it. When it comes to qualitative interviews in addition to the question frame used to collect the data, the research requires analytical questions that are asked to the collected data in order to find answers to the actual research questions (Ruusuvuori et al., p. 9-10). This final phase of analysis was done by connecting the theoretical background to the empirical findings of the research.

3.2.1 Interview data collection and analysis

Most of the empirical data for this study was gathered by semi-structured interviews. The aim was to gather information on the current pricing process and pricing issues when it comes to list products sold globally. The question frame for the interviews was developed based on the initial discussions with the case company, along the logic of an inductive approach. The question framework, both in English and in Finnish, used in the interviews is shown in appendixes A and B. The first section covers the role of the interviewee in the pricing process, while the second focuses on the current situation and processes. The third section focuses on the differences between the various market areas the case company operates in, as it was one of the key challenges pinpointed initially by the company. The fourth section in turn covers sales channels, another challenge already recognized by the company. The two following sections are future focused and aim to gather the different ideas, opinions and views on global pricing al-ready existing within the company. Final section allows adding anything that was not yet discussed as well as encourages the interviewee to sum up the points they consider most critical.

Total of 12 interviews were conducted over the period of four weeks in June and July 2018. The interviewees were selected based on their job descriptions, with the aim of building as comprehensive view into the pricing related questions at hand. Area Mangers were included to capture the regional differences in pricing related challenges, whereas the other interviewees represent the remaining key stakeholders in the pricing process of global products. Originally only 11 interviews were planned but the Export control / Export Service Manager was identified as an additional key stakeholder based on some of the first interviews and hence added to the interviewee list. The interview information can be seen in Table 3 below.

Table 3. *Interview information*

Interview number	Interviewee	Duration (min:ss)
1	Area Manager	67:00
2	Customer Service Manager	35:49
3	Area Manager	36:37
4	Product Manager	42:11
5	Export Control / Export Service Manager	64:41
6	Area Manager	51:06
7	Area Manager	50:18
8	Business Development Manager / Area Manager	53:40
9	Head of International Business Development	41:15
10	Area Manager	44:16
11	Area Manager	29:27
12	Area Manager	50:02

The questions in the interview structure where modified slightly to fit the different job descriptions of the interviewees. Some of the questions were also interpreted slightly differently by the different interviewees and during the interviews additional questions were sometimes asked to ensure that the questions were understood as intended. This interpretation issue was already acknowledged in building the interview structure but in order to avoid giving the interviewees too strict guidelines to answer within, and hence possibly limiting the answers, a conscious decision to leave some of the questions more vague was made. The interviews were held either in English or Finnish, depending on the preference of the person being interviewed. Out of the 12 interviews 9 were held in Finnish, the rest in English. The longest of the interviews lasted approximately 67 minutes and the shortest 29 minutes. On average the interviews lasted 47 minutes. Due to geographical distance and highly busy schedules of the interviewees only five of the interviews were conducted in person. Out of the remaining, three interviews were conducted via Skype call, no video, and the remaining four via phone.

The interviews were recorded and then transcribed into one Excel file. For the transcription data sampling was used and only the sections relevant to the research were written down. The research question and methodological choices of the research al-lowed a less comprehensive transcription, some parts where less relevant to the re-search, and the recordings ensured that details could have been added later on if necessary (Ruusuvuori et al., p. 427). To ensure this, all transcript sections were market to show the interview number and the time stamp it originated from. Some of the key themes tended to repeat themselves, in which case a notion of this was made in to the transcription record but the issue was not rewritten unless new details where included. As some of the interviews were held in Finnish and some in English it fallows that the transcripts are also a mix of both languages. To avoid loss of tone or meaning all of the analyses were done in the original language and only translated into English in the phase of reporting the findings.

Table 4. *Interview data coding and grouping structure*

Group	Code
Future	Objectives for the future
	Time frame of changes
Challenges	Price rigidity
	Currency rates
	Dealing with quotations
	Other challenges of global pricing
Characteristics	Area characteristics
	Product characteristics
Systems	Internal information
	External information
	System related issues
Structures and policies	Errors in current prices / pricing
	Pricing based on segmentation
	Guidelines and rules
	Cooperation and coordination
Process	Description of current pricing process
Other	Less relevant to research but relevant to case company

As is typical for an exploratory mixed method design, the initial qualitative data analysis consisted of coding the information in the transcripts and then grouping the codes under broader themes (Creswell & Clark 2011, p. 188; Ruusuvuori et al., p. 9-10). The coding and grouping logic can be seen in Table 4 above. The first section of the question frame was left outside of the coding as it included questions intended to enable comparisons between the roles of the interviewees and their attitudes toward cur-rent pricing process. The pricing process description included in the second sections of the question frame was set directly as its own group due to its distinct nature as a process. Some points where seen as relevant and interesting to the case company, but less so to the research itself, and were hence gathered as group Other.

3.2.2 Quantitative data collection and analysis

The quantitative data of the research consist of price data in an Excel format. Due to the significant number of different products and in the case company's product portfolio, data sampling was used. Four different product groups and within each group the products with the largest sales volumes were chosen as the data sample. Altogether the prices of 20 different products were included. Reason for choosing the large volume products within the product groups was that their contribution and hence also the effect of variations in price to the overall profits is larger than that of products with smaller sales volumes. All prices in the ERP system of the company for the chosen products for one year were imported to one Excel file.

The quantitative data services two separate purposes in the research. First it is used to confirm the accuracy of the statements related to the current global prices given in the semi-structured interviews. This is done using propositions formed based on the qualitative data from the interviews. Second and more importantly, it is used in the implement and control phase of the global pricing process approach developed in the theory section of the thesis to identify irregular prices among price list. The quantitative data analysis allows the company to locate the too low and too high prices and focus on correcting them first. Before starting with the analysis price data was first cleaned by excluding all prices for Finland and the freight portion of the price where it was included. The pricing logic of the case company for Finland is different which makes Finnish prices incomparable. For different currencies the company had its own guide-lines which were used to determine the exchange rate and change all prices to Euros.

The propositions for the quantitative data are as follows:

i. *There is significant variation in the price of an individual product between different countries.*
ii. *The pricing between various products is not consistent across different countries.*
iii. *Pricing within products groups is inconsistent.*

iv. *There are random errors in individual prices.*
v. *Differentiation in prices between the different sales channels is deficient.*

Standard deviation was used to gauge the variation in the prices of the products. According to the definition of The Economic Times (Economictimes.com, 19.2.2019): "Standard deviation is the measure of dispersion of a set of data from its mean." The bigger the standard deviation the more variation there is between the individual prices of a products. To count for products in different prices ranges each standard deviation was adjusted by the average price of the product. The standard not only tests the proposition *i*, but also allows to pinpoint the products with the biggest variations in prices and hence should be focused on. The instrument for testing the propositions ii compares the price of one product in one country to the average of that product in that sales channel to show variations in prices between countries. The same was done also on an area level. Both are done on a product level and therefore also show the variation in price of the individual products (*i*). To count for iii products in the instruments were grouped according to their product groups to allow comparisons within each group. Random errors in prices, so *iv*, in turn would show as abnormally high or low individual percentage in the instrument for testing ii. The instruments can be seen in appendixes C to H.

Originally the data set lacked the required information to accurately look into *iv*, the differentiation in prices between the different sales channels. This was however already built into the instruments by dividing both the standard deviations and the countries and areas into Own, Parent and Importer sections. After the instruments were validated with the case company the required sales channel data was added and the analysis redone with the revised data set. At this point the final instrument for comparison of average prices between the sales channels at a product level was added.

3.2.3 Other empirical data

Other empirical data used in the thesis include internal documents of the case company as well as notes and observations made in meetings related to pricing. These were used as supplementary material, and mostly in the beginning of the research process. Such materials together with initial discussions with the company where critical in building the interview question frame. They also helped gain deeper understanding into the issues discussed prior to the interviews and hence made it possible to ask clarifying questions during interviews. Internal documents were also used for the case company introduction and are not referenced it this thesis.

4. RESULTS AND ANALYSIS

4.1 Price data analysis

The price data analysis was used to validate the accuracy of current pricing problems brought up in the interviews. Each proposition was looked at to determine to what extent, if at all, it is supported by the data sample. In accordance with the implement and control phase of the global pricing process approach developed in the theory section irregular prices among price list were identified. According to the first proposition:

i. *There is significant variation in the price of an individual product between different countries.*

Appendix C shows that two of the products chosen only had one or no price in the data set and therefore could not be taken into account. With remaining products, the standard deviation adjusted by the average price of the products varies between 7 and 28 percent. The Product Group 1 seems to be most consistent when it comes to price, however it is good to note that the products within the group also have the least prices included within the data set. Overall the sales channel Own has higher variation in prices than the other two sales channels. Product Groups 3 and 4 have the most variance in price in the sales channel Own, with Group 4 having especially high result in five out of its six products. Product 3.2 in Group 3 in turn has high result in each of the sales channels when compared to the other products within the same channel and group. Hence for the given data set the proposition i. is true for some of the products, but not all, and any effort to unify prices should focus on the above identified problem areas to begin with.

It is understandable that there will be some variation in price. Customers in different countries have different perceptions of value and the products, for example, face different competing products in different markets. However, one would assume, that if the pricing process itself worked well the resulting price variances would be considered acceptable and the existence of variances would not be pointed out as one of the key issues. This can be looked at from two perspectives: either the prices do vary outside of what is considered acceptable or the perception of what is acceptable varies. How much comparison is done between prices of various customers, areas and prices set by various managers play an increasingly important role in cohesion of prices the more freedom there is in setting and varying the prices. However, due to a larger number of different products the personnel responsible for pricing in the case company do not have the resources to compare all prices in the manner done here. Having a clear set of shared pricing methods and rules with some type of a baseline price to follow is hence critical. If no overall or cross comparisons have been done, overtime even originally acceptable variances have likely increased as each section grows in its own direction without input from the others.

Next the price of one product in one country was compared to the average of that product in that sales channel to show variations in prices between countries and areas. These can be seen respectively in the appendixes D to F and G. Overall, it is clear that the general price level in the different countries vary. This can be recognized as one reason behind the price variances identified previously. When it comes to countries there is more variance between the countries in prices of the products of the sales channel Own, hence also explaining why much of the larger price variances in the precious section fall under the sales channel. As each country falls under only one of the sales channels, rather than looking at the sales channel, the focus should be on identifying country specific reasons for the different overall price levels such as landing cost involved in the sales process. Especially for the countries with lower overall pricing the reasons and their validity should be carefully evaluated.

When it comes to the second and third propositions:

ii. *The pricing between various products is not consistent across different countries, and*
iii. *Pricing within products groups is inconsistent,*

there are inconsistences in the prices within individual countries in each sales channel. In countries C4 and C19, two out of the four product groups, Groups 3 and 4, are priced lower, while in country C26 the opposite applies. There are also cases where some products within a products group are prices higher than average and others lower. This can be seen clearly in the product group 3 in country C11 and product group 2 in country C46. There are also individua products that stand out in their pricing, such as P3.2 in country C44. Hence, it can be summarized that the pricing across countries is inconsistent, not only when it comes to various products, but also whole product groups. For some of the products or product groups such inconsistencies could be explained by country specific characteristic, e.g. client preferences. Therefore, similarly as above, the validity of differing prices should be carefully examined. Simultaneously should be noted, that these inconsistencies are not caused simply by different overall price levels of the countries and hence give added support to the first proposition.

In the case of the country C1, the case company was aware of the abnormally low price level and was in the process of raising it to a more acceptable level. The problem was caused by initially setting the prices level too low by error. Rigidity of prices unfortunately makes increasing all the prices a gradual process, and hence setting the price level at acceptable levels to begin with is critical. Outside of such errors and inconsistencies, the real question here is how much the general price level of a country should affect the price level of the products. In other words, how much in price is it acceptable to sacrifice to compete in a market? The existence of whole product groups that are priced differently than what seems to be the overall price level in that country in turn prompts the question: what product groups are worth offering to what markets? Both of these link irrevocably to the strategy of the company and the priorities set for various pricing objectives. They also have to do with the strategies chosen for the products groups and individual products. The company might have, for example, intentionally prices a specific product group lower in one country to promote it in a market where such technology is relatively unknown.

When it comes to the area structure currently in use in the case company it follows that the product groups 3 and 4 are lower in Area A4 for both Own and Parent sales channel as it consists of the two countries identified two have lower pricing and is hence identical to the previous result. Similarly, some of the other areas only have one country within an individual area in each sales channel giving no additional information compared to the previous analysis. The division of countries into the areas can be seen in Table 5 below. In Parent sales channel product P1.2 in area A3 and product P1.3 in area A7 however do not fall under such areas and show inconsistencies in the pricing not easily recognizable in the country level analysis. It should not be forgotten, that one product might be offered at a lower price to increase sales of a more expensive complementary product or in order to attract a customer that will purchase a large variety of other products if the company achieves the role of main supplier for one critical product. Strategy and pricing priorities are hence also critical on the level of price variances in individual products. Clear strategic direction and shared priorities in pricing should result in prices that are viewed as consistent, even if the prices are intentionally varied.

Table 5. *Division of countries in the areas used in the case company*

Area	Number of Countries	Own	Parent	Importer
A1	10	3	4	3
A2	1	1		
A3	25	7	10	8
A4	2	1	1	
A5	2	2		
A6	1	1		
A7	3		3	
A8	1			1

The fourth proposition:

iv. There are random errors in individual prices,

is the most challenging when it comes to being supported or rejected based on the analysis of the data sample. This is because errors in individual prices will show only in the individual price itself and if such price is not included in the data sample no conclusions can be drawn. As the data sample is small compared to the overall number of individual prices in the company's system even if such error or errors are included within the sample it is not possible to make conclusive arguments about how common they are. Random errors in prices, would show best as abnormally high or low individual percentage in the country level analysis shown in appendixes D, E and F. Within the Importer sales channel the price of product P3.2 in country C44 could possibly be such a random price error. However, instead of a random error it can also be a result of an intentional pricing decision that only applies to that product. Such pricing decision could be for example, based on historical background in the area or that particular client. Also, with the inclusion of additional data the inconsistency could turn out to be a result of a larger inconsistency or logic in the pricing.

When it comes to why interviewees brought up the issues of random errors in the prices, an alternative explanation was offered by the case company representative in a later discussion on the topic. According to the company representative there is a history of problems linked with the previous system used in recording the prices, and even though the company has been paying close attention to correcting such errors out of the new system, trust in the accuracy of the prices had already significantly suffered and has yet to be repaired. In his article Wihinen (2012) in turn states how, when it comes to cost-based pricing, one reason for the perceived poor quality of cost information experienced by the managers is that it is used in decisions making situations it is not planned for. Additionally, he points out how managers pay little attention to the actual accuracy of cost information as long as it seems fair. (Wihinen 2012) In the interviews some of the random errors in prices were linked to what were seen as incorrect cost calculations within the pricing equations or changes in production batch sizes resulting in unfair prices. Combined with the explanation of the case company representative these give a sense that there exists a perception of poor quality without there actually necessarily being a significant problem with random errors in the pricing data.

The last of the proposition based on the problems brought up in the interviews has to do with the sales channel steps of the case company that were introduced and illustrated in Figure 1 in the empirical context part of the theses. Some of the products do not have a price for all three types of sales channels which limits the data set that can be used for the comparisons. According to the proposition:

v. Differentiation in prices between the different sales channels is deficient.

Based on the sales channel steps there should exist 3 distinct price levels. In theory the prices of the first step of the different sales channels should be prices as Own having the lowest price level similar to a transfer price, Parent middle and Importer the highest price level. The comparisons of average prices in the Appendix H, shows that for product P1.3 the price differentiation between the channels is so that the Parent price is lower than the Own price, both are still below the Importer price as they should be. This is however not the case with product P3.2 which Parent price is higher than that of the Importer. A possible reason to have prices divergent of the intended pricing structure between the sales channels has to do with costs. If an individual channel member absorbs some of the costs otherwise experienced by the case company a lower selling price would be offset by the profit gain of lower cost. With the products in question this is however not the case. Overall, the price differences between the sales channels do exist and are, excluding a few anomalies, correct, even if not highly consistent.

For the case company the overall final profit made from sales to the Own sales channel also includes a profit impact gained from the profits made by the companies in the channel. The same applies to the Parent sales channel, but from these companies the case company only gains a part of the profits. From the independent importers in the Importer channel the only profit gained is through the profit margin of the selling price. If the price differentiation between the channels is deficient the overall profitability of the products varies between sales channels. In the case of product P1.3 sales made to the Parent sales channel are less profitable than sales made to the Own. Deficient price differentiation between the sales channels can also result in customers purchasing the products from other than the intended intermediary in the sales channel. In addition to profit impact this can cause significant conflict within the channel and issues with parallel imports.

For some countries sales are only done through independent importers or companies in the sales channel type Parent. Even if the sales channel currently does not have multiple intermediaries, at some point the case company might want to establish a new sales company in an area and move some of the independent importers as clients of their Own sales channel. Ensuring sufficient profits for the sales company to operate would require increasing the prices of the importers. As mentioned previously, price rigidity makes such price level increases very challenging to achieve. Hence having the correct price structure implemented right from the start is important.

4.2 Comparing the global pricing process approach to pricing in the case company

The global pricing process approach aims to be a systematic way of supporting the pricing objectives of the company in the global operating environment. Hence, comparing the case company’s current pricing process to the global pricing process approach developed should allow identification of key factors behind the pricing issues experienced by the case company. The overall goal of the thesis is developing a more cohesive approach for the company’s global pricing, which is why focus is on identifying aspects in each step that work against that objective. The following subchapters discusses each step of the developed global pricing process in light of the interview data collected.

4.2.1 Role of strategy and pricing objectives

The first step is deciding the strategy role and in the global operating environment the global image of a company was recognized to limit the viability of choosing very different or opposing strategies for different markets. On several occasion the interviewees brought up the following controversy when it comes to pricing:

> *"We are high price and high quality, but in order to win business, we are still competing with price against cheaper products with lower quality."*

The question here is, to when and to what extend is this acceptable? If the overall strategy is to operate in the high-tech and high-quality sector of the market that should be represented also in the fallowing steps of the pricing process. Competing against products of lower quality does not support the image the company wishes to portray in the global market place. On the other hand, based on the interviews, some of the simpler products compete more in a sector of the market where quality is less important, and focus is more on price. As pricing objectives need to follow, not only the company's broader objectives, but also the objectives set for the products themselves, also those need to be specified and included in the strategic consideration. The strategy of the company when it comes to competing in different markets and across different products at the moment seem to be also unclear to the customers of the case company, as is apparent from the following statement:

> *"We end up in a difficult position where products that are not of the same quality are compared and the end customer does not understand why our products cost more."*

Clarifying the role of the company's overall strategic approach to its pricing is needed so that also the customers of the case company acting as intermediaries between the case company and the end customer can convince their customers of the prices. Strategy should be linked regularly to pricing and its role considered prior to changing prices.

The following pricing objectives can be recognized among the interview data as goals or desires for the future: maintaining existing customers (how do we change prices without loss of customers), attracting new customers (winning bids with lower pricing), limiting parallel imports (it is recognized to cause issues and the desire is to make pricing less varied) and reducing the number of price list (hence reducing the workload involved in yearly price list checks). There is however only one pricing objective that is recognized as a pricing objective of the company: a margin set by a company jury/board. This would suggest that profitability is the only pricing objective consciously used and no prioritizing is done when it come to the other objectives. In the global setting where possible objectives are even more numerous, having a shared order of prioritized pricing objectives would already increase cohesiveness. The lack of common guidelines and rules when it comes to pricing was one of the issues stated by all interviewees when it came to the problems of the current pricing. Prioritizing the varying pricing objectives would give a starting point to begin building such guidelines and rules.

Having the margin as the only shared pricing objective currently means that the scope of the pricing process for managers involved in the pricing is either, for the products managers, the product groups they are responsible for, or in the case of the area managers, the pricing area they are responsible for. Hence for example, having products that are prices oppositely between two countries is possible. If the aim of the case company is to move towards more uniform list prices globally, that should be set here as one of the key pricing objectives and the next steps in the pricing process should reflect that. The following scope would hence be the global list prices of the company.

4.2.2 Pricing determinants

Next, assessing the pricing determinants. Based on the interviews there is no formal process for gathering external information. Assessing the industry and market related pricing determinants seems to be reliant on the individual doing the pricing. Area managers also pointed out that areas according to the current market area division vary when it comes to information available in the market. The also seem to be different levels of communication on pricing with the various sales channel types, interestingly not wholly dependent on what type of a channel members is in question. This is apparent in the following statements:

> "*Whether it is Own, Parent or Importer we are given very little information on the margins they use to sell our products forward, which is a big problem*", and

> "*If its Own sales unit I know how they price as we sort of have those conversations together and do the pricing*".

The margins used to sell the products forward determine the end customer prices and can give important insight to how the products of the case company are marketed forward by the intermediaries. Using pricing that is essentially a transfer price with the own sales units should mean more open communication, while with independent importers the external information is much harder to come by and hence focus should be more on the internal information when it comes to pricing.

Most information used is internal, has to do with costs and has two key problems. First, pricing determinants related to product characteristic are not necessary clearly available anywhere. Due to the nature of the products there are many of such rules related to pricing of product characteristics that should be remember when pricing an individual product. Second, how much of these costs of product characteristics are taken account in the day to day pricing is questionable. Company systems cannot always be accesses while travelling and coming up with a new price for a customer tender if the product is not yet in the customer's price list is often done ad hoc. Both can be recognized as possible reasons for pricing inconsistencies when it comes to individual products priced differently within product groups.

Overall the following summarizes the biggest problem the company has with both external and internal information when it comes to pricing:

> *"It is very difficult to justify a price if one has just decided on a profit margin and then a customer compares it to the price of another product or asks for an offer stating how the price in the neighboring country is that much lower."*

Much of the pricing is based on assessing pricing determinants that rely solely on the industry, market area and product portfolio expertise of the people the company employs. Hence it also follows that different pricing determinants, whether internal or external, are used for different countries, areas and product groups depending on the person responsible. Looking at the overall pricing of the company this means that not only is explaining such differences to the customer difficult for personnel not responsible for the focus area in question, but also that such focus areas are most likely going to keep growing further apart overtime. It is good to note that also different product groups represent what is here referred a focus area. Importantly, similarities between pricing determinants are not necessary dependent on geographical location which should be taken into consideration when looking at appropriate segmentation.

One pricing determinant in the global setting brought up in the interviews is the different tariffs between countries. Higher prices due to tariffs and other cost, that are experienced also by the competitor and customers operating in the same country are easily explained. Price differences in the final price of the product to the end-customer are acceptable, if there is a logical reason also shared by the competition behind it. Indicating such valid reasons properly to the customer is critical. However, price differences should not result in the problem of price difference growing over the years and causing "historical weight" in the future. This must be accounted for in how the pricing is built in the system used for pricing.

Another pricing determinant in the global setting brought up in the interviews is the problem of foreign exchange rates. Due to the company being a subsidiary to a larger corporation it must follow the rules set by the parent. When trying to avoid risks related to foreign exchange rates, the company would prefer its own currency, euros. However, the corporate parent has a policy that all companies within the corporate umbrella are allowed to make purchases in their own currency. Therefore, when it comes to sister companies, using foreign currencies cannot be avoided. However, as all companies under the umbrella of the parent have defined roles within which they are allowed to operate in the global market and should therefore not be in a competing position with each other, the company could consider the possibility of having more open information transfer with its sister companies. Could changes in currencies be something that can be discussed together and hence there would be no need for a large “buffer” in the price? When it comes to other channel partners currency related issues would fall under pricing policy decisions. There could be a policy about negotiating the sales in the company’s preferred currency when not dealing with a sister company. There is already a clear policy as to how often prices are adjusted to the currency fluctuations. However, due to the way yearly price increases are currently done, price list in different currencies tend to grow apart. One of the interviewees explained:

> “*So, for example when we do the 2% increase, we have to do it to the currency price not to the euro price. Because if we do it to the euro price and then do the currency change, the decimals will be completely different than if you have done it to the original currency. Even though they might be small, I mean when in theory we are talking one to two cents here or there, but when you are buying 100 000 pieces, then you quite quickly start complaining that wait a second, we are losing hundreds or thousands even.*”

If the company wishes to reduce variances in price such a policy must be addressed and changed, otherwise fixing the current price variances will only be a temporary solution. Whether the issues of using different currencies is actually one of the root causes of the dispersion of prices and significant enough to make a difference, could be evaluated using similar approach as was used in the price data analysis by comparing variances within euro prices to variances in prices that were originally different currencies. This would however require a different data set. With the current data the variations could be credited to any number of reasons brought up in the interviews.

4.2.3 Appropriate price strategy

Nets step in the pricing process approach is deciding the appropriate price strategy for the global operating environment. Appropriate pricing structure and segmentation are the key. When it comes to sales channel the clear consensus is that there should be three price levels: the price for own sales offices, sister companies and independent distributors. To which extend this is evident in the current prices was looked at in the price data analysis. The price differences between the sales channels do exist, despite some errors. With the company hoping to move especially smaller independent customers as customers of their sales companies instead of direct factory customers, adjusting prices accordingly needs to be addressed. It is important to note that the sales channel structure applies to the list prices. However, an important factor that the pricing structure needs to address is the role of volume-based discounts. In the interviews much of the division of sales channels into the above-mentioned types is combined with mentions of volume discounts typically given to original equipment manufacturers known as OEM clients. Such volume-based discounts are excluded from the price data analysis.

Current segmentation in the case company is largely based on geography, though many individual countries have been combined under the same price list, hence forming larger pricing areas. The key reason mentioned for the difficulty in combining remaining prices under one global price is the differences in overall price levels between countries. Such price level differences can be clearly seen in appendixes D-G as lower prices for an individual country or area across all products. Price level differences between the countries and areas within the Parent and Importer sections however are not nearly as significant as within the section Own. Price level differences overall in the Own section are much greater than in the other two, meaning that there are also countries and hence areas with higher than average price level. The higher price levels are to be expected as a company is more likely to establish its own sales branch in an area where it is most likely to make better profits than in other areas. For the areas and countries with low price level the appropriateness of the pricing strategy should be considered. Overall, the problem of different price levels relates back to the first step of the pricing process: the role of the overall strategy. In what market areas should the company operate with high price and where is it appropriate, and to what extent, compete with lower quality and price by choosing alternative pricing strategies? Should it sell all products for all markets or only offer specific product for specific segments? Segmentation should be based on the value perception of the customers and differences in value perceptions in different sales areas clearly do exist.

Based on the interviews, parallel imports are one good example of problems caused by choosing different pricing strategies for different markets or markets areas that the case company is already worried about. Some of the products of the company require specific qualifications from the importer and parallel imports are recognized to cause significant problems when it comes to warranty issues of all products. Both issues that can harm the brand image of the case company if handled poorly and hence link to the role of the overall strategy of the company that the whole pricing process should be based on. Incorrect use of the products can lower the perception of quality while warranty has to do with service levels. Having an importer selling goods outside of its intended market for a cheaper price than the intended authorized importers of that market will also cause significant channel conflict. Not only are the authorized importers responsible for warranty issues within their area but they now also face what they perceive as unfair competition. The diversity of the global operating environment of the company supports differential pricing, but the segmentation must be such that the company is able to maintain the price differentials between the segments. Rest of the problems faced in combining price list mentioned in the interviews have nothing to do with segmentation but are caused by issues such as system restrictions.

4.2.4 Pricing method

The current price setting method in the company when it comes to new products can be understood from the process described in the Figure 13 below. When it comes to already existing prices that are added to a new price list as the product is not yet sold to the segment/customer, the pricing can be done directly by the customers service by copying an existing price and margin. Alternatively, customer service can as the area managers to evaluate an appropriate margin for the specific segment/customer.

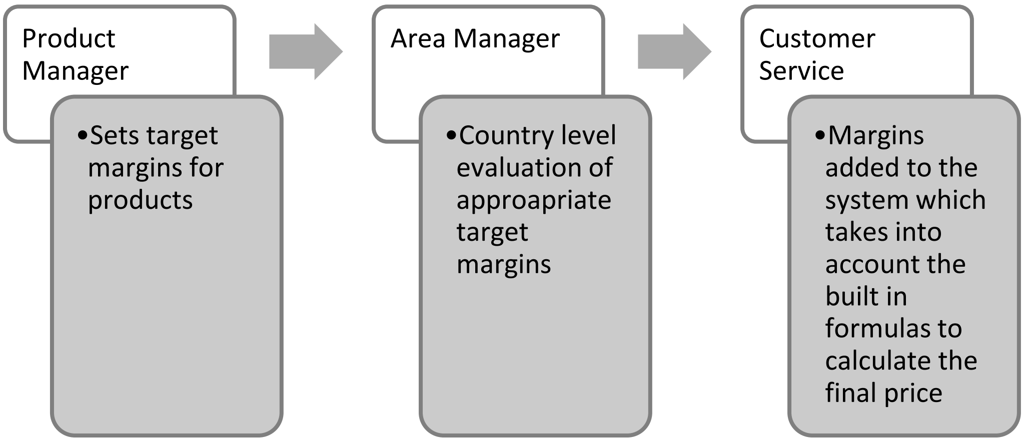

Figure 13. *Process showing the pricing method of new products*

There are three main issues with the current method apparent from the interviews. First, the pricing methods employed within the system vary, when it comes to the formulas used to calculate the final prices. There is no clear connection between the pricing structure and the pricing methods used. The only clear pricing structure is the division to three price levels: the price for own sales offices, sister companies and independent distributors, with the addition on volume-based discounts given to OEM's. However, there are more than enough various rules and guidelines when it comes to pricing individual products. Much of this has to do with the long history of the company. Pricing has changed over the years, but not all prices have been changed to follow the new methods, resulting in variety of different calculations and logics in the system. Second, the ability of pricing personnel to price consistently throughout the year depends on the individual. Especially for someone new it is seen almost impossible to be aware all parts of the current pricing methods utilized. Additionally, interviewees mention how some of the guidelines about the pricing are only available in emails, in Finnish or have to be found out from someone else. Information about the product related pricing structure critical to the pricing due to the nature of the products is therefore difficult to obtain, especially for someone new to the company. And thirdly, there is no coordination between the area managers as to the way they price, hence methods used, and resulting prices will vary.

Currently the price list adjustments made to already priced products are done according to the steps described in the figure above. However, as can be detected from the image the yearly price list adjustment does not actually change the underlying logic or method of the pricing. Price adjustment are done based on the price of the previous year.

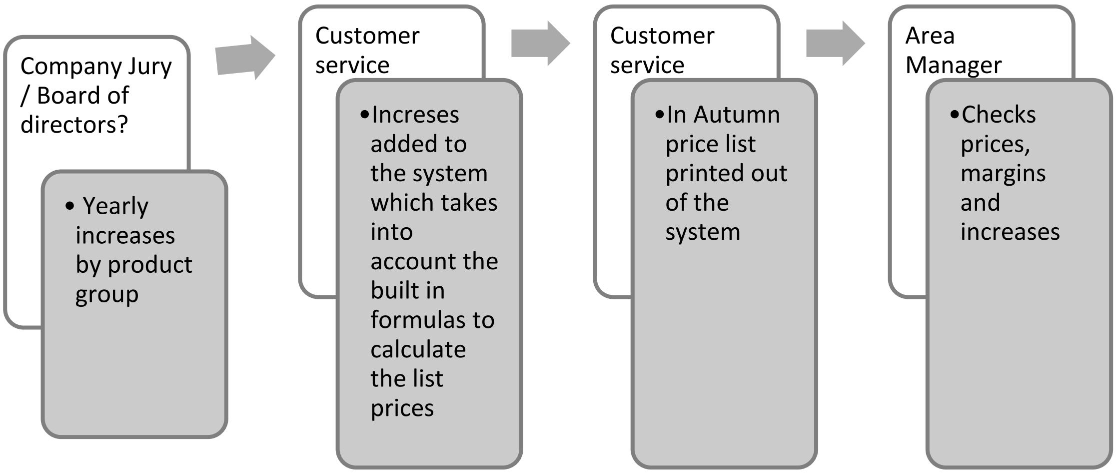

Figure 14. *Yearly price list adjustment*

Additionally, as one of the interviewees states:

> *" Yearly increases do not follow the existing pricing logic of having a basic product from which the rest of the products are priced".*

Basically, this means that a product with a price formed as a percentage of the basic product in the product group can have a different yearly increase than the basic product. After the increase the intended price difference between the product is of course no longer the same. Weight of long history and long product life cycles of the products only highlights all the issues above. In practice this mainly adds to the already mixed methods of pricing as the intended logics are not followed.

At the moment only one person in the customer service of the company has the capability to utilize the pricing methods correctly and make all the price changes correctly into the system. While such centralization has reduced the amount of errors made in the process of making the yearly price adjustments there are clear risks in relying on one person. The area managers involved in determining the prices for their respective areas have limited resources, especially when it comes to time, to try to remember and understand all of the underlying logic related to product group pricing and the formulas behind the formulation of the final price in the system. Overall it can be summarized that there are too many various pricing methods utilized for the pricing capabilities of the people involved in the pricing to match.

4.2.5 Price implementation and control

The single biggest challenge to the implementation and control of prices in the case company is the large number of products in its product portfolio. Implementing the price changes in the system due to the current system used and the nature of the products, results currently in around 80 separate price list. The larger number of price list take significant effort to go through each year, and from the perspective of the customer service reducing the number of price lists is the factor that would have the most impact on their work. In the current system adding one price that is not included in the current list that the customers price list in the order system is based on could result in the need to create a completely new one. As one of the interviewees explained:

> *"There are some product groups where pricing is already global, but as not all prices are, we end up with different price lists."*

Some products are intentionally not offered to all customers of markets segments, while ordering some products might require specific qualifications or training. There are also region-based differences to what products customers can purchase. Solutions suggested in the interviews include building a modular system into the price lists for the product differences or selling through separate sales units in which case the issue would no longer be within the case company's order system.

Lack of clear pricing policies in the company is irrevocably linked with the collection of various methods used to set the prices for the numerous products. The number of different pricing policies to remember due to the different guidelines and margin targets associated with various product groups makes consistently following the ones that exist very challenging. To begin moving towards a more policy-based pricing the company first needs to identify the customers that currently have much lower prices or higher prices than other customers. Based on the price data analysis the company should first focus on solving the overall country level price variation by determining which have a valid and most importantly still valid, not historically valid reason, and only then look more in depth in to the individual product variances by adjusting the necessary prices according to country specifications before the analysis. After identifying the customers with low prices, the next step would be determining how they came to have such pricing and if necessary, adjust policies accordingly. Doing such analyses for all of the company's products however requires significant resources and so far, rotating area responsibilities has been the only comparison done even somewhat across the pricing area divisions.

The biggest worries apparent from the interviews is the lack of confidence in the ability to convince customers of any larger changes to prices and price rigidity as the single biggest challenge for the case company when it comes to implementing price changes. Forcing price changes on own sales companies was seen especially challenging. Even if overall the prices of products do not increase that much, the sales company might have individual customers that only purchase, for example, large numbers of a single product. If the price of that single product increases, overall price increase to that individual customer can be significant. Prize realization capabilities both internally and externally are needed if the company wishes to make any significant changes to its current pricing.

Gradual adjustment of prices by dividing the price increase into smaller increments can often be helpful and this is also pointed out as the most plausible way of changing prices by many if the interviewees.

The current way of doing public announcements before yearly price increases is good and customers accept yearly price increases as it is the way of the industry. However, the current links between the cause and effect of those increases is somewhat questionable. At worst it can erode the trust between the company and the customers, but also causes managers to discount the price increases as they do not see them as correct ones. For example, one of the interviewees commented how:

> *"As an explanation it is said that the costs have increased, but if review them we find out that it is not true."*

In the interviews also two alternative approaches to quotations in relation to list prices came up: having the list prices high and then giving discounts or having the prices already at a legitimate level from which no discount is given. In accordance with the logic of the interaction of expectations and behavior, the prices should be aimed to be set at a level from which no discounts are given, or at least not any that are not included in comprehensive enough pricing policies to discourage excess discounts. Constantly giving discounts will basically undermine all pricing especially all efforts made to realize higher prices. The following comment gives further support to setting prices initially at appropriate level and marks on a relevant global pricing issue:

> *"So, if and when we get to like a global price list we need to try and ensure that it does not mean an explosion in terms of quotations. Having a global price list and then using quotations to handle the like big projects and needs would mean a massive increase in quotations, which would mean also massive amounts of extra work for the sales teams and the service teams."*

Overall, the company seems to have been using almost what is known as a holding strategy, only adjusting the prices in yearly increases according to perceived overall price level in the market. The main risk of holding strategy is that long periods without any need for price adjustments could encourage the firm to become complacent. (Shipley & Jobber 2001) Due to the nature of the industry products have very long lifecycles and with current way live their own lives after the initial pricing method in the system is set. It is therefore critical that the company has tools in place to avoid such from occurring in the future and prices do not end up just somewhere, they need to be checked and updated regularly not just the final price but the whole cycle of the pricing process.

5. CONCLUSIONS

The research objective was to develop pricing practices appropriate for global operating environment. Based on theoretical background in pricing methods, pricing as a process, implementation for global pricing principles and global price management considerations a global approach to the pricing process was taken to account for the global setting. Overall, the developed pricing process approach was shown to support the company's pricing objectives in the global market. At each step of the pricing process the characteristics of the global operating environment were highlighted in the approach and then discussed in reference to the case company.

The research used both quantitative and qualitative data. The quantitative data served two separate purposes. First, it was used to confirm the accuracy of the statements related pricing issues in the case company. And second, it was used as a tool for the in the implement and control phase of the global pricing process approach to identify irregular prices among price list. The key result of the price data analysis were; there is significant variation in the price of some of the products, but not all, and any effort to unify prices should focus on the identified problem areas to begin with; pricing across countries is inconsistent, not only when it comes to various products, but also whole product groups; and price differences between the sales channels are otherwise correct and do exist, despite not being very consistent. Interestingly enough, all the prices looked at in this comparison overall seem to be more uniform that what was actually expected by the case company. As the qualitative interview data focused on the issues experienced by the case company and its current pricing process, comparing the case company's current pricing process to the global pricing process approach developed was used to identify of key factors behind the price issues experienced by the case company. The overall goal of the thesis was developing a more cohesive approach for the company's global pricing, which is why focus at each step of the process was identifying aspects that work against that objective.

Having some formality in the pricing process, directs participants to view the pricing process from a more strategic perspective (Tzokas et al. 2000). The research suggest that companies should look at the pricing process as a whole starting from connecting the overall strategy of the company to the pricing. Pricing globally means more variety and more objectives to prioritize. However, looking at the strategic capabilities of sales in the B2B markets, it is not uncommon to have suppliers without strategies of raising or maintaining margins (Nagle et al. 2011, p. 114). In the case company target margin was the only recognized pricing objective, despite other objectives indicated in the interviews. However, strategies for managing margins rely solely on the individual outside of the yearly increases included in the current pricing system. Prioritizing common pricing objectives would bring at least some cohesion to the pricing done by various people.

For assessing pricing determinants defining factor is often the availability of reliable information. With own sales units the information exchange should be more open, whereas with independent importers it good to remember that supporting the channel members in gaining larger margins is more effective means of motivating them to sell the company's products than offering lower prices (Obadia & Stöttinger 2014). Global setting also brings new pricing determinant to consider. In the case company availability of information varied and tariffs and foreign exchange rates were recognized as pricing determinants inherent in the global setting. With factors such as tariffs that are also experienced by the competitions indicating such addition in the price of a good separately could provide one solution. When it comes to exchange rates the issues is more how to deal with fluctuations in currencies together with price increases made to prices in different currencies so that the prices don not disperse over time.

In a diverse global operating environment and with channel relationships typical for B2B environment the price strategy of differential pricing is appropriate. It offers higher profits as long as market segments are created according to customer value, the company is able to capture the value through pricing and maintain separation of the segments through appropriate fences (Cross & Dixit 2005). In the current country and area division of the case company some of the areas, at least for the products included in the price data analysis, where found to have very similar prices which do not necessitate different segments. Combining such areas under larger pricing areas with customer that perceive the value of the products similarly is clearly possible. Many of the problems mentioned in connection to segmentation had to do with factors such as systems restrictions, when it comes to reducing the number of price list currently in use in the case company. It was also mentioned how in some cases the lack of a global price for an individual product can require the creation of a completely new price list for an individual client. A perfect example of how limitations in systems capital also limit the effectiveness of people involved in pricing decision (Dutta et al. 2002). Removing such barriers and reducing the current number of various prices to a more manageable number would also make further changes to current pricing easier and hence offers a relatively easy starting point.

In the global setting pricing commonly uses multiple methods that must align with pricing structure and pricing capabilities. Currently the case company has too many different methods used without coherent logic and ensuring price realization with comprehensive pricing policies is challenging due to numerous products and various sales situations. No clear pricing policies result in one off deals (Nagle et al. 2011, p. 114), that tend to live on in the prices. Despite their irrelevance to the profit-maximizing, company's past prices have a major influence when it comes to determining price (Urbanu 2001). Revising prices on regular basis is extremely important, as many of the problems of the case company connect to its long history with little major pricing overhauls.

The biggest managerial implication of the research is, that there is no quick and easy way for pricing in the global setting. Having one global price list was the initial discussion topic of the interviews, but during the research process it become increasingly clear that coming up with such a new global price list would require first addressing the current pricing issues. Further comparisons across the current pricing areas and country divisions are needed to pinpoint the biggest variance so that they can be fixed, and the root causes identified. The current pricing methods utilized need to be identified and whether the different pricing formulas used in the system are still valid evaluated. Similarly, the pricing guides and policies concerning different product groups and individual products need to be evaluated, standardized and made available easily to all appropriate parties. Due to the larger number of products, starting with some of the know barriers to reducing the number of price list and prices to go through hopefully can make the process more manageable in the future.

The reliability rests on the existing literature utilized in building the theoretical background, while the empirical results are based on comprehensive interviews within the case company. The research is internally and externally valid. The small data sample used in the quantitative part offers some concerns, but the sample was chosen to give best result with limited resources. Each step of the global pricing process approach could be looked at in far more detail and this thesis only touches on the issues included in each step. The pricing methods and global pricing principles relevant to service pricing could offer interesting expansion opportunities for this thesis. Both the concept of pricing globally and the concept of servitization offer many interesting research streams when it comes to future research in pricing.

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