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# Pricing as an Organizational Process

- A case study on organizational characteristics affecting the pricing process

**Abstract:**

For a long time there has been a gap between the performed research and what companies experience with respect to pricing processes. Currently, there is no extensive research in the subject; still many companies are working with the problem, both directly and indirectly. Instead of focusing on the process of pricing, most studies emphasize pricing strategies. Consequently, the goal of this essay is to begin the pursuit of filling this void by mapping companies' pricing processes. In order to do this, the question that must be answered is "Are there any particular organizational characteristics that affect the structure of pricing processes in companies?" This essay attempts to answer the question by performing four case studies on the companies ABB Robotics, Coop Butiker & Stormarknader AB, Autotube AB and Ebookers Scandinavia AB. In order to compare the findings with an external view, a professional pricing consultant at PriceGain AB was interviewed. The investigation shows that the characteristics that actually do affect the pricing process are transaction value, product complexity, organizational structure, degree of centralization and pricing strategy. Furthermore, conclusions were drawn regarding non-influencing characteristics; company turnover, type of customer and type of product do not have any effect on the pricing process. However, much research remains and this essay stands as a basis for further investigations in this area of the marketing subject.

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# 1. Introduction

## 1.1 Problem

After discussing pricing with professors at Stockholm School of Economics it is apparent that there is a void regarding the general research around pricing processes. Although there is no extensive study published concerning these issues, our investigations show that many companies have a desire to take part of such research. When reviewing firms to examine regarding this issue, it was clear that companies experience difficulties in reaching an optimal pricing procedure.

Currently, there are mostly studies that demonstrate which factors determine the price levels and how to set competitive prices. The main objective of these studies appears to be focused on maximizing profit margins without losing sales volume. Conversely, this study intends to examine the pricing procedure and the decision making process behind the price. Companies are different in terms of characteristics and this thesis will evaluate whether there is some kind of relationship between some of these factors and the pricing process (see Appendix 1). Examples of these characteristics are product type, target customer type, pricing strategy and organizational structure.

A clarifying example of why it is valuable to identify the pricing process is an issue ABB Robotics has had (Jönsson 2008). They experienced a problem where many customers tried to “shop around” in order to obtain lower prices. A Danish customer who considered buying a robot from ABB Robotics turned to the Chinese sales organization because it would be cheaper and in that way shopped around the Danish sales prices. To avoid these types of issues, an investigation of how to obtain coordinated pricing would be beneficial. Thus, mapping a company’s pricing procedures might facilitate to find the firm’s flaws in the matter.

It is essential to emphasize that this essay does not aim to discuss companies’ pricing strategies; instead the main objective is to understand their pricing processes. This means that the end product of our analysis will try to describe who sets the prices and how the pricing process is managed. Thus, this is an explorative essay in the sense that we will not try to find an optimal pricing process, but we will show how companies handle this issue with regards to their respective structures and general company profile.

## 1.2 Purpose and Research Questions

Since there are no studies to a greater extent regarding pricing process and its dependence on organizational characteristics, it is suitable to explore the circumstances on this topic. We believe that it is of great importance to research this subject since there is a value of mapping the pricing processes. The optimal result would be to come to a conclusion of how to make pricing processes more effective for specific companies of different natures. However, due to the time restriction and lack of earlier studies in this subject, it is difficult to come to such conclusions. Instead we aim to contribute with valuable understanding and hope to map relationships between pricing processes and organizational characteristics. The study will be executed through four case studies on companies with different characteristics. Optimally and consequently, new firms, growing companies and organizations in a restructuring phase could take part of the paper in order to identify themselves and implement a pricing process that is used by companies with similar qualities. Since this topic is relatively untouched, we will work on an explorative point of view focusing on the following research question:

**Are there any particular organizational characteristics that affect the structure of pricing processes in companies?**

## 1.3 Delimitations

The most essential delimitation of this essay is that we want to focus entirely on the pricing process and the characteristics that affect it. It is important to distinguish pricing process from pricing strategy as these are closely related. Instead we want to look at the strategy as a potential parameter that could have an impact on the process. To further clarify, we want to determine if there are relationships between certain company characteristics and the way these companies set their prices. We do not want to analyze why they use a particular price level, but rather how they reach the decision to use that price level and how they implement it. In order to truly understand the message of this essay, the reader must realize and understand this delimitation.

Regarding the limitation about the companies that participate in the study, we decided to focus on firms that operate in, but are not limited to, Sweden. Three of the studied organizations also operate internationally, which helped bring variation to the sample and increased the level of organizational complexity of the case studies. In order to maximize the diversity of the companies and simultaneously keep the project executable within the given time frame, we chose to include four companies with a mixture of characteristics.

## 1.4 Expected Contribution

One of the main purposes of doing this study is to provide firms with an understanding of how existing firms have established their pricing processes. Furthermore, by spreading knowledge regarding the topic, the thesis can help industries and professors develop the subject even further through deeper studies. We hope that our findings and conclusions will inspire to future research since little has been examined in the subject this far.

## 1.5 Disposition

The first and current chapter is the introduction of the essay and prefaces the study. Henceforth, the division of the chapters will be structured as follows. Chapter two will describe the method we use to produce the essay and gather information. The third chapter will present the applied theory and external views of pricing processes in general, and thereafter chapter four will treat the literature review. In chapter five we will show the empirical results of our studies by describing the cases in an ascending order of complexity. In the sixth chapter, we will analyze the gathered information by first implementing a within-case analysis for each firm, and then doing a between-case analysis for all firms in order to compare them. Subsequently we will present our concluding discussion in the last chapter.

# 2. Method

## 2.1 Research Structure

Our research question originated from discussions with professor Björn Axelsson and Per Andersson at Stockholm School of Economics and minor talks with some companies. The investigation was done in order to identify and track any dissatisfaction or issues within the pricing process in different organizations. We contacted a multinational fast-moving consumer goods firm, a large electronics company and a Swedish corporate group within the food business, who all thought that the subject we were about to treat was really interesting and relevant. All three of the companies had perceived issues in pricing processes and therefore thought it would be a great subject to further examine. After some theoretical studies and a chat with a consulting business within pricing we discovered that there is a gap between the desired knowledge and the existing research on the topic. In our exploration of current articles and other publications we have not found anything that focuses entirely on our subject, which aroused our interest.

### 2.1.1 Case Studies

In order for us to fill this void of information we decided to perform a qualitative report with four case studies of companies with different characteristics. The decision of choosing case studies as the basis of our investigation was enforced by Merriam (1994). She claims that a case study is suitable if the purpose of the report is to deepen the understanding of the dynamics of a phenomenon. Merriam further argues that a case study is more focused on the evaluation and description of a process rather than the behavioral consequences. These two arguments are congruent with the problem we aim to solve and thus, the best path for us to follow.

Also, Bromley (1986) conveys the message that case studies have a wider grasp than quantitative studies, which tend to have a rather narrow focus. Our objective is to paint a tangible picture of a problem that currently is rather abstract. The problem at hand is narrow in itself; however, it is found in a very wide environment, which means that we do not know where in the organization we will find the pricing process. In conclusion, we wish to find a process we know exists, but we do not know where we will find it.

There are both advantages and disadvantages when using a qualitative method such as case studies. However, in our case the advantages outweigh the disadvantages. Because of the unexplored nature of our research question, the advantages are that we pave the way for future studies in the area (Foreman 1948) and we produce a holistic and rich portrayal of the phenomenon (Merriam 1994). Due to the aforementioned advantages, we believe that case studies as the primary method is well suited for our research. On the other hand, the main drawback of this type of study is that there is a risk of oversimplifying or complicating the underlying factors of the process. This risk creates the possibility of reaching a faulty conclusion (Merriam 1994). Nonetheless, our thesis will set the base for further studies that could give birth to a set of propositions with different levels of reliability. In conclusion, the positive contributions of a case study balance out and offset the negative factors, which makes it the most appropriate alternative.

Yin (2009) mentions that there are three categories of case study - exploratory, explanatory and descriptive. Case studies that are exploratory aim to explore any phenomenon that is of interest and gives answer to general questions. Since our objective is to investigate the pricing processes in companies and set an initial starting point for further studies, our report is suitable to be based on exploratory case studies.



### 2.1.2 Interviews

One of our main sources in our quest to accomplish the paper was physical and telephone interviews. All interviews were done in person at the companies' offices except for the one with Autotube, which was a phone interview due to the location of the company. Before the interviews, which all were 45-90 minutes each, we concluded which theories to apply on the subject so that we could base our interview questions on them. In order to obtain general thoughts about the phenomenon, we decided to interview Högberg from PriceGain AB before the studied companies. These were made because of the importance of primary sources and to gain knowledge from people involved in the process of pricing. We chose to consider qualitative interviews before quantitative studies due to the fact that quality refers to the essential character of something, while quantitative refers to how much or the amount of something (Kvale 1996). Furthermore, the qualitative interviews were executed after preparation and studies of how to implement them. For example, Trost (1997) means that the question *why* should not be asked as a retort since it can be perceived as questioning and challenging which could lead the interviewee to an uncomfortable position. Thus, guidelines were followed in order to obtain the best possible results from the interviews. For detailed interview questions, please see Appendix 2.

### 2.2 Theory Selection

A large part of the paper content is based on empirical studies since there is lack of documented theories in the subject. However, we choose to apply and use management and marketing theories in order to possibly match the empirical studies to the theories.

From a broad perspective, an organization has to make plenty of decisions in order to survive; which segment to target, how to position the firm towards the market, what products to offer, how the organization will be structured and allocation of responsibilities amongst many other. Pricing decision is one of these and has to be handled very carefully in order to obtain the best possible outcome. This regards both pricing strategies and pricing processes. Today, there are not many theories on the pricing processes, so in order to complete an exhaustive analysis we have involved studies that cover factors that possibly can explain and map the pricing processes. Simon et al (2003) discussed pricing process in their article and described it as a four-step pricing process. The structure is used in our study due to the fact that it is suitable in order to concretize the process in companies. However, only the three first steps will be

analyzed since the last step only involves the post-action of the pricing and not the prior behavior in the organization. Also, theories as Mintzberg's organizational configurations (Mintzberg 1980) and pricing strategies that affect processes are important in our pursuit to describe the pricing processes in different organizations.

## **2.3 Data Collection**

### **2.3.1 Literature Review**

Mainly, the information sought and gathered are from primary sources as interviews. In order to maximize the outcome of the interviews, we wanted to obtain correct background information so that we could match and compare information from interviews to secondary research and literary sources. However, we could not find any specific studies on the given subject in several databases and therefore we had to extend our searching to adjacently topics as pricing strategies and organizational structures. The information was collected from many sources but the majority came from academic articles related to marketing and management and also publications about different aspects of pricing.

### **2.3.2 Selection of Companies**

In the planning of the report, we believed that we should examine companies of different characteristics in order to obtain a broad base to proceed from. Also, variation within the companies was prioritized, and consequently we determined not to approach similar firms in the same industries and of similar attributes. With variation as a basis, firms were divided by, among other factors, internalization, type and complexity of product and final customer. We targeted ten companies in different categories from the aforementioned variation factors. Since we could not in advance decide upon which companies who wanted to participate, we had to accept the ones who were positive to the idea. All firms expressed their interest in the subject, but due to time constraints and concerns regarding company secret leakages many companies declined the offer to be a part of the report. Of the companies selected for the study, we managed to interview and get deeper insights in Autotube AB, Ebookers Scandinavia AB, ABB Robotics and Coop Butiker & Stormarknader AB. In addition, we had a dialogue with PriceGain AB, a pricing consultancy that could provide us with objective, external thoughts and knowledge regarding pricing processes in general. PriceGain was considered as a suitable complement for making the report exhaustive since the firm, after nine years in the

business, a growth on 40% per year and more than 20 million in turnover, had insights in what procedures, issues and conflicts there are in different companies in the real world.

### **2.3.3 Interviews with Experts and Company Representatives**

Since previous research in the subject was scarce, it was appropriate to directly interview professionals in order to gain understandings of companies' pricing processes. When approaching the firms, the thought was to directly target people who had insights in the entire organization. This would make the report well founded since we would obtain insightful knowledge regarding the issue. In our cases, the interviewees were in positions as CEO, Global Pricing Manager, Founder, Head of Category, Head of Pricing Strategy and Product Manager. Furthermore, the founder from a pricing firm was interviewed in order to obtain objective views on pricing process activities in general.

## **2.4 Quality of Research**

In order to achieve a true result, trustworthy essay and a high level of research quality, it is important to establish reliability and validity in the study (Yin 2009, Merriam 1994).

Reliability in a study is defined as the likeliness of reaching the same results if someone was to replicate the exact same experiment. Establishing reliability in qualitative studies with interviews can be troublesome because the human mind is dynamic (Merriam 1994). One person might not answer in the same way to a question twice if it is asked on two different occasions and we tried to avoid this pitfall by asking as non-leading and objective questions as possible. Furthermore, we used independent and external sources that were experts at pricing and efficient pricing processes. By comparing the answers from the examined companies to the experts' answers, we evaluated whether these were plausible in the real world. In addition, personal interviews carry the risk of generating personal answers, which merely mirror the interviewee's impression of reality. Nevertheless, Merriam (1994) argues that a qualitative study can be reliable due to the fact that one can never obtain absolute truths in a qualitative study.

To determine the validity of the essay one must consider three different aspects; internal, external and construct validity. With regards to reliability, internal validity is the most important because it evaluates whether the answers we obtain actually correspond to reality. Guba and Lincoln (1985) argue that reliability cannot be established if the internal validity is not acquired first, and there is no need trying to replicate false results. In our case, the internal validity is further connected to the reliability, as there is no real way of

determining the absolute authenticity in a qualitative study. We can only, with the aid of external and impartial sources, evaluate the probability of our results being truthful.

The second aspect of validity is the external validity, which shows if the results of the essay are generalizable and applicable in other situations. In an attempt to increase the external validity we chose to study a variation of companies with different characteristics so that we can apply the results to as many types of firms as possible. However, due to the scope and time frame in this project it is difficult to have several companies within each category. Consequently, we only have one firm that represents a certain type of company with certain set of characteristics. We can justify this with the fact that we do not generalize in our conclusions, but we create a basis for further research through our hypotheses and propositions.

Finally, construct validity contributes to the total level of validity in the report. This type of validity is a conformation of the fact that the study examines the situation with the correct measurements. We aim to achieve construct validity by using many different sources. Firstly, we keep a high level of diversity within the firms we include in the essay. Thereafter, we use experts and external sources in order for us to confirm the general obstacles and issues, which can occur in pricing processes. Lastly, we can further enhance the construct validity by incorporating appropriate theories on the subject.

### **3. Frame of Reference**

#### **3.1 Theory**

As described previously, there has not been done any extensive research on the subject of pricing processes and who actually sets the prices in different organizations. Consequently, it was difficult to find theories that deal with this concern in a direct manner. Instead of using direct theories we choose to focus on theoretical models that partially touch on the subject at hand and contribute to contextualize a certain part of the problem we want to handle. We use some theories that focus on pricing and some that focus on organizational structures. In order to establish a fundamental understanding of each organization we use Mintzberg's theories and models regarding organizational structures (Mintzberg 1980). Thereafter we focus on a four step process for pricing that we utilize to outline the pricing processes in the examined companies in order to find a

consistent thread (Simon et al 2003). Finally, we specify two pricing strategies in terms of cost or market based pricing (Jobber 2010).

### 3.1.1 Organizational Structures

By using the theories of Mintzberg (1980) and Jacobsen & Thorsvik (2008) we can construct a base on which we can support our analysis. These authors thoroughly describe the factors that determine what an organization looks like from an organizational and academic point of view.

#### **Mintzberg's Five Organizational Components and Coordination**

Mintzberg (1980) argues that an organization can be divided into five main components:

- *Operating Core*: employees who are directly or indirectly involved in the production of products and/or services.
- *Strategic Apex*: top management of the company and their personal staff.
- *Middle Line*: middle managers who have an overview of the operating core and work as a connection between the operations and the strategic apex.
- *Technostructure*: analysts who affect production and operations through advice and planning by controlling tasks and planning measures.
- *Support Staff*: vital parts that provide supportive and administrative tasks in order to maintain the rest of the business.

Depending on the size and importance of these components an organization's structure will be categorized differently. Mintzberg defines five types of configurations dependent on these components. Furthermore, it is important to note the difference between *staff* and *line*. A *line* works as a bridge between two components while *staff* is its own independent entity.

#### **Five Structural Configurations**

As mentioned above, Mintzberg (1980) constructs five basic configurations based on the aforementioned components depending on their size and importance. The structure of these parts determines how they communicate with each other and thus it also, to some extent, determines how they handle the pricing process.

The five configurations are named and structured as described below:

1. *The Simple Structure*: As indicated by its name, this is a very simple configuration with only a strategic apex directly in contact with the operative core. It is generally used in

small firms where the top management can keep a close relationship with production through direct supervision.

2. *The Machine Bureaucracy*: This is normally a highly formalized company with a rather centralized decision-making unit where production is specialized on functional routinized operating tasks. It is most often coordinated through standardization of work process and regarding the structural components there is often a focus on the technostructure.
3. *The Professional Bureaucracy*: The decision-making is decentralized in this configuration even though it is a bureaucracy. It is coordinated through standardization of skills and the decentralization is based on highly skilled workers in the operative core, thus the name professional bureaucracy. However, the administrative level of the coordination is based on mutual adjustment. Furthermore, the configuration normally has a small technostructure while the support staff is highly developed but performs simple tasks.
4. *The Divisionalized Form*: This consists of several smaller organizations (divisions) within one larger, leading organization with headquarters in the form of a strategic apex. The divisions are independent and coordinated by standardization of output in order to keep a high level of autonomy while still reaching the same goal. Worth noting is that the individual divisions can take the shape of any of the four other configurations as it is only together within the leading organization that they form a divisionalized structure. The middle line becomes very important in order to keep the flow of information smooth. Furthermore, the headquarter most often has a small technostructure and a larger support staff.
5. *The Adhocracy (the Innovative Organization)*: This type of structure is very different from the other ones. It is characterized by having a very loosely organized structure with a decentralized decision making and with unclear and undefined structural components. As a consequence of this, the technostructure and support staff are not outlined in a clear way as they are incorporated into the rest of the organization.

It is important to point out that these five configurations are simplifications of reality and there are of course companies that mix these different structures and are much more complex. However, almost all firms fit into these configurations in some way and the main point of the model is to use the structures as a base for our analysis to allow us to classify the companies we examine. By doing this, we eliminate all the individual factors of the companies and we can compare them on a uniform basis.

## **Decentralization versus Centralization**

A central part of the decision-making in a company is whether decisions are made on a top management level or on the operative level of the firm (Jacobsen & Thorsvik 2008). In other words, it is important to know if the power is centralized or decentralized.

Having a centralized firm means that all decisions are made by a very small number of people that the rest of the firm have to follow. In the case of pricing it could show itself in the way that one person sets the prices for all products or that one group sets the prices for all international markets. If one person makes all the decision you have an autocratic, or dictatorial, organization but this is of course an extreme case of centralization.

On the other side of the spectra is an organization with a completely decentralized decision making process. This means that the lower level employees in the operating part of the firm make all decisions. A decentralized pricing process could mean that the sales force has complete power over the end price and that they only receive advice or suggestions from top management (Jacobsen & Thorsvik 2008).

There are advantages and disadvantages with both parts that one should take into consideration before deciding on how to structure the organization. Centralization brings the advantage of avoiding misunderstandings in the internal communication because it is easier to coordinate the components of the firm. However, with a decentralized organization you can more easily optimize your relationship with your customers because each sales person or account manager can personally negotiate and change a deal. The decentralization also makes it easier to respond to the customers' wishes and demands. A disadvantage for decentralized organizations is that the internal structure becomes more complicated as each division and/or department can decide and create their own rules. Thus there is not a certain way of doing things; instead one has to figure out how to handle each independent division. This is avoided with centralization but instead one gets a very stiff and inflexible organization where one has to talk to the top management when wanting to change something. As a consequence of that, the firm risks becoming obsolete and inefficient if the decision-makers do not keep up with the development of the industry in which they operate. In addition, different levels and/or divisions of the firm can be mixed in order optimize the decision-making. For example, pricing could be centralized while production is decentralized (Jobber 2010).

By identifying a firm's level of centralization, we can more thoroughly describe the organizational structure and consequently it leads us to a better understanding of the pricing process.

### 3.1.2 The Four Step Process of Pricing

Simon et al (2003) write that the pricing process involves all procedures from the great effort put before setting a price to the job done after the price is determined. This process can be divided into four phases, whereof we use three:

- *Analysis* – The analysis part is very crucial when it comes to which price the firm wants to determine. This is a stage where the initial work starts and where questions both arise and get answered regarding different aspects of pricing analysis. Do we have the right data in terms of quality and quantity? Do the right people have access to this data? What more do we need? Without a good analysis and a framework that helps the firm decide upon which price to charge, the decision phase can get difficult.
- *Decision* – The analysis part establishes a well-reasoned base for the price decision. An individual person or a group of people can be decision-makers, and they decide their price after drawing insights from the analyses and act on them.
- *Implementation* – Pricing decisions are only as good as their implementation. In many cases, the managers are responsible for the actual implementation, which means that the decision-makers have to communicate clearly to the people dealing with customers regarding guidelines and rules for their pricing.

By using the four step process of pricing, we hope to identify what people are involved in what step of the process, which is exactly what we want to show in this report.

### 3.1.3 Pricing Strategies

The focus on pricing strategies and its suitability to a certain firm has led to the fact that studies and theories regarding strategies are relatively explored in comparison with pricing processes. Jobber means that pricing strategies can be based on cost, competition and marketing (2010). Even though there is a lot of pricing strategies today, there are two very common methods that many firms use; cost-plus pricing and value-based pricing.

Cost-plus pricing, or as Nagle and Hogan name it; cost-based pricing, is a pricing strategy that focuses on costs and is the most common pricing procedure used by companies (2010). It is a simple pricing strategy and adds a markup to the cost of the product or



service. As long as the costs are calculated correctly, the company will always be operating at profit. The starting point takes off at the product, and after evaluating the costs for it; price determination occurs and creates value for customers.

Value-based pricing is another common strategy, which is set from two main criteria; the competitors' price setting and the customers' perceived value and purchasing will (Davidsson 1987). The price is based on the value it creates for the customer. To achieve this type of pricing, companies have to analyze the market, the competitors and the customers' purchasing will. When discovering which price the customers are prepared to pay, the firm has to adjust the costs by rationalize the value chain.

One can study pricing processes deeper in detail, but only an overview is needed in this case since we do not intend to judge what pricing strategies are best for what type of firm. Pricing strategies possess importance and can have impact on the pricing processes and therefore we will try to map the strategies in order to discuss how they can affect the pricing processes.

### 3.2 External Pricing Expert

Per Högberg, founder and CEO of PriceGain AB, states that the pricing process is a phenomenon that not only small companies have problems dealing with, but also huge multinational established firms. After supporting customers as Björn Borg, Stena Line, Aftonbladet, Electrolux and Cramo, he is experienced enough to address the main issues when it comes to pricing processes in all types of organizations. Mainly, PriceGain works with improving business results by developing the pricing process and strategy. When companies request help from PriceGain, the pricing consultancy starts with addressing the problem and then creates a strategy. Lastly, the implementation of it becomes a part of the pricing process.

One of the main questions that has to be addressed by PriceGain in an early stage is *who sets the price* in the company PriceGain consults. Some say that it depends on industry, and others say that the sales force sets the price. According to Högberg, it can be the same in different industries and different in the same industry. Nevertheless, there are factors that define certain type of business models and thus affect the question *who has the most to say in this*. For instance, businesses with few but huge transactions mostly get the price set by the top management. Another claim is that high volume businesses assign one person to create the basic price list and then follow it during a longer period. The most common

for companies in general is however that the Product Manager and the Purchasing Manager have a lot of influence when it comes to price setting.

In most organizations, there will arise conflicts sooner or later. There is a common conflict regarding pricing in companies; conflict in terms of separate interests from different divisions in the same firm. For example, the CFO has an ideal vision of selling a product or service with high profitability, while the sales force would prefer selling a product or service with a lower price/higher volume due to the pressure from the customers. In other words, the divisions close to the early stages of the supply chain are more cost-focused than the rest of the firm, which leads to a conflict with different goals in the same company.

According to Högberg, another issue today is that too many firms follow the cost-plus pricing strategy. Cost-plus is the easiest strategy to implement, and therefore very commonly used. Value-based pricing is more advanced since the starting point is the customers' perceived value; information where 90 % is outside the company's knowledge. The choice of pricing strategy affects the process since the decisions are taken in a certain order with certain strategies.

Furthermore, many organizations decide their pricing process depending on which industry they operate in and according to competitors. Högberg means that it is totally wrong to imitate other firms' pricing processes. He further explains that the business itself is not the industry; instead the customer is. It is the same type of customer who purchases an airplane ticket from an airline company as the one who buys milk from the grocery store, and therefore one should suit its pricing strategy and process to the customers and not the industry.

Högberg's statements are important for us to consider throughout the report in order to compare our findings with an external view. Furthermore, the interview with Högberg generated a clear set of organizational characteristics to examine.

## **4. Literature Review**

### **4.1 Previous Research**

After our research, we could only find few previous studies on the pricing process. Already in the early 70's, Oxenfeldt (1973) brought up the fact that there are not enough

studies on pricing methods in the current practice. The corporate pricing function is a complex process and involves far more than arriving at a final dollar and cents figure (Oxenfeldt 1973). Until around 1980, a seller's concern was not pricing itself but rather demand stimulation and therefore leaders did not encourage studies of how buyers responded to prices and price changes (Monroe & Della Bitta 1978). This changed later on and ever since, there have been continuous improvements on decreasing the gap between pricing theory and application, but this has mainly involved theories regarding strategy and not processes. Of course, pricing strategy is an important part of the pricing process, but nevertheless they are two different fields.

The question why the pricing process field has been relatively untouched is inevitable. From a logical perspective, there should have been quite many studies on the area by now. However, Högberg believes that there are and have been very much focus on pricing strategies, since we are in a time where organizations put much effort on optimizing their strategy rather than processes. Furthermore, pricing processes are overlooked since it is not yet an academic research area but instead a mixture of organizational theories and pricing theories. Also, it falls somewhere between marketing and management, which makes it quite difficult to place the theories in a specific area of content. For instance, pricing processes are somewhat related to other organizational factors.

As we can see, there are no thorough studies that cover the pricing process, but much literature that touches the field when discussing related areas. Even though there is a lack of studies on pricing processes, it does not necessarily imply that companies and other organizations do not deal with the phenomenon. Our investigation and interviews have revealed that pricing in terms of an organizational process is a current issue, which all companies have to deal with in one way or another. As we have discovered, our topic seems to be an unexplored area but nevertheless very important.

## **4.2 The Four Step Process of Pricing**

We have found one theory, the four step process of pricing, that was very close to handling our subject. The theory is appropriate to use in the part of the report where the pricing procedures are described and analyzed. In order to map the pricing processes in different firms, the four step process of pricing is a useful theory to proceed from. In all stages of the pricing process there are employees from the company involved, which makes this model interesting for the report. Simon et al (2003) treats the process as

standard for all firms, and based on that it is very practical to use the theory as a keystone. However, as mentioned earlier, we will only use the three first steps of the process.

## 5. Results

### 5.1 Autotube AB

#### 5.1.1 Description of Company

Autotube AB (hereafter Autotube) is a subcontractor to the automotive industry that produces complex air and fluid distribution systems for cars, trucks and buses. This means that they produce tubes and tube systems for the engines and other vital parts of the vehicles. They have three main business areas, which they categorize as *Cars*, *Trucks* and *Other*. All customers are B2B clients and some of their biggest clients are Volvo Cars, Volvo Trucks, Scania, Ford and Jaguar. Furthermore, an example of the *Other* area is R&D activity to develop the technology of future energy supply. Autotube has an annual turnover of about 500 million SEK and employ almost 300 people, most of which are factory staff. They have two factory plants, one in Varberg and one in Ulricehamn. Top management is placed in Varberg and in addition to that they have a sales office in Mainz in Germany. Even though most of the operations are done and situated in Sweden Autotube has customers all over Europe.

Autotube offers both products and services; the end result of a customer transaction is a product but the development and installation of the product is a service. Since each transaction is project based and involves a lot of interaction between Autotube and the customer the product is considered very complex. There is very little, or no, standardization and each transaction is very large, which also add layers of complexity to the product.

#### 5.1.2 Organizational Structure

The firm has a quite simple organizational structure. Top management is placed at the headquarters in Varberg along with the production facility and the plant management. The production plant in Ulricehamn also has a Plant Manager and a Sales Manager situated there to make sure the strategic and operative activities are running smoothly. The sales office in Germany is a one-man unit who is meant to give Autotube a closer relation to the customers in Germany. Autotube's customer interactions are all project

based and during a normal year they have between 10-15 transactions of about 30-50 million SEK each.

### 5.1.3 Pricing Process

Autotube has three different business areas but the pricing process is the same for all of them. They have a very centralized pricing process that is based on negotiations with the customer and internal discussions within the top management group. The top management group that discusses what prices to demand consists of the CEO, the CFO and the Sales Manager for the business area. They also receive input from the sales person who has established the initial contact with the customer.

A normal relationship process with a customer looks as follows; a sales representative initiates the contact with the customer and starts negotiating with them about what the project will look like. However, the sales person does not have any authority to change the price but instead has continuous discussions with the customer about it. Later on when top management discusses the price internally, the sales person puts forward the concerns of the customer and gives personal inputs in order to reach a suitable price. Nonetheless, in the end the sales person does not have any real influence over the final price that the customer pays. Moreover, it is not always the top management that is involved in the negotiations with the customer. This could be handled entirely by the sales force and the top management only makes the final decision. The normal time span for these negotiations is a few weeks up to a couple of months. Autotube has always had this type of pricing process and they do not see any other viable alternative due to the nature of their customer deals.

The fundamental base that they use for their pricing is a project calculation, which is based on certain parameters (the details were not disclosed due to confidentiality reasons). Though the parameters are confidential they greatly affect the end price. As with the end price, the top managers are involved in the structure of the calculations and they are very familiar with the factors that have influence on the result. There is also an information flow from the Purchasing Manager, via the Logistics Manager to the Sales Manager. Each person adds knowledge and contributes with factors that have influence in the calculations of the prices. Furthermore, the pricing process is the same whether the project and customer are based in Sweden or in some other country.

## 5.2 Coop Butiker & Stormarknader AB

### 5.2.1 Description of Company

Coop Butiker & Stormarknader AB (hereafter Coop) is a firm within the Kooperativa Förbundet-group, offering convenience goods and fast moving consumer goods in 760 stores around Sweden with a turnover of slightly more than 23 billion SEK. The offering consists of more than 26 000 small and cheap items in total, and due to the large amount of products, they are all standardized. Coop offers simple products and their customers are exclusively private consumers. Since the firm has a turnover of 23 billion SEK, three million members and a market share of around 21 %, it is reasonable to assume that their average transaction value is quite low.

### 5.2.2 Organizational Structure

Since Coop is a very large organization with 42 associations involved, it has a quite complex organizational structure. Almost every important decision is made in Coop's headquarters in Stockholm, where the core of the firm is situated. At the top of the firm, there is the top management that decides for all the strategic decisions within the firm. Regarding the price in particular, there is a central pricing function where Caroline Rosén, Head of Pricing Strategy, works. Here, top management's strategy is taken into a lower management level and is implemented. Furthermore, Coop has a purchasing department where the Category Managers set prices for all 42 associations. Lastly, the firm is divided into all its stores in Sweden where local decisions are made in order to adapt to its environment.

### 5.2.3 Pricing Process

Many staffs and people are involved in Coop's pricing process. As a first step, the top management decides the strategy, which sets the base for the prices in Coop. Consequently, this is taken into a lower management level where Rosén and the seven Category Managers set the prices and determine the assortment by calculating on which margin they want to achieve. The next phase is that a central pricing team confirms, determines and actually sets the real prices on the shelves. Since they have to take a lot of factors into consideration, there is much discussion regarding which brand is the most popular within a product line, how to distance their own products from other brands and so on. By sending out the data through IT-systems to the stores, they make sure to directly implement the prices. In practice, the physical stores themselves are the last pricing deciders. In special circumstances, they have the opportunity to adapt the prices

to local needs and competitors. Lastly, Coop tries its best to always keep their stores updated by doing price measurements and investigate the competitors' prices.

Rosén means that since the pricing process involves many people that have influence on the price during the different steps, the process is quite uncoordinated and can involve cannibalization effects on the products. Today, Coop's Category Managers use a cost-based pricing strategy, which Rosén thinks is quite limiting in terms of flexibility and variation. If a firm can work with a value-based strategy, it can decide the prices depending on the consumer's purchasing will.

### **5.3 Ebookers Scandinavia AB**

#### **5.3.1 Description of Company**

Ebookers Scandinavia AB (hereafter Ebookers) is an online travel agency that operates in Finland, Sweden, Denmark and Norway. They offer three individual products; flights, hotel stays and car hire. Even though they call them products, they actually offer services because flights, hotel stays and car hire are generally considered services. The company's turnover is about 500 million SEK and the number of employees is around 40 people divided into two offices; one in Stockholm and one in Helsinki. Their customers are almost exclusively consumers and they offer their products online and over the phone. Each product, though there are many variations, is quite simplistic and easy to buy. A customer can customize their purchase with their desired level of luxury or price level but nonetheless; the service Ebookers offers is of a standardized nature.

#### **5.3.2 Organizational Structure**

Ebookers Scandinavia is a part of the pan-European business group Ebookers, which in turn is a daughter company to the American travel company group Orbitz Worldwide, situated in Chicago. Orbitz Worldwide is a global conglomerate that owns several different travel agency companies; Ebookers being one of them. Ebookers operates in thirteen European countries but in Sweden and Denmark they operate under the brand MrJet.

The European market is divided into three regions, which of one is the Scandinavian region where Finland, Sweden, Denmark and Norway are included, which is called *Region 3*. Region 3 is managed as one company even though it is split up in two offices in two countries. In total, the three regions have eight offices around Europe that control the different markets. The headquarters are situated in London and all regions must report

their financial results and monthly budget outcome to the headquarters. Furthermore, each region has its own profit-and-loss responsibility, which they must report back to London.

The Regional Managing Director for Region 3 is situated in Stockholm. On the marketing side they have a Head of Marketing for the entire region and a supporting group to assist with the different aspects of marketing. There are also three Senior Category Managers who are responsible for the products. Each of these has a Category Manager and they work in pairs in order to optimize the sales of each product.

### 5.3.3 Pricing Process

The three products have their own specific process and will be described below.

#### **Flights**

The Senior Category Manager for flights, Jan Thorstensen, is the person who has the biggest and most primary responsibility when it comes to the pricing process. Ebookers acts as retailer for the airline industry and takes their prices and adds a booking fee. It is this booking fee that Ebookers can control and consequently affect the end price. Each region in Ebookers is responsible for adjusting their booking fee and in Region 3 this person is Thorstensen. In total, there are three people from the Scandinavian offices involved in the pricing process, who have different amount of influence over different parts of the process. Thorstensen and the regional Managing Director Lisa Farrar work together to plan the long-term strategic part of the pricing. Then Thorstensen uses the strategic directions from the Farrar to decide on how large the booking fee should be. However, before deciding on the end price, Thorstensen works together with the Financial Planning and Analysis (hereafter FPnA) unit at the London office to find the optimal booking fee. The FPnA uses past number of bookings, break-even analyses and conversion rates to find a reasonable level for the booking fee.

When it comes to the actual pricing, it is Thorstensen who has the last word. The FPnA can only come with input and advices based on calculations regarding profit and volume. The third person from the Scandinavian offices is a Category Manager, who continually works with competition analysis. She gives suggestions to Thorstensen on a daily basis about what adjustments he should make to the price. Together they discuss possible changes and what implications that these changes would have. If Thorstensen must make



very drastic changes, he has to go to Farrar to discuss it. This is due to the fact that larger changes have larger effects on net revenue, financial risks and strategic consequences.

Furthermore, all managers in Region 3 have a weekly “trading call” where they discuss everything that has happened in the respective field during the past week. During these meetings Thorstensen discusses costs and pricing with the Head of Marketing to find out what the average marketing cost for each booking is. Thus, the Head of Marketing and Thorstensen must work very closely to make sure that the end price is not too low.

### **Hotel Stays**

In the same way as with flights, hotel stays have a Senior Category Manager, Thomas Grundström, who is in charge of this product. However, the pricing power is centralized to the Orbitz Worldwide headquarters in Chicago and in some cases London. Grundström has a certain degree of influence over the price but the highest authority is located in Chicago. A Revenue Manager at the headquarters uses algorithms and other quantitative tools to find an optimal price.

The hotel pricing process is highly regulated by the hotels themselves. They tell Ebookers what price they are allowed to sell at and Ebookers get commission for each transaction. Grundström works together with a Product Manager who performs analyses of competitors’ prices and conversion rates. They continuously discuss impacts on the profit margin and try to trace the cause of the impact and then report it back to the Revenue Management team in Chicago.

### **Car Hire**

The pricing process for car hire is centralized to a Revenue Management team in Paris that sets the prices for all three regions. They handle all contacts with the car hire companies and negotiate prices that apply to all points of sale for Ebookers, except for some temporary regional differences. However, the car hire companies use two different pricing models; the first one is *Retail*, which means that the car hire companies decide the end price, and the other one is *Net*, which means that Ebookers receive a net price that they can add a mark-up. There is no real difference in the end price but there is a difference in the pricing process for the team in Paris.

The Product Managers do not have any authority regarding the price; they can only give feedback to the Revenue Management team. Mia Sjögren, Category Manager for car hire, performs analyses of competitors’ price levels and conversion rates. The overall prices in

the car hire industry are very transparent and if a certain actor gets a lower price than Ebookers, Ebookers will immediately contact the car hire company and demand the same price.

The revenue management team in Paris consists of three people; one Revenue Manager and two people who are in charge of negotiating and closing deals with the car hire companies. They are very independent, have all the power in the pricing process and only take feedback from the different regions but do not have to follow any directions. However, it is only from an internal perspective that the Paris team is unregulated; the car hire companies still have the power to control the price to some extent. The car hire companies have complete power over the *retail* prices but even when it comes to the *net* prices they can say that Ebookers are not allowed to set a price that is lower than a certain level.

There is little room for changes in the pricing process because they are dependent on the car hire companies' demands and wishes. The only possibility of change is to focus on "retail" or "net" in a certain market or region, but it still requires a lot of negotiation with the car hire companies to customize a certain region.

## 5.4 ABB Robotics

### 5.4.1 Description of Company

ABB Robotics (hereafter Robotics), a business unit within a division of ABB Group, is one of three global leading suppliers of industrial robots and robotics. Robotics has a turnover of 10.5 billion SEK globally, 4000 employees, operates in 51 countries worldwide and offer both products and after sales services to its customers in order to help manufacturers improve productivity. The industry is relatively new, and the unit does not have any technical synergies with the rest of the ABB Group; instead Robotics' own purchasing department buys everything on their own. Robotics has B2B customers within all industries and of all sizes; everything from the range of family enterprises that purchases one robot á 20 000 SEK per year to multinational firms like BMW, who in every order purchase more than thousands of robots. There are certain customers that buy a single naked robot directly from the assortment in the time range of one day, while other buy complete solutions after three years of negotiations. With other words, the firm has several kinds of B2B customers, who buy diverse products and services in different complexities.

### 5.4.2 Organizational Structure

According to Staffan Erenmalm, Global Pricing Manager of Robotics, the multinational company ABB Group is a complex organization that consists of five sub-groups, which can be considered as independent divisions. One of them is Discrete Automation and Motion division, a conglomerate that consists of five business units, which target the manufacturing industry. Robotics is one of five business units in the division.

Robotics is, in turn, divided into four product groups; Back-end, Robots and Automation, Systems and Service. The Back-end group deals with production. Robots and Automation is practically the sales organization, or the front-end, for robots and robot solutions consisting of approximately 400 salespeople in 51 countries. The third entity Systems involves full production lines and other tools than robots. The fourth group Service deals with the follow-up after purchase and services of robots and other products. In addition to the four product groups, there is an entity for marketing and sales, which involves four areas; pricing, marketing communication, product management and key account management. The pricing function is still new and quite small (since September 2011); Erenmalm works alone to improve the pricing and reports the global status for the entire operation to the top management.

### 5.4.3 Pricing Process

Robotics is a very large organization that operates internationally, and thus they have decided to use transfer pricing between the company's different areas. Transfer pricing occurs between the production entities and sales organizations within Robotics, while customer pricing is the price that is charged from the customers by the sales organizations. Robotics is currently in a phase where they are moving from cost-plus pricing to value-based pricing, which further will be discussed below.

#### **Transfer Pricing**

Throughout the years, Robotics has always raised internal negotiations and discussions in classic cost-plus approach. When Erenmalm was employed to the position as Global Pricing Manager, one of his main tasks was to change the cost-plus approach to a value-based pricing. Previously, the transfer price was determined by the Head of Sales Support, the plant's link to the sales forces, who knew what it cost to produce a device and could calculate the price accordingly. In the process of changing to value-based pricing, Erenmalm has full responsibility in transfer pricing. Now, the aim is instead to have the transfer price as a function of what value customers perceive Robotics'

products and services to possess. This involves that the process goes the other way around in comparison to earlier.

The sales teams analyze and research on what customers are prepared to pay for the products in specific markets, which consequently affect the transfer prices from the production plants. Furthermore, when a new product is launched, Robotics has to have some kind of starting point for the recommendation price. Thus, Product Managers, who work parallel to Erenmalm, determine the recommendation price since they are the ones that at first have highest knowledge regarding the products.

### **Customer Pricing**

The customer price is the final price that Robotics charge from their end customer. Beforehand, with a cost-plus approach, the customer price was calculated by adding up a margin to the transfer price in order to come to a final price. Now, Erenmalm asks the Sales Manager in the different countries about the market price and encourages them to analyze their relevant markets. However, the sales price does not necessarily have to be the market price. Instead, the starting point is the market price and Robotics' price depends on the position the firm obtains in the specific market, the salespeople's competence, the company's strategy etc. After analyzing the market price and deciding on a sales price, the sales force keeps their margin and calculates what the transfer price is allowed to be at its maximum. However, Robotics does not want to reject a deal just because of the sales forces' results. Instead, the company should consider the complete value chain and the organization as a whole. For some custom-made products with high volume and small margin, the formal decision-board in the top management can get involved.

Furthermore, many transactions are based on deals that are basic and not custom-made, which imply that Robotics can charge the customer the list price. Previously, there were no structured system regarding the transfer price lists and more than 50 versions could be found in the company. Now, Erenmalm and the Heads of Sales Support are working on three transfer price lists in order to obtain consistency in the prices. Robotics charges different prices from different customers since they vary very much in volume, complexity, industry, market and relation. Approximately 200 customers worldwide have custom-made list prices. *"In order to understand the customers and their perceived value, as many employees as possible have to be engaged in the pricing process"*, Erenmalm emphasizes (March

2012). The more Robotics employees understand the customer, the more differentiated prices can be charged.

## 6. Analysis

### 6.1 Within-case Analysis

#### 6.1.1 Autotube AB

##### **Organizational Structure**

Our study of Autotube shows that the organization is categorized as a Machine Bureaucracy. There is only one thing that separates Autotube from a typical Machine Bureaucracy, and that is that they do not emphasize the importance of the technostructure. Top management constitutes the strategic apex and they are very involved in many decision-making processes. Middle management consists of the Plant Managers and the Sales Managers in Sweden and Germany, while the production employees make up the operating core. In general Autotube has a centralized power base since the top management makes most of the decisions. All in all, they utilize all of the organizational components like a normal Machine Bureaucracy.

##### **Pricing Strategy**

Autotube uses a cost-plus pricing strategy. They use a calculation model, which is based on certain (confidential) profitability and cost parameters. The parameters greatly affect the end price. Though the CEO did not want to reveal the actual parameters he said that there is a clear relationship between the purchasing, production and the price. The calculation model is used as a base for their internal and external price negotiations. Thus, the customer also has a large effect on the price because there is always a price negotiation between the two parties. Furthermore, the price is also dependent on the pricing level of the competition as there are a lot of low-cost alternatives from Asia. Consequently, the pricing strategy is cost-plus as Autotube has an inside-out based look at pricing where they start with the costs and end with the customers and the competition.

##### **The Four Step Process**

- **Analysis:** Since Autotube uses a cost-plus pricing their price analysis consists to a large part of their calculation model. The Purchasing, Plant, Logistics and Sales Managers provide with information from their respective business areas.

- **Decision:** The decision is made by the top management (the CEO, the CFO and the Sales Manager). They use the analysis results (the calculation) as the base for their discussion. Furthermore, the responsible sales person gives them input of what the initial impression of the customer is. Together they reach a decision regarding the price.
- **Implementation:** The implementation process at Autotube consists of the sales people (or sometimes the top management) communicating the price to the customer. The price is almost never the same as it is customer specific. There is also the possibility of the customers rejecting the price. If that happens Autotube must move back to the decision process and come up with a new price after more internal discussion.

### 6.1.2 Coop Butiker & Stormarknader AB

#### Organizational Structure

Since Coop has one large head office in Stockholm together with 760 stores divided in 42 associations, it can mainly be categorized as a Divisionalized Form. The headquarters contain people that make decisions regarding everything from management and strategy to pricing and product assortment. These people are the strategic apex and the middle line. Furthermore, the middle line also communicates the decisions by a standardized process to the operating core in all local stores. Currently, Coop has a centralized decision-making. This is due to the fact that the general decisions are made at the head office with the top management, the pricing team and the seven Category Managers.

#### Pricing Strategy

Currently, Coop applies a cost-plus pricing strategy. The primary starting point is to decide which margin they want to achieve on which product. Thereafter, they consider, from a strategic aspect, what products they would like to expose the most and their own products' capabilities. Consequently, the price information are transferred to the stores, and if the operational staff in the stores have objections, they have the possibility to adapt the prices according to their own opinions. However, even though the local stores can adjust prices to customers' purchasing will in certain circumstances, the basic strategy is still cost-plus pricing.

#### The Four Step Process

- **Analysis:** Coop's overall strategy is determined already on the top management level, while the Category Managers, Pricing Manager and pricing department

analyze the prices based on a cost-plus pricing strategy. The pricing analysis is founded on several different factors that have to be taken into consideration.

- **Decision:** The actual decision of which price to set is primarily set by the pricing team in the head office. They use the Category Managers' analysis in order to set the store prices. However, the local stores can in some cases give their input after a price is set and then adapt the prices to the local conditions and circumstances.
- **Implementation:** Sending out data through IT-systems to the stores sets the implementation. Since Coop offers 26 000 items, this is the easiest and most flexible way to do it.

### 6.1.3 Ebookers Scandinavia AB

#### Organizational Structure

From a Pan-European perspective, Ebookers is a divisionalized organization but when looking at Region 3, it is a mixture between Professional and Machine Bureaucracy. There is a European head office in London, which acts as the strategic apex for the group; however, each region has its own strategic apex that also works as a middle line in the divisionalized organization. Region 3's middle management consists of the Category Managers and the Head of Marketing. The operative core is the sales and customer service department. The organization is categorized as both a Professional and Machine Bureaucracy because it has traits of both types. Depending on the product they are working with the decisions either centralized or decentralized.

#### Pricing Strategy

Ebookers uses two different strategies for their pricing and mix these two between their products. The first strategy is used for flight prices, where they add a mark-up from the cost. The second one is used for hotels. In this one, the hotels set the prices themselves and Ebookers only negotiate what percentage their commission will be. Ebookers do however perform competition analysis in order to use that as leverage to make the hotels give them the best prices. The prices for car hire are both cost based with mark-ups and commission based.

#### The Four Step Process

This analysis will be divided into three angles; one for each product category. This is due to the fact that Ebookers use different pricing processes depending on which product they are pricing.

- **Analysis:**
  - **Flight:** The Senior Category Manager receives profit and volume data from the FPnA unit at the London headquarters. There is also a Category Manager, who performs daily price analyses.
  - **Hotel:** All the initial analyses are performed by a revenue management team in Chicago that runs calculations with algorithms and profit parameters. Furthermore, a Category Manager performs daily price analyses of competitors.
  - **Car:** A pricing team situated in the Paris office performs quantitative analyses regarding prices for all regions in Europe and send the information to all Senior Category Managers.
- **Decision:**
  - **Flight:** The Senior Category Manager discusses the long-term strategy with the local strategic apex but decides the prices individually based on profit and volume analyses.
  - **Hotel:** The revenue management team in Chicago negotiates with the hotels and sets the end-price together with them. The Senior Category Manager can only come with insights and opinions but has no power.
  - **Car:** The pricing team in Paris negotiates with the car hire companies and sets the end-prices. The Senior Category Manager can only come with insights and opinions but has no power.
- **Implementation:**
  - **Flight:** The Senior Category Manager sets the prices and implements them by feeding the prices into an internal system.
  - **Hotel:** The Revenue Manager in Chicago communicates the prices to the local branch, which feeds them into the internal system.
  - **Car:** The pricing team in Paris communicates the prices to the local branch, which feeds them into the internal system.

#### 6.1.4 ABB Robotics

##### Organizational structure

Robotics is a Divisionalized form, since it consists of several smaller divisions where the Marketing and Sales team is the middle line. The divisions, in turn, correspond to the Machine Bureaucracy since there are rather centralized decision-making units in each and most procedures are routinized. For Robotics as a whole, the Heads of Sales Support,



the Sales Managers and the Product Managers are involved in the middle line, while the same people are considered as the strategic apex in each division. This is due to the great size of the organization and the importance of communication.

### **Pricing Strategy**

Robotics is in the middle of a process where they are changing their pricing from cost-plus to value based pricing strategy. The value based pricing is mainly applicable for the customers who are in need of custom-made solutions. The figures are based partly on what the competitors charge for similar products but also with regards to which market position Robotics possesses in the given country, how skillful the salespeople are and what the company's strategy is among other factors. For basic customers, Robotics is working on three standard price lists that will be used regardless of special traits, based on production costs.

### **The Four Step Process**

The conversion of pricing strategy changes the way of working for everybody involved in the organization, since the process will begin at the sales forces instead of the production plants.

- **Analysis:** Previously, the Heads of Sales Support in the production plants did the analyses since the prices were based on the costs. Now, The Sales Managers in each country lead the operations of scanning the market prices and suggest prices for Robotics, mainly concerning the custom-based prices. In total, there are 20 people who work with this. For the list prices, the Heads of Sales Support and Pricing Manager do the analysis, based on costs.
- **Decision:** A strict rule when it comes to the transfer prices and custom made prices is that no decisions are made without the involvement of the Pricing Manager in the strategic apex. He has a veto and can withdraw a deal before it is signed if he considers the price as unreasonable. In the largest transactions where the margins are low, the decision-making can even go to the strategic apex' formal decision board. In other basic cases, the Sales Managers and the salespeople have full authority to decide the price based on the list prices.
- **Implementation:** The implementation itself occurs through either negotiation with customers or updates of the list prices. Robotics has 400 salespeople worldwide who communicate the prices to customer, and if they experience the

prices to be unfair, they can always return to the decision-making unit, discuss it and thus affect the prices.

## 6.2 Between-case Analysis

In this part of the analysis, our aim is to compare the four case studies with regards to their organizational characteristics. We have discovered both similarities and differences between the companies that might have influence on the pricing process. Below follows an analysis of the discoveries that we consider have some type of impact on the pricing process as well as those that do not.

As seen in the Robotics' case, the transaction value, which is related with the complexity of the product, has influence on the pricing process. For instance, a B2B customer that buys a simple product pays the list price, but a B2B customer that needs an expensive custom-made solution goes through negotiations with Robotics. Similarly, Autotube, who performs very large but few transactions per year with complex products, have the same type of negotiation processes. For Autotube, each transaction corresponds to around 10 % of the turnover on average, and thus every price is important. Therefore, it is logical that the strategic apex makes the final pricing decision in a centralized process. At the same time, it is also logical that the strategic apex will get involved if a huge amount of small transactions occur every year. For instance, for Coop, who offers 26 000 small and cheap items, it is impossible for each of the 760 stores to implement their own prices. Instead, the strategic apex has to make the pricing decision in order to keep the prices on a consistent level. To conclude, we believe that the degree of complexity of the product and the transaction value has an effect on the pricing process (see Appendix 3).

Furthermore, one can see that ABB Robotics and Coop have similar organizational structures. Both have a Divisionalized Form of structure, presumably due to the distribution of offices or stores. It would be impractical to let 4000-5500 employees make their voices heard regarding pricing, thus the Divisionalized Form is suitable. Since it is divisionalized, it is reasonable that they have a centralized pricing process so that they can be united and uniform in all markets. Further proof of how structure affects the pricing is that Autotube, a Machine Bureaucracy, has the same pricing process as the part of Ebookers that also is a Machine Bureaucracy. However, looking at the other part of Ebookers, which has a different process, which indicates that the pricing procedure is strongly dependent on the structure of the organization.

The pricing strategy also has a great impact on the pricing process. This is evident since a cost-plus strategy and a value-based strategy are so different. Cost-plus starts with production and/or purchasing costs and the people responsible for purchasing; while conversely the value based pricing strategy starts with a market analysis and the people closest to the market. In ABB Robotics' case, changing pricing strategy has directly led to that the company has had to change their pricing process. Thus, Robotics is moving towards a system where the Sales Managers are getting more involved in the analysis of the pricing process instead of the Production Managers. For Ebookers, Coop and Autotube, people with insights in the purchasing and/or production costs are the initial decision-makers regarding pricing, which is due to their cost-plus based strategy. This is in line with what Högberg from PriceGain mentioned.

On the other hand, nothing in the study shows that the pricing process is affected by whether the company sells towards B2B or B2C customers. This is due to the fact that companies that have the same type of customers have different pricing processes, as in the difference between ABB Robotics and Autotube. In addition, companies with different type of customers have similar processes – as with the case with Coop and ABB Robotics. Thus, we see no relationship between customer type and pricing process.

Moreover, the fact whether the company offers products, services or both does not appear to have an effect on the pricing process. We cannot see a relation whatsoever between the four cases, which indicates that this has no significance in the design of the pricing process. Neither does the company turnover show any signs of having an effect on this issue. An example of this is the relationship between Autotube and Ebookers; they have similar turnover figures but other than that they are completely different companies.

## **7. Concluding Discussion**

### **7.1 Conclusions**

The purpose of the study was to map companies' pricing processes. Furthermore, we also wanted to understand which organizational characteristics that affect the structure of the pricing process and how it is managed. Based on theories and case studies, we wanted to answer the question “Are there any particular organizational characteristics that affect the structure of pricing processes in companies?”

In our study, we considered several different possible factors that potentially could have an influence on the pricing process. We found that the characteristics that have impact are transaction value, product complexity, organizational structure, degree of centralization and pricing strategy. Some of these are intertwined and affect each other and therefore the characteristics can be divided into three areas.

The first area is transaction value and product complexity. Our analysis shows that both very low and very high transaction values cause the pricing process to be centralized. When it is in the middle, it is more suitable to have a decentralized process (Appendix 2). Högberg from PriceGain mentioned that both high transaction values and high volume businesses often lead to a centralized decision making, which confirms this conclusion. Product complexity is indirectly connected with the pricing process as it affects the transaction value; for instance a highly complex and customized product is often very expensive and involves negotiations.

The second area of characteristics is defined by the organizational structure and degree of centralization. The company structure directly has influence on the pricing process since a firm has to be consistent in all their markets. This is evident by the analysis we have done where a certain structure generated a certain pricing process.

Furthermore, pricing strategy is greatly important for the pricing process. Since a certain type of strategy involves certain departments in companies, it is apparent that if one were to change it, new departments and people would get involved. Högberg mentioned that many companies move from cost-plus strategy to value-based, which is apparent when looking at ABB Robotics. In line with Högberg's statement, the pricing procedure is affected due to the strategy change.

## 7.2 Discussion

As mentioned above, the subject of pricing process is relatively unexplored, which is one of the reasons we thought it was interesting to further examine. Our conclusions involve three areas in a company that affects the pricing process, which have not been found in any previous studies that we have encountered. In our report, we came to conclusions by finding relationships between four companies' characteristics. By analyzing the results, we managed to discover patterns of how firms organize pricing in different types of operations. However, these patterns cannot be confirmed by any previous studies, which leads us to the question whether our results are correct in all circumstances. Is it always

true that these three areas define a pricing process? Our four cases say yes, but even though they are diversified, it is possible that the sample is too small to generalize. Due to the time frame and range of this study, it was difficult to examine a larger sample. However, even though we cannot be completely certain that our results are generalizable we do believe that they give a strong indication of what characteristics actually affect the pricing process. Also, with regards to our reliability and validity, our confidence in our results is strong. With this in mind, this report gives birth to further studies, which is more thoroughly described in the last chapter of the report.

Another important aspect to discuss is whether the right theories were used in order to answer the question we wanted to answer. For instance, was it suitable to use Mintzberg's five organizational configurations to examine the company structures? Did it really help us answer our research question? In our case, it actually did, but in reality it might not be enough to only examine internal characteristics in order to determine pricing processes' underlying factors. There may be a slight possibility that external circumstances have a large influence on the process as well. Nevertheless, we hope that it can assist companies to identify themselves and consequently create a relevant pricing process and also bring forth additional academic studies on the topic.

### **7.3 Managerial Implications**

We hope that the study is appreciated and used both managerial and strategically for companies. The findings might create efficiency for companies if they adapt the certain pricing process to its characteristics. We have not developed a theory of any optimal pricing process, but instead an insight of which characteristics that are important when it comes to pricing process. Högberg from PriceGain mentioned that companies nowadays do not know themselves how to set prices and that it contributes to internal conflicts. Our study provides a basic understanding of how one can structure a process with respect to the company's organizational characteristics. For instance, ABB Robotics' cross-country pricing issue described in the introduction could be avoided by mapping the pricing process and identifying the decision-makers in the company. By doing so, the problem might not have arisen.

### **7.4 Future Research**

Previous research within the pricing field has focused on strategy instead of the process. Thus, we hope that this essay can help expand this area of the pricing research that exists

today. We hope that we have created a base for the subject that future research can use as a starting point.

Our conclusions may not be based on substantial enough proof to draw a finalized theory regarding what characteristics that affect the structure of the pricing process. Therefore, it would be preferable if future research would focus on the same characteristics and use a bigger sample in order to further establish our results. A larger sample and a deeper analysis during a longer time frame would allow for a possibility of finding how important each of the characteristics is. We found five characteristics that had an impact on the pricing process but we did not have the possibility of determining what factor had the largest impact.

If one would want to take the research and transform it into a tool, which can be used by companies, they could focus on an optimization aspect of pricing process. This way the researchers could potentially find how companies should look at their characteristics and use them in order to optimize their pricing processes. By doing this they could possibly eliminate the academic and theoretic part of the findings and make it into a practical tool. From our attempts to find companies to study it became clear that many companies are aware of the issue and are trying to work with it, both directly and indirectly, by changing the pricing strategy of the company.

Another way of examining the phenomenon is to focus on a specific industry. This way, a company could focus on only industry-specific characteristics. Also, it would be beneficial to do if one used the previously mentioned optimization angle. Consequently, the whole industry would benefit from it, knowing how to work better with their pricing processes.

In conclusion, there are several ways one can take in order to continue researching on this relatively new subject. Furthermore, it is possible to develop our results both into a deeper understanding of the pricing process but also of constructing a new tool. The uniform base we have created is the most important aspect to reflect upon when pursuing future research within the subject of pricing processes.

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### **Interviews**

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Farrar, Lisa, CEO, Ebookers Scandinavia AB, Tuesday 3<sup>rd</sup> April 2012.

Grundström, Thomas, Senior Category Manager, Ebookers Scandinavia AB, Tuesday 3<sup>rd</sup> April 2012.

Högberg, Per, Founder and CEO, PriceGain AB, Tuesday 27<sup>th</sup> March 2012.

Libäck, Sven-Olov, CEO, Autotube AB, Wednesday 28<sup>th</sup> March 2012.

Rosén, Caroline, Head of Pricing Strategy, Coop Butiker & Stormarknader AB, Wednesday 11<sup>th</sup> April 2012.

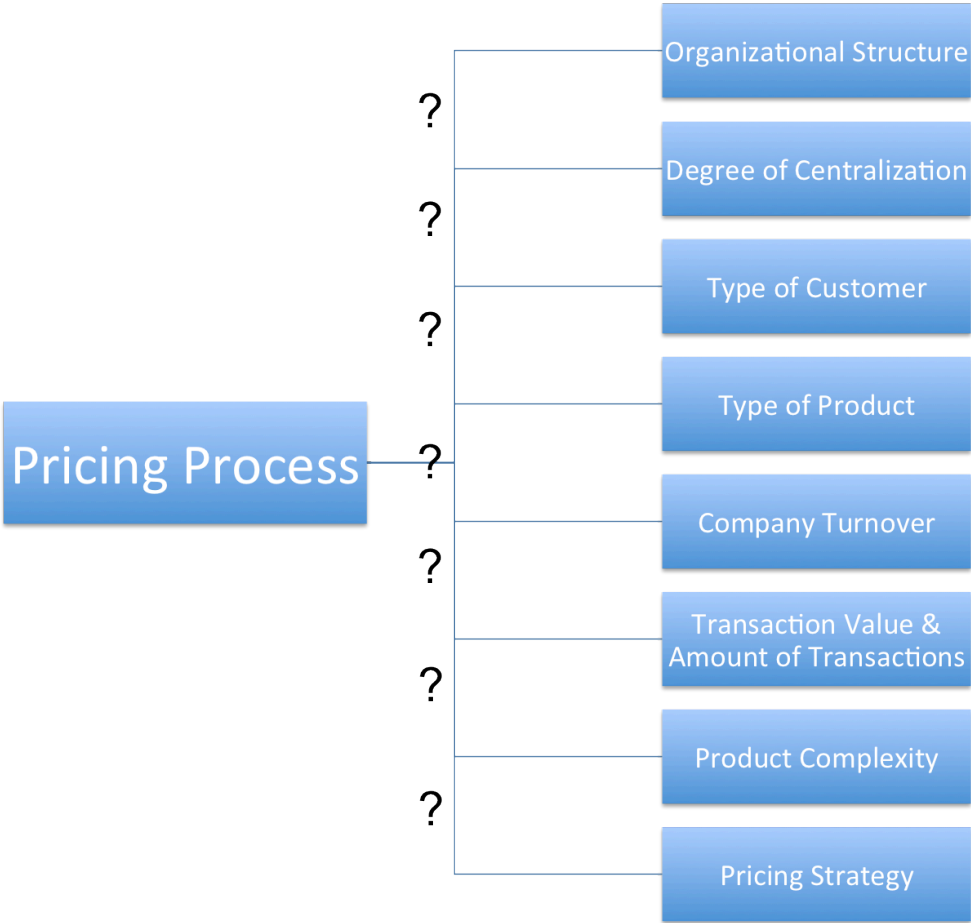
Sjögren, Mia, Category Manager, Ebookers Scandinavia, Thursday 5<sup>th</sup> April 2012.

Thorstensen, Jan, Senior Category Manager, Ebookers Scandinavia, Tuesday 3<sup>rd</sup> April 2012.



# Appendix 1 – Organizational Characteristics

Following table shows organizational characteristics that possibly could have an effect on the pricing process.



## Appendix 2 – Template for Interview Questions

### Questions to PriceGain AB

Below are questions asked to Per Högberg from PriceGain. Noteworthy is that these questions were the basic template and that questions were added in line with the conversation.

- Please tell us a little more about yourself and your role in the company?
- As we have understood, your business idea is to assist companies to set their prices. Can you shortly describe your tasks so that we can obtain an overview of the company?
- Do you only work with pricing strategy or do you have any involvement in assisting firms to also structure the pricing process?
- Why do firms turn to you? What is the most common issue your customers have, and how do you solve it?
- Do you have a typical customer?
- When you work with firms, how much insights and groundwork do you receive from the companies?
- Do you see any pattern regarding *which people* are involved in setting the prices in companies? Also, who has the most power in discussions?
- Is there a line of logic in the pricing process?
- What kinds of conflict is the most common in an organization regarding pricing?
- Have you discovered any relationships between certain kinds of firms and certain kinds of pricing processes?
- Do you have any general suggestions for our study?

### Questions to studied companies

Below are questions asked to representatives from the companies in the case study. Noteworthy is that these questions were the basic template and that questions were added in line with the conversation.

### General Questions

- Please tell us a little more about yourself and your role in the company?
- Could you please describe the organizational structure of your company?

- Do you have a decentralized or centralized decision making regarding pricing?
- Who is your typical customer?
- Would you classify your products/services as complex or simple?
- What does a relationship with a customer look like from start to finish?

#### Analysis Questions

- How do you calculate and develop your prices? Who does this?
- Who takes part of this information?
- Do you consider different markets' purchasing power when you set the prices? Is it important with different prices on different markets?

#### Decision Questions

- When the information/analysis has been sent to relevant people in the organization, what is the next step in the process? Are there any meetings and discussions? If so, who are involved?
- Where in the organization is the final decision made regarding which price to use?
- Who has highest authority in the discussions?
- Do you have any rules (such as "price police") when it comes to pricing? If so, how did these come to be?

#### Implementation Questions

- How is the final price communicated to the rest of the organization? Who is responsible for this?
- Can anybody object these prices after implementation? How do you respond to feedback?
- How do you communicate the prices to your customers?

#### Concluding Questions

- How have you found that your pricing process is the right one for you?
- Have you considered other pricing processes?
- Do you think that you would act differently regarding pricing if you had another type of customer or product than you have today?

Appendix 3 – Amount of Transactions vs. Degree of Centralization

