Master Thesis in Operations Management
Stockholm School of Economics
February, 2009

PLATFORM STRATEGY IN AN AFTERMARKET CONTEXT

MULTI-BRAND PARTS PRICING

Carl Carlander & Gustaf Geterud

Abstract

This study focuses on the challenges of the previously uncharted territory of multi-brand platform strategy in the aftermarket. The single case study, comprising two aftermarket parts pricing departments at a global manufacturing company, is analyzed across a research model with a solid base in the extensive literature on single-brand platforms, the emerging theory on multi-brand platforms, and aftermarket models.

The authors make the following four conclusions: First, the main challenge of a multi-brand product platform strategy is to endanger distinction in the quest for commonality. Second, these challenges are reinforced by the transparency of the aftermarket. Third, pricing is the key to managing the risks of brand and profit erosion in the aftermarket. In order to avoid these risks, the current value-maximizing customer-value based pricing needs to incorporate brand distinction. Fourth, the lack of aftermarket pricing coordination impedes brand-sensitive customer-value based pricing. Effective coordination requires a holistic management approach.

In addition the authors provide a model that combines the key challenges with the three levers companies can use to address these challenges.

Key words: platform strategy, multi-brand, aftermarket, parts pricing

Tutors: Martin Sköld
Dissertation: February, 08.15-10.00
Discussants: Gustav Borgefalk

Table of Contents

Table of Exhibits

1. Introduction

This study's focus is on the challenges of the previously uncharted territory of multi-brand platform strategy in the aftermarket. With its base in single-brand product platform strategy, multi-brand platform strategy is a recent strategic development; mirroring large international groups' strive to capitalize on size. The challenges following such an endeavor are likely much more visible in the aftermarket.

1.1. Framing the Study

Pioneered by the early champions, such as German power tools manufacturer Black & Decker, platform strategies today abound within the manufacturing sector. In manufacturing, a *product platform* is a set of rules and technical specifications that enables the sharing of common components between different products. Increased commonality across the product range in turn allows for economies of scale within R&D, manufacturing, sourcing etc. Products that share a common platform can be differentiated based on functionality and/or appearance, which in turn may allow for price differentiation. For instance, Black & Decker acquired their market leader position within power tools largely thanks to a successful platform strategy, applying both levers – commonality and distinction – having common platforms for different products sold under the Black & Decker brand.

Recent industrial development has seen an increased consolidation in the sector of study with the number of competitors dropping significantly, leaving a few large groups consisting of a number of the formerly independent competitors under the same umbrella. The very existence of these groups depend on the utilization of synergies between subsidiaries and one of the most powerful such tools is arguably the *multi-brand product platform strategy*[1], which is frequently employed. With a common platform as the basis for multiple brands, costs can be reduced while capturing larger market shares. However to maximize leverage from the possession of multiple brands, these must be kept distinct from each other from a market and customer point of view. While sharing more technology to enable further cost savings the different brands must hold on to their separate market attributes and such balancing of commonality and distinction entails many challenges. It is reasonable to presume that with the greater benefits of this "1+1=3" reasoning come also even greater challenges.

As we are about to show, both the available research and our case study illustrate that so far little effort has been made to thoroughly examine the challenges of the multi-brand platform strategy in an aftermarket context. We will establish that compared to the implications for R&D and manufacturing, the aftermarket context offers accentuated managerial challenges. In contrast to the complete product, the aftermarket offering consists of components – parts – of which many of those that belong to the same platform are identical, even though they are sold under different brands and likely at different prices. In reality, the differences in brand and price may be the only differentiators between two parts. While branding is a wider issue, parts pricing is the key to maximizing aftermarket value, and it captures the challenges of an aftermarket multi-brand platform strategy.

[1] For an explanation of multi-brand platform strategy, confer part 2.2

1.2. Purpose and Research Question

The purpose of this study is to identify and analyze the challenges of a multi-brand platform strategy in an aftermarket context. Whereas many previous studies have focused on platform strategy, few have studied multi-brand platform strategy and none that we know of has explored multi-brand platform strategy in an aftermarket context. While most previous platform strategy studies have focused on the main benefits and how to achieve them, we put the focus on the main challenges and how to manage them. As the main benefits of a platform strategy arrive from focus on the early value chain, most research to date is centered in that area. Our study on the other hand portrays the latter stages of the value chain, the aftermarket, where we see main challenges. Challenges that may potentially reduce the benefits achieved in the early stages. Given the scarcity of previous applicable literature, this study takes an explorative approach centered on the research question: *Which are the main challenges of a multi-brand platform strategy in the aftermarket?*

1.3. Theoretical Framework

This study explores the cross-section between multi-brand platform strategy and the aftermarket, through an in-depth single case study consisting of the parts pricing organizations in two business areas within an international manufacturing group. The two business areas share the same product platform while their brands are different, as one of the business areas was incorporated into the group through an acquisition. The theoretical model combines different perspectives which frame the study and provides the necessary tools to analyze the study object. By combining a rigorous examination of platform strategy with a structured decomposition, or "value-chain" perspective, of the company at the heart of our case study, we explore the challenges in connection with commonality and distinction across an aftermarket multi-brand platform strategy. As this is an area that has seen little or no research prior to this study, we first leverage well-established insights on single- and multi-brand platforms to build our understanding of the case at hand. Through our examination of the research by Muffatto (1999), Meyer and Lehnerd (2000) and others, we are able to show that platform strategies are aimed at realizing the potential in combining scale advantages and product differentiation. Companies strive for scale and increased commonality in their operations because, as our dissection of the available research shows, it improves development efficiency, design flexibility and market positioning effectiveness. However, the literature presented here also shows that there is a down-side to having too much commonality, and in fact that commonality needs to be balanced against product distinction. Once we have established the foundations of platforms and platform strategy, we continue by examining multi-brand platforms from an aftermarket perspective, across the writings of Lundbäck (2002), Karlsson and Sköld (2007), and others. Our conclusion at this point is that multi-brand platform strategies accentuate the need for distinction, and even more so in the aftermarket, as we show by examining Andersson's (1988) research on the importance and complexity of the aftermarket. Then, in the final part of our theoretical framework we explore what the literature suggests in terms of how to manage a multi-brand platform strategy. While the literature on this issue is indeed limited, the research we have found suggests that the management of a transition from a single- to multi-brand environment is crucial because it needs to address a whole range of issues, as identified by Lundbäck (2005) and preferably simultaneously according to Sköld (2007). In doing so a broader perspective of platform strategy form the outset may be the key, which is why we, last, provide a thorough examination of the range of different dimensions of platforms that authors such as Halman, Hofer and van Vuuren (2003), Muffatto (1999) and Meyer and DeTore (2001) have studied, e.g. process platforms, customer platforms, brand platforms etc.

1.4. A Note on the Disposition of this Study

The disposition of this study follows academic recommendations and has been chosen so as to satisfyingly present all relevant areas of the research project.

The disposition of this study follows the recommendations made by the Department of Management and Organization at the Stockholm School of Economics. Essentially, there are seven parts to this study. In the *Introduction* the aim of the study and the relevant problem area is identified. Furthermore, a brief background is given to orient the reader. In the next part, entitled *Theoretical Framework*, relevant theoretical sources are presented and explained. Moving on, the chosen *Methodology* is discussed and analyzed in the third part, preparing the ground for the fourth part in which the *Empirics* is presented. Next, the theoretical and empirical dimensions are combined in the *Analysis*, which implies a break-down of the investigated material into manageable pieces. The *Synthesis* picks up these pieces and puts them together into a model of value for other companies or researchers approaching similar situations. Based on the analysis, and the synthesis thereof, the seventh part offers *Conclusions* from this study. Last, areas for further studies are discussed and relevant references are included.

2. Theoretical Framework

This chapter is dedicated to the account of the theoretical framework used in this study which includes three sections. By first establishing a solid understanding of product platforms, and product platform strategy, we then continue by presenting the much more limited thinking on platforms in a multi-brand context with a focus on its challenges. Furthermore, we highlight the particular requirements of the aftermarket, and touch upon how these have evolved. Last, we conclude the theoretical framework by underscoring what several researchers have argued, namely that platforms, by nature, are multidimensional.

2.1. The Single-Brand Product Platform Strategy Aims to Achieve Benefits from Increased Commonality Across the Offering

2.1.1. Platform Strategies Combine Scale Advantages and Differentiation

Following the industrial revolution, companies gradually turned international.[2] As they expanded their manufacturing capabilities they found themselves facing new market environments and needed to develop products adapted to each region accordingly. For most manufacturing companies, the solution was to establish both manufacturing and R&D sites unique to those markets which they served. Taking the classic example of the automotive industry, the outcome was that vehicles of near-identical dimensions were being developed separately in different regions. According to Muffatto, most R&D functions were still up until 1994 strictly organized in geographical regions.[3] It was in that year *platform strategy* began to be widely adopted by companies.

Platform strategy is most commonly associated with *product platform strategy* which first came around in the 1980's following the increasing difficulty of achieving economies of scale as brand differentiation increased.[4] Meyer and Lehnerd define a product platform as being "a set of subsystems and interfaces that form a common structure from which a stream of derivate products can be efficiently developed and produced."[5] The aim is thus to reduce the cost of product development and production, but also to increase performance in terms of product quality and time-to-market, through means of increased product and process *commonality*. The expected benefits of a product platform strategy can be put into three different categories: increasing efficiency in product development and realization, enhancing flexibility in product design, and improving effectiveness in market communication and positioning.[6] These will be described further in the next section.

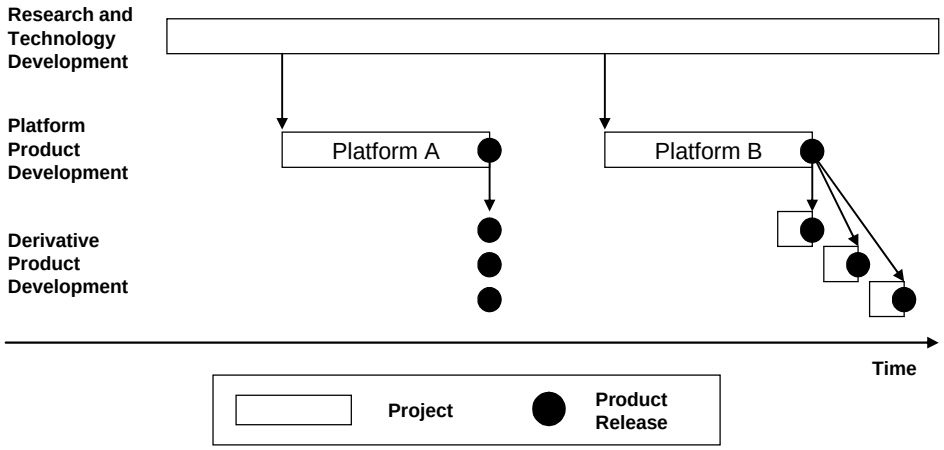
2.1.2. Increased Commonality Improves Development Efficiency, Design Flexibility and Market Positioning Effectiveness

One of the main thoughts behind the adoption of product platforms is that existing product technology has already demonstrated its usefulness in meeting customer needs.[7] Thus one may

[2] Womack, Jones and Roos, 2007, pp. 19-46
[3] Muffatto, 1999, p. 148
[4] Lundbäck and Karlsson, 2005, p.156
[5] Meyer and Lehnerd, 1997, p. xii.
[6] Halman , Hofer and van Vuuren, 2003, pp. 155-156
[7] Lundbäck, 2002, p. 263

assume this technology to be useful again for related products in related markets. By introducing a common platform, development of new products becomes faster as products can be based on existing technology, so-called *derivative product development*, instead of being developed from scratch. The concept of derivatives is illustrated in Exhibit 1 below by Ulrich and Eppinger. The advantages in terms of efficiency are multiple: both the number of prototypes required and the time and resources spent on testing can be reduced. Research suggests that lead times may be reduced by as much as 30%.[8]

Exhibit 1: Derivative Product Development of a Product Platform



Source: Ulrich and Eppinger, 2000, Exhibit 3-6

Not only does a common platform show significant benefits in terms of efficiency but the gains of increased flexibility prove another important advantage. The most important feature of the flexibility that is granted by product platforms is a reduced ramp-up time or time-to-market. This is true because only derivative development needs to take place.[9] Another advantage from a flexibility point of view is that several market segments can readily be served with the same technology, which is then only alternated in terms of the derivative design. It is thus possible to argue that a product platform approach enables both internal and external flexibility. Moreover, the platform strategy minimizes the increase in complexity that comes with new product development. Meyer and Lehnerd have a similar standpoint and describe platform strategy as "a top-down planning approach to maximize market leverage from common technology"[10]. According to them the platform strategy works as an enabler to become fast-moving and as a counter-measure to the rigidity that often follows the complexity of introducing new products.

The third category of benefits corresponds to how a product family – a series of derivative products based on the same platform – shows inherent similarities thus enabling more effective market communication and positioning. The platform strategy becomes a means to achieve *distinction*. Black & Decker for example applied a set of aesthetic elements and brand signatures to their different product families.[11] With different colors the products signaled in which pricing segment they belonged and how many features you could expect; e.g. the Firestorm® family was

[8] Muffatto, 1999, p. 148
[9] Halman , Hofer and van Vuuren, 2003, pp. 155-156
[10] Meyer and Lehnerd, 1997, pp. 52-53
[11] Sudijanto and Otto, 2001, p. 4

all red, the DeWalt products yellow and the VersaPak® blue. The benefits of similarity may also come in the form of user friendliness. One example is Hewlett Packard's ink jet printers.[12] Meyer and Lehnerd explain:

> *"Each has features and user interfaces that make it familiar to users of other products within the family. For example, if you have used the Deskjet 500C, the chances are that you will be able to set up the new Deskjet 600C, install an ink cartridge, and begin printing with barely a glance at the owner's manual."*

2.1.3. The Key Challenge of Platform Strategy is to Balance Commonality and Distinction

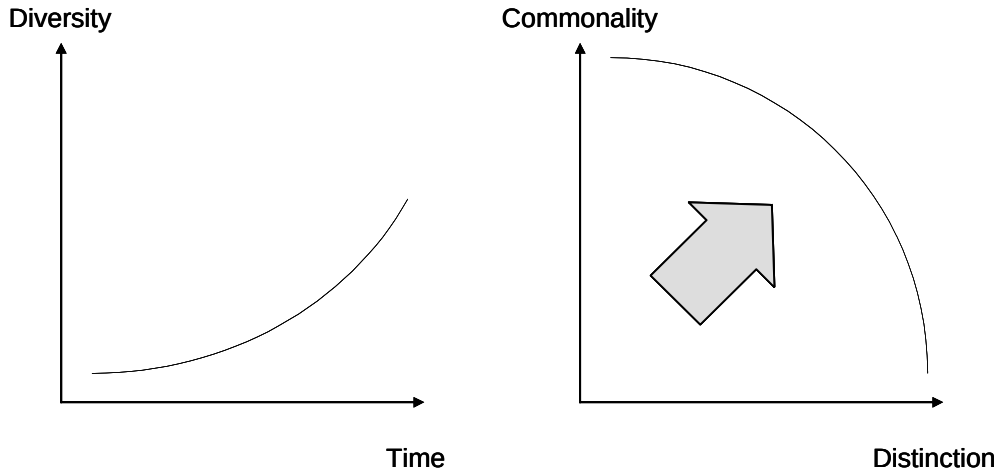
With the introduction of product platform strategies, R&D functions went from being relatively independent and without any structured ongoing dialogue to being forced to come together and decide upon common platform development and product architectures. This led to difficulties of integration, predominately in the reconciliation of local requirements with the need to agree on a global platform.[13] An early example of these difficulties was Ford's first attempt to develop a "world car" – the Ford Escort. Being built by a world design team the car would withhold contributions from all of Ford's global operating companies.[14] Nevertheless, in the process both European and North American developers respectively managed to specify changes to accommodate differences in regional preferences. The outcome was that when the final products were launched they shared but two parts, the ashtray and an instrument panel brace.

Another challenge of developing a platform that caters to different market requirements is the issue of *overdesign*. In order to realize the cost savings potential under a platform strategy, companies must limit overdesign costs.[15] These additional costs are incurred by having a platform that includes common parts that are in fact "over-qualified" for lower-end products. Thus, high commonality may come at a price, not only from the perspective of less adaptation to different market segments, but also as a result of having a platform where the common components need to meet the requirements of the most expensive product in the range. Conversely, quality issues may arise when a high-end product is *underdesigned*. In both cases, the platform strategy may result in difficulties to justify price differences.[16] The effect of commonality and common platforms should, if successfully managed, not reduce brand distinction, states Kim and Chhajed.[17] On the other hand, if unsuccessfully managed there is a risk of *product cannibalization*, i.e. commonality to the extent of affecting customers' appreciation of the brands negatively.

Steering the design and implementation of platforms, the platform strategy can be defined as "a top-down approach to maximize market leverage from common technology"[18]. In other words, the managerial challenge is to broaden the product portfolio, as a response to the market pressure to differentiate, while at the same time limit internal complexity.

[12] Meyer and Lehnerd, 1997, pp. 23-35
[13] Muffatto, 1999, p. 149, Womack, Jones and Roos, 2007, pp. 105-139
[14] Womack, Jones and Roos, 2007, pp. 197-227
[15] Krishnan and Gupta, 2001, pp. 53-54
[16] Kim and Chhajed, 2000, p. 617
[17] Ibid, pp. 605-617
[18] Meyer and Lehnerd, 1997, p. 53

Exhibit 2: Diversity over Time and the Balance between Commonality and Distinction



Source: Halman, Hofer, and van Vuuren, 2003, p. 150; and Ulrich and Robertson, 1998, p. 23

It seems that maximizing commonality is the key to leverage the benefits of platforms, but in truth it has more to do with balancing commonality and distinction. While increased commonality drives cost savings, well-managed distinction enables the company to address and target new segments, thus driving sales. The challenge is therefore to simultaneously maximize both internal commonality and external distinction, and it is therefore rather an optimization problem. Muffatto and Roveda explain: [19]

> *"The higher the percentage of parts communized between two different models the lower will be their production costs, but at the same time, products will show lower distinctiveness. Conversely, two products that share no common parts will result in being totally distinct but will not allow economies of scale."*

On a later try to develop the world car, Ford spent $6 billion on the development of the Ford Mondeo.[20] But its European styling did not appeal to the US customers thus making it a failure. Upon succeeding in holding production costs down with more commonality, the Mondeo's insufficient adaptation to the requirements on distinction proved critical. The main advantage of a platform strategy is the ability to achieve variety at reduced costs, but to do this is also its greatest challenges. A successful example of a company who has managed to achieve both is Honda with its 1998 Accord platform.[21] Starting with profound market analyses Honda determined the key factors of the appeal of family sedans in different countries to be length, width and ride. The idea of a successful platform strategy is to reconcile market and engineering and Honda came up with a revolutionary design of a platform with adjustable brackets to push the wheels together or pull them apart. This global platform was able to support a big, roomy American version sedan, shorter and thinner Japanese models, and at the same time the short and narrow European Accord. Accordingly, this saved Honda hundreds of million dollars in development, manufacturing, logistics etc. while keeping the market distinction.

[19] Muffatto and Roveda, 2000, p. 626
[20] Sawhney, 1998, p.60
[21] Ibid

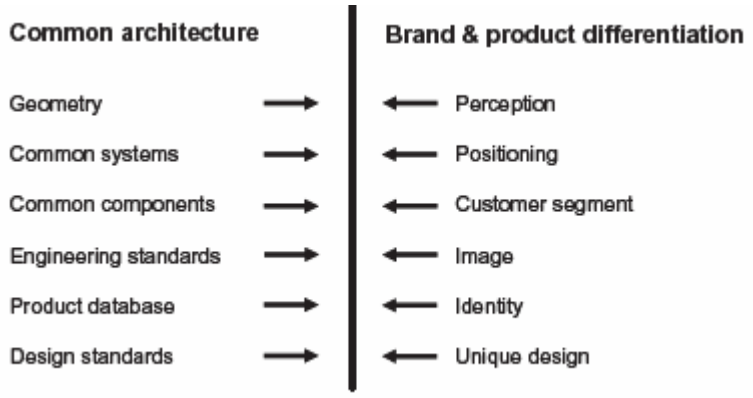
2.2. Platform Strategy in a Multi-Brand Aftermarket Context Shows Significant Additional Challenges

2.2.1. The Multi-Brand Platform Strategy Accentuates the Need for Distinction

A variation on the platform strategy theme closely related to the product platform strategy that has not received much attention in literature is the *multi-brand platform strategy*. Karlsson and Sköld note how this theoretical field has received very little attention in comparison to the single-brand platform strategy. [22] Previous work includes Lundbäck[23] using the term *cross-company product platform* and Lundbäck and Karlsson[24] with *inter-firm product platform*. The idea is the same: multiple brands of separate business entities sharing the same platform, as opposed to the previous section which focused on product platform strategy under one single brand. The rationale behind a multi-brand platform strategy is to divide development costs on more products, since companies adopting multi-brand platforms cannot reach enough economies of scale and scope under only one brand. [25] "*Share the high costs and high risks*"[26] as Lundbäck puts it. Parts of the rationale, are common to both single- and multi-brand platforms, such as reduction in development time and time to market. However, one rationale that is unique to multi-brand platform strategies is the desire to leverage common technology across different brands, often following acquisitions and mergers or under alliances and joint ventures.

Indeed, the multi-brand product platform strategy shares many of its expected benefits with the single-brand product platform strategy. Instead, the main difference is in terms of execution. While the single-brand product platform strategy has a focus on finding commonality that needs to be balanced against distinction, the multi-brand platform challenge puts a far more important focus on distinction. With a starting point of separate brands in the portfolio, the design phase of product architecture becomes a game of opposites.

Exhibit 3: A Game of Opposites



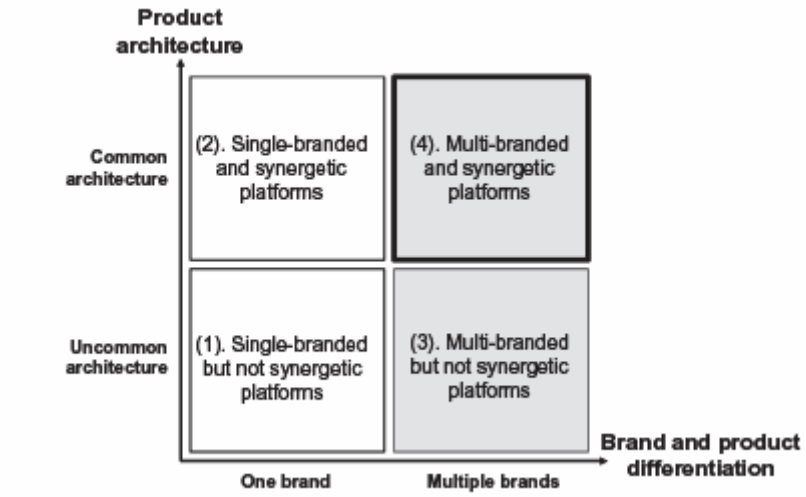
Source: Karlsson and Sköld, 2007, p. 138

Factors as the ones illustrated on the right hand side in Exhibit 3 above will demand product differentiation between brands that possibly counteracts requests on common architecture from commonality in design, components, geometry and systems, as is shown on the left hand side in

[22] Karlsson and Sköld, 2007, p. 135
[23] Lundbäck, 2002, p. 262
[24] Lundbäck and Karlsson, 2005, p. 156
[25] Sköld and Karlsson, 2007, p. 556
[26] Lundbäck, 2002, p. 262

Exhibit 3.[27] That side of forces deals with the platform from a technical perspective in terms of developing a common architecture, while the other has the focus of brand and product differentiation between brands as a consequence of increased brand and product scope. Many of the studies which have focused on a single-branded platform strategy use Exhibit 2 to show the inherent complexity of balancing two dimensions – commonality and distinction. Karlsson and Sköld build the multi-brand setting into the model by introducing the additional level of synergetic platforms to highlight the managerial challenge, see Exhibit 4 below.[28]

Exhibit 4: Commonality and Distinction from Synergetic Platforms



Source: Karlsson and Sköld, 2007, p. 140

Quadrants (3) and (4) exemplify some of the characteristics that distinguish the multi-brand platform from the single-branded platform, such as how the enlarged product scope has opposite forces needing to be managed jointly. As exemplified By Exhibit 3 one set of forces deals with developing an architecture that is common to all products from all included brands, the other is about product differentiation that must occur in relation to products within brands, but also between brands to avoid cannibalization. Karlsson and Sköld point out that each set of forces has to be managed to avoid the problem that too much commonality in physical product dimensions hamper product differentiation, while too little commonality reduces the possibility to achieve synergies.[29] One of their suggestions is that commonality should be achieved based on processes rather than components. A similar conclusion is drawn by Meyer and DeTore who warn for how executives perceive platforms as mainly or only technical phenomena and therefore leave platform development only to engineers to decide and execute.[30] According to Sköld the realization of product synergies in mergers and acquisitions actualize two dominant perspectives on synergies and strategy, namely the technically-oriented and the market-oriented perspectives.[31] The former represents the company internal perspectives and views product elements as parts while the latter focuses on external competitive factors and finished products. Sköld argues that both perspectives need to be considered as an entirety as both are "correct" from their respective angle.

[27] Karlsson and Sköld, 2007, p. 138
[28] Ibid, p. 140
[29] Ibid
[30] Meyer and DeTore, 2001, pp. 203-204
[31] Sköld, 2007, pp. 199-215

2.2.2. The Multi-facetted Character of the Aftermarket Adds Complexity Particularly to Long Term Strategic Management

While the platform theory introduced up to this point covers both the technically- and the market-oriented perspectives, this section will examine the specific conditions of this study's market-oriented perspective – the specific conditions of the aftermarket. The aftermarket has reached a pivotal role in the development of industrial firms.[32] Many companies have broadened and deepened their maintenance and services functions which previously played the role of outback support functions. This changeover has resulted in a new set of demands being placed on the complex and strategically very important management of these activities. From a platform perspective this adds to the complexity of managing a multi-brand strategy in the aftermarket.

The aftermarket offering is of a multi-facetted character as it consists of both services and support and the supply of components and parts. In getting an overview of how to manage the aftermarket Andersson suggests a division according to functions. In many companies the aftermarket function of *profit maker* has become clearer. Sometimes the aftermarket delivers as much as 50% of the total profit. The costs and revenues of the aftermarket functions therefore receive a great deal of attention from management. Moreover, the aftermarket organization can play a role as *sales support* by working closer together with sales to generate and build stronger client relationships. This comes back to how the aftermarket today shows more and more elements of service and ties into yet another role for the aftermarket which is as a *provider of additional sales*. New services are added to existing menus together with complementary parts and new forms of service- rent- or leasing contracts. A fourth role for the aftermarket is as a *maintainer of capacity*. This comes into play when existing resources are being redistributed to also assist in the aftermarket. In that way companies can make use of capacity to drive aftermarket sales. Inherent in the aftermarket is its proximity to customers which is why it is often used as a function for *market intelligence*. Not only is it used for market surveillance but also for *technical developments surveillance* since many important product development ideas often are generated in the daily use and maintenance of products. From a branding point of view the aftermarket fills an important role in *impression creation*. Again the most contact customers have with companies are with the personnel within aftermarket and sales. Andersson's final function of the aftermarket ties in well into what has been stated above and why the aftermarket has gained significant importance and that is as *maintenance function of long-term client contacts*. Interaction between service units and clients requires focus on relationship building rather than being transactional in their nature. Not only should problems be solved correctly and effectively but also include gradual adjustments between buyer and seller in terms of products, routines and informational exchange to reach mutual long-term success. Andersson concludes that the aftermarket area shows high complexity coming from its great dynamics, its multi-facetted character and its many functions. Although many companies have developed effective strategies to manage the complexity in the short term, the long term strategic management of the aftermarket still holds deficiencies according to Andersson.

2.3. Multi-Brand Platform Strategy Puts Additional Challenges on Organization

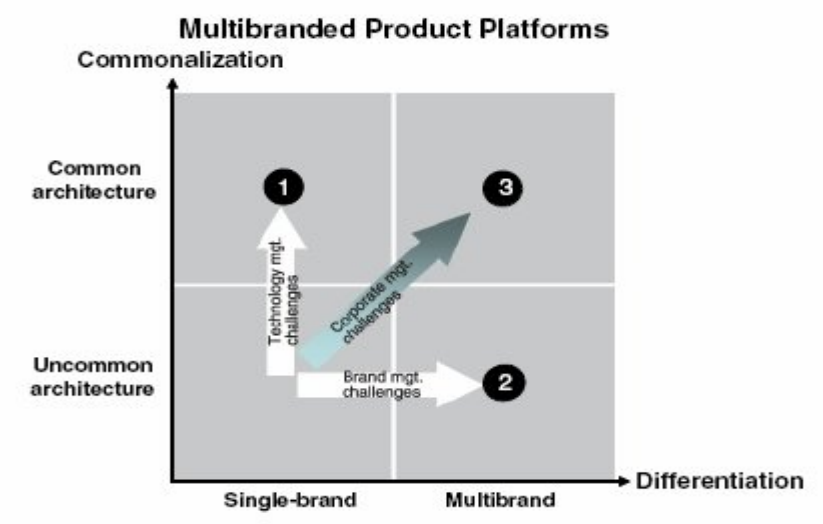
2.3.1. Management of the Transition from a Single- to a Multi-Brand Environment is Key to Balancing Commonality and Distinction

Among the writers on multi-brand product platform strategy it is commonly agreed that the greatest challenge is to balance commonality and distinction.[33] New managerial skills are needed

[32] Andersson, 1988, pp. 692-720
[33] Lundbäck, 2002, Karlsson and Lundbäck, 2005, Karlsson and Sköld, 2007, Sköld and Karlsson, 2007

to handle the increased complexity compared to the single-brand product platform.[34] Sköld and Karlsson identify three types of challenges that need management's attention, illustrated in Exhibit 5 below. [35] The first is the challenge to create high levels of commonalization in terms of common architectures, the challenge multi-brand product platforms share with the single-brand platforms. The second challenge is to manage product differentiation differences in the new and diversified product range which becomes even further complex in a multi-brand setting. Last the third challenge is to manage the corporate transition from a single- to a multi-brand environment, while securing common architectures and distinction simultaneously. The bottom line is that the corporate-management challenges serve as the foundation for technology and brand-management.

Exhibit 5: Handling Commonality and Distinction



Source: Sköld and Karlsson, 2007, p. 563

Lundbäck and Karlsson follow a similar line of thought. According to them the brand distinctiveness lies in the hands of management.[36] Differing opinions regarding different brands result in difficulties in uniting around common solutions. Those differences need to be understood to be able to make sure short-term brand results do not take the over hand. Lundbäck and Karlsson argue that managing a multi-brand platform strategy requires additional skills and that this organizational expertise is scarce both in practice among managers as well as in the theoretical discussion.

According to Lundbäck, product platform integration processes following an acquisition have attracted little previous research.[37] Among the research made he concludes that some acquisitions require a minimal amount of integration, whereas others demand total integration. Lundbäck stresses the importance of a detailed and multi-layered discussion around the integration process and its key areas. He identifies the following areas as needing to be carefully addressed in an integration of two separate brands into a multi-brand product platform: *Technical Content, Integration Process Management, Costing Systems/Principles, Organization, Information Sharing and Business Philosophy*.[38]

[34] Karlsson and Sköld, 2007, p. 140
[35] Sköld and Karlsson, 2007, p. 563
[36] Lundbäck and Karlsson, 2005, pp. 168-172
[37] Lundbäck, 2002, p. 265
[38] Ibid, pp. 267-277

Technical Content refers to how the technical specifications or engineering characteristics affect the integration process. Lundbäck's findings show how tension is created around the discussion about how the platform is to be designed. Lundbäck and Karlsson confirm that what is core and what is derivative may not be as easy as it sounds.[39] The outcome may possibly have a profound impact on the firm's ability to extract benefits from the platform.[40] An example is IBM's hugely successful PC platform. The operating system and the central processing unit were not considered core and were therefore outsourced – to Microsoft and Intel. The task may prove demanding and cause great tension between the managers involved coming from the combined entities since they might not agree or even understand one another. The next area to be addressed in a multi-brand integration is *Integration Process Management*, which is about the management of the actual integration process. Lundbäck highlights two major miscalculations – how much time integration takes, and that different projects require different amounts of time.[41] The *Costing systems/principles* need to be addressed as they may differ between organizations having the effect of calculations not being comparable or worse, misleading. In terms of *Organization*, differences can be both methodological and organizational. Different problem-solving and decision making procedures being in use is an example of the former, being organized differently of the latter. Another important factor is the difficulties of knowing who your new counterpart is in the new organization and who to contact. Another factor to consider is *Information Sharing*. A common difficulty is that different organizations do not share the same communication system which hinders the information flow between the organizations. Muffatto states that maintenance and transfer of technical knowledge are key elements for the success of product development. [42] Muffatto comes to the conclusion of two main concerns when establishing organizational mechanisms to secure multi-brand knowledge transfer: validation of organizational structures and formal procedures for project coordination and identification of problems of knowledge transfer in inter-company cooperative development projects. *Business Philosophy* is the cultural dimension. Most corporations have long-standing traditions that may not easily be abandoned.[43] Meyer and DeTore point to political challenges as a major challenge.[44] The sometimes-contradictory interests among the brands must be taken into consideration since this can create difficulties in uniting around the best solutions. Short-term multi-brand product platform results may become dominant over what is the best in the longer term for the brand. Avoiding internal competition may prove a time-consuming task, but that too is of paramount importance to realize.

2.3.2. The Challenges of Multi-Brand Platform Strategy are Reflected in the Organizational Structure

Sköld and Karlsson point out that the challenge of balancing commonality and distinction is reflected in the organizational structure. The majority of the organizations have their organizational belongings to either technology or brand. The benefits of synergies on a corporate level will be less visible in day to day work and the challenge of corporate management is to develop incentives that support and combine both commonalization and differentiation. It is the responsibility of corporate management to create new organizational structures that encourage cross-organizational behaviors concerning brand image in the long run. Muffatto argues that the platforms itself should be considered from an organizational perspective.[45] From that point of view, the platform offers a means of developing a cross-functional team for an integrated decision making. The team needs to include technical expertise, but also marketers, to be able to

[39] Lundbäck and Karlsson, 2005, pp. 168-172
[40] Sawhney, 1998, p. 56
[41] Lundbäck, 2002, pp. 270-271
[42] Muffatto, 1998, pp. 491-492
[43] Lundbäck and Karlsson, 2005, pp. 177-180, 168-172
[44] Meyer and DeTore, 2001, p. 190
[45] Muffatto, 1999, p. 146-147

handle the full impact and consequences of the platform strategy. The importance for the platform strategy of multi-functional teams in the organizational structure is stressed by i.e. Meyer and DeTore who base their insight on a number of cases they have encountered: "*Platform initiatives will fail without multifunctional teams behind them. Every company we visit has multifunction teams.*"[46]

Those who are successful in cross-project learning according to Meyer and DeTore, are the organizations that are integrated by more than just process.[47] For example this can mean to also be co-located. That is far more effective than just meeting randomly. A co-location strategy comes with many benefits but also has its drawbacks according to Muffatto and Roveda.[48] About the main benefits of co-location they say that co-location amplifies the typical advantages of cross-functional teams. First, information is much more easily shared between team members and personal involvement increases. Broadly shared information quickens the problem solving cycles and accelerates the solution of problems. It also anticipates their occurrence earlier on. Working shoulder by shoulder improves communication and the transmission of tacit knowledge. The main drawback of co-location is the loss of technical expertise. Knowledge developed over long time spans would go lost. Co-location into one multi-brand department would result in the loss of contact with the separate brand, thus implying the loss of expertise in that area. Another possible drawback with co-location is that it assumes perfect human resource mobility. In reality this might be a difficulty, meaning the possible loss of experienced staff and consequently knowledge.

2.3.3. Additional Perspectives on Platform Strategy

The platform concept itself is not limited to physical platforms but is widely discussed by theorists in literature alongside with its applicability in a variety of management and strategy settings. Halman et al[49] describe the platform concepts of *process platform* – a specific set-up of the production systems to easily produce the desired variety of products, *customer platform* – the customer segment that a firm chooses as its first point of entry into a market then serves as a base for expansion into related segments and other applicable markets, *brand platform* – from the core of a specific brand, a system of sub-brands can be created making it possible for a firm to leverage its brand equity across a diverse set of offerings, *global platform* – the core standardized offer of a globally rolled-out product. Nevertheless, research has showed that in practice merely a fraction of the given instruments of platform strategy is in actual use. For many firms the platform strategy stays at the product architecture stage. Out of the variety of platform types presented in literature, few use them. Halman[50] thus concludes that a clear gap exists between what is written in literature and what is done in practice. He believes that part of this problem originates from how the knowledge transfer from literature to practice has not taken place sufficiently. In the research performed by Halman et al, none of the respondents expressed any in-depth knowledge about the discussion taking place in literature.

2.4. Research Model

The research model provides a frame for the analysis and a tool for isolating the issues we aim to investigate. Being descriptive, this study explores the challenges in terms of balancing commonality and distinction in the cross-section between platform strategy and the aftermarket. Moving from a theoretically driven argumentation to one that is driven by the findings from the

[46] Meyer and DeTore, 2001, pp. 158-161
[47] Ibid
[48] Muffatto and Roveda, 1999, p. 628
[49] Halman , Hofer and van Vuuren, 2003, p. 151
[50] Ibid

case study, the analysis is the expression of a basic research model that can be illustrated using three process steps, see Exhibit 6 below.

Exhibit 6: Research Model

Chapter 5 of this report, which comprises an account of the analysis conducted within the frame of this research project, reflects these three steps in its structure consisting of three parts. In the first part, looking at the challenges of balancing commonality and distinction in an aftermarket multi-brand platform context, we argue that the risks of brand and profit erosion, inherent in any platform strategy, are different depending on whether the context is single- or multi-brand. Leveraging the extensive theory on single-brand platforms and the emerging literature on multi-brand platforms, the analysis supporting this reasoning is to a large extent theoretical. In essence, the section is an extension of the theory presented in this chapter and references to the case study exemplify the argumentation rather than drive it.

Exhibit 7: Research Model for the First Section of the Analysis

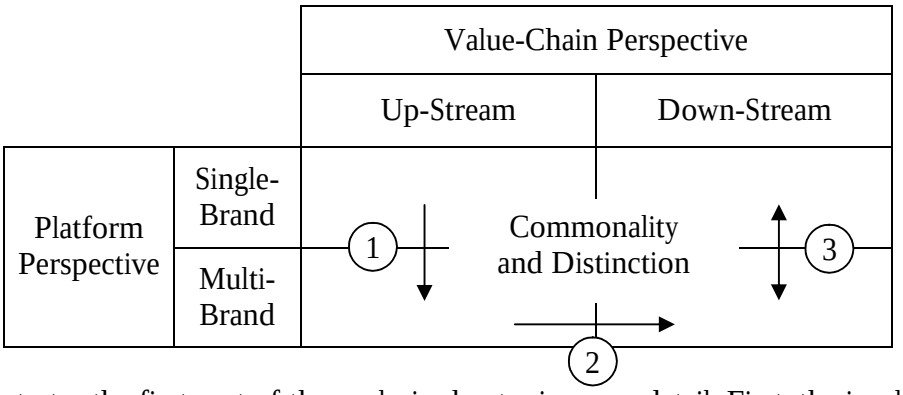


Exhibit 7 illustrates the first part of the analysis chapter in more detail. First, the implications of a transition from a single- to a multi-brand context are examined (1). Thereafter, we add the "down-stream" or aftermarket dimension (2). While the focus of this study is clearly on this particular intersection in the above matrix, the first part of the analysis chapter concludes by examining the different challenges between single- and multi-brand strategies in the aftermarket (3).

Building on the first part of the analysis, the second part enables us to draw more far-reaching conclusions as we leverage the solid theoretical foundation to our case study. By doing so, we are able not only to reach the conclusion that pricing is key to uphold differentiation in the transparent aftermarket, but across interviews and observations of price managers at work, we are

also able to identify brand-sensitive pricing as the possible solution to managing the challenges of brand and profit erosion.

Continuing the analysis with the third part, we argue that the lack of aftermarket pricing coordination impedes brand-sensitive customer-value based pricing and that a holistic management approach is necessary.

3. Methodology

With the theoretical framework and research model detailed in the previous chapter, the aim is here to outline the methodology by which this research project has been conducted. We will first have a look at the general research approach, and, second, at the research design. Third, the data collection and fourth, reduction and analysis, are explained and their consequences for the quality of the findings of this study. Last, some implications in terms of the validity and the reliability of this report are discussed.

3.1. Research Approach

The research approach in this study is conditioned by the explorative nature of the research, the nature of the object of our study, and the needs of our case company. In this part we will explain the rationale behind choosing an inductive approach with an explorative nature. This study is explorative as it attempts to shed some light on a phenomenon that, to our knowledge, has not been examined prior to this report. While there is today ample literature on many aspects of platform strategies, few of them have addressed the area of multi-brand platforms[51], and none has looked at its cross-section with the aftermarket. The lack of previous research makes an explorative research approach highly suitable as it highlights the need to get deep into the empirics to gain a richer data, rather than adopting a more quantitative approach. The aim of this project is to reach generalizable findings on the basis of the observations that we have made during the case study. Our research is therefore *inductive,* as we connect our empirical findings to existing theory in relevant fields.

3.2. Research Design

A research design has been described by Yin as "a *logical plan for getting from here to there*, where *here* may be defined as the initial set of questions to be answered, and *there* is some set of conclusions (answers) about these questions."[52] According to Yin, this plan has at least five steps in the context of the case study methodology: (1) a study's question, (2) its propositions (if any), (3) its units of analysis, (4) the logic linking the data to the propositions, and (5) the criteria for interpreting the findings.[53] The research question at the heart of this project has already been explained at length above, but the attentive reader might react to the fact that this study lacks any explicit initial propositions to frame the context of the research. However, as this is an explorative study, it would, as we set out to discover the challenges of managing a multi-brand platform strategy in the aftermarket, be unwise of us to limit our research by introducing limitations that we have no prior knowledge of. Instead, the success of our research should be judged by how well it meets its purpose[54], as has been suggested by Yin.[55] Third, our unit of analysis is two business areas at the case company and the interaction between them. Last, we argue that the empirical material that has been derived from the case study is indeed logically linked to both our research question and purpose, by the application of consistent criteria for how findings are interpreted.

[51] Confer Lundbäck and Karlsson, 2005, and Karlsson and Sköld, 2007
[52] Yin, 2003, p. 20, original emphasis
[53] Yin, 2003, p. 21
[54] Confer chapter 1.
[55] Yin, 2003, p. 22

In the following sections we will describe the research design process in detail. We start by describing how the overall topic was narrowed down into a manageable research question and the rationale for choosing to conduct a single case study. In addition the choice of our case company is described.

3.2.1. Choice of Purpose

In the research of this thesis we performed an extensive pre-reading of books, articles, and other literature on the topic of platform strategy in general. As a natural step in the research design we had to narrow the overall subject of study into a manageable research question. In our pre-study we found that many previous studies had focused on platform strategy, while only a few had studied multi-brand platform strategy. Triggered by the need to fill this gap, we chose to concentrate on multi-brand platform strategy. Furthermore, we found no research that had explored multi-brand platform strategy in an aftermarket context, which further led us to the conclusion to focus the study on the aftermarket.

3.2.2. Choice of Case Study

Next in the research design process was to decide on which type of study to perform. In this section we will argue for the rationale behind conducting a case study. The main theoretical foundation and the disposition of this section is derived from Yin's comprehensive work; "Case Study Research: Design and Methods" (2003).

Yin (2003) identifies the following three aspects as decisive parameters when deciding on the type of study: (1) type of research question, (2) control over behavioral events, and (3) focus on contemporary or historical phenomena.[56] The author concludes that a case study is more likely to be suitable when the research question focuses on *how* and *why*, rather than *what*. The case study method is also suitable when the researcher lacks the ability to control behavioral events. Last, a case study naturally focuses on contemporary events rather than historical ones as observation and interviewing stakeholders are cornerstones in the case study method.

We argue that the study at hand meets the above requirements, with one exception. First, we as observers have had no control over the case and feel that we have fulfilled the second of Yin's methodological requirements. Second, while the empirical study naturally includes a detailed account of the actual case at hand, it starts off by depicting the events that led up to the situation we are exploring, and the rationale behind some of the key decisions and actions that were taken in this process. Hence, as the effects of the multi-brand platform strategy that we have been able to observe in the parts pricing departments are contemporary phenomena, we argue that the study also meets Yin's third methodological requirement. This said, we must at the same time recognize that the first part of the empirical study, which aims to frame the actual case study and make it more accessible to the reader, is not contemporary but rather retrospective in its character. Last, Yin argues that a case study, as opposed to experiments, surveys, archival analysis or histories, is suitable when the research question is either *how?* or *why?* Our research question; *Which are the main challenges of managing a multi-brand platform strategy in the aftermarket?*; does not meet this criterion. However, Yin also argues that when a study is explorative, as is the case here, the case study method is valid and suitable, irrespective of the form of the question.[57]

[56] Yin, 2003, p. 5
[57] Yin, 2003, p. 6

3.2.3. Choice of a Single Case Study

After deciding to do a case study, we had to decide on the ideal number of cases to include in the study. In this section we will argue that the single case study, rather than multiple case studies, is the best way to gain new insight within the research field.

There are several reasons for choosing a *single* case study. First, the sponsors at the case company sought to enhance a well-defined process within their aftermarket operations, and therefore they had little interest in us spending time outside their organization, as we would have had to, had we opted for a *multiple* case study. Second, the sponsors would also have been reluctant on sharing necessary but sensitive information on their structures, processes, and methodologies. Third, our ambition is to provide deeper understanding of the aftermarket dynamics and consequences of adopting a multi-brand platform strategy, and we argue that under the constraint of limited time, this is best achieved by understanding one case in-depth. Conversely, critics of our choice to apply a single case study would most likely argue that the generalization of our findings are at risk as we have limited ourselves to one single case.[58] While agreeing with this criticism, there is one strong argument to support our approach, as discussed by Yin.[59] There are several comparable cases available internationally within the manufacturing industry, where corporate groups have acquired competing companies and then introduced a platform strategy. As we argue that the underlying logic and fundamental conditions for such strategies are the same across these cases, and as our case company, just as the example given by Yin is "believed to be typical of many other manufacturing firms in the same industry"[60] we find that a single case study is motivated. Moreover, from a practical standpoint, the research conducted within the frame of this study does not readily lend itself to a multiple case study. It is always difficult to gain access to the strategic agenda of a certain company, especially if you are doing a comparative study including competing companies, and which is due to be published publicly. As explained above, we managed to get such access by conducting a *single* case study.

3.2.4. Choice of Case Company

The case company was identified following an extensive database search aimed at finding a better case study object than a company which we were already familiar with through lectures and not least internships conducted in 2003-2004; the search to find a more, or equally, good match with our research aim was unsuccessful. We came to the conclusion that the chosen industry of study was optimal for the research purpose as the industry has seen an increased consolidation, driven by the goal to achieve synergies between subsidiaries, and one of the most powerful such tools is arguably the multi-brand product platform strategy. The case company of this thesis was chosen as it serves as a representative example of this trend, having acquired a competitor with the intention to implement a shared product platform to achieve cost synergies. As the brand name of the acquired company was kept, a multi-brand platform context was created. Narrowing our scope to only include platform effects related to the aftermarket, we gained access to their aftermarket parts pricing departments. Convinced of the merits of conducting an in-depth analysis in order to reach the aim of our research, the limited scope of the parts pricing functions suited us well. However, the participation of the company in question, and the pricing departments in particular, was conditioned on us being able to offer them meaningful insights and recommendations, and not only generalizations of academic interest. Hence, the reader is well-advised to note that this report is one out of two written accounts of the work that has been conducted within this research project since its start in late summer 2006. The first report, which was presented to representatives of the aftermarket organization at the "client" company in

[58] Yin, 2003, p. 19
[59] Yin, 2003, pp. 40-42
[60] Yin, 2003, p. 41

November 2006 was aimed at this client's needs for, on the one hand, a descriptive account of the current processes and methodologies, and on the other hand, prescriptive recommendations on how to tackle the unsatisfying situation in which they found themselves. The present thesis is the second report and it differs from the first in that it targets an academic audience. Under the requirements of an academic study, the empirical findings are no longer an end-result in themselves, and the prescriptive recommendations for how this particular company should address their situation looses its raison d'être. As a result, the focus changes with this report as we add a solid theoretical framework and seek to offer conclusions that are of interest outside the immediate area of the client company. Given the change of focus, this report has been completely anonymized as we do not seek to underline the origin of our empiric material but rather emphasize the universal difficulties and lessons we have come across during our research. In conclusion, the reader should note that this research project has been marked by a dual objective and ambition to satisfy two different audiences, of which this is the final and public report.

3.3. Data Collection and Empirical Sources

This section describes the data gathering process. The data was collected from multiple sources, both secondary sources such as documents and reports as well as primary sources such as comprehensive interviews with key personnel.

Yin identifies six empirical sources relevant to the case study research; (1) documents, (2) archival records, (3) interviews, (4) direct observation, (5) participant observation, and (6) physical artifacts.[61] Taking the constraints of this study into consideration, the focus in terms of the data collection process has been on *interviews* and *documents*, but we have also conducted *direct observation*. Archival records, physical artifacts, and participant observation have been excluded because of their irrelevance to this study.

The data collection was carried out in 2006, from August to October. The secondary data made available to us included a broad range of different materials; from strategic plans, branding guidelines, parts structures, and organization charts to intranet access. Interviews were conducted with more than 50% of staff in the two pricing and product management departments, at different hierarchic levels. In total, we interviewed ten price and product managers at business area A and another ten at business area B. In addition, two interviews were conducted with other stakeholders and internal experts within the different companies of the corporate group, and three interviews were conducted with industry experts. The interviews were semi-structured to enable us the flexibility of adapting the questions to the direction of where the interview was going and where important additional or supporting data could be traced. However, to achieve some structure and consistency of the interviews we followed interview guidelines.[62] The interviews lasted approximately 1-2 hours each and were conducted through 2 day visits, first at Business area A and then at business area B. Both researchers attended all interviews in order to ensure that no or minimal misunderstandings took place. In connection to the interviews, we also organized workshops where we were able to clarify and test our findings and the participating price and product managers were allowed to discuss and comment on our questions and conclusions.

3.4. Data Reduction and Analysis

This section describes the process of reducing and analyzing the collected data in order to arrive at the analysis, synthesis and conclusions. The data collection amounted to numerous of

[61] Yin, 2003, p. 86
[62] Confer the Appendix for interview questionnaire

documents; strategic plans, branding guidelines, parts structures, and organization charts and 25 detailed interview transcripts of 5-10 pages each. In order to structure this vast material into manageable pieces we started by dividing the material into general learning points and specific learning point relevant for our research question.

Based on the material relevant for our research question we then identified critical areas where the challenges of multi-brand platform strategy in an aftermarket context became visible. We searched for repeated patterns and similarities across the material, and based on these, started to construct hypotheses of the main challenges. The hypotheses were then validated in the workshops where our findings were presented back to our interviewees as well as to a broader audience of relevant people at our case company. The hypotheses were also compared to the knowledge gained from our extensive theoretical research. Based on the combination of both the theory and the empirical findings we arrived at the analysis, synthesis and conclusions of this thesis.[63]

3.5. Implications for the Validity and Reliability of this Study

The research approach, as well as the way both theory and empirics have been derived and applied, is decisive to the quality of our work. In order for us to be able to argue that we have fulfilled the purpose of this study and answered the research question, our research must pass the tests of validity and reliability. We will here present our argumentation for why we believed that it does so.

3.5.1. Construct Validity

As part of his discussion on the case study methodology, Yin elaborates on the conditions which a research project needs to meet in order for it to live up to the requirements on validity. During the collection of empirical data, the researcher must according to Yin pay attention to what he refers to as *construct validity*. Kidder and Judd[64] define construct validity as the requirements on "establishing correct operational measures for the concepts being studied."[65] According to Yin, a research project must meet two conditions relating to construct validity: (1) Specific phenomena must be selected for the study; (2) The selected measures must reflect these specific phenomena.[66] We argue that we meet the first requirement as the phenomenon, or object of our study, has been clearly defined and delimitated, as we are exploring *the effects of managing a multi-brand platform strategy in the aftermarket*. Because of the concurrency of the issues studied, the difficult access due to confidentiality, and the lack of prior methodological theory with regards to this particular subject, the number of measures available to us has been somewhat limited. The vast majority of our empirical findings stem from interviews which we have conducted with the people closest to the investigated issues. In order to ensure the validity of our research under these conditions, we have made sure to interview the majority of all the immediate stakeholders, in total more than 20 people. Second, following Yin's advice on how to increase construct validity in particular, we have let "key informants review the draft case study report"[67] both through workshops, and the first written report that was presented prior to this one.

3.5.2. External Validity

As mentioned above, this second report is different from the first in that it seeks to find generalizable conclusions. In this context, the validity of this research is highly relevant to discuss.

---

[63] Confer part 2.4 for a detailed account of how the analysis was conducted
[64] Kidder and Judd, 1986
[65] In Yin, 2003, p. 34
[66] Yin, 2003, p. 35
[67] Yin, 2003, p. 34

According to Kidder and Judd, the discussion is relevant with regards to the domain to which the study's findings can be generalized, something which they refer to as *external* validity. The key question here is thus whether our findings are generalizable outside the immediate area of the case study. On the other hand, *internal* validity, which according to Kidder and Judd is about the validity of "establishing a causal relationship", is not a relevant measurement here, as this study is explorative and does not seek to establish a causal relationship.[68] To meet the requirements on external validity in a single case study, Yin argues that, as opposed to surveys which rely on *statistical* generalization, case studies must rely on *analytical* generalization in which the researcher is "striving to generalize a particular set of results to some broader *theory*."[69] We argue that the single case study performed within this research project meets this condition because, first, we base our understanding of the case on the theory of platforms and platform strategy[70]; second, our findings can only be generalized as an extension of this theory. However, it is at the same time important to differentiate between *generalized* and *generalizable* findings: We argue that this study passes the test of external validity, and therefore it is *generalizable*. We do not argue that our findings should be *generalized* based on this single case, but rather, as we argue above, we invite other researchers to attempt to replicate our research in a different setting. Several generalizable findings that point in the same direction can then in turn form the basis for an argument that the findings should be generalized.

3.5.3. Reliability

The discussion on external validity in the previous section argued that a single case study is but one set of findings, and to eventually be able to generate new theory would require several such sets. For such an argument to hold, it is key that each study is repeatable or replicable, or else the findings can not be combined. Meeting the conditions on replicability is often referred to as passing the test of *reliability*. Going back to Kidder and Judd (1986), meeting the requirements on reliability can be defined as "demonstrating that the operations of a study […] can be repeated, with the same results".[71] In order to ensure that this study meets the requirements on reliability, this report includes detailed accounts of both the theoretical and empirical approach to the research that has been conducted.[72]

In a final note, we kindly invite others to replicate our research in new contexts, and we recognize the additional value such research would bring. We have found no other case study with the approach chosen here, but given three separate trends; the rise of multi-brand platform strategies, the promotion of aftermarket-related offerings as a means to create stability in cyclical industries, and the increased focus on pricing to boost profitability; we feel confident that the lack of research will be ephemeral.

[68] In Yin, 2003, p. 34
[69] Yin, 2003, p. 37 (emphasis added)
[70] Confer chapter 2.
[71] In Yin, 2003, p. 34
[72] Confer parts 3.2 and 3.3.

4. Empirics

This chapter comprises an account of the case study conducted within the frame of this study. First, the observation is that competitive and regulatory conditions within the industry of study push for economies of scale through acquisitions. Second, our case study also shows that introducing multi-brand platforms to secure benefits of scale has considerable complications for the important aftermarket. Last, as we examine the multi-brand parts pricing capabilities, the complexity of managing a multi-brand aftermarket is evident.

4.1. Competitive and Regulatory Conditions Push for Economies of Scale through Acquisitions

4.1.1. The Industry is Defined by Business-to-Business Relations, Complex Products, and Increasing Internationalization

The research object of this case study is two business areas within an international corporate group that operates in a number of adjacent and well-established industries. We will refer to the corporate group as "the Group", and the two business areas as "business area A" and "business area B" respectively. Following the millennium shift, the Group acquired the current business area B from a rival industry Group to complement its current core business in business area A. Business area A and B operate under separate brands but share the same product platform. To give an overview of the industry in which business area A and B operate, we will in this introductory section focus on three core characteristics. First, the industry can be characterized by commerce transactions between businesses; second, by the complex offerings, and third, by an increasing degree of internationalization.

One key element of the industry in question is the highly sophisticated supply chain dynamics in place. As a consequence, it needs to be considered from a value chain perspective. The two business areas are both OEM's[73] and as such, they depend on a large set of sub-suppliers. However, business-to-business relations are not limited to up-stream transactions, but also characterize the customer side. Customers generally also consume the concerned products, and they constitute a set of industries of which the by far largest is fragmented and highly competitive. As such, customer buying power and the resulting demand is closely linked to the general market growth and macroeconomic trends. Despite catering to a fundamental need in any modern society, the industry is renowned for its cyclicality.

The end-customer offering in question may comprise many different components, both products and services. Due to new technologies being introduced and new "add-ons" such as financing, insurance and different servicing packages, the number of different "ingredients" offered by industry players is constantly increasing, resulting in higher complexity. Add-on services are known to carry higher margins and also provide an element of distinction between different players in the market. Despite their role as potential differentiators, the number, quality and pricing of add-ons do not constitute the main competitive factor in the current market. Instead, cost-conscious professional end-customers look to the performance and endurance of the core product, as it is considered more vital to operating costs. However, increasing technological

[73] Original Equipment Manufacturer

complexity is limiting the transparency around which technological solution offers the strongest performance. Thus, even well-informed professional end-customers find themselves relying on other values, such as for example a company's track-record, usually as expressed by the brand. Leaving aside other important aspects from an end-customer perspective, such as quick access to service in case of break-down, producers are today unquestionably under a considerable competitive and regulatory pressure to improve, first and foremost, the efficiency of their products.

The competitive pressure is also reinforced by the industry's increasing internationalization. Because the customer base is fragmented and the services offered by the customers to the next step in the value chain caters to a universal need, the industry has followed the same trend of internationalization as have many others under the increasing globalization of trade and business. As can be expected, growth is today much stronger in the emergent economies of Asia, Eastern Europe or South America, than it is in the mature markets of Western Europe and North America.

4.1.2. Economies of Scale Are Necessary because Innovation Is Increasingly Costly

As depicted above, players of this industry are under pressure to innovate in order to meet regulatory and competitive requirements in an increasingly international environment. Given the high complexity and, to some extent, maturity of the technology involved, the marginal cost of developing new technological solutions have seen an important increase over the last 10-20 years. First, the internationalization of both markets and players in different stages of the value chain increases the competitive pressure on everyone involved. In order to stay competitive, companies must constantly accelerate their innovation processes to both meet the expectations of their professional customers and turn out products in line with the competition. Second, regulation aimed at limiting the industry's negative environmental effects is constantly raising the bar for what negative side-effects, and thus technology, which is allowed. The regulatory roadmap for the next ten years has already been laid out, and industry players will need to keep pushing innovation in order to meet these challenges. Taken together, these two drivers result in an increase in technological barriers to entry which has transformed the industry over the last decades. In the 60s, there were more than 40 independent competitors in Western Europe and at least 15 in North America. Since then, that figure has declined to six and four respectively.

In order to finance the necessary pace of innovation, companies have found themselves forced to gather strength by either cooperating in partnerships or joint ventures, or acquire competitors. While it is of course true that different companies may bring somewhat different technological expertise to the table, the main reason for pooling resources has so far been the possibility to spread R&D costs over a larger number of products, thus enabling a lower cost per unit. The Group in focus for this case study is no exception. Realizing that the business environment was changing quickly, management decided to introduce a new strategy with a clear focus on a few selected core activities. Following divestments in business areas no longer deemed part of the core, the Group decided to focus their efforts and capital on one main and a few adjacent and complementary product segments.

Following the millennium shift, the Group acquired the current business area B from a rival industry group to complement its current core business in business area A. Operations were organized into a group-level matrix organization comprised of five business areas, including a Financial Services division, and a set of supporting business units with group-wide responsibility for areas such as IT and R&D. The acquired business was structurally incorporated as a new business area within the Group. As a result, the Group now sold products internationally under

different brands with many overlaps in terms of R&D and manufacturing, but also sales and distribution. The potential synergies were indeed promising, and realizing this potential has been one of the Group's main focus areas since the acquisition. While other competitors are struggling to either establish lasting partnerships or increase the cooperation and scale in existing ones, the Group has over the last couple of years been very successful in improving both top-line growth and bottom-line performance.

4.1.3. Increased Scale and Market Reach through Acquisitions Create a Multi-Brand Environment

From an external perspective, two previous competitors now shared the same owner, but appearances did not change and the entities continued to operate under two different brands. In this "multi-brand" context, it became essential not only to maximize internal cost synergies but also to define and manage the identity and image of each brand so as not to provoke cannibalization within the new portfolio. Cost synergies were realized through the merging of company specific development projects and launching new common R&D programs within the Group. From an outsider's perspective, the new product structure may very well be viewed as an extrapolation of the already existing modular product structure in place at the Group. Components from the two different subsidiaries were examined and compared with the aim to introduce common architectures. The more complex a component is the greater is the potential savings of only having to develop one version rather than two different. R&D savings can then be further extended to other components, and the reduced variety enables savings throughout the operations, including manufacturing, logistics etc.

As alluded to above, the downside of reducing the number of different core components and streamlining the R&D capabilities is that the distinction between the different products is reduced. If, as in this case, the two brands are perceived as representing different levels of quality, and correspondingly charge different prices for their products, increased commonality may limit the possibilities to differentiate the pricing. Before the acquisition and the introduction of common core components, the two different companies targeted different segments, which were reflected in product quality, branding, and pricing. In order to be able to uphold a differentiated pricing and avoid loosing certain market segments, the increased product commonality needed not only to be managed closely, but also counterbalanced by clearly separated brands. Parts of the answer also lie in the non-core offerings discussed above. Servicing agreements, insurances, financing etc., as part of the total offering, may prove to be important differentiators, but for such differences to make sense, the brands must have clearly separated identities. In order to preserve these differences in the eyes of the customers, a lot of effort has been put into branding and marketing, as illustrated by the following statement: "It is important to develop and strengthen each of the brands' special qualities while at the same time utilizing Group-wide components and systems. By being successful in both areas, we can achieve our profitability and growth targets."[74]

4.2. Introducing Multi-Brand Platforms to Secure Benefits of Scale Has Considerable Complications for the Important Aftermarket

4.2.1. No Common Approach to the Important Aftermarket

Competitive pressure in the market has created a situation where the finished products are often sold at considerable discounts, reducing or eliminating profitability on those products. The reason why such low profitability on the finished products is sustainable is that the purchase

[74] Manager, Pricing Department at Business Area A

creates a demand for spare parts and service which will stretch over the product's entire life span. Low prices on the finished product attract the buyer. Once the transaction is concluded, a tie-in is created and the manufacturing company has secured a parts and service customer for several years to come. As a result, profits have largely been switched over from the finished products to the aftermarket. Anti-trust legislation and competition from parts suppliers and third party manufacturers have so far done little to alter this equation.

There are fundamentally two different ways to handle the aftermarket in this business to business environment: either selling the individual parts and different services separately, or offering complete solutions, consisting of a bundle of parts, services, warranties, financing etc. Both options have so far been tried by the different business areas. Within business area A, there has been a gradual shift from marketing and selling individual parts and services to bundled offers. These bundles are more complex and putting them together requires a certain scale, breadth and level of sophistication. The advantage is that the business area, by offering a complete solution, can capture a larger part of the customer's business, while leveraging its size to create an offering that smaller and less sophisticated competitors are unable to mimic. However, the demand for separately sold parts and services will remain strong, as many customers will prefer the transparency of the separate transactions.

While a great deal of emphasis was put on capitalizing cost synergies in the new organization, little was initially decided in terms of how to manage the aftermarket implications of common platforms. It is of course possible to argue that the strategy for the aftermarket is implicit in the statement to keep the brands separated, as this suggests that while synergies are captured upstream, distinction vis-à-vis the end-customer is maintained by leaving aftermarket issues to the separate business areas. Leaving the possible need for aftermarket coordination aside for the time being, we will in this section contend ourselves by illustrating that the two business areas in fact have somewhat different approaches to the aftermarket. First, business area A has historically been able to influence dealers operating under their brand to a much larger extent than what is possible today. This is true for most industry players, as their influence is being reduced both as a result of competition from suppliers who are starting to sell their products directly to dealers and even to end-customers, and because of regulation aimed at increasing aftermarket competition. The dealers naturally play a very important role as the intermediary between the manufacturer and the end customer. An independent dealer, no matter under which brand he or she operates, is free to buy parts from whoever has the best offer. In order to safeguard margins, and because of the importance of communicating directly with customers in order to understand the demand and identify market trends, business area A has chosen to acquire selected dealers. Naturally, the dealers play an equally important role as information sources for business area B. In contrast to business area A, where communication with dealers is handled by the regional organizations, the central aftermarket department at business area B interacts directly with dealers to both inform of changes and get relevant input from customers. On the other hand, business area B only owns a fraction of its dealerships and therefore they do not have the same mandate over their dealers. The philosophy is instead to promote entrepreneurship: "It is our belief that dealers operating on a competitive market will perform better and constantly work to improve their services"[75]. While this strategy provides more flexibility, it also requires that staff stay in constant contact with the dealers, or as one of the product managers in the aftermarket organization puts it: "We spend a lot of our time dealing with dealers". Business area A's decision to acquire selected dealers is also a requirement in order to be successful with the bundles of products and services described above. Business area B, on the other hand, has no explicit strategy to introduce bundled solutions, and there is therefore one argument less for them to run their own dealers. On the surface, it is easy to see that the lack of a common approach to the aftermarket contrasts with the

[75] Product Manager at Business Area B

extensive coordination in development, manufacturing etc. We will explore the need and conditions for aftermarket coordination further below.

4.2.2. Different Brands to Target Different Customer Segments

In order to increase the attractiveness of their offering to end-customers, but also to differentiate themselves from each other as their products become increasingly similar, the two business areas continue to build and manage their separate images and brands. Building on the idea that the brand portfolio should minimize, or at least not accentuate, overlaps between the targeted segments, a strategy based on the historic brand values and market positions has been devised to reduce market overlaps and keep the two brands separate from a customer perspective. Business area B has a brand that according to a survey that was conducted in 2001[76] is perceived by end-customers as *visionary*, *daring*, and *warm*. In addition to these values, the business area communicates a set of extended values which beside *innovation* and *daring* also includes *caring* and *efficiency*. The brand of business area A, on the other hand, was in the same survey perceived by end-customers as having an image of *quality*, *safety* and *environmental care*. The extension of these values as presented by business area A touch on more specific topics, namely: *driver productivity*, *truck uptime* and *transport solution*.

The image values are communicated both through the design and branding of the complete product, but also in terms of the branding of separate parts. Managing the image of the two business areas thus requires a double focus on both direct sales and aftermarket sales. Branding common parts introduces an element of differentiation where technically there is none. The downside is of course that branding individual parts increases the cost of that part. There are two group-wide systems for evaluating the need for branding of a certain part. In terms of complete products, components are divided into three categories ranging from *unique* and *marked* to *neutral*. Unique parts receive the brand to which it is unique. Marked parts are differentiated by the brand it carries and neutral parts do not receive any branding. From an aftermarket perspective, components are instead divided with regards to whether they should receive a *durable branding*, a *sales installation* or a *sales branding*. Durable branding means that the brand is either cast, punched or otherwise permanently applied to the part in question. Sales installations represent a type of branding which consist of applying stickers etc. Last, sales branding is the term for when the part in question is not branded at all but instead receives for example a branded packaging. The general rule which applies to the decision of what level and type of branding to apply is that the highest level of branding required by any of the two systems described here take predominance over the other. Thus if, for example, a certain component is deemed not to need any marking from a complete product perspective, but durable branding is considered necessary from an aftermarket perspective, then a durable brand is applied. The decision of what level of branding that is needed from an aftermarket perspective is taken by a committee whose members represent all relevant areas within the Group, e.g. both business areas A and B as well as the common development departments. This committee issues a list of the minimum requirements on branding from an aftermarket perspective.

The common process to analyze and decide on which parts to brand and how seems to be an important tool in the post-merger integration efforts in general and more specifically to the common platform strategy. However, there is yet another important factor that has a direct impact on how a brand is perceived, as well as to the bottom-line, and which furthermore is one of the customer's key purchasing criteria. This factor is the price.

[76] Latest available brand information; deemed applicable in 2006 by the authors.

4.2.3. Aftermarket Parts Pricing Accentuates the Complexities of the Multi-Brand Platform Strategy

As we have just seen, the acquisition brought together two former competitors under the same corporate parent, resulting in the risk for group-internal competition. This risk was then accentuated by the introduction of a common platform strategy, which meant that the two business areas not only needed to limit the negative effects of the competition that was now taking place within the same owner structure, but also manage a situation where their competing offers were getting more and more similar. Prior to the merger, business area A had generally higher price and margin levels than business area B. Following the merger, a group level decision was taken to maintain business area A's prices at a premium of around 15% compared to business area B. This decision was interpreted by the aftermarket organizations as applying also to the aftermarket part sales. The risks inherent in pricing equivalent parts differently resulted in a joint decision by the management of business areas A and B to ultimately homogenize prices on interchangeable parts. The motive was to limit internal competition and thus avoid cannibalization of sales and further price pressure on spare parts that would only shrink group-level margins. By equalizing prices on interchangeable parts, profitability and margins were safeguarded. When adopting common prices, a "golden rule" of always implementing the higher price on a common part in both business areas was introduced.

So far, the positive contribution due to increased prices has not been offset by a loss in sales volumes. Thus, business area A, and business area B in particular, benefit. The price increases have been supported by arguments of new products and higher quality, but there have apparently also been some complaints from business area B's customers due to what they see as a general price increase. Interviewees state that the long-term common pricing strategy needs to be elaborated. While it is true that harmonizing parts prices so far has eliminated the risk of eroding margins, and instead contributed to a substantial increase, the general opinion is that more coordination between the two business areas will be required. In the following sections we will explore the separate aftermarket pricing capabilities in detail, and investigate the conditions for a higher degree of pricing coordination.

4.3. The Complexity of Managing a Multi-Brand Aftermarket Is Evident in the Case of Parts Pricing

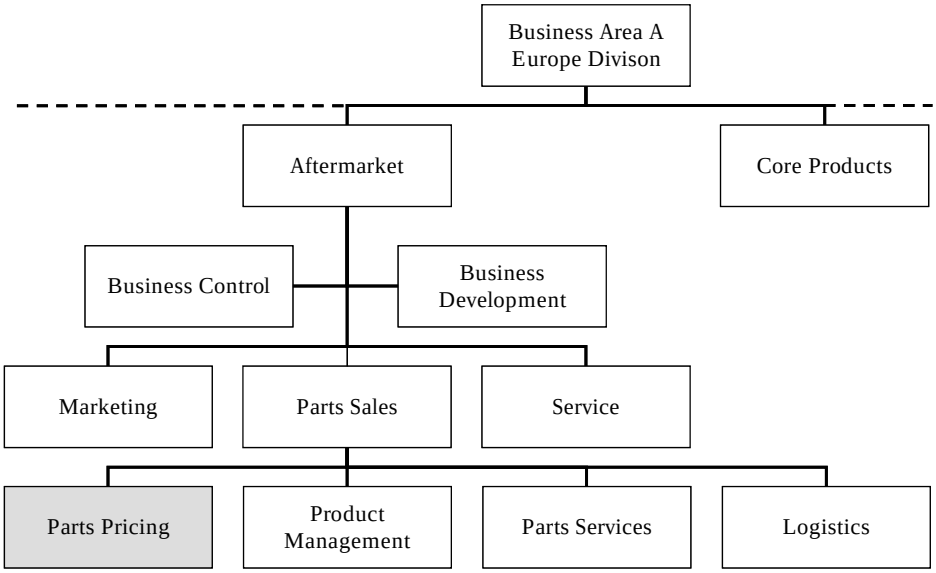
4.3.1. Parts Pricing Capabilities Are Organized Differently

Given their different backgrounds it comes as no surprise that the two original entities, business areas A and B, employed different organizational structures for the aftermarket. Moreover, during the years following the acquisition, no homogenization in terms of organizational structures or rigorous development of commonly understood interfaces has been implemented in the aftermarket functions. With the increase in the number of common and interchangeable parts, management is however beginning to see the need for a greater extent of aftermarket coordination in general, and parts pricing in particular.

While the two pricing organizations share the same number of hierarchal levels, business area A employs a separation of the product management and pricing responsibilities, while business area B has an organizational structure which emphasizes the broad responsibilities of the product manager, capturing both the pricing and other aftermarket product issues. The product and price manager responsibilities at business area A were separated in 1997 following the perceived need of the staff to be able to focus on a specific area of the parts offer, as the number of parts kept increasing. Today's organization is presented in Exhibit 8 below. There are numerous interdependencies between these functions, but such relations remain outside the scope of this

study, and we will only focus on "Parts Sales". Within the Parts Sales organization we find Parts Pricing and Product Management, as well as the two supporting functions Parts Services and Logistics, each consisting of one staff member.

Exhibit 8: Parts Pricing within Business Area A

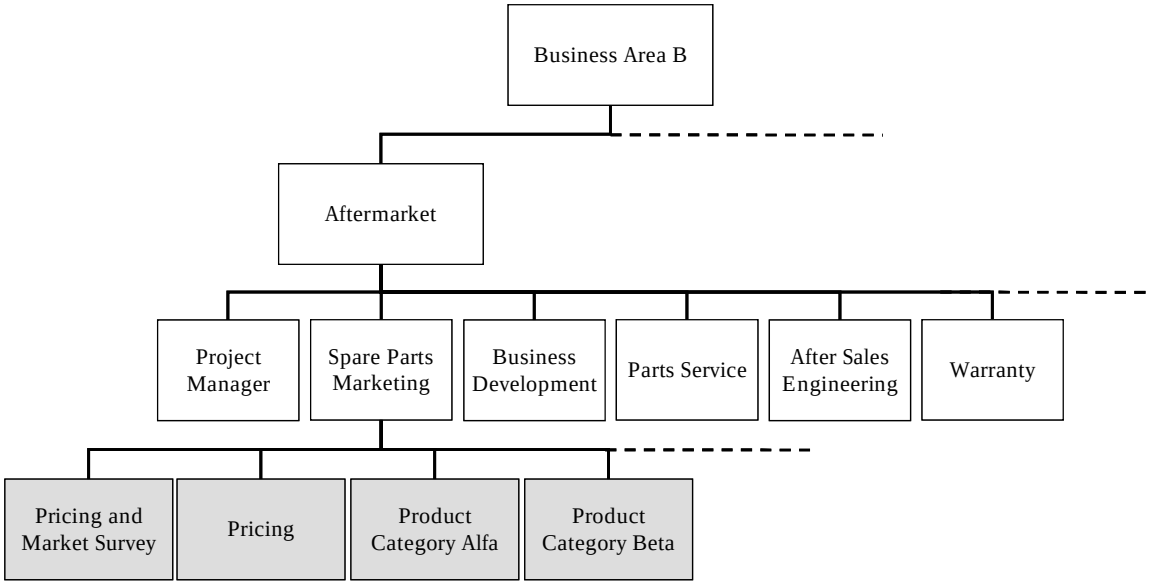


Source: Company internal material

The Price Manager at business area A is responsible for setting prices on the parts within a range of "function groups", which are the functional categories employed within the Group as a whole. Price managers are responsible to perform analyses to set recommended prices and dealer discounts. These are sent to the regional market organizations, where regional price managers adopt prices to the regional context. Between markets there are significant differences in the discounts depending on the country in question, and they can vary some ten percentage points. The Parts Pricing department is not only responsible for setting parts prices, but also for managing the parts structure, and updating current prices. This pricing work is initiated both as a result of complaints from the dealers and/or regional markets, and as a result of recurring revisions. Discounts are set in very much the same way as the prices, i.e. based on approximately the same information. The product management department is an important source of feedback and information for the Price Manager. As a separate responsibility, the product manager oversees the development and launch of new products and parts, judging which parts are needed in the aftermarket and estimating sales volumes.

The aftermarket organization at business area B represents, as mentioned above, a different structural solution in terms of price and product management responsibilities. As in many other fields, the two business areas, while agreeing on the problems and issues at hand, have come up with different answers in terms of how to deal with them. On the surface, the structural differences are so important that a direct comparison between the two organizations is difficult. Business area B's aftermarket organization is presented in Exhibit 9 below.

Exhibit 9: Parts Pricing within Business Area B



Source: Company internal material

On an aggregated level the two organizations seem to consist of the same number of hierarchic levels, but in order to understand the similarities and differences we first need to have a deeper look into business area B's organization. Spare Parts Marketing is the organizational entity under which both the pricing and the product management responsibility, as defined in the section on the business area A's organization, are allocated. Other aftermarket departments will not be included in this study. Within Spare Parts Marketing, the actual pricing and management of parts are divided into two departments; on one hand there is the department for Product Category Alfa; and on the other hand there is the department for Product Category Beta. These two departments handle the combined responsibility of managing and developing both the prices and the product characteristics of the parts. In addition, the function called Pricing consists of one person who is in charge of overlooking new methods of pricing parts. The Pricing and Market Survey department handles parts reporting and market analysis, as well as monitoring the 1 000 most critical parts. In total, business area B has around 120 000 parts numbers globally. These parts are handled by nine price managers with dual pricing and product management responsibilities.

Interviewees in the pricing and product management functions within both business areas express different views on whether to have separate or integrated pricing and product responsibilities. While some at business area A agree that combining the responsibilities would enable the employee to have a more diversified role, thus possibly enhancing the work experience, such a change could also result in a heavier work load and thus generate more stress. Others argue that with the split responsibilities, both price and product managers are more likely to specialize in the actual work methodology, rather than in a specific category of parts, which comes with both benefits and drawbacks. A drawback with separated responsibilities, as identified by one of the price managers at business area A, is that since information on the products now has to be transmitted between product and price managers, there is a risk that information is lost in the process, something which is avoided under the combined responsibilities at business area B. One of the price managers argues that: "for pricing it is important to know as much as possible about a certain part. We are dependent on information

from other departments in order to optimize our pricing."[77] The main benefit of separated responsibilities is on the other hand the possibility to give the actual pricing work the time and focus it requires. The actual work conducted within business area B's organization demonstrates this problem: Within the Mechanical Parts sub-function of the Product Category Beta department, consisting of two people who share the product and pricing responsibility, there is an agreement to split the responsibilities of pricing and product management between the two staff members so that one handles all issues related to pricing and the other everything that has to do with product management.

4.3.2. Differing Parts Structures Further Increases Complexity

In addition to the structural differences between the two aftermarket organizations which, as we have seen above, reveal the differences between the prevailing perspectives on pricing, the lack of a common approach also manifests itself across the routines and methodologies employed by the two pricing organizations. The underlying approach to pricing is however the same. The price manager sets a price that he or she believes is the highest price the market is willing to pay. Because parts are sold both through own and independent dealers, the prices set by the price manager are only recommendations, which own dealers will follow and independent dealers can use as a yardstick in their own pricing. Beside the price, the price manager therefore also needs to assigned a discount to the part. The recommended price less the discount is the price that the dealer has to pay for the part. If the dealer chooses to stick by the recommended price, the discount will then equal his or her margin on that particular part.

Moving away from traditional cost-plus pricing, where costs and a set margin are combined to create the price, to a value-maximizing, market-based pricing, requires a new, and more elaborate, take on the pricing process. As we are about to see, a key element in this process is how parts are structured. This is true because it is unfeasible to perform the extensive analysis necessary to set a market-based price for each individual part. Moreover, many parts share common characteristics that enable the price manager to structure them, and then apply an algorithm to set individual prices on each part in a category based on the analysis for one of the parts, or the complete category taken together. Simple as it may seem, the difficulty is to choose what characteristics to base the structure on.

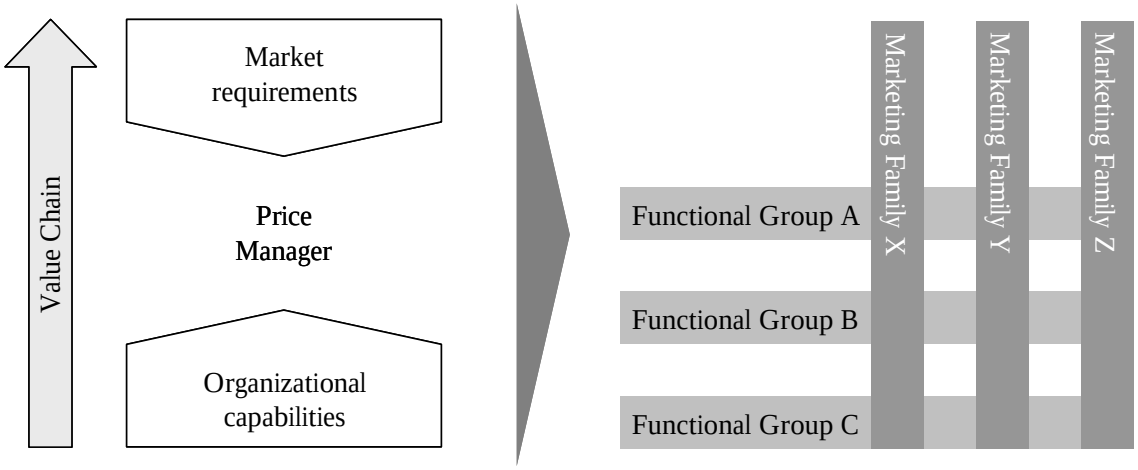
At the highest level, the Group employs a common set of categories for classifying the different parts. These categories are managed by an organization on group level that is responsible for all group-wide standards. These "standard categories" thus apply to the entire value chain within the Group; from the design department, over the supplier-base and production capabilities, to the aftermarket. The standard categories constitute a functional structuring of the parts. This means that all parts related to for example an engine are included in the engine parts category, and all structural components go into the structural parts category. In a sense this is a technical categorization, but as we will see shortly, there are also other possible technical structures and we therefore choose to emphasize the functional dimension of the standard categories.

The main benefit of the standard categories is that its structure reflects the organization of the common design departments. As such, the parts are always identified by at which department they were initially created. However, while the structure may be sufficient as long as the parts serve as ingredients in the finished product, and is sold as a bundle, a different reality applies to the aftermarket. In fact, the aftermarket organizations within both the concerned business areas have found themselves having to create a complementary product structure in order to arrive at a sensible pricing. Such a system was introduced within the parts pricing department at business

[77] Price Manager at Business Area A

area A in 1995, under the name marketing codes. This categorization enables the price manager to set prices based on customer value in a structured manner that is perceived as logic from the perspective of the customer. For example, a bearing that is mounted on the engine, and thus belongs to the "engine parts" standard category, will belong to the marketing code "bearings". Pricing the engine bearing will then be done based on the marketing code, together with all other bearings. As a result, the same pricing structure applies to all bearings and a customer will find reasonable price differences between different bearings, for example depending on size, material, form or other characteristics. Had the engine bearing instead been priced independently from all the other bearings, it is easy to see that a customer that purchases bearings belonging to different parts of the product risks getting very different prices, even though the bearings might be near-identical. Such an unfavorable outcome is eliminated with the use of this alternative structure. The marketing codes employed by business area A consist of families and the structured pricing is based on these families. All the parts in one such family will also carry the same dealer discount. There are in total approximately 130 000 parts. These are divided into a little over 200 marketing codes, which in turn consist of 15-30 part families each. To illustrate the effects of the introduction of marketing codes, the system that was introduced in 1995 can be understood as a two dimensional matrix. The first dimension is the standard categories, and the second is the marketing codes. Exhibit 10 is an attempt to show how these two dimensions, or perspectives, serve as a response to the needs of both the organization and the market. The matrix itself is thus the key to understanding the relation between the internal and external requirements put on the pricing.

Exhibit 10: The Parts Structure in Business Area A – Combining Market Requirements & Organizational Capabilities



Source: Interviews within business area A, own analysis

The organizational capabilities, as we refer to the company-internal skills and resources used for a certain purpose such as pricing, are also represented in the parts structure employed by business area B. However, not represented in the form of the group-sanctioned functional standard categorization, but rather as a pure technical one; referred to as technical families. In total there are about 1 000 technical families in this parts structure. Market requirements have led the aftermarket organization within business area B to adopt two additional parts structures: categories and business families. All parts are allocated to one of three different categories depending on the level of competition. The parts which are deemed to be exposed to high competition are labeled critical, while parts that face somewhat less competition are put in the competitive parts category. Parts that do not receive any competition are classified as captive parts. The third approach to structuring the parts is the business families. It is at this level that

discounts are set. In total, there are around 300 business families, and they are organized into ten business groups. The parts classification is a three-step process: First, the part is allocated to a technical family at the design department. Second, the adherence to a certain category is decided based on the estimated level of competition. Third, the part is placed in a certain business family following a rigorous market and competition analysis. From a price and product manager perspective, the three-dimensional structure in place has been criticized for containing too few categories, and the IT system supporting the pricing process under the current structure has received criticism for being too rigid. As a sign of the inflexibility of the current structure, dealers repeatedly complain that others are offering competing products for parts that are labeled captive. Moreover, as a result of the lack of flexibility and the changing product portfolio, some categories have today grown to become very large, creating an imbalance in the structure.

While there are obvious similarities in the parts structures of business areas A and B, at least with regards to the underlying approach, we have just shown that the structures differ on a few key points. The problem is in this case not only how to structure parts, which could possibly be done in an infinite number of ways, but also, as we have seen, how to do so in order to accommodate the requirements of both the organizational capabilities and the market requirements. While there are inherent advantages to both structures, each business area is today experiencing problems within their current structures. However, these problems fade in comparison to the magnitude of the challenge to create functioning interfaces between the two processes, or even merging them. Adding to the structural challenges, we have also found that the pricing experts at both business areas, while mastering their own system, have little understanding of their counterpart's process. Given the responsibility, by the management at both business areas, to homogenize prices on common parts in order to avoid multi-brand competition, the pricing staff still claims not to know who their counterpart is. With non-existing communication, identifying pricing issues proactively and addressing issue as they arise is effectively made impossible. The areas of possible coordination are numerous, but not knowing who to contact hinders the exchange necessary to bridge the different parts structures and support systems. First, information needs to flow seamlessly between price and product managers at business area A, as they have chosen to separate these responsibilities. Second, an understanding of the different structures and processes needs to be established within both organizations, and each price manager needs to have a clear counterpart within the other organization. Third, a routine to capture best practices in terms of how to price common parts needs to be put into place. Such a routine will, together with an adequate support system, allow price managers to develop their understanding of the common system, and enable homogenized pricing of common parts.

4.3.3. Similar Approaches to Pricing are Materialized Differently

In order to maximize revenues and profitability, the price or product manager has to estimate the highest price customers will be willing to pay. To do so, taking new product launches and the ever-changing market conditions into account, requires an iterative process. From a high level perspective, the pricing process can be understood as made up of three different stages. First, new parts need to be structured into the market based parts structure (marketing codes or business families). Second, information from many different sources needs to be combined in the analysis to set the recommended price. Last, the price or product manager is responsible for handling feed-back from the market and continuously adapts his or her pricing to the changing market conditions. This suggested order is true for new parts, but once a part is in the offer, the process can start at any step, and does not have to involve all three of them. For example, when an analysis by a price or product manager suggests that customer complaints arguing that a particular part is too expensive are valid, he or she has the option to correct the price for that individual part by moving it to a new category, or change the pricing of the category in question.

In terms of the actual pricing methodology, there are significant similarities between the two business areas. Prices are set based on technical specifications, the level of competition and price sensitiveness among the customers. This is generally done by looking at what customers have been paying for similar products in the past, while also paying attention to what competitors and suppliers with own sales channels are charging. Hence, the customer value as perceived by the price/product manager combines all these factors in order to generate a single piece of information: the price. Partial revisions and updates of the prices are done continuously and released to the regional markets and dealers weekly in both business areas. A thorough revision of the complete parts offer is also done twice a year by both business areas, ahead of the release of a new price list. However, as we have already seen, we do not have to look far to find differences between the two pricing processes. Briefly returning to what has already been said about the interaction between price managers on the one hand and dealers and customers on the other, it is important to stress how crucial this channel is in order to get the insights on demand and market trends. As we have seen, this interaction is handled differently within the two organizations. At business area A, price managers contact regional price managers who in turn interact with the dealers, thus adding an additional step in the communication process. Conversely, product managers at business area B interact directly with the dealers. The same goes for competitors' pricing, which is monitored centrally by product managers at business area B, and separately in each region by the regional managers at business area A.

Yet another hurdle is the different IT systems in use to support the pricing process at the two business areas. After more than 20 years of service, the mainframe system in use at business area A is by now outdated and needs replacing. Such a project has been initiated and the preliminary specification is based on the feedback and wishes of the price and product mangers at business area A. However, no coordination has at this point taken place with the pricing and aftermarket departments at business area B. Unfortunately, they are not in the same need of an updated IT support tool, as a new SAP system was introduced for this purpose only a few years back. Furthermore, staff that we have talked to emphasize the differences in terms of documentation, the parts structure, pricing procedures and accounting as obstacles to a common IT system. However, irrespective of these challenges, price and product mangers at both business areas argue that improved interfaces between the different systems are required to improve pricing coordination between the two business areas. The current situation, where common parts are identified all along the value chain, sometimes even by customers, and then specified manually in the IT systems, is untenable if the quality of the pricing is to improve.

Comparing the pricing methodologies at business areas A and B, what stands out is not the common underlying approach of customer value-based pricing, but rather the more extensive routines and higher degree of formalization at business area B. While interviewees at both business areas agree that hands-on knowledge of the parts, rich contacts both up- and down-stream and in-depth pricing experience is indispensable to achieve good quality prices, the views on the need for formalization and direct management diverge. The reasons for this is as stated by several interviewees to a large extent cultural, as business area B has its origin and main operations in a cultural sphere where power distances and hierarchies are much more present as compared to the cultural sphere of business area A and the Group, where empowerment of employees by delegating decisions is the common practice. One concrete example of how the differences in the management style express themselves is how pricing performance is monitored. While everyone we have talked to at both business areas agrees that it is difficult to measure the performance of a pricing process, the ambition to actually do so is higher at business area B. Here, price and product managers discuss performance in terms of the number of parts priced and complaints received, whereas the staff at business area A that we asked about performance

evaluation only referred to the difficulties of seeing a connection between their work and the performance of the company as a whole.

In terms of evaluating the efforts made thus far in order to coordinate the pricing processes within the two business areas, it is necessary to differentiate between what one might refer to as "formal" evaluation efforts and simple communication. We define formal evaluation as structures and means of intended and purposeful measurement that is sanctioned by management and actively communicated. Communication, on the other hand, is voluntarily chosen because of its broad meaning. It is the result of informal contacts where the purpose might or might not have been to actually evaluate something. The difference is important in this context as we have only come across what we refer to as formal evaluation within each of the companies, and not in the coordination between the two business areas. In fact, price and product managers on both sides agree that there is to date very little understanding of the process employed at the other company. We have come across all sorts of different descriptions of the counterparts' organization, parts structure and pricing methodology. The general view is also that the communication and interaction between the pricing and product management staff at the two business areas is insufficient.

5. Analysis

Applying the theoretical framework represented by our research model to the empirical findings of the case study, we here present an analysis which aims to identify the dynamics behind the main challenges of an aftermarket multi-brand platform strategy. First, we begin by arguing that the risks of brand and profit erosion, inherent in such a strategy, are somewhat different from those of a single-brand platform strategy. Our observations suggest that these risks are strongly accentuated in the multi-brand aftermarket scenario. Second, we make the argument that homogenized pricing across brands is an important factor in the long-term erosion of brands and ultimately profit. As a result, the success of an aftermarket multi-brand platform strategy is conditioned by a brand-sensitive customer-value based pricing. Last, brand-sensitive customer-value based pricing is only realizable through increased coordination between the different pricing capabilities which in turn is dependant on a more holistic view of platform strategy.

5.1. The Challenges of Platform Strategies Are Accentuated in the Multi-Brand Aftermarket Context

While the strength of the single-brand platform strategy is its ability to leverage both commonality and distinction, the multi-brand platform strategy faces a different logic as it starts out with maximum distinction. Keeping that distinction, while increasing commonality, is probably the main challenge for a multi-brand platform strategy. Even more so from an aftermarket perspective which as such brings increased transparency on the platform as it is represented by single parts, sometimes being identical to one another.

5.1.1. The Risk of Multi-Brand Product Platform Strategy is to Endanger Distinction in the Quest for Commonality

As described in the theory chapter the three main categories of expected benefits from adoption of a single-brand product platform strategy are *increasing efficiency in product development and realization, enhancing flexibility in product design* and *improving effectiveness in market communication and positioning*. [78] They are all based on the exploitation of the inherent *commonality* of the product platform and the main difficulty is to balance the advantages against the risk of neglecting differentiation, referred to as *distinction*. The Group adopted a multi-brand product platform strategy, which mirrors the single-brand strategy in most fundamental ways but with one important exception: effectiveness of market communication and positioning. The inherent similarities of the multi-brand platform derivatives from business area A and B risk brand distinction and their positioning rather than helping them. When considering the brand values of business area A and B, the discrepancy in terms of the abstraction level on which values and extended values are communicated, it is for our purposes even more interesting to note that the values as such are different. The conclusion is thus not one of competing images, but rather that the two business areas seem to leverage their differences in image and brand in order to capture different segments and hence complement each other from a group-level perspective. Similarities in brand positioning breed product cannibalization[79] and thus become a threat to this advantage.

[78] Halman, Hofer and van Vuuren, 2003, pp. 155-156
[79] Kim and Chhajed, 2000, pp. 605-617

Exhibit 11: Single and Multi-Brand Platform Strategies Approach the Dilemma of Distinction and Commonality from Opposite Directions

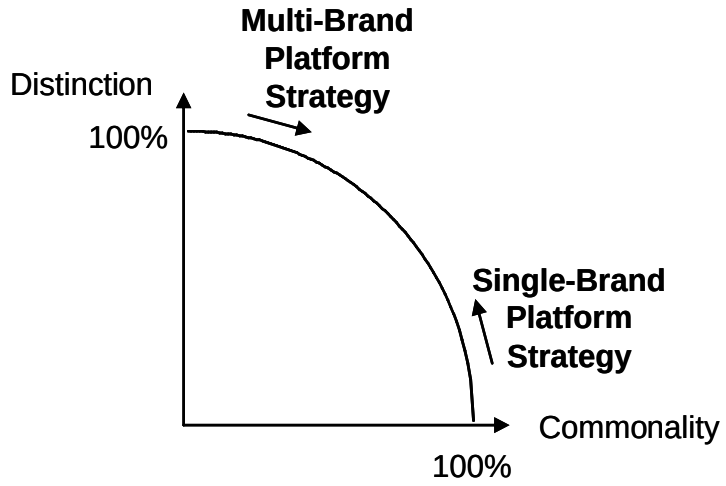


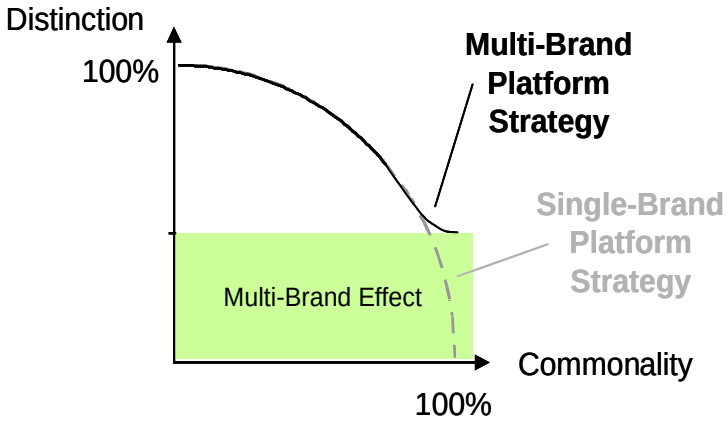
Exhibit 11 illustrates the risk by showing how single- and multi-brand platforms approach commonality and distinction from opposite directions. The starting point of the single-brand product platform is maximum commonality and the focus to increase distinction. The multi-brand strategy starts with two different brands and thus maximum distinction and minimum commonality. The focus of that strategy is to reach a higher level of commonality. This can be compared to the theory chapter's world car examples[80] which from both directions illustrated the peril of not being able to find an optimum level. In accordance to the model of Exhibit 11 the Group approached the multi-brand platform strategy with focus on commonality through R&D, sourcing and manufacturing. With too high commonality however the risk for the Group is literally to be perceived as a single-brand company and thus lose the advantage of capturing different segments with the separate brands of business area A and B.

Following this line of thought companies implementing a platform strategy under a single brand will not be able to achieve as high distinction as with multi-brand products since one product is tied to the other through their common brand names. By implementing a multi-brand platform strategy the Group faced important challenges in achieving product commonality but has an edge compared to being a single-brand company as the differently branded products of business area A and B have high distinction from the outset. Due to the fact that business area A and B operated alone under many years, they both have strong built up brand images. Our case study indicates that the brand images have been kept intact following the acquisition and given their long respective histories in the market, the brand images are likely not to go away overnight. In fact, as distinction is a measure of how customers perceive the differences or similarities between two products, products of two different well-known brands can be argued to be perceived at least to some extent different, even under increasing commonality. Based on this reasoning, it is plausible that a multi-brand company implementing a platform strategy across different brands will not attain zero distinction, even as commonality approaches a maximum. This stipulates what we call the *multi-brand effect*, implying that different brands will never reach zero distinction even when commonality approaches a maximum.[81] This effect is illustrated in Exhibit 12.

[80] Womack, 2007, Sawhney, 1998

[81] The launch of Citroën C1, Peugeot 107 and Toyota Aygo is a supporting example of nearly identical vehicles being developed with their brand names as the main differentiator.

Exhibit 12: The Multi-Brand Company Faces a Different Trade-off between Distinction and Commonality



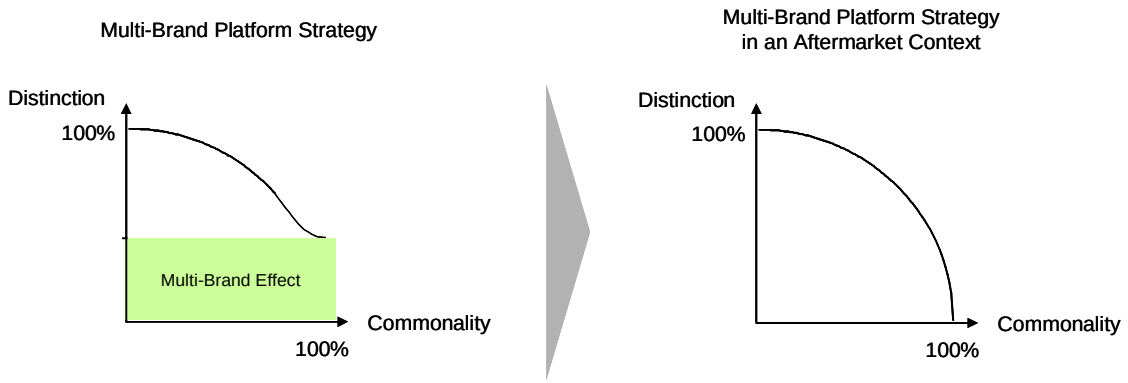
However as this effect may be true in theory, the question is how far commonality can be driven under separate brands without reactions from the customer side? This is something we will return to and address in the next section from an aftermarket perspective.

5.1.2. The Transparency of the Aftermarket Reinforces the Risks of Multi-Brand Platform Strategy

In the previous section we looked at how single- and multi-brand platforms approach the balancing of commonality and distinction from opposite directions and consequently how their respective trade-offs are different. We introduced the term *multi-brand effect* referring to the improbability of a multi-brand platform reaching zero distinction. Nonetheless it is probable that it does not need to reach zero distinction before customers react. The question for the Group is how far commonality can be driven under separate brands without customers taking action. While acknowledging the importance of brand image when it comes to the finished product, it is not clear whether the relation also holds as strong for aftermarket parts sales in a business-to-business context. If a well-informed customer is in need of a certain part that is available under several different brands, there is a risk that the actual brand will not be a differentiator strong enough to merit a higher price level for one or the other. Sköld differentiates between finished products and product elements as parts, where commonality is focused on parts and distinction on the finished products.[82] In the aftermarket the parts are equal to the finished products and consequently the commonality extremely transparent. While offering bundles of products and services is one way for the Group to decrease the transparency, among *sales installation* and *sales branding parts*, the lowest levels of differentiation for Group parts, the differentiator is merely a different sticker or package. Under such circumstances the logic of the multi-brand effect might not apply. This equals that in the aftermarket the single-brand logic of platform strategy applies – even for multi-brand platforms. Given the combination of extreme commonality and extreme transparency, in the aftermarket single- and multi-brand platforms follow the same logic. This is illustrated below in Exhibit 13.

[82] Sköld, 2007, pp. 199-201

Exhibit 13: In the Aftermarket Multi-Brand Platform Strategy Follows the Logic of Single Brand Platform Strategy



As described in the empirical chapter, the aftermarket is critical for the Group from a profitability perspective. While the finished products are sold at discounts reducing profitability, the aftermarket is proving an excellent source for higher margins and increased turnover. Using Andersson's terminology the aftermarket functions first and foremost as a *profit maker* for the Group.[83] But it is also an important *impression creator* from a brand building point. The indifference of single- and multi-brand platforms in the aftermarket means that the risks of being perceived as a single brand is evident, which in turn would mean losing the advantage of capturing different segments with the separate brands of business area A and B. This entails two grave risks; *profit erosion* and *erosion in image or brand value*.

5.2. Brand-Sensitive Customer-Value Based Pricing Is Necessary to Manage the Challenge of Platform Strategies in a Multi-Brand Aftermarket Context

The key to balancing commonality and distinction in the aftermarket is to succeed with joint pricing based on customer value. The price homogenization of the Group is a short-term remedy to the brand and profit erosion risks. In the longer term both business areas need to incorporate brand distinction in the pricing process.

5.2.1. Pricing is Key to Managing the Challenge of Brand and Profit Erosion

From an aftermarket perspective, the increased product commonality needs to be managed by preserving brand distinction, uphold the impression of two separate brands and safeguard profits. While this is true for the aftermarket as such, it is important to note that it also has implications for the company identity in general. Distinction has been promoted by explicit branding of key parts in and outside the common parts range, and by limiting aftermarket transparency through bundling of parts and services. In addition to these efforts, the aftermarket organizations also need to tackle the problem of pricing the common parts. Deciding whether and how a common part should be branded requires interaction between the two business areas, and therefore a council with representatives from both business areas has been set up to discuss parts branding. In terms of pricing common parts, the problem is infinitely more complex. Aside from the difficulties that correspond to those of branding common parts, there is the additional problem of agreeing on the discrepancy between the prices: Should the difference be 10%, 15% or 0%? And should such decisions be made on a part-by-part basis, or across all common parts? In this case, management at the two business areas agreed to tackle this complexity by agreeing to homogenize prices across all common parts. The short-term effects of this decision have been overall encouraging because of the "golden rule" to always apply the higher price if there is a

[83] Andersson, 1988, pp. 692-720

difference. In reality, the result is that business area B has increased its prices to business area A's levels. As a consequence, margins have gone up for business area B, which also affects group-level margins positively.

While the effects of the homogenization of prices on common parts have indeed been positive, the risks of this approach should not be neglected. Several authors specifically point out the danger of letting short-term results take the upper hand of what is best in the long run.[84] There is undoubtedly a strong connection between branding and pricing, and our case study indicates that these are in fact the two main differentiators available to the aftermarket organizations as they seek to preserve distinction between the two offerings. Karlsson and Sköld elaborate on the inherent differences of a multi-brand strategy and how these opposites need to be managed jointly and balanced.[85] The approach of price homogenization kills differentiation in that aspect as it is not an act of balancing, but commonalization only. In this light, it is problematic that the two business areas have chosen to withdraw from pricing as a means to achieve distinction. In effect, the short-term gains of reduced complexity and increased margins may have serious long-term effects if, as is very likely the case, distinction is reduced. While these are long-term effects that have been discussed and deemed plausible by different stakeholders during the case study, this study does not have the means of moving beyond a hypothesis, as observing such a long-term phenomenon would require a longitudinal case-study with observations over a longer time period. However, the adverse effects of homogenized prices are further supported by the fact that price is the main differentiator in this market. This is so because of the transparent nature of the aftermarket and because of the well-informed customers that characterizes the business-to-business transactions.

5.2.2. Customer-Value Based Pricing Needs to Incorporate Brand Distinction in Order to Avoid Brand and Profit Erosion

The previous section concludes that the current approach to pricing common parts has an all too narrow focus which is mirrored in the lack of interaction between the two pricing organizations. As argued by Muffatto organizational structures and formal procedures for coordination are crucial to secure multi-brand knowledge transfer.[86] In the case of the Group and parts pricing, there is little interaction and no formal structures. There is for example no equivalent to the group-wide branding council for pricing. This suggests that while both aftermarket organizations moved to customer-value based pricing years ago; maximizing value under a multi-brand platform strategy requires that both organizations jointly seek to incorporate brand distinction as a key parameter. As opposed to avoiding the complexity of pricing common parts by agreeing to homogenize prices, brand-sensitive customer value-based pricing would seek to tackle this complexity. The motive is to preserve distinction and maximize long-term value. By setting prices and jointly deciding on the price discrepancies for each part or category of parts, the resulting prices will not only reflect what customers are willing to pay for an isolated part carrying one brand or another. Moreover, the price discrepancy will reflect the comparative importance of certain characteristics of the particular part or category of parts, as reflected in the brand. With a systematic approach to handle the resulting increase in complexity, brand-sensitive customer-value based pricing will arguably preserve brand distinction and improve margins.

[84] Meyer and DeTore, 2001, p. 190, Lundbäck and Karlsson, 2005, pp. 168-172
[85] Karlsson and Sköld, 2007, pp. 138-140
[86] Muffatto, 1998, pp. 491-492

5.3. *Successful Aftermarket Multi-Brand Platform Strategy Requires a Holistic Management Approach*

To succeed with customer-value based pricing and counter the risks of brand and profit erosion, coordination between the pricing organizations is a must. The differences in organizational, structural and methodological set-ups are the main challenges to effective coordination. A broader perspective on platform strategy may be the key to overcome these challenges.

5.3.1. The Lack of Aftermarket Pricing Coordination Impedes Brand-Sensitive Customer-Value Based Pricing

Several authors point out that management holds the key to achieving balance between commonality and distinction by providing the conditions to do just that.[87] The previous part suggests that the risks of brand erosion, and ultimately profit erosion, inherent in the aftermarket multi-brand platform strategy must be countered with brand sensitive customer-value based pricing. The Group's main challenge is the process behind it which in turn is compromised by the differences in organization, parts structure and methodology. The differences in organizational structures of the two business areas make coordination difficult and time-consuming but at the same time even more important as it has direct effects on the daily work hindering communication between the business areas. The divergence in parts structures and methodologies employed by the two parts pricing organizations creates challenges for understanding one another. The case showed that the gap between how the different approaches to pricing are implemented at business area A and B is significant. In terms of product structures, the problems and approaches show little differences, just as in the case of the pricing methodology. Unfortunately, the differences in terms of the implementation of the pricing methodology are reflected also in the implementation of product structures. With categories, technical and business families on one side and function groups, marketing codes and families on the other, the different "languages" impede the coordination efforts. It seems difficult, not to say impossible, to achieve brand-sensitive customer-value based pricing between the two business areas if the divide between the applied methods is not bridged. Meyer and De Tore go as far as concluding that organizations need to go even further than coordinating processes.[88] Physical co-location is what they propose, which highlights how far from the ideal integration the Group is.

It is plausible that pricing integration has not taken place because of a bias towards the early stages of the value chain. Meyer and DeTore warn for how such a focus is common among executives.[89] In effect, the decision by Group management to take collective action to reorganize R&D, sourcing and to some extent manufacturing to accommodate for the common platform strategy, while at the same time leaving down-stream challenges up to the individual business areas, emphasizes such a biased focus. When considering the areas of integration highlighted by Lundbäck the bias is clearly on the *technical content* which has received a great deal of attention, likely at expense of other areas.[90] *Organization*, as described above, has received attention but not in the aftermarket. In terms of *information sharing* pricing is a knowledge and staff imperative for the pricing performance. Thus interaction between price/product managers and supporting staff could be expected to be an area of high focus. Instead our case shows that staff at business area A and B do not know much about how work is done at the counterpart, neither whom to contact for coordination.

[87] Sköld and Karlsson, 2007, Lundbäck and Karlsson, 2005
[88] Meyer and DeTore, 2001, pp. 158-161
[89] Ibid, pp. 203-204
[90] Lundbäck, pp. 267-277

5.3.2. Pricing Coordination Requires an Holistic Management Approach

The narrow focus on the early value chain can be interpreted as a gap of knowledge about platform strategy. The theoretical chapter's review of platform strategy showed how platform strategy stretches further than building common product platforms. The platform strategy is in itself multidimensional and must thus be managed accordingly. In practice this means that the adoption of a multi-brand product platform strategy needs to be accompanied with a broader perspective of platforms covering the organization and processes as well. Not only do products need to be homogenized into platforms, the same goes for organizations, processes etc. Karlsson and Sköld suggest that commonality should take processes as the starting point rather than components.[91] In the analysis of the Group, business area A and B are concluded not to reflect the picture of platform strategy drawn in literature more than to a limited extent, more specifically in regards of the early value chain. This comes as no surprise since theorists themselves have made similar findings of how the recent models of platform strategy literature are only partially in actual use among companies.[92] Sköld concludes his study on synergy realization that both technically-oriented and market-oriented perspectives need to be considered as an entirety.[93] Such a focus would render the entire value-chain focus from the start and integration processes commenced from the beginning.

[91] Karlsson and Sköld, 2007, p. 140
[92] Halman, Hofer and Van Vuuren, p. 151
[93] Sköld, 2007, pp. 207-215

6. Synthesis

Whereas the previous chapter presents an investigation of the component parts that constitute the aftermarket multi-brand platform strategy, and their respective relations, the authors here attempt to combine the researched ideas into a new whole. The aim is to leverage and synthesize the acquired understanding to construct an approach with the potential to guide others who will attempt to research the intersection between multi-brand platform strategy and the aftermarket. First, we acknowledge that there is indeed a need for such a new approach. Second, we offer a model that combines the three key challenges of an aftermarket multi-brand platform strategy – the degree of commonality, segmentation, and transparency – with the three levers companies can use to address these challenges – branding, pricing, and channel management.

6.1. Fully Capturing the Challenges of an Aftermarket Multi-Brand Platform Strategy Requires a New Unified Approach

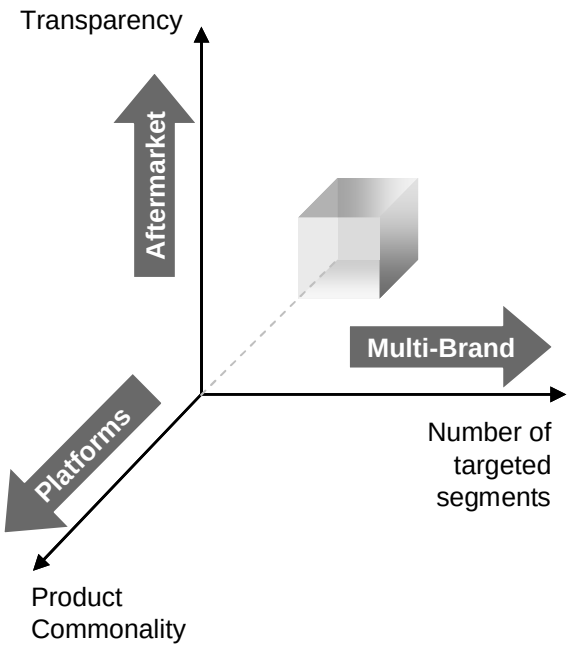
As we, and many before us[94], have shown, the model representing the trade-off between *distinction* and *commonality* is key to understanding the dynamics of a platform strategy. This study has identified two additional aspects of this model, which also reflect the progression of our analysis. First, we have described the *multi-brand effect* which we argue sets a lower limit to distinction as commonality approaches a maximum.[95] Second, we have argued that the *high transparency* of the aftermarket, where comparing differently branded part is relatively straightforward, eliminates the multi-brand effect.[96] However useful, the commonality-distinction model fails to capture all relevant aspects of the intersection between multi-brand platform strategy and the aftermarket.

The commonality-distinction model is indeed a straightforward and practical tool. From a traditional product platform perspective, "commonality" is a measure of the degree of common components across products belonging to the same platform. In this sense, we talk of *product commonality*, which reveals an intrinsically internal perspective. Second, the power of the model derives from the combination of this internal perspective with the external perspective of distinction. In contrast to *product distinction*, which is ultimately the same measure as *product commonality* and therefore irrelevant to this discussion, distinction is a measure of how customers *perceive* the products belonging to a common platform. The model suggests that successful platform strategies combine high product commonality with high distinction. High commonality enables economies of scale, and high distinction enables the company to target several segments by catering to several different customer needs. Because distinction is a measure of how customers perceive product differences, we argue that *the number of different product derivatives is one of the key drivers limiting distinction*. This causality is further accentuated in the multi-brand context. Not only are there different brands, but companies are likely to target several different segments with each brand. Substantial overlaps between the targeted customers are therefore likely, as is also suggested by our case study. Concluding on this part, we would like to emphasize that while it is it highly relevant to talk of product commonality in the multi-brand aftermarket context, distinction only partly captures the relevant dynamics. Instead, we argue that replacing this perception-oriented perspective by a pure *results* and *market* focused perspective will enable a more thorough and tailored analysis. Therefore, we argue that measuring the number of *targeted*

[94] Halman, Hofer, and van Vuuren, 2003, p. 150; and Ulrich and Robertson, 1998, p. 23
[95] Confer section 5.1.1
[96] Confer section 5.1.2

segments is a more suitable perspective. The rationale is that multi-brand strategy suggests that more segments are being targeted than under a single-brand strategy. In addition to product commonality and the number of targeted segments, fully capturing the challenges of the aftermarket multi-brand platform strategy also requires a third dimension, namely *the level of transparency*. As mentioned above, we have argued that the aftermarket is characterized by high transparency.

Exhibit 14: A Unified Approach to Aftermarket Multi-Brand Platform Strategy



Having established this model in order to appropriately capture all relevant challenges of the aftermarket multi-brand platform strategy, we will limit ourselves to its explanatory and descriptive qualities and we will not elaborate on its practical applicability. Our next step is to connect the identified challenges with the appropriate responses and related capabilities.

6.2. Addressing the Key Challenges Requires a Multi-Dimensional Approach with a Particular Focus on Multi-Brand Parts Pricing

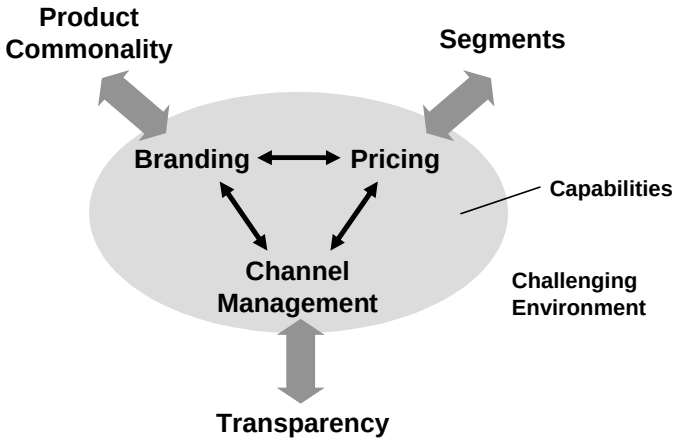
With value-creation as the ultimate aim, and the challenges in terms of commonality, segmentation, and transparency as obstacles to achieving this aim, the relevant question from a practical stand-point is how companies can address these challenges. The practical use of our research has in fact been a guiding principle from the early stages of this project.[97] While attempting to meet these initial ambitions, moving beyond the purpose of this study and seeking to formulate prescriptive recommendations will potentially also enable us to verify the relevance and validity of our analysis.

The tools at the disposal of companies who seek to address the market-related challenges of an aftermarket multi-brand strategy are by definition part of that company's *marketing* efforts. The tools and tactics that we have come across during our case study can be summarized by three different concepts: *branding*, *channel management*, and *pricing*. First, effectively building different brand identities will reduce the perceived commonality. Second, effectively separating sales channels will reduce customers' ability to compare prices and thus limit the otherwise high

[97] Confer section 3.2.4

transparency of the aftermarket. Third, effectively differentiating prices with regards to the perceived value for customers in different segments, will reduce cannibalism between the own brands that occurs if price discrepancies between the brands are too low, i.e. customers switching to premium brand, or too high, i.e. customer switching to the non-premium brand. For two reasons, successful companies need to perform well in all three dimensions. First, our case study shows that the three levers are mutually reinforcing; e.g. differentiated pricing is possible because business area A has a stronger brand, and the price discrepancies in turn reinforce the perceived premium of brand A. Second, each of the levers corresponds to one of the challenges identified above. Exhibit 15 depicts how branding, pricing and channel management mutually support and reinforce one another, and how these three levers are related to the identified challenges.

Exhibit 15: Key Levers to Address Aftermarket Multi-Brand Platform Challenges



While this model connects challenges and levers directly and might seem straightforward, performing well in any of the three dimensions has very different implications in terms of the required organizational capabilities. First, to successfully manage the brand portfolio requires first and foremost a clear vision and branding strategy, whereas the need for building new capabilities is limited to for instance establishing a common council to oversee the branding of common parts.[98] Second, successful channel management requires that the sales capabilities, i.e. dealers, are kept apart.[99] Potentially, the effectiveness and consequences of such a strategic agenda will also need to be monitored by a common council. Third, as we have argued above[100], successfully implementing *brand-sensitive customer-value based pricing* requires not only a common approach to pricing, but also extensive coordination between the separate pricing capabilities. Given the mutual interdependencies between the three levers and the relatively higher complexity of achieving successful pricing, efforts to manage the aftermarket multi-brand platform strategy should focus on the implementation of brand-sensitive customer-value based pricing. The relevance of this conclusion is emphasized by the fact that because it is difficult to achieve, effective pricing is a potential source for competitive advantage.

[98] Confer section 5.2.1
[99] Confer section 4.2.1
[100] Confer part 5.2

7. Conclusions

This study set out to identify and analyze the main challenges of a multi-brand platform strategy in the aftermarket and the dynamics behind them. This chapter details the conclusions drawn regarding the main challenges in themselves as well as specifying the conditions relevant for understanding them. The conclusions are presented as the four main challenges identified by this study.

Challenge one – *Commonality*: The main challenge of single-brand platform strategy, *balancing commonality and distinction*, is also the main challenge for the multi-brand platform strategy. However single- and multi-brand platform strategies approach the challenge from opposite directions, leading to different challenges:

- For the multi-brand platform strategy, commonality forms a double-edged sword; at one hand leading to increased efficiency and flexibility, while on the other turning the positional advantage of single-brand strategy into a risk of brand and profit erosion.
- At the same time the dilemma between commonality and distinction is alleviated in the multi-brand context as identical products carrying different brands are not likely to be perceived by customers as having zero distinction (*the multi-brand effect*).

Challenge two – *Transparency*: The aftermarket reduces the perceived advantages of the multi-brand effect and accentuates the challenges of a multi-brand platform strategy.

- In the aftermarket the multi-brand product platform is represented by its very parts, which, being practically identical, makes the distinction of different brands hard to perceive.
- Thus the multi-brand effect might not apply and the risk of brand erosion is accentuated.

Challenge three – *Segmentation*: In comparison to the single-brand platform strategy, the multi-brand platform strategy offers additional challenges – these challenges are in turn reinforced by the size of the brand portfolio and the number of segments targeted.

- Pricing is the key lever in order to manage the challenges of the multi-brand platform aftermarket.
- As homogenized pricing reduces distinction, pricing needs to be based on customer value and with sensitivity to the different brands (*brand-sensitive customer-value based pricing*).

Challenge four – *Coordination*: Companies must homogenize their disparate pricing capabilities using a more holistic view on platform strategy, in order to enable brand-sensitive customer value-based pricing.

- The lack of aftermarket coordination impedes brand-sensitive customer-value based pricing.
- The aftermarket must be taken into consideration at the outset of the platform strategy implementation, going outside the boundaries of traditional product platform strategy.

8. Further Research

The authors would like to stress that since this research project has been conducted within the frame of a single case study, it can not independently serve as the basis for new theory. However, the generation of new theory is, as we have seen, highly relevant both because of the economic and strategic impact of platforms in the aftermarket, and because our investigation shows that there is no previous research on the intersection between platforms and the aftermarket. As a consequence, we would like to take this opportunity to repeat that we would welcome initiatives to repeat our study in a different context in order to test the universality of our findings.

9. References

9.1. Print Sources

9.1.1. Articles

Halman, Johannes I M, Hofer, Adrian P, & van Vuuren, Wim. 2003. Platform-driven development of product families: linking theory with Practice. *Journal of Product Innovation Management*, 20(2): 149-162.

Kim, Kilsun, & Chhajed, Dilip. 2000. Commonality in product design: Cost saving, valuation change and cannibalization. *European Journal of Operational Research*, 125(3): 602-621.

Krishnan, V, & Gupta, Saurabh. 2001. Appropriateness and impact of platform-based product development. *Management Science*, 47(1): 52-68.

Karlsson, Christer & Sköld, Martin. 2007. Counteracting Forces in Multi-branded Product Platform Development. *Creativity and Innovation Management*, 16(2): 133-141.

Lundbäck, Magnus. 2002. Cross-brand product platforms: a product development perspective on acquisitions in the automotive industry. *International Journal of Technology and Management*, 2(3/4): 261-279.

Lundbäck, Magnus, & Karlsson, Christer. 2005. Inter-firm product platform development in the automotive industry. *International Journal of Innovation Management*, 9(2): 155-181.

Meyer, Marc H, & DeTore, Arthur. 2001. Perspective: Creating a platform-based approach for developing new services. *Journal of Product and Innovation Management*, 18(3): 188-204.

Muffatto, Moreno. 1998. Reorganizing for product development: Evidence from Japanese automobile firms. *International Journal of Poduction Economics*, 56-57(3): 483-493.

Muffatto, Moreno. 1999. Introducing a platform strategy in product development. *International Journal of Production Economics*, 60-61(3): 145-153.

Muffatto, Moreno, & Roveda, Marco. 2000. Developing product platforms: analysis of the development process. *Technovation*, 20(11): 617-630.

Robertson, David, & Ulrich, Karl. 1998. Planning for Product Platforms. *Sloan Management Review*, Summer: 19-31.

Sawhney, Mohanbir S. 1998. Leveraged high-variety strategies: from portfolio thinking to platform thinking. *Journal of the Academy of Marketing Science*, 26(1): 54-61.

Sköld, Martin & Karlsson, Christer. 2007. Multi-branded platform development: a corporate strategy with multimanagerial challenges. *Journal of Product Innovation Management*, 24(6): 554-566.

Sudijanto, Agus & Otto, Kevin. 2001. Modularization to support multiple brand platforms. Paper in conference proceedings, presented at the *ASME Design Engineering Technical Conferences*, Pittsburgh, USA.

9.1.2. Books

Meyer, Marc H, & Lehnerd, Alvin P. 1997. *The Power of Product Platforms: Building Value and Cost Leadership,* New York: The Free Press.

Samuelsson (red.), Lars A. & Olve (red.), Nils-Göran. 2004. *Controllerhandboken*. Stockholm: Liber.
Sköld, Martin. 2007. Synergirealisering: Realisering av Produktsynergier efter Företagssammanslagningar, Stockholm: EFI.
Ulrich, Karl. & Eppinger, Steven, 2000. *Product Design and Development*., New York: McGraw-Hill.
Womack, James P., Jones, Daniel T. & Roos, Daniel, 2007. *The Machine that Changed the World,* London: Simon & Schuster.
Yin, Robert K. 2004. *Case Study Research – Design and Methods,* Thousand Oaks: Sage Publications.

9.1.3. Other

Annual and other Company Reports 2005-2008

9.2. Internet Sources

Company websites June 2006 – January 2009

9.3. Interviews

In order to preserve the anonymity of the case company, only the titles of the interviewees are listed below.

Business Area A
Manager Pricing Department (2)
Manager Product Department
Price Management Specialist
Price Managers (5)
Regional Price Manager

Business Area B
Senior VP Customer Service
Marketing Group Manager
Product Group Managers (2)
Pricing and Market Survey Manager
Market Analysis Manager
Product Managers (4)

Other Group Functions
Manager, Business Development, Corporate Support Function
Manager, Product Planning, Corporate Support Function

External Experts
Senior Executive Advisor, Booz & Company, Chicago
Principal, Booz & Company, Stockholm
Senior Consultant, Mars & Company, Paris

Appendix

Interview Questions

Introduction and Presentation

Hi, we are final-year students from *Handelshögskolan i Stockholm* (the Stockholm School of Economics) writing our master thesis for NN. We are looking at the pricing process of multibrand parts that are common for NN and NN.

Our aim with this study is to identify improvements in the process of pricing common parts and more specifically: to define an inter Business Area pricing process which enables to set the price only once. The first step then is to chart out the current process.

For this assignment we will be performing interviews with NN and NN.

The project will run during late summer/fall 2006.

Questions

<u>About the Interviewee</u>

1. What is your position (title and role)?
2. What are your work tasks?
3. What are your responsibilities?
4. How long have you worked at NN? With aftermarket related issues?

<u>The Organizational Structure</u>

1. How would you describe the organizational structure of the marketing PR department?
2. From your perspective, what are the main advantages and drawbacks with the organizational structure that you employ?
3. What advantages / disadvantages do you see with the merger between business area A and B?
4. How would you describe the work-load within your organization? Do you have the resources you need and are your colleagues in general satisfied with their roles?
5. Detailed question: From our point of view, you seem to have divided the product responsibility into two different categories (i.e. servicing – electricity – accessories and brakes – mechanical – body work) why is this? What are the advantages and/or possible drawbacks?

The Product Structure

1. Could you please help us understand the product structure you employ at NN and within the NN department?

Performance Evaluation

1. How is the performance of the pricing process measured and followed-up?

Pricing Methodology

1. What is your general view of the pricing process (historic design, major changes, consequences from the merger with NN, seasonality)?
2. Detailed question: Who are involved in the actual pricing of parts? Please define the roles of the following departments/functions:
   - NN
   - …
3. In which way are you yourself involved in the pricing process?
4. How would you describe the pricing methodology employed within your organization? (Cost plus markup, customer value based etc.)
5. With whom are you involved, both internally in NN, in NN and externally (dealers…)? Please describe the most important contacts, both up- and downstream, and how you interact.

Support Tools and IT-systems

1. What are your main sources of input data in the pricing process?
2. What support tools and IT-systems are used in the pricing process? Are these tools up to date and do they offer satisfying performance?
3. Once determined, how and to whom is the price information distributed?

Dealer Network

1. Could you please describe the NN dealer network and how it is organized?
2. Please describe the relations with NN.

Pricing of Multi-brand Parts

1. What is your general view of the cooperation between NN and NN aftermarket?
    - If applicable, who is your counterpart at NN?
    - How would you describe the work of your counterpart at NN?
        - Would you say that their work is similar to yours?
        - What do they do differently?
        - Is there anything they could do differently to facilitate for you?

2. What is your general view of the current methods and processes for pricing multi-brand parts?
3. Do you feel that you receive adequate information for producing good prices? Are there any systematic failures or information lacking?
4. Do you feel that you, as a manager and as an organization, have focused enough on the pricing of multi-brand parts? What has been done and what can be done?
5. What is your view on the similarities between the NN and NN corporate cultures? Has this hindered or helped cooperation in the past? Does it, from your point of view, affect the pricing of multi-brand parts?

Looking Forward

1. What are the main challenges for your organization in the years to come?
2. Do you feel that you have the adequate resources to handle these challenges?

Detailed Questions (Please answer, if possible.)

1. What are the annual sales of NN parts?
2. What is the total number of NN parts?
3. What is the average yearly price increase (this year, last year...)?

Personal Questions

1. From your point of view, what makes your work interesting? / What is the best part of your work?
2. Have you ever encountered problems in the pricing process? / What happens when you encounter problems in the pricing process?
3. Please describe, if possible, how you managed to solve a complex pricing/product related problem?
4. Why did it happen in the first place?
5. What are the most interesting aspects of your work?
6. What are the most demanding aspects?
7. Are there any negative aspects?

Then we are done, unless there is anything else you would like to add?

End

Thank you for your time! If you later on feel that there is anything you would like to ask or add, please feel free to contact us at any time.