Obstacles when implementing a value-based pricing strategy:

A case study – Volvo Construction Equipment

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Abstract

Pricing is a complex yet important process that has a large influence on profitability; however, few managers utilize pricing as a strategy to increase competitive advantage. The potential of pricing based on specific customer’s needs should be acknowledged, since it is beneficial for the customers by allowing them to recognize the true value of a product. It is also beneficial for marketers since they can present the price in the content of a total solution tailored for those customer needs.

Even though a value-based pricing strategy is considered superior to alternative pricing strategies, few companies practice it. The limited amount of researches that has been conducted in the field of value-based pricing strategies has revealed various obstacles in the implementation phase. However, it is still not proved that these obstacles can be found in all industries.

The purpose of this thesis is to present research in the field of pricing, by adding to prior research, practical observations on obstacles when implementing a value-based pricing strategy. A qualitative case study at Volvo Construction Equipment in Sweden was conducted and the results show similarities with prior researches. However additional obstacles were identified and further evidence from this study stresses the importance of possessing fundamental knowledge about value-based pricing strategies; as it impacts a company’s ability to implement it successfully and entirely.

Therefore this thesis includes the fundamental knowledge and describes how obstacles connected to the concept are perceived in practice. Further a managerial framework is provided to help companies interested in implementing value-based pricing strategies.

Keywords: customer value, pricing, value-based pricing, value-based selling, profitability
# Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>B2B</td>
<td>Business to Business</td>
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<tr>
<td>VBP</td>
<td>Value- Based Pricing</td>
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<tr>
<td>VBS</td>
<td>Value-Based Selling</td>
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<tr>
<td>TCO</td>
<td>Total Cost of Ownership</td>
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<td>VCE</td>
<td>Volvo Construction Equipment</td>
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</tbody>
</table>
# Table of Contents

1. Introduction ............................................................................................................................................ 1
   1.1 Background ....................................................................................................................................... 1
   1.2 Problem background........................................................................................................................ 2
   1.3 Problem area ..................................................................................................................................... 3
   1.4 Purpose .............................................................................................................................................. 4
   1.5 Delimitations ..................................................................................................................................... 4
   1.6 The structure of the report ............................................................................................................. 4

2. Theoretical Framework .......................................................................................................................... 6
   2.1 Value ................................................................................................................................................... 6
   2.2 Value-based pricing (VBP).............................................................................................................. 8
   2.3 Value-based selling (VBS) ............................................................................................................. 10
   2.4 Value-based pricing implementation (VBP Implementation) ................................................. 11
      2.4.1 Change management .............................................................................................................. 12
   2.5 Literature discussion ...................................................................................................................... 14
   Research question ................................................................................................................................. 16

3. Methodology ......................................................................................................................................... 17
   3.1 Research approach ......................................................................................................................... 17
      3.1.1 Inductive vs. Deductive Research ....................................................................................... 17
      3.1.2 Qualitative vs. Quantitative Research ............................................................................... 17
   3.2 Research design .............................................................................................................................. 18
   3.3 Data sources .................................................................................................................................... 19
   3.4 Research strategy ............................................................................................................................ 20
   3.5 Data collection method ................................................................................................................. 21
      3.5.1 Operationalization ................................................................................................................... 22
      3.5.2 Pretesting .................................................................................................................................. 24
   3.6 Sampling .......................................................................................................................................... 25
      3.6.1 Sampling frame ........................................................................................................................ 25
      3.6.2 Sample selection ...................................................................................................................... 26
   3.7 Data analysis method ..................................................................................................................... 27
      3.7.1 First pattern matching and data reduction .......................................................................... 27
      3.7.2 Second pattern matching and data reduction ..................................................................... 27
      3.7.3 Third pattern matching, data reduction and data display .................................................. 27
3.7.4 Fourth pattern matching and data reduction ................................................................. 27
3.8 Evaluation of qualitative research .................................................................................. 28
  3.8.1 Trustworthiness ............................................................................................................. 28
3.9 Methodology framework summary .................................................................................. 29
4 Empirical findings ............................................................................................................. 31
  4.1 Background of Volvo Construction Equipment (VCE) .................................................. 31
4.2 Result of empirical findings ............................................................................................ 32
4.3 Preliminary analysis ......................................................................................................... 33
  4.3.1 Value-based pricing (VBP) ............................................................................................ 33
  4.3.2 Value-based selling (VBS) ........................................................................................... 34
  4.3.3 Value-based pricing (VBP) Implementation ................................................................. 37
  4.3.4 Additional obstacles .................................................................................................... 40
5. Analysis ............................................................................................................................. 41
  5.1 Value-based pricing (VBP) ............................................................................................. 41
  5.2 Value-based selling (VBS) ............................................................................................... 42
  5.3 Value-based pricing (VBP) implementation .................................................................... 43
  5.4 Additional obstacles ....................................................................................................... 45
  5.5 Summary of results ....................................................................................................... 46
6. Conclusions ......................................................................................................................... 48
  6.1 Main findings .................................................................................................................. 48
  6.2 Additional findings ......................................................................................................... 49
  6.3 Managerial implications ................................................................................................. 50
  6.4 Limitations of the study .................................................................................................. 51
  6.5 Future research .............................................................................................................. 52
References ............................................................................................................................... 53
Appendix I - Differentiation grid .......................................................................................... 57
Appendix II - Interview guide ............................................................................................... 58
Appendix III - Company information .................................................................................... 60
Appendix IV - Additional background information about the respondents ......................... 62
List of Figures

Figure 1. Areas covered in the thesis ....................................................................................................... 5
Figure 2. Estimate economic value .......................................................................................................... 9
Figure 3. Five steps of change (Krüger, 2002) ...................................................................................... 13
Figure 4. Categorization of obstacles into generic keywords ............................................................. 15
Figure 5. Inductive approach .................................................................................................................. 17
Figure 6. Deductive approach ................................................................................................................. 17
Figure 7. Research design ........................................................................................................................ 19
Figure 8. Generic keywords about obstacles ........................................................................................ 23
Figure 9. Five step approach to make effective questions (McNamara, 2009) ................................ 23
Figure 10. Interview process (McNamara, 2009) ................................................................................. 24
Figure 11. Methodology summary .......................................................................................................... 30
Figure 12. Impact of knowledge gap to the intensity of obstacles .................................................... 49
Figure 13. Managerial framework for VBP strategies .......................................................................... 50

List of Tables

Table 1. Different research strategies (Yin, 2009) ................................................................................ 21
Table 2. Example of questions’ realization ........................................................................................... 24
Table 3. Interviewees’ details ................................................................................................................... 26
Table 4. Interviewees’ answers about obstacles ................................................................................... 32
Table 5. Empirical keywords summary .................................................................................................. 33
1. Introduction

The aim for this chapter is to provide the reader with the background and the logic behind why this research is conducted. Subsequently this chapter addresses a research gap which provides the purpose and the delimitations of this thesis. Finally the overall structure of the thesis is presented.

1.1 Background

There is a common assumption that prices are mostly dictated by the market, that producers cannot influence and therefore should focus on costs and volumes instead. This statement is true if you are competing in a market with perfect competition meaning that companies are competing with exactly the same products, however if you are competing in a monopolistic market with differentiated products, price could be influenced. Thus, global companies do not only want to compete with price, what Porter (1980) refers to cost leadership, but instead differentiate in order to distinguish themselves from their competitors and thereby achieve a competitive advantage (Baack and Boggs, 2008). In the topic of differentiation, Kraljic (1983) argues that all commodities cannot be treated in the same way since they have different characteristics. One commodity type that Kraljic mentions is strategic items. These items have the characteristics of high profit impact and high supply risk. One good example of such a strategic item is capital equipment which requires a high initial investment but also has high relevant costs during the product’s total life cycle (Jones and Zsidisin, 2008).

Alternatively Shank and Govindarajan (1992) suggest an additional way to increase competitive advantage by implementing a strategic cost management approach and thus take a wider view on the internal and external costs of the organization. Companies could do this by applying the TCO method, which is a purchasing tool and philosophy where buyers have a long-term perspective that goes beyond the initial investment. The aim is to investigate the relevant costs such as maintenance and operating costs of a specific product from a specific supplier in order to accurately validate buying situations (Ellram and Siferd, 1998; Ferrin and Plank, 2002). Even though the initial and the relevant costs are high for capital equipment; they are profitable since they generate value for their owner when they are productive.
However, the overall costs during the life cycle of the product doesn’t truly reflect the value of it since the costs difference between two products/brands might be similar, but the level of productivity might differ (Ellram and Siferd, 1998). That is why it is important not only to calculate the costs, but also to calculate the profit that a machine generates. One way of investigating the profit is by quantifying a product’s values, and hence use a value-based pricing approach (Hinterhuber, 2004). Since pricing adjustments have a direct impact on profit and cash flow compared to methods such as cost reductions, value-based pricing is an efficient method to defend and if possible increase prices (Simon, Butscher and Sebastian 2003; Hinterhuber 2004; Hinterhuber 2008a; Nagle, Hogan and Zale 2011). However the minority of companies are using customer-value oriented approaches, even if they are superior of the three main pricing approaches (Hinterhuber, 2008a).

1.2 Problem background

Bruck (2010) stated that pricing is one of the most powerful strategies available for marketers and Harmon, Raffo and Faulk (2005) stated that the pricing decision is one of the most critical decisions that a firm needs to deal with when launching a new product.

Tohamy’s and Keltz’s (2008) research discovered that 63 per cent of 155 businesses were lacking a pricing function and according to an empirical study made by McKinsey and Company, less than 15% of the companies do any systematic research on pricing (Clancy and Shulman, 1993). Hinterhuber (2004) agrees that pricing is important and adds that the impact on profitability is greater when influencing the price, compared to other methods such as increasing turnover or reducing costs.

There are three common pricing methods and these are expressed in different terms: cost-based / cost plus pricing; competition / market-based pricing; and finally value-based / strategic pricing / pricing process (Farres, 2012; Hinterhuber, 2008a; Nagle, Hogan and Zale, 2011; Simon, Butscher and Sebastian, 2003). Of these three methods, value-based is considered to be superior to the other two methods (Anderson and Narus, 1998 cited in Hinterhuber, 2008b; Cressman, 2002; Nagle, Hogan and Zale, 2011; Ingenbleek, Debruyne, Frambach, and Verhallen, 2003; Hinterhuber, 2004) and that it leads to profitability in the long-term (Hinterhuber, 2008a).
According to Simon, Butscher and Sebastian (2003), “the average after-tax profit margin of large European companies is slightly above two per cent” and that a one-percentage increase would therefore improve profit margins with 50 per cent. McKinley and Company made a similar study in 2010 and confirmed the potential by revealing that, “a one-percentage-point improvement in average price of goods and services leads to an 8.7 percentage increase in operating profits for the typical Global 1200 company” (Baker, Marn and Zawada, 2010).

Yet, according to an empirical study made by McKinsey and Company, less than 15% of the companies do any systematic research on pricing (Clancy and Shulman, 1993). Hinterhuber (2008a) investigated close to two dozen empirical studies, from two decades and found that only 17% of the companies in those studies are using a customer-value approach compared to competition- and cost-based approaches. Additionally, in a qualitative research made by Liozu, Hinterhuber, Boland and Perelli (2012), they concluded that “few executive professionals possess an understanding of value-based pricing” and that this might be the cause of the lacking practice. In addition, Hinterhuber (2004), and Harmon, Raffo and Faulk (2005) argue that it is difficult and time-consuming to practice value-based pricing. Despite this, there are companies that successfully have managed to implement value-based pricing (Hinterhuber, 2008a). So based on that there are companies that have implemented customer-value approaches successfully, it seems that there must be obstacles that companies need to overcome in order to successfully implement a value-based pricing strategy. Hinterhuber (2008a) and Provines (2010) confirm this and have also managed to identify a small range of obstacles when implementing value-based pricing. In addition, Hinterhuber (2008a) created a model that state specific obstacles when implementing value-based pricing strategies. However, it is not clear to state that these obstacles can be applied for all industries.

1.3 Problem area

Based on the previous section we can confirm that there is a great potential in the use of a value-based pricing strategy and that obstacles to implement the strategy exists. Our intention is thus to investigate the obstacles mentioned in theory and confirm if they are relevant to our case study.
1.4 Purpose

The purpose of this thesis is to present research in the field of pricing, by adding to prior research, practical observations on obstacles when implementing a value-based pricing strategy.

1.5 Delimitations

As mentioned earlier, it appears to be a lack of research in the area of implementing value-based pricing strategies and hence this study can be expanded into multiple directions. We therefore limited our research into a specific area, so it can be conducted according to the time scope of a bachelor thesis.

In regards to this, we decided to focus and gather empirical data from one specific company active in the construction industry in Sweden. Our intention is to identify and describe obstacles when implementing a value-based pricing strategy, and due to the limited resources of a bachelor thesis, we are not focusing on providing solutions to these obstacles.

1.6 The structure of the report

To give the reader a pleasant experience while reading, we have visualized and simplified the overall structure of this thesis and its individual areas of investigation into Figure 1. In chapter one we give an introduction which explains the background and purpose of the thesis. In the theoretical framework stated in chapter two, we discuss what experts and researchers have investigated in the areas of value-based pricing strategies. The aim for this is to give the reader a clear and better understanding about the different processes within a value-based pricing strategy. In the end of this section we present a literature discussion and publish our research question which helped us to answer the purposes of the thesis. In chapter three we elaborate on the methodology used during this study. This chapter addresses our research approach, research design, the sample and finalized by providing the reader with a clarifying of the reliability and validity of the thesis. In the fourth chapter the result from the empirical findings are presented. A preliminary analysis is included in this chapter; the aim for this is described in the beginning of the chapter. The following chapter that is presented is the analysis where we analyse consistencies and differences between chapter two and four. To the end, chapter six covers a
conclusion and a final discussion regarding managerial implications, limitations of the study and suggestions for future research.

Figure 1. Areas covered in the thesis
2. Theoretical Framework

To get a deeper understanding of the implementation process of a value-based pricing strategy, we take a holistic view on the topic of value and investigate the different theories surrounding it. We initiate with a definition of value and continue with describing different areas of value-based pricing strategy and at the end of the chapter a literature discussion is provided and visualized in a research model; followed by the research question.

2.1 Value

Reichheld, (1996 cited in Hinterhuber, 2008b) stated that “…the only way a business can retain customer and employee loyalty is by delivering superior value”. However, Andersson and Narus (1998 cited in Hinterhuber, 2008b) claim that few suppliers in the business markets are able to define value and to answer how value can be measured. In addition they say that, “the ability to pinpoint the value in a product or service for one’s customer has never been more important”.

In 2000, Bowman and Ambrosini tried to state a definition of what value is and how it is created. They found literature saying that “…an organization can be regarded as a bundle of resources, and that resources that are valuable, rare, imperfectly imitable and imperfectly substitutable are an organization’s main source of sustainable competitive advantage”. In addition they state that in order for a resource to be defined as valuable is based on the customers perception and that valuable resource should either increase performance or reduce costs. Zeithaml (1988) also argued that the customer’s needs, his unique experiences, wants, and wishes influence the customer’s perception of the value of a product.

Woodside, Golfetto and Gibbert (2008) found that value is a multidimensional concept and described four value metrics examples:

(1) Value is equal to the relative sum of weighted benefits perceived divided by the relative total costs perceived,

(2) Value is equal to the relative sum of weighted benefits perceived minus relative total costs perceived,
(3) Value is equal to the relative sum of total consequences divided by relative total costs perceived, and
(4) Value is equal to the relative sum of total consequences minus relative total costs.

Ulaga (2003 cited in Hinterhuber 2008b), and Ulaga and Chacour (2001 cited in Hinterhuber 2008b) give a more detailed description of what customer perceived value is by describing its characteristics in a B2B situation. They claim that “Value (1) is a subjective concept, (2) value is a trade-off between benefits and sacrifices, value is (3) multidimensional, value is (4) defined relative to competitors, value is (5) segment specific, and value is (6) future oriented”.

Nagle, Hogan and Zale (2011) argue that customer perceived value “...refers to the overall satisfaction that a customer receives from using a product or service offering” and that this is defined as use value - “the utility that a customer gains from a product”.

Companies can distinguish themselves from their competitors by differentiating their offerings from the competition and thereby capturing additional economic value (Nagle, Hogan and Zale, 2011). Bowman and Ambrosini (1998) state that the price that a customer is willing to pay for a product equals to “price + consumer surplus”. In order for a company to develop more consumer surplus than its competition, they must differentiate in ways that are valued by the consumer (Bowman and Ambrosini, 1998).

The terminology of this is differentiation value and the term can be divided into monetary and psychological value. Monetary value exists on criteria such as total cost savings and income enhancements while psychological value exists on criteria that creates satisfaction, such as prestige and beauty evolved from luxury goods (Nagle, Hogan and Zale, 2011; Bowman and Ambrosini, 1998).

When Rackham (1989) wrote about differentiating, he stated that the basics for a good differentiator is that there needs to be a connection to customer’s needs, and it must clearly differentiate between competing alternatives. Rackham (1989) also introduced the topic of “hard” and “soft” differentiators. Hard differentiators are those which can be objectively measured by the customer. Typical examples might be price, size, weight, speed, compatibility, or delivery. The other list consists of the “soft” differentiators – those which are matters of judgment or which cannot easily be objectively measured. E.g. service offerings and aftermarket product areas including quality (Volvo Group, 2012a). But, quality might not be enough to offer a distinct
competitive advantage which brings Woodruff (1997) to suggest that companies should focus more on the markets and customers.

Eades (2003) suggest three steps when identifying and ranking differentiators in an organization. (1) The organization should identify and define characteristics in the company as well as in their products and services that are different from their competitors. In step (2), they should rank the differentiators in a scale from 1-10 by estimating the uniqueness of these compared to competition. In the last and (3) step, the organization should estimate the value that each single differentiator will give the customer. These findings should then be converted into a “differentiation grid”. An example of such a differentiation grid is available in Appendix I.

### 2.2 Value-based pricing (VBP)

As we previously mentioned, pricing is one of the most powerful strategies available for manufactures, and VBP is superior compared to other pricing strategies (Bruck, 2010; Harmon, Raffo and Faulk, 2005; Hinterhuber, 2004). Provines (2010) stated that VBP is the process of understanding the customers’ needs, and their key values and economics, conceptualizing how the innovation impact each customer relative to other alternatives, and finally quantifying these values and decide how to connect them through pricing. Simon, Butscher and Sebastian (2003) describes a pricing process as “a set of rules and procedures that helps a company to determine and implement prices” which involves: (1) information, models, methodologies, rules, responsibilities, incentives and timing (2) phases (analysis, decision, implementation and monitoring), (3) subjective components (e.g. estimates and experience) and objective components (e.g. market and competitor data).

Hinterhuber (2004) agrees that pricing is very important and adds that the impact on profitability is greater when influencing the price, compared to other methods such as increasing turnover or reducing costs. Additionally Hinterhuber (2004) presents a process of finding and measuring value where he stresses the importance of (1) thinking like the customer, (2) segment the market, (3) identify differentiators from the competitive product, (4) match values to the different customer segments, (5) determine the total economic value, and (6) investigate different price points.
By looking at the reference value, which is the price of offerings that satisfy the same need as yours, and add and/or subtract the differentiation value of your offering, you get the economical value of that offering (see Figure 2) (Nagle, Hogan and Zale, 2011; Hinterhuber 2008a). This differentiation value can be anything that offers increased performance or reduced costs or both when comparing with the customer’s best alternative (Farres, 2012). This will result in an estimation of the economic value of a product based on customer value. Additionally, by doing so, the sales force will have all the right tools and arguments to communicate the values to the customer (Nagle, Hogan and Zale, 2011).

Hinterhuber (2008a) found that the most critical obstacle for most companies is to identify and quantify the added value/s that their products/services offer. Some ways to measure the value to customers are: expert interviews, focus group assessment of value, conjoint (or trade-off) analysis, assessment of value-in-use, and importance ratings.

It is also difficult to apply a pricing strategy that is global and inflexible. When discussing VBP Nagle, Hogan and Zale (2011) use the word strategic pricing, thus they mean strategy as “coordination otherwise independent activities to achieve a common objective”. Global companies seldom develop one truly global pricing strategy due to influencers such as specific country objectives and local market conditions (Hinterhuber, 2004). A way to address that is by segmenting the market, which Nagle, Hogan and Zale (2011) refer to it as “the most important task in marketing”. Market segmentation can be achieved by focusing on different customer needs, which can help in identifying a variety of market segments (Hinterhuber, 2008a). A company can then focus on those market segments with different pricing strategies and marketing. Hinterhuber (2008a) also
states that a price-driven segment is never 100 per cent of a market, but this process can facilitate in the identification of the size and composition of the price-driven segment, as well as the other segments.

### 2.3 Value-based selling (VBS)

Nagle, Hogan and Zale (2011) state that it is not enough for a company to just understand the value that its products/services offer and then translate them into a pricing strategy; in the end the customers have to recognize the values that are offered to them. Hence, it is very important for a company to be able to communicate successfully those values in order to increase the willingness-to-pay and be able to defend the price (Hinterhuber, 2008a; Nagle, Hogan and Zale, 2011; Provines, 2010). Additionally, when communicating value it is more likely for experienced customers in a market to recognize and appreciate the value of an offering (Nagle, Hogan and Zale, 2011).

Nagle, Hogan and Zale (2011) also mention that the price and the value messages have to be adapted depending in which stage of the buying process the customer is in. This buying process includes the stages of origination, information gathering, selection and fulfilment. Finally, as an example they mention that by using a value-based pricing strategy, the salespeople will be “...armed with a clear value story supported by objective data are able to justify price premiums in the face of customers’ aggressive purchasing tactics” (Nagle, Hogan and Zale, 2011).

Hinterhuber (2008a) identified as the second most common obstacle the increasing difficulty for companies to reach out to customers using the traditional marketing tools (i.e. TV, Internet, printed media). To improve the communication of value, companies can focus on communicating product features, then communicating customer benefits, and finally at the most sophisticated level, communicating benefits in accordance with customer needs (Hinterhuber, 2008a). Similarly, Provines (2010) presents three basic understandings that the sales force need to possess: “Understanding the customers’ business economics; understanding how the innovation impacts the customers’ business economics; and having tools to demonstrate the economic value of the innovation to the customer”. He also suggests that to be able to do this, the sales force must understand the value of the products that they are selling, by organizing audits including members from marketing and the sales force, they should jointly discuss: features of the products; how can these features be a
benefit for the customer; and how can these benefits be translated into practical value for the customer.

Additionally, Hinterhuber (2008a) found that when sales teams want to realize their annual goals of volume sold, they usually offer extended discounts to their clients. This behaviour hurts profitability and results in value leakage. Some precautionary actions can be used to deal with that situation such as: level of authority for sales discounts, sales force remuneration systems, fixed and variable remuneration systems, sales force training and development, and sales force monitoring. In general the companies should make goals based on profitability instead of sales volume which would pressure the sales force to deliver better results and motivate the involved people to use this strategy (Hinterhuber 2008a; Nagle, Hogan and Zale, 2011).

2.4 Value-based pricing implementation (VBP Implementation)

Nagle, Hogan and Zale (2011) recognize that it is not easy to implement a new pricing strategy due to the fact that it requires input and coordination between several different departments such as marketing, sales, capacity management, and finance. They also state that “Successful pricing strategy implementation is built on three pillars: an effective organization, timely and accurate information, and appropriately motivated management”. The organization needs to incorporate all the processes of the pricing function and have ownership of the decisions necessary for implementation. The managers need to have all the right tools and data available to them in order to take the right decisions, and there needs to be motivation within the organization and the individuals in order to implement a pricing strategy (Nagle, Hogan and Zale, 2011). Additionally Simon, Butscher and Sebastian (2003) state that, “top managers have to be personally involved in the effort to increase profit on the market side…”.

A problem that arises when companies’ managers are willing to follow a value-based strategy approach, is that they need to make organizational changes and take decisions that may be in contrast of their past experiences and training. Additionally some individuals may be resistant to change due to the fact that they do not see any beneficial reason to change or others might feel that their compensation will be affected negatively. To overcome these situations there needs to be a clear leadership from senior management, and to demonstrate successful examples through trial projects (Nagle, Hogan and Zale, 2011). Hinterhuber (2008a) identified that the lack of support by senior managers to fully integrate the characteristics of a value-based pricing strategy
can hurt the implementation phase. Actions like lobbying, networking, and bargaining, can be helpful in resolving this issue (Hinterhuber, 2008a).

More specifically Nagle, Hogan and Zale (2011) mention three main reasons why it is difficult to implement a value-based pricing strategy. Firstly, often the final decisions are negotiated by product managers, sales-people, or senior management that do not have the right abilities to set and manage the prices as good as a pricing function of a company. Secondly, there can be inconsistency when applying a pricing policy, especially if the motivation is not on achieving higher profitability. Finally, managers can be overwhelmed by the amount of data that it is required to take the right decisions and this is where the right tools and analytics are very important.

2.4.1 Change management

Since there is little academic investigation regarding value-based pricing and implementation of value-based pricing (Hinterhuber, 2004), and since value-based pricing is considered a strategic way of pricing (Nagle, Hogan and Zale, 2011), we decided to widen our theoretical chapter by adding theory regarding implementation of strategies.

We have found two approaches that deal with implementation of strategies. In 1996, Kotter released his book about leading change and here he presents eight steps of successfully implementing change. The step (1) is about establishing urgency for change, and in this phase it is all about making people in the organization aware that a change is needed. If they don’t understand the purpose and the importance, they will not have an urgency to change and thereby no willingness to change.

Step (2) is create a guiding coalition, here you need to organize a powerful group with enough power to lead the change. In non-successful implementation cases, companies usually underestimate the difficulties of change and thus the importance of guiding coalition. In the next step (3), the goal is to develop a vision and a strategy. By having a vision that is accessible and shared by everyone, the possibility for error is reduced. Hence, when having a common vision and strategy, everybody knows to a certain extent which direction the project should be headed and what to do to achieve the vision.

The following step (4) is dealing with communicating and sharing the vision by using different methods to enchant and communicate the vision. The change transformation is impossible if people are not willing to help and work together. (5) Empower others to act, in this phase the focus
is on reducing obstacles to the change, meaning that you transform systems and activities so that it better suits your vision. (6) Create short-term wins will increase the motivation and reward for people involved in the project. In the penultimate step (7) is about using the credibility and motivation that exists to Consolidate gains and produce even more change. And in the final step (8), the organization should anchor the change/ institutionalize the change. Make sure that the change sticks and that it is adapted in the culture of the organization.

Additionally we also reviewed Krüger’s (2002) implementation strategy where he shares similar thoughts as Kotter (1996). However, Krüger (2002) adds four appropriate tasks into his five step change process and these will increase the success rate of the implementation.

The transformation framework by Krüger (2002) is based on four accepted conditions. In order for the change process to initiate, the organization must have: (1) a willingness to change - meaning that people are willing to leave their comfort zone and a sense of urgency is present; (2) a need for change - reasons for change might be environmental, financial, technological reasons; (3) strategical renewal - by using strategic analysing tools like Porters (1980) 5 forces model or Kaplan and Norton’s (1992) balanced scorecard - a need for strategical renewal might be discovered; and (4) an ability to change - the basic knowledge and abilities of change must exist within the individuals as well as within the units of the organization.

Additionally to these four steps, Krüger (2002) has identified five steps of change within an organization. The content of these five steps is described in Figure 3.

![Figure 3. Five steps of change (Krüger, 2002)](image-url)
2.5 Literature discussion

The following section is exclusively concentrated on the theoretical elements of obstacles when implementing a value-based pricing strategy.

Several researchers believe that value-based is the best approach to pricing and long-term profitability (Hinterhuber, 2008a; Ingenbleek, Debruyne, Frambach, and Verhallen, 2003; Nagle, Hogan, and Zale, 2011) and that cost-based pricing is the least beneficial (Myers, Cavusgil, and Diamantopoulos, 2002; Nagle, Hogan, and Zale, 2011; Simon, Butscher and Sebastian, 2003). It is also widely proved that cost-based and competition-based pricing are far more practiced from companies than value-based pricing (Coe, 1990; Hinterhuber, 2008a; Ingenbleek, Debruyne, Frambach, and Verhallen, 2003; Nagle, Hogan, and Zale, 2011; Noble, and Gruca, 1999). Hinterhuber (2008a), Provines (2010), and Nagle, Hogan and Zale (2011) found obstacles to why value-based pricing is not implemented by more companies. To identify those obstacles and commonalities between different authors we investigate here the different parts of our theory chapter.

In section 2.2, the VBP and its fundamental purpose is defined- to find and quantify values. All of the authors mention ways of doing that and agree in the importance of implement it in a value-based pricing strategy (Nagle, Hogan and Zale, 2011; Hinterhuber, 2004; Provines, 2010). In this chapter, we also describe the obstacles related with VBP, which refer to difficulties with finding and measuring value, and segmenting the market according to different customer needs (Hinterhuber, 2004; Hinterhuber, 2008a; Provines, 2010). We decided to categorize them into two groups (generic keywords); they have a similar perception which can be translated into value assessment and segmentation.

In section 2.3 - we discussed about VBS and the importance of the sales force to be able to communicate the added value to customers. As mentioned previously Hinterhuber (2008a) and Provines (2010) describe four obstacles related to this and we decided to group them into three categories (generic keywords): sales process, customer knowledge, and product knowledge. The categorization is illustrated in Figure 4.

Additionally we described value-based pricing implementation in section 2.4 and the problematization for management to initiate the concept and to monitor its progress (Hinterhuber, 2008a; Provines, 2010). We decided to keep the obstacles related to change...
management as one category and remaining were six obstacles. The total amounts of obstacles were grouped into three main categories (generic keywords) related to management and described as: change management, organizational structure, and management support (see Figure 4).

Value-based pricing strategy is superior, however not every company is using it. There must be obstacles and some of these obstacles are identified by the literature. However, there hasn’t been a lot of research in this subject and we have decided to investigate if we can confirm the mentioned obstacles and their effect. Therefore our aim is to contribute to those emerging guidelines.
Research question

Consequently, based on our purpose and our findings within the previous chapter, we propose the following research question:

- Do the obstacles of value-based pricing, value-based selling and value-based pricing implementation influence the success of a value-based pricing strategy, and if they do, how?
3. Methodology

This chapter outlines the overall methodology of this study in order to secure its academic quality. Additionally this chapter gives an understanding of how the research has been executed and describes methods of collecting data and qualitative measures to evaluate the quality of the research results.

3.1 Research approach

3.1.1 Inductive vs. Deductive Research

The difference between the two strategies are their relation to theory; an inductive approach is based on observation that gives an idea of what the theory is like while an deductive approach is initiated by reading theory and later testing that theory with new empirical findings (Bryman and Bell, 2011). We used a deductive approach for this thesis since the thesis is based on a research gap in the literature. The aim to answer this research gap has guided us through the empirical findings. An inductive research approach was hence not suitable for this study.

3.1.2 Qualitative vs. Quantitative Research

A qualitative research method is useful when using an exploratory research methodology, based on a small sample, which can provide a deeper understanding on the subject of the research (Malhotra, 2004; Hyde, 2000).

Our aim was to explain the source of a problem rather than measure one and by using the qualitative approach; we were given the opportunity to investigate, collect deeper information
and thereby receive a more complete understanding of the problem. With the qualitative approach, we interviewed experts and collected data which were based on attitudes and beliefs rather than generalizations. For those reasons and based on the nature of our purpose and research question, we used a qualitative research method.

3.2 Research design

The research design creates a framework for collecting and analysing data and there are three approaches that can be utilized in order to answer the research aim and its objectives: exploratory research designs, descriptive research designs and casual designs (Bryman and Bell, 2003).

Exploratory designs deal with finding facts during the early stages of a big project in order to make clear the research problem and research direction. Descriptive designs answer questions such as who, what, when, where and how. Additionally descriptive approaches are relevant when potential solutions might be offered to a problem. Finally, causal designs are relevant when a research tries to investigate how one variable causes changes to another variable (Bryman and Bell, 2003).

As previously mentioned, we found that value-based pricing is superior compared to other pricing strategies, but that the concept is largely neglected by many firms. We also found that there are different perceptions of the terminology value-based pricing, that there is little academic research of the concept and that few executive professionals possess an understanding of value-based pricing (Hinterhuber, 2004; Liozu, Hinterhuber, Boland and Perelli, 2012). While considering these facts, an exploratory research design seems appropriate since there is no consistency in the thoughts on the subject; a view that was also shared by Malhotra, (2004) and Hyde (2000) previously in this chapter. Despite this, after careful consideration of the aim of this thesis, a descriptive approach was chosen. This was concluded since we wanted to go deeper into the topic and due to that the aim of this study was to present research on obstacles when implementing a value-based pricing strategy.

When conducting a descriptive research design, two paths can be chosen: cross-sectional or longitudinal. For this thesis, it was not possible to conduct a longitudinal design, since we were not studying a phenomenon that varied over time, and due to limitations connected to writing a
bachelor thesis such as time and monitory resources. A cross-sectional design was preferable for this thesis. The characteristics of cross-sectional is to study a phenomena at one point in time and based on this single observation, conclusions are drawn (Bryman and Bell, 2011; Yin, 2009).

With this in mind, we used a cross-sectional design and within this design, single cross-sectional design or a multiple cross-sectional design can be conducted (Bryman and Bell, 2011; Yin, 2009). When deciding which type of design would be used for this study, the decision was based on the nature of our study. Due to time constraints and lack of monitory resources, a multi cross-sectional design was avoided since this would mean that we had to include additional populations and compare them (Bryman and Bell, 2011; Yin, 2009). Instead, a single cross-sectional design was embraced and interviews with employees from different departments were conducted.

![Research Design Diagram](image)

**Figure 7. Research design**

### 3.3 Data sources

Data collection is necessary when trying to investigate and analyse a research problem (Bryman and Bell, 2011; Yin, 2009). There are two ways of collecting this data; either through primary or secondary data, or via a combination of the two of them (Bryman and Bell, 2011; Ghauri and Gronhaug, 2005). Ideally researchers collect primary data which is collected by them and is suited specifically to solve their research questions. At times such data is not easy to collect, not enough or already exists in some ways. Data that already exists is called secondary data and usually refers to data collected for other uses and purposes than that of the researcher at the
time. Examples of such data are data collected by other researchers and data collected by other organizations.

Some of the advantages of using secondary data are that researchers can save on costs and time by not having to collect new data for themselves. Some data can be of high quality and may help the researchers to clarify or even solve the research problem, and in general may provide necessary background information which can help in the analysis process. On the other hand disadvantages should be considered the lack of availability, lack of relevance, inaccuracy and insufficiency. To avoid data that are lacking in those respects, researchers can undergo evaluations of the secondary data by looking how the data was collected, if it is accurate, if it is current, why the data was collected, if it is useful and if the source is credible (Bryman and Bell, 2011; Ghauri and Grønhaug, 2005).

Furthermore, Ghauri and Grønhaug (2005) divide the secondary data in two categories: internal and external. Internal secondary data is considered information provided internally by a company to a researcher, which would not be available otherwise. External secondary data represents information that is publicly available for everyone, provided that someone knows where to look.

For this thesis we used mainly primary data which was collected from the personal interviews and some information from external secondary sources such as VCE’s website.

3.4 Research strategy

There are essentially five different research strategies and the differences of these five are presented in the Table 1 by Yin (2009) below. The features of the individual approaches are clearly presented and as a result of the purpose of the paper, there were no need for control over behavioural events, however we did need to observe contemporary events. Considering the objectives of this thesis and the criteria presented in Table 1; the possibility to do a survey, history and experiment was neglected. An approach that would be possible to take was archival analysis. However, since the study would not be based on observations of a population and the time constraints, this approach was not suitable either and therefore neglected.
When considering these arguments, the research strategy that is most applicable for our study was to conduct a case study. A case study is considered when the research is on a single organization, a single location, a person, or a single event (Bryman and Bell, 2011).

Yin (2009) claims that: “A case study is an empirical inquiry that:

- Investigates a contemporary phenomenon in depth and within its real-life context especially when
- The boundaries between phenomenon and context are not clearly evident”.

A case study is a detailed examination of a single example or a case, which focuses on a corporation or a community (Flyvbjerg, 2004; Hyde, 2000; Bryman and Bell, 2003; Yin, 2009).

<table>
<thead>
<tr>
<th>Research strategy</th>
<th>Form of research question</th>
<th>Requires control over behavioural events</th>
<th>Focuses on contemporary events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>How, why</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, what, where, how many, how much</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival analysis</td>
<td>Who, what, where, how many, how much</td>
<td>No</td>
<td>Yes/no</td>
</tr>
<tr>
<td>History</td>
<td>How, why</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case study</td>
<td>How, why</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Table 1. Different research strategies (Yin, 2009)*

### 3.5 Data collection method

There are a few different ways to collect data when focusing on a qualitative approach. There is the ethnography/participant observation, where the researcher is included in a social environment for a period of time in order to observe and document his findings. Another one is the qualitative interviewing where it usually focuses on personal unstructured or semi-structured interviews, typically lasting between 30 and 90 minutes. Focus groups are also used, and they give the ability to collect data from a group of people by interviewing them in the same time. Next, language-based approaches can be used to analyse discussions and conversations. Lastly, researchers can collect and analyse texts and documents (Bryman and Bell, 2011).

For the purpose of this thesis personal interviews are more appropriate to gain a deeper understanding on our case study. Some of the advantages of using personal interviews are their flexibility because of their unstructured nature, the increased interest of the interviewee because
of the personal communication, the richness and details of the answers, and the possibility to uncover hidden issues or more information that the researcher did not consider before. Some of the disadvantages are that they are time consuming and expensive, it requires the interviewers to be skilled and not having any bias which might influence the responses, and the risk of receiving socially accepted answers instead of personal ones.

As mentioned before there are two different approaches to perform the interviews: unstructured and semi-structured. The unstructured approach means that interviewer starts with a single question and lets the interviewee to respond freely. The interviewer responds when he feels it is necessary, and sometimes making the interview seem as a conversation. This approach is mostly used when researchers want to have a genuine understanding of their participants’ worldviews. With a semi-structured approach the interviewer has a list of topics that wants to discuss and guides the interviewee accordingly. The interviewee then has freedom on how to reply and how much to expand on the presented topics. In our case a semi-structured approach was preferred since there is a focused purpose and a clear research topic for this thesis (Bryman and Bell, 2011).

Before the interviews were conducted, a great deal of time was spent on preparation since the preparation stage is fatal and can be the difference between a success and a failure (McNamara, 2009 cited in Turner, 2010). For this thesis, we followed McNamara (2009 cited in Turner, 2010) suggested principles to apply when dealing with the preparations of an interview:

“(1) Choose a setting with little distraction; (2) explain the purpose of the interview; (3) address terms of confidentiality; (4) explain the format of the interviews; (5) indicate how long the interview usually takes; (6) tell them how to get in touch with you later if they want to; (7) ask them if they have any questions before you both get started with the interview; and (8) don’t count on your memory to recall their answers”.

3.5.1 Operationalization

As discussed earlier, we conducted deep interviews to answer our research question. In order to establish a basic structure for the interviews and hence answer our research question, we used the Figure 8 below, as our guide. Additionally, we made questions regarding the respondents’ perception on general knowledge about value-based pricing strategy, with the aim to acquire as much information as possible. The result was an interview guide which was used to help in
leading the conversation to specific topics, and the questions were carefully chosen with the aim of the thesis and formulated to connect with Figure 8.

![Figure 8. Generic keywords about obstacles](image)

To help us with establishing effective questions for the interviews, we used the five steps guide from McNamara (2009 cited in Turner, 2010):

![Figure 9. Five step approach to make effective questions (McNamara, 2009)](image)

Follow-up questions:
Creswell (2007) state that it is not only important for the researchers to develop questions that keeps the respondents on focus with their responses to the questions, it is also important that the researchers are prepared with follow-up questions. This is important in order to ensure that additional knowledge that the respondents possess is accessed.

Implementation of questions:
When all the preparations of the interview were complete, the next phase was to conduct the interviews. McNamara (2009 cited in Turner, 2010) suggests the following implementation process when performing an interview:
To identify how the company supported the implementation of VBS, and if it has, we asked questions relating to management support, organizational structure and change management. Relating to VBP, questions focused on how the departments find and assess value, and how they collaborate between them to improve those processes. Finally we investigated how VCE tries to communicate the values back to the customers, and if they use tools and information relating to value-based selling.

Below is an example of how the questions were conceived:

<table>
<thead>
<tr>
<th>Area</th>
<th>Question</th>
<th>Obstacle</th>
</tr>
</thead>
<tbody>
<tr>
<td>VBP</td>
<td>How do you investigate which features are important?</td>
<td>Value assessment</td>
</tr>
<tr>
<td>VBS</td>
<td>How did you communicate the values? Are there any tools?</td>
<td>Communicating value</td>
</tr>
<tr>
<td>VBP implementation</td>
<td>Do you think that enough resources were allocated on this project?</td>
<td>Management support</td>
</tr>
</tbody>
</table>

Table 2. Example of questions’ realization

For the complete interview guide see Appendix II.

3.5.2 Pretesting

Before we initiated the interviews, we asked Peter Caesar who is also our tutor for this thesis to pre-test our questions by examining them. The purpose of the pretesting is to “determine if there are flaws, limitations, or other weaknesses within the interview design and will allow (...) necessary revisions prior to the implementation of the study” (Kvale, 2007 cited in Turner, 2010). Additionally, the pretesting
should include participants that have experiences and/or interests in the field that is investigated (Turner, 2010). Peter Caesar has knowledge and experience in the field of sales and marketing within ABB. He also has a broad knowledge about value-based pricing and has held presentations regarding the topic for companies in the Kronoberg region. The purpose of pretesting the questions is to make sure that the questions are understandable and relevant (Bryman and Bell, 2011; Yin, 2009). Additionally we gave them to a person outside of our subject in order to determine if the language of the questions is understandable.

3.6 Sampling

3.6.1 Sampling frame

In this section the population for this study is defined and a sample from it is selected. A population is a total of units (people, cities, regions, firms, etc.) that share the same characteristics, from which the sample is chosen (Bryman and Bell, 2011). Creswell (2007) argues the importance of selecting good participants for the study. In addition, Creswell (2007) discuss the importance of selecting participants who are willing to “openly and honestly share information or their story”.

We knew from earlier discussions with VCE in Sweden that they did an attempt during the years 2003-2008 to implement value-based selling in their organization but had difficulties. Since we were not aware of other companies with similar experience as VCE; the population for this study are employees within VCE in Sweden who have experience and expertise in the field of value-based pricing and value-based selling. Furthermore, the population has experience of working with articulated haulers; the reason for this is mainly due to that articulated haulers are produced in Braås because the concept was initiated within this business line. When interviewing people with divergent experiences, this was addressed. Based on our previous experience of cooperating regarding value-based pricing with VCE, we knew that there was a limited amount of people who had the expertise that we are searching for. However we believe that the knowledge that these people possessed and the fact that we interviewed a broad spectrum of people inside the organization would give us enough data to make a comprehensive study.
3.6.2 Sample selection

Respondents were chosen on basis of their involvement in the project of implementing value-based selling at VCE. Hence we selected respondents who worked at VCE during that period of time and had explicit knowledge about this subject. Additionally, the Manager of Global Sales Tools at VCE suggested those persons to us, as highly knowledgeable on the subject. In respect to the small sample and the nature of the study (opens for criticism), the derived information was treated anonymously.

We have provided the reader with extended information about The Volvo Group and its subsidiary VCE in the Appendix III. Below, a list of interviewees from VCE is presented, for additional background information about these respondents, see Appendix IV.

**Interviewees**

<table>
<thead>
<tr>
<th>Name</th>
<th>Date</th>
<th>Position</th>
<th>Type of interview</th>
<th>Started at VCE (with VBS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Alström</td>
<td>2012-04-04</td>
<td>GPPE (General purpose and production equipment) in articulated haulers and loaders</td>
<td>Online</td>
<td>2002 (2004)</td>
</tr>
<tr>
<td>Mike Stec</td>
<td>2012-04-04 + 2012-04-12</td>
<td>Global competence manager</td>
<td>Face-to face + Online</td>
<td>2002 (-)</td>
</tr>
<tr>
<td>Jonas Thoursie</td>
<td>2012-04-12</td>
<td>Global Director Key account</td>
<td>Face-to-face</td>
<td>1990 (2002)</td>
</tr>
<tr>
<td>Per-Olof Bergqvist</td>
<td>2012-04-16</td>
<td>Global Director for PPL (Product planning) in articulated haulers</td>
<td>Face-to-face</td>
<td>1994 (2007)</td>
</tr>
</tbody>
</table>

*Table 3. Interviewees’ details*
3.7 Data analysis method

The aim of this phase in the methodology chapter is according to Creswell (2007) to “make sense out of what was just uncovered and compile the data into sections or groups of information also known as themes or codes”. Based on our single case study methodology, data reduction and data display was used since this is the most suitable methodology to our research approach (Ghauri and Grønhaug, 2005). In order to simplify the process of data reduction, we also used a pattern matching approach. The process of the qualitative data collection was made in the following four steps:

3.7.1 First pattern matching and data reduction

We transcribed the collected interview information and expressed it word-by-word on paper as soon as possible after the interview. We also included indications of the interviews such as tone of voice, external influence, and location. After this process, we spend time to reflect on the interviews and marked possible sentences that could correspond with our generic keywords.

3.7.2 Second pattern matching and data reduction

In the second phase we re-wrote the interviewees answers by selecting, focusing, simplifying, abstracting and transformed (coding) the data. We highlighted specific keywords within the interviewees’ answers with a specific colour so that we could easily match them with our generic keywords.

3.7.3 Third pattern matching, data reduction and data display

We organized and compressed the data in a way so that conclusions could easily be drawn, and we added parts from the theoretical chapter to see if the answers corresponded to the literature. Answers that could not be connected to theory were inserted into a separate column.

3.7.4 Fourth pattern matching and data reduction

In the final stage, pattern matching was conducted and conclusions based on our total findings were performed. With the help of our matrix, we analysed if answers were mentioned from more than one respondent and concluded the total amount of respondents who used a specific keyword.
3.8 Evaluation of qualitative research

It is difficult to define reliability and validity in qualitative research due to the fact that it is not possible to replicate exactly the same research again (Bryman and Bell, 2011). For that reason Lincoln and Guba (1985, cited in Bryman and Bell, 2011) and Guba and Lincoln (1994, cited in Bryman and Bell, 2011) proposed the criteria of trustworthiness as a way to assess and evaluate a qualitative study.

3.8.1 Trustworthiness

Trustworthiness includes four criteria, which can be considered equivalent of the ones in quantitative research: credibility, equivalent of internal validity; transferability, equivalent of external validity; dependability, equivalent of reliability; and conformability, equivalent of objectivity (Bryman and Bell, 2011).

Credibility refers to the focus on multiple observations and if they can be trusted. A technique suggested by Bryman and Bell (2011) to provide credibility is called respondent validation where the researcher presents his findings back to the research participants, in order to ensure that the findings are in line with the participants’ perspectives and experiences. Another technique is triangulation, which refers to the collection of data from multiple sources or even with multiple methods. To improve on credibility we selected a sample of people who were relevant with our subject. To achieve this we asked a manager within VCE who was highly involved in the implementation of VBS in the past for help and a list of 10 possible interviewees was provided. Due to limited access, the sample size was six interviewees from different departments which thus have enhanced the scope of the research. Finally, after transcribing the interviews they were sent back to them in order to verify that we did not misinterpret anything.

Transferability is the criteria that examines if the findings can be applicable in other contexts. Due to the fact that qualitative researches focus on a small sample with more depth, it is possible to provide a lot of details about that sample, which others can examine and decide if the findings can be transferable in other context (Bryman and Bell, 2011). Because of the nature of our thesis the collected data might not have significant value for other studies that do not include VCE or that do not investigate the construction equipment industry but can be useful for future implementation of value-based pricing strategies within VCE.
Dependability is similar to reliability in quantitative research and proposes to use an “auditing” approach, which suggest that all the phases of the research is documented. This approach is not widely practiced due to that it is very demanding for the researchers and results in large datasets (Bryman and Bell, 2011). During the interviews two voice recorders were used so no data would be lost in case of malfunction. We also took notes of the interviewees’ certainty to answer and body language when necessary. From the six interviews, four of them were face-to-face, one was online (voice only) and the other one was interrupted which resulted in doing it both face-to-face and online. If all six interviews were face-to-face, then it would add even more to the overall trustworthiness of this thesis.

Lastly, conformability deals with the researcher been as objective as possible. It means that the researcher needs to be careful not to let any personal values, interest, bias and opinions to affect the research. This is something that should become one of the objectives of the researchers (Bryman and Bell, 2011). For that reason while conducting the interviews we tried to have as neutral stance as possible, avoiding any positive or negative comments on the interviewees’ responses in order to avoid bias and leading of their responses as was also discussed in Figure 10.

3.9 Methodology framework summary

This chapter has examined aspects and described how the data of this thesis has been collected. Figure 11 below shows a summary of the methodology chapter, including all the various steps that have been taken to write this thesis. The first section discussed the research approach and research design, followed by the data source, research strategy, and data collection method. This chapter also includes information about our sampling and data analysis method. In the end of the chapter, the trustworthiness of this thesis is being discussed.
Figure 11. Methodology summary
4 Empirical findings

Presented below are the results from the empirical findings and the preliminary analysis from the interviews conducted with respondents from VCE.

In order to understand and utilize the empirical results we feel obliged to provide additional information about VCE, hence this chapter is initiated by describing background information of the company. In the preliminary analysis, data is presented from our interviews in an objective way with the aim to facilitate the analysis in the following chapter. We believe it is crucial to address that the analysis is done in two steps, first with an initial preliminary analysis presented in this chapter (4), by identifying patterns from the data, followed by a full analysis in the next chapter (5).

4.1 Background of Volvo Construction Equipment (VCE)

VCE manufactures different types of equipment for construction applications and related industries. When implementing a value-based pricing strategy (VCE refers to it as VBS) in the VCE organization, this was initiated within the business line, articulated haulers. In 2012 the Volvo Group did a reorganization also affecting VCE which resulted in a new geographical structure with three geographical regions (Volvo Group, 2012a):

- EMEA - Europe, Middle East & Africa
- Americas - North & South America
- APAC - Asia Pacific.

VCE distributes their products through dealers; some of these dealers are independent from Volvo while others are Volvo owned companies. VCE support the dealers in ways to assist increase of sales and has an estimate of 500 dealers worldwide (Löjdquist, Palmqvist and Strömberg, 2004). For more information about the Volvo Group and VCE, see Appendix III.
4.2 Result of empirical findings

The results from the empirical findings are presented in Table 4 where there are three main columns (VBP, VBS and VBP Implementation). The interviewees (listed as numbers) are represented in the first column and their keywords are matched with the generic keywords.

| Table 4. Interviewees’ answers about obstacles |
|---|---|---|
| **Value assessment** | **Segmentation** | **VBP Implementation** |
| **Interviewee 1** | **Difficulties defending the price, need to develop strong relationships with customers** | **Lack of ownership, not customer oriented** |
| | **Lack of identifying customer roles and confirming values** | **Not enough collaboration between departments, not customer oriented** |
| | **Lack of product knowledge** | **Not enough support material, lack of monitoring sales force** |
| | **Need to develop customer knowledge** | **Not the right timing, unstable organization** |
| **Interviewee 2** | **Difficulties defending the price** | **Lack of ownership, lack of long-term orientation, sales force resistance** |
| | **Lack of recognizing customers’ buying criteria, lack of identifying customer roles and confirming values** | **Sales force resistance** |
| | **Not enough collaboration** | **Lack of customer oriented, customer knowledge** |
| **Interviewee 3** | **Need to develop strong relationships with customers** | **Complex and bad tool - not tested with dealers and customers** |
| | **Lack of recognizing customers’ buying criteria** | **Not customer oriented, not enough collaboration between departments** |
| | **No clear strategy and no long-term orientation, sales force resistance** | **Not customer oriented** |
| **Interviewee 4** | **Lacking focus on customer value** | **Different customer types** |
| | **Complex tool** | **Difficulties defending the price** |
| | **Lack of ownership** | **Difficulties defending the price** |
| | **Lack of monitoring sales force** | **Retail prices are too high, unrealistic expectations** |
| **Interviewee 5** | **Lacking focus on customer value** | **Different customer types** |
| | **Lack of long-term orientation, lack of ownership** (credibility) | **Sales force resistance** |
| | **Lack of monitoring sales force** | **Retail prices are too high, unrealistic expectations** |
| **Interviewee 6** | **Difficulties defending the price** | **Lack of ownership** |
| | **Lack of recognizing customers’ buying criteria** | **Not customer oriented** |
| | **Lack of product knowledge** | **Sales force resistance** |
| | **Not customer oriented** | **Sales force resistance** |
Table 5 is a summary of Table 4 and shows the number of times that the respondents mentioned difficulties when trying to implement a value-based strategy, according to the three main categories of VBP, VBS and VBP Implementation.

<table>
<thead>
<tr>
<th></th>
<th>VBP</th>
<th>VBS</th>
<th>VBP Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value assessment</td>
<td>Sales process</td>
<td>Change management</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Segmentation</td>
<td>Customer knowledge</td>
<td>Organizational structure</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Product knowledge</td>
<td>Management support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
</tbody>
</table>

Table 5. Empirical keywords summary

4.3 Preliminary analysis

In this section, evidence of thoughts from the respondents is presented in form of anecdotes and examples. Our objectives are not to judge this information in this phase, only to present it without bias. The data is presented in the categories previously used: VBP, VBS, VBP implementation, ending with additional obstacles mentioned by the respondents.

4.3.1 Value-based pricing (VBP)

Value assessment

Different opinions regarding who is responsible for VBP were brought up during the interviews. Two respondents said that it is everyone’s responsibility while three respondents mentioned specific departments with the marketing department as the most common one. However, there is a clear process when investigating which features that are important and one specific department drives this (more specific information about this process is confidential), but in the end it is a cross-functional effort because different departments collaborate to find and decide which features are needed for future products. On the other hand legislation plays a key role on what future products include as features as explained by one respondent, “a lot of focus has been on
meeting legal requirements as well. So, ... it’s been a lot of effort and a lot of parts of that plan have been driven by legislation. Not always of customer values’ set or value based thinking”.

The different regions set the final prices and one respondent agrees with that by saying that, “this is where it should sit”. Another respondent explains the process of finding the right price by asking the regions, “this are the features that are possible, how much do you think that we can get for those?”

Lastly, one respondent when asked about the process of learning about the VBS, he described it as a process of finding relevant features of a VCE product that give advantages and disadvantages to a specific customer comparing to an alternative, and then calculate a final price based on the competitors price and the above differentiators.

**Segmentation**

In relation to segmentation, one person mentioned difficulties with identifying different needs for different customer type, that it “all boils down to one specific site, one specific customer and one specific need”. As a deeper insight however, one respondent explained the importance of segmenting when explaining his experiences of selling fuel efficiency to a customer without this as a buying criteria:

“On my first trip to the U.S, in the early 90’s, and I came there trying to sell fuel efficiency and they said: “we don’t care” in north America because it was cheap and it was available and there was no discussion whatsoever about fuel consumption or high fuel or emissions or pollution, it was very low in the agenda.”

To finalize the section about VBP, when one respondent was asked about his opinion on pricing according to value he said that, “I don’t think we use VBS enough. I think in general terms we still work via a cost plus method.”

4.3.2 Value-based selling (VBS)

**Sales process**

Obstacles connected to the sales process were mentioned in total eight times and in three different areas - difficulties defending the price; the importance of relationship and trust; and complex sales tools.
Four respondents mentioned difficulties defending the price, since some customers are not interested in listening to the VBS arguments and wants the initial purchasing price of the product.

Two respondents discussed the importance of establishing and having a strong relationship with both customers and dealers. One of these respondents argued that “If you don’t have the relationship with your dealer and especially if you haven’t built a solid foundation of trust with the customer - it does not matter how good you are with VBS, it won’t work. It is the foundation of everything”. The same respondent added that, “You have to use the sales process to add value”.

VCE has developed a total of three different tools in connection to VBS. Five respondents had comments about these tools, one argued that “I think that the sales guy is not really comfortable doing it because they are not confident enough...so I am not sure how many are really using it”. Another said that one specific tool “...was good in front of the customer, you could see your payback for your investment.” However, another respondent commented on the same tool saying that this tool “...looked more like a toy knob, something for a three-year old school person.”

Additional problems with the tool were, according to the same respondent, that the tool only visualized positive factors about the products and that ruined its credibility. Two respondents weren’t sure if the tools were fully tested or if the tools had been put in front of both the dealer and the customer, and that this was a mistake. Continuing one respondent said that you can’t generalize the customers and apply only one global tool. Another argued about different kind of deals: “…one thing that is critical for success, is that you cannot apply VBS as a method like we had at least, you can’t apply that on every sale”. One additional respondent shared that view and added: “you are not going to do the same amount of work for a small machine, a one machine deal than it is for massive deals.”

**Customer knowledge**

Opinions about customer knowledge were discussed five times by four different respondents and they addressed two major issues related to this: (1) the importance of the sales force to think like the customer, to sell based on customer value instead of features and (2) to identify the different roles of the customers.

One respondent talked about the (1) issue in the way that the sales force should “pay attention to what the customer wants to do with the piece of equipment that he intends to buy and to provide him with the right solution, not the solution that the salesman wants to sell”. Another respondent raised this issue by saying
that VCE should “take off the VCE hat (of dropping features and benefits) and think more like customers. To recognize the customer buying criteria and sub-qualifiers”.

The problem related to issue (2) was to identify the role of the person that the salesman is talking to and to having them confirming the values and put them in a quote since “a fleet manager will think differently than a purchaser” and “You have to know who is your audience and you have to be able to adapt to that, you need to have a different approach for a sales guy, a production manager, a maintenance manager, a financial person or the owner”.

These two obstacles are connected to the difficulties of knowing which values that the customer emphasizes and customers resistance of informing the salesperson about them or/and not focusing on values. One respondent explain the situation: “...the difficult part for the salesperson is that they need to confirm the values early in the sales process. It is difficult to get the values confirmed in the end of the sales process”. However, one respondent said that these two obstacles can be solved by having a good sales process and developing trust since then: “The customer will give you the information even if it’s a bit confidential, be will gladly share it with you but you have to get beyond that wall of trust”.

**Product knowledge**

The obstacle lacking product knowledge, were addressed by three respondents and two of them mentioned an uncertainty from the salespeople to use VBS because they are not confident enough to quantify features into money mainly due to that they don’t have enough product knowledge.

One respondent said that “a lot of salespeople, they don’t know enough about the product to effectively utilize this method” and concluded that “...they don’t know enough what they are selling, and if you don’t know what you’re selling you can’t explain it to the customer, you can definitely not turn the values into money and then in the end of it the discussion will be on price which is not where you want to have it”. The same respondents once again stressed this obstacle when answering the question what he think is the most important aspect to pay attention to when implementing VBS: “To make sure that the sales force have enough product knowledge, that they know what they are selling and how it differentiates from the alternative”. He later adds that the sales force needs “a tremendous amount of product training first in order to be effective with V/BS”.
Concerning the question if VCE sells their products based on features, benefits or customer value, the data received showed an inconsistency in perception. One respondent said that “VCE doesn’t sell directly (in almost 95%) of the time, we always go through our dealers, therefore the dealers are our customers.” Additionally he said that “everyone sells in a different unique way”.

4.3.3 Value-based pricing (VBP) Implementation

Change management

In relation to change management, all respondents experienced a willingness to change within the organization even though the answers from two respondents were a bit unclear. To emphasize the willingness, one respondent explained that when the concept was presented to the management in the business line, his boss said, “Ok, we are doing this!”

All the respondents mentioned obstacles relating with change management. Lack of ownership of VBS was mentioned by three different respondents which can be summarized by one of them here: “It’s not used in VCE CE today because there is no clear ownership of the method or the program, globally”.

Even though three respondents stated that enough resources were allocated for this program, two respondents mentioned that the management actually lacked a long-term orientation. Additionally, two statements were made for unclear strategy, mostly when trying to implement the VBP in practice as one participant said “but how to implement it? That’s a tricky question. How do you implement it completely?”

Finally, three respondents discuss the obstacle of sales force resistance and they argued that the sales force had difficulties understanding the concept and that they criticized the concept. One answered that “everyone believed in VBS...but at a dealer level, it become much more delicate and trickier to do. That is the harder part”.

One respondent emphasized the importance of a successful transition and management of the training. He mentioned that it is a mistake to “force it down on the sales force”. The same respondent elaborated on that by saying that: “the initial pushback or apprehension from the sales guys was that we were trying to teach them how to sell”.

37
Additionally two respondents mentioned the difficulties of teaching the dealers and their sales force, one respondent said: “we are the manufacture and you can’t point fingers because you have three that point back at you, you can’t always tell people what to do but you can do strong recommendations and you have to built trust with your dealers first before we start talking about VBS”. The other added that it is difficult to change behaviour: “The sales guys, they are creatures of habit and if something has worked once they will try it again to sell to another customer. It is difficult for them to adapt their sales approach”.

In describing the underlying reason why VCE initiated the project, two different reasons were put forward by the respondents: To defend VCE’s premium price and to get better paid for the products. Both those two reasons are summed up by one of the answers, “To make money... to secure that we have a healthy margin and profitability”. The concept was literally regarded as “one additional tool in the toolbox for salespeople” by one respondent but this was the general perception.

Organizational structure

Concerning organizational structure, three respondents believe that VCE is not customer oriented enough, and they put it simply as: “think more like the customer”, “to listen and think a little bit more like the customer” and “know the customer to know what the customer value is”. Another respondent confirmed this by saying “We are a technology driven company. If we have to wait for the customer to tell us what they want, then we are too late, so we anticipate the market and the market needs and we are actually delivering to the customers before they know what they need”.

Three respondents also mentioned that VCE has not enough collaboration between the departments when it comes to supporting each other with data relevant to VBP especially between VCE and its regions as one respondent says “the regions when setting the price, they should expect and get a very good support on explaining the value, explaining the feature in monetary terms and customer value terms... there is an area for a major improvement”. They also mentioned that the collaboration between the departments could be better in order to supply this support. One respondent described this: “So looking at VBS as a method or a tool, you need to fill it with something and what you fill it with is differentiators, how we differentiate between from us to competition, but to be able to do that you have to know the alternative or the competitive models very well... but we were somewhat lacking all the supporting documentation that we needed”.

38
Lastly, one respondent emphasized that the process should be included in the beginning of the design phase of the products and “have training in this method, we should secure that we actually build this into our project assurance plans as a separate activity”.

**Management support**

Not everyone answered this question but the three respondents who did said that VCE’s management supported the project well and that they allocated enough resources to it. Four respondents said that there is documentation explaining the concept and that this knowledge is accessible for people involved, two weren’t certain if this was the case.

On the question if they believed that everybody involved have the same perception of what VBS is their answers were inconsistent. However two respondents mentioned that there were not enough supporting material available or it wasn’t tailored in a suitable way to utilize the method.

All the respondents mentioned that the training workshop was given between one to three days and that this time was sufficient enough to learn about the concept. Continuing one respondent explained that “it is a matter of changing mind-sets” and another said, “it is important to believe in this concept, otherwise it is a waste of time”.

Concerning the process of learning VBS, a specific business line within VCE and in collaboration initiated it with an external consultant who developed the program and implemented it throughout mainly the hauler organization, including the dealers. Two respondents mentioned that it was unnecessary to use a consult for the implementation. One said that, “ideally in my world we should use a consultant to educate our own resources and then our own VCE staff should bring it out to the dealers”.

Lastly, two respondents talked about the importance of monitoring the sales force and make sure that it is used in practice out in the regions and as one of them describes it “The sales guys had to show that they used this approach in the beginning when we tested it. The management was very much forcing that these guys would give them their feedback on a weekly basis, on how many cases they used it”.
4.3.4 Additional obstacles

All respondents shared the same view on what customer value is - To satisfy a customer need. The respondents say that it is possible to price a product based on value but in addition three of the respondents state that there are difficulties measuring soft products. In literature there is a clear difference between VBP and VBS, and all interviewees agreed that there is a difference. However, during the interviews lacks of consistency in definition arise. Two respondents argued that VBS is the method and that VBP is interactions with customer. The remaining stated the opposite; that VBP is the process of developing and quantifying while VBS is the interaction with the customer and arguing of the value. An example of such an answer is one respondent saying that “VBP is the ammunition that you give to the salesman in order to defend the price. VBS is used by the salesman to defend the price.”

For the question addressed if “there are any other additional reason why VCE doesn’t use VBS today?” here two respondents discuss the timing of the implementation and the fact that VCE was influenced by the financial crisis in 2008-2009 and went through a major reorganization. Here is stated by one of the respondents during the interviews, “why it is not as alive and kicking, and vital today is really that we did a lot of reorganization and we also had a very tough market conditions here 2008/2009”. The other respondent said, “So we backed off on certain activities and focused on others, and this (VBS) was something that was left to lay around for a while”. In contrast when the market is booming two respondents said that the salespeople were more like order-takers, “If there was any machine in stock they could sell it, so they couldn’t even be bothered as well to go for a value-based approach because whatever we had was sold”.

We end this chapter by quoting one of our respondents, talking about the possibility to revitalize the concept of VBS:

“I think the timing would be very good to initiate the program now, yes. When it comes to the market conditions, yes. When it comes to our internal set up and organization changes and so on, I am not so sure. Maybe if we take both, half a year from now would be perfect, probably.”
5. Analysis

In section 2.5 eight categories of obstacles (generic keywords), which influence the successful implementation of value-based pricing strategies, were described. In chapter 4 the empirical findings and the preliminary analysis were presented and in this chapter we examine and analyse these findings in relation to the proposed research question. The areas of investigation and each category of obstacles are dealt with one by one.

5.1 Value-based pricing (VBP)

Value assessment

As visualized in the Table 4, keywords relating to value assessment were mentioned by two respondents. In theory, the definition of value assessment is finding and measuring value (Nagle, Hogan and Zale, 2011; Hinterhuber, 2004; Provines, 2010).

Evidence from the interviews show that there are different opinions on whose responsibility it is to run VBP, however the interviews indicate that VCE has a clear process of finding which features are important for the customers in a way that correlates to the theory. The respondents discuss this obstacle in terms of finding the right value for customers.

VCE has a clear process of finding which features that are important for their customers but the end decision of which ones to include in the final product is sometimes affected by external factors such as legal requirements. This results in a product that is less influenced by customer values.

More importantly, after finding which features are important, VCE let the regions decide on the final prices based on assumptions for how much they can ask the customer to pay for those features. This does not follow the theory that describes how to measure the economic value of a product (see section 2.2). However, one respondent explained in detail and accurately that process which shows that the knowledge within the company is not consistent.
**Segmentation**

As established on the previous section, VCE’s ability to assess the right values is consistent to theory, but according to one respondent it is difficult to generalize customer needs. However no further details were provided around this obstacle, instead discussions around customer knowledge were developed. But considering the organizational structure of VCE and that it is divided into three main regions is a result of segmentation.

**5.2 Value-based selling (VBS)**

*Sales process*

These obstacles are mentioned in various ways by all the respondents and the underlying source of conflict are difficulties connected to the sales force and their meetings with customers. Factors related to the sales process are: difficulties defending the price, lacking relationship and trust between customers and dealers, and lacking tools.

VCE developed tools to communicate the value of their products to their customers. However, problems related to these tools were mentioned with difficulties to present it in front of customer. These problems might be one of the factors why the implementation was not successful since it is important to be able to communicate the economic value to the customer (Hinterhuber, 2008a; Provines, 2010; Nagle, Hogan and Zale, 2011)

*Customer Knowledge*

Two obstacles related to customer knowledge were recognized in the interviews with the respondents: Lack of recognizing customers’ buying criteria, and lack of identifying customer roles and confirming values. Four respondents mentioned these obstacles and this indicates a consistency of not being able to understand the customer, one respondent relates these issues to the sales process and the development of trust. Provines (2010) mentions the obstacle of not understanding the customer’s business economics and claim that it “is important to understand how the innovation impacts the customers’ business economics”.

Additionally, to improve the communication of value, companies can focus on communicating customer value according to Hinterhuber (2004). Based on the inconsistency in the respondents
answers related to if VCE does this and since VCE sell their products in most cases through dealers, there is an uncertainty if this is done in practice.

**Product Knowledge**

There were three respondents mentioning the sales force’s lack of understanding the products, and one respondent stressed the importance of this by stating that the sales force needs “a tremendous amount of product training first in order to be effective with VBS” and to be able to turn values into money. Examining the respondents answers related to this issue and what has been written in literature, it’s clear that this is a result of lacking product knowledge since “the sales force must understand the value of the products that they are selling…” (Provins, 2010).

### 5.3 Value-based pricing (VBP) implementation

**Change management**

Studies argue that there needs be a clear leadership and support from senior management, that the organization needs to incorporate all the processes of the pricing function and have ownership of the decisions necessary for implementation (Nagle, Hogan and Zale, 2011; Hinterhuber, 2008a; Simon, Butscher and Sebastian, 2003).

Examining the organization’s willingness to change, it is clear that there was a willingness and urgency to change in the initial phase, due to VCE’s premium prices and intense competition within the business line for articulated haulers. This willingness and urgency is needed for an efficient change process according to Krüger (2002). Nevertheless since the ownership (and hence the low prioritization) of the concept vanished after the reorganization and additionally since it wasn’t fully integrated, this contradicts the high level of willingness and urgency to use it.

As mentioned previously, three respondents believe that enough resources were allocated from management to the project and that the knowledge internally within VCE was sufficient enough to make it work. However two respondents said that it was lacking a long-term strategy and orientation. An evidence of this is that three different respondents experienced and still experience today a lack of ownership of the project, resulting in a low prioritization within the organization. Hinterhuber (2008a) stated that a “lack of support by senior managers...can hurt the implementation of value-based pricing”. However, it is unclear when the ownership of the concept
disappeared from what was presented by the respondents, hence impossible to give clarification in this matter.

While dealing with resistance connected to change management as mentioned by Nagle, Hogan and Zale (2011), this was identified within the dealers and with the sales force. Two respondents argued that this resistance was a result of the management forcing the concept down on the sales force. Another argued that this resistance developed by uncertainty and lack of product knowledge from the sales force to quantify and believe in their numbers, which we addressed in the product knowledge section.

**Organizational structure**

Organizational structure encompasses the keywords effective organization, and input and coordination between departments (Nagle, Hogan and Zale, 2011). According to the interviews, three people believe that there is not enough collaboration between the departments regarding inputs relevant to VBS and this specifically between VCE and its individual regions. An example of an ineffective organization was given in the VBS section where one respondent argues that a tool was efficient and another who used it in practices said that it was worthless.

Additionally three respondents argued that the VCE organization is not enough customer oriented, that VBS comes too late in the design process and as a remark one respondent thought that VBS “should be build into the project assurance plan as a separate activity” to confirm that it is used in the beginning. However, this might not be sufficient according to one respondent since VCE is a technology driven company that should anticipate what the market wants before the customers know it.

**Management support**

As mentioned in change management section, evidence from the interviews claim that there were enough resources and that management supported the project to a sufficient extent. There existed documentation that explained the concept and this information was accessible for the people involved in the project. Nevertheless evidence of contradiction is visible here since findings from the interviews state an uncertainty if people have the same perception of the concept VBS, which could be a result of lacking documentation and additionally a lack of monitoring sales force was mentioned by two respondents. This is also supported by the
evidence that our respondents had a different perception of what VBS versus VBP is. This issue is addressed in the following section.

Studies have confirmed a linkage between unsuccessful implementation of value-based pricing strategies and lack of supporting information. This is confirmed by the answers of two respondents who revealed that there were not enough supporting material available or it wasn’t tailored in a suitable way for the concept.

5.4 Additional obstacles

Even though all respondents shared a similar view on what customer value is, they contradicted each other when describing the differences between VBP and VBS. From the interviews it became clear that VCE was referring to the project as VBS and they mainly focused on the sales force side while training. The notion of VBP was not absorbed by all the departments and this was mentioned by one respondent who explained that a value-based strategy had to be included in the beginning of the design phase. So it seems that VCE had a difficulty to realize that VBP (section 2.2) is a complex process that needs to be integrated inside the organization with collaborating departments, before communicating the values to its customers through VBS (Nagle, Hogan and Zale, 2011). That was mentioned in a previous section (4.3.3) that VBS was regarded as “one additional tool in the toolbox for salespeople”.

Another aspect that was discussed during the interviews was the timing of the implementation. VCE operates in an industry that when the market is booming the sales force is able to sell all the products in stock. On the contrary when the market is in recession the premium prices of VCE’s products make it difficult for the sales force to defend the prices. According to two respondents before the economic crisis of 2008-2009 the market was booming making it difficult to access the success of the VBS program that VCE started in 2004. During 2008-2009 the company made a lot of restructuring within the company and since the VBS was not deeply integrated within the company, it was left aside and lost its ownership and priority to other functions.
5.5 Summary of results

According to this analysis, there are obstacles influencing the successful implementation of a value-based pricing strategy. When summarizing the findings there is one additional obstacle that clearly distinguished from theory and which impacts the stated obstacles in literature. This obstacle was the lack of knowledge about value-based pricing strategies and the comprehensiveness of the concept at VCE. This knowledge gap leads to a fragmented implementation influencing all the areas within the value-based pricing strategy. Evidence of this knowledge gap is visible in multiple instances, most significantly with the perception of only using certain parts of VBP and not utilizing the complete concept; implementing VBS as a tool and not as a strategy; and finally to divide the responsibility of it to a specific department.

Comparing the collected data from the different obstacles, our findings support that the obstacles of value-based pricing, value-based selling and value-based pricing implementation, influence value-based pricing strategies; but in different intensities. The collected findings also show that there is strong influence between VBP Implementation obstacles and the overall implementation of value-based pricing strategies. More specifically, obstacles related to the change management process were mentioned more times than the other ones, as visualized in Table 5.

Several problems related to VBP Implementation and combinations of these were addressed which makes it difficult to conclude what the most significant problem is.

- Lacking long-term orientation and strategy lead to absent commitment resulting in missing ownership and low prioritization when the financial crisis appeared in 2008.
- Sales force resistance developed as a result of incomplete change management since the perception is that the management forced the concept down on them.
- Lack of communication and collaboration between departments hindered important support information to be shared and thereby utilizing VBP. As identified this also influenced other areas such as the design and sales processes, which resulted in more obstacles with value assessment and product knowledge.

Examining the information collected from the interviews it can be concluded that obstacles related to VBS and specifically within the sales process and the sales force exists and that it influences the success significantly. We can conclude that:
• Lacking product knowledge and relationship lead to resistance in the sales process, limited collaboration resulted in lacking tools which lead to difficulties communicating values to customers and hence defending the price
• Lacking customer knowledge and relationship lead to problems identifying customer buying criteria and confirming values.

The obstacles concerning VBP seem to exist as a result of the lack of knowledge and collaboration between departments mentioned above. Positive remark was that VCE has good methods when investigating new technologies and features, which shows that they have a good basis of implementing a value-based pricing strategy if they acquire more knowledge on how to measure the economic value and segment the market more successfully. This process of value assessment could work as a benchmark for similar companies to follow.

According to our findings, two obstacles were discussed the most: change management and sales process. When looking at those two together, one can see that most of the difficulties arise when trying to manage the sales force and their processes. For companies like VCE there is an added element of difficulty because the company’s sales force is its dealers which it cannot fully control. This fact might also explain the difficulties with training and monitoring the sales force.

When examining obstacles related to value-based pricing strategy, three additional obstacles were identified. The lack of knowledge has already been addressed and the remaining two are unstable organization and timing. There are correlations between the unstable organization and timing since the unstable organization is connected to the need to reorganize the organizational structure in case of a crisis as like VCE. The reorganization lead to a low prioritization and a lack of ownership which resulted in today's limited use. Timing is however also influenced by the state of the economy, and this influences the ability to implement a value-based pricing strategy according to our findings.
6. Conclusions

This chapter initiate by presenting once again the purpose of this study together with the main findings, which describe the academic implications and the additional findings that was discovered during this research. Furthermore, a discussion of the managerial implication, the limitations of this study and suggestions for future research are presented.

6.1 Main findings

The purpose of this thesis is to present research in the field of pricing, by adding to prior research, practical observations on obstacles when implementing a value-based pricing strategy. In this study eight obstacles related to the three areas were investigated and the results shows that obstacles within VBP, VBS and VBP implementation described in literature are perceived in practice and do influence the implementation of value-based pricing strategies. The two obstacles within VBP were not as influential as the other ones, this due to a well-defined and functioning process of finding values. Obstacles related to VBP Implementation influence the strategy the most, specifically issues connected to change management and organizational structure were identified. Lastly difficulties connected to VBS had the second highest impact due to problems with the sales process and more specifically the sales force.

It is important to highlight that these obstacles influence each other and that a well-defined change management and organizational structure can influence the success of the overall implementation of a value-based pricing strategy. Additionally it is interesting that the importance of relationship and trust was brought up in this study. Findings claims that issues such as organization structure, change management, and sales process are all connected to a certain extent to the establishment of healthy relationships between stakeholders.
6.2 Additional findings

When conducting this research we could identify three additional obstacles related to value-based pricing strategies that are not perceived as obstacles in the literature. Those are the lack of knowledge, unstable organization and timing. Based on the findings from this study we can stress the importance of possessing fundamental knowledge about the concept of value-based pricing strategy, as it impacts a company’s ability to implement it successfully and entirely. Therefore fundamental knowledge will enlighten companies about the obstacles related to the three areas and the additional, and thereby give them the possibility to control them more effectively (Figure 12).

Additionally the obstacle about unstable organization proves that a company needs to have a well-defined and solid organization that supports the concept in the long-term. The third obstacle discovered was timing and the difficulties implementing value-based pricing strategies when the market is booming or during a period of recession.

These might only be results from our specific case study, however it is important to once again address these issues and the obstacle related to knowledge gap in specific since this has not yet been recognized as a gap in literature.
6.3 Managerial implications

We believe that the nature of this study have not only contributed to the research in the field of value-based pricing, but also to the business community. On a managerial level we believe that we were able to describe the complexity and the width of the topic. Additionally we explain that companies need a fundamental knowledge about value-based pricing strategy and establish strong relationships and trust before implementing it in practice. The senior management needs to build a long-term vision and integrate it to all the relevant parts of the organization. It is also of highest importance to promote collaboration between departments and share important and relevant information. Efforts need to be allocated to change management and the sales process in order to counter resistance. The sales force needs to have sufficient product and customer knowledge in order to be able to communicate the correct values to the customers and efficient sales tools should be developed together with salespeople. These findings are illustrated in Figure 13 below.

Finally, we believe that our thesis can be used as an example of addressing common problems that can be found in larger organizations, such as lacking collaboration and trust between departments, lacking information sharing, lacking management support, and specifically lacking customer knowledge. Value-based pricing strategy could be used as a tool or a platform to address and facilitate these issues.

![Figure 13. Managerial framework for VBP strategies](image-url)
6.4 Limitations of the study

Every thesis has some limitations and no study is perfect or faultless even though efforts are taken to prevent them. This also applies for our study and the limitations of this study will therefore be presented below.

The main limitation of this thesis is that it was based on a single case study by conducting interviews at one company, active in the construction equipment industry in Sweden. Furthermore we targeted personnel at VCE and not the dealers that they are affiliated with. This has limited the possibility to generalize the findings both in the selected industry and others.

Additional limitations regarding the empirical findings relate to the fact that the information was mainly collected via interviews. We recognize two main risks with using this data collection method together with a single case study since firstly the respondents might be biased in regards to the topic and to the company. Hence, more respondents would have been preferred but due to the complexity of topic and time constraints, we had difficulties finding respondents and companies with explicit knowledge of the topic. Secondly this method opens for misinterpretations, however by choosing semi-structured questions we were given the opportunity to ask follow up questions and receive additional information connected to the respondents thoughts expressed in their own examples. Furthermore, in our case we did four interviews face-to-face, one online and one using both. These might have influenced the consistency of the collected data, and thus limiting the possibility to interpret non-verbal signs.

As mentioned in the section 1.5, the scope of this thesis was to present obstacles related to the implementation of a value-based pricing strategy and not to provide relevant solutions for them. We did not provide any solutions, however, we believe by having the obstacles identified it is possible that the solution might be to avoid them. Nevertheless, this statement is something that we leave open for future research.
6.5 Future research

The research field of obstacles related to the success of value-based pricing implementation is fairly new and thus there are a number of potential areas that the research field would benefit from. Considering the findings and the limitations of our study, we can suggest a couple of areas that would be interesting to be studied in future research. Concerning whether a fully implemented value-based pricing strategy is suitable for companies with similar organizational structure like VCE is something that we are not able to answer by analysing only the findings from this thesis and thus it is an opportunity to investigate further with companies within the construction equipment industry. Additionally because VCE and similar companies use external dealers as their sales force, it is interesting to further investigate the dealers and if this type of structure is the reason why there are so many difficulties related to the sales process. By having complete data on the obstacles, it will be possible to investigate relevant solutions about them as well.

Another suggestion to future research is regarding the additional obstacles of lack of knowledge, unstable organization and timing. Because of the high impact and influence that the lack of knowledge has on the other obstacles mentioned by the literature, we believe that it is necessary to continue investigating its importance and occurrence to other companies. Concerning the obstacles of unstable organization and timing, it would also be interesting to further study if they are present to other companies and thus investigate their relevance.

Finally, it would be beneficial to conduct a quantitative study on a larger sample connected to our research and thus assist to draw more generalized conclusions.
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Zeithaml, V., 1988. Consumer perceptions of price, quality, and value: A means-end model and 
Appendix I - Differentiation grid

Eades, 2003, p. 149. *Differentiation Grid*
Appendix II - Interview guide

- Could you describe your work title and your experiences within Volvo CE?
- How would you define the term customer value?
- Would you say that it is possible to price based on value?
  - if yes, how?
- Would you say that there is a difference between VBS / VBP?
  - If yes, how?
- Would you say that Volvo CE is using VBP today
  - If yes, how?
- Can you describe how you came into contact with VBP for the first time?
- Can you describe the process of how learning about VBS?
  - Was this sufficient enough for you to learn about the concept VBS,
    - if yes, in which way?
    - If no, why?
- What was your initial impression of VBS?
- Do you believe that everybody involved in VBP at Volvo CE have the same perception of what value-based pricing is?
  - Do you have any documentation to explain what is value-based pricing/selling?
  - Do you think that everybody has the access to the same information?
- What was the reason(s) for Volvo CE to investigate the use of VBP?
- Would you say that the initial investigation of VBP was just to investigate or was it to implement it in practice?
- Did you experience a willingness and need to change within the organization?
  - If yes, explain
- Did the management take any steps to help in the understanding of value-based pricing
  - If yes, what was a significant one?
  - Do you think that enough resources were allocated on this project?
- Would you say that there is a particular department that is responsible for VBP or is it everyone’s responsibility?
- Who is responsible for finding which features should be included in new products?
- How do you investigate which features are important?
- How do you measure those features and the final prices?
● Do you collaborate between different departments to consult each other on customer value and VBP?
  ○ If yes, explain.
● Would you say that Volvo CE sells their products based on (1) features, (2) benefits or (3) customer value or combinations of these? Explain.
● Would you say that customers understand what you tried to communicate?
  ○ If yes, in what way?
  ○ If no, why not?
● How did you communicate the values? Are there any tools?
  ○ Were there any difficulties communicating the values?

● What do you think is the most important aspect to pay attention to, in order for VBP to be implemented successfully?
● Are there any additional reasons why Volvo CE isn’t using VBP/VBS today?
● Do you think value-based strategies are beneficial for your company?
● After working with it for a few years what is your current opinion?
● Do you have any additional comments regarding the topic VBP?
Appendix III - Company information

Volvo Group

The Volvo Group is one of the world’s leading manufacturers of transport solutions and their vision is to become the world leader in sustainable transport solutions by:

- Creating value for customers in selected segments
- Pioneering products and services for the transport and infrastructure industries
- Driving quality, safety and environmental care
- Working with energy, passion and respect for the individual. (Volvo Group, 2012c)

The total turnover for the Volvo Group in 2011 was 310,367 MSEK.

In the 2010 annual report, The Volvo Group stated their new strategy is based on customers’ requirements that Volvo’s new focus is on profitable growth, product renewal and internal efficiency. When dealing with profitable growth, their goal is to grow by 10% a year over a business cycle and increase customer satisfaction by offering environmental and cost-efficient products and services (Volvo Group, 2012b). Due to new environmental standards and safety and quality requirements, but also intense competition, more focus is needed on the product development process. With new efficient products together with Volvo’s new approach to develop a closer cooperation and offer complete solutions to their customers, they claim to improve customers productivity and profitability and hence, create value for their customers.

Volvo CE

VCE is a subsidiary within the Volvo Group and develops and manufactures equipment in the construction industry. VCE is one of the world’s leading manufacturer of articulated haulers and one of the leading manufacturers of wheel loaders, road construction equipment, excavators and compact machines (Volvo Group, 2012b).

The foundation of VCE started in 1832 and has through several mergers and acquisitions developed into a global company with 14,857 employees worldwide and their net sales for 2011 was 64,987 MSEK (Volvo Group, 2012b). They are active in more than 125 countries and their products and services are offered to clients that use them as tools to generate profit for their own companies. Additionally VCE offers excavators, loaders, and compactors through the Chinese brand SDLG. In the end of the year 2011 VCE sold 30% more units, the best ever, while generating 20.8% more revenue comparing to the previous year (Volvo Group, 2012b).
VCE is currently investing in soft products and will launch new value-adding products and services for their customers. They are committed to invest in new technologies and areas that will protect the environment such as fuel efficiency (Volvo Group, 2012a). According to VCE, a value-based pricing strategy is desired but the company was unsuccessful in implementing it in the past.
Appendix IV - Additional background information about the respondents

<table>
<thead>
<tr>
<th>Name</th>
<th>Background Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrus Potgieter</td>
<td>He was previously responsible for marketing of articulated haulers and working within the department global marketing and performed the training to the sales people all over the world. His primary markets were Russia, Middle East, Africa and Oceania.</td>
</tr>
<tr>
<td>Mike Stec</td>
<td>Mike joined VCE in 2002 as a product manager/specialist. Until his present position he has additionally worked as global product specialist, sales engineer, sales training specialist and global product marketing specialist.</td>
</tr>
<tr>
<td>David Alström</td>
<td>David started at VCE in 2002 as sales engineer for articulated haulers. Between 2002 and today he has worked as product manager for haulers and loaders and his latest position before becoming GPPE and attachments director for sales support was manager of a team of product managers in region International.</td>
</tr>
<tr>
<td>Per-Olof Bergqvist</td>
<td>Per-Olof joined the market and project support teams for haulers in 2007 after previous experiences of working as a test engineer, with advanced engineering, being chief product manager for the E-series haulers at VCE and also by working at another company for 5.5 years.</td>
</tr>
<tr>
<td>Eugenio Osorio Florio</td>
<td>Has worked at VCE since 1997 starting as trainee, than continuing as assistant area manager, area manager, product manager within articulated haulers. Since 2006 he works as business director.</td>
</tr>
<tr>
<td>Jonas Thoursie</td>
<td>Started at VCE in 1990, during his years at VCE he has been involved in R&amp;D, marketing, sales and market communication.</td>
</tr>
</tbody>
</table>
Linnaeus University – a firm focus on quality and competence

On 1 January 2010 Växjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterised by high quality and a competitive portfolio of skills.

Linnaeus University is a modern, international university with the emphasis on the desire for knowledge, creative thinking and practical innovations. For us, the focus is on proximity to our students, but also on the world around us and the future ahead.

Lnu.se
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