The Right Price – At What Cost?

A Multi-industry Approach in the Context of Technological Advancement

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The Right Price – At What Cost?

by

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Rätt Pris – Till Vilken Kostnad?

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Abstract
The business climate is undergoing a transformation and managers are faced with several challenges, not
the least of which is related to pricing strategy. With an increased transparency in the market as well as an
increased competitive pressure, and with more sophisticated and well-informed consumers, retail
businesses find it hard to navigate the pricing jungle. At the same time, the conventional wisdom in the
field of pricing and the theoretical models on the topic, originate from a time long before the
digitalization. Old models are not a problem in itself, but when there are new forces in the pricing
ecosystem, driven by technological advancement, an assessment of the incumbent models is in the best
interest of both businesses and academia. The reason for this is that, the use of old models that rely on
inaccurate assumptions may impact businesses’ prioritizing of resources or their overall business strategy.
In addition, researchers might be distracted and the research field disrupted. Thus, the purpose of this
study is to discuss whether or not there are additional dimensions in pricing strategy that are not covered
by the incumbent pricing models. Here, dimensions refer to the key components of businesses’ strategic
decision making in regards to pricing.

This thesis examines pricing models in today’s business context in order to answer the research question:
“Are there additional dimensions of the empirical reality of pricing strategy that are not covered by the
incumbent pricing models?” The research question has been studied qualitatively through a literature
review, a pilot study and twelve case studies, where the pilot study had the purpose of exploring the
depth, whereas the multiple case studies focused on the breadth, of pricing strategies. The case studies
cover businesses in different retail industries and of different sizes, namely the industries of Clothing &
Accessories, Daily Goods, Furniture and Toys & Tools, and of the following sizes: micro, small, medium
and large. The empirical data has mainly been gathered by conducting interviews with production, sales
and management personnel at the case businesses. The data has been structured, reduced and analysed
with the help of a framework of analysis that has been developed throughout the pilot study.

The results of this study lean on previous research and a main divider in pricing strategies has been
identified as businesses use either a data-driven or an intuition-driven approach in their strategic work
with pricing. As such, it is proposed that the division of pricing strategies need to be acknowledged, since
the separate methodological approaches may lead to different results, while implying different costs,
resources and required knowledge. Furthermore, the division may form a basis for competitive advantage,
be extended to other areas of strategic management and become clearer, since the adoption of technology
and its impact will increase in the future. As a result, in the future of pricing, they key is going to be to
account for both the strategic perspectives and the methodological approaches in the strategic decision
making process of pricing.

Key-words: Pricing strategy, Strategic management, Data-driven, Intuition-driven,
Strategic decision making, Digitalization, Retail, Customer Value-based pricing, Cost-
based pricing, Competition-based pricing
Sammanfattning


Syftet med denna studie är således att diskutera huruvida det finns ytterligare dimensioner i prissättningsstrategi som inte omfattas av de befintliga prissättningsmodellerna. Här avser dimensioner nyckelkomponenter i företagens strategiska beslutsfattande när det gäller prissättning.

Denna avhandling undersöker prissättningsmodellerna i dagens affärssammanhang för att svara på frågan: "Finns det ytterligare dimensioner av den empiriska verkligheten av prissättningsstrategi som inte omfattas av de befintliga prissättningsmodellerna?" Forskningsfrågan har studerats kvalitativt genom en litteraturgranskning, en pilotstudie och tolv fallstudies, där pilotstudien hade till syfte att utforska djupet, medan de flera fallstudierna inriktades på bredden, av prissättningsstrategier. Fallstudierna omfattar företag i industrin för detaljhandeln och företag av olika storlekar, nämligen inom detaljhandeln för Kläder & Accessoarer, Dagligvaror, Möbler och Leksaker & Verktyg, och av följande storlekar: mikro, små, medelstora och stora. Den empiriska datan har huvudsakligen insamlats med hjälp av intervjuer med produktions- och försäljningspersonal samt företagsledare hos företagen i fallstudierna. Uppgifterna har strukturerats, reducerats och analyserats med hjälp av en analysram som har utvecklats under pilotstudien.


**Nyckelord:** Prissättningstrategi, Strategisk ledning, Datadriven, Intuitionsdriven, Strategiskt beslutsfattande, Digitalisering, Retail, Kundvärdesbaserad prissättning, Kostnadsbaserad prissättning, Konkurrensbaserad prissättning
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Preface

First of all, I would like to thank Cali Nuur, Professor in Industrial Dynamics and supervisor of this thesis, for our fruitful discussions and for his remarkable enthusiasm. Secondly, I would like to thank Staffan Laestadius, Professor Emeritus of Industrial Dynamics, for sharing his expertise with me.

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1 Introduction

In this chapter, I provide the reader with the introduction. This is where I create a context for the thesis with the purpose of framing the problem at hand. This chapter consists of the background to the problem, the problem description followed by the purpose and the research question. Also, the contribution of the research is discussed and the intended delimitations and the unintended limitations are described. At the end of this chapter, the outline of the thesis is laid out.

As of today, the business climate is undergoing a transformation. One of the main forces behind the transformation is the ever-increasing adoption of new technologies, which provides great opportunities for both businesses and for consumers. For example, the digitalization of production and product innovation could result in digital products cannibalizing on physical products and in market entry barriers being lowered for new competitors. (Khare et al., 2017) One of the industries that are particularly exposed to this transformation is the retail industry. The retail industry is one of the most diversified and largest industries in the world and is currently experiencing an aggressive growth in e-commerce. (Kumar et al., 2017)

The advancement in Information Communication Technology (ICT) manifested in the ubiquitous Internet has enabled retail businesses to collect and analyse more information on consumer behaviour. In turn, more information is also made available to consumers. Among other things, this has resulted in businesses’ increased use of sophisticated pricing software as well as targeted and personalized offers to consumers. (Grewal et al., 2012) It has also given rise to price robots that help optimize the consumers’ search, which leads to lower search costs for the consumer (Khare et al., 2017).

The advancement in ICT and the increased availability of the Internet have also changed how consumers pay for products and how they communicate the product’s value to their surroundings (Grewal et al., 2012), resulting in a more transparent market (Nagle et al., 2011). On the business side, this has sparked the innovation of revenue models applied in the digital age. For example, due to new possibilities in marketing, logistics and production, alternative revenue models such as crowd-funding, pay-what-you-want, freemium, and subscription models are gaining in popularity. In all, the effects these transformations have on the business climate lead to new and extended pricing possibilities and to increased competitive pressure. In addition, nowadays, the consumer is more sophisticated and well-informed, while the market is increasingly transparent. (Khare et al., 2017)

Within these transformational challenges and increased competitive pressure, retail businesses are especially focused on strategies in pricing, but also on product assortment, location and store format. The reason for this may be that 60% of consumers say that the price is the main driver behind their choice of brand. Therefore, the new business climate lead to a lot
of pressure within pricing for retail businesses as they are within the Business-to-Consumer (B2C) sector of the economy, usually have traditional revenue models and produce physical products to end-consumers.

Not surprisingly in this context, many businesses are struggling with pricing. As there are many, both quantitative and qualitative, factors to account for in determining price, businesses find it hard to navigate the pricing jungle. (Kotler and Armstrong, 2012) On this note, according to Nagle et al. (2011), few managers are aware of how to make strategic pricing decisions even though it is an important part of the strategic management of the business. One common mistake is to stare blindly at market share, while neglecting the maximization of profits. As Nagle et al. (2011) claim, sometimes the most profitable price is one that restricts market share relative to competition. For example, a lower contribution margin can drive a higher total profit, while a small price increase has substantial impact on profitability. Realizations such as these are uncommon among pricing managers. (Nagle et al., 2011) However, the challenges associated with pricing do not only exist in practice. Indeed, in the literature, there is a consensus among researchers regarding the need for incumbent pricing models to be revised (Khare et al., 2017).

In theory, a pricing strategy consists of activities aimed at finding a product’s optimal price. The decision of which price the business is going to charge is one of the key strategic decisions of the business and it is often connected to the overall business strategy. Additionally, when deciding on the price, the theoretical span of possible prices consists of all the prices the business could charge its customers. On the one hand, the lowest possible price is the total costs for producing the product and it is often referred to as the price floor. If the business charged a lower price, its profits would suffer long-term. The highest possible price, on the other hand, is determined by the customers’ willingness to pay and is called the price ceiling. The highest price a customer is willing to pay is linked to the highest perceived value the product represents to a customer. (Kotler and Armstrong, 2012) In short, pricing strategy is about how businesses can capitalize on price.

With that background, today, there are a myriad of models in the literature on pricing. The pricing models are derived from the pricing strategies and they are applied in the context in which the price is set. Both academics and businesses might suffer from a lock-in effect in their views on pricing strategy, as both models and systems are hard to update or replace once they are established. Indeed, most of the incumbent models on pricing strategy originate from the 1970s. Nevertheless, leading authors, such as Kaplan and Norton (1996), Kotler and Armstrong (2012) and Porter (1996), all claim the spotlight on the pricing stage. This is also the point of departure for this thesis. Before I outline the research questions and provide the structure of the thesis, it is important to introduce some of the incumbent models in the literature on pricing. In the literature, models, such as Activity-based Costing (Staubus, 1990), Balanced Scorecard (Kaplan and Norton, 1996) and Customer Value-based,
Cost-based and Competition-based pricing (Kotler and Armstrong, 2012), are incumbent in the field. These models are challenged by new models, such as the Pricing Capability Grid (Hinterhuber and Liozu, 2012).

Furthermore, the key components of each of the models are, in order: for Activity-based Costing (ABC): fixed cost, variable cost and overhead cost. For the Balanced Scorecard (BSC): finance, customer, internal business processes as well as learning and growth. Following these key components, the four processes in the BSC are: translating the vision, communicating and linking, business planning and feedback and learning. Additionally, the key components in the three pricing strategies by Kotler and Armstrong (2012) are customer, company and competitors. At last, the Pricing Capability Grid has the same key components as the three pricing strategies by Kotler and Armstrong (2012). However, they add the pricing implementation capability of the business in their model as well. Nevertheless, the Customer Value-based pricing is gaining in popularity, in contrast to Cost-based pricing, which has been the most widely used model historically. (Hinterhuber and Liozu, 2012)

As price is one way for a business to distinguish itself amongst its competition as well as the key determinant in its profitability, one cannot exaggerate the importance of a business’s pricing strategy. Because of this, the models on pricing are numerous and the key components of the models stretch from external to internal and from cost calculations to implementation capabilities while pricing strategies are part of different trends in the market. However, criticism of the models have been put forward by several academic researchers. Some of the criticism include, but is not limited to, the models being difficult to implement (Rompho, 2011) while they are relying on inaccurate assumptions (Geri and Ronen, 2005).

1.1 Problem description

Given the new business climate, the pricing ecosystem is certainly changing, and while there are a several pricing models available, the question is whether or not they capture today’s business dynamics. As Khare et al. (2017) state: Are these pricing models still relevant today, or are they obsolete given the new business environment? Indeed, the pricing practice has changed, but business and academia both still hold the same view on pricing strategy. However, businesses managers need an accurate description of reality in order to make informed decisions in the business’s best interest, whereas academics strive to understand reality.

Relying on inaccurate models and assumptions could have devastating industrial effects, particularly in the rapidly changing environment of today. The effects might range from the prioritizing of resources to the overall business strategy, which are both crucial in determining the business’s profitability. It might also distract academics and disrupt the research field. Thus, the empirical problem is the lack of insights into pricing strategy in today’s business environment. In addition, the academic problem is the need for an assessment of the incumbent pricing models’ validity in today’s business environment and the potential need to
1.2 Purpose and research question

This thesis has the following intertwined purposes of empirical and academic nature:

P1. To discuss whether or not there are additional dimensions in pricing strategy that are not covered by the incumbent pricing models

P2. To identify and discuss the incumbent pricing models in the literature

Hence, the main research questions of this study are:

RQ1. Are there additional dimensions of the empirical reality of pricing strategy that are not covered by the incumbent pricing models?

RQ2. Which are the incumbent pricing models in the literature and what are their weaknesses and strengths?

In order to answer the main research question, RQ1, one sub-research question, RQ2, has been formulated. However, RQ2 is of secondary nature since it lays the foundation for RQ1, whereas this study is designed to answer RQ1.

1.3 Research contribution

This thesis does not claim to provide a conclusive analytical discussion on the subject of pricing strategy. Instead, its contribution is the empirical insights into the context of pricing strategy. The thesis begins with defining a framework of analysis with the purpose of capturing the dynamics in today’s pricing. The pricing dynamics are then evaluated in multiple case studies, covering businesses in several industries and of different sizes. Hence, providing new empirical insights linked to each pricing dynamic from businesses in several industries and of different sizes. Furthermore, the intention of the discussion is to be provocative, rather than conclusive. With that said, I question the incumbent pricing models’ validity in today’s empirical context and I offer opportunities for further research, in order to better capture today’s pricing dynamics.

1.4 Delimitation

The delimitations of this study are the conscious choices I have made in order to limit the subject. First of all, I have chosen to cover the retail industry consisting of businesses that are producing physical products in the B2C sector of the economy. Hence, I have excluded businesses that are producing services. Furthermore, I have chosen to cover businesses with traditional revenue models. Therefore, I have excluded businesses with alternative revenue
models, such as crowd-funding, pay-what-you-want, freemium and subscription models, to mention a few. In summary, this study covers businesses with the traditional revenue model that produce physical products for end-consumers.

In addition, the businesses that I cover are active in different industries and are of different sizes. I have chosen to use the business industry as it is referred to by Skatteverket, the Swedish government’s taxation administrative authority, and the business size as it is referred to by the European Commission’s SME system (European Commission, 2009). With that said, this study covers businesses producing Clothing & Accessories, Daily Goods, Furniture and Toys & Tools as well as micro-, small-, medium- and large-sized businesses.

1.5 Limitation

The limitations of this study are boundaries that our out of my control, such as my limited resources. In addition, due to the competitive nature of the market, businesses are, in general, reluctant to sharing all aspects of their pricing strategies, which further limits this study.

1.6 Outline

In this section, the thesis outline is presented and I provide the setting of the thesis. It consists of six chapters:

In Chapter 1, above, I provide the reader with the introduction. This is where I create a context for the thesis with the purpose of framing the problem at hand. This chapter consists of the background to the problem, the problem description followed by the purpose and the research question. Also, the contribution of the research is discussed and the intended delimitations and the unintended limitations are described. At the end of this chapter, the outline of the thesis is laid out.

In Chapter 2, below, I discuss some of the literature and I introduce a framework of analysis on the subject of pricing. My framework of analysis has the purpose of delimiting, structuring and working as an aid in my empirical data gathering in the twelve case studies. Furthermore, the existing literature on the subject is important because this is not the first time that the subject of pricing has been treated in the literature and results from previous studies are of interest in my research. Since my research question, and therefore my whole thesis, builds on incumbent models in pricing, the literature on pricing in Chapter 2 is provided before my methodological approach is presented in Chapter 3.

In Chapter 3, I describe the method by which I conducted my research. The chapter covers my design, my approach to gathering literature and data as well as my methodological approach to analysing it. The chapter ends with a discussion of my research’s reliability, validity and generalizability. The purpose of this chapter is to describe my scientific method. In doing that, I increase my empirical results’ reliability since I provide other researchers
with a description of the tools used in and the context of my research, which enables them to understand, repeat and improve it.

In Chapter 4, I lay out the empirical results from my research. First, I provide the reader with the empirical context in which the results have been gathered and following that section are the sections that describe the empirical results themselves. The results are presented in order of the context in which it was gathered since I believe it is easier to digest data linked to themes. The purpose of this chapter is to lay out the results as they are, allowing the reader to comprehend the results in the context of the literature on the same subject, before exposing the reader and my results to any analysis or discussion.

In Chapter 5, I analyse and discuss my findings in Chapter 4 and I draw parallels to the literature references in Chapter 2. The chapter is divided into several sections in an attempt to create a red thread throughout the discussion and landing in a synthesis. My intention in this chapter is to frame the thesis while showing how the research field has been changed with my empirical findings. The purpose of this chapter is to discuss, extend, refine, synthesise and aim for the bigger picture of my, and previous studies’s, results.

In Chapter 6, I leave the reader with my conclusion, the implications and my suggestions for further studies. The purpose of this chapter is to answer the research question. Moreover, because of the length of the thesis, it provides a shorter and more concrete version of the discussion in Chapter 5.
2 Pricing models

In this chapter, I discuss some of the literature and I introduce a framework of analysis on the subject of pricing. My framework of analysis has the purpose of delimiting, structuring and working as and aid in my empirical data gathering in the twelve case studies. Furthermore, the existing literature on the subject is important because this is not the first time that the subject of pricing has been treated in the literature and results from previous studies are of interest in my research. Since my research question, and therefore my whole thesis, builds on incumbent models in pricing, the literature on pricing is provided before my methodological approach is presented in the following chapter.

What are the incumbent pricing models? What does current research say about them? In order to answer these questions, I explain different models in the literature on pricing and gather empirical findings from the research frontier in this chapter. It consists of three sections: 2.1, 2.2 and 2.3. In section 2.1, I provide a brief description of strategic management to set the scene in which the price is set. The reader receives a background to the context of pricing decisions, which leads the reader into the actual pricing decision in section 2.2. Here, I outline the framework of analysis of the thesis, which covers different pricing dynamics. The reason for it is to cover the theory on different dimensions in pricing decisions. In section 2.3, I provide a review of the incumbent pricing models, as gathered from current research.

2.1 Strategic management

Strategic management is a concept which covers the activities performed by management in order to reach the business’s goals. The activities include formulating and initiating decisions on behalf of owners while considering the business’s resources as well as its internal and its external environment and its competitors. The formulating of such decisions shall henceforth be referred to as strategic decision-making. In a business, the strategic decision-making overlaps with many other fields, such as economics, sociology, finance, psychology and marketing. (Nag et al., 2007)

According to Kotler and Armstrong (2012), marketing is the business’s communication and delivery of the intended value to chosen customers. The price the business charges for its products or services is an important part in marketing, as it is one of the four Ps in the marketing mix: product, price, place and promotion. Kotler and Armstrong (2012) stress the business’s need for an integrated marketing program which accounts for all of these factors simultaneously. Hence, the price is a part of a bigger whole and strategic pricing decisions might consider both the business’s goals, its resources, its external and its internal environment as well as its competitors, but also the product, the place and the promotion.

As described above, strategic decision-making is an important activity in strategic management. In such decisions it is suggested by Porter (1996) that it is important to consider
the business’s strategic positioning. Porter defines the strategic positioning of a business in his "What is Strategy?" from 1996. He declares that strategic positioning is accomplished through performing other activities than rivals, or performing the same or similar activities in different ways. For a business, to differ from rivals is crucial in order to obtain superior performance. Furthermore, he adds that superior performance is the goal of all businesses and that strategic positioning should have a horizon of a decade or more (Porter, 1996). Therefore, in order to create a competitive advantage and obtain superior performance, price is one of four important aspects for businesses to consider in their value delivery to consumers (Kotler and Armstrong, 2012).

However, strategic management has not received much attention from managers in recent years. Instead, managers tend to attend to the business’s operations. Operational effectiveness is not connected to strategic positioning, but it is also crucial to superior performance, Porter (1996) proposes. Operational effectiveness results in lower average unit costs, while strategic positioning delivers greater value to the consumer, which, in turn, allows the business to charge a higher average unit price. Nevertheless, operational effectiveness is seductive in the sense that it is measurable and actionable. Therefore, many managers have focused on operational effectiveness during a long time and as a result, their businesses face diminishing returns. The reason for this is that businesses that are too focused on operations, and forget strategy, are drawn towards homogeneity, zero-sum competition and price wars, which affect all businesses’ profitability in the market negatively in the long-term. (Porter, 1996)

In summary, this section has covered strategic management, which pricing is an important part of. In the coming sections in this chapter, I will dig deeper into pricing.

2.2 Framework of analysis

Pricing is important to consider in the strategic decision-making activities performed by businesses. The framework of analysis for this thesis covers different dimensions of pricing in such activities. Within the framework of analysis, these are called pricing dynamics. In turn, the different pricing dynamics form groups. Hence, the framework of analysis applied throughout this study consists of the following pricing dynamics within each of the groups: themes, questions, key components and pricing activities, as illustrated in Table 1. In this section, the different pricing dynamics will be described in more detail.
The framework of analysis is concerned with the strategic decision making in regards to pricing. On this topic, the price orientation is the collective term for the methods that businesses use in order to determine the final selling prices of their products or services. Once the prices are determined, the term for businesses’ abilities to realize those prices is called price realization (Hinterhuber and Liozu, 2012). Hence, price orientation, which is the focus in this section, is the strategic work that forgoes the implementation of the prices, the price realization.

### 2.2.1 Pricing set-up

The pricing set up is the environment in which the price is set. It is important to distinguish between *how* prices are set and *who* sets the prices, according to Covin et al., (2001). In terms of who sets the prices, Hart’s model from 1992 suggests that individual managers may single-handedly drive the strategy making process in some businesses. In others, however, multiple stakeholders may drive the strategy making process together (Hart, 1992). Upon research in subject further, Rusetski (2014) concluded that the process of setting price is usually a group activity performed by managers at the company.

On the topic of who sets the price, some businesses might do all parts of the pricing process themselves, while some might use the help of third parties. For example, when it comes to collecting data as a basis for decision-making in pricing, government organizations and businesses that specialize in providing data services offer information and statistics on both businesses and consumers. Hence, in the process of setting the price, businesses may use third parties’ services for data collection, but businesses may also use the help of third parties for conducting experiments and for conducting surveys. For example, multiple consumer panel surveys are available in the market. The panels show the demographics of the business’s consumers as well as those of their competitors. (Nagle et al., 2011)

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Table 1: The framework of analysis.
2.2.2 Pricing strategy

Moving on from who sets the price to how the price is set, in terms of how prices are set on a strategic level, there are three different strategies managers have in mind (Kotler and Armstrong, 2012). On this topic, the 3 Cs is a concept defined by Ohmae in his book ”The Mind of the Strategist” from 1986. Any business strategist needs to consider all three Cs in order to develop a successful strategy. Ohmae refers to the 3 Cs as the Customer, the Corporation and the Competition. Each of the Cs is defined as an actor which has its own interests and its own objectives. (Ohmae, 1986)

Furthermore, the three Cs correlate with the model of the three fundamental pricing strategies, coined by Kotler and Armstrong (2012). According to Kotler and Armstrong (2012), in the literature on pricing, there are three fundamental strategies one can use in the process of deciding the price. The origin of their model on pricing strategies can be traced back to the first book published by Kotler in 1967: ”Marketing Management: Analysis, Planning, and Control”. However, Cost-based Pricing is from the corporation’s perspective and Customer Value-based and Competition-based are from the customer’s and competition’s perspectives, respectively. I have illustrated the difference in the processes of the three pricing strategies in Figure 1.

1. **Customer Value-based pricing** - relies on the fact that, in the end, it is the customer who chooses whether or not the price is right, not the business, and the price should reflect the customers’ perceived value of the product or service

2. **Competition-based pricing** - relies on the assumption that the customer’s decision to buy depends on the prices that competitors charge for similar products (Kotler and Armstrong, 2012)

3. **Cost-based pricing** - relies on the fact that the business’s total costs, which include, but are not limited to, costs for producing, distributing and selling, need to be covered and on the business’s desired profit margin on top of those costs
In addition to the model by Kotler and Armstrong (2012), another concept within pricing strategy is that of psychological pricing. Psychological pricing treats the price as it is perceived in the eyes of the consumer on a rational and a symbolic level. The strategic decision of deciding on whether or not to employ psychological pricing is a well-debated issue in the literature. For instance, Holdershaw et al. (1997) assert that 60% of retail prices end in the digit 9, 30% end in the digit 5 and another 7% end in the digit 0. Hence, showing that about 97% of all price points end in either of the three digits 0, 5 or 9. With this in mind, the rationale behind psychological price points is the belief among retailers that odd price points result in a higher demand for products. There are two main reasons for this widespread belief among retailers. Those are the level-effect and the image-effect. (Holdershaw et al., 1997)

The level-effect is explained by the fact that consumers have bounded rationality in the sense that they round prices down or process information from left to right, and occasionally ignore the rightmost digit. Holdershaw et al. (1997) provide proof of the level-effect when studying the memory processing time of $4.99 compared to $5.00, resulting in a conclusion in favour of price points ending in nines. In addition, Snir et al. (2017) show that consumers had more difficulty remembering prices ending in nines than other price points. Snir et al. (2017) also show that consumers were less likely to notice a price change of prices ending in nines than of other price points. In addition to the level-effect, the image-effect accounts for that 9-endings signal low prices and therefore attract consumers (Snir et al., 2017). It is further suggested by Holdershaw et al. (1997) that expensive, high quality products have even prices to a larger degree since the businesses do not want these products to be associated
with a low price. This is supported by the fact that consumers’ sensitivity to price endings varies with price level (Holdershaw et al., 1997).

In addition to the models and the psychology in pricing, another strategic decision in regards to pricing, that is less-debated in the literature, is that of conversion rates and of translating prices to other markets and in other currencies. The literature on the subject of exchange rate movements and price adjustments is divided into two different concepts: Pricing-to-market and Exchange Rate Pass-Through (henceforth ERPT). (Gil-Pareja, 2000) The first concept, Pricing-to-market, was first coined by Krugman (1986) for price discrimination across markets in relation to exchange rate movements. The volatility of exchange rates lead to constant changes in the relationships between different currencies and, therefore, between different markets.

As an example of the phenomenon of Pricing-to-market, consumers and businesses avoid local distribution channels in order to import from other countries because of price discrimination of markets (Krugman, 1986). Knetter (1992) provides evidence of the existence of the phenomenon and concludes that it is no variation between countries, but rather between industries, in the businesses’ approach to Pricing-to-market. Thus, businesses operating in the same industry have the same approach to Pricing-to-market, regardless of country of origin. The second concept, ERPT, refers to the degree to which the exchange rate movements are reflected in the importer’s local prices. The evidence of the existence of the second concept is abundant. (Knetter, 1992) To summarize this section, the three Cs, the psychology in pricing and the Pricing-to-market are all dimensions of the strategic decision-making in pricing. Throughout the next section, I will cover the methodological approach to pricing strategy.

### 2.2.3 Pricing methodology

In addition to the pricing strategy of the business, the methodology that enables the pricing strategy, is treated in this section. Managers are faced with numerous complicated decisions that demand some form of methodological approach, not the least of which are decisions related to the firm’s prices (Rusetski, 2014). In dealing with such decisions, Khandwalla (1977) claims that managers differ in their approaches and that they either take a data-driven or an intuition-driven decision-making approach. The data-driven approach, or the technocratic approach, as he coins it, is a systematic, an analytical and a scientific approach, supported by quantitative decision-making tools. The intuition-driven approach, on the other hand, relies heavily on managers’ ‘gut feeling’ about the soundness of decisions. In turn, the gut feeling is often based on past experience (Khandwalla, 1977). Upon researching the subject further, Rusetski (2014) concludes that managers’ gut feeling is mainly affected by their perception of the brand strength, formed by past experience.

Additionally, the model by Khandwalla (1977) is a well-accepted model in the literature. Evidence of the Technocratic Continuum (Khandwalla, 1977) is presented in the writings
of Mintzberg (1973), Hart (1992), and Cannella and Monroe (1997), among others. Fur-
thermore, managers' different decision-making styles all fit on the continuum, but it is often
used as a binary scale, where decision-making styles are categorized as either driven by data
or by intuition. Although, when the intuition-driven decision-making approach generates a
favourable result, this approach is reinforcing, meaning that the practitioners are more in-
clined to take this approach in the future. (Steiner et al., 1986) Furthermore, Covin et al.
(2001) highlight that the intuition-driven approach is not necessarily an indication of bad or
lazy management, but rather that it may be the most defensible approach of the two in an
uncertain situation.

Furthermore, Ferguson (2013) has been researching the data-driven and the intuition-driven
decision-making styles. From the 2 500 survey respondents he had in his research, he found
that when the business culture supports a data-driven approach, the businesses tend to use
a data-driven approach in their strategic decision-making. Ferguson (2013) describes a "data
culture" and that businesses use both data and analytics to compete and innovate. Whether
the business uses the intuition-driven or the data-driven approach varies greatly, but the
division between businesses using intuition to a larger extent than data and vice versa, is
clear. Furthermore, he asserts that the key for businesses is to find what is right for your
organization. (Ferguson, 2013)

As indicated above, when setting the price, businesses use different amounts of computa-
tional aid. On this topic, software packages have been developed in order to assist retailers
with final prices, assortment planning, buying, promotion, as well as storage and transporta-
tion optimization (Levy et al., 2004). For example, the airline industry’s pricing practice
has been revolutionized by such software packages and other industries are trying to follow
their lead. However, the data conditions in the retail industry are quite different because
of cross-category effects, category structures and product-hierarchies, among others, and it
has received little attention in the research. (Kunz et al., 2016) Large retailers usually invest
millions of dollars in this kind of software, while smaller retailers "live and die by Excel"
(Levy et al., 2004).

In addition to whether or not businesses use intuition or data in their pricing decisions
and the amount of computational aid they use in pricing, another aspect of businesses’ pric-
ing methodology is whether or not they are calculating their consumers’ price sensitivity.
Consumers’ price sensitivity is usually measured with the price elasticity of demand. That
is, the consumers’ responsiveness to a change in the price of a product or a service. The re-
ponsiveness might lead to increased, decreased or unchanged demand for the product or the
service in question. In their book "Microeconomics", Krugman and Wells (2013) account for
the Law of Demand, which implies that the higher the price for a product or service, holding
everything else equal, the less the demand for that product or service. Moreover, Kumar et
al. (2017) show that price sensitivity can be extended and generalized on a country level.
For example, they show that Germany is price sensitive in comparison to the UK. (Kumar et al., 2017)

Besides intuition versus data, computational aid in pricing and the calculation of price sensitivity, businesses may also use scientific methods in order to form a basis for decision-making in pricing. One of the scientific methods carried out by retailers may be experiments in-store or in laboratories. (Nagle et al., 2011) For retailers, the e-commerce environment is ideal for such experiments because of the low cost in implementation. In addition to experiments, some businesses may conduct customer surveys. Customer surveys are good for infrequently purchased products. The infrequently purchased products could be large in size or relatively expensive compared to other products and therefore serve as a good product to be evaluated in a customer survey. The purpose of the customer survey could be to discover the customer product preferences at various price points. As was covered in the first section of this chapter, businesses might outsource these activities to third parties. (Nagle et al., 2011) In all, the intuition versus data, the computational aid, the price sensitivity and the scientific methods in pricing are all important aspects in the pricing methodology. Throughout the next section, I will cover the pricing mindset.

2.2.4 Pricing mindset

When it comes to the pricing mindset, the biggest obstacles in pricing are data and tools. Managers need to overcome these obstacles, in one way or another, in order to fulfil the purpose of pricing, which should be to maximize a business’s profitability in the long term. (Nagle et al., 2011) In this fashion, businesses should seek to find the combination of margin and market share which achieves this. Nagle et al. (2011) and Porter (1996) agree on this issue and propose that businesses need to make informed trade-offs between profit and volume in order to maximize profitability. Nagle et al. (2011) suggest that there exist two kinds of trade-offs that the businesses need to be prepared to do. The first is to lower price in exchange for volume and the second is to raise price and give up volume - both in order to exploit the market opportunity. However, lowering the price reduces the average contribution margin, in the first case, which gives a negative appearance. In the second case, managers are reluctant to the idea of losing a customer due to the price increase.

On the topic of the pricing mindset, Kumar et al. (2017) deliver a thorough examination of the retail climate in their ”Future of Retailer Profitability” from 2017. Due to the globalization, retailers will expand to more countries. In doing so, it is going to be crucial for retailers in order to survive to adapt to different countries and their consumers’ different price sensitivities, choices of products, purchase behaviours and brand loyalties. The reason for this is that local demography and local store formats as well as store-level pricing strategies and store-level marketing mixes increase store traffic and revenue. Therefore, even if it goes against a former central price image of the business, the amount of localized pricing strategies adapted to each foreign market will increase. (Kumar et al., 2017)
Furthermore, as price is going to be transparent across several channels, retailers need to work with personalized pricing strategies in the form of digital offers and coupons based on the purchase behaviour and profitability of individual consumers. Hence, loyalty programs will play a more important role in the future, researchers predict. For example, consumers’ variety seeking and habit persistent behaviours should be rewarded. In identifying customers with such behaviours, retailers will be able to make profits in the future, and to make things easier, retailers need to share information on customer profitability with other retailers as this will help in determining how much to invest in customers. (Kumar et al., 2017)

Due to the increased role of sophisticated technologies and big data among retailers, it will be more important to keep up with the adoption of new technologies in the pricing methodology. For example, eye-tracking technology, RFID tags (Radio Frequency Identification system) as well as electronic displays for pricing, will play an important role in the future. The electronic displays enable dynamic pricing, which means that price is updated depending on the supply of products in-store. To diversify their offering further, retailers will expand their product portfolio by offering an increased number of premium product lines in parallel to their traditional product lines. (Kumar et al., 2017)

In addition to this, it is going to be important to identify key categories and items across different channels and adapt prices accordingly. Furthermore, e-commerce retailers should customize shipping costs and vary their prices based on the distance between the distribution centre and the shipping address. In order to optimize profitability, the key is going to be to sell the right product through the right channel at the right price and at the right time. (Kumar et al., 2017)

2.3 Drawbacks of incumbent models

The incumbent models were first mentioned in Chapter 1. In this section, more thorough descriptions of the models are presented together with the drawbacks that are associated with each.

Activity-based Costing
To begin in a chronological order, ABC originates from Staubus ”Activity Costing and Input-Output Accounting” published in 1971 (Staubus, 1990). A traditional approach is to divide costs into fixed and variable, but ABC divides costs into those that vary with unit-level and batch-level activities, as well as product-level activities and facility-level costs (Lere, 2000). In the model, resources are assigned to activities, which in turn is assigned to cost objectives based on consumption estimates. (Staubus, 1990) ABC has been popularly used to support strategic decisions such as pricing (Flanagan, 2008). Despite its initial popularity among academicians and management consultants, most businesses still use traditional accounting systems over ABC. (Geri and Ronen, 2005)
As it turns out, the drawbacks with ABC are numerous, which is the reason for its short popularity. According to Flanagan (2008) ABC is expensive to implement and relies on subjective estimations. Furthermore, Flanagan (2008) also directs the attention to ABC increasing bureaucracy and not being user friendly. Geri and Ronen (2005) provide additional drawbacks associated with the model and state that it is complicated and that it relies on inaccurate assumptions, such as the assumption that the relationship between activities and resource consumption is certain, absolute and linear. Hence, the model is disregarding discontinuities of costs.

**Balanced Scorecard**

ABC lost its popularity in favour of other models, such as Kaplan and Norton’s Balanced Scorecard (BSC) in the 1990s (Flanagan, 2008). Although explicitly not only for the purpose of pricing, the model works as a strategic management system and tries to link a business’s long-term strategy with its short-term actions. (Kaplan and Norton, 1996) The BSC is one of the most widely used management tools of today (Awadallah and Allam, 2015). When it comes to the drawbacks of the model, Rompho (2011) suggests that it is particularly difficult to implement successfully in small- and medium-sized businesses. The reason for this is the frequent strategy changes in such organizations (Rompho, 2011).

In addition, Awadallah and Allam (2015) propose that the BSC is well-suited for engineering firms, but less for other industries, such as the service industry. Many also point to the fact that the framework is good for creating an increased attention to strategy in the organization, which generates a quick positive result, but they question whether or not the positive results are due to the BSC itself, or just an effect of the implementation. Other criticism include that the BSC limits the organization, has negative impacts for its innovation and implies hierarchical structures, while delineating job responsibilities. (Awadallah and Allam, 2015) In contrast to the BSC, when it comes to strategic decision-making in pricing, there are models that are explicitly developed for this purpose as well, such as the three pricing strategies by Kotler and Armstrong (2012).

**Customer Value-based pricing**

All of the three pricing strategies were described previously in this chapter, in Chapter 2.2.2, since they are fundamental in the subject of pricing strategy (Kotler and Armstrong, 2012) and also a part of the framework of analysis of this thesis, but in the following sections, I summarize their drawbacks. Among the three pricing strategies proposed by Kotler and Armstrong’s (2012), the Customer Value-based pricing strategy is the most favoured pricing strategy in the literature. However, it has its drawbacks since it could require extensive customer analysis in terms of customers’ preferences, willingness to pay, price elasticity and market segments. (Hinterhuber and Liozu, 2012) It also has its drawbacks when it comes to the value assessment of the product. It is difficult for businesses to obtain reliable value
assessments and if the business is not able to assess it, how is the consumer supposed to be able to do it, as Hinterhuber (2008) proclaims.

Another difficulty, which is linked to the first, is the problem of communicating the value to the consumer. In addition, the aspect of market segmentation, the opinions of sales personnel as well as the lack of support from senior management all hinder an effective implementation of the Customer Value-Based pricing strategy. (Hinterhuber, 2008) Nagle et al. (2011) also highlight that consumers have an incentive to conceal their true purchasing power, and thus, making it even harder for the businesses with the value assessment. In addition, Customer Value-based pricing could lead to high prices for unique products, something that might seem desirable at first, but which could create a price gap for new entrants or established players to fill (Hinterhuber and Liozu, 2012).

**Competition-based pricing**
The Competition-based pricing strategy is probably the least favoured in the literature. Nagle et al. (2011) state that in the minds of the managers, this approach is ‘pricing strategically’, while he implies that it is not. The drawbacks of this approach are that the demand is not considered and it could be problematic to look at other competitors and compare since they might have low margins. In addition, the competitor might have developed a more efficient production process, which makes price comparisons further problematic. Moreover, market data and price information become outdated quickly, which makes the strategy difficult to implement. However, one of the most frequently used argument against Competition-based pricing in the literature is that it could lead to price wars, which are unfavourable for all businesses involved. (Toni et al., 2017)

**Cost-based pricing**
Among the three, the most well-used pricing strategy in practice is the Cost-based pricing strategy. However, according to Nagle et al. (2011), this strategy results in mediocre financial performance. Since unit cost is variable, it is not possible to determine the price before determining the unit costs. Changing the price in hindsight due to unexpected production costs can lead to long-term losses in profitability. Toni et al. (2017) agree with Nagle et al. (2011) and state that it is difficult for manufacturing industries to try to determine products’ unit costs in advance. Other complicating factors in implementing this strategy is the pressure from the competition and the business size. The business size is crucial in order work as a price leader and to obtain economies of scale. (Toni et al., 2017)

**The Pricing Capability Grid**
In addition to these models, the Pricing Capability Grid, by Hinterhuber and Liozu (2012), is a model which builds on that of Kotler and Armstrong (2012). It is a model which positions businesses depending on their price orientation and price realization capabilities.
Furthermore, the authors are of the opinion that businesses should strive for the Customer Value-based pricing strategy while optimizing its implementation capabilities (Hinterhuber and Liozu, 2012). In their model, the implementation capability reaches from weak to strong. In that sense, the Pricing Capability Grid is a grading system reaching from weak to strong in realization and from Cost-based pricing to Customer Value-based pricing in orientation, which can be seen in Figure 2. The Y-axis represents the pricing strategies by Kotler and Armstrong (2012) and the X-axis represents the capability to implement the pricing strategy that the business has.

The most preferable position in the grid is in the "Pricing Power Zone", according to the authors, which can be found in Figure 2 in the upper-right corner. As indicators of this approach, they have identified calculations of price elasticities, usage of sophisticated tools to quantify consumer willingness to pay and dedication from the sales personnel to the prices that the business sets. In the Zone of Good Intentions, businesses have slightly less sophisticated approaches in their pricing strategy and their sales personnel are mediocre at realizing the prices that the business sets. (Hinterhuber and Liozu, 2012)

Meanwhile, the least preferable position in the grid is in the "White Flag Zone" in the lower-left corner. The authors define weak price realization as one were the personnel is not dedicated to the prices of the business. One example that they provide of such behaviour is that the personnel does not pay attention to the prices and that they give discount to the consumers. The least preferable pricing strategy is Cost-based pricing, according to the authors and in this approach, the businesses do not have sophisticated tools. In conclusion, the point of the grid is that businesses acknowledge their position and strive for the Pricing Power Zone (Hinterhuber and Liozu, 2012).
Since this model is newly developed and not yet widely accepted, in contrast to the other models, the reviews and criticism of the model in the academic research are limited. Although, since the Pricing Capability Grid builds on the three pricing strategies (Kotler and Armstrong, 2012), the same drawbacks that are associated with them might be associated with the Pricing Capability Grid.

In summary, in this chapter, I have described the scene in which the price is set, in accordance with strategic management. I have also presented the framework of analysis of this thesis. It consists of different dimensions in the strategic decision-making in pricing. Among other things, it covers who sets the price, how the price is set in terms of strategical perspectives, timing in pricing, psychological pricing as well as Pricing-to-market. Furthermore, the framework also covers how the price is set in terms of methodologies in pricing: data or intuition in pricing, price sensitivity and scientific methods in pricing. At last, the framework covers the pricing mindset. At the end of this chapter, I provided a review of incumbent pricing models. In the next chapter, the research design as well as the research methodology in this study is going to be explained and motivated.
3 Method

In this chapter, I describe the method by which I conducted my research. The chapter covers my design, my approach to gathering literature and data as well as my methodological approach to analysing it. The chapter ends with a discussion of my research’s reliability, validity and generalizability. The purpose of this chapter is to describe my scientific method. In doing that, I increase my empirical results’ reliability since I provide other researchers with a description of the tools used in and the context of my research, which enables them to understand, repeat and improve it.

In this chapter, I describe and motivate the structure, order and choice of the methods applied in this study throughout five sections. To begin, I describe the overall research design in section 3.1. In section 3.2, I describe my methodological approach to the literature review. In section 3.3, I describe the empirical data gathering methods chosen in this study. In section 3.4, I describe the empirical data analysis and how it was conducted. Finally, I end with section 3.5 and discuss my research’s reliability, validity and generalizability. The purpose of this chapter is to establish my scientific approach that is set out to answer the research questions.

In this study, a pilot study, a literature review and multiple case studies were carried out with the purpose of answering the research questions. The three separate approaches to gathering data interfered with one another in various ways. For instance, the process of reviewing literature was an important element in both the pilot study and the multiple case studies, although in different ways. Furthermore, the pilot study and the multiple case studies complemented each other in the sense that the pilot study laid the foundation for the case studies. Therefore, they were carried out in a chronological order, in accordance with Table 2, where my research process is illustrated. Hence, the pilot study ended before the multiple case studies began, at the end of January. In addition, I have developed my analytical synthesis of the theory and the empirical results during most of April and May. Throughout this chapter, I will explain my methodological approach further.

<table>
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<tr>
<th>Pilot study</th>
<th>November</th>
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<th>March</th>
<th>April</th>
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<td>Literature review</td>
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<td>Empirical data analysis</td>
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Table 2: Research process.
3.1 Research design

Since the purpose of this study was to identify the incumbent pricing models, discuss their weaknesses and strengths, as well as determine whether or not they capture the empirical reality of pricing strategy, both an abductive and an inductive research design were chosen. An abductive research approach was chosen in the pilot study, whereas an inductive research approach was chosen in the multiple case studies (Collis and Hussey, 2009). As such, the role of the literature review was different in the two studies.

The abductive approach allows for the researcher to form a deeper understanding of the subject, while eliminating alternative ideas. The findings of such research rarely result in one, single, definitive truth, but instead result in a deeper understanding through a method of exclusion. (Neuman, 2006) Furthermore, the abductive approach lets the observations from the empirical material affect the choice and interpretation of literature (Blomkvist and Hallin, 2015). In the pilot study setting, this approach made sense since continuous iteration between discovering new literature and new ways of collecting empirical data early in the research process allowed me to re-evaluate ideas and data while giving the same observations new meanings (Neuman, 2006). For example, by iteratively updating the interview questions in preparation for the multiple case studies. Hence, on a contextual level, the abductive approach produces contextual meaning and was suitable in the development of the framework of analysis, which laid the foundation for the multiple case studies.

The inductive approach, on the other hand, is a process of moving from the specific to the general (Neuman, 2006). In this respect, observations from the empirical reality lead the way in the choice of theory and in forming the theoretical understanding of the subject (Collis and Hussey, 2009). Moreover, in inductive research, the researcher explores the topic under study and seeks to explain the phenomenon based on the data that is gathered (David and Sutton, 2011). In the multiple case studies, this approach was favourable since I started with a general topic and some vague ideas, but with a clear interview manuscript based on the framework of analysis from the pilot study. An abductive approach has the negative aspect that it is rather time-consuming (Blomkvist and Hallin, 2015) and isolating the twelve case studies made sense from a time and a contextual perspective. Thus, resulting in an inductive research approach.

In trying to determine whether or not incumbent pricing models capture the empirical reality of pricing, an illustrative case study design was chosen. An illustrative case study has the purpose of illustrating new, and perhaps progressive, practices adopted by the case study business (Collis and Hussey, 2009). In addition, case studies have the ability to generate a deep understanding of the phenomenon that is studied and work as an aid in the discovery of new dimensions of the subject (Blomkvist and Hallin, 2015). Case study research also has the advantage of capturing and explaining both the phenomenon and the context under study. However, it lacks the ability to prove general cause and effect relationships (David
and Sutton, 2011). Although, since unique cases often are the ones that ultimately end up disproving a previously incumbent theory (David and Sutton, 2011), this approach was particularly interesting in light of the research question posed in this study. Because of all of the above reasons, an illustrative case study is a suitable approach in order to illustrate a complex phenomenon, such as pricing strategy.

3.2 Literature review

A literature review was carried out with the purpose of gaining a deeper understanding of the literature on pricing strategy. Similar to the research questions, the literature review was divided in two parts. The first part of the literature review had the purpose of identifying and analysing existing pricing models as well as their weaknesses and strengths. The second part had the purpose of identifying and confirming pricing dynamics in order to develop the framework of analysis for use in preparation for the multiple case studies.

The framework of analysis consists of different dimensions in pricing decisions, as described in Chapter 2. From the business’s perspective, these are dimensions in the strategic decision-making in pricing in today’s empirical context. In the framework of analysis, these dimensions are called pricing dynamics. The pricing dynamics were either discovered in previous studies, through the literature review, or in the pilot study. When discovering new pricing dynamics in the interviews in the pilot study, evidence supporting each pricing dynamic was searched for in the existing academic research. In the event that I found theoretical findings supporting each dynamic, it was added to the framework of analysis. In this manner, the framework of analysis enabled me to gather empirical data linked to each pricing dynamic. Thus, resulting in an iterative approach to the literature review in accordance with the abductive research approach.

Regarding the literature references throughout this report, they were searched for on the Internet. In my search, I used the Royal Institute of Technology’s search engine KTHB Primo as well as Google Scholar and the Web of Science (previously the Web of Knowledge), for student theses and research publications, where access was granted thanks to the Royal Institute of Technology. The research reports that are made accessible in these search engines are, to a great extent, from published and respected, peer-reviewed research journals. Hence, they are of high credibility. In my search, key-words such as ”pricing”, ”strategy”, ”management”, ”retail”, ”business-to-consumer”, ”B2C”, ”3Cs”, ”Customer Value-based pricing”, ”Cost-based pricing”, ”Competition-based pricing”, ”data-driven”, ”intuition-driven”, ”price sensitivity”, ”price elasticity”, ”psychological pricing”, ”exchange rate movements”, ”price adjustments”, ”Pricing-to-market” were used, either alone or in combinations with other key-words.

3.3 Empirical data gathering methods

If I am going to assess the viability of incumbent models, the conventional wisdom in the field of pricing, then the only way to do that is to leave the academic context. Therefore, I
chose both a pilot study, which focuses on the depth, and multiple case studies, which focus on the width, of the empirical context of pricing strategy. Hence, the empirical data for this study was gathered through different studies with different purposes. In the two separate studies, several different empirical data gathering methods were used, as summarized in Table 3. Hence, participant observations, interviews and a brief questionnaire were used in this study. The reason for this was to use several different sources of data to be able to triangulate the phenomenon under study and for the reason that case studies that use multiple sources of evidence, instead of one single source, generally are of higher quality (Yin, 2009). Triangulation means that data is gathered from different sources, at different points in time or with the help of different methods to evaluate the same phenomenon (Collis and Hussey, 2009). Gathering data in this manner, through two different studies, three different methods and, ultimately, through both the acts of as well as the spoken and the written words of the people of interests, resulted in a triangulation in data sources.

When it comes to the choice of interviews as the main source of data gathering method in this study, the motivation behind this choice is that interviews tend to produce higher data quality and contain more explanations, than written surveys (Berg and Lune, 2004). Moreover, interviews are favourable when the purpose is to develop a deep understanding for the phenomenon under study and when many facets and new dimensions are of particular interest (Blomkvist and Hallin, 2015), as it is in this study.

To be considerate of ethical aspects, and to follow Collis and Hussey’s (2009) advise, anonymity and confidentiality were offered all participants in this study. Hence, only I had access to the empirical data that was gathered. In this fashion, before each interview, I asked for the interviewee’s consent to being recorded and when writing, the data was depersonalised so that people and businesses cannot be distinguished. However, a general description of the case business is offered in this study, which the interviewees were made aware of and have given their consent to. The general description consists of the business’s industry and size as well as a broad description of the interviewee’s role, the interview type and the case study context of the interview. Such a contextualization of data provides a good ground for accurate interpretations and contributes with more depth to the findings (Collis and Hussey, 2009). Thus, the purpose of the general descriptions is to give the reader a contextual understanding and for me to be able to analyse these aspects in relation to the empirical findings.

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<th>Table 3: Data gathering methods.</th>
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<td>Participant observations</td>
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<tr>
<td><strong>Pilot study (one company)</strong></td>
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<tr>
<td><strong>Case studies (twelve companies)</strong></td>
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</table>
3.3.1 Pilot study

With the purpose of identifying today’s pricing dynamics, a pilot study was carried out. Working abductively, this meant that I developed a practical understanding for how the business in the pilot study worked with pricing strategy, while at the same time reading up on the literature on pricing. Therefore, the pilot study consisted of activities such as reading academic research, attending meetings, as well as conducting unstructured interviews with employees.

The pilot study was conducted at a large-sized business producing and selling clothing and accessories. The interviews in the pilot study were conducted in person at the business’s head office with individuals whose work is related to pricing, see Table 4. In the table, the reader is offered a summary of the business industries and sizes together with the interview details and the interviewee codes, as the interviewees will be referred to throughout this section and throughout the remainder of the thesis.

I interviewed individuals who worked in different departments of the business to cover all roles in pricing. The reason for this was to get a deep understanding of pricing from multiple perspectives in order to capture all aspects of the pricing process at the business. At this stage in my research, the interviews were unstructured and the reason for this was to understand what the interviewees do, think or feel, in their own words, in relation to a broad topic (Neuman, 2006). The purpose of the interviews was to understand the pricing process as well as the individuals’ opinions on pricing.

With this interview set-up, the order in which the interviewees are interviewed affects the result and it can be difficult to keep track of the different topics and to decode the empirical data that is gathered (Collis and Hussey, 2009). Although, in my study, the order in which the employees were interviewed was an order of convenience. The reason for this was that it was difficult to distinguish why a particular order would have been better than any other, at this point in my research. Allowing the interviewees to speak freely on the topic of pricing gave me good insights and fulfilled the purpose I had set up before the interviews.
### 3.3.2 Multiple case studies

With the purpose of understanding today’s pricing dynamics, twelve case studies were carried out. Since I was working inductively, the empirical data guided me in my theoretical understanding of the subject. In this setting, the pilot study can be seen as a mere grasp on the surface of the subject of pricing strategy. Furthermore, today’s pricing dynamics, as identified throughout the pilot study, worked as an aid in limiting and in structuring the case studies. In particular, the pricing dynamics helped me in developing the framework of analysis, which was the basis in the interview manuscript. The interview manuscript was used consistently in the interviews at the case companies. An overview of the conducted interviews at the case companies can be found in Table 5. In this table, as in the previous table, the reader is offered a summary of the business industries, sizes and interview details together with the interviewee codes, as the interviewees will be referred to throughout this section and throughout the remainder of the thesis. One of the businesses participated in both the pilot study and in one of the case studies.

<table>
<thead>
<tr>
<th>Industry, Business size</th>
<th>Code</th>
<th>Interviewee</th>
<th>Interview type</th>
<th>Length</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing &amp; Access., Large</td>
<td>A</td>
<td>Sales Controller</td>
<td>In person</td>
<td>01:09:45</td>
<td>2017-02-16</td>
</tr>
<tr>
<td>Clothing &amp; Access., Large</td>
<td>B</td>
<td>Global Sales Director</td>
<td>In person</td>
<td>00:50:10</td>
<td>2017-03-22</td>
</tr>
<tr>
<td>Clothing &amp; Access., Micro</td>
<td>3</td>
<td>Manager</td>
<td>In person</td>
<td>00:59:24</td>
<td>2017-03-01</td>
</tr>
<tr>
<td>Clothing &amp; Access., Large</td>
<td>E</td>
<td>Production Controller</td>
<td>Phone</td>
<td>01:10:00</td>
<td>2017-02-27</td>
</tr>
<tr>
<td>Daily Goods, Large</td>
<td>5</td>
<td>Manager</td>
<td>In person</td>
<td>00:55:22</td>
<td>2017-02-15</td>
</tr>
<tr>
<td>Daily Goods, Large</td>
<td>6</td>
<td>Manager</td>
<td>In person</td>
<td>00:59:24</td>
<td>2017-03-01</td>
</tr>
<tr>
<td>Furniture, Medium</td>
<td>7</td>
<td>CEO</td>
<td>In person</td>
<td>01:10:00</td>
<td>2017-02-27</td>
</tr>
<tr>
<td>Furniture, Medium</td>
<td>8</td>
<td>CEO</td>
<td>In person</td>
<td>01:11:41</td>
<td>2017-02-27</td>
</tr>
<tr>
<td>Furniture, Small</td>
<td>9</td>
<td>CEO</td>
<td>Phone</td>
<td>01:01:02</td>
<td>2017-03-03</td>
</tr>
<tr>
<td>Furniture, Small</td>
<td>10</td>
<td>Manager</td>
<td>Phone</td>
<td>00:52:06</td>
<td>2017-03-02</td>
</tr>
<tr>
<td>Toys &amp; Tools, Large</td>
<td>11</td>
<td>Manager</td>
<td>Phone</td>
<td>01:08:37</td>
<td>2017-02-13</td>
</tr>
<tr>
<td>Toys &amp; Tools, Medium</td>
<td>12</td>
<td>Manager</td>
<td>Phone</td>
<td>01:08:37</td>
<td>2017-02-13</td>
</tr>
</tbody>
</table>

Table 4: Interviews in the pilot study.
Table 5: Interviews in the multiple case studies.

The motivation behind the use of multiple case studies, instead of one single case study, was to be able to recognize the similarities and the differences in the empirical result from businesses in different industries and of different sizes. The reason for this was to get a broad understanding of pricing from multiple perspectives in order to capture different aspects of the pricing processes at the different businesses. According to Collis and Hussey (2009), a comparison between multiple case studies leads to a better understanding of what findings might be generalizable to other scenarios. In order to do so, the selection of case studies must be considered in that replication of findings are expected, which in my research meant that case companies from the same industry or of the same size result in similar outcomes. To be able to produce similar outcomes in multiple case studies, a framework of analysis is needed (Yin, 2009). Thus, the selection of the case study businesses was made with the intention to cover a wide range of business sizes and industries with at least two businesses in each industry and of each size.

When searching for case study businesses I used Allabolag.se. It is a Swedish website that provides the public with public information on all businesses registered in Sweden. The business data comes directly from Skatteverket and businesses are obliged by law to report to Skatteverket, which sells this data to businesses like Allabolag.se, who, in turn, displays it for free on their website. Therefore, I deem their credibility and data quality high. The business industries presented in this study are the same industries that Skatteverket uses to categorize businesses with and the business sizes are based on the EU Commission’s business size standard (European Commission, 2009). I deem the European Commission’s business size system trustworthy since businesses are obliged by law to report to them and they have a genuine interest in organizing businesses sizes in the most accurate way possible. Hence, I met with businesses from the following industries: Clothing & Accessories, Daily Goods, Furniture and Toys & Tools and businesses of the following sizes: micro, small, medium and large.

The interviews in the case studies were semi-structured, meaning that there were some predetermined topics and questions to discuss, but I had the possibility to ask follow-up questions. The reason for this is that it might not be possible beforehand to pinpoint what the interviewee knows and decide on what will be of most interest to the study. The semi-structured interview consisted of the interview manuscript. In turn, the manuscript is made up of an introduction question as well as questions associated with the framework of analysis while ending with a brief questionnaire. An overview of which can be seen in Table 6, where the shaded parts are from the framework of analysis.

The brief questionnaire can be found at the end of the interview manuscript. According to David and Sutton (2011) it is becoming increasingly popular with questionnaires as a part of a bigger data gathering process. The purpose of the brief questionnaire in my study was to provide additional support to the empirical findings and further insights from the cases in
the sample. In light of this, the sample was not randomized and it cannot be considered as sufficiently large or as unbiased. In this aspect, the questionnaire in my study was brief and does not live up to the standards of a regular questionnaire (Collis and Hussey, 2009).

However, each option in the questionnaire had already been asked about separately during the interviews, but the most convenient way for me to be able to understand the relative importance of each option to the interviewee, was to put all five options into the same context. Therefore, a rating scale was chosen, where a higher value corresponds to a higher occurrence of some characteristic or event (Hansson, 2007). Furthermore, rating scales are often used to measure people’s subjective estimations for which no units of measurement exists (Hansson, 2007), such as the relative importance of different pricing dynamics in one’s pricing strategy.

<table>
<thead>
<tr>
<th>Theme</th>
<th>Typical questions</th>
</tr>
</thead>
</table>
| **Introduction** | Can you please introduce yourself?  
• Company, title, background, what you do at the company. |
| **Pricing set-up** | Which person or persons set(s) the price of the company’s products?  
Do you outsource any parts of the pricing process (for example: customer surveys, data analysis, data collection or anything else)? |
| **Pricing strategy** | How do you decide the prices of products?  
When determining the prices on your products, do you take any of the following into consideration and in that case, how?  
• Customers  
• Your production cost and desired profit margin  
• Competitors  
When do you decide the final price of a product (before, during, or after you have produced the product)?  
Do you use psychological price points and in that case, how?  
How do you convert prices from SEK (or the currency you start with) to prices in other currencies? |
| **Pricing technology** | Do you use any computational aid (software programs) during the pricing process and in that case, how do they work?  
How much would you say that your gut instinct affects your final prices?  
Do you calculate your customers’ price sensitivity and if so, how? |
| **Pricing mindset** | Have you done any customer surveys and if so, how?  
Have you done any experiments with pricing and if so, how?  
What do you think is an optimal price?  
What is the most difficult part of pricing?  
What do you think is the future of pricing? |
| **Brief questionnaire** | Could you rank these factors from the one that affects your final price the most to the one that affects your final price the least when you are deciding the price of a new product?  
• Gut feeling  
• Sales data  
• Production cost and desired margin  
• The product’s consumers  
• Competitors’ prices  
• Other |

Table 6: Interview manuscript based on the framework of analysis.

3.4 Empirical data analysis

In qualitative research, the collection and the analysis of data are intertwined (Collis and Hussey, 2009). Therefore, the development of new themes begins at the same time that the
data is first gathered and is a part of the data analysis. For a qualitative researcher, it is a way to organize and to form an understanding of the data. (Neuman, 2006) Thus, my empirical data analysis began at the very same time as the empirical data gathering first started. Therefore, the first level of analysis was during the interviews, when I processed the data in real-time. All interviews were held in Swedish and were recorded during the duration of the interviews. Occasionally, complementary notes were taken during the interviews as well.

Upon completing the interviews, the second level of analysis consisted of listening to and transcribing the interviews. Once the recorded material was transcribed it had to be translated as well. The translation of the material implies exposing the data to the limitations of my language skills. However, in order to minimize the impact of my language skills, I used dictionaries. In all, the interviews resulted in a transcribed material consisting of 676 991 characters.

Once I had transcribed and translated the material, I began with the main activities in the process of analysing qualitative data. The main activities are: reducing the data, re-structuring the data and detextualising the data (Collis and Hussey, 2009). In a reduction, an understanding for a complex phenomenon can be formed with the help of simpler phenomena, of which it consists (Hansson, 2007). In my research, continuous data reduction was conducted when I discarded irrelevant data during the readings and the re-readings of the transcriptions of the interviews. In the reduction, I was particularly keen on keeping contradictory statements and new angles on the topic of pricing strategy. This in order to create an accurate mapping of pricing strategy that covers all dimensions.

3.4.1 Pilot study

When I was reducing, restructuring and detextualising the empirical data in the pilot study, I analysed the data thematically and with an within-case analysis approach. In other words, I looked at interviews that were carried out within the same business (Collis and Hussey, 2009). The thematic analysis was carried out so that data was grouped together. At this time, the pricing activities in the framework of analysis emerged.

3.4.2 Multiple case studies

When I was reducing, restructuring and detextualising the empirical data in the multiple case studies, I first analysed the data thematically and then with a cross-case analysis approach. Elements of informal methods were used as well, since I occasionally counted the frequency of occurrence of some phenomenon. (Collis and Hussey, 2009) This helped in determining whether or not a phenomenon was common or rare in occurrence. First, the thematic analysis was carried out so that data was fitted under each pricing activity in the framework of analysis, during which time the themes emerged. Once the thematic analysis was completed, a cross-case analysis approach helped me to identify similarities and differences between cases.
The similarities and differences between cases formed groups within each pricing activity, according to the framework of analysis in Chapter 2. In my analysis, I detextualised the data by summarizing the groups and visualising them in the form of tables and figures, as presented in Chapter 4. (Collis and Hussey, 2009) Finally, a summary covering the findings from all of the multiple case studies was written. The summary worked as a basis in the writing of the discussion together with the findings from the pilot study and the findings from the literature review.

3.5 Reliability, validity and generalizability

To evaluate this study's scientific quality, I am reviewing the reliability, validity and generalizability of my scientific methodology in this section. According to Blomkvist and Hallin (2015), validity is to study the right phenomenon, while reliability is to study it in the right way. On this topic, Collis and Hussey (2009) claim that triangulation results in high validity and reliability if the sources result in the same conclusion, which was something I was hoping for with my research design.

When it comes to the reliability of this study, a general drawback with case studies is the difficulty in replicating the results. One reason for this is the difficulty in re-doing all the interviews and the observations because of the fact that businesses and employees change over time. Furthermore, a general drawback of qualitative research is the extent to which the researcher herself affects the results. She affects the results in two ways: while studying the phenomenon and while interpreting the same phenomenon (Hansson, 2007). In order to increase the reliability of this study, I established a framework of analysis, an interview manuscript and a brief questionnaire (Collis and Hussey, 2009). Another measure in dealing with this was that I randomized the different options in the brief questionnaire in order to eliminate my own possible preferences and prejudices and making sure that the interviewees were presented with the question in the same way and the options in the same order. The reason for this was to be able to compare the results from different questionnaires.

The validity of this study was strengthened during the pilot study. In particular, coming from an academic viewpoint, there exists a language barrier between the academic and the empirical setting. During the pilot study, I learned the language and approaches to pricing in practice. The risk of being too academic in my questions would have otherwise been high. For example, one pricing dynamic I wanted to ask the interviewees about is price elasticity, which was covered in Chapter 2. This is a concept that is frequently used in the literature, but as I found out, rarely used in the empirical context. Because of this, it was changed to 'price sensitivity' in the interviews during the multiple case studies. My reasoning was that the less theoretical and more practical I could be, and the closer to the organization I could be in terms of language, the better for the empirical result.

A positive aspect of interviews as an empirical data gathering method is the fact that it
can increase validity since it can be checked for accuracy and relevance at the same time as it is collected (Denscombe, 2003). In this manner, both the interviewees and myself took the opportunity of asking clarifying questions. However, there lies a difficulty in making sure that the answers in the interviews and in the brief questionnaire are truthful. The reason for this is beyond the scope of this study. However, certain precautions were taken in order to extend the validity of the answers given in the interviews. For example, I often asked the interviewees if they could provide me with examples of what they were describing. In addition, I tried to paint a word picture before asking my questions. I also thought of the order in which I asked my questions. For example, by first asking an open-ended question: "What do you think of when setting prices?", without mentioning the three actors by Ohmae (1986) or the two approaches by Khandwalla (1977), I believe I increased the validity in the responses. The motivation behind this statement is that the interviewees mentioned the three actors and the two approaches in their answers, independently. In addition to this, I did not ask about specific numbers. By avoiding particularly sensitive topics, such as a business’s profit margin on products, my intention was to increase the interviewee’s trust in me.

Blomkvist and Hallin (2015) claim that a case study cannot result in statistical generalizability, since it is based on one single case, but that it can result in a form of analytical generalizability. Analytical generalizability is obtained through a discussion of how well the results in the chosen case are applicable to other, similar, cases (Blomkvist and Hallin, 2015). Hence, since I used the case study approach, the generalizability of my study is low. However, it can be argued that the analytical generalizability is somewhat increased since I used multiple different case studies and since I discuss the generalizability of the cases. Although, the quality of my study should not be assessed on its generalizability, as I have focused on a few case businesses that are particularly interesting, as opposed to focusing on many and maybe not being able to provide the same depth.

In summary, this chapter has covered my methodological approach in order to answer the research question. It has covered sections such as the design, the method of gathering literature as well as data and the empirical data analysis of it. The chapter ended with some criticism to my work in the form of a review of my research’s reliability, validity and generalizability. The next chapter will treat the empirical results, as gathered in the empirical data gathering methods described above.
4 Empirical results

In this chapter, I lay out the empirical results from my research. First, I provide the reader with the empirical context in which the results have been gathered and following that section are the sections that describe the empirical results themselves. The results are presented in order of the context in which it was gathered since I believe it is easier to digest data linked to themes. The purpose of this chapter is to lay out the results as they are, allowing the reader to comprehend the results in the context of the literature on the same subject, before exposing the reader and my results to any analysis or discussion.

In the previous chapters of this thesis, the research question, the framework of analysis and my methodological approach in my research, among other things, were presented. In this chapter, the empirical results will be covered in detail. This chapter consists of three sections: 4.1, 4.2 and 4.3. To begin this chapter, the empirical setting is described at large in section 4.1 in order to provide the reader with contextual understanding before I account for the empirical results in the following sections. In section 4.2, the results of the pilot study are presented. In section 4.3 the results from the multiple case studies are presented.

4.1 Empirical setting

In addition to what has already been said about the retail industry in Chapter 1 and 2, I provide a brief description in this paragraph in order to provide a context in which the empirical results can be laid out. As such, in the retail industry, manufacturers provide products and services to consumers in exchange for retail prices. Occasionally, manufacturers use the help of distributors in their process of selling to consumers, but they might also handle the distribution themselves (Interviewee D). In addition, some companies might use a combination of the two distribution channels at the same time. (Interviewee 2) Furthermore, as stated in chapter 1, retailers are especially focused on strategies in pricing, product assortment, location and store format (Kumar et al., 2017). In regards to product assortment, a volume product is a product that is expected to generate large volumes, whereas an image product has another purpose in the product portfolio. The image product differs since it may have higher fashion and/or function level and usually is more expensive. Therefore, these products are sold at smaller volumes and attract fewer consumers. (Interviewee E)

4.2 Pilot study

With the empirical setting in mind, I would like to present the results from the pilot study. In the pilot study, I was able to identify different dynamics and different roles in today’s pricing. In this section, I lay out the pricing dynamics first and then I explain the different roles in pricing, as they were identified at the case company.

At the case company, computational aids, such as software packages, are an important aspect in their pricing methodology. They use Excel when working with pricing, which can be quite
tedious. The reason for this is that Excel is not adapted to pricing. (Interviewee F) This is in accordance with Chapter 2 and Levy et al. (2004) who claim that some businesses rely on Excel to a large extent, even though sophisticated software packages for pricing are available in the market.

Furthermore, the case company relies on discussions and opinions of the employees in their pricing (Interviewee A). The discussions are impacted by the employees’ knowledge and their understanding of the market. The discussions may be of both formal and informal nature. The formal discussions take place at large meetings several times a year, so-called ”price and selection” meetings. The informal discussions take place in everyday situations at the office.

In addition, their aim is to price the product before the production. However, the price is usually set afterwards because of unforeseeable events and personnel’s opinions that need to be taken into account once the product is finished.

The company finds it difficult to translate their prices in their base currency to prices in other currencies and in other markets while trying to be up-to-date with the exchange rate levels (Interviewee E). In addition, sales personnel’s opinions are taken into account in their Pricing-to-market (Interviewee A).

Besides their methodological approach to pricing, another takeaway from the pilot study is the different roles in pricing at the case company. When it comes to the roles in pricing, the departments of sales, management and production seem to have varying responsibilities and interests.

First of all, in this context, the sales personnel are the individuals that are selling their products to their distributors. The sales personnel influence the prices at the very end of the pricing process, both when the final prices on the products are decided, but also after the pricing process when giving discounts to the distributors (Interviewee A). The goal of the sales personnel seems to be to increase their sales volume. The reason for this could be that, historically, the sales personnel had been given bonuses based on their sales volume. The company identified this as an issue since their business strategy is not to grow in volume, but rather to increase profitability. Therefore, recently, the sales personnel are getting bonuses based on their sales margin instead, which includes any discounts they may give to their distributors. Moreover, the sales personnel has an interest in keeping the prices low. The reason for this may be that they are used to receive bonuses that are based on their sales volume and that lower-priced products are easier to sell. (Interviewee A)

In addition to the sales personnel, the production and design personnel is a group which influences the prices at the company. However, they influence it at an early stage in the pricing process (Interviewee E). This group focuses on, and is measured on, their products’
production margins, excluding discounts. This group seems to have an interest in increasing the prices so that they can have more freedom in their design. In addition to these two separate employee groups at the company, the management focuses on the total profit of the business and, therefore, the sales margin. The management has a long-term impact on the prices in terms of setting the pricing strategy, while the other groups have a short-term impact on the prices in terms of realizing the pricing strategy (Interviewee C).

That concludes this section and the description of the results from the pilot study. In summary, there are several pricing dynamics and roles in pricing at the case company in the pilot study. The pricing dynamics I could identify in the empirical results in the pilot study were computational aid, gut feelings, timing in pricing, psychological pricing and Pricing-to-market. I complemented the framework of analysis with the results of the literature review, especially in terms of decision-making that is not based on gut instincts. The full framework of analysis is presented in Chapter 2. The roles I could identify in the pilot study were different employee groups and their interests in pricing, which ranges from keeping the prices low to keeping the prices high and from sales volume and different margins to total profit.

4.3 Multiple case studies

Having identified different pricing dynamics in the pilot study, I would now like to present the results from the multiple case studies linked to each pricing dynamic. The way in which I have chosen to do this is in the order that follows Table 5 in Chapter 3. The order in the table is alphabetical with respect to industry and, within an industry, numerical with respect to business size. The number codes represents each interviewee and his or her company. Therefore, the four case companies within the Clothing & Accessories industry will be presented first, followed by the two in Daily Goods, the four in Furniture and at last the two in the Toys & Tools industry. The size order goes from the large to small within each industry. However, within each case, I follow the order of the themes in the framework of analysis. For example, I present the results linked to the pricing set-up first and then the pricing strategy, pricing methodology and lastly the pricing mindset. The reason for this is that in the discussion, I want to discuss the themes in the framework of analysis as well as the industries and the business sizes and when I keep them separate in this manner I hope that I make it easy for the reader to grasp the context in each case.

4.3.1 Clothing & Accessories

Clothing & Access., Large, 1

The case company that Interviewee 1 represents outsources parts of their consumer research. In their consumer research, they try to understand their offline consumer. They use iPads in order to try and understand their consumers’ in-store behaviour, but they also use brand trackers to represent the population in a country.

When it comes to their online consumers, it is easy to retrieve information: “If they have
purchased through our website we can look them up on Google, Facebook and get everything, even interests. We know our customer online, but it is the offline customer that we do not know and that is the majority of our sales.” (Interviewee 1) Their customer research is mainly focused on understanding their offline consumers.

In regards to competitors, they are looking at them a little, but too little. The product cost and margin do not affect them in their pricing either, but their intuition affects their prices a lot: “The product cost and margin do not affect our prices since we have good margins. We do not have a minimal margin. It is more about the right feeling.” (Interviewee 1) Furthermore, Interviewee 1 states that their gut instincts affect their prices to 90% and that they have good experience in the industry and they know what will work and what will not work.

In this sense, their approach to strategic decision-making in regards to pricing is in agreement with the intuition-driven approach as described by Khandwalla (1977). However, they also use calculations of price sensitivities and, as mentioned in the beginning, they are doing quite a lot of consumer research. As a result, they use a combination of research and gut instincts in their pricing and they are considering the results from the two approaches simultaneously in their decisions. In addition, their research initiatives are always ad-hoc.

As a part of their methodological approach to pricing, they are experimenting with different prices in different markets and they have implemented higher prices in the Asian market due to that they believe that their consumers have higher purchasing power there. Thus, they focus on their consumers in their approach to Pricing-to-market. On this topic, when translating prices to prices in other markets, they look at a six month currency rate history. If it is a currency that is volatile, they add some extra in their conversions. They accept the fact that they have different prices in different markets, but they do not let the foreign prices differ more than 7% from the price in their base currency: “An optimal price lies within 4% after rounding. If we do not know what the future exchange rate will be, we might keep the prices tactically. Then it might differ up to 7% up or down. In the long run it evens out.” (Interviewee 1)

Their approach to Pricing-to-market is not optimal, but they are not concerned with the phenomenon either. If consumers change the country setting on their website to gain a little, then they let them do that: “If some individual want to spend a lot of time on gaining 12% in discount due to the conversion rates, then let that customer do that. We want to earn money.” (Interviewee 1)

In addition, the most difficult part in their pricing is to control the effects during their research. Further obstacles are presented by Amazon since they are selling fake products that look like their products and thus, their products are cannibalizing on their sales. Be-
cause of the fact that the consumer uses price comparison applications and does not know that Amazon’s products are fake, it turns into a big problem for them. Besides their obstacles in pricing, they believe that it will be difficult to reach out to consumers via social media in the future and that consumers will go back to listening to their friends in their purchasing decisions.

**Clothing & Access., Large, 2**

The case company that Interviewee 2 represents had thought of outsourcing their pricing strategy to a management consultancy firm. As it turned out, it would be too expensive, but they are looking into possibly hiring a business providing market data collecting services. Hence, the option of hiring other businesses as an aid in the pricing process is something they are considering, but not doing at the moment.

When it comes to psychological pricing, they approach it with their intuition as a basis for decision-making: "We are working on it, but we use our gut instincts. It should feel like a good price point. We are thinking about it, but we do not have a clear definition as to what it is." (Interviewee 2) Thus, this case company, as the previous case company, use their gut instincts in their strategic decision-making.

Furthermore, they allow for the employees’ opinions to come forward during formal and informal discussions, which they use as a basis for decision-making. A specific employee group is in charge of Pricing-to-market: "Our sales personnel’s input is very subjective and they want individual products to be adjusted in certain markets." (Interviewee 2) Hence, their local sales personnel’s opinions are taken into account in their pricing in local markets. Therefore, their prices can differ a lot in different markets. As a consequence, their distributor suddenly started buying in EUR instead of SEK a few months back. The problem was that the their margins were worse in EUR because of the level of the exchange rate, which affected their overall result negatively. Hence, they have experienced some of the negative consequences of the phenomenon of Pricing-to-market (Krugman, 1986).

**Clothing & Access., Micro, 3**

The case company that is represented by Interviewee 3 has an approach to pricing that has a lot in common with that of Cost-based pricing, as it is described by Kotler and Armstrong (2012). They use a rule-based standard margin: "I have a decided margin were I feel satisfied, which is the buying price times 4." (Interviewee 3) Although, as does not agree with the Cost-based approach in Kotler and Armstrong’s (2012) definition, their gut instincts affect their prices a lot: "We have a pretty wide price span to begin with, but within that price span, it is all about gut instincts." (Interviewee 3) They have a general calculation method for covering the costs and for applying a reasonable margin. However, they also use their gut instincts when deciding on whether or not to change the price, and not use the rule-based margin.
On the topic of customers, they do not work with segmentation. The reason for this is that they only use online marketing and that the advancement in ICT has made consumer segmentation redundant: "With online marketing, we do not need to define our customer group, since the data chooses whether or not this person is a target group for you.” (Interviewee 3) As Hinterhuber (2008) claims that customer segmenting is a problem for many businesses, this company works its way around it since they only use online marketing.

On the topic of psychological pricing, they try to read up on what the research says is a good price point: "I have read that the nine at the end makes a difference” (Interviewee 3), which is in accordance with Holdershaw et al. (1997).

In their approach to Pricing-to-market, they use 10% higher prices in foreign markets than in their base currency. However, they also experiment with their prices: "It is fun to play around with prices in foreign markets.” (Interviewee 3) In their main market, as it is too important, they do not want to risk anything by changing the prices too often. However, they use Norway as a test market since it is smaller and since they have higher purchasing power. Therefore, they are not as price sensitive as the Swedish market. If these experiments have favourable outcomes, they keep their prices at the increased level in the test market.

As explained, in their pricing, they use a form of unstructured experiments as a part of their pricing strategy.

When it comes to price sensitivity, they believe that it is rather difficult. They adapt a form of trial-and-error approach to this since they raise their price on one of their products and ask the customer service department to really be observant in regards to changes in the customers’ behaviour. As it turns out, a few weeks back when they used this approach, they had the same volume and they had not received any complaints. Therefore, they use an approach to price sensitivity that is not based on mathematics as much as it is based on observations: "We do not calculate our price sensitivity, but we have a feeling for it.” (Interviewee 3)

In regards to their research methodology, they ask their consumers in-store in an unstructured fashion. They also bring people to their office in order to try their clothes and to ask them questions about their price. They usually bring a group of ten people to their office to come and test their products while they may ask them what they think the products cost and what they are willing to pay for them. This group of individuals usually consists of people that they know personally. They use unstructured experiments and interviews as a basis for decision-making in pricing.

Their opinion on the future of pricing is mainly focused around the location of their production. They believe that prices will increase as China’s middle class is growing. However,
they are of the opinion that China’s knowledge base is really good and that it has increased over quite some time. However, from their experience they know that producing in Pakistan costs less, but that they are more difficult to talk to and that they do not have the same quality thinking as the producers in China. They are also looking into moving the production to Europe, but it is a difficult decision since production in China costs about half of what the production would cost in Europe.

Furthermore, the globalization and the digitalization has made marketing easier for them: "It is easy to scale with an English site. The real benefits with the digitalization is the marketing, which is much easier. So far this year, we have been selling to more than 60 countries and last year we sold to over 100 countries. From our experience, we know that if things work in Sweden, you can try it out in Germany with some minor modifications and then just continue on." However, their biggest obstacle in their pricing is the customer as they would like to know their consumers’ price sensitivities. They are also of the opinion that it is difficult to measure what ‘a good price’ is.

**Clothing & Access., Micro, 4**

Interviewee 4 describes his involvement in pricing process of the business as on ‘the downside of pricing’, indicating that he is in charge of the calculation for covering the costs, while the CEO’s involvement is on ‘the upside of pricing’, meaning that the CEO provides the feeling and the final decision for if and how much the price should be increased. Thus, they are dividing the pricing process and responsibility in two: the calculations for covering the costs and the feeling for the final price. Furthermore, their consumers affect their pricing more than their competitors. However, sometimes they use a VPN (Virtual Private Network) in order to change the country setting when looking at competitors online. The VPN allows them to change their own location as it is recognized by the websites.

In their pricing process, their price is set before the production process. In addition, when dealing with Pricing-to-market, they had experienced that their customer had manually changed the country setting on their website. In doing so, the customer learned that she could benefit from purchasing with a different country setting because the prices were displayed in a different currency. Since the prices were not up-to-date with the the exchange rate levels due to their volatility, one price was substantially lower than another. Upon filing a complaint to the customer support, they compensated that customer. Hence, the customer received the difference in prices in discount. Thus, the case company that is represented by Interviewee 4 has also experienced some of the negative consequences of the phenomenon of Pricing-to-market (Krugman, 1986).

In their approach to Pricing-to-market, they are aware of their prices and that their prices are higher in the US, than in their base currency. Hence, they recognize that they need a more affluent consumer in some foreign markets. Furthermore, they are working on a solution
to the problem of Pricing-to-market: "We are working with developing specific products for specific markets to make it easier to charge another price in markets that are less or more price sensitive."

In regards to their methodology, they test their way forward: "We have tested our way ahead thus far." (Interviewee 4) However, they do not conduct any market research, as their prices are based on their experience. In agreement with Khandwalla (1977), they are using an intuition-driven approach.

In the pricing mindset, they are comfortable with the way things are, but they are continuously working to increase their prices: “We have a price and we earn a bit of cash and we can continue to grow. I would not say that our price is optimal, but we are working on it all the time...[]... We are raising our prices a little bit so that the consumer does not notice.” (Interviewee 4)

### 4.3.2 Daily Goods

**Daily Goods, Large, 5**

The case company that is represented by Interviewee 5 conducts a lot of consumer research. For example, they have a laboratory where 100 consumers come every day to try out their products. Consumer research is in their business strategy: ”The product and consumer research is the heart of their business.” (Interviewee 5) In addition, they do not use intuition in their pricing.

When it comes to calculations of price sensitivity, they are familiar with the mathematical concept. In particular, they are aware of price sensitivity in different market: ”We know that different consumers have different price sensitivity and preferences. For instance, the Swedish consumer is much more digital savvy than the Italian consumer”. As the Interviewee explains, digital savvy is a word for a high level of digital orientation. Therefore, in their experience, Swedish consumers are more familiar with using technology than Italian consumers.

On the topic of collecting market data, they have automatic data collecting software and they are crawling the websites of their competitors in order to retrieve information in real-time. By crawling, the Interviewee explains that they automatically retrieve information from websites.

The future of pricing, according to Interviewee 5, will be more about the value delivery to consumers and companies will not be looking at their competitors as much. The consumers will be prepared to pay extra for added value and they will demand higher quality. However, e-commerce will react to this by chasing prices even more. Therefore, we will see a shift. Pricing will be much more dynamic and the information asymmetry that previously existed between producer and consumer will be erased.
In contrast to the previous case company, the case company that is represented by Interviewee 6 base their pricing on their competitors. In this sense, if their competitors change their prices, they need to act on it. As it turns out, they will let their margins become negative in order to stay with their initial strategy: "We accept negative margins on products in order to stay with our pricing strategy. Our pricing strategy could be that we are always going to have a price that is 10 % lower than that of a certain competitor." (Interviewee 6) The motivation behind accepting a negative margin is that consumers base their whole value perception on one single product and that they buy more products at the time of their purchase. Therefore, on the whole, their margin is still be better off than if they did not price lower than competitors. When it comes to collecting market data, they buy it from a third party. The third party, called Nielsen, measures sales and market prices.

In their pricing, they use a pricing module that helps with rule-based pricing. In the system, they import prices of competitors’ products and they can connect two products and secure that one price always is lower than the other. They define it as a relationship within the system and then the system takes care of the rest.

In their approach to Pricing-to-market, their bank stipulates the rules and currency fluctuations are supposed to even out. Furthermore, every time they change a price, it demands a lot of work in-store. Therefore, they would rather let a price be stable during a period, and maybe lose some money in the conversion, than lowering and increasing the prices a lot.

The psychological pricing is something everybody at the company has an opinion on: "Everyone at the business has an opinion on how to round off prices, from top management all the way down to the production floor. Everyone has a feeling for what is right and what is wrong." (Interviewee 6) However, they follow the market standard. They do this to ensure that their prices seem normal in the eyes of the consumer: "...in Finland it might be EUR 9,95 in Sweden SEK 99,00 and in Denmark it might be DKK 99,90." (Interviewee 6)

However, they conduct consumer research as well, but the results from the research are considered in the long-term, while the competitors are taken into consideration on a daily basis. They conduct the research themselves, a part from one company. This third party helps them with collecting research material for different stores as they go from store to store and, among other things, compare prices. When they conduct research themselves, they use conjoint studies where they expose the consumer to different choices in an interactive environment. Based on that, they compare different products and what the consumers are prepared to pay. It is an expensive research approach and they do not do that for all products. The results from the research usually implies which products they should be careful with. In addition to consumer research, they calculate consumers’ price elasticities, which
also affect their prices.

Although, the company has not always had a structured approach to pricing and they have not always used rule-based pricing and conducted research. Recently, they have experienced a shift in methodology: "Previously, we had prices that were based on our gut instincts. Now, our goal is to delete gut instincts in our pricing and to build our pricing on facts, products’ relationships, price elasticities and mixing effects instead." (Interviewee 6)

In regards to obstacles in pricing, they have almost too much data and it is difficult to not over-analyse things: "There are so many parameters to account for...[...] We have super much data. The more data you have - the more analysis you can do, but it is important to find the right balance." (Interviewee 6)

The future of pricing, in the opinion of Interviewee 6, will be more transparent and the consumer will not be as price sensitive. Other factors will be more important in the eyes of the consumer and the price span will be tighter. It will become more automatic and companies will crawl prices from websites and change prices several times a day: "The more transparent pricing becomes, the more automatic it will be.” (Interviewee 6)

4.3.3 Furniture

Furniture, Medium, 7

The company that Interviewee 7 represents has a margin requirement and they are increasing their prices with the general increase in the costs for their material and salaries to their employees. However, their pricing have elements of both the Cost-based approach and the Competition-based approach (Kotler and Armstrong, 2012) since they look at their competitors and calculate the lowest price they can charge based on their costs. Usually, they land on a margin in between those two.

Furthermore, they lack competitors in the market since they use quite unique materials. Their production costs are high since they are producing everything locally and therefore, the consumers might not compare them with any competitors: "The consumer will probably not compare us to any other competitor, but rather, compare our products’ price to that of a vacation trip.” (Interviewee 7)

Furthermore, they set the price when they know the production costs, as it is impossible to state the production costs in advance.

In their approach to Pricing-to-market, they apply a flat increase on all foreign currencies: "We take a little cushion...[...] of a couple of percentage points in the conversion from prices in our base currency to prices in foreign markets.” (Interviewee 7)
In their pricing methodology, their gut instincts affect their prices. Their gut instincts affect their prices mainly in the more difficult segments, which are the more expensive products in the product portfolio.

The digitalization has made things easier for them. Thanks to an online investment they did recently, they have found that it is easier to retrieve information on the consumers and to analyse it. Furthermore, they are hiring people with more analytic background now since they are growing and they are analysing numbers more carefully than before. Furthermore, when it comes to the future of pricing, in the opinion of Interviewee 7, the product’s life cycle will become more important to the consumer. The reason for this is that the product life cycle, and how long the product’s life is, affects the environment more than just the isolated production.

**Furniture, Medium, 8**

The case company that Interviewee 8 represents prices their products with the goal of differentiating their product portfolio and to offer products at prices where no one of their competitors are. Also, the price is set when they have identified a gap in the assortment. This strategy demands an external perspective, which is rare, according to Interviewee 8: "We look outside and in. Nobody else does that." (Interviewee 8) Furthermore, they emphasize the role of distributors when it comes to data on competitors and on consumers. Sometimes distributors help by providing insights that they have, but sometimes they are not inclined to help at all. Since they work with distributors to a large extent, this is an important aspect in their pricing.

Regarding research, they have conducted a qualitative research study with interviews, but that is not something they do continuously. Instead, on a monthly basis, they use brand trackers. They way they work is that they make 30 calls a month in order to continuously measure brand strength and the brand’s movements. In addition, they measure the satisfaction of all customers that have made a purchase.

When it comes to customer segmenting, they take part in a quantitative analysis of customer segments provided by Postnord. Postnord offers their help for free in identifying businesses’ target customer group by dividing the country in 200 x 200 meters and the population in twelve consumer groups with five subgroups. As a result of Postnord’s segment analysis, they know that their target group had above average income and had houses and mortgage loans, while being above 30 in age.

**Furniture, Small, 9**

The case company that Interviewee 9 represents use their gut instincts in their pricing. They are of the opinion that experience is valued higher than calculations: "Our gut instincts affect our prices more and more. The prices are based on our feeling and experience instead
of calculations.” (Interviewee 9) Furthermore, the price is set at the end of the product development phase.

Regarding their competitors, they look at them a little bit and they favour to look at them online when they do in order to retrieve the full picture. The reason for this is that the full assortment is available online, whereas there might be local assortment or specific products that are displayed in-store.

When it comes to the psychology behind pricing, they do not practice psychological price points. The reason for this is that it sounds cheap, but they have discussed it internally: "We do not practice that any more...[...]With psychological pricing it sounds like a campaign or a price promotion. However, it feels more real to have even prices and we do not want our products to appear cheap. I believe that even numbers are more professional than odd, but we have have discussed it a lot.” (Interviewee 9)

In their approach to Pricing-to-market, they try to cover for some of the volatility in the exchange rate levels by taking a little extra in the conversion. Usually, they have 7-8 % higher prices in foreign markets. Their bank is telling them to use currency hedges, but they prefer the simpler version: "If the EUR/SEK exchange rate would be at 9,3, we would use 8,5 when we are converting our prices from our base currency.” (Interviewee 9)

In their pricing methodology, they are using Excel and they are satisfied with not changing things: "We use Excel in our pricing. We do it consistently and we use the same way of calculating our prices every time. It works and we get a profit and then we are satisfied with that. I believe that it is good to not change things too often.” (Interviewee 9)

Their biggest obstacle in their pricing is that they are too careful. Additionally, in the future of pricing, Interviewee 9 believes that the consumer will be more aware and that they will want local producers to an increasing extent. The consumers will be prepared to pay more for locally produced products. However, transport will be a big issue and guarantees will be important.

**Furniture, Small, 10**

At the case company that Interviewee 10 represents, he is single-handedly responsible for setting the price. He has the most contact with their consumers and their competitors. Therefore, he comes with a suggestion and the designers develop a product based on his suggestion. Although, they are discussing back and forth, but it is his responsibility to sell the product when it is launched and, therefore, the pricing responsibility lands on him.

Furthermore, they base their prices on their gut instincts to a large degree: "It is pretty much about feeling in pricing. I do not like the word gut instincts in comparison with pricing
strategy, but the gut instincts do play an important role.” (Interviewee 10)

When it comes to their competitors, they are observant. They are gathering information on their competitors through unstructured observations by simply visiting their stores and getting a feeling for their value offer. They also talk with their distributors and listen to other stakeholders: "You need to have your eyes and ears with you all the time.” (Interviewee 10) In addition, their competitors prices impact their prices to a large extent and they are made aware of price decreases: "The jungle drum is echoing every time a competitor is lowering their prices. You will hear about it immediately.” (Interviewee 10) To account for competitors in their strategic work with pricing is in accordance with the theory on the Competition-based pricing strategy by Kotler and Armstrong (2012).

In their pricing methodology, they do not use any research, calculations of price sensitivity or such: "We are not that good that we know our consumers’ price sensitivity.” (Interviewee 10)

The consumer reacts quickly if they make price changes and the most difficult part in their pricing is to not know the outcome. The reason for this is that they go by their gut instincts a lot: "Since we do not use analytical tools and calculations, and we go by our gut instincts, it is difficult to know the outcome. However, we do have great experience and knowledge of the industry so usually it turns out fine, but sometimes it turns out wrong. In that case, the consumers react very quickly.” (Interviewee 10)

In the future of pricing, Interviewee 10 is concerned with other industries and the development in their own industry: "I hope that we do not end up like some other industries because they have a price war: no consumer is buying at full price any more. This affects all of our margins: the producers’, the distributors’ and so on. It is very sad.” (Interviewee 10) They believe that some industries have been destroyed because of the multitude of campaigns and price promotions that companies use.

4.3.4 Toys & Tools

Toys & Tools, Large, 11
The case company that Interviewee 11 represents do not price after competitors. However, they state that they have to be aware of what they are competing with in the eyes of the consumer. Recently, they have experienced a transition. Approximately 1.5 years ago, they calculated the prices in the very end of the production. Now their prices are set before production. They know the exact prices before production and the prices are rarely changed.

When it comes to psychological pricing, they are aware of their price points. For example, it is important to stay under an even 100 for them and they accept lower margins in
order to keep their psychological price points.

Gut instincts play a role in their pricing and they discuss their prices back and forth among the management employees. They use both research and gut instincts in their pricing: “We know what the market tolerates. We have a feeling for the market. We could calculate a price on one of our products with a reasonable margin, but after a discussion it feels better to charge another price. Then we do that”. (Interviewee 11)

Regarding price sensitivities, they are calculating it when they are producing new products or categories. They use the help of third parties and experts in the field and they do it on a cyclic basis every third year.

They also do quantitative research every year that represents the whole world. They use five countries as representatives for different continents and they use a web-based study. Again, experts help them with this and they have chosen a statistically significant target group of representatives in their sample. In their study, they ask if they are perceived as high- or low-priced linked to their own brand and competing brands. They do not ask about the whole product assortment, but rather about a few chosen products. The type of question they are asking could be ”Would it be reasonable to pay X for this product?”. In all, their approach to pricing is mixed with gut instincts and scientific methods, such as quantitative research.

Thanks to the digitalization, they have been able to build their brand digitally. They feel that it is exciting with all of the possibilities that are available, but they also feel that the consumers miss the physical contact with the product and that their products, in particular, are better to experience in person than digitally. Furthermore, they have identified Amazon as an obstacle in their pricing, since they, and other online retailers, are pricing very aggressively.

**Toys & Tools, Medium, 12**

In recent years, the case company that Interviewee 12 represents has transitioned from Cost-based pricing to Competition-based pricing: ”If we go back five years, that was how you set prices. You set prices by calculating what it would cost and then you added a good enough margin...[...] But the last three years, we are trying as much as possible to develop a market based price.” (Interviewee 12) The way they approach it is that they use a set margin to begin with, while looking at their competitors prices: ”We have a minimal margin and above that we use market pricing.” (Interviewee 12).

In regards to how they are looking at their competitors, they use the help of their distributors: ”We have a very good collaboration with our distributors and they provide insights into what our competitors are doing and into the end-customers’ opinions on our prices.” (Interviewee 12)
When it comes to their pricing methodology, their gut instincts affect their prices, particularly when it comes to Pricing-to-market: "It is our gut instincts regarding what our consumers are prepared to pay for our products around the world.” (Interviewee 12)

In their research, they use their e-commerce as a test market and to retrieve statistics and information on their consumers.

The digitalization has enabled them to use price robots. They use price robots in order to secure that their distributors are following the recommended prices that they have set. The reason for this is that it is a bit problematic if their distributors are not following their prices, even though they are allowed to not do that by law. Problems arise since distributors will complain if other distributors’ prices are lower than their recommended prices and, as a result, they might decide to not work with them in the future.

In addition to price robots, they believe that social media has great advantages in terms of marketing. They would not be able to brand themselves around the world with traditional marketing. The reason for this is that they do not have the resources, knowledge or time. The new marketing is less time consuming, simpler and cheaper and they can target their consumers while measuring the effects of such campaigns: "With social media, we can reach out to a targeted group and with the same campaign reach the whole world. It is much cheaper, much more effectively and targeted for the right group. It is also easier to measure the effects of such campaigns.” (Interviewee 12)

### 4.3.5 Visualisations and additional results

In this section, I provide the results from the brief questionnaire and I visualise some of the results from the interviews. First, the interviewees’ rankings of the different options in the brief questionnaire is provided in Table 7. In the following table, Table 8, I provide a mapping of who is setting the price at each of the case companies. Finally, a visualisation of some of the interviewees’ answers to the interview questions are presented in Figure 3.
### Table 7: Results from the brief questionnaire.

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<th>3rd</th>
<th>4th</th>
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<td>Company</td>
<td>Gut instincts</td>
<td>Competitors</td>
<td>Consumers</td>
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<td>Consumers</td>
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<td>Consumers</td>
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<td>Daily Goods, Large</td>
<td>Consumers</td>
<td>Data</td>
<td>Company</td>
<td>Competitors</td>
<td>Gut instincts</td>
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<td>Consumers</td>
<td>Data</td>
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<td>7</td>
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### Table 8: Interviewees on who is setting the price.

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<th>Sales personnel</th>
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</table>

Table 7: Results from the brief questionnaire.

Table 8: Interviewees on who is setting the price.
Figure 3: Pie charts of a few of the interviewees’ answers.
In summary, throughout this chapter, I have provided the reader with empirical results linked to each of the pricing dynamics in the framework of analysis. In the chapter that follows, I will discuss these results and I will provide a synthesis of my findings.
5 Analysis and discussion

In this chapter, I analyse and discuss my findings in Chapter 4 and I draw parallels to the literature references in Chapter 2. The chapter is divided into several sections in an attempt to create a red thread throughout the discussion and landing in a synthesis. My intention in this chapter is to frame the thesis while showing how the research field has been changed with my empirical findings. The purpose of this chapter is to discuss, extend, refine, synthesise and aim for the bigger picture of my, and previous studies’s, results.

In the previous chapters of this thesis, the research question, the framework of analysis, the methodologies and the results, among other things, were presented. In this chapter, the empirical results will be discussed and it consists of six sections. In section 5.1, I discuss incumbent models. In section 5.2, I discuss the strategic perspectives in pricing. In section 5.3, I discuss the methodological approaches to pricing strategy. In section 5.4, I discuss variety. In section 5.5, I discuss the future of pricing from additional angles. In section 5.6, I make an attempt at synthesizing the results.

Based on the empirical results in the multiple case studies, there is obviously a gap in the incumbent models in the field of pricing. In this section, I am going to discuss this and I am going to suggest a model which takes it into consideration. The model I am suggesting is intended as a subject for further research. Additionally, In this chapter, I want to stress that the discussion is based on the literature in Chapter 2 and on my empirical results in Chapter 4.

5.1 Incumbent models

To begin this chapter, I would like to discuss incumbent models in today’s pricing context. First of all, there is a lock-in effect with incumbent models in pricing strategy, both among businesses and among academics. The view on pricing strategy has remained the same, while the pricing practice has changed. There is a fundamental belief in the old models and systems and it takes time to review and update such beliefs. The fact is that businesses have worked with pricing for a long time and it is a critical part of their work. There also exists great amounts of research in the field. However, the reason for the lock-in effect in the view on pricing strategy could be that businesses are of the opinion that it is good to not change things too often, while Porter (1996) claims that strategic decision-making should not be changed over a period of ten years. In addition, at university, many of the older pricing models are still taught, even though some of the old models are not used by businesses today (Geri and Ronen, 2005).

Due to the lock-in effect and to the fact that the pricing climate is changing, businesses and academic researchers need to acknowledge technology’s impact on strategy in recent years. Some case companies have stated that their marketing, production and logistics have
become cheaper and easier due to the digitalization. In addition, the technological advancement seems to have simplified many of the problems the academic researchers, such as Toni et al. (2017), claim businesses face when trying to implement incumbent pricing models. Some of the problems, as presented at the end of Chapter 2, may be reduced, or perhaps even resolved, by the businesses’ adoption of new technologies.

For instance, one of the problems is that market data becomes obsolete fast (Toni et al., 2017). However, based on my empirical results, businesses have resolved this problem by implementing automatic data collecting software. The businesses may outsource this activity, or crawl the websites themselves, in order to collect competitors’ prices on a daily basis. Therefore, businesses do not think that it is a problem, but rather the opposite: that it is quite easy to retrieve information online. The problem some of them are actually facing is the problem of having too much data and that they need to acknowledge their technology in their pricing strategy. I find indicators among the case companies that the phenomenon might be a trend and that businesses are collecting vast amounts of market data to an increasing extent.

Moreover, there are other problems that businesses face. Again, the adoption of new technologies might resolve some of these problems. For instance, the problem of market segmenting (Hinterhuber, 2008). The advancement in ICT seems to have made it simpler, or it might even have made it unnecessary, for businesses to segment their consumers. Nowadays, marketing services automatically target the right consumers as a part of their offer and, as a consequence, some case companies do not even think about market segmenting. Furthermore, there are businesses that specialize in consumer data and in providing services, such as consumer segmenting. These marketing service providers and other experts in consumer data are able to provide this service due to the vast amount of information on consumers that is available today.

In this section, I have identified a new dimension to pricing that incumbent pricing models do not account for. However, these are just some ways technology has changed pricing, while the businesses’ and academics’ view on pricing strategy has remained the same. Throughout the next section, I will discuss the strategic perspective of the business in detail.

5.2 Strategic perspectives

As observed in the case businesses, the strategic perspectives may be visible in the pricing dynamics consisting of psychological pricing, Pricing-to-Market and the timing in pricing in the framework of analysis. However, to begin this section, I would like to coin three strategic perspectives: the consumer, the competition and the company, which are based on the three Cs by Ohmae (1986). The difference is that the strategic perspectives are adapted to pricing strategy, as I will show throughout this section, whereas the three Cs (Ohmae, 1986) are more generally applied in strategic management. In the pricing strategy of a business, the consumer, the competition and the company are different actors, whose perspectives the
business seems to acknowledge when setting prices. The case companies seem to realize that the choice of which perspectives to acknowledge, and to what degree, is a key strategic decision in their pricing strategy. At first glance, the perspectives may seem to coincide with the three pricing strategies by Kotler and Armstrong (2012). However, they differ in a couple of aspects, namely in the view on costs and in the view on exclusion.

First of all, they differ when it comes to the view on costs. In fact, most case companies seem use the Cost-based pricing strategy as a basis. In the pricing process, they make sure to cover the costs first, in one way or another, regardless of whether or not they decide their prices before or after production, in contrast to Cost-based pricing as described by Kotler and Armstrong (2012). However, what I found most interesting about pricing strategies is how the case companies decide their final price, since their approach differed in many aspects, while the cost calculations and analysis were more similar. It is not the cost-side businesses are struggling with. As stated in Chapter 2, in strategic management, operational effectiveness results in lower average unit costs, while strategic positioning allows businesses to charge a higher average unit price (Porter, 1996). As I focus on the strategic part of pricing, I leave the cost side out of the equation. As in the example provided by Interviewee 4, where one person is responsible for calculating the costs, while another person is responsible for the final price, I focus on the second person. Hence, I am discussing the decision of the final price, isolated from the cost calculations and analysis, in the remainder of this thesis.

Besides the view on costs, the strategic perspectives and the three pricing strategies (Kotler and Armstrong, 2012) also differ in their view on exclusion. Previous studies have shown that businesses apply either of the three pricing strategies by Kotler and Armstrong (2012) (Hinterhuber and Liozu, 2012). However, based on the sample of case companies that I have studied, businesses tend to take more than one of the pricing strategies into account simultaneously, in contrast to Kotler and Armstrong’s (2012) definition. Therefore, the three pricing strategies in the model by Kotler and Armstrong (2012) may not be mutually exclusive or collectively exhaustive. I would state with confidence that I have not found a single company in my sample that applies only one of the three pricing strategies. Therefore, in contrast to Kotler and Armstrong (2012), I want to acknowledge the fact that there might be more than one perspective that the businesses base their prices on.

I adapt the model of the three Cs by Ohmae (1986) to the strategic perspectives since he claims that a strategist needs to account for all three perspectives simultaneously. However, in my sample of case companies, I have seen that although businesses account for several perspectives, there is usually one perspective from which the price is set to a larger extent. Hence, if I were to assign different perspectives to different businesses, I would base it on the perspective that is dominant in their pricing and the perspective that affects their prices the most. This is also the reason for my design of the brief questionnaire in Chapter 3. Furthermore, it is possible to identify the strategic perspective of a business in the different pricing
activities in the framework of analysis, as we have seen in Chapter 4. With this definition, it becomes easier to distinguish between businesses' strategies in pricing.

In doing this, I adapt the three Cs (Ohmae, 1986) to the empirical context of pricing, with the purpose of making the model easier to work with and to make it reflect the empirical reality to a larger degree. The strategic perspectives are visualised in Figure 4. Furthermore, the relative level of difficulty of implementing each perspective is increasing vertically, as illustrated in the figure.

Figure 4: Strategic perspectives.

Now that the strategic perspectives have been defined, I would like to continue the discussion with the model by Khandwalla (1977) in mind. I will now provide the reader with examples of the data-driven and the intuition-driven approaches in the strategic perspectives, respectively. Interestingly enough, different strategic perspectives vary in the kind of methodological approach and the extent to which the scientific method is applied. The perspective of the company is least extensive in terms of time and resources, while the perspective of the consumer seems to be the most demanding.

The perspective of the company
When using the perspective of the company, businesses think of themselves first in pricing
decisions. In agreement with Cost-based pricing, they might have defined a reasonable margin, or a minimal margin (Kotler and Armstrong, 2012). However, in contrast to Cost-based pricing, on the one hand, they may motivate their margin based on their feelings for or their experience of what a reasonable margin would be. On the other hand, they might also motivate their margin based on calculations of what such a margin should be. I argue that there is a vital difference in their mentality and a subtle difference in their methodological approach to this, which might have consequences for the business. Therefore, I claim that there are elements that may be associated with either the intuition-driven approach or the data-driven approach in pricing decisions from the company’s perspective.

The perspective of the competition
When using the perspective of the competition, businesses think of their competitors first. On the one hand, they might base it on rumours or on unstructured observations of competitors. On the other hand, they might base it on their research on competitors. In addition, some buy market data or gather the data themselves. Some formulate rule-based pricing and set their prices in relation to competitors’ prices. Therefore, I claim that there are elements that may be associated with either the intuition-driven approach or the data-driven approach in pricing decisions from the perspective of the competition as well.

The perspective of the consumer
When using the perspective of the consumer, businesses think of their consumers first. This perspective is favoured by both academics (Hinterhuber and Liozu, 2012) and some businesses because we see a shift towards value-based pricing as opposed to the perspective of the company. However, on the one hand, different employee groups seem to base their opinions on their feelings or intuition about their consumers, as I observed in the pilot study. These opinions and feelings about the consumers might come up to the surface during discussions. On the other hand, some use consumer research. The consumer research usually is carried out with the help of experiments, surveys or interviews that are designed with the consumer in mind. Because of this, I also claim that there are elements that may be associated with either the intuition-driven approach or the data-driven approach in pricing decisions from the consumers’ perspective.

In the approaches that are applied within each perspective, I am able to identify two extremes. Now then, what do these two extremes in each of the perspectives have in common, if anything? In the next section, I discuss the methodological approach to pricing in detail.

5.3 Methodological approaches
As observed in the case businesses, the methodological approaches are visible in the pricing dynamics consisting of price sensitivity, scientific research, discussing prices and the computational aid in the framework of analysis. The two extremes in the three strategic perspectives in businesses’ pricing strategies seem to coincide with the technocratic continuum by Khand-
walla (1977) in various aspects. Based on the case companies, I argue that the data-driven approach and the intuition-driven approach to pricing are both represented in each of the perspectives. Elements from the data-driven and the intuition-driven approaches exist in all of the perspectives, even though the methodological approaches differ to some extent between perspectives. Furthermore, as previously stated, the methodological approach is possible to distinguish in different pricing activities as performed by the company in accordance with the framework of analysis.

To begin with, the methodological approach to pricing that a business takes could be a result of its culture (Ferguson, 2013), its business strategy or the overall industry. In some companies, there exists a culture that promotes either the intuition or data-driven approach to pricing. This is something that Ferguson (2013) also has studied and he has come to the same conclusion. In addition, the methodological approach could be a conscious choice and a part of the overall business strategy. For example, one case company states that consumer research is the heart of their business (Interviewee 5), and therefore they have chosen the data-driven approach and the perspective of the consumer. Finally, there seem to exist industry tendencies, which will be discussed at the end of this chapter. The methodological approach a business takes could be a result of some form of lock-in effect within an industry. Therefore, the culture, the business strategy and the overall industry are three different factors I have been able to identify as decisive in regards to which methodological approach a company has in pricing.

Now I intend to discuss one of the methodologies at a time, starting with the intuition-driven approach. Hence, feelings and opinions are identified by Khandwalla (1977) as indicators of the intuition-driven approach and we have seen how both influence some of the case companies in their pricing in Chapter 4. However, to extend Khandwalla’s (1977) definition of the intuition-driven approach, I have identified discussions as a method that is more common in intuition-driven pricing than in data-driven pricing. This method enables different employees’ intuitions to impact pricing.

Besides discussions, I also argue that there are other methods that are indicators of the intuition-driven approach, in addition to Khandwalla’s (1977) model. These methods might include listening to rumours and to gossips, as well as conducting unstructured observations, experiments and interviews of unscientific nature. For example, employees might rely on their conversations with a few consumers, competitors, other stakeholders and/or even their friends in their strategic decision-making in regards to pricing (Interviewee 3).

Unstructured experiments, which are motivated with a "trial and error” attitude among the employees, are also common in this approach. The employees tend to be influenced by their previous experiences and they tend to practice ”learning by doing”, unlike the data-driven approach. Steiner et al. (1986) also assert that this approach is reinforcing in the sense
employees are more inclined to take this approach in the future if they have positive experiences of it.

In addition, businesses that take this approach may be family-owned for generations - with the freedom of changing prices at will, but also with employees with a tested and refined intuition developed over time (Interviewee 9). In short, the intuition-driven approach to pricing is subject to the human condition. All of the examples stated above are examples that we have seen among the case companies in Chapter 4.

Moving on from the intuition-driven approach, the data-driven approach is of scientific nature (Khandwalla 1977). Specific indicators of the data-driven approach, that I have identified among the case companies, are calculations and research. The data-driven approach is defined by more sophisticated calculations, while the intuition-driven approach is defined by simpler calculations. In accordance with the framework of analysis, the calculation of price elasticities is a pricing activity, which is an indicator of the methodological approach. In accordance with Chapter 4, some case companies claim a mathematically correct approach to calculating price elasticity, while others state that they have a feeling for it. These represent the data-driven and the intuition-driven approach, respectively.

When it comes to research, businesses seem to conduct observations, interviews, surveys and experiments. These businesses may work with third-party data providers who continuously deliver market data (Interviewee 6). Another aspect that seems to be an indicator of the data-driven approach is the level of computational aid that is used in pricing. The more sophisticated computational aids are indicators of the data-driven approach. Examples of all of these were present among the case companies in Chapter 4.

That concludes my descriptions of the intuition-driven and the data-driven approaches. However, I also find evidence for the existence of businesses in between the two approaches, in what I would prefer to call the middle-ground. The middle-ground is a form of an in-between approach and it is not exclusive. These might be businesses that are in a transitioning phase from one approach to the other. In addition to businesses that are transitioning from one approach to the other, some businesses are in-between permanently, or going back and forth. All of these are 'technocratic hybrids', as I would prefer to call them. These are businesses that are transitioning from one approach to the other, that are using a combination of both approaches, or that are using different approaches in different scenarios. I have found examples of all of these among the case companies that I have studied.

On this topic, I argue that the reason for transitioning from one methodological approach to the other may be of strategic nature or due to the business growing. When a combination of both approaches is used, some companies say that their data-driven methods affect them in their long-term strategy, while the intuition-driven methods affect them in their
short-term strategy. Finally, when it comes to the businesses that use different approaches in different scenarios, it depends on which product is being considered, where volume products are characterized by the data-driven approach to a larger extent, while image products are characterized by the intuition-driven approach.

In addition to which product is being considered, the approach that is used in different scenarios may also depend on the cyclical timing. The reason for this is that some companies conduct research on a cyclical basis, for example, every third year. Products that are developed close to these research initiatives may be more influenced by the results. Hence, among companies that practice both approaches in different scenarios, I am able to identify at least two variables on which it depends: the cyclical timing and the relative position of the product in the product portfolio.

In all, the differences in the methodological approaches are illustrated in Figure 5, where the intuition and data-driven approaches are the two extremes, while the middle-ground is named the technocratic hybrid. What the three different approaches are characterized by are illustrated in the figure as well. What the intuition-driven and data-driven approaches are characterized by are a combination of what I have found in my empirical results and the characteristics that Khandwalla (1977) has stated.

Figure 5: Methodological approaches.

In summary, the different methodological approaches that I have identified are inspired by the Technocratic continuum by Khandwalla (1977) and I have been able to identify additional aspects to his model. I also argue that businesses might be in between the two extremes in their approach to strategic decision-making. In Figure 6 I have gathered some of my own empirical results and analysis along with that of Khandwalla’s (1977).
5.4 Variety

A general problem with the incumbent models is that, in the empirical reality of pricing strategy, it is not one size fits all. However, this is always the problem with models, since they are simplifications of reality (Hansson, 2007). Nevertheless, I argue that the question is where you draw the line and that in pricing strategy, the line needs to be redrawn.

As I have discussed above, the same pricing strategy that is implemented with an intuition-driven methodology differs from that of a data-driven methodology in many aspects. For instance, they might lead to different results, while they imply different costs, resources and required knowledge. The data driven approach is more extensive, while the intuition driven approach is particularly defensible if there is little to go on, as Covin et al. (2001) also have stated. Furthermore, since the role of technology in pricing is increasing, as was indicated in Chapter 1, the division between the intuition-driven and the data-driven approaches could become more distinct and more important in the future. Also, the methodological approaches might be possible to extend to strategic decision making as a whole, in accordance with Khandwalla (1977), and, thus, they might not be limited to pricing in particular. Also, as gathered from the case companies, the business’s size and industry might impact pricing strategy, which is a further argument for the need to acknowledge the varieties in businesses’
Because of the industry tendencies that I see in my sample, the strategical perspective in combination with the methodological approach could distinguish businesses from each other within an industry. As Porter (1996) states: it is about doing other activities, or the same activities in different ways, than competitors, in order to obtain a superior advantage. The combination of the strategic perspective and the methodological approach may create a unique pricing strategy, and/or a unique value offer, in the eyes of the consumers. Referring back to Chapter 1, it seems as if technology has already changed the competitive landscape in pricing. Hence, could the combination of the strategic perspective and the methodological approach in pricing be a source of competitive advantage now and in the future? Also, due to that all of the incumbent pricing models fail to address the methodological approach to pricing, the researchers and the businesses could miss this, possibly increasingly important, source of competitive advantage.

5.5 The future of pricing

In addition to the above discussion, I want to highlight a few aspects in the future of pricing in the following section. To begin, in the future of pricing, it might be important to develop local pricing strategies in different markets. Many of the case companies recognize that their customers’ price sensitivities differ between markets, but they are unable to capitalize on this. Many of the case companies have also stumbled upon problems when translating prices to other currencies and trying to be up-to-date with the currency exchange levels. Because of this, they have given discounts to consumers. Therefore, in light of the increasing transparency of the market, as stated in Chapter 1, one solution to all of these problems is to develop local product lines for local markets. This conclusion is in agreement with that of Kumar et al. (2017).

Furthermore, some of the case companies have developed good relationships with their distributors. The distributors that they have good relationships with are providing them with invaluable insights and data on consumers as well as on competitors. However, distributors that they do not have good relationships with might not share any data, even though it could be argued that it would be mutually beneficial for both parties. On the topic of sharing data, Kumar et al. (2017) highlights the fact that retailers should share their data with other retailers. I would like to extend his reasoning and state that it is important to develop good relationships with distributors, as well as with other retailers, in order to mutually benefit from each other’s insights.

Nagle et al. (2011) state that the biggest obstacle for businesses in their pricing is data and tools. However, a majority of the case companies stated that the consumer is the most difficult part in pricing. This is interesting since businesses have more insight now into the consumer behaviour than they have ever had, thanks to the advancement in ICT. The
increased amount of data seems to be a two-edged sword. As a consequence, consumer research and calculations of price sensitivities might increase in popularity as methodological approaches in strategic pricing decisions.

The price elasticity is usually something pricing managers are keen to know, but which can be difficult to measure. It may be difficult to measure since it requires a certain volume and it is also difficult to assert the robustness since the impact of external variables cannot be easily controlled. Not to mention that it requires a rather high-level of mathematical understanding, which businesses might not have. Therefore, some businesses approach it with an intuition-driven approach. Also, managers may use such information when deciding on their approach to Pricing-to-market. Hence, the concept of price sensitivity is closely related to that of Pricing-to-market. Both of which businesses may approach with an intuition- or a data-driven approach. In all, these are some indications that I have seen among the case businesses and in the following section, I attempt to synthesize what has been discussed thus far.

Finally, as many of the case companies and researchers (Kumar et al., 2017) state that dynamic pricing will become the norm, the trend towards the data driven methodological approach to pricing strategy seems as a natural step. The reason for this is that dynamic pricing, and most of the new technologies in pricing (Kumar et al., 2017), rely on big amounts of data. The organizations that have a data culture and that support a data-driven methodological approach might be much further along the way towards adopting the new market structure of dynamic pricing, than those with intuition-driven pricing strategies. In the adoption of the new technologies, a data-driven strategic decision-making process might be a necessary precondition.

5.6 An attempt to synthesize

In light of the empirical results and the discussion thus far, in an attempt to synthesize, I propose a new model in pricing. It is called the Pricing Strategy Matrix and is illustrated in Figure 7. The matrix builds on the previously mentioned models: the Pricing Capability Grid, the three Cs and the Technocratic Continuum. In its layout, it is inspired by the Pricing Capability Grid by Hinterhuber and Liozu (2012) and its Y-axis correlates with the three Cs by Ohmae (1986). Lastly, its X-axis is inspired by the Technocratic continuum by Khandwalla (1977). The matrix is also based on the results from my empirical research. I have taken the parts of the incumbent models that are still valid and added what they are missing. Therefore, the model allows for a business to be positioned based on its strategic perspective and methodological approach when setting prices. Hence, it is a pricing model in two dimensions.
The design of the matrix is inspired by Hinterhuber and Liozu (2012). However, the Pricing Strategy Matrix differs from the Pricing capability grid since it maps the businesses’ strategic work that forgoes the implementation of the prices. In contrast, the contribution of the Pricing capability grid to the field of pricing is mainly the analysis of the practical work that happens after the price is set. Also, in contrast to their model, my goal is not to tell businesses whether or not they have good or bad pricing strategies. This is why I evaluate the methodological approach to pricing strategy from intuition-driven to data-driven approach, whereas Hinterhuber and Liozu (2012) rank the pricing realization capability from weak to strong. My aim with the model is to map businesses’ pricing strategies in the most accurate way possible in order to illustrate new dimensions of pricing strategy.

In the Pricing Strategy Matrix, the names represent the extremes. The reason for the names is that I want the positions in the matrix to be relatable. However, the names on their own are not that important, but rather add to the description of the model. Here, I describe some of the different positions in the matrix in detail:

- Opportunist - In the intuition-driven approach, the belief in people is valued high (Khandwalla, 1977). The companies using this strategy see and act on the opportunities that present themselves based on the opinions they have of their consumers (Interviewee 2).
• Analyst - Many researchers agree that the Customer Value-based strategy is the most preferable (Hinterhuber and Liozu, 2012) and this approach requires extensive work with data (Interviewee 5).

• Strategist - As Nagle et al. (2011) state, businesses adopting the Competition-based pricing strategy think of themselves as strategists. Also, since these businesses are in the middle-ground, they might be transitioning from one approach to the other, or using both approaches at the same time or in different situations. The choice of transitioning (Interviewee 6) or using both approaches or adapt approaches could be a strategic move.

• Idealist - Nagle et al. (2011) claim that the Cost-based pricing strategy is the most common strategy in pricing and in the intuition-driven approach, the belief in people is valued high (Khandwalla, 1977), as stated above.

• Rationalist - The Cost-based pricing strategy is the most common and, from a company perspective, it makes sense and is easy to implement (Nagle et al., 2011).

5.6.1 Positioning the twelve case companies

I was able to identify the positions of the twelve businesses I conducted interviews with in the Pricing Strategy Matrix, as is shown in Figure 8.

Figure 8: Positions of the twelve case companies based on the brief questionnaire and the interviews.
However, if I had based the businesses’ positions in the matrix on the answers in the brief questionnaire alone, and not taken the answers in the interviews into account, the positions would have been a little different, according to Figure 9. The reason for this is that I moved four businesses because of the results from the interviews. For example, one interviewee expressed that their prices are based 90% on gut feeling (Interviewee 1). Even so, the interviewee ranked the data-driven approach higher than the intuition-driven approach in the questionnaire. Interviewees may have a bias towards the data-driven approach - that the approach is superior to the intuition-driven approach. Therefore, based on what the interviewees said in the interviews, I had to move four businesses to the intuition-driven from the data-driven approach, or to the middle-ground, in the Pricing Strategy Matrix. Also, because of what they said in the interviews, some were moved in the strategic perspective as well. Other than for the four businesses that I moved due to the interviews, the majority of the results from the questionnaire were in line with the results from the interviews, resulting in a triangulation of data sources. Therefore, the final positioning can be seen in the previous figure, Figure 8.

Figure 9: Positions of the twelve businesses based on the brief questionnaire.

![Pricing Strategy Matrix](image)

It seems, both in business industry and size, as if they are positioned in different parts of
the matrix, as can be seen in Figure 8. For example, larger businesses tend to be positioned higher up in strategical perspectives’ difficulty, but tend to be positioned all over the methodological approaches. When it comes to the industries, the case companies in the Toys & Tools industry is in the middle-ground (green in the figure). The case companies in the Clothing & Accessories industry practice an intuition-driven approach, but are also located in the middle-ground (blue in the figure). The case companies in the Furniture industry practice intuition and data-driven approaches (red in the figure), while the case companies in the Daily Goods industry practice a data-driven approach (yellow in the figure), in accordance with Figure 10. Also, the more expensive and design-influenced the products are in the industry, regardless if they are premium or not, the more the businesses tend to be intuition-driven in their approach, if one is to generalize the empirical results with regards to the Pricing Strategy Matrix. I am suggesting that Furniture and Clothing & Accessories are more influenced by design and are also more expensive in absolute terms than Toys & Tools and Daily Goods.

Figure 10: The four industries in the Pricing Strategy Matrix.
In particular, if one company’s approach is data-driven, while others in the same industry have an intuition-driven approach, who has a competitive advantage? The same reasoning goes for the strategic perspectives. For example, these are exemplified in the Furniture industry by Interviewee 8 and in the Clothing & Accessories industry by Interviewee 3. Regarding their pricing strategy, Interviewee 8 also states that nobody else in their industry has the same strategy as they have.

In summary, throughout this discussion, my aim was to shed light on some of the implied questions from the thesis’s title: "The Right Price - At What Cost?", by discussing the questions about how to obtain the right price and what some of the negative consequences could be of ignoring it, as stated in the problem description. Thus, I have discussed incumbent models and I have extended and adapted some of them to today’s empirical reality and to the context of pricing strategy. I have also coined the strategic perspectives and methodological approaches and synthesized them in an own model. In the next chapter, I answer the research questions and offer a conclusion of this thesis.
6 Conclusions, implications and further research

In this chapter, I leave the reader with my conclusion, the implications and my suggestions for further studies. The purpose of this chapter is to answer the research question. Moreover, because of the length of the thesis, it provides a shorter and more concrete version of the discussion in Chapter 5.

This chapter consists of three sections. In section 6.1 I offer the conclusion of my thesis. In section 6.2, the implications for the case companies as well as the academic research are analysed. In section 6.3 I make suggestions for further research. Throughout this chapter, I want to stress that the results and implications of this research should be considered in light of its limitations.

6.1 Conclusion

As I will conclude throughout this chapter, both academics and businesses need to review their view on pricing strategy and make sure that it is up-to-date with the empirical reality of pricing. In the future, in order to optimize profitability, as Kumar et al. (2017) state, the key is going to be to sell the right product through the right channel at the right price at the right time. However, I would like to add that in order to obtain the 'right price', the key is going to be to acknowledge both the strategic perspectives and the methodological approaches in the strategic decision making process of pricing. In the remainder of this section, I answer the research questions, RQ1 and RQ2, of this thesis.

RQ1. Are there additional dimensions of the empirical reality of pricing strategy that are not covered by the incumbent pricing models?

The business climate is undergoing a transformation and due to new technologies, such as the advancement in ICT in recent years, new possibilities arise in pricing. As I have discovered, there are additional dimensions that are important in pricing strategy, but that are not covered by the incumbent pricing models. For instance, businesses adopt either an intuition-driven or a data-driven methodological approach in their strategic work with pricing. It is further suggested that the methodological approach can be a result of the business’s culture, business strategy and/or industry. It is also suggested that it can be a conscious and a subconscious choice that the business makes. Among the case companies in this study, there are examples of businesses that seem to have based their business strategy on the combination of strategic perspective and methodological approach, which indicates the importance of both dimensions in the empirical reality.

In the two methodological approaches, the process of setting the price varies. On the one hand, the pricing strategy relies on employees’ experience and feelings. It may also rely on
discussions, gossip, unstructured experiments and observations. The employees have a ‘trial and error’ mentality to pricing and they feel that they are ‘learning by doing’. In short, it is an intuition-driven approach to pricing. On the other hand, the pricing strategy relies on sophisticated computational aid and calculations of price sensitivities. It may also rely on research and scientific methods, such as structured observations, interviews, surveys and experiments. These businesses might gather market data themselves or outsource it to companies that specialize in providing services to support the strategic decision making in pricing. Therefore, it is a data-driven approach to pricing.

To summarize the answer to RQ1, I see a clear division between companies in their methodological approach to pricing strategy and technology has changed pricing in many aspects. As it will continue to change pricing, the division between the methodological approaches could become even clearer. It will probably become more important for businesses to be aware of their approach in their strategic decision making styles and how that reflects their results, as it could lead to competitive advantage. To acknowledge the different approaches is also important since they may lead to different results, while they imply different costs, resources and required knowledge.

RQ2. Which are the incumbent pricing models in the literature and what are their weaknesses and strengths?

Different pricing models have been used by businesses and praised in the academic research over the years. Leading authors have coined the models of Activity-based Costing (Staubus, 1990), Balanced Scorecard (Kaplan and Norton, 1996) as well as Customer Value-based, Competition-based and Cost-based pricing (Kotler and Armstrong, 2012), which are challenged by new models, such as the Pricing capability grid (Hinterhuber and Liozu, 2012).

In the academic research, several weaknesses and strengths have been identified that are associated with each of the models, particularly within the context of the empirical reality. For example, the difficulty in using the models and that they rely on inaccurate assumptions. However, in light of the empirical material that I have gathered in this study, I have been able to gather data that supports some dimensions of the models to some extent. Particularly some dimensions of the three pricing strategies by Kotler and Armstrong (2012). Although, the main issue with the models is that they are not up-to-date with the empirical reality of pricing. In particular, they lack an important dimension and they do not accurately describe pricing strategy and the businesses’ strategic work with pricing.

Some of these models are not specifically developed with pricing strategy in mind, but rather for strategic decision making on a more general level. Furthermore, the vast majority of the models are quite old, as many have their roots in the 1970s. To some extent, this explains
their inability of capturing the whole problem, but does not motivate why businesses and academics are locked-in in the old models and the old systems of pricing strategy.

In fact, models are always going to be a less accurate version of reality, but the question is where you draw the line and what dimensions you account for and what dimensions you leave out. Throughout this thesis, I argue that the line needs to be redrawn and that additional dimensions need to be taken into consideration, both by businesses and by academics, in their view on pricing strategy. Hence, I have proposed a new model, called the Pricing Strategy Matrix, which takes both the strategic perspectives and the methodological approaches of businesses into account.

To summarize, in this thesis, I have researched the topic of pricing strategy and I would like to propose that businesses and academics update their view of and their approach to pricing strategy, as businesses strive to obtain the right price, while academics strive to understand and explain it. The overall conclusion of this thesis is that technology has divided pricing strategies into intuition-driven and data-driven methodological approaches. Therefore, the view on pricing strategy needs to be updated since relying on inaccurate models and assumptions might have negative effects for businesses in their prioritizing of resources and in their overall business strategy, while distracting academics and disrupting the research field. As stated in the beginning of this chapter, in order to obtain the ‘right price’, the key is going to be to acknowledge both the strategic perspectives and the methodological approaches in the strategic decision making process of pricing.

6.2 Implications

Industrial implications refer to the practical use of the findings in this study, whereas the academic implications refer to the theoretical use. In the following two paragraphs, I conclude this as gathered from the discussion in Chapter 5. I want to stress that the implications should be considered in light of the limitations of this study.

6.2.1 Industrial

Based on the findings in this study, businesses should be aware of and make informed decisions on strategic perspective and methodological approach when it comes to pricing strategy. In particular since the combination may lead to different results, while implying different costs, resources and required knowledge. It is also important to recognize since it could be a part of the business strategy and it could lead to competitive advantage within an industry. Businesses should also be aware of the fact that the technological advancement and the data driven decision making might increase.

Depending on whether or not they want to, or should, board the train to the data driven utopia of the future, they should be aware of it and act accordingly. The decisions that businesses might have to make, as the implications of this study point to, ranges from deci-
sions regarding research initiatives, computational aid in pricing and outsourcing of pricing. Furthermore, businesses might want to consider developing local offers in different markets and good relations with their distributors and other retailers. The reason for this is that it is going to be more important in the future to adapt offers and capitalize on consumers’ different price sensitivities, since it can be generalized on a market level. Furthermore, there are indicators that point to the fact that invaluable insights and data might be exchanged between retailers as well as between retailers and distributors, providing that they have good relations.

6.2.2 Academic

Several findings in this study point to the fact that incumbent pricing models do not accurately reflect pricing strategy. As I have stated throughout this study, the topic of pricing strategy needs to be reviewed in light of the technological advances in recent years. The academic researcher should acknowledge the different methodologies that are a part of the strategic work with pricing. These implications might also be extended to strategic decision making on a general level, as the methodological approaches in pricing strategy could be used as a basis for decision making in other strategic decisions that the businesses face as well.

6.3 Suggestions for further studies

In this section, I summarize the research suggestions that I have identified throughout this study.

- In light of this study, an interesting aspect would be to examine how the prices differ as a result of the different methodologies and the different perspectives. In particular, to examine the methodologies in combination with perspectives and their impact on price.

- Furthermore, I have not been able to determine the degree to which the different methodological approaches differ, as I have only been able to state that they do, in terms of cost, time, resources, required knowledge, and so on, which would be an interesting subject to study.

- I have seen indications that business’s employees may have a bias towards the data-driven approach - that the approach is superior to the intuition-driven approach, in their mind, which is subject for further studies.

- Another interesting aspect, in light of this study, is to investigate whether or not outsourcing parts of the pricing process, collecting market data, using computational aids and conducting research are used as basis for decision making in pricing strategies to an increasing extent. I have seen indicators of this in my empirical results, but I suggest that the phenomenon needs to be studied further in order to state this claim with confidence.
• Furthermore, as I have illustrated, there might also be favourable aspects of not adopting the data driven approach to pricing. Therefore, an interesting question is to further investigate businesses that do not adopt the data driven approach to pricing and the potential weaknesses and strengths that are associated with such a move.

• I have argued that the methodological approach to strategic decision making might be extended to other areas in strategic management as well. Hence, it might not only be used in the context of pricing strategy. In order to investigate the truth to this claim, a new study can be formulated, which could have interesting implications for the subject of business strategy as a whole.

• With the help of previous studies and my own empirical results, I have identified what might cause the different methodological approaches to pricing. I have concluded that the business’ culture, business strategy and/or industry might be key in determining the business’ approach. However, a study that investigates this topic on a deeper level could shed further light on this issue.

• The extent to which the methodological approach is a conscious choice, or not, is also subject for further studies.

• Another interesting aspect in light of this thesis is whether or not the methodological approach is a more important division than the strategic perspectives in pricing strategy.

• Another interesting research initiative is to investigate if the combination of strategic perspective and methodological approach could result in competitive advantage, as argued in this thesis.

• The empirical results in this study indicate that the combination of strategic perspective and methodological approach could be a part of the overall business strategy. This would also be interesting to analyse in an additional study.

• Finally, as this study has been of illustrative nature, I have not been able to state with confidence that business industry and size affect businesses’ pricing strategies. However, I have found examples of this, which are difficult to generalize. As such, the business size and industry and their affect on pricing strategy should be investigated in further studies, covering more industries and perhaps with a quantitative data gathering method.
7 References


