Value-based pricing in a downturn

Understanding customer value and means of being profitable in a downturn

Bachelor's thesis in Science in Engineering

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ABSTRACT

Modifying the price of a product has the largest impact on EBIT of any business activity and understanding what price is right for your product is essential. Value-based pricing is a methodology which bases the price of products on the perceived customer value. Consequently, comprehending the customer value of a product is crucial to achieving the right price, and, in a downturn, customer value changes. During this thesis, a literature- and empirical study was made to understand what customer value is, how it is impacted by a downturn, and how value-based pricing can be applied successfully in a downturn.

The studies found that the present understanding of value does not suffice when assessing the relationship between price and value. Additionally, customer value changes in a downturn in several manners such as an increased price sensitivity, more focus on utility values and a smaller fixation on non-essential aspects of products. Lastly, the studies arrived at that working with value-based pricing might become increasingly difficult in a downturn since customer value becomes less predictable.

In this thesis, a new value model is proposed where the relationship between value and price is explained in a new manner where findings from the theory and empirics are aligned. This model combines traditional value theory with prospect theory where value consists of utility value, psychic value, and a subjective reference point. Furthermore, recommendations on working with value-based pricing in a downturn are presented where the need to constantly evaluate customer needs and working in a resource efficient manner is accentuated.

Keywords: Value-based pricing, customer value, downturn, price sensitivity, recession, pricing

Table of Contents

1. Introduction 1
1.1 Case company description 1
1.2 Background 1
1.3 Problem discussion 2
1.4 Purpose 3
1.5 Delimitations 3
1.6 Methodological approach 4
1.6.1 Literature study 4
1.6.2 Document 4
1.6.3 Case study 5
1.6.4 Gap analysis 5
1.6.5 Analysis 5
1.6.6 Conclusions 5
1.6.7 Discussion and recommendations for further work 5
2. Theoretical framework 7
2.1 Value-based pricing 7
2.2 The value exchange model 8
2.2.1 Psychic value 9
2.2.2 Other value models 9
2.3 Market downturns and recessions 10
2.3.1 Definitions of market downturns and recessions 10
2.3.2 Consequences of a recession 10
2.4 Supply and demand 11
2.5 Prospect theory 12
2.6 Summary of theory 12
3. Method 14
3.1 Method background 14
3.2 Document 15
3.3 Case study 15
3.3.1 Empirical selection 16
3.3.2 Questionnaire design 17
3.4 Gap analysis 17
3.5 Choice of method 18
3.6 Validity and reliability 18
4. Customer value according to the case company 20
4.1 The customer need pillars 20

4.1.1 Quantitative values 20
4.1.2 Qualitative values 20
4.2 Utilizing customer need pillars 21
5. Empirical findings 22
5.1 Customer value 22
5.2 Trends in a downturn 23
5.3 Price sensitivity 23
5.4 Challenges with value-based pricing 24
6. Analysis 26
6.1 Customer value 26
6.2 Trends in a downturn 27
6.3 Price sensitivity 28
6.4 Challenges with value-based pricing 29
6.5 Gap analysis 30
7. Conclusion 31
7.1 How does the customer value of the case company´s products change in a market downturn? 31
7.1.1 Describing value 31
7.1.2 What impacts value 32
7.1.3 How does value change in a market downturn? 32
7.2 How should the case company work with a value-based strategy in a downturn? 33
7.3 How can the case company develop their pricing strategy with the conclusions from this paper? 34
7.4 Summary of conclusions 34
8. Discussion and recommendations for further work 35
8.1 Discussion on the structure of the thesis 35
8.2 Discussion on the conclusion 35
8.3 Recommendations for further work 36
9. References 37
Appendix 40
Appendix 1 - Questionnaire 40

1. Introduction

This chapter acts as an introduction to the paper and provides a short description of the case company, the background of the thesis, the problem to be investigated, the purpose of the study as well as the approach and the scope of the paper.

1.1 Case company description

In order to anonymize the company that this thesis was written in collaboration with, the company was referred to as “case company” during this paper. The case company is a globally active high-end truck manufacturer. Additionally, the company are pioneers in the industry and strive towards creating the most technologically advanced and comfortable truck available. Products from the case company are of premium quality and therefore their prices are amongst the highest on the market.

1.2 Background

According to Hinterhuber (2004), pricing has the biggest impact on earnings before interest and taxes (EBIT) (Hinterhuber, 2004). While studying the Fortune 500 companies, a 5% increase in price raised the EBIT with 22% while increasing turnover and reduction in costs by 5% corresponded to an increase in EBIT by 12% and 10% respectively (figure 1) (Hinterhuber, 2004). Because of the impact price has on EBIT, pricing strategy has seen a recent surge in priority in the global strategy of the case company.

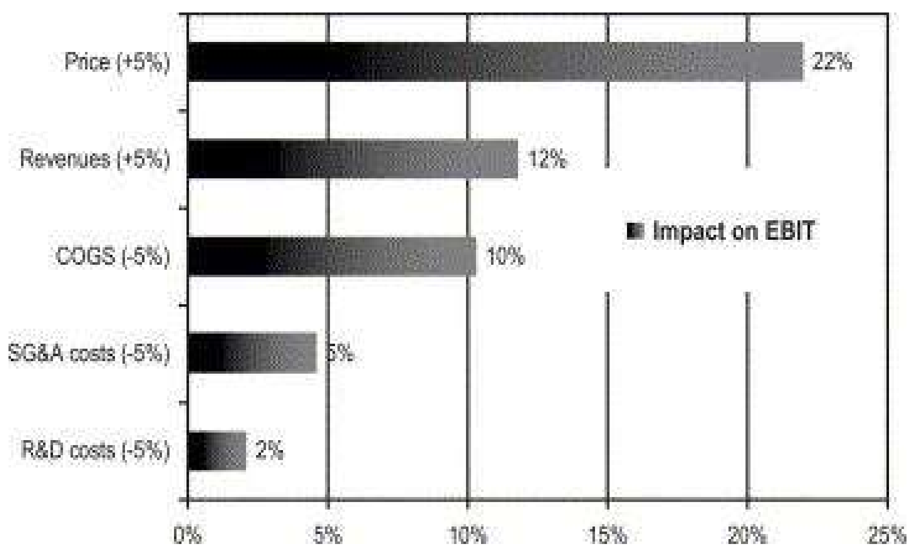

Figure 1: Pricing impact on EBIT (Hinterhuber, 2004)

Realizing the impact pricing has on EBIT, the case company has taken on a more analytic and strategic approach to pricing. This new approach to pricing has resulted in using *value-based pricing* as opposed to *cost-based*- or *competition-based pricing*.

Value-based pricing uses the value of the product, as observed by the customer, as the main element when prices are set (Hinterhuber, 2008). *Cost-based pricing* is when the product of an organisation is priced according to the costs related to the product while *competition-based pricing* is anchored in the observed price levels of competitors (Hinterhuber, 2008). Among these three, the value-based approach is the only one where value and the customer is considered. Because of this, normative guidelines implies that it is the most suitable approach (Guerreiro, 2018).

Considering the methodology for setting prices, *value-based pricing* is comparatively more difficult to implement as indicated by the fact that companies generally regard it as the most effective approach while few manage to implement it (Liozu, 2017). According to a sample of 144 respondents, the main difficulties with value-based pricing were: *identifying value drivers*, *segmenting the market and customers*, and *finding competitive pricing levels* (Liozu, 2017). Thus, many companies fail in making the transition from cost- or competitor-based pricing to a value-based approach. Moreover, considering the subject of this paper, customers´ purchasing habits shifts in a downturn, further complicating the process (Vafin, 2018).

Historically the case company worked with both cost-based and competition-based pricing but made a transition to value-based pricing in early 2010s. This transition has worked out well as they are seen at the forefront of pricing strategy in the market. However, a value-based approach is difficult, and they still face challenges to this day. In cost-based pricing, you find the profitable price and in competition-based pricing, you find the market price. While, in value-based pricing, you find the right price. But, what is the right price?

1.3 Problem discussion

As previously mentioned, implementing value-based pricing is not straightforward. Understanding customer value is a minefield where, according to the case company, different markets with different customers, applies value to the product differently. Additionally, perceived customer value is subjective and dynamic and, consequently, difficult for the customer to define (Jaworski and Kohli, 1993). Simply asking customers what they value can result in unreliable data and, consequently, the wrong price point.

Pricing is sensitive, as mentioned by Hinterhuber (2004), it is the biggest contributor to EBIT, and the case company does not want to decrease the price unless necessary. In a downturn, customers´ purchasing habits change as they have less capital to spend and might demand a lower price, especially if competitors change their price points (Vafin, 2018). But making decisions in this area is difficult since the case company needs to consider profitability while retaining their customers posing a challenge in a downturn. Likely, the case company´s spending power decreases in a downturn as well because of increased costs making it more difficult to stay profitable. Thusly, in a downturn, pricing becomes especially sensitive.

Question 1: How does the customer value of the case company´s products change in a market downturn?

Liozu (2017) explained that few companies successfully implement value-based pricing as a pricing approach. However, the case company have been successful in implementing it, yet they believe that finding competitive pricing levels are more difficult in downturns. Piercy (1982) explains that customers become more price sensitive in downturns and the case company are hesitant to decrease their prices. According to the case company, lowering prices would impede on their ability to increase their prices again when the downturn has ended. In this manner, price adjustments impact the pricing flexibility long-term.

Question 2: How should the case company work with a value-based strategy in a downturn?

Presently, the case company are broadly basing their price on historical data and order book analysis. They have been experimenting with advanced analytics, but they lack the key variables for the external aspect of pricing. Variables which add customer value and business cycles to the calculation. This prevents the case company from working efficiently and responsively with value-based pricing. Especially when considering one of the difficulties with the value-based approach mentioned by Liozu (2017): identifying value drivers.

Question 3: How can the case company develop their pricing strategy with the conclusions from this paper?

1.4 Purpose

The purpose of this thesis is to describe, explain and deliver how the case company can manage value-based pricing successfully in market downturns.

1.5 Delimitations

The scope of the thesis will be limited to the following:

- Only focusing on the customer value and not the value of the case company, i.e., not that the case company want to focus on more profitable customers during a downturn. Considering this perspective when the recommendations are made would put less focus on other findings in this thesis.
- Only researching the B2B segment. The case company sell B2B or B2C. These clients are not handled alike with different business models where different strategies are applied. In this thesis, analysing both are out of the scope.

- Only doing a case study interviewing employees at the case company. Access to interviewing customers is difficult to receive and, as mentioned earlier, the subjective nature of the subject entails a high risk of unreliable data. Instead, the case company´s pricing and sales teams have done more extensive studies of customer value which will be presented in this paper.

1.6 Methodological approach

Presented below, are the manners in which the thesis was approached.

1.6.1 Literature study

The literature study added a scientific perspective to the paper gathering research on customer habits, pricing strategies, gap analysis, prospect theory, and supply and demand. In the study, the scientific articles were compared to each other prior to being included in this thesis since these areas are generally soft science risking data to be faulty. Here, a quantitative aspect was added to the thesis since most articles are based on wide empirical studies. To secure the quality of the literature study, learnings from the study were discussed and analysed in a separate section. This study was the framework for the theory section of the thesis.

References gathered for the theory and scientific aspect provided in the thesis were developed from more general to specific as the thesis unfolded. Starting off with books and articles covering the general area provided a wide understanding of the subject at hand. These were covered in the introduction and early in the theory section of this thesis. Sources were primarily gathered from Google Scholar and from pop-culture literature on economics and consumer behaviour. In the theory section, where more in-depth and specific knowledge is required, niche scientific articles were applied.

With this method, the different perspectives from general and specific sources were utilized creating a clear structure in the thesis. To create an adequate empirical study, having relevant and a wide span of knowledge is necessary (Patel & Davidsson, 2003). Since the empirical study aimed to understand what drives customer value, trends in a downturn, price sensitivity and challenges with value-based pricing by interviewing experts, the keywords used for the literature study were: purchasing behaviour, customer value, value-based pricing, value quantification, supply and demand, prospect theory and value analysis.

1.6.2 Document

Prior to conducting interviews, historical data and reports on customer value created by the case company were gathered. The aim of this activity was to improve the validity of the thesis by collecting quantitative data created by professionals within the industry. By doing this, the scope of the thesis is followed while assuring a high-quality discussion and result (Patel & Davidsson, 2003). The data gathered in this section were then be used, along with the literature study, as a foundation when the questions used in the interviews were formulated. This perspective was also used for the analysis and conclusion as the documents gathered provided an understanding of the case company´s way-of-working.

1.6.3 Case study

In-depth interviews with the employees at the case company were conducted in the case study taking on a qualitative approach. In this study, employees with different backgrounds within pricing were targeted to examine how they regard the subjects presented in section 1.5.1. Questions posed in the interviews were presented to and discussed with the case company and a student group in advance to ensure relevancy and to avoid non-disclosable data being leaked. The questions are presented in the appendix and their relation to theory is given in section 3.3.2.

1.6.4 Gap analysis

Considering the in-depth interviews and the literature study, a gap analysis was conducted comparing the outcomes of the studies. A gap analysis is a tool where you compare the state that you are in, to the state you want to achieve (Franklin, 2006). In this section, differences and inconsistencies between the studies were accentuated. The gap analysis is presented in the analysis under section 6.5 and is a short reflection on the differences between the theory and the case company´s way-of-working.

1.6.5 Analysis

The analysis part of the thesis compared the literature- and case study conducted in this paper. Learnings were divided into four subjects: customer value, trends in a downturn, price sensitivity and challenges with value-based pricing. Additionally, a concise gap analysis was made, however, when the literature- and case study are compared, gaps were presented. The case company´s way-of-working were also analysed; that is, how their customer pillars related to the findings in the analysis. The goal of the analysis was to understand previous sections of the thesis bringing the learnings from the different studies together.

1.6.6 Conclusions

To present conclusions with a high level of relevancy to the case company, learnings from the analysis where their way-of-working acted as a foundation, was used. The questions formulated in the introduction of this thesis were answered by drawing conclusions from the analysis. Lastly, a summary of the conclusions was presented.

1.6.7 Discussion and recommendations for further work

Lastly, the thesis discussed the structure of this paper and the conclusions briefly. Recommendations on further work for the case company were presented as well. The pricing area is wide, and this thesis was limited to a general approach and is not looking into specific variables for advanced analytics models to be implemented by the case company. This, among other areas, was discussed in the section for further work recommendations.

2. Theoretical framework

In this section, the theoretical framework used in this thesis will be explored and explained. The theories presented are value-based pricing, the value exchange model, prospect theory, customer habits in recessions and gap analysis. At the end of this section, there is a summary of the theories presented.

2.1 Value-based pricing

As earlier mentioned, value-based pricing is a pricing methodology where the price of the product is set in accordance with the customers perceived value of the product. Value-based pricing is characterized by relationship focus, value creation based on holistic and shared values, long-term exchanges, and an even power balance (Töytäri, 2017). Implementing value-based pricing requires a deep understanding of a customer´s business model, business drivers, and processes; ultimately focusing on what the customer values (Töytäri, 2017). Adopting value-based pricing, as opposed to the other strategies mentioned, is more complex for organisations since it requires significant internal development (Liozu et al., 2012). However, if an organisation would adopt this pricing methodology it would be beneficial for the organisation as most marketing scholars and pricing practitioners regard it as the superior methodology (Liozu et al., 2012).

Liozu et al. (2012) express that the there is a lack of understanding as to why value-based pricing is not more commonly adopted. However, in a study conducted by Töytäri (2017), an organisation who used value-based pricing was examined to illuminate different barriers when deploying the methodology. The barriers were separated into three categories and realms (figure 2). In this figure, the legitimation of value-based pricing affects all steps and is achieved by understanding the customer value through internal and external activities.

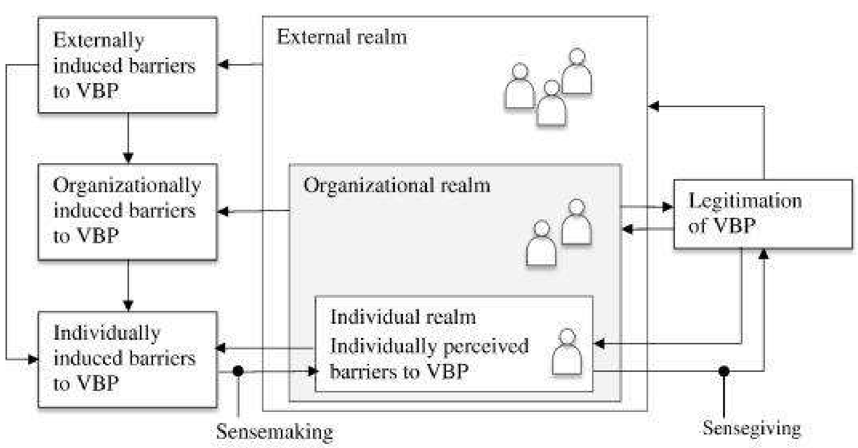

Figure 2: The realms and barriers of value-based pricing (Töytari, 2017)

Barriers and challenges illuminated by Töytäri (2017) were the following:

Individually induced barriers: beliefs and attitudes, experience and skills, and high cost and complexity of value quantification. These barriers are induced by the cognitive processes of the individual manager.

Organizationally induced barriers: product-oriented sales culture, governance and tools, and inefficient customer selection. These barriers are a result of the culture, climate, and practices of the broader organisation.

Externally induced barriers: prevailing buying culture, incompatible value conceptions, supplier´s brand identity, incompatible time horizons, and value sharing power within the network. These barriers are caused by interactions in the organisation's relationships with the customers.

2.2 The value exchange model

The value exchange model is a benefits-cost model where the customer is willing to sacrifice a certain amount of money, effort, and time in exchange of benefits that outweigh the sacrifices (Khalifa, 2004). Below is an illustration of the value exchange model (figure 3). In theory, a purchasing decision is made if the difference between the cost and benefits are zero or above. This difference is referred to as net customer value which is an important term in the value exchange model. The benefits consist of psychic- and utility value whereas the sacrifices, the total customer costs, consist of financial and non-financial customer costs, that is, the total cost of ownership (Khalifa, 2004). Utility value is self-explanatory as it describes the functional utility of the product while the psychic value requires further explanation.

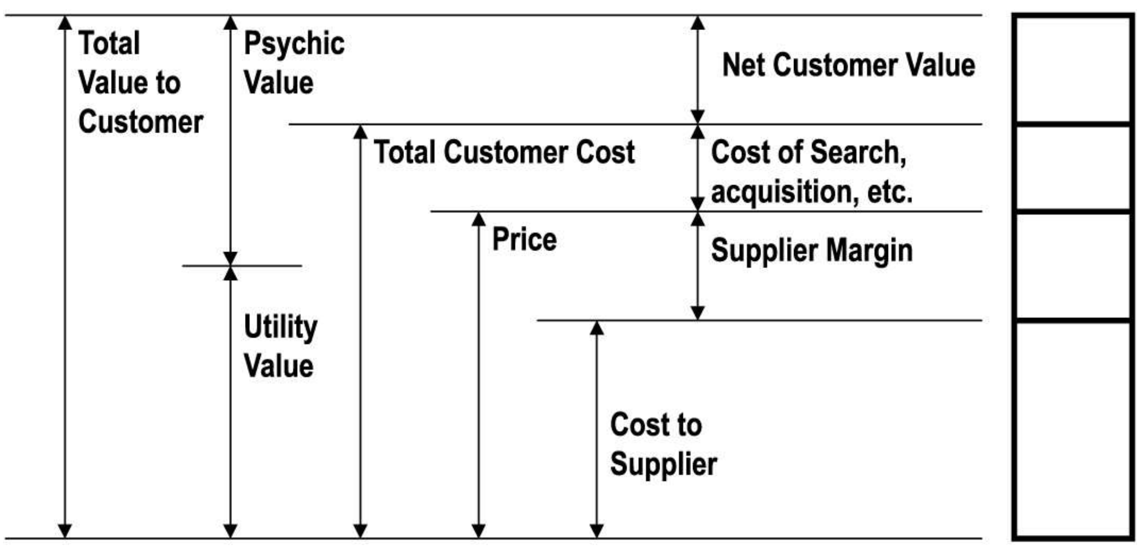

Figure 3: The value exchange model (Salem Khalifa, 2004)

2.2.1 Psychic value

The psychic value of a product originates in feelings, emotions, human needs, and other dimensions of the mind (Groth, 1994). Identifying and recognizing these values are of high importance when matching the benefit that is offered to the need of the customer. Groth (1994) mentions examples of psychic factors such as: image, entitlement, satisfaction, affinity, social and status. Furthermore, psychic values can be segmented into internal and external values. *Internal psychic values* represent factors independent of external opinions while *external psychic values* are dependent on one's surroundings (Groth, 1994).

2.2.2 Other value models

There are two models that are related to and complements the value exchange model. These models are the *value buildup model* and the *value dynamics model* (Khalifa, 2004). *The value buildup model* assumes that value builds up due to four intangible factors: the customer, the view of the customer, the customer needs and the customer benefits (Wanderoy Göransson & Kibita, 2018). With this model, customer value is created as the relationship with the customer is improved. The *value dynamics model* is difficult to explain concisely but according to Watson et. al. (2004) the model communicates that our personal behaviour, the behaviour of important others, organisational policies or outcomes occasionally disagrees with what we deem as "good". In its essence, the model describes how the values of individuals are subject to change and revision by taking cognitive theories into account (Watson et. al., 2004).

Understanding these models is important since they complement the *value exchange model* creating a cohesive framework (Khalifa, 2004). The *value exchange model* describes value on a general level where many concepts are included, however, not as in depth as the other models (Khalifa, 2004). Below is a figure demonstrating the relationships between these models (figure 4).

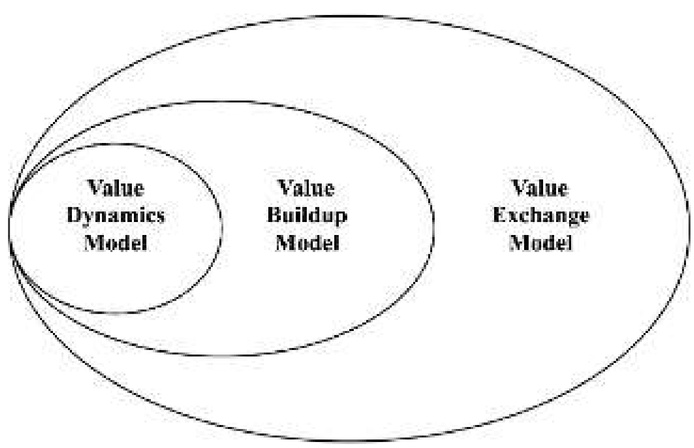

Figure 4: The relationships of value models (Khalifa, 2004)

2.3 Market downturns and recessions

Downturns and recessions are two different phenomena, yet they can result in similar outcomes. The literature is more focused at recessions and thusly they will be discussed to a further extent.

2.3.1 Definitions of market downturns and recessions

Market downturns are short term and not necessarily global events (Stash, 2018). There are different kinds of downturns where an index drop of 10% is called a market correction while a 20% drop is called a bear market (Stash, 2018).

The widely accepted definition of a recession is when real Gross Domestic Product (GDP) recedes over two consecutive quarters (Leamer, 2008). However, this definition has been critiqued for relying too much on GDP and for relevancy to this thesis, another definition will be used when discussing a recession in this paper. Leamer (2008) describes another definition presented by the National Bureau of Economic Research:

> A recession is a significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income, and wholesale-retail trade (Leamer, 2008 p. 6).

This definition better suits the premisses in the thesis since it proposes a visible decline in industrial production.

2.3.2 Consequences of a recession

Recessions affect customer habits in several manners. One of them is that they consume less due to a decrease in spending power (Piercy, 1983). An example of the decreased spending power is the projection created by Rubin & Buchanan (2008), where light-truck sales were estimated to drop by about 50% in a recession. The decrease in spending power is an evident consequence of a recession, when taking the definition into account, but there are other consequences than the financial impact. Customers also exhibit changes in lifestyles, social relations, and political attitudes (Piercy, 1983). Thusly, a change in the economic landscape, while influencing the financial situation of the customer, also affects the customers´ core values.

From 2021 to 2023, fuel prices have increased by 23% for gasoline and 32% for diesel (Melkersson, 2023). This increase is a result of international instabilities such as the coronavirus and the ongoing war in Europe. In the trucking business, 97% of heavy-duty trucks are powered by diesel and 2% are powered by alternative fuels to diesel or gasoline (Melkersson, 2023). Additionally, the increase in fuel prices is directly related to the truck market as Rubin & Buchanan (2008) show that fuel prices impact truck sales. Increasing fuel prices are typical in recessions as they occurred during the recession in 2008 as well (DeClercq et. al., 2011). However, DeClercq et.

al. (2011) writes that fuel prices might be difficult to properly correlate to recessions as they can be either the cause or the consequence of them. During the 2008 recession, fuel prices increased by approximately 320% from 2007 to 2009 (figure 5). According to figure 5, gas prices drop considerably after the recession have passed and the market is stable again.

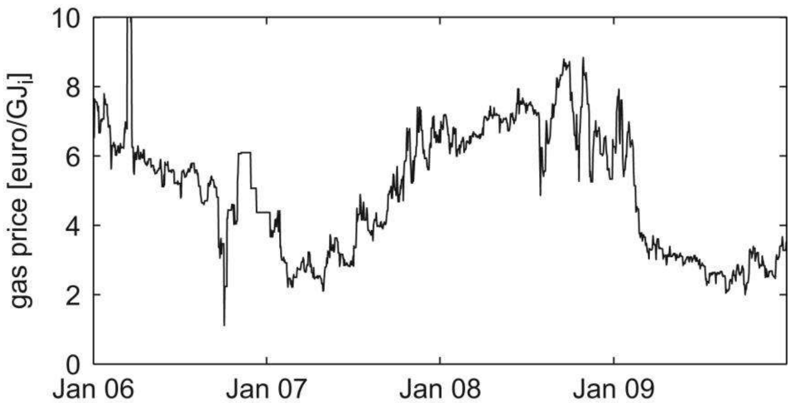

Figure 5: Gas prices from 2006–2010 (DeClercq et. al., 2011)

Another consequence of a recession is that the rate of unemployment increases (Pissarides, 2013). During the recession of 2008, unemployment rose by 2% on average in Europe while Spain suffered the most at 9.7%. Sectors were affected in different amounts where the industrial sector, where the case company operates, suffered the largest increase (Pissarides, 2013). Interestingly enough, the agricultural segment generated more jobs during the recession going against the trend. A consequence of the rising unemployment was that companies were more productive (Schaal, 2012). Productivity is in this case measured as output per person. As the recession of 2008 took place, productivity decreased by 2% but, as companies adjusted to the unemployment, productivity increased to 2% above the level before the recession (Schaal, 2012).

2.4 Supply and demand

The law of supply and demand is a concept of economical equilibrium (Gale, 1955). Demand refers to the pace at which consumers want to purchase a product and consist of two factors: *taste* and *ability to buy* (Whelan, 2001). Taste refers to the willingness to buy the product at a certain price while the ability to buy refers to that customers must have sufficient wealth for the purchase. Supply is determined by the supplier's willingness and abilities to supply the product (Whelan, 2001). Suppliers may decide to increase the price of their goods if their supply is low which reflects their willingness to supply their goods. A simple description of this concept is that the price of a commodity is dependent on the extent at which it is demanded by the market. In this manner, if the demand were to decrease, the price would also decrease to meet the new demand (Gale, 1955). It also works the other way around as an increase in demand would result in a higher price if the supply was constant.

With this logic, prices will regulate naturally to achieve economical equilibrium (Gale, 1955).

2.5 Prospect theory

Prospect theory will be applied in the thesis while discussing customer value and customer decision making. This theory assumes that individuals evaluate outcomes with respect to a reference point and not to the net asset level, that the identification of this reference point is critical, that they assign more weight to losses rather than to comparable gains, and that they are risk-acceptant with respect to losses and risk-averse when assessing gains (Levy, 1992). This reference point is usually the status quo, that is, the existing state of affairs. In other words, *prospect theory* proposes that individuals evaluate outcomes based on a subjective reference point and not an objective net value. Additionally, it suggests that the possibility of a gain and the risk of a loss are perceived differently. Levy (1992) explains the discrepancy with an example: individuals would prefer a certain gain of $3000 over the 80% chance to win $4000 with a 20% chance to win nothing. However, the same individuals would prefer to gamble on an 80% chance to lose $4000 and 20% to lose nothing over a certain loss of $3000. This example illuminates how people are risk-averse with respect to gains and risk-accepting with respect to loses.

2.6 Summary of theory

A summarization of the theory is presented in table 1 below:

Category	Summary	Sources
Customer value	Customer value can be divided into utility- and psychic value	(Khalifa, 2004)
	The net customer value is the difference between the benefits and costs and determines whether the customer is making a good deal	(Khalifa, 2004)
	Psychic value is subjective and originates from the mind of the individual	(Groth, 1994)
	The value of a product is affected by the supply and demand	(Gale, 1955) (Whelan, 2001)
	Decisions are based on a subjective reference point according to the status quo	(Levy, 1992)

Category	Summary	Sources
Trends in a downturn	Customers have less spending power in a recession	(Piercy, 1983
	Customers exhibit changes in lifestyles, social relations, and political attitudes in a recession	(Piercy, 1983
	Fuel prices have historically increased in recessions	(DeClercq et al., 2011)
	The rate of unemployment has historically increased in recessions	(Pissarides, 2019)
	Companies tend to become more productive after a recession	(Schaal, 2012)
Price sensitivity	When the demand is higher than the supply, the price sensitivity decreases	(Gale, 1955) (Whelan, 2001)
	While assessing price, customers evaluate with their subjective reference point and not the objective net value of a purchase	(Levy, 1992)
	As customers have less spending power, price sensitivity increases in a downturn	(Piercy, 1983
Challenges with value-based pricing	Value-based pricing requires significant internal development to be effective	(Liozu et al, 2012)
	Successfully implementing value-based pricing requires a deep understanding of all aspects of the customers business	(Töytäri, 2017)
	Companies experience several external, organisational and individually induced barriers while working with value-based pricing	(Töytäri, 2017)

Table 1: Summary of theory

3. Method

In this section, the methods used in this thesis will be presented and then analysed for relevancy. Methods used will be documents acquired from the case company and a case study on the company. Additionally, background information on methodology and validity and reliability will be discussed.

3.1 Method background

The methods applied to achieve an understanding of value-based pricing in a downturn included both qualitative and quantitative aspects. Applying both aspects is called an abductive approach (Bell et al., 2019). The abductive approach is a combination of the deductive- and inductive approach (Patel & Davidsson, 2003). The deductive approach, characterized by a quantitative approach, is when established theories and general principles are analysed to arrive at conclusions for the scientific object. Meanwhile, the inductive approach, a qualitative perspective, is when the scientific object is studied without prior theories (Patel & Davidsson, 2003). The deductive and qualitative aspects of this thesis were to conduct a literature study and to gather documents from the case company. Furthermore, the inductive and quantitative aspects consisted of a case study where the scientific object, the case company, were investigated. Because of this combination of approaches the study is labelled as abductive which entails certain benefits such as obtaining a broad basis for conclusions (Patel & Davidsson, 2003).

Types of research used in this thesis can, as earlier mentioned, be labelled as either quantitative or qualitative. Quantitative research focuses on gathering numerical data to be analysed where relations and inconsistencies between variables are found (Bell et. al., 2019). This research can be approached in various manners, but common methods are questionnaires, adapting prior studies and quantitative interviews (Patel & Davidsson, 2003). Qualitative research, on the other hand, are methods where data in the form of spoken or written words are gathered and analysed (Bell et. al., 2019). Similarly to quantitative research, interviews and questionnaires can be adopted. However, they will have a different structure and level of standardization (Patel & Davidsson, 2003). Generally, a loose structure and a low level of standardization, results in a qualitative study whereas a quantitative study is categorized by the opposite composition (figure 6).

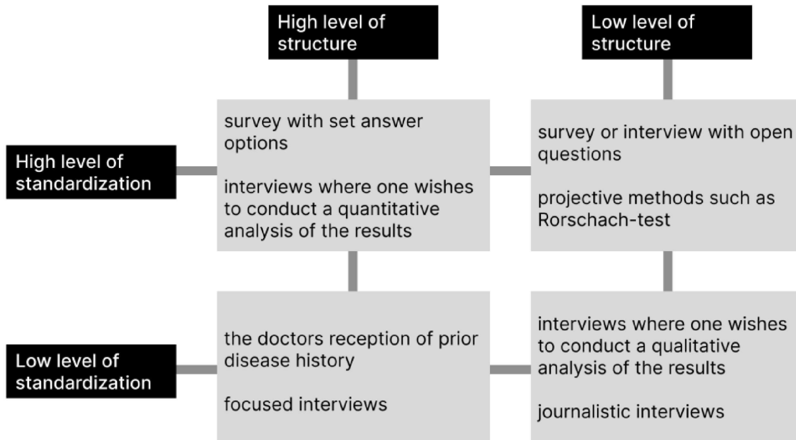

Figure 6: Different levels of standardization and structure (Patel & Davidsson, 2003)

Thusly, the difference between obtaining a quantitative or a qualitative result is in the approach to the methods rather than the methods themselves. This was accounted for when creating the methodological structure for this thesis.

3.2 Document

Prior documentation regarding pricing and customer value created by the case company were gathered to add a quantitative aspect to the thesis. These documents consisted of research by the case company resulting in their customer need pillars. While these documents add a quantitative aspect, they also provide an objective perspective complementing the subjective nature of the case study. This framework, as previously mentioned, acted as an anchor in the literature analysis, gap analysis and when providing recommendations for the case company.

3.3 Case study

Briefly explained in the methodological approach, the case consisted of in-depth interviews with experts at the case company. The content of the interviews was rooted in the theory presented in the theory section of this thesis. Questions defined with reference to customer value, trends in a downturn, price sensitivity and challenges with value-based pricing are presented in the appendix. The interviews were conducted over thirty minutes to one-hour sessions discussing the questions where notes were taken. Due to non-disclosure issues, the respondents were not named, and the replies were presented generally and not specifically.

The experts who were interviewed was provided by the profitability manager and the strategic pricing and analytics manager at the case company. Additional interviews were booked using the snowball method. The snowball method is when a study sample is yielded through referrals made among people who know of others with knowledge of interest to the study (Biernacki & Waldorf, 1981). In this case, the participants of the study were asked to leave referrals on other experts relevant to the subject.

3.3.1 Empirical selection

For the case study, an empirical selection has been done where relevancy to the questions presented in the questionnaire was considered. The selection consists of experts on pricing with varying backgrounds. By interviewing experts with varying backgrounds, different perspectives were investigated where priorities and prior knowledge differed between interviewees. The different backgrounds of the interviewees provided conflicting perspectives adding nuance to the empirics. In table 2, the position, place in the organisation and length of the interview, is presented.

Area	**Background**	**Place in the organisation**	**Length of interview**
Pricing	Engineering	European market	51 minutes
Pricing	Accounting	Pacific market	56 minutes
Pricing	Economics	Head office	58 minutes
Price and profitability	Engineering	Head office	46 minutes
Pricing	Various areas	European market	61 minutes
Pricing	Engineering	European market	49 minutes
Pricing	Engineering	Head office	59 minutes
Price and BI	Sales & Finance	Head office	45 minutes
Pricing	Pricing	European market	49 minutes
Pricing	Economics	European market	31 minutes

Table 2: Specifics of the interviewees

3.3.2 Questionnaire design

Questions for the interviews, presented in the appendix, reflect the subjects illuminated in the theoretical framework. In section 5, the learnings are summarized in four categories (table 3).

Question	Theoretical relation	Summarized category	References
1	2.2	5.1, 5.4	(Khalifa, 2004), (Groth, 1994), (Watson et. al., 2004)
2	2.2, 2.4	5.1	(Khalifa, 2004), (Groth, 1994), (Watson et. al., 2004), (Gale, 1955), (Whelan, 2001)
3	2.2, 2.3, 2.4, 2.5	5.2, 5.3	(Khalifa, 2004), (Groth, 1994), (Watson et. al., 2004), (Piercy, 1983), (Rubin & Buchanan, 2008), (Melkersson, 2023), (DeClercq et. al., 2011), (Pissarides, 2013), (Schaal, 2012), (Gale, 1955), (Whelan, 2001), (Levy, 1992)
4	2.3, 2.4, 2.5	5.3	(Piercy, 1983), (Rubin & Buchanan, 2008), (Melkersson, 2023), (DeClercq et. al., 2011), (Pissarides, 2013), (Schaal, 2012), (Gale, 1955), (Whelan, 2001), (Levy, 1992)
5	2.1, 2.3	5.2, 5.4	(Töytäri, 2017), (Liozu et al., 2012), (Piercy, 1983), (Rubin & Buchanan, 2008), (Melkersson, 2023), (DeClercq et. al., 2011), (Pissarides, 2013), (Schaal, 2012)
6	2.2	5.1	(Khalifa, 2004), (Groth, 1994), (Watson et. al., 2004)
7	2.2, 2.5	5.3	(Khalifa, 2004), (Groth, 1994), (Watson et. al., 2004), (Levy, 1992)
8	2.2, 2.5	5.3	(Khalifa, 2004), (Groth, 1994), (Watson et. al., 2004), (Levy, 1992)
9	2.2, 2.4, 2.5	5.3	(Piercy, 1983), (Rubin & Buchanan, 2008), (Melkersson, 2023), (DeClercq et. al., 2011), (Pissarides, 2013), (Schaal, 2012), (Gale, 1955), (Whelan, 2001), (Levy, 1992)
10	2.1	5.4	(Töytäri, 2017), (Liozu et al., 2012)

Table 3: Questions and their relation to the theory

3.4 Gap analysis

As mentioned in section 1.6.4, a gap analysis is an analytical tool utilized to compare the present state of a system to the state you want to achieve (Franklin, 2006). The result of the analysis was a gap, also called the performance gap, which highlights the inconsistencies between the two states. According to Franklin (2006), a gap analysis is susceptible to confirmation bias as an idea of a solution prior to the analysis, will impair the legitimacy of the results. The end target of the analysis is to close the gaps, often through innovation, and achieve the desired state (Doyle, 2011). In this thesis, the gap analysis was a concise segment of the analysis where the case company´s present state was compared to the way-of-working presented in the literature study.

3.5 Choice of method

The case study, as earlier mentioned, included interviews created by the case study. Case studies are useful when there is a need to attain an in-depth understanding of a particular issue (Crow et al., 2011). In this situation, a case study is deemed efficient since the problems specified require an in-depth appreciation of the area. Additionally, utilizing the knowledge and understanding provided by experts will enhance the quality and validity of the conclusions provided in the thesis.

Reflecting on the scope presented, a case study is the most relevant method to stay within the delimitations of the thesis. According to the case company, market studies involving their customers entail extensive work over several months. Additionally, receiving an allowance to speak to the customers on behalf of the case company is complicated. They have designated individuals in the organisation for this purpose. Not talking directly to the customers would be the foremost critique of the choice of method, however, given the circumstances, the decision was made to not do so.

3.6 Validity and reliability

Validity and reliability are two crucial topics to discuss to ensure a trustworthy and academically correct study. Validity describes the need to study the right subject while reliability examines whether the gathered information is credible (Patel & Davidsson, 2019). These aspects are connected to each other, as described by Patel & Davidsson (2019), where a low reliability is an indication of a low validity as well. However, even if reliability is high, that is, that the right subjects are studied, the validity of the study could still be low. Because of this relationship between validity and reliability, both aspects need to be considered to make sure that the study is valid.

Since the case study will be qualitative, validity and reliability in qualitative studies will be explored. Indicators of either low validity or reliability are different when discussing quantitative or qualitative studies (Patel & Davidsson, 2019). In qualitative studies, reliability concerns the entire academical process and not just the data collection. This means that the validity of the study relies on the understanding of the subject, formulating the right questions and analysing the results (Patel & Davidsson, 2019). One validity aspect connected to the data collection is the ability to gather multifaceted and possibly contradictory responses to add nuances to the analysis. Reliability in qualitative studies is more difficult to define than in quantitative approaches (Patel & Davidsson, 2019). In quantitative studies, receiving varying answers from the same subject is considered low reliability while this is not necessarily the case with qualitative studies. Reliability in qualitative studies is instead merged with validity as the definition of validity includes the entire process (Patel & Davidsson, 2019). This differs greatly from the general definition mentioned earlier and, because of this, only validity will be discussed further.

The validity of this thesis was considered in many areas since it encapsulates the entire thesis. Firstly, the theoretical framework was constructed before the method was formulated. This ensured that the method was sufficiently supported by research resulting in studies of the right subject. Secondly, the questions formulated for the interviews were created from the research gathered for the thesis. Consequently, the analysis of the case study will be rooted in theory and therefore hold a high validity. Lastly, when creating the empirical selection, interviewees with different backgrounds and expertise were selected. This allows for the variation in answered mentioned earlier which adds nuance to the analysis. The validity of the study was ensured by considering the end result during the entire process. Without consideration of what the study might yield, the thesis would have fell short and not been reliable.

4. Customer value according to the case company

In this section, the documents on customer value gathered from the case company will be presented. Note that there will be no discussion and that the discussion regarding this documentation will be presented later.

4.1 The customer need pillars

The case company have determined seven customer need pillars, or value drivers, which permeates their appreciation of value when deciding prices of products. These pillars can be separated into quantitative and qualitative values. Assessing the monetary value of a quantitative value is easier than the qualitative values since the quantitative values are directly translatable to costs and gains for the customer.

4.1.1 Quantitative values

Quantitative values are directly measurable and quantifiable. As earlier mentioned, translating these needs into a monetary value is easier because of the measurability of these pillars. The pillars are the following:

Meantime between failures (MTBF) and meantime to repair (MTTR)

This pillar describes the customers need for a truck with a high MTBF and a low (MTTR). MTBF is the time when the truck is running where a high MTBF entails a high uptime and a low MTTR. Customer value can easily be calculated in this case by multiplying the yield per unit of time with the unit of time when the truck was down.

Efficiency

This pillar is more general than the other quantitative values as it assesses the total efficiency of the truck. However, oftentimes this value is discussed when lowering the weight of the vehicle. Lowering the weight would firstly lower the energy consumption and secondly enable the customer to transport more products per route.

Fuel consumption

This value addresses the customer need for a product with a low fuel consumption. Whether the truck is running on gas or electricity, driving a truck with a low fuel consumption saves on costs. The customer value can be calculated, as with all quantitative values, by measuring the energy consumption per units of distance.

4.1.2 Qualitative values

Qualitative values, as opposed to quantitative values, are difficult to measure and to analyse. Understanding how adjustments in these values impact price is challenging as there is no direct monetary aspect related to the value. Despite the difficulty to understand these values, the case company have identified them as crucial to achieving the right price point. The pillars are the following:

Protection
The protection pillar describes the need for drivers to feel protected when being in their truck. For example, a secure lock and durable windows when sleeping in the truck at a truck stop. Theft from trucks is common and often occur when the driver is sleeping. This value is difficult to measure as the monetary value of feeling protected is uncertain.

Chauffeur attraction
This pillar assesses the need of having a chauffeur attraction in the truck. Chauffeur attraction includes aspects such as a comfortable seat, a good sound system, and a well-designed truck. Measuring chauffeur attraction is also difficult and the weight customers apply to this pillar varies greatly from market to market.

Protection from harm
This value accentuates the need of the driver to feel protected from harm while driving the truck. For example, high quality airbags, well designed chassis for crashes and efficient brakes. While the protection from harm in a truck is measured through tests and compared to regulations, the customers value of protection from harm is more difficult to assess.

Climate awareness
The last pillar identified by the case company is the customer need of being climate friendly. This includes damaging emissions, noise pollution and sustainability while producing the truck. As with the protection from harm pillar, measuring environmental impact is simple while understanding the value the customer assigns to this impact is difficult.

4.2 Utilizing customer need pillars

These pillars guide the head pricing staff while setting prices for new features on the trucks. Additionally, they are used for education where sales and pricing managers are taught how to think about value-based pricing. As earlier mentioned in the thesis, value-based pricing requires a high level of internal engagement and constantly educating the markets is a part of the value-based philosophy. Lastly, the customer need pillars are subject to change and revision as conditions on the market changes. Something that is relevant today might be obsolete going forward and new pillars might be adopted in the future.

5. Empirical findings

In this section the result of the case study is presented. Here, the answers from the interviewees are summarized without any analysis or discussion. The answers have been separated into four categories: customer value, trends in a downturn, price sensitivity and challenges with value-based pricing.

5.1 Customer value

When the case company are determining customer value, they are not using any theoretical models. The customer value pillars presented in section 4.1 are however the basis for evaluation. Quantifiable variables are calculated with digital tools and the added value of a new feature is added to the list price of the product. The quantitative values are estimated by discussions, experience, statistics, and studies. Manners in which value is estimated will be further discussed later on in this section.

Even if determining customer value for new features is challenging, the pricing experts at the case company understand the main values of their trucks. Since the case company is a premium brand, they strive towards selling the best truck in the market. Values directly related to the truck that customers relate to are quality, protection from harm, durability, fuel consumption, chauffeur attraction and efficiency. Being consistently great in these aspects is what allowed the case company to build trust and create a strong image. Apart from the values directly related to the truck, there are important values related to the support that they offer. This includes a large and educated workshop network, short lead times and connected services for the customers. Especially important is the workshop network. The network provides the customer with a low MTTR and, after purchasing the truck, the customers image of the case company will be developed in the workshops. Image and trust are built over many years but can easily be destroyed in one interaction.

The consensus between the interviewees was that customer value varies greatly from market to market. Something that is imperative to one market, might be completely unnecessary to another. For example, having air-conditioning is important in the southern hemisphere while less prioritized in the northern hemisphere. While selling in markets with low fuel prices, fuel consumption is negligible due to the low fuel prices and low focus on the climate. In some markets, there is a lack of chauffeurs which results in more focus on chauffeur attraction. There are many more examples where the differences between markets are substantial. The customer values of different markets are dependent on the needs of the chauffeurs and the market specific premisses. Lastly, the strength of the brand affects the value in the markets. By focusing on customer satisfaction, the case company are image leaders in certain markets and with that perceived higher value, they are able to charge a higher price.

5.2 Trends in a downturn

First and foremost, what the case company mean by market downturn is when the truck market is contracting. That is, when there is less activity in the transportation sector. Thus, the definition created by the subject of this thesis, will be the definition that the thesis assumes. However, worth noting is that the case company´s definition of a market downturn is similar to the definition of a recession explained in section 2.3.1.

When discussing trends in market downturns, the interviewees had different and, at times, conflicting perspectives. Price was mentioned as a bigger factor in a downturn as the customers were more price sensitive. Customers would consider the total cost of ownership less, fuel consumption, MTBF, etcetera, and focus on the initial cost. However, some interviewees mentioned that customers were willing to pay more for trucks if the company handled the downturn well. The interviewees express, no matter their stance, that properly communicating the value of their products becomes crucial in a downturn. If customers convey the need to spend less money, and the competitors already lowered their prices, communicating value instead of cost is how the case company can stay at their preferred price point.

Another consequence of a market downturn is that customers might wait to replace their trucks. Especially smaller customers with less capital. This could result in a higher inventory at the case company, and they might need to sell their trucks at a reduced price. Bigger customers, however, could benefit from the high inventory. Fleets understand that the case company want to keep their production running, even if demand decreases, and buys trucks in batches with an increased leverage in negotiations. The truck market has not seen a downturn as of May 2023, but the accessibility of material has decreased. This has resulted in longer lead times for the actors in the market. Longer lead times makes the customer prioritize companies who can deliver on time. Additionally, if the demand is constant, the price of used trucks increases as some customers urgently need trucks.

5.3 Price sensitivity

As of May 2023, there is a high pressure on the truck market since the transport sector is growing. Because of this high pressure, there is a high price elasticity. This means that the price can increase as long as the demand is greater than the supply resulting in a low price sensitivity. Lastly, the case company is a premium brand, and their customers are naturally less price sensitive. If they were more price sensitive, they would choose another brand. In this manner, image can allow the case company to charge a higher price. As expressed by the interviewees, if the price would be lowered significantly, it would hurt the premium image and might result losing market shares to other premium brands.

Due to the economic landscape, prices in the truck markets have increased. Customers have reacted well to these changes as they have understood why the price needed to rise. Thusly if the increase in price is properly motivated, and understood by the customers, a higher price is accepted. In that case, the value of the truck is properly communicated, and the customer feel as if the value of the truck is reflected in the price. If the economic landscape changes, as it is about to, the customer might demand a lower price again. In this manner, a relationship between value and price has been created. The customer assigned an increased price to a specific value communicated by the truck dealer. Additionally, customers are comparing prices between actors in the market and if the price of the case company's product is the highest, the value must be motivated. Consequently, price is only an issue in absence of value.

This balance of price and customer perceived value was further explained by the interviewees. Price adjustments need to make sense and be reflected in the value of the product. If a company quickly decrease their prices, which companies might opt to do this for many reasons, a few issues occur as well. Firstly, increasing prices take a long time and must be motivated. When actors want to increase their prices after a decrease, the difference in value between the transactions must reflect the increased price. Secondly, customers might feel tricked if they are suddenly offered a lower price. Returning customers are wondering why they had to pay more during their previous purchase. Thirdly, customers are communicating with each other. They might wonder why their neighbour could buy the same truck at a lower price. This negatively impacts the image of the company. These issues apply to swift and large decreases in price.

5.4 Challenges with value-based pricing

The interviewees expressed a few challenges when working with value-based pricing. The case company need to spend a lot of resources on educating their markets in value-based selling. Markets operate by selling trucks to dealers where the dealers then sell the trucks to the end customer. Since the dealers are operating independently, the dealers have different strategies and targets which leads to different price points. This results in customers comparing prices between dealers to achieve the best price. As earlier mentioned, large fluctuations in price for the same product reflects poorly on the brand and impacts the customer perceived value of a product.

Challenges with value-based pricing as expressed by the head office can be summarized as high time and financial investments. Some requirements of value-based pricing were analysing deals, high levels of competency, feedback from customers, good product knowledge, large amount of data and an experienced pricing staff. These requirements take up a lot of time and if the pricing staff lack experience, resource heavy customer surveys would need to be conducted often. With value-based pricing you need to involve many different departments in the organisation to achieve the right price. This process is expressed as especially challenging when determining the value of the qualitative customer needs. Moreover, the process is susceptible to conflicts as departments might disagree. The case company express that they are quite streamlined and experienced, but the investment in time is nevertheless difficult to avoid.

6. Analysis

In this section, the subjects presented during the empirical findings will be discussed and analysed using the literature from the theory section. The analysis will provide theoretical explanations- and irregularities. Lastly, only external knowledge presented earlier in the thesis will be used thus no new sources or case study learnings will be presented.

6.1 Customer value

The customer value pillars defined by the case company can be characterized as either utility- or psychic values according to the value exchange model (Khalifa, 2004). Utility values are directly correlated to the quantitative customer pillars, that is, MTBF and MTTR, efficiency, and fuel consumption, since these aspects are immediately necessary for the performance of the truck. However, from the perspective of the fleet, the qualitative pillars can be labelled as utility values as well. For example, if there is a lack of drivers in the market, there might be of utility for employers to focus on chauffeur attraction. In this manner, the qualitative pillars are more complicated to characterize. As Groth (1994) explains, psychic values originate in feelings, emotions, human needs, and other dimensions of the mind. By this definition, the qualitative pillars could be labelled as psychic values since they arise from the mind. Protection, chauffeur attraction, protection from harm, and climate awareness, are all values originating from the individual’s subjective opinion on their importance. An unattractive truck would not be detrimental to its performance, yet the customer might value it according to their individual beliefs.

As presented in section 5.1, different markets perceive value in different manners. This might be a result of different cultures or varying macroeconomic landscapes. Similarly to what Levy (1992) explains, decisions appear to be based on a subjective reference point in this situation. Cultures and regulations within markets might turn a psychic value into a necessary utility value. The scenario presented in section 5.1 is an example of this where air-conditioning is seen as necessary in certain markets while other markets ignore it completely. In the southern hemisphere, you cannot build a fleet with trucks not containing air-conditioning and thusly, the value has a direct relation to the performance of the fleet. Macroeconomic factors were exemplified by markets with low fuel prices prioritizing fuel consumption on a low level. According to supply and demand theory, since there is a higher supply of fuel, the price of fuel-related products should decrease accordingly (Gale, 1955). Thusly supply and demand, seem to have an impact on the customer value in this case. The high supply of fuel has impacted the utility of fuel consumption hence lowering the utility value of the fuel-efficient variants.

Values that the customer relates to when buying from the case company are similar to the utility values presented by Khalifa (2004) in the value exchange model. That is, directly related to how useful the truck is. However, the case company´s brand is strong resulting in a high psychic value as well, if Groth's (1994) explanation of psychic value is accounted for. According to the empirics, the brand has been created by performing well on the utility value of customers consequently creating a relationship where a high utility value can increase the psychic value of a product. MTBF and MTTR is a quantitative value which differs from the others in that it is unpredictable and working with MTBF and MTTR is essentially risk minimizing. Having accessible workshops is important since it reduces the risk of long MTTR. Customers uttering this pillar as important is in line with the risk assessment presented by prospect theory (Levy, 1992). According to prospect theory, individuals are risk averse when assessing gains and risk acceptant when assessing losses (Levy, 1992). When prioritizing MTBF and MTTR, customers are avoiding the risk of losing income by indulging in the risk of spending more capital. This results in valuing a truck provider with a good workshop network.

6.2 Trends in a downturn

One of the learnings from the case study was that customers were more price sensitive during market downturns. This finding is in accordance with the theory presented by Piercy (1983) as customers have less spending power in recessions. Looking at buying a truck, the total cost of ownership is typically considered where saving on fuel or lowering MTTR can justify a higher price. Consequently, in a downturn, customers think more short term. It might be that buying a cheaper truck is perceived as minimizing risks. An investment is always a risk, and spending big on a truck, might result in a lower buffer for the company to spend if a problem would arise. As prospect theory suggests, individuals evaluate outcomes based on a subjective reference point and not an objective net value (Levy. 1992). This might be a situation where the objective net value is ignored, and the subjective reference point has shifted due to the downturn. Furthermore, the theory regarding recessions suggests that the core values of individuals´ are subject to change during recessions (Piercy, 1983). This further indicates that the subjective reference point of the customer shifts resulting in outcomes being evaluated in a different manner.

During the 2008 recession, fuel prices rose by 320% over two years (DeClercq et. al., 2011). This would impact the dynamics of the case company´s customer need pillars as a low fuel consumption will be more valuable. According to the supply and demand theory presented by Whelan (2001) and Gale (1995), the case company would likely be able to charge more for their fuel-efficient trucks. However, when considering prior analysis, customers look at the total cost of ownership less. Therefore, even if the value of a certain pillar increases, there are other factors which impacts the price that the customer is willing to pay. Another consequence of the 2008 recession was that the rate of unemployment increased (Pissarides, 2013). Presently, there is a lack of drivers in certain markets, and an increased unemployment could turn that around. As there is a lack of drivers, employers are valuing protection, chauffeur attraction, and protection from harm highly to appeal to drivers. If the market changes, where drivers are in abundance instead, these values might decrease in importance. Additionally, during the recession, productivity increased as companies became more efficient (Schaal, 2012). Recessions could thusly result in a permanent market transformation where less trucks and personnel are required for the same output.

As mentioned in the case study, customers are less willing to replace their trucks in a market downturn. According to supply and demand theory, this would result in a lower demand at a constant supply leading to a lower market price point (Gale, 1955; Whelan, 2001). Another scenario which was illuminated during the case study was that the case company have increased their prices due to a shortage of supply and the increased cost. This reflects the other side of the supply and demand balance where the demand is constant which consequently results in a higher price point (Gale, 1955; Whelan, 2001). These examples reflect that the price of the trucks is subject to change even if the customer need pillars and psychic- and utility values presented by Khalifa (2004) are unchanged. Either value is not the only driver of price or drivers of value are more complicated than the pillars and value exchange model.

6.3 Price sensitivity

As earlier mentioned, the prices on the market have increased without resulting in a decreased demand. Looking at the value pillars, it is apparent that few things have changed yet the value of the product still increased. This can be explained by supply and demand theory where the customers are less price sensitive if the supply is low (Gale, 1955; Whelan, 2001). Additionally, it is also reflected in prospect theory where the net outcome remains constant, while the subjective reference point might have changed (Levy, 1992). This subjective reference point changes according to the present state of affairs and, therefore, the evaluation basis for making the decision to buy an expensive truck reform with the market. In this sense, Khalifa's (2004) value exchange model is incomplete unless non-value adding activities impacts the customer value of the truck. That is, that the utility value of a product can increase without improving the utility of said product.

In the case study, it was expressed that drastically changing prices is generally a bad business move. The interviewees communicated that increasing the prices again after a price decrease was difficult. This indicates that customers value the product differently after making a purchase at a reduced price point. The present state of affairs has changed and, according to Levy (1992), the reference point for decisions has changed with it. What occurs can be described by using a simplified version of the value exchange model (figure 7). Note that the figure describes a rough estimation of how value changes.

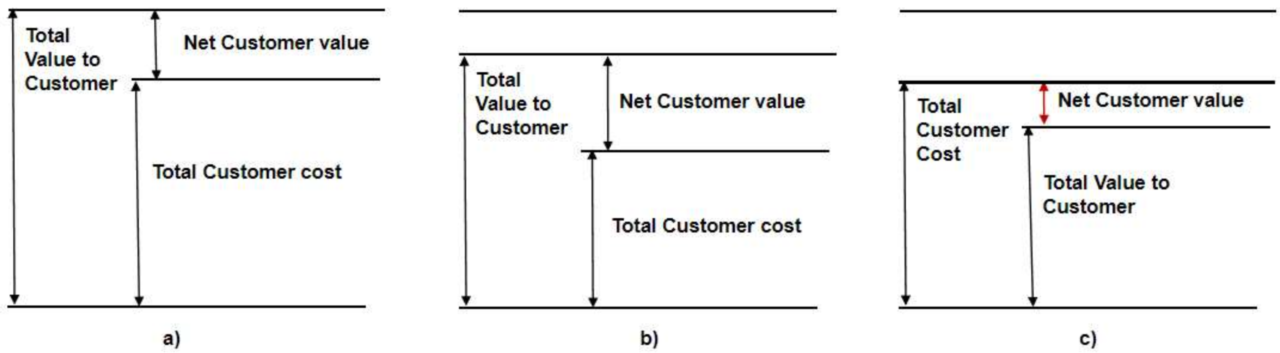

Figure 7: How customer value is affected by price adjustments

In the figure above, the deals described are the following:

a) The standard deal which follows a typical net customer value established by the value exchange model. Customers feel as if the value exceeds the cost and therefore the deal is desirable.

b) This deal is the one described above where the truck supplier drastically decreased the price of the truck to close a deal. The value to the customer was lower in this scenario, which is why the supplier decreased the price. Net customer value is high during this deal since the cost was reduced.

c) Lastly, this deal is the next purchase in the sequence when the truck supplier wants to raise the price to standard price again. The customer value has adjusted to the previous deal, as explained above, and the net customer value is consequently negative. This deal will not be made as neither the supplier nor customer will be happy if they were to adjust to each other's needs.

The value exchange model makes it difficult to explain this phenomenon as it describes value as a sum of utility- and psychic value. Utility- and psychic value was therefore left out as there must be some other factor that impacts the value.

6.4 Challenges with value-based pricing

During the case study it was mentioned that one of the biggest challenges with value-based pricing was that dealers are independent and are setting prices on their own. As customers become more price sensitive in a market downturn, dealers might be tempted to settle on lower prices. Additionally, dealers might be more desperate to sell as well resulting in an increased challenge with varying prices. Value-based pricing is a resource-heavy approach, as Töytäri (2017) explains, in that it requires continuous internal development and a deep understanding of the customer. Furthermore, during a market downturn the case company might struggle to sell their inventory reducing the resources at hand. Because of these factors, the case company might experience an increase in the external- and organisational induced barriers mentioned by Töytäri (2017) in a downturn.

Lastly, correctly assigning price adjustments to the customer value pillars will be difficult as investigated earlier on in the thesis. Customer value might change without alteration in the pillars. This might obligate the case company to spend even more resources while trying to assign value to price adjustments on lacking premisses. Completely understanding what value consists of and what impacts value is therefore vital to working with value-based pricing in a resource efficient manner.

6.5 Gap analysis

First and foremost, the case company are not working with any specific value models covering all aspects of customer value. They have a framework for determining quantitative values but when it comes to qualitative values, they are discussing internally and determining on experience. Theory suggests that a value model would be helpful as Töytäri (2017) illuminates the need to understand customer needs while Khalifa (2004) presents a value model applicable for the case company.

Secondly, Töytäri (2017) suggests that a value-based approach requires continuous legitimization, and the case company are not working much with the legitimation of value. Working with legitimation would entail doing more customer surveys and would be costly for the case company. They communicated that they are not working with legitimization to a larger extent since it would be too resource heavy. However, developing a better legitimization process might save the case company resources in the long run by better comprehending customer value.

Lastly, the case company are experiencing a lot of the externally induced barriers presented by Töytäri (2017). Being an organisation active in markets all over the world, it is difficult to avoid these barriers. The case company are working hard to overcome these challenges, allocating a large number of resources to succeed. Therefore, it is not necessarily a gap whereas they are working to achieve the desired state. All in all, the case company are aligned to the theory with their active work in educating their markets.

7. Conclusion

The conclusions presented will be anchored in the questions formulated during the introduction of this thesis. These conclusions are based on the analysis and aims to provide useful and new ideas that the case company can adopt and within the field of pricing in general. Lastly, a summary of the conclusions will be presented.

7.1 How does the customer value of the case company´s products change in a market downturn?

To answer this question, the problem will be dissected into three parts: suggesting what value is, presenting what impacts value, and concluding how value changes in a downturn.

7.1.1 Describing value

To understand how value changes, we must first understand what it is. According to the value exchange model, value is a benefit consisting of utility- and psychic aspects. End customer value is the difference between the benefits and the sacrifices that the customer makes. During the case study, it was understood that this definition of value was not sufficient as the customer value changed without value related additions to the product. Prospect theory proposes that there is a subjective reference point entrenched in the status quo which affects our decisions. Seemingly, value can be described as a combination of these ideas where value consists of utility- and psychic values rooted in a reference point. To conclude this segment, a model was created to present a value model using the learnings from this thesis and the case company´s customer need pillars (figure 8).

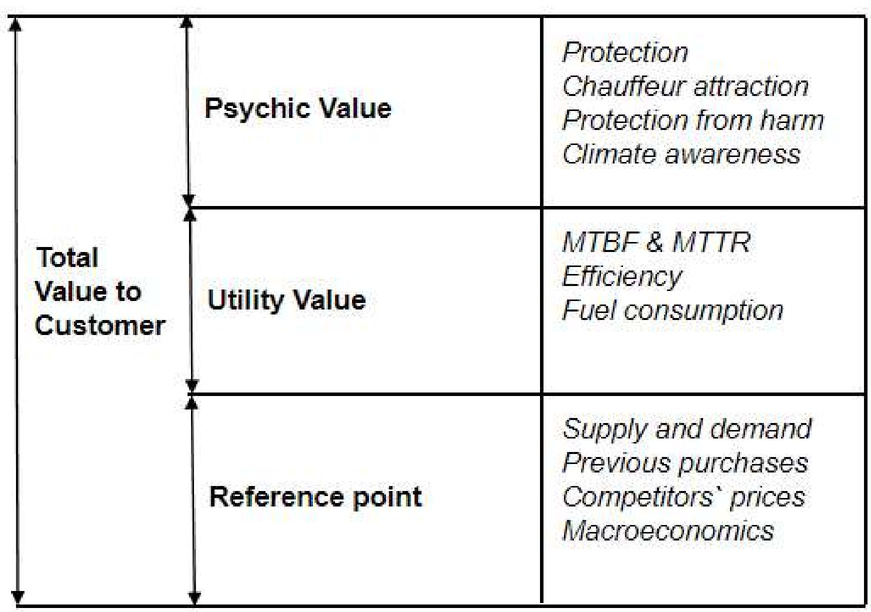

Figure 8: Components of value

7.1.2 What impacts value

Value, as apparent in this thesis, is impacted by many factors. Figure 8 describes different kinds of value breaking them down to what they consist of. According to the case study, there is generally a larger variance in how the psychic values are experienced by customers. Culture and financial premisses seems to affect psychic values across markets which makes sense. Certain aspects of the truck may be widely recognized in one culture while another culture ignores it completely. In markets with less spending power, the psychic values are receiving lower priority. If the psychic values are affected more by culture or financial premisses is difficult to say yet there is a correlation between psychic values and spending power. However, in markets with high spending power, certain customers value psychic aspects higher than others. This is evident since the premium brands do not hold 100% market share. Whereas it could be explained by varying financial capabilities between companies, it could also be explained by the literature on psychic values; these values originate from the mind and people are simply different.

Utility values are impacted by the needs of each customer and the prerequisites of the markets in which the customer operates. For example, when driving on routes of high risk, long haul in sparsely lived areas, MTBF and MTTR becomes more important. If the case company can supply workshops, the customer is more likely to buy from them. An example where the market affects utility value is with low priority of fuel consumption in certain markets. Thusly, when a market changes, the utility values may change accordingly. The reference point, which is the last aspect of value, is affected by cultures, supply and demand, previous purchases, competitors' prices, macroeconomics, etcetera. To summarize, value is impacted by many things, probably more than described in this thesis, and to completely understand how a new circumstance will affect the value is difficult.

7.1.3 How does value change in a market downturn?

Looking at the customer value pillars established by the case company, the value would be affected differently in different pillars. For the psychic pillars, chauffeur attraction could decrease in value. If the unemployment rate increases, the lack of drivers would be eliminated, and employers need to spend less to appeal to drivers. Consequently, they could compromise in this area. When there is a downturn, companies have less spending power. This could result in a shift where markets who typically have high spending power deprioritize psychic values akin to the markets with low spending power. Since these values are not directly correlated to the performance of the company, they might become less important.

The utility values would be affected in a different manner. Fuel consumption for example might become more valuable as fuel prices increase in a downturn. Productivity typically increases in recessions as well and customers might want fewer trucks to cut down on costs. Thusly, efficiency and MTBF and MTTR become more important as well. If the customer can transport more goods per route and eliminate the risk of being down, their productivity will rise. Hence, the prices of the case company´s products could logically increase in a downturn as customers are willing to spend more on quantitative values. This is not the case however, as the case study and theoretical framework concluded that customers become more price sensitive in a downturn. Why this is the case, can be explained by the subjective reference point of each buyer.

The subjective reference point is affected by the present state of affairs according to prospect theory. That includes but is not limited to the factors mentioned in figure 8. These factors are impacted by a downturn in different manners such as demand decreasing and competitors lowering the prices. However, changes in what impacts the reference point does not explain why customers are less aware of total cost of ownership. This might be due to the risk associated with buying a truck and that it is perceived differently in a downturn. Customers are less financially capable and thusly consider surviving right now without thinking long-term.

To summarize, value decrease in a market downturn even if the customer need pillars established by the case company might not reflect that. Quantitative values appear to be more important while qualitative values are of less importance. Without considering the subjective reference point we could theoretically arrive at the conclusion that prices could increase in a downturn yet that is not reflected in reality. The value of the truck will decrease in a downturn even if that change will not be reflected in traditional value models or value definitions.

7.2 How should the case company work with a value-based strategy in a downturn?

It is apparent that customers are more price sensitive in a market downturn. If the case company want to keep on working with a value-based approach, they must overcome the trend of customer thinking short-term when deciding on a deal. As the case study presented, motivating price adjustments to the customers will make them oblige to the price. Understanding that the decision is based on risk assessment and not always value would help them motivate the adjustment. These conclusions apply to the quantitative values. When working with the qualitative values in a downturn, the case company might need to focus more on the legitimization of value. That is, understanding where the individual customer stands in relation to the pillars. Comprehending the customer values will allow the case company to find the truck variations where they achieve the maximum margin. Generally, psychic values might decrease in priority in a downturn and working with a value-based approach might lead to the case company needing to spend less on these values.

7.3 How can the case company develop their pricing strategy with the conclusions from this paper?

The case company can use the conclusions arrived at in this thesis to improve their way-of-working when determining the customer value. Understanding what value consists of will help them save on resources and more accurately correlate price adjustments with value transformation. They can adjust their approach to improve their chances of successfully communicating the value to their customers. Looking at value through the new model presented in 7.1.1 will support the case company in that they can analyse value on a broader basis. When value changes without value adjusting activities, the model can help them understand the change and work towards overcoming value challenges. Additionally, they can implement the inconsistencies presented in the gap analysis to include legitimization to a larger extent when assessing value. Especially when estimating the qualitative values.

7.4 Summary of conclusions

Value is driven by many factors and completely grasping what affects value and to which degree, is a challenge. The case company are quite successful in working with value-based pricing in that they focus on internal development. Even if they are successful in their organisational approach, understanding what value consists of is key in assessing how the case company should work with value-based pricing in a market downturn.

Arrived at in this thesis, value decreases in a market downturn even if the customer need pillars established by the case company might not reflect that. Quantitative values appear to be more important while qualitative values are of less importance. Without considering the subjective reference point we could theoretically arrive at the conclusion that prices increase in a downturn, yet that increase is not reflected in reality. The value of the truck will decrease in a downturn even if that change will not be reflected in traditional value models or value definitions.

The case company could enhance their understanding of value by including more variables that affects value. If the case company were to understand value better, they could work more resource-efficiently and sell their trucks at a better price point. They could adopt the suggestions in this thesis to improve their capabilities within value-based pricing. Suggestions mentioned in the thesis were to adjust how they perceive value and implementing more legitimization of customer value.

8. Discussion and recommendations for further work

In this section, a short discussion of the structure of this thesis and conclusion will be presented. In addition to the discussion, recommendations for further work will be delivered as well.

8.1 Discussion on the structure of the thesis

As a delimitation in this thesis, customers of the case company were not interviewed in the case study. Thusly, the empirics gathered regarding what the customer values is based solely on the opinions and ideas of the employees at the case company. Not to say that these experts are providing faulty information, yet the validity of the conclusions would be increased by the customers´ perspectives. Additionally, the case company admits that they are not performing customer legitimization on a regular basis. This might increase the gap between the customer values according to the case company and the actual customer values.

The document aspect of the method was implemented to a lesser extent than initially planned. When the thesis was planned, the document part would cover extensive customer research to add more nuance to the analysis and conclusions. This was left out since the case company did not have a recent and readily available study. In this thesis, the document aspect of the paper ended up being the customer need pillars. I am unaware of to which extent the customer need pillars are researched; however, I do believe that they put some thought and research into the pillars. If the document aspect of the thesis were more developed it would solve some of the concerns presented in the previous paragraph. It would create a more valid understanding of the customer values.

8.2 Discussion on the conclusion

While writing the conclusion, some assumptions were made. The trustworthiness of the empirics and the validity of the literature study were assumed even if their validity were researched prior to the studies. A large assumption integral to the conclusions is that a change in price sensitivity never occurs without a change in value. That is, when the market responds positively to a price increase, value has been added to the product. This assumption is the foundation to the new value model presented in section 7.1.1. Without this assumption we could instead arrive at the conclusion that the case company does not completely work with value-based pricing or that value is not the only determinant of the customer's willingness to pay. We could instead conclude that value-based pricing is not valid within the trucking industry and that the case company should reconsider their pricing approach.

While the recommendations presented to the case company is anchored in section 4, the recommendations are not many or related to details of the case company´s way-of-working. In order to deliver more applicable recommendations to the case company, more information on how they work would be required. This was left out due to risks in infringing on the non-disclosure agreement that I signed before writing this paper. Additionally, I did not anticipate that I would need to focus greatly on what value is. After the case study, it became apparent to me that value was more complicated than I initially thought. If there were less discrepancies when value was investigated, more focus could be applied to analyse the case company´s way-of-working. This would have generated more concrete recommendations on how the case company could work with value-based pricing in a downturn. Instead, the thesis investigated how customer value changes in a downturn more in-depth.

8.3 Recommendations for further work

To further develop this thesis, work could be done to solve the concerns mentioned in the discussion. Involving customers to a larger extent and further developing the understanding of the case company´s customers. Implement more large-scale studies on customer value to catch certain trends and differences between customers. Investigating value further to better comprehend why customers are acceptant of a higher price without value-adding activities. Assessing the case company´s way-of-working on a deeper level to deliver more recommendations on how they can work with value-based pricing in a recession. Lastly, the case company should translate customer value into quantifiable variables for an AI model. Exploring the new value model presented in this thesis and if it can be quantifiable would further improve the results from this thesis.

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Appendix

Appendix 1 - Questionnaire

1. When determining the customer value of a product, are you using any models or theories? If not, how are you determining value?
2. When considering different markets, are customers perceiving value differently? If so, what are these differences?
3. If you have worked during a recession, have you noticed any different behaviours or values from your customers?
4. Considering the present global situation, are you noticing any different behaviours/values already?
5. If a recession would arise, how do you think it would impact your pricing/sales strategy?
6. If you were to pinpoint what makes your customers buy from you instead of a competitor, what aspects / values behind the trucks do you think they resonate with?
7. When you do change prices for your products, what kind of response have you received from your customers?
8. If you were to decrease the price of your products, what kind of risks entail that? Except for lower margins.
9. How do you think that competitors changing prices affect the customer perceived value?
10. When transitioning from cost-based to value-based pricing, have you encountered any specific barriers or challenges?

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