# CHALMERS

# Pricing in the Swedish Home Appliances Industry

## How is it done today and how can manufacturers increase profits?

*Master of Science Thesis*

*in the Master Degree Programme Management and Economics of Innovation*

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## Abstract

The Swedish home appliances industry is characterized by low margins and intense competition, both in the manufacturer and retailer level of the distribution chain. The high number of retailers, both traditional and online, all offering the market's lowest prices, in combination with access to instant price comparison on price comparison sites for consumers has lead to price erosion on the consumer market. This has in turn lead to retailers negotiating wholesale prices down affecting manufacturer's profitability.

A boutique consultancy firm focusing on pricing strategy is in the process of developing a service for manufacturers in the home appliances industry. Based on this the purpose of this master thesis has been to investigate and describe the way wholesale pricing, retail pricing and recommended retail prices (RRPs) are being used in the Swedish home appliances industry and based on this knowledge suggest tools manufacturers can use increase their profit in the market characterized by very slim margins.

Based on a literature study and interviews with industry players, both in the manufacturer and retailer level of the distribution chain, an analysis of the way the pricing is done on the market today was conducted and presented. Concluded in this part of the analysis was that retail prices are mostly based on the market, both price levels of similar products and price levels of the same product at other retailers. Wholesale prices are most commonly market or value based and thereafter modified according to retailers performances in different areas such as purchase volume, service in store and logistic solution. The role of the recommended retail prices, sometimes communicated and sometimes not, differ depending on manufacturer. In some cases the retailers disregard them fully, in other situations they are somewhat taken into account. The level of compliance depends mostly on the competitive situation for the product as well as its popularity.

As for the suggested tools enabling manufacturers to increase profits, it was concluded that manufacturers can focus on differentiating in order to improve their bargaining power towards retailers in a wholesale price negotiation process. Manufacturers can also be selective in which retailers to distribute to, also in order to strengthen the bargaining position. Other suggestions include start selling directly to end consumers, cutting retailers out of the distribution chain, improve incentives for retailers to to an higher extent follow the recommended retail prices as well as keep competing with price and focus on selling large volumes.

*Keywords: Home appliances, pricing strategy, recommended retail price*

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# 1. Key concepts and wording

| | |
|---|---|
| Wholesale price | The price retailers obtain when purchasing goods from manufacturers |
| Retail price | The price consumers obtain in the retail store |
| RRP | Recommended retail price: The price manufacturers recommend retailers to charge end consumers |
| RPM | Retail price maintenance: When a manufacturer control the price retailers sell their products for |
| The home appliances industry | Home appliances are electrical or mechanical machines which accomplish some household functions, such as cooking or cleaning. Home appliances can be classified into major appliances (white goods), small appliances and consumer electronics. |
| The industry | In this report 'the industry' is the home appliances industry |
| Kickback | Kickback is a payment e.g. royalty or discount, that is paid after the transaction has been made, for instance at the end of the year |
| Product category | Type of products, for example dishwashers |
| List price | Price manufacturer charge for their products before discounts |
| Own brand | When a retailer sell their own products, besides products purchased from manufacturers |
| E-commerce | Trading in products using the internet |

# 2. Introduction

In this chapter the background to the industry is introduced followed by a presentation of the business partner in collaboration with whom the report is written. Then the problem is then described followed by the purpose of this master thesis, the project scope and delimitations.

## 2.1. Background

The home appliances industry is an industry characterized by intense competition, low margins and price erosion (Nichols & Cam, 2005). According to Rämme et al (2010) the Swedish market experiences an over establishment of players on the market resulting in oversupply, something affecting both retailers and manufacturers. A survey conducted 2013 showed that both consumers and retailers on the Swedish market see price as the most important factor in a purchase situation (Elm, 2013). The fact that many retailers in the industry offer similar product assortments whilst trying to be the lowest price option has resulted in the competition amongst retailers becoming intense (de Lima Fagerlind, 2011). Apart from this, online actors have recently emerged to challenge the traditional retail stores, due to the potential for lower costs and to meet changing customer behavior (Hagman, 2016). Since price is an important parameter in the goods selection process, most retailers match competitors' prices which according to Nagle & Hogan (2006) leads to a downward value destroying spiral with decreasing prices.

After years of price wars, new web based retailers and large international retail entry Sweden has become one of the cheapest countries in Europe to purchase home appliances (Lönegård, 2012). The competition and price war got even more intense since the consumers gained access to price comparison sites such as 'Pricerunner' and 'Prisjakt' which enables comparing prices between retailers and manufacturers in the blink of an eye (Nordin et al, 2014). The margins are very slim and many retail chains show negative results (Lönegård, 2012).

The intensively competitive situation on the market in the retailer level of the distribution chain affects also the manufacturers. Within the mature white-goods industry, most manufacturers globally face price erosion, which has lead to mergers and acquisitions together with other cost cutting measures (Nichols & Cam, 2005). Since the retailers have placed themselves in a situation where their margins are slim they put pressure on the manufacturers for low wholesale prices. The reason they can put this pressure on the manufacturers is because of the retailers' exposure to the consumers as well as the large number of manufacturers offering similar products. If one manufacturer refuses to lower the wholesale price, a retailer can simply choose not to buy the products from that retailer. This is of course not beneficial for the retailers, since a broad assortment seems to be important to attract consumers. There are however still a large number of comparable products on the market giving the retailers enough options.

An alternative course of action could have been that a price war at the retailer level on the market would be beneficial for manufacturers in terms of lower prices resulting in increased consumer demand and larger volumes sold. This scenario would have been more likely if there were not as many manufacturers and similar products available.

Another result of this kind of price competition is the risk for destruction of brand value, due to reduction in service level and therefore destruction of differentiating factors, which can then lead to commoditization of the market (Zelek, 2012). The free-rider problem, where retailers can survive without investments regarding e.g. service since other retailers do offer it, is part of the explanation.

The new online retailers can sell products without offering some of the services offered by traditional retailers. For this reason also the traditional retailers eventually decrease their level of service to cut costs and to keep their margins, keeping up with the new online players.

### 2.2. The business partner

The business partner is a boutique consulting firm providing services and solutions regarding pricing strategy. The business partner is currently developing a service for the manufacturers in the home appliances industry to which this thesis will contribute. The business partner want to be able to offer their clients, the manufacturers, a set of tools they can use to try to avoid the price erosion on the Swedish market. In order to do so, the business partner has asked the students to investigate how the pricing mechanisms work in the Swedish market as well as propose and investigate tools such as described above.

### 2.3. Problem description

The market situation drives retail prices down, which in turn forces manufacturers to sell their products cheaper to retailers, since the manufacturers depend on the retailers to reach the end consumers. The prices erode due to the fierce competitive situation amongst retailers. Hence it seems that products are sold cheaper than they need to by retailers, and manufacturers currently have a hard time affecting this outcome. With that in mind, there is potentially consumer willingness to pay not being exploited. There should be ways manufacturers can strategically act in order to capture more of the consumer willingness to pay on the market and by that increase their profit. The question is what can be done, given the situation on the market today.

### 2.4. Purpose

Based on the situation on the market situation and the business partner's development of a pricing strategy service for manufacturers the purpose of this master thesis is to:

Investigate the way wholesale pricing, retail pricing and recommended retail prices (RRPs) are being used in the Swedish home appliances industry including the dynamics between them, and based on this knowledge suggest and investigate possible tools manufacturers can use to increase their profits.

### 2.5. Scope and delimitations

The scope of this study is to examine the Swedish market. All empirical data collected therefore consider only the Swedish market, thus all conclusions made in the report are applicable on the Swedish market and not necessarily on other markets. The reasons for the scope boundaries are that the market mechanisms are not the same across countries, and most pricing decisions are made on a national level, hence the study would differ by countries. Also the business partner's main area of business will initially be Sweden and the report is supposed to be produced as accurately as possible for this market.

Further, the industry in focus for the business partner is the home appliances industry, but since retailers in the Swedish market in general sell the whole spectra from computers to washing machines, the industry investigated is the home electronics, white goods and home appliances market in Sweden.

The interfaces studied are the manufacturer to retailer, and retailer to consumer interfaces. Any steps earlier in the value chain, such as raw material supply or manufacturing is left out.

Further, the manufacturer's point of view is chosen as the analysis perspective since manufacturers are the business partner's target customers. No detailed analysis of how to increase retailer profitability will be made. No data collection with respect to consumer preference is done through any kind of consumer interaction, but somewhat covered through data collection from interviews with both retailers and manufacturers.

Due to pricing being a sensitive subject, to be able to perform interviews with key players on the market confidentiality was ensured to all involved parties. This is the reason no names of interviewees or companies are revealed in the report. Some information collected from interviews also needed to be removed to ensure that the company could not be identified through information in the empirical findings. Some interviewees also requested to receive the transcript and notes that were taken during the interview to eliminate sensitive details ensuring their anonymity. Hence data collection is somewhat limited.

Further, some literature in the theoretical framework concerned other industries such as the medical market or the public goods industry. An assessment of applicability has been made based on best judgment.

# 3. Theoretical Framework

In this chapter the theoretical frameworks connected to the subject will be presented. It includes important concepts related to pricing and pricing strategy, in order to have a reference point and common language when describing and presenting the current pricing methodologies in the industry. Then the industry and its characteristics are described followed by different economic concepts to retain and improve margins. Furthermore the legal situation in Sweden is described concerning retail price maintenance and recommended retail prices.

## 3.1. Pricing strategy theory - pricing methodology

This part of the theoretical framework will describe different pricing methodologies including cost based pricing, market based pricing, value based pricing, discount pricing as well as price level and competition response.

### 3.1.1. Cost based pricing

To ensure profitable prices for a firm, cost based pricing is an option. The idea is to put a margin on top of all costs related to the products, direct and indirect, to ensure that every sold unit contributes positively to company profits. However, in practise this is not always an easy task. When delivering products and services they are often created jointly to gain economies of scope, for instance with a common salesforce where it can be hard to make the distinction of how much of the salesperson's time goes to selling a certain product (Courcoubetis & Weber, 2003). Another central issue is that product unit cost changes with volume, hence unit cost is impossible to know before having a stable demand. This problem leads to under pricing in weak markets and over pricing in strong ones (Nagle, 2011). If a planned volume is lower than expected, the margin will be slim since fewer units cover fixed costs, and vice versa. However, the prices need to be sustainable in the long run, and in order to be so the margin can not be to high e.g. reflecting higher costs than the actual costs. If prices do not reflect actual direct and indirect costs, competition is attracted (Courcoubetis & Weber, 2003). Nagle (2011) emphasises that since price affects volume and volume affects fixed costs coverage, there is a correlation between cost and price. Thus pricers should asks themselves if a change in price will get more revenues to cover fixed costs rather than if a price fully covers costs (Nagle, 2011). But if costs are known, it can be a simple yet effective pricing model in order to make sure that solid profits are obtained.

### 3.1.2. Market based pricing

Contrasting to cost based pricing, market based pricing takes willingness to pay into account and better reflects market conditions. When speaking of market based pricing there are generally two main strategies; consumer focused pricing and competition focused pricing (Nagle & Hogan, 2006).

The consumer focused approach is not simply what the customer is willing to pay, rather it focuses on having a price level that the consumer is justified to pay. There are two main issues with this method though. The first one is that consumers are not entirely honest when evaluating their true willingness to pay and secondly, rather than focusing on the average consumer's willingness to pay there might be another consumer group that appreciate the product’s true value which should perhaps receive more focus (Nagle & Hogan, 2006).

The competition focused approach on the other hand, is a pricing strategy that benchmarks similar products instead of looking at costs or demand, and is best suited for easily comparable products (Guo, 2012). It can be tempting to lower prices compared to the competition in order to claim a larger market share, but nowadays prices can easily and quickly be matched due to price comparison sites.

This leads to rather short term price advantages, which leads to a downward spiral towards lower value destroying prices (Nagle & Hogan, 2006).

Advantages of the pricing strategy competitor pricing are that it is fairly simple, it is low risk and it is most likely accurate (Guo, 2012). It is simple because the strategy quickly gives an idea of what the price of the products should be, but then it is up to the price setter how to relate to the price point. The strategy has a low risk, the idea being that a certain price has kept the competitors in business so it should also be able to keep the given retailer profitable. A risk here, obviously, is that this price point does not cover the costs. Lastly, the method can be considered accurate especially in mature consumer goods markets due to large amounts available data indicating the real value of the products.

Disadvantages with competition focused pricing are that large opportunities might be missed, it might encourage groupthink and it may also lead to tunnel vision (Guo, 2012). Price is a key communication tool to communicate product parameters to consumers. If the price is simply copied, opportunities to conquer additional consumer surplus is ignored. Groupthink relates to that all actors assume that the other actors' prices are the correct ones, also resulting in the risk of missing opportunities to charge a different price. Another downside with this if competitor based pricing is over used is that retailers lose contact with customer demand. Either the prices will be at the same price point forever, or the price level will shift depending on what a retailer finds suiting unrelated to true customer demand. The tunnel vision concept relates to that if price is seen as sole parameter, there will be a race to the bottom of prices. With this comes lower margins and poorer quality. Here there is a chance that consumers are willing to pay more, for better quality, something that will be missed with this strategy.

#### 3.1.3. Value based pricing

Value based pricing is the opposite of cost based pricing, and is generally seen as the best pricing strategy for maximizing profits. Instead of having the product cost as a starting point and adding margins to finally get to the customer, the customer is used as a starting point in order to see what value he or she sees in the product. According to Nagle & Hogan (2006) there are three steps that can be followed to estimate the economic value. The first step is to identify the second best alternative to the product, which is used as a starting point for the estimation. The next step is to identify the differentiating value to add on the starting point value, which is the most tricky part. In doing so, an example is to look at the additional economic benefits buyers could have and give this value a monetary worth for instance by lowering labor costs. The third and final step is to identify what segments to target in order to maximize profits (Nagle & Hogan, 2006).

#### 3.1.4. Discount pricing

That manufacturers have list prices of their products, which are then being discounted when sold to retailers, is a common pricing strategy in several industries. A risk with this strategy is that retailers may interpret the discounted price as the original price, which would lead to a lower average price requirement across retailer's purchasers (Lundén, 2008).

There are generally two kinds of discount pricing; variable and fixed (Calogrids, 2010). Variable discounts are derived from discount fluctuating with purchaser volume. If this does not apply, e.g. if the same price is received whether buying one or a thousand units, no incentives exist to buy larger volumes. Fixed discounts comes from contracts where purchase thresholds are agreed upon. This means that when a retailer purchaser has bought enough units, an agreed discount for future purchases is enforced (Calogrids, 2010). However, Smith (2012) argues that keeping a discount policy might be hard due to a difference in incentives within the organization. A proposed solution to this issue is a

policy saying that small discounts can be given by the sales force, larger discounts needs to be authorized by field executives and even larger discounts need to be authorized by sales managers (Smith, 2012).

### 3.1.5. Price level

One important part of pricing strategy is deciding on the optimal price level, where the objective is to price a product at the level where maximum profit can be extracted (Nagle, 2011). Pricing is one of the most important actions of the marketer and one of the aspects influencing the consumer's behavior the most. There are basically two different types of situations, the first being mature products with little differentiation which are understood by the consumers and the other is more unique or differentiated products with less substitutable products to compare with. In the first situation Nagle (2011) claims that not enough valuable information is to be learned by conducting a full pricing level assessment. In this situation it is rather more logical to rely on previous experience and use similar products in order to decide on a price point. In the other situation it can be useful to conduct the assessment in order to evaluate the optimal price point.

According to Nagle (2011) there are three different aspects to consider when deciding on where in the possible price window to place a product. Firstly you need to consider the price positioning's alignment with the overall business strategy. For example, a low price aligns well with a market share growing strategy. Secondly the positioning needs to reflect the cost structure of the business. The fixed costs-variable costs distribution decides the price-volume trade off effects, or in other words the amount of volume increase necessary to cover for a lower profit contribution per sold item after a price decrease. If the business is primarily a fixed costs business, it is easier to lower the price since it requires only a small volume increase to cover for the decreased profit contribution. If on the other hand the business is mostly a variable cost business, a lowering of the price requires a much larger volume increase to cover it. Thirdly the customers' response must be considered. Here not only value related factors affect the consumers' behavior but also different psychological effects, described more thoroughly in chapter 2.3.2.

### 3.1.6. Competition

When there is competition and similar products available on the market, pricing is more difficult than when pricing a unique product (Nagle, 2011). Instead of only consider the consumers' price sensitivity and responses to price changes, the competitors' responses also needs to be taken into account. In a competitive market where all competitors try to gain market share by low prices price erosion emerges. The short term positive effects that a price below the competitors' prices can give a certain market player an advantage which makes it an attractive strategy. But in the long run it undermines the profitability of the entire market since competitors with similar strategies will follow and do the same thing. Instead Nagle (2011) proposes that more value should be offered without raising the price a lot, or that costs should be cut without lowering the price accordingly. By doing so a market player gain positive effects without destroying profitability on the market for everyone, including themselves.

## 3.2. Causes for, and mechanisms of, price pressured markets

When customers see the products as commodities, e.g. all products seem similar to them, the only parameter that matters is price. Even though no company would admit they produce a commodity, since they all claim to have a certain edge, if the customers experience the products as too hard to distinguish between, the market behaves like a commodity market (Bertini and Wathieu, 2010). To enhance this effect, consumers get even more disengaged in understanding the product differences

when the market is seen as a commodity market, making it even harder for customers to understand the product value (Thompson, 2000).

Thompson (2000) raises the issue of willingness to pay in negotiations for price pressured markets. The communicated willingness to pay is often lower than the actual willingness to pay, also leading to lower prices. This might both be because the consumer does not understand the benefits, or that they do but they have no incentive to communicate that they understand the benefits. Further, when the deal depends on the price and the salesperson most likely gets provision on the deal, it is even harder trying to communicate the value. What often is done as a response is that the manufacturer adds on services, such as 24 hour support etc, but the buyer does not understand the true value in these additional services leading to basically free add on services.

## 3.3. Strategies to survive in price pressured markets

Strategies found in the theory adapted to price pressured markets are described below. An emphasis is on strategies with connection to pricing strategy.

### 3.3.1. Price used as communication

Large companies which probably have the largest economies of scale often want to keep competing with low prices, but according to Bertini and Wathieu (2010) there are four common ideas to use to change the rules of the game in a tough marketplace. The first one is to use the price structure to clarify the advantage, which basically means that emphasis is put where performance is superior to competitors. An example of this strategy is to price the product after performance. For instance if a product lasts longer than another, but they seem similar in many other aspects, it should be significantly more pricey. Without a reference price, consumers tend to go for the cheapest option. The price difference highlights a difference of some sort, distinguishing the product and compels customers to pay attention to a certain form of value. A risk with this strategy is that it might be short term in the sense that others can copy the behavior, but in that case the price pressure is prolonged.

The second approach is to willfully overprice to stimulate curiosity, which is to take a hefty premium for non obvious reasons. The high price raises curiosity and a feel that the product is better and worth more than it actually is, since ‘something’ needs to motivate the higher price. This really challenges the consumers regarding what they really are willing to pay, and changes their behavior from looking at an ocean of similar options and looking for the cheapest option, to challenging them to really evaluate what they are willing to pay. This strategy may help companies to keep high prices when there is a truly innovative product, and not having to cut the prices due to tough competition. Also high prices might influence consumers quality perception.

The third approach covers partition prices to highlight overlooked benefits. People normally do not notice benefits if they are not explicitly paying for it. By clearly showing what is paid for instead of showing a lump sum, consumers are invited to closer analyze what was bought which encourages recurring purchases.

The last approach is to equalize price points to crystalize personal relevance. This tactic means that multiple choices should be priced identically. This way, consumers start to think what they really want instead of trying to value costs benefits of different product features. This method is not suited for cost based pricing companies, since there will be different margins for different products. Hence, in order to ensure a certain margin, different prices for different products need to be charged. It is also

not ideal for price pressured mature markets, since consumers find negligible interest what best suits them compared to the strive for minimal price.

### 3.3.2. How to communicate price

A price can be perceived differently depending on how the price is communicated (Nagle, 2011). It does not only depend on the value of the product. One example is what psychologists call the Weber-Fechner effect, which is that consumers evaluate price differences proportionally and not in absolute numbers. If a 100 SEK difference in price is 25% or 2% of the total price, a consumer behave differently. The 100 SEK is still 100 SEK, but if it is 25% it is noticed for sure and if it is only 2% it is more likely to be ignored. To have this in mind when changing prices can strongly affect the outcome. For example, several smaller price increases are more likely to be accepted without complaints than one large price increase. Even though the total increase in price is the same.

Another communication effect is the reference price effect. Either the reference price is another product or the reference price is a suggested different or old price. In the case where the reference price is another product, it can be shown that the addition of a more expensive premium product to the product line makes low-end buyers switch up and buy more expensive products since these products are now perceived as less expensive in comparison with the newly added premium product. The reference price can also be a price point suggested by the market, for example a RRP, a competitor's price or an old regular price. When the actual price then stands in comparison with that price it is perceived differently than on its own. A reference point can give the buyer a feeling of value, savings and quality when looking at the actual price (Nagle, 2011).

### 3.3.3. Disintermediation

Disintermediation, also knows as 'cutting out the middle man', according to Murphy (2016) enables companies to sell directly to consumers and thus not having to rely on retailers doing it for them. The observed companies can avoid paying big chains to provide this service which gives an opportunity to lowering the prices towards consumers. Even though this is not a simple task, today's possibilities with e-commerce has made this easier and many large companies have succeeded with this strategy. The internet usage has made it easier for companies to reach end consumers, which is basically the value retailers add.

According to Chatterjee et al (2010), the way to compete is to keep looking for opportunities to cut costs and understanding customer behavior by looking for new business solutions, such as delivering directly to consumers. This by integrating the supply chain and taking more advantage of the digitalization trend with e-commerce. People are rapidly increasing purchases online, which allows both manufacturers to sell directly to consumers as well as web retailers impact increases. If aiming towards selling directly to consumers there are new capabilities that need to be evolved, such as performance tracking of digital marketing tools.

### 3.3.4. Vertical restraints and recommended retail prices

Manufacturers can in some cases benefit from controlling the actions of their retailers, by using contractual devices called vertical restraints (Marvel & McCafferty, 1996). This section of the theoretical framework explains the theory behind why this could be beneficial for a manufacturer in a distribution chain.

#### *3.3.4.1. Motives for vertical pricing*

To simplify the description and analysis of vertical restraints, the starting point will be the simplest of contracts in a wholesale market where a retailer can buy any quantity of a specific product from the

manufacturer (or supplier/importer) at a uniform price and can then sell to any customer at any price without limitations (Mathewson & Winter, 1998). Here perfect competition is assumed and the market is functioning frictionlessly. This simplified situation does however not apply in reality. There are many possible conditions that complicate the contracts between upstream and downstream companies in the distribution chain, called vertical restraints. One example is when the supplier controls the price a product is sold for in a retail market. This is called resale price maintenance (RPM). The controlled price is often a minimum price, a price floor, but can also be a maximum price, or price ceiling (Mathewson & Winter, 1998).

RPM is in most countries either prohibited or at least met with suspicion. According to Mathewson & Winter (1998) there are two reasons, the first being the ownership question. When ownership is transferred from one party to another, from manufacturer to retailer, the seller should have no further rights to the product. Therefore the manufacturer should have no right to decide the retail price. The other reason is the competition problem. Since RPM clearly reduces competition in the market it contradicts the idea to stimulate competition for the sake of increased economic efficiency. There are also arguments for why RPM should be allowed, based on for example the legal right of the supplier to design contracts however they want or economic efficiency reasons where both consumers, manufacturers and retailer can benefit from it. This has resulted in an inconsistency in a policy concerning vertical restraints (Mathewson & Winter, 1998).

#### *3.3.4.2. Price ceilings*

To explain the logic of why a manufacturer would want to set a price ceiling, the starting point example situation can be used, with the addition of a retail price ceiling set by the manufacturer. If the wholesale price is fixed, then the manufacturer's profit is determined by the volume sold, which in turn is determined by the retail price, according to a supply-and-demand graph and a downward sloping demand curve. A lower retail price means a higher volume sold and therefore a higher profit for the manufacturer, assuming an equal wholesale price. In other words, RPM can be used to solve the 'double mark-up' problem, where mark-ups in many stages in the vertical chain result in a price too high for the different firms in the chain to enable profit maximization (Mathewson & Winter, 1998).

#### *3.3.4.3. Price floors*

A price floor on the other hand is harder to intuitively explain. According to Mathewson & Winter (1998) there are several different explanations. Included in the anticompetitive explanations is the manufacturer cartel explanation, where RPM is used to facilitate cartels at the manufacturers' level. The reason for using RPM is because wholesale prices might not be easily observed by all members of the cartel. This means that deciding whether a certain manufacturer's products' changing retail prices and market shares is a result of a retailer lowering the retail price, or the manufacturer cheating on the cartel, is hard to determine. RPM can in this situation make the cartel more stable, ensuring that any cartel member cheating is more easily detected, and the changes derived to the cheating manufacturer. Also included in Mathewson & Winter's (1998) anticompetitive explanations is the retailer cartel explanation, where traditional retailers would use the manufacturers to exercise RPM in order to keep the retail price level up and in that way create an entry barrier for discount stores to enter the market. In this case the incentives and the motives come from the retailers and they are the ones asking the manufacturer to introduce RPM.

The next set of explanations for price floors are what Mathewson & Winter (1998) call the efficiency explanations. The first of the explanations in this category is that simplified logic explaining price

ceilings does not work since demand might increase with a higher price. Also, a higher retail price might increase each retailer's effort in selling the next product, since they make more money on each product sold. The higher retail price might also increase the interest in selling the product, resulting in a higher number of retailers. And further this results in a higher volume sold for the manufacturer and therefore a higher profit.

Other reasons for price floors could be to avoid free-riding. If a product is somewhat complex, efforts that cost money is required by a retailer to explain the product to a customer, which then add to the retail price. If the same product is then sold by a retailer not providing the service, free-riding on the first retailer, the second retailer can sell the product cheaper and in that way take all customers. This is made possible since the first retailer has already made the effort of providing the service, and the second retailer can only focus on making the sale. To maintain service quality at the retailer level, a manufacturer might want to use RPM. Related to this is using RPM only to ensure that retailers does not erode prices at the expense of service. It is easier to ensure a specific service level by contracting against cutting prices than contracting on the service level itself (Mathewson & Winter, 1998).

#### 3.3.5. Non-binding recommended retail price

In the above described reasons for RPM it is assumed that RPM is doable, which it in most cases is not, it is most often prohibited by law. Unlike RPM, recommended retail prices (RRP) are non-binding, manufacturers cannot enforce the retailers to set a certain price (Buehler & Gärtner, 2013). This means that it is legal. The RRP is set by the manufacturer to try to influence the retailer and the retail market competition and to gain advantages when bargaining over wholesale prices (Olczak, 2011). While the retailers are not obliged to follow the RRPs, there are still reasons for manufacturers to use them. Before describing theory on the matter further, a distinction between (1) recommended retail prices communicated only between manufacturers and retailers and (2) recommended retail prices communicated also to the consumers needs to be done.

Buehler & Gärtner (2013) suggests in their paper that RRPs, of type 1 as described above, can have a communicative function in a vertical supply chain from manufacturer to retailer. Since retailers lack information regarding production costs from the manufacturer side, a recommended retail price can act as information enabling maximization of joint surplus. This however does not explain why many retailers avoid following the recommended prices provided by the manufacturer.

The type 2 RRP can explain this as it serves another purpose as well, apart from enabling maximization of joint surplus. According to Buehler & Gärtner (2013), communicating a RRP to consumers increases their willingness to pay, since a price below the RRP feels like a bargain to the consumer. This makes it logical for retailers to systematically deviate from the RRP. And it can even give the manufacturers reason to make RRPs higher than the intended retail price, to enable retailers to deviate from the RRP and create a feeling of bargain for the consumer.

Lubensky (2013) says that a RRP, used as communication, gives the consumer information about if he or she should accept a retail price or continue looking for a better deal. This gives the manufacturer reason to use RRPs to make the consumers search more. By doing so the manufacturer incentivise the retailer to lower their margin, leading to lower retail prices, leading to higher volumes sold. Still, the manufacturer might not always benefit from more consumer search. If the manufacturer offer less value than a competitor, the manufacturer wants less search. From the consumer's point of view, the search is beneficial when a better deal is available.

According to Olczak (2011), the manufacturer has incentives to set the RRP above what the manufacturer would have set the retail price to in a RPM situation. The reason being that when raising the RRP the manufacturer is also able to raise the wholesale price. But for the RRP to be higher than the RPM price, Olczak (2011) concludes that the RRP will be higher only when the retailer bargaining power is sufficiently low. If the retailer bargaining power were to increase, the wholesale price would be negotiated down and then resulting in lower retail prices.

Fabrizi et al (2016) build upon the type 2 use of RRPs described above and investigate the implications of RRPs on the retail prices and consumer behavior in a market. They show that whether or not the retailer comply with the RRP depends partly on the market situation. If the retail competition in the market is strong, the retailers logically choose to set the retail price lower than the RRP, or in other words, the manufacturers set a recommended price that retailers under-cut. According to their study it also depends on the way the demand is affected by a price suggestion and if the consumers are sufficiently bargain-loving as compared to loss-averse. Loss aversion means that consumers in general are more keen to avoid losses than to gain wins of equal size (Nagle, 2011). Both of the factors increase the chance of a retailer undercutting the RRPs. Fabrizi et al (2016) also say that it is more realistic for consumers to experience a feeling of bargain purchasing for a price lower than a recommended price when it comes to infrequently purchased goods. This because they may not have their own reference price knowledge, they instead rely on the publicly available reference point which is the RRP.

Similarly Nagle (2011) argue that the more brand or market power a manufacturer has, the easier it is to make retailers follow desired retail price policies. If there are no, from the retailers point of view, substitutes for the manufacturer in question, the manufacturer has strong bargaining power. Nagle (2011) also states that since it is not legal to form contracts in which a retail price is agreed upon, conducting such a strategy needs to be done very carefully. Sales personnel should therefore be trained to be able to communicate the policy in a legal way to the retailer. And then Nagle (2011) suggests that instead of making the desired retail price a policy, a manufacturer can choose to use RRP. And to promote those prices and encourage retailers to obey them, manufacturers can develop different incentives. Examples include an advertising budget received if adhering to the RRP or financial incentives when staying close to the RRP.

Attempts to control prices at the retail level can also be done by the manufacturer managing the competition between the manufacturer's different retailers. The control can be exercised both through incentives and contracts and imply that certain retailers get certain geographic areas, certain products from the product line or certain consumers Nagle (2011).

## 3.4. Legal framework - Sweden

According to the Swedish Competition Act (2008:579), Chapter 2, Article 1, agreements between companies with the objective to prevent, restrict or distort competition in the market to an appreciable extent are prohibited (Rättsnätet, 2016). In parallel with the Swedish competition law the European Union competition rules also apply. Article 101 in the Treaty of the Functioning of the European Union (TFEU) says that agreements are prohibited which restrict competition, including the prevention and distortion of competition (EUR-Lex, 2016). For the European rules to apply, trade between Sweden and at least one other member country must be potentially affected. The Commission cooperates with national competition authorities in these types of cases but are independent of each other (Konkurrensverket, 2016, a). The fact that there are two different

legislations to comply does not result in any major difficulties since the two are almost identical (Stenlund, 2004).

Included in agreements preventing, restricting or distorting competition are vertical and horizontal agreements. Horizontal agreements are agreements between competitors and may be prohibited if they restrict competition by resulting in companies that should compete with each other instead coordinate their actions towards the customer. Examples of such agreements are cartells. Vertical agreements are agreements between different companies in a production distribution chain such as manufacturer and retailer. This type of agreements can be prohibited but are also in many cases allowed. They are both, in general, less harmful than horizontal agreements and they can even provide positive effects on competition and for the customer. When it comes to recommended retail prices (RRPs) these are allowed to be issued by the manufacturer and the retailers are allowed to follow them. But it is not allowed to force retailers to follow the RRPs meaning that retailers are not obliged to follow them (Konkurrensverket, 2016, b).

It is legal to use a reference price in advertisement, presented alongside the actual price offered at the moment, to make the price look extra advantageous. This reference price could be for example be a given retailer's own old price or a competitor's price. The only requirements are that the reference price must have been used and the retailer must state what type of price it is, if it is given retailer's own old price or a competitor's price. It is for example not allowed to use a recommended price never used on the market (Konkurrensverket, 2012).

# 4. Methodology

This chapter includes the description of the way the project was performed including process, research approach and methods. In the end the quality of the report is commented on.

## 4.1. Research process

After receiving the inquiry from the business partner to contribute to their development of a new service, the aim of the study was discussed, both with the contact person from the business partner and the Chalmers supervisor. The first part of the data collection was done through a literature study to create a base for further analysis. To gain a basic understanding regarding the market situation when it comes to differences in RRPs and retail prices across different brands and retailers, a market analysis was conducted. The result was then also used as one input parameter for the interview template. The remaining information needed to analyse the current situation on the market when it comes to pricing methodology was collected through interviews with several key market players. Based on the information collected through the literature study, market analysis and interviews, the current situation on the market was compiled and described followed by suggestions on tools manufacturers can use to improve their situation. The suggestions were evaluated based on the findings previously described to eventually make up the conclusions presented in the end of the report.

Since the study is conducted partly on behalf of the business partner, regular meetings have been held with both counselor from the business partner as well the Chalmers supervisor. During the meetings with the counselor updates of insights and progress have been discussed, and a path forward has been outlined. This path has further been discussed and developed with the supervisor and gotten briefed back with the counselor from the business partner, in order to ensure that everyone is agreed upon the path forward for the project.

## 4.2. Research approach

The study consists of both descriptive and normative elements. According to Wallen (1996) a descriptive study determines the research object's properties by collecting data and categorizing. The project's first part which aims to describe the current situation and explain the different pricing methodologies used is of descriptive character. A normative study, according to Wallen (1996), aims to generate a norm or action proposals. Here the task is to see the problem from different angles, to suggest alternative courses of action, and to demonstrate implications for the options. The project's final section which aims to propose a set of tools to use as well as analyze their respective implications is of a normative nature.

The research approach used reflects how theory and empirical data relate to each other in the report. There are, according to Wallen (1996) two different methodological approaches in research, inductive and deductive. The inductive approach means starting from data collection and on the basis of that draw general and theoretical conclusions. This approach is the one used in this report, as apart from a deductive research approach where a hypothesis is tested and either approved or rejected.

## 4.3. Research methods

In this study, qualitative research methods were used for the collection and analysis of data, because of the characteristics the aim of the study and the focus of analysis. Since the data collected and analysed is in the form of descriptions and texts, a qualitative approach was necessary. Bryman and Bell (2007) claim that in qualitative studies, concepts emerge from data, which is what was sought after in this study. Qualitative research is suitable for investigating the nature of a subject and is used

to produce a subjective result (Wallen, 1996). Furthermore, according to Wallen (1996), qualitative studies are suitable when the subject or research question is vague and difficult to quantify.

### 4.3.1. Literature study

To receive an knowledge base before conducting interviews a literature review was done, which was then used as the theoretical framework throughout the study. The framework contribute to increased trustworthiness of suggested theories and solutions and also supported in analysing the empirical findings. The areas where most literature was reviewed were on pricing methodology, the industry, pricing mechanisms in price pressured markets, legal aspects of recommended prices and solutions for companies in price pressured market. The literature was mainly collected through scholar databases, such as Google scholar and the Chalmers University of Technology's online library. According to Holme et. al (1997) it is important to be open for all sources and types of literature, hence as much information from articles and books was strived for, but in some cases web sources were used as well. The books were loaned from the Chalmers University of Technology library. Inspiration for a starting point of what articles to read and what books to loan was made through reading through multiple old master theses covering similar subjects. When interesting articles were found, references from that article were investigated to further dig deeper into the subject.

### 4.3.2. Market analysis

In order to visualize the way RRPs differ from retailer prices a market analysis was conducted. Apart from gaining an understanding of the market situation and the interplay between RRPs and retail prices, the insights were later used as input to the interview templates and when discussing each manufacturer's pricing strategy. The analysis was broken down into two parts, where the first was upon request by the counselor from the business partner to confirm the hypothesis that different brands work with RRPs price differently. The second part was due to interesting insights from the first analysis, more of a per brand character to be used as input for both manufacturer and retailer interviews.

#### *4.3.2.1. Market analysis 1 - RRPs compared to retail prices*

In order to investigate whether there are differences between brands within the home appliances industry when it comes to deviations between the RRPs[1] and retail prices, a market study was conducted. The hypothesis, based on discussions with the business partner, was that some brands, for instance Apple, has less deviation than other brands. Hence the goal of the study was to determine if there are differences between Apple products' price deviations and other brands' deviations. The five cheapest retail options for seven different products (Apple laptop, Apple tablet, Apple TV, Alfa vacuum cleaner, Beta dishwasher, Beta refrigerator, Gamma dishwasher) of various price ranges for five different countries (Sweden, Norway, Germany, Poland, Finland) were compared to the RRPs for the various countries. The data was collected by searching for the products at each country's equivalent to the Swedish Pricerunner. Additional parameters that were investigated was whether the cheapest options was an online store or not as well as the product's release date. Also all analyses were made with each country's currency, and after the data was collected the prices were translated into SEK for comparison. The data and analyses can be found in Appendix 3 and 4.

[1] In the cases where recommended prices were not available, the manufacturers own prices were used as RRPs

#### *4.3.2.2. Market analysis 2 - RRPs compared to retail prices*

Realising that there might be some bias in market analysis 1, an additional market analysis was conducted. It can for instance be argued that Apple is a different subsegment of home appliances compared to a dishwasher where a purchaser of an Apple product may consider other criteria than when buying a refrigerator. In this latter analysis the scope of products was narrowed down to only consider white goods in the same price range, based on RRPs, in order to eliminate as much bias as possible. The analysis was conducted from two viewpoints. In both cases five different brands (Alfa, Beta, Gamma, Delta and Epsilon) were chosen, since their RRPs are publicly available. From the first viewpoint, three products (refrigerator, dishwasher and washing machine) were chosen from each manufacturer in the same price range and was investigated (RRPs at roughly 10000-12000 SEK). Through best effort judgement it has also been ensured that the performance of the products investigated is similar over the different brands. The cheapest and second cheapest prices were searched for on Pricerunner and the difference between RRP and retail price was compared amongst all brands. The second viewpoint was the first one in reverse, where white goods from a specific retailer was investigated compared to recommended prices. This was done for two different retailers. The data and analysis can be found in Appendix 5 and 6.

### 4.3.3. Interviews

Since the study was conducted over the summer and large parts of the data is collected from interviews, the initial focus was to schedule as many interviews with both retailers and manufacturers as possible early on. This since key people of many firms went for their vacations over the summer and would thus be hard to schedule as the summer proceeded. What is worth pointing out is that only the scheduling of interviews was performed early on, and most interviews were booked for 5-6 weeks after project initiation in order to have time to study literature in advance. Scheduling and performing interviews was done more or less during the whole report process, due to a great deal of spread of interviewee's availability. Before interviews were conducted, a market analysis was performed in order to get a little bit more depth into the research area for the given interviewee's firm, which was used as an input discussing ground for the interviews.

#### *4.3.3.1. Interview structure*

For the interviews a semi-structured approach was used, with a questionnaire sent out to the interviewees in advance in order to better prepare them and letting them know what direction the interview would go. In semi-structured interviews the interviewer has structured general questions but obtain the possibility to vary sequence and content, with more general questions than structured interview questions. This interview form might result in unexpected insights (Hair et al. 2003; Bryman and Bell, 2007). During the interview though, the structure of the questionnaire was kept although side tracks based on the interviewee's answers was encouraged. This since the interviewees having slightly different backgrounds within the companies, and therefore had different kinds of expertise. Instead of trying to figure this expertise out and designing a questionnaire in advance, it was kept more general and more open for individual adjustments. The questions were grouped into four areas: Recommended price mechanisms, Wholesale price mechanisms, Retail price mechanisms and general dynamics. All questions in the questionnaire are presented in appendix 1 and 2.

In total 9 interviews were conducted, 5 with manufacturers and 4 with retailers. The questionnaire was updated at two occasions along the way, due to new insights and input from slight change of scope from supervisor and counselor. All interviews were conducted over the phone, and both authors were present at most of them where one held the interview whilst the other author took notes. After each interview a discussion was held between the authors in order to clarify any unclear details. In the end

of each interview it was asked if the interviewees would be open for further contact via email if additional questions would come up, something all prospects did not mind. After several interviews, the interviewee asked to receive the notes taken both to verify relevance and to ensure that no confidential information is presented in the report.

#### *4.3.3.2. Interviews with manufacturers*

As has been stated, the market for manufacturing home appliances is rather consolidated. With this leads that most companies are globally active and all manufacturing firms that were contacted was contacted through the Swedish subsidiaries. The first interviews targeted manufacturers due to getting a better understanding from the logical way of the supply chain, and because they were the target of the report output. It seemed reasonable to first understand their situation before looking into the retailers' point of view.

#### *4.3.3.3. Interviews with retailers*

In deciding what retailers to interview, an initial broad lens was adopted due to retailer subsegments; chain store retailers, web store retailers, store retailers and other. After supervision from the counselor, focus was narrowed to the chain and web store retailers due to having most strategic value for the pricing consultancy startup. A spread of retailers was targeted from head of nordic purchasing to more local franchise store managers. This to get a broader understanding of all levels of the retailers.

## 4.4. Analysis

The analysis of empirical data was conducted in parallel with the interviews, when interviews had started to generate the same data regarding certain aspects. Then this analysis was developed and refined as more interviews were held and new input emerged. After each interview, when they were discussed among the authors, potential aspects to analyse was investigated by pointing out key points hence part of the analysis was made after each interview. The empirical results were combined with input from the theoretical framework to generate possible solutions manufacturers could pursue. During the last interviews, much of the analysis had been done and to verify that the analyses and suggestions were accurate these were discussed with interviewees, which increase the reliability of the solutions suggested in this report.

## 4.5. Research quality

In order to ensure reliability and validity, various measures can been applied. Reliability concerns measure consistency, which means that the same result would be obtained if the study ought to be repeated (Bryman and Bell, 2007). Validity relies on accuracy and investigates if what was supposed to be measured actually got measured (Hair et al. 2007). Internal validity refers to accuracy of measurement whilst external validity is connected with the degree of the results' generalizability (Cohen et al. 2007). In order for a study to be valid, it has to be reliable. But reliability by itself is not enough since if a measure is not valid it does not matter if it is reliable (Cooper and Schindler, 2011).

The reliability of the study can be argued to depend on the number and spread of the interviews, both in absolute number and number of firms as well as cover both manufacturers and retailers. The 9 interviews conducted cover aspects from 8 different firms. It seemed that the interview results obtained were consistent why the reliability can be perceived as fairly high. In order to ensure internal validity, a brief introduction of the aim of the report was articulated to interviewees, in order for them to understand what was of importance. When considering the generalizability of the study, when looking at qualitative research every situation or context is unique (Guba & Lincoln, 1994).

Generalizability and transferability to other research has not been the main goal of this study, hence this aspect might be limited in this report. However, the authors of this report does not see this jeopardizing the trustworthiness of the report.

# 5. Market analysis

In this section the results from the market analyses relevant for this study are presented. Market analysis 1 was based on a hypothesis from the business partner and market analysis 2 was conducted to contribute to the interview template.

## 5.1. Market analysis 1 - Findings

Four conclusions could be made from the analysis. The first one is that the deviation for Apple products is smaller than for other products (~10% for Apple compared with ~25% for others). This indicates that there is a difference between how retailers price and relate to different brands' RRPs. Further, the spread between the investigated retail prices differed for Apple. Both the difference between the cheapest and second cheapest retail price as well as the difference between the average retail price for all investigated retailers compared with the cheapest retailer was smaller for Apple, indicating that Apple has better bargaining power than other brands. Other findings from the analysis were that not only for Apple, but all products the cheapest options were fairly similar. Lastly there did not seem to be a difference between online stores and traditional retailer's behavior.

## 5.2. Market analysis 2 - Findings

From the analysis it can be stated that there are clear differences amongst various brands regarding deviation between retail price and RRPs. Alfa and Gamma both have deviations of ~35-40% (retail prices at ~60-65% of RRP), Beta and Delta ~5-10% and Epsilon is somewhere in between with ~20%. The numbers were similar whether looking at the lowest price point or a specific retailer's point of view.

# 6. Interview Results

In this chapter the interview results are presented, divided into two subchapters, the first consisting of the information collected in interviews with manufacturers, the other consisting of retailer interviews. In each subchapter the different interviews are presented one by one, in order to make it as easy as possible to follow who is saying what. In the end of each subchapter a summarizing matrix is presented to further enable an overview of the interview results. All information presented in this chapter comes from the interviewees and does not include any reflections coming from the authors of this paper.

## 6.1. Manufacturers

In this subchapter the interview findings from interviews with manufacturers are presented, including 5 well known and large players on the white goods and home appliances market.

### 6.1.1. Manufacturer A

The company is a large, multi national manufacturer of a broad range of products covering the whole home appliances spectra, but also in other industries. The company is one of the world's largest manufacturers within the home appliances area.

**The industry**

According to the interviewee, the only exception to the industry's rule of slim margins and heavy competition is Apple. All other manufacturers have low margins and in the long run this will hurt manufacturer's ability to spend sufficient money on research and design. The interviewee states that the retail price is of great importance also for manufacturers, since this affects the wholesale price as well. Hence when the retail price has eroded not only the retailers lose their margins, but also the manufacturers. The reason being that when retailers get low enough margins and hence do not make any money on the products any more, retailers will demand lower wholesale prices to stay competitive. This means that price erosion in the retail level of the chain clearly affects the manufacturer's margins.

The market does, according to the the interviewee, behave both as a commodities market and not. Some consumers are willing to pay for brand and innovation, but the vast majority only consider price. The same goes for manufacturers, some focus on R&D and delivering innovative products with higher value to the consumer than the previous product, some just sell low-price alternatives as cheaply as possible. According to the interviewee, innovation is, apart from low prices, what brings consumers into the store.

**Pricing mechanisms**

The interviewee articulates that RRPs is always communicated to retailers, together with list price and wholesale price. Manufacturer A's way of working is basing the RRPs on an outside-in perspective, or in other words consumer willingness to pay. The methodology to determine the RRP includes a consumer willingness to pay analysis, the product's value and the market characteristics. Both qualitative and quantitative studies are done to examine the willingness to pay. A lot of effort is spent to ensure that a new product will be demanded when launched. Then a RRP is derived based on what consumers should be willing to pay. From idea to developed product in shelf, there is according to the interviewee at least 18 months. According to the interviewee the company price their products in relatively broad ranges, or product ladders, with clear differences in segment communicated through differences in pricing.

The reason that Swedish retailers start at once with a retail price lower than the RRP is something the Manufacturer A interviewee finds destructive to the market. A suggested reason by the interviewee is that in the retail market there are very many players and competition is strong from which a price pressure derives. And it is very common for the retailers to promise their customers that they have the lowest prices, immediately starting a downwards spiraling trend. This is according to the interviewee not sustainable.

When comparing a new and innovative product about to be launched on the market with an old and non-novel product, one may think that it is easier for the retailers to keep up the price for the new product because the desirability of this product is higher. But according to the Manufacturer A interviewee, this also means that a retailer has more to gain from lowering their price for the novel product in order to quickly raise demand. However, the manufacturer can initially, as long as there are no real substitute products, price the innovative product higher towards the retailers. While non-novel product might even be designed and have the purpose to be sold at very large volumes with very slim margins. Different products serve different purposes.

Manufacturer A design their price list by starting with a RRP, then removing the VAT which leads to the list price. When charging the retailers a price for a product, Manufacturer A apply a certain policy which is that the retailers pay wholesale prices according to how well they achieve Manufacturer A performance measures. Parameters considered are logistics services, e.g. the way goods can be shipped to the retailers, it can also be the type of display in the store, the amount of visibility and if the personnel are trained to sell the products. Parameters also include marketing, the amount of channels the retailer can expose the manufacturer's products in, the amount of space the brand gets in the retailer's advertisement, the amount of push in retailer's social media flows, where in the marketing hierarchy the manufacturer is placed by the retailer etc. According to the interviewee marketing is one of the most important parameters. Based on these criteria the retailer obtain a certain wholesale price, better service equals better wholesale prices. Online retailers not able to display products in physical stores will for example not get a wholesale price reduction linked to the marketing parameter. This means all retailers obtain different wholesale prices. What is always the same for all retailers are the parameters for which they are evaluated as well as the list prices. To control the parameters, Manufacturer A has contracts with all retailers defining the services required for certain price reductions in the Manufacturer A policy. The services retailers are expected to provide, and not to provide, is very precisely defined in the contracts. The contracts are, according to the Manufacturer A interviewee, of course reviewed and evaluated, often quarterly. There are also Manufacturer A representatives out on the field inspecting retailer stores, evaluating if what is agreed upon is being done. An example parameter that is being checked is product display. However, the interviewee states there are of course limits to the amount of control possible, a large amount of trust is also necessary in order to make this work.

According to the Manufacturer A interviewee, the online retailers should always have a higher wholesale price since they can never provide the same service, which is an important parameter in the discount negotiation, as a traditional store can. However, the online stores have less fixed costs compared to traditional stores and have less risks regarding inventory. Hence the online retailers often get higher wholesale prices, but they can still have low retail prices due to their low fixed costs. The interviewee is careful to point out that the parameters can change, and states that the retail environment is changing radically.

The interviewee argues that Manufacturer A has another type of reimbursements for retailers as well, a bonus system applied after the sales volume is known following pre stated goals for volumes. Nowadays commission programs for individual salespersons are not used any more to incentivise retailers' sellers to sell a specific product. One way however to influence retail stores and salespersons to sell a manufacturer's specific product is to show the products' perks and benefits at product trainings.

The interviewee exemplifies the bargaining power of a manufacturer based on different product categories. One brand can be market leading in one category and therefore give the manufacturer a large bargaining power since the retailer might not afford to be without the products of that brand. The same brand can have lower bargaining power in another product category, where the manufacturer is not as prominent. The Manufacturer A interviewee states that a manufacturer can use the areas where they are strong to also exercise bargaining power in the areas where they are not as strong. Or in other words, one brand's strong position in one product category can benefit the whole brand in other product categories as well.

The interviewee says that prices regularly get updated and a phase out pricing, as the interviewee names it, usually happens after about three years due to a new product to replace the old one. According to the interviewee, there are many reasons to why a manufacturer lower the price of a product after a while on the market, not in any way connected to the retailer's behavior. There can for example be learning curves in production lowering product cost and the product can be worth less on the market due to loss of novelty value and the entry to another phase in the product life cycle. In the real world however, and especially in the Swedish market which is very exposed to competition, the price erodes and if the manufacturer does not lower the price in a period of three years their retailers will not make any money on these products. The only exception is Apple who are able to keep their prices at their initial level due to theirs strong brand.

The interviewee reasons about to which extent the manufacturer needs to take into account that the retailer does not make money. According to the Manufacturer A interviewee, sometimes the manufacturer knows that the retailers have placed themselves in a situation of price erosion without needing to, and the manufacturer knows that the consumer could have paid a higher price. In those cases manufacturers can be tougher on retailers. According to the Manufacturer A interviewee, since the upswing in online retailing and price comparison sites the past few years, the market situation has changed. Earlier it was possible to dump a price at a local store to boost sales temporarily, and then raise the price again. That is not possible any longer, since retailers follow each other extremely quickly when one retailer has lowered a price. And it is seen immediately by consumers comparing prices online.

**Future**

The manufacturer's solutions to the problem that retailers develop price erosion, according to the interviewee, is to either develop products at a lower cost or to develop strategies for selling products in a way where manufacturers are less exposed to competition between retailers. One example of the latter is to sell a product exclusively to one retailer, to avoid that that retailer lower the price to compete with its competitors. A problem is that it can be very hard to deny the other retailers to buy a product, it is not allowed to do so. There are however ways to avoid this, to frame it differently and making it less obvious.

According to the Manufacturer A interviewee, a future trend might also be that manufacturers own and control the whole value chain all the way from production to transaction. Retailers, however, do not appreciate manufacturers selling their products directly to the consumer. Manufacturer A has its own online store and sell the products to a higher price than retailer price. Still, retailers do not appreciate the competition and the manufacturer's direct marketing towards consumers. Today only a minority of consumers buy the products at Manufacturer A's online shop because of the higher price. But this own web shop idea is according to the interviewee mainly a strategy for the future, and to run the platform in a better way is an area of development. The focus is to direct a larger share of the consumers to make their purchases through the manufacturer's own online shop, not necessarily by matching the lowest price on the market but by other means attract consumers through for instance additional services. And if consumers are happy with the service, it can lead to more sales and so on. If this is achieved the manufacturer will be able to sell more products with higher margins.

Another trend according to the Manufacturer A interviewee in the industry is that some retailers are becoming competitors to manufacturers, by selling their own very cheap products known as 'own brands'. The retailers do because of this also lower the average price level in the industry, contributing to the price erosion. The market dynamics are changed due to this since consumer willingness to pay might be missed when a much cheaper option is available, even though consumers would have paid more without the low price alternative present.

### 6.1.2. Manufacturer B

Manufacturer B is one of the largest manufacturers of white goods in the world, also offering other products in the home appliances area.

**The industry**

The interviewee explains the industry is very exposed to competition. The combination of a large number of manufacturers with broad product lines and excess production capacity is resulting in a tough competitive climate. The large number of manufacturers in combination with the market being mature also makes it hard to differentiate and the fight for retailer's attention is intense.

The Manufacturer B interviewee says different types of retailers behave differently. Kitchen providers, selling a whole kitchen with white goods integrated emphasises communicating value, than a retailer selling white goods products one by one. The different retailer types also have various sourcing models and different price sensitivity. Full kitchen providers are more slow moving and change their assortment less often, the large retailers are more price sensitive and more dynamic. The largest part of the sales are to the large retailers.

**Pricing mechanisms**

Manufacturer B communicate a recommended retail price, a fully hypothetical price, so that the retailers have something to relate to. The retailers then of course determine their retail prices themselves. This means that normally, Manufacturer B communicate the RRP to all retailers. In Sweden however, they have stopped doing this. The reason being that the price erosion on the market has lead to the RRPs becoming far too high compared to what the products are actually sold for, and according to the interviewee this has made the RRPs irrelevant. There are according to the interviewee two solutions to good use of RRPs, you could either update the RRPs and make them radically lower and closer to retail prices, and thereby making RRPs more relevant. Or you could conclude that the RRP has no value and you stop communicating them.

While Manufacturer B today has stopped communicating the RRP to their retailers, they still develop a 'RRP', for internal use, mainly to compare their products' value to their competitor. To determine the RRPs Manufacturer B look at what their products are sold for today and the prices of competitor's products. In order to keep the prices relevant and to reflect the market, the analysis needs to be done frequently.

According to the interviewee, there are two different sides to the wholesale pricing activity. First, Manufacturer B start with a list price and add different rebates and discounts to get to the wholesale price. At the same time there is negotiation with the retailers, what they are willing to pay. The result is a combination of a logical and consistent model with predetermined rebates and one part of negotiation. This means that different retailers obtain different wholesale prices in the end. Manufacturer B tries to create incentives to make their customers, the retailers, act according to Manufacturer B's requests, which for example mean that the retailer exposes expensive products, or that differentiating factors are explained. The incentives to make the retailers comply to these requests is part of a more intelligent margin and discount structure. When complying to certain requirements, the retailers obtain better wholesale prices and retailer margins will be better. Another large determinator here is the size of the retailer and the size of the batch purchased. A large retailer obtain a better price.

To segment the retailers and selectively sell to certain retailers is not, according to Manufacturer B, a very attractive solution. To establish a product on the market requires presence in all sales channels, not some exclusively chosen. Also, the relationship with the retailers is important to Manufacturer B. If not sourcing to all retailers it might hurt their relationships.

### 6.1.3. Manufacturer C

Manufacturer C's main area is outside the home appliances industry, but the company still has a significant market share in the home appliances industry. The company is multinational and is the largest company of the interviewed manufacturers.

**Pricing mechanisms**

Manufacturer C give their retailers RRPs, and according to the interviewee there are different methods for designing the RRP. The method used by the interviewee includes a lot of emphasis on the market and benchmarking of similar products and the price level of similar products. The RRP is then set at a level to be competitive on the retail market. The interviewee claims that to calculate the RRP not taking other products on the market into account has questionable relevance since it does not correspond to or take the rest of the market into account. Manufacturer C has no policy or guideline for how the RRP is supposed to be set, but the interviewee argues to look at competitors' products to determine RRP is best practice throughout the company. The Manufacturer C interviewee emphasises the importance of a well motivated RRP, and that a wrongly set RRP on a decent product may cause it to fail with retailers. This goes for all products within the home appliances area, but if the product is innovative and new there are rarely other products to benchmark it with. In this case a third methodology comes into practice and a value-based RRP is designed. Then the price must be justified through value communication to customers rather than matching other comparable products.

When Manufacturer C set their RRP they want to give the retailers the opportunity to run campaigns. In other words they want to make sure the RRPs are a fair bit higher than the wholesale price charged, resulting in enough margin for the retailers to be able to discount the products. If the competitive RRP

however does not give the the retailers enough margin, in some cases Manufacturer C decides not to launch the product in that particular market at all.

The interviewee believes that the RRP is useful for retailers in order to provide a complete picture of the product, by combining wholesale price, RRP and market retail price at price comparison sites. Still, it is possible for retailers to set retail prices without the RRP parameter. However, if the product is unique with new features or technology and thus does not encounter the same amount of competition, retail prices can be higher and closer to RRPs. Here it might be that a high RRP is used as communication to retailers to indicate high quality, which then can be communicated to consumers through a higher retail price. The interviewee argues that retail prices in this industry are practically never above the RRP, since the market is in a position where most retailers use price to compete.

Manufacturer C's customers receive different final wholesale prices, depending on different amounts of discount. All retailers receive the same basic list price, from which a discount of various sizes is deducted. How much discount a certain retailer receives depends on a set of factors e.g. how retailers communicate Manufacturer C products to consumers or the logistic solution of the retailer. For instance, it is cheaper for Manufacturer C to deliver products to one central warehouse rather than distributing to 100 different stores, hence more discount to the retailer with the better logistics solution. Further, two different scenarios are used. If the product will be used as a long term product a certain discount is given. If the product's whole purpose is to run a campaign, where the retailers margins might not need to be as high, another discount is given.

### 6.1.4. Manufacturer D

The manufacturer is a smaller company, mainly manufacturing white goods. The company is younger and significantly smaller than other interviewed manufacturers.

**The industry**

The Manufacturer D interviewee argues that using old regular prices in marketing purposes had more relevance a decade ago. Nowadays when comparing sites are available e.g. Pricerunner or Prisjakt, benchmarks are easily accessible and the value of making the old price visible is somewhat eroded.

**Pricing mechanisms**

Manufacturer D has chosen not to give retailers RRPs and the interviewee claims this is because the retailers decide their retail prices based on market mechanisms anyway, and the controlling of retail price is not allowed anyway according to Swedish law and EU-regulations.

According to the Manufacturer D interviewee, the most common pricing methodology for wholesale pricing is and has traditionally been cost-based pricing, where discounts are deducted from list prices. However, globalization and more competition in combination with price comparison sites has lead to smaller price differences between manufacturers and countries. This has affected manufacturer pricing strategies by putting more emphasis on type of product, market potential and competition. This transfer in strategy has mainly changed over the last decade across close to all products within the white goods and home appliances industry.

When pricing Manufacturer D takes three key aspects into account; competition, product positioning and brand. Product position relating to the product's quality and features compared to other similar products' in the marketplace. If a product is unique in any way e.g. new features or technology, and there are no real substitutes on the market, the prices are generally higher than if the product is not

notably unique. In doing so both volume and price can be managed, and margins are therefore not always of highest interest. The Manufacturer D interviewee argues that when pricing the products towards retailers, they must leave an opportunity window for the retailer to be able to run campaigns. In other words, they must let the retailers pay a low enough price so that retailer margin when selling to their normal retail price is high enough to allow a campaign.

#### 6.1.5. Manufacturer E

The manufacturer is a smaller actor in the market and is within the same conglomerate as Manufacturer D. The company is internationally active focusing on white goods.

**The industry**

According to Manufacturer E, it is relatively hard to differentiate in the home appliances industry. The products in this industry are fairly mature and to come up with unique features is hard. But Manufacturer E still focuses on developing new features and says that a clear minority of the products in their product line is more or less innovative or has some kind of unique feature.

**Pricing mechanisms**

The Manufacturer E interviewee states that when a product is sold to retailers, there is a clear idea about where the product preferably should be positioned compared to similar products on the market, expressed as some kind of internal RRP. This price point is based on benchmarks on competitors' products in combination with adjustments for unique features of the products and a belief in what the consumer can be ready to pay. So when selling the product to the retailer, it is a lot about building an interest for the product to make the retailer include the product in their assortment. And in this stage the RRP is often disregarded by the retailer as too high, in order for the retailer to receive a lower wholesale price. Since this is known from the manufacturer's point of view, Manufacturer E is aware that the internal RRP needs to be modified, and that the retailers needs to have some sort of discount in order to buy the product. These factors are considered in the negotiation of the wholesale price. The grounds for deciding the discounts are mostly sales volume. Except sales volume, marketing effort is considered when deciding the final wholesale price. When a new and unique product is launched, the price of the product is different than for a mature and regular product. When the product has unique features the consumer is ready to pay a premium for, the wholesale pricing is done accordingly by setting the price a little bit higher.

In the case where no similar products are available to compare with, when the product has a unique feature, there is a possibility for the manufacturer to sell the product with greater margins. Examples of features enabling a premium price are features connected to usability and performance, something clearly adding to the consumer experience, and that is unique on the market.

There are examples when retailers receive a unique product from Manufacturer E that only the given retailer sell. And the reason is to give retailers the position where they do not compete with any other retailers selling the product. This enables them to control for example prices in a different way than if other retailers sell the same product. Usually, the differences are not very large compared to similar products in the product line. It can differ, and sometimes the differences are larger. But the fact that the article number differs makes the product unique and no competing retailers will show up when searching for the product on price comparison sites. Manufacturer E argues that the primary reason for providing a certain retailer with a unique product is not to raise its own margin, although it does occur, but to give the retailer the opportunity to raise their margin. This is part of the negotiations

between the retailers and Manufacturer E. According to the Manufacturer E interviewee the unique product strategy is an established strategy and common amongst manufacturers.

From a manufacturer's point of view, the best way to strengthen the bargaining position in negotiations with a retailer is a product desired by the consumers. And of course the retailer sees this and understands that the product will sell. But for a manufacturer it is important to sell all products in a product line. And there is of course a spread, not all products are equally desired by end consumers or equally unique. Other incentives to get retailers to buy a manufacturer's products can be helping with advertising or bonuses. This however depends on the type of retailer. Manufacturer E also sell their products, apart from via home appliances retailers, to kitchen manufacturers and architects included in construction projects. Those alternative channels are possibly higher margin channels. A strong brand provides some opportunity to charge a higher price. But the effect the brand has, compared to other factors such as quality, lifespan, material choice etc, on the price is hard to know.

**Future**

The Manufacturer E interviewee do not sell products directly to consumers through for example an online store, but says that it is a possible future option. The interviewee however says that selling directly to consumers, cutting the retailer out, probably will not be warmly received by the retailers. The interviewee also states that the retailers' own brands, which are becoming more and more usual in the home electronics segment currently do not perform as well as well known and established brands. However, this can potentially change in the future.

#### 6.1.6. Summary - Manufacturer key interview results

| | Manufacturer A | Manufacturer B | Manufacturer C | Manufacturer D | Manufacturer E |
|---|---|---|---|---|---|
| Goal | Maximize profit | Maximize profit | Maximize profit | Maximize profit | Maximize profit |
| Provide RRPs | Yes | No, but have internal RRP | Yes | No | Yes |
| RRP design methodology | Based on consumer willingness to pay | Based on competition | Based on competition | N/A | Based on competition and consumer willingness to pay |
| RRP intention | Indicate true value | Used as list price | High RRP to give retailer room to run campaigns | N/A | Used as list price |
| Wholesale pricing methodology | Discount pricing | Discount pricing | Discount pricing | Discount pricing | Discount pricing |
| List price discount basis | Various parameters* | Negotiation and various parameters* | Various parameters* | N/A | Various parameters* |

*Examples are purchased volume, retailer effort to market manufacturer products and retailer logistic solution.

## 6.2. Retailers

In this subchapter the interview findings from interviews with retailers are presented, including 4 well known and large players on the Swedish market, both traditional retailer chains and online retailers.

### 6.2.1. Retailer F

Retailer F is an international actor and one of the largest actors on the Swedish market when it comes to home appliances.

**The industry**

According to the interviewee the white goods industry is not as driven by brand and status as other areas within the home appliances such as for example smart phones. The brand of course plays its

part, people connect a brand to quality and other preferences. Also design affect people's behaviour. But it is more important that the functionality is right and then the price is often the determining factor. Instead of only considering one brand, most people according to the interviewee can consider three or four different brands and compare between them. These three or four 'accepted' brands differ between countries. The interviewee however states there are different kinds of consumers behaving differently when it comes to white goods and how they choose products. Some just want a washing machine and buys a cheap one, some can be persuaded to buy something more expensive with more functionality.

The interviewee argues it is important to have all the three or four most popular brands for each product in house and on display, in order to build trust with the consumer. If the consumer has looked at a certain product somewhere else, and then comes in store to compare it with another product, the product must be in the store in order for the comparison to be trustworthy. Then the salesperson tries to steer the consumer towards the product preferably sold, the product that has the largest margin and causes the least problems afterwards. For example the product that does not break after one year but is known to keep consumers happy. Other purchases might end in badwill for the retailer, even if they do not build the products, the consumers remember where they bought the product and connects it in a bad way with the retailer.

**Pricing mechanisms**

According to the Retailer F interviewee not all manufacturers, but most of them in this industry, provide some kind of recommended price. For example, when a manufacturer has a product line with products in both the low-, middle- and high price segments, the recommended price gives the retailer an idea of how to price the different products relative to each other. Not all manufacturers name the prices recommended price, but manufacturers present a price demonstrating where they think the product should be positioned. The interviewee argues that when a product is initially launched, there might in some rare instances be a short period of time when the recommended price given by the manufacturer is used. But then very quickly, the price will fall down together with the other retailers' prices towards a much lower level. The interviewee articulates that the manufacturers know the retailers will not comply with their recommended prices, not at all or not after an initial short period. But the interviewee says it is the manufacturer's way to communicate what price all players on the market would benefit from keeping. The problem is that as soon as one retailer reduces the price, for instance due to a campaign, no other retailer can sell the same product to a higher price. The retailers will then go back to the manufacturer and say: "We can not sell your product to that initial price any more, because our competitor now sells the products to this lower price. Therefore we must lower our retail price as well and thus you must lower your wholesale price towards us. Otherwise we can not sell your product". In this situation a retailer has no power to affect the retail price, but instead goes to the manufacturer to try and influence the wholesale price. The interviewee states that the manufacturers are of course interested in as long as possible to keep a high and stable retail price on the market, because otherwise they are forced by the retailers to lower their wholesale price towards the retailers. The only situation where this scenario would not play out is if it regards products that the retailers 'must' have, such as an iPhone. Instead, often the manufacturers have large batches of products they must sell. And in the end of the product's 'life cycle' the only possibility for manufacturers to sell to retailers is to lower the price. The interviewee says, that since the manufacturers know this will happen, the initially charge and recommend a high price for all products. This makes it possible for manufacturers to cut the wholesale prices in the end.

The Retailer F interviewee says that the products exclusive to a certain retailer, a model that is only sold at one retailer, often do not have a recommended price. Recommended prices apply to those products which all retailers can buy, often those products tested in consumer tests. However, there are similar products, with some small difference that some retailer have exclusive rights to sell. It could be basically the same product with just a different button or something like that. Because of the large volume purchased by the retailer, the retailer obtains a low wholesale price. And since they do not have any competing retailers selling the product, they can price it a little bit higher than the almost identical product. The retailer will still be the cheapest, since there is nothing to compare to.

According to the interviewee different manufacturers are involved a different amount when it comes to try to influence retailers to keep the prices high. And the tool available for the manufacturer, when the manufacturer thinks that a retailer push down the prices too hard, is to then give them delivery problems the next time they order goods.

Retailer F prices the products according to three different price segments. The first segment includes the 'hot' products, the well known and popular products that all retailers sell and people generally know the price of. These products are priced by directly matching the prices of the competitors. Then Retailer F has a second segment, still with popular products but not necessarily such that people know the prices. In this segment Retailer F does not always price lower than all competitors, the Retailer F interviewee says it is sufficient to be in the cheapest third of the retailers on the market. For these products it is not necessarily so that all retailers sell them, so competition is usually a little less fierce. The third segment includes products such as accessories, products exclusive to Retailer F. For the products in the third segment Retailer F exercise more of a value based pricing methodology, trying to evaluate what they can charge the market and still sell the product.

The interviewee says there are some manufacturers in a very special position. The best example is perhaps Apple, which according to the interviewee is not a good company to do business with. Apple provides their customers, the retailers, with a price list that stating the retail prices, all retailers get the same, and no retailer has any say. Whether or not the retailers make any money this way is no concern of Apple's. Apple knows that the retailers have to sell their products since market demands the Apple products. Apple does not try to create a win-win situation. For white goods there is not really any manufacturer with Apple's strong position on the market. There are manufacturers with very popular products, but they do not take advantage of the situation in the way Apple does. The reason Apple is one of the most profitable companies in the world is because Apple is basically the only player in their value chain making money on their products. Not the chinese building their products and not the retailers selling their products.

According to the interviewee, a low wholesale price is of course desirable. It gives the retailer larger chances to sell products with higher margins. But what is even more important is that the product is something demanded on the market. The wholesale price does not matter at all if there are no consumers interested in buying the product. The interviewee articulates that to be able to obtain a lower wholesale price either a larger volume needs to be bought, present the product differently in the store or market the product in a certain way. It is not always the case that Retailer F get better wholesale prices on the product itself, but can be reimbursed in other ways. The retailer could get money to use for marketing, or in the end of the year receive a retroactive cash payment based on the volume sold during the year, also known as kickback.

### 6.2.2. Retailer G

Retailer G is a very large actor operating in the Swedish market for home appliances. The company is also internationally active.

**Pricing mechanisms**

Retailer G do not use the recommended prices at all, unless they are bound by contract to sell the product to that price. There are examples of contracts saying "you may sell this product, but you are not allowed to adjust the prices". These manufacturers work according to the policy that consumers should be able to buy their products anywhere in the world to the same price. The interviewee argues this is cartel like activity, forcing all retailers to price in the same way. To get around this, the manufacturer formulates its contracts carefully, and makes sure the retailer understands that to be able to get the desired quantities at the right time, retailers need to stick to the recommended prices. And if retailers do not obey, they might not be able to buy from that manufacturer anymore. The retailer could of course possibly take this to court, but that is not something retailers would want to do, the manufacturer is too large and the brand so strong that retailers have to sell the products. The manufacturer is large enough that no retailer could do anything hurting them substantially. As soon as there are substitutes to the product, the situation becomes another. According to the interviewee, those retailers actually following manufacturers' recommended prices will fall behind. Since the margins are so extremely slim in this industry, focus has to be on volume to make money. And if retailers price too high, volume will be lost.

Because of the lowest-price policy, Retailer G always price following the market and putting their price below the competition. In some cases the manufacturers even develop products solely for Retailer G, making Retailer G the only retailer selling them. Earlier Retailer G priced products only they sell, that has no competition, relatively high, to fully take advantage of the fact that Retailer G exclusively sell that specific product. Now Retailer G has gone more towards pricing it according to price levels of similar products. Retailer G has the same prices in all stores, except in cases where local competitors have lower prices, Retailer G lower their price locally below that level. Since retail pricing is done according to the market, and not by adding a predetermined margin, the retailers' margins will be different for different products coming from different manufacturers. However, margins of all products are fairly similar. Then there are exceptions. Some extremely large, popular and powerful manufacturers whose products are actually sold at a loss to end consumers.

According to Retailer G, the larger batches purchased, the better the price. When being very large, and purchasing from relatively small manufacturers, retailers can also end up in a situation where this manufacturer get very dependent on the retailer because the given retailer make up a very large part of the manufacturer's total sales. In this situation it is possible to get a better price than other retailers. Another possibility to get a better price is to offer the manufacturer the best physical location in the store. The locations and shelf spaces are very dynamic and where certain products are located a given day or week is very carefully thought through. In some cases personnel receive commission for sold products from the manufacturers. However, this is not as common anymore and mostly used by for example mobile net operators.

### 6.2.3. Retailer H

The retailer is a large online retailer on the Swedish market focusing on both B2C and B2B sales covering a broad spectra of products including home appliances.

**The industry**
According to Retailer H, the most distinguishing characteristics of the retail business, and especially the home appliances and white goods industry, is the low margins. To make money retailers must sell high volumes due to the low margins.

**Pricing mechanisms**
According to the interviewee the recommended price serve the important purpose of anchoring a price point, a reference point. Especially when there is no or few competing products to compare with. Since the manufacturers are prohibited by law to control retailer prices, the recommended price is one way to try to do this anyway. The interviewee states that the level of RRP compliance depends on the product as well as the manufacturer's importance. A possible maneuver to get the retailers to comply with the recommended price is to stop selling to those not following the RRPs. Here the manufacturer's importance comes into play. To not get deliveries from a manufacturer becomes a big problem if the manufacturer is large and important. If making an example of Apple, and its very strong brand, the fact that you as a retailer sell their products is very important. This attracts consumers and consumers would be lost if not selling Apple's products. In cases where manufacturer brand is not as important, the more popular a product is, the less likely it is for the retailers to follow the recommended price, they will instead use competition based pricing. The more popular the product the more price pressure will occur and the retail price will eventually end up at, or very close to, the wholesale price. And in some cases even lower than wholesale price, resulting in retailers making a loss on the product.

Not all manufacturers however give recommended prices to their retailers. It depends on manufacturer and type of product. The Retailer H interviewee believes that manufacturers set the recommended prices as accurately as they can. Meaning that those prices would work, if the competition would not be as strong. It is in other words not the quality of the recommended price deciding the level of compliance but rather the level of competition. In highly competitive situations the retailer must follow their competitors' prices to be able to sell. Retailers often have a very large number of products to price, including products not as exposed to competition as other. According to the interviewee, Retailer H is might to comply to the recommended price in the situations with low competition. The logic being that the manufacturer probably has fewer products to price and therefore prices RRPs closer to true market value better than Retailer H could given the large amount of products. The manufacturer has probably put more thought into it than Retailer H could.

According to the interviewee, when pricing a specific product, the profitability of that product in isolation can not be investigated alone but also how the pricing will affect the number of consumers visiting the store or web page and how much additional sales it will generate.

Retailer H use three different ways to price their products. First there is the competition based pricing methodology. The retailer tries to position the products the same as it's competitors, by comparing on price comparison sites. When doing this it is common to use the most popular products and be really careful while positioning them, even sometimes make a loss on them, since that will attract consumers. The important thing here is not to make a profit from these products, but to sell a large volume. Then the profit comes from other products, with higher margins, that few people bother looking up on price comparison sites, for instance cables. Next some products are priced according to value based pricing. This applies mostly to the high margin products, often smaller and cheaper, which makes it less interesting to compare prices from a consumer's point of view. And lastly some

products are priced with a fixed margin added to the cost, cost based pricing. The kind of products suitable for this pricing methodology is accessories.

When pricing, the Retailer H interviewee argues that the manufacturer should also be considered. For example, a buyer can have a special relationship with the manufacturer. There might be an agreement of advantageous prices when following the recommended prices. And if deviating too much, the manufacturer might decide not to sell to the given retailer any more. This is basically a question of power. A large manufacturer has more power over the retailer than a smaller one, at the same time as a large retailer has more power over the manufacturer than a small retailer. In the end this results in different margins for different brands. But it is not so much the different manufacturers' strategies, it is the level of competition on the market deciding the margins.

From a retailer's point of view, if not wanting to destroy the market profitability wise, instead of always price a little lower than competitors, the interviewee articulates that it is a better idea to match it exactly. Some retailers do this and some do not. There are for sure those who subtract one SEK just to end up on top of the price comparison site. But to stop the downward spiral towards retail prices equaling wholesale prices, and to keep some margins in the market, all would benefit from just price exactly the same as competitors.

Retailer H has, like all other retailers, agreements with manufacturers regarding the wholesale prices, consisting of list prices in combination with a discount. According to the interviewee, the discount is mostly based on purchasing volume. The interviewee also argues that all the large retailers still get exactly the same wholesale price from manufacturers, Retailer H knows that they have the same costs for products as their competitors. This because there is a maximum level of discount and a minimum price that all the large retailers get, because they all achieve the volume required. Technically the discount is received in the end of the year when the total volume sold is known, not when the goods are being purchased, known as kickback. The exception is when a retailer and a manufacturer agrees on running a campaign on a certain product. This is for a limited period of time but often results in an even lower wholesale price, regardless of what the other retailers pay for that product at that time. In exchange for the low price, the retailer buy a large volume and sell it fast, with the help from extra pushing and advertisement connected to that certain product.

The interviewee articulates that the wholesale price does not really matter to the retailer as long as it knows that all competitors get the same price. Then it comes down to consumers' preferences instead, if they accept the price point or not. If they still want the product, and all retailers get the same wholesale price, the retail price can be raised without consequence.

### 6.2.4. Retailer I

Retailer I is a very large actor operating in the Swedish market for home appliances. The company is also internationally active.

**Pricing mechanisms**

According to the interviewee RRPs are more often than not presented by manufacturers in the purchasing and negotiation process. However, Retailer I never show RRPs to consumers. Retailer I does not use the RRPs for anything really, the only possible application would be as an input parameter to deciding price gaps between different models from the same manufacturer and to position them in the right price segment. In that case the RRP would give indications on how to price the products relative to each other. According to the interviewee it is very rare for a product to sell at

the relatively expensive RRPs since there will be retailers selling it cheaper somewhere. The Retailer I interviewee however argues that if RRPs ought to be closer to what the market value really is, retailers might be less intrigued to buy the products. A higher RRP could communicate a higher product value and quality.

The interviewee states that within the franchise, all stores have the same prices since the consumers should see the same prices regardless of location or if visiting the web store. If one store lower their prices it affects all the franchises, something Retailer I wants to avoid.

When negotiating discounts on the wholesale prices with manufacturers, volume is the main factor. In a negotiation the interviewee says that the power lies both with the manufacturer and the retailer, that there is a power distribution. If a manufacturer is large, the consumers might demand a retailer to have their products in store leading to an advantage for the manufacturer. If the manufacturer is small and can not afford not to get the deal through, the advantage lies with the retailer.

#### 6.2.5. Summary - Retailer key interview results

| | **Retailer F** | **Retailer G[2]** | **Retailer H** | **Retailer I[3]** |
|---|---|---|---|---|
| Retailer type | Physical stores | Physical stores | Online | Physical stores |
| Goal | Low prices, high volume | Low prices, high volume | Low prices, high volume | Low prices, high volume |
| Receive RRP | Yes, typically | Yes, typically | Sometimes | Yes, typically |
| RRP strategy | Ignore | Ignore | Used on some products | Ignore |
| RRP effect | Anchoring point | If low, indicates low quality | Anchoring point | If low, indicates low quality |
| Pricing model | Competitive pricing | Competitive pricing | Competitive pricing, value-based and cost-based | Competitive pricing |
| Wholesale price basis | Various parameters* typically | Various parameters* typically | Various parameters* typically | Negotiation and various parameters* typically |
| Pricing strategy | Product segmentation with different margins | Lowest price always | Product segmentation with different margins | Lowest price always |

*Examples are purchased volume, retailer effort to market manufacturer products and retailer logistic solution.

[2] Retailer G and Retailer I are the same retail chain

[3] Retailer G and Retailer I are the same retail chain

# 7. Pricing mechanisms

This chapter aims to answer the first part of the purpose of this paper by describing and explaining the pricing mechanisms of the industry. First recommended retail prices, retail prices and wholesale prices are investigated followed by an assessment of the dynamics between the different prices.

## 7.1. Recommended retail prices

According to interviews, there are generally three different approaches to RRP amongst manufacturers. The first one is to simply not set a RRP based on the argument that it does not seem necessary since the retailers do not follow them anyway. However, in this situation there is an example of a manufacturer developing RRPs for internal use and as a base for deriving the wholesale price. The second approach is to set a RRP based on value, hence taking consumers' willingness to pay into account. This RRP is, according to the manufacturers, the price that consumers are willing to pay for the product. This price point is typically based on research manufacturers have pursued during the research and development phase of new products. In this scenario the price is also communicated to retailers. The third approach is to set RRPs that are more based on the actual competitive market situation of the retailers', positioning the RRP closer to what the products actually are sold for to consumers, in other words using competitor pricing as described in literature by Guo (2012).

The approaches to setting the RRPs can potentially differ based on the intention with the RRP from the manufacturer's point of view. As found in the majority of the interviews the RRPs are almost always disregarded by the retailers, but can have other purposes. For example, if a product is new and has no comparable products, a RRP can serve as an initial retail price, before retailers start to price below each other. A high RRP can also, described again in chapter 6.4. Serve as a sign of product quality. Nagle (2011) says that little can be gained from conducting a full price assessment basing the price on surveys and studies conducted during the product development phase. He says that one should rather rely on the market and comparable products' prices when it comes to mature products with little differentiation. It also corresponds to Guo (2012) claiming that competitive based pricing is often accurate and entails low risk. Overall it seems that for non novel products, compliance to competition prices is the best alternative.

## 7.2. Retail prices

The main pricing methodology used by all interviewed retailers is competitive based pricing. This has become necessary the last decade after price comparison sites appeared on the market. Retailers generally match, or position slightly under, competitors' prices due to the benefits of being seen at the top of the online price comparison sites. However, there are exceptions to this strategy. Retailers often times have different product groups ranked according to strategic value, basically based on popularity amongst consumers. What this means is that the most important product group is usually priced with the slimmest margins since these products are used to attract consumers to the retailer store. These products are of great importance to consumers, and on these products consumers tend to be very price sensitive as well as aware of price levels throughout the industry. For other product categories it is not as important to be the cheapest, which is typically where retailers make more money. Hence the most important products are priced low to get consumers to the retail stores, and then whilst consumers are in the store retailers make money on other items purchased.

Further, based on interviews with retailers, the retail pricing strategy is the same across all product categories, from washing machines to toasters. However, there might be different segments with different strategic importance within each product category, for example the product category washing machines can have different segments such as low price and high end. Due to the Weber-

Fechner effect the strategy should perhaps not be the same for all product categories which spans across multiple price segments. This would indicate that the downwards spiraling price pressure destroying the margins is unnecessary when it comes to expensive products. If consumers do not really think that 5 SEK makes any difference for an expensive product, they probably value other criteria more, such as distance to store or preference. However, since prices are easily compared at price comparison sites, to be the cheapest one is arguably very important, even if it is a question of 1 SEK. If a retailer is cheaper by 1 SEK, that retailer will end up first at the price comparison site. So even if it is not the vital parameter when a consumer decides where to buy a product, the difference of 1 SEK makes a certain retailer more visible. It might however be that other parameters play a part, such as distance to the store or other services such as delivery, warranties or payment solutions. This indicates that it should be sufficient to end up in the top five cheapest options at a price comparison site, still visible to the consumer.

According to interviews all the largest retailers are very similar when it comes to product offering, warranties, delivery services and payment methods. The question is then how consumers actually chose retailer. Here the retailer's brand might also play a part. Often consumers decide where to buy goods from home where they see where the product is cheapest. However, the consumers do have a choice at this stage; is it worth paying 1500 SEK more for a dishwasher with the cost of it having a better location or more personal service. Therefore price is not the sole driver of the market. Hence the takeaway here is that for strategically important expensive products, prices need to be pressured in order to be in the top of price comparison sites. But for the less strategic expensive goods, retailers have more room to avoid to pressure prices and perhaps hinder the speed of the downward price spiral in the industry. However, as Thompson (2000) describes it, the consumers' communicated willingness to pay, which in this case is demonstrated through consumers choosing the cheapest option, is probably lower than their actual willingness to pay. The consumers do not have any reason to communicate a higher willingness to pay when the cheap options are available.

## 7.3. Wholesale prices

In negotiations between a manufacturer and a retailer, there is a power distribution between both parties based on who has the greatest bargaining power. Since retailers in the end has more power over what they advertise and what they sell in their stores, retailers generally seem to have an advantage. Setting wholesale prices for products according to value based pricing, which typically is seen as the most favourable according Nagle & Hogan (2006), is hard to implement in this industry for manufacturers, since many consumers value price above brand, quality or other differentiating factors. The fact that consumers do not chose goods based on brand, making products of different manufacturers direct substitutes, reflects back to retailers' mindset in negotiations with manufacturers. Due to a large number of similar products by various brands, in combination with retail prices being compared on price comparison sites, the retailers can not charge the true value of the products to consumers. To determine the 'true value' of the products, the manufacturers are arguably in a better position to do so due to generally fewer products to price compared with retailers, hence manufacturers can put more emphasis into understanding what consumers are actually willing to pay. Those 'true value' price points are often resembled by a RRP from the manufacturers. The issue that retailers are not being able to charge the full value of the goods is reflected to most manufacturers' situations and is why value based pricing is not suitable for manufacturers.

Although manufacturers claim to use cost based pricing, they do not actually do it according to the theoretical definition. What corresponds better to their actual way of working is discount pricing. The two pricing methods are similar but has an important difference. Both methods are based on the cost

of a product and a margin, for cost based pricing a margin is added, for discount pricing the margin is reduced. Cost based pricing only takes costs into account while discount pricing also include other value adding actions by the retailers for determining the discounts. Manufacturers use a list price for the products when presenting to retailers. The list price is used as an anchoring price point from which a discount is deducted. The discount is often based on different criteria, such as volume, retailer logistic solution, service and marketing of products in store or informing consumers about product quality. According to interviews the volume aspect is most decisive of the discount. For online retailers there are some parameters they are unable to improve, such as inform consumers about product quality. Due to this reasoning, the only way for web retailers to argue a higher discount is to increase other aspects, such as purchasing larger batches. Further, often the final wholesale price is decided when a year's total sales is known via a kickback agreement between retailer and manufacturer. Hence discounts are based on what is actually sold, and not what is expected to be sold. This would somewhat handle the issue raised by Nagle (2011) that it is hard to pursue cost based pricing due to uncertain volume. It can be argued that some manufacturers use cost based pricing to count backwards after having designed the RRP, to see if the price level possible to charge the retailers covers the product related costs. In one example from the interviews this is done and in the cases where the product related costs are not covered the particular product is not launched.

The fierce competitive environment on the retail side, where if one retailer lower their prices generally all other retailers follow, inevitably leads to slimmer margins for all retailers. Eventually, retailers' margins are so slim that they need to receive lower wholesale prices from manufactures to be able to stay profitable. Manufacturers can generally not afford to lose market share due to excess capacity, hence they agree to reconsider wholesale prices. The manufacturers usually do not have enough bargaining power to price higher than their costs plus a minimum margin, in line with their competitors. However, the wholesale price is as critical for both manufacturers as for retailers and manufacturers are simply not in a position to be able to avoid lowering wholesale prices per retailers' requests. Therefore the price erosive dynamics on the retailer level of the market affects the wholesale price for the manufacturers and therefore the manufacturers' margins.

## 7.4. Dynamics between recommended retail prices, retail prices and wholesale prices

There should theoretically be a connection between RRPs and retail prices, if considering the definition of RRP - a recommendation from the manufacturer on what the final retail price should be. According to the market analysis, as well as verified during interviews, there is a vast difference in deviation between RRP and retail price, sometimes the deviation is as large as 50%. Retailers argue that the manufacturers' pursued strategy of basing RRPs on consumers' willingness to pay is better suited for a marketplace not as competitive, therefore this strategy seems unfit in the marketplace's current situation. In today's marketplace the retailers are forced, as described above, to follow competition when it comes to retail pricing. On the other hand, retailers also claim that a RRP closer to the competitive retail price would also be ignored. The problem seem to be that a RRP is not part of the retailers' current pricing procedures.

According to some retailer interviews, RRPs in line with retail prices can potentially even make the products seem less attractive. A high RRP seems to communicate quality in some way, and if it would be too low there is a risk that it would not sell as good to retailers. Hence RRPs do not seem to affect retail prices, but for some retailers they can influence the perception of product quality which can then affect whether the products get purchased by retailers in the first place. However, this argument of Nagle's and the retailers' assumes that there are comparable products in the market, hence the

argument mainly concerns more mature and non-innovative products. Since it can be stated that the fierce competition on the retailer level of the market has forced retailers to pursue competitive pricing which leads to that retailers do not comply with RRPs for comparable products. This would indicate that time and effort put into developing RRPs close to retail prices is a waste of time and money both because they are not used and might give the retailer a perception of low quality.

The dynamics between RRP and wholesale prices is as follows. The list price presented by manufacturers to the retailers in purchasing negotiations typically reflects the RRP, or an internal 'recommend price' if RRPs are not used by the manufacturer, minus VAT. The list price can however also be completely unrelated to a RRP and basically more cost based. The fact that the final wholesale price is modified and negotiated, based on discounts and bargaining power, and then even further as the product life cycle moves on suggests that a high initial list price, not solely cost based, is a must if a manufacturer should not right away be forced to lower the wholesale price close to equaling the production cost. The exception would be if a manufacturer did not give retailers any discounts and were consistent in not changing the wholesale price. This is however hard and would require a very strong bargaining position of the manufacturer, something few players have. It seems rather, as described above, that retailers often have a negotiation advantage.

The dynamics between wholesale price and retail price is expressed as follows. Since many retailers promise lowest price they price the same or under their competitors. They can keep doing this as long as they want, and whether or not they price above or under their wholesale price is up to them. There are according to the interviews with retailer F and H examples where the retail prices are below wholesale prices. This is however not common, since retailers usually go back to renegotiate wholesale prices when retail prices has sunk too low eroding the retailers' margins. This suggests that when retail prices are at a level close to wholesale prices, an action is induced.

# 8. Suggested manufacturer tools

In this part analysis across RRP, retailer and wholesale prices will be discussed, resulting in possible solutions that can be applied by the manufacturer in order to increase manufacturer profit, hence some tools focus on how to increase profitability to increase profit and others focus on how to increase sales volume. These nine tools described below are ideas developed from interviews and literature.

## 8.1. Tool 1: Product innovation

This idea is based on most interviews, for instance interviews with Manufacturer A and C, stating that manufacturers have difficulties differentiating their products, which leads to consumers tend to focus on price and products seem similar to consumers, to which Bertini and Wathieu (2010) argue that these are signs of consumers treating the market like a commodities market. According to Thompson (2000) this leads to consumers getting even more disengaged into looking closely at products. Nagle & Hogan (2006) argues that product novelty is a good way to avoid commoditization. Even though the industry is not a commodity market, the industry can be said to partly behave like a commodity market where consumers, according to interviews and literature, tend to choose the cheapest option fulfilling their needs.

For non-novel products retailers often have other similar products as reference in negotiations regarding wholesale price. This puts the retailer in a better bargaining position than the manufacturer since the retailer can argue that they can buy similar products cheaper from other manufacturers. However according to interviews with Manufacturer A,C,D and E, for more novel products, a reference price for similar products might not be available and thus no price competition for that novel product has yet begun. If the manufacturer chooses not to distribute the certain innovative product to one retailer, that retailer could potentially lose customers. According to findings in several interviews with retailers such as Retailer F, they put the consumers' needs in focus, and according to interviews with manufacturers, such as with Manufacturer A, consumers demand innovative novel products. The fact that retailers therefore demand novel products has been verified.

So, in a situation with novel products the manufacturer is in a better bargaining position when it comes to negotiating wholesale price since the product is demanded by the retailer. This would indicate that manufacturers can add a premium to the wholesale price, obtaining better margins for innovative products. For retailers on the other hand, nothing suggests that they would have higher margins selling novel than non novel products. Competition amongst retailers would most likely start right away after release, with a race to the bottom as described by Guo (2012). Competition will eventually reach manufacturers as well, partly due to the downward price spiral on the retail market affects the manufacturer but also due to competition from matching products. With this said, margins for manufacturers would initially be higher for novel products and then decrease as the product matures.

Product novelty does not necessarily mean new groundbreaking technology, it can consist of small improvements such as new features, more durability or new design. In those cases, where the novelty is more of an incremental nature, the value of the novelty can be hard to make visible. Since retailers follow consumer demand, consumers need to demand the innovative products in order for manufacturers to be able to charge a premium. What can be done by manufacturers is that they to a higher extent make differentiation visible to the end consumer. It is not enough if there are some technical differences which will never be noticed by consumers, the benefits must be clearly visible or the manufacturers must ensure that retailers do what is required in order to demonstrate the

differences. If salespersons do not inform consumers of these features, they will most likely not be noticed and no edge for the manufacturer will be perceived. According to interviews with manufacturers, for instance with Manufacturer A, it is hard to ensure that the retailers actually do what is agreed upon at this stage, hence leading to this being an issue. If presenting or offering the manufacturer's differentiating factor adds a cost for the retailer, the retailer is less likely to offer the differentiating factor. Examples could be demanding extra demonstration, special exposure or free trial periods. To make sure retailers do communicate the features and give the desired amount of service to consumers, the manufacturers should incentivise the behaviour, like as have been found during the interviews. A retailer offering service requested by the manufacturer often receive a better wholesale price. In some cases retailers are even unable to provide the information to the consumer. An example is if a manufacturer has a new ultra lightweight technology for a vacuum cleaner. It is then probably key to have one in store for customers to feel and try out. This effect might vanish when selling online, making it harder to charge a premium for this type of products since customers do not have the possibility to try the product. Further, if a manufacturer would create one innovative product which becomes demanded by consumers, they increase their bargaining power for other, not as innovative products as well. Being in a strong position for one product makes it easier to tougher in negotiations with retailers regarding other products. This tool would focus to increase margins whilst attempting to keep volume constant.

**Tool 1:** The manufacturer should be in front when it comes to innovation, since innovative products leads to increased product margins. It will provide them with initially higher profits, although eroded over time. What needs to be emphasized is making sure that the differentiating factor gets communicated to consumers.

## 8.2. Tool 2: Retailer segmentation

This strategy is mainly based on interviews with Manufacturer B, stating that a manufacturer can be selective regarding which retailers to distribute to, in order to achieve higher margins on their products sold or to incentivise retailers to fulfill a manufacturer's wishes for higher retail price. For manufacturers to avoid having to comply with the retail market mechanism of competitor based pricing, Nagle & Hogan (2006) suggest that the given manufacturer can be more careful regarding which retailers to source through. It seems that it is not possible to segment the major retailers, those accounting for the largest part of the manufacturers' sales, based on differences in business strategies. This since according to interviews which is summarized in matrix 5.2.5, there does not seem to be any significant difference between them. All large retailers' main strategic focus is offering the lowest price. The segmentation and selection of retailers can however be done in two other ways.

The first option is to focus on different types of retailers - those with other strategies than selling to the lowest price. Due to the competitive retail marketplace with price erosion together with the low manufacturer bargaining power, there is an unexploited consumer surplus, based on Guo's (2012) statement saying there is always some consumers that are willing to pay more for the product. Examples of such retailers are, as was suggested in an interview, full kitchen providers including white goods in their sales. This type of retailer is not as likely to demand as low wholesale prices as the major large retail chains, since they do not compete solely on the lowest price. They might not even communicate the prices of the white goods since they sell them as a package together with the rest of the kitchen. Another option is to distribute to smaller stores whose consumers might value aspects such as location, personal service or retailer brand above low price. This way the manufacturer's products are sold without being exposed to the fierce price wars on the large retail market and the wholesale prices will not be pushed as low.

The second option is that it can in some cases be beneficial for manufacturers not to sell to all retailers within the major large retailers, but to be tougher in negotiations and stop selling to retailers not fulfilling the manufacturer's wishes. Wishes that could be for example retail prices closer to RRPs. In order to realize this strategy the manufacturer must be in a strong enough bargaining position for the retailers to want to comply with the manufacturer's requests, the brand must be strong enough so that the retailers would not want to lose it in their assortment. This is dependent on the level of popularity from the consumer level.

To be selective in which retailers to distribute to can result in both negative and positive outcomes. Of course this could result in a lower total amount of sales and the potentially higher margins might not be high enough to cover for the lost profit due to decreased revenue. Since in general the industry is characterized by low margins, large profits demand large sales volumes, it is unlikely that the additional margin will outweigh the option to distribute to the much larger volume of sales going through the big chains, this strategy is not obvious. On the other hand, a retailer given exclusive rights to sell a product could realise its advantage towards its competitors and make extra good effort to sell the products, which in turn is positive both for the manufacturer and the retailer who could split the increased margins of those products. This due to the manufacturer rejecting some of the most aggressive cost cutters, giving the retailer selling the product a possibility to raise their margins which reflects back to the manufacturer margins as has been discussed.

**Tool 2:** The manufacturer could be more selective in what retailers to source through in order to raise margins due to avoiding the most aggressive cost cutters. Important to note is that a careful analysis first needs to be made that estimates whether the potential gain in profits outweighs the loss of volume.

## 8.3. Tool 3: Retailer specific products

Since it is of the essence to be on the top of price comparison sites for retailers regarding product price, according to interviews Manufacturer E can change a certain feature to make a product unique with its own article number and only distribute this to one retailer. An example of such a change is to just alternate one button. This would make the retailer the only retailer selling this exact product, eliminating direct competition from other retailers. Consumers could still compare the product to similar products, but being the only retailer selling a product results in a possibility for slightly increased retail margins on the product. Since these types of manufacturer modifications increase retail margins, there is also room for increased manufacturer margins which has been verified during interviews.

What is worth pointing out is that modifying products this way probably increases the production cost because of decreased economies of scale. Further, if this strategy is pursued on all products for all retailers, the risk of decreased economies of scale becomes more vital. However, what can be said is that in order to make this strategy as successful as possible, features that are different enough but requires as little modification as possible when it comes to cost are preferable, features with high impact and low cost.

**Tool 3:** Manufacturers can adapt products slightly by modifying a feature which makes it unique and with a different article number. Only selling the unique product to one retailer gives this retailer a less competitive landscape when selling, increasing manufacturer margins through increased retailer margins.

## 8.4. Tool 4: Redesigning the value chain

One way to enable higher margins for manufacturers is simply through disintermediation by cutting the retailer out from the value chain, as argued by Murphy (2016). An argument in favor of this is that an increased amount of online based retailers which indicates that consumers are moving towards more and more purchases performed online, which is in line with what Murphy (2016) states is needed if a e-commerce disintermediation value chain ought to be enforced. Chatterjee et al (2010) also argues that redesigning the value chain might be suited and applicable for many industries due to more sales being done over the web. Some manufacturers interviewed, such as Manufacturer A and B, are also starting to pursue this strategy, having their own online store. There are two possible ways to proceed if a manufacturer decides to start selling online directly to consumers. Firstly, the manufacturer can sell via an online store on the side whilst simultaneously distributing to retailers. The advantage of this setup is that a bigger market share. According to interviews with Manufacturer A, they have higher margins on their own web stores, which is natural since the prices charged on the manufacturers' own online stores are the RRPs, which in general are high. Of course there are additional costs related to running an online store such as costs related to setting up the web shop or distribution to consumers. But since the difference in price between wholesale price and RRPs is often significant, margins can be kept higher than when distributing to retailers at wholesale prices. So the share of consumers willing to pay more than the price charged by retailers in exchange for example additional service or the fact that they simply are brand loyal is captured on manufacturer web shops, whilst also reaching those customers that pay the low retailer price which combined increase total profits. A disadvantage of this strategy is that naturally retailers might feel threatened by manufacturers starting to sell directly to consumers on their own, lowering the share of consumers purchasing from retailers hence a retailer response might be to boycott the manufacturer to some extent. According to interviews, this is a sensitive subject. Although manufacturer web shops is a fairly natural response to the strategy pursued by retailers, to have 'own brands' replacing manufacturers' products in store. It can be argued though that it should be easier for retailers to create own products than for manufacturers to sell to consumers. This since the retailers already have contact with buyers, something manufacturers do not. Further, as has been stated by interviews with retailers, consumers tend to want to have many brands and products consolidated to the same location or platform which also favors retailers.

The second approach manufacturers could pursue, which is perhaps more long term, is to willfully boycott the retailers and thus only selling through their own online store. This might lead to a certain hype factor and a feel for exclusivity from the consumer side. As mentioned above both manufacturers have started to sell directly to consumers and retailers have started to import and sell their own products. The result of both scenarios is basically the same; a store where only own products are being sold. According to interviews, such as with Manufacturer E, this is not an unlikely scenario to be applied in the future, since both retailers and manufacturers are not satisfied with the marketplace and consensus between retailers and manufacturers is that a change needs to be made. In the scenario where manufacturers start to sell online, assuming that multiple manufacturers do, there is a risk that price comparison sites will still erode the marketplace. Instead of comparing a certain product the algorithm can be changed into comparing similar products, and consumers still can get directed to the cheapest most valuable option's online store, hence a downward spiral starts over only this time directly affecting manufacturers.

An additional perk with controlling the sales to consumers is that the manufacturer that way has control over services offered. Something which has eroded as well, besides price level, since for

example online actors has emerged free riding on services provided by traditional retailers. And further, to respond to the online actors' lower prices, the traditional retailers has been forced to lower their costs as well, starting to decrease such services. The risk with erosion of services at the retailer level is that differentiating factors that needs explanation or demonstration is easily overlooked. One proposed action to solve the free riding problem, according to theory, is to establish price floors, to give all retailers high enough margins to be able to offer services. Since retail price maintenance is illegal, the manufacturer needs another solution. If the manufacturer however sell the product, control over services is more easily obtained. And margins to allow for services can be planned for.

**Tool 4:** Manufacturers could start selling directly to consumers, either by doing it simultaneously as distributing to retailers or to simply start to only sell to consumers. Both these strategies would increase manufacturer margins. However, this strategy is according to interviews something more for the future.

## 8.5. Tool 5: In between segment positioning

This idea is based on the authors' interpretations during the study, stating since the market situation has resulted in the price being pushed to the bottom, in order to increase profitability manufacturers might cut costs to increase margin which eventually to some extent can lead to poorer quality, potentially damaging the market. According to interviews with Manufacturer A, the slim margins make it difficult to invest in research and development. Due to groupthink according to Guo (2012), if all parties, including manufacturers and retailers, trust other actors' pricing methods, the key market contact with consumers is missed. What this will lead to is either that the price level will stay the same or decrease, or that price shifts into becoming unrelated to customer demand but other factors depending on other actors. What this essentially leads to is that retailers control the market, both price wise and what products should be in the marketplace. This tunnel vision where price is of only focus with the race to the bottom, and with this price pressured market comes a missed opportunity due to unexploited customer surplus.

Nagle (2011) suggests that to hinder the downward spiral of decreasing prices and slimmer margins, manufacturers and retailers should try to focus more on delivering additional value and slightly raising prices instead of pushing prices downwards. Instead of competing in the current price segment, manufacturers can try to increase product performance closer to the price segment above, but not raise prices as much. This since nothing suggests, according to interviews, that there are higher margins in higher segments hence a positioning in between segments might be preferable. What this could potentially lead to is that some consumers might find this new product good enough to fulfill their needs, leading to consumers shift down from the higher segment. Further there might be consumers from the lower segment who are willing to buy the product and argue that the product is cheap enough for the performance provided. It can also lead to consumers directly reject this 'in between segments' product by thinking it is either to expensive for the lower segment or to poor for the higher segment. What needs to be considered is if the performance increase cost more than the potential gains for attracted consumers. In order for this strategy to work, manufacturers clearly need to understand what parameters both from the upper and lower segments are of importance. What is important to point out is that if positioning in between segments, less competition from manufacturers can occur if being alone in pursuing this strategy.

**Tool 5:** By increasing product performance and slightly increase prices, a positioning of the product in between two segments may occur. This can attract consumers from both the upper and lower segment, hence increasing sold volume. In doing so, a clear evaluation of whether the cost of

performance increase is worth the additional sales and also what parameters to focus on in order to attract consumers.

## 8.6. Tool 6: Low price strategy

The majority of the report so far has focused on ways to improve margins by motivating higher wholesale prices in order to increase profits. Another strategy is to simply compete by having lower prices than competitors. And market share increases the volume sold and therefore the profit. Building on the fact that it is a very price pressured market, this idea presented by the authors. In line with this idea is the logic behind price ceilings, which is to ensure that the low prices are kept to the next step in the value chain, to the retail price. According to Mathewson & Winter (1998) price ceilings are used to ensure low enough retail prices for high volume. The fact that RPM is not allowed is not a problem in this situation though, because the intense competition between retailers will ensure that the retail price is kept down. In order to pursue this strategy, a manufacturer needs to have lower costs than its competitors or allow lower margins. If a cost advantage is achieved there are two strategies a manufacturer can pursue. The first one is to lower prices, making it harder for competition to follow, which can lower the competition increasing the volume for the given manufacturer thus raising profits. The other strategy is to simply keep prices constant and let the lower costs increase margins. To get a cost advantage in today's market is probably tough, making this strategy better fit a situation where the competition on the market is not as intense, resulting in fewer competitors to take into account. On the price pressured market as of today manufacturers are presumably already working intensely on cutting costs, which would suggest that it is hard to improve, and how this can be achieved more precisely is outside of the scope of this study. However, According to Nagle (2011) the positive effects from pricing below competitors is short term since competition most likely will follow, which is exactly the situation on the Swedish market.

**Tool 6:** Manufacturers can try to focus on lower their costs to compete by being the cheapest. However in today's competitive market it is probably tough to get a cost advantage since a lot of energy is already put there today.

## 8.7. Tool 7: Price adjustments

Assuming that several products within a product category in the same price segment do not perform exactly the same, but the retail price is the same, then the Bertini and Wathieu's (2010) suggested strategy to price after advantage can be applied. Consumers value different features differently hence should be willing to pay differently for those slight differences in performance. The risk is that consumers might not look close enough at all features of all products and thus disregard the slightly better performing products. If for instance a dishwasher from manufacturer A lasts twice as long as one from manufacturer B, but they have the same performance and same retail price, the lasting factor can easily be overlooked. If however product A would be significantly more pricey than product B, customers might take a second look and notice the difference and start evaluating the value of the feature and if the price difference is worth it. What needs to be investigated further by manufacturers in order for this strategy to work is to define the features customers value the most, in order to understand what features that motivates a higher wholesale price. Essentially retailers have the power in this case since they decide what to purchase from what manufacturer. If the retailers do not believe the products will sell to consumers at a higher price, obviously that product will not be bought by retailers. Thus there is a risk applied to this strategy that which lies in convincing the retailers to charge a higher retail price based on that consumers are willing to pay more for a slightly different performance measure. However, if manufacturers can argue and prove that certain features are more valuable for consumers and thus raising wholesale prices, a potential consequence is that other

manufacturers start to charge more for similar products, and then those products become comparable, and a race to the bottom starts again. However in this scenario, industry profitability for manufacturers is temporarily prolonged.

What is worth considering though is whether the characteristic of the industry, that it is price pressured, has affected customers into becoming less considerate of product quality and adapted their behaviour into becoming price sensitive. Therefore a question mark rises on how a raise in retail prices would be received by consumers, whether accepted as something different as in interesting or directly rejected due to being associated with expensive as in not valuable. It might therefore be hard to communicate the benefits to the retailers and consumers since the main focus is low prices, making efforts to price better performing products higher difficult.

**Tool 7:** In order to take advantage of that there are slight differences between products within the same product range, manufacturers need to investigate what features consumers and retailer value the most. If performing superior at any of these features, chances are that a raise in wholesale price become motivated, increasing margins.

## 8.8. Tool 8: Brand

A strong brand gives manufacturers a greater bargaining power and is a prerequisite for being able to demand certain requests from a retailer. A great example of a manufacturer of such a bargaining power, which has been brought up several times during the interviews such as with Retailer F and H, is Apple. Apple has such a strong bargaining position that the company can control their retail prices all over the world, by simply stop delivering products to retailers not complying to Apple's requirements. And the consumer demand for Apple's products is strong enough for retailers to sell Apple's products to a loss, just to satisfy the needs of their consumers demands. Apple can because of this reason enjoy high margins and sell large volumes, and the reason is that consumers do not see any substitute products completely replacing the Apple products. In order to reach Apple's level of popularity and power, the manufacturer's products must be desirable to an extent that only few substitute products could satisfy the consumer demand. When having reached this level of customer attractiveness it is not difficult to understand that the manufacturer has a great deal of power. Because regardless of how unhappy the retailer is with the manufacturer's strategy, it is in the end the consumer driving the assortment in the store, and for products like these the consumers do not chose the cheapest product, they chose the desired product. How to obtain the status of Apple is harder to define and out of scope for this study.

**Tool 8:** The manufacturer should build the brand strong enough to convince consumers there are no substitutes to the manufacturer's products.

## 8.9. Tool 9: Incentivising RRP compliance

The RRP is, as described in the first part of the analysis, used in different ways depending on the manufacturer. What can be suggested, in order to raise the level of control over the retail price, from the manufacturer's point of view is to put more emphasis on developing a RRP that the retailers are supposed to follow. And for a retailer not currently in Apple's bargaining position, it is of course not as simple. Olczak (2011) and Nagle (2011) connects the probability for a retailer to follow a RRP to the manufacturer's bargaining position. But other options is to provide incentives making it beneficial for retailers to comply with the RRPs. Examples of incentives are to give a retailer exclusive rights over a geographical area, a product or a type of consumers. By providing the retailer with this possibility, the RRP requested by the manufacturer is more likely to be followed, which in turn gives

the manufacturer the possibility to charge a wholesale price accordingly. When followed, the RRPs will have similar effects on the market as an illegal price floor, enabling avoidance of the free rider problem as described in the theoretical framework by Nagle (2011). This is already fairly widely used in the industry and will hence not be discussed further.

**Tool 9:** Manufacturers can give retailers incentives making them follow the RRP, even though the manufacturer do not have the bargaining position of a company like Apple.

# 9. Conclusions

The industry is characterized by a fiercely competitive market situation on the retail level of the value chain which makes the industry behave similar to a commodities market. This then reflects back to the manufacturer since manufacturers are dependent on retailers to distribute their products, making retailers able to negotiate low wholesale prices. Manufacturers typically have low bargaining power due to substituting products or brands. Also manufacturers need to sell high volume due to excess capacity.

Conclusions regarding the investigative part of the purpose of how the industry price today, is that the RRPs set by manufacturers can be done in three ways. It can be set based on consumer willingness to pay, it can be set more accurately based on market conditions or it can not be communicated at all. In negotiations between retailers and manufacturers, the starting point is a list price, which often resembles the RRP from which a discount is deducted. The discount depends on certain criteria, such as purchase volume, retailer ability to market manufacturer products and retailer logistic solution. Purchase volume seems to be of most importance. Retail prices are based on competition based pricing, meaning that retailers put a lot of emphasis to match competitor prices making the industry extremely price pressured. This since it is of high importance for retailers to be the cheapest on the market.

A conclusion from the study is that there seem to be a distinct difference when it comes to product novelty. Non novel products tend to be seen more as commodities with a higher degree of substitutability, decreasing manufacturer margins of those products. But more novel products tend to be harder to substitute, increasing manufacturer bargaining power which eventually leads to higher margins.

A second interesting point is that retailers do seem not take RRP into account when pricing. Some even argue that a lower RRP, closer to the actual retail price, might indicate low quality giving a worse perception of the product. Hence this would suggest that all time and effort put into making more accurate RRPs for non novel products is a waste of time and money.

Also, it has been found that the industry is changing and that neither manufacturers nor retailers are satisfied with the market situation. New business ideas has emerged from both sides and trends in the market is that manufacturers are starting to sell directly to consumers hence cutting out the retailer of the value chain, and also that retailers are starting to sell 'own brands' cutting out the manufacturer of the value chain.

Nine tools are presented in the report manufacturers can apply in an attempt to increase margins:

**Tool 1:** The manufacturer should be in front when it comes to innovation. It will provide them with initially higher profits, although eroded over time. What needs to be emphasized is making sure that the differentiating factor gets communicated to consumers.

**Tool 2:** The manufacturer could be more selective in what retailers to source through in order to raise margins due to avoiding the most aggressive cost cutters. Important to note is that a careful analysis first needs to be made that estimates whether the potential gain in profits outweighs the loss of volume.

**Tool 3:** Manufacturers can adapt products slightly by modifying a feature which makes it unique and with a different article number. Only selling the unique product to one retailer gives this retailer a less competitive landscape when selling, increasing manufacturer margins through increased retailer margins.

**Tool 4:** Manufacturers could start selling directly to consumers, either by doing it simultaneously as distributing to retailers or to simply start to only sell to consumers. However, this strategy is according to interviews something more for the future.

**Tool 5:** By increasing product performance and slightly increase prices, a positioning of the product in between two segments may occur. This can attract consumers from both the upper and lower segment. In doing so, a clear evaluation of whether the cost of performance increase is worth the additional sales and also what parameters to focus on in order to attract consumers.

**Tool 6:** Manufacturers can try to focus on lower their costs to compete by being the cheapest. However in today's competitive market it is probably tough to get a cost advantage since a lot of energy is already put there today.

**Tool 7:** In order to take advantage of that there are slight differences between products within the same product range, manufacturers need to investigate what features consumers and retailer value the most. If performing superior at any of these features, chances are that a raise in wholesale price become motivated.

**Tool 8:** The manufacturer should build the brand strong enough to convince consumers there are no substitutes to the manufacturer's products.

**Tool 9:** Manufacturers can give retailers incentives making them follow the RRP, even though the manufacturer do not have the bargaining position of a company like Apple.

What should be said about these tools is that they are more fit for certain types of manufacturers, but to investigate more regarding what tool best fit manufacturers by type, more investigation needs to be done by the business partner. Concluding remarks would be that manufacturers need product, business or price differentiation over time, else the whole industry will be dragged downwards in a price eroding spiral. Hence competitive pricing should be used as a parameter, not the parameter, in setting prices. Other parameters can help earning more profits.

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# 11. Appendix

## 11.1. Appendix 1: Questionnaire manufacturers

**1. Recommended price - wholesale price - retail price**

- Please comment on the dynamics

**2. Wholesale price**

- How is the wholesale price decided? Which method is used?
    - What part is 'list' price?
    - What part is discount?
    - How do you use discounts?
        - Is the discount policy the same for every salesman?
        - Is the strategy the same for different retailers?
- If you were to make the retailers pay more, how would you do that?
- Who has the largest bargaining power? You or the retailer?

**3. Recommended price**

- Do you provide the retailer with a recommended price?
- What is the intention with a recommended price?
- How is the recommended price decided?
- How is the recommended price used?
- Is wholesale price linked to recommended price in any way?

**4. Retail price**

- How retailers decide retail prices?
- Do the retailers respond to the recommended price?
- How do you incentivize retailers to sell your products?

**5. General**

- What information do you need/lack to improve your pricing strategy?
- Is the industry differentiated, is it hard to differentiate?
    - In what way do you differentiate compared to competition?
- Do you use segmentation or do you focus on all retailers? Who is your target segment?

## 11.2. Appendix 2: Questionnaire retailers

**1. Recommended price - wholesale price - retail price**

- Please comment on the dynamics

**2. Retail prices**

- What is the method for deciding retail prices?
  - Is the method the same for different product categories?
  - Same for different manufacturers?
- Do you have different margins for different manufacturers?

**3. Recommended prices**

- Do you use recommended prices? Is retail price linked to recommended price in any way?
  - Do you receive recommended prices from manufacturers?
  - What is the intention with the recommended price?
  - Do you use the recommended prices as advertising?
- What are the flaws with the received recommended price (if received)?
  - How could the manufacturers improve it

**4. Wholesale prices**

- Do all manufacturers have the same wholesale price strategy
  - Do you get discounts?
- What can a manufacturer do to motivate you to pay more for their products?
- Do different manufacturers use the same strategies?
- If you want to pay less, how would you motivate that?
- Who has the largest bargaining power? You or the manufacturer?
  - Same for all manufacturers?

**5. General**

- What is your competitive advantage compared to other retailers? In what way do you differentiate?
- Do you promote sales of different products differently (display, sales personnel commission?)
- What do the manufacturers do to incentivize you to sell their products?
  - A provision system?
- Do you use segmentation or do you approach all segments? Who is your target segment? Both for customers and manufacturers.
- From the manufacturers' point of view, what segment are you?
- Do you buy all segment products or one type?
- Is this becoming a commodities market?
- What do you/the manufacturers do to differentiate?
- What do customers value in this industry more than price?
- What do you value when deciding what brands to have in store?

### 11.3. Appendix 3: Market analysis 1, prices in numbers

Sorted summary of data in market analysis 1. Vacuum cleaner from Alfa, dishwasher A from Beta, dishwasher B from Gamma and refrigerator from Beta. Prices in SEK.

| Product | Country | RRP | Cheapest (1st) | Cheapest (2nd) | Average price | # of stores |
|---|---|---|---|---|---|---|
| MacBook Air | Sweden | 9995 | 8990 | 8990 | 9178 | 7 |
| MacBook Air | Norway | 10489 | 8906 | 8907 | 9387 | 8 |
| MacBook Air | Finland | 10187 | 8267 | 9256 | 9439 | 6 |
| MacBook Air | Poland | 9457 | 7854 | 7856 | 8270 | 6 |
| MacBook Air | Germany | 9890 | 8504 | 8702 | 8994 | 5 |
| Vacuum cleaner | Sweden | 2799 | 2099 | 2185 | 2305 | 6 |
| Vacuum cleaner | Norway | 3149 | 2309 | 2414 | 2546 | 6 |
| Vacuum cleaner | Finland | 2861 | 2277 | 2663 | 3031 | 5 |
| Vacuum cleaner | Poland | 0 | 2528 | 2528 | 2528 | 1 |
| Vacuum cleaner | Germany | 2970 | 2960 | 2960 | 2963 | 2 |
| Apple Ipad 2 | Sweden | 5195 | 4988 | 4990 | 5026 | 6 |
| Apple Ipad 2 | Norway | 5660 | 5238 | 5240 | 5299 | 6 |
| Apple Ipad 2 | Finland | 5435 | 4742 | 4772 | 5062 | 6 |
| Apple Ipad 2 | Poland | 5278 | 4864 | 4864 | 5093 | 6 |
| Apple Ipad 2 | Germany | 5336 | 4742 | 4772 | 5062 | 6 |
| Dishwasher A | Sweden | 18959 | 18895 | 18959 | 18927 | 1 |
| Dishwasher A | Norway | 20442 | 15745 | 15745 | 17311 | 2 |
| Dishwasher A | Finland | 20087 | 13811 | 20087 | 16949 | 1 |
| Refrigerator | Sweden | 16129 | 11020 | 11225 | 12078 | 5 |
| Refrigerator | Norway | 17387 | 10351 | 10640 | 12122 | 4 |
| Refrigerator | Finland | 17117 | 12167 | 12860 | 14527 | 4 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Refrigerator | Germany | 11870 | 8168 | 8603 | 9811 | 3 |
| Apple TV | Sweden | 2295 | 1789 | 1789 | 1884 | 6 |
| Apple TV | Norway | 2361 | 2090 | 2099 | 2181 | 7 |
| Apple TV | Finland | 2267 | 2129 | 2178 | 2209 | 5 |
| Apple TV | Poland | 2198 | 2198 | 2251 | 2245 | 2 |
| Dishwasher B | Sweden | 24400 | 18990 | 18990 | 20543 | 6 |
| Dishwasher B | Norway | 24359 | 18559 | 18848 | 20588 | 2 |
| Dishwasher B | Finland | 24701 | 22721 | 22760 | 23394 | 2 |
| Dishwasher B | Poland | 20438 | 18898 | 18918 | 19601 | 5 |

### 11.4. Appendix 4: Market analysis 1, prices in percentages

Sorted summary of data in market analysis 1. Vacuum cleaner from Alfa, dishwasher A from Beta, dishwasher B from Gamma and refrigerator from Beta. Prices in SEK.

| Product | Country | RRP | Cheapest (1st) | Cheapest (2nd) | Average price | # of stores |
|---|---|---|---|---|---|---|
| MacBook Air | Sweden | 9995 | 89.94% | 89.94% | 91.83% | 7 |
| MacBook Air | Norway | 10490 | 84.90% | 84.91% | 89.49% | 8 |
| MacBook Air | Finland | 10187 | 81.15% | 90.86% | 92.66% | 6 |
| MacBook Air | Poland | 9458 | 83.04% | 83.07% | 87.44% | 6 |
| MacBook Air | Germany | 9890 | 85.99% | 87.99% | 90.94% | 5 |
| *Average* | | | *85.01%* | *87.36%* | *90.47%* | |
| Vacuum cleaner | Sweden | 2799 | 74.99% | 78.06% | 82.34% | 6 |
| Vacuum cleaner | Norway | 3149 | 73.32% | 76.66% | 80.86% | 6 |
| Vacuum cleaner | Finland | 2861 | 79.58% | 93.08% | 105.94% | 5 |
| Vacuum cleaner | Germany | 2970 | 99.67% | 99.67% | 99.78% | 2 |
| *Average* | | | 81.89% | 86.87% | 92.23% | |
| Apple Ipad 2 | Sweden | 5195 | 96.02% | 96.05% | 96.76% | 6 |
| Apple Ipad 2 | Norway | 5660 | 92.56% | 92.58% | 93.64% | 6 |
| Apple Ipad 2 | Finland | 5435 | 87.25% | 87.80% | 93.13% | 6 |
| Apple Ipad 2 | Poland | 5278 | 92.16% | 92.16% | 96.50% | 6 |
| Apple Ipad 2 | Germany | 5336 | 88.87% | 89.42% | 94.86% | 6 |
| *Average* | | | 91.37% | 91.60% | 94.98% | |
| Dishwasher A | Sweden | 18959 | 99.66% | 100.00% | 99.83% | 1 |
| Dishwasher A | Norway | 20442 | 77.02% | 77.02% | 84.68% | 2 |
| Dishwasher A | Finland | 20087 | 68.75% | 100.00% | 84.38% | 1 |
| *Average* | | | 81.81% | 92.34% | 89.63% | |
| Refrigerator | Sweden | 16129 | 68.32% | 69.60% | 74.88% | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Refrigerator | Norway | 17387 | 59.53% | 61.19% | 69.72% | 4 |
| Refrigerator | Finland | 17117 | 71.08% | 75.13% | 84.87% | 4 |
| Refrigerator | Germany | 11870 | 68.81% | 72.48% | 82.65% | 3 |
| *Average* | | | 66.94% | 69.60% | 78.03% | |
| Apple TV | Sweden | 2295 | 77.95% | 77.95% | 82.07% | 6 |
| Apple TV | Norway | 2361 | 88.48% | 88.88% | 92.36% | 7 |
| Apple TV | Finland | 2267 | 93.89% | 96.07% | 97.45% | 5 |
| Apple TV | Poland | 2198 | 100.00% | 102.40% | 102.14% | 2 |
| *Average* | | | 90.08% | 91.33% | 93.50% | |
| Dishwasher B | Sweden | 24400 | 77.83% | 77.83% | 84.19% | 6 |
| Dishwasher B | Norway | 24359 | 76.19% | 77.37% | 84.52% | 2 |
| Dishwasher B | Finland | 24701 | 91.98% | 92.14% | 94.71% | 2 |
| Dishwasher B | Poland | 20438 | 92.47% | 92.56% | 95.90% | 5 |
| *Average* | | | 84.62% | 84.98% | 89.83% | |

## 11.5. Appendix 5: Recommended prices to retailer prices difference by manufacturer, looking at cheapest retailer option

Sorted summary of data. Prices in SEK.

| Manufacturer | Product | Date | Rec. Price | Cheapest 1st | Cheapest 2nd | Delta 1 | Delta 2 |
|---|---|---|---|---|---|---|---|
| Alfa | Dishwasher | Late 2015 | 11899 | 7995 | 7995 | 0.67 | 0.67 |
| Beta | Dishwasher | Late 2014 | 11990 | 10795 | | 0.90 | |
| Gamma | Dishwasher | Mid 2015 | 12219 | 6970 | 6999 | 0.57 | 0.57 |
| Delta | Dishwasher | Early 2015 | 12295 | 11265 | | 0.92 | |
| Epsilon | Dishwasher | Early 2016 | 12195 | 9550 | 9550 | 0.78 | 0.78 |
| Alfa | Refrigerator | Mid 2013 | 10389 | 6990 | 7839 | 0.67 | 0.75 |
| Beta | Refrigerator | Early 2016 | 9990 | 8990 | 9490 | 0.90 | 0.95 |
| Gamma | Refrigerator | Late 2013 | 10269 | 6490 | 6835 | 0.63 | 0.67 |
| Delta | Refrigerator | Mid 2015 | 9995 | 9395 | 10581 | 0.94 | 1.06 |
| Epsilon | Refrigerator | Early 2014 | 10415 | 9196 | 9246 | 0.88 | 0.89 |
| Alfa | Washing machine | Late 2015 | 12879 | 5999 | 5999 | 0.47 | 0.47 |
| Beta | Washing machine | Early 2015 | 12300 | 10980 | 10990 | 0.89 | 0.89 |
| Gamma | Washing machine | Late 2015 | 11789 | 6390 | 6785 | 0.54 | 0.58 |
| Delta | Washing machine | Mid 2011 | 12395 | 11775 | 11790 | 0.95 | 0.95 |
| Epsilon | Washing machine | Early 2012 | 12595 | 9930 | 9950 | 0.79 | 0.79 |

Summary of average deviations.

| Manufacturer | Product 1 | Product 2 | Product 3 | Average |
|---|---|---|---|---|
| Alfa | 0.67 | 0.67 | 0.47 | 0.60 |
| Beta | 0.90 | 0.90 | 0.89 | 0.90 |
| Gamma | 0.57 | 0.63 | 0.54 | 0.58 |
| Delta | 0.92 | 0.94 | 0.95 | 0.94 |
| Epsilon | 0.78 | 0.88 | 0.79 | 0.82 |

## 11.6. Appendix 6: Recommended prices to retailer prices difference by manufacturer, looking per retail store.

Sorted summary, Retailer 1.

| Manufacturer | Product 1 | Product 2 | Product 3 | Average |
|---|---|---|---|---|
| Epsilon | 0.77 | 0.79 | 0.78 | 0.78 |
| Alfa | | 0.56 | 0.73 | 0.64 |
| Beta | 1.15 | 0.92 | 0.90 | 0.99 |
| Gamma | 0.62 | 0.68 | 0.65 | 0.65 |

Sorted summary, Retailer 2.

| Manufacturer | Product 1 | Product 2 | Product 3 | Average |
|---|---|---|---|---|
| Alfa | 0.77 | 0.70 | 0.66 | 0.71 |
| Beta | 1.00 | 0.89 | 0.87 | 0.92 |
| Gamma | 0.74 | 0.70 | 0.72 | 0.72 |