

Getting the right price is a matter of scope!

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Abstract

Within marketing there has been a fertile ground for development of pricing models and also several attempts have been made to build comprehensive models (Lancioni, 2005). The number of models seems to be numerous, often without giving a clear picture of the extent to which the models can be seen as competitive or complementary (Cravens, 1997). The aim of this paper is, therefore, to get an improved understanding of the fundamental differences behind the pricing models. For the purpose of getting an improved understanding of the different pricing models a classification is made. The classification is built on the underlying tacit assumptions in the pricing models of who is the active part on the market, e.g. who can decide the market conditions. The classification enables a differentiation between three types of models.

To go beyond the classification a comprehensive case is analyzed. The case demonstrates how a company may use different pricing models as a part of its creating of different market situations and taking advantage of different market situations at the same time. Based on the classification and the

case study, a meta pricing model is suggested. The meta pricing model is designed to pinpoint central factors to be considered when pricing goals, strategy, prices and market situations are to be set.

Keywords: Pricing models, market situation, meta pricing model

Introduction

Pricing is an important factor for the success of a company. Shipley and Jobber (2001) look at price management as “a critical element in marketing and competitive strategy and a key determinant of performance (p. 301)” and Blythe (2003) emphasizes price as “a major component in customers’ judgment of both product and company (p. 179)”. Accordingly, pricing can be said to be about not only covering cost but also making a profit, to reach a certain position in the market compared to competitors and signalling to achieve a distinct position in the mind set of the customer. Many contributions have been made to make a valid situational analysis and how to proceed getting the priorities right and setting the right price. As Jain & Laric (1979) stated many years ago, when they proposed a framework for strategic industrial pricing, there are many contributions and it is not always clear what the contribution is, e.g. when to use which framework or model. Not only in theory, pricing is a difficult undertaking. Lancioni (2005) has put it like this: “The failure of firms to totally understand the implications of their pricing decisions often leads to missed opportunities and eventually lowers profits” (p. 111). In the following the objective is to make clear when a specific framework or model is valid and when not, and to develop a framework which can guide the use of appropriate models from a holistic point of view.

In short, the paper deals with the following questions:

1. Pricing issues may evolve in different situations. E.g. a firm may be asked to give a bid, new products may have been developed and a price will have to be fixed, or a subsupplier is working together with another firm on a mutual project and the result (a product or/and service) will have to be delivered by the subsupplier – what price should be charged? What kind of pricing model is appropriate in what situations?
2. Is it possible for a firm to combine the different pricing models and pursue a consistent overall pricing strategy?

Many different perspectives on pricing may be possible. Nagel (1984) looks at the economic foundations of pricing. This may be helpful to get an understanding of calculating cost and looking at the market from a rational decisional approach. Others have emphasized behavioural factors in the pricing mechanism (Dolan, 1995) and put weight on competitive and psychological issues (Bonnici, 1991). The attempt is to go beyond this with the aim to investigate how the market is understood and how the interaction between buyers and sellers can be described under varying market conditions. The paper is organized in the following way:

First, a case is described. The case demonstrates a firm that operates under different market conditions and uses three types of pricing models, depending on which customers are addressed. The different types of pricing models are used deliberately and are guided by an overall perspective on pricing strategy, structure and individual prices.

Secondly, three different types of pricing models are introduced and discussed. It is demonstrated how the models are comprehensive with the different market conditions as they are perceived by the company.

Next, based on the three different types of pricing models, the scope of the different pricing models is discussed. In the literature, the different models are sometimes described as competitive models, giving a different or more superior explanation than other models. If the scope is made clear, several models may not be seen as competitive but as complementary.

After this, based on the categorization of the pricing models and the case, a meta pricing model is developed. The meta pricing model sees pricing as partly a question of the market conditions, and partly as a question of the overall goal and strategy of the firm. The firm is seen as embedded in different types of relationships with suppliers and customers and is moulding its market situations through purpose and content of the relationships. The actual content of the individual relationship is at a given point of time a result of the interaction process between the parties involved in the process. At the same time the network in which the parties are embedded may play a more or less important role for the relationship (Møller & Halinen, 2000). This will effect the individual firms possibility to follow its own goals and strategy.

Finally, at the end of the paper, the limitation of the meta pricing model and the need for further research and managerial implications is discussed.

Case¹

¹ The case is based upon 4 face-to-face interviews with the marketing manager and 1 face-to-face interview with the responsible price setter in the marketing department at Danfoss Drives. Also documents describing the pricing process and objectives was obtained during the company visits. The case was sent to the company for confirmation. Only a few

The Danfoss Group produces a number of different electronic, electromechanical and mechanic components for process and transmission control applied in several industries and has about 19,000 employees globally.

Danfoss Drives (DD) is one of the largest divisions in the Danfoss Group. The core business of the division is frequency converter production. These converters can be applied in a number of areas such as variable speed and motor torque control used in many different kinds of industrial production. DD's customers belong to almost all businesses and industries such as food, refrigeration, automobiles, clothing and the cement industry. Danfoss' sales subsidiaries are in charge of the frequency converters sale, and this ensures a high degree of worldwide market coverage.

The advantages of frequency converters are to be experienced by the customers as a higher level of precision, optimization of operations, lower noise and energy saving. For example, the VLT® Frequency converter can regulate the ventilation speed in a catering centre, and optimal regulation results in better working conditions in the form of less steam and odour, less draught, less ventilator noise and correct temperature. The correct adjustment of speed also increases energy saving. If speed is reduced by 50%, the amount of energy saved is 80%.

misunderstandings were corrected. 1 interview with a buyer from a client firm was also made. The primary goal was to obtain an understanding of whether there were differences in how the process was perceived. This only led to more details in the description, but no corrections were made in the overall description of the process. The implications of the case have since been discussed with the marketing manager and a marketing analyst from the company. The case is not a side product of a consulting project, but it was agreed upon, prior to the interviews, to provide time and access to confidential material in the company, this would afterwards be used for an evaluation of the pricing process where the author of this article also participated.

Product development is based on a platform. The individual platform offers opportunities to develop a number of varieties and functionalities which can be adjusted to individual customer needs and wants.

In principle, the sale of frequency converters can be divided into three main categories: standard products, project sale and specially designed products. Roughly, each category represents the following percentages of the total turnover: 50-60% standard products, 25-30% project sales and 10% specially designed products.

Like the rest of the group, DD operates a premium price strategy where the company typically offers prices at 5-10% above other suppliers on the market.

1. Standard products

Basically, DD does not produce standard products since standard products are often adjusted to specific customer needs and specifications. Nevertheless, this term is used since DD standard products have limited possibilities of adjustments and changes.

DD's list prices define the limits of pricing on this market. Based on experiences from the previous year and the expectations to future development, list prices for DD's products are fixed at least once a year. In preparation for this, a major effort is made to obtain as accurate information about the market as possible. All relevant information is collected from the sales subsidiaries; for example information gathered by salesmen from contact with different customers during the year, and information gathered via competitors' homepages or their published list prices. This information forms a good picture of the situation on individual markets and across markets; it will, for example,

be possible to track competitors' price strategies across markets and to see which discount types are being offered.

With regard to each individual subsidiary, a transfer price is agreed upon, calculated on the basis of the list price and adjusted according to the price level and the intensity of the competition on the individual market.

When a very large customer contacts DD, the price will very often be re-calculated based on the possible amount of goods to be sold and other conditions in the sales agreement.

Direct production costs are usually known, but costs occurring in other areas of the company are estimated typically based on sales situations and on actual calculations. Usually, DD charges higher prices than their competitors, and therefore it can be important for DD to prove that they offer a much better quality or service, e.g., installation assistance. Danfoss frequency converters have a high quality image, and therefore people expect higher quality and higher prices compared to similar products; even if the actual price difference is only 5%.

When DD launches new products, they strongly emphasize to their customers that the new product is a possible replacement product. This is because DD is aware that customers are very much influenced by price. If a customer thinks that, after a particular product launch, a change of the whole component is necessary, the customer will probably look for other alternatives which give competitors a chance to gain access to these customers. A re-launch of products consisting of many electronic components usually implies that the product has more functions but is sold at the same price or perhaps cheaper.

2. Project sale

The construction of new plants or office buildings is often an opportunity for companies to submit tenders for total solutions to different tasks. Here, price is also very important. If DD submits a tender, they try to do this as early as possible in the process since the specifications of a particular project have a major impact on which tendering companies are able to make a bid, and how successful this bid will turn out.

In other situations, DD submits a bid even if they know that the price may be too high and they have not had a chance to influence the tender documents; i.e. DD considers it important to participate in the process and attract attention to the company though their price may be non-competitive. If a second call for tenders is made, DD may then have a greater chance to come into consideration.

Project sale is the sale of solutions. Therefore the question is not so much about the price of each frequency converter but rather about the price of the whole solution. Generally, there is a sharp distinction between the sale of standard products and project sale, even though the project may comprise a number of standard products. On the other hand, it is clear that the list price gives an indication of the price of a particular project sale. The list prices reflect considerations about costs as well as competition, and therefore, in a project sale, they reflect the overall company objectives.

In some situations, the company is invited to make a second offer, even though the price of the first offer was too high. Reasons for this may vary. In some cases, the customer has a good relation to

the company, and therefore the customer is willing to give DD a new chance to offer a more competitive price. In other situations, it is an attempt to squeeze prices further.

In order to be able to give a competitive offer, it is important to know the prices of the other bidders. In some situations, the buyer informs other tendering companies of the price of the successful bid. This information, combined with DD's general market knowledge, gives the company a good indication of market prices and competitors' strategies and behaviour on the market. Certain customers may be regarded as important for a competitor, and this is clearly reflected in the tender that DD submits.

3. Specially designed products

Basically, the development of special products occurs either because the customer requires a very low price or because the customer has a very special need. If the price has to be low, it often implies that some functions are removed and the remaining ones are adjusted to fit the exact needs of the customer.

The development process is based on a certain platform from which the individual product or solution is then developed. Generally, this is done in close co-operation with the customer in order to meet the exact needs and wants of the customer.

The development is usually paid for by a direct payment or by charging a higher product price for a limited period of time.

Value added pricing

In some situations, the customer may be asking for a very special product, e.g., sensorless regulation. In this situation, DD would have to develop a new type of software, but calculating the correct price of this software is difficult since a certain amount of development costs is involved in the process. However, usually it is easy for DD to make a similar or almost similar product to another customer, thus making use of the acquired knowledge. Therefore the price is usually fixed after a negotiation.

Pricing in this segment takes place either by means of a pre-calculation of variable costs plus the addition of an overhead or by means of an open calculation. The use of an open calculation often implies that there is a high degree of trust between the parties. It is expected that the acquired knowledge is not used in an opportunistic way, and that one party respects that the other party is entitled to a proper profit.

As it appears from the case, the firm is in different pricing situations due to the market conditions. In one situation the firm can make the first step by making a pricelist. In another situation the firm has to decide whether the firm wants to make a bid or not, and in a third situation the firm will, in close cooperation with its buyers, reach an understanding as to what the price should be. To some extent the firm may be able to change or at least affect the market conditions. The firm is aware of its ability to affect the market and is deliberately acting in order to affect the market conditions. The question is how does this fit the assumptions behind the pricing models and how these models are said to be applied?

As it appears from the case, the firm is using different pricing models due to the market conditions. To some degree the firm may be able to change or least affect the market conditions. The firm is aware of its ability to affect the market and is deliberately acting to affect the market conditions. The question is how this fits to the assumptions behind the pricing models and how these models are said to be applied?

Setting the right price

Setting prices is an old topic within marketing (Nagel & Holden, 1995, Goetz, 1985). Building on economic theory, pricing was seen in the early days of marketing as a means for covering cost and adding an appropriate profit margin.

Later on pricing has been seen as a means to create competitive advantage and as a part of being market oriented. Still much of economic origins is prevailing in the marketing pricing literature (Nagel 1984, Rao, 1984, Nagel & Holden, 1995). Due to this thinking, pricing is highly affected by the power structure on the market which may be in the favour of the buyer or the seller or be even.

Campbell (1985) has distinguished between three market situations: competitive, command or cooperative, favouring different buying and selling strategies. In short, the three market types are described in the following way: Competitive markets are characterized as industries where the supplier's industry is fragmented, the buying company is larger than the supplier, the buying company favours competitive buying and the product is perceived as important by the buyer.

Command markets are characterized by buyer's industry being concentrated and suppliers industry being fragmented, the buying company prefers to dominate the supplier's costs and technology and the product is seen as important by the buyer. Cooperative markets are described as an industry in which both seller and buyer are concentrated, both companies seek a cooperative relationship and the product is seen as important by both parties. Campbell suggests the following price strategies:

- competitive, match market price
- command, negotiate price
- cooperative, don't overcharge

These suggestions are rather general, but, as shall be seen in the following, the suggestions fit quite well to the models that have been developed in more details within marketing.

Three types of pricing models

In the following a classification of pricing models is introduced. The classification is based on the idea that applying pricing models is a matter of scope and the scope is defined by the possibility to use the model for guiding the pricing process in a company depending on the market situation. The market situation is defined by the company's possibility to enforce a certain way of relating to others in the market (Campbell, 1985).

Figure 1: Market situation and pricing model

| | |
|--|--|
| Seller: | Buyer: |
| <i>Sales models</i> | |
| Seller fixes prices and other parameters | Buyer chooses the "best" combination of the marketing-mix |
| <i>Bidding models</i> | |
| Seller submits a bid in open competition. | Buyer describes the product/service. |

| | |
|--|---|
| Price is of vital importance. | Chooses lowest price. |
| <i>Interaction models</i> | |
| Resources and competences are used in the product development | Looks at the created value and the costs that arise. |

Sales models

These types of models are typical presented within the marketing literature (Kotler & Keller, 2005). The models are building on the premises that the selling company is the active part of the market and can decide what prices to take. Pricing is very much a question of getting information about the market and decide how to act. Three models within B-2-B marketing will be mentioned because of their contribution with regard to:

- How the aims of the company play a role in pricing,
- How to structure the internal and external factors that are important for pricing
- How to plan the pricing process.

Morris & Calantone (1990) (See also Avlonitis & Indouras, 2005 & 2005, for a similar approach within services) are highlighting the importance of consistency in pricing by launching their strategic pricing program (SPP). According to the SPP, pricing is seen as a consistent hierarchy; **Objectives** – what does the company want to achieve, e.g. stability, growth, quality, etc.? **Strategy** – what are the guiding factors for setting prices, e.g. cost or demand based? **Structure** – how should prices be adjusted within and across the product range? **Tactics** – how should the company react in specific situations e.g. dumping, weak market, ect.?

SPP is a starting point for putting weight on the right priorities internally in the company. In the SPP the drivers for getting the priorities right are also mentioned, but Shipley & Jobber (2001) have developed a more comprehensive approach by structuring the drivers in three groups; costs, internal and external situational factors and the buyers perception of the offer. At one level, the price floor is a term used to describe what the costs are to serve the customer, in the short and the long run? At the other level, the pricing ceiling is a term describing what the customer is actually able and willing to pay? And in between the two levels, the company's possibility to manoeuvre is described by which internal factors (general strategy, objectives, positioning strategy, complementary products and other company internal factors) and external factors (competitors, buyer's profit, legislation, etc.) should influence the pricing decisions and to which degree, in the actual situation?

Lancioni (2005) offers a pricing planning model. The planning approach is built on the earlier works and thinking within the subject, but contributes in seeing pricing as a process and pointing out the most important steps. Lancioni puts it the following way: "Developing a pricing plan requires that a company commit to a set of objectives, a course of action, an operational strategy and a set of control and review procedures dedicated to making the management of its pricing process a success" (Lancioni, p. 178).

These types of models offer guidelines as to how to address a market from an inside-out perspective; the selling company can decide the price setting and the customers are supposed to act according to who is offering the best combination of the marketing-mix. The price is seen as a vital component.

The major managerial challenges when using these types of models are to analyse the market e.g. to get the right understanding of what customers need and want, what they are willing to pay and how

other outside factors may affect the focal company's possibilities to achieve the goals. At the same time, the models offer guidelines as to how to get the internal priorities and strategies in coherence with each other.

Bidding models

These types of models are sometimes mentioned in marketing texts (Kotler & Keller, 2005), but have no prominent place in the presentation of how pricing is undertaken. Bidding situations occur, when companies are asked to give a price for a component, building, etc. Very much like in an auction. Several of the models within this area are clearly relating to or building on microeconomic theory (Hirshleifer et. al.2005, Roth & Ocksenfels, 2002). In the models, a central issue is how to get the right market information (e.g. information about bids at an earlier point of time) and what price to offer.

Usually models within this type of pricing models are building on a number of assumptions like the following:

- Number of competitors is fixed
- Action alternatives are known
- Actions are performed simultaneously
- Results can be traced back to action alternatives

These assumptions may be varied and due to this highlight particular aspects of pricing. Refinement of the assumptions complicates the models and strengthens the requirements to information and mathematical skills.

Morse (1975) is offering a model that build on a registration of earlier bids and calculated costs and demonstrates the main idea behind this type of models.

First, the focal company is supposed to register earlier bids by relevant competitors and how they are expected to give in a bid in the present situation. The focal company then compares its calculated cost in the earlier bidding situations to the actual bids by its competitors. Based on this the focal company then calculates which profit margin should have been added to give the highest payoff. After this analysis of the past, the focal company can use the calculated profit margin as a fix point for what to add to the calculated cost.

As a result of a more widespread use of net auctions (Heriot & Kulkarni, 2001), the core idea behind this type of model has come into the focus of business managers. Daly & Nath (2005) have raised the question whether it is possible to use auctions and to promote long-term thinking in a supply chain. They see “relationship-friendly auctions ... as a viable option” (Daly & Nath, 2005, p. 164), even though it is likely balancing knives etc. To make the approach work, using auctions as well as making use of close relationships, companies may e.g. first make bids and a company actually first win the order. After this the winning company and one or several of the losing companies may enter into collaboration with the winner as sub-suppliers.

Due to this type of pricing models, the managerial challenges concern registration of relevant earlier bids, being able to calculate the total cost of getting an order of each project and to add the right profit margin with regard to who are the competitors. Competitors are expected to act in coherence with their earlier bidding strategy, or, if not, the focal company has to figure out how situational effects may affect the actual bid. The approach behind the bidding models offers also a perspective on collaboration.

Interaction models

In marketing theory, only few efforts have been made on how to set prices when companies are supposed to work together in close relationships. But as it has been demonstrated by a number of empirical studies (Håkansson, 1982, Ford, 1995), companies sometimes prefer to enter into close relationship and try in cooperation to create better solutions than they could have reached playing the market. From a micro-economic point of view, such a situation may be seen as an anomaly, where some kinds of lock-in effect exists that make the “normal” market forces not work. Seen from a relation perspective, cooperating closely may not necessarily be a problem, but actually create a number of advantages (Snehota & Håkansson, 1989). Even when cooperating closely pricing is an issue and as Gadde et. al. (2002) stated, with reference to pricing theory: “Much literature (within micro-theory and marketing theory) somehow presumes that the relationship between buyer and seller is distant”. Based on the assumption that relationships between two companies may be close, Gadde et al. see the following building blocks as important for pricing:

1. Price relates to everything in the relation, e.g. investment and adjustment
2. Value is synonymous with cost reduction
3. Price is one of the main cost factors. Others are transport, insurance etc.
4. A transaction or purchase should be viewed as a series of transactions
5. Focus on a single buyer-seller relation is not enough

Within a relationship price is therefore very much a question of negotiation and identification of cost and value for both parties. E.g. cost calculation is much more than production cost and includes

cost factors such as handling costs, inventory costs, credit costs, supplier handling costs, administrative expenses, and development costs. Some of these cost types may be difficult to calculate, even though they represent a burden (Håkansson & Snehota, 1995) for a relationship.

Due to this type of pricing model, the managerial challenges are to identify attractive partners with a similar attitude towards cooperation and to create valuable solutions and to keep different types of costs down in the interest of both parties.

Complementary or competitive explanations

The above models are often described as competitive models, building on different views of the world, and as it can be seen in the below figure the assumptions about reality are quite different.

Table 1 Neoclassical theory versus IMP framework

Neoclassical theory:

- Objective is profit maximizing
- Markets are transparent
- Products and preferences are homogeneous
- Decisions are characterised by financial rationality
- Market transactions are frictionless
- Buying and selling are situational and independent of past and present
- Costs are known and preferences are stable

IMP approach:

- Objectives are long-term and diverse

- Relations are lasting and stable
- Mutual adjustments often occur
- Price is a part of costs
- Sellers and buyers are active on the market

Hedaa, 1996; Fog, 1994; Turnbull & Valla, 1986, Gadde, Håkansson & Harrison 2002

Taking this view of reality, it seems more than difficult to combine or use pricing models building on these different views. Comprehension of a market is not a given thing. Harker (2001, see also Hoffman, 1989) is studying company turnaround processes and how companies can succeed in staying alive by getting a better understanding and manipulating of markets. According to Harker, market comprehension is very much about understanding the market mechanism and being able to not necessarily follow the usual path but to challenge the foreseeable destiny by changing the understanding the of the market. How to be aware of and to perceive the market may be the important challenge for the company before it decides how to set the price. The market is not a given entity, but in order to become more competitive, the firm may have the possibility to change the conditions under which competition is taking place. Causes of decline may be different (Grinyer et al. 1988), but turning the business around requires environmental comprehension, strategy and planning. By looking critically and from different angles at the market, firms may identify new possibilities. Sarasvarthy et al. (2002) is offering three perspectives of how to view market opportunities. The allocative perspective sees an opportunity as the possibility to put resources to good use to achieve given ends. tThe supply as well as the demand side know what should be the expected outcome. Correcting errors in a system by generating new ways of achieving given ends is defining the discovery perspective on market opportunities. Either the demand or the

supply side is not fully aware of what solution to offer or what solution to look for. When both create new means and ends, the creative perspective of market opportunities is described. Here neither demand nor supply side know what to look for.

The diverse market opportunities will lead to different types of competition. The allocative perspective leads to resource based competition, the discovery perspective to market detaching strategies and the creative perspective to value effectuation strategies.

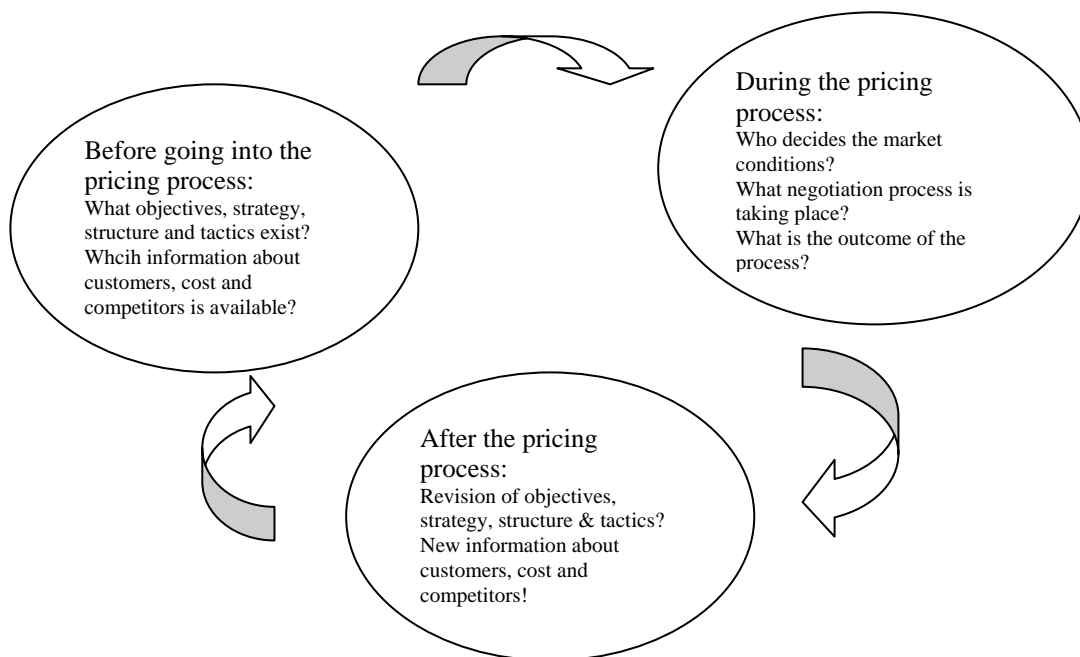
Due to this, the managerial challenge in pricing is very much a question of addressing the market in the right way depending on the conditions and whether the firm has the possibility to affect the market conditions. To understand how this is taking place the Danfoss case can be used:

The pricing process in the company

The case demonstrates that pricing in the company incorporates all three types of pricing models, even though they are seen as not compatible. Depending on how the company defines its market situation, the company uses the different types of models. At the same time it is important to notice the overall market situation, as it is defined by the company, before going into details as to how the pricing process is actually going on. First, the company charges a premium price by generally trying to achieve 5-10 % more than other companies. Secondly, the company operates in a market where prices are expected to drop 5-8% per year. Putting too much emphasis on price is considered problematic by the firm, and the firm is therefore trying to see price as a part of the total package in the selling process. Pricing should never be an issue on its own. This can be a problem when asked to give a bid. The company therefore always tries to (re-)negotiate conditions before making an offer.

Looking overall at the pricing process in the company, the following process can be seen (see below figure)

Figure 2 Pricing as a process



Before going into the pricing process:

Different factors may initiate the process which leads to giving a price offer. E. g. potential buyers may ask for bid or just pronounce their interest in potentially buying a product. In a company like in the Danfoss case the firm will have prior experiences dealing with customers and therefore have some ideas of how to address such a situation. E.g. the companies will typically have some kind of explicit or implicit knowledge as to what the important cost drivers are and will have used this to formulate some statements about objectives and strategies. Some prices may even be announced in a list and be used as a reference point for what concessions to make or what to add to prices if

certain changes on the market are occurring (Morris & Calantone, 1990, G. J. Avlonitis & K. A. Induounas (2005)). Firms will, due to earlier experiences, objectives and strategies, be predisposed to act in a certain way. At the same time the firm is very conscious about how it wants to relate to its customers. Using a bidding mode does not necessarily mean that this is solely arms length undertaking. Each pricing process is rather to be seen as one step in a number of steps in the relationship with the buyer. It is more a matter of content in the overall relationship between the firms than the actual situation, if the outcome in single exchange episode should be understood (Ford, 1997).

During the pricing process:

Depending on the market situation and who is defining it, there will be different strategies to address the customer. In extreme situations where e.g. the customer has a strong position, it may be difficult for the seller to affect the buyer and the seller can be forced to leave the process without getting the order. In other cases, the possibilities to affect each other may be more evenly distributed among the seller and the buyer. Such situations may lead to processes that take the interests of both parties into consideration. The contents of the negotiation process will be dominated by commercial, technical, tactical and strategic considerations. At the same it obvious that the buyer is making similar consideration as the seller is doing. The buyer will have certain objectives to aim for and strategies and tactics to follow. In the actual situation the buyer will look into how in general to relate to the market and in particular to the single supplier. Importance of the product will play a central role in the consideration made.

After the pricing process:

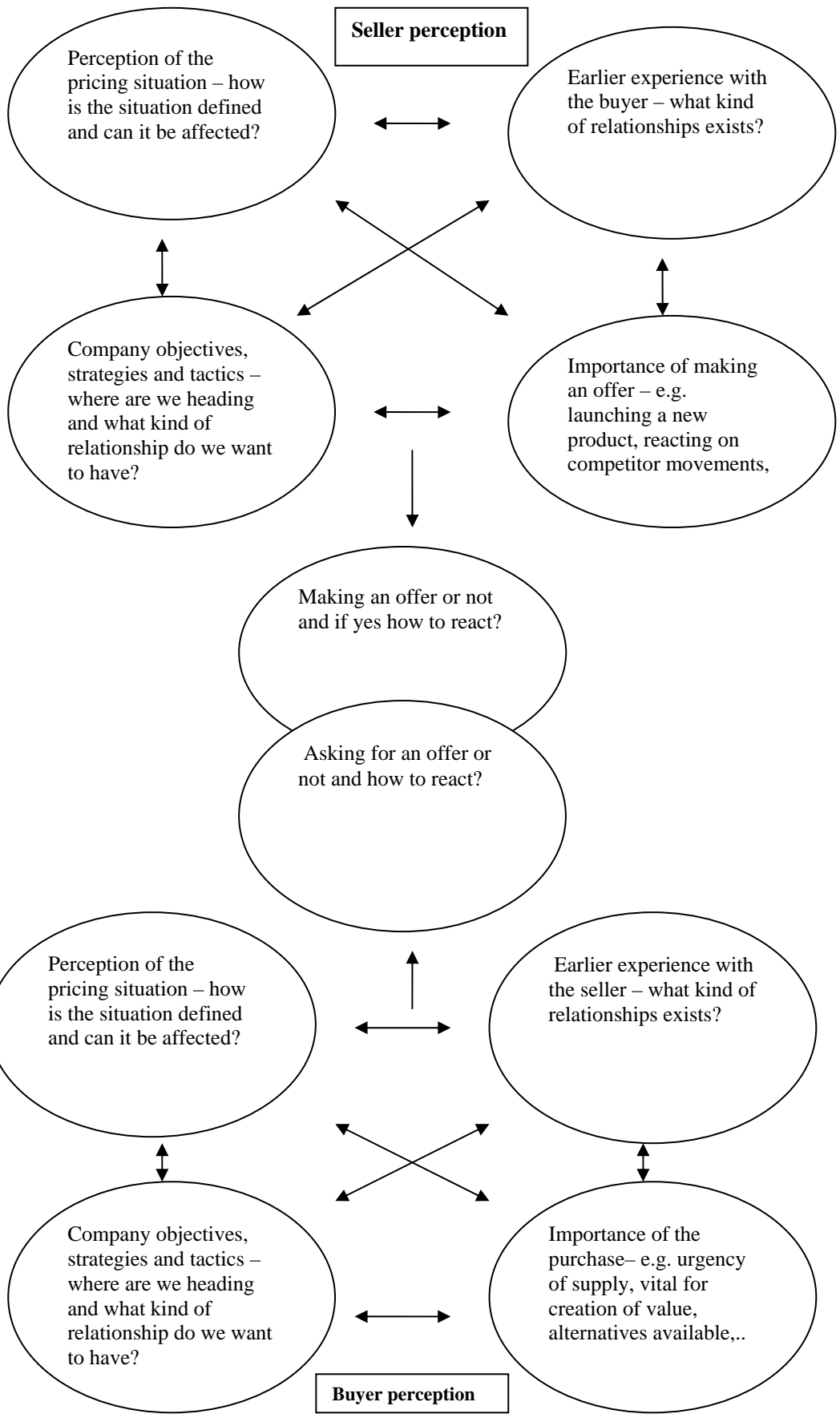
After the negotiation process there will be a validation of the process. Validation of the pricing process is part of the ongoing market surveillance process. Careful registration of buyer requirements and tactics is valuable to understand the ongoing logic of the competition and cooperation processes. In extreme situations a revision of the objectives and strategy may be considered. Often there is a tendency to seek price stability. Price is a powerful tool to attract new or to keep existing customers, but at the same time price has a tremendous signal effect on the market. Going into a game where price considerations dominate may be considered dangerous and a difficult game to leave again. Covering price concessions may therefore be an important part of the game. The buyer will usually be interested in price concessions, but be aware of how this may affect the relationship, and due to this be more or less persistent in getting price lowering

Built on this process a more formalized framework can be outlined.

A comprehensive pricing framework

A comprehensive model based on literature and the above case is outlined in the following. Two main features are characterized in the table. First, it describes the pricing process as a strategic process by linking the process to relationship management. Secondly, the table views pricing as a part of the process in which the company is defining its market conditions and its competitive means.

Figure 3 Comprehensive pricing framework



Both parties' actions and reactions are taken into account when companies decide whether they want to make or ask for an offer or not. And as is indicated in the figure above the degree of relational affects (prior experience, interdependencies, and other) may to an extensive degree affect what is decided about price and what models are used to find prices. Due to the overall power-dependence of the relationship one company may have the ability to enforce a certain market situation, but may not necessarily due to relational interests do this (Anderson et al. 1994).

Conclusion

The analysis has several implications. Pricing is important for the success of the firm as earlier research has indicated. Relationship pricing is also an important issue. Both seller and buyer see pricing as an important part of the process of reaching an agreement. The relationship between the parties is an important influence on how the parties interact and what kind of situation occurs. If the most powerful part sees the relationship as of minor importance the room for manoeuvring may be very small and the only question, which may arise in the beginning, is whether or not to make or to ask for an offer. In practice this will be the case when the customer has to see the price list as a giving entity or the seller can make a price offer for a set of conditions as defined by the buyer.

In other situations the space for manoeuvring is higher. The parties may be able to change the situation and by this change the pricing models apply in the situation. Price lists or bidding conditions may then be seen as information about what the other part strives for and more or less valid information when entering a negotiation process.

In a negotiation process relational factors will be at stake. How does the parties perceive the relationship and how has it developed? What are the parties trying to achieve in the actual situation? What other potential solutions are open if no agreement is reached? And how much pressure is there?

Getting the right price is a matter of the scope of the market. Some pricing models are helpful in some situations, but the firm may in some situations be able to influence the other firm engaging in the pricing game and by this changing the name of the game and the pricing models to use.

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