Aalto University
School of Business

Pricing Strategy and Revenue Models: A Multiple Case Study from the IT Service Sector in Finland

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Joonas Wuollet
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AALTO UNIVERSITY SCHOOL OF BUSINESS ABSTRACT
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ABSTRACT

Objectives of the Study

The goal of this research is to study the two managerially and academically important issues of 1) the level of value based pricing used in SMEs and 2) pricing strategy as a tool for partnerships.

Academic background and methodology

In one of the staple articles on the issue of value-based pricing, Hinterhuber explains that although the effect of pricing on profitability is quite clear, managers often see pricing as a zero sum game, where the company's gain comes only at the customer's expense. (2004) Managers often do not pursue value pricing because they perceive customers as quite price sensitive. However, in their research, Avila and Dodds found that purchasing managers ranked price as the least important criteria in the decision making process (1993).

Although the literature has attempted to describe pricing as a tool for partnerships (Voeth & Herbst, 2006; Johnston & Lawrence, 1988; Porrini, 2006), there has been no attempt to explain what aspects of pricing and revenue strategies make the most significant contribution to the success of partnerships. Sainio and Marjakoski describe value based pricing and revenue logic as key determinants of business models, but do not make the connection between these inputs and the goal of building partnerships (2009). We addressed this gap in the literature by proposing a framework to assess pricing as a tool for partnerships based on these two dimensions: 1) value versus market pricing and 2) on-going versus one-time revenue models.

The multiple case study method employed in this study helped to overcome the knowledge gap of novel pricing concepts by providing clarification of concepts to the interviewees. The interviews were structured which encouraged comparability between the cases. The integrity of the interview data was ensured by conducting all interviews within a short time frame, producing full transcripts of interviewee comments, and translating the complete texts.

Findings and conclusions

The proposed framework was tested and can be used as a strategic tool to build deeper partnerships with clients. The dimensions used in the framework were supported by the stated goals of the interviewees, who each hoped to build and maintain partnerships with their clients.

Keywords

value-based pricing, revenue models, partnerships, pricing strategy framework

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1. INTRODUCTION

1.1. Background Information

IT services come in many forms and functions, from time-intensive hourly work to Software as a Service (SaaS), where the variable cost to serve an additional customer is close to nil. Although some services are provided free to end-users, the unifying theme in the services industry is that in order for a business to be successful, someone must be charged a price. For this reason it is perplexing that pricing is one of the least mastered and researched aspects of marketing (Hoffman, Turley, & Kelley, 2002).

Not only is pricing often a black box in practice; academics have largely avoided the topic as well. There are three major issues in service pricing research to date: the challenges unique to service pricing are not understood, there is no well-defined research direction for service pricing research, and the pricing of goods and services are being studied in isolation (Hoffman et al, 2002)

1.2. Value based pricing

Nagle and Holden define value pricing as the price of a customer's next best alternative plus the value of differentiating features (2002). In one of the staple articles on the issue of value-based pricing, Hinterhuber explains that although the effect of pricing on profitability is quite clear, managers often see pricing as a zero sum game, where the company's gain comes only at the customer's expense. (2004) Other researchers view prices as dictated by the market, and therefore choose to focus their attention on operational functions. However, according to a study on 200 manufacturing firms completed by Avila and Dodds, when the product in question is critically important to the customer, salespeople give price far too much weight in the sales process, while customers actually consider product attributes and service first (1993). It follows that pricing should be considered a strategic choice, rather than a precedent given by the market.

1.3. Rationale for the study

Having opened the realm of pricing to a strategic discussion, the theoretical gaps, which the current study addresses, can be specified. The larger gap in the literature is the small number of studies that focus on pricing. Malhotra found that pricing was the subject of less than 2 percent of studies published in major marketing journals (1996). Even a more recent empirical study still found that less than 5% of articles in the Journal of Business-to-Business Marketing cover the topic of pricing. (Dant & Lapuka, 2008) Nagle and Holden go as far as saying few professional managers consider pricing in a strategic sense (2002).

While the general lack of focus on pricing in the literature is quite easily demonstrated, the lack of qualitative studies on the topic is more difficult to evaluate. Most research in the area of pricing has made use of questionnaires or metadata analyses (Hogan, 2001; Lancioni, Schau, & Smith, 2005; Sainio & Marjakoski, 2009). While these methods have shown some light on macro effects of pricing, their ability to link real-life phenomenon to theory is somewhat lacking (Benbasat, Goldstein, & Mead, 1987). Therefore the current study uses a multiple case study approach in order to more precisely define the decision making processes which take place within case firms as part of their pricing processes. If we have a more robust understanding of the pricing decision making process, future research can find contextual differences which encourage use of different methods of strategic pricing. With case research, value-based pricing as a process within a firm can be more clearly described (Ulaga, 2003). In this study, a current cross-section of pricing as a strategic tool is assessed based on data from structured interviews with leaders of five SMEs in the IT service sector in Finland. This study also demonstrates pricing as a tool for building partnerships, which is supported by an emergent framework of pricing strategies.

1.4. Pricing as a tool for partnerships

Most studies to date on partnerships focus on sharing of information and expertise or building cooperation between operational functions. (Lombardo, 2005; Merhout and Havelka, 2008) However, some studies have brought the discussion of pricing as a tool for partnership to the next level. In a study on supply chain pricing, Voeth and Herbst look for opportunities for suppliers and customer to use pricing as a tool for building mutually beneficial relationships. In order to reach this goal, they state that pricing must be viewed as a tool for outcome optimization rather than a distributive parameter (2006). In a review of value added partnerships, Johnston and Lawrence find that even in commoditized fields such as construction, contractors make contracts with partners offering reasonable prices, and not always the lowest bid (1988). Although the literature has attempted to describe pricing as a tool for partnerships (Voeth & Herbst, 2006; Johnston &

Lawrence, 1988; Porrini, 2006), there has been no attempt to explain what aspects of pricing and revenue strategies have the make the most significant contribution to the success of partnerships (Shipley & Jobber, 2001). Sainio and Marjakoski describe value based pricing and revenue logic as key determinants of business models, but do not make the connection between these inputs and the goal of building partnerships (2009). We attempt to address this gap in the literature by proposing a framework to assess pricing as a tool for partnerships based on these two dimensions: 1) value-based versus market-based pricing and 2) on-going versus one-time revenue models.

1.5. Research Questions

The goal of this research is to study the two managerially and academically important issues of 1) the level of value based pricing in SMEs and 2) pricing strategy as a tool for partnerships. To reach that goal, this study will focus on the following research questions:

1. How does a firm's revenue model relate to differentiation strategy?
2. Do economies of scale or economies of scope dictate pricing strategy?
3. Which customer perceptions effect pricing and revenue model use?
4. Do pricing principles currently guide sales strategies or vice versa?
5. How can pricing strategies be categorized in a useful manner?

2. LITERATURE REVIEW

2.1. Focus of the literature review

This literature review will follow the guidelines laid out by Hart, who states a literature review should contain serve the following 11 purposes in research:

> *1) distinguishing what has been done from what needs to be done;*
>
> *2) discovering important variables relevant to the topic;*
>
> *3) synthesizing and gaining a new perspective;*
>
> *4) identifying relationships between ideas and practice;*
>
> *5) establishing the context of the topic or problem;*
>
> *6) rationalizing the significance of the problem;*
>
> *7) enhancing and acquiring the subject vocabulary;*
>
> *8) understanding the structure of the subject;*
>
> *9) relating ideas and theory to applications;*
>
> *10) identifying the main methodologies and research techniques that have been used;*
>
> *11) placing the research in a historical context to show familiarity with state-of-the-art developments (Hart, 1998).*

While quite a long list of requirements, a comprehensive literature review will provide a solid basis for the subject of the research.

2.2. Pricing as a phenomenon

> *Everything is worth what its purchaser will pay for it.*
>
> -Maxim 847 of Publius Syrus, first century AD (Lyman, 1856)

As seen from the timeless ponderings of a first century philosopher, pricing has claimed the interest of generations, and for good reason. Of E. Jerome McCarthy's four P's of marketing, price has the most direct effect on a firm's bottom line. In his research, Andreas Hinterhuber finds that on average, a five percent increase in price leads to a 22 percent improvement in operating profits (2004). According to the basic economic laws of supply and demand, an increased price can decrease demand. However, depending on the elasticity of demand, this can in turn increase or decrease revenues. Marn and Rosiello make the importance of pricing quite clear in finding that holding other factors steady, a single percent increase in price can mean an 11.1 percent increase in operating profitability, while a single percent increase in volume will only raise profits by 3.3 percent (1992). It follows that poor pricing often leads to poor financial performance, while proper pricing often increases operating profit. For this reason it is perplexing that pricing is one of the least mastered and researched aspects of marketing (Hoffman et al, 2002). Nagle and Holden define pricing strategy as "coordination of interrelated marketing, competitive, and financial decisions to maximize the ability to set prices profitably". They also go as far as saying few professional managers consider pricing in a strategic sense (2002). While research in the area of pricing has picked up since the early 1990s, much of the research has focused on pricing methods more relevant to products than services (Avlonitis & Indounas, 2007; Bonnemeier, Burianek, & Reichwald, 2010; Demirkan, Kauffman, Vayghan, Fill, Karagiannis, & Maglio, 2008; Hultén, Viström, & Mejtoft, 2009).

Arriving at the correct price in the cost-based pricing realm can be an important exercise. However, as a strategic tool, prices can reflect the value the customer perceives rather than the cost ensued to produce the good or service (Anderson & Narus, 2004). Although other researchers have explored the theoretical advantages of value pricing (Narayandas, 2005; Avila & Dodds, 1993; Hinterhuber, 2004), and perhaps due to the novelty of some pricing concepts, little research has been undertaken to explore the current level of usage of value pricing methods in practice at SMEs or otherwise. With this research, we attempt to address this gap in the literature.

2.3. Pricing as a tool for partnerships

Most studies to date on partnerships focus on sharing of information and expertise or building cooperation between operational functions (Lombardo, 2005; Merhout & Havelka, 2008). Other studies have proven the concept a step further by measuring value creation resulting from alliance announcements (Anand & Khanna, 2000; Neill, Pfeiffer, & Young-Ybarra, 2001). Porrini considers whether alliance value creation is a zero sum game, hypothesizing that alliances allow firms risk management by offering incremental commitments to new strategies (2006). All of these studies attempt to describe the inter-organizational cooperation phenomenon, either what makes it work, or what could be done to improve these partnerships. However, a review of the literature found no attempt to explain what aspects of pricing and revenue strategies most affect the success of partnerships. We attempt to address this gap in the literature as well.

2.4. Pricing strategies

2.4.1. Market based pricing

The default method of pricing for many firms is using market prices. Many managers feel prices are dictated by the market and they have little or no control over them (Dolan, 1995). However, there are two very different perspectives from which a market-based price can be derived. The reference price may be from the product or service, which is viewed as most similar to the firm's own offering. In their paradigm-shifting book, Nagle and Holden claim that the reference point should rather reflect the customer's perceived alternative to a particular offering (2002).

2.4.2. Competitive pricing

The distinction between competitive pricing and competition based on pricing should be made clear. Competitive pricing, or the pricing of an offering based on what the competition is charging is most common in markets where many substitutes are available. Anderson and Narus define competitive pricing as simply setting prices relative to what competitors are charging (2004). Competition based on price is the practice of undercutting prices offered by competitors, and is not a sustainable growth strategy, particularly if it sparks a price war (Nagle & Holden, 2002).

2.4.3. Cost based pricing

Cost pricing or cost-plus pricing is the practice of adding some percentage to known costs to arrive at the offering price (Anderson & Narus, 2004). Nagle and Holden state that while cost must be taken into account in pricing decisions, the cost-plus pricer often uses an inefficient chronology of steps in the pricing process. The method involves setting a volume first, and constructing a cost based price from that. A more efficient method is to begin by determining a value that customers can accept and building the market and quantity numbers from there (2002).

2.4.4. Value-based pricing

Value based pricing can be defined as setting a price in relation to an offering's value (Anderson & Narus, 2004). The reason many managers do not pursue value pricing is that they perceive customers as quite price sensitive. However, in their research, Avila and Dodds found that purchasing managers ranked price as the least important criteria in the decision making process. Sales managers, on the other hand, perceived price much higher on the list of criteria. This demonstrates their lack of understanding of what is critical in the purchasing process (1993).

A price increase can bring either an increase or decrease in revenue depending on the elasticity of demand (Hoffman et al, 2002). Nagle and Holden suggest 10 factors which influence customer price sensitivity in the context of services (2002). They proposed that price sensitivity decreases as the customer's ability to build an inventory decreases. Lee and Ng continue this line of thought and find that more capacity should be saved for the time of consumption as price sensitivity decreases (2001). The factor which perhaps most directly lends itself to value-based pricing is that price sensitivity decreases the less price-sensitive customers are to the end benefit (Nagle & Holden, 2002). If the value of the end benefit is central to price sensitivity, the next question is how end benefits can be quantified. In his research, Hinterhuber stresses that by gaining a clear understanding of the value sources from the customer's perspective, under-pricing products, particularly innovative products, can be avoided. He goes on to describe the process of implementing value pricing. (2004) While his article describes the value analysis process in depth, the methods of implementation are only briefly listed. Little research has been undertaken to understand to what extent firms, particularly service firms, pursue value based pricing. In a more recent article written together with Stephan M. Liozu, Hinterhuber studied the extent to which CEO advocation of pricing impacts both pricing capabilities and firm performance (Liozu & Hinterhuber, 2013). While that article takes the discussion to the end benefits of pricing, the intermediate step in the value pricing process remains largely open. The aim of the current study is therefore to fill that gap in the literature. The IT industry has been chosen for this study due to the apparent difference between the cost to produce and the value provided by the various technologies, and the resulting opportunity to use value based pricing strategies. The current study aims to investigate the extent to which SMEs in the IT service sector employ different pricing strategies, to describe the internal and external factors which affect pricing methods, and to build a theoretical framework to describe the relationship between the various pricing strategies. Next we will review the literature on pricing methods.

2.4.5. Price Skimming

If the objective of pricing strategy is to build market share, low penetration pricing is often recommended (Nagle & Holden, 2002). However, if the goal is to capture as much of the customer perceived value as possible, "price skimming" might be the method of choice. Price skimming relies on the assumption that different customers value an offering at different prices. The technique involves introducing a new offering at a high price and lowering the price over time, so that as much as possible of each consecutive level of valuation is captured (Gebhardt, 2006). Price skimming can be a brief process, but sometimes premium prices are drawn out over years.

2.4.6. Customized prices

While customized pricing in consumer markets is at best slow, and at worst, illegal, it is common practice in B2B markets (Simon & Butscher, 2001). Clients may have such large differences in needs that a firm must provide a different solution to every customer. Due to this reality, the use of customized prices is also widely accepted, even expected, of firms. When the usage of the offering is what provides the value, a customized price can be built which reflects this unique value (Narayandas, 2005).

2.4.7. Hourly based billing

Although billing by the hour is one of the most used methods of pricing labor, as workers in developed economies becomes more skilled and specialized the usefulness of this method is diminishing. Baker finds that hourly fees are the wrong way to measure value firms provide for clients (2009). Often, the hourly fee is used due to the perception that it most directly correlates to cost, but this is not always the case (Scott, 2006).

2.4.8. Lifecycle pricing

Nagle and Holden encourage contemplation of a product's price through four phases: development, growth, maturity, and decline (2002). As a long-term concept, its implementation may take years to complete. The realization of lifecycle pricing procedures may take even longer. For this reason it can be difficult to observe or comment on its use in newer companies.

2.4.9. Experience curve pricing

Experience curve cost cutting goes back to beyond Henry Ford and the Model T, although the first article on the subject was not published until 1936 (Hirschmann, 1964). In his classic article in the Harvard Business Review, Hirschmann refers to the experience curve phenomenon and the resulting price decrease that Ford achieved (1964). In more recent research, the slope of price decreases in competitive markets is more accurately measured and these tools are suggested for use in predicting future price decreases as well (Gottfredson, Schaubert, & Saenz., 2008).

2.4.10. Target return pricing

Target return pricing is often used interchangeably with cost-plus pricing. The method's ease of use, an assumption of good sales estimates by managers, and close-enough attitudes are factors which have encouraged its adoption. Brooks claims that the additional time and effort to produce a better price point may not be offset by the rise in precision (Brooks, 1975). However, already during the same period, target return pricing had its adversaries. The method is labeled naïve, and less than precise, although at that time few superior pricing techniques had become mainstream (Kamerschen, 1975).

2.4.11. Group/ Segment based pricing

Buyer grouping or segmentation allows a company to offer an appropriate price to groups of customers with differing willingness to pay. Each level is carefully separated using a number of different tactics (Chesbrough, 2010). If taken to an extreme segmentation can be illegal, but many legal methods are available. Segments do not separate themselves, but require careful consideration by the firm to distinguish differences in what customers value and how much (Nagle & Holden, 2002).

2.4.12. Versioning /Predetermined choices

In their now classic article on versioning, Shapiro and Varian took the marketing theory of information goods to a new level. They assert that versioning is not a new way of doing business, but rather a method used to apply the tested concepts of segmentation, differentiation and positioning to a new type of offering; namely information goods (1998).

2.4.13. Bundled pricing

It is important to note that price bundling of two or more products which are not inseparable from the customers' perspective also requires discounting. However, this type of discounting is not in conflict with value pricing per se, as there is no additional value perceived by the customer which would demand a premium (Sharma & Iyer, 2011).

2.4.14. Profit and Revenue sharing

Profit and revenue sharing schemes can essentially turn a traditional supply chain into a value chain. Cachon and Lariviere name the practice "turning the supply chain into a revenue chain" and describe the practice used by blockbuster in its heyday, which gave studios producing content a share of rental fees while requiring a lower purchase price for the tapes (2001). They argued already then, that the practice would be applicable to high technology in particular, due to the high up-front costs of equipment and the price sensitivity of customers to a relatively new technology. Nagle and Holden also come to the same conclusion, observing that price sensitivity decreases as shared-costs for the expenditure increase (2002).

2.4.15. Licensing

Licensing as a business practice began long before software. However, from the success of Microsoft, among others, it seems that the business model was made for these offerings. Besides allowing scaling of software products, licensing can also be used to launch a national brand, penetrate new markets, share investment risk, build brand awareness, increase profitability of existing products, revive mature product lines, control subsidiaries, or to build a franchise (Quelch, 1985).

2.4.16. Pricing as a cue

Assuming that buyers find a reference price and compare an offering based on the perceived value differential, price can be used as a signal of the value of an offering. The signal can be either "this is a deal" or "this must really offer something special", depending on whether the price is lower or higher relative to reference points in the market. In any case, pricing is not used as a cue for the sake of making a point. Rather, the goal is to benefit from the client perception, for example through cross selling to clients who feel a firm provides a great value on a single product (Dolan, 1995).

2.4.17. Discounting

Many researchers including Teng (2009), Tsao (2009), and Choi and Coulter (2012) have studied the phenomenon of discounting in retailing and other B2C settings. Despite the prevalence of discounting in B2B situations (Frenzen, Hansen, Krafft, Mantrala, & Schmidt, 2010), far less research has been conducted on the phenomenon of discounting in these contexts. In their study on the delegation of pricing authority to the salesforce, Frenzen et. al. find that rigid sales pricing policies are not the answer, but rather, salespeople should be given sufficient autonomy to price according to context, especially in the face of uncertain markets (2010). In a single-vendor multi-buyer context, however, Sinha and Sarmah find that specifically under a level of uncertainty, coordinated discounting is not an efficient method of building channel profitability (2010).

In his paper on value-based pricing, Hinterhuber offers the use of discounts as a method of introducing higher prices by first offering a “discount” on a higher price. After this period of enjoying a discount, the buyer is then much more receptive of the higher price, as it is simply the end of a temporary discount (2004). While their research focused on the angle of sales force productivity, Siguaw, Kimes, & Gassenheimer found that the use of discounting to land “national” customers often led to lower profitability (2003). On the other hand, Siguaw et. al. also found that discounting off-peak capacity which would have otherwise not been sold was seen as fair pricing (2003).

3. METHODOLOGY

3.1. Research method

The status of pricing strategies in IT sector SMEs is quite diverse. Some use the same hourly pricing they have since their founding, while others use licensing or value based pricing. Unfortunately, the single common factor most firms share in the area of pricing is a lack of understanding of the options available (Hoffman et al, 2002). While it would offer a higher level of statistical validity, a survey on the topic would fall short of creating accurate information due to this pervalent lack of familiarity with not only the pricing options available, but the relevant terminology as well (Roethlisberger, 1977). Because the goal of this research is to more precisely describe the pricing strategy and decision making processes which take place within SME firms, it is critical that the descriptions given are not only accurate, but also provide more depth than provided by a Likert scale (Miles & Huberman, 1994). While a single case study research design could alleviate this issue of depth, focusing on a single company would fail to populate the theoretical framework at a meaningful level and critically restrict the universality of any findings. Interviews of hundreds of company leaders would provide the background for universal applicability of findings, but this is not possible due to the lack of resources in a Master's thesis (Benbasat et. al., 1987). For these reasons this study is based a multiple case study design. Case studies and other such idiographic research strategies are particularly suited for describing deepening understanding an observable phenomenon in its context (Davis, Frankz, & Robey, 1984). The case study strategy of research suits the goal of capturing knowledge from professionals and using this knowledge to develop theories particularly well (Benbasat et. al., 1987). Studying multiple cases will help to balance the competing priorities of populating the proposed framework, the universality of findings, and managing the lack of familiarity with current pricing concepts among the SME leaders interviewed.

3.2. Case Selection

In order to achieve a meaningful sample of perspectives, while allowing a substantial depth of study for each one, five case companies were chosen. The companies were chosen based on several criteria. Their revenues, apparent stress on one-time or on-going revenue sources, and the apparent level of traditional cost or market based versus value-based pricing were considered in order to provide a diverse set of perspectives for the framework. According to the prescribed criteria, one case company had revenues of less than 500,000€, one had revenues of over 10MEUR, and the remaining had revenue levels between these two extremes. Two of the case companies had clearly communicated on-going revenue models while the other three communicated a mix of on-going and one-time revenue streams on their websites. Based on the interviews, the actual levels of ongoing versus one-time revenue models were found to quite closely follow the expected methods. The level of value pricing used in the case companies was difficult to identify prior to the structured interviews. However, the level of value based pricing methods used was diverse enough to populate the framework at a meaningful level. Although diverse offerings were not a set priority of case selection, the case companies had somewhat different offerings. Key product and service offerings included website building software, integrated thermostats, ERP implementation services, custom software services, and evaluation tools. Software plays a role in the offering of each of the case companies, which was preferred due to the potential for high discrepancies between cost and value provided, and the consequent opportunities it provides for value pricing. Once target companies were listed, I simply called the prospective leaders (CEO, Sales Director, or Chairman of the board) and asked them for a structured interview requesting that it take place in the next two calendar weeks. After contacting six potential leaders, I had five interviews set up and did not call through the rest of the list of prospective interviewees. (The sixth one called me back later, to which I explained that the allotted slots had been filled.) Thus, each of the participants opted in at their own discretion.

3.3. Data Collection (Interviews)

Interviews were conducted with the CEO, Sales Director, or Chairman of the Board of the respective case companies. Interviews lasted 30 to 90 minutes depending mostly on the preparation level of the interviewees and took place in the company's premise or another location chosen by the interviewee. Approximately one week before each interview, I emailed the interviewee with an outline of the questions and topics I planned to ask. The interview outline was based on the literature review and included 1) background information about the company, 2) their business and revenue models, 3) questions about the extent to which they employed the pricing methods and revenue models uncovered in the literature review, and 4) future expectations for each of the previous areas. Risto Rajala, an assistant professor of Operations Management at the Aalto University School of Science, was consulted on the interview outline due to his familiarity with the case methodology and experience with software companies particularly from his doctoral dissertation work (Rajala, 2009). Interviews were conducted according to the structured outline in order to promote comparability of the case companies during the data analysis phase (Miles & Huberman, 1994). I took notes during the interviews, but I also made audio recordings, which were used to produce a full transcript of each interviewee's comments. One interview was conducted in English due to the participant's proficiency in English and his request to do so. The other four were conducted in Finnish according to the preference of the interviewees. According to the guidelines set out by Benbasat et. al., at the beginning of all interviews I reviewed confidentiality issues and received permission for an auditory recording of our discussion. I ensured all participants that pseudonyms would be used for names, and any figures mentioned could be disguised to protect confidential information. Lastly, the interviewees were ensured that the publishing of any text concerning them, the company, or others mentioned would be done only with their approval of the final draft (1987). Interviews were completed in the space of two weeks in order to minimize variance in protocol (Benbasat et. al., 1987). The interview questions can be found in the appendices.

3.4. Data Analysis

Once all of the interviews had been completed, interviewee statements were transliterated word for word from the audio recording and translated into English. The single interview completed in English was simply transliterated. Each interview text was then edited for grammatical errors and sentence structure with the goal of making it more usable in an academic context (Miles & Huberman, 1994). At the same time, great care was taken to preserve the style and spirit of the interviewees' statements despite many cultural and contextual differences between the Finnish and English languages. I have worked as a translation consultant for four years, and concluded that my skills suffice to preserve the style and spirit of the interviewees' message, so a third party translator was not used. The separation of the steps in arriving at a useable text, namely, transliteration first and then translation minimized the chance for error in interpretations. According to Eisenhardt's recommendations on theory building case study research, the cases were then each studied separately to "become intimately familiar with each case as a stand-alone entity" (1989). Next, the texts were coded for references to the first four research questions and the named research questions were analyzed and discussed case by case. This approach was recommended by Miles and Huberman, who argue that studying content through continued readings alone can lead only to a practical understanding, but not empirical findings (1994). Finally, a cross-case analysis was used to search for patterns in the relationship between different pricing strategies (Eisenhardt, 1989). A key element of case study research is maintaining a chain of evidence. The attainment of this goal is measured by the ability of an independent researcher to come to the same conclusions given the information contained in the study report (Yin, 2003). In addition to the case summaries, coding, and cross-case analysis, the full transcripts of all interviewee comments are available from the author at request.

The second phase of data analysis involved replicating the hypothesized framework for using pricing as a tool for partnership. This involved naming the factors pertaining to the two axial concepts: value versus market pricing and ongoing versus one-time revenue models. Each factor was assigned a weight reflecting its impact on the overall level on the concept. Once these factors had been identified from the case data, each case company was assigned a value reflecting the level at which it applied each factor. Some of the case companies had another major offering, which differed from the firm's main offering in the two dimensions studied, and these were thus scaled separately. Replicating the axes of the framework with case data showed evidence for the suggested partnership through pricing framework.

3.5. Validation Strategies

In order to provide triangulation of analysis, and to take advantage of this particular strength available to case study research, two sources of evidence were collected of each of the case companies (Yin, 2003). The initial process of selecting case companies began with a company search on finder.fi in order to find suitable SME candidates for the structured interviews (Fonecta Oy, 2013). Candidates were selected on the previously mentioned criteria based on information available from their respective websites. Information about the product and service offerings of the different companies were inferred from these websites in order to make final changes to the interview structure prior to contacting the case companies. According to Yin, interviews can be the sole source of evidence for case studies, but the use of their websites was necessary to fill the selection criteria for case companies (2003). The final method of triangulation was to contact each of the case company leaders originally interviewed a second time. Each interviewee was given a copy of this report, asked to verify that the findings were correct, and given the chance to correct any miscommunication or other error.

4. CASE SUMMARIES

Although the focus of this research is the pricing strategies and revenue models of the case companies, it is necessary to begin by becoming familiar with each of the separate entities (Eisenhardt, 1989). Each of the companies had a distinct offering, and in some ways it appeared that a use of software in their offerings was the only common factor.

4.1. Aaron Aho, CEO, Auto-Site

4.1.1. Website building automation

Auto-Site was established in 2008 as a technical website service for marketing and advertising agencies. Theirs is a specialized niche, which is built upon economies of scale within the technical side of building websites. They realized that not only could the technical aspects of a website be repeated with minimal manual work, but that this method would also minimize uncertainties for the end customer.

> *At that time we thought about how similar it is to provide the technical side across projects, despite the differences in projects on the content and layout side. So that is where we started. We thought we should try to build a common platform where we could find advantages for advertising agencies to build websites more easily, more quickly, and with exact pricing and delivery times.*

Their core end customer base is anyone who needs a website short of a portal. A typical scenario goes as follows: The client contacts a marketing or advertising agency who takes full responsibility for the client and the project. The agency chooses a technical partner to do the actual coding. At Auto-Site, the agency opens an account for the client and immediately has a full slate of technical tools at their disposal. This allows a predictable price and delivery date for the project; a rarity in the website business.

4.1.2. The business model

> *How we do business is we have a mass product. We don’t focus on big projects; it’s more about getting a lot of customers. The way to get there is to get a lot of advertising agencies to sign up and use our product, and to educate them on how to*

use the product. We remind them to use our product, because they do not have to sell our product, it is just an option for them. We are confident that if they try it out with a few sites and a few projects, they will bring all of their customers and all of their projects in. And that is where we will make money, because we do not have to allocate any resource or programmers' time, or hire new people whenever we open a new account. We just open a licensed account for them and they can start providing all kinds of sites for their customers.

The business model has come a long way from a beginning of direct marketing. However, through trial and error, they have found that sales people did not have enough knowledge of the complete website building process and thus preferred that agencies be the ones bringing in new accounts. At the same time, this allows growth without the overhead of a large sales force. However, Auto-Site also offers a white label product to larger entities.

That is a model for big operators who already provide their clients with email addresses and file storage and other services. They have a problem: their clients are changing providers to cloud services because many of these cloud services bring in the software and they have included the service side as well. They could not provide those extra services. For those operators, we give the option to start selling our product as a white label product, so it is actually branded as if it was their own product. We take care of the technical side and we take care of as many aspects as they like. We price the model based on those demands.

4.1.3. A strategy for growth

The growth strategy at Auto-Site is to create one very solid good product around which to create a following. Once they have reached broad market acceptance, there are many avenues for creating and introducing new products and revenue models. While the few competitors they have seem to cater to the upper echelons of the market, Auto-Site is aimed at the mass market with the whole package of options available to all customers and at an inexpensive price level. They have invested heavily in ease of use and pricing is also straight-forward with a setup fee and an annual license fee. Clients can switch marketing or advertising agencies and continue using the same software with their next partner.

Let’s say you change and update your website annually. You always have to find a new operator to upload your files with a website files tool. Every year, you have to learn a new way to update the site. This becomes very complicated for the customer and it is annoying because if you look at it from the client’s perspective, they just want to update the layout. The advertising agency or partner who makes the website always uses some software. So we keep telling our end customers that whenever you want to create a new layout and update your site you don’t have to switch away from our platform. You can just find a new partner to do the job and stick with this platform so you will still retain your user statistics of who is looking at your site. You can use the updater possibilities and always use the same user interface to accomplish this goal. You will not have to go through the annoying processes each time you have to update the website. Most importantly, you do not have to pay the technical fees each time, which run from 1000-5000€ for one project.

4.2. Hans Hänninen, CEO, Heatsaving Co

4.2.1. Driving a process patent to market leadership

Heatsaving Co was established in 2002, and was acquired by its current management in 2011. At the time of acquisition, the company owned a valuable patent and historical data of installations showing significant savings in heating costs. With district heating costs on the rise, every unit of energy saved is becoming more and more valuable. Hans sums up how they have transformed the market:

Previously, the market was made up of manufacturers and contractors. They were separate companies, and neither of these were responsible for the whole picture. We have our own equipment, i.e. the method of creating savings. Then we have our own installation, or service, and we have a warranty securing the investment In other words, we have a savings guarantee and a satisfaction guarantee. That is, we take overall responsibility for heating related issues. We are the fastest growing operator in the energy savings sector in Finland.

Heatsaving Co‘s process patent is on a method which, on average, reduces heating costs by 17 percent. This turnkey solution provides appraisal, installation, and maintenance packaged together. There are other operators in the market, but Hans does not see them as a major threat.

> *End customers may compare us to some automation suppliers, or other alternative suppliers, but we are superior in comparison, so that is not a problem for us. There is remote monitoring and heating control based on the weather forecast but they have not really taken off in Finland, or the rest of the world… In terms of volume, we had our first good year of sales last year, with over 700 installations, while our main competitor with a forecasting model has completed 400 installations in the last 5-years. This illustrates the situation quite well.*

4.2.2. Invest or Deal

The Heatsaving Co solution can be purchased using one of two schemes. The Invest option is a one-off payment, which includes the unit and maintenance costs within a single price. Upon purchase, all energy savings go directly to the housing cooperative. The price is affected only by the size of the building and the typical payment period is less than two years. Hans describes the other option:

> *Then we have a “deal model” which is aimed at "poor" housing cooperatives, which do not have the cash immediately available, even though the savings are obvious. The annual fee for that is about 500 euros, and the resulting savings are divided over the five-year period. That is, for the first two years, the resulting savings are divided evenly, and then our share of the savings declines consistently. That is, in the last year, we claim only five percent of the savings, while 95 percent goes to the housing company. In the 6th year, the equipment and all the resulting savings are received directly by the housing company.*

In addition to the new business model and service packages, Heatsaving Co has made it standard practice to review district heating charges with their energy company partners and these savings also directly benefit the customer. However, despite the multiple perspectives employed, what is most critical for the customer is a good payback time.

4.2.3. Customer retention and service development

Heatsaving Co differentiates from the competition most clearly in being active with customers. They meet with over 1000 housing cooperatives on an annual basis. However, it is not only the volume, but also the content, which counts in customer contacts.

> *We retain our existing customers because we offer them such a significant savings, we report on the savings results, and we serve the end users (the residents) well. We monitor consumption on a monthly basis and report the results every three months to the property manager and, consequently, the Board of Directors. In this way, we keep them in our control… Our sales representative will call and tell them, "Hey, I have reports for the last three months; can I come for a visit?" So they say, of course, come here and let's look at it together. It is a good opportunity for further sales. Being the "bearer of good news" means that it is easy to make more sales.*

Heatsaving Co plans to offer energy maintenance services and other additional on-going services to their existing and future customer base.

4.3. Markus Määttä, CEO, Multi-Software

4.3.1. From products to a service business

Multi-Software was established in 2000 as a software products company. They began to sell services in the form of projects in order to finance product development and grew both business models side by side. In 2008, they made the decision to focus purely on services. Markus describes the market situation:

> *Our service business is a market, which from the top down, can be divided into two categories. We have the big giants including Tieto, Accenture, Logica, CGI and so on. Then there are our kinds; young and different types of small but rapidly growing companies. This dichotomy is pretty clearly noticeable. We operate here in our own category, and challenge the big guns, but maybe using a little different means. Our position in the market is perhaps within the so-called new school, newer, younger, and more flexible companies, and I see our position as the cutting edge... It depends on*

how you define the market, but in any case, size-wise, we are quite small. If you include everyone, we have about one and a half percent of the market share.

4.3.2. A customer oriented service offering

When Multi-Software made the strategic move to services, their portfolio of offerings became more diverse. The simplification of the business opened opportunity to cater more directly to client needs.

In 2008, we clearly left technology and we have little by little introduced implementation design, service design and, most recently consulting, which allowed us to move into maintenance services and more. In this way, we have differentiated the various stages and have brought added value to customers.

As Markus sees it, they rarely write blocks of code for one customer, which easily fill the needs of a different customer. When they do come across a common need, there is usually a block of open source code they can use which fits the bill more readily than in-house recycled code. They have also avoided reselling third-party software, although sometimes they will discuss a customer's capability of building some software themselves. This is part of their philosophy on how they manage customer relations.

4.3.3. A relationship business

We try to keep our existing customers by doing damn good work. That is, we do not have any strategy with which we tie down customers, or commit them to us in a negative way. Of course it is natural that the more we do for them, the more they become tied to us… If the customer is forced to work with us, it creates a relationship of confrontation. With everything we do, we aim to do such good work, and handle things so well, that the client wants to work with us. We do not use built-in logins or build such difficult-to-maintain software that they have to buy our maintenance service because no one else is able to do it. We seek to retain clients through positivity, and not by using hooks, or other such tactics. From us it requires constant communication, a consistently good attitude, and continually doing good work. It begins with culture, it begins with attitude, and it begins with how we care about what we do, and our attitude of commitment.

Pricing at the top of the market presents a challenge even for a customer oriented company. On the other hand, Markus explains that whether the customer is willing to pay a higher price is a good indicator of how well they are delivering the promised value. The comparison to competitors’ prices is what pushes the team to work at the highest level. While some potential clients may be shopping around to avoid spending too much on a project, at Multi-Software they have made a clear strategic decision to focus on value.

> *Our customers compare our prices to our competitors, and what we want the customer to say is that, man, you are expensive, but worth it. Yes, it works like this. If the client sees us as cheap and good, then it is the wrong message.*

4.4. Niklas Nenonen, Chairman of the Board, NAV Consulting

4.4.1. From legacy ERP software to Microsoft Dynamics NAV

> *NAV Consulting was established in 1992 and it all started when the company where I and a few other owners were employed folded do to the recession. We took up a specific part of the previous company's business, mainly the rights to their industrial and wholesale financial management software and business. At the time, we worked with IBM and microcomputers, and we had developed software for IBM server hardware called Navis. Our customers were a few subsidiaries of a large oil company, mainly in the industrial and wholesale sectors.*

NAV Consulting sold and maintained their own software for over 10 years before strategically replacing it with Microsoft Dynamics NAV. As a reseller of Microsoft ERP systems, they have delivered complete projects for about 100 clients. Their core client base is medium sized businesses with 3-50 MEUR in revenues, primarily in the industrial and wholesale sectors. The software is supplied by fewer than 10 resellers in Finland and is constantly gaining market share as a platform.

4.4.2. Transitions in offerings

Although NAV Consulting’ core offering of an all-encompassing ERP system has remained, the peripheral offering and delivery has changed.

> *Our earnings include personnel work, which consists of design, consulting, training, and application development work. Part of our revenue comes from license sales,*

which is based on the software licensing… When we had our own software it was much simpler, but personnel hours, application development, and customization had a larger share and licensing sales were smaller. At the moment, leasing licenses is emerging as a new concept. Today we are also able to provide [hardware] capacity as a service whereas in previous years we also sold servers and system software. At the moment, together with a partner, we provide data center services. Previously, we sold IBM servers as a reseller, and with Microsoft Dynamics NAV we had server sales directly. Today we offer server capacity and data center leasing as new offerings.

NAV Consulting offers the complete ERP solution not only to the initial client, but vertically as well. By offering the solution to specific industries, they differentiate with a supply chain solution.

If a customer group or segment is an industry, take for example the food industry... the basic package includes food processing extensions.

The user experience is based on the interoperability with the full suite of Microsoft products. Use of the Microsoft Office, operating system, and databases provide an existing level of familiarity to the user base.

4.4.3. Business direction

We try to retain existing customers with competent and good service. Now, we constantly face competition because the software has several suppliers in Finland. Customers really have the possibility of changing suppliers while continuing to use the same ERP software. This is quite exceptional overall in the ERP market, which in many cases in constructed so that one software product has only one supplier. Customers in such cases have very high opportunity costs if they want to change partners, because they would have to change the software completely and all customizations made. We have to consistently be the best supplier, and we use this in our sales pitch.

With a naturally competitive environment as a Microsoft Dynamics NAV reseller, NAV Consulting must both serve the customer better than their competitors and charge a competitive rate. Niklas does not see their pricing as a barrier to growth. With new versions coming out regularly, and a roadmap of future development already laid out, Niklas sees that the software is consistently on the cutting edge from a technological perspective. They do not price at the highest level in the market, but they retain a reasonable margin.

> *We aim to be in the upper-middle class of the market. That is, we feel that we have experienced consultants, which means we cannot be the very cheapest. On the other hand, we are not a large company with a heavy cost structure and we do not price in the upper segment. We aim to communicate through our pricing that we are an effective and knowledgeable supplier.*

4.5. Steffan Salmela, Sales Director, Survey Blend

4.5.1. Collecting feedback and completing the communication loop

Survey Blend was founded in 1997 and their first product was an evaluation machine. It was designed to collect feedback related to employee well-being, customer satisfaction, and other various studies. Since 2005 they have built Finland's most popular election machines with a major media network, and have built their name as a large contender in many other surveying realms as well. A study, which found that election machines actually affected voting individuals' choices in elections, gave rise to their second product, the electronic salesman. Since then, they have added integrated chat tools to their portfolio.

> *If we go product-by-product, the election machine is not used almost anywhere, we have the best solution available, and it has been developed for so long. The evaluation machine is quite exceptional in its method and we are scaling it up worldwide… The user describes their needs and the service representative can watch the customer adjust the preference controls and is able to start a chat session… Chat is one that is already quite common around the world. However, when chat is connected to our other tools, it creates additional value… We are really turning an online store into a brick-and-mortar business.*

4.5.2. Directions for growth

Growth at Survey Blend currently stems from extensions to their product offering. Often, a customer purchases a single solution and once they have seen the benefits, they are offered another tool. According to customer demands, they have offered consulting for a fee, but this is not their strategic direction.

> *We use free webinars, which can have up to 100 companies tuning in at once, as well as bigger workshops. We try to avoid individual training and using many working hours. Rather we try to be scalable, enabling customers around the world to purchase this tool via the internet. It does not necessarily even require a salesman.*

Using a scalable model, Survey Blend plans to ramp up operations worldwide. With the number of competing products and therefore, quite low user levels outside of Finland, there is reason to believe these ambitions may be realized.

4.5.3. Retaining the customer base

While some of Survey Blend's products do not face stiff competition, evaluation tools and especially chat are contested markets. Customer retention requires a two-fold approach: customer contact and discounts. Customer contact happens over the phone and in person.

> *We call and contact all of our customers every 10 weeks and ask how it's going, monitor their results, see what benefits they have gained, look for new ideas, and so on. Also, we currently have one person who is physically meeting with these customers. Although they do not specifically need any help, we physically go on-site and talk about how great it is to work together. At the moment, we are investing a lot in that.*

Discounts are available for both economies of scale:

> *With our evaluation machine, we have a big campaign type of deal in which we provide all the basic art schools [in Finland] with an assessment tool. The price is quite different when it involves several hundred different schools, versus a situation where every school would buy the service independently. Without this project, the purchase price would be quite different. However, with so many schools participating, those who want to buy the product will pay less than others will because they are part of this big project.*

…and economies of scope:

> *If a customer uses one of our products, the price is one thing. Then, if they want to fulfill a second need with another separate tool… it is a bit cheaper as a bundle.*

Steffan says that marketing at Survey Blend has mostly happened through their sales force. Visiting clients and implementing projects has been their retention strategy.

5. EXPLORING THE RESEARCH QUESTIONS

This study of pricing strategy consists of two parts. The first concerns the pricing and revenue models used by the case companies. The goal is to describe these from the perspective of each company, taking into consideration the market and competitive situations of each case. In order to reach a critical depth of analysis with each company, the first four research questions are explored for one case at a time.

5.1. Auto-Site's pricing strategy

5.1.1. How does the firm's revenue model relate to differentiation strategy?

In the website building market in general, the costs of technical implementations can vary greatly from project to project. Auto-Site's differentiation strategy is based on a clear price, which is known from the beginning. Advertising agencies provide most of the revenues at Auto-Site through on-going payments, and become their partners when they find that costs are truly what they are said to be from the beginning:

> *We always focus on what would be the best way for our partners, the advertising agencies, to profit from these kinds of projects. The advertising agencies have all kinds of employees. However, for the person who makes the decisions, it is all about the money and how they can save money, rely on, and profit more from us. As long as their projects are going ok or better, they do not have any reason to change.*

Larger clients represent the minority of their revenues, but they are significant one-time projects, which can also provide on-going income. With these clients, the revenue strategy follows demands more than costs.

> *The white label products [are] based on the expected value to the partner we sign with. In most cases, they pay some setup fee, from say 20 000-100 000 euros for us to set up the project for them, and set up and modify it in a way that it fits into their existing systems and their brand. We always include some monthly fee for the main service to be there.*

5.1.2. Do economies of scale or economies of scope dictate pricing strategy?

Aaron describes a strategy of achieving economies of scale, after which they plan to use economies of scope. He sees their pricing as very closely tied to these broader strategies.

> *Our idea is to create a simple product, find our place in the market, and then scale to a market leader position. When we achieve that, we would like to implement new kinds of products within the same account. We would like to try and sell and attach products for the clients. We see a lot of potential there.*

For the time being, however, they hope to focus on bringing in more advertising agencies and thus more induction channels for new users. The scalability of their SaaS model is what makes this possible.

> *[Advertising agencies] have all of the client responsibility so that we do not have to hire new people and be the first-hand contact to the client… The best type of advertising agency from our perspective, which bring most of the licensing contracts, are small companies of 1-5 employees. They sell a lot. They create and work on small projects and they have many projects ongoing all the time.*

An economies of scale approach also entails serving as much of the market as possible. The lower echelons are also served with their own product, and their own price:

> *We have created a branch out of these small companies who need a website but don't want to spend a lot of money or a lot of time creating such sites. It is basically the same product. It is a bit easier to use for the end customer.*

At the same time they still offer a white label product, which upon first inspection appears not to drive an economies of scale approach. However, what a white label project brings them is not just a single large customer, but a large number of end users as well:

> *Let's say we see a potential of 1000 or 5000 license agreements. We look at the whole picture on how much revenue that white label product would bring in and we always calculate the price at the same level or lower than the existing partner or the ones they already have and try to compete that way as well. So we price below market*

prices on a general level and even on a strategic level. It is about getting the masses. Whatever we can do to try to reach that goal, we tend to do it.

5.1.3. Which customer perceptions effect pricing and revenue models?

> *One of the key aspects of our marketing strategy [is] to be very clear and precise on how much the product costs and how long it takes for us to deliver such a project.*

From the above comment, we see that customer perceptions are clearly linked to differentiation strategy. However, perceptions take into account even the softer sides of the business, and the effects go both ways, with pricing affecting customer perceptions and perceptions driving pricing strategy. Aaron illustrates this phenomenon with an observation of perceptions driving their pricing strategy:

> *It is business as usual for the tech companies to rob the advertising companies because it is so complicated to change tech partners with an ongoing project. It is almost impossible to do that. For example, let's say that you buy a website from me and we agree that you will pay me about 1000€ for the tech side. When I have done my part you come back and say, "Hey I want to make a few minor changes here." I could rob you and tell you it is going to cost another 1000 dollars or years to do that even though it only took an hour or two. However, it is complicated for you to change and nobody is going to do it for any cheaper. That is the basic idea behind why somebody would buy our product instead.*

However, particularly with their premium white label products, their pricing strategy has been built to drive perceptions:

> *Of course, the reason we do that is that we want to send the signal that if you want to set up a white label product with Auto-Site it is not a Saturday evening job. It is a big process and you have to stick to that and take it seriously. You also have to put some money on the table before we are even going to negotiate with you. It is always easier to come lower from the pricing when the product is good, but it is more complicated to give a discounted price before the first meeting.*

5.1.4. Do pricing principles currently guide sales strategies or vice versa?

The sales strategies used at Auto-Site have changed from a direct sales model to an agent model due to experiences from the former:

> *We hired 10-15 sales personnel for that purpose but it got very complicated in the first six months because the sales personnel did not exactly know what it's like to sell this type of product and they knew nothing about what it really means to build a website from the technical side. They let the customer call all the shots too easily and promised the customer things that we could not provide because they were focused on their provisioning models and the money they were personally making from the deals.*

However, as their business model developed, they saw the need to return to direct sales with the lower priced segments of the market. The following excerpt illustrates the sales strategy guiding the pricing model:

> *We do not have discounts in the main product or the white label product, but when our partner sells through telemarketing, we do. You always have to have something extra to get the decision of subscribing to our service so we always have some sort of offering going on. Sometimes it is about maybe lowering the prices in ways in which it is hard for the end customer to say no and it does not create any profit within the first year, but it gets us many sites, a lot of user experience, and many deals. In the upcoming years, it brings in the profit, once the sales' costs have been paid for.*

In the case of Auto-Site, it appears that the sales strategy drives pricing more than the other way around.

5.2. Heatsaving Co's pricing strategy

5.2.1. How does the firm's revenue model relate to differentiation strategy?

Of particular significance at Heatsaving Co is the difference between how the business operated previously, in comparison to today.

> *Our earnings model has changed in that the former entrepreneur sold a mere device, not the benefits. We, on the other hand, sell the resulting savings and payback period.*

Heatsaving Co differentiates its technical method from the other offerings in the market by positioning it as a cost savings plan. The energy saved is on average a percentage of the energy consumed, which in turn, is a derivative of the size of the space in which it is implemented. Hans describes their two choices for purchasing the technology and the revenue that they provide:

> *We have two ways to buy this. We have Heatsaving Co invest, which has a single price. It is free of leasing and maintenance costs. All the savings go directly to the housing cooperative. It is priced in such a way that the price is the same for everyone. The only variable is the volume of the building, meaning the property is priced according to size. A typical housing cooperative pays about 5000 euros and the payback period for the investment is less than two years… The deal model is a continuous service. We share the resulting savings, which means the price is based on benefits.*

The revenue model for the invest option is thus a one-time payment, while the deal option provides the service with an on-going payment. Just as important as where they have taken their offering from the past, is the future direction of their differentiation and the resulting changes in pricing strategy:

> *Our future expectations of the company's revenue model are that we can likely increase our prices at some point in the near future because the price of the saved energy rises all the time. In other words, what we do becomes more valuable every day.*

5.2.2. Do economies of scale or economies of scope dictate pricing strategy?

At Heatsaving Co, economies of scale are pursued in that they have developed a technical product and they provide the same product to all clients. While they benefit from economies of scale on the costs side, their pricing does not follow the same strategy.

> *The price is the same for everyone. Whether you have 1200 apartment buildings or 1 apartment building, the price is the same. Therefore, we sell to customers at the same price.*

It is noteworthy that the larger the client's building, the smaller is the cost of the installation to Heatsaving Co relative to revenues. In order to accentuate the economies of scale on the cost side, Heatsaving Co has also licensed their technique to YIT, for example. Using economies of scope, on the other hand, is a direction which they are planning to take the model in the future by offering on-going contracts to their existing customer base:

> *We consider account value from the perspective of what the value of one account is to our business. For example, if we sell the Invest model, we need to sell a continuous service to allow an ongoing cash flow for us, and good continuous service for the customer.*

5.2.3. Which customer perceptions effect pricing and revenue models?

> *In general, our pricing principle has been value-based, that is, what kind of value we can create for customers. That is how we justify the pricing of our service.*

The above excerpt demonstrates the focus at Heatsaving Co on customer perceptions. It is at the core of their sales case as well as their revenue model. Attention is diverted from a cost based discussion entirely, which allows them to push value added with potential customers. There was little discussion of how customer perceptions may be pressuring for lower pricing, although it is unclear whether this was simply left out, or whether it is indeed a nonfactor. However, they have left out the expected increase in energy costs (and therefore expected savings) from their pricing:

> *We use discounting, if you consider the potential benefit for many years down the road versus today. Energy prices increase constantly. No one can say how much they will increase, but they will increase a lot. In the last ten years, they have doubled, so they will continue to rise quite a bit, likely at an accelerated pace. This has not been taken into account because we also have the effect of inflation, and we do not know the overall effect.*

5.2.4. Do pricing principles currently guide sales strategies or vice versa?

At Heatsaving Co, pricing principles guide sales strategies. In fact, the feedback loop has yet to be completed, as price increases have not yet significantly affected sales. In sales terms, the hit-rate, or percentage of leads which turn into sales, is very good at the moment.

> *We currently have a very good hit-rate. If we get as far as the Board of Directors, we make the deal 8-9 times out of ten. So when we have a good hit-rate, and when we are*

> *able to sell with this model, we calculate that the profit margin is at a sufficient level. We would do well to be content with our situation and just close deals. That is, if our hit-rate dropped significantly, then of course we should rethink our pricing model. But, for example, last year we raised the price of labor 25 percent and the initial payment in the deal model was increased to an annual fee. So the fixed share of the fee was increased fivefold, and it has not affected our sales in any way. These are big changes, but they improve our business, and it is never a deal breaker. The payback period is in this case the essential ingredient. It is what the customer buys and what it compares to.*

The macroeconomic trend of rising energy prices is clearly doing Heatsaving Co a favor. However, the important point is that they are capitalizing on the trend through their pricing and through their sales.

> *The price of district heat has consistently risen. This means that energy conservation is more important than ever. Every incremental savings percentage becomes more valuable.*

5.3. Multi-Software's pricing strategy

5.3.1. How does the firm's revenue model relate to differentiation strategy?

Multi-Software is aimed at the upper echelon of the custom software market. The basis for choosing a software partner, Markus believes, is often the trust developed between the customer and supplier. It is this trust which drives project demand and due to hourly pricing, one-time project demands drive their revenues.

> *This is really a confidence-based business, which means a customer often tries us out for a bit. When they get to know us and gain mutual experience, we seek to increase the volume, but also to expand. It usually begins with one part and then expands through service planning. Our earnings logic is hourly pricing.*

Not only does Multi-Software work towards becoming the trusted software supplier, they also want to achieve partner status with their existing customers. Thus, they are not looking to take on every potential client they come across. Rather they cater to a certain type of client:

Some clients like to work with different suppliers, buying something from one and something else from another, so no one single supplier becomes too important. Others like to say directly, "You are our partner. Make it happen." We specifically seek those clients who see us as partners.

The most succinct explanation of Multi-Software's differentiation strategy is perhaps this comment by Markus:

We aim at higher than market prices. If the customer wants the lowest possible price, we do not offer that.

5.3.2. Do economies of scale or economies of scope dictate pricing strategy?

Where many software companies, particularly those focusing on products, seek economies of scale, at Multi-Software they distinctly choose not to follow this path. Rather, in building custom software from the ground up for their clients, they not only customize pricing, but they customize internal roles as well to fit customer roles:

We use customized prices. If all customers were to see each other's rates, it would not be the end of the world, but the cost structures for each one are a little different. We use role names that our customers want to see. In many cases, the customer has a certain way of understanding because they want to use the same measure for different locations. They want to dictate that there are such and such roles here and to determine prices for their roles. Therefore, we adapt our operations to fit their roles.

Multi-Software does not pursue economies of scope either. Their stress on one-time, hourly billing prevents both of these strategies. Perhaps the closest they come to economies of scale or scope is their use of open source code for some of the basic blocks of code. However Markus describes the limitations of lower pricing, even when harnessing open source:

We can begin by building on some open source code, and the source code is in most cases the property of the customer who can access it if necessary... If the customer agrees to pay for only half of the amount, it is very unlikely that we will be able to sell it to anyone else.

5.3.3. Which customer perceptions effect pricing and revenue models?

When discussing why they no longer pursue licensing software, Markus explained that the decision stemmed from a difference in perceptions:

> *This involves a difference in perception. We always talk about the fact that of course the customer should pay for the value, but what we see, as we have also sold licensed software, is that who wants to pay anything at all for a software license? Selling a 5,000€ software license costs more than selling a 100,000 project, so that is it. However strongly we feel that a license includes more value for customers, they still do not agree. Therefore, I would answer that hourly billing will remain the staple of our billing.*

From the statement above, we can see that it has been difficult to communicate to customers the value that Multi-Software creates. At this firm in particular, the strategic decision to stick with hourly billing for the near future is based on an assumption about perceived fairness, and the difficulty in changing this reality:

> *Foremost in my mind is that everyone agrees that value is a great thing, but then again, everyone says that an hourly-based billing business model is the easiest. Perhaps it is because everyone sees it as more fair. We are constantly considering how we could successfully implement this model. Yes, we have a very different position with our customers compared to other suppliers, but the problem is often that the client is accustomed to the traditional approach, and it takes a lot of effort to accept that things can be done a bit differently.*

5.3.4. Do pricing principles currently guide sales strategies or vice versa?

For the most part, at Multi-Software, pricing principles guide sales strategies. Although they often see their offering as much more valuable than the competition, they stick to certain criteria for their pricing. This is due to both customer perceptions and their own costs:

> *We have very little strict value pricing. In most cases, when you sell services, the customer wants to see that the price is related at some level to the time spent and the amount of work assigned. If the bill is 10,000€ and we have spent a week on the*

> *project, the customer feels cheated, even if the value to the customer was 100,000€. These are difficult issues. A second Vendor would spend two months completing it, but the customer still feels cheated, and this feeling must be avoided.*

However, by allowing their team leaders to award discounts, Multi-Software allows pricing to also be affected by sales and customer service strategies.

> *We have sometimes used discounts. It is the responsibility of the team leader. It is essential that anyone who gives a discount is the one who is responsible for them, and that they must always consider whether it makes sense. Sometimes we give a discount for one reason or another, sometimes due to competitive situations, and sometimes due to customer dissatisfaction.*

5.4. NAV Consulting's pricing strategy

5.4.1. How does the firm's revenue model relate to differentiation strategy?

Because NAV Consulting implements the Microsoft Dynamics NAV software, they directly compete against just over 10 other resellers in Finland. They must therefore differentiate with other factors besides the software. However, the Microsoft ERP software itself is not the natural answer for many companies either. Thus, the first challenge is to make the case for the software, for which they have a cost and pricing argument:

> *It depends a little on the customer's industry and the company operations, but more and more are looking for a ready-made solution, and there are less and less of these customer-specific customizations. I mean complete industry-specific packaged solutions. If it is a packaged solution or product, it will be a license or lease-based payment, because there is no such customization. Again, the share of personnel work and customization labor remains small. Implementation time is quicker and the customer receives the benefits of it more quickly.*

With set prices for licensing fees, they may struggle to differentiate with price in on-going fees. However, they take a clear stance to preserve the value of add-ons to their products:

In my opinion, we do not use bundling. If we have this basic software, and add some more modules, they have a clear price. We also do not offer payroll software or any other module at half price. There is always some give and take, but only a little. We have tried to get the price right from the beginning.

5.4.2. Do economies of scale or economies of scope dictate pricing strategy?

Revenues at NAV Consulting are centered on one-time, hourly fees, which make it difficult to take advantage of economies of scale or economies of scope. There are advantages to serving a single customer for an extended number of hours, which at NAV Consulting translates to discounted fees.

Then, with personnel hours, as has already been said, prices are market-based, but there are also the levels of costs, which play a part. A small discount may also be applied to hourly work on a project if a customer has purchased a heavy workload. That is, it is a quantity discount because our work efficiency is higher. One person could work for a month with one client if needed instead of half days for 10 different customers.

This effect on costs is not translated to revenues, however. Although they save on down-time for employees, the value of more efficient work hours that result is not reflected in prices. Niklas explains their discounting policy:

In principle, we operate according to our price list. Then, of course, there are some amount of discounts on labor costs. If someone buys 1000 days of services from us, the price will be different than it is for a customer who buys one hour now and then.

5.4.3. Which customer perceptions effect pricing and revenue models?

One of a new customer's first perceptions of NAV Consulting is often a quoted price. They ask for a daily and hourly rate, which they then may directly compare to a competitor. This places considerable direct pressure on their prices. These price quotes are the de facto prices on all work completed for a given customer. This approach is apparent in Niklas' comments on role-based pricing:

In practice, different people do not have different prices. All work is just application work, training, or working with the customer. All of the work is the same price. It is

> *because we have experienced enough people that we do not use junior and senior pricing. We begin with the assumption that if we send a person to the client, regardless of whether he or she is consulting or training, or whatever he or she is doing for the customer; it is the same person and it would be absurd to start dividing it. We do not use results-oriented pricing or economic value pricing.*

From the above comments, we can see that at NAV Consulting, particular stress is placed on the customers' perceptions of fairness. There is also an underlying view of prices as a particularly important criterion in clients' decisions of choosing an ERP implementation partner.

5.4.4. Do pricing principles currently guide sales strategies or vice versa?

At NAV Consulting, pricing principles are quite clearly guided by sales strategies. Niklas answered the question quite succinctly:

> *Yes, it seems to be that we find out what our costs are and add our margin requirements to that. However, in practice, we may use market prices more.*

However, they are open to new methods of pricing which could in turn guide their sales in a new direction. Niklas describes the sentiment:

> *We have considered at some point that it would be good if, instead of selling days or software, we could sell the benefit which the client received, and price accordingly. However, we do not actually use that because it is quite difficult to assess the value of the advantage to the customer.*

The challenges of bringing these value pricing ideals into the day-to-day business are clear across all of the case companies interviewed.

5.5. Survey Blend's pricing strategy

5.5.1. How does the firm's revenue model relate to differentiation strategy?

Just as stated about Auto-Site, at Survey Blend they also aim to stand out by offering a clear price with no surprises. However, some of their customers require more handholding than others.

If a customer has required additional training, we have charged them directly. Then, if the customer wants us to continue assisting in creating content, we have charged for that as well… [However,] clients are able to build on their own using these tools without our help. That is not where we want to focus. However, sometimes it has been unavoidable. We also have partners who are able to provide these services.

With at least four different product groups among their offerings, Survey Blend also has a couple of different pricing strategies. In fact, each differentiation strategy carries its own pricing strategy. However, most of their services use a revenue model of on-going payments. Steffan explains the differences succinctly:

For the electronic salesman we have not really considered [competitive pricing] since we do not have a lot of competition. Our election machine does not really have competitors either. Those products for which we use market pricing, we basically have market prices.

5.5.2. Do economies of scale or economies of scope dictate pricing strategy?

In perhaps the clearest example of economies of scale dictating pricing strategy out of the five case companies, Survey Blend follows an example of SaaS pricing they have seen elsewhere:

We have studied a variety of different SAAS providers around the world, how they have been able to scale successfully, and which issues they have focused on. It is always very clear that it they have placed their bets on an annual or monthly license, and then they have these big training days or workshops, and webinars on the side.

The combination of a scalable model and a push for internationalization has accentuated the link between economies of scale and their pricing methods.

Especially now when we have globalized, it is based almost entirely on licensing. We have little to no foreign staff, but we have partners who can then sell it separately. However, we do offer free online webinars and training courses via the Internet. They are free of charge and are, in practice, marketing.

As they have introduced new products, the focus at Survey Blend has somewhat shifted from an economies of scale to an economies of scope strategy. Steffan describes the process:

> *If a customer uses one of our products, the price is one thing. Then, if they want to fulfill a second need with another separate tool… it is a bit cheaper as a bundle.*

5.5.3. Which customer perceptions effect pricing and revenue models?

As stated in the discussion on differentiation strategy, Survey Blend aims to offer one clear price that is easy for the customer to understand. At the same time, they equip their sales force with a lot of autonomy. Steffan explains the benefits and limitations of this pricing strategy in terms of customer perceptions:

> *Economic value pricing is very much in the seller's hands. There are certain broad guidelines, but it pretty much is in the hands of the salesperson to consider what is expected case by case, according to the level of usage and benefits. But we try to keep it on a small scale to avoid a situation where one customer pays half of what another does, which may hurt our level of trust.*

However, the discussion of perceptions in pricing strategy can include those customers who cannot afford the given price. They would be non-customers with a rigid pricing strategy, but with a diplomatic salesperson they can create additional on-going revenue streams:

> *We attempt to keep it as standard as possible, but it may be that someone has a very small shop, but clearly needs our tool. We can provide our tool with very little effort, so we drop the price to a level in their budget and they reap the benefits. We always have the annual license, but it is a somewhat less expensive annual license, and it is consistently inexpensive. Sometimes we can customize the price so that the first year charges are cheaper to get things started and then, when they like it, we charge them normal prices.*

The price they choose to sell at drives the return side of the pricing equation, but the goodwill provided can be just as important from a customer perspective. Survey Blend has an ongoing offer to art schools all over Finland to provide evaluation tools at a group-based discount:

We wanted to provide the schools with these tools because they would not otherwise have access to such uniform assessment models. These tools are expensive enough that schools have not been able to commit the resources. Then, because it involves data analysis, we have offered those services as well.

5.5.4. Do pricing principles currently guide sales strategies or vice versa?

In the case of Survey Blend, there are examples of both pricing principles driving sales strategies and sales strategies driving pricing principles, although the latter is clearly more common. One example of pricing principles driving sales strategy is the campaigns, which are based on a modified price aimed at increasing sales:

Take this school deal as an example. Because it involves several hundred schools, their price is much cheaper than the others. It is a group discount. It was constructed by producing the content, and because they all use the same content, they can all take advantage of the same content. They all use the same evaluation tool, which takes advantage of the same content, so we do not need to train them all separately. We can, for example, hold one training session which can be shared as a webinar, or hold no session at all, but offer a training video, with which they can then learn how to use it. Alternatively, we can provide a brief telephone training.

However, this example is an exception to the rule and there are far more examples of sales strategy driving pricing. The following are excerpts of two example situations:

For some solutions, our price is market-based. For example, we dropped the price for chat just because the market had more favorable prices.

In principle, [with] these databases and so on, we do not have any specific charges to use another database. Rather, we charge for the language version. It has been simplified so that the language version costs this much and that finances those costs. We simply do not bring it up.

These situations demonstrate the need to adapt pricing to the pressure salespeople experience. At the same time, Steffan credits their sales personnel for the opportunity to be flexible with pricing:

We have such good salespeople that it works. For us, sales people's autonomy is a pretty big deal. They get to work independently and define and build it themselves. The seller gets a commission on it themselves, so that is a lure not to sell for too cheap either.

6. USAGE OF PRICING STRATEGIES

In order to establish the level of value pricing employed at the case companies, we will compare use of the following concepts found in the literature: market based, competitive, cost, and value based pricing, skimming, customized, hourly, lifecycle, experience curve, target return, and group based pricing. Then we will compare versioning, bundling, profit and revenue sharing, and licensing schemes. Lastly, using pricing as a cue and discounting will be considered.

6.1. Pricing strategies

6.1.1. Market based pricing

Although every firm short of a complete monopoly faces pressure to price according to their market, there are often other options available. By differentiating their offering from competing products, companies can set their prices considerably higher than other offerings in the market. Of the cases analyzed, the firm whose prices were most market based was NAV Consulting. Their perception of their place in the market was clearly in the upper, but not the highest level in the market. They quote a daily and hourly rate as well as services prices very early in negotiations at the customer's request. The Microsoft Dynamics NAV software they implement is a retail product, so they have little room to maneuver from that standpoint. The other case companies also used market pricing, but clearly at a different level. Auto-Site and Survey Blend also priced according to market pressure and considered their prices a key competitive edge. Heatsaving Co and Multi-Software, on the other hand, paved their own path with pricing.

> *We do not even want to begin competing with those who seek a competitive advantage through a lower hourly rate. We would rather compete with expertise or other factors, and then seek to sell to customers at a high price. Then we deliver at the price we ask.*
>
> *– Markus Määttä, CEO, Multi-Software*

6.1.2. Competitive pricing

While very similar to the concept of market based pricing, competitive pricing involves both proactively and reactively adjusting prices according to expected or realized price changes by competing firms (Nagle & Holden, 2002). The case companies used competitive pricing at the same relative levels as market pricing, but Aaron Aho, the CEO at Auto-Site had a particularly concise way of stating their position:

> *We price below market prices on a general level and even on a strategic level. It is about getting the masses, and whatever we can do to try and reach that goal, we tend to do it.*

6.1.3. Cost-based pricing

In service industries, cost-based pricing often means charging an hourly fee. However, the fact that hourly fees are used does not rule out the possibility for value-based pricing. The distinction of cost-based pricing is that the fees correlate most directly with costs, rather than customer value or other measures. Of the group of case companies, NAV Consulting bases its pricing most directly on costs, while Heatsaving Co clearly chooses not to use cost pricing.

> *We do not seek price or cost leadership as it is more important to make the value of the resulting savings as great as possible.*
>
> - *Hans Hänninen, CEO, Heatsaving Co*

6.1.4. Value based pricing

> *We use a mix of value and the market based prices. That is, we want to be in the higher price echelons of the market. Of course, we must also be competitive. We must be able to justify our value. The company has margin and P&L calculations, but pricing happens, above all, in the market.*
>
> *– Markus Määttä, CEO, Multi-Software*

At Multi-Software, about 90 percent of revenues come from hourly fees. However, among the peer case companies, they are a relatively strong user of value pricing. They manage this by charging premium fees, often differing between customers, projects, and even roles for the same employee. However, the leader of the case group in value-based pricing is clearly Heatsaving Co; as Hans states:

> *When the payback period is good, it does not matter what it costs as an investment.*

6.2. Pricing methods

6.2.1. Price Skimming

As a concept, price skimming is nothing new, but today claiming top-tier prices is not just the business of monopolies. From the base of companies studied, it appears to be an all or nothing phenomenon, with three of the case companies opting out, and two quite clearly choosing to follow this strategy.

> *Our customers compare our prices to our competitors, and what we want the customer to say is that, man, you are expensive, but worth it... If the client sees us as cheap and good, then it is the wrong message.*
>
> *– Markus Määttä, CEO, Multi-Software*

6.2.2. Customized prices

By customizing prices, a firm takes the risk of being seen as unfair by customers, who may find they are paying much more for a service than another client who at least appears to be receiving the same service. At the same time, they can capture far more of the value they provide to their customers. There are many ways to go about customizing prices, but it should always be done carefully.

> *Economic value pricing is very much in the seller's hands. There are certain broad guidelines, but it pretty much is in the hands of the salesperson to consider what is expected case by case, according to the level of usage and benefits. However, we try to keep it on a small scale to avoid a situation where one customer pays half of what another does as that may hurt our level of trust.*
>
> - *Steffan Salmela, Sales Director, Survey Blend*

6.2.3. Hourly based billing

Hourly based billing is by far the most common way to sell services, whether it is a bid for a number of hours to complete a particular task, or open-ended billing of hours as work is completed. All of the case companies have some form of hourly billing although Heatsaving Co in particular does not offer it directly.

6.2.4. Lifecycle pricing

Lifecycle pricing refers to the practice of planning prices for the different stages during the useful life of an offering. A level of this concept is implied in virtually every sale, as few goods or services have value for only an instant and even fewer retain their value indefinitely. While some services have a value lasting longer than others do, some case companies plan future prices on this value explicitly.

> *Energy prices increase constantly. No one can say as much they will increase… but people understand it that if they will increase, it pays to start saving money right now.*
>
> - *Hans Hänninen, CEO, Heatsaving Co*

6.2.5. Experience curve pricing

Experience curve pricing relies on achieving lower costs than the competition and thus reducing prices in order to eliminate much of the competition. Usually this requires an economies of scale approach and a critical mass, which can be difficult for the SMEs in the case group to achieve. However, within a well-defined niche an element of experience curve pricing is possible.

> *We have tailored industry-specific packages that are ready for use and do not need to be customized from the beginning, in which case it is also far less expensive for the customer. On the other hand, it is also more cost-effective for us.*
>
> - *Niklas Nenonen, Chairman, NAV Consulting*

6.2.6. Target-return pricing

Instead of arriving at price points based on cost and revenue forecasts, the practice of target return pricing turns the process upside-down by beginning with a profit target, and calculating the price based on the margin required. Most of the case companies used target-return pricing strategies, but they generally used single account targets rather than aggregate targets when building their pricing models.

6.2.7. Group/ Segment based pricing

One of the more straightforward ways of customizing pricing is to divide a single market into segments which have different requirements. However, it is much more difficult to get customers to self-select into a higher priced segment. By splitting their offering into at least three different levels, Auto-Site offers what each segment requires, while minimizing product level downgrades by adding customer service or other bonuses to higher tier offerings. At the same time, they try to maintain a high quality experience by updating technical components at all product levels simultaneously.

6.2.8. Versioning /Predetermined choices

Versioning as a concept is quite similar to group based pricing in that versions are often aimed at a particular segment of the market. However, versions can also be built to accommodate choice for a single customer. All of the case companies besides Multi-Software use versioning as a staple of their pricing strategies. As part of their standard procedure, a NAV Consulting representative will offer a client a host of versions to choose from.

> *As far as versioning, we may consider a hardware service package with fewer options for smaller customers. Then again the biggest customers have the need for an ERP system with more functionality and a broader package, so the price is higher as well. In these cases, the alternatives are known before we visit the customer, that is, we offer options from which the customer can choose.*
>
> - *Niklas Nenonen, Chairman, NAV Consulting*

6.2.9. Bundled pricing

By bundling products and/or services together, the customer can be helped along in the purchasing process. At the same time, a discount on the combined products can give a sense of getting a good deal. From the firm's perspective, bundling can create pressure to offer a discount, but at the same time it can ensure a good customer experience and the possibility of extra sales.

> *We do not charge maintenance or start-up costs. We have made an effort to keep it simple… There is no need to divide costs into five different sections. Rather they are all included.*
>
> - *Steffan Salmela, Sales Director, Survey Blend*

6.2.10. Profit and Revenue sharing

Profit and revenue sharing models are becoming more popular, but among this case group they are not used extensively. Heatsaving Co shares energy saving with customers of its Deal model, but there were few other examples. Markus Määttä of Multi-Software had a particularly pessimistic view on the practicality of revenue sharing models:

> *In general, if the customer believes in their own business case, they are willing to purchase it straight out. If they do not believe in their business case, they may prefer such a revenue sharing deal… It is kind of a lost cause in any case.*

6.2.11. Licensing

Licensing as an art or a science is a broad enough topic to warrant a separate study. However, we will touch on a few of the possible types: user, usage-frequency, and time-based licensing. User-based licenses are priced according to either the number of users with access to a product or the number of users with simultaneous access. With its chat product, Survey Blend bases its price directly on the number of simultaneous users. They also use usage-frequency to price their evaluation tool, although a strict formula does not exist. Time based licenses are the foundation of Software as a Service (SaaS) models and are used by both Survey Blend and Auto-Site. The other case companies do not use this pricing scheme. Aaron Aho of Auto-Site tells of two different applications of time-based licensing:

> *We always include some monthly fee for the main service to be there for white label partners.*

> *[Individual] clients create most of our revenues. They sign up for the account and pay a price for the time they use it.*

6.2.12. Pricing as a cue

Every firm sends a signal with their pricing, whether they are aware of it or not. When asked about this, the interviewees invariably answered positively. However, in his comments Markus Määttä of Multi-Software pointed out that the signals can be used internally as well:

For us, it is a significant indicator whether our clients see us as competent, and are willing to pay some of the highest prices in the market.

6.2.13. Discounting

Pressure from the client or management will often drive sales people to offer discounts. However, many discounts are unplanned, or go “under the radar.” A discount strategy is a set of guidelines for using discounts as a tool rather than a last resort for closing deals. Heatsaving Co is the only case company that appears not to give discounts. However, some of the others claimed not to use discounting, while describing discounts that have been given in the past at a different point during the interview. It seems that discounts are, at least for the case companies, a mystery item which is difficult to pinpoint. At least Survey Blend, NAV Consulting, and Multi-Software use volume discounts, and Auto-Site has offered one-time discounts to long-time customers. Two of the interviewees mentioned that the employee granting it should have responsibility for the discount. Although not their standard practice, Markus Määttä of Multi-Software described a situation in which they may offer a discount:

We sometimes do, although quite rarely, take a customer who is not terribly solvent and offer them a lower price. However, in those cases we do not stick to a delivery timetable, but build it on a "when we have nothing better to do" basis.

7. A FRAMEWORK FOR PRICING STRATEGIES

7.1. Goals of the framework

In this section, we will attempt to answer the final research question of how pricing strategies can be categorized in a useful manner. In the best-case scenario, pricing strategies are a direct result of business strategy. Ideally, value provided to customers' businesses would be apparent, that value would be assigned a price accordingly, and this value would be successfully communicated to customers (Terho, Haas, & Eggert, 2011). In the worst case, prices and revenue models would be simply due to legacy business models, internal working practices, or the whims of sales people. As discussed in the literature review of this paper, some research has been done which asserts pricing can be used beyond the traditional role of distributing profits between market participants (Nagle & Holden, 2002; Narayandas, 2005; Avila & Dodds, 1993; Hinterhuber, 2004). Voeth and Herbst suggest using pricing as a tool for building mutually beneficial relationships (2006). In their research, Sainio and Marjakoski describe value based pricing and revenue logic as key determinants in building business models (2009). Thus, we suggest the level of value based pricing as a theoretical success factor for partnerships. Revenue models are often dismissed as merely a matter of financing. However, if the on-going payments for a service continue at the discretion of the customer, it requires the vendor to provide value on an on-going basis. Therefore, the revenue model of a firm affects the level of commitment required of a firm towards their client partners. At the outset of this research, we propose a framework for using pricing strategy as a tool for building and maintaining partnerships based on these two dimensions: 1) value versus market pricing and 2) on-going versus one-time revenue models. The case companies were placed in the framework in relative terms based on information gained from their websites. Sufficient information about offerings was a criterion in case selection.

7.2. The scale of one-time versus on-going revenue models

On-going payments may be only a matter of financing for a one-time contract. However, if future payments are subject to value received today, (i.e. the client can cancel the service on short notice) the firm must provide on-going value in order to secure future revenues from the client. This distinction makes payments a strategic measure, rather than simply a consequence of financing methods. Thus, the measure of one-time versus on-going payments is an indicator of cooperation.

7.3. The scale of value versus market based pricing

The goal of pricing strategy is most commonly to maximize profits, whether in the short or long term. However, the goal of value based pricing is to encourage the maximization of value, its communication to customers, and subsequently, to capitalize on some amount of that value. By employing value based pricing, the agency problem of maximizing the profits of the firm and the value provided to the client is alleviated. Thus, the measure of value versus market pricing is also an indicator of cooperation.

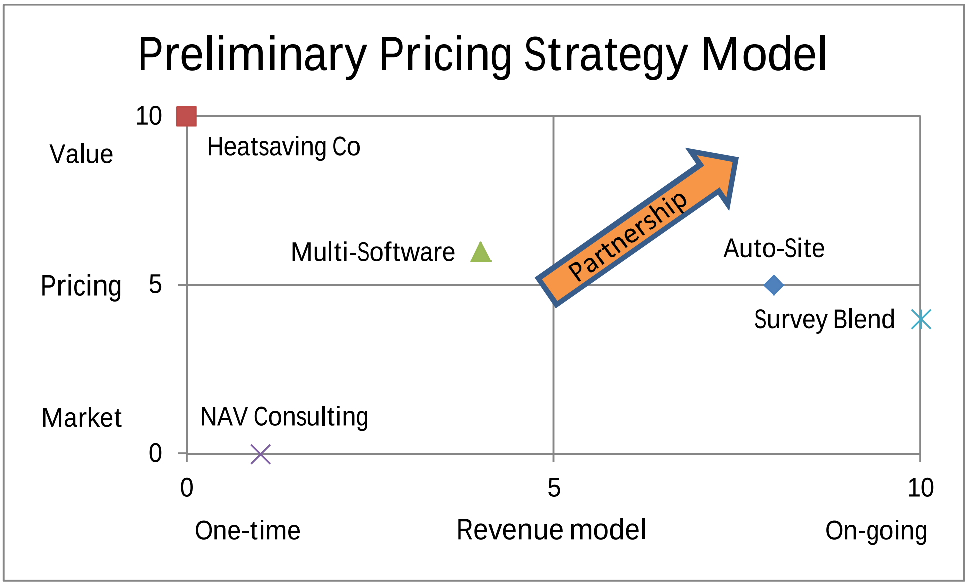

Figure 1: Pricing strategy for partnership, preliminary framework

7.4. Preliminary groupings

From the initial coding of case companies interview transcripts it became clear that the case companies ran very different businesses. From the perspectives of strategic pricing studied, they seemed to fit into three groups: Auto-Site and Survey Blend, Heatsaving Co and Multi-Software, and NAV Consulting.

The similarities found in Auto-Site and Survey Blend were the following:

- The main offering was a standard toolkit
- Economies of scale were used in pricing

- Pricing was largely market-based
- Revenue was composed mostly of on-going payments

The similarities found in Heatsaving Co and Multi-Software were:

- The main offering was a premium service
- Economies of scale were not used in pricing
- Pricing was largely value-based
- Revenue was composed mostly of one-time payments

The characteristics that were typical of NAV Consulting were:

- The main offering was standard software
- Economies of scale were used in pricing
- Pricing was largely market-based
- Revenue was mostly composed of one-time payments

Because it did not follow either of the patterns set by the other companies, NAV Consulting was given its own category.

Table 1: Preliminary groupings

Pricing	Auto-Site	Heatsaving Co	Multi-Software	NAV Consulting	Survey Blend
Differentiation	Standard	Premium	Premium	Standard	Standard
Revenue model	On-going	One-time	One-time	One-time	On-going
Economies of	Scale	None	None	Scale	Scale and Scope
Key Driver	Sales	Price	Price	Sales	Sales
Prices based on	Market	Value	Value	Market	Market

7.5. Building the dimension weights

Factors pertaining to the two axial concepts, 1) value versus market pricing and 2) on-going versus one-time revenue models were identified. Next, each factor was assigned a weight reflecting its impact on the overall level of the concept. Market-based, competitive, and cost-based pricing, as well as discounting were given a weight of -1 due to their use in traditional, non-valued-based pricing. Experience curve pricing was given a weight of -0.5 due to a similar relation. Lifecycle and target return pricing, versioning, bundling, and pricing as a cue were given a positive weight of 0.5 because they can be used in value based pricing, although they do not directly lead to that outcome. Lastly, but perhaps most importantly, the use of value-based pricing, price skimming, customized prices, and segment-based pricing were given a positive weight of 1, given their direct relation to value-based pricing as found in the literature. The weights are summarized in Table 2. Mentions of these factors were identified from the case data and each case company was assigned a value on a scale of 1 to 10, reflecting the level at which it applied each factor. Ranking case companies on the revenue model employed was more straightforward. The same procedure was followed except that the only pricing factors used were hourly pricing and licensing, which received weights of -1 and 1 respectively. Scores were multiplied by the respective weights of the two pricing elements and summed. Totals were normalized on a scale of 0-10 for the sake of comparison. Thus a value of 0 or 10 is not necessarily the extreme case, it is only the relative extreme among the group of case companies.

Table 2: Pricing methods by value pricing weights

Weight	Pricing methods				
-1	Market-based	Competitive	Cost-based	Discounting	
-0,5	Experience curve				
0,5	Lifecycle	Target return	Versioning	Bundling	Pricing as a cue
1	Value-based	Price skimming	Customized prices	Segment-based	

7.5.1. Separation of distinctive offerings

Some of the case companies had another major offering which differed from the firm’s main offering, and these were therefore scaled separately. The offerings at Auto-Site, Heatsaving Co, and Survey Blend (Auto-Site white label, Heatsaving Co deal, and Survey Blend election machine respectively) which diverged by these measures from the respective firms’ other offerings, were scored separately for two reasons: 1) to allow more accurate scoring of the other offerings and 2) to more meaningfully populate the theoretical framework. The peripheral offerings at Multi-Software and NAV Consulting, mostly hardware and maintenance, were considered minor enough not to be taken into independent consideration.

7.5.2. Firm and offering level values for scaling

Firm level values for the scaling factors of each dimension were arrived at based on statement made by each of the interviewees, or statements made on their websites, if no comments had been made during the interviews pertaining to the given factor. A score was assigned to each factor for each firm/offering on a scale of 0-10, with 10 equating to strong demonstration of the factor, and 0 meaning a clear statement of not using a given method was made. Statements made by the interviewees were given precedence over website material in determining the factor score unless they were contradicted by other statements made during the interviews. Triangulation of scaling was achieved by giving each interviewee a copy of this report, asking them to verify that the findings were correct, and giving them the chance to correct any miscommunication or error in scaling.

7.5.3. Arriving at final dimension values from scaled factor scores

Final values for the two framework dimensions were arrived at by multiplying each factor score by the weight given to that factor and finding the sum of these values. Negative values were avoided by adding the lowest value to all figures, and the resulting values were normalized to a scale of 0-10. Thus, the final dimension values are relative to the sample of case companies and not comparable to the IT service sector in general. The goal of this scaling was to describe the phenomenon of pricing as a tool for partnership among the multiple case companies in order to demonstrate the value of a scaling system for the value pricing and revenue model dimensions.

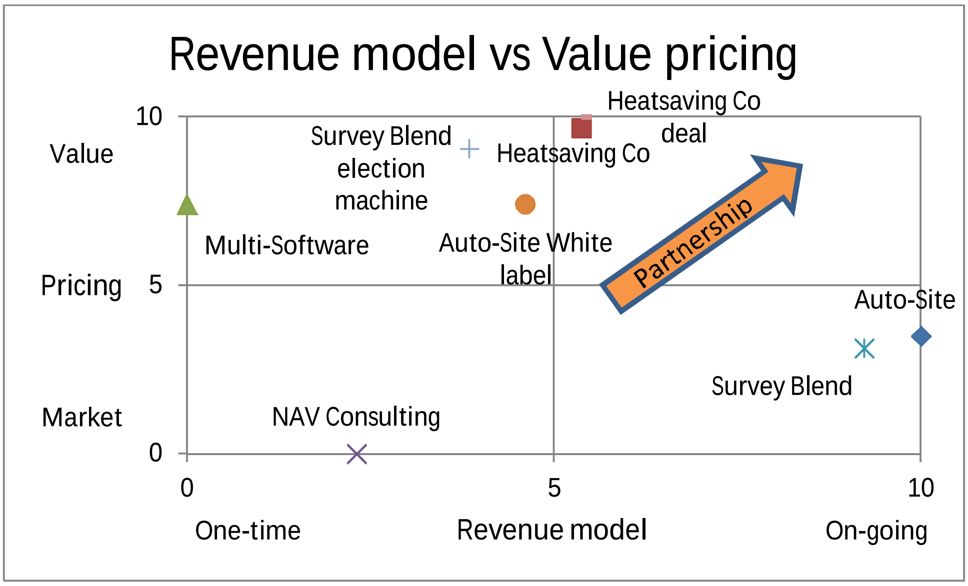

Figure 2: Pricing strategy for partnership, populated framework

7.6. Stated strategic goals within the framework

The framework can be used as a measure of the level of cooperation or partnership between a firm and its clients. In their comments, the leaders of all the case companies expressed an interest in building deeper cooperation and partnerships with their clients. Some had specific future goals through which they hoped to attain that end. At Auto-Site they plan to gain broad market acceptance, after which they will add other value enhancing products to their offering. For an SaaS company, Survey Blend is investing heavily in client relationships and the plan is to cross-sell their synergistic offerings to their clients who currently use only a single product. These two case companies are thus strategically aiming to move towards value based pricing, while showing no intention of moving towards one-time payments. At Heatsaving Co, they plan to use their client base to introduce more on-going payments such as maintenance. At Multi-Software, they are actively searching for new ways to supplement hourly revenue with on-going contracts of software maintenance and other services. Thus these two case companies are looking to move towards on-going payments while increasing the level of value based pricing if possible. At NAV Consulting, the aspirations are to one day sell the benefit the client receives instead of the software. They also expressed the movement towards leasing software instead of licensing, so this signifies a movement towards on-going pricing. There was no evidence of goals to shift closer to market based prices or one-time payments. These stated goals are illustrated in the context of the framework in Figure 3.

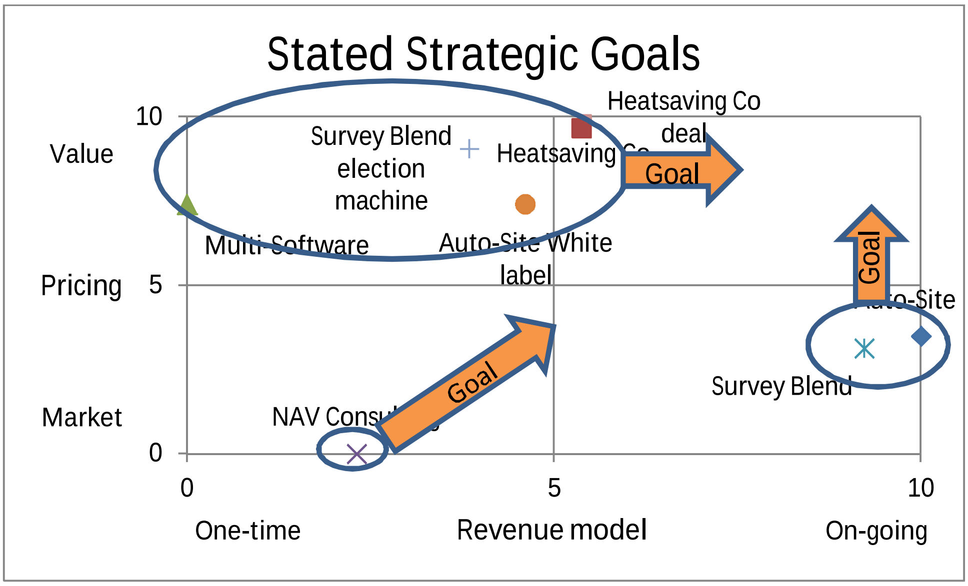

Figure 3: Stated Strategic goals of the case companies

8. DISCUSSION

8.1. Revenue models' relation to differentiation strategies

For all five of the case companies the link between differentiation strategy and revenue model are quite clear. Furthermore, it appears that it is indeed the differentiation strategy, which drives the revenue model as opposed to the other way around. From a strategic perspective Auto-Site and Survey Blend seemed to have very similar approaches to differentiation; providing a standard tool to as broad an audience as possible. This goal lent itself to a pricing strategy of market-based prices. The revenue model itself was, for both companies, an on-going payment with the principle difference that Auto-Site uses monthly billing, while at Survey Blend payments are primarily annual fees. However, both companies had other offerings that were based on customized projects and customized fees, namely white-label products and election machines. These offerings were considered significant sources of financing for other product development as well as creating market presence, but were not the focus of future strategic direction.

Heatsaving Co and Multi-Software, on the other hand, are similar in their differentiation as premium drivers of value in their respective markets. The focus on building trust through good work in the software market at Multi-Software is matched with a focus on delivering and proving energy savings at Heatsaving Co. The premium status of their offerings are both met with a premium price: The former through some of the highest hourly rates in the market, the later with a pricing scheme far removed from the cost of the device and installation used by much of the competition in their pricing. Interestingly, both Multi-Software and NAV Consulting focus on project based pricing with pay-as-you-go and up-front payments the currently preferred methods of billing. However, Heatsaving Co offers an alternative payment option combining fixed annual payments and sharing of energy savings. This option appears to chiefly serve the purpose of positioning their invest model as a value proposition, as sales through the deal method are far below those of the invest model. Nevertheless, they have customers who purchase using this method, so it can be considered a genuine offering as well.

As a reseller of third party software, however strategically chosen it may be, NAV Consulting competes on a relatively modest possibility for differentiation from direct competitors, which offer implementation of the same software. By choosing certain sectors to serve, they can offer a larger predetermined solution to their client, which reduces costs of implementation. Their revenue model is based on the license or lease payment for the software and the chosen add-ons, with virtually all revenue streams stemming from these initial fees. They have maintenance contracts for virtually all customers, which provide on-going income. However, new implementations provide the bulk of revenues.

Thus, we find two groupings of 1) companies pursuing market-based pricing, with on-going payment methods and 2) companies pursuing value-based pricing, with one-time payments. The outlier currently has relatively limited opportunity for differentiation, and thus very limited choices of revenue models. However, in their current form, the standard tool customers have adopted market-based prices, which may indicate either a strategic decision or a lack of choice in pricing. However, the existence in both companies of offerings with very different revenue models favors the former explanation. Although the differentiation of a premium service in the case of Multi-Software and Heatsaving Co does not seem to restrict their pricing options, we cannot be sure that this is the source of their freedom use value-based pricing.

8.2. The effect of economies of scale or economies of scope on pricing strategy

The traditional effect of economies of scale or scope on prices is downward, where an increase in scale or scope results in the ability to offer lower prices while retaining a profit margin. Economies of scale and scope appeared to affect the pricing of the case companies in different ways. At Multi-Software, there were limited economies of scale or scope of which to take advantage. At Auto-Site and NAV Consulting, economies of scale allow a lower price level than that of many competitors and they take advantage of this discrepancy by charging less than market prices, or by offering volume discounts. Survey Blend, they also take advantage of economies of scale by charging prices similar to those of their competitors. They also employ an economies of scope approach by cross-selling additional products to existing customers. Lastly, at Heatsaving Co, economies of scale provide significant cost advantages but the discrepancy is not turned over to clients. Rather, the price follows a set fee according to the volume of the building, which is the same for all clients regardless of cost. It follows that, at least among the case companies, an economies of scale or scope approach can allow cost savings, but its effect on price differs from company to company. Thus, there is no direct correlation between economies of scale or scope and pricing strategy.

8.3. The effect of customer perceptions on revenue models and pricing

A common factor of pricing across four of the case companies was a priority on customer perceptions of fairness. While customer perceptions of fairness in pricing are also important at Heatsaving Co, seen from the lack of discounts, they stress the value provided about all else. At Multi-Software, there is some motivation to continue moving towards a value-based model, but the fairness perception and difficulty in addressing these perceptions are holding them back. Similar issues were asserted by the other three fairness-based companies. Another customer perception affecting pricing which was common to multiple case companies was goodwill. Although goodwill as an accounting term refers to the intangible side of assets, in this context it refers to the Business-to-business (B2B) equivalent of consumer surplus, or the difference between what the customer is willing to pay and what they are actually charged. However, the source of this goodwill was different in each case. At Auto-Site, the customer perception of goodwill provided through pricing is a cap on costs, which their competitors do not provide. At Heatsaving Co, goodwill was provided by offering increased energy savings benefits due to the rising costs of district heating. Because the actual value of these benefits is subject to risk, they do not affect the price. Goodwill at NAV Consulting stems from charging the customer the same hourly rate regardless of what function they are providing to the customer. Although some types of work can provide much more value to the customer than others, prices remain the same. Perhaps the clearest example of providing a perception of goodwill to the customer is Survey Blend's deal on their evaluation tool for art schools. Although current costs per implementation are clearly lower than they are for their other customers, they offered the low rates even at the beginning, when costs per implementation were relatively high.

8.4. The relationship between pricing principles and sales strategies

Whether pricing principles guide sales strategies or the other way around can be an indicator of the successful implementation of a pricing strategy in general. If sales strategies guide pricing, it is probably a sign of either a lack of competitive advantage or a shortfall in pricing strategy and/or the communication of value. At three of the case companies, the rule is sales strategy guiding pricing. The exceptions found help to define the extent to which this phenomenon was observed. At Survey Blend, the exception to the rule was the special deal they offered to art schools. They purposely built an alternative pricing structure in order to serve a new customer constituent for which their main pricing model would not have produced many clients. The exception at NAV Consulting is their pricing of add-on components of their ERP offering, such as billing modules. They have clear prices for these products for which they do not offer discounts regardless of the extent of the volume purchased by a single customer. Because the exceptions to the rule of sales guiding pricing principles are only in marginal offerings, their strategies can be considered sales driven, rather than pricing driven.

The two companies whose sales strategies were guided by pricing principles were Heatsaving Co and Multi-Software. Heatsaving Co built its pricing principles based on the value of their service to potential clients. The revelation that price increases have not yet dropped their hit-rate from a very high level demonstrates two forms of evidence that their pricing strategy indeed comes first. First, they have increased their prices even recently, which means they are purposefully approaching the level of value provided to customers with their pricing, rather than leaving much of the consumer surplus on the table. Second, when making prices changes, they are looking for changes in sales figures, which they hold as an indicator of whether their pricing strategy is working. At Multi-Software, pricing principles are built on the proposition of being one of the best custom software service companies in the market. However, they limit the upside of their value pricing in order to seem fair to customers. By principle, they would not charge higher than a certain level for a project that is quickly completed, regardless of how much more time and/or money a competitor might have required for a similar project. In their view, the customer would feel cheated, and they cannot price the project much above market prices because it would be too hard to sell. However, there are examples of pricing being driven by sales strategy. When in a particularly competitive situation or working with an unhappy customer, the team leader is allowed to award discounts. Because this exception to the rule is a peripheral case and not their normal way of doing business, theirs can nonetheless be considered a pricing driven strategy.

9. CONCLUSIONS

9.1. Empirical findings of pricing method usage

Market-based competitive and cost-based pricing were common methods across most of the case companies. Heavy use of these traditional methods was not surprising, but the interviewees were also quite articulate in their familiarity with these pricing methods. Value-based pricing and price skimming were less common, but were closely related in practice. Case companies employing one use the other as well. The use of customized pricing was explicitly stated by only one case company, while lifecycle and experience pricing were only referred to lightly, as they were unfamiliar concepts to most interviewees. All the case companies used hourly-based pricing, although it was a staple of revenues for only two of the five case companies. The use of target return pricing was difficult to ascertain, as the term was new to most interviewees. Group /segment-based pricing, as well as versioning and bundling, were used mostly by those companies with standardized offerings. An interesting finding of the research was that everyone claimed to use pricing as a signal, which also demonstrated a clear understanding of this aspect in practice. However, discounting was perhaps the most misunderstood concept discussed, with some interviewees claiming not to use discounting, while later describing even elaborate discounting policies. One interviewee even claimed to use discounting, and proceeded to describe a practice quite different from traditional definitions of discounting. Data on the usage level of different pricing strategies was used to build the pricing framework for this thesis. However, it also demonstrated the lack of familiarity with pricing concepts among a sample of leaders in the IT service sector in Finland.

9.2. Findings from the four descriptive research questions

9.2.1. How does a firm's revenue model relate to differentiation strategy?

Across the board, differentiation was related to the choice of revenue models. The more standardized offerings used more on-going payments, while the custom offerings were centered more on one-time payments. This finding supports the idea that the core product, a standard or custom offering, is what drives the choice of revenue model in the studied firms. However, an alternative explanation is that the type of core offering makes adoption of a certain revenue model more natural, but does not restrict the choice. This explanation is supported by the connection between differentiation and revenue model, as well as the expressed goals of the company leaders to push for on-going revenue models. Because the leaders of case companies with one-time revenue models shared a conviction of moving towards more on-going revenue models without changing their core differentiation, this connection can be viewed as a tendency at outset, but not a cause and effect relationship.

9.2.2. Do economies of scale or economies of scope dictate pricing strategy?

Some companies' pursuit of economies of scale or scope had an effect on pricing strategy. However, for others, the connection was unclear. Among the case companies there were numerous examples of economies of scale providing opportunities for lower prices. Some companies based price discrepancies on savings from economies of scale, while others were aware of the possibility, but strategically chose not to apply it to prices. Economies of scope was generally less applicable in the case group, but was used to price multiple product bundles at one case company.

9.2.3. Which customer perceptions effect pricing and revenue model use?

The two most common customer perceptions affecting pricing and revenue models were fairness and goodwill. Although goodwill as an accounting term refers to the intangible side of assets, in this context it refers to the B2B equivalent of consumer surplus, or the difference between what the customer is willing to pay and what they are actually charged. This perception is driven by the objective value of an offering and the subjective perception of what the offering is worth. The other customer perception found with the case companies was fairness. This perception mired the internal goals of moving toward value-based pricing, and was addressed in the case group of case companies particularly through transparent pricing principles.

9.2.4. Do pricing principles currently guide sales strategies or vice versa?

Two of the case companies had sales strategies which were guided by pricing principles, while the other three allowed sales strategies to guide their pricing. These concepts have bearing on one another so categorizing the case companies required some judgment. However, each interview transcript provided sufficient evidence for the categorization of these case companies as either a sales or pricing driven enterprise. The firms with a premium differentiation were those that placed pricing before sales. The companies categorized as sales driven enterprises each confirmed this finding as correct as part of the validation strategy of this research.

9.3. Implications for theory development and future research

The current study describes the pricing strategies and methods in use at five SMEs in the IT service sector in Finland. The case companies used pricing methods to varying degrees, but all of the case companies had ambitions to use value pricing. However, on a general level they struggled to implement their value pricing goals in practice. There is therefore a need for greater dissemination of knowledge on value pricing methods and their implementation in practice. Continued exploration of new value pricing methods is also essential in order to bring value pricing as a concept to the next level.

This paper suggests a framework as a tool for building and maintaining partnerships using two dimensions: 1) Value-based versus market-based pricing strategies, and 2) On-going versus one-time revenue models. In this study, the level of value-based pricing was evaluated on the use of 14 different pricing methods. A relative scale was used to emphasize the differences between offerings among the group of case companies, thus the values found in this study are not directly comparable to other firms. However, the relevance of using a scaling system for the value-pricing dimension was verified by feedback from the interviewees.

The level of ongoing versus one-time revenue models used by case companies was evaluated based on the use of two different pricing methods. A greater number of inputs would have produced a more robust framework, though the current method also demonstrated the value of employing a scaling system for revenue models. Further studies could focus on building a more comprehensive set of factors for both dimensions.

A cross-case analysis resulted in groupings of the case companies into those that had a value pricing strategy and one-time revenues, and those using market-based pricing and on-going revenue streams. Some case companies had product lines that followed strategies significantly different from their main product line from the pricing and revenue model perspectives, and these were thus scaled separately in the framework for pricing strategies. Most studies to date on partnerships have focused on sharing of information and expertise or on building cooperation between operational functions. (Lombardo, 2005; Merhout and Havelka, 2008) In a study on supply chain pricing, Voeth and Herbst looked for opportunities for suppliers and customers to use pricing as a tool for building mutually beneficial relationships. In order to reach this goal, they state that pricing must be viewed as a tool for outcome optimization rather than a distributive parameter (2006). In a review of value added partnerships, Johnston and Lawrence found that even in commoditized fields such as construction, contractors make contracts with partners offering reasonable prices, and not always the lowest bid (1988). Although the literature has attempted to describe pricing as a tool for partnerships (Voeth & Herbst, 2006; Johnston & Lawrence, 1988; Porrini, 2006), there has been no attempt to explain what aspects of pricing and revenue strategies make the most significant contribution to the success of partnerships (Shipley & Jobber, 2001). Sainio and Marjakoski describe value based pricing and revenue logic as key determinants in building business models, but do not make the connection between these inputs and the goal of building partnerships (2009). We addressed this gap in the literature by proposing a framework to assess pricing as a tool for partnerships based on these two dimensions: 1) value versus market pricing and 2) on-going versus one-time revenue models. This emergent outcome confirms the finding from previous research that pricing should be considered at a strategic level.

The dimensions used in the theoretical model were supported by the stated future aspirations of the interviewees, and can be used by companies to build partnerships with their clients. Those who used one-time pricing planned to move towards on-going payments and those using market-based prices planned to move towards value-based pricing.

9.4. Managerial Implications

Pricing should be considered on a strategic level for the sake of profitability and building partnerships. Managers who find that the value of their offering is superior to the prices they are charging have the most to gain from pricing strategy in terms of profitability. Those in particularly competitive markets may see that value pricing is not allowed by market competition, and if they are using cost-plus or market-based pricing, this may be true. However, a truly limiting factor is likely to be an awareness of value pricing options available. Data from the interviews demonstrated that many pricing concepts were new or misunderstood; discounting being the clearest example of this lack of familiarity.

For firms who see clients as partners and want to build deeper cooperation with them, pricing can be used as a tool to meet these ends. It is acknowledged that there are numerous dimensions relevant to partnerships and the claim is not that a carefully orchestrated pricing strategy and revenue model alone will build a partnership. Rather, the implication for managers is that pricing has been traditionally been treated as a necessary evil of doing business. There are at least three reasons that this view is wrong. First, customers are not as sensitive to price as generally believed. Second, a value pricing strategy can align the interests of both parties. Thirdly, an on-going revenue model can place additional pressure on the supplier to deliver continuous value. The framework proposed can be used as a strategic tool to build deeper partnerships with clients.

9.5. Strengths and limitations

The multiple case study method employed in this study helped to overcome the hurdle of novel terms by providing clarification of concepts to the interviewees. The interviews were structured which encouraged comparability between the cases. The integrity of the interview data was ensured by conducting all interviews within a short time frame, producing full transcripts of interviewee comments, and translating the complete texts. The framework for using pricing as a tool for building and maintaining partnerships was based on the literature, particularly research done by Sainio and Marjakoski, and the final framework was populated with eight different offerings from the five case companies (2009). The stated future directions of the partnership pursuant firms supported the validity of the framework as a measure of partner cooperation.

Future research on the validity of these axes as measures of partnership is needed. A refined scale of measuring the extent of value-based pricing would also help to verify the findings. The measure of ongoing versus one-time revenue models could be easily improved, at least in theory, by using direct figures from the companies studied. However, this method is more likely to suffer from confidentiality issues, even assuming the target companies collect this information in the first place.

9.6. Lessons learned

The thesis project taught about many aspects of both the professional and academic sectors in addition to the stated findings mentioned earlier. Building a strong structured interview is a difficult task for a novice researcher and it was important to seek help from someone with more experience in research. Studying the literature on the case study method of research made clear that there are many advantages to this method that quantitative methods do not offer. An in-depth understanding of the companies and a personal connection to the business leaders interviewed may open doors to future collaboration with this particularly strong group of case companies. Building and testing a framework, which is simple enough to be a useful tool in building pricing strategy, was a satisfying result of the research process.

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11. APPENDICES

11.1. OUTLINE OF THE STRUCTURED INTERVIEWS

1. Introduction
    a. Background
    b. Confidentiality issues
    c. Permission to record the interview
    d. History and the current state of the firm
2. Revenue model (general)
    a. How would you describe your market and the firm’s position in that market?
    b. Describe the revenue model(s) of your firm. (How do you monetize your services?)
    c. Has your revenue model changed during the years of operation?
    d. What are the future expectations concerning your firm’s revenue model(s)?
3. Revenue model (specific)
    a. Do you aim at differentiating your offering?
        i. By offering something different?
        ii. By increasing the customer’s perceived value compared to the competition?
        iii. Through customized prices?
        iv. By selling to customers at different prices (eg. depending on their ability to pay)?
        v. Versioning?
        vi. By offering choices and allowing the customer to decide?
        vii. Group or segment based pricing
    b. Do you pursue price (and cost) leadership?
        i. Through economies of scale? (serving many customers)
        ii. Through economies of scope? (expanding offerings to select customers)
    c. What is your revenue model?
        i. Sources of revenue?
        ii. Forms of revenue? (support services, maintenance, others)
        iii. Complementary or alternative offerings
        iv. Licensing model
        v. How do you strive to keep existing clients? Are clients experiencing significant switching costs?
        vi. Do your customers compare your service prices to the competition? to in-house?
        vii. Do you use pricing as a cue?
        viii. What is your general pricing scheme? (Market-based pricing, Margin/Cost based pricing, Value based pricing)
    d. What are your customers’ rights to use your software based on?
        i. Time (monthly, annual fee)
        ii. Location (office, market area, language area etc.)
        iii. User type (company, organization, private individuals, students) and number
        iv. Hardware environment (number and quality of processors) and software environment (operating system, platform, database access, etc.)
        v. Transactions (purchase or use frequency)

vi. Income (income or profit sharing, royalties, OCM-contracts)
vii. IPR management (source code availability options, rights to further distribute solutions, restoring derivatives to the original developer)

e. Do you apply some of the following principles in pricing?
   i. Cost-plus pricing (markup prices) Describe your cost structure.
   ii. Competitive pricing (Neutral parity prices, above market prices, below market prices)
   iii. Life cycle pricing (skimming high entry prices, penetration aggressive low entry prices
   iv. Experience curve pricing
   v. Target return pricing
   vi. Economic value based pricing (contingency pricing)
   vii. Bundling (sticky or non-sticky goods/services)
   viii. Discounting (where are discounts common, where are they less common?)

4. Other
   a. In addition to yourself, is there someone else who could provide insight about the revenue model or pricing used in your firm?
   b. Are there any documents (about your firm/products) available that would be useful for my research?
   c. Are there other important issues about your revenue models or pricing that were not included in this interview?

11.2. Value pricing factor weights and scores

Table 3: Value pricing factor weights and scores

Pricing method	Weight	Auto-Site	Heatsaving Co	Multi-Software	NAV Consulting	Survey Blend	Auto-Site white label	Survey Blend election machine	Heatsaving Co deal
Market-based	-1	8	1	1	9	8	6	2	1
Competitive	-1	9	1	2	9	8	6	1	1
Cost-based	-1	6	1	2	8	7	7	2	1
Value based	1	4	9	8	2	4	8	8	9
Price skimming	1	2	8	9	4	2	7	7	9
Customized prices	1	2	1	9	2	7	8	8	1
Lifecycle	0,5	3	5	2	1	2	4	1	7
Experience curve	-0,5	1	1	6	6	5	1	1	1
Target return	0,5	7	8	6	4	7	8	8	8
Segment based	1	9	8	5	5	8	9	9	8
Versioning	0,5	9	8	1	6	4	3	1	8
Bundling	0,5	9	9	3	1	9	8	7	9
Pricing as a cue	0,5	9	8	9	8	7	9	6	8
Discounting	-1	7	1	6	9	7	1	1	1

11.3. Revenue model factor weights and scores

Table 4: Revenue model factor weights and scores

Revenue	Weight	Auto-Site	Heatsaving Co	Multi-Software	NAV Consulting	Survey Blend	Auto-Site White label	Survey Blend election machine	Heatsaving Co deal
Hourly based	-1	2	1	7	9	3	7	2	1
Licensing	1	9	2	1	6	9	7	1	2