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Spare Parts Pricing

Pre-study for a Pricing Strategy at Pon

Master of Science Thesis in Quality and Operations Management

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Gothenburg, Sweden, 2013

Report No. E2013:41

REPORT NO. E 2013:041

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Master's Thesis E 2013:041

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Chalmers Reproservice
Göteborg, Sweden 2013

Abstract

The spare part market is a \$400 billion business and many companies make a lot of their revenues from spare parts. But when it comes to pricing spare parts many organizations lack a thorough pricing strategy. The problems with pricing in general are related to misinterpretation of the true value of spare parts, which often leads to generous discounts and a value destructive behaviour. The aftermarket is also important for customer relations since spare parts are bought constantly in contrast to new equipment which is bought once every few year. This means that the spare part business will influence customers' view of the brand.

Pon Sweden is an exclusive dealer of Caterpillar machines in Sweden and has during many years discussed the issues of their present pricing strategy. Some claims that they are too expensive when it comes to spare parts, but there is no facts displayed proving that they are. The pricing strategy in use is a reactive approach on the price revisions done twice a year by their OEM. Pon Sweden works with cost-plus pricing that mainly includes an internal focus and that is why they have a limited understanding of the market. This creates problems since it is vital to understand the market in which an organization is active. Pon Sweden wants to understand the market and how they could work with pricing in a way that would increase the competitiveness of the organization.

The purpose of this Master's thesis is to explore and analyse the spare parts market and evaluate it in such way that the given information could be a basis for a pricing strategy at Pon Sweden. The thesis investigates the market situation and what can be done in order to have an organization with better understanding of the market and the customers.

The study shows how Pon and other related companies, works with spare parts pricing. The information was collected through literature reviews, case studies and interviews. The focus of the thesis has been pricing of spare parts at Pon, but since the market has been investigated the results could be applied on other companies in a similar market and situation.

The result of this Master's thesis is a recommendation for Pon Sweden that they should be marked-based in their pricing of spare parts. This involves segmentation of parts, gathering and handling of market information and how discounts should be handled.

Keywords: *Spare Parts Pricing, Pricing Strategy, Segmentation of Spare Parts, Discount Behaviour*

Acknowledgement

We would like to thank everyone that in one way or another has contributed with time and knowledge in order to help us finalizing this thesis. Igor Insanic, our supervisor at Chalmers, for your guidance and patience. Hans Nygren, our mentor at Pon, for your energy and involvement with introducing us for the right people and challenging our ideas. A great thanks to all of the brilliant people that gave up their time and gave us the chance to enhance our knowledge in the field of pricing, direct from the source. Your help has meant a lot to us and hopefully this thesis will give something back.

*Jonathan Andersson and Jesper Bengtsson
Gothenburg, May 2013*

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1. Introduction

This chapter will give a general background to the Master's thesis and the company Pon. Also the purpose will be described and limitations of the thesis. Finally the report structure is presented.

1.1 Background

Hutt & Speh (2010, p. 359) claims that *"Customer Value represents the cornerstone of business-to-business (B2B) marketing in the 21st century"*. It is therefore of great importance to understand the value drivers in key customer segments in order to be innovative on the market. There are many different ways to charge your customers and there are many ways or processes in deciding what the price shall be (Hinterhuber, 2008).

According to D'Aveni, in Hutt & Speh (2010), an innovative firm can offer the customer greater value to a better price than traditional companies. Companies that use a cost-plus model instead of individually pricing their products do not realize the potential value. Without first understanding each different part's individual potential value the set price will not reflect the true value (Gallagher et. al, 2005).

When it comes to spare parts many organizations lack a thorough pricing strategy and use a cost-plus pricing strategy without differentiated prices (Zinoecker, 2006). The problems with pricing in general are related to misinterpretation of the true value of spare parts which often leads to generous discounts and a value destructive behaviour (Gallagher et. al, 2005).

Pon Equipment AB and Pon Power AB are the Pon companies in Sweden, hereafter referred to as Pon Sweden. Pon Sweden employs around 330 persons and has an approximated turnover on 1.8 billion SEK (Pon-Cat, 2013). At the moment, Pon Sweden is using a mark-up strategy or a cost-plus pricing process that is automatically generated by a system. The system is advanced with a lot of parameters influencing the pricing and has resulted in that it is hard to understand what the final price will be. At least twice a year Caterpillar sends price tapes to Pon Sweden that contains new prices. These are put into the system and new customer prices are generated. Pon Sweden has a problem due to the old advanced system, which makes it hard to know what will happen with the prices facing the customers. Since setting prices is something based on a computer system, the organization has little or no influence on the pricing process besides the active work with discounts.

Discounts are set to spur volume but are not transparent and used as a communication method towards customers. The discounts are set through individual negotiations and are therefore the result of a lacking strategy. Pon Sweden has limited understanding on

the alternative pricing strategies and no system of collecting and analysing market information. Today's way of working is not proactive, it is a mark-up process that mainly focuses on cost.

Spare parts are sold in different ways at Pon Sweden, as single spare parts over the counter or on PartStore, Pon's web-shop. Parts are also sold through service jobs and service contracts. One way is strictly sales of spare parts while the other is through sales of services. Caterpillar is a premium brand and that is also a contributing factor to why Pon has not looked at competition or customer preferences when setting their prices. Due to the premium the organization has ignored complaints and indications on the prices, and referred to the price as a part of the premium. The lack of market specific knowledge results in a pricing strategy that does not focus on the market and its segments.

With the earlier reasoning there should be parts that are overpriced and parts that are underpriced. Pon's way of working combined with the fact that Caterpillar is seen as a premium brand has resulted in a pricing process which is focusing mainly on cost.

1.2 Purpose

The purpose of this Master's thesis is to explore and analyse the spare parts market and evaluate it in such way that the given information could be a basis for a pricing strategy at Pon Sweden. The thesis will investigate the market situation and what can be done in order to have an organization with better understanding of the market and customers.

1.3 Delimitation

Since the Master's thesis will be carried out at Pon Sweden the market will be limited to the Swedish market where Pon is active. The market analysis will have a focus on areas concerning pricing. Further the thesis will focus on the Caterpillar spare parts.

2. Theoretical Framework

This chapter will present theory that will constitute a basis of the knowledge needed to analyse empirical findings. The theoretical framework focuses on the areas of pricing and pricing strategies. Various strategies will be introduced and explained.

2.1 Introduction to Pricing

Pricing is a rather unexplored topic compared to other marketing subjects both academically and practically (Hinterhuber, 2003). Companies believe that customers are price sensitive and that it is impossible to both have a premium prices and large market share. The fact is that price has a large effect on the overall profit as seen in Fig.1. Despite this McKinsey & Company has shown that approximately 15% of all companies are doing research on pricing (ibid).

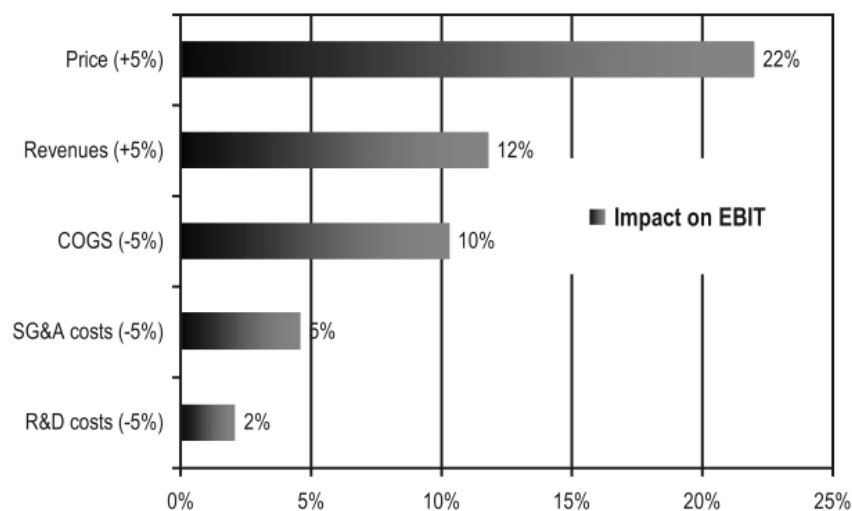


Fig. 1. The effect on 5% raised price on EBIT compared to the relative effect on Revenues, Cost of Goods Sold (COGS) (ibid).

The conclusion from the reasoning made by Hinterhuber (2003) is that a change in price makes a bigger impact than other changes. Therefore it is important to keep in mind the importance of a price structure when trying to improve margins or satisfying the customers.

2.2 Pricing strategies

It is hard to distinguish all pricing strategies since it depends on the market that a company is located in and could therefore be different between countries, industries and customers (Hinterhuber, 2008). But apart from the conditions mentioned above there are three general categories of pricing strategies according to Hinterhuber (2008):

- Cost-based
- Competition/market-based
- Customer value-based.

A company often uses all three categories and at least two of them. Companies can start with using a cost-based pricing strategy due to lack of information, but will most likely have to consider competitors prices later on (Lundén, 2008). Most companies need to consider their customers since very few can work without any input or feedback from them.

2.2.1 Cost-based Pricing

Cost-based pricing is the most commonly used strategy and is believed to be a simple tool for a good profitability (Nagle & Holden, 2002). Cost-based pricing is taking one thing in consideration and that is costs, see Fig. 2. This strategy aims at covering a company's costs and securing a margin so that the capital brought by the price exceeds brake-even (Lundén, 2008).



Fig. 2. Cost-based pricing (Nagle & Holden, 2002)

The margin in a cost-based pricing strategy could be so called cost-plus pricing, which means that a specific cost is added. Or it could be a percentage of the costs, mark-up pricing. The later one is often used by retailers and companies that have high inventory and high turnover of products. The cost-based strategy is rather simple as there are few parameters to consider and is therefore good when there are many products or services to price (Schindler, 2012).

According to Schindler (2012) it could be a good thing not to distinguish your prices too much. Using a common strategy might prevent that. Suppose that competitors price their products the same way as the own organization, then without analysing the competitors they will have similar prices. But it can also result in a price that is set too high and therefore ignored by the customers, which will give small volumes and little or no profit (ibid).

The problem with this model is that it is almost inevitable not to get it complicated. According to Nagle & Holden (2002) it is almost impossible for most companies to determine the cost per unit before establishing a price. This is due to the rather simple logic that unit costs are changing with volume and volume is changing according to the price level. This results in estimations and assumptions that are undermining the potential profits (ibid).

The cost-based pricing strategy is often criticized for being the poorest strategy due to the lack of both competitive and customer analysis (ibid). However Lundén (2008) argues that the strategy is good since it analyses the company costs and expenses and

that is important no matter what strategy is in use. The cost and expenses are interesting to analyse since it can prevent an organization from setting a price too low and preventing the costs to exceed the income (ibid).

2.2.2 Market-based pricing

A market-based pricing strategy process starts with analysing the competitors' prices before setting a price on a new product or service (Schindler, 2012). This strategy's main goal is to find a price for the product or service at hand that is relatively as valuable as other present alternatives on the market. This means that if the product or service is thought of, as above market standard, the price can be set higher than the market average, which is also true the other way around (Lundén, 2008).

If a company shall be able to set prices in harmony i.e. after the market standards, the market needs to be known and analysed. The problem is that it can be a comprehensive amount of prices to go through and it could therefore be good to select a segment or a competitor to focus on. It does not only concern the amount of data but also the complexity of getting hold of this information. Many companies do not have fixed prices due to biddings or negotiations. Even if one gets hold of a pricelists it could be misleading due to non-included discounts. The challenge lies within finding the true competitor prices. Indications might be found in the internal sales organization due to complaining customers referring to competitors' prices. This is however not a very reliable source of information and should be complimented with "competitive intelligence" such as cost and profit levels of the competitor (Schindler, 2012).

To let the market and the active competitor set the prices at your company is according to Nagle & Holden (2002) like "letting the tail wag the dog". Price is the quickest way to gain market share, but this does not mean that it is good for any company's economic situation. Lowering prices is often a result of managers trying to reach promised sales goals and do not relate to the profit gained from it (ibid). That is why it is important to do a cost-analysis as mentioned in cost-based pricing strategy, to know how much coverage a potential price gives your costs. It is essential not to forget the products true value, and if it is possible to distinguish the value from the one offered by the competitors one should do so (Lundén, 2008).

The market situation affects the overall strategy. The strategy can change depending on how fierce the competition is and what alternative products there are. With a holistic view the market could be divided up into two different scenarios either with competition or without any. Depending on the numbers of players and size of market share etc. the situation could obviously vary and be more or less unique. However if it were viewed upon as a scale then it would be a monopolistic situation present at the beginning of the scale and a perfect competition on the opposite one (Granstrand, 2010).

A Monopolistic structured market indicates that there is only one existing producer/supplier/seller, which dictates the price. The fact that there is only one player on the market means that the price is higher since there is no competition and no alternative product for the customers. Strong barriers to entry make it difficult for competitors to access the market, as they often protect monopolistic players i.e. incumbent. One example could be a patent that makes it harder for an external part to imitate the original product (ibid).

In contrast to the monopolistic situation where the incumbent dictated the price, a company facing perfect competition will have to adapt to a market standard otherwise customers will turn elsewhere (ibid). The price a customer is prone to pay is dependent upon the range of alternatives and how common a product is. Perfect competition is a simplification of a market situation that is constituted upon a number of simplified assumptions. According to Granstrand (2010) these assumptions are made:

- Products offered by different companies are identical.
- Many companies are present at the market, so many that the companies are not able to set the price themselves.
- There are many consumers.
- The markets are simple to enter and leave no barriers.
- Companies and customers enjoy perfect information.
- There is no cooperation between consumer and producer that could raise the prices or lower the output.

Perfect competition is just a concept and nothing seen in industries but it gives a good understanding of what competition brings to a market. The competition brings an alternative to the products and services already present at the market and sets new demands for the companies. When there is competition, companies need to prove that themselves since there only can be one market leader for instance (ibid).

Pricing dependent on market situation

There are bounds of pricing that sets limits on both sides of the price-axis, also called a price ceiling and a price floor. The axis or scale is dependent on two things, the potential customer value and the variable cost. The customer value defines what value the customer experience and is equal to the highest price the product or service can have. The Price floor is dependent upon the company's variable cost (Schindler, 2012).

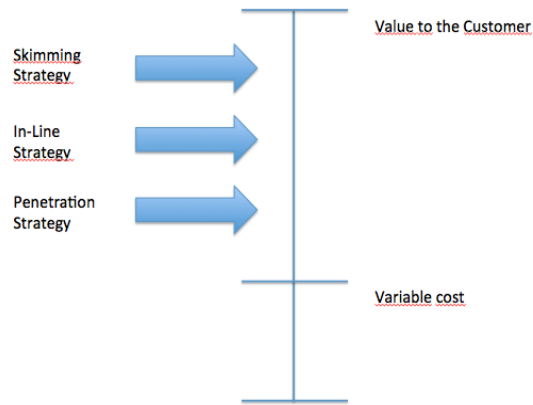


Fig. 3. Schindler's schematic Figure of Price Bounds (ibid)

In Fig. 3 it is shown what methods that match certain market situation. Skimming strategy when having possibilities to charge the customers extras, like being first to own it, and then lowering the price. In-line strategy is when following competition and penetration pricing are to lower the price to gain market share.

Market skimming

Market skimming is a good strategy when releasing a new product or innovation since the high price will attract early adopters who can enjoy social recognition through owning this product (ibid). The price can give the product an exclusive appearance and be associated with high quality (Granstrand, 2010). An example that can represent both quality and exclusiveness are Swiss made wristwatches. The price can be 500 times higher for a Swiss made watch than an unremarkable and cheaper watch but it is not 500 times better (Lundén, 2008). A product that is unknown to the market will need a lot of promotion to spur sales and create recognition, which means that the skimming strategy could ensure more capital through low sales. When the first customer segment have bought the product the sales will start to drop, then the price can be lowered. Thanks to continuous adjustments of the price, all market segments can be saturated, which is known as sequential skimming (Schindler, 2012). According to Granstrand (2010) market skimming pricing could be suitable to use in a situation where the following circumstances are present:

- Inelastic price segment
- Slow reacting competition due to protection
- A price reduction is easier to do than raise
- High price represents high quality to the customers

Market penetration

Basically Market Penetration strategy is striving to spur volume in order for the company to make a profit. The customers will be attracted since the value could be

experienced to be relatively much higher than what the actually did pay. The problem with this strategy is foremost connected to the volume needed and the low margins because competitors will try to match their prices, which eventually could lead to a price war. It is therefore important to have an advantage when it comes to the margins or volumes (Schindler, 2012). According to Granstrand (2010) market penetration pricing or “price low gain high” could be suitable to use in a situation where the following circumstances are present:

- A price sensitive market
- Declining unit production cost
- Competition is discouraged by low prices

2.2.3 Value-based Pricing

Hinterhuber (2003) argues that in order to fulfil all purposes with a pricing strategy there are three perspectives that are vital and those are the company perspective, the customer perspective and the competitive perspective. The company perspective shows the significance of understanding how price relates to certain volumes and profits. See Fig. 4 for the principle of value-based pricing.



Fig. 4. Value-based pricing (Nagle & Holden, 2002)

To understand the relation between the parameters a cost volume profit (CVP) analysis can be conducted. It can for example display how much increase in sales that is needed to compensate for a planned price reduction (Hinterhuber, 2003). The formula for CVP calculations is the following:

$$\text{Break even sales change(\%)} = -\frac{(\% \text{Price change})}{\% \text{Contr. Margin} + (\% \text{Price change})} = \frac{-\Delta P}{CM + \Delta P}$$

The customer perspective enables a better understanding on the economic value associated with the product. To better understand consumers it is important to conduct an economic value analysis. The economic value analysis is a process of getting to know a products real value and what factors that offer value to different customers (Hinterhuber, 2003). To understand the customers' point of view it is important to have the lens of the customer (Grenmyr, 2011). A company needs to find what customers believe to be the best alternative next to their own offering i.e. the reference product, and analyse the different functions. It is important to find what “extra” value there is in your own product alternatively the reference product. The special function or other

factor creating the “extra” value helps determine what value there is in your own, either more or less depending on the result. Focus groups, conjoint-analysis, surveys and benchmarks are methods to distinguish what extra value the customer gets from choosing the product you are providing. When the value of the reference product and the “extra” value is added together one will have the total value of the product. It is also important to understand the competitive situation to understand what trends that works and how the competitors are doing and what strategies they might be using (Hinterhuber, 2003).

Value-based pricing is perhaps not as easy as it seems since few companies actually use it. The main issues are most probably that the collecting of specific information about competitors and the market is hard to conduct. Even if a lot of information and data is found and collected it is hard to interpret and it will perhaps be hard to leave out all subjectivity. According to Hinterhuber (2008) the second most common problem concerning value based-pricing is communicating value to the customers. The problem lies in knowing what the customer wants and what they need. Otherwise it is hard to pinpoint and address certain customers. Addressing customer’s needs are difficult and that shows that it is hard to segment the market, which also is a major obstacle that hinders an implementation (ibid).

To be able to deliver customer value it is important to understand the potential markets and the corresponding requirements to that specific niche. By sorting the different needs into groups one can create different customer segments to better address different customers. High growth companies are skilled in developing distinctive value propositions that is product or service offerings that better fulfil market needs than the ones given by competitors. A part of the success in keeping the profitable customers is done through acquiring, developing and retaining business relationships (Hutt & Speh, 2010). Customers do not necessary need to be in one specific market segment for all purchases but could instead be in different dependent upon the specific needs of the situation (Schindler, 2012).

The problems associated with implementation are not only dependent on the situation on the market but also on the sales organization. According to Hinterhuber (2008) organizations have a problem with sales personnel that gives customers higher discounts rate than intended. This is often a result of annual sales goals and provision that are based foremost on volume instead of profit, which would increase the incentives of having low discount rates. There is also a problem with senior management support when could take the form of them having for example volume based target. If the senior management focuses on volume-based target the profit part is easily lost by the organization, and vice versa (ibid).

The price is not only decided and dictated by companies. There is often a process of setting the right price involving the customer. This means that the prices are not always

fixed and there is a culture that involves negotiating prices, which can be both time consuming and emotionally exhausting. Before negotiating with a customer it is important to understand the value that a product gives the customer. A negotiation can give useful information to a company about what segment to place a customer in, since negotiating with the customer will give leads about the price sensitivity (ibid).

A factor that truly affects the customers is the perceived fairness of the price and the deal itself. The customer will feel cheated if he or she finds out that there was more to it than agreed to e.g. shipment costs, an obligatory insurance etc. If the price is lowered just after a sealed deal the customers' perception will not be positive and the same reaction will occur when a competitor is offering an equally good product to a lower price (Lundén, 2008).

In many cases discounts are used to satisfy a potential buyer and to finish the negotiation by agreeing upon a discount rate. A discount is supposed to help to raise sales and drive profits but discounts can result in the opposite. If sales staffs are too generous with offerings concerning the discount rates the deal could get long going consequences. A customer can perceive discount prices as original prices after a while when they have been used a couple of times. The result could therefore be seen as a price reduction instead of a discount since it is hard to raise the price afterwards. There are more problems that can occur as a result of discount periods. The customers might wait for another discount period and therefore never buy anything at regular prices. The discounts are supposed to spur the number of sales and to attract customers to buy. This means that it is not a strategic action to have campaigns on a regular basis or too often since it can create an unfavourable behaviour for the customers. The price shall attract customers under certain periods where interest otherwise is low e.g. low seasons or during times where the demand is low (ibid).

Customer adapted price

Dependent on the value to the customer, the cost a sale generates and the customers price sensitivity and the responsiveness to price changes. According to Schindler (2012) this is an argument for differentiated pricing among different customer segments since the parameters might vary individually between different customers. To see how price sensitive a customer is one can with the help of statistics (or presumable numbers) calculate how big impact a price adjustment can have on the sales. Price elasticity is concept describing the change in demand as an effect caused by a change in price for a specific product or service. If the change in demand is equal to the change in price the product or service is said to be price-neutral. If the change in demand is of bigger proportions than the change in price the product is price elastic and if the opposite would occur the product is price inelastic. It is therefore important not to lower the prices on a price inelastic product or raise the price on a price elastic product. The price elasticity is hard to calculate due to the lack of information. It can be estimated and

based upon customer interviews but since people are not rational in that kind of situations it is hard to be sure (ibid).

$$E = \frac{\% \text{Change in unit sales}}{\% \text{ Change in price}} = \frac{\frac{Q_{\text{current}} - Q_{\text{previous}}}{Q_{\text{previous}}}}{\frac{P_{\text{current}} - P_{\text{previous}}}{P_{\text{previous}}}}$$

To reach the “best price”, different segments must be addressed differently in order to satisfy the parameters on the right level for the customer. To be able to receive the best payment possible from different customers one has to use price segmentation. This way the customers individually are satisfied with the situation and the company benefits from the best prices. But a segmentation of the customer base is not an easy task and the information could be hard to acquire. Another problem is that a customer from one segment could buy a product and then sell it to another company charging a higher price but still cheaper than the alternative i.e. yours. (ibid) therefore recommends so-called fencing of the segments, to secure that people switch segments to get a better price. There are six types of fences one can construct and they are according to Schindler (2012):

- Customer characteristics e.g. age, being a student
- Purchase quantity
- Product features
- Design of product bundles
- Time of purchase or use
- Place of purchase or use

Price Bundles are when two or more products or services are in one as a package and is a tactic that can vary in its appearance. The Price bundle could involve a number of products that could or could not be sold separately and that is called mixed-bundle strategy or a pure-bundle strategy. Some investigations show that the mixed-bundle strategy is more preferable since it has been evident that it generated better profit. The deal can also be valid for the individual parts as well as for the bundle and is often the case in mail catalogues. When such deals are presented the customers are given a chance to investigate their potential savings on the separate products versus the bundle. Through offering this possibility for the customer to investigate the potential savings the company creates higher value to customers than if they would not display all prices. The sum of all separate products will be a reference price of the deal at hand (Yadav & Monroe, 1993).

2.3 Spare Part Pricing

The spare part market is a \$400 billion business and many companies associated with the Fortune 100 make extensive profit from spare parts (Gallagher et. al, 2005).

However Simon et. al (2003) describes that an average large European company only makes a profit around 2 per cent after taxes each year.

The aftermarket is also important for customer relations since spare parts are bought constantly and new equipment once every few year. This means that the spare part business will influence customers' view of the brand. The segmentation of customers in the aftermarket tends to be the same for both the new machine sales and the aftermarket business, and that is if they work with segments at all. This is a bad way since the customer needs may differ a lot in the two different businesses (Gallagher et. al, 2005).

The aftermarket business is facing a lot of competition from low-cost producers that compete mainly on price (ibid). Managers often exaggerate the importance of price, it has been proven through research that price is one of the least important parameters (Hinterhuber, 2003). Other factors are more important e.g. a relationship with the customer, quality warranty and distribution etc. A segmentation of the market makes it possible to combine different products and services into a solution that gives the customer more value (Gallagher et. al, 2005). Pricing is not as simple as just raising prices and communicating it throughout the sales organization see Fig. 5. It is important to restructure the pricing process so that the company can understand the customer value and then charge them based upon that. Companies often fulfil the value delivery part through good products and services, but are not as good to get the equivalent extraction (Simon et. al, 2003).

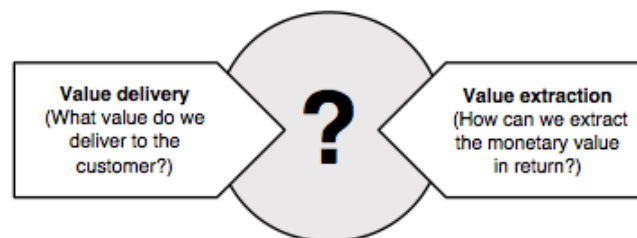


Fig. 5. Value delivery & value extraction (ibid)

In a time where companies need to be service-minded every day, the aftermarket is of more importance both when it comes to sales and service. If companies would have a service focus rather than a product focus the sales of spare parts would increase along with the profit and revenues. Companies can in many ways benefit from the after-sales market with several strategies (Cohen et. al, 2006). Even though spare parts constitute a part of a company's business and profit there are a lot of companies that do not use the commercial potential of spare parts and the advantage and potential of spare part pricing. After-sales business is constantly increasing and the pricing of spare parts is vital for companies. Spare parts can be viewed as the backbone of the after-sales business and should therefore be taken into consideration when it comes to pricing. European engineering companies roughly have two-thirds of their after-sales revenues from spare parts (Zinoecker, 2006).

To be able to meet the requirements for spare parts pricing several methods are necessary, since one single method is not enough to meet the complex situation of spare part. According to Zinoecker (2006) the following parameters are of importance in a spare part pricing framework:

- *Complexity* – since spare parts vary and differs a lot it makes the situation complex.
- *Heterogeneity of parts* – The range of parts both from the original equipment manufacturer and parts from other companies. The batch size of a spare part may vary considerably, and a low batch has an effect on the cost base for the specific part.
- *Limited customer focus* – Compared to the primary business the price sensitivity is lower when it comes to spare parts. This is because of the complex situation mentioned above with a lot of different parts, and also the lower level of customer involvement in the purchasing process
- *Exclusivity* – Usually when a customer just has bought a machine the manufacturer is not in direct competition for these parts and is in an exclusive position.
- *Interdependency with machinery business* – When the manufacturer is in the exclusive situation, mentioned above, the price sensitivity is rather low. But too high after-sales prices may have backlash effect on the buying of the next generation of machinery. Since customers will include operation costs into the calculation when buying machinery.

According to Gallagher et. al (2005) customers do not rank price as the most important factor of the aftermarket. The supplier's reputation, the consistency of a product's quality, the speed of delivery and technical support were the highest ranked factors. Usually the process and tools companies manufactures are done in a cost-effective way and do not work well in the support business. Specifically for spare parts the service is of importance since the breakdowns usually occur unexpectedly, and the need of spare parts becomes urgent (Cohen et. al, 2006).

Companies that rely on unsophisticated pricing are risking suffering from the following negative consequences (Zinoecker, 2006):

- Standard mark-up results in higher prices. Revenues are usually low within these parts, and the company's price image can be damaged from customer complaints as a result of the difference from market prices.
- Undifferentiated mark-up factor does not consider the customer value and the willingness of the customers to pay.
- Not taking into consideration every unique part will result in inconsideration of the competitive situation for each part.

- Conventional pricing methods also do not reflect the fact over revenues for each part as that a few numbers of spare parts is the source of the major part of the revenues.

Intense competition and sophisticated customers are here to stay on the spare part market, so original equipment manufacturers need to improve their spare part pricing, both to be more competitive and also to improve their overall profit (Gallagher et. al, 2005). Many companies seem to underestimate or have a limited understanding of spare part pricing and its potential for profit and the opportunities linked to spare parts. This results in a value-destroying behaviour, where discount is often used to delight customers (ibid). Since a lot of companies don't have a detailed pricing strategy when it comes to spare parts the profit and the pricing is not optimized. The pricing of spare parts is often standardized and undifferentiated cost-based with "rule-of-thumb" pricing (Zinoecker, 2006).

2.4 Research Questions

To be able to give recommendations to Pon Sweden and establish a basis for further actions it is important to understand the market situation. To fulfil the purpose of the Master's thesis it is necessary to find out what strategic options that are proven to give Pon Sweden a competitive advantage.

- RQ1. What pricing strategy enables a competitive advantage on the aftermarket?

When the strategy is chosen it is important to understand what factors enable such strategy. The strategy needs to be applied on the situation in which Pon Sweden is present. Therefore it is essential to investigate and adapt the strategy in a way that it fits the organization.

- RQ2. What resources are necessary to establish a sophisticated pricing strategy?

Even with a sophisticated pricing strategy it is vital to understand what potential different spare parts have. It is important for Pon Sweden to understand how to benefit from the different spare parts.

- RQ3. How should different spare parts be priced?

If the products are priced in a more competitive way the discounts need to be structured and spur volume in order for the new prices to be effective. Discounts need to make customers buy more spare parts or convincing them to buy if they are hesitating.

- RQ4. How should Pon Sweden work with discounts?

3. Methodology

In this chapter the methodology used in the thesis is presented, including research strategy, data collection, SWOT analysis, research process and quality of the research.

3.1 Research strategy

Bryman & Bell (2011) define a research strategy as the general orientation of the conduct of a business research. Research strategy is usually divided into quantitative and qualitative research strategies. A quantitative research strategy emphasizes the collection of data and tests theory compared to a qualitative that generates theory. Qualitative research approach emphasizes words rather than quantification in the collection and analysis of data and embodies a view of social reality as a constantly shifting emergent property of individuals' creations, while a quantitative approach embodies a view of a social reality as an external, objective reality. Also a quantitative research strategy incorporates the practices and norms of the natural scientific model (ibid).

This study will use a mixed approach of quantitative and qualitative research strategy, a so-called action research. According to Eisenhardt (1989) a mix of quantitative and qualitative strategy can create a synergetic effect. Argyris et. al, in Bryman & Bell (2011), defines an action research as:

- Experiments on real problems within an organization designed to assist their solution.
- An iterative process of problem identification, planning, action, and evaluation.
- Action research leads eventually to re-education, changing patterns, and action. This depends on the participations of research subjects in identifying new courses of the action.

So with a close collaboration with the organization of study, i.e. the client, the research will be carried out. The involvement of the client closes the gap between the organization and researchers and the research should handle a real genuine concern of the client. Action research is principally useful when dealing with organizational problems such as learning and change (Bryman & Bell, 2011). Action researches with more complex problems, for example industrial features of an industrial organization, can use certain methods, such as focus groups to develop questions for further analysis (Eriksson & Kovalainen, 2008).

The close relation to the organization is one of the strength with an action research that could increase the validity, but the risk of going native could however be greater. Going native means the risk that the researchers becomes a part of the organization that they are supposed to study and therefore becomes one of those under study (Bryman & Bell, 2011).

The thesis will not follow a straight process and go through different subsequent phases when conducting the research and the case studies. Instead a more flexible approach will be used. This approach is used to get a higher understanding both from empirical findings and from literature. Dubois & Gadde (2002) define this as systematic combining which is when the researchers go back and forth between phases of the research. Fig. 7 illustrates the systematic combining.

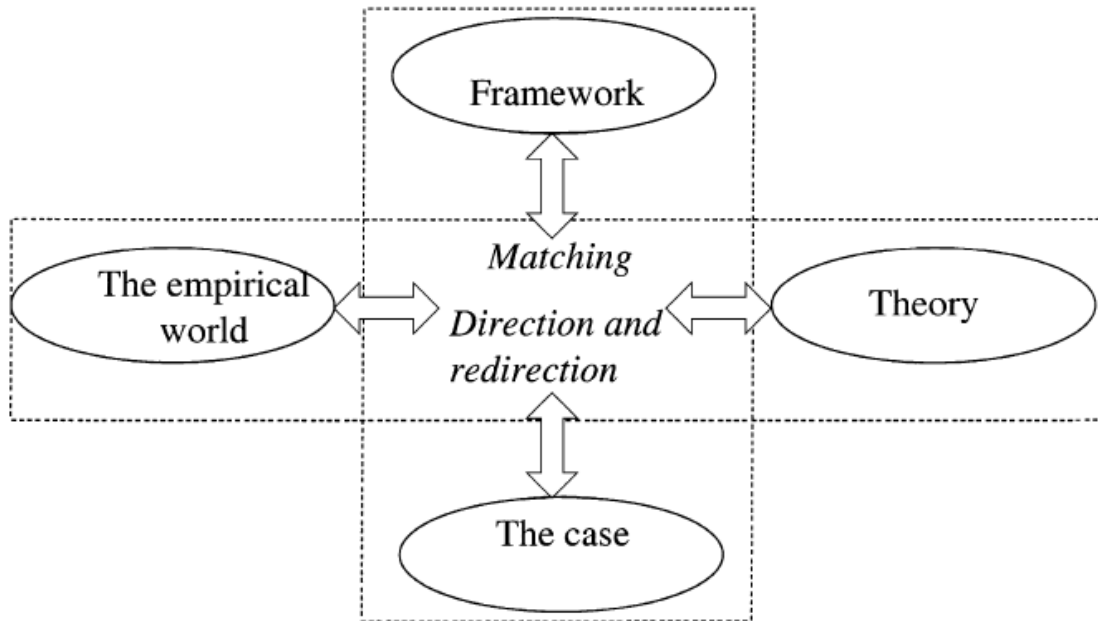


Fig. 6. Systematic combining (ibid)

As seen in Fig. 6 the process does not follow any special pattern and could best be described as a systematic combining of the different inputs. The process is rather logical since all the parts together build up the thesis. It is a part of the research to find a practical problem in the case studies and to investigate it further through a theoretical review. Hence this matter the framework is created through empirical findings in a case analysed and explained with theory. The process of the research has different phases where one might work more with one or two of the parameters but new findings create iterations and redirects.

According to Blumberg et. al (2008) a case study is suitable for explanatory, descriptive and exploratory researches. A central part of each case study research is to define and construct the so-called “case”. The research questions are related to the understanding and solving of the case. The research questions helps to know what the case is about and what can be learnt from studying the case (Eriksson & Kovalainen, 2008). According to Eisenhardt (1989) case studies enable the combination of data collection such as interviews, archives, questionnaires and observations.

Yin, in Blumberg et. al (2008, p. 375), defines a case study as *“an empirical inquiry that investigates a contemporary phenomenon within real-life context; when the boundaries between phenomenon and context are not clear evident; and in which multiple sources of evidence are used”*.

Also within case study there are differences between single and multiple case studies. A single case study only investigates and evaluates one case. Blumberg et. al (2008) argues that a multiple case study, where several issues are studied in more than one context gives a better result than just one case. Bryman & Bell (2011) states that multiple cases give the researchers the opportunity to compare the different cases and give information what is unique and what is common across the cases. A multiple case study design has been used. So that the different cases can be compared.

3.2 Data collection

This section will describe and explain how the data were collected. The methods presented are pre-study, interviews, observations and quantitative data.

3.2.1 Pre-study & documents

Before starting the collection of data it is of importance to identify the research questions and conduct a literature review (Bryman & Bell, 2011). The primary goal of the literature review is to find out what has been done and written on the specific area. However a literature review is more than just a summary of previous work, it helps give the researcher a chance to understand how to contribute to literature (Blumberg et. al, 2008).

Also a literature review gives a knowledge base on the certain area, a basis on how to justify the research questions and builds the research design. A literature makes it possible to identify what is already known about the topic, what concepts and theories are relevant and if there are any inconsistencies in findings relating to the area (Bryman & Bell, 2011).

Literature review was carried out within the area of pricing strategies in general and on spare parts especially. The literature was found via Chalmers web based library database and Google Scholar. The main keywords were “Pricing strategies”, “Spare parts”, “aftermarket sales” and “Pricing of spare parts”. A lot of literature is available on pricing strategies in general however there are few studies that focus on the pricing of spare parts in particular. The limited range of research within pricing strategies for spare parts makes it harder to fulfil the purpose of the literature study but gives a possibility to the authors to contribute to literature in an area that is not so explored. For complete list of the literature used in the thesis see Chapter 8.

Quantitative data is numerical data that can be measured (Bryman & Bell, 2011). Quantitative data was collected via documents and material from Pon. Documents and data such as price lists, sales data, internal financial statements and other accounting

data were the main sources. Moreover data of sales opportunities versus actually sold amount of spare parts and statics of machine population was collected and analysed. All the quantitative data gathered was statistical analysed. It should be mentioned as well that Pon Sweden had a pricing project in 2011. The project was carried out by Niels Bouma, who was a participant in the focus group of this thesis. The project focused on the internal pricing process and has contributed with insights to this thesis.

3.2.2 Interviews

Both semi-structured and unstructured interviews were carried out. The structure of semi-structured interview differs from case to case. Usually a semi-structured interview starts with rather specific questions but then the interviewee is allowed to follow thoughts and other reasoning (Blumberg et. al, 2008). Normally the interview has an amount of questions but it is possible to vary the sequence of the questions (Bryman & Bell, 2011). The questions in a semi-structured interview are frequently somewhat more general in their frame of reference, than in a structured interview. Advantage of the semi-structured interviews is the possibility for the interviewers to ask further questions.

Semi-structured interviews were held with the customers, other brands on the market and the pricing experts. This created a way to have more of a discussion than with a formal interview and with the opportunity to ask the interviewee to evaluate and ask further questions. It was also a way for more relaxed and honest answers from example customers, if it is more like a discussion than a structured interview.

Another approach of holding interviews is an unstructured way. This usually means that the interview has certain topics that are covered. The questioning is usually informal and the sequencing of the questions differs from time to time (Bryman & Bell, 2011). Unstructured interviews were only held within the organizations studied and were informal and a way to get general information of the organization and its work.

The interviews were held both internal at the company and externally. The interviews were held to create understanding, also to enable an analysis of the organization and the current way of pricing. The external interviews were conducted with customers, other players on the market and different topic experts such as pricing consultants and software vendors.

The interviewees were selected through so called snowball sampling. Snowball sampling is when the researchers contact a small group of people relevant to the study. Through these people other contacts are established for other relevant interviewees (Bryman & Bell, 2011). An example of snowball sampling is when contacts at Pon helped with establishing internal interviews, which lead to customer interviews. List of the interviewees and the interview templates can be viewed in appendix A and B.

The customer types that were interviewed differed from small to big organizations, satisfied and unsatisfied companies. To get the customers to give as honest answers as possible all customers were promised to be kept anonymous, so they would not limit themselves when talking or censor themselves when it comes to for instance criticize Pon.

Telephone interview

Most of the interviews conducted were held face-to-face but in the cases where it was not possible it was done over telephone. Telephone interviews can be cheaper and less time consuming, since travels is not needed. (Blumberg et. al, 2008). With today's technology telephone interviews are a good substitute to face-to-face interviews but it has some disadvantages like less participant involvement, limitations on use of visual or complex questions and distractions from physical environment may occur (ibid).

Interviews conducted via telephone were mostly customer interviews, due to the travel cost and also it is time-consuming traveling around, since the sample included customers from different geographic locations. The rest of the interviews were hold face-to-face, only exception was if the interview and the authors could not set-up a face-to-face interviews due to lack of time.

Recording and transcribing

All the interviews were audio recorded and then later transcribed. Audio recording was used because it takes away the need of taking notes. Writing notes on the spot interferes with the interview and it is easy to miss something (Eriksson & Kovalainen, 2008). All the interviewees were asked before the interview if it was okay to record.

The transcribing of the interviews was done listening to the recorded interviews. Transcribing is a good way to go back and analyse the interviews and gives a chance to the researcher to familiarize with the interview material (ibid). But it is time consuming to transcribe interviews and it is not enough for conversation analysis, since it is hard to transfer the mood of the interview and body language from the interviewee.

Focus group

A focus group is a panel of people led by a moderator who meets and discusses a certain area or topic, usually emphasizing a specific theme that is discussed and explored in a deeper way than it would i.e. in a normal interview. How big the focus group should be differs from group to group but a too small group or a too large group results in that the participation is less effective (ibid).

The moderator's role is to steer the discussion and make sure it covers the certain theme. The use of a moderator makes it possible to make sure that this person gets to be dominant and to create an environment where everyone feels comfortable to talk. Taking notes is also a part of the job for the moderator. In an ideal situation the focus group will lead itself. But if the conversation starts to lose focus it is up to the moderator

to get the conversation running. When it comes to selecting participants it is preferable, depending on the topic, to create a more homogenous group dynamic. This tends to promote more intense discussions and interactions by the participants (ibid). The strength with a focus group is that the nature of group dynamics can correct factual errors or personal thoughts by showing what the majority thinks.

One focus group was held 14th of March, 2013, and the participants were chosen from within the Pon organization. The topic theme of the focus group was pricing of spare parts within Pon Sweden. The focus group consisted of in total five participants, see appendix B for list of participants. The focus group met face-to-face except for one participant who joined via telephone.

3.2.3 Observation

An observation helps the researcher to share everyday life and activities with the people and organization studied. This often means that the research works in the organization. The observation helps to create an inside view and the researcher can experience how it feels to be a part of the organization. A difficult part with an observation is to combine participation and observation. An outsider needs to understand the observed organization even though the researcher describes it as an insider (Eriksson & Kovalainen, 2008).

To understand Pon Sweden and its organization, the company has been observed throughout of the thesis work. Presence at the headquarters was at least on a weekly basis. Observation also involved guided tours at the headquarters and the workshop in Gothenburg. Interviews with other players on the market were also combined with observation of their organization since the interviews were done face-to-face in the specific player's facilities. All observations were made to increase the knowledge within the research area further.

3.3 SWOT analysis

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. SWOT analysis is a tool to summarize key issues from an analysis of a business environment and the capabilities of an organization to gain an overall picture of its strength position (Johnson et. al, 2011). A SWOT analysis can be useful as a basis against which to generate strategic options and assess future courses of action.

The aim of a SWOT analysis is to identify the extent to which strengths and weaknesses are relevant to, or capable of dealing with. SWOT analysis can also be used to help focus discussion on future choices and the extent to which an organization is capable of supporting these strategies (ibid).

A SWOT analysis was conducted in the analysis chapter, to get a holistic view of Pon's current situation and the market they are active on. The SWOT analysis gives a good overview what areas Pon needs to work with and what advantages they have against

competition. It also gives ideas on future focus areas, both internal and external. The SWOT analysis can be viewed as the basis for the recommendation and the summary of the analysis.

3.4 Research process

The research process, seen in Fig. 7, describes the phases in the work concerning thesis. Combining the literature review with the data collected resulted in the analysis. Out of the analysis conclusions was made, to build recommendations which would answer the problem definition and the research questions.

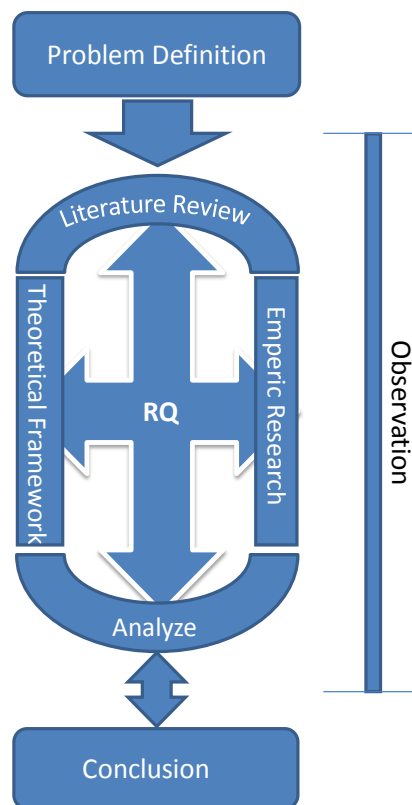


Fig. 7. The research process

First the authors and the company defined the problem and limitations. When the scope was set a literature review started focusing on the subject of pricing. The review resulted in a theoretical framework running alongside with the empiric research. Since the systematic combining was used, see chapter 3.1, the different phases was not followed subsequent phases. Observations were made during the whole process. The combination of the findings from the empiric research and the theoretical framework were analysed to be able to draw conclusions. The research questions (RQ) influenced all dimensions of the research process.

3.5 Quality of the research

There are three criteria according to Bryman & Bell (2011) that is of extra importance when evaluating business researches. The criteria are reliability, replication and validity. Reliability is a question about making sure that the results are measurable in such ways that it is possible to do the same thing again. Replication is about explaining the steps of the process detailed enough so others can repeat it. Validity is perhaps the single most important criteria and focuses on the drawn conclusions of the research. Bryman & Bell (2011, p. 42) claims that “*validity is concerned with the integrity of the conclusions that are generated from a piece of research*”.

During the Master’s thesis the information has been collected from numerous sources and channels. To ensure that the findings are correct the focus has been on having several sources, which enables a comparison of the information. The comparison can show if there is subjectivity or personal opinions behind a reasoning given by a person.

To be able to ensure the validity of the information collected a holistic view of the situation was used. When putting the pricing strategies in the centre information was needed both from within the company and from other players and experts present at the market. To give a better understanding on the present situation it was of importance to analyse problems and opportunities using different lenses. Customers were also involved to help creating a picture of the company. The customers also helped describing the market that could be compared with the company’s view. The company’s OEM was also interviewed and shared their view of the situation through using the supplier lenses. The situation was viewed from three perspectives, the internal perspective, the market perspective and the supplier perspective.

The interviews of other dealers on the market were conducted they were able to validate the market and customer focus. The interviews were made with one person from each company that naturally wanted to talk good about their company. The information is perhaps reflected through and influenced by a personal perspective but the interviewees were professional. If looking at one detached interview, it might not give the whole picture, but when interviewing several certain things were repeated and a pattern could be recognized.

Information from internal interviews and external interviews is compared with what the pricing consultants reported. This gives the collected data more validity since the pricing consultants know what the market is like and what processes are like and what needs players have. Different players had come further than others in becoming sophisticated in their pricing methods, which told us people were being honest about their situations. The different dealers had similar problems with the pricing process, but some companies had come further than others. The conclusion is that companies struggle with the extensive amount of information needed. So even if the processes used were rather different, similarities could be found.

All interviews have been recorded in order for the two interviewers to be able to focus on the interview solely. This allowed interviewees to be heard many times and minimized the problems with misunderstandings. All finding was triangulated during the process to enable a thesis with as authentic material as possible.

4. Pon

This chapter will give a company background of Pon, a description about the organization and the current pricing process. The empirical data in this chapter was collected through internal interviews at Pon.

4.1 Pon in Sweden

Since Pon is a multinational company, the Pon companies in Sweden report to the boards centrally located in the Netherlands. As one can see in Fig. 8, Pon Power and Pon Equipment are the Pon companies in Sweden. Pon Equipment includes the division Pon Mining. Pon Power in Sweden report to the Pon Power Board, and Pon Mining and Pon Equipment reports to the Pon Equipment Board. This study will include and study all of the Pon companies in Sweden, referred to as Pon Sweden.

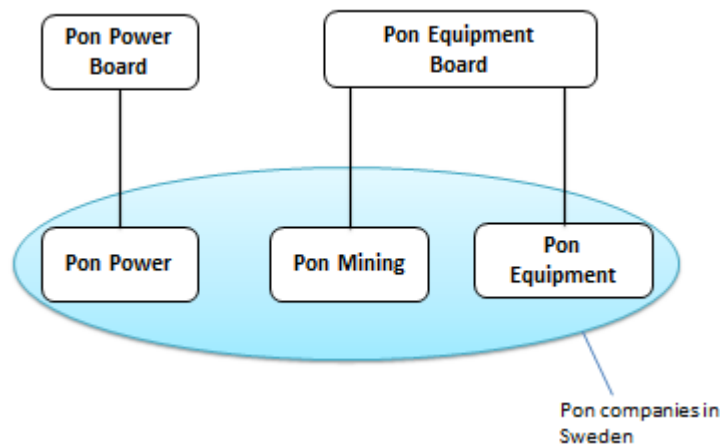


Fig. 8. Pon Companies in Sweden

4.1.1 Company background

Pon was founded in 1895 and started its business with importing Opel bicycles to the Netherlands in 1900 (Pon, 2013). After twenty years of selling bicycles Pon started to trade cars, Ford and Opel, and also tyres from Continental. After the Second World War in 1947 Pon became the official dealer of Volkswagen in the Netherlands. The importing of Volkswagen was a success and Pon has continued its collaboration with Volkswagen and today Pon is the official importer of all brands in the Volkswagen Group to the Netherlands.

In the beginning of the 21th century Pon wanted to broaden the company's business activities, so in 2003 an acquisition of the company Geveke was done and that was the start of Pon Equipment and Pon Power Systems (ibid). Pon Equipment and Power Systems included Caterpillar dealerships in the Netherlands, Denmark, Norway and Sweden. See Fig. 9 for Caterpillar products.



Fig. 9. Pon's products produced by Caterpillar

Today Pon employs around 12000 people in 22 countries and 250 businesses and is thereby one of the greatest family-run companies in the Netherlands. Pon is a trading and service company and have a focus on the relationship with both customers and manufacturers (Pon, 2013).

4.1.2 Caterpillar in Sweden

The first Swedish Caterpillar dealership was established in 1937 by Carl Engström in Stockholm, with his company called Carl Engström AB. In 1947 a second dealership in Eslöv was established, called Nilsson Maskin AB. The two dealerships were at the beginning competitors but the two companies were later bought by the Wallenberg family investment company Incentive and became Engström & Nilsson in 1967. Engström & Nilsson was a success but when the Wallenberg family started the investment company Investor, Engström & Nilsson was sold to a Dutch company, Geveke in 1992. With the new owners the name once again was changed, this time to Engson. In 1994 the machine division was moved to Gothenburg and became an individual company. In 2003, like mentioned above, Engson was bought by Pon (ibid). So late 2003 the engine and machine companies, which had been individual, merged into one company. Pon headquarters in Sweden's was established in Gothenburg and today's organization took form.

The Pon companies in Sweden today are divided into two limited companies, Pon Power AB and Pon Equipment AB that includes Pon Mining, see Fig. 8. The companies employ around 330 persons and have an approximated turnover of 1.8 billion SEK. Pon Equipment's main business is sales and services concerning around 100 different Caterpillar machines such as dumpers, wheel loaders etc. Pon Power AB is an exclusive dealer and service provider of Caterpillar Industrial engines and Electric Power Generators (Pon-Cat, 2013).

The spare parts sales represent the biggest margins at Pon and that is representative for the situation present at the whole market in which Pon in Sweden is active. This means that the spare parts are a vital business for Pon in Sweden. In America more profit can be drawn from sales of new machines while in Sweden most profit comes from the spare parts and service. The North American market is cheaper and that is a problem since it is rather simple to buy via Internet or directly from US Cat dealers. This has led to an increasing number of parallel importers that increases the competition when it comes to attracting customers.

Pon Mining

Pon Equipment AB includes the mining division Pon Mining. The mining business at Pon is in a market leading position in Sweden where the service organization has a vital role. Mining sell large quantities of spare parts to customers on the market but these are often included in service contracts that Pon Mining offers. The mining business is not as price sensitive as the regular spare part market since machines are considered as a part of a production line and downtime equals missed revenues. That is why the business is different from Pon Equipment that relies on unit sales instead of service contracts. Pon Mining is not pricing their customers that have a full service contract by the price of the spare parts but instead of a price per hour the machine is up and running. The service contracts there are a lot of incentives to have the customer's production/business up and running.

Pon Mining also works with mark-up pricing that is based upon prices set by Caterpillar. This means that the pricing process is restricted to the own company with no or little focus on the market. However, the sales organization works closely with the market and if they get indications of their prices being incorrect and too expensive they try to correct this right away. By doing this they adapt to the market prices even though they do not have the intent of offering the cheapest products. The initial price is more expensive but they are competitive if looking at cost per moved 1000 kg.

4.2 Spare part handling

The Supply Chain department handles spare parts, everything from purchasing, handling stock, distribution to setting prices. The department is not located at the headquarters in Gothenburg, but works from the central warehouse in Sweden, Rosersberg, outside of Stockholm. The warehouse has around 21,000 different spare parts. The large amount of spare parts at Rosersberg is a key factor for Pon availability in Sweden. Via interviews, customers express that the accessibility and the speed of the Rosersberg warehouse is one of the strongest sides of Pon. If a customer need one of the 830,000 Caterpillar spare parts, that is not in stock at Rosersberg, it is possible for the Supply Chain department to order from Caterpillar's European parts distribution center in Grimbergen, Belgium. The distribution center in Grimbergen stocks around 50,000 different part numbers.

So if none of the 15 different Pon sites in Sweden have the spare part the customer need the Rosersberg warehouse will deliver a part to the customer the next day after order. If the part is not available at the Rosersberg the part can be ordered from the Caterpillar European distribution center in Grimbergen, which will be delivered within 3 days. If the customer is in a hurry to get the part from Grimbergen, the part can be delivered by air-freight, and then it will be delivered the next day. In some cases even when the Caterpillar European distribution center does not have the part in stock the part can be delivered from Morton, USA where Caterpillar has its central warehouse. The delivery time from Morton is 5 days for the customer.

4.3 Segmentation of spare parts

Pon uses the same segmentation method as Caterpillar when it comes to spare parts and that is the case for all dealers, which need to have that segmentation. The segmentation is done due to the comprehensive range of spare parts and enables handling of product groups instead of individual parts. All parts are sorted after a certain structure which involves 8 majors groups and 152 minor groups and within the minor groups there are 1361 different product codes including different parts, see Fig. 10. This could best be described as different layers of the segmentation structure and are used in different ways.

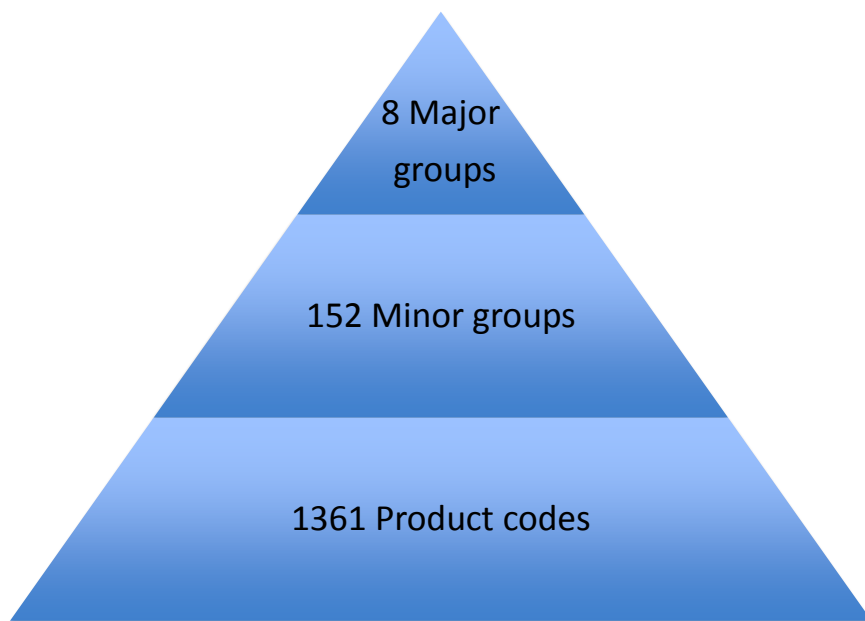


Fig. 10. Segmentation

The major groups are used to divide the parts into different sectors of application, for instance one group is called GET or Ground Engaging Tools. The GET group contains all wearing parts that are in contact with the ground. Every Major group is later divided into minor groups where further sorting of the parts is done in so-called product codes. This way they are categorized the same way everywhere and make it easier when ordering or communicating between Caterpillar and others.

4.4 Spare part pricing

The organization that handles the logistics is also responsible for handling the prices. However as it is not an active organization it mainly handles price updates from the Original Equipment Manufacturer (OEM). The system is old and the knowledge about it has declined inside the organization. The pricing system is basically built on a pricing ladder, which just adds a mark-up on the product. The pricing ladder works so the lower the price on the product the higher is the mark-up and thus products with higher retail price has a lower mark-up. This way of pricing does not make the organization competitive in their pricing and thus it is not market competitive. A lot of the sales personal do not have the knowledge about the mark-up strategy and instead they

instead just blame the supplier Caterpillar for setting too high prices. The current pricing method, as described in Pon's internal pricing project by Niels Bouma, can be viewed in Fig. 11.

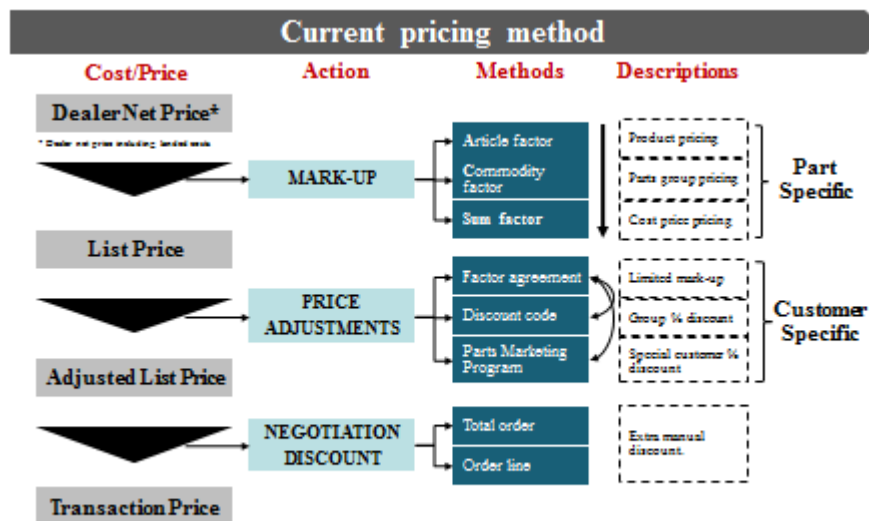


Fig. 11 Current pricing method

Basically when the part is bought from the supplier a mark-up is done, specific for the part, and creates a list price. The list price is then adjusted for the specific customer so an adjusted list price is communicated towards the customer and a negotiation discount is discussed between salesman and customer before the deal is done and the transaction price is set.

Pon Sweden has never worked with a pricing strategy that is market-based, but it has been discussed internally for many years. Internal interviews told that many people are complaining over the prices, but there has never been any facts displayed. If the prices are too high or not is therefore hard to determine. One employee commented that the parts are probably not priced in a strategic and intelligent way. The same person suggested that the prices should be changed if the current prices result in no sales and bad-will for the company. Caterpillar is a premium brand and that affects everything from quality to features. This is something that the sales force need to be better at communicating when talking to customers.

Further interviews told that Pon need to know what spare parts the customers shop around for, and what they base their judgment on e.g. if it is too expensive or not. Customers tend buy special spare parts from Pon since they are hard to get hold of, but when it concerns parts with high volume turnover they might turn elsewhere. It is important to understand what lies behind the turnover in order to understanding how the price influences the sales. It is important to look at what Pon is selling at the moment and localize parts that only are sold a few or none of. When this type of data is collected

it is possible to start to analyse why and what action to take. It is important to work with the support system already in use today and observe the installed-base (machine population). This is vital in order to find and localise missed sales i.e. potential sales or opportunities. There are systems calculating the value of parts and service hours the installed-base need, which is easy to compare with the real statistics on parts and services sold. If the total value of sold services and parts are lower than what the systems are estimating some opportunities are missed. Therefore it is possible to draw the conclusion that some customers went somewhere else and spent their money.

The marketing department is not involved in the pricing of the spare parts and that is one of the reasons why Pon Sweden is not a market-based company. Interviewees thought that the pricing process and the current way of working might come of that Pon is an exclusive dealer almost with a monopolistic situation. There are however parallel importers but apart from those players the dealer role is exclusive.

When it comes to margins, the internal view was that it is always good with high margins. But only if one can sell the right volumes and therefore earn a good GP (gross profit). If the right volumes are not sold the margin is only a paper product. Customers today might even chose to buy a part with lower quality but with a matching price, so even though it wears out in half the time the price compensate for that.

Many internal interviewees claimed that today's pricing organization is none-existing, since no one in the marketing department is involved in the pricing process today. The pricing strategy present at the moment is based on what Caterpillar is doing. There is little or no communication between some of the different departments and that is also something that needs to be handled in order to be able to create a pricing organization.

Cross-functionality is important since the sales of spare parts are done in different ways e.g. parts over the counter vs. service contracts. The sales of spare parts influence most businesses within Pon from services to new machine sales. The pricing today is automatic and it is only the Caterpillar prices that are multiplied with different mark-ups in Pon's system. It is hard to understand what will happen with the prices before a price revision. This can lead to that a small increase in prices from Caterpillar results in a larger increase for the customers.

Today the prices are not differentiated enough and an internal interviewee thought that the transaction price should adapted towards what services that are needed. Pon Sweden needs to include the competitive situation in the equation to be able to address different type of customers. Today the customers are not strategically charged anything extra if they order overnight delivery or a month in advance. They need to pay a certain amount for the freight cost, but no extra for the speed of delivery. The expenses of flying spare parts exceed the revenues from the additional price charged, i.e. Pon Sweden is losing money. For instance, if the parts that get flown were priced with an additional

price that at least covers the freight cost, Pon Sweden would improve their numbers. The speed of delivery and the planning horizon is a potential way of differentiating the prices on parts. If spare parts are flown in from Grimbergen, Caterpillar charges Pon extra since it was not a planned purchase. This results in expenses that need to be covered, yet the customers are not charged the same amount, which results in Pon covering the difference. The prices do not differ between a planned standard work and an emergency situation where the field mechanics need to come out direct.

Discounts are sometimes given to customers without any logic reason connected to the amount of parts and services they buy under a year. Some customers get the same discount as they always got, without questioning the volume that they are consuming. The sales force does not have any initiative to keep the price as high as possible today when negotiating with the customers. As a result of the bonus system currently in use the organization gives away a lot of margin in various discounts. The sales force get bonuses based upon sold volume, not on gross profit.

An interviewee claimed that a parts manager is needed, to prioritize part sales and drive the work forward and to make sure that the work is done. The marketing team should handle the pricing process in a way that secures that Pon is competitive and that the right level between the margin and the volume is found. The marketing department has a smaller role today than they should have, especially since Pon wants to be a market driven company.

Marketing needs the right knowledge and instruments to set the right prices, so that the company makes a profit and that the customers are satisfied. Sales should also be able to influence the price but not in the process of setting the price level, but they should have room for making adjustments. What is needed is somebody who observes and analyse the market and to make sure that the prices is right. This person should be able to have a holistic view and in the same time investigate the different major groups in order to understand the market situation.

When interviewees were asked about discounts they mentioned that it should be handled by the sales organization. They should also be responsible not to discount too much or too little, lower margins can be good if higher volumes are reached. Discounts should relate to the volume bought by the customer and cannot be given just because they used to have a certain discount.

The support system (called PTOS) that calculates the value of parts and services for all Caterpillar machines should be used. This to understand what customers buys from Pon and what is bought elsewhere through investigating missed opportunities. The sales force should have a proactive approach and call the customers and communicate the calculated need. If a customer only buys a limited amount of parts from Pon the salespeople should investigate how that could be changed. If discounts for instance

solely were based on volume it would give the customer an initiative to buy more parts from Pon. Unless the prices is much lower elsewhere and the customer can save money that compensates the missed-out discounts from Pon.

One problem is the lack of resources and it is a problem because marketing needs someone to work continuously with this kind of analysis. As one interviewee put it "What are we selling or not and what margins do Pon have". It is vital to investigate the market but also internally and to understand what discounts need to be given. Pon needs an organization that is out on the market and working actively with gathering information and feed it back to the company. But the information needs to be analysed not just collected and should be turned into recommendations or actions that Pon can implement.

5. The Market

This chapter will describe and map the market that Pon Sweden is active on. The empiric data is gathered through interviews with Pon's OEM, other dealers on the market, customers, internal interviews, benchmarks and experts on the specific area.

5.1 Competitive situation on the market

The competitive situation for spare parts on the Swedish market can be divided into two phases. The phases are described in Fig. 12 by Pon's internal pricing project by Niels Bouma. The first phase is the so called machine sale, when the customer decides which machines to buy. In the first phase the competition is other OEMs and their dealers, mentioned as other players in the market, see chapter 5.3.

The main Parts competition starts after the Machine sales due to parallel importers and pirates

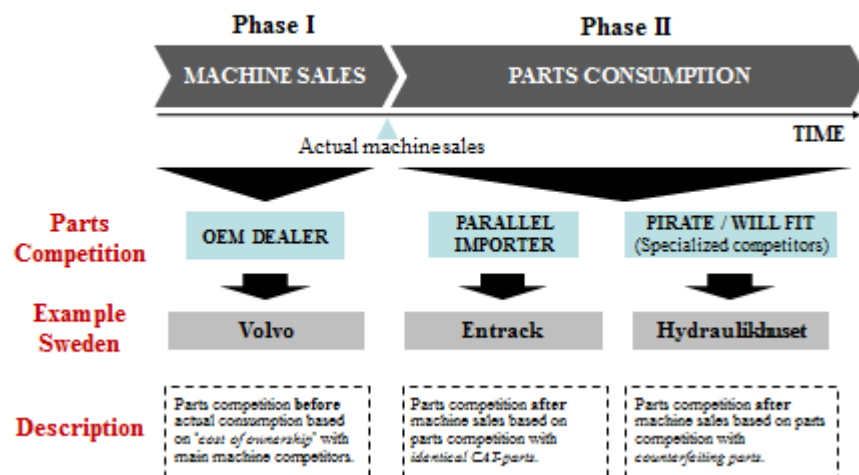


Fig. 12. The competitive situation on the Swedish market

The second phase starts after the actual machine sale and is the parts consumption phase, when the machine needs maintenance. In this phase the competition is different from the first phase. Now it is not other machine brands that are the crucial competition, the main competitors are parallel importers and pirates, see chapter 5.4.

5.2 Caterpillar

Caterpillar Pricing is market-based and the pricing is done at different levels. First at a worldwide level and then at a Regional level. Pricing is done based on various different strategies but always focusing on keeping parts in line with each other.

The EAME pricing team is based in Geneva and works closely with the Parts Marketing specialists and the CAT PSSR to address the specific local pricing needs by either doing price review to change the price on a permanent basis or by putting a merchandising (discounting) program to address a temporary price issue and test the price elasticity in

the market. For Caterpillar to do a price review, the Dealer needs to build up a good case with market specific information concerning competition, sales figures, and dealer transactional prices.

There is a group of 8 doing the revisions and that is a limiting factor when it comes to the amount of reviews they can do since they take around three months to do. In many cases the request for price review are not very reinforced and therefore have little or no chance of being brought into the light depending on margin considerations and available competitive data intelligence.

The objective of pricing action is also to have appropriate pricing to support sales targets and related growth. Reduced prices should reach the customer in order for them to be effective in getting the sales in markets where Caterpillar and the dealer have high premiums.

It is important, for both Caterpillar and the Dealer, to balance the market share objectives with the profit objectives.

5.3 Other brand on the market

This section describes the situation on the market in which Pon Sweden is present. Other brands' pricing strategy and organizational structure will be presented and explained.

5.3.1 Pricing at Swecon

Swecon is the dealer and provider of Volvo Construction Equipment (Volvo CE) and is the market leader with around 40% of the total market share in Sweden. Besides Sweden Swecon has the agency for Volvo CE in the Baltic countries and in the north of Germany. The companies are individually run but they report to Swecon's Head quarter in Eskilstuna, Sweden. Lantmännen is the founder of Swecon that was established in 1999 and are the owners of the company. Volvo is an OEM and therefore has big influence over Swecon since they are a global provider and Swecon is a local agent. Swecon thinks it is important to be present at the market and therefore has 41 different locations where they are present, 21 Swecon shops and 20 Lantmännen shops. The quality of Swecon's and Lantmännen's shops should not differ since it is supposed to be the same price and education level of the technicians.

Swecon has a stock in Eskilstuna and in Gent in Belgium. The most important competitive advantage for Swecon is to be available at all times and offers transports and delivery within the next coming day from locations in Eskilstuna and Gent. The customers cannot have machines that are standing still, that cost a lot of money for them and therefore it is vital to be available.

On the machine sales Caterpillar, Hitachi, Komatsu, Liebherr, Doosan and Ljungby Maskin are the competitors, but not when it comes to spare parts. In spare parts the biggest competition comes from Pirates/will-fitters since other machine brands parts won't fit. The machine population is approximately 18.000 in use, of them many

owners/customers are looking for cheap parts. Customers can even accept lower quality if the price is lower. For instance if a customer has an older machines that need more spare parts and many times more expensive parts they tend to look for the cheapest ones. Swecon do not experience any big problems with parallel importers since they are the least expensive VCE dealer in Europe. They are the only one selling original parts except Volvo Trucks that has some identical parts but there are however some parallel importers.

The pricing of spare parts is done by the marketing team on the service/after-market and consists of a group of eight persons (two people working halftime with prices). The aftermarket-department in Sweden also has a manager and five salesmen working with deals and spare parts. Swecon are market-based in their pricing, but only on spare parts where they need to meet the competition. To understand the market situation and what competition different spare parts meet is therefore of great importance and enables Swecon to be partly market-based.

To make it possible to handle the pricing of all spare parts they are divided into different segments or Product groups as they are called. The products in a product group can individually represent the rest of the group and if one is priced wrongly then that is probably true for the other ones as well.

The toughest challenges concerning pricing of spare parts for Swecon is to be able to find the right market level that will result in satisfied customers and to meet the competition. Since Swecon in this case focus on the Swedish market it is important to get Volvo CE to understand the needs of the market. Volvo CE is an international company, with holistic view of the spare parts competition. Therefore it can be hard to see the specific competitive situation for one market. Besides finding the right price level the challenge also lies in communicating this to the OEM and to get them to react and understand. It can take time, sometimes one-two years, for Volvo CE to understand that Swecon needs to lower the price on a whole specific product group.

Market information is collected through customer complaints and salesmen who are in contact with the market. The 41 sites usually call to the head quarter in Eskilstuna where two persons are employed to answer those calls and note the complaints. The manager of each site can give them information considering specific parts that are too expensive and information on where the customers do their purchases instead. Information about alternative places and prices for the purchase is important in order to compare similar products. Sometimes, data collection involves taking a picture of what the customer bought, just so that the part gets documented. This method is good when the part is hard or impossible to compare with others, sometime it has shown that parts are more expensive than gold if you compare their weight and price. That is not right and Volvo CE will listen if Swecon has facts but it is also important to look internally at

Swecon to see if the solution can be found there. All price changes are logged and are followed up to see what the price change resulted in e.g. volume, profit.

The price reviews are done in three stages or phases, see Fig. 13, where specific market information are collected and analysed in order to build a solid case. Later this case is presented as an argument for Volvo CE in order to convince them to take action.

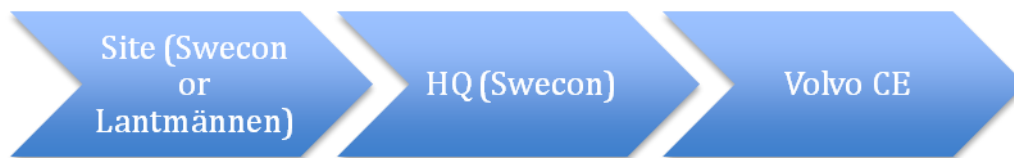


Fig. 13. Price review for Swecon

Twice a year Swecon head quarter has a meeting with representatives from three Swecon locations (North, middle and south) that have good customer intelligence, they call it a pricing council. If something is totally wrong it will be discussed and thoughts will be exchanged.

It is believed that if some of their parts are too expensive they will get a reputation and bad will as a result of it. Therefore they are trying to be market-based on parts with a lot of competition, but they also have campaigns quarterly. The campaigns are on products with much competition and aims to show customers that they have favourable prices. Discounts are transparent to the customers and are based on a ladder that gives bigger discounts with bigger volumes. There are no special arrangements for any customers, everyone is treated the same way, dependent on what volume you purchase.

Swecon tries to compete with pirate/will-fitters through good quality and professionalism. If a machine brakes down because of a pirate spare part they will not get any compensation but that is something that Swecon can offer. People driving older machines often choose pirate parts due to the price. During the recession Swecon has noticed that people are more price sensitive but during a flourishing economy people just want to work and do not care about the price.

5.3.2 Pricing at Delvator

Delvator is Hitachi's dealer in Sweden with headquarters in Eslöv. They work slightly different compared to Pon and Swecon. Delvator do not have the same company structure and do not own their own workshops, instead they work with retailers who serve the customers. The retailers are workshops that have a contract with Delvator and are therefore not allowed to represent any other brands. The retailers buy parts from Delvator and Delvator buys them from the OEM Hitachi. Delvator educates the retailers

who are the one's doing the job and service for the customers and they handle their own pricing and Delvator can only try to influence them.

Delvator gets a dealer price list for Europe from Hitachi and then Delvator makes a price list for the retailers, which are however only recommendations. Delvator gets different discounts depending on when the purchase is done and how long the planning horizon is. If one machine is down and parts need to be flown in to Sweden it will be expensive but if they do the purchase a week or month in advance so it is a planned purchase they will get discounts. This price structure is something that Delvator is trying to teach the retailers in order for them to do more planned purchases so Delvator in their turn can do more planned purchases. The retailers work as a filter between, see Fig. 14, Delvator and the customers and that is both positive and negative for them. This way of working is the biggest difference between Delvator and their competitors.



Fig. 14. Delvator's working flow.

It is a Swedish thing to use retailers and it is a compromise due to the geography with the great areas that needs coverage to be able to give good support to customers. The availability is very important to Delvator and then it is necessary to have many service places. The compromise is done since it would be hard for Delvator to crew all of Sweden themselves since it would be a too big investment. This is a strategic action by Delvator since they through external workshops get the availability they need, but it limits the possibility to influence the transaction price. This can be a problem when Delvator wants to do a campaign since they cannot guarantee that the price hits the market.

The retailers have better transaction price when they buy larger quantities and do not have to pay for the transportation cost if they order in advance and the right volume. If the retailers need something right away they will have to pay for the transportation since it is included in the price given by Delvator. Every retailer has the same discount rates, but since the volumes vary they will have paid different amounts by the end of the year. The discount steps are transparent and are communicated to the customers, if they can hold more inventories in their shelves they will have cheaper purchases.

The aftermarket manager at Delvator is responsible for the aftermarket and that includes both service and spare parts. He is in charge of the strategic pricing of spare parts and campaigns etc. Delvator works with campaigns mostly in the fall and it is to

spur the sales on certain products that do not sell very well. Campaigns are often involving products like batteries and filters since they are products that face fierce competition.

Volvo and Caterpillar machines are the biggest threat on the market and together with Hitachi they have around 80% of the market. Delvator is not a market leader but competes on providing quality and availability. Delvator's Unique Selling Point (USP) is the number of hours the machines are up and running.

The most challenging with pricing spare parts is to find the right price level for a unique part and to be able to differentiate your prices. It is easy to charge customers with a too high price and invite competition and if a company has a flat price all through the range of all products then some products will be expensive. This way of handling your prices can therefore result in rumours explaining how expensive it is to buy from a brand. The right price level is found through being present on the market, listening.

To understand the market is very critical and therefore Delvator is collecting information from the market and from sales. Centrally at Delvator's head quarter the salesmen call up the customers and investigate why they missed out on a sales opportunity. The information they want to collect is for example, where the customers went instead and what they paid. This helps them answering the questions about what they did "wrong", if it was too expensive or if the lead-time was too long.

It is easier for Delvator than bigger companies to back-feed information since it is a small organization. They use a simple system to put the collected information in but if something shall be reported it is a lot to fill in. This is a problem and the information is mostly spread mouth to mouth within the company. That is the benefit with having a small organization, even though the system support is rarely used the information gets spread anyway. One person is however responsible for the system and reports in it, when the same complaint has occurred three times. If necessary this person can also change the price manually.

In order to be competitive the price is representative for the competition. For instance filters are priced for themselves and Ground Engaging Tools (GET) that have fierce competition where customers are very price sensitive are priced in-line with the market. There is also a category where unique spare parts are priced and constitutes of parts that have little or no competition and therefore can charge the customers more.

A lot of the competition on parts does not come from other brands but from pirates/will-fitters. It is not only lost market share and missed out revenue but also a problem for the machines. Many customers do not understand why a filter that costs more is better and that is something all brands are struggling with pirates/will-fitters.

Delvator does what everybody in the business tries to do and that is to raise the knowledge on the market through communicating in business papers.

Delvator also faces parallel importers and it is vital to understand what price one can take in order not to be locked out of these products. If you have a price that is too high the risk of losing your customers to parallel importers are greater. On cheaper products there is no big interest from the parallel importer but on more expensive products where a deal can bring in some 1000 SEK in profit it is worse. So on the more expensive parts you cannot have too high margin because that will invite all the competition there is.

If a workshop contacts Delvator explaining that their price is wrong, Delvator can thereafter take different actions. If the workshop has not bought the part yet there will be a negotiation where they together with the shop can lower their margins to ease and simplify the sales to the market. If this turns out to be something many shops experience they will have to look at it before the next price revision.

The discount rate is important for Delvator, so just because the price is lower it does not mean it is better. It is a balance between the originally given price and the price the customer gets. It is probably connected to the experienced value of the product, but this is up to the workshops to decide individually. Discounts are probably important to customers because they can show a good result in their negotiation skills.

5.3.3 Pricing at Atlas Copco

Atlas Copco as a company constitutes of different parts. There is a production company placed in Belgium and there are sales companies placed all over the world. The production company is an OEM and handles the central warehouse and holds much in stock. The production company in Belgium supplies selling companies with spare parts and decides and sets the price for the different markets worldwide. In Belgium there is a pricing manager who sets prices with special market factors. The Swedish organization gets prices set after parameters valid for the Scandinavian market. A market analyser at the production company sets the market factors in accordance with the sales company.

At Atlas Copco the Sales Manager within Service is responsible for the sales of spare parts and deals and contracts. At the moment the Sales Manager has been working a lot with pricing of spare parts since they just implemented a new ERP-system and because of that she works much with the production company. They set the prices but the selling company can influence them if there is something they think is priced wrong. The pricing manager is the one handling those questions and talks to the purchasing unit at the company among other things, to see that everything is purchased from the right places or if anything else is wrong.

Atlas Copco is working towards being market-based but that is not always the case and the market factors are sometimes wrong. They are reporting to the Production Company and states that it is an on-going and continuous process that so far only is a year old. Historically the Scandinavian countries have had their own prices and to add them in a segment where they all have the same price situation is not always correct.

The biggest challenge with pricing of spare parts for Atlas Copco is setting competitive prices. This is especially true for the parts that are not Atlas Copco designed and unique with a lot of competition. This is because it is important to have the right information about competitors and their offers in a way so that Atlas Copco can understand their market.

To be competitive and to be able to be market based they collect information that is sent to the production company. This information involves indications from the market and could contain customer complaints. Atlas Copco describes that it is important to understand customers and since the pricing process are new they try to work close with the customers. Sometimes the sales company try to change the prices themselves and investigate how the customers respond but before taking such action they need to communicate with the production company.

Atlas Copco segments both their customers and their parts. This way you can work with a focus and aim towards a certain group for instance. The biggest customer segment is the rental segment that is constituted of companies that have smaller machines that companies can rent. Atlas Copco has a new pricing process but customers still have their old discounts left. Big customers have big discounts but these are old negotiated discounts and they are trying to create a transparent discount ladder. There is a problematic situation with changing the old discounts. Companies can have verbal or written agreements on their discounts and if you change that it can create a lot of dissatisfaction. The new discount structure should solely be based upon the volume a customer buys.

There are around 8 segments with parts that are organized dependent upon what type of competition they are facing. It is about what kind of value they bring the customers and how price sensitive the customers are on the specific product. For instance Atlas Copco designed products that are unique are priced with a higher price and a product like filters are priced in a way that is market based. These two types of product are different in the way they compete and must therefore be priced differently.

Atlas Copco's USP is that they are a Global company with much competences and big experience. It depends on the product but in general Atlas Copco is not the market leader in Sweden but is considered as a big player on some of the machines they are providing. Atlas Copco has a good aftermarket with good service that aims to serve the

machine before it breaks. Sometimes they can offer longer guarantee on the machines if they sell a service contract.

Besides other brands Atlas Copco experience competition from pirates/will-fitters and on some products there is problem with parallel importers.

5.4 Pirates and parallel importers

This section will describe players on the market that are not really considered to be OEM since they are competition when the machine is sold and are therefore direct competition to Pon when it comes to spare parts for the Caterpillar machine population.

5.4.1 Pirates

Like mentioned above there are several parallel importers on the Swedish market. But beside from other machine competitors and parallel importers, Pon Equipment also has to deal with pirate importers, or will-fitters. By pirate importer means companies that import products that are not from the OEM. Pirates vary in quality and have not properly been tested with the Caterpillar machines, but since the prices in general for the parts are lower customer still tend to buy pirate parts. But for the sake of warranties etc. from Pon customers has to use original parts, this is something that customer mentioned during interviews as a reason for using Caterpillar original parts.

5.4.2 Parallel importers

Even though Pon Equipment has exclusive rights from Caterpillar legislation inside of the European Union prohibits a monopolistic situation on a certain market and therefore it is impossible to forbid other players on the market to sell Caterpillar products. Therefore there exist so called parallel importers that import Caterpillar original parts from other parts in the world. For example spare parts in the USA are cheaper than in Sweden. The Swedish market has a tradition to have lower margins on machines and then higher margins on spare parts, while in USA the margins on machines and spare parts are more or less the same.

The lower margins on spare parts in the USA make it possible for Swedish parallel importers to buy spare parts for a lower price in the USA than in Sweden. Parallel importers are a problem for Pon Sweden and especially with the possibility to buy from the internet. *"It is remarkable how fast you can get a part from the USA"* one interviewee at Pon said. Even though the price is lower from the parallel importers the customer will not have warranties when buying from another company than Pon. The lack of opportunities for complaints and service questions is also a part the customer has to take into consideration when buying from a parallel importer.

If Pon gets hold of a part that has been sold on the Swedish market and has been imported they can, through serial number on the part, report the dealer who has sold the part to Caterpillar. Each dealer has a contract with Caterpillar that says they have to pay a fee if they sell parts to outside of their market. Even though each dealer should not

sell parts outside of their market this is not the case in reality. Interviewees at Pon told that it is almost impossible to stop the parallel importers to find a dealer in another part of the world, so even if Pon report another dealer to Caterpillar the Swedish parallel importers will find a new one.

5.5 Customers

Since this paper is about pricing and pricing strategies for spare parts it was of interest to get first-hand information to know the customers view on the subject. When asked to rank important factor when buying spare parts none of the customer ranked price as the most important. Even though price was not ranked as the most important factor when buying spare parts all the customers did mention price as one of the weakest sides of Pon. Especially it was mentioned several times that when a machine breaks down the price is not of importance, then it is just availability. If the machines breakdown you need to get parts fast, otherwise you start to lose money. The most important factors when buying spare parts ranked by the customers are compiled in table 1 below.

Table 1. Important factors when buying spare parts

Important factors when buying spare parts	
1.	Availability/speed
2.	Quality of part
3.	Price
4.	Service

As one can see in the table above the availability was the most important factor when buying spare parts. When a customer needs a part as a cause of standing still costing a lot of money, the other factors become less relevant. When the customer has the part of importance that the part has a high quality so that the machines is up and running as much as possible. Price came as number third when customer was asked to rank important factors when buying spare parts. It can be viewed as that the customers are price sensitive, but when they need a part fast the price does not matter. Customers explained in the interviews that when the part is not urgent the price is of bigger importance. If you know when you need to change a part the availability and the quality of the part decreases of importance and price comes more important. The fourth most important factor was the service that the company gives when buying spare parts.

During the interviews the interviewed customers were asked about what they thought were Pon's strong and weak sides. The customers' impressions of Pon's strong and weak sides are compiled in table 2 below. When linking the most important factors of buying spare parts and the strong and weak side of Pon, one can see that Pon's customers thinks that availability is the most important thing and also that is one of the strongest (if not the strongest) side of Pon. Also the quality of the spare parts was mentioned as a strong side. The service can be viewed as strong side of Pon and with some weak influences. The relationship between the field force and the customer was good but

customer mentioned that when calling sites and not direct to a service guy, who they usually knew, it could be hard to get in contact with the person that could help them.

Table 2. Strengths and weaknesses of Pon

Strengths	Weaknesses
Availability/speed	Price
Quality of parts	Quality depends on the person
Wide range of products	Staff turnover at workshop - no handover for new guys
Good relationship with field mechanics	Workshop quality vs. price
Trusted Field force	When calling a site it is hard to know who to talk to
Strong partner	Only use Cat part when has to - to get warranties
Good diagnostics	
CSAs give proactive service	

A customer also mentioned that when the workshops hired new personal some knowledge were lost. Even though this was the opinion of one customer this is an interesting aspect. Especially since other customers thought that the quality of the service depended on the person you talk to. The price was a repeated weak side of Pon. In general the customer thought that Pon was highly priced. But as mentioned by other players on the market and during internal interviews, this can be viewed as a natural state of the customer to think that things in general are expensive. But one customer mentioned that Pon is sometimes highly priced but good quality and service costs.

Another perspective that the customer brought up when talking about buying spare part was the fact that even though most of them considered themselves as loyal customers that bought only parts from Pon, but when asking more specific about shopping habits it was discovered that customers did not buy everything from Pon. Wear parts, GET, undercarriages and buckets, etc. are parts that customers shop around for and as one customer described it *“you learn what you can buy from the pirates”*. The authors added the shopping around behaviour as weak side of Pon, since customers have learnt what they need to buy from Pon to have warranties on the machines and what they can buy from pirates and parallel importers.

One should keep in mind that some of the customers interviewed had service contracts and some did not. This of course influenced the shopping behaviour and how they looked upon the service. The ones with service contract had in general a more positive approach to Pon and its services. Service contract customers do not pay each spare parts individually and are therefore are not as price sensitive to focus on the price as much. Both nonetheless also customers who had service contracts did have behaviour of knowing what they could buy from pirates and parallel importers.

5.6 Benchmarks on other markets

This section describes and investigates the pricing strategies and pricing organizations within other markets than the one Pon Sweden is present.

5.6.1 Pricing at Pon Automotive

The automotive industry are a more mature market than the one Pon Equipment are currently active on and the automotive industry is known for handling spare parts in a quite successful way. Pon Automotive are the leading car importer in the Netherlands and have exclusive rights for the brands SEAT, Skoda, VW and Audi.

The biggest challenge for Pon Automotive is the vast amount of part that there are handling. 800 000 different parts need to be priced right to be competitive. Pon Automotive, as for Pon Equipment, get their parts with price suggestions from the OEM, a so called reference price. The reference price for Pon Automotive is set for the German market, since the OEM is German, and then Pon Automotive adds a mark-up. The mark-up depends in which segment the part is in, so it will become a more market based pricing for the Dutch market. Pon Automotive has 500 different part groups that make it easier to handle the parts as part groups instead of individually. Even inside of each part group a more detailed segmentation can occur. For example in the group of filters there is more specific segmentation depending on how unique and how much of competition is for the different filters. It is also taken into consideration to which car brand and type the part is for, a more exclusive car with a low quantity in the Netherlands is higher priced.

Even with the reference price and the segmentation of parts the price can be set wrong, in terms of competition, for Pon Automotive. So it is of importance for Pon Automotive to get information from customers, the sales department and other types of information from the market. Since Pon Automotive work with dealers who sells the parts to the customers it is up to the dealers to collect the information and then report to Pon Automotive, which of course can be a problem when getting second-hand information. So the information for a price revision goes through three different organizations, see Fig 15 below.



Fig. 15 Information flow for Pon Automotive

To get a price revision from the OEM it is required that Pon Automotive can present a case that shows and explains why the OEM should make a price adjustment, it can be

described as one way communication and 99% of the cases Pon Automotive has to take the price given to them.

But Pon Automotive does not only have the dealers to collect competitive and market information. The automotive industry has a tool available, called Eucon, which provides competitor information on specific part-level. Each company who wants to use the Eucon tool has to upload up to date price lists to the program so other competitors can see their prices as well. This makes the tool as an information sharing tool that enables it for all users to have access to the market information.

When it comes to handling the spare parts Pon Automotive are trying to work proactively towards their dealers. Not only do the dealers receive spare parts when they actively order, but Pon Automotive keep track on how much parts a dealer should sell and has sold previously, so they can deliver the spare parts before the dealer runs out of a part or need order new ones. The Pon Automotive interviewee explained the process as *“for example, we can see that one for example had 20 filters in his warehouse and then sold 5 so we collect the data over night and then we forecast his warehouse and sends him 10 filters the next day. This makes the dealers very loyal to us and in a lot of part groups we don’t have to set up any action for dealers, because the warehouse is updated automatically. And if they order some extra parts then the system recognizes this and sends him a lower volume of the specific part next month, because we filled up his warehouse last month.”*

The pricing organization within Pon Automotive that is responsible for the pricing of spare parts consist of four full time positions, one team manager, two category managers who are active in parts assortment and one employee who works with the system to set up data for dealers and customers and processes the data from the OEM supplier.

5.6.2 Pricing at Zeppelin Baumaschinen GmbH

Caterpillar’s dealer in Germany is the company Zeppelin Baumaschinen GmbH. After a lot of customer complaints Zeppelin understood that they needed to change their current pricing strategy. A cost-based strategy did not meet the competition on the market so something was needed to be done.

After changing ERP-system, Zeppelin has started the process towards market-based pricing. The old ERP-system did not allow handling of individual parts, which the new system did. So with the new system the start of a more market-based strategy was possible.

With the new ERP-system price indicators was added for 5000 individual spare parts. The price indicators regulate the price for each product. By means of market information the price indicators show if the price should be increased or decreased.

When several products within the same product group have price indicators, it can show that a regulation of the price for the whole group is needed. The regulation for the whole group is needed if the price indicator shows the same indication, for example that it has to be increased.

Zeppelin uses the same segmentation as Caterpillar, with 8 major and 152 minor groups. Apart from Caterpillar's segmentation Zeppelin has 38 groups for Caterpillar products that have their own specific mark-up. This means that the parts within these 38 groups have a special margin. The margin for the spare part depends on how the competition is on the specific part. A part with a lot of competition has a lower margin than a one with less competition, which can be viewed as more unique.

Even though Zeppelin uses the same segmentation as Caterpillar, it does not help to be more market-based. But they have to use the same segmentation as Caterpillar due to demands from Caterpillar.

The spare parts pricing organization of Zeppelin, or part price management as Zeppelin calls it, consist of three fulltime employees. The part price management reports to the service department, which is responsible for everything when it comes to spare parts.

When this Master's thesis was conducted Zeppelin has just started a collaboration with the German pricing consultant firm Professor Roll & Pastuch. The consultants also help Zeppelin with their software to aid in the process and work to become a market-based organization.

5.7 Pricing consultants

This section contributes with the knowledge from experts on pricing with the focus on spare parts. Their collected experience is gained from several markets and industries.

5.7.1 Synchron

Synchron is a supply chain management software company, focusing on supporting companies within manufacturing and distribution industries (Synchron, 2013). Synchron provides process centric applications to improve customer experience and financial performance. The supply chain management software offer solutions for global inventory management, global order management, global price management and master data management. According to Synchron (2013) their clientele is market-leading companies within mining and construction equipment, industrial equipment, aerospace and defence.

Synchron has different categories of consultants depending on the area, such as inventory and pricing. The software solutions are module based so that a client can start off with inventory and after reviewing the outcome can proceed with pricing for example. This gives the client the possibility to see that the first step works before deciding to continue with Synchron's software.

When it comes to pricing, the typical scenario for Synchron is first to find out what ripeness the client have in their pricing, the most basic is mark-up. So it is all about teaching the customer the advantages of more sophisticated pricing, such as market-based and value-based. The Synchron consultants help the customer in collaboration with the Synchron software. The software enables the customer to use more advanced strategies and helps with segmentations etc.

Synchron's USP is the fact they focus on the software and not so much on the consultant. They deliver good software and focus on teaching the client. The consultants' main objective is to help with the implementation of the software besides education of the customer.

The difficulties when it comes to segmentation of spare parts are a good start point in the process to get a more sophisticated pricing. Synchron's software can categorize items/products by weight, price and description. The software also can be integrated with ERP-systems, to easier categorize products. Value drivers are also a variable the software takes into consideration, which sets the price for the parts.

In the spare parts market it can be hard to find competitive information to match each specific spare part. The segmentation is important so one part can represent a range of products. The Synchron interviewee gave the example that if only market information for three or four parts, in one segment that includes 200 parts, is available. So how do you then set competitive prices for the rest of the segment? So what Synchron recommend is to use value-based and then use the competitor prices as references. The software shows graphs for all the articles depending on their value driver. This targets the price and price level for all the parts in the segment and then adjusts the price compared to the competitors' prices. So basically it is one or more parts that set the prices for all the parts in the same segment.

Some pitfalls while implementing a pricing project is that the organization does not have enough resources to do so. The gathering of competitor information is also something that can delay the implementation of a pricing project. So it is of importance to define and limit the project so it will be easier for the organization to handle it.

To help the organization with after the project has gone "live" Synchron has a "hyper care" period, which includes education and check-ups about how the market has dealt with the changes. The time of this hyper care period depends on the project and company.

Sophisticated pricing needs an intelligent organization that understands their deals. Normally for a slim organization with a lot of deals the article numbers are just numbers. With the use of market or value based the organization needs to understand

the products and the deals that are made. A change of mind is needed in a lot of organizations. The organization need to understand when there is a unique product or something that the customer can buy somewhere else.

When it comes to price elasticity, spare parts are relatively insensitive on captive, unique, parts. But on commercial parts it is possible to get more market share if you lower your price. A thing Synchron recommend is for the client to look at a certain customer they have and look what they do not buy, filters example, and then give them a discount. Discount in general is not bad but it can be inflation with too much discounts

5.7.2 Navetti

Navetti offers a pricing system solution, called Navetti Price Point. The company also offers consultants services as support to their software (Navetti, 2013). Navetti's pricing solution offers support for pricing products, systems, spare parts and services. The software also includes components to control a global business and attain pricing excellence. Examples of Navetti customers are ABB, Alfa Laval, Atlas Copco, Bosch Rexroth, De Laval, Heidelberg, KONE, Linde Material Handling and Scania.

With Navetti's software and consultant services, clients not only gets support to implement market and value-based pricing, but additionally will able to implement governance processes, manage risks and ensure organization compliance (ibid).

When improving an organization, the main cornerstones to reach an improved price quality, efficiency and profitability are according to Navetti (2013):

- A solid pricing strategy
- A well-defined pricing process
- A dedicated system solution
- A strong and well trained pricing organization

The first step for Navetti's consultants is to investigate the company at hand, how they work at moment. Then it is of importance to educate and work with the client. Navetti's software supports through choosing different modular parts needed for the specific company within the specific area that needs to be improved. The work is usually done centrally with the company's management team.

Navetti's consultants also help their customers to improve their business by having workshops with other customers. This gives the opportunity to the customer to share experience and also do benchmarks with more successful companies within the area of pricing.

When dealing with spare parts, the hardest part is the amount of parts. The amount of parts creates a complex situation where the handling of the parts needs to be simplified. Segmentation helps the handling of spare parts and the parts needs to be in strategic

groups so they do not need to be handled individually. The consultants and the software help the clients with the categorization. Also when it comes to segmentation the spare parts should be categorized and priced in different due to factors such as weight, volume, diameter etc. A larger filter, for example, should be higher priced than a smaller one.

They also help with the collection of market information and market intelligence. When the products are segmented the software can use some reference products, which represent a larger amount, to improve market information and to be more market or value-based. Market-based and value-based pricing goes hand-in-hand, often one pricing strategy is not pure market or value-base. Different parts, or segments, need to be handled with different pricing approaches or a mix.

Navetti charges their solutions and services in different ways. They charge both with a fixed price for a project, but also with a percentage of the increased profit after a project. The fee of Navetti's software and services are negotiated with the client and differs for each specific scenario.

5.7.3 PROS

PROS sells pricing solutions and starts by looking at what levers companies can do to earn more money. During the recession many companies has cut costs but now they are trying to look in to pricing instead. They engage early with the company and offer them advice but they do not have pricing consultants instead their focus lies in handling big amount of data. The customers usually read white papers presented by PROS and can through looking at the earlier work see that people have been satisfied.

PROS are a SAP partner and their system or solution can be built in on every ERP-system even though it can be harder with a more unique and home grown system. PROS is a solution provider and started 27 years ago within the airline industry. The airlines realized early that they could use the large amount of data to optimize their pricing methods and to understand the customers' willingness to pay. PROS created a system that could sort this data in order to understand what actions needed to be taken.

Today PROS are moved in to other business such as manufacturing, distribution and services. They have developed their software to fit the different industries and their special parameters. They help customers to differentiate prices and can help them with segmentation of the market which it depends on what data that is collected. PROS pulls the data from the customers' system themselves, which is not something that they require of the customers to do.

The normal customers are moving away from cost-based pricing and have a strategy on where they want to go. Customers might have the help from a consultancy firm at first to be able to formulate and define a pricing strategy. What PROS later does is to help

companies and enable them to realize their pricing strategies, this is often done with a market/value-based process.

PROS are focused in using data technology to derive data and sort it into different segments representing parts of the market. This enables them to understand what certain part of the market wants to pay for a specific product etc. In most cases they know the industry rather well and can based on earlier experiences reuse systems that are highly configurable.

The customers are educated in a way that allows them to use the systems themselves after the implementation phase. The responsibility for handling the system is often handed over to the one person owning the process e.g. a pricing manager. They should be able to configure all the parameters themselves and are not supposed to take help from an IT-department for instance.

The customers can get help with the change management from consultancy firms working in parallel to secure that the company stands ready. They can for instance make sure that finance, marketing and sales are up to speed when it comes to using the system.

The system is handling information directly and continuously by letting the latest invoice influences the data. The system is therefore not doing a revision of the prices once a month but continuously to enable more precision.

PROS's USP is their customers' success stories that they can show a potential customer documenting good return on investment with their systems. That PROS system can process a lot of information and divide this into segment, which PROS know how to address in the best way.

6. Analysis

This chapter will analyse Pon Sweden's situation on the market through comparing theoretical and empirical findings gained during the project. Different patterns in various pricing processes are compared involving different focuses, cost versus market/value-based, possibilities to differentiate prices and discount structures and behaviours. Organizational structures and segmentation will also be analysed.

6.1 Pricing at Pon Sweden

Cost-based pricing is the most usual pricing method and it is also the simplest way of setting prices. Schindler (2012) argues that it is good to have similar prices as the competitors and using a similar pricing strategy could therefore be good. This statement is based on the assumption that the competitors are reasoning very similar as to the own organization (ibid). The cost-plus strategy is also good for keeping track of costs and expenses but not much more. Since the strategy has an internal focus excluding everything but the own company, the price could also be set too high or too low. It has been discussions within the Pon Sweden organization of the prices being too high, but no evidence or proof of this matter has been presented. Perhaps that is why nothing has been changed. If there is little understanding or facts about the present situation it is hard to make a decision based on something objective.

The pricing process and the current way of working might come of that Pon Sweden is an exclusive dealer with a situation with monopolistic tendencies. The actual situation is however not monopolistic since there are parallel importers and Will-fitters. If a company faces perfect competition it will have to adapt to the market and the present standards, in order to not be put out of business (Granstrand, 2010). This is at the extreme but it gives an explanation on what effects competition brings to an industry.

Pon Sweden is using a cost-plus method to price their spare parts and the business represents the biggest margins in the company. Today's prices are set with a price-ladder using different mark-ups and generally work with bigger mark-ups for cheaper products and vice versa. The pricing is not something that is done actively or proactively but is more of a reaction to price revisions from Caterpillar twice a year. The process of setting prices is something that does not involve people outside the logistics department, which is currently handling the revisions. If Pon Sweden is not competitive in their pricing they are not competitive on the market either. When a spare part is bought from Caterpillar an individual mark-up is added and the result of that becomes the list price. The list price is later customer adapted and negotiated, before it becomes the final transaction price.

A problem with conventional pricing methods as the one used at Pon Sweden is that they do not reflect upon revenues for each part. It is vital to understand what is sold and what is not sold. Even though the company understands that some parts are the source of larger revenues, the prices are not changed accordingly. It is important to understand the underlying facts behind a part not being sold. If this would be investigated, an action responding to that problem might solve it. A conventional method as the one in use most likely won't change anything. It is vital to understand what is influencing the sales and what is happening in a more detailed level beneath the turnover. It is only good with high margins if something is sold otherwise it is only a paper product.

This way of pricing is unsophisticated and does not consider any customer or market specific information and therefore risk being too simple as a strategic tool. In cases where standard mark-ups are used, high prices and low revenues often comes as a result of that including the bad-will associated to the price levels (Zinoecker, 2006).

It is important to understand how different parts influence the buying decision. What kind of spare parts do the customer shop around for? Also what influences the shopping around? Internal interviewees described that customers often buy the more special and rare parts of Pon Sweden but often turn elsewhere when shopping volume parts. So Pon does not really know if the prices are creating bad-will or not, some people in the organization think it does but there is no evidence or facts.

6.2 The importance of knowing the market

Swecon works to understand the market and thinks that if some of their spare parts are priced wrong the organization will get a reputation of being expensive. Besides that it creates rumours explaining how expensive the brand is and bad-will, Delvator believes that wrongly priced product is an invitation for competitors. The right price levels can only be reached through knowledge and understanding of the market. This is not a simple task.

The most challenging issue with pricing of spare parts is to find the right level for every part and to differentiate the prices. Atlas Copco has the same approach and mentioning the greatest challenge with spare parts is to set competitive prices. Further explained this is extra hard with products that is not Atlas Copco unique and has greater competition. The toughest challenge is to find the right market level where customers are satisfied and where competition is met.

Another problem is that the customers' willingness to pay and the experienced value of the certain spare part is not taken into consideration when only using mark-ups (Zinoecker, 2006). Since the knowledge about the customers and the market is rather low at Pon Sweden they miss out on many sales. Customers sometimes chose to buy parts from other places with a lower quality but with a matching price. Interviews at

Pon described that the knowledge is poor concerning the market in which Pon Sweden is active.

The problem also concerns the competition that a part is facing. It is hard to price a part and understand the impact of that price when not looking at the market. Without understanding what competition a part has in a certain market makes it hard to know if the price is too high or too low. It is therefore important to investigate and understand all competition including both OEM's and Pirates (Zinoecker, 2006). Swecon on the other hand state that the biggest competition on parts come from will-fitters and argue that other brands part will not fit their machines. Customers can accept lower quality if the price represent the part at hand. Many older machines need more parts and more expensive parts than newer ones but their owners are less likely to buy original parts. In those cases the customer often searches the market for the cheapest prices.

Today's pricing method at Pon Sweden is rather unsophisticated and do not involve the market and customers into the process. The process are reactive towards the supplier side but not towards the market. The process is more or less automatic and is done during the two main price revisions each year. The mark-ups make it hard to understand what will happen with the transaction prices since a little change by Caterpillar can end up as a big one.

Today's prices are not differentiated enough and not adapted to the present situation in different types of deals. It is important to involve and incorporate the competitive situation in the pricing process to be able to address different customer types.

The customers are for instance not charged anything extra when ordering with short notice e.g. next day delivery. As it is today all the expanses, concerning the freight, is not covered by the customer. If a customer can pay the same amount for a next day delivery as a delivery within next month, no one will order a month in advance. Planned purchases are cheaper for Pon Sweden so they need to communicate that to the customers somehow. Various speeds of delivery and the customers planning horizon are potential factors for differentiating the prices. The price does not differ between an emergency rescue where a field mechanic needs to go out to a site and a standard procedure in a workshop.

Other Brands on the market is better in differentiating their prices and is working on addressing different customer segments with offers. Swecon collect market information to have a good basis for strategic decisions and adapt their pricing accordingly. They price their spare parts according to the competition that they face. This means that a unique product is priced in a different way compared to a product that has many potential replacements. Delvator also believes that to be competitive it is necessary to have a price that is representative for the competition it is up against. Filters and GETs are priced in-line with the market since those segments face great competition and

customers are price sensitive. More Hitachi unique designs are priced in an own category since they have little competition and customers can be charged accordingly. Atlas Copco also categorizes their product after what competition a certain part has. The most important factors are what value the part brings the customers and how price sensitive those customer segments are. Even though Delvator is not selling spare parts to the end customers they have found a way of differentiate their prices. In order for them to be able to do planned purchases from the OEM and get better prices they want their customer to do planned purchases. If the part is bought in advance in such way that Delvator in their turn can have a planned purchase the transaction price will be lower.

Even though it is of high importance to be able to price differentiate it is important to bear in mind that a factor that truly affects the customers are fairness. The perceived fairness of the deal is important. If the customer thinks that the transaction price is wrong it can create bad-will and dissatisfaction. It is good to be able to differentiate the prices but it must be received as fair so there cannot be hidden cost like shipment, insurance etc. added after a deal. Also if prices are different between different customers the result will be that the less fortunate customer in that case will feel deceived (Lundén, 2008).

6.3 How to us discounts

The earlier statement about experienced fairness influences a lot of factors and need to be considered when making decisions. Fairness is something that is experienced and influences the way a customer views an organization. One factor to consider is discounts.

Discounts are tools that are supposed to help the sales force to drive profit and spur volume but according to Lundén (2008) it can do the opposite. For instance if a salesman gives too generous discounts to a customer, it can get far-reaching consequences. The thing is that the customer can experience the price as the original price after a while and then it is hard to change that discount.

Pon Sweden gave away much discount last year and on the invoice sent to the customers only the final transaction price is written on the invoice. This is a problem since the sales force cannot use the invoice and communicate that this customer got a good discount. Instead this will just increase the risk of the customer experiences the price as an original price and forgets the extra given by the company. This is a problem since discounts are very much connected to the experienced value and therefore it would be a problem if it were unnoticed by the customers.

In the end this discount could be seen as a price reduction and it will be hard for the company to raise the prices afterwards. The problem is that a discount should not be a

regular situation and should be used to attract customers that otherwise would not be very interested (Lundén, 2008).

Discounts are something given to the customers many times without any logic reasoning behind it. Many customers have had the same discounts for a long time and they are having it without being investigated and questioned about the volumes they purchase. The sales force lack initiative to keep the prices up today when negotiating with the customers. The sales force gets paid extra depending on volume and not based upon the profit they make for the company. The sales team should not know what margins different products have, since the margin will risk disappearing to the market. In the long run the prices would lose much of its margin. But having volume, as the only contributing factor is not very good since it is much easier to sell large quantities if the price is reduced.

Thanks to the bonus system in use today a lot of money is given away in various discounts. Discount rates can be important in the business and a lower price is not always better. The discount is probably about the experienced value so it is a balance between the original price and the price given to the customers. Besides the factor mentioned above it is probably important to be able to show a discount rate as a result of good negotiation skills for a customer.

Atlas Copco has similar problems but is now developing a new discount strategy that is supposed to be based purely on volume. At the moment companies have their old discount that once has been negotiated, generally big customers has big discounts. Today they have a new pricing process that only is one year old and they are about to change the discount structure into a transparent ladder. Today customers have verbal or written agreements on what discount they should have and that can be hard to change. They have realized the dissatisfaction it may cause when they leave their old method and the customer understand that he or she is not special anymore.

Swecon has already a transparent discount ladder that rewards customers that buy larger volumes. Larger volume equals larger discounts and this is done without any special arrangements since everybody are treated the same way. Delvator tries to get their resellers to have more in stock and order more at the time. It is better economy for both parts.

6.4 Customer Focus

Intense competition and sophisticated customers are here to stay in the spare part market, so original equipment manufacturers need to improve their spare part pricing, both to be more competitive and also to improve their overall profit (Gallagher et. al, 2005). For Pon Sweden the threat from will-fitters are increasing and is perhaps

something that needs to be viewed as competition rather than a torn in the side. Other dealers are trying to compete against will-fitters e.g. Swecon, Delvator.

Navetti consultants argued that it is hard to fully separate market-based pricing from value-based pricing since it relates to each other. To be able to be value-based in the pricing process an organization needs a lot of understanding and knowledge about the market and if a company is market-based there will be opportunities to be value-based. This is something that Swecon works with since they are partly market-based and partly value-based. The logic behind that strategy is that they only need to compete where they have competition. On spare parts that are unique they can price more freely and based on the value it creates which is not possible on parts with much competition.

To enable that a company can price their product in accordance with the market it is vital to understand the conditions present. The company would have to collect information on customer and competitors and that is an extensive amount of work. There is a lot of information to be gathered and when that is done it can be hard to interpret the information (Hinterhuber, 2008). Individually the persons working at Pon Sweden has a lot of knowledge about the market. The problem is that the organization however does not have a system where that information is collected i.e. the information stays with the individual. It is hard to understand the market if when not trying to investigate the conditions. All new information will increase the knowledge.

When it comes to value-based pricing the hardest part is to communicate the value to the customers (ibid). But it will be simpler to communicate with the customers if the sales force knows what competition a part has. If it is a unique part it must be easier to argue that the part is worth a higher price and vice versa with a part with a lot of competition. A lot of competition means that a part can be switched with another part and therefore it is harder to communicate any special value in that case. It is important to communicate the value on a common part too, but then it is easier for the customer to compare and do their one interpretation. For Pon Equipment information concerning competition can only help the organization to be better and to understand their role in the market.

The problem is to create an understanding on what needs the customers have and what they want. Addressing customers with the special needs is difficult and is the toughest challenge when it comes to do a segmentation of customers. Pon Sweden segment their customers but do not work in any special way to address them, some segments they do not believe are interesting for instance. Another problem concerning value-based pricing is that the sales force sometimes gives away too much discount that undermines the pricing strategy. Often this issue is not to blame the sales force but rather sale goals and commission being based upon volume solely. This is something that Pon Equipment must handle in another way in order to get a structured discount ladder with high transparency for the customers that rewards volume. That is what discount should do,

increase the number of sales and the volume and therefore every customer should be treated by the same rules explaining that if you buy more the price can be lowered.

Atlas Copco is working with a focus of becoming market-based with their pricing process although it is not always the case. They have market specific factors that sometimes can be wrong and therefore the prices are less competitive. But as for Pon Equipment this is not done overnight and is something that should be worked with during a long time while communicated to all customers so that no one is unprepared for the change.

Overall impressions are that it is fully possible to be market-based but it demands that people work with it and are dedicated. Pon Sweden has done some pricing projects, but it has not resulted in any actions taken by the company. Perhaps it is connected to authority and decision making being done elsewhere but it feels that people at Pon Sweden are waiting for a solution to be presented.

6.5 Organization of pricing

Many organizations lack a thorough pricing strategy and use a primitive approach, often a cost-plus strategy (Zinoecker, 2006). The primitive approach is often due to lack of resources and knowledge within the organization. When it comes to spare parts there are often problems with understanding the true value, which results in generous discounts and a value destructive behaviour (Gallagher et. al, 2005).

Several interviewees within Pon Sweden organization claim that the company does not have a pricing organization at all. The question about their pricing organization can of course be discussed, but it is clear that the organization needs to improve their spare part pricing. The organization lacks knowledge about spare parts, the market, and competitors in general.

Today's Supply Chains organization is responsible for the handling and setting the prices of spare parts. According to the pricing expert at Syncron, the phenomena that the logistics department is responsible for the spare parts pricing are something typical for a small organization. A larger company usually has an aftermarket or spare part department that handles the spare parts. Somebody that is 100% focused on spare parts pricing helps to achieve an environment where the organization deals and handles with market information and increases the organization's knowledge.

A company of Pon Sweden's size should have an employee that focuses only on spare parts, and should work within a department that handles the market information and strategically could do something with the gathered information. Internal documents (called the Clockwork Blueprint) from Pon have been shown for the authors. In the documents it has been decided that the marketing department should be responsible for

the spare parts pricing. With the right resources this can be a good idea, but even though one department should be responsible it is of importance to involve other functions.

Other departments will be affected on the spare parts prices, for example sales handles discount and are closer to customers, so the communication between them and the department responsible are of importance. For example the pricing organization within Pon Automotive that is responsible for the pricing of spare parts consist of four full time positions, one team manager, two category managers who are active in parts assortment and one employee who works with the system to set up data for dealers and customers and processes the data from the OEM supplier.

Caterpillar's dealer in German, Zeppelin, has a spare parts management, as Zeppelin calls it, consisting of three fulltime employees. The part price management reports to the service department, which is responsible for everything within spare parts.

Delvator claimed they are such small organization that they do not need an organization that collects the information. The information is spread mouth to mouth, but if something needs to be reported it is done by paper. Within Swecon the spare parts are handled by the marketing department with a service/aftermarket-team. Totally the team consists of 8 persons, 5 salesmen working with the deals, 2 part-time positions that only work with gathering information, such as customer complaints. The 8th person in the team is the manager, which was the interviewee at Swecon.

All the interviewees, Pon included, works with OEMs that also has organizations that influence the interviewees work. The OEM normally gathers information wider than a specific country, and especially one with the size of Sweden. So it is up to the local organization to build up cases if they want to have a change in pricing, this puts even tougher demands on the local organization. But if a good relationship with the OEM is established there can be a lot of information exchange, which helps Pon to be more market-based.

Without an organization dedicated to spare parts pricing it is more or less impossible to be market-based. The organization needs to gather and handle market information in a smart and sophisticated way. Support from software would enable a smoother process and put less demands on the organization.

But even with a pricing organization it usually has to be a change of mind in the sales-force. The salesmen are the ones who meet the customers every day and need to collect the information and be sensitive to market trends and such. It is when the information is collected, the department responsible for spare part pricing needs to make it easy to gather it and then in a smart way process the information.

The organizational structure is one of the keys for Pon in order to be able to have market-based pricing. Organizational changes are needed with the support of senior management, so that the change will come from the top. The support of software would further help the process to market-based pricing.

6.6 Segmentation

In this section different methods and strategies for using segmentation of the market will be analysed. Segmentation is here divided into two approaches where the first one focuses on segmentation of spare parts and the final one on customers.

6.6.1 Segmentation of spare parts

When it comes to segmentation of spare parts, Pon uses the same segmentation as Caterpillar. The system is basically dividing the parts into 8 major groups and the major groups are then divided into 152 minor groups.

The Pricing consultants Synchron and Navetti both claim that the hardest part when dealing with spare parts is the fact that there are so many different products. Also Pon Automotive has the same difficulty, when dealing with 800 000 parts it is almost impossible to price each specific part individually.

Pon Automotive uses different part groups, or segments, to have an easier handling and overview of the spare parts. The aim of the segmentation is to have one product that can represent the whole group, which enables easier pricing even with a more advanced pricing strategy. The parts are not only divided into product categories but also into how competition is on the part and if it is sold in high volume or a unique part rarely sold.

The handling with captive and non-captive parts is something that needs to be understood and taken into consideration when handling and segmenting spare parts. Since captive parts are unique the competitive situation normally are non-existing, so here is a big advantage. The captive parts can be priced in a rather value-based way, that usually is higher than non-captive, and they are not that price sensitive. The non-captive parts on the other hand can destroy the pricing for a company, since it is those parts the customer will compare to other competitors.

The difficulties when it comes to segmentation of spare parts are a good starting point in the process to get a more sophisticated pricing. Synchron and Navetti emphasize that it can be hard to obtain market information and compare prices for a large range of spare parts. The segmentation therefore becomes even more important. When getting indication that one product is not competitively priced, it probably is more than just this specific product, but probably the whole product group. Both companies' softwares help with segmentation. This is necessary for a more sophisticated pricing. A lot of different factors divide the parts into groups so the segmentation becomes as detailed as possible. Navetti also explained that the price should also be influenced by factors such as weight,

volume, diameter etc. A larger filter, for example, should be higher priced than a smaller one.

The company PROS is expert in handling data and can help companies with segmentation. They use technology to derive data and sort it in to different segments representing parts of the market. This enables advance segmentation and gives information on how different segment on the market can pay for different products.

The other dealers on Pon's market all uses segmentation of parts. Swecon focus a lot on getting each product, within a product group, to represent the rest. This makes it possible to handle a large amount of spare parts. The groups are also depending on the sold volume of the product. Delvator also segment with the focus to get one product to represent a wider range of products.

Atlas Copco segments their spare parts depending on competition. Parts with a lot of competition are in a certain product group. There are around 8 segments with parts that are organized dependent upon what type of competition they are facing. It is about what kind of value they bring the customers and how price sensitive the customers are on the specific product. For instance Atlas Copco designed products that are unique are priced with a higher price and a product like filters are priced in a way that is market-based.

The segmentation of spare parts is one of the keys when it comes to handle spare parts. A good segmentation enables handling a large amount of parts, but only with information about a few. In the process of being mark-based, the segmentation is of big importance, due to the large of amount of spare parts and the difficulties to get market and competitor information.

The German Caterpillar dealer Zeppelin uses the same segmentation as Caterpillar, with 8 mayor and 152 minor groups. But with the help of the ERP-system M3 price indicators were added for 5000 individual spare parts. The price indicators regulate the price for each product. With help of market information the price indicators show if the price should be increased or decreased.

Additionally Zeppelin has 38 groups for Caterpillar products that have their own specific mark-up. The margin for the spare part depends on how the competition is on the specific part. A part with a lot of competition has a lower margin than a one with less competition, which can be viewed as more unique.

6.6.2 Segmentation of customers

According to Gallagher et. al (2005) companies tend to use the same segmentation of customers, both for new machine sales and for the aftermarket. The segmentation of customers is of importance when using value-based pricing.

One concern with value-based pricing is the difficulty to pin point customers and to know what they want and need (Hinterhuber, 2008). Addressing customers' needs are difficult and that shows how hard it is to segment the market. But if a segmentation of the customers and the market is done successfully, the potential of value-based pricing can be accomplished.

With a successful segmentation the value of a product for the customer can be known, and it is of importance to understand the value of the product before negotiation with a customer (Schindler, 2012). Customers do not necessary need to be in one specific market segment for all purchases but could instead be in different depending upon the specific needs of the situation.

All the companies interviewed that sell software, Synchron, Navetti and PROS, support customer segmentation. The software segments customers with the aid of statistics, and can show indications of behaviours etc. of the customer. The hard thing with segmentation of customers is the same as with segmentation of the products, the lack of information. To obtain the market information is the biggest challenge

The segmentation of customers has a high potential, which can result in value-based pricing if done correctly. The challenge is to collection the information to be able to segment. Since most dealers on the studied market use mark-up or market-based pricing the need of advance customer segmentation is not critical. The first step for a sophisticated pricing is segmentation of products, and later comes the segmentation of the customers.

6.7 SWOT – Analysis

The SWOT analysis makes it possible to see the situation from a holistic perspective and it is a good resume of the analysis made. Fig. 16 includes findings from textbooks and papers, internal interviews at the company, external interviews with other brands on the market and with topic experts.

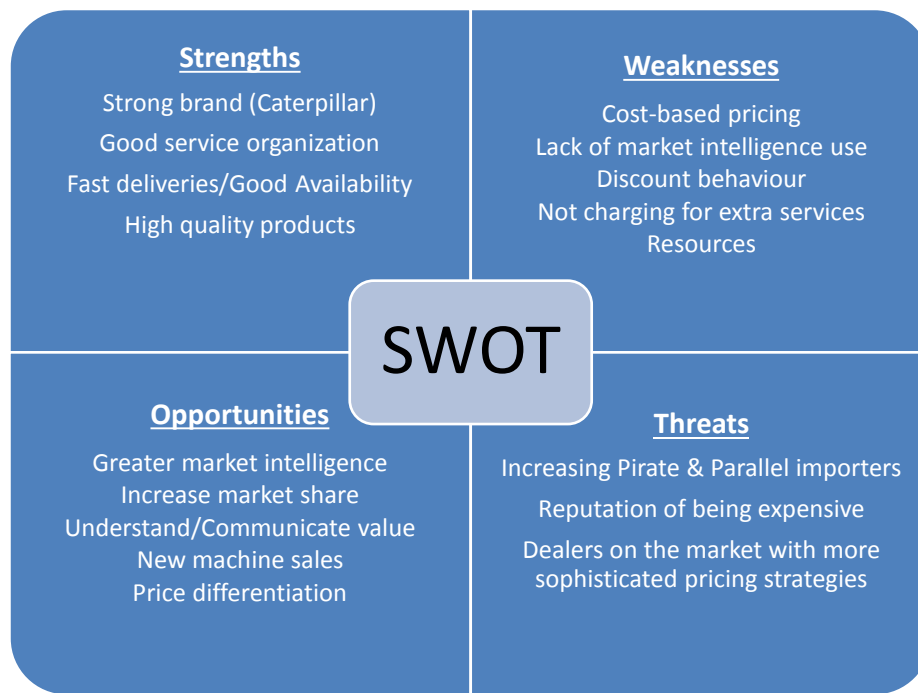


Fig. 16. SWOT analysis

Pon Sweden is working with the strong brand of Caterpillar and is representing quality products and services. The service organization is very strong according to the customer interviews that were conducted and they referred to professionalism with good availability. The customers experience was positive towards the possibilities to call and order spare parts over the night or having a field mechanic on the location within three hours. The strengths are mainly based on what the customers value when doing business with Pon Sweden. Generally the customers liked that Pon Sweden is a serious and professional partner or dealer that could deliver good quality and fast.

The cost-based pricing is resulting in a few other weaknesses and that is because of the lack of intelligence and knowledge about the market. People internally at Pon Sweden think that they are too expensive on parts. But when it is discussed there is no proof or facts displaying that very same thing. Since Pon Sweden is not looking into the market and their customers it is hard for them to understand how to address certain customers.

Since there is little information about what the customers want or need it is hard to differentiate the prices. The organization do not work proactive or active more than correcting some individual prices when something has gone wrong with the mark-ups. Prices are worked with reactively with two price revisions a year and the person responsible is a logistic/warehouse manager. The resources are not enough if Pon Sweden wants to base their prices on market intelligence and facts.

If Pon Sweden starts to work in a more sophisticated with their pricing many opportunities will appear. For instance if market information were collected there

would be evidence or indicators on what customers think about different issues. More information means that there is something to make decisions based on. Better decision processes could lead to that customers are addressed accordingly to the special segment. If Pon Sweden understands the market better and know what competition the different parts have it will be easier to communicate the values towards the customers. If the pricing process gets better, perhaps the new machine sales will increase and the potential market for spare part would be bigger.

The biggest threat for Pon Sweden is that competitors are using more sophisticated pricing strategies. This combined with increasing presence of will-fitters can create a reputation of Pon Sweden being too expensive. Pon Sweden should categorize all other brands and will-fitters as competitors instead and take action against them.

7 Recommendations

This chapter aims to fulfil the purpose of the Master's thesis. A recommendation will be given in order to answer the research questions conducted for the thesis. Additionally a potential timeframe for implementation of a pricing strategy is given.

The purpose of this Master's thesis is to explore and analyse the spare parts market and evaluate it in such way that the given information could be a basis/background for a pricing strategy at Pon Sweden. The thesis will investigate the market situation and what can be done in order to have an organization with better understanding of the market.

Four research questions were conducted to fulfil the purpose of the Master's thesis. The four questions are answered below, the first one is:

- RQ1. What pricing strategy enables a competitive advantage on the aftermarket?

To enable a strategic advantage on the aftermarket it is important to know the market and based on market intelligence strategically set the pricing in the aftermarket. In Pon's case it is of importance to be competitive towards their competitors but also take the Caterpillar and Pon premium into consideration. The recommended strategy to enable a competitive advantage is therefore a market-based approach.

A value-based pricing strategy would be the most sophisticated strategy. But it puts too many demands on the organization with the current situation. To become value-based one day it is needed to understand the market. Therefore a market-based pricing strategy is the best one for Pon at the moment.

The answer to the first research question adds another question, how to become market-based. In collaboration with the other two research questions the recommendation will focus on how to become market-based. Additionally a framework on how to implement a market-based pricing strategy is given.

In order to become market-based demands are set on the organization and resources are needed, which is the subject of the second research question.

- RQ2. What resources are necessary to establish a sophisticated pricing strategy?

In order for Pon Sweden to become market-based and to work in a more sophisticated manner regarding the pricing process it is vital to find resources, which enables it. At the moment Pon Sweden is working with mark-ups on given list prices from Caterpillar that do not set any special demands on support structures. It is vital that organisational

structures and system support is in place in order to start working with processes in order to become market-based. The biggest difference lies in the amount of data that needs to be collected and analysed as described earlier. The complexity in the situation constitutes of the issues regarding organizational learning. Information needs to be fed from the persons that possess the knowledge to centrally within the company and back fed to the individual level again.

Pon Sweden has discussed the matter of becoming market-based for a long time and within that debate also launched a couple of projects. Observations made at the company suggest that there is a problem with ownership of the question concerning parts. Before a project of this calibre can be launched it is necessary with a buy-in from all stakeholders and with a clear support from the management team. The truth is that there are many routines and projects taking part of the daily progress at Pon Sweden. Logically the daily business comes first and long-term goals are put on ice until a timeslot opens up. To highlight the importance and to have a clear owner of the pricing process associated with parts it is recommended to employ a spare part manager.

It has been decided (in the Clockwork Blueprint) that marketing shall handle the pricing of spare parts. The parts manager shall be incorporated under marketing and shall have the authority to make decisions on the topic. The authority does not need to grant him, or her, the mandate to answer for all decisions but the most. Without authority much will be discussed but no decisions will be made. The most critical lies in headhunting a person with experience of market-based pricing that can drive the process forward. The part manager shall prioritize the long-term questions on how to compete in different segments and how to differentiate the prices accordingly.

To learn and continuously improve the pricing process the part manager shall summon a pricing council once a month to discuss what has been working or not. This way people can represent their part business and contribute with knowledge and information. A schematic illustration of this is presented in Fig. 18. Finance and logistic represent the cost side of the business and can give their opinion and can analyse problems from that perspective and through their lenses. Sales and Service director can give information on what reactions that follows a price change. This lens can also describe how the sales force are working with communicating values to the customers and if there are any problems or possibilities with negotiations. They shall also bring back information to track changes and be responsible for changes in their departments. New machine sales should also be included since customers often review the cost of ownership before choosing what brand to buy from.

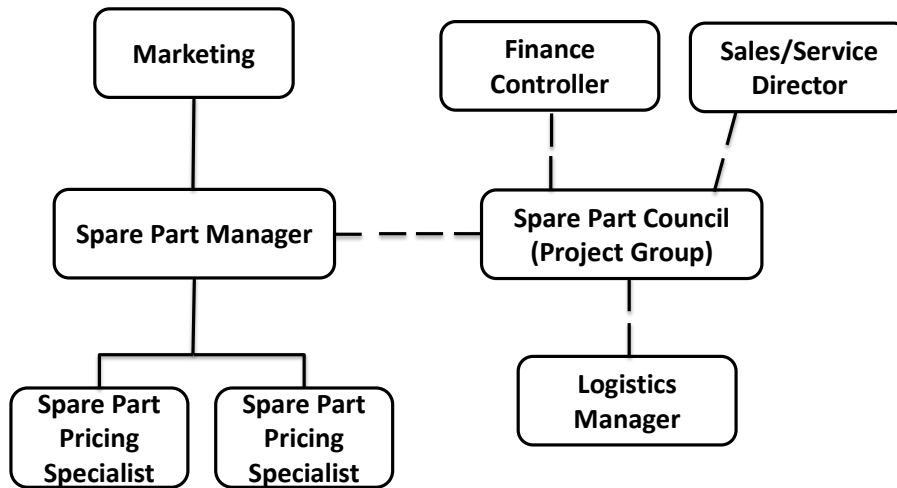


Fig. 18. Pricing organization

But the pricing process is not something that shall be worked with once a month but continuously and therefore it is important to hear all voices in the company. Throughout the departments there are different knowledge and information concerning customers, competitors, supplier relations and cost etc. The illustration in Fig. 19 is the support system being displayed as a cloud. The system shall be easy to use and is a tool for constant feeding the organization with information to give a good picture of the present situation. But the system is also a great communication channel when spreading information from centrally in the organization. With a system like this knowledge can be spread throughout the whole company. One benefit of this could for instance be that the sales organisation can negotiate with confidence when they know what the competitors are charging for similar parts.

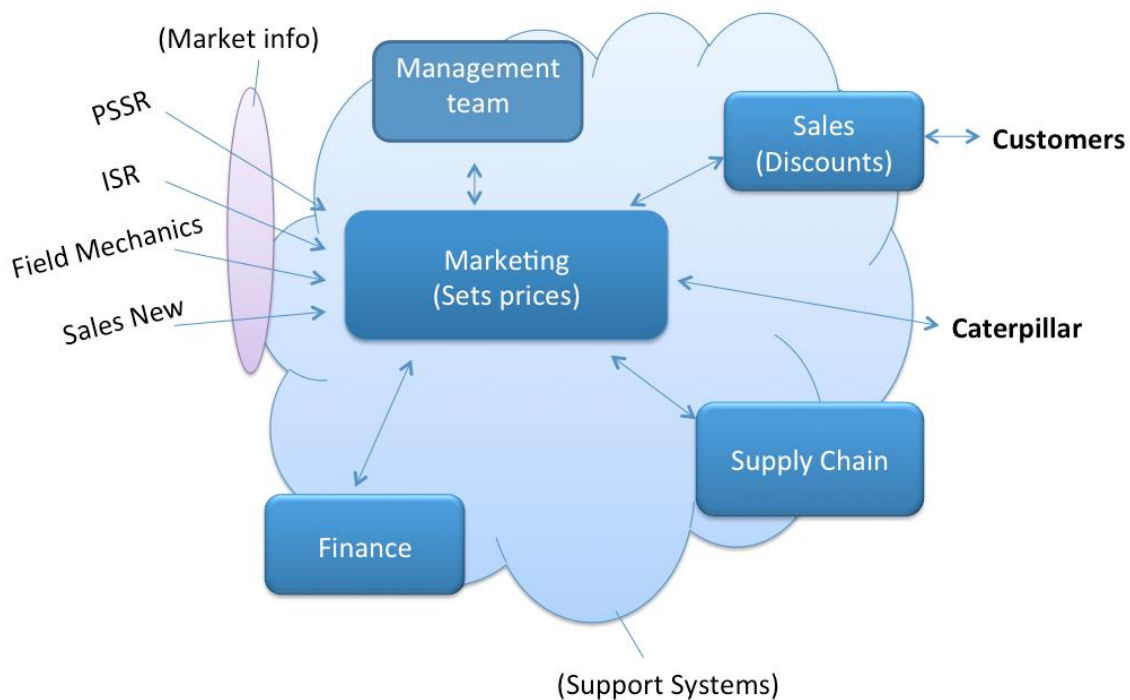


Fig. 19. Information flow

The key to a good pricing strategy lies in the organisational structure and the continuous work with gathering and analysing market information. On a more practical level the pricing of different parts must be structured in a clear way.

- RQ3. How should different spare parts be priced?

This is really a question about how different spare parts should be segmented. In order to price the specific part in the best possible way. Spare parts can be divided into captive and non-captive ones. Captive spare parts have an advantage since they are not price sensitive and have no competition. While the non-captive ones have more competition and therefore need to be priced in a more strategic way. The spare parts can be segmented into three different categories. See Fig. 17 below for segmentation matrix for spare parts.

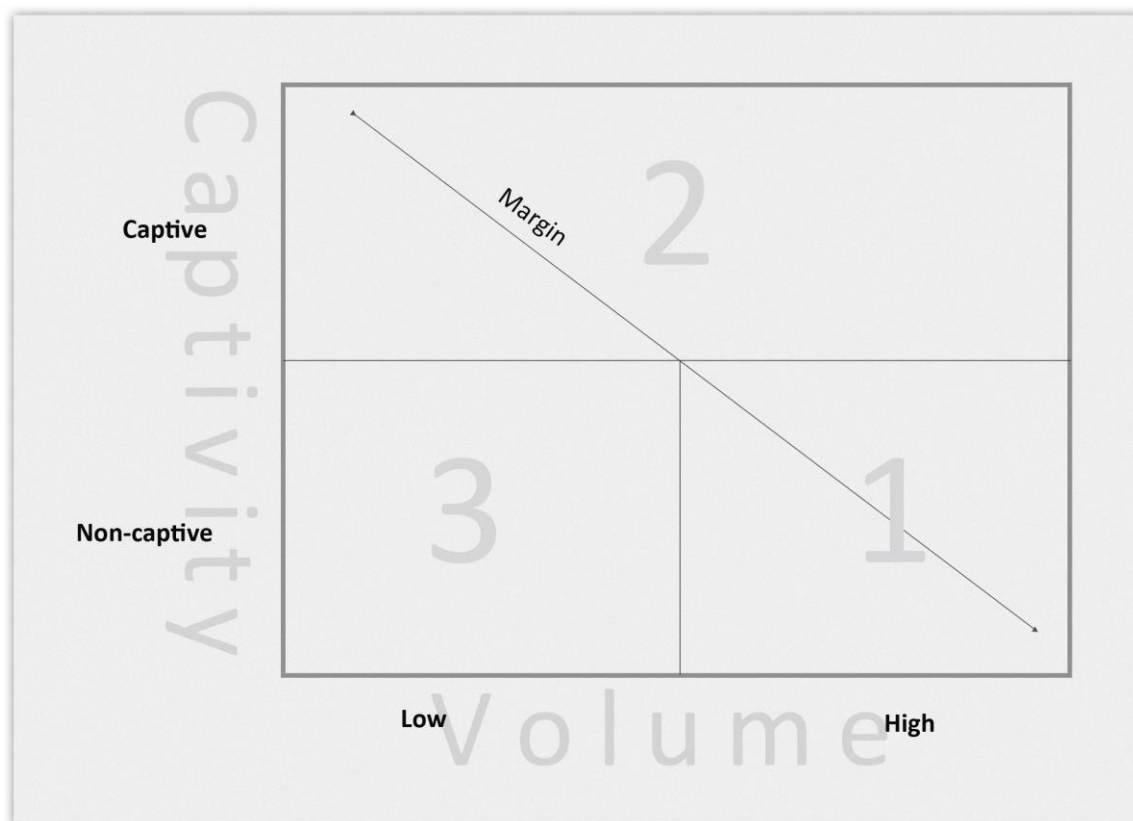


Fig. 17. Segmentation matrix for spare parts

The segmentation matrix divides the spare parts into three categories, depending on captivity and volume. The first category consists of spare parts which have a low captivity but are sold in a high volume and therefore are high competitive. It should though be kept in mind, that in order to be competitive in this segment the margins for the spare parts is usually lower than in the other segments. This segment consists of parts that customers buy frequently and are targets for competition. It is therefore important that the non-captive parts, that are bought frequently, are market-based. Both

so they are sold in high volume, but also because a too high price will give the company a reputation of being expensive.

The second segment consists of the ones that are captive, regardless the volume. The spare parts in this segment preferably are priced in a value-based way, but a cost-based approach can be used. Since the parts have low competition a higher margin can be applied. Since the parts are not price sensitive, a cost-based pricing strategy can be used to a greater extent.

The third segment is where non-captive parts with a low volume are grouped. Products will be in this segment if they are rarely sold, due to that the part is rarely used or is wrongly priced. If parts are wrongly priced, here is where the potential is. An investigation of this group is needed in order to be able to get parts from the third segment into the first segment. The investigation of this segment can be more crucial than the pricing strategy for the segment, which could be cost-based. A cost-based strategy is suitable when dealing with low volume parts so that the amount of resources to price the parts are kept low.

In order to become market-based the organization also needs to change their discount behaviour. Since the prices should reflect the market and be set in a competitive way, it is important that salesmen do not give away discounts. This leads to the third research questions.

- RQ4. How should Pon Sweden work with discounts?

Discounts should not be negotiated and no special arrangement should be made with the customers. The only things that shall increase the discounts are the volume and if every customer is treated the same it will be possible to coach them in doing better purchases. The simple logic to communicate to the customers is that if they buy larger volumes the discount will be greater. Pon Sweden can calculate the cost of parts a certain customer needs during a year, with help of the system PTOS. By displaying this fact the sales force should explain what can be saved if everything is bought at once.

Another simple but important parameter that Pon Sweden needs to consider is the experienced customer value. Dissatisfaction often comes from promising something that is not delivered. The highest satisfaction lies in delivering something that customers do not expect.

It is strange to give customers discount without printing it on the invoice that is sent. It is about communication and depending on how it is done it will affect the image of Pon Sweden. If the discount is not displayed on the invoice the customers eventually will forget that they have a discount at all.

The sales force need to communicate the value of the parts when talking to the customers and should refer to the new discount ladder. If the new discount structure is implemented the bonus-system is not of the same importance. But today the bonus-system is only rewarding volume and only volume. The easiest way to sell high volume is to lower the price by giving the customers discounts. A fixed discount ladder will solve this problem, but until that gets realized it is probably good to investigate the possibilities to give discounts. Another vital fact to investigate is why so many discounts are given away to the market. Is it only due to the bonus system or is it impossible to sell the products otherwise.

Pon Sweden needs to realize their value and the new organization with a clear ownership of the question will ensure that it is worked with. Instead of regular discounts it would be better to differentiate the prices dependent upon time and speed. If it is better and cheaper for Pon Sweden to have planned purchases and use truck transports the same thing should be communicated to the market. Without incentives the customers will not plan their purchases to be nice towards Pon Sweden, they need to earn something from it. Overnight deliveries, flight transportations from Europe or emergency rescues in the field should be charged more than a planned service for instance.

Again the communication with the market needs to be improved. If a customer calls and needs something to be flown in it is possible to charge more. The most expensive scenario for the customer is the alternative cost i.e. when he or she do not get the part needed. Pon Sweden can do this with parts they “should not” have in stock, but when it comes to volume parts this will create bad-will instead.

7.1 Implementation timeframe

To understand the implementation of a new pricing strategy a timeframe has been created. The timeframe can be viewed in appendix C, and involves four different phases that needs to be completed before starting the following phase. It is of importance that the decision of implementation is taken at senior management level. The change initiative needs to be taken from the top and communicated throughout the organization, using all the communication channels possible. The different phases are described below.

Phase 1

The first phase is the preparation phase, right after the decision of implementing a new price strategy is taken. Communicate and prepare the existing organization of the change is of importance as well as setting up goals and aims.

Communicating the change to the organization is vital in order to get the whole organization involved and to create a feeling that everybody is involved. If the whole organization feels involved they will drive the change forward, which will help the

change to be successful. Setting up goals and aims is also of importance so everybody within the organization knows what is expected from them.

Phase 2

When the organization is prepared for the change it is time for the second phase, which involves creating the spare parts pricing organization. First of all the spare parts manager should be recruited. This role requires long experience and good knowledge about both spare parts in general and pricing.

It can always be discussed how big the pricing organisation should be to form the organization mentioned earlier in Fig. 18. Swecon, Pon Automotive, Zeppelin Baumachinen and Atlas Copco can be references.

The important thing is that the manager is experienced and has powers to make changes. Whether the manager should have one or two parts pricing specialists, could be discussed and also if they need to be recruited or rerouted from Marketing, Service or Supply Chain. The important thing is that they can concentrate on this and that the organization understands that it is not a project but a change into a continuous process.

When the spare part pricing organization has taken form the evaluation, and choosing, of consultants to support the organization to implement a pricing strategy should be done. A pricing software should also be evaluated and purchased in this phase. The software could be delivered from the same consultant firm which support the implementation or a company who only supplies the software solution.

The resources suggested for the change within Pon Sweden could be used to do similar changes in other Pon companies in a different country. Pitfalls could then be avoided and practical knowledge could be shared. The pricing system used could also be implemented in other Pon companies with the possibility to upgrade or change functions if needed. It is important with early victories and therefore should Pon grant resources and enabling the change to have an impact. This could be viewed as a pilot project where the organization as a whole get a chance to learn by doing. The resources needed can later be re-used in other projects.

Phase 3

In the third phase the work to gather and analyse market information begins. The collection of data begins in this phase and is continuous and not ending. So the information flow described above in Fig. 19 begins here. The support to gather and handle the information should be the pricing software solution evaluated and purchased in the previous phase. The implementation of the software should therefore be done as soon as possible after the start of the data collecting.

When enough information is gathered the segmentation of parts is a key step toward the new pricing strategy. The segmentation of spare parts for a market-based approach is explained above.

Phase 4

The final phase focuses on setting the new prices. The new price list should be introduced and the new discount policies should be communicated towards the customers. The discount system should be communicated towards the customer in advance, so they know what to expect and how to keep old discounts.

Finally it is time to go live with the new pricing strategy. The price changes could be launched as a campaign, just so see how the market reacts before setting the absolute price list.

Phase 4 should in collaboration with the constantly new market intelligence be repeated to have price lists that are up to date and a pricing that is competitive. Since the spare parts market is constantly changing it is of importance to be up to date.

7.2 Further academic studies

Spare part pricing is a rather unexplored topic which means that the information gathered from literature is limited. Most information concerning spare part pricing in this Master's thesis was collected through interviews with experts on the topic. The contribution to research is therefore the amount of data collected from the specific market. The data gives good information concerning the maturity of the market, and how it is becoming more market-based.

The thesis has contributed through displaying what is necessary when becoming market-based and has highlighted problems when pricing unsophisticated. Further research should follow up these findings by focusing on the implementation phase. The implementation is vital due to the complex situation when changing the fundamental way of earning money.

Further studies should involve change management with a certain focus on changing unsophisticated pricing in order to become sophisticated and understand the market. What need of resources are needed to establish coalition powerful enough to carry through the change. Further research should conclude how companies should prepare for a change and investigate if a pilot project can be launched. Changing pricing process is a radical change since it comes down to a change in mentality of the organisation. Support systems and involvement of departments are necessary to establish a cross-functionality.

The subject is as stated earlier unexplored which means that there are many areas and angles of this topic that ought to be investigated.

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Appendix A

Template for other brands interviews

- Can you tell us about yourself and your responsibilities?
- How does your company work with pricing of spare parts?
 - Mark-up?
 - Marked based?
 - Value based?
- What are the difficulties when it comes to pricing of spare parts?
- How should an (pricing) organization be organized?
- How do you work with pricing in your organization?
 - Do you work continuously with pricing or is it a one time a year revision?
- What parameters influence your final price?
 - Cost?
 - Market situation?
 - Customer value?
 - Discounts?
- How do you work with segmentation?
- Who are your main competitors?
- What is your role on the market?
 - Who are your customers?
- What is your unique selling point?

Template for customer interviews

- Can you tell us about yourself and your responsibilities?
- How would you describe Pon?

- Could you describe your business relation with Pon?
 - What are their strong/weak sides?
- Do you have other suppliers then Pon?
 - Any knowledge/comments about other suppliers

- What factors are important when you buy spare parts? Rank please.
 - Service
 - Availability
 - Price
 - Delivery time
 - Quality
 - Warranty
 - Original parts vs. pirates/parallel
 - Ease / speed of access to supplier
 - Ease / speed of transaction

- Are you interested in just buying spare parts or is a service solution important?
- Are there any specific parts that are extra good /bad/cheap/expensive from Pon?

Template for benchmarks interviews

- Can you tell us a little about yourself and what you are working with?
 - Main competitors?
- How **did** you work with pricing in your organization?
- How **do** you work with pricing in your organization?
 - Market-based, Value based?
 - How is your (pricing) organization organized? What/who influence the price?
 - How do you collect information about the market?
- What department is in charge of pricing?
 - How many full time employees? What kind of missions?
- How is your pricing process? (From OEM → Customer)
- What is the hardest when it comes to spare parts?
- How do you collect and analyse/handle input from the market?
 - How is the information “flow”
 - Is it a continuous work? If yes how does it work?
 - What departments are involved and what knowhow are required?
 - A lot of “second hand” information,
Like customer complaints and discounts, is it something you look at?
- How can the pricing process be updated and done continuously?
 - What resources are needed?
 - Does it set any demands on the organizational structure?
 -
- Do you work with any pricing software?
 - If yes, what parameters does it consider?
- What parameters influence your final price?
 - Cost
 - Market situation
 - Customer value
 - Discounts?
- How do you work with discounts?
- How do you work with segmentation?
- What differences a product/spare part? (Uniqueness etc.)

Template for Pricing Consultants / Experts interviews

- Can you tell us a little about yourself and what you are working with?
 - How do you profile your company?
 - What is your USP?
- Can you tell a bit more in detail about your software and what it takes into consideration?
 - Cost?
 - Competition
 - Customers
 - Discounts
 - How do you get paid?
- Do you also handle the implementation of the software?
 - Difficulties with the implementation?
- How much can you modify our models and system?
 - How is it for spare parts?
- Can you actively follow the price level on the aftermarket?
- What organization is needed to be able to follow the market?
 - Example of a company?
- What resources are needed for a successful pricing organization?
- What companies could be good for a benchmark?

Template for internal Interviews

- Can you tell us a little about yourself and what you are working with?
- Can you describe today's pricing organization?
 - How are involved?
 - How do you set prices today?
 - How do you work with discounts today?
 - What factor influences the price?
 - What problems are there with today's pricing?
 - Why do not you price in another way?/ With another strategy?
- Who are your main competitors?
- What role do you have on the market?
- What department should be involved in setting the prices? / Who should be responsible
 - What resources are needed?
 - How can you get market information and how should it be handled?

Appendix B

Internal Interviews

<u>Name</u>	<u>Position</u>	<u>Interview method</u>	<u>Date</u>
Nils Wiberg	Service Director	Face-to-face	2013-03-01
Jan Carlsson	Service Salesman	Telephone	2013-03-01
Magnus Palmqvist	Sales Manager Used Machines	Face-to-face	2013-03-06
Daniel Fischer	Financial Manager Controller	Face-to-face	2013-03-20
Lars Hemmingsson	Service Director	Telephone	2013-03-20
Thomas Smith	Vice President	Telephone	2013-03-21
Anders Lundberg	Finance Director Controller	Face-to-face	2013-03-25
Hans Nygren	Parts & Service Marketing Director	Face-to-face	2013-04-19
Robert Löfgren	Manager Parts & Logistic	Telephone	2013-05-07

External Interviews

<u>Name</u>	<u>Position (Company)</u>	<u>Interview method</u>	<u>Date</u>
Jakov Percia	Pricing Consultant (Navetti)	Face-to-face	2013-03-08
Karl Petersson	Vice President Services (Navetti)	Face-to-face	2013-03-08
Johan Östlin	Senior Pricing Consultant (Syncron)	Telephone	2013-03-15
Pieter Kruitbosch	Team manager Category Management Onderdelen & Applicatiebeheer (Pon Automotive)	Telephone	2013-03-15
Thomas Johnsson	Aftermarket Manager (Delvator)	Face-to-face	2013-03-18
Jimmy Jonsson	Price & Marketing aftermarket Manager (Swecon)	Face-to-face	2013-03-19
Anna Wigert	Sales Manager Service (Atlas Copco)	Telephone	2013-03-28
Sandra Ghattas Brundler	EAME Parts Revenue Management Supervisor (Caterpillar)	Telephone	2013-04-19
Sebastian Nielsen	Sales Representative (PROS)	Telephone	2013-05-08
Christoph von Tippelskirch	Supervisor Parts Price management (Zeppelin)	Telephone	2013-05-16

Customer Interviews*

<u>Name</u>	<u>Position (Company)</u>	<u>Interview method</u>	<u>Date</u>
Customer 1		Telephone	2013-03-21
Customer 2		Telephone	2013-03-21
Customer 3		Telephone	2013-03-27
Customer 4		Telephone	2013-03-27
Customer 5		Telephone	2013-04-02
Customer 6		Telephone	2013-04-02

*Customers name and company was promised to be kept anonymous.

Focus Group Participants

<u>Name</u>	<u>Position</u>	<u>Interview method</u>	<u>Date</u>
Hans Nygren	Parts & Service Marketing Director	Focus Group	2013-03-14
Niels Bouma	Parts Pricing Specialist	Focus Group	2013-03-14
Robert löfgren	Manager Parts & Logistic	Focus Group	2013-03-14
Sebastian Stenbäcken	Product Manager	Focus Group	2013-03-14
Thomas Gerlach	Regional Manager	Focus Group	2013-03-14

Appendix C

