



THE SWEDISH SCHOOL
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Price Strategy for Product Launch – from the Customer Value Perspective

A case study of Fristads

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Preface

I have always wondered how the price of a garment is defined. A cloth of similar quality, aesthetics, and sometimes same brand can be priced hugely differently. My curiosity makes me wanted to look deeper into the subject. Fristads is in the development stage of a new high visibility work wear, and pricing is one of their major issues to be considered prior to the product launch. This leads at then end to our collaboration of this research.

The process of writing the report has been difficult but at the same time very interesting and instructive. I would like to thank Stefan Dinér, Lars Lundblad, and Jan-Olof Andersson at Kwintet Frsitads AB for providing your company information and helping with the data collection at your dealers and end-customer. As well I want to thank the dealers and the end-customer who have taken part of the interview and been open with your opinions and sharing your experiences. At last but not at least I would like to thank my advisor Lisbeth Svengren Holm for her guidance and constructive feedback. Without all these people it would not be possible for me to complete the work that is front of you.

I hope you will find the insights of price strategy for product launch in the thesis inspiring and stimulating to read, and that it can help you to form new thoughts and ideas.

Gothenburg, 15th July 2011

Sandra Yin-Kwan Ko

Abstract

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- Author:** Sandra Yin-Kwan Ko
- Tutor:** Lisbeth Svengren Holm
- Background:** Fristads has noticed needs and necessity of high visibility work wear in the market, particular for the high risk working industries. In addition to it, new international standards for work wear will be introduced in year 2013 which may put higher requirements on visibility of the work wear. Fristads aims to be the first company to develop the new product and pricing is one of the major problems they encounter. After studying different relevant literatures, we have decided to approach the pricing problem using customer value based pricing as the starting-point.
- Purpose:** To identify and analyse the pricing with focus on customer values and product launch.
- Methodology:** My research methodology has a qualitative approach with a certain quantitative feature, and it follows the inductive reasoning. Uncontrolled studies of preferences and intentions have been used when three dealers and one end-customer were interviewed. Secondary sources have been reviewed and the critical pricing issues are identified. The primary data obtained from the interviews is made as foundation for the creation of the price strategy.
- Result:** The interviews have shown that the customers like Fristads' product idea and the design of the work wear with enhanced visibility. A probably accepted price on the new work wear has been defined according to the customer survey. Pricing strategies for the product launch focusing on the customer value have been recommended. The final decision on the price strategy shall however be made in concurrence with the other strategies at Fristads in order to cover all the aspects.
- Key words:** Pricing, price strategy, product launch, new product, price research, customer value based pricing, high visibility work wear

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1 INTRODUCTION

This chapter introduces the reader with a short presentation about the selected subject and its surrounding problematic. This leads to research questions, and purpose.

1.1 Background

Fristads is an industry leading company in work wear and it has been in the industry for a long time. The company has always been an innovator when it comes to the new material and function of the work wear. Their core value is quality, comfort, function, and design.

Fristads has noticed needs and necessity of high visibility work wear in the market. Safety among the workers in the high risk industry needs to be enhanced. The current reflective jacket is not visible enough for the workers who are exposed in high risk work environments as road construction, roof of the building, etc. Furthermore, new international standard from Transport Administration for work wear EN471 2003 high visibility and EN343 rain, will be introduced in year 2013 which may probably put a higher pressure on the employer to switch to a work wear with better visibility. As Fristads has always been the innovator in the industry, they are fast in developing the jacket with smart textile equipped with light emitting diodes. In their pre-study of the product development, Fristads has got some advice from the research institute of Smart Textiles in the University of Borås. Fristads aim to be the first company who provide a solution that overcome the visibility problem and meet the new regulations. The new work wear is planned to be distributed through the wholesalers in Sweden as soon as it is ready. The primary target market is Europe. The next step for Fristads is to manage producing the prototype for the A+A Work Wear Fair in October 2011. If everything goes well, the project will continue till product launch with serial production.

1.2 Problem Discussion

One of the major issues with the product launch of the new work wear for Fristads is the pricing. It is the first time the company has a product utilizing smart textile technique. They have no know-how in how to make the new function work, what material to be used, and who will be the suppliers responsible for the new function. This makes the cost of producing the

new jacket uncertain. In addition, only one single product will be launched at this time, which is unusual at Fristads. Normally the firm launch a line covering several items. They can then use the product-line pricing for the items and use the reference price to influence the customer. There are several open issues that need to be solved before Fristads can be 100% sure that the project is feasible. One of the problems is to find out the breakeven point where the total incomes cover the total costs or make the target profit. Without the knowledge of the probable fixed cost, variable cost, and expected unit demand at a given price, Fristads cannot calculate the unit demand needed to breakeven. Further, Fristads would like to know how to convince the customer in investing the new work wear with superior visibility quality but requires a higher price. They are unsure how the potential customers deliberate the expected product quality and the perceived benefit. Fristads find it difficult to set the preliminary price using their normal practice for the new product, since the high visibility work wear is a novelty that still does not exist in the market and few relevant data available, e.g. competitor benchmarking. Fristads is lack of reference in calculating the costs in manufacturing and selling the new work wear. They are unsure how the competitors will act when the new work wear is introduced to the market and how this will affect the price, even though Fristad knows from their experience that it probably will take a couple of years before the competitors are able to introduce a similar product into the market. Fristads suspects that the potential customers will be doubtful about the advantages, life time, and authenticity of the product. Particular when LCD technology will be applied to the new jacket, which the customers are not familiar with. Fristads is also wondering what the customers' willing-to-pay will be. They need to find out who are the real target segments and define what type of benefits the customers will actually get from the new jacket with blinkers. Furthermore, Fristads would like to know if the new work wear can raise the company publicity and if it can become as a 'concept product' that improve the brand image and brand awareness. Fristads may consider launching the new product even though the sales volume does not reach the level as they have wished, if the jacket with blinkers can attract considerable attention from the market.

After studying different relevant literatures, I have found three fundamentally different starting-points of all pricing decisions. They are Cost Based Pricing, Competitor Based Pricing, and Customer Value Based Pricing. Customer Value Based Pricing, i.e. pricing based on the value the product has for the buyer. Besides Customer Value Based Pricing is most complicated and interesting from my point of view, Fristads does not have sufficient support data at this stage that enable me to deepen into Cost Based Pricing or Competitor Based

Pricing. I have therefore together with Fristads decided the focus on my studies should be Customer Value Based Pricing. Fristads' problem will then be analysed from this starting-point.

1.3 Research Questions and Purpose of the Thesis

From the above described Background and Problem Discussion, I have come to the following research questions: Pricing and Customer Value Based Pricing in general and the problems related to it; How do the customers deliberate; what is 'value' for the customers, which are the crucial factors, and how these affect the Total Customer Value; What strategies to be applied for pricing over the start of the product life cycle.

The purpose of the studies is to identify and analyse the critical issues in pricing with central point in the customer values that are of importance for the success of a product launch. At the end, pricing strategy for the new high visibility work wear will be formulated based on the research results.

2 RESEARCH METHODOLOGY

The journey towards a completed study and its report consists of several processes. In this chapter, the reader can find what method has been selected and the rationale behind. Further, the choice of research unit and data collecting method is discussed. In the end there are my reflections over the quality of the research.

2.1 Selection of method

Procedures for estimating price sensitivity and willing-to-pay differ on two major dimensions: the conditions of measurement and the variable being measured (Nagle, 2006). I have made uncontrolled measurements, i.e. measure what people actually do, or say they would do in a situation not of my making. I will collect the data on a consumer purchase of a certain product but the price and other variables that influence the purchase decision are beyond my control. A preference-intention study was selected as the dependent variable for estimating purchase preferences and intentions since I would like to measure the intended choices that people claim they would make in a hypothetical purchase situation, i.e. purchase a new product that still not exist. The main advantages to the preference-intention study compared to the actual purchases one that measure behaviour are that it was less costly and less time-consuming. I selected this method because the data could even be collected before a product was designed, when the information was most valuable in directing product development (Nagle, 2006). There is other technique used to measure price sensitivity that Fristads can utilize e.g. experimentally controlled research as Laboratory purchase experiments, and Trade-off (conjoint) analysis. Generally, these researches produce more accurate estimates of the effects of the controlled variables on price sensitivity, but it is often costly to implement (Nagle 2006). Regardless of the technique used to measure, it is important that Fristads not allow the estimate to become a substitute for managerial judgement. They should be compared with Fristads' management own expectations, based on their more general knowledge of buyers and their purchase motivations.

Depth interview and Buy-response survey are two of the most common research techniques for Uncontrolled Studies of Preferences and Intentions which I applied in my work.

2.1.1 Selection of Research Method

In this study, I chose depth interviews that start principally from a qualitative approach, i.e. it focuses on the reasons why people are behaving in a certain way and why they are making certain decisions. My work was conducted as a case study where the concentration is solely on the new work wear and at the same company, Fristads. Information obtained is most for understanding than statistics. The purpose of the study is in addition to describe how the relationship is now and I want to come up with suggestions on how to formulate a pricing strategy for company's future work wear with smart textile equipped with light emitting diodes.

I have interviewed three distributors to Fristads as well as an end-customer company. The aim was to collect the customer's opinions, and to understand which and how the product attributes are valuable for the respondents. I tried to translate their demands into values and thereby to find out how these values can convert into customer's willingness-to-pay in obtaining a new product. My intention is to understand the critical issues in pricing e.g. how the customers could gain revenues or reduce costs by using the new work wear and how the interviewees might value the new product. The depth interviews enable me to probe customer needs, customer experiences, how they attempt to deal with the problems, how Fristads' products could solve these problems, and the value to the customer of the consequent savings or gain they would realize from using the new products (Nagle, 2006).

This thesis' overall methodology follows the inductive reasoning, when there is no complete theory but is based on empirical facts. Induction is appropriate in this case to create theories which there are not yet any clear links between theory and empiricism (Bjereld et al., 2002). I have the opportunity to go into depth, the respondent had the opportunity to present their interpretations and opinions, and thereby I discovered the facts other than those for which I have been specifically looking (Nagle, 2006). I use the interview guide as a support and follow-up questions are asked when it is needed to clear up the difficult subject.

My study also have a quantitative element, i.e. the issue that is examined is measurable and answers questions as how much and how many. I have chosen to use Gabor Granger method in the Buy-Response Surveys to find out how price sensitive the Fristads' customers are and what the price zone is for these customers.

Gabor-Granger method is a monadic analysis method, i.e. the price is used as the only parameter without comparison of competitors' products. (Schäder, 2006) The method measures the probabilities a customer will make a purchase. It means that a number of different prices of a product are studied, rather than one price. The method is suitable when a company consider a new pricing for a product that already exist in the market or it can be used when we need to decide which of the possible prices are optimal for a new product. (Schäder, 2006) The price alternatives are decided in advance. During the interview, the customer makes a decision on the price one at the time. Customers are asked to say if they would buy a product at a particular price. The price is changed and respondents again say if they would buy or not. [2] The goal is to determine probability for purchase at every price, or likely number of units the customer would buy. From the results the researcher can work out what the optimum price is for each individual. By consolidating the answers from a selection of the customers, the optimum price range for the product can be established.

In my study I have defined the price alternatives according to the price level Fristads have estimated for the new work clothes. I began the Gabor Granger analysis by asking the interviewees the lowest estimated price from Fristads (i.e. a unit price that was +30% above a similar jacket without blinkers) and upwards. For those respondents who did not answer they would definitely buy (i.e. probability to buy with grade 10) at +30% of current similar jacket without blinkers, I asked them the same question later but this time go downwards with the price until I got an answer on a price with probability grade 10 or we reach the minimum price increase alternative (i.e. +10%). Since I have only completed the study in a small scale, it should not be considered as an end result but a catalyst to learn more about Fristads' customers.

Compared to directly asking consumers what they would pay, giving them a preselected price yields answers that are plausible. It generates better responses simply because it is structured more like an actual purchase decision and the customer has no opportunity to bargain with the researcher (Nagle, 2006). According to Schäder (2006) the respondent could have underestimated the price of the new products. It could have been because they perhaps wanted a lower price, or that they actually overvalued the price of the product. Another problem was that the method is used only with regard to the product isolated from other products, which was wrong compared to reality where the customers would have more choices. (Schäder, 2006)

2.2 Selection

In primary data collection, there must be an election about the target population to be investigated and then which of those will participate in the survey. It is often too expensive and time consuming to examine the entire target population, so a selection must be done. Of the studied group, the researchers make then the conclusions that can represent the entire target population. In my case, the respondents were not selected at random when the respondents' knowledge is important for the investigation. The result may therefore be distorted. Size of the sample is determined by how much time I have at my disposal. A quest is to get a selection as representative as possible to study.

2.2.1 Selection of Research Units and Respondents

Fristads chose three of their most important distributors for the investigation. The distributors should in turn select one of their major customers to be interviewed. The interviewed companies should be able to correctly represent the market for the new work wear, e.g. from a high risk working industry or an industry that has large possibility to use the new work wear. The interviewees were the decision maker in purchasing, or the potential end-user of the new work wear. I felt it was important to make use of respondents who reasonably could be assumed to have correct knowledge about the phenomenon I examined. The purchasing manager in the customer company is responsible for decisions regarding the purchase of work wear and has deep knowledge in the area. The workers are the final users of the products and their opinions about the product may affect the purchaser's perception and attitude towards Fristads' products. The end-user has other view on value and has insights that the purchaser does not know. Further, the end-user might have a great impact of the purchase decision, not only via their inputs to the purchaser but also with their collective say to the buying company. The creation of the pricing strategy should take these aspects into consideration as well.

Based on these criteria the following interviewees are selected:

Dealer: Johan Skoglund AB

Fredrik Gustafsson General Business Responsible (incl. purchasing) at Johan Skoglund AB

Dealer: Toplux

Jesper Rosengren Purchaser at Toplux

Dealer: Borås Yrkeskläder AB and their end-customer **Borås Energi och Miljö**

Per Kjellin President at Borås Yrkeskläder

Bjarne Gustavsson Team Leader at Borås Energi och Miljö

Lars-Olof Dahlqvist Worker at Borås Energi och Miljö

2.3 Data Collection Method

In order to be able to answer the research question and the purpose of the thesis, the data was collected and refined. I have mainly used the secondary data to identify the critical issues in pricing at product launch. The primary data was used in analysing and formulating the pricing strategy. The primary data was acquired from the interviews with the dealers and the end customer company.

2.3.1 Primary Data

Primary data is the data that is developed during the project, known as primary reporting (Bell, 2000). Data is collected specifically for study purposes and has not been previously documented (Jacobsen, 2002).

The study's primary data is based on personal interviews. They are appropriate when relatively few units are examined and when the interest is on what the individual thinks and how the individual interprets different phenomenon. My questions are semi structured, and the sequencing of the questions has certain significance. The interview guide is used so that no significant information was left out. The discussion was of an open character so that the respondent would feel comfortable. In addition to the interview guide, the follow-up questions and deepening of the questions were asked depending on the answer from the respondent, which could have influenced the respondent to a specific direction (Jacobsen, 2002). Interview questions were designed based on my research focus and the theoretical frame so that as many areas of work as possible could be covered. I tried not to use the research word directly in the question, and also to apply method as "evoked anchoring", e.g. to elicit responses from the customers that infers value rather than asking about value directly (Nagle, 2006).

I had to consider the time aspect as well. It was hard to make an appointment at the end customer companies where both the purchasing responsible and the user could be interviewed.

The task was hard when the contact with the customer companies was through by the dealers. Finally I managed to have one end customer company and three dealers to take part of the study. Before the interviews, the general information of the current company had been collected from the company internet website, in order to get a better picture of their business.

The interview started with a presentation of myself and my mission. We had an open conversation to establish a trustworthy collaboration with the interviewees. Then I explained the new work wear for the interviewee by showing Fristads' drawing, and asked the questions as in the interview guide (see the appendix). I chose not to make any recordings of the interviews, mainly due to the probability that the presence of a record player would have affected the outcome of the interviews. In this way I managed to keep a relaxed and open conversation. During the interviews, the answers given by interviewees were noted as literally as possible. The control questions were asked and I repeated the answer from the interviewee when it was needed to avoid the risk of misunderstanding. The empirical data was supplemented and written out fair immediately after the interviews, when the impressions and memory from the meeting still were fresh.

2.3.2 Secondary Data

The secondary data means that an interpretation is made of existing data, as other researchers have already reached (Bell, 2000). Secondary data allows significant time and energy to be saved, and the information is important to illuminate the approach of the problem in the report. I have collected secondary data mainly from reading nonfictions and course books on pricing, customer value, and new product launching. My starting point in the selection of sources was to get knowledge of the subject as comprehensive as possible and get the different authors' view on the topic. Some facts and figures were also collected from the companies' website.

2.4 Research Quality

It is obvious that researchers carefully examine what they claim to investigate. The requirements apply are not only accuracy and precision, but also awareness (Bjereld et al., 2002). The concept of validity and reliability in qualitative studies means that the entire process must be permeated by it, not just the very data collection.

2.4.1 Validity

The validity means that the empirical data must be valid and relevant, i.e. the intended purpose of the examination really is explored. I start my research from problems Fristads really meet at the launch of the new work clothes and in the way I made myself an opportunity to explore what I wanted to research. Also, I put my questions to the appropriate groups of respondents with the most expertise in this area maximize the relevance and validity. I also found my validity was high because the companies were in favour of the interviews and are willing to share insights and data that will help Fristads serve them better. The factor that primarily determines the validity of the study is the interaction between interviewer and respondent (Svenning, 1997). The interview guide used was based on my theory and my purpose, and it had been reviewed by my tutor at the university. This was done to clarify that the questions were met what we wanted to measure and that they were clear. Generalization to a population will not be as high. I believe in raising the quality of the methodology and the empirical material by making a case study based on interviews in a limited number of companies, rather than testing my theories on many companies. Often it is the qualitative studies easier to achieve a high validity of the information because it is closer to what is being studied. For this reason I have chosen to only draw conclusions based on the selected case companies and not for all customers in general.

2.4.2 Reliability

Reliability means that the empirical evidence must be reliable and trustworthy, i.e. the research must be implemented in a credible and reliable manner (Jacobsen, 2002). It's about to what extent the same results can be obtained by the research when it is repeated. In my case with open individual interviews, there was a risk that the answers could be different if the interview would be repeated. Temporary factors such as stress and fatigue could also occur and thus influenced the outcome.

To obtain high reliability, I used the interview guide as a support. The interview questions were formulated as simple as possible to avoid misunderstandings and confusion. In addition, I have hand out a hard copy of the interview guide to the respondents at the beginning of the interview to make sure they could easily follow the interview and understand the questions correctly. In order to make sure the interviewees had answered honestly and correctly, and also that relevant empirical data had not been lost, I had re-checked certain questions later during the interview process and conducted control questions towards the interviewed

persons. The choice of theory influenced the result of the survey, i.e. the empirical data that was collected, when the interview guide is based on the theory. I had therefore studied the works on the topic from a large number of authors to find the most reliable research.

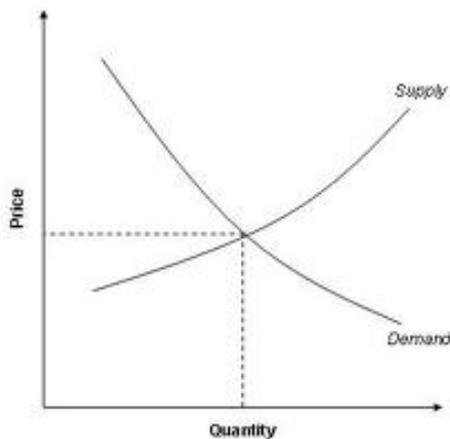
However, the result of the interview may have been different if the respondents have the chance to see and/or to try on the new product in real sample than just giving their opinions based on the drawing by Fristads.

3 THE THEORETICAL REFERENCE FRAMEWORK

In this chapter an overview of different theories from the existing research introduces the reader to what I consider as foundation and support for the areas that have been investigated. I start with a more general presentation of theories in pricing and new product, which follow with a description of customer values, customer conceptions, and parameters in pricing strategies.

3.1 The market and demand

Pricing decisions are affected by external factors such as the nature of the market and demand, competition and other environmental elements. Whereas costs set the lower limit of prices, the market and demand set the upper limit. The relation between the price charged and the resulting demand level is shown in the demand and supply curve in fig 1. In theory the demand and supply curves strive to reach balance in relation to each other. The balance is expressed as economic equilibrium of price and quantity, i.e. the customers demand as much as the producing company supply (Schäder, 2006).



Figur 1 The price of a product is determined by balance between production at each price (supply) and the desires of those with purchasing power at each price (demand). Source: annapolispolitics.blogspot.com

In the normal case, the demand and price are inversely related: i.e. the higher the price, the lower the demand. Thus, the company should sell less if its price is raised. In the case of prestige goods, the demand curve sometimes slopes upward. (Kotler, 2005) Customers think

the higher prices mean more quality. However, even for prestige products, if the price is too high, demand will reduce. In measuring the price-demand relationship, we assume that competitors' prices remain constant and that there are no other factors affecting demand to vary.

We have also to know the price elasticity - how responsive demand will be to a change of price. Kotler (2005) define the price elasticity of demand as: The price elasticity of demand = % change in quantity demanded / % change in price. If demand hardly changes with a small change in price, we say the demand is inelastic (i.e. price elasticity of demand is larger than -1). If demand changes greatly, we say the demand is elastic (i.e. price elasticity of demand is less than -1). If the elasticity is neutral (i.e. price elasticity of demand is -1), the seller's total revenue stays the same: i.e. the seller sells fewer items, but at a higher price that preserves the same total revenue. The less elastic the demand, the more it pays for the seller to raise the price. According to Kotler (2005), the price elasticity of demand depends on several factors. Buyers are less price sensitive when the product they are buying is unique or when it is high in quality, prestige or exclusiveness. They are also less price sensitive when substitute products are hard to find and when they cannot easily compare the quality of substitutes. Finally, buyers are less price sensitive when the total expenditure for a product is low relative to their income or when another party shares the cost. If demand is elastic rather than inelastic, seller will consider lowering their price to reach a greater sale quantity and produce more total revenue, as long as the extra costs related to a higher sale volume do not exceed the extra revenue.

Products in the consumer market are extensively influenced by the Meta value of the products. We can use the balance model as a thought model to study the requested price from the suppliers relate to the buyer's valuation of the product benefit (Schäder, 2006). The balance model consists of the producer's product (the offering product) and the customer's product (the valued product). The model handles the relationships between the supplier requested prices (based on possible areas for differentiation: image, distribution, function, communication concept, design) i.e. supplier judgement on what the offer can be worth for the customer, and the customer valuation of the benefit (that has been positioned in the customer consciousness e.g. social identity, buying relationships, availability, desire, utility) the offer can bring. The balance model can show a supplier's capability to create differences to the competitors by developing valuable differences in the company's product. The thought

model creates incitement for a brand's differentiation and positioning, and also possibilities for a company to adjust prices both upwards and downwards.

Depending on the perceived product quality (PPQ), companies can determine where in the possible price range they should be in the demand curve. If a company have a high PPQ relative to its competitors, it can select to be in the left end of the possible price range in the demand curve, otherwise not. With a low PPQ, the company can select to be in the right end. The firm aims on larger sales volume but sell with a lower price. The result can be adjusted in view of the meta value M, i.e. the firm's general professionalism of the market. (Schäder, 2006)

Pricing is also about lot of psychology on how the firm look at itself and its products or services. Most of us associate low prices with low quality, but there are many who associate the low price to low value. Or in other words, we put a higher value on the product or service the more expensive it is. (Österåker, 2010)

3.2 Pricing Strategy and General Pricing Approaches

The purpose of a pricing strategy is to describe the choice a company intends to make to reach their long-term goals set for the company prices. Pricing strategy is about proactively managing customer behaviour rather than simply adapting to it (Nagle, 2006). With a pricing strategy it enables the company to judge where in price- and quality relationship they aim to position themselves. The pricing strategy cannot work without connection to the other strategies in the company. In the same way, the other strategies in a company cannot work well without a thought-out pricing strategy (Schäder, 2006). The quality the customers perceived is highly influenced by Fristads' all competitive strategies, not only of the company's pricing strategy.

The price is important and pricing decisions are crucial in order to succeed at Fristads' product launch. Price is one of the most important variables in the marketing mix. The price is usually very visible, and the price may be a signal that indicates a certain quality level, and can therefore influence Fristads' image showing to the world. The one who takes the 'right' price may receive more respect if you look at the entire customer base. (Lundén, 2008) The price is in many contexts, a weapon in the competition (Gustafsson, 1998). From a customer

perspective, with the price the customer feel that he can afford to buy the product. The price is to be perceived as fair and equitable, the customer should not feel that he is fooled and can find similar product cheaper somewhere else. A high price gives the buyer a higher status and creates an image.

Fristads needs to have a long-term plan and a pricing strategy specifies how they intend to choose the way to achieve the long term objectives that was set for the company's prices. What strategy should Fristads choose? Does Fristad want to sell cheap or expensive? We can also consider instead whether Fristads want to have many customers and few customers, if the profits are equal. We can see that there are three currencies Fristads can get paid in. The first is money, the second is the status or improved quality of work, and the third is competence (advantages in efficiency, if we can learn a lot, receive large attantion). (Hanan, 1996; Österåker, 2010)

A pricing strategy is all about price choices, such as if you want to change, no change or strengthen the current market. A crucial factor in pricing is the relationship between the expected product quality and the perceived benefit from the customer of this quality. This relationship is expressed in the value - price. It is highly relevant to know the value of the connection in order to determine price - and quality relationship. A price that meets the customer's expectation will also allow to the company's performance requirements. There is a reason to study the **Price Triad** (see fig 2) and the importance of the relationships.



Figur 2 Cost, price, and quality (The Price Triad). Source: Schäder (2006), p.62

The connection between the price and the expected quality is also the entrance to thoughts about the price segmentation. Low price, middle price, and high price are the three simplified most common price segments. The high price segment embraces seldom large volumes but the company work in this segment has often very good margins. In the high price segment there are strongly value-based products and normally niche products with a limited target group. Trend products can often be found in this segment. However, high or low price is somehow relative to a specific market or in a certain industry. A segment can only be compared with other markets as far as it concerns pure substitute goods.

The position a product has is supported by the objective features at the products as much as the position can be subjectively supported by image and market communication. The image is influenced in principle by four factors (Schäder, 2006): customer expectations; result; what the firm does; and how the firm behaves. The selling company has a certain control on the result and customer expectations. However, the customer expectation is influenced by how the other players act in the market. There is reason to find out how the customers' expectations look like before starting a serious price discussion. What the firm does is represented as the qualitative part that the product industry has focused on for a long time. It turns out as service feature and competence is getting larger importance. On these areas it is easier for the company to develop the superiority itself, since the customer pay for what they think they will get, i.e. relate to the imaged product's expected quality. The selling company can also make the customers' own cost more efficient through the investigation of the product features. The discussion with the customer becomes no longer a price discussion but a cost discussion out of the customer point of view.

Companies set prices by selecting a general pricing approach that includes one or more of these three sets of factors – costs, competitors' price, and customer perception. We can therefore define three fundamentally different approaches for the pricing decisions: cost based approach; competition-based approach; and the buyer-based approach.

We sometimes talk about a number of options regarding the pricing. Two common such alternatives for Customer Value Based Pricing are market penetration respective market skimming, which can be used in Fristads' pricing strategy. These two policies of pricing can be treated as tactical tool and is applicable when companies bring out an innovative product

face the challenge of setting prices for the first time. More discussions about them can be found in chapter 3.5.

Both theoretical and practical information on pricing's logic is sparingly documented. In connection with the pricing issues, people tend to act against their own past experiences and practices within the company. As a result, their own behaviour is strengthened rather than to explore alternative ways to get around, which Frisvad may overlook the hidden possibility.

3.2.1 Cost-based pricing

Cost-based pricing starts from the selling company and its costs, i.e. focus on strengths and weaknesses of their own company. The simplest pricing method in cost-based pricing is cost-plus pricing - adding a standard mark-up to the cost of the product. This method ignores demand and competitors' prices and is not likely to lead to the best price. Mark-up pricing works only if that price actually brings in the expected level of sales, and that the firm's costs are not too high compared to competitors' costs (Kotler, 2005). Still, mark-up pricing remains popular for a number of reasons. The sellers are more certain about costs than about demand; sellers simplify pricing, and when all firms in the industry use this pricing method, prices tend to be similar and price competition is thus minimised; many people feel that cost-plus pricing is fairer to both buyers and sellers.

Another cost-oriented pricing approach is break-even pricing. The firm tries to determine the price at which it will break even on the costs of making and marketing a product; or make the target profit it is seeking. The breakeven analysis is a way to discover at what point the change in sales becomes large enough to make a price reduction profitable, or a price increase unprofitable (Nagle, 2006). However, how the market will really react on the estimated relationship between volume and price depends much on the price elasticity and competitors' prices.

3.2.2 Competition-based pricing

Customers will base their judgements of a product's value on the price that competitors charge for similar products. Companies applying competitor-based pricing concentrate their pricing strategy on other players' strengths and weaknesses rather than on their own costs or demand. The risks with competition-based pricing are highest at an oligopoly market where the only obvious

difference among the players in this market is the price. The result can be shrinking gross margins for all players in the market (Schäder, 2006).

Going-rate pricing is one of the forms of competition-based-pricing. In going-rate pricing, the firm bases its price largely on competitors' prices. The smaller firms follow the leader and change their price when the market leader's prices change. Some firms may change a bit more or less, but they hold the amount of difference constant. Go-rate pricing is quite popular when demand elasticity is hard to measure, firms feel that the going price represents the collective wisdom of the industry concerning the price that will yield a fair return and it will prevent harmful price wars (Kotler, 2005). Another form of competition-based-pricing is sealed-bid pricing that a firm bases its price on how it thinks competitors will price. There are different kinds of price bidding that are sealed-bid pricing.

3.2.3 Customer value-based pricing

Customer-value based pricing is product driven and the price is based on the product's perceived value. The selling company is setting price directed on customers' strengths and weaknesses. The target value and price drive decisions about product design and what costs can be incurred. As a result, pricing begins with analysing consumer needs and value perceptions and a price is set to match consumers' perceived value. Price is considered along with the other marketing-mix variable before the marketing programme is set, and marketing has the role to convince buyers that the product's value at that price justifies its purchase.

A company using perceived-value pricing must find out what value buyers assign to different competitive offers. Measuring perceived value can be difficult, but if the seller charges more than the buyers' perceived value, the company's sales will suffer. The pricing challenge is to find ways to maintain the company's pricing power i.e. maintain or even raise prices without losing market share. To retain pricing power, a firm must retain or build the value of its marketing offer. In such cases, adopt value-added strategies is preferred than cutting prices.

In general, both buyer and seller gain on a successful Customer Value Based pricing. To approach the pricing problem and to have a better understanding of the customer parameters, my research is to find out the customers values and what are the most important factors in their purchase decisions. I aim to find out how the customer evaluate price vs. quality. Since it is Fristads that has to adjust their production costs if they want to sell with preserved gross

margins, the Customer Value Based Pricing leads as well to improvements in Fristads' own expenses. (Schäder, 2006) Fristads can use the insights from my research in the selling discussions to influence the customer in a better way.

3.2.4 Price and Value Communication

When marketing surveys and sales representatives ask customers how much they are willing to pay for a product, they assume that customers know the value of what they buy. The reality is that customers generally do not know the true value delivered by items they buy unless the seller informs them. That leaves the most differentiated and highest quality supplier vulnerable to competitors who offer a lower-price alternative possessing only those value components the customer recognizes. Value communication - involving advertising, personal sales, trial offers, endorsements, guarantees and other tools supporting the seller's promises - raises the buyer's willingness to pay. Communicating price, i.e. how the price is presented to and perceived by customers, is also critical to raise the customer's willingness to pay. The less experience a customer has in a market, the more innovative a product's benefits and the more separated the purchaser is from the actual user, the more likely it is that customers will not recognize nor fully appreciate the value of product or service. Value communication is effective only when customers see the price as economically important for getting "a good deal" or "the most for my money". It is usually possible and cost-effective to influence customers' willing to pay with a systematic value communication strategy (Nagle, 2006). Two factors determine how Fristads should try to influence buyer perceptions of their value and price: the target customer's *relative cost of search* for information about the differentiating attributes of the offering, and the *type of benefits* sought - economic or psychological. The relative cost is less when the customer can easily determine product differences before purchase. Type of benefits sought is divided into measurable economic benefits such as profit that can directly translate into quantified value difference among competing brands; and psychological benefits that do not translate objectively into economic value but depend on each buyer's subjective assessment of value.

Nagle (2006) has defined different generic value communication strategies determined by the relative cost of search for the market segment we want to influence and the type of differentiating benefits, economic or psychological the company's offering delivers. When it is relatively easy to judge differences in brands prior to purchase, and the benefits that buyers seek are primarily economic, the most effective value communication can be standardized

and delivered via media advertising and sales collateral materials. When customers cannot directly evaluate a brand's performance, they will respond positively to narrative, experiential, or anecdotal information. Such communications familiarize buyers with the benefits and then reassure them indirectly that a product or service probably delivers differential value that more than justifies its price premium. The most difficult challenge occurs when the benefits are psychological and the differences among the brands are difficult for customers to ascertain. Buyers tend to rely heavily on even small amounts of direct experience (trial), on endorsements from people with whom they can personally identify, and on their prior experience with a brand or brand name. When psychological benefits motivate customers, the communication strategy should stress the subjective benefits justifies pricing. Known brands have a large competitive advantage. These companies usually have products with strong Meta value and their total customer perceived product quality is higher than the competitors' products. A brand leader's advantage lies in its reputation and customers' satisfactory prior experience with the brand. To select among the value communication strategies, consider two additional factors: the target segments, and the features that differentiate the product or service. We may need to communicate both economic and psychological benefits for the same product to the same customers.

People do not necessarily evaluate prices logically after all. Customer can perceive the same price paid in return for the same value differently depending on how it is communicated. Buyers tend to evaluate price differences proportionally (on the percentage) rather the absolute difference. Psychologists call the tendency to evaluate price differences proportionately the Weber-Fechner effect (Nagle, 2006). The transaction utility also motivates buyers. That is the difference between the price actually paid and what the buyer considers a reasonable or fair reference price for the product. The implication of product-line pricing is clear. Other studies have found that providing buyers with suggested reference point enhances perception of value and savings, even if the advertised reference point is exaggerated. The order of presentation evidently influences customers' reference prices. When forming their reference prices, buyers apparently give greater weight to the prices they see first. (Nagle, 2006). The concept of a "fair price" has bedeviled marketers for centuries. Buyers start by comparing what they think is the seller's likely margin now to what the seller earned in the past, or to what others earn in similar purchase. A seller justifying a higher price with a "good" motive (e.g. improving service levels) makes the price more acceptable than does a "bad" motive (e.g. exploiting a market shortage to increase stockholder profits).

Perceptions of fairness seem to be related to whether the price is paid to maintain a standard of living, or it paid to improve a standard of living. A final consideration in price communication is presenting the price to customers, who tend to evaluate prices in term of gains or losses from an expected price point. People place more psychological importance on avoiding “losses” than on capturing equal size “gain”.

3.3 Pricing of New Products

Setting prices right on established products is difficult. Even more difficult is to choose the right price for new products to be launched in the market. The price is the traditional and most obvious competitive weapon, especially when it comes to typical goods with little difference in quality and service. For new products there is not a generally accepted level of price and pricing has to make it possible to achieve the volume targets and profit targets on short-and long-term as it has been set. What pricing strategy a company want to have is the same as what signals they want to give the customer (Österåker, 2010).

According to Black & Decker's philosophy, costs of producing a new product depends as much as on the price we set, as the price is depend on the costs'. What mainly distinguishes pricing decisions for an established and for a new product is the comparatively large uncertainty: It is about to find the factors that is most important for the very case. The uncertainties can due to lack of practical experience of the costs to manufacture and sell the product, how competitors will react (or perhaps first to identify who the real competitors are); potential customers are uncertain about the benefits, durability and reliability with the new product, it is often unclear what adjustments are required by the customer to take advantage of the product benefits. We need to understand the value for the customers and how they perceive the new product. The uncertainty in the key factors of the pricing increases the greater the product's novelty grade is. If our new product competes with other types of solutions, we can assume the prices from these solutions - but this implies a more uncertain situation. (Ekelund, 1981)

Companies need to keep the pace going when product lifecycles are becoming shorter in an expanding market and product development is vital. Product development is controlled by a vision or an intuitive feeling for both market- and technology development with a focus on core product characteristics, such as performance, design, ergonomics, durability and environmental impact. (Gustafsson, 1998; Ahrens, 2005) The term new product is not

unequivocal but a question on the level of grade. Fristads consider their new work wear as a total novelty in the market, but their customers may have another point of view. A product that is produced and sold from a company the first time is new, whether other companies already selling similar products. Although the company is first to launch the product, it solves in the most cases the problems already existing products solve, but perhaps in a different way. Finally, there are companies that are first with a product that solves a problem that no product has previously solved. Even when a new product provides a completely new benefit, it may not be an innovation from the standpoint of buyers. Customers may have been outside the market, did not have the current need, have missed the knowledge of this product as one among the alternatives. (Ekelund, 1981) Not having a single competitor, moreover, is not any thing a company strives for. It can in the worst case mean that one offers something that nobody wants to buy (Österåker, 2010). For being first on the market has many potential advantages in addition to price leadership also be able to choose the most profitable segments, ability to set standards, take part of the experiences from the leading users, get greater likelihood of brand loyalty, higher degree of attention, and positive image as an innovative company. Potential drawbacks of pioneers, however, is the higher development costs and charges imposed on the creation of market, immature technology, the possibility that new products fail, and can create a market for competitors. (Gustafsson, 1998) Anyone who knows of the change quickly and with luck or skill to do it in the country that comes first in the chain is an important factor in creating long-term growth for the company. Some industries are ahead of other industries in their demands on suppliers. By consciously choosing large, demanding customers who are one step ahead of their colleagues extended its lead further in these countries or industries. By engaging demanding customers in product development or by testing products at the "early adopter" on the consumer market, the product can be well tested before its competitors had time to realize that there is a potential volume market. To continue to copy and borrow ideas from other industries is important for keeping up with the race. Ironically, it is the research-oriented firms that usually do not manage to keep up with the loop. (Ahrens, 2005)

According to Ekelund et al. (1981) the pricing strategy is often one of the most critical decisions for the new product's profitability and success, and thus a successful business strategy. Pricing decisions should be based on the following key factors:

- **The value for customers:** *The basis for pricing should be a judgement of the real profits that bring a potential customer. This judgement must be practical and not purely based on theoretical calculations.*
- **How customers perceive the product:** *The extent to which customers realize the benefits of the new product gives them, i.e. can the customer see where and how the product can get into their own operations? How can the pricing object to be defined so that the customer can best understand and calculate with this gain?*
- **Goal picture:** What is the goal with the launch? Is the intention to establish a new business area or to retain a leading edge within an existing product?
- **Competition:** Who are they? How will they act and how their behaviour is affected by different pricing strategies?
- **The cost picture:** What are the pricing decisions relevant to the costs? How are costs affected through learning effects by increasing cumulative volume?

Often there is one or two critical factors for the decision and they should be analyzed more carefully. Detailed information about all factors and their contents and importance help to reduce the uncertainty in the pricing decision. (Schäder, 2006) As the focus of my study is on the Customer Value Based Pricing, I will therefore go deeper into customer benefits that are built by the factors "the value for the customer" and "how customers perceive the product".

3.3.1 The Value for the Customers

Prerequisite for a new product can be sold profitably at all is that they have a value for the potential customers. The basic idea behind a pricing based on the customer is that the potential customers consider the result of a product gives them against the costs causing them. When revenue exceeds expenses, this leaves a profit. It is with this win as a starting point that the price should be set. The price the different customers are willing to pay varies, partly because a single product generates different gain for different customers, partly the customers have different demands for return of the product. We must understand the customer's perception of the product's benefits and other costs to him than the price. Those individuals who decide to purchase is motivated by many factors other than purely economic, such as technically exciting solutions, personal benefits, etc. It is mainly all the six different insights we should have with us when we find out the value of a new product, and the value of it in the present and in the future. (Ekelund s.10):

1. Who are the potential customers?
2. What are the problems our product solves for the potential customers? Which are the benefits/advantages? How is the company in relation to expectations and the market overall?

3. What is the total situation of use and the total costs at the customer that the product/problem is associated with?
4. Starting point is the customer perception, not any objective evaluating.
5. What is the alternative value of savings for customers due to the new product? Can such savings free up and be used for other purposes?
6. What benefits does our product give to the customers' customer?

Concerning point 1 above, we should perhaps find out how many in a target group that is willing to buy a product at every possible price level. (Schäder, 2006)

In point 2, we study the nature of the problems, how they relate to other customer issues, how important they are, how to solve these problems today and how much money we spend on solving them. Thus, we find out which is the most important criteria for customers when making buying decision. We will not analyze the product's value relative to the competing solutions concerning the product features but in terms of performance benefits from the customer's point of view and thus avoids the risk of defining competition for the new product incorrectly. (Ekelund, 1981) Identifying the customer value requires good knowledge of the competitors' actions, the customers' values and behaviour as well as feedback from the market on their own company's activities. (Schäder, 2006)

Mapping of the total usage situation as mentioned in point 3 shall not only apply on technical factors but also the organizational and the legal ones. A product's benefits are often more complex than what the seller perceives. The customer's cost base is extensive and may include acquisition costs, cost of the risk if the application fails at the customer, such as the personal risk that the purchasing decision is wrong, etc. (Ekelund, 1981) The pricing will be based on what the customers are willing to accept, and it is the supplier that shall adapt to and manage the cost structure internally.

A customer's decision to buy a new product is a process that involves perceptions and attitudes at the individuals as much as the absolute costs, revenues and profits that the new product actually brings, as highlighted in point 4. The customer's perception is changed, however, during the product launch, during when it is tested and observed by some customers and the information is spread, and when the product has been purchased and used for some years. The marketing activities, especially during the introduction, are of great importance for

increase of the perceived value of the product at the potential customers. Problem to overcome is to attract potential customers to test the product and later determine the value of a product. If we are clear about the objective of the task, the probability to succeed in estimating a product's value for the potential customers will increase.(Ekelund, 1981)

The alternative of the value savings that are raised in point 5 require some form of quantification of value. These resource saving, i.e. less resource consumption than required by existing solutions or the same resources used to achieve better results, can mean control of the savings in critical expenditures in terms of man hours, materials, energy, purchasing, etc. No company exists only to reduce their costs, and we add value through cost reduction which should relieve the customer's operations from the corresponding returns. Estimation of savings in resources must be based on the alternative value of the saved in resources (e.g. if the new work wear saves man hours then the charges imposed on those man hours shall be affectable). We should at valuating a new product also make a comparison with other solutions to similar problem. E.g. what other ways there are to save the time, and what we have to pay for them? (Ekelund, 1981) Evaluate these types is difficult and it can derive from the customer's customer, as note in point 6. For example, if the new work wear provides a certain improvement to our customer, what is this worth to the customer's customers?

The value is different in the customer companies depending on who you sell to and what their responsibility is. Selling it to the users of the product, its special features and performance advantages are most essential. Selling to the purchasing manager level, the value is interpreted as the lowest price for highest performance advantage. Selling to at a higher management level, the value becomes as a profitable solution to a cost problem or an opportunity, which generates revenue. On the top level, the solution is less interesting than the profits it can contribute and the improved productivity of the commons resources, as it allows. (Hanan, 1991)

If Fristads aims to be a value increaser by reducing customer costs, they should pay attention to two kinds of customers: 1. start-up companies, which want to avoid unnecessary fix costs. 2. completely mature companies, which want to reduce unnecessary operating costs. If Fristads instead is a value increaser by expanding customer returns, these two companies are then most interesting: 1. start-up companies, which want to grow quickly. 2. Expanding companies, who want to continue to grow rapidly. It is easier to prove value through cost

reductions that are safe direct numbers. Returns represent a correction of alternative losses, its numbers are more unsure and more a subject of guess. Return benefits, however, is more important if we plan on driving a leading role as value increasing business partner. (Hanan, 1991)

To understand and define value for customers is difficult to apply in practice. This requires a series of deeper insights and practical experience. (Ekelund, 1981)

3.3.2 How Customer Perceive the Product

Evaluating the value of a new product for the customer is thus also to estimate the long-term acceptable price level. Thus, we must before making the pricing decisions identify the extent to which the potential customers perceive the value of the product. It is of course by in competitive reasons, important to reduce customers' uncertainty in the introduction phase as quickly as possible and that the speed of penetration is fast. The problem can be handled in several ways, but an important weapon is of course the pricing - both through the prices we set and the way in which we define what we charge for. The problems can be managed partly through reducing uncertainty with e.g. marketing, sales work or in the price that make it easier for customers to take the initial risk. Partly through defined calculation object as the customer can understand and calculate. (Ekelund, 1981)

Mainly there are five factors that determine how fast a new product may penetrate the market:

1. The price seen from the customers' perspective
2. Testability - how difficult/expensive it is to test the new product
3. Complexity - how difficult it is for customers to understand the product. Are there any existing products that are comparable and can be understood and calculated by the customer?
4. The degree to which the new product requires changed behaviour from the customer.
5. The degree to which the new procurement processes required.
6. Superiority of the new product.

Pricing can influence several of these factors and the speed of penetration. Increased testability can be achieved by reducing the customer's initial risk, such as by a low total price to the first customers, testing at very low or no costs, warranties, return policy, etc. The

complexity can be reduced by a price setting system to make the new product easily comparable to those present solutions customers use. It's very easy to make faults when measuring the superiority of a new product, unless it is done based on the customer's perception of the problem that the product solves. If we compare a new product with existing solutions to similar problems, we may find a great superiority. If the comparison is done at the product level, it may be completely irrelevant to the customers who may already have an alternative solution from another supplier. (Ekelunds.209)

It's often that the way to define the calculation object passed over too casually. The question is what we shall charge for, and how do we get paid? The essential thing is that we define the calculation object in the customer's terms. We can try to influence the customers by informing them the costs in the terms that are interesting for them. The most effective is if it appears directly in the price, such as what it might cost the customer if they do not use the new product. (Ekelund, 1981)

So we finally come to what we so called upheaval, that results in the customer experience a great change between before and after. We can say one good idea is a revolution. Not many people today are actively searching for these transformations, with those who do it are willing to pay what it costs. The customer pays the same amount because of the expected experience of the function that the product has. Here the value is much depends on how the product is presented, is marketed and penetrated into the customer's consciousness. Which environment we leave the product is of great importance – as well as the treatment the client receives. The price rises the more you customize the product to the customers as follows: Usefulness → product → service → experience → upheaval. Selling experience is, in turn, according Österåker, to sell the engagement. The customer must actively embrace experience in order to create it. What we can sell expensive, is something that can experience; something that makes the customer become something new, and that gives the customer a strong experience. (Österåker, 2010)

3.3.3 Segmentation of New Product

Choosing the right target customers or test markets for the first versions of a product can be crucial for product success. We also need to assume that all customers are different. To decide which customers to choose require a creative segmentation of the market. It may be worthwhile for Fristads to make the effort and not routinely segment the market

geographically or by size. There are two important reasons why Fristads should focus their marketing efforts. They get more opportunities to establish themselves as leaders in their chosen market segment. Moreover, they can understand and meet the customer needs better, leading to greater chance to be succeed. (Gustafsson, 1998)

We can divide the customers in discount segment, average price segment and high end segment. Price-sensitive customers constitute often 25% of the total customers in the market. 50% tend to be more focused on quality than on low price. The remaining 25% know that quality costs and in principle do not care the price but want quality and like unique products. It is not only a question on keeping track of what factors the potential customers value, but also the attitude they have to the money overall. (Österåker, 2010) Companies pay with untaxed money and are therefore not always so nit-picking with the price.

Especially applicable for new products is to segment with concern of how quickly different people start using new products and take up new ideas. The so called Pioneers resp. Earlier acceptor usually represent about 2.5% respectively. 13.5% of the customer market. It is sensible to offer new products to the pioneers and the early acceptors who are more inclined to take a chance on a new product or new technology. As the pioneers are often small firms, they make the purchasing decisions faster. They also affect all the others, and actively spread the information regarding the product. (Gustafsson, 1998)

3.3.4 Important Stakeholders that influence the Customers

The process of buying a new product involves many categories of "Influencers". Many people within and outside of the purchasing company has an influence on purchasing decisions, such as own employees, key customers and users, technical consultants and other power-brokers, media, government agencies, sales networks, suppliers, scientific opinion leaders. Then there are various activities and means that have impact, such as previews, exhibitions, publication of articles, call for testing and trial, newsletters, interviews, training, presentation at scientific seminars. (Gustafsson, 1998)

In this phase it is often more important for Fristads to get in touch with the sales networks than with end customers. Salesperson's and the sales companies' willingness to contribute in the campaign increase if they in some way have the opportunity to contribute in the planning stages and have the chance to "buy" the basic ideas in the introduction plan. The effect and

the enthusiasm in the implementation become much more than just to take part of a centrally designed campaign strategy with associated campaign materials in pamphlet form. (Gustafsson, 1998)

News information about new products is often spread to business magazines, technical journals and even to the daily press. But with more active forms of contacts with journalists the product news gets more attention, such as in connection with trade fairs. (Gustafsson, 1998)

New products that contribute to solving problems in environmental, personal, and not least road safety, as Fristads' case, can an active interest by the authority side be a help to spread the news information.

Since the new application area of using the LED in the way Fristads intends to do, Fristads' supplier may possibly build their own promotional material with their components applied in the new products and thus boost the marketing for Fristads further. (Gustafsson, 1998)

3.4 How the Customer Deliberates

To understand the way the customers deliberate, Fristads can obtain valuable insight to formulate a pricing strategy that can easier to convince the customers. The customer buys a product that he feels that the product's value relative to the financial sacrifice is more beneficial than other similar offerings. Schäder said in his book that customers usually have a framework covering three or four competitors. A point that we can have in mind is that a customer makes his decisions without complete information, and he is content with his decision with an approved level. Many customers do not withstand and have no time to compare prices because "time is money". If the price of the popular product makes sense, it is surely the prices of other products equally reasonable. (Österåker, 2010) Customers often continue to buy as before until he or she becomes significantly dissatisfied, or have a clearly more favourable offer from another player on the market. The buyer makes buying decision considering the "hard facts", such as product quality, availability and security, and the "soft factors" as treatment, interests and attitudes. If the result differs from the expected, due to e.g. the perception in quality has not been met as the marketing has created, the company will be in trouble. If the quality perception is changed the valuation will also be changed and as well as the cost a customer is willing to accept. Thus, it will lead to demand for compensation or a

lower price next time. At surplus delivery, the buyer assimilates improvement as an informal bonus. Unfortunately, the buyer expects the same bonus next time as the salesman has not counted. A weak precise product concept makes it difficult for the buyer to value correctly the utility of a specific offer. (Schäder, 2006).

Schäder has found that customers choose not to purchase a product (in priority order) that are not fit for purpose; has functional defects; has a disadvantageous price; and can not be sufficiently different from existing products.

3.4.1 Total Customer Value

Customer value can as a concept largely explain the company's abilities to take and give the right prices for their accomplishments. According to Österåker, unless people value something, the price is irrelevant. Two components build up the customer satisfaction: Perceived product quality and Total cost for the customer. (Schäder, 2006)

When the perceived product quality is improved or if the total cost for the customer drops, the value of the product rise for the customer and vice versa. Promotion of well-defined product concept makes it easier for customers to evaluate the right benefits.

$$\text{Total Customer Value} = f(\text{PPQ/TC})$$

1. Perceived product quality (PPQ): Marketing creates expectations. The market and skills impact begins even before the customers' buying decisions are made and is ended earliest when the consumption it is ended. It is the combined effect of all characteristics of a product that forms the basis of a purchasing decision. A change in one of these characteristics may affect customers' perceived product quality and thus indirectly the entire company's profile. (Schäder, 2006) The customers want: fast delivery; products that are easy to use; and with no quality problems that take time to correct and causing serious consequences. Improvements of these attributes are received positively by customers and thus the perceived product quality is increased.

Companies in the long run can never charge more for a product than what is corresponded to the total customer perceived product quality (PPQ). PPQ is made up of three quality components: technical quality or goods content P (in accordance with given standards defined

by industry or government); functional quality or service content S (competence that facilitate the customers' consumption i.e. peripheral services and added-value); and meta-quality M (controlled by the company's ability to distinguish itself from other competitors, namely the non-physical characteristics in terms of identity, marketing skills, sale effort before, during, and after the consumption). (Schäder, 2006) We can say P is the main offer and S and M is supportive products and activities of various kinds but they all have a common nature: to support the sale of the key offer.

Examples of product attributes for resp P, S, and M		
P = Product content	S = Service content	M = Meta quality
Components of quality strength packaging aid equipment safety environmental influence manageable localities	availability warranties implementation engagement type of delivery customer support accessories education consultation problem solving product knowledge	communication customer orientation design sale behaviour sale information contemporaneity image

Table 1 Product attributes. Source: Schäder (2006), p.120

All these characteristics have a focus on customer needs. Fristads can turn to customer's lifestyle or work style in order to find the value of customers' needs. Only Fristads' customers are able to produce value. It is generated from the way in which they apply Fristads' goods and services into their operations, functions, and processes. (Hanan, 1991) A market research is the easiest way to collect the emotional values and what customers think is important. Preferably starting the research at a qualitative level and later continues with a quantitative one. The priority order between the attributes is important information to understand how the product is valued and thus what benefits it provides to the customers. This will determine what price that can be set on the product in the end. (Schäder, 2006)

According to Ahrens (2005), these quality components create security for customers, make the customer to open their wallets, weave together the customer's organization and purchasing patterns with the supplier, and create a sense of social community with the customer. When Fristads developing the price strategy, the product attributes can be considered and evaluated based on these aspects.

Each market has its relative importance of these qualities in terms of evaluating the perceived quality of a product (PPQ). For instance, Fristads' product (consumer goods) has a dominant feature of goods feature P. Technical quality must always be satisfactory because the purchase should then be considered in this market. In markets where the suppliers start to build the long-term relationships with the customers, S becomes more interesting over time.

To be easier to understand the connection, we summarize above in a product quality formula, where the small p and s is the distribution key in % (the size of distribution key depends on the type of the market), and M (= Meta value is or around 1, depending on how well the company's marketing is). (Schäder, 2006)

$$\mathbf{PPQ = f (pP, sS, M)}$$

2. Total cost for the customer (TC): Relatively little is described about the relationship between the quality and the cost, other than the production cost and quality. We have to have a grip on the whole flow of the process, from purchasing behaviour to the use and the value assessment in order to acquire adequate knowledge to evaluate the customer value correctly and set the level of the acceptable cost. We must not only be a customer connoisseur but a customer-cost connoisseur. (Österåker, 2010) According to Schäder the total cost for the customer can be defined as:

$$\mathbf{Total\ Cost\ (TC) = The\ Price\ (P) + The\ Customer's\ Own\ Cost\ (CoC)}$$

where **CoC** is the customer's other costs in connection with the purchase and/or to use the product (e.g. to be able to continuously use the new work wear, the customer may need to stock the spare batteries of the blinkers).

The quality is what is in the product. Value is what customers get out of them. (Hanan et al. 1991) The value for the customer is actually the benefits translated into dollars and cents.

We can explain Total Customer Value with Kotler's definition as a function of benefit and cost:

$$\mathbf{Total\ Customer\ Value = Benefit / Cost}$$

The Benefit can be both Functional and Emotional. The functional benefit is the concrete benefit from a product, and the emotional one can be e.g. status and immaterial experience the customer obtained by possessing the product. The total cost for a customer consists of the product price itself and all other costs that come along with the purchase when using of the product. The costs can be time, energy, psychological effort (e.g. ask someone for help), and alternative benefit (i.e. the possible gain if other alternative had been chosen instead).

If we combine the above theories we come to a final definition of Total Customer Value:

Total Customer Value

$$= f (PPQ / TC)$$

$$= f [(pP, sS, M) / (P + CoC)]$$

$$= f [\mathbf{Benefit (Functional + Emotional) / Cost (Price + Time + Energy + Psychological Effort + Alternative Benefit)}]$$

As long as the total benefit is larger than the total cost, the product has a Total Customer Value that the customer experienced as beneficial. The customer cannot value a product or realize the benefit if he or she does not know there are the values. Fristads has to have the knowing which value is the most important for the customer that they shall market, and what Fristads can base their price on. Price and value are two different entities. Price refers to the actual numerical cost of a property or a service. Price is an actual concrete term and is not abstract as value is. [5] The value of the new work wear may be a certain amount, but the price of the new work wear may be significantly less or more, depending on circumstances. As Österåker (2010) said, 'you are selling benefit, not price.'

Fristad may feel that they are selling a more substantial product than what the customer considers buying. The more value Fristads can give, the more elements can be paid for. If we think we already taking the right price, then we have with more value more arguments to take the price it takes. One advantage of the value thinking is that Fristads may get a wholeness that is more difficult for competitors to copy. The customer considers Fristads' product as unique and hard to find elsewhere. This also makes more difficult for customers and competitors to compare the new work wear with the others in the same category. When technology makes the product more accessible, cheaper, and easier to copy, the product quality and performance is then taken for granted and therefore worth less. What customers demand is then the Total Customer Value. (Österåker, 2010) Moreover, the success is in high

degree not making the relation of the total offer with all services and personal relationships visible for either customers or competitors. Total Customer Value must constantly be developed and as mentioned earlier, we have to stay one step ahead by having vicinity to demanding customers and markets. (Ahrens, 2005)

3.5 Price Strategy over the Start of the Product Life Cycle

The pricing strategy can not be completely defined before we have studied how it should be formulated and adapted to the different time periods at the beginning of the product life cycle. There is also a number of areas that are important to have knowledge of in order to be able to develop the pricing strategy.

3.5.1 New Products at the Production Development

Every product life cycle begins with the launch of an innovative new product. Understanding the unique aspects of pricing new products, regardless of the stage of the life cycle, is crucial. Pricing new product can have long-term implications for future profit growth because existing products are the primary reference price for future products. Customers with a low reference price will frame the purchase as a loss, leading to greater price sensitivity and lower willingness-to-pay. Another reason that makes new product pricing especially important is that new product launch creates an excellent opportunity to reengage with customers and to change what and how they purchase. The customers are more receptive to new value communications, price metrics, policies, and price points, etc. It is then the best opportunities to introduce value-based pricing to the market. However the customers at the same time have higher perceived risk and greater price sensitivity. Marketers who do not understand how to manage this balancing act risk lower profits and lower revenue growth. (Nagle, 2006)

3.5.2 Pricing the Innovation for Market Introduction

An innovation is a product so new and unique that buyers find the concept somewhat foreign. It does not yet have a place in buyers' lifestyles or business practices. Consequently, before a product can become a success, its market must be developed through the difficult process of buyer education. An important aspect of that educational process is called information diffusion. The diffusion of information from person to person has proved especially influential for large-expenditure items where buyers take a significant risk at the first purchase. Recognition of the diffusion process is important in formulating pricing strategy for

two reasons: 1. the long run demand for an innovative product at any time in the future depends on the number of initial buyers. According to Nagle, demand does not begin to accelerate until the first 2 to 5 % of potential buyers adopt the product. Those initial sales are often the hardest part to marketing an innovation. 2. the pioneer who try the new product early are particularly suited to evaluate the product before purchase. In many cases, they are also people to whom the adopters look for guidance and advice. Identifying the pioneers and making every effort to ensure their experience is positive is an essential part of marketing an innovation.

The appropriate strategy for pricing an innovative new product is to recognize consumers' price sensitivity. Important is to educate potential buyers concerning the product's worth through effective price and value communications. Most effective way to educate buyers may be to let them sample the product in real conditions. However, not all price-introduced sampling does effectively establish the product's worth in buyers' minds. Instead, market development requires more direct education of buyers to value that is created. Direct sales force trained to evaluate buyers' need in advance and to explain how the product will satisfy them. Working in this way the pricing has a central place. Fristads can base the price on what it costs the company to create the product, but mainly on how the customers value it. It will result a high perceived value of the products.

The innovator must somehow convince the distributors who carry the product to promote it vigorously. The innovators may offer a higher margins or pay incentive fees for stocking new products, for co-op advertising, for in-store displays, for premium shelf space, and for on-site service and demonstration. They may also grant incentives directly to the middleman's salespeople. (Nagle, 2006)

3.5.3 Pricing New Products for Growth

In growth, the buyer's concern about the product's utility begins to give way to a more calculating concern about the costs and benefits of alternative brands. Fristads must now decide its strategy between a pure differentiated product strategy and a pure cost leadership strategy. With a differentiated product strategy, the firm focuses its marketing efforts on developing unique attributes (or images) for its product. It enables the firm to price profitably despite increasing numbers of competitors. With a cost leadership strategy, the firm directs its marketing efforts toward becoming a low-cost producer and they focus on developing a

product at minimum cost. In either case, the role of pricing is to collect the rewards from producing attributes that buyers find uniquely valuable. The skim pricing or penetration pricing can be used here. Penetration pricing is less commonly successful for differentiated consumer products, since the buyers who can afford to cater to their desire for the attributes of differentiated products can often also afford a higher price. Even when the source of the cost advantage is not a large volume but a more cost-efficient product design, the firm may set low penetration prices to exploit that advantage. If a market is not particularly price sensitive, neutral pricing is the most appropriate pricing strategy. Nagle confirmed in his book that industry wide cost leadership is attainable without penetration pricing. Weapons such as cost-efficient technological leadership, advertising, and extensive distribution often won against competitors with low prices. Furthermore, penetration pricing is not always appropriate when cost leadership is based on a narrow customer focus.

The best price for the growth stage, regardless of Fristads' product strategy, is normally less than the price set during the market development stage. The competition is larger, and the customers have a growing familiarity with the product. Both factors will increase price sensitivity. Even if a firm enjoys a patented monopoly, reducing price can speed the product adoption process and enable a faster market growth because of the scale of economies. In the growth stage normally there is no aggressive price competition. The exceptions occur if the market is price sensitive, or there is a competition on technologies to become industry standard, or the growth of production capacity jumps ahead of the growth in sales. Whether or not pricing competition becomes intense, the most profitable pricing strategies in growth are usually segmented. (Nagle, 2006)

3.5.4 Skim Pricing or Penetration Pricing?

The price level in a market is affected by all players - both the own company and the competitors. A Strategy for the price of a new product is often complex and it is difficult to generalize in different types of strategies. In several cases, however, the choice of initial prices as "Skim" that is: the part of demand that is willing to pay a maximum price, so called Skim Pricing; or with low initial prices that aims to quickly increase volume and to confiscate as much part of the market as possible in order to obstruct for potential competitors, so called Penetration Pricing.

Skim Pricing Strategy is chosen e.g. if we have a very strong competition protection (for example a couple of years) or the product is unique and there are not many competitors, but also if the protection of competition is so weak that the competitor in all likelihood will enter into the market regardless of our price setting. The price is lowered after which the competition is forcing to it. The strategy is appropriate if the price sensitivity is low in some parts of the market. If all customers are willing to pay the same price there are no prerequisites for skimming.

Penetration Pricing Strategy exploits the short leading edge to competitors and aims more to long-term benefits than short-term. If prerequisites for this approach is to be correct, there must be a great response from customers on the decrease of prices and low prices, and production costs significantly reduce after which the volume of production increases. Penetration strategy may be appropriate when every sold product will generate new sales potential because its use requires additional purchase all the time. It can also be an appropriate strategy when the new product is at a new growing business area and there is certainly demand for other related products. If the protection of competition either can be denoted as strong or nonexistent, and the feature of potential competition much depends on our actions, penetration can be an appropriate strategy to make the market less attractive to competitors.

In addition to the market and competitors the company's own situation target and cost structure is crucial for strategic choices. Skim Pricing strategy is most profitable if the available production capacity is limited. This can also be motivated by financial reasons, the requirement to survive the liquidity or solvency in terms of setting limits on how low the initial profit/high losses the company can withstand. Although the experiences curve - what opportunities there are through increased volume per unit cost - is an important factor. The larger these opportunities are, the greater the reason is to use penetration strategy. (Ekelund, 1981)

To sum up the two strategies for pricing products in the market introduction that Fristads can consider (Gustafsson, 1998):

Skim Pricing

- High short-term gains are less affected by discounts
- Opportunity for quick return on investment in the development and market introduction

- Space for future price reductions
- A high listing price may boost the image of prestige and quality
- Less risk of "knife-in-throat-competition" if competitors are "price followers"
- Less volume - less demand on capacity and financial resources

Penetration Pricing

- High profits through rapid sales growth and high volumes
- Reduced short-term costs through high volume
- Reduction of long-term costs by rapidly accumulated volume. Long-term competitive advantage
- Better use of high capacity in production and distribution
- Less risk of failure in the introduction phase
- Deterrent for other players to enter
- Risk: limited space for action if the prices fall

4 EMPIRICAL DATA

This section presents the data I have got in from the research units. In the chapter Fristads and the respective case company is introduced, and the statements from the interviews with the dealers and the end-customer are rendered.

4.1 Fristads Sverige AB

Fristad is the first manufacturer in Sweden of work wears. Quality and durability were as important then as now. In Fristads' assortment includes more than 500 models annually and Fristads produces 4 million garments [3]. Fristads is the market leader in Sweden in work clothes, is represented in the other Nordic countries and in Europe. Fristads' core values are "quality, comfort, function, design".

Fristads' products are mainly distributed (96%) via dealers to the end-customers besides some major clients, as like Saab, which Fristads directly deal with. In Sweden they have around 1200 dealers. Fristads allow different percentage of discount to the dealer depends on the respective sales volume, delivery requirements, business relationships, etc. Each dealer receives recommended retail price for the products from Fristads, but the final retail price is decided individually by the wholesalers.

Normally Fristads use cost-plus pricing for their products. The price is based on the cost adding a mark-up depend on the demand and competitors' price. Fristads uses often the other similar product in the product line as reference price when determining the price level of a product. The sales price is adjusted when there are huge changes in the raw material prices. When it is a new product launch, Fristads usually use penetration pricing strategy, i.e. not setting a too high price in order to reach high profits through rapid sales growth and high volumes. As mentioned before, Fristads is the industry leader and the competitors often follow them, both in price adjustment and new product launch. The competitors' pricing strategy is to set their price a little bit lower than Fristads' similar product or to add extra features into their new product. When Fristads has new products, they will offer it to their customers together with other products in a package containing several examples per each size. The customers have no problem to accept the offer and are positive to try new things. Fristads admits that since they do not have direct contact with the end-customers, they have

little knowledge about them. The dealers make call-off when they need to fill their stock. When the dealers receive larger order from the end-customer, they rely on Fristads to deliver promptly. Fristads makes the forecast more or less only based on its own experience of the market trend.

4.2 Johan Skoglund AB

Johan Skoglund delivers clothing, shoes, protective clothing, personal care, promotional clothing, promotional items and promotional gifts. They help clients from ideas to a finished concept. Besides Fristads' products, we can find in Johan Skoglund is selling clothing from e.g. Projob, Craft, HenriLloyd, and Wrangler. Since 2003, the company is part of Kwitnet group, which is the same group as Fristads belongs to. [4]

Gustafsson is responsible for the overall business at Johan Skoglund. He is the decision-maker when it comes to the purchase of new items. There is a buyer who takes care of the operative purchase and call-off which is order by stock. For Johan Skoglund, Fristads' products are characterized as good quality and functional.

Currently Johan Skoglund recommend the customers to use the reflective band (25mm or 50 mm) on the trouser legs if the customer asks for improving the visibility of the work wear. In general, Gustafsson does not consider low visibility as a problem, but heard once that there has been an accident where a worker was knocked down. Gustafsson believes on the blinker solution. The fluorescent yellow jacket will not be a long lasting solution, and it becomes dirty very easily. Johan Skoglund is relies on the suppliers to interpret the future new rules on visibility and come up with solution.

Gustafsson has made some remarks about Fristads' new jacket. The light from the diodes shall not be too strong, preferable to have the light flashing function only when it is needed. The new lighting function shall not bring any trouble to the logotype printing, which is performed by Johan Skoglund. Gustafsson think the new jacket will be most useful for the branches that currently are using the similar jacket without light flashing function. The new product will prove useful in the branch as like logistics, road working, and those who work in the sea. A suggestion from Gustafsson is to apply the blinkers function on the cap as well.

One possible risk Gustafsson mention is that the end-users may not be fond of the blinkers since they will think they look like a Christmas tree. However, it may only be a matter of habit. The users may also ask for addition flashing function on other garments as well after they have got used to the new jacket. According to Johan Skoglund, the employers deliberate differently on the value of life against the extra cost of some hundreds of Swedish Crowns for a new working jacket that enhance worker's safety. Gustafsson is most concerned about the performance of the new jacket. It shall be resistance against tough weather and violence. Some questions he has is if the product is repairable, how to handle the claims, etc. I.e. the practical things in handling the new work wear.

Johan Skoglund positions quality (incl. guarantee and accessories) as the most important product attributes following by price, availability, and image. They apprehend that Fristads has met the expectation on quality and image but not in price and availability. Johan Skoglund appeal Fristads to allow better conditions for the dealers who only sell clothes, and that Fristads to look for an improvement on deliveries of goods in stock.

Johan Skoglund buys new products mainly due to not getting behind. They are willing to test the product that they like and that they believe it will be sold. It would help if there is larger discount offered in the initiative phase, e.g. better payment terms or lower price. It is important for the dealer that the new product is a good product, and can fit into the context. New product can use to attract customer's attention. Selling support with argumentations from the supplier is crucial to succeed in promoting the new product. However, Gustafsson is only ready to take a minimal risk even though he is willing to test something new. The supplier shall take the major part of the risk and manage the delivery whether it is small quantity in the initiate stage or a large increase in demands later.

Johan Skoglund will definitely buy the new jacket and the quantity varies depend on the price. If the new product has a price +30% resp. +40% higher compared to a similar jacket without blinkers, they will buy 20 pieces resp. 10pieces. If the price is more than +50%, they would buy at least 1 pcs as a demonstration in the store. Gustafsson think the end-customer will accept a price around +10% without any discussion. The new jacket will create new demands, and therefore the volume of the present jacket without blinkers shall not be affected. The product shall be promoted as life saving, suggested Gustafsson.

Gustafsson is sure about the new jacket can be sold. It will increase the visibility and decrease the damages caused by work just with a small amount of money. Gustafsson has never seen a serious product like this kind before, and he think the jacket with blinkers is exciting. The new product fit Fristads core value and it is in line with Fristads' other assortment.

4.3 Toplux AB

Toplux's assortment extends from clothing, shoes and gloves to tools, machinery and chemicals (lubricant, dissolving, cleaning, sealing and fastening devices). Their business idea is to lower the total cost while the customer increases the quality in the areas of safety, ergonomics and environment. They also provide training in protection, materials sciences, ergonomics, regulations, etc. In addition to Fristads, they cooperate with other clothing suppliers such as Helly Hansen, and Snikers. [6]

Normally after the customer order is placed by the Sales Manager, Rosengren is then the person who is responsible for the following activities as like issue the purchase order, take care of the logistics and the printing on the garments if customer has requested. Toplux's customers are mostly large company that place the order by telephone without personally visiting the shop. The customers have in advance received an offer from the salesmen of Toplux. The customer order new product when they have the needs to replace a product or when Toplux has introduced new items to them. The salesman in Toplux receive news from Rosengren but also directly from Fristads since the both companies have very close working relationships. Rosengren and the sales decide together which of the new products are suitable for which customers, and then make the product introduction to the customers. Usually Fristads are visiting Toplux 2-3 times a year to present the novelties. Toplux aims to be first with the new products on the market. Rosengren manages and decides the purchase entirely by himself. The purchase order is issued two times a week to fill up the stock and to fulfil the customer order.

Fristads is a brand that Toplux cannot live without. Good quality is the main characteristic for Fristads' product, but the other brands are reaching the same quality level. Fristads' products are well thought-out and come in right time. Rosengren is however missing something new and 'wow' factor from Fristads latterly. Fristads has a delivery capacity that fulfils large customer orders. There is though delivery shortage from Fristads on popular items.

At the moment, besides the fluorescent jacket, Rosengren does not know any other solution that increases the visibility. There are some jackets equipped with reflexes in the market but they may not follow the regulations. Reflex is not a good solution since it makes the movement and the work difficult. According to Rosengren, jacket with blinkers is needed especially for the road worker or worker working a lot behind the truck. Blinkers on the trouser-legs shall be good. Rosengren comments further that the flashing light on the back of the jacket seems ok, but the one in the front side of the jacket shall have several control modes as like flashing light, fix light, and light off. The different modes shall be controlled by e.g. sensor and not be able to be monitored by human being since the flashing function is to be considered as a safety measure.

The blinkers on the new jacket can also use as an extra torch. The worker can utilize the light to see better and to be seen at the same time. The worker may not feel safer even though equipped with the blinkers, but he may have the same feeling as the fire-brigade and police have. The branch that need to work in the sea and other branches that traditional not are treated have high risk working environment may start utilizing the jacket with blinkers to enhance safety. The only concern Rosengren has is the price of the new product, it shall not be raised too much.

Rosengren expects that the jacket with blinkers to be good looking, practically made (adding new functions and keep the current features at the same time), delivery reliable, and that they will receive information about the products and the new regulations in good time in advance from Fristads. It is important for Toplux to inform their customers correctly so that the customers will not feel being taken in.

For Toplux, design and performance characteristics of a product are most important. Thereafter are safety, price, delivery reliability, and guarantee. Toplux scored Fristads highly on all these attributes, and they are especially satisfied with the safety aspect.

Toplux purchase new product if they find it good looking and practical, and it has a attractive price, is a novelty and fit in to the customer groups. Furthermore, they think novelty is amusing to have and they shall make new idea possible. Toplux is ready to take risk but the grade of the risk is depending on the quantity of the new product. They trust their self-esteem.

Regarding the price, Rosengren think an additional several hundreds SEK is reasonable. He is not prepared to pay +30% for the blinkers function only. According to him, the light emitting diodes itself do not cost much. If the price keeps low, there will be large demand on it. The new volume of the jacket with blinkers shall not affect the volume of the current work wear without flashing light, unless it is a new rules entering with tougher regulations.

Rosengren likes the new jacket and think Fristads has thought correctly. He has not seen any similar invention on the jacket before and thinks it fits Fristads' core value well and it is in line with the rest of Fristads' assortment.

4.4 Borås Yrkeskläder AB

Borås Yrkeskläder was founded in 1974, and after nine years of ownership change the company was bought back by the President Per Kjellin 2010. Besides Fristads, Borås Yrkeskläder distributes work clothing brand as Blå Kläder, Jobbman, etc.

Kjellin is the main contact interface to Fristads when it concerns to larger purchase order, delivery- and quality problem, etc. However, the purchase of new product is a common decision of the team. The day-to-day purchasing activities is carried out by another person. The purchase order is order-by-customer and the goal is to have the goods in store before the customer visit. According to Kjellin, Fristads' products represent high quality, user friendly, and functional.

As of today, he has not heard any customer finding the visibility on the work wear as a problem. The customers follow the rules from Vägverket and have the right classified work wear in their workers. One problem with the current work jacket is it brings dirt with it and is difficult to clean. If the work wear fails in the technical control (incl. the visibility control) in the field, the company will get a fine of SEK5000. The work wear endures maximum 50 times washing, and after that the reflex function will be washed out. Kjellin recommend a layer (maybe by nanotech) on the clothes, which is easy to clean and protect the reflex. Better or plastic-coated reflexes, as like the one the firemen use in their uniform, can be a better solution in improving the visibility.

Kjellin thinks the new jacket with blinkers will bring additional sales to Borås Yrkeskläder, the product can be a good display on the shop, besides it enhances the visibility for the

worker. Especially the younger worker would like the new function and Kjellin believes the worker will feel safe with the new jacket on. Kjellin comments further that it shall be more garments using Goretex material, particular the new jacket with blinkers shall made of Goretex. Even though the price is higher, the quality of Goretex allows breathing and leachy that is necessary. The concern Kjellin has of the new jacket is the technique behind it and how to handle and repair the lights. He has seen caps equipped with lights but they did not sell well. Electrician buy those caps but there is substitute like head lamp in the market.

According to Kjellin's experience it usually take one year before the customers ask for a certain new product and then the demands start to appear. Therefore Kjellin like to see extensive marketing from Fristads for the new jacket with blinkers. Since the culture of work wear branch is conservative, the colours of the new jacket should fulfil the requirements by the regulations and the norms from the branch. Information to the customer's purchasing department is important, and therefore the advantages of the new product shall be well informed by the supplier. The promotion materials shall be in the store where they can easily be seen. Free trial of the new product to the customers that work in the public and can be seen by many people is another efficient way to promote the new product. The costs for the promotion shall be shared between the supplier and the dealer. Kjellin thinks their dealers in smaller cities will be beneficial of the new jacket, as well as the new customer that are not traditional belonging to the branch with high risk working environment, e.g. riders.

For Borås Yrkekläder, quality and safety of the products are most important. Thereafter is environment influence, prompt selling information, and image. Fristads has good safety and image but need to improve the environmental aspect and the selling information, according to Kjellin.

The customers are usually well-informed before they come to Borås Yrkeskläder and asking for a new product. Kjellin want to have new product in the store, it is part of the business development and enable them to offer better products to the customers. To be the retailer that offer Fristads product before the other is important. Borås Yrkeskläder does not want to take large risk. They usually purchase a new product in smaller quantity at the introduction stage to see if it saleable. New products are introduced by Fristads 2-3 times a year when the salesman visiting Kjellin.

Kjellin would definitely purchase the new jacket with blinkers if the price is +20% increase compared to the current one without the flashing function. Most probably he will buy the new jacket as well if the price is +30% but with less quantity. If the price go up to +40% he will not consider trying the new product. If the material is of a superior quality than the one without the blinkers in the current assortment, a higher price is however acceptable.

Otherwise, Kjellin think the jacket with blinkers is a total novelty for him. It is in line with Fristads' assortment and core value.

4.5 Borås Energi och Miljö

Borås Energi och Miljö is owned by the City of Borås. Their scope of business is district heating, remote cooling, biogas, waste disposal, water and sanitation, energy- and waste services. They produce electricity at their power plants and hydroelectric stations. The business idea is to “offer customized solutions with high availability in the energy, waste management, environmental and VA-area. We will also - in an eternal loop - refine the energy to a society free from the fossil fuels” [1]

Gustavsson is team leader in one of the two working teams in Borås Energi and Miljö. His team is responsible for collecting recycling waste from companies and communities. The other team is serving the households. Gustavsson is responsible for the purchase of the work wear for his team, even though the working clothes for the both teams are mostly the same. He is the contact person to the work wear seller and receives the information about the new products. Gustavsson is in charge of the whole purchase process, from purchase decision making and order placing to maintenance of the clothes. Since the work wears shall mainly be the same kind for the both teams, Gustavsson and his correspondence in household team make the decision together, but the purchase orders are issued separately from each team.

Borås Energi och Miljö has selected Fristads because of their good quality and good functioning working wears. Borås Energi och Miljö has always bought Fristads' products from Borås Yrkeskläder. Even though they had tried products from other brands, Borås Energi och Miljö has changed back to Fristads. Since the current work jacket is in yellow colour, the visibility is considered as high. Possibly it is more danger for the worker who stands and works in the backside of the truck. The new jacket with blinkers would suite the household team better since they usually work in pair, one drives the truck and the other one

person collects the waste. During those more than ten years Gustavsson working for Borås Energi och Miljö, only one accident has happened plus a few times it has been close to happen. The accident occurred when a worker was in the backside of the truck and became knocked down when the truck backed. It was difficult to see the worker. The accident was investigated by the Work Environment Administration but every carrying out by the workers was correctly done and followed the rules. The accident caused both physical and psychological damages for the worker. He had to go through the accident investigation, rehabilitation, and lost in income (had the sickness allowance from the Social Insurance Office instead of the normal wages). After recovery it was difficult for him to find a suitable job due to the damages. He was depressed since he was not able to continue the job he liked. The worker had fulltime and part time sick-leave for about three years. During this period, Borås Energi och Miljö had to hire temporary worker to replace him. Besides, the company had to participate in the accident investigation which increased the company working load further.

Despite of the accident, no measures regarding visibility had been done afterwards since the worker was dressed correctly according to the rules. Borås Energi och Miljö keep controlling their workers to have the work wear on, even though they are only moving around within the company area. The workers are reluctant to wear the jacket with reflexes because it is not comfortable and the material is not stretching. The workers want cotton, and Goretex material for the summer clothes. Borås Energi och Miljö do not consider visibility on work wear as a problem. If there are tougher rules on visibility of work wear, they will put on the supplier and follow the regulations. The new jacket with blinkers in the front side shall not shine the worker while they are driving. Blinkers in the back of the jacket seem to be good. Another problem with the new jacket that Gustavsson can foresee is when the worker is having lunch in a restaurant and the light continues flashing. Gustavsson is concerned about the batteries. How to deal with them technically and practically? Some suggestions about the design are to have elastic in the end of the sleeves, and id-card holder that is transparent on the chest or on the trousers.

Gustavsson has difficulty to comment about the advantages of the new jacket with blinkers without first seeing the real sample. Since the workers need to run in and out everywhere all the time, the blinkers shall be able to be put on and off. If the lightening is controlled by a sensor, it will be even better. Gustavsson thinks the road worker working close to the traffic

will surely buy this new product. For Borås Energi och Miljö it is not that sure. Maybe the jacket with blinkers is suitable for the household team, whose worker is stationed in the recycling facility helping people to sort waste. Wearing the work wear with blinkers, the workers can besides see each other better, it will also help the Security Guard in Borås Energi och Miljö to see the worker in bad sight. Gustavsson expects that the new product work properly and enable to be washed. Borås Energi och Miljö would like to test 1-2 of the new jackets first and then be able to find out if there is any adjustment in use is needed. Usually the worker has two work jackets, one for the winter and one for the summer. The jacket is allowed to be changed when it is torn, and maximum one change per person per year.

Most important product attribute for Borås Energi och Miljö is qualified function (wear and tear, dirt), comfortableness and convenience to work in (e.g. the large area of fluorescent area makes the short workers difficult to move, and the form does not always fit the women), safety, and price. Gustavsson takes in new product when it has comfortable material and it fulfils the requirements. When he notices the current product is not working or he receive claims from the users, he will then replace it with a new one. He is not afraid of testing something new, even though the company has to pay for a couple of samples. The result can be different than what is expected before the testing. Gustavsson thinks the jacket with blinkers is relatively new in the Swedish market. He may have seen similar flashing light on uniform and caps on the policemen in other countries. He thinks the blinkers in the trouser-ends are better than on the caps. The user may not get used to the flashing light at the beginning, but the foundation is definitely useful for the road workers and truck drivers. The new jacket with blinkers is in line with Fristads' other assortment and fulfils their core value. Fristads' work jacket is usually good looking.

If the new jacket with blinkers costs +20% more that the current one without blinkers, Borås Energi och Miljö may buy maximum 10 pieces. The more the price increase is the less probability and quantity the company will buy. Gustavsson will definitely not purchase any of the new jackets if the price increase is +50%. He considers a couple of hundreds SEK extra for the new light flashing function is ok. If the price is +10% compared to the current one, he may consider buying for all workers. However, after testing the new jacket, he may buy more than he has thought from the beginning.

Dahlqvist has been working in Borås Energi och Miljö since 1973. He has worked in the household team before and currently he is working in Gustavsson's team. He works alone, i.e. he is both the driver and the collector of the recycling waste from the companies. Dahlqvist is not involved in the purchase process. He gives his desire about the work wear to Gustavsson but does not participate in the clothes selection. He thinks Fristads' products stand a good deal of wear. Low visibility is not a problem that he concerns, and he is not afraid of getting into danger. He tells that it happens the workers take the vest instead of the work jacket since it breaths better. The working trousers are however fine. One problem is the reflexes on the jacket disappear after some washing. He says the current solution for visibility is enough. The most important for the workers is to be able to move in the work wear and the clothes is comfortable. According to Fristads' drawing on the new work wear, Dahlqvist thinks it looks good. As mentioned before, the most important attribute of the work jacket is it lets air in, since it is both water- and wind proof. He is not worried about the electricity in the new jacket but it may be stiff with light emitting diodes attached. The lights shall not be too strong, especially when driving in the darkness the light shall not reflect to the windscreen. Dahlqvist wish to have string in the end part of the new jacket that the worker can draw tight. He expects the new jacket can button up to the throat and it is soft and comfortable around the throat. It shall be easy to wash and keep the form. Washing advice is necessary.

Waterproof is the most crucial product characteristics for Dahlqvist, then thereafter is comfortable material against the body, not too tight and can breath, good fit, and manageable. He is willing to test new product, even though at the first glance the new item looks strange and seems not to be so good. When I asked his opinion about the price, in spite of he is not involved in the purchase decision, his answer is that he may buy 25 pieces regardless the price. However, the probability to purchase will decrease the larger the price increase is. The 25 pieces are given to the household team.

He has tested different products for Fristads before and he is curious about the new jacket with blinkers and would like to test it. The new jacket shall not cost too much. The quality is still the most important criteria. Dahlqvist had not seen similar work wear with blinkers before and he thinks it is in line with Fristads' other assortment. When it comes to the core value of Fristad, he does not agree 'comfort' is always met in Fristads' products. He has a feeling of that the quality is shrinking for the price.

5 ANALYSIS & RECOMMENDATION

In this chapter, the reader is presented with an analysis. The theories are compared to the empirical data. The analysis has its starting-point from the thesis' earlier problem discussion, research questions and objectives. The analysis ends up in the formulation of pricing strategies for Fristads that are created to match the product launch of the new work wear. Further the analysis is the foundation for the Final Discussion.

5.1 New Product

First of all, all the interviewees say that they have not seen similar seriously made work wear with blinkers before. This standpoint from the customer is in accordance to Fristads' and we can hereby define the work wear with blinkers as an innovation. A new product has plenty of uncertainties that make the price setting difficult Ekelund (1981). The respondents have commented that they are most hesitated about the reliability of the technique behind the work wear with blinkers, if it could stand for the high required performance, and how it should be maintained. The customers cannot tell at the moment what adjustments they have to do in order to utilize the new jacket in the best way. Despite of all these uncertainties, the respondents think the work wear with blinkers is saleable, and all of them are excited about the new jacket. As Gustafsson (1998) said, there are many advantages for the company to be the first supplier in the market. The first player in the market will have the most favourable conditions in creating long-term growth for the company. The respondents agree on that Fristads' products are characterised of high quality and are functional, which fit in Fristads' core values. (the end-user is however concerned about the 'comfort' aspect that has not always met the promise) In spite of that, Fristads need to come up with something revolutionary in order to keep the favourable position in the market. ***Fristads' new work wear with blinkers is definitely a good product idea and it is a novelty that the market is looking for. The new jacket is in line with the rest of Fristads' assortment. The launch of the new work wear may draw large attention to Fristads and it will create a positive image for Fristads as a leading innovative company.*** The dealers are well aware of the advantage to be the first player in the market and they are striving for being among the first ones to introduce the novelty to the market. ***Fristads shall select the large and demanding customers and branches that are some steps ahead their colleagues to cooperate with.*** By this Fristads can

increase further their lead and keep continuously developing the new product onwards. (Ahrens, 2005). For example selling to the education branch may bring lost to the sales turnover at the initiative years. However, once the attendants in the course get use to the new jacket they will most probably request their employer to purchase the same work wear for their work. ***Be alert on how the other branches launch new products. Copy or borrow their ideas and adapt them to Fristads' new work wear launch.***

5.2 Problem of Visibility

The price different customers are willing to pay vary due to a same product generate different profit for various customers, and also the customers have different requirements on returns of the product (Ekelund, 1981). The issue with low visibility is not considered in general as a serious problem by the customers. They are satisfied with the current solution and think today's law of work wear is good enough. Their attitude towards work wear reminds me about the use of the seatbelt. The user does not consider the preventive measure as necessary until the accident happens, which is often then too late. Even though the customers have the knowledge about the accident could happen, they do not really pay much attention to it. ***Fristads shall educate the customer concerning the consequences of possible accident as well as the various benefits of using the new work wear that will satisfy them.*** The customer cannot value a product or realize the benefit if he does not know there are the values (Österåker, 2010).

To enhance the visibility, some customers attach reflective bands on the trouser legs. The current fluorescent jacket with reflexes is not an optimized solution according to the interviewees, partly because it is uncomfortable to wear and partly it is difficult to clean. ***Fristads may consider using more comfortable and breathing materials as like cotton and Goretex. Better coating on the reflexes is suggested.***

5.3 Acceptable Price

I have applied a simple Gabor Grange survey to find out the probability for the customer to buy the new work wear with blinkers, and how many pieces he would buy with a certain price. Comparing to the current jacket without flashing light, a price increase of ***+10% is acceptable by the respondents without any discussion. If the price is +20% to +30% higher, the customers are still willing to test the new product but with a smaller quantity*** (see the

chart). As expected, their probability to buy decrease the higher the proposed price is. ***Above +30% price increase, it is hard to persuade the dealer to test, unless the material is of a superior quality.*** The dealers will buy at least one example of the new jacket to display in the store as an advertisement, regardless of the price. Some interesting findings are that the purchasing responsible at the end-customer company has a larger price tolerance than most of the dealers when it comes to the acceptable price in testing the new product. The purchaser at the end-customer company accepts to buy at a lower price and fewer quantities compared to what the end-user in the company has answered. The end-user prefers to buy either nothing or to the whole team, in order to be fair to the colleagues.

Gabor-Granger survey of price										
Price increase compared to current jacket without flashing light	Johan Skoglund purchasing responsible		Toplux purchasing responsible		Borås Yrkeskläder purchasing responsible		Borås Energi och Miljö purchasing responsible		Borås Energi och Miljö end-user	
	Probability	Number of example	Probability	Number of example	Probability	Number of example	Probability	Number of example	Probability	Number of example
+10%							5	all	7	25
+20%					10	20	5	max 10	6	25
+30%	10	20	0	0	8	10	4	6	5	25
+40%	10	10	0	0	0	0	3	4	4	25
+50%	10	1	0	0	0	0	0	0	3	25
+60%	10	1	0	0	0	0			2	25

Table 2 A comparison of the result using the Gabor-Granger method. Probability is graded 1-10 where 10 is the highest possibility

There is no common acceptable price level for new product and pricing must make it possible to reach the short term and long term defined volume target and profit target. ***Fristads have to decide if they want to sell the new product cheap or expensive, i.e. have many customers or few, if the profit is the same. Is it money, status or competence (in form of knowledge or attention) that Fristads is looking for in returns?*** Be aware of that pricing new product can have long-term implications for future profit growth because it will act as reference price for future products. New product launch create an opportunity to reengage with customers and introduce new price metrics, policies, value communications, etc. (Nagle, 2006) To overcome the customer problem of higher perceived risk and greater price sensitivity which follow by the value-based pricing for new product, ***it is best for Fristads to introduce the new work wear when the coming regulations in visibility of work wear (EN471 2003 and EN343) from Transport Administration is about to being in force. By that time, the awareness of the risks and the knowledge about existence of a measure to avoid risks shall increase.***

5.4 Total Customer Value

Price and value are two different entities. Price refers to the actual numerical cost of a product or a service. Value for the customer is the benefit translated into dollar and cent. The potential customer weights the result a product give them and the costs that cause them. We have to figure out what is the actual value for the potential customer of the new work wear. The final value for a customer makes the basis of the price. As described earlier, the Experienced Product Quality (uPk) and the Total Cost for the Customer (Tk) are the two main components that build up the customer value. We shall bear our earlier definition of Total Customer Value in mind in the following analysis.

$$\begin{aligned} & \text{Total Customer Value} \\ & = f (uPk / Tk) \\ & = f [(vV, tT, M) / (P + Kek)] \\ & = f [\text{Benefit (Functional + Emotional)} / \text{Cost (Price + Time + Energy +} \\ & \quad \text{Psychological Effort + Alternative Benefit)}] \end{aligned}$$

5.4.1 Experienced Product Quality

Marketing of a well precise product concept will help the customer to value the product correctly and thereby strengthen the Experienced Product Quality (uPk). Fristads' customers experience the technical quality V (i.e. quality, safety, and functioning) as the most important product attributes. Schäder (2006) said in his book that the consumer market is weighted at V which is in accordance to my survey result. Fristads has met the customer's expectation when it comes to the most important product attributes. *Fristads shall emphasize these strengths in the marketing activities of the new product, but at the same time to mark the differences from the current product.* Other qualities such as availability, environmental influence, prompt sale information, and comfort of the material are graded by the customers as important but not satisfactory (see fig.4) Price is a big issue for one interviewed dealer and it might be explained with the balance of cost, price, and quality (The Price Triad). Fristads' large capacity of delivery gives them advantage compared to the competitors. However the occurring delivery shortage has been an issue for the customers. If Fristads aims to raise their Experience Product Quality to the next level, these attributes are recommended to be focused on. *Fristads can choose between focusing on either a few excellent product attributes or have many attributes that are in good levels.* As mention before, these positive attributes are what the price can base on. The more values the company gives, the more elements can be

taken pay for and more difficult for the competitors and customers to compare with and copy exactly. (Österåker, 2010) In addition, Fristads shall not make the connection of the total offer visible for the others. (Ahrens, 2005)

Important Product Attributes				
Respondent	Most important	Very important	Important	Quite important
Johan Skoglund - purchasing responsible	Quality (9)	Price (2)	Availability (3)	Image (7.5)
Toplux - purchasing responsible	Design & function (8)	Safety (10)	Price (7)	Delivery reliability (7) & Warranties (9)
Borås Yrkeskläder - purchasing responsible	Quality & Safety (9)	Environm. influence (5)	Prompt sale info. (5)	Image (9)
Borås Energi och Miljö - purchasing responsible	Daily fuction (7)	Comfort to work in (7)	Safety (10)	Price (6)
Börås Energi och Miljö - end-user	Waterproof (8)	Comfort to wear (5)	Breathing and fitting material (4)	Manageble (6)

Table 2 Product attributes that are important for the customers. Figure in the brackets shows how good Fristads has met the customer's expectations. Grade 1-10 where 10 is the highest score.

Besides pricing can urge on the penetration speed into the market of a new product, marketing and sales work create expectations that will make the customer easier to take the initial risk and cost. Based on Ekelund (1987) and my research, *to speed up the introduction to the market for the new work wear, Fristads is recommended to: set the price from the customers' perspective (e.g. to use the output from the Gabor Grange survey in this research as reference); grant better payment terms, return policy, guarantees, or lower price in the limited initiate stage to make it easier and cheaper for the customer to test; convince the distributors to promote vigorously on the new product by offering higher margins, paying incentive fees for stocking new products (or providing delivery with short notice), for co-op advertising, for in-store displays and premium shelf space, etc.; compare the new work wear with the current solution to make it easier for the customer to understand and calculate the product; inform the required changes, e.g. user behaviour; and promote the new jacket as a safety measure, and stress what it can cost the customer if he does not use the new product.*

The customers want to have quick deliveries, products that are easy to use and without quality problem that takes long time to remedy and causes serious consequences. (Schäder, 2006)

In Fristads' case where the customers are most concerned about the reliability and handling of the flashing light, *Fristads can offer to take care of the management of the blinkers* (the measure shall however be at a reasonable cost for Fristads, and the problems that Fristads

solve are experienced by the customer as expensive and troublesome). The market activities, especially during the introduction, have huge meaning for the increase of experienced value on the potential customers. It is about to tempt the potential customers to test and later to fix the value a product has (Ekelund, 1981)

In product introduction stage it can be more important to involve the dealers than the end-customers (Gustafsson, 1998). ***Fristads shall provide beforehand information to the dealers with detailed information in good time in advance before the product launch, and let the dealers to have the opportunity to involve and contribute to the planning stage.*** For instance, I believe the dealers who have participated in my interview will be more positive and enthusiasm in the accomplishment of the new work wear with blinkers than otherwise.

Fristads shall not neglect an appropriate name for the new work wear with blinkers. It may create an unexpected unique experience for the user. An appropriate name that the customers can relate to and it is associated with authority power and safety. Barely a name will not make a miracle but I believe it will increase the user's emotional value and strengthen the product experience as something new and useful which the customers are willing to pay for (Österåker, 2010). Expose the new work wear in exhibitions and let it be written by the magazines and technical journals will further enhance the experience of the product for the potential customers.

5.4.2 Total Cost for the Customer

To understand and value the Total Cost for the Customer (Tk) correctly, we need to have a grasp of the purchasing process. Then we can value the result the product gives the customer against the cost it causes them in the entire flow. From the response of the interviewees I realize that the decision of purchasing is made by the purchasing responsible who normally also has the operational responsibility. As Hanan (1991) has pointed out, the value for the customer varies depend on the position of the decision maker in purchasing. ***Fristads encounter the customers who value lower price for highest performance advantage as the most important.*** The purchaser's decision is affected by the sales force in Fristads. Good relationships and careful selection of products to be presented to the customer play a main role in whether the customer will make an order on the product and in what quantity. As well, the end-users have a large indirect impact on the choice of the product and on the supplier image.

The customers foresee many practical benefits with the new work wear with blinkers. The dealers think the new work wear will create new demands and additional volume. The sale of the current jacket will not be affected, unless the new law has such tough requirements that the current jacket without flashing light can absolutely not fulfil them. The new work wear will further generate sales for the dealers' sub-dealers in the smaller city. The branches that traditional not are categorized as high risk will possibly find the new work wear useful in their work. Some possible potential end-customers for the new work wear can be the logistics workers, truck drivers, road workers, and sea crews. New market and sales opportunity will open up for Fristads, e.g. the riders as the new end-user. The work wear with blinkers will not only facilitate the end-users in their daily work with better visibility but also enhance their visibility in general, such as easier to be seen by the safety guard in their own company. An appreciated by-benefit of the flashing light on the new work wear is to use it as a torch. When it comes to the question whether the new work wear will make the user feel safer, the respondents have contradictory opinions. However, wearing the jacket with blinkers, the worker may have an authority feeling as the firemen and the police have. Besides the new work wear will bring income, the dealer will be happy to have the work wear displayed in their retail shop. It will attract more customers, especially the younger ones. According to the interviewees, there will be many new areas and branches the work wear with blinkers can fit in. ***Fristads needs to map the new possibilities the new work wear will bring, and to decide which of them are the actual customer groups Fristads wants to target. Closer collaboration with the dealers who have valuable expertise in the customer markets. Cooperate with the dealers to direct the marketing, which shall be smart and unique, to the strategic target groups that will give the largest effect.***

One of the possible costs for the end-customer that associated with the work wear is the fine of SEK5000 from the authority if the technical control of the work wear availability fails to pass. Better protection on the reflex, for instance nanotech, is proposed. When accident occurs, there are both physical and psychological damages to the victim. The person will have financial lost in the wages, and is suffering from the investigation of accident, long rehabilitation period, depression, and lost of ability to manage the previous work. For the employer, they will have to spend much time in the investigation of the accident and lay out extra costs in hiring a deputy for the worker. The employer's reputation may also be damaged as not providing a safe working environment for the workers.

The new function on the work wear shall not affect negatively to any of the current performances, including the comfort of the material. The light shall only be flashing when it is appropriate and required. Furthermore, a significant rise in price of the new jacket is a concern for the customers.

We realize that there are considerable benefits with the new work wear that can e.g. avoid the failure of technical control and save a employee from knocking down and thereby prevent both injuries and sick leave. However, these incidents happen very seldom and besides there are other possible measures to reduce the occurrence of the problems. *In order to convince the end-customer to invest in the new work wear with blinkers, profit generating advantages are more important than only the cost savings arguments* (Hanan 1991). *Fristads may increase the customer value by improving the product features as like function, comfort, strength, and lifetime.* (see also fig.1 The Price Triad)

5.5 Customer Expectations

The respondents believe Fristads' blinkers are a good solution for the future. Practically they would like to have the flashing light in several modes (flashing light, fix light, light off) and preferably monitored by a sensor. Especially important is the blinkers in the front side of the jacket which shall not dazzle the driver. It is desirable to have the blinkers on the trouser-legs as well.

The expectations of the new work wear are different from the dealers' and the end-users' point of view. Besides satisfactory product features and delivery performance, the dealers are expected to receive detailed information about the novelty from Fristads long before the product launch. In order to promote the new product efficiently, comprehensive marketing is requested. The end-customer company are more focused on the function and comfort of the new work wear.

Fristads can develop the product feature of the new work wear according to these insights from the customers.

5.6 Product Launch and Thereafter

Comparing among the interviewed dealers, Toplux has a more pioneer spirit in the buying motive of new product. The other dealers purchase new product only when the circumstances or competitors exert pressure. However, all dealers are equally careful in taking risks. They are willing to test novelty only if the risk level is reasonable, e.g. purchase a small quantity at the initiative stage and rely on sufficient stock at Fristads and quick delivery when needed. The end customer Borås Energi och Miljö buy new work wear only when they have to. However, they are most open-minded for new product among the respondents and they are eager to test novelty. Both the dealers and the end-users think a trial of the new work wear is the best way to find out how the new product works and what adjustment it needs. The trial may change end-customer's first perception of the new product and make them buy more than they have thought from the very beginning. *It is wise to offer the pioneers to test the new product. Both Toplux and Borås Energi och Miljö seems to be more willing to take a chance of the new product and they are open for new ideas. Offering the strategic customers free samples is a good gesture to maintain the customer loyalty, but also Fristads can utilize these customers to promote the new product to the public and to spread their opinions to the adopters.* The long run demand for an innovative product depends on the number of initial buyers. Making every effort to ensure the pioneers' experience is positive is an essential part of marketing an innovation. (Nagle 2006)

It is worth putting extra effort to segment creatively which gives company opportunity to establish as leading in the selected market segment. *Fristads' customers belong to the customer segment that value high quality prior to low price.* In the growth stage of the product lifecycle, a differentiated product strategy is important. According to Nagle (2006), penetration pricing is less commonly successful for differentiated consumer products, and industry wide cost leadership is attainable without penetration pricing but cost efficient technological leadership, advertising, and extensive distribution. *As work wear market is not particularly price sensitive, neutral pricing is the most appropriate pricing strategy. Skim pricing is an alternative for Fristads* as Fristads usually do not apply for patent for the new product and it is important for the company to utilize the competition advantage in time. Skim pricing is applicable for Fristads since it possibly makes quick pay-back of the investments of development and market introduction. Moreover, Fristads will be in a better competition position if the competitors are 'price-followers' and the high introduction price may strengthen company image of prestige and quality. Besides the market and competitors,

Fristads' own targets in capacity and financial resources are determining for the strategy choice. Later in the growth stage there is normally no aggressive price competition, however reducing price can speed the product adaption process and enable a faster market growth. (Nagle 2006) Once the new work wear has been on the market for a while, historical data become available and is useful when predicting price sensitivity. Even if historical data are so filled with random variations that no conclusions can be drawn from them with confidence, they may still point toward possible relationships between price and sales and other marketing variables that would be worth examining further.

To summarize, my concrete proposals for the pricing strategy for the launch of the new work wear with blinkers:

- An estimated introduction price that the customer may accept is +35% above the current jacket without flashing light. Some improvements on the clothing material and additional functional finesses are however expected.
- Extensive and penetrating marketing is necessary, partly to promote and visualize the benefit of the new product, and partly to strengthen the value for the customers. However, avoid creating an incorrect expectation which will cause opposite effect and a vicious circle of price pressing.
- Particularly important in the introduction stage to grant better 'soft offers' to the dealers and customers, such as recommended in this chapter, but insist the price is genuine and not contenting lots of air.

6 FINAL DISCUSSION

This final section consists of my reflections upon the research. The results of the interview and the analysis are discussed, and further studies and research within the relevant subject are proposed.

The results of the research turn out to be my satisfaction and I have got high qualitative answers to my research questions. From the interview I have realized practically how the customers deliberate their value in relation to the theory, and what parameters are most important for different customers. With this knowledge I could identify and analyse the critical issues in pricing for product launch and thereby formulate my recommendation of strategy for Fristads' new work wear.

I have discovered interesting facts than those I was expected from my qualitative research. The limitation of time makes it only possible for me to conduct the interview with a few persons, which could have led to the problem with the representatives. However the insights generated from the interviews can confirm later by a more formal research as survey to a larger number of buyers. I am confident that the result from this research is reliable enough to draw a first general conclusion since the respondents are carefully selected and they have deep knowledge of the facts that were investigated.

I would recommend conducting the Gabor Granger method again with a larger scale of Fristads' customers in order to define the probability for purchase of the new work wear at every price more exactly. When answers given by a large number of respondents, the price level can be aggregated and produce what looks like a demand curve for market share, and can be analysed statistically. However, as Nagle (2006) said, the buy-response survey may be useful to identify the range of prices that potential customers might find acceptable for a product, although the exact estimates of sales at various prices should not be treated with too much confidence. An interesting finding has been noticed when I was applying the Gabor Granger survey during the interview. This shall be studied and verified further: The respondents tend to accept the first price that is asked with their highest probability for purchase. Is that a coincident or it can be explained with behaviour psychology?

Based on my analysis Fristads is suggested to launch their innovation, the new work wear with blinkers, to the market. Fristads has to consider the possible drawback of being the pioneer as well, i.e. higher development and marketing costs, immature technique, possibility that the new product fails, and it can create a market for the competitors (Gustafsson, 1998). These parameters have not been studied in details since they required a deeper research and it is not hold in the scope of my thesis.

Since the research is focused on Customer Value Based Pricing, my recommendation of strategy is thereby focused on the total customer value. Decision on pricing can however not be made entirely independent of other strategies in the company e.g. strategy in marketing, product, sale, and human resource. The quality the customers associated with the company products are built of all these strategies. Moreover, Customer Value Based Pricing assumes good knowledge about customers' buying behaviour, economy, needs, experiences, etc, and directs focus on the customers' strength and weakness that control the customer's needs. It means also the world around in form of threat and opportunities must be taken into consideration, as well as buying decision model. This knowledge requires broad and deep understandings of the customers and my research can be a foundation for further investigation within these areas. It would be interesting to study further how Fristads' other strategies, as mentioned above, affect the pricing strategy in general respective at the product launch. I am also curious to learn more about the buyers' parameters, their value and variation, and to deepen into customer behaviour and their attitudes toward new product. In my analysis, only the position of the purchasing decision maker in the customer company has been studied. I wish further research can result a theoretical model that describe the Customer Value Based Pricing in a more comprehensive scope.

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Lars-Olof Dahlqvist, Worker, Borås Energi och Miljö, Borås 17 May 2011

APPENDIX

A. Interview guide

1. Tell us a little about yourself, as well as the position and your role at the company?
2. What part of the purchasing process are you involved?
3. What characterizes Fristads product for you?
4. How do you solve the problem of low visibility for workers in high risk working environment?
5. How do you want to solve the problem in question 4 in the future?
6. What advantages do you see in the new product from Fristads?
7. What disadvantages/doubts do you see in the new product?
8. What expectations do you have on the new product?
9. What adjustments are required from you in order to take advantage of the new product's benefits?
10. Besides your purchasing organization, who can benefit from the purchase of this new product?
11. Which product features are important for you? Please rank them.
12. What are your motives when you buy new products?
13. How much risk are you prepared to take on new products?
14. Do you think that jacket in smart textiles with light-emitting diodes is something new?
15. Would you consider buying the new product for a unit price which is +30% over a similar jacket without light-emitting diodes? What is the probability, 0-10, that you will buy? (Repeats the same question to the customer but with +40%, +50%, respectively +20% instead)
16. How many samples of the new product would you consider to buy if the unit price is +30% over a similar jacket without light-emitting diodes? (Repeats the same question to the customer but with +40%, +50%, respectively +20% instead)