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**Setting Price and Discount Policy**

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**Master Thesis**

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## **Abstract**

**Purpose** – This dissertation develops a pricing strategy and discount policy for a manufacturing company (apiculture) based on exploratory case study.

**Methodology/approach** – The methodology used for this dissertation is exploratory case study with in-depth semi-structured interviews for customers and employees of the company. The study is based on 13 interviews, 11 customers and 2 employees of the company. Additionally, an in-depth interview has been performed with the Corporate Development Manager of the company with the aim to understand the company business model and customer experience.

**Findings** – The findings from the case study suggest that the most appropriate pricing strategy for this company is value-based and the most suitable pricing method is perceived-value pricing. An iterative pricing obtaining process is developed and proposed further in the study, based on the case study and on the literature findings. Discount policy has been defined for the JGS Beekeeping company based on the results of the interviews with the company customers and it has been validated with the Corporate Development Manager. The discounts established are for quantity, loyalty members, shipping costs and company employees.

**Research limitation/implication** – The study is limited in terms time; therefore, the pricing strategy and method should be further validated within the company and in another manufacturing company contexts.

**Originality/value** – This dissertation represents the concepts in Marketing Management, mainly the Marketing Mix, with focus on the price, pricing strategies and pricing methods.

**Keywords** – Pricing strategy, Pricing model, Discount policy, Manufacturing.



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# 1. Introduction

## 1.1 Context and Motivation

This objective of this research is to provide a setting price and discount policy approach in the context of a manufacturing company in Portugal. This study was carried out by performing a literature review on price setting strategies, methods and discounts, and performing a real-life case study at a manufacturing company.

*“Price is the one element of the marketing mix that produces revenue; the other elements produce costs. Price also communicates the company’s intended value positioning of its product or brand.”* (Kotler & Keller, 2016)

Kotler & Keller (2016) explain that the pricing decisions consist of a few factors – the company, the customers, the competition and the marketing environment.

In modern society the discount pricing has become an inseparable part of the pricing strategy of every company. At the same time, it is also an inseparable part of the customers’ expectations (Kotler & Keller, 2016). On a market where the journey of each customer is getting easier in terms of access to information about the product and competition and the choice to buy or not is based on all the parts of the marketing mix been equally attractive, it is crucial for all companies to invest more and more from their budgets in price promotions to attract the customers attention to their brands or services (Johnson, et al., 2013).

For managers it is important to know what strategy is best to adopt when deciding how to promote their products. Price discounts are quite costly and may have damaging effects in terms of reducing consumers reference prices (Hardesty & Bearden, 2003), undermining perception of quality (Darke & Chung, 2005), and hurting brand image and brand equity (Mela, Gupta, & Lehman, 1997). Thus, it is crucial knowing what type of promotions are preferred and valued by consumers.

Nowadays, the information revolution has made prices everywhere more transparent, making customers increasingly price sensitive. The globalization of the markets, even for the service, has increased the number of the competitors and often lowered their cost of sales. The high rate of technological change in many industries has created new sources of value for customers, but not necessarily led to increases in profit for the producers (Nagle, Hogan & Zale, 1986).

Concluding price is critical for business, as such the main motivation and objective of this dissertation is to get a deeper insight and knowledge in pricing strategies applied to the specific context of apiculture.

## 1.2 Problem description

The project was developed at the company JGS Beekeeping in Cabeceiras de Basto, Portugal for the period of 5 months (February – June 2018), aiming to define pricing and discount policies. The main problem of JGS Beekeeping is having the discounts defined when the sales are being done, because there is not a clear price policy established. The outcome is that different customers have access to different prices in equal circumstances.

This leads to lack of consistency and coherence, resulting in an internal issue between customers and the employees responsible for sales.

The price is important for the image of the company, which is now selling to distributors B2B and to beekeepers B2C. Since the company is selling the same products in Portugal, Spain and France, it will be necessary to define the pricing model and discounts for different customers segments.

To set the price is important to know the cost structure, which is a problem when it comes to products made internally (beehives), since there are costs that are not easily calculated. Because of that it is difficult to set a price for these products based on the margin.

This project aims at helping the company to create a more professional relationship with different suppliers and customers. It will be important to be established different price stages to apply discounts – rappel discounts. Also, it is necessary to define a concrete pricing model.

JGS has been on the market for 75 years, manufacturing pine wood products from the beginning. In the last decades the company had most of its revenues coming from packaging – wooden component to pack fruit and vegetables. JGS Beekeeping is a traditional-owned company and the manufacturing process at the company is a high-quality one. However, lately it is facing increasing competition from low cost competitors from Asia or Eastern Europe (machinery). The company wants to be a service provider with high-quality and higher prices competing in the premium market and moving away from competition from these low-cost competitors, thus keeping the same level of quality customers already associated to JGS's products. The company wants to become Portugal's (short-term) and Europe's (long-term) first choice solution partner for both private and commercial beekeepers.

The service and product offered are a carefree package for beekeepers, facilitating their work by identifying and responding to their needs at a very early stage. All the performance is driven by the core values: ecological friendliness, applied innovation, premium quality, add-on services and credibility. The company truly believes that with this positioning strategy the customer loyalty will be enhanced, and constant sales can be generated. Therefore, this research is focused on defining a suitable pricing model for the company and at the same time to satisfy and attract more customers.

The project involved literature review, practical experience at the company and interviews with company's customers. Moreover, to find the best pricing model and discount policy, a customer-centric approach was applied to learn from the customers, their needs and behaviour in terms of their buying-decision process.

### **1.3 Research Question**

After performing the literature review, defining the literature gap and considering the company problems, the research question was defined in the following way:

- How to set a price and discount policy within a manufacturing company?

### **1.4 Report Outline**

This document is organized as follows:

- Chapter 1 – Introduction: describes context and motivation, prices and discount policy itself, research question and method;
- Chapter 2 – Literature Review: critical and depth analysis of relevant literature;
- Chapter 3 – Methodology: explanations and theories being used, the methods and the type of analysis that will be used to interpret the data and information collected;
- Chapter 4 – Results and Discussion;
- Chapter 5 – Conclusion and Future Research.



## 2. Literature Review

*“A researcher needs an effective literature review to uncover what is already known in the body of knowledge prior initiating any research study”*

(Jarvinen, 2008)

This chapter introduces the concepts identified from the performed literature review by the researcher. First, as this project aims to set product price, marketing mix and its elements – price, product, place and promotion have been introduced. Afterwards, literature review is included on the following topics – pricing strategy, pricing methods, discount methods, Customer segments, Customer journey and Business Model Canvas. At the end it is identified the research gap based on the existing literature.

### 2.1 Marketing mix

The marketing mix is a group of strategical marketing instruments that companies combine with the aim to result in positive response from the target market. The marketing mix contains each item/effort that the company can do to affect the demand for its product. The marketing mix (Figure 1) contains 4 factors known as the “four Ps” – product, price, place and promotion (Kotler, et al., 2004).

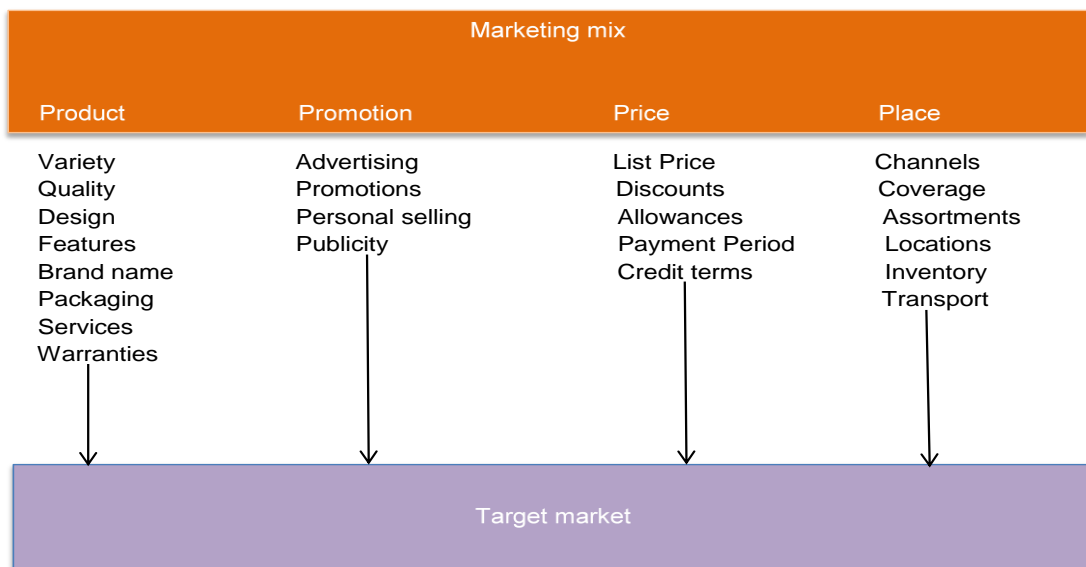


Figure 1. The four Ps: Marketing mix Source: Kotler, Wong, Saunders, Armstrong 2004

The 4 P's are explained separately in the paragraph below.

#### Product

The main component in the marketing mix, as well as in a marketing offering of a company is the product. The product is a physical or intangible offer to a market for attention, attainment, use or consumption that is needed or wanted by people. i.e. physical objects, services, people, places, organizations and ideas. The product or service is something material than can be touched, such as a bike, phone or food product, or it can be something intangible like a haircut, a digital product or service, or a travel experience (Kotler et al, 2004).

## **Price**

Kotler, et al (2004) defined price as: *“the amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service”*. Financial elements such as profit margins, production costs and competition are the factors affecting a business and they all build and affect the final product price (Kotler et al, 2004).

## **Promotion**

The promotion element of the marketing mix is about the company’s strategy of actions that are aimed at communicating the product or service in question and its excellence to their target customer segments and influencing them to buy. Effective communication is in the core of “promotion” and being able to get the message across to the target customer and capturing or retaining a customer is a challenging process. Thus, marketers should have the abilities to communicate effectively the value of the offered product or service (Kotler et al, 2004).

## **Place**

Place refers to the actions that a firm takes to make the product or service accessible to the target market (Kotler et al, 2004). Information and communication technology and physical distribution channels are those involved in the 4<sup>th</sup> element of the marketing mix. Place is the element which strategy’s influences the delivery of the products and services to the customer. This plays a key role in customer value perception and quality perception of the overall company’s offering (Kotler et al, 2004).

Moreover, the 4 P’s refer to the 4 C’s in the marketing mix, which means that the product is the one who satisfies customer needs and wants; the price is the one bringing cost to the customer; place provides the customer with convenience in terms of product/service availability; and the promotion is the one through which companies communicate to their target audience (Kotler, et al., 2004). Since this project is focused on price, the next sub-chapter is about its relevance and strategies.

## **2.2 Price**

Prices are crucial in each field of the economy and society. This is because price is present in each peoples’, families’, communities’, business ventures’ and non-profit organizations’ decisions. Moreover, the price of specific products can affect profoundly the national economies and sometimes the entire world market (Reketyes & Liu, 2018).

### **2.2.1 Defining pricing strategies**

The pricing decisions of companies for products and services are guided by a pricing strategy. This includes the systematization of each pricing activity corresponding to the products and services in question. The pricing strategies are impacting company’s profitability, the process may take longer phases, for example from 6 months to 2 years and they are different for the different industries, countries and customers (Morris & Calantone, 1990). Pricing strategies have been categorized in three groups shown on Figure 2.

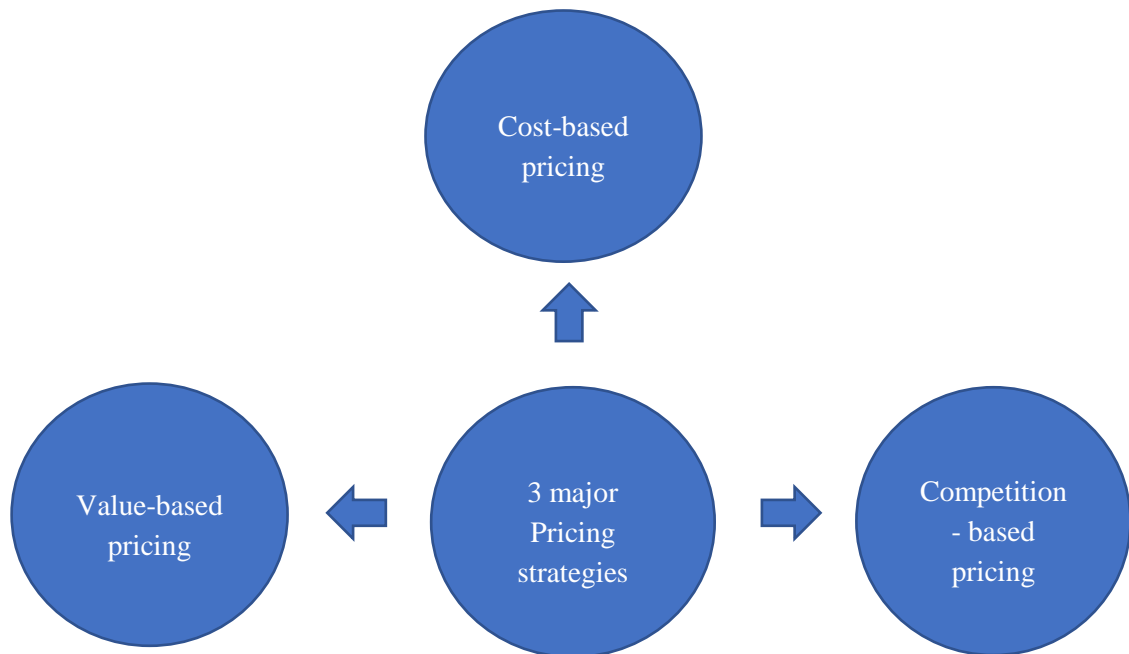


Figure 2. Based on Types of pricing strategies Source: Nagle, Hogan and Zale, 2006

### Cost-based pricing

In most industries the unit costs change with the volume manufactured. This makes it impossible to determine a product's unit costs before determining the price. The reason for that is that a big part of the costs is fixed and somehow need to be distributed to define the full unit cost. This distribution depends on the volume and in the same time the volume changes same as the price changes.

On the other side cost-based pricing assumes that the price can be set without affecting volume. The effect of that assumption leads to pricing decisions that undermine profit. The price increases because of the need to cover the higher fixed costs, but a decrease in sales results in increase of the average unit cost. In cases when the sales are high that supposed, fixed costs can be put over more units thus, resulting in a decline in the average unit cost. As stated in the cost-based theory, there is a general demand after lower prices. The cost pricing is "overestimating" on weak markets and "underestimating" on strong markets. Finally, the person responsible for the prices should consider if the price will emerge in a change in profit that is going to be sufficient to cover the displacement in total fixed variable costs. If the change in revenue minus change in variable costs is negative, the company makes less revenues to cover the fixed costs (Nagle & Hogan, 2006).

Figure 3 demonstrates that some companies create good quality products, but with less value. The corresponding departments in the firm engineer and design the products. During the process, they invest to add features and services. The financial department calculates these costs to establish and define target prices. At this phase, marketers are supposed to define sufficient value in these improved products and services, because this is going to be the reason for premium prices to customers (Nagle & Hogan, 2006).



Figure 3. Based on Process of cost-based pricing Source: Nagle, Hogan and Zale, 2006

### Competition-based pricing

This pricing strategy can be established in two different manners, first the company may use it to establish prices like their competitors. The second one is the one used more often, it is to equal the price of their rivals' corrections proportionally to maintain the favoured price difference (Shipley & Jobber, 2001).

According to Shipley & Jobber (2001) this pricing strategy is not difficult to implement and promises price wars. It neglects the detail that, similar prices do not assure the same competitiveness, because this involves customer-perceived value of product/service attributes.

### Value-based pricing

According to Frenzen, et al. (2010) *"the last few decades, customized marketing and sales activities, including individualized pricing has increased."*

Value-based pricing refer to prices established based on the customers' value received from the company's product or service (Morris & Calantone, 1990).

Value-based pricing is considered as a competitive advantage because the rivals cannot duplicate it straight away. Some companies acquire customers by setting lower prices, however the creation of more value to customers is the cornerstone of the value-based pricing strategy (Nagle & Hogan, 2006). Evaluating customer value is not an easy task, especially setting a price on the determined value. Thus, this type of pricing requires more time and efforts, and it usually fits very well smaller businesses that are highly specialized in their area (Bragg, 2010). Figure 4 presents the process of value-based pricing strategy (Nagle & Hogan, 2006), and in contrast with the process of cost-based pricing, it is demonstrating that the process starts first from understanding the customer need and creating value for the customer by satisfying this need.



Figure 4. Based on Process of value-based pricing Source: Nagle, Hogan and Zale, 2006

Hinterhuber, (2008) presents a comparison (Table 1) of the three main pricing strategies (cost-based, competition-based and value-based).

Table 1. Comparison pricing strategies (Hinterhuber, 2008)

	<i>Cost-based</i>	<i>Competition-based</i>	<i>Value-based</i>
<b><i>Definition</i></b>	Cost-based-pricing approaches determine prices primarily with data from cost accounting	Competition-based pricing approaches use anticipated or observed price levels of competitors as primary source for setting prices	Customer value-based pricing approaches use the value a product or service delivers to a predefined segment of customers as the main factor for setting prices
<b><i>Examples</i></b>	Cost-plus pricing, mark-up pricing, target-return pricing	Parallel pricing, umbrella pricing, penetration/skim pricing, pricing according to average market prices	Perceived value pricing MPerformance pricing
<b><i>Main strength</i></b>	Data readily available	Data readily available	Does take customer perspective into account
<b><i>Main weaknesses</i></b>	Does not take competition into account	Does not take customers (and customer willingness to pay) into account	Data are difficult to obtain and to interpret Customer value-driven pricing approach may lead to relatively high prices - need to take long-term profitability into account Customer value is not a given, but needs to be communicated
<b><i>Overall evaluation</i></b>	Overall weakest approach	Sub-optimal approach for setting prices; appropriate for commodities (if- and only if-	Overall best approach, direct link to customer needs

products/services in  
question cannot be  
differentiated)

### Setting product price

Kotler & Keller (2016) introduce the six main steps in setting a company product price: selecting the pricing objective, determining demand, estimating costs, analysing competitors' costs, prices, and offers, selecting a pricing method, and selecting the final price.

The first step is selecting the pricing objective which may include survival. This might be due to high competition and means that the company is able to stay in the business only by covering its variable costs and some fixed costs. Another pricing objective can be to maximize current profit, to maximize market share, to maximize market skimming or to become product-quality leader (Kotler & Keller, 2016).

The second step is to determine the demand level and impact on a company's marketing objectives. Usually, the higher the price, the lower the demand, however for some customers the higher price stands for a better product. Furthermore, low-cost products correspond to less price sensitive customers. Some of the factors that reduce price sensitivity are the following: distinctive product, less awareness of substitutes, difficulty to compare the quality of substitutes, buyers cannot store the product, the product is assumed to have more quality, prestige, or exclusiveness. Some of the methods to estimate the demand curve is through surveys. This can help the company to understand how many units the customers would buy at different suggested prices (Kotler & Keller, 2016).

The third step involves calculating or estimating the total costs to produce the product. This involves calculating the variable and fixed costs of the company, where the variable costs vary with the level of production and the fixed costs are those that do not change with production level or sales revenue (Kotler & Keller, 2016).

The next step of the process is to analyse the competitors' costs, prices and offers. For example, if the company offers features that its competitor doesn't offer, then this is a differentiation point which may create an extra value for the customer. This might be a point of setting a higher price than that of the competitor (Kotler & Keller, 2016).

The last steps are selecting the pricing method and the final product price (Kotler & Keller, 2016). The pricing methods are represented in the next sub-chapter.

#### 2.2.2 Pricing methods

The pricing method is part of the pricing strategy. Pricing strategies and methods are not applicable in a fixed form to every type of business. They should be adapted according to the specific requirements of the corresponding business (Mannukka, 2005). Moreover, Mckinsey Company's consultants revealed that the quickest and most efficient way for a company to earn maximum profit, is to set its price through customer-centric approach (cited in Mannukka, 2005). This sub-chapter introduces the pricing methods represented in Kotler & Keller (2016).

### **Mark-up pricing**

Mark-up pricing is the easiest pricing method which represents adding a standard mark-up on the top of the product's costs. This pricing is successful only if the marked-up price reaches the anticipated sales. With this method, vendors can define costs much easier than evaluating the demand, thus pricing is simplified. Second, this method causes pricing similarity among the industry, thus minimizing price competition. Last, cost-plus pricing is considered acceptable for both buyers and sellers (Kotler & Keller, 2016).

Moreover, the mark-up pricing depends on the level of fixed and variable costs, the existence or not of tax on profits and the level of expected demand (Frazer, 1985), thus it can be concluded that Mark-up pricing is associated with cost-based pricing strategy.

### **Perceived-value pricing**

Perceived-value pricing is used by many companies nowadays, which means that they set their price according to the perceived value of their product or service. This pricing method is successful, when the customer perceives the value delivered by the company which was promised earlier in their value proposition. Advertising, sales force and internet are just the basic elements which are used by marketeers to enhance perceived value in buyers' minds (Kotler & Keller, 2016). According to Bonnici & Channon (2015) this pricing method is applied when the perceived value of the product is much higher than its cost. Based on this, we can conclude that this pricing method is part of the value-based pricing strategy.

### **Value pricing**

This type of pricing aims at attracting many value-conscious customers by reengineering the company's operations to become a lower-cost producer, but with the aim to keep its product quality (Kotler & Keller, 2016). Many managers doubt about lowering prices when there is a reduced market demand during a recession. Then, if customers receive less value from the product or service because of the recession, prices should indicate that. However, if the competitor is lowering the prices and providing customers with better alternative, this is no longer value-based reason for someone to buy the product (Nagle, Hogan & Zale, 1986).

#### **2.2.3 Discounting**

Discounting is attractive and useful to both the seller and the client, because on one side it leads to immediate profit and on the other results in a lower price. If a company has a discount strategy that is in line with its pricing strategy this will provide sustainability and offer an opportunity for a temporary price cut. It is crucial to set the regular price at the highest level possible to avoid the need to increase the prices when there is interest towards the product. This will also allow multiple discounting tactics to be used. Nowadays this tactic is rarely an exception and is often taken for granted. (Nagle & Hogan, 2006)

### **Pricing and discounts in manufacturing context**

Designing price discount program can increase the position of the company with the target segment. This can be a benefit in a long-term if the rivals are not able to establish the same discount price (Day & Ryans, 1988).

In the literature have been found two types of discounts – quantity discount and shipping cost discount.

A lot of suppliers hope to see that their customers are purchasing a considerable quantity of their products. If the individual orders are made frequently, the total annual sales will be higher. Surprisingly, if the purchases are gradually decreasing frequency rates, the larger individual purchases can still be profitable to the supplier (Monahan, 1984).

The use of quantity discounts represents a few economic advantages. First, the supplier need to revise the orders of his customer and after that to decrease his yearly order processing costs. Another important part is the manufacturing cost savings which is possible by larger customer orders. This is more specified for manufacturer who is producing his own production. The larger orders will mean longer production during the year and will increase the manufacturing process. Other important costs are shipping costs which is helping to develop the quantity discount schedule. The larger order will allow the company to assure transportation discounts. Finally, larger individual orders will change the existing model of orders that was used during the years (Monahan, 1984).

### **2.3 Customer segments**

The modern pricing should be fully customer oriented and efficient price settings should be based on customer reactions instead of the company's own costs and circumstances. Moreover, customers perceive pricing methods differently, therefore the same methods are not appropriate to all customers. Hence, pricing methods should be determined to fit the specific profiles and preferences of each customer segment to achieve the most beneficial impacts on their price perceptions (Mannukka, 2005).

The customers are grouped in such a way that segments possess common user requirements, similar sales or distribution channels, and recognizable competitors. Customer profiles are developed for each segment and measures of segment attractiveness are constructed. Grouping those customers having similar buying behaviours into different segments provides the basis for the development of efficient marketing strategies (Berry, et al., 1995). One of the instruments that provides a detailed profile of hypothetical target consumers is the personas (Kotler & Keller, 2016).

As this project is developed in the beekeeping sector, it is important to understand and distinguish the different customer segments within the industry. In Europe the beekeeping activity is categorized in three main groups – hobby beekeepers, part-time beekeepers and professional beekeepers. The hobby beekeepers are making profit from their beekeeping activity. For part-time beekeepers is known that their beekeeping activity is not the main source of income. To define beekeeper like professional beekeeper is depending on the number of colonies that they own. Another characteristic that is differentiating

professional beekeepers from the other types is the size or source of income (Cauquil, et al., 2013).

Beekeepers can also be defined in two different scales depending on the production volume – small and large. To be categorized as small or large, the beekeeper need to have a specific number of colonies from which he is extracting honey per hive and honey productivity of an area. Some of the benefits that are helpful for profitable beekeeping are: larger areas of land, easy access by road, to be used support plants that are good source of honey and good weather (Corbet, et al., 1991).

When it comes to small-scale beekeepers, Corbet, et.al (1991) explains that their colonies should be located nearby to their homes and they can extract more natural floristic diversity. For the large-scale beekeepers it is important to locate their beehives in different areas, because if too many beehives are in one place, the productivity will fall, and the diseases problem will increase. If the bees are periodically transferred and close to flowering crops the result is larger volume of honey production.

### **Customer Journey**

Customer journey can be framed as coherence of occurrences that the customers need to pass and learn about, to buy and cooperate with the company, including experience, services and goods (Norton & Pine, 2013).

A lot of companies would like to be customer focus and they need to follow way of events showing what are facing their customers. It would be helpful if they use customer journey which is the result of the execution agreed strategic plan. The journey will start with scenario of different events that the companies deliver value to the customer, bring success to the company and distinguish from the competitors (Norton & Pine, 2013).

The customer journey will help to the company to improve its innovativeness, to change the old business model to new depending on the customer's needs. Another benefit from customer journey is for the management side that will show to the company how to be customer focus and successful (Norton & Pine, 2013).

The customer journey is showing important moments from the beginning until the end of the whole customer experience. Between the customer journey and company strategy is existing relationship which is assuring framework of the business model. Designing scenarios by understanding key elements the company can understand better customer needs and wants, the value proposition, resource division, channels, revenue division and cost structure (Norton & Pine, 2013). The Customer Journey contains 5 major steps, represented on Figure 5: Awareness, Consideration, Purchase, Retention and Advocacy. The steps during the journey are divided into Digital, that stand on the top of the figure (Online Ads, Email, PPC, Social Ads, Reviews, Blog, Media, Website, Community Forum, Blog, Social Networks and Newsletter) and Physical, that stand on the bottom of the figure (PR, Radio, TV – Print, Word of Mouth, Direct Mail, E-commerce, Store, FAQ Knowledge Base, Promotions).



Figure 5. Customer Journey

### Business Model Canvas

The Business Model Canvas is formulated by Alex Osterwalder and Yves Pigneur and offers a graphic illustration of the business model and the elements that show the values of an organization (Osterwalder & Pigneur, 2010). The Business Model Canvas consists of 9 building blocks: Customer Segments, Value Proposition, Customer Relationships, Channels, Key Activities, Key Resources, Key Partners, Cost Structure and Revenue Streams which introduce how companies organize themselves to create, communicate and deliver value to their customers (Osterwalder & Pigneur, 2010).

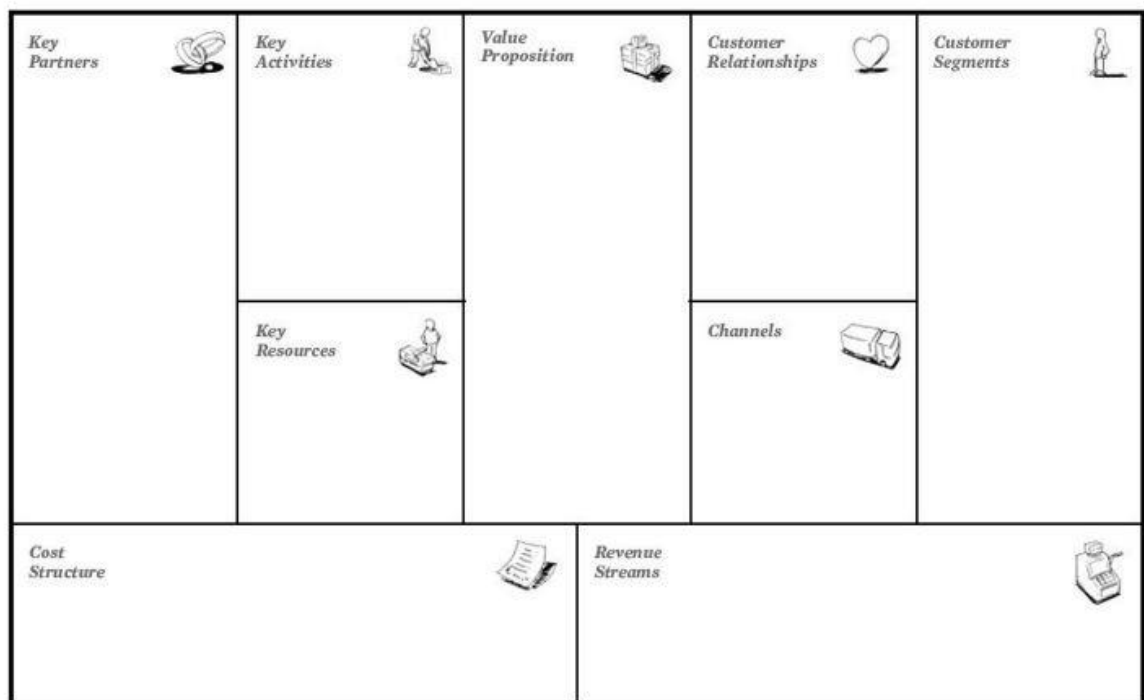


Figure 6. Business Model Canvas Source: Strategyzer.com

## 2.4 Research Gaps

The authors Johnson et al., (2013) developed two discount models - empirical and optimization model. Those models cannot be used in the manufacturing sector because they only allow for the retailers to offer deals with one manufacturer. Another constraint is that they are based on the moment of purchase rather than motivation for purchase. They are concentrated on the discount opportunity as a time point and its accuracy. One more limitation is integration of several characteristics of current purchase such as quantity and store choice. However, all these continue to be promising paths for future research.

Another discount model is the traditional quantity discount model designed from the buyer perspective by Monahan (1984). The model concentrates on the buyer's total inventory related cost by advising the buyer how to best respond to the fixed discount terms of the supplier. This model takes also in consideration how many discounts should be proposed and what terms should be offered. Based on that, it is developed an optimal quantity discount pricing schedule, to be used by the supplier in his attempts to obtain larger orders from his customers.

Monahan (1984) used an analytical method to design the terms of an optimal discount pricing schedule concentrating on the seller. The model portrays how by knowing its major customers and being able to forecast their reaction towards a given discount, a company can increase its credibility and profit. The executives in the company should however be aware of the risks in case there are more than one customers involved, because the discount should be public and available to all qualified customers. This model can also affect the profits in different ways (both positive or negative) because the initial data is based on only one customer. If the goal is to adapt the model to a multiple-customer situation an additional research will be required.

Based on everything mentioned above, it can be concluded that the manufacturing sector needs a better view of what kind of discount policy can be implemented in a manufacturing company. What kind of discount to be used and how this will help to increase the profit of the company, to attract new clients, and to retain existing ones?

Pricing strategy is the plan a company uses to determine the price for its marketing offerings. There are three main categories of pricing approach: cost-based, competition-based and value-based pricing. The total revenue generated for the sales multiplied by the volume of the sales must cover the costs and allow a sufficient profit margin in order for the company to be profitable. The process varies depending on the industry and market conditions, as on the strength of the company compared to its competitors and in some cases even depending on the local regulations. Pricing strategy is a key factor in financial modelling. It is crucial for the revenues, profits and the reinvestment in the company in long-term perspective (Bonnici & Channon, 2015).

Cunningham & Hornby (1993) analysed the difference between manufacturing and non-manufacturing companies. According to their research the pricing tends to be more customer oriented and as a result more flexible in the service and distribution sectors on the market. They detected also that small companies are not as invested in the competition

and do not follow the cue of their rivals. They are aware and alert, but they want to individuate themselves and avoid “head-on” price competition. The companies need to know their customers and what their needs are, and what they have to offer to fulfil those needs.

The literature review showed that none of the studies that are based on pricing and discounts offer a practical approach to pricing strategy, pricing model/method and discount policy in manufacturing firms in one article. Therefore, to fulfil this gap, this study will focus on a practical approach of proposing a pricing strategy, pricing model and developing a discount policy in a manufacturing context, based on a real-life case study.

### **3. Methodology**

This Chapter represents the comparative analysis of existing approaches and the method used in this project.

#### **3.1 Comparative analysis**

The collection of primary data allows the obtaining of meaningful understanding and perceptions (Bush, Hair, Ortinau, Shiu, 2009). The main methods used to collect primary data are qualitative and quantitative research methods. The main difference between them lies in the research goals, type of research, type of questions, time execution, representativeness, type of analyses, research skills and generalizability of the results (Bush, et al., 2009). For example, if the researcher aims to discover and identify new ideas, thoughts, feelings, preliminary insights on and understanding of ideas and objects, then qualitative research would be the more suitable method. However, if the research goal is to validate facts, estimates, relationships and predictions, then it is recommended quantitative research method (Bush, et al., 2009). Moreover, the qualitative research involves exploratory designs with open-ended, semi-structured, unstructured or deep probing types of questions. On the other hand, the quantitative method involves descriptive and causal design and the type of questions are mostly structured (Bush, et al., 2009).

Furthermore, quantitative research usually involves surveys or experiments and is considered as a central component of the research industry for collecting marketing data. This research method uses structured questions, pre-determined response options in questionnaires and it is aimed at larger numbers of respondents. The main goals of quantitative research are to provide clearly defined facts to decision makers which further will be able to make correct predictions about relationships between market factors and behaviours, validate existing relationships and test different types of hypotheses (Bush, et al., 2009).

Qualitative research usually focuses on the collection of detailed information from small samples of subjects by asking questions or observing behaviour. It is possible to collect the data for short periods of time; however, it is hard to summarize the data into relevant findings fast. Usually, the researcher is limited by the non-structured format of the questions and by the small sample size, which usually do not allow generalization to the population. One of the most relevant uses of this research method is in resolving business problems, mostly in the areas involving customer behaviour and decision processes. The major advantages of the qualitative research method are that they are economical and timely in contrast to the quantitative methods. In some cases, researchers can finish the investigation faster and at lower cost. Moreover, this research method provides richness of data and some qualitative techniques permit decision makers to obtain first hand experiences with customers and this may allow significant and deeper information about their thinking patterns. The researcher is able to predict consumer behaviour in the marketplace based on the in-depth information from the qualitative research and also to establish improved marketing constructs and more reliable and valid scale measurements of those constructs. One of the main disadvantages of the qualitative research is the raw

data generated which is limited by its inability to distinguish small differences (Bush, et al., 2009).

The main qualitative research methods are Focus Groups and In-Depth Interviews.

### **Focus Groups**

Focus group research involves an interactive discussion on a specific topic within a small group of people. The main objective of this research is to provide researchers with information about what people think about the topic. The focus group research is used in order to define and redefine marketing problems, to identify specific hidden information requirements, to generate better understanding of quantitative results, to reveal consumers' perceptions, attitudes, feelings, motives, hidden needs and behaviours regarding products, services or practices, to generate new ideas about products, services or practices, to discover new constructs and measurements methods, and to explain changing consumer preferences (Bush, et al., 2009).

### **In-Depth Interviews**

An in-depth interview is a process in which the interviewer asks a subject a number questions established in advance usually face-to-face. However, in some situations, in-depth interviews can be carry out by telephone (Bush, et al., 2009).

Face-to-face in-depth interviews allow the researcher to collect attitudinal and behavioural data from the interviewee. The use of this method is concentrated to obtain "*preliminary insights into what the subject thinks or believes about the topic of concern or why the subject exhibits certain behaviours*". The main advantages of this method is flexibility in scope of topics to be discussed, uncovering greater depth of insights, avoiding social pressure and it is easier to be arranged. The main disadvantages are in terms of complete reliance on the interviewer, difficulty to average results across different interviewers, time consuming, cost and small sample size (Bush, et al., 2009).

## **3.2 Method used in the project**

The purpose of this study is to understand customers' value perceptions and the factors influencing the buying-decision process. Based on this it will be possible to propose suitable pricing strategy, model and discount policy for the company.

Taking into consideration the purpose of the study and following this statement "*qualitative research methods are appropriate when researchers are obtaining preliminary insights into the personality, attitudinal, emotional and motivational factors that influence marketplace behaviours*" (Bush, et al., 2009), it can be concluded that the most suitable research method for this study would be empirical qualitative with semi-structured interviews (exploratory case study) for customers and employees of the company. Corbin & Strass (2008) refer to the qualitative research as "*understanding people from their own frames of reference and experiencing reality as they experience it*" (cited in Taylor et al., 1984).

The steps in conducting the in-depth interviews were based on the literature (Bush, et al., 2009):

1. Understanding management initial decision problems;

2. Creating the interview guidelines;
3. Deciding the best environment for conducting the interview, some of the interviews were conducted by phone;
4. Selecting and screening the prospective subjects;
5. Contract prospective subjects, providing guidelines and creating comfort zone;
6. Conducting the interviews;
7. Analysing the interviews.

Based on the process described above, the interviews were performed by phone and face-to-face and the research process was the following:

1. Semi-structured interviews with customers aiming to understand their value perceptions and the factors influencing the buying-decision process. To this purpose an interview guideline was defined (presented in Annex A).
2. Interview with the Corporate Development Manager to understand the company business model (presented in Annex B).

The number of interviews to company customers was not pre-defined. Within the time constraints for the dissertation, the objective was to gather as much information as possible. After 13 interviews results reveal that no new information emerged, thus data saturation was reached. *“Data saturation is not about the numbers per se, but about the depth of the data”* (Burmeister & Aitken, cited in Ness, 2015). Moreover, if the author has reached the stage of no new data, he/she also probably reached the stage of no new topics; therefore, he/she has achieved data saturation (Ness, 2015). This led to having the total of 13 interviews.

Some of the interviews were performed by phone and some of them were performed face-to-face with the customers.

Knox & Alan (2009) present some advantages of the phone interviews. First, participants are not required to be present place for the interview, which allows the interviewer to get response even from participants that are living in another city or country. Second it makes it possible for the interviewer to take detailed notes and remarks during that interview, which could otherwise make the respondents nervous or even careful in their answers. Third, it creates research-appropriate relationships between interviewer and respondents and the fourth, it improves of the quality of data collection.

During face-to-face interviews, on the other hand, the conclusions can be based on both verbal and nonverbal data (Hiller & DiLuzio, 2004). When the interviewer is given the opportunity to observe all body language and expression of the respondents this may enrich and affect the provided verbal answers (Carr & Worth, 2001).

The results from the exploratory case study are presented in the next Chapter 4.



## 4. Findings

This chapter represents the results and discussion based on the exploratory case study from JGS Beekeeping in Cabeceiras de Basto.

The interviews were done by a Portuguese speaking employee from the company. Two methods to perform the interviews were used – phone and face-to-face interviews. The interviewer was familiar with the customers and it was important to build empathy with them during the interviews (Bush, et al., 2009), to make it easier for them to share their experience with the company.

The guideline of the semi-structured interviews was based on the research question and on the literature review and they were used as guidance from the interviewer during the interviews to understand which price policy will correspond to the needs of the company and what discounts model will fulfil the expectations and demands of the clients; what they like in the company and their opinion on the quality and price correlation. As the interviews have been designed as semi-structured with open questions, each participant was asked if it is all right to be recorded. Later, the recorded interviews were transcribed for analysis.

### 4.1 Findings related to Beekeepers

The beekeepers and customers of the company are from Portugal and they are situated in different geographical areas. The customers are from Cabeceiras de Basto, Montalegre, Famalicao, Elvas, Montemor, Sabugueiro, Vila Vicosa, Alentejo, Amarante, Marco de Canaveses, Alfandega da Se, Macedo de Cavaleiros, Braganca, Mirandela, Castro Laboreiro, Serpa, Coimbra, Montalegre, Viana do Castelo, Vila Real and Porto. The classification based on the number of the beehives that the interviewees have is 15 beehives - small beekeeper, 240 beehives - middle beekeeper and beekeepers with 700 beehives - big beekeeper.

The respondents marked the most important aspects they consider when choosing a beekeeping company. Some of them explained that the company is located close to them and they do not like to buy online, because they want to come personally and see the products and especially their quality. For the beekeepers it is important that the beehives will handle the season weather because they are situated outside the whole year. Another customer said that the most important aspect is having information about the product, and negotiation flexibility concerning prices and discounts. The customers of the company would like to receive technical support for the machines they are going to buy. One of the big advantages of the firm is that the employee responsible for selling is also a beekeeper, thus he can understand the problems that beekeepers have in general. Many of the respondents explained that the most important aspects when they are choosing a beekeeping company are: price, quality and delivery time. JGS Beekeeping provides fast service to transport the products to the clients. The customers explained that when they order beehives from JGS Beekeeping it takes 1 or 2 months for the products to be delivered which is considerably less than the delivery time at competing companies. The difference comes from the fact that other companies are producing the beehives materials manually, which results in up to 3-4 months delivery time.

*“I am considering if the company is located close to me because I don’t like to buy through websites. I want to see the products that I am buying. Another important aspect is the quality, especially when we are talking for beehives”* – Small beekeeper

*“Quality and price”* – Middle beekeeper

*“Delivery time, quality and price”* – Big beekeeper

In conclusion the most important aspects for the customers are – quality of the products, the acceptable price and fast delivering time. Another positive feedback is that the clients are satisfied with the customer support and polite attitude from the employees at JGS Beekeeping.

### **Customer expectations and experience**

The amount of years that the respondents have been working with the company varies from just few months (new clients) to at least 5 years (loyal clients). All the interviewees said that they are satisfied with the quality of the products and they like to be loyal and will continue working with JGS Beekeeping.

*“I started to work with JGS Beekeeping 2 years ago”* – Small beekeeper

*“I am working with the company since December 2017”* – Middle beekeeper

*“I am working with the company in the last 3 years ago - Big beekeeper*

Some of the interviewees explained that they are making a big purchase once a year, after receiving the European funds for being a professional beekeeper. They usually check what are their needs (food for bees, wax, suppers, cloth equipment) and order everything at once. Other customers explained that they are making purchases frequently (3 or 4 times per year).

The interviewer asked also if they buy usually more than one product at once and most of the clients responded that they prefer to make annual purchase and check what is necessary for their beehives and bees. One of the beekeepers explained that he started to work in this area 8 years ago and he made a big purchase then. After that, he is making only small purchases in case of something is necessary.

*“I am doing this kind of purchase annually. I order some beehives, equipment, wax and bee food. If I need something on the moment I buy only one product”* – Small beekeeper

*“I prefer to buy a lot of stuff in one purchase, it is more convenient for me”* – Middle beekeeper

*“Yes, I like to do orders with big quantity of products”* – Big beekeeper

In conclusion most of the clients are doing big purchases of products once in a year and this is more convenient for them. They are trying to check what is necessary to cover their needs and buy variety of products.

Next, the respondents were asked what they like most about the company. The main positive aspects of the company according to their clients are:

*“I like the quality of the beehives; the workers of the company are nice and helpful. I am a new small beekeeper so when I have some questions they are trying to answer them.”* – Small beekeeper

*“The company is flexible, and they can cover my needs. If I want specific measures for the beehives they can do that and for me as customer, it is important that the company can satisfy my needs”* – Middle beekeeper

*“I like the quality of your products, especially the ones which are made in wood”* – Big beekeeper

We can conclude that high percentage of the customers are satisfied with the customer support, the quality of the products, they think that the price is competitive compared with the average on the beekeeping market and their needs are satisfied.

Another view of the factors that are influencing on the decision to buy products from JGS Beekeeping are:

*“I bet on quality I am choosing JGS Beekeeping because when I am buying I consider the construction, how the beehive was produced. For 2 years I bought beehives from the company and they are still in very good condition.”* – Small beekeeper

*“When I started to be a beekeeper I didn’t know the other companies and what are they offering, but now when I got a better vision on the Portuguese market and when I compare price and quality, I think JGS Beekeeping are on the top.”* – Middle beekeeper

*“The price, quality of the products and transport! Your competitors are charging more expensive for delivering”* – Big beekeeper

Based on the clients’ responses we can summarise that they are satisfied with the product variety of the company and the fact that if they order something specific the company has in stock they will not need to wait on the delivery if with the competitors. The questions that they have are answered as soon as possible and the price of the products being competitive the most important factor for purchase. Another feedback was the relationship that the customers has with JGS Beekeeping. One of the clients heard about the company from a relative, who was satisfied with the quality of the products and recommend JGS Beekeeping. They visit the company, saw the products and decided to work with the firm.

### **Price and Discounts**

One of the most important aspects for the customers and the company is the price. The interviewer asked the respondents – How important is the price for choosing a beekeeping company? What type of discount would be more likely to make you consider a purchase of one or more products? The interviewer received the following responses, represented below.

*“Price really depends on the product. For example, when we are speaking for something important like machines and beehives I accept to pay higher price and to get better quality. In another case when we are speaking for equipment, jars, bee feeding I look for the price. Sometimes if I find better prices in other companies I am buying from them.*

*When we are speaking for discounts here we can speak for a problem, because I never had a discount in the past from JGS Beekeeping and in my case, I am buying small quantity of products, but the company never launch campaigns, we never get discounts. For example, for the next purchase I can receive a discount or client card. Like a loyal client I think it will be nice to receive a discount.*” – Employee of JGS Beekeeping and Small beekeeper

*” The price is really important for me. It will be good if I order 100 beehives and I don’t pay the transportation costs.”* – Middle beekeeper

*“I will surely buy more products if you don’t charge the transportation costs.”* – Big beekeeper

In conclusion the customers prefer to receive discount for quantity and if the company guaranties discount they will buy more. Another factor is the transportation cost which is one of the main concern of the beekeepers, especially for those who come from another part of the country. Other customers confirmed that the price is important, but no matter the what discount they will receive they will buy only what they need, so the discount is not so important for them.

### **Price and Quality relationship**

The next question is related with the price-quality ratio of the company’s products and the clients were asked to share their opinion. Everybody answered positive on this question.

*“It is good considering the products that I bought until now.”* – Small beekeeper

*“In my opinion it is very good and that’s why I am working with the company. I have friend’s beekeepers who are working with JGS Beekeeping and they are satisfied with the price as well as the quality.”* – Middle beekeeper

*“In general, it is good. I am speaking for the main products and beehives, for the quality of the beehives their price is very good. Also, I checked, and the prices of the machines are good, the wax is a bit expensive, but the jars are also on acceptable price.”* – Big beekeeper

The price and the quality relationship are satisfying the customer’s needs. Almost everyone confirmed that they like the quality of the products and that the price is acceptable.

### **The price customers are willing to pay**

On the next question the respondents were asked what they think about the product Colmeia Lusitana Completa’s price? What would be the minimum and the maximum price that they are willing to pay for it? One of the most expensive beehives that the company is selling on the market was chosen for the interview in order to understand what is the price that the clients are willing to pay for this product and what is their attitude towards the current price.

*“I don’t pay more than 60 euros and minimum 30/35 euros with everything. If I pay less than 35 euros I will start to be suspicious.”* – Small beekeeper

*“I am using Langstroth type of beehive and I will not pay more than 40 euros without wax. When I see lower price, I need to see the beehive because I start to be suspicious for the quality of the product. If I see beehive which less than 30 euros something is wrong.”*  
– Middle beekeeper

*“The maximum price that I am going to pay is 40 euros.”* – Big beekeeper

In conclusion the customers would like to pay extra money but to be sure that the product will last longer. Other customers did not comment because they are producing their own beehives to prevent robberies, and this is one of their concerns.

From the answers above it becomes clear that the big beekeeper is willing to pay much less for the beehive, compared to the small beekeeper. That may be based on the order volumes that the two beekeepers would make. If the smaller client will order less beehives the price of 60 Euros is acceptable, compared to the big producer that would need more beehives and is willing to pay 40 Euros. The difference in the price range expectations shows an opportunity for a discount policy that would allow JGS Beekeeping to reach the desired price level for both clients.

### **Extra features and add-ons perception**

The next question concerns extra features and add-ons? Which ones? And if the customers would consider paying more for these extra features.

*“Yes, I would like to have extra features. In the future if I have more beehives for sure I will be glad to have extra features for the beehives.”* - Small beekeeper

*“Yes, of course. When I want something different like size of the frames, or supper I need to pay more. I think that it is normal to pay for this extra.”*- Middle beekeeper

*“For sure and I would like to have my beekeeping number on the beehives. I will pay for this extra service. Another thing that I prefer the beehives to have is the closed roof because in general it is open a little bit and it is possible some animals to remove it and eat the honey of the beehives.”*- Big beekeeper

Each beekeeper has his own needs, but most of them would like to have extra features on the beehives and are willing to pay for them.

### **Competition comparison**

The respondents were asked questions regarding the competition of JGS Beekeeping. Do they buy beehives and equipment from other companies and if yes, why do they do it? How JGS Beekeeping can improve to become the only one behave provider for its customers.

*“Yes, I am buying some products from other companies. I used to buy a small equipment and it is related to the quality. When the quality is not so important I always try to get better price. I used to buy from MacMel Apicultura some products, I buy jars from Amilcar Morgado because the company has better prices. Also, I bought a machine from another company, but if I have some discount from JGS Beekeeping for sure I will buy more products and continue to be a loyal client.”* – Employee of the company and small beekeeper

*“For the beehives I buy only from JGS Beekeeping and I don’t buy from other companies. I only buy from other company’s medicine treatment for the bees. Nowadays the Portuguese law obligate the beekeepers to make this veterinary treatment for the bees.”* – Middle beekeeper

*“I am not buying anything else from your competitors. I am buying only from JGS Beekeeping because of the sympathy of the employees and the relationship that we have is important for me.”* - Big beekeeper

In the section about the competition becomes clear that some of the clients would like to work with JGS Beekeeping because they are satisfied with the products, quality and price of the products, and they mentioned that these are the reasons to work with JGS and not with their competitors. Most of the customers mention again the quantity discounts and shipping discount. This will guaranty the company loyal clients and attract new ones. The answers to this question confirm that the company should further develop the strengths that it has (quality, fast delivery, competent and positive staff).

### **Extra services**

Another question is” Would you consider choosing a beekeeping company which is providing extra service for annual maintenance of the beehives or honey extraction service? If yes, would you pay extra for this kind of service?”

*“Yes, I would like to pay for this kind of service. The small beekeepers need that and here in Portugal this is not so developed like Spain and France. I think it will be great to assure to the clients the whole package of services and products at once.”*- Small beekeeper

*“I would pay for extra service just for the wax. I come to JGS Beekeeping to extract the honey from the wax and after that to be putted again on the frames. In general, this process is expensive, but I would like JGS Beekeeping to provide this kind of service in the future.”*- Middle beekeeper

*“It is an excellent idea! You guys will surely be successful with that kind of approach, considering that no one else is doing it in Portugal, so it will be advantage comparing to your competitors.”*- Big beekeeper

Most of the answers were positive, and the clients liked the idea of having the opportunity to use that extra service. Some of them has their own machines or are located far away from the company and the service will not suitable be for them.

A summary of the findings as well as the areas in which they fulfilled gaps are represented on Table 2 and Table 3.

Table 2. Summary of Findings 1

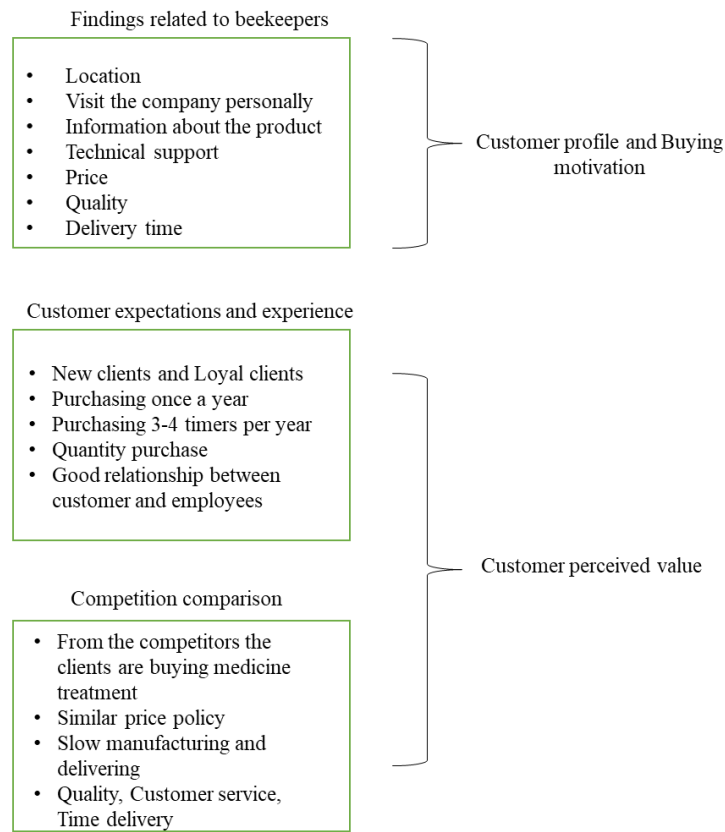
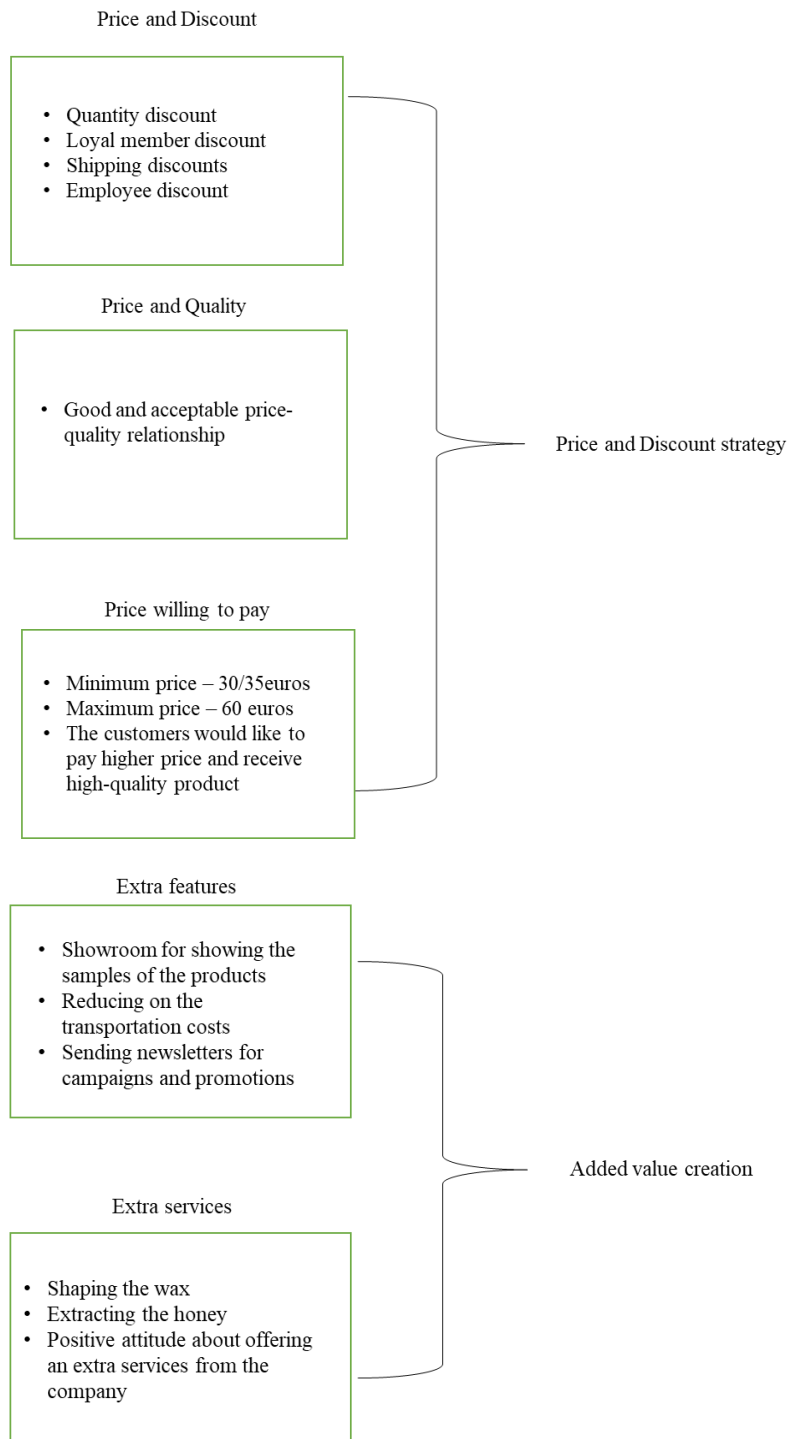


Table 3. Summary of Findings 2



### Recommendations from customers

At the end of each interview, the customers were asked to give recommendations for JGS for future improvements.

*“Yes, I have a few recommendations for the company. First, I don’t like the box of delivering. Last time I receive my products in a box of tobacco and it was strange and in my opinion is not professional. Second, the website can be review from specialist, especially the section with the purchases. Another section which is messy is for the beehives and is not easy to find what you are searching. Third, it will be better if you launch more campaigns. In the different seasons some companies are making discounts for different products and this is attracting more customers.” – Small beekeeper*

*“Yes, I would like to recommend them to have showroom to show samples of their products. Like beekeeper it will be good to have showroom, because I can see whatever I want, buy and make orders in future.”- Middle beekeeper*

*“I have recommendation for the transportation – it will be better if you reduce the costs and use companies that has an electronic elevator to move the pallets with beehives from the truck to the floor.”- Big beekeeper*

The recommendations of the customers will be helpful for the company to define exactly what needs to be improved and developed. Some of the client’s advice the company to put more efforts in their website and online orders because this is a communication channels that can be used broadly for future. Another input from the customers was the need of a newsletters for different events that the company is attending. JGS Beekeeping needs to put attention on the customers feedback and to make interviews or survey which will assure better knowledge of their customers behaviour and perceived value.

A summary of the recommendations is represented on Table 4.

*Table 4. Customers’ Recommendations*

Improve	Add
Website	Launch campaigns
Delivery boxes	Add seasonal discounts
Reduce transportation costs	Add showrooms
Use transportation company with electronic elevator	Create newsletter with campaigns and promotions

The findings from the customers’ interviews suggest that there is a need for discount policy for JGS company to remain competitive on the market and to satisfy their customers’ needs. On the other hand, the results showed that the price-quality ratio is perceived well by the customers, however, there are some recommendations which the managers of the company might consider so they can improve the company’s image. Although, the customers perceive positive the value, price and quality that they receive from the company, the recommended improvements and the development of the discount policy will add extra value for the existing customers, and moreover, it can serve as a

strategy to acquire new customers. The next chapter provide a proposal for pricing strategy and discount policy which the researcher considered as the most suitable for the company's case, taking into consideration all the influential company factors, background concepts from the literature and the results from the interviews.

## **4.2 Corporate Development Manager Findings**

An in-depth interview was performed with the Corporate Development Manager of the company with the aim to understand the company business model and the customer experience. This was important for the researcher because it provided deeper understanding about the company, its customers, products and services that the company is offering. Without these insights it would not be possible to propose a suitable pricing strategy.

### **Stage 1 of Customer Journey - Awareness:**

At this stage the customer is becoming aware of the company's existence. For example, the company's efforts to become visible on the market matter at this first phase.

JGS Beekeeping is using online channels through which is advertising their brand and beekeeping products – website of the company and social media (Facebook and LinkedIn).

They also have offline channels – physical store where the clients can see, try and buy the products. Also, word of mouth, which are the referrals from already existing customers.

Interesting fact is that one of the interviewees mentioned that before starting to work with the company, wrote “colmeia” in Google and JGS Beekeeping showed up on the first place and the client visited the company, liked the products and started to work with it for almost 3 years. This is only one evidence that the company did well on their online awareness/visibility stage.

### **Stage 2 of Customer Journey - Consideration:**

Stage Consideration is the stage where the customer should decide whether to buy or not the product/service of the company.

The customers would like to receive information about the products and they can do this through direct email, phone or visiting the company personally. Most of the clients would like to see the products, to receive information and if they have questions to be answered to them. From the interviews of the clients, it was mentioned that they would like to see samples of the products and one big advantage of the company is that the employees are also beekeepers and they can give them extra information about beekeeping, especially for new beekeepers. Therefore, this facilitates the decision of whether to make a purchase.

### **Stage 3 of Customer Journey Purchase:**

At this stage, the customer makes a purchase.

The customers can make purchases through 4 main channels:

- By email (general email and personal) The ordering process through email is 17%.
- By website, the ordering process is 5% because when the clients started the process for ordering beehives at one moment they are quitting because is taking a

lot of time, the website is not user friendly and the final price does not include the VAT of the products. Therefore, it is highly recommended to improve the website.

- Social media (Facebook and LinkedIn) where the clients are sending personal messages to make an order. The procedure is normal, the only difference is in the channel.
- Physical store where the clients can see the products and decide whether to buy them. Also, they can receive extra information and technical support for the beekeeping products.

At this stage, it can be included discount options for new and loyal clients. Most of the customers mentioned that if they receive discount they will order more because they are satisfied with the products from JGS Beekeeping.

#### **Stage 4 of Customer Journey Retention:**

Retention is the stage at which the company is able or not to retain the customer.

At this stage keep strategies play an important role. Employees assure the client's technical support and they are trying to cover their needs. JGS Beekeeping is providing flexible options for different needs of the beekeepers (different sizes of the frames, including or excluding some parts of the beehives and so on). During the interviews the clients mentioned that they have good relationship with the employees and their positive attitude is one of their strategies to retain existing customers.

#### **Stage 5 of Customer Journey Advocacy:**

At the final stage of the customer journey, the customer decides or not to spread positive word-of-mouth and to share his experience on internet with the company. In the future the company can include questionnaires' to see how satisfied the clients are from the ordering process until the receiving of the product. This will help them to improve their entire process and customer journey. At this stage, customer feedback is very important for the customer. Another option is to create a blog where beekeepers can share their experience and knowledge. The social media is a channel where the company can upload information about the company and engage with its customers. During the interviews. it was mentioned that some of the clients who are located far away from the company would like to receive newsletters for promotions or events where JGS Beekeeping is taking place.

Keeping closer contact with customers can provide the company with many benefits, one of which to improve their entire customer experience, to retain them, and to enhance positive word-of-mouth.

As mentioned previously, the customer journey may help the company to replace its old business model depending on the customer needs. Based on this, the next paragraph represents the researcher's findings about the JGS Beekeeping's business model.

This Business Model Canvas was built with the help of the Corporate Development Manager and is represented on the Figure 7. The company has B2B and B2C segments, however this study focuses only on their B2C segment. Explanation of each building block is represented below Figure 7.

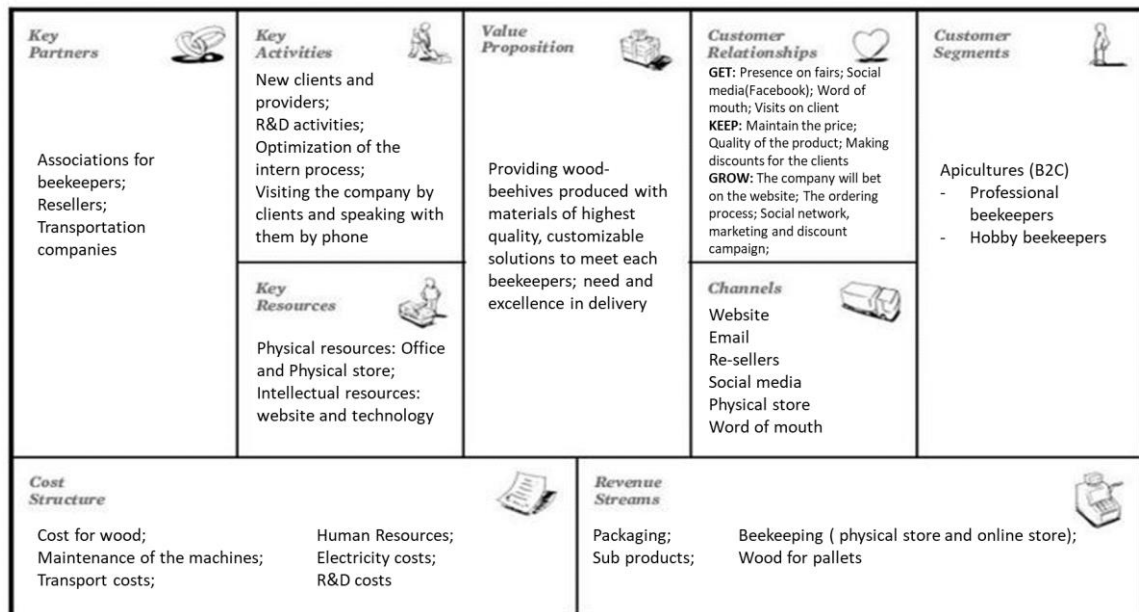


Figure 7. Business Model Canvas

**1. The Customer segments of JGS Beekeeping are divided into 2 types of apicultures:**

- Professional beekeepers;
- Hobby beekeepers;

**2. The formulated Value Proposition of JGS Beekeeping is:**

- Providing wood-beehives produces with materials of highest quality, customizable solutions to meet each beekeeper need and excellence in delivery

**3. The Customer Relationship of JGS Beekeeping has 3 main strategies:**

- GET strategy – Presence on Fairs; Social media (Facebook and LinkedIn); Word of mouth; Visits on clients.
- KEEP strategy – Maintain the price; Quality of the product; Making discount for the clients.
- GROW strategy – The company is bet on the website; The ordering process; Social network; Marketing and Discount campaign.

**4. The Channels of JGS Beekeeping are two types:**

- Online channels – Website, Email, Social media
- Offline channels – Re-sellers, Physical store, Word of mouth

**5. Revenue Streams of JGS Beekeeping:**

- Packaging - wooden component to pack fruit and vegetables;
- Sub products – waste of the wood products’
- Beekeeping - physical and online store;
- Wood for pallets

#### **6. Key Activities of JGS Beekeeping:**

- New clients and providers – the company would like to attract more new clients and providers;
- R&D activities – to buy new technologies related with beekeeping;
- Optimization of the internal process – to find better way to improve the process in the company;
- Visiting the company by clients and speaking with them by phone.

#### **7. Key Resources of JGS Beekeeping:**

- Physical resources – office, physical store and warehouses
- Intellectual resources – website and technology.

#### **8. Key Partners of JGS Beekeeping:**

- Associations for beekeepers;
- Re-sellers;
- Transportation companies.

#### **9. Cost structure of JGS Beekeeping:**

- Costs for wood;
- Maintenance of the machines
- Transport costs;
- Human resources;
- Electricity costs;
- R&D costs.

Applying the BMC to JGS Beekeeping gave a general overview of the business model of the company. Understanding all the building blocks helped in proposing a suitable pricing strategy. Moreover, the building blocks Customer segments, Value proposition, Cost structure and Revenue streams helped in proposing a suitable pricing method further in the study.



## 5. Pricing Strategy, Pricing Model and Discount Policy Proposals

This Chapter represents proposal and development of Pricing Strategy, Pricing Model and Discount Policy, which are thought to be the most suitable for the company's case. They are developed based on the results from the case study and by applying theoretical frameworks from the literature.

After the case study was performed it became obvious that the customers perceive JGS Beekeeping as a company providing product with excellent quality and price ratio with the best delivery time. In fact, we can conclude that their positioning is *“high-quality products for the right price range with the fastest delivery time.”* The company did not have defined a Value Proposition, and thus one was defined as:

*“Providing wood-beehives produced with materials of highest quality, customizable solutions to meet each beekeepers' need and excellence in delivery.”*

The customers' interviews result and looking at the positioning and the Value Proposition of the company, we can understand that the customers perceive well the value of the company and its products, however, the Value Proposition is not communicated through the company channels. Therefore, it is highly recommended the Value Proposition to be communicated as this will facilitate the process of acquiring new customers, who are not aware yet of the benefits of the JGS products. Value communication increases the customer's willingness to pay the price of the product/service received (Callander, 2015).

Moreover, after concluding with the customers' interviews, a hierarchical model of product quality and value can be introduced which represents how customers perceive the value of the beehive products (Figure 8).

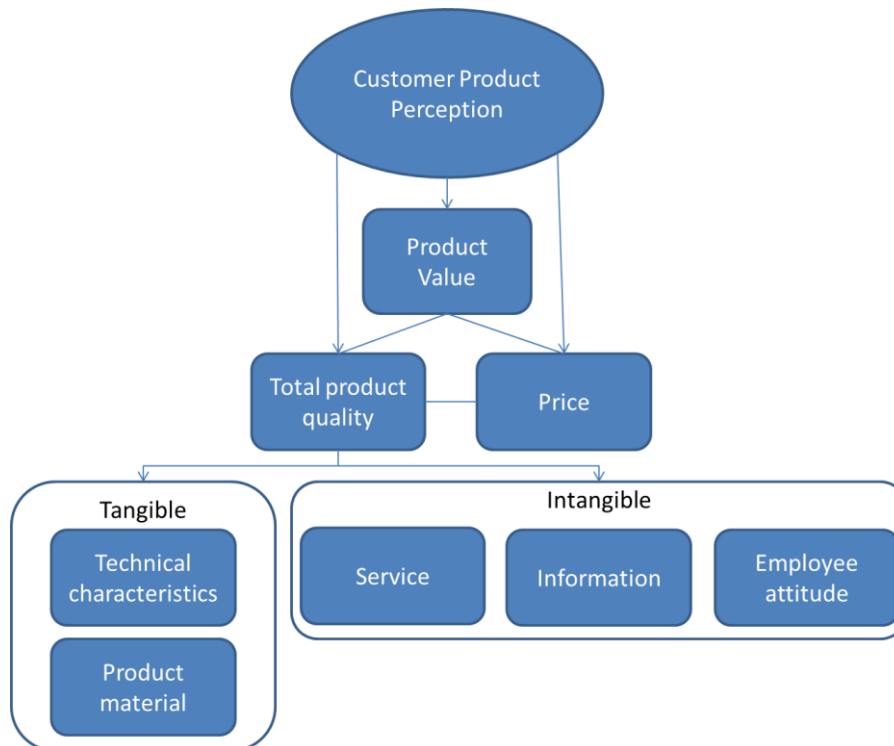


Figure 8. Customer value perception Source: Toivonen, 2012

Figure 7 represents how customers perceive the value of the product (beehive) based on the results of the interviews. The framework is adapted from Toivonen, (2012) and it provides a clear understanding of the customers' perception on the product. This understanding will help further in the development of the pricing strategy.

### 5.1 Value-Based Pricing Strategy Proposal

After taking into consideration the results of the case study and the internal environment of the company, as well as the type of product and the target customer – the researcher believes that the most appropriate pricing strategy for the company JGS Beekeeping would be value-based pricing. As the company doesn't know its production costs in producing the beehive product, this strategy seems to be suitable because *“the seller's production costs or service delivery costs play a minor role or no role at all in setting price”* (Schmidt, 2016) and as mentioned in the literature review already, this pricing strategy usually fits very well smaller businesses that are highly specialized in their area (Bragg, 2010). Moreover, during the customers' interviews it became obvious that they highly value the quality of the beehive product and this is important because in value-based pricing, product price mostly reflects the customer's perception of product value (Schmidt, 2016). This is one more reason, making the value-based pricing suitable strategy for the JGS company.

Snelgrove suggests that the two crucial elements to implement value-based selling and pricing with success are the ability to sell value and the motivation to sell value (cited in Hinterhuber, 2017). *“The organizational ability is the result of a shared conceptualization about what value is, a value selling process, tools, trainings, and experiential learning. The organizational motivation is the result of sales force compensation, a flexible buying options, a culture built on delivering and communicating value to customers, and appropriate customer selection mechanisms targeting customers most receptive to the value offered.”* (cited in Hinterhuber, 2017).

Furthermore, customer value-based pricing is acknowledged in the literature as superior to the rest of the pricing strategies (Hinterhuber, 2008). *“Value-based pricing is the method of setting a price by which a company calculates and tries to earn the differentiated worth of its product for a particular customer segment when compared to its competitor”* (Dholakia, 2016). Academics and practitioners continuously endorse the customer value-based strategies because the keys to sustained profitability lie in the essential features of customer-value-based pricing, namely understanding the sources of value for customers; designing products, services, and solutions that meet customers' needs; setting prices as a function of value; and implementing consistent pricing policies (Hinterhuber, 2008).

Moreover, the decision for value-based strategy was based on the comparison from Table 1 (Chapter 2) Comparison pricing strategies (Hinterhuber, 2008), where in its overall evaluation the best approach is the customer value-based pricing, because it provides a direct link to the customer needs. The strategy that provides direct link to the customer needs requires customer-centric approach. This means that the concept of the company should be entirely focused on the customer, on the way value is created, delivered and communicated to the customer. Moreover, the company must establish guidelines to understand how exactly value is being perceived because this play an important role when setting price (Hinterhuber, 2008).

Kotler & Keller, (2016) provide the 5 major steps in setting a product price and they are applied into the JGS company after the performed case study. The steps and results are represented in a hierarchical pyramid (Figure 9), like the one of strategic pricing (Hogan & Nagle, 2005).

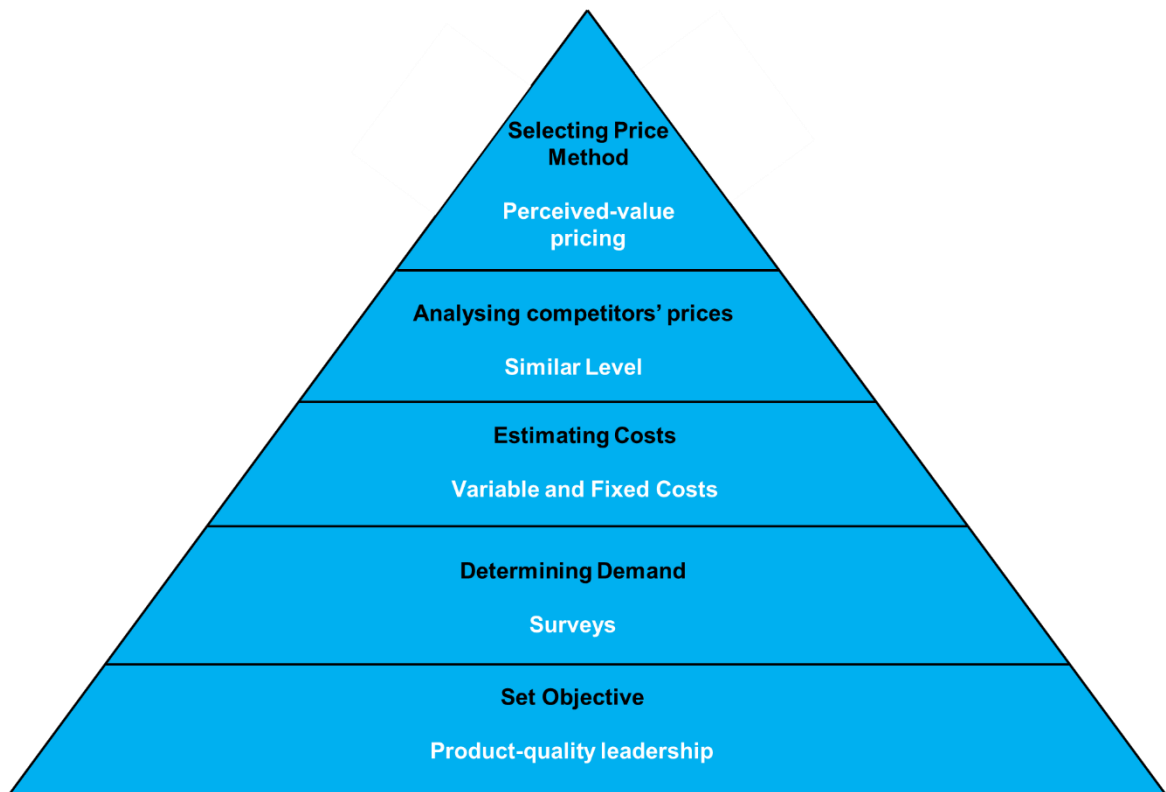


Figure 9. Setting product price Source: Kotler & Keller (2016); Hogan & Nagle, (2005).

The first step of the process of setting price is to select the pricing objective. Based on the results from the case study, it became obvious as stated previously in the problem description that the main problem and goal of the company is that different customers have access to different prices and prices are set on the moment of sale. Therefore, the main objective is to achieve consistency in pricing and to develop long-term relationships with the customers. However, the main objective of the company is to continue to be product-quality leader on the market of beehives and beekeeping products.

The second step of the setting price process is to determine the demand of the customer for the product price as already mentioned in Chapter 2. For example, as stated earlier in the findings, some customers stated that if the product costs less than 35 Euros, they will be suspicious in terms of the product quality, so this would be the minimum product price. However, they also stated that the maximum price they would pay for the beehive product is 60 Euros.

There are a few methods to determine the demand and, in this case, the most suitable seems to be the use of surveys. For example, customers might be asked how many units they would buy at different proposed prices. Moreover, from the surveys it may become obvious what are the new products or services they would be willing to pay for (Kotler & Keller, 2016).

The third step of the process is to make a rough estimation of the variable and fixed costs. Companies usually charge prices that cover at least the production costs (Kotler & Keller, 2016). In the case of JGS, if we take for example to product Colmeia Lusitana, the calculated material costs are €13,19 and an estimation of the production costs is around €5, which makes the total costs of this beehive product around €18,19.

The fourth step is to analyze the competitors' costs, prices and offers. When the researcher did this step of the process realized that the prices of some of the direct competitors are very similar to the JGS Beekeeping beehive products. However, some of the competitors do not provide visibility of their prices.

The final step of the process is selecting a pricing method. By taking into consideration the results of the case study and the already proposed value-based strategy, it suggests that the most appropriate pricing method would be perceived-value pricing, which is represented in the next sub-chapter.

## 5.2 Perceived-value Pricing Model Proposal

*“The key to perceived-value pricing is to deliver more unique value than competitors and to demonstrate this to prospective buyers”*

(Kotler & Keller, 2016)

According to Kotler & Keller (2016), it is a must for companies to deliver the value promised by their value proposition, and they need to make sure the customer actually perceives this value. Moreover, companies should use their online channels to communicate and enhance perceived value in buyers' minds. This is in the core of perceived-value pricing model. However, some customers care only about price, but as it became evident from the interviews the B2C segment of JGS Beekeeping is concerned a lot about product quality.

Based on the above information, it can be suggested the following iterative process for obtaining a better perceived-value pricing model. It is represented on the Figure 10.

On the top of the figure it stands the Value Proposition of JGS Beekeeping, because there are presented the main benefits which the customers are supposed to receive. At the centre of the figure is represented the Price, which in this pricing method (perceived-value pricing) depends on the following dimensions: Market segmentation; Value creation; Value communication; Value delivery; Customer-perceived value; Positioning.

Providing wood-beehives produced with materials of highest quality, customizable solutions to meet each beekeepers' need and excellence in delivery.

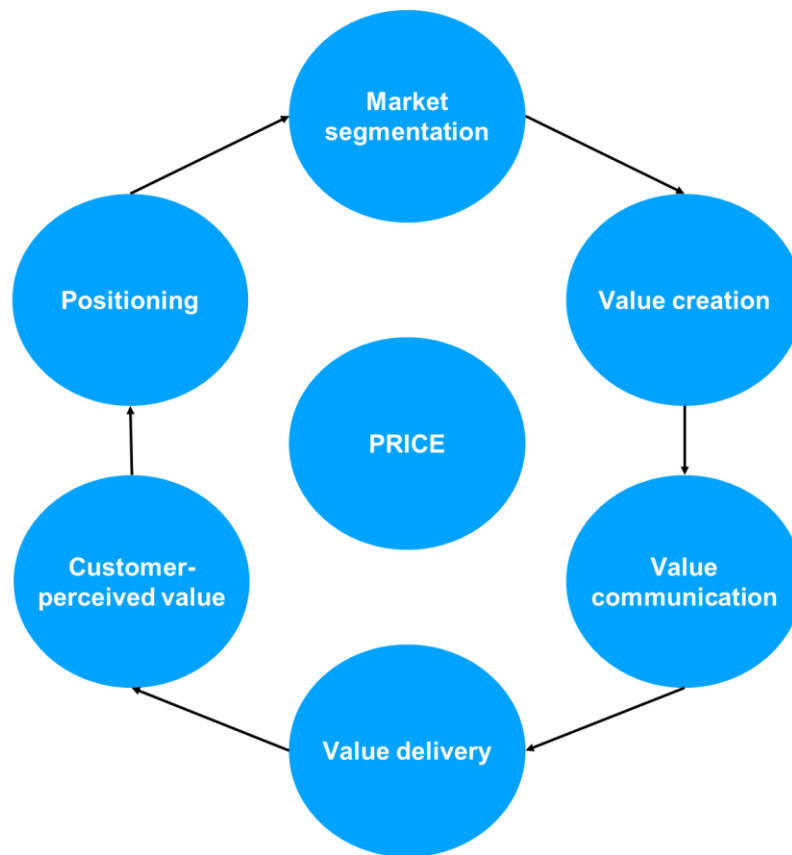


Figure 10. Proposed iterative pricing obtaining process

Each dimension and step of this process is explained separately below.

### Market Segmentation

The first step of the process is to segment the market. Until the moment the B2C customers for the product beehive at JGS are divided into two types: Hobby beekeepers and Professional beekeeper. However, they can be divided into small, middle and big beekeepers, depending on the quantity beehives they own. It is an important step to narrow down and focus on the specific customer segment to which the company will deliver the value. In this case it is important to analyse customer data – historical data of purchase, draw a demographic and psychographic profile, and to use the personas tool for this purpose. By having a clear idea of the type of the customer, it is easier to understand the customers' needs and based on this to find way to satisfy those needs.

### Value Creation

After knowing the customer profile and understanding customer needs, it is important to understand how to satisfy those needs. This will lead to creating superior value for the customer. For example, until the moment it is known that quality of the beehive is a very important aspect for the beekeepers, therefore JGS is supplying its customers with beehives that are produced with highest-quality materials. Moreover, they are creating value for the customer through their customer service, by supplying the customer with the

necessary information about the product and by providing customizable solutions to their customers. Providing fast delivery service is one more aspect of the company which allow them to create value. By building an accurate customer profile and understanding their preferences, JGS will be able to create more value to their customers.

### **Value Communication**

The next step after creating value is to choose the channels to communicate the value to the customer. This is also related to the profile of the customer, by knowing with channels the customer uses in order the message to reach him. So, this step requires reconsidering the channels through which the company communicated with its customers. In the JGS case, it might be referred to the company's website and social media.

### **Value Delivery**

The customer perceived-value and positioning of the company will depend on the way the company delivered its value to the customer. For example, which one was the channel to deliver the product and the time to deliver, does the product have the quality demanded, did the employee respond all of the questions that the customer had and so on. Most importantly, here it is judged if the company delivered the promised benefits from its Value Proposition.

### **Customer-perceived value**

According to Asgarpour, et al., (2015) "*Customer-perceived value is a result from the consumers' pre-purchase perception (expectation), evaluation during the transaction (expectation vs. received), and post-purchase (after-use) assessment (expectation vs. received).*" Therefore, we may think that "*customer-perceived value is a result from the consumers' pre-purchase perception*", that was formed based on the value communication and the customer service prior purchase, "*evaluation during the transaction*" that is based on the value delivery, quality of the product and time delivery, and "*post-purchase*" which may also involve post-sales and customer service.

This raises importance to understand how customers perceive value from the given product, because "*value equals a perceived quality relative to the price*" (Hallowell, cited in Snoj, Korda & Mumel 2004). Stimulating customers to share their feedback might be a strategic tool to measure their overall evaluation of the product experience. Moreover, it helps to learn what customers value the most and based on this, the company can improve the customer experience and to set the most appropriate price for the customer.

### **Positioning**

Positioning defines how does the company position itself in the mind of the customer (how it is perceived) and where its products and services stand in relation to the competition (TheEconomicTimes, n.d.). By understanding how customers perceive the values of the company products and services, it is possible to understand the positioning as well. "*In a market place cluttered with lots of products and brands offering similar benefits, a good positioning makes a brand or product stand out from the rest, confers it the ability to charge a higher price and stave off competition from the others*" (TheEconomicTimes, n.d.).

## Price

At the end, we can conclude that the price depends on how the market was segmented, how the company created value for its segment, which channels and methods used to communicate the value, how delivered the value promised, how the customer perceived the value and based on this how the company position itself in the mind of the customer and among the competition. All of this will dictate the price of the product. The process is iterative until the company overcome any gaps between their Value Proposition and the Customer Value Perception.

Based on the case study performed, and on the proposed iterative pricing obtaining process it is possible to propose the pricing model at JGS Beekeeping for one of their Lusitana Beehive products (Table 5). The prices are a rough estimation and may be changed but present an indication how the model might be used.

*Table 5. Perceived-value pricing model applied*

Costs	Colmeia Lusitana
13.19	Calculated costs
5	Estimated production costs
10	JGS Materials Quality
10	JGS Superior Customer Service
<b>38.19</b>	<b>Total</b>

This model presents calculated and estimated costs of the JGS beehive product. In the model are included the two main perceived values from the customers from the interviews – materials quality and superior customer service. These two values of 10 are given as an example and the company can decide based on further research, how much to price these customer perceived values. Furthermore, the researcher understood from the customer interviews that the minimum price for a beehive that the customer would pay is €35 and the maximum price is €60, which creates a window of product price between €35 and €60. The total costs for producing this product (Colmeia Lusitana) are estimated to be around €18.19, therefore if the perceived-values are priced minimum €8 each, it will reach the minimum price of €35. However, it is up to the company to decide whether to price the minimum value price, to take an average value, or the maximum, which in this case would be around €20 per perceived-value to reach the maximum price of €60. Additionally, it can be mentioned that, further deeper research on customer perceived values may allow JGS to add more perceived-values to their pricing model.

Moreover, in terms of the costs price, it is up to the managers at JGS to decide which price to take as a reference – competitors' price or product costs - and to price the customer perceived-values on the top of it. The idea is to differentiate itself from the competition with the superior quality and customer service that the company offers.

### 5.3 Discount Policy Proposal

Tse, (2017) refer to the discounts as part of the relationship marketing programs. He represents two types of relationship marketing programs, frequency and loyalty programs. When it is referred to the frequency programs, the customers are rewarded based on their purchases by points. The disadvantage of frequency program is that it neglects the customers' emotional and psychological factors and focuses on "the deal" which in the future may erode the brand power (Tse, 2017).

The loyalty program aims at rewarding the loyal customers with offers which are established according to their needs (Tse, 2017). The loyalty program is the "Keep strategy" in the Business Model Canvas of the Customer Relationships building block. Its main objective is to create strong emotional bonding, so that the customer becomes a repeatable one (Tse, 2017).

*"Frequency program emphasizes on incentive, loyalty program builds relationship"* (Tse, 2017). By referring to the results from the interviews, it is possible to design pricing discounts that suits the needs of the JGS customers. The most commonly discounts that the customers mentioned were quantity discount, loyalty member discounts and shipping discounts. Based on the interviews and upon consultation with the Corporate Development Manager, the following discounts have been established in Table 6.

Table 6. Discount policy

Type of discount	Approach	Purpose
Quantity discounts	5% discount on every 18 beehives (1 pallet, 2 pallets, 18, 36, 54, etc.)	Acquire customers (get strategy)
Loyal member discounts	Register online and receive a promo code after the first purchase with 5% discount on the next purchase	Build relationship (keep strategy)
Shipping discounts	No shipping costs for ordering 100 or above 100 beehives	Acquire customers (get strategy) and retain customers (keep strategy)
Employee discounts	Provide employees with 25% discount on the JGS products	Recognize employees

The first discount established is the Quantity discount. This is because sometimes customers order higher quantity of beehives, and as 1 pallet contains 18 beehives, upon a pallet order it suggested to give a 5% discount. The main purpose of this strategy is to acquire customers, it is part of the "Get strategy" of the customer relationship building block in the Business Model Canvas.

The second discount to which the customers referred was the loyalty member discounts. It has the purpose of building long-term relationships with the customers. The idea is to send the customers a promo code after their first purchase and to stimulate them to register online. The promo code will provide them with 5% discount on their next purchase. The promo code is a computer-generated code in e-commerce used to provide customers with

discounts, and companies and successful start-ups such as Uniplaces and Eurosender are using them. In addition to that, the registration online will help the managers at JGS to keep historical data on each individual purchase. This will help for the future to learn more about the customers and to satisfy their needs.

Moreover, it is recommended to the company to implement CRM (Customer Relationship Management), because this will help the managers to have a 360-degree focus on the customer. This is because CRM consists of strategies and practices aimed to analyse and manage customer interactions and data, to improve the relationship with customers and at the end, it results in customer loyalty and business growth (Tse, 2017).

The next proposed discount from the customers is the shipping discounts. Therefore, it is proposed a “no shipping costs” to every customer that makes an order of 100 or more beehives. It is also recommended to establish partnership with a shipping company and to negotiate the prices for each location and type of order. This will facilitate the shipping order process and will bring more clarity on the shipping pricing.

The last discount which the researcher decided to propose is for the employees of the company. As it became obvious, some of the employees are also buying from the beekeeping products at JGS and providing them with discount is a matter of showing recognition and honor to them. Companies such as Apple, Zappos, Unilever, Hotel groups and many more provide their employees with discounts on their products, therefore taking an example from successful companies on a world-wide level might be a good strategy.

The discount policy has been validated with the Corporate Development Manager.



## 6. Conclusion

This Chapter shows the conclusions of the study, managerial implications, recommendations for improvement, limitation and suggestions for future research.

The literature review helped in finding the gap in the literature and provided concepts that when combined, gave the possibility to propose a practical approach to pricing strategy, pricing model and discount policy for a company in a manufacturing context based on a real-life case study. The study also proposed an iterative pricing obtaining process which provide the company with iterative steps to set their final price, thus answered the previously defined Research question from Chapter 1.3.

A general summary of the entire proposal is represented on the Figure 11, where Value Creation, Value Communication and Value Delivery are in the core of the pricing process of the company, and where the customer remains central for the company.

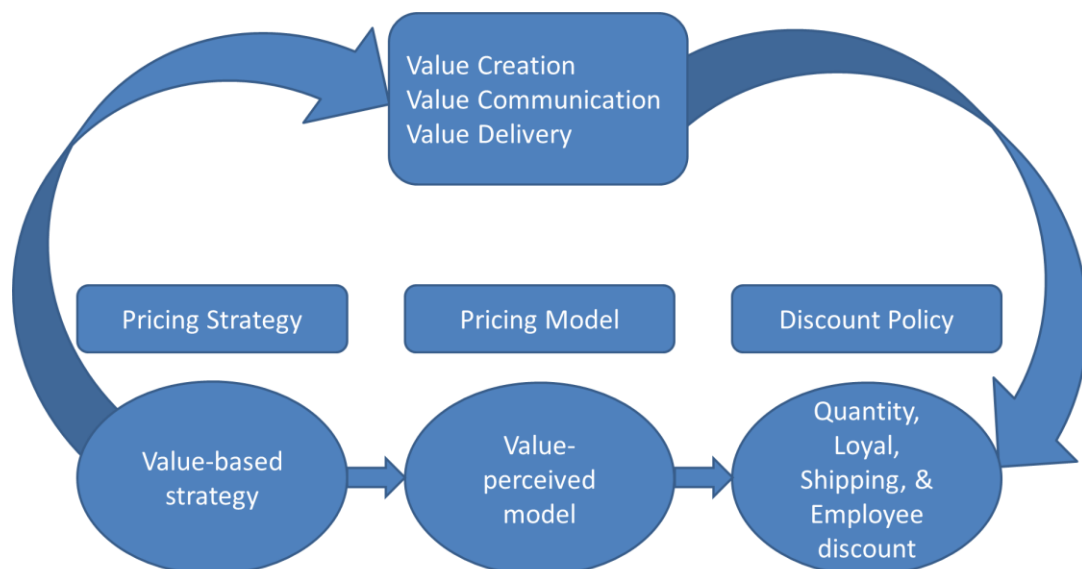


Figure 11. Summary of proposal

To apply the pricing model proposed and to set successfully prices, managers and marketers may develop surveys to their customers or to perform in-depth studies with the aim to understand how their customer perceive the values of their products and services. Until the moment quality of materials and customer service have been identified based on the customer interviews. According to Callander, (2015) it is beneficial for the company to collaborate with its customers while differentiating the company from the competition. Based on this, managers might be able to find ways to differentiate their company, to bring superior value to their customers and to become more innovative.

### 6.1 Recommendations for improvement

At the end of the study, the researcher would like to suggest some recommendations for improvement for the company where the case study was performed:

- Consider the recommendations from the customers from Table 1. Becoming a customer-centric company means considering each customer opinion and feedback that can turn the customer into a repeatable and loyal one.

- Take into consideration the proposed value-based pricing strategy. According to Snelgrove (2017), this is the manner to build and sustain competitive advantage.
- According to Kotler & Keller (2016) the price should be in accordance to the customer-perceived value of the company's offering, otherwise the customer may choose the competitors' offering. In this case, the company may perform study focused only on customer value perceptions.
- Consider establishing partnership with a transportation company that will bring convenience to JGS. This will allow price negotiation and future price transportation consistency, but it will also decrease the time for choosing a transportation company upon customer order. Moreover, according to Kotler & Keller (2016) the channels (in this case the transportation company) play an important role in value delivery, because this is the way for the company to delivers its products efficiently to their target market.
- Another recommendation is in terms of Customer Relationship Management (CRM). Establishing CRM strategy will allow the company to keep a close contact with their customers and to learn about them through historical data which is beneficial for improving customer experience, setting the right product-price range and to be continuously connected with their customers. Moreover, it is recommended to think of possible retention strategies which will result in customer retaining (the "get strategy" in the customer relationships of the Business Model Canvas).
- Significantly improve the website, as recommended earlier by the customers, it is the main online channel of the company for communicating value and for making orders, therefore it might be beneficial to invest time and effort in it.
- Focus on customer segment education. This will allow building and distinguishing different customer profiles, different customer needs and perceived values, which will allow finding the most suitable solutions for the different customers and building long-term relationships. The tool customer personas might be very helpful for this purpose.

## **6.2 Limitation and Future Research**

The pricing strategy and method should be further validated within the company and in another manufacturing company contexts to ascertain its validity. Due to the thesis time constrains it was not possible to be validated and implemented within the company, therefore this is required as a next step.

One more limitation of this study is in terms of the interviews performed with some of the customers by phone. They were performed with the Corporate Development Manager of the company and afterwards translated in English due to the lack of Portuguese language skills of the researcher. This caused limitation in terms of observation and understanding deeply the customer perceived values. Therefore, deeper study on customer perceived values is recommended which might help in the final price setting.

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## **Appendix A Guideline for the semi-structured interviews customers**

The purpose of this interview is to understand the buying decision making process and how it will relate to price and discounts.

1. Where are located your beehives?
2. How many beehives do you have?
3. What aspects you consider when choosing a beekeeping company?
4. Since when do you work with JGS Beekeeping?
5. How often do you purchase from JGS Beekeeping?
6. Do you usually order more than one product at once?
7. What do you like most in the company and why?
8. What are the factors influencing your decision to buy products from JGS Beekeeping?
9. How important is the price for choosing a company? What type of discount would be more likely to make you consider a purchase of one or more products?
10. What do you think about the price quality relationship of the company?
11. What do you think about (Colmeia Lusitana Completa) price? What would be the minimum and the maximum price you are willing to pay?
12. Would you like to have extra features and add-ons? Which ones? Would you consider paying more for these extra features?
13. Do you buy beehives and equipment from other companies? If yes, why? What JGS Beekeeping could do to make you only buy from them?
14. Would you consider choosing a beekeeping company which is providing extra service for annual maintenance of the beehives or honey extraction service? If yes, would you pay extra for this kind of service?
15. Would you like to give some recommendations for the company?



## **Appendix B Company interview guidelines**

Purpose: To understand the company business model, customer journey and offerings provided

Interview: Corporate Development Manager

- **Identify Business Model Canvas**
  1. Identify customer segments
    - Who is your customer?
    - What are the customer needs and wants?
    - What are their motivations to buy?
  2. What are the channels through which value is communicated and delivered?
  3. What are the established customer relationship?
    - Get strategy?
    - Keep strategy?
    - Grow strategy?
  4. What is the VP?
  5. What are the Key activities?
  6. What are the Key resources?
  7. Which are the Key partners?
  8. What is the Cost structure of the company?
  9. What is the Revenue streams of the company?
- **Identify Customer Journey**