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SHORT-TERM RENTALS PRICING AND PROFITABILITY OF THE BUSINESS

Master of Science Thesis
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August 2021

ABSTRACT

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Master of Science Thesis
Tampere University
Industrial Engineering and Management
August 2021

Nowadays, it is increasingly popular to not only buy machines and goods from manufacturers but also to make leasing agreements. In addition, there is an increasing need for renting different kinds of goods, such as machines, to cover short-term shortages. Relevant literature provides a good base for the value-based pricing of goods. However, clear literature is lacking for pricing rental business, more specifically the pricing of the short-term rental business. Therefore, this study provides a viewpoint for understanding the value-based pricing aspect in the circumstances of short-term rental business.

This research was done as a case study in a global machine manufacturer company, which has front line units in several locations. The front line units manage their own businesses in local markets and central provides guidelines and support when needed. The aim of the study was to investigate the current pricing habits in selected front lines in order to gain a clearer picture about what is happening in different front lines and how local market conditions might affect pricing habits. Another goal was to create a framework which takes into account all the factors that are important to consider when making pricing decisions. The empirical part of the study includes both qualitative and quantitative characteristics and the time horizon is specified at the beginning of the process. The empirical part of the work was supported with literature.

The problem for the case company is that the business is flowing without strict control from the central. There are no clear indicators followed concerning the short-term rental business and the pricing procedures are unfamiliar to the central personnel. In addition, this study revealed that every front line has implemented their own procedures to price the short-term rental machines.

This thesis is both providing information about the current pricing methods that the company has and providing a framework for the pricing of these short-term rentals. The aim is to use the current pricing methods as an advantage to implement the best practices into front lines pricing procedures. It is acknowledged during the study that the front lines have put a lot of effort into building their current pricing methods. The framework is formulated in a way that highlights important things that should be considered while making pricing decisions, which concern short-term rental machines. Moreover, it is built to consider that different front lines might have different factors affecting prices, due to, for example, various market characteristics or the maturity of the market. The framework highlights that at first factors which change over time must be evaluated, such as market features and objectives, and after that pricing procedure and policy can be formulated. The aim of the pricing framework is to drive the organization's pricing habits more into a value-based pricing direction.

The study reveals that there are good practices in place, but small adjustments might be needed in the short-term. In addition, the framework highlights that discount policy is something that should be defined after the pricing procedures are in place and made more coherent, in order to not make unprofitable pricing decisions which might lead to an unprofitable business.

Keywords: leasing, used machine rentals, short-term rentals, pricing, pricing in global markets, profitability, value-based pricing, pricing framework

The originality of this thesis has been checked using the Turnitin OriginalityCheck service.

TIIVISTELMÄ

Lisa Koski: Lyhytaikaisvuokrausten hinnoittelu ja liiketoiminnan kannattavuus
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Elokuu 2021

Koneiden ja hyödykkeiden vuokraamisen suosio on yleistynyt viime vuosina. Lisäksi koneita vuokraamalla ratkaistaan yhä useammin lyhytaikaisia ja äkillisiä puutteita. Kirjallisuus tarjoaa hyvän pohjan arvoperusteiseen hinnoitteluun, mutta erityisesti lyhytaikaisvuokrausten hinnoitteluun liittyvässä kirjallisuudessa on puutteita. Tutkimus tarjoaakin ymmärrystä arvoperusteiseen hinnoitteluun lyhytaikaisvuokrausliiketoiminnan näkökulmasta.

Tutkimus on toteutettu tapaustutkimuksena globaalissa koneita valmistavassa yrityksessä. Yrityksen eri maissa sijaitsevat tytäryhtiöt (front line units) ovat vastuussa paikallisesta liiketoiminnasta ja saavat tarvittaessa tukea ja ohjausta pääkonttorin tukitoiminnoilta. Tutkimuksen tavoitteena on tutkia tämänhetkisiä hinnoittelutottumuksia tytäryhtiöissä. Tutkimuksen avulla muodostetaan ymmärrys siitä, miten eri tytäryhtiöt toteuttavat lyhytaikaisvuokrattavien koneiden hinnoittelua ja miten erilaiset markkinaolosuhteet mahdollisesti vaikuttavat hinnoittelutottumuksiin. Toisena tavoitteena on muodostaa viitekehys, joka nostaa esiin huomionarvoisia ja tärkeitä tekijöitä liittyen näiden koneiden hinnoitteluun. Työn empiirinen osuus sisältää sekä kvantitatiivisen että kvalitatiivisen osuuden, ja tutkimukseen käytetty aika on rajattu tutkimuksen alussa. Empiirisen osuuden tukena on käytetty kirjallisuutta.

Kohdeyrityksen ongelma on kontrollon puute pääkonttorilta. Lyhytaikaisvuokrauksille ei ole olemassa selkeitä mittareita, joita seurata, ja pääkonttorin henkilöstö ei ole perehtynyt tytäryhtiöiden hinnoitteluprosesseihin. Lisäksi tutkimus osoittaa, että jokainen tytäryhtiö toteuttaa omia prosessejaan hinnoittellessaan lyhytaikaisvuokrattavia koneita.

Tutkimus tarjoaa sekä tietoa yrityksen tämänhetkisistä hinnoittelutavoista että viitekehysten, jota voidaan käyttää lyhytaikaisvuokrausten hinnoittelussa. Tutkimuksesta saatavat tulokset eri tytäryhtiöiden käytössä olevista hinnoittelumenetelmistä on tarkoitus hyödyntää otettaessa käyttöön yhdenmukaisempia tapoja toteuttaa hinnoittelua. Tutkimuksen aikana kävi ilmi, että tytäryhtiöt ovat tehneet paljon työtä kehittäessään tämänhetkisiä hinnoittelumenetelmiä. Tästä syystä viitekehys on muodostettu siten, että se korostaa tärkeitä asioita, joita tulee huomioida lyhytaikaisvuokrausten hinnoittelussa. Samalla se huomioi, miten eri tytäryhtiöissä erilaiset tekijät voivat vaikuttaa hintoihin riippuen esimerkiksi markkinan luonteenpiirteistä tai kypsyydestä. Viitekehys korostaa, että ensimmäisenä on ymmärrettävä muuttuvat tekijät, kuten markkinan ominaispiirteet ja liiketoiminnan tavoitteet, minkä jälkeen hinnoittelun prosessit ja muut linjaukset voidaan muodostaa. Hinnoitteluviitekehysten tarkoitus on suunnata organisaation hinnoittelutottumuksia yhä enemmän arvoperusteisen hinnoittelun suuntaan.

Tutkimus osoittaa, että hyviä ja toimivia tapoja kannattaa ylläpitää, mutta pienten muutosten toteuttaminen jo lyhyellä aikavälillä on suositeltavaa. Lisäksi viitekehys korostaa, että ohjeet alennusten myöntämiselle tulee määritellä sitten, kun hinnoittelun prosessit ovat muodostettu ja ne ovat yhdenmukaisempia eri tytäryhtiöiden kesken. Ohjeiden muodostamisen tarkoitus on välttää kannattamattomien hinnoittelupäätöksien tekeminen, koska ne saattavat johtaa kokonaisuudessaan kannattamattomaan liiketoimintaan.

Avainsanat: leasing, käytettyjen koneiden vuokraus, lyhytaikainen vuokraus, hinnoittelu, hinnoittelu globaalissa toimintaympäristössä, kannattavuus, arvoperusteinen hinnoittelu, hinnoittelun viitekehys

Tämän julkaisun alkuperäisyys on tarkastettu Turnitin OriginalityCheck –ohjelmalla.

PREFACE

This thesis project has been amazing. I have learned a lot and not only about the pricing and short-term rentals but also of myself as a researcher. The best part of this thesis was that the topic was very interesting, and I really enjoyed working on it. I feel like this thesis has been the climax of my university studies. Now, when my university studies are complete, it is time to find new ways to learn things.

I want to give special thanks to my manager at work for giving me this opportunity to make my thesis for the company. Additionally, all the support and help he has provided during the project has been valuable and the interest he has indicated in the topic has also been very motivational. I want to also thank other members of the company, who supported this journey and gave all their help to this project.

I would like to give special thanks to my supervisor Teemu Laine for all his precious comments and encouragement during the research project. All the conversations and ideas he gave me during the research were very valuable and guided my work towards the goal. In addition, I want to thank Tuomas Korhonen for agreeing to act as a second examiner of the work.

Finally, I would like to thank my family and friends for their support and encouragement during the writing process. And of course, I want to thank Johanna for helping me make corrections to my spelling. This help was very precious.

Tampere, 9.8.2021

Lisa Koski

CONTENTS

1. INTRODUCTION	1
1.1 Motivation of the study	1
1.2 Research objectives	3
1.3 Structure of the thesis	4
2. LEASING	7
2.1 Leasing an equipment	7
2.2 Profitability of the leasing business	8
2.3 Used machine rentals	9
2.4 Short-term rentals	11
3. PRICING	13
3.1 Pricing in global markets	13
3.2 Profitability	14
3.3 Value-based pricing	16
3.3.1 Understanding and communicating the value	16
3.3.2 Benefits that create value to the customer	19
3.3.3 Price segments in value-based pricing	21
3.4 Framework for value-based pricing	23
3.4.1 Clear objectives	25
3.4.2 Key elements of pricing decisions	26
3.4.3 Profitable ranges and implementation	29
3.5 Total cost of ownership and life cycle costs	32
3.6 Summary of the short-term rentals pricing	35
4. RESEARCH METHODOLOGY	38
4.1 Current state of the case organization	38
4.2 Selecting the research methods	40
4.3 Data gathering	42
4.4 Data analysis	46
5. EMPIRICAL FINDINGS	49
5.1 Quantitative analyses of the business	49
5.1.1 Understanding the share of the short-term rental business	49
5.1.2 Indicators of the short-term rental business	52
5.1.3 Profitability of the short-term rental business	56
5.2 Qualitative analyses	58
5.2.1 Current state of the pricing	58
5.2.2 Objectives for the short-term rental business	62
5.2.3 Key features of pricing decisions	64
5.2.4 Short-term rental characteristics	70
5.2.5 Pricing procedure and policy	72
5.2.6 Distinctive things	78
6. DISCUSSION AND REFLECTIONS	81

6.1	Empirical findings compared to literature.....	81
6.2	Suggested solution in the case organization	84
7.	CONCLUSION.....	90
7.1	Achievement of objectives.....	90
7.2	Contribution to existing knowledge.....	92
7.3	Research limitations.....	93
7.4	Recommendations for future research	94
	REFERENCES.....	96
	APPENDIX A: INTERVIEW QUESTIONS TO FRONT LINES	100
	APPENDIX B: INTERVIEW QUESTIONS TO CENTRAL SERVICE MANAGERS	101
	APPENDIX C: INTERVIEW QUESTIONS TO CENTRAL PRICING DIRECTOR..	102
	APPENDIX D: INTERVIEW QUESTIONS TO CENTRAL BUSINESS CONTROLLER	

LIST OF ABBREVIATIONS

B2B	Business to business
CVP	Cost volume profit
ERP system	Enterprise resource planning system
EVC	Economic value to customer
GM	Gross margin
LCC	Life cycle costs
MA	Financial information for managerial use
OP	Operating profit
STR	Short-term rental
TCO	Total cost of ownership
TLC	Through life costing

1. INTRODUCTION

1.1 Motivation of the study

Every transaction and offering of a firm has a price. That price might require lengthy consideration that includes competitive dynamics, market research, intense customer negotiations and serious management discussions, or it might be only a number that popped out of someone's head. The price impacts customers and dynamics outside of the firm and many functions inside the firm. (Smith 2016, p. 1) Pricing is a very relevant part of firms' operations and that is why it is important to plan carefully.

Pricing is neither one thing nor a single technique, research effort, a method of analysis or a piece of information to gather. Pricing is a continual process which affects every part of the organization and is integral to all healthy customer relationships. The pricing decisions influence the competitive commitment of the firm with its competitors. (Smith 2016, p. 2) In different countries, these processes might vary due to local conditions, currencies, and exchange rates. Talking about short-term machine rentals, the pricing is concentrating on value-based pricing where customer needs are considered.

The aim of value-based pricing is to identify the value an offering gives from the customer's perspective and then charge accordingly. A firm must understand what the customer needs and what they are willing to pay to have their needs met. This is needed to serve customer needs profitably. (Smith 2016, p. 17) A price can be much more than just covering the cost. If a firm can offer something that others cannot, their pricing should reflect that. Since buying a new machine is not always the best option, there are also possibilities for renting them. The era of digitalization is changing the way consumers and firms use both rental and purchase markets, because low transaction costs make it easier for consumers to access content (Rao 2015). It has been shown that the need for equipment and product financing has evolved, to the point where 9 out of 10 U.S. industries employ leasing or other forms of third-party financing to acquire products and equipment they need, over the past few decades (Contino 2020). Topicality is top priority now.

There are also reasons why sometimes renting or leasing the equipment might be the preferred way to act. An argument can be made that leasing can be seen as a "greener" choice because a leasing firm retains the ownership of off-lease units, so it has incentive to remarket them or to invest in designing a more durable product, which results in lower

volumes, both in disposals and in new production (Agrawal et al. 2012). Firms can also consider leasing second-hand machines. The price and the demand just need to meet, and the offering must answer the customer's needs as stated above. If the company understands the customer's needs and can set the price in line with that, it can succeed. Agrawal et al. (2012) also mention that educating consumers to behave more environmentally consciously can develop the environmental performance of leasing. Customers' actions are thus affecting the environmental friendliness of the leasing decisions.

It is important to notice that while many functions of a business are organized with the help of cultural norms and precedent, pricing is a rather new function as a corporate function (Smith 2016, s. 2). Formulating structures that can help with pricing rentals are needed. Product financing can be set as managed services or fee-per-use agreements, where equipment as well as services, such as repair service and maintenance, or supplies such as disposables used with the equipment, are provided for an agreed-upon time and periodic payment (Contino 2020, s. 2).

Leasing operation helps to facilitate the sales of the product vendor's equipment because it is easier for the customer to decide to pay \$200 per month than \$10,000 upfront. In addition, it is easier for the product vendor company to control the secondary (second-hand) equipment market and thereby protect new products' sales prices by not having third-party financing companies throw used equipment in the market at low prices and to derive profits from the re-leasing or sale of used products that have come off lease. (Contino 2020, p. 12) Products that have come off-lease or are used are the scope of this thesis. These machines create an enormous possibility for the case organization to control the secondary markets, provide good customer service, and make profit.

The case organization is a Finnish machine manufacturer company, where the empirical part of the work was conducted. The company operates in business to business (B2B) markets globally. This work was conducted in the service business division which includes, for example, spare parts, on-call, short-term rentals, and service contracts. The study is important for the company since the company is missing clear, globally coherent pricing for short-term rentals, although leasing is a significant business area in value for the case organization. The company also lacks a strategy for investing to expand this area of business, and one big step towards fixing this is to create coherent pricing. When considering setting up an in-house leasing and financing business to support and expand product sales and add a new profit center, an understanding about basic business strategies is needed (Contino 2020, p. 12). This is something that should be investigated. Creating a coherent pricing structure for short-term rentals is one step towards establishing a strategy for the rental business, as mentioned.

The thesis is concentrating on short-term rental business and its pricing habits. Short-term rentals are used in different situations in the case organization. There are situations where a customer's own machine is not available, for example due to a broken machine; in this situation the company can send a back-up unit to displace the broken one. It is also possible that a customer can rent a machine for short-term when a new machine is expected to be arriving from the factory. Sometimes a customer might want to rent a machine to be more flexible and to be able to respond to high peaks in its operations. Short-term rentals are thus providing better customer service and flexibility from the case organization's side. A maximum renting period in short-term rentals is 12 months, but it can be also shorter, depending on the situation.

1.2 Research objectives

This thesis concentrates on the pricing of short-term machine rentals. What are the market conditions in selected countries and what could be the framework for convergent pricing? This subject is important since pricing for rentals is not very coherent in the company. The thesis will define the pricing principles for short-term rentals to manage the profitability of the business. The research questions of the thesis are the following:

1. What are the current pricing methods and guidelines for short-term rentals in different areas?
2. What kind of framework, which is coherent globally, can be utilized in pricing and managing the pricing of short-term machine rentals?

The research is carried out in a case study, where the case organization is a Finnish machine manufacturer company. First, this study will find out what the current pricing methods are in different areas which are already renting short-term machines. With the help of this information, it will be easier to deep dive into understanding the factors that are affecting different pricing structures and principles. Based on this, it will be easier to build a coherent pricing structure.

The study will proceed with the help of literature, mainly concentrating on *pricing, value-based pricing, leasing, short-term rentals, total cost of ownership (TCO), and Life cycle costs (LCC)*. These are the used search terms, and with the help of these, the idea is to find other suitable articles. The purpose is to find out what procedures would be good to use in the global short-term rentals pricing. Although the case organization is already renting machines, a clear pricing model is missing, especially for second-hand short-term machines. Despite this the leasing business is already quite significant in value for the case organization.

The idea of this research is not to formulate one clear framework that is suitable for all the circumstances but more to build a structure that can be utilized in different situations and different types of machine rentals. In addition, the main idea of the framework is to highlight things that should be taken into consideration when structuring the prices for different types of rentals of machines.

The study consists of a theoretical and an empirical part. The theoretical part is done by reviewing literature and after that the empirical part of the work begins. In the empirical part of the work, there is both a qualitative and a quantitative analysis. The quantitative analysis is based on data analysis, after which there are interviews. The research took place from January 2021 onwards. Time scale for the research is presented below:

January – Research plan and starting the theoretical background. First interview concerning the current state of short-term rentals in the company.

February – Theoretical background. Data analysis to start.

March – Theoretical background ready. Data analysis. Preparing interview questions. Beginning of interviews.

April – Interviews. Analyzing the results. Start of sketching pricing framework.

May – Pricing framework for rentals ready. Results released in the company at the end of May.

June – Collecting feedback from the company and making needed corrections for the thesis.

July – Final improvements for the thesis.

August – Research is ready.

1.3 Structure of the thesis

The thesis is divided into seven chapters. The first chapter is introduction which consists of the motivation of the study, research objectives and the structure of the thesis. Chapter 1 aims to answer why this research is carried out and why it is important. This chapter also clarifies the steps of how this work is going to progress.

The second chapter is about the theoretical background concerning leasing business. Chapter 2 is divided into four subsections. First leasing in general is discussed and after that the profitability of the leasing business. For example, what leasing a machine means and how a company can impact its profitability, while also considering used machines. After these subsections, used machine rentals and short-term rentals are also explained.

The third chapter concentrates on pricing. First pricing in global markets is discussed. For example, how the procedures in use differ from those operating only in local markets and how things generally work. After that there is a subsection concerning profitability, where pricing's effect on the company's profitability is explained in more detail. Subsection 3.3 explains value-based pricing and after that a framework is introduced for pricing or repricing the company's offerings. Since the thesis concentrates on short-term rentals, there is one more subsection concerning total cost of ownership (TCO) and life cycle cost (LCC), the aim of which is to provide an understanding about the diversity of the costs directed to a company. The main point is, however, to raise understanding about the costs related to different actions and the importance of recognizing those costs. Subsection 3.6 is summary of the short-term rentals pricing, where important things are gathered into one framework.

The fourth chapter is research methodology. In that chapter, the aim is to go through the study transparently. First, the current situation of the business in the case organization is discussed, to understand the practicalities in it. After that, the methods behind the research are explained transparently. This is done using the Saunders et al. (2019, p. 130) research onion. All the layers of the onion are affecting the process of the research. After that, the data gathering and data analysis are described transparently.

The fifth chapter is related to the empirical findings. Both quantitative and qualitative findings are discussed separately. The quantitative analysis is separated into three subsections and it is used to understand the current characteristics of the business. The size of the business in selected front line units, which is what the case organization calls its subsidiaries, is analyzed, the most rented machines are displayed, and the profitability of the business is also presented. The qualitative analysis concentrates on the qualitative findings of the thesis. This subsection is divided further into six subsections. Each of the subsections provides a more accurate view about a specific theme. The same divisions are used while coding the data from interviews.

The sixth chapter focuses on combining the literature part to the empirical findings. The most important things from literature are combined with the findings of the empirical part of the work. In addition, in this chapter the proposed solution for the company is presented. The solution is built using the framework, which is created with the help of the literature. The framework is combined with the findings from the case organization. A time frame is also presented for the recommended actions.

The seventh chapter is the conclusion. In this chapter, the achievements of the objectives which were placed for this research at the beginning of the study are discussed first.

After that there is discussion about the research's contribution to existing knowledge. The last two subsections consist of the limitations of the research and of suggestions for future research.

2. LEASING

2.1 Leasing an equipment

When a customer leases a car, they gain a right to drive the car against payment and at the same time the lessor retains ownership of the product. The lessee pays a monthly payment covering both equipment depreciation and interest. (Pierce 2012) So a lease is a contract where the owner of the machine (the lessor) agrees to let the machine for the company in need (the lessee) to use the machine for an agreed period, the lease term and payment of the lease, and after the agreed period ends the lessee returns the machine to the lessor (Contino 2020, p. 1). Lessors include manufacturer owned captive lessors and independent lessors such as banks, financial institutions, and pure lessors (Pierce 2012).

It is important to notice that even though this model assumes that the product that is marketed is a car, the model applies to any durable product category (Desai & Purohit 1998). This is important to notice because most of the literature related to leasing uses a car as an example of leases. As said, leasing can be applied to any durable product category.

Leasing is used on a large scale in durable goods markets, and in the U.S. a third of companies' capital equipment are leased (Hendel & Lizzeri 2002). Leasing is becoming a more and more common business amongst various industries. It has been shown that the need for equipment and product financing has evolved to the point, where 9 out of 10 U.S. industries employ leasing or other forms of third-party financing to acquire products and equipment they need, over the past few decades (Contino 2020). As time evolves, leasing is gaining more and more attention and popularity.

Optimal strategy for a company involves a combination of selling and leasing of goods, if sold and leased offerings depreciate at different rates (Desai & Purohit 1998). Leasing machines requires understanding about services and the service business, and thus it is important to take into consideration that, for example, the life cycle of the machine is in the manufacturer's shoulders. Leasing and selling have a crucial difference as leases create a secondary ex-leased market that a firm can control, while sales lead to a secondary market that is not in a firm's control (Desai & Purohit 1998). Different customer strategies are shown in figure 1, where the basic strategies for leasing equipment can be seen. However, when talking about short-term rentals there are aspects that differ from the ones in the figure as the purpose is not to lease the machine for a long period.

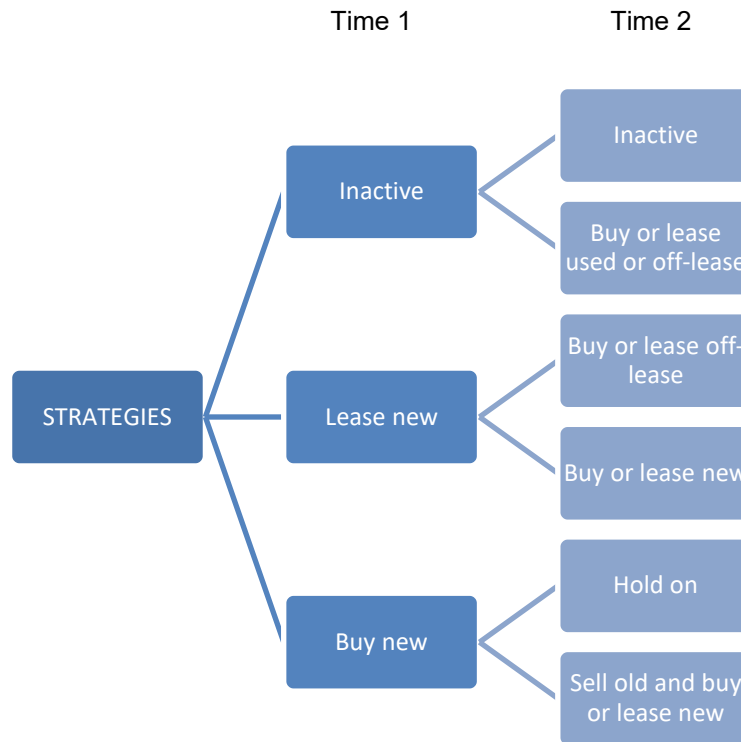


Figure 1: Different customer strategies, modified from Desai and Purohit (1998).

When products are leased, they are returned to the company after the lease, which gives the company more control over the secondary markets (Desai & Purohit 1998). Having control in manufacturer's own hands gives both more responsibilities and more possibilities. Leasing allocates risks more efficiently between the buyer and the producer, serves the role of quality assurance, and surpasses free rider problems in information sharing (Waldman 1997). Machines that are returned to the company could also have use and that is discussed in Chapter 2.3.

2.2 Profitability of the leasing business

All the decisions that a company makes have an impact on its profitability. These decisions might concern the strategic level decisions such as areas of business or technologies that are used, but the decisions that are made at the operative level of the business also have their impacts on the profitability. (Suomala et al. 2018) Thus deciding to lease or rent machines is a decision that has its own impact on profitability.

Monopoly profitability can be maximized by eliminating the second-hand market. Profitability is higher if the company behaves in a way that makes second period used units unavailable for consumption and to accomplish this the monopolist has two options, either lease its products, or sell them and commit to a high future repurchase price. (Waldman 1997)

Automobile manufacturers compete directly with banks and all the other independent lessors, where the key to profitable business is forecasting the residual value accurately,

because overestimating the residual value yields losses when equipment is sold after the lease-end, and underestimating residual values raises the lease price and it might lead to a situation where competing lease prices are more competitive than the company's own lease prices (Pierce 2012). It is very important that residual values are calculated correctly if they are used when pricing the lease machines. It is also good to consider the diversity of the residual value assessment. Residual value is hard to predict due to many factors that affect depreciation, such as customer preferences, new product development, new product pricing, innovations, competition, and economic conditions in general (Pierce 2012). For example, when considering competition, the competitive situation and whether there are other lessors offering products or services of the same kind must be recognized.

Residual values must be set to maximize the profits across the divisions and activities (Pierce 2012). Residual value reflects impressions of a different kind. Setting a low residual value by manufacturer sends a signal about the quality and the expected performance of the equipment (Pierce 2012). Residual value, if it is used, must reflect the equipment in a good light but it must also be truthful. The manufacturer also frequently sets the residual value above estimates to lower the lease price, thus decreasing inventory and increasing sales (Pierce 2012). As said, residual value, if used, is something that affects both pricing and signalling the wanted message.

There are many attractive and unique profit opportunities available if the product vendor approaches the financing activity systemically and knowledgeably (Contino 2020, p. 11). Profitability is something that is good to take into consideration. However, it is good to remember that profitability can be approached in different ways. Profitability can be approached through a number of functions, like purchase or sales, or it can be approached through processes of different kind that are producing outputs for the firm to sell (Suomala et al. 2018).

2.3 Used machine rentals

The revenue of leased cars is higher than that of sold ones and off-lease used cars are of a better quality than preowned ones even if they have the same year of manufacture (Hendel & Lizzeri 2002). The depreciation rate has been considerably lower with leased cars than sold ones (Desai & Purohit 1998). Quality is a perspective that should be considered. Because of the higher quality of the off-leased vehicle, it is possible to remarket it for example by utilizing a lease or a rent contract again. Used car leases were a non-existent phenomenon until recently because the useful life of a used cars was shorter

and the dollar amounts involved were too small to make the business worthwhile, however the better durability of the goods nowadays makes leases even profitable (Hendel & Lizzeri 2002). A company can make revenue of renting used machines which otherwise would be causing inventory costs. The monopolist can maximize its current profitability by leasing old units to group one customers while group two are leasing new units (Waldman 1997). A company can earn profits from the re-leasing or sale of used products that have come off lease (Contino 2020, p. 12). It is not expected to become as popular as new car leases due to the larger residual value of the new cars (Hendel & Lizzeri 2002). Yet, the market possibilities have been recognized and should be utilized.

Manufacturers' interest in offering leasing contracts in car markets is strengthened due to more durable goods, which has two effects. First, used cars are more important, which enables the manufacturer to get more profit from leasing. Second, used cars can be seen as better substitutes for new cars, thus making the adverse selection problem even worse and thus increasing the role of leasing contracts dealing with this issue. (Hendel & Lizzeri 2002) Better equipment permanence can increase the market opportunities for used equipment and due to that, it is also possible to rent used machines and cut inventories that used, repurchased machines are causing. Focusing on production quality is thus important in many ways.

The quality of the units can be described as follows: the new unit's quality is Q^N and the used unit is Q^O , $Q^N > Q^O > 0$ (Waldman 1997). This is logical and it means that used machine quality is still higher than 0 and thus it might have market value for some customers. The perceived quality difference between new and ex-leased cars creates the nature of competition between them (Desai & Purohit 1998). If comparing two returned vehicles that have the same year of manufacture and have been leased the same period, but one has much more used hours than the other one, it might affect the condition of the vehicle thus affecting the quality. This quality difference is determined according to the rate at which the market distinguishes the ex-leased cars to have depreciated, so if the car returning from the short-term lease has not depreciated much and it is almost as good as new, it is competing with manufacturer's new cars (Desai & Purohit 1998).

If a product is returned to the monopolist and the company does not sell or lease it straight away to another customer, the company must decide either to place it in the inventory or to dispose of it. If the company decides to place the product in the inventory, then it incurs a flow of inventory cost, until the company decides to costless dispose of, lease or sell the product. (Waldman 1997) Having a big range of products in inventory causes high costs to a company and that is why it should also consider other options. If the products are in good shape, it is a good option to either sell or lease those.

2.4 Short-term rentals

If a lease is qualified as a short-term lease, one that has a lease term of 12 months or even less, and does not have the purchase option for the lessee, it can be treated in a similar way to how the operating lease was originally treated, meaning as an off-balance sheet item which is not reflected on the lessee's balance sheet (Contino 2020, p. 88). The time inconsistency problem relates to the duration of the leases, and it can be solved using the short-term leases of the goods, because then the producer carries the cost of any reduction in the value of the outstanding stock of output (Waldman 1997). Short-term leases might be the best option in the circumstances where the customer's need is urgent due to, for example, a broken machine that needs repair work. Then the lease period is shorter than basic leasing contracts but in some ways it can still be treated as one and the term operating lease can be used. An operating lease can be described as a rental contract where the lessee reports the lease payments as operating expenses, but does not claim any depreciation expense, while the lessor can claim the depreciation tax benefits (Contino 2020, p. 87). It must be noticed that the lessor can claim tax benefits caused by the depreciation of the machine.

It is important to notice that most operation lease obligations must be capitalized using the same manners as finance lease obligations and it must be included as assets and as liabilities on the balance sheet, while rent payments (qualified as an operating lease) can be categorized as non-dept (Contino 2020, p. 88). Thus, using short-term renting, customer does not need to include these machines as an asset or as a liability in the balance sheet. However, it is important to notice that the maximum period of the lease is 12 months. There are also some prerequisites that must be taken into consideration while trying to understand if the situation relates to the finance lease or the operational lease, which in this case can be used to describe the short-term rental.

The lease must be treated as a finance lease if principles mentioned below are fulfilled: it gives the possibility to transfer the ownership from lessor to lessee after the lease term, it contains a purchase option, the lease term is equal or greater than 75% of the property's estimated economic useful life or the present value of the smallest lease payments on the lease inception is equal or greater than 90% of the excess of the fair value of the leased property. If these terms are not fulfilled, then the lease can be classified as an operating lease. (Contino 2020, p. 86) Thus, using the short-term lease agreements the customer does not have the possibility to purchase the machine and because the lease term is quite short there is no possibility to fulfill the last two conditions either.

Short-term rentals business faces developments such as disproportionate increase of car holding expenses relative to pricing levels and general demand for high quality of service in a competitive market, which are both (price and quality of service) critical success factors in car rental (Fink & Reiners 2004). However, this relates to the car rental business, where the most important part of the business is only to rent cars. Nevertheless, price and quality must be critical factors in every industry implementing rental business. Car rental business usually operates with 15 different car groups and those groups have cars with comparable qualities such as size and equipment, and all these items in the same group which are homogenous, have a base rental fee per day (Fink & Reiners 2004). This is a good baseline when thinking about the prices of different types of machines. Machines should be placed in pricing groups that contain homogenous machines.

In short-term rental business, if a customer makes a reservation of the machine with certain type of quality and capacity, it is important for a company to be able to provide the customer with the machine that they need or want. If the customer makes a reservation beforehand for a certain type of car and it is not available at the moment of check-out, an upgrade to a superior car group is possible (Fink & Reiners 2004). Considering the profitability of the business, there might be situations where a company does not have cars available for a single upgrade. If there is no available car for a single upgrade, then a double upgrade is something that should be granted (Fink & Reiners 2004). However, this is something that should not be the basic line of the rentals. It must be noticed that if the company serves its customers with a rental business, it should have enough stock to do this, but in the sense that it is not too expensive concerning the inventory costs of the used machines. This is one reason why value-based pricing is suitable for pricing short-term rentals.

3. PRICING

3.1 Pricing in global markets

While companies have moved from purely domestic operations to manufacturing and marketing overseas, they are also forced to transform their pricing structures (Cavusgil 1996). A globally operating company should consider many things, for example, different legislation, taxes, and exchange rates in various countries. Pricing and its procedures are also things that should be considered. There are different questions concerning the pricing decisions, for example: where a pricing decision should be made in a global company, should prices differ in different markets or over time, and what is the best approach when setting prices globally (Cavusgil 1996).

Companies defer pricing decision influence and expertise to pricing teams lead from the center (Liozu & Hinterhuber 2013). Though pricing is managed from central, it is important that it is transparent through the whole organization. Pricing decisions are the sorts of decisions that should not be made in isolation, because pricing interacts with all other marketing policy variables and it also affects those (Cavusgil 1996).

Specialized centers are trusted for their expertise to optimize both the pricing decisions and the company's performance on behalf of the decision makers in business (Liozu & Hinterhuber 2013). To reach their customers in overseas markets, companies often attempt to establish more direct channels of distribution, such as company owned subsidiaries (Cavusgil 1996). The center is using their expertise to optimize the pricing decisions by giving strict procedures for different front line units. The company office sets procedures and issues general principles which the subsidiaries must obey (Cavusgil 1996). This way it is possible to keep control in central. However, sometimes the best option might be to give the authority to the front line unit. Global companies typically allow subsidiaries to alter prices when warranted by local conditions, although they generally have control in central (Cavusgil 1996). While control is kept in central, it is possible to provide strict rules that should be followed while the front line unit is setting the prices according to rules.

A company can benefit from giving the authority to the front line unit. There are several reasons to give subsidiaries the possibility to alter prices, such as giving the subsidiary the ability to quickly respond to price changes from the competitors' side, the subsidiary has the possibility to follow the prices that market leaders have set, and some markets might require greater flexibility in pricing caused by the value added taxes and the costs

of adapting a good (Cavusgil 1996). Flexibility is one reason a global company might give the possibility to subsidiaries to alter the prices according to market conditions and it is also an advantage that a company acquires.

There are also challenges concerning prices in global markets. According to Cavusgil (1996) prices might rise to unreasonable levels because of taxes, markups that are necessary to cover rising costs, and because of tariffs. These are among other things that should be taken into consideration while pricing goods in global markets. When setting prices in global markets, variables such as duties and exchange rate fluctuations and different external costs like freight, documentations, and insurance, in addition to all the basic factors of such as demand, competition and production costs should be considered (Cavusgil 1996). Operating globally creates pricing challenges which are not relevant while operating locally. However, in the marketing mix, prices are one of the most flexible elements since those can be changed relatively quickly (Cavusgil 1996). Shipley and Jobber (2001) also adds that price is the only factor that generates value in the marketing mix.

While pricing is confronting demanding aspects on a general level like taxes, duties and exchange rate fluctuations, there are also things that affect the transportation and the pricing of it. The channels of distribution that a company is using determine much in international pricing, particularly export pricing, since if a firm distributes its offerings through its own overseas subsidiaries, it has individual knowledge about market conditions and better control over the final prices, for example the ability to adjust prices rapidly (Cavusgil 1996). Using the company's own front line units can thus increase profitability since a company can make needed actions to alter price levels if those are critical concerning prevailing circumstances. Exchange rate fluctuations, inflation and price controls are economic factors that are major concerns for most of the firms and thus, while a firm decides to serve international markets it should pursue different pricing strategies during different periods of time and be creative (Cavusgil 1996). Operating in global markets is not self-evident and creativity is needed. Operating globally requires many capabilities from the company's side. It requires, for example, smoothly operating central pricing team that can operate transparently and give strict but easily followed procedures for front line units. In addition, there is a need to educate front line units to operate according to the advantage of the company and to obey these procedures.

3.2 Profitability

Pricing is an important tool for managing the profitability of a company. Pricing is a dynamic and diverse way of affecting a company's profitability, it affects straight profitability

and revenue per one sold piece (Martinsuo et al. 2016, p. 119). As Hinterhuber (2008) puts it, pricing impacts profitability hugely. Prices have a substantial effect on sales and they also impact profitability directly (Cavusgil 1996). If customers are served services that are not invoiced or if customers are granted discounts without good reasons, the company's profitability decreases (Suomala et al. 2018). According to Avlonitis and In-dounas (2005) the significance of pricing decisions has been underlined for its effect on profitability and long-term survival for every company. The effect of the pricing on the profitability cannot thus be denied.

A company's profitability and its long-term success depends on an efficient pricing strategy (Calabrese & De Francesco 2014). For strategic pricing, the objective is profitability and that requires so much more than just a price level. It requires, for example, ensuring that products as well as services contain the features that customers are willing to pay for and that they do not include features that unnecessarily raise costs but do not create as much value to the customer. It requires creativity in how to collect revenues, so that customer pays more of the added value deserved for them. (Nagle et al. 2016) Though pricing has a huge impact on profitability, it also requires actions such as understanding and communicating with the customers to understand their needs. Customers are willing to pay a premium price for the service if the value they perceive is consistent with the price (Calabrese & De Francesco 2014).

There are examples of how pricing can affect profitability. Even a small price increase has a positive effect on profitability, for example a 5% growth in average selling price increases earnings before interest and taxes by 22%, and it has also been shown that price as a criteria for purchasing decisions is the least important factor and that it is frequent that customers are unaware of the prices they are paying (Hinterhuber 2004). This fact is important to take into consideration since only a slight price increase might have such a big impact on a company's profitability. Moreover, customers do not always focus too much on price tags if they are able to get exactly what they need and no one else is able to offer that.

While making profitable pricing decisions it is important to notice that these depend on the local market conditions as well as country-specific marketing objectives, thus pricing strategy which is profitable in one country might as well be a marketing blunder in another (Hinterhuber 2004). While handling a global company, it must be clear that all countries might vary a great deal, thus those markets should be dealt with in different ways.

3.3 Value-based pricing

Pricing depends on different aspects and those must be considered when making profitable pricing decisions. Pricing strategies differ considerably with different customers, industries, and countries, and they can be categorized into three different groups: cost-based pricing, customer value-based pricing and competition-based pricing (Hinterhuber 2008). According to Nagle et al. (2016) more than one strategy can gain profitable results, and almost all successful pricing strategies embody three principles which are value-based, profit-driven and proactive. Whereas Avlonitis and Indounas (2005) have divided three large categories where pricing of services can be divided: cost based, demand based, and competition based. Demand based methods are, for example, pricing according to the customer's needs, perceived-value pricing, and value pricing (Avlonitis & Indounas 2005). Calabrese and De Francesco (2014) add to this that demand-based pricing is associated positively with profitability of new services. Value-based pricing is mentioned as one the most important profitable pricing strategies of the ones mentioned above. Value-based pricing is the only one of these three approaches that takes the customer's perspective into account and that is why it is the most appropriate approach (Guerreiro & Amaral 2018). Hinterhuber and Liozu (2012) highlight that many companies can differentiate themselves from the competitors only by learning to create, communicate, capture, and quantify customer value by using value-based pricing strategy.

3.3.1 Understanding and communicating the value

Demand-based pricing enables the firm to change their prices according to the customer's perspective about the value of the service and their willingness to pay for it, thus making the customer the core of the pricing strategy (Calabrese & De Francesco 2014). While the customer is in the center of the strategy, it requires understanding not only the company's own operations and machines but also the customer's operations. If the customer's operations are understood correctly, pricing can be more profitable. A price is what a customer is willing to sacrifice to obtain a certain offering (Zeithaml 1988). While using value-based pricing, a company needs to set their prices according to the value that the customer places on it compared with alternative products (Smith 2016, p. 3). Customer needs are in the central of the offer and thus those needs must be understood and managed correctly and well.

In machine rentals there are many aspects that a provider company should consider since the offer does not include only a machine. Integrated solutions can be defined as a longitudinal relational process where a company provides services, goods and knowledge components that resolve strategically important customer problems and is

compensated based on the consumer's value-in-use (Storbacka 2011). Innovation of organization's processes and capabilities to shift from only selling products to selling integrated products as well as services that deliver value in use can be defined as servitization (Baines et al. 2009). In some forms of servitization, the manufacturer retains the ownership and the customer is only using some form of rental for access (Spring & Araujo 2017). While handling a leasing and renting business, it is important to notice that this business division includes both dimensions: service and tangible offering. Accordingly, both dimensions should thus create value to the customer. While a firm is offering a service and a machine, the customers can see the tangibles associated with the service, but they do not usually see the service itself and this creates conditions that are far from the service marketer's ideal situation, so they should consider improving pricing practices (Berry & Yadav 1996).

When analyzing processes that bring value to the customer, value-based pricing is talked about and in B2B markets this might include considerations of how the machine affects the customer's costs, profits, and tied-up capital (Martinsuo et al. 2016, p. 123). Understanding the customer's process is thus the starting point of value-based pricing. In value-based pricing attributes and features are added and cut to offerings according to the customer's willingness to pay for the benefit that some feature for example brings (Smith 2016, p. 3). Hinterhuber (2004) mentions that if prices truly reflect high customer value, it is possible to achieve high prices and high market share. Achieving high prices and high market share also gives the possibility to do more profitable business. Though this requires that customers are indeed achieving better functionalities that are creating value for their actions.

To properly price the service, a company needs to measure the value a customer perceives due to services' intangibility and heterogeneity (Calabrese & De Francesco 2014). Hinterhuber (2008) also says that in value-based pricing, the value that a product or a service delivers to the customer is the most important factor that guides price setting. There are also challenges that must be considered. Pricing strategies for services often derail due to the lack of an obvious link between the price and the value (Berry & Yadav 1996). This tells the fact that it is problematic if the value is not identified properly, because then it cannot be priced accordingly. Managers thought that workmanship, performance, and form are critical factors of value to a customer while customers really valued things like appearance, durability, and cleanability (Zeithaml 1988). Thus, it is very important to understand what really provides more value to a customer.

Moreover, knowing the customers who would benefit from the offering that a company is serving is important. If there are fewer customers in the market, it does not mean that

the value that a customer gets is lesser, and thus it does not reflect in the prices (Nagle et al. 2016). Collecting the right customers is one important step, so a company can create value for the right customers. There is no point in serving customers who do not need a company's offering or do not get any use out of it. Service is either totally or partly intangible, and the best way to price it is to use value-based pricing, but understanding the value is more complex and so is finding the right customers. However, the value the customer receives from using the service is the most important factor in value-based pricing. When a pricing decision is made based on a good understanding of the quality from the final customer's as well as the intermediary's perspective, it is more likely to be successful (Cavusgil 1996).

In situation where a company is not able to tell the value of its products, they should not presume that the customer knows it without telling. It is hard to get the customer to pay a greater price than their reference price, if they are not aware of the value the service is bringing (Calabrese & De Francesco 2014). In addition, according to Raja et al. (2020) the value of the industrial solutions and services does not exist "out there", rather it requires learning processes where the customer and the company together realize and co-create this potential value. Hinterhuber and Liozu (2012) suggest that marketers should communicate as well educate customers about the superior value before linking the price to that. When using value-based pricing, a good collaboration between the customer and the company is needed to reach the process of evaluating the value that the customer can receive (Martinsuo et al. 2016, p. 124). Consumers are sacrificing both money and non-monetary prices such as energy, time, and effort while maintaining the offering they want (Zeithaml 1988; Berry & Yadav 1996). Non-monetary costs are strongly related to the perceived value for the customer and those costs affect the customer's selection of a firm as well as their detection of its overall service quality (Calabrese & De Francesco 2014).

It is as important to qualify and communicate the value of the goods to customers through marketing and pricing activities as it is to create the value by innovative services and goods (Hinterhuber 2004). Service value provided and communicated to the customer is the thing that tailors the price for the customer (Calabrese & De Francesco 2014). The communication of value is not so easy in environments where customers are overwhelmed with advertising (Hinterhuber 2008). Creating value does not mean only more functionalities for services or machines, it means creating the proper channels for communicating those value adding features and convincing the customers to understand that value.

There are three different levels of sophistication that need to be recognized and used appropriately to improve the communication of the value to the customer: communication of the product features, communication of the customer benefits and communication of the customer needs in relation to the benefits (Hinterhuber 2008). A company needs to understand these aspects of the communication and use them appropriately as said. Sometimes there might be a situation where the customer does not know themselves that there is a need for a service or a machine a company can offer to them or there might be a situation where the customer does not know some features even exist. A product feature might be for example the horsepower of the machine and the customer benefit might be the insulation that reduces noise (Hinterhuber 2008). It is important to understand the operations that a customer has and with the help of this offer them appropriate machines and service with appropriate features.

3.3.2 Benefits that create value to the customer

During a service, a customer needs to manage the trade-off between the cost of the service and the benefits it is providing, and this ratio between them is the measure of the value a customer is experiencing, so decreasing the non-monetary costs emerging during a service experience increases the value that the customer is experiencing (Calabrese & De Francesco 2014). If a customer can do operations more smoothly and easily and maybe even save costs by doing this, it is the most certain way to ensure that he will be ready to pay for this kind of service accordingly. By reducing these non-monetary costs such as time saving or increased comfort during the service experience, a high spending customer might be willing to pay premium price (Calabrese & De Francesco 2014).

A company is obligated to consider the goals that a customer seeks to accomplish and how specific benefits contribute to these goals (Smith 2016, p. 21). A customer's preferred benefits can be checked through the benefit hierarchy, where at the top of the pyramid benefits are more difficult to deliver, more difficult to imitate, and more meaningful whereas at the bottom benefits are easier to deliver, easier to imitate, and the least meaningful (Smith 2016, p. 23). Benefit hierarchy can be seen in figure 2.

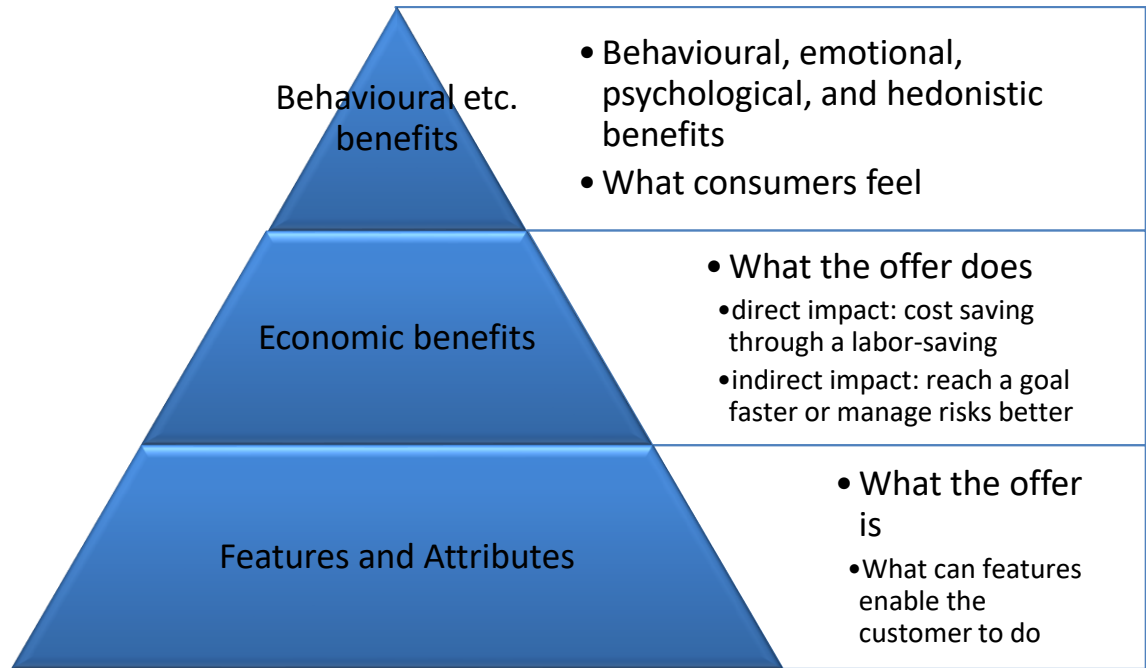


Figure 2: Customer benefit hierarchy, modified from Smith (2016, p. 23).

As the offer moves up in the benefit hierarchy it gains more value which might be even inimitable value (Smith 2016, p. 24). The more inimitable the value is the more a company can benefit from delivering it to the customer. At the same time, a company reaches a pricing power (Smith 2016, p. 24). Hinterhuber and Liozu (2012) states that pricing power is learned behavior, not destiny. The price is the cost that results to a customer for obtaining the benefits an offering is bringing (Shiple & Jobber 2001). Benefits are thus creating value to the customer and that is giving power to profitable pricing. Price positioning cannot be made effectively if the value of the customer benefits is not included in the offering, and for this there are nine different strategies a company can position itself to, compared with competitors (Shiple & Jobber 2001). These are shown in figure 3.

		PERCEIVED BENEFITS OF COMPETING SUPPLIERS' OFFERINGS		
		LOW	MED	HIGH
P R I C E	LOW	Chancer	Thrivers	Market Ruler
	MED	Bungler	Also-Ran	Thrivers
	HIGH	No-Hoper	Bungler	Chancer

Figure 3: Alternative price-benefit positioning strategies, modified from Shipley and Jobber (2001).

The company in the market ruler position offers the biggest price-benefits bundle, and if that is perceived by customers it would clearly be the market leader though it is hard to implement because higher benefits usually increase the costs for the company and thus increase the price or loss for the company (Shipley & Jobber 2001). While maintaining a profitable business, it must be clear that a company needs to make the profit of its actions. As said, customers are willing to pay a premium price for the products if they reflect higher value for them. For example, an offering which enables a customer to get all three stage benefits as in the figure 2, is clearly an offer which can be priced quite high. Thrivers and chancer positionings on the right are more sustainable for the company because for competitors it is harder to increase the benefits than it is to cut prices and at the same time accept smaller margins (Shipley & Jobber 2001). Benefits that are more meaningful and harder to imitate thus give a head start to a company to set prices accordingly.

However, Raja et al. (2020) mention that customers typically forget the benefits that were delivered, for example, the technical expertise of the engineers' which gave the customers cost savings by reducing their required time, resources, and effort. Thus, it is important to make benefits so clear that they are hard to forget, and in a situation where customers forget those, reminding is suitable. Clear communication between a customer and a company is crucial also due to this matter.

3.3.3 Price segments in value-based pricing

There are several attributes affecting the pricing of different offerings. As Bodea and Ferguson (2012, p. 86) state, the customer, the product, and the transaction attributes define the price segments. Customer attributes may include the type of the business the customer is operating, the way the customer uses the product, customer's size, fre-

quency with which the customer is purchasing from the company, and the customer purchasing sophistication. Whereas product attributes may include the life-cycle stage of the product, product type, and the degree of commoditization. Finally, transaction attributes may include the product on order, the order size, the urgency of the bidder, and the time when the order is placed. (Bodea & Ferguson 2012, p. 86) Smith (2016, p. 6) also mentions that price variances policy might have been done based on the customer, the product, the market or even the transaction. Different segments might need different prices and thus it is important to know what these segments mean. Next, the customer, the product, and the transaction segmentation are discussed more specifically.

Price segmentation, which is a part of the pricing strategy, means that customers are charged in different ways for similar or highly related offerings, because they can gain different benefits from different offerings, which means they also have a differing willingness to pay for them (Smith 2016, p. 5). This is something that was already discussed, and in varying markets, while a company is considering their positioning in the price-benefit matrix, they should do this in relation to competitors. Positioning should be made relative to competitors' positioning (Shipley & Jobber 2001). Some markets might find some pricing strategy profitable whereas other markets see it as a blunder as said in Chapter 3.2.

Customers and markets can be segmented for the purpose of, for example, the rapidity of serving them. According to Hinterhuber (2008) the best way to segment markets is to take the customer needs into primary variable for the segmentation. At the same time, there is a way to segment customers, for example, according to their purchasing habits or their size. Bodea and Ferguson (2012, p. 86) refer to customer attributes which might include the type of the business the customer is operating, the way the customer uses the product, the customer's size, the customer location, frequency with which the customer is purchasing from the company, and customer purchasing sophistication. It is important to classify customers, as well as think through their needs and serve them accordingly. When customers are segmented according to their needs, it enables the marketing and pricing strategy to serve a variety of market segments and it is not restricted to the segment that is supposed to only mind the price (Hinterhuber 2008).

While segmenting customers according to their needs, the segmentation can be done in the following way: Customer segments can be price-driven customers who are offered basic labelled products, mainstream customers who are offered with branded basic products, and technically sophisticated customers who are offered more special features than others (Hinterhuber 2008). Different customers have diverse requirements and the conditions that customers are operating in might vary. These aspects create a variety of

needs for their actions as well. If a customer purchases frequently from a company this customer might be important to a company, but new customers should not be forgotten because they bring new market possibilities for the company and might become one of the frequently purchasing customers some day.

A customer is not the only thing that can be segmented, and pricing is affected not only by different kinds of customers but also by different kinds of products. A different kind of product might give a different amount of value to different customers due to the features it includes and the requirements that a customer has. Valuation of the offering can vary significantly across customer segments (Berry & Yadav 1996). Product attributes may include the life-cycle stage of the product, product type, and degree of commoditization (Bodea & Ferguson 2012, p. 86). These features affect the different kinds of conditions that different kinds of customers have. Combining the need that a customer has and the features a product has, gives a starting point to pricing.

Finally, there are also transaction attributes. These attributes might include other products included in the order, the order size, specific competitors, time when the order is placed, and the urgency of the bidder (Bodea & Ferguson 2012, p. 86). If a customer really requires a machine urgently, then it might affect the pricing of that machine. Considering all these aspects gives a good understanding of the attributes affecting prices. If a customer needs a machine which is powerful and the company can offer it, the price might be higher than that of a less powerful machine. Of course, if there are no competitors to that machine, it is also possible to think about prices with the help of the price-benefit matrix.

3.4 Framework for value-based pricing

A framework can be used to help the process of pricing services' and offerings' profitability to customers, bearing in mind the value that must be addressed to a customer. The pricing decision's aim is to accomplish the company's objectives, implement its strategies and conform its policies like most of the decisions (Oxenfeldt 1983). A value-based pricing framework includes five decision areas that should be considered: business strategy, pricing strategy, market pricing, price variance policy, and price execution (Smith 2016, p. 3). Hinterhuber (2004) also introduces a framework, which can be divided into four sections: the clear objectives of the pricing process, the key elements of pricing decisions which are the customer, the company and the competitive perspective, selection of profitable prices and ranges to them, and price implementation.

Both frameworks share common features. For example, defining pricing objectives, considering the customer, the company, and the competitive perspectives, selecting right price ranges, and execution of prices. The pricing objectives of the process are direct outcomes of a company's overall strategy (Hinterhuber 2004). According to Smith (2016, p. 4) business strategy includes the strategies of a firm's competitive, customer and company strategies. Price management's strategic orientation appears to relate to a planning process where price decision-making results from corporate strategy and goals (Indounas 2015). These aspects are investigated in both frameworks at the beginning of the process. Smith (2016, p. 6) also highlights that price variance policy includes rules for promotions and granting discounts. This part of the process can be investigated as the same as profitable price ranges as Hinterhuber (2004) puts it. The framework that Hinterhuber (2004) introduces for value-based pricing can be viewed in figure 4.

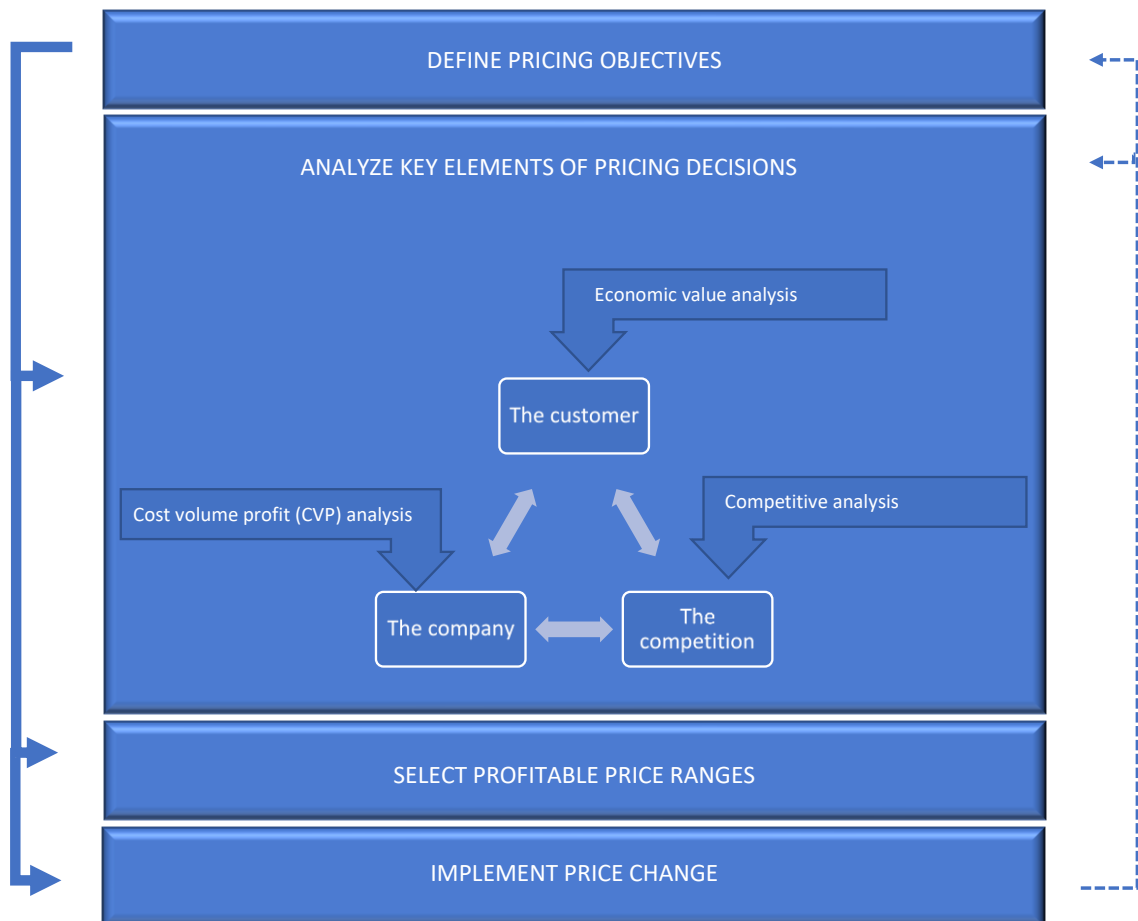


Figure 4: Framework for value-based pricing, modified from Hinterhuber (2004).

All these areas included in this framework are analyzed and discussed more specifically in the next three sections: clear objectives, the key elements of pricing decisions, and profitable ranges and implementation.

3.4.1 Clear objectives

Objectives are the first thing that should be defined when starting the pricing of new items or repricing old ones. One critical task is to specify pricing objectives that are consistent with the objectives and marketing strategy for the offering and with the company's wider objectives (Shiple & Jobber 2001). Pricing objectives denote preferred states of affairs and desired outcomes such as goals, target or aims (Oxenfeldt 1983). Pricing objectives are bound to vary by time and by type of a product, even within a firm and a business unit (Hinterhuber 2004). Shiple and Jobber (2001) also mention that because a company's wider objectives and strategies vary over time as do environmental conditions and markets, a flexible approach is needed in setting pricing objectives. Pricing objectives can be differentiated also between long-term and short-term objectives (Avlonitis & Indounas 2005). It is thus important to notify that these objectives are not static all the time and one-time evaluation is not sufficient. A company must also recognize what goal the specific objective is aiming at, is it short-term profitability or long-term permanence. According to Hinterhuber (2004) a firm might try to follow a growth strategy of rapidly increasing their market share and market penetration or it might sell some products below the cost to tempt customers.

Pricing objectives can be described as a group of various targets that a company is trying to achieve. Most significant and widely estimated objectives relate to the volume of the sales, the revenue of the sales, profits, survival, image creation, market share, barriers to entry, perceived fairness, and competitive advantage (Shiple & Jobber 2001). In addition, Avlonitis and Indounas (2005) bring out the aspect that pricing objectives can be divided into quantitative and qualitative objectives. As can be understood, quantitative objectives are more easily measured than qualitative. On one hand, quantitative measures are easier to measure and include objectives that are related to the company's profits, market share, sales, and cost coverage, and qualitative measures on the other hand are such as the relationship with competitors and customers, the achievement of the social goals or long-term survival of the company (Avlonitis & Indounas 2005). Thus, it must be remembered to also recognize the qualitative objectives though those might be harder to recognize. Perceived fairness, for example, can be seen as a qualitative objective. According to Shiple and Jobber (2001) perceived fairness can be seen as a pricing decision that is fair to both the customer and to the firm, the firm gaining long-term profitability and a better image, because a customer who finds a price fair is more likely to buy again.

Shiple and Jobber (2001) also remark that because objectives can conflict with each other, and they are not always mutually supportive, it is necessary to prioritize them according to their importance, because then conflicting objectives can be assigned according to the most important ones. After an organization has recognized its objectives and prioritized them accordingly, it can move forward to understanding the key elements of pricing decisions.

3.4.2 Key elements of pricing decisions

The key elements of pricing decisions are the customer, the company, and the competition (Hinterhuber 2004). These create a triangle that reflects the idea that all these aspects must be considered while making pricing decisions. A firm's competitive market strategy leverages a firm's inimitable and unique resources to deliver competitive advantage, and its company strategy refers to investment choices so that it can differentiate itself from its competitors and gain a competitive advantage (Smith 2016, p. 4). According to Hinterhuber (2004) understanding the sources of value for customers is the way that pricing truly innovative offerings too low can be avoided. This framework is thus a tool that considers the pricing according to the value-based pricing strategy.

First step is to understand customers, the things that create value for them, and their needs. Economic value analysis can be used to understand the varying sources of economic value an offering has to different groups of customers, and it must be remembered that profitable pricing decision cannot be made without knowing the product's value even though sometimes it is not possible to set the price only in the function of the product's value (Hinterhuber 2004). Neutral pricing presupposes pricing in alignment with the offering's competing alternatives after adjusting for its differential benefits, and neutral pricing can be seen as the most profitable pricing strategy (Smith 2016, p. 5). In strategic pricing, if a customer's attached value is superior to the competing value then a higher price can be set (Indounas 2015). Using economic value to a customer (EVC) in pricing decision a company can gain significant improvements to both its market position and margins (Forbis & Mehta 1981).

In identifying economic value there are six steps to take: recognize the costs of a competitive process and the offer which is the best alternative according to the customer, segment the market, recognize all the factors that differentiate the offer from its competitors offerings and processes, define the value of those differentiating factors from the customers perspective, sum up the reference and differentiation value together to define the total economic value, and use a value pool to estimate the specific price points and future sales (Hinterhuber 2004). Though according to Guerreiro and Amaral (2018) a key

characteristic in the B2B market is that it is hard to know the competitors' sales prices due to the customization of the products. This is good to bear in mind. Nevertheless, going through these six steps creates an understanding about the total economic value of the service or offering and creates the value pools that can be used to price different offerings for varying customers. As Hinterhuber (2004) says, it is important to remember the fact that customers will assign different values to examined offerings, which is why when defining the total economic value it is important to use the value pool, not one specific monetary value. If an offering is marketed to several types of customers and has a variety of possible applications, it probably has a different EVC for each application and each customer (Forbis & Mehta 1981).

There are alternate reasons why customers value different variables differently. The critical variables are most often situation specific but a few of them have also repeatedly proved to be significant: product usages intensity, customer's business growth, geographical scope of usage, and the nature of application, such as how the customer is using it (Forbis & Mehta 1981). These must be understood to understand the different value pools.

After the economic value has been identified, the next step is to identify the strategy from the company's perspective. Cost volume profit (CVP) analysis is a tool, which is simple to use but still very powerful in evaluating if the contemplated price changes have changed from being profitable for the firm (Hinterhuber 2004). Profitability, as mentioned in Chapter 3.2, is critical to evaluate and to create for the company's success. CVP analysis shows that if the offering has a contribution margin of 70% and a price increase of 10% it is still profitable with a sales decrease of up to 13% (Hinterhuber 2004). The effect of price changes can be seen in figure 5, where it is shown how a price change affects required volume. Different items' gross margins (GM) also affect it as can be seen in figure 5.

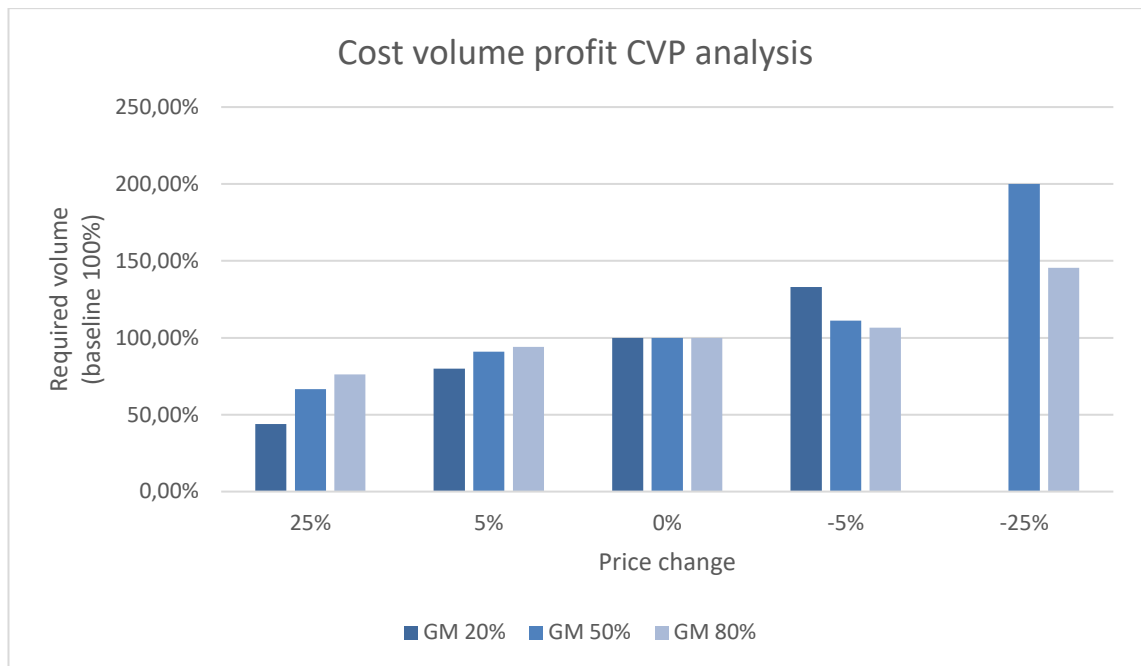


Figure 5: Cost volume profit (CVP) analysis, modified from Hinterhuber (2004).

After analyzing the company's strategy, it is time to analyze the competitive situation. Most companies face competitors at a generic level, market level and at segment level, and this affects the prices they set as well as theirs and their competitors' reactions to each other's price initiatives (Shipley & Jobber 2001). According to Hinterhuber (2004) there are six elements that should be analyzed:

1. Threat of new entrants
 - First managers need to evaluate and understand a new competitive entry.
2. Price trends in existing markets
 - Prices and their trends must be monitored carefully because it is typical for the customers to lie about prices offered by competitors in order to get more discounts and favorable selling terms.
3. Competitive strategies
 - Market segments should be analyzed with competitors' strategies, for example with expansion plans for future, weaknesses and strengths in different segments, and estimated profitability in primary product lines and market segments.
4. Information about distribution channels

- Meaningful information contains payment policies and pricing of distributors, market share with the key distributors, volume of products stored in distribution channels, and incentive plans of main competitors.

5. Reference values for different customer groups

- Since economic value analysis is based on the reference value that is according to customer the most suitable option for the product, and different customers will take various products as a reference value for the purchase decision, it is important to have different reference values for different products and obtain information about competitive products behind them. Besides, it must be remembered that preferences change over time.

6. Reaction to price changes

- If price increases are suggested for some products it would be good to foresee competitors' reactions to these price changes.

All these elements are crucial to consider. For example, according to Shipley and Jobber (2001) it is critical that firms monitor their competitors' prices and price adjustments and if needed react to them appropriately. After all these dimensions have been gone through, the key elements have been recognized. Next, profitable price ranges can be evaluated and after that implemented.

3.4.3 Profitable ranges and implementation

While economic value analysis, CVP calculations and competitive intelligence has provided good cornerstones for effective pricing strategy, it is possible to evaluate the magnitude, impact, and justification of price increases (Hinterhuber 2004). If there is a suggestion to increase prices according to one of these analyses, whether this is possible must be evaluated properly. A company will decide if price variance is allowed or not at the strategic level (Smith 2016, p. 6). Feedback from marketing staff, sales managers and from a few customers are gathered to evaluate the volume losses (Hinterhuber 2004). If volume losses are reasonable, price increases should be implemented. For example, if CVP analysis suggest increasing prices for 30% to maintain the business profitable for a product with a 70% margin, maximum decline could be less than 30% (Hinterhuber 2004). At this point, feedback should be gathered to evaluate the real effect of this decision. If this exploratory research suggest that volume loss would be 15-20% and the price elasticity is lower, in that case managers have a strong case for implementing the price increase (Hinterhuber 2004).

The last step is to make these prices valid. Once the magnitude of the price changes has been determined, they need to be fulfilled (Hinterhuber 2004). Implementation of the price needs the publication of the price list as well as good communication of it to the different relevant audiences such as sales force, customers, and relevant internal personnel (Shipley & Jobber 2001). When prices are determined, new procedures that everyone obeys must be carried out. Policies signifies rules that must be followed under stated conditions, and they have two purposes: to achieve the consistency of all the activities among members in the organizations and to improve the validity of the decisions (Oxenfeldt 1983). According to Hinterhuber and Liozu (2012), the problem is that many companies lack controlling tools, sales personnel confidence, incentive schemes, information systems, and negotiation capabilities. Price variances also need policies that determinate the type of variances that are allowed, the situations where they are suitable and how deep those could be (Smith 2016, p. 6). As mentioned in the Chapter 3.1, all personnel must be aware of the procedures thus they need to be transparent. Price policies might vary depending on a customer, offering or a transaction as already discussed in Chapter 3.3.3. According to Smith (2016, p. 6) price variances policy might have been done based on the customer, the product, the market or even the transaction. There are companies with high pricing realization (realization refers to the processes and capabilities which ensures that the price which company gets is as close as possible the price it has set) and high price capabilities as well as companies who have weak pricing capabilities and weak price realization (Hinterhuber & Liozu 2012). Different pricing capabilities can be seen in figure 6.

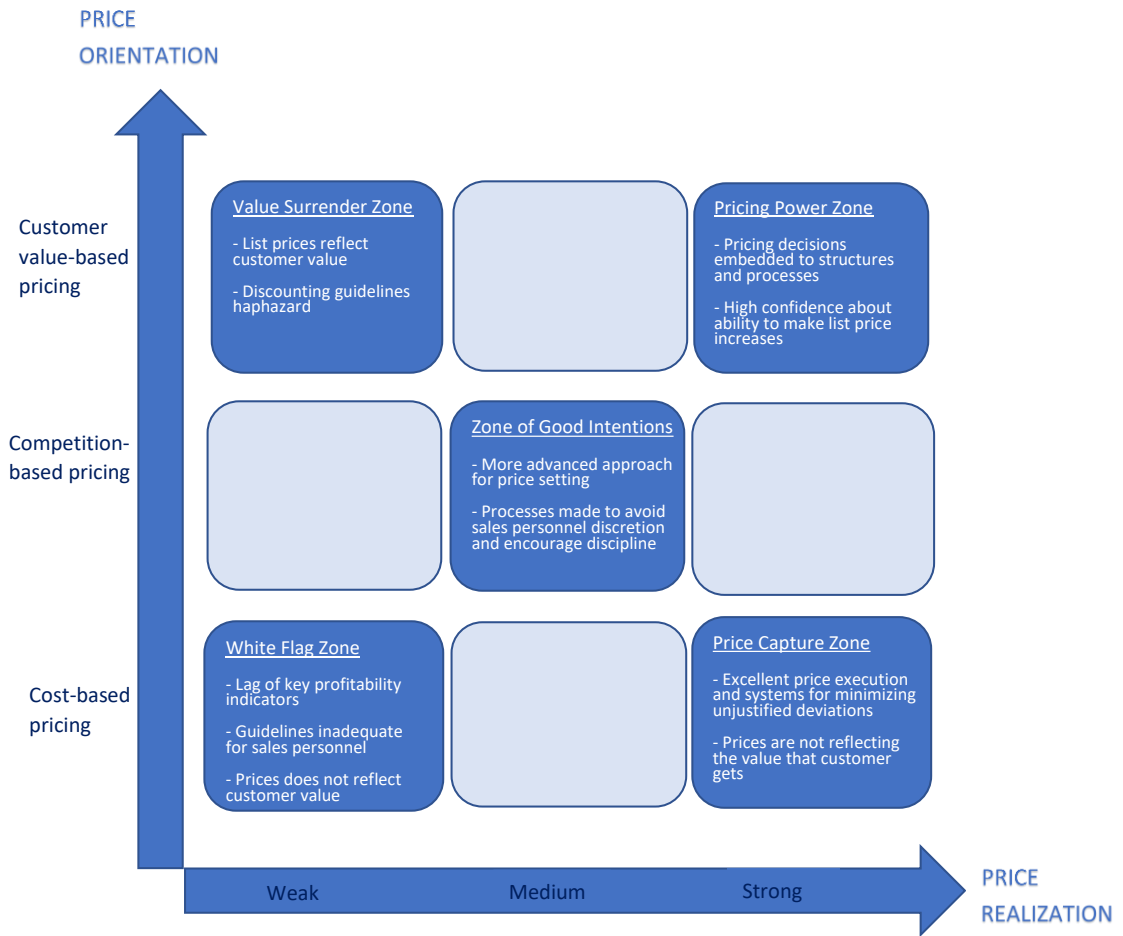


Figure 6: The pricing capability grid, modified from Hinterhuber and Liozu (2012).

In the pricing power zone, companies tend to embed pricing decisions into structures and processes and they are not just left for the sales personnel in the field, whereas in the white flag zone prices do not reflect the customer’s willingness to pay or customer’s value, and there are no guidelines for sales personnel (Hinterhuber & Liozu 2012). Managing sales personnel is important because there is always a temptation to attempt to win sales orders by not obeying the rules and this way to destroy all these planned changes (Hinterhuber 2004). Motivating sales personnel to obey the rules and explaining the reasons why these decisions are made is vital. If sales personnel do not understand the value, how could customers. Price execution is a high-frequency rule-based decision area, and information technology has improved the efficiency and effectiveness of it though human decisions are still in place in execution (Smith 2016, p. 7). That is why people are the ones that must be made to understand the importance of all the decisions made.

3.5 Total cost of ownership and life cycle costs

The life cycle cost (LCC) is a concept aiming to optimize the total cost of asset ownership, by quantifying and identifying all the considerable expenses that arise during the ownership of an asset (Woodward 1997). LCC does not mean a specific calculation method, where costs are directed in a certain method, rather it is a comprehensive viewpoint to understand the economic effects of the asset (Suomala et al. 2018). There is no need to search a specific way to calculate these costs, rather to understand which factors are affecting specific costs and how these could be controlled in the best manner to improve profitability and service level. The total cost of ownership (TCO) enables monetary quantification of all the nonfinancial attributes and aggregation of these to a financial summary measure (Morssinkhof et al. 2011). The difference between LCC and TCO is the following: LCC is concentrating on the product perspective and TCO is concentrating on to the purchaser's perspective so the period in TCO is shorter than in LCC (Saccani et al. 2017). There is heterogenous terminology, but approaches are alternative, such as LCC, TCO and through life costing (TLC) (Settani et al. 2014). Despite the term that is used the main aim is to shift the concerns from revenues and initial cost toward the estimation of the long-term and widespread economic effect of decisions (Lindholm 2018, p. 24).

Suomala et al. (2018) also points out that there are no specific limitations about from whose point of view and how widely costs are treated, and thus costs and revenues can be evaluated for example from the customer's or user's viewpoint, or from the producer's or even from society's viewpoint, and the idea is that costs are related to each other and that costs can be influenced during different life cycle stages. While offering machine rentals, the viewpoint could be the company offering these rentals. To keep calculations simpler, examination of the life cycle could be delimited to the costs of the company itself (Suomala et al. 2018). Next should be evaluated which costs should be considered during the life cycle of the offering.

Berry and Yadav (1996) are mentioning that service companies find it difficult to understand costs related to services, and that traditional cost-accounting procedures were developed to observe costs that are associated with the labor, the consumption of raw materials, and depreciation, so these traditional accounting practices are found to be inadequate. LCC could be used to help to understand all the costs related to a machine and service, since improving the understanding about the service costs as well, because those are a part of the machine life cycle when renting it.

LCC contains costs related to design, manufacture, distribution, operation, and disposal (Saccani et al. 2017; Suomala et al. 2018). Operations also include several costs, and

those should be minimized. This is rather important since in servitization business a company is the one who is responsible for these. Servitization is changing the manufacturer's business models and the idea of ownership on the consumer's side (Lindholm 2018, p. 28). In availability-based contracts, customers have the possibility of the use of assets such as equipment as an alternative of purchasing that asset, and separate contracts for support and the cost of servicing a durable offering can be directed using for example TLC (Settani et al. 2014). Thus, the costs of maintenance, for example, are also included in a manufacturer who is providing the operations.

Since LCC's main idea is to operate physical assets with minimum costs, it is essential to estimate the operating and maintenance cost of an asset such as direct material, direct labor, direct expenses, indirect labor, indirect material, establishment cost, fuel, services, and power (Woodward 1997). Retention of the machine ownership is a form of incentive for the manufacturer to decrease operating costs and improve the availability and performance (Spring & Araujo 2017). It is important that maintenance service is at an optimal level to maintain the minimum total cost (Woodward 1997). So, the best level of the maintenance for the company is the point where the costs are in minimum. In that point downtime loss and maintenance costs also come across. The optimum costs of maintenance can be seen in figure 7.

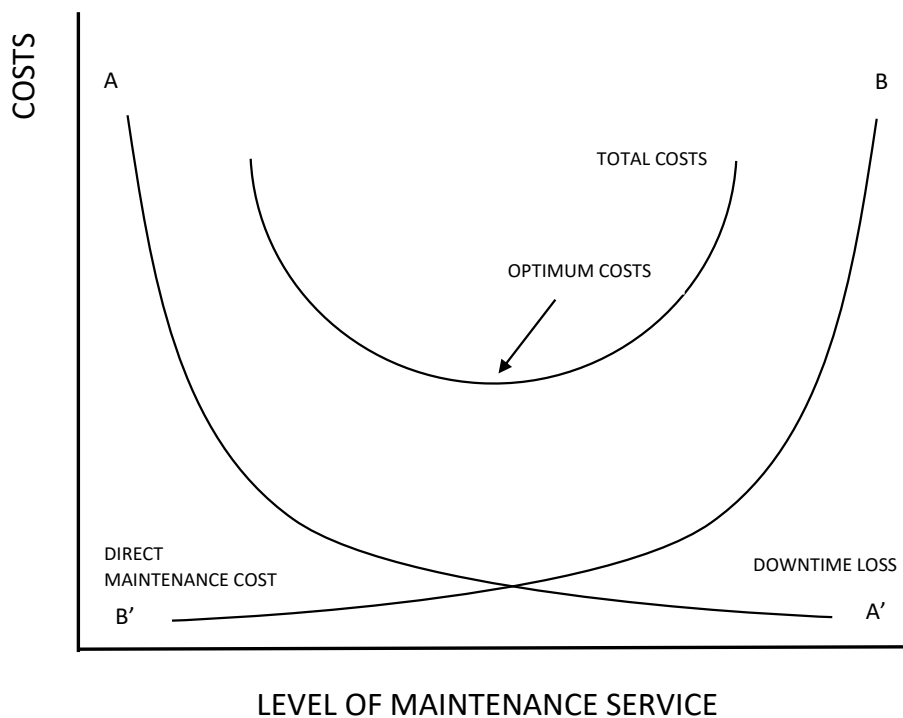


Figure 7: The maintenance-cost relationship, modified from Woodward (1997).

According to Settani et al. (2014) to improve the company's long-term cost consciousness, LCC is a potential tool to use. LCC might help to formulate criteria to enhance organizational benefits with the same performance level maintained while reducing costs or maintaining those (El-Akurati et al. 2016). According to Lindholm (2018, p. 40) LCC is a tool which can be used to help to estimate the long-term economic impacts of decision alternatives, and its usefulness is the greatest when used in the early stage of the planning. Using LCC enables the user to take the long-term view on investment decision-making and by taking into consideration non-quantifiable characteristics that are not expressed in monetary terms it gives the opportunity to acknowledge the comprehensive economic impacts of investment decision (Settani et al. 2014). Lindholm (2018, p. 39) also remarks that monthly financial reports might provide only a narrow view of total costs and profitability implications and thus there is a need to develop procedures to provide more comprehensive information and to encourage the decision-maker to think more of the long-term perspective. Understanding both the quantifiable and non-quantifiable characteristics of the machine and service is important to maintain or even lower the costs in operations while providing improved performance.

According to Lindholm (2018, p. 41) for global companies that are moving towards more service-based business models like servitization, producing financial information for managerial use (MA) activities is complex, and they tend to require improvements to take into consideration various parts of the organization and their fit together more comprehensively so that the organization's profitability can be improved. There is a need for more convergent data to improve profitability. Since interaction between equipment activities and service does not appear in basic financial reports, the scattered data could be built with the help of MA such as LCC, but this requires information from various sources and their combining and may also involve making trade-offs (Lindholm 2018, p. 42).

Understanding the life cycle cost of the service business requires understanding the total cost while preserving the performance level. The viewpoint must also be selected according to whose point of view the costs would be liked to be explored from. In servitization business, the company offering is taking care of most of the costs in the life cycle of the machine. For example, optimizing the maintenance costs has a meaningful effect on profitability.

3.6 Summary of the short-term rentals pricing

Value-based pricing requires understanding the needs of the specific customer, the benefits they can get, what value different benefits can bring, how this value can be communicated, and how different prices can be segmented. Prices should be easy to understand, they should represent the genuine value to the customer, they should encourage the customers to do more business and be loyal to the target company, they should raise trust, and ease the uncertainty about the purchase decision for the customer (Berry & Yadav 1996). As short-term rental business is focused on renting used machines there are issues like availability or quality of machines that are not so self-evident but must be acknowledged. Therefore, a framework was built from the theory to summarize the critical aspects of pricing the short-term rental business and it can be seen in figure 8.

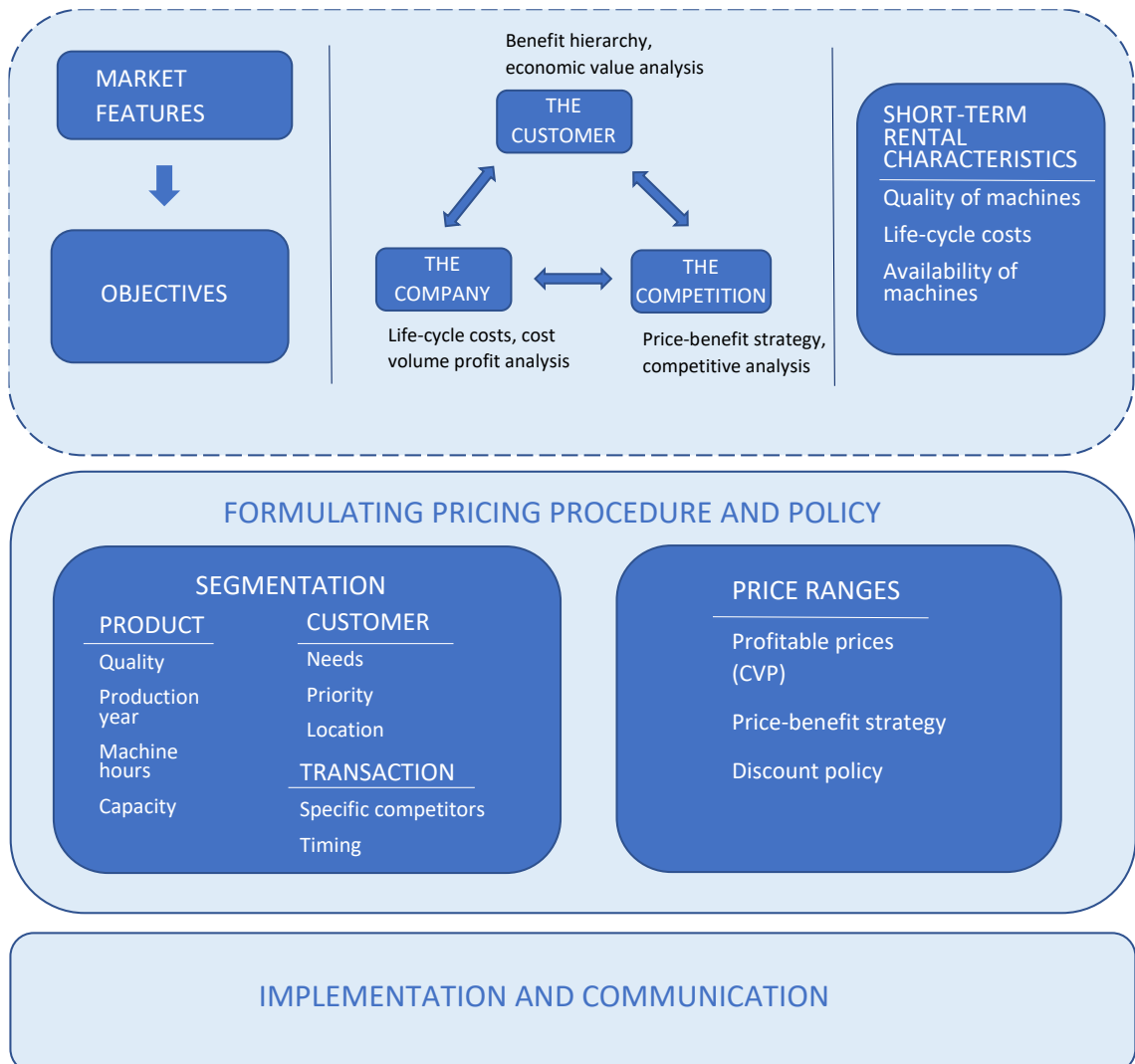


Figure 8: Framework for pricing short-term rentals.

Several things need to be considered when implementing a pricing structure. First, it is crucial to understand the market features where the actions are taken. As Hinterhuber

(2004) mentioned, it is important to notice that a profitable pricing decision depends on local market conditions and country-specific objectives. Thus, it is critical to understand prevailing circumstances. After analyzing the market features there are three aspects to consider: objectives, the key features of pricing decisions, and short-term rental characteristics. All these areas of the decision vary over time and it must be remembered that pricing in global markets is a continuous process like Cavusgil (1996) mentioned. Moreover, objectives as Shipley and Jobber (2001) mentioned, should be consistent with the offering's marketing strategy and with the company's wider objectives. Thus, objectives are also in relation to short-term rental characteristics.

Key features need to be considered as well, those are the customer, the company, and the competition as Hinterhuber (2004) introduced. Benefits that customers are reaching can be analyzed with the help of the customer benefit hierarchy (see figure 2). While analyzing the competition in the markets, it is also possible to analyze a new price level in relation to key competitors and use price-benefit strategy (see figure 3).

Since this thesis concentrates on short-term rental business, it must also consider different characteristics involved in that. Short-term rentals have characteristics such as the period of the rental which is limited. Pricing of these machines should consider the aspect of the value that the customer is reaching. As Guerreiro and Amaral (2018) referred, value-based pricing is the most appropriate approach of pricing because it takes the customers perspective into account. Moreover, when renting machines, it is noticeable that the lifecycle of the machine is on the manufacturer's shoulders and there is a need to think about aspects like the availability of the machines. If machines are rented according to customer needs, what can be offered must be understood. Fink and Reiners (2004) were referring to upgrades that must be considered if there is no possibility to offer the machine needed.

After all these attributes have been investigated a pricing procedure and policy can be formulated. In this part of the process, it is important to understand that it is possible to segment different attributes that might affect pricing. Segmentation can be divided as Bodea and Ferguson (2012, p. 86) divided it: the product, the customer, and the transaction attributes. Segmentation can be a helpful tool for producing profitable pricing procedures. Pricing could consider the quality of the product or the features existing in it. Quality might be an important factor since short-term rentals are focusing on used machines. As Waldman (1997) mentioned, the quality of the units can be described as follows: the new unit's quality is Q^N and the used unit is Q^O , $Q^N > Q^O > 0$.

In the pricing procedure and policy stage it is also good to consider profitable pricing ranges. In this step the CVP analysis, for example, can be a helpful tool to estimate discount ranges and prices should be considered in relation to the benefit that the customer is getting from it. The last step is to implement the changes and communicate them. Shipley and Jobber (2001) highlighted both the publication of the list prices and communication for different relevant sources of people. A transparent process is important in every step, but mostly when implementing the changes through organization.

4. RESEARCH METHODOLOGY

4.1 Current state of the case organization

Interviewing the internal persons involved in this business in the case organization helped to understand the business in general. Business is centralized into Europe according to them and this is one of the reasons why this area was selected for the target population. A target population is the actual target of the research inquiry (Saunders et al. 2019, p. 295).

Short-term rental business is time framed to include rentals no longer than 12 months, and it is built from used equipment from trading or long-term rentals that have off leased. There are three types of short-term rentals. These types are swing-unit (known also as a back-up unit), bridging-unit and basic customer need. Swing-units are used if the customer's regular piece of equipment is not available to complete operational management, and a short-term rental is needed. The bridging-unit is basically rent if the customer is waiting for a delivery of a new machine, the period could be four months, for example. Third area is the basic customer need for operational capacity flexibility. The current state of the business is characterized in figure 9.

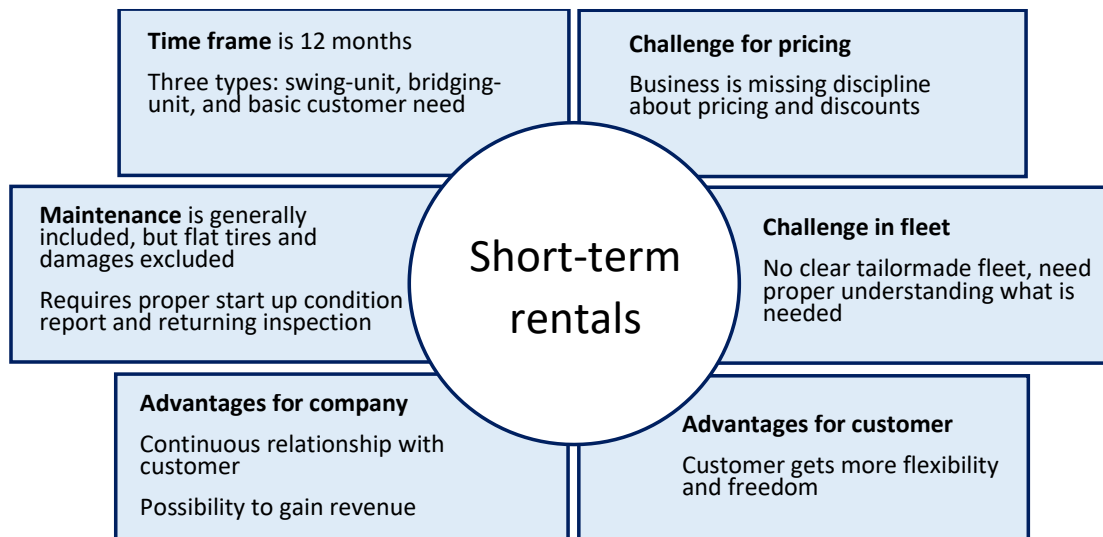


Figure 9: The current state of the short-term rentals in case organization.

The problem is that basically there is no discipline about how this business is priced and discounted in the market when it comes to short-term rentals. A strategy is needed to expand this business so that the pricing is coherent. A significant point in the short-term rental is that anyone can do this agreement and the customer can return the equipment whenever he/she likes.

Another thing that includes the pricing aspect is the different modes of actions concerning the short-term rentals. In some of the countries, there is no interest in renting machines for less than a three month period to avoid unnecessary work, for example in front line D, whereas in front line A they are happy to rent machines for a short period because then they can charge higher prices. This information came up while discussing with case organization's internal personnel. Procedures are thus differing.

Another problem is that there is no clear tailormade fleet for short-term rentals. Thus, when there is an opportunity for short-term rental, it needs to be understood clearly what machines are available at a given time, based on lease and rental returns and buy backs. When this is understood, wrong machines are not rented, because this is something that has also happened. When managed well it works well, but there are also shortages.

A maintenance contract is by default four months, but damages and flat tires are excluded according to internal interviewees. This means that the customer is always accountable for damages. A critical issue to manage is to make a proper start-up condition report and returning inspection, and to invoice the customer for the repair of any damages or non-typical maintenance related tasks to maintain the value of the machine. According to interviews with internal personnel, if the customer has manhandled a machine which has been quite new, the expected value of the machine is not close to the book value anymore, which is affecting the profitability of the business. However, generally maintenance is included and for example, if the machine is used for the whole year or ten months, service might be needed during that time, but if the machine is rented for two weeks' period, there is no need for service, unless there is something very wrong. Typically, if the machine breaks down on the site, technicians are fixing them on the site.

Though there are challenges in this business, there are also advantages gained. This business gives the opportunity to keep a continuous relationship with a customer and a possibility to understand their needs. This is thus a competitive capability. In addition, if thinking about the machines that have been off leased or machines that have been returned when a new one has been bought, there is quite large stock. This stock is causing costs and if these machines are not sold under used equipment sales, renting these gives the possibility to gain revenue from them.

Customers can also gain different kinds of advantages, thanks to this business. As already mentioned, customers might have different kind of requirements for when the short-term rental machines are needed. However, there might be also a situation where the customer does not have a possibility to buy an expensive machine. While renting a machine customer does not need to take care of the services or spare parts, because

those are taken care of by the company who is renting the machines. Thus, this business gives more freedom and flexibility for customers.

4.2 Selecting the research methods

The design of the research can be evaluated by using Saunders et al. (2019, p. 174) research onion. Before collecting the data there is a choice between data collection techniques and analysis procedures (Saunders et al. 2019, p. 128). First, the aim is to understand differing procedures affecting the data gathering. There are six layers in the onion: philosophy, approach to theory development, methodological choice, strategy, time horizon, and data collection and analysis (Saunders et al. 2019, p. 129). All these layers are introduced in figure 10 where used methods for this study can be seen.

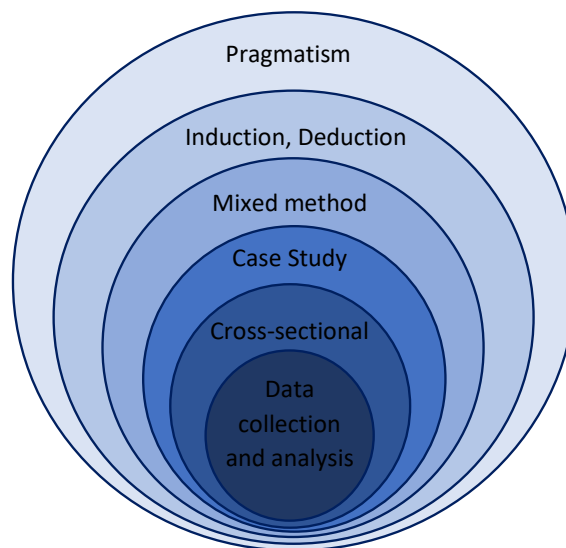


Figure 10: The research onion, modified form Saunders et al. (2019, p. 130).

The first layer concerns philosophy. Research philosophy means a system of assumptions and beliefs about how knowledge develops (Saunders et al. 2019, p. 130). There are three different kinds of assumptions done by the researcher. Assumptions done by the researcher during the research are ontological (concerning the research), epistemological (human knowledge), and axiological (extent and ways how research's own values and ethics influence the research process) (Saunders et al. 2019, p. 130). In this research, pragmatism is the used philosophy according to the researcher's own thoughts. The aim of this research is to answer a problem an organization has and that is why pragmatism is a good philosophy for this research. Using pragmatism, research starts with a problem and the aim of the research is to contribute a practical solution for future use (Saunders et al. 2019, p. 151).

The second layer concerns the approach to the theory development. There are three different approaches. Two of them are contrasting approaches: deductive and inductive, and the third one is an alternative option for these which is abductive (Saunders et al. 2019, p. 152). Research can be said to be deductive due to the theory used while preparing interview questions. If research starts by using the literature and the aim is to test a theory, then a deductive approach is used (Saunders et al. 2019, p. 153). However, the empirical part of the work is implemented using a more inductive approach and the aim of the research is to build a framework for pricing short-term rental machines. If research starts by collecting data to explore some phenomenon, and a researcher builds a theory, for example, a conceptual framework, then the inductive approach is used (Saunders et al. 2019, p. 153). Thus, in this research inductive and deductive approaches are both used. Deductive approach is supported as existing theory is used in preparing the interview questions, while inductive approach is supported because the researcher's existing knowledge about this business is limited. Induction and deduction can be combined in the same research and it can be even advantageous to do so, although one of them is usually dominant (Saunders et al. 2019, p. 157). It is important to also bear in mind that according to Saunders et al. (2019, p. 173) philosophy and approach to theory development affect the next three layers of the research methodology.

The third layer concentrates on the methodological choice. The methodological choice concerns whether the researcher follows a quantitative, qualitative, or a mixed method (Saunders et al. 2019, p. 174). In this research, the mixed method is used. In mixed method research, qualitative and quantitative analytical procedures and data collection are combined into the same research (Saunders et al. 2019, p. 181). Using the mixed method, it is possible to gain wider understanding about the research problems than when only using one of these methods alone (Tuomi & Sarajärvi 2018). This research includes both analytical procedures. It is also noteworthy that according to Saunders et al. (2019, p. 181) pragmatism is usually associated with the mixed method.

The fourth step is to evaluate the research strategy. Strategy refers to a plan of actions to achieve a specific goal (Saunders et al. 2019, p. 189). This research has been carried out as a case study. Case study is an empirical inquiry where the aim is to investigate in depth and in real-life context some contemporary phenomenon (Farquhar 2012). The 'case' might refer to for example an organization's business (Saunders et al. 2019, p. 196). As in this study, the aim is to investigate short-term rental business and pricing of it in the case organization. Saunders et al. (2019, p. 197) also states that understanding of the context is fundamental to the case study and that is why it is discussed in Chapter 4.1.

The fifth step relates to the research's time horizon. If research is cross-sectional, it involves the study of a specific phenomenon at a particular time and a mixed method strategy might be used (Saunders et al. 2019, p. 212). This thesis has a specific time horizon and that is why it is cross-sectional. Saunders et al. (2019, p. 212) also highlights that most of the research projects are necessarily time constrained. After all these layers are analyzed, data gathering, and analysis can be evaluated.

4.3 Data gathering

The research started with analyzing literature. The literature review was conducted from January to March 2021. With the help of literature, it was easier to understand the different procedures affecting the pricing of short-term rentals. First, the aim was to understand leasing and short-term rentals to be able to tie the pricing literature to them. Understanding the challenges that there are for pricing in a company that is operating globally, is important. Pricing short-term rentals focuses on value-based pricing, thus there was a need for understanding the features that different customers value and these were analyzed in more detail. After the literature analysis had started, the next phase was to start to gather data both quantitatively and qualitatively. The stages of the research process are presented in figure 11.

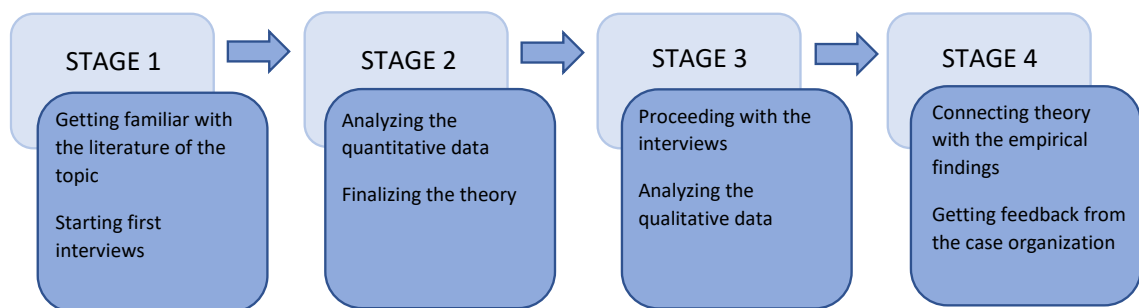


Figure 11: Stages of the research process.

For all research questions where it is impractical to collect data from the entire population, there is a need to select a sample (Saunders et al. 2019, p. 295). Since the case organization is a globally operating company, a sample is the best practice to use, though it is quite hard to take all the sides into account. There are also advantages gained from sampling. A smaller number of cases where the data is gathered means more time to design the collection of the data and collecting data from fewer cases means there is a possibility to collect data in more detail (Saunders et al. 2019, p. 295). The case organization operates globally, however the case was delimited to concern only the Europe region since the business is focused on that area. That can be said to be the target population. There might be some individual cases in some other countries as well, but

the business is said to be in Europe according to the interviews of the company's internal personnel. According to Saunders et al. (2019, p. 295) target population refers to the actual focus or target of the research inquiry.

While the research of literature was at the finishing stage, the quantitative data search was begun. The quantitative data analysis was carried out from February to March 2021. Secondary data can include both raw data and published summaries and it is collected for some other purpose initially (Saunders et al. 2019, p. 338). In this research, the data was searched from the database called QlikView. Data that is collected from QlikView comes from the company's enterprise resource planning (ERP) system SAP. Secondary data can be structured, for example, in a database which is easier to process (Saunders et al. 2019, p. 341). This data was used to analyze the magnitude, market characteristics and the profitability of the business. With the help of the information five countries were selected for the qualitative analysis of the work, meaning further interviews. The countries were selected according to sales and according to the spread in Europe, so that the cluster of countries would highlight different viewpoints and different circumstances affecting the business. The profitability of the business was also one of the reasons for this selection and the expertise of the case organization's internal personnel was used as an aid with this selection. The countries selected were front line A, front line B, front line D, front line E, and front line F.

At the same time as analyzing literature, preparing the first interview question was already started and interviews with the company's internal people were arranged, to help understand the present procedures of the business and to collect information about the critical sectors of the thesis. In this research, a non-probability sampling was the used technique, more precisely purposive sampling. In non-probability sampling, it is possible to specify the probability of the samples selected and there are many alternative techniques to select these samples (Saunders et al. 2019, p. 315). Concerning the purposive sampling, Saunders et al. (2019, p. 321) explains that in purposive sampling a researcher uses a judgement to select cases which best have the possibility to answer the research questions. Accordingly, front lines were selected to represent various views in selected markets and, for example, the quantitative data about the size of the sales was used to select specific front lines. Purposive sampling is usually used with small samples such as in case studies and when the intention is to select cases which are informative (Saunders et al. 2019, p. 321).

A heterogenous sampling researcher uses his/her judgement about how to choose participants with sufficiently diverse characteristics to gain maximum variation possible in the data gathering (Saunders et al. 2019, p. 321). The idea is to reveal key themes

(Saunders et al. 2019, p. 318). The idea of the interviews was to gather the key themes concerning this business. Snowball sampling can be used as well, if good new contacts to interview emerge as a result of the previous interviews. In snowball sampling, initial contact identifies further members of the population to contact, who then identify further and so on (Saunders et al. 2019, p. 323). Snowball sampling was used in that opinions were asked from different interviewees about who would be the best people to contact concerning the thesis. For example, front line D was added among the other countries to interview as well, due to an internal interviewee suggested that. The aim was to gather information from front line D about the procedures that might not be the best ways to implement things, according to, for example, low profitability in that country or not renting machines for less than three months periods. However, there was a very structured way of pricing short-term rental machines.

Interviews were conducted from January to April 2021, and to gather the data, nine interviews were arranged. In each of these interviews, the researcher was the interviewer. The first interview was held on week two and two central service managers participated in it, because one of them is going to step out of the business and hand it to the other interviewee. First interview was thus different from all the others as circumstances were signaling that it was a group interview even though there were only two participants. Typically, there are between four and twelve participants in group interviews (Saunders et al. 2019, p. 467). In a focus group interview the main idea is to bring out different aspects to the theme (Pietilä 2017). Saunders et al. (2019, p. 467) adds that a focus group interview is a type of group interview. Sometimes it might be advantageous to interview participants together and thus use the one-to-many interview method (Saunders et al. 2019, p. 442). However, Valtonen (2005) points out that an interview where communication is based on only answering the interviewer's questions one by one is preferred as an individual interview in group circumstances. At this interview, both interviewees were bringing their own aspects to the questions and they were also adding things to other one's answers. Therefore, the first interview can be categorized as an individual interview as all the others. All the other interviews were individual interviews. These are called according to Saunder et al. (2019, p. 441) one-to-one interviews. Information on the interviewees and the interview durations are shown in table 1.

Table 1: Information on the interviewees and the interview durations.

Number of interviews	Position of the interviewee	Organization	Interview duration (min)
H1	VP Lifecycle Management & Training and VP Contracts & On Call	Central	65
H2	VP Lifecycle Management & Training	Central	25
H3	Service Business Controller	Central	30
H4	Sales Manager	Front line F	36
H5	Sales Coordinator	Front line D	53
H6	FMG Representative	Front line E	66
H7	Director Pricing	Central	31
H8	Fleet Manager	Front line B	25
H9	Sales Manager	Front line A	72

While the quantitative data analysis was at a finishing stage, preparing interview questions for selected front lines (according to the quantitative data analysis) started. A semi-structured interview consists of questions that are the same for all the interviewees and the interviewee can answer them with his/her own words (Eskola & Suoranta 1998). In this study, research questions varied concerning the person, who was the target of the interview. Selecting specific interviewees orients interviews to different themes, although some questions are the same for all the interviewees (Rastas 2010). Questions were prepared according to this, so that it was possible to get full advantage of the interviews. The position of the interviewee was thus considered, and the structure of the interview questions varied slightly from interview to interview. All the interviews were held online, the reason being the distance between the interviewees and the interviewer. Semi-structured interviews can be arranged through the internet and these can be either one-to-many or one-to-one interviews (Saunders et al. 2019, p. 436).

All the interviews were recorded. Recording enables the interviewer to go back to the recording, so that nothing important is missed. This helped the interview situation, so it was possible to concentrate more on what the interviewee said and not only on making notes. However, in addition to the recordings, notes were also made and they were easy to complete when transcribing the interviews.

During the thesis, a research notebook was also fulfilled for the researcher's own use. A research notebook can be used to identify the development of specific ideas or understand the way the research is progressing (Saunders et al. 2019, p. 650). With the help

of the research notebook, it was possible to gather all the meaningful events during the process and with the help of this, make sure that everything was mentioned in the thesis to make it more transparent.

4.4 Data analysis

Quantitative data was analyzed using the Microsoft Excel tool. The data consisted of information about the machines, product lines, and entities. However, there was also information about the sales, profit, and different costs related to the business. The analyzed data is running twelve months from the year 2020, meaning the period from the start of January 2020 to the end of December 2020. The quantitative analysis was meant to answer the first research question, but the existing data was too narrow for that. Interviews of the central service managers clarified that pricing procedures and policies are something that only people from the front lines are aware of. However, by analyzing the data with the help of Excel's pivot function, it was possible to get a good picture of the installed base in the selected countries and the diversification of the business in Europe. Profitability was also something that was examined with this data.

While starting the analysis of the qualitative data it was time to gather all the data from the interviews and classify it. This process started with transcribing all the interviews. It is important to transcribe the recordings to ensure that data are not lost (Saunders et al. 2019, p. 644). The idea was to not write all the words down that the interviewee had said but rather to collect all the key themes for the questions asked. The interviews were transcribed with the help of VLC media player. This application has the possibility to slow down the recording, so that it was much easier to transcribe the interviews. The interviews which were held in Finnish were transcribed into English.

After all the interviews were transcribed, the classification of the data started. Saunders et al. (2019, p. 651) highlights that thematic analysis patterns and themes can be identified for further analysis that is related to the research questions, using coding. Coding was used after all the interviews were transcribed, although the codes were already defined tentatively before the transcription process, according to the themes that were used while preparing the research questions. Coding means to categorize the data with similar meaning (Saunders et al. 2019, p. 653).

During the coding process, it was time to classify the data under broader themes, which were, as said already, made tentatively. There were four main themes that were good to classify to make clear conclusions of the data which came up from the literature. These

themes were: objectives, key features, short-term rental characteristics, and pricing policy and pricing procedure. However, Saunders et al. (2019, p. 652) points out that using an inductive approach themes that are recognized are derived from the data. Thus, deductive approach can be recognized in here. In addition to these four themes, current state was classified as one of the themes. The same categories were also used while categorizing the interview questions. These themes were defined according to literature and the aim was to code the data this way. The sixth theme was added during the analysis. The themes and the codes can be seen in table 2 below.

Table 2: Interview data coding and grouping.

Theme	Code
Current state	Current state of the pricing Challenges
Objectives	Objectives for the business and value for the company
Key features	Customer Company costs Competition
Short-term rental characteristics	Life-cycle costs Availability matters Maintenance contract Transportation Coherent system for inventories
Pricing procedure & policy	Factors affecting prices Discount's policy Feedback about prices
Distinctive things	

After all the data was coded, the next stage was understanding the relationships between the data. At this stage of analysis it is time to search for specific patterns and relationships from the codes to understand the themes that are related to the research questions (Saunders et al. 2019, p. 657). By binding together the literature and the themes from the qualitative data it was possible to gain a better understanding of the important things related to the pricing of short-term rentals and with that answer the research questions. However, the idea was also to recognize distinctive things among front lines.

The way the data was eventually coded can be seen in the table 2. There were five actual themes that were categorized, and inside those there were also different codes. The sixth theme concerned distinctive things collected during the coding process if there was anything distinctive from the others. The coding process can be explained with the help of examples. One interviewee stated this: *"This is a strategic decision to be part of the*

aftermarket business. We want machines back so that we can be part of to decide what is happening next. How are these machines sold, how are these rented and what prices are those having?" This phrase was included in the objectives, when coding the data. Another example comes from coding the theme key features and the code customer. One interviewee mentioned the following: *"Our customers, they know our service is better. They have to pay a little bit more, but then they have the specialist, and we find a solution."* This was coded into the category of customer. In that coding category there were things that customers value and things that differentiate the case company from the competitors.

The data was coded this way, and all the answers were finding their right places as a part of the solution. Some answers were easy to code and some of them were not so easy. However, using the Excel tool and assigning different colors to different codes it was, after all, easier to place every answer in its right place. The aim of the data analysis was to understand the main processes in selected front lines, thus widening the general understanding of this business and its pricing procedures. In addition, although it was not the primary purpose of the analysis, it was discovered that similar things were repeatedly affecting pricing in various front lines.

5. EMPIRICAL FINDINGS

5.1 Quantitative analyses of the business

Quantitative analyses are carried out to understand more precisely the characteristics of the business. In this chapter, first, the share of the business in the selected front lines is discussed, to give a wider view of the business. In addition, this chapter broadens understanding about the fact that the short-term rental business is not yet very widespread among the organization. After that the indicators of the business are considered, such as the revenue per one machine in the chosen front lines and the share of the company's own machines and third party machines. Chapter 5.1.3 concerns the profitability of the business. This chapter helps to understand the profitability situation and give ideas for the pricing framework.

5.1.1 Understanding the share of the short-term rental business

To understand the magnitude of the business in different front lines in Europe it is important to look at the sales of the short-term rental business and compare them. Front lines selected for this research are among the twelve largest entities according to sales in the short-term rental business in 2020. Six entities were selected to give as wide a viewpoint as possible. That is why, in this cluster, there are front lines with both the highest revenues and front lines with lower revenues. The revenue is significantly the highest in front line A and in front line B. These countries' combined revenue is almost half of the total revenue among the twelve front lines. Comparing the six countries (figure 12) gives a wide view of the revenue in the selected countries and thus a wide picture of the variation of the business potential in different front lines. This cluster also provides a possibility to recognize patterns that are not dependent on the size of the market and at the same time patterns that do depend on the size of the market. The variation of sales in this cluster can be seen in figure 12.

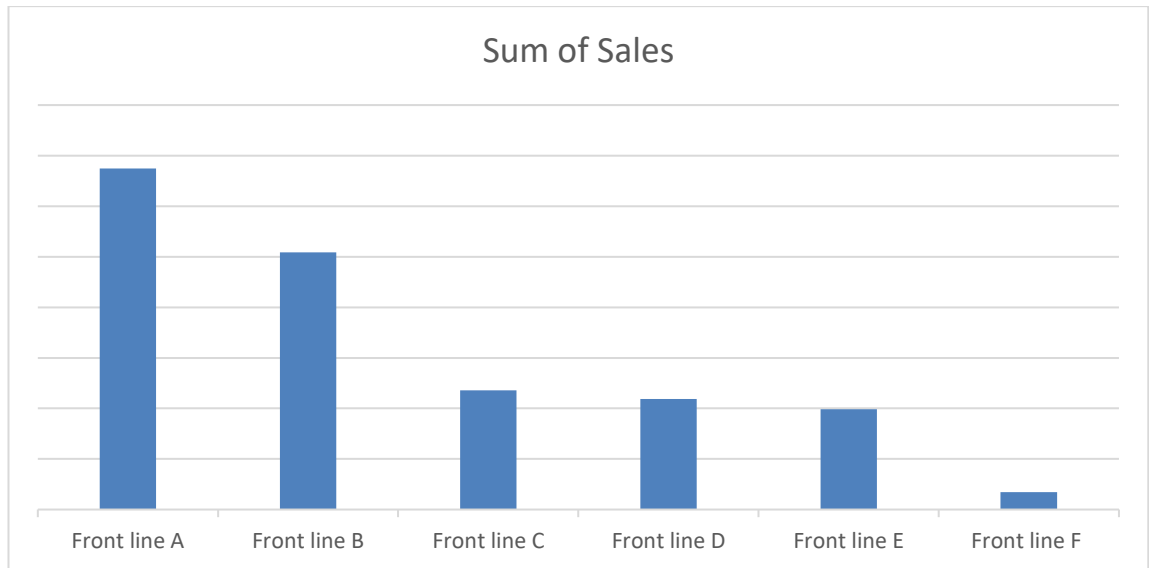


Figure 12: Total short-term rental sales in different front lines.

The difference in revenue between these front lines reflects the fact that there is enormous variation even between this small cluster. If comparing two extremes, the share of the revenue in front line A is over nineteen times higher than in front line F. Considering that the case organization operates globally this shows that the short-term rental business is not very relevant globally, because even in the delimited area concerning only Europe, the fluctuation is so high. Total data also reveals that the business is concentrated in Europe, which already came up in the first interview. This brings forward the idea of broadening the business to other continents as well.

There is a connection with the revenue and the number of rented machines which can be recognized from the data. The number of machines in a specific front line follows the same pattern as the revenue. Regional variation can thus be recognized. The number of rented machines in different front lines is shown in figure 13.

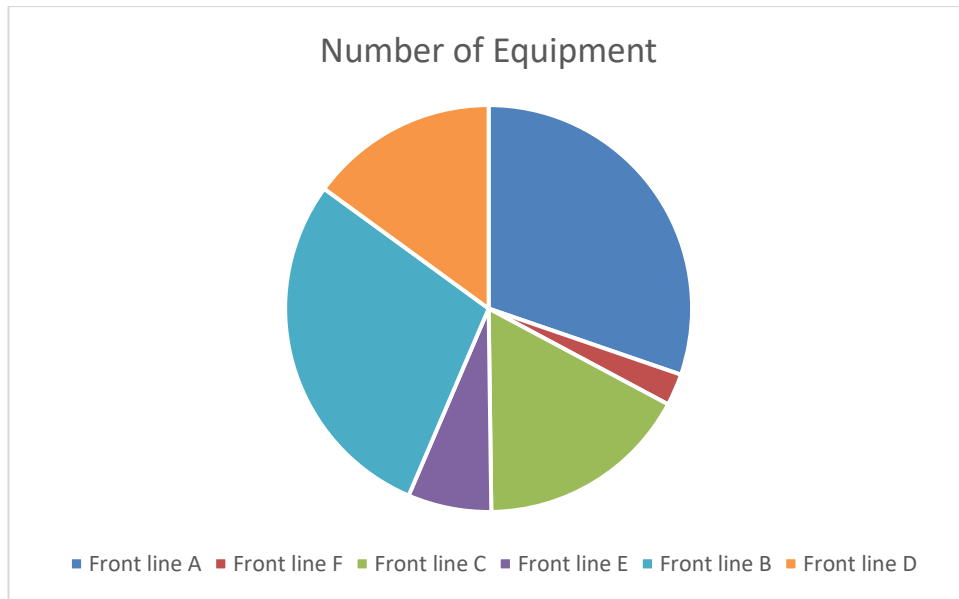


Figure 13: Number of the short-term rental machines in different front lines.

The difference is almost twelve-fold, if comparing the number of machines in front line A and in front line F. The difference in the number of machines is this big while analyzing only the extremes of the top twelve samples of the business. This shows also that this business is not yet so significant. However, in some of the countries it has clearly gained quite a lot of popularity, though this business is quite fresh in the case organization.

It came up in discussions with the case organization's internal personnel that, for example in front line B, some customers who operate with leasing equipment are willing to continue to use that machine after the lease-end. In these kinds of situations, the contract is replaced with a short-term rental contract for one year forward. This might be one of the reasons for a higher share of short-term rental business in front line B. However, this type of action is recognized to be typical among different front lines.

Short-term rental business is one of the business areas in the case organization's service business division. Thus, it is important to look at the size of this business compared to the other main business divisions in these front lines. Analyzing the share of the business compared with other main businesses in the case organization's service business division, such as on-call, contracts, and spare part sales, it can be recognized that there is fluctuation. Figure 14 shows the share of the short-term rental business in four different entities compared with on-call, service, and spare part sales.

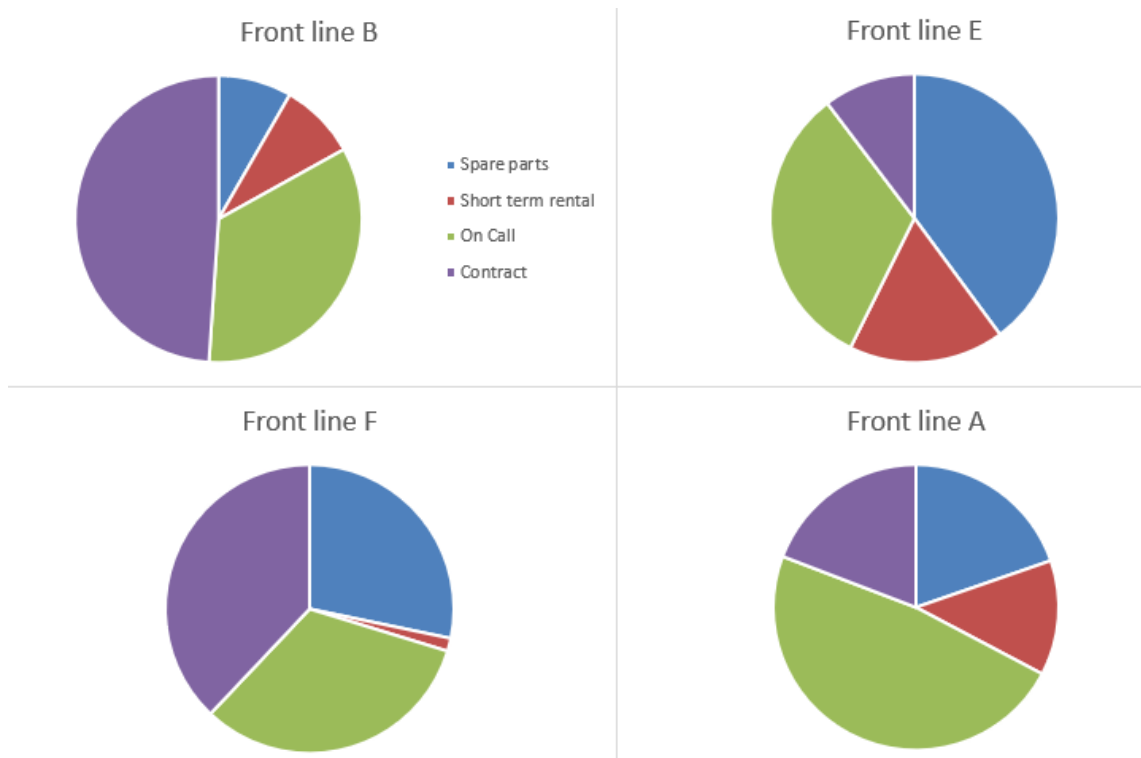


Figure 14: The share of the short-term rental business.

The share of the short-term rental business is 8% in total. However, more specific analysis shows that the size of the business varies between 2% to 18%, and there is not a clear connection with revenue. It can be seen, for example, that the highest share of this business compared with others is in front line E, which means that if this business would be cut out, it would be quite a big drop of total sales. However, front line E does not get much revenue from the business if compared to the others as figure 12 revealed. Moreover, in front line B, the other business divisions have a significantly higher share than the short-term rental business, especially On-call and Contract business, although the revenue gained from this business is decent.

5.1.2 Indicators of the short-term rental business

After understanding the share of the business, it is good to understand more precisely the different indicators of the business, such as the revenue per one machine, the amount of machines which are the company's own, the amount of machines in a customer's use, and the most common machines to rent. Using the data of the number of machines (see figure 13) and sales (see figure 12), it is possible to understand the revenue per one machine approximately. Though, in front line A and in front line B the total revenues are the highest, approximately the revenue per one machine is not at the top. Front line E comes forward to its advantage by having the best revenue per machine. Thus, there is a possibility to have higher revenue per machine in other front lines as

well. In front line F, the revenue per machine is the lowest. A reason for that might be for example low recognition of the business in front line F, so courage might be missing to ask for higher prices in light of thinking of gaining a higher market share, and lower prices might be used to tempt customers as talked in the Chapter 3.4.1. The revenue per one machine can be seen in figure 15.

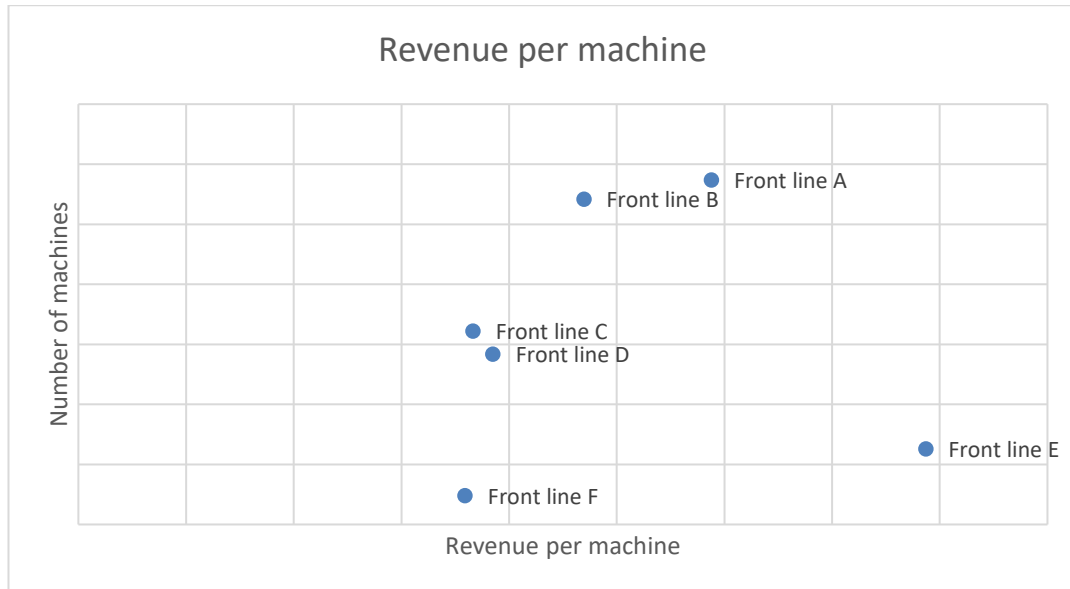


Figure 15: Revenue per one machine.

Taking into consideration the fact that front line E has the highest revenue per one machine rolled into with the business' market share (see figure 14), gives a clue that there is a possibility to gain market share with higher prices as statistics in front line E show. Front line A comes in second when comparing the market share and the revenue per one machine.

Rented machines can be separated into the case organization's own machines and third party machines. Interesting observation concerns front line B. Front line B has the second largest number of machines and the revenue is the second highest, however, data reveals that in front line B almost half of the rented machines are third party machines. This means that in front line B there is high potential for growing the business of renting the case organization's own machines. All the other countries are mainly renting the case organization's own machines so there must be clear value that customers are achieving while renting these machines. However, reasons for renting third party machines in front line B are something that might be interesting to find out since the number is clearly higher than in the other front lines. The variation in rented company-owned machines and third party machines in the chosen front lines can be seen in figure 16.

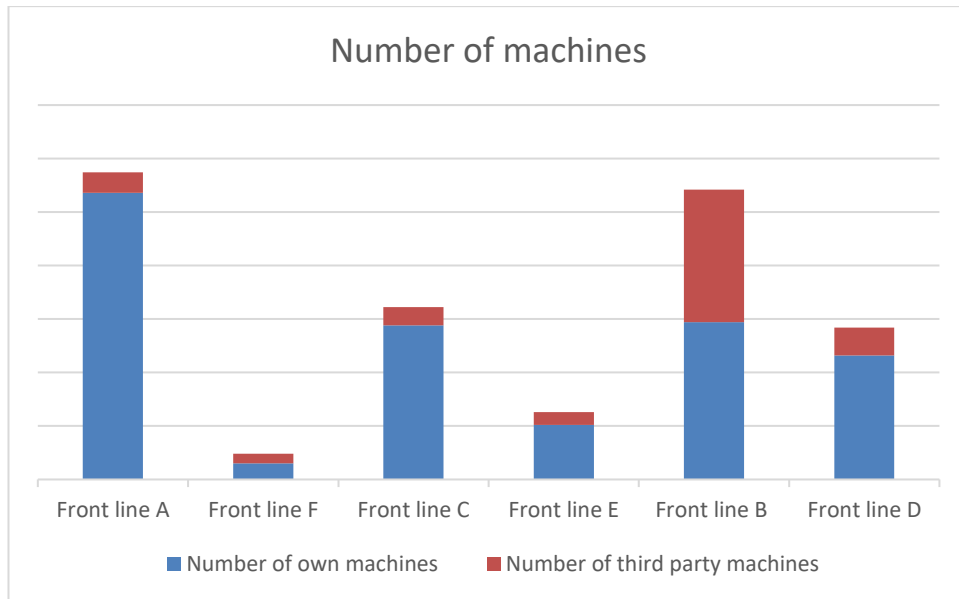


Figure 16: Number of own machines and third party machines in different front lines.

What stands out from the data is the number of machines per one customer. There is a clear sign that most of the customers rent minimum one and up to four machines at a time. It is important to notice that there are only a few customers who rent over ten machines at a time. Front line F stands out from the cluster, since all the customers are renting fewer than five machines. This is also related to the fact that this business is smaller in front line F compared to the other front lines. It is also remarkable that, in front line B, the biggest customer is renting over sixty machines. Revenue per one machine might be lower in front line B (see figure 15) due to the customers having several machines at a time. There might be for example, volume discounts granted for these customers.

Quite high differences can be detected from the number of rented machines among the customers. Since some customers have a high number of machines, it shows that there is business potential to widen the range of the short-term rental machines in the customer's use in other countries, where at this point only one or two machines are rented. Figure 17 shows the magnitude of customers who are renting only four machines or fewer, and other two clusters as well.

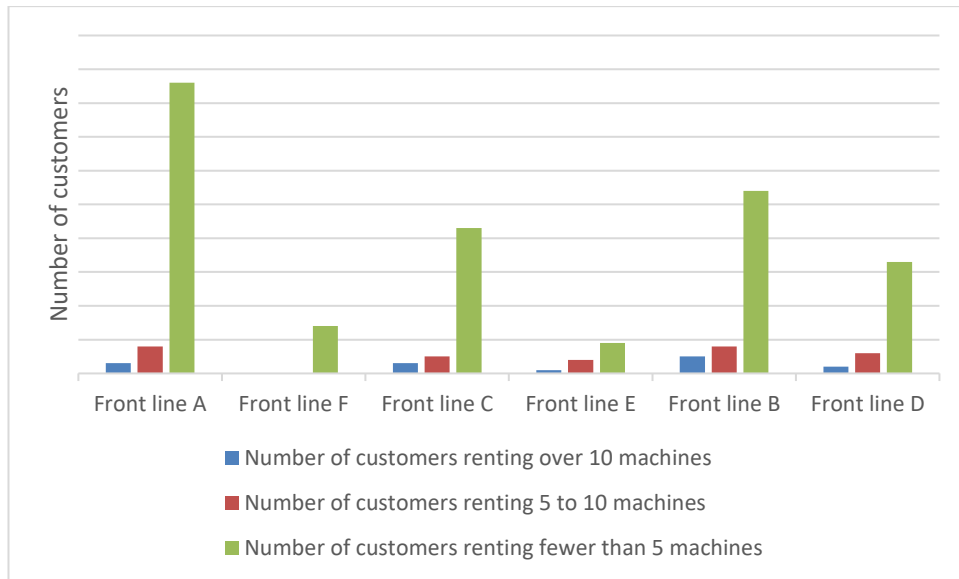


Figure 17: Number of customers based on rented fleet size.

After understanding the various markets more precisely, it is good to understand different machines as well, in far as it is possible with the existing data. Considering more specific illustrations about the machines that are rented gives a good understanding about the business opportunities for different machines. It is likely that the most rented machines are the ones that are the most popular in the customers' perspective. Though, this might also reflect the fact that these machines are most often available and thus rented the most. The four most rented machine types can be seen in figure 18.

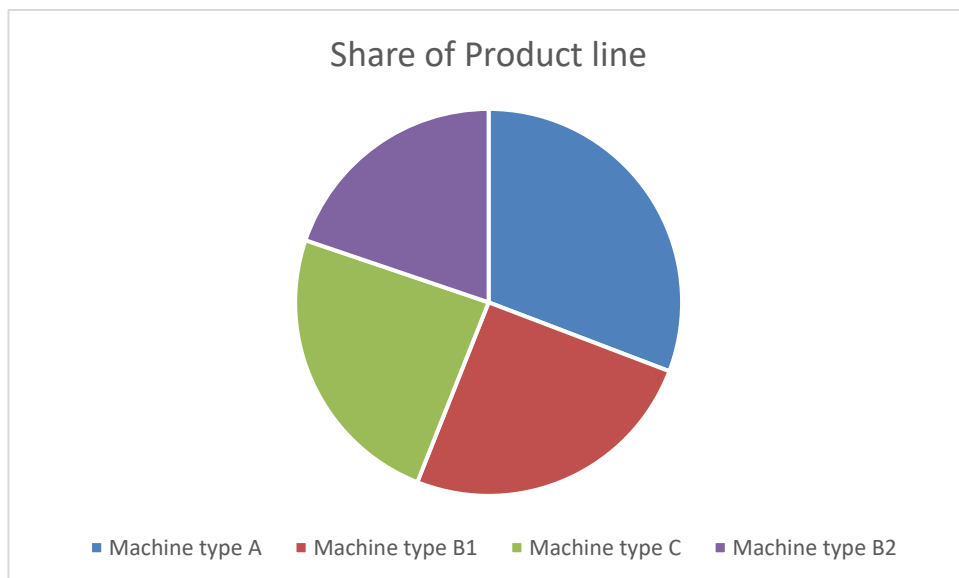


Figure 18: The four most rented machine types.

The highest business opportunities are with machine type A and machine type B1. These two machine types share 40% of the total share of the rental business among the six

entities. If this is compared with the global level, there is not much difference, and the same pattern can be recognized.

5.1.3 Profitability of the short-term rental business

After understanding the various market characteristics and different machines rented, the profitability of the business is also analyzed in the selected entities. Gross margin (GM) is a clear measure to use when calculating the price levels. An interview of the case organization's business controller revealed that operating profit (OP) is not such a clear measure since there are so many allocated costs that are not strictly caused by this business and that is why gross margin is preferred. Gross margin simply tells how much there is left after direct costs have been cut from the sales. However, both GM% and OP% are analyzed.

There are different things that might affect the costs related to this business. As said in the literature, there are many aspects that affect the prices in different countries. When renting machines, it might be necessary to transfer machines, which means different transfer prices in different countries. Some countries might have minimum transfer prices if the machines are located near the warehouses.

If the changes in gross margin and operating profit are compared with different front lines, the drop concerning front line C is enormous. At the same time, in front line E and in front line F there is only a slight decrease from gross margin level to operating profit level. This can be explained because there is none or only small number of overheads marked for these countries. It is also interesting that though in front line F the revenue is the lowest, the gross margin is the second highest. Both GM% and OP% levels proportionated to the revenues are shown in figure 19.

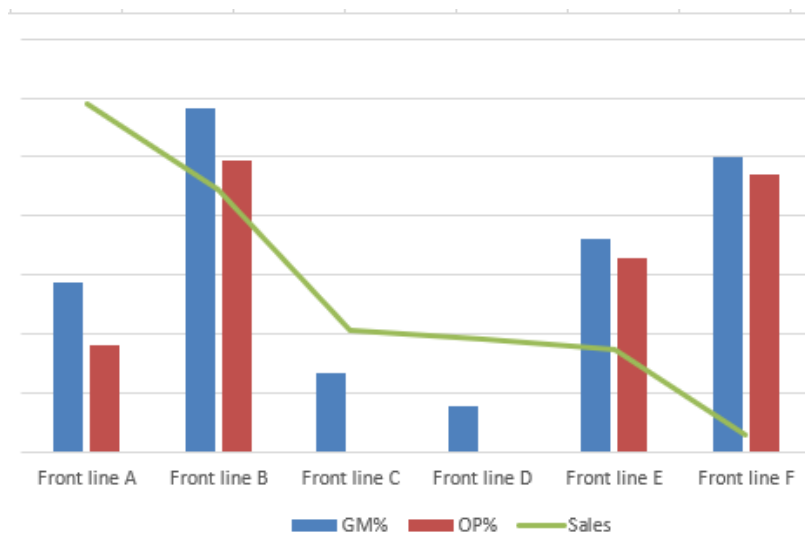


Figure 19: GM%, OP% and sales level in different front lines.

Pictures show the gross margin level in every country and operating profit level in specific countries. It can be remarked that only four of these countries have a positive operating profit level and that is why these two countries' (front line C and front line D) operating profit is excluded from the graph to make it clearer. However, data reveals that one overhead cost marked for front line C is dropping the whole operating profit very low. Two reasons might explain that. Perhaps there is either a mistake of the total amount of the sum or something has gone badly wrong, and a correction was made to alter the mistake to cover a longer period. It is also noticeable that in some countries, there are no costs at all related to the overheads. Front line F is one example of those.

While analyzing indirect costs more precisely, it can be detected that there is enormous variation. The variation concerns a hundred times bigger costs in some countries, which is enormous. These changes cannot be connected the revenues of different front lines and for example, in front line A and in front line B these costs are down. Whereas in front line D and front line C those are quite high. In the data there are many discrepancies between front lines, and it is hard to find any commonalities to the revenue and the profitability of the business. However, business seems to be quite profitable according to the GM% which was approximately X% in 2020. Additionally, although there are countries where the operating profit is negative, the overall operating profit in 2020 was approximately Y%.

The data revealed that this business is located mainly in Europe and that in every sector of analysis there are quite high variances. Variances might depend on the fact that this business is not so widespread yet in the case organization and that the business needs more recognition among customer and front lines. However, though the business is not yet so widespread, there are business opportunities in different front lines. This can be concluded from the fact that there are entities where this business is popular and there are customers who are already willing to rent more than ten pieces of machines.

The quantitative data analysis also revealed that this business is still lacking clear information about the price levels, prices, and discounts. Contract prices are marked into SAP, but these do not have any clear procedures according to central people and discounts are something that central people do not know about. This remark is something that came up while interviewing the central service managers and the central business controller. The business thus requires a more precise understanding about the objectives, customers' needs, market conditions, and business typical characteristics. With the help of this information it is possible to gather the most important factors together to understand this business better and to build some strict guidelines of what should be taken into consideration when planning prices for the short-term rental machines.

To better understand the local variations in pricing procedures, qualitative analysis is the next step in the research process. There might be procedures that clearly should not be done and procedures that are so good they should be revealed to other countries as well. For example, as mentioned, in front line D the profitability is not very good and as mentioned in Chapter 4.1 it is typical there to not rent machines for shorter periods than three months. Whereas, in front line A the profitability is at a good level and machines were rented also for shorter periods of time. Thus, there might be differing procedures in different countries.

5.2 Qualitative analyses

The interviews helped to understand the current situation about how different short-term rental machines are priced. In addition, the different factors which affect prices were analyzed. In these interviews, interviewees had the opportunity to raise factors that they think should be considered while pricing short-term rental machines. Those factors included the ones that were considered and must be remembered as well as factors that might not be considered yet but should have. Five front lines were interviewed to get a better picture of the actual work and central people were part of the interviews also to widen the understanding about the global level and such. Interviews revealed results which are presented in the next chapters.

5.2.1 Current state of the pricing

As already stated, the profitability of the business is at a good level. However, this business is still quite new and there is potential for growing which came up in the interviews. The interviews revealed several ways of pricing the business currently. When interviewing the central service managers, it was found out that different front lines have their own ways of pricing the machines and that there are no clear procedures or policies concerning the pricing and that the prices are decided by the local sales managers.

A clear business potential has been seen concerning the short-term rental business. As central service managers pointed out, there is a need for a clear business model to improve the business, and pricing procedures would be something that this business model should include. In addition, interviewing the director of pricing from central organization, it came up that there has not been clear control over the business and the numbers of profitability have been somewhat secondary. He also stated that giving more attention to this could be a way of making a positive effect to the profitability of the whole service business operations.

Currently, different front lines have their own ways of pricing the short-term rental machines. It is possible to identify similar factors but most of the front lines have quite different procedures. While identifying these factors it was clear that all the front lines have their own ways of working and combining these methods would be a good practice of proceeding. However, it must be kept clear in mind that in different front lines different methods might be more suitable than others. Some countries were working with residual values and building the price from there while some others were building the price from using a more market-based view, for example.

Using the residual value-based view, the price of the machine is clearly based on the costs. As one interviewee told, this way the price is built using the repurchase price, which is the price the organization has paid off the machine, and the 2% depreciation rate for each month. The price, in other words the monthly fee, is then calculated using the 60% margin for the depreciation. Whereas, using the more market-based view one interviewee explained that setting the price starts from finding the market price of a similar machine. Using the market price, it is set 2% of the market value due to the return on capital invested and the deduction due to the aging of the machine. Additionally, there were 0,5% set which cover the insurance costs as well as wear costs for every 1000 hour in use. Service costs were added always on top of this where the calculator, which the company has, was used. Both ways of price the machines are thus using the 2% depreciation rate although the other one is justifying it with another reason. However, in the other way the price is built on using the market price while the other one is built clearly using the costs of the machine. One interviewee also said that they are using the price of the long-term rental as a benchmark for short-term rental, because it is important that short-term rentals have higher prices. This is quite an interesting aspect, and it raises the focus more to the whole picture of the rental business. All in all, all these front lines have their own price lists for these machines or their own calculation formulas they have created.

However, the model of using the depreciation rate as the basis of the pricing does not work so well with newer machines, as the interviewee mentioned. Thus, the interviewee referred to a situation where a machine is quite new and the 60% margin is used, then the monthly fee would be so high that it would not reflect the customer's idea of short-term rental (STR) machine. In addition, the director of pricing also mentioned that it would be good to add the market-based understanding while pricing these machines, but keep in mind that there must be a limit which should not be undercut. This might be a situation where it would be good to take the costs also into consideration. Pricing director stated the matter at the following way:

However, if we have unique machines, we don't have to be the cheapest or to follow the market price. Rather we should reflect the offering to the price and to the profitability.

This comment also highlights the value that a customer is getting from the machine. If there are some machines that the case company is better with, it should be reflected in the price and in the profitability of the business. Moreover, as already mentioned in Chapter 3.2, if the needs of the customers are understood correctly the pricing has a huge effect on profitable business.

Maintenance was also noted differently in different front lines. What is noteworthy is that most of the countries were having service included as a default and one of them did not. The reason for not renting machines without service was explained with the condition of the machines after the rental period, for example:

We currently enforce that we don't want to rent machines without service contract, because as my experience tell we got many machines back from the customers that maintenance is not done during the rental time.

Having service included was also seen as an investment for the future as one interviewee mentioned:

The main point about the service is, because if we have the service included in the rental fee, we know that we get the machine back in a good condition, and then we have a better machine, if we want to rent it out again or if we want to sell it.

The quality of the machine was thus one reason for service. In addition, one interviewee explained that for example, the wearing of the tires is common, and after the rental those need to be changed and the costs are paid by the company, if it is not in the contract that the customer needs to pay of those. However, this was considered while pricing the service according to this one interviewee, and thus the organization was getting the money from the customer. There were differing ways of managing these costs, but other front lines also expressed that the customer is payable for the wearing of the tires. However, usually it was included in the contract terms that the customer is paying the tires if needed. Except one interviewee did not mention the wearing of the tires at all.

Although there were examples of why it is important to have maintenance included, there were also examples of why it is not included. Risks that are emerging while renting old machines are higher if there are high running hours. This is something that should be analyzed with the help of the maintenance-costs relationship figure (see figure 7). To

maintain optimum costs, it would be important to consider the service level, which one interviewee also mentioned:

Also, typically customers are taking STR machines without maintenance contract, but we expect them to service the machines according to the maintenance program. And of course, we have the ability to offer the maintenance for the machine, but it requires some things. For example, it is quite easy to offer the regular maintenance for the machine and price it accordingly. However, if there is a machine which is 10 years old and the machine hours are over 20 000 hours, there is no way we are making full-maintenance contract without outlining things.

During the interviews, challenges were also something that were asked about from the interviewees. There were challenges of a different kind which interviewees were highlighting, for example the following: the old fleet, new prices which customers think to be expensive, inspections that have not been done carefully and are causing problems afterwards when customers are complaining, competitors, getting compensation from the customer for the damages caused by them, overrun hours by the customer, getting the right information from the customer about the running hours and the time they need the machine, the urge to ask the customer to hand the machine back after one year, and the extremely short period of the rental. These are all quite differing issues. However, they have similar elements like the aspect of pricing, the condition of the machine, or the customer perspective. As one interviewee was mentioning the information that is needed from the customer to provide a suitable machine that is good enough for the use:

All we can see the challenge is got the right information from customer about how many running hours and how long time they use the machine, and that can be a little bit tricky.

Other interviewee referred to the quality of the machines, which is causing problems for the company if the machine breaks down, for example:

Challenge is that the fleet that comes from exchanges are mostly quite old and machine hours of those are quite high. So, there is always a problem when this kind of machine is rented for short-term if it is old and it has high machine hours, because then it is causing problems for customer and it might for example break down.

Pricing is something that came up as well when talked about the challenges. It was highlighted that a situation must be understood correctly and the competitors in it as well to price the short-term rental machines accordingly. One interviewee emphasized that it must be recognized if there is a need to raise the price or to lower the price considering

what is possible and what is not. One interviewee also mentioned pricing was a challenge for them to this extent:

The challenge is that in previous years we have rented machines with very low price to the customers, so now when we are getting more normal prices, they always think it is expensive prices.

In addition, costs were mentioned as one of the challenges concerning the additional payments requested from the customers and the high costs related to very short rental periods. This very interesting aspect about the rental period came up by a few interviewees. The extremely short rental period was seen as a problem due to the high costs caused by that. Although, one of them was referring to three months as a short period and another one to a week. Nevertheless, there were costs such as handling costs as well as transportation costs mentioned.

It is important to inspect the machine at the beginning of the rental as well as when the customer returns the machine. One of the problems was that if the customer returns the machine with a broken mirror or if the tires are not in a good condition, it must be made clear that additional payments for these are required. Therefore, making a very clear contract at the beginning of the rental period was seen as very important, because of the damages or the flat tires. One interviewee said that then the customer can be asked to check the contract that has been signed. In addition, one interviewee mentioned that this could be handled by taking higher service costs to cover these additional costs. However, inspections were mentioned only by a few of the interviewees. Reasons for this might be that they thought that it is not so important to mention or that inspections are not done. Thus, if contracts are done in detail, inspections must be done before the delivery to the customer, and after that as well to check the current condition.

The challenges and the current state of the pricing methods are highlighting the need for more coherent pricing policy. As one interviewee said, however the company is operating globally, this business is done locally. Albeit there are many ways to price these machines, there are no wrong procedures. The best way would be to find a way to combine these methods in order to be even better.

5.2.2 Objectives for the short-term rental business

Objectives are part of the pricing process for the new offerings. Short-term rental business has its own objectives as well. Since this business is handled with used machines, it was stated that these machines cause costs for the company all the time and that is why it would be good to have as much sales as possible for them. As the business controller referred:

When it comes to the used machines, where value of those is decreasing all the time. We are continuously making bookkeeping about the obsolescence and basically that means that these machines are causing costs all the time for us. It would be good if we could get as much as possible sales for them, so for example maintenance or even sold of those machines. So, renting these machines is very good, but of course it should be done in a reasonable price, so market should be considered. Of course, everything should be profitable business, but the aim is not to make big money with this business. So, business should be reasonable.

As an objective, this business can thus be seen as a way to cover costs, but also to make money. There is no point of doing business if it is not reasonable. This was also something that one front line highlighted. Profitability was seen as an objective also according to the director of pricing:

At least as looking this business from the central, it has been drifting without strong control and the figures has also been a little bit secondary. So, giving more emphasize to this business, I am pretty sure this can have positive effect to the profitability of the whole service business. We just need to think and develop things a little bit.

However, this business can be also seen as a way of serving customers comprehensively and maintaining the relationship with the customers. The director of pricing mentioned that this business has already grown and there is a possibility to widen it further, because there is clearly a customer need. In addition, he raised an idea that, if the customer is satisfied with the company's operations in the long term, it might support the new machine sales and the whole business. Thus, a more controlled business model is required to widen this business as the director of pricing put it.

In addition, the decision of maintaining this business was also seen as a strategic decision to be a part of the aftermarkets according to the business controller. She indicated that taking back the old machines when selling new ones, is a way of controlling what is happening to the machines next, for example what price they are sold at, and how are they rented.

To serve global markets, there might also be a need for understanding the differing objectives in various markets. Discussing this with the central pricing director, he was highlighting the business model where the objectives should not differ rather it should be flexible enough to consider different markets, their needs, and the ways of working they

are already implementing. The procedures that exist in different markets are also something to acknowledge. Thus, the best practices should be taken into use and time should not be wasted with something that is not working. As the director of pricing said:

We should respect the work that front lines have already made. And we need to take the best practices and maybe add something into that, if that increases the value they are receiving already. In every front line the used practices should be considered, in order not to implement a concept which is not suitable for one reason or another, or that if they are already having better practices.

The business needs a more consistent business model to manage it even better. Profitable business, which was seen as an objective, is also an important factor while evaluating the business. However, as it already came up in Chapter 5.1.3, the profitability of the business is in a good state currently and it should stay that way. The director of pricing added on top of the objectives, that there should still be a more coherent decision from the company's side about whether this business is done with full speed or if it is only done with capabilities that there happen to be at the time being.

5.2.3 Key features of pricing decisions

The key features include aspects about the customer, the competition, and the company as Hinterhuber (2004) suggests. It is important to understand the key features in order to be able to evaluate correct prices for different offerings. While analyzing these components, it is important to understand and remember that these vary over time and over different markets.

Understanding the things that create value for the customers is relevant while making pricing decisions. Interviewees from the front lines brought up aspects which customers value the most such as the ability to rapidly serve the customer's needs, the quality preferences that the customers have for the company and that the customers are relying on, the brand that the company has is something that customers choose if they want the best, the ability to offer higher quality for the service and the reliability of the machines, the total costs of ownership, and the ability to rent a machine without investing lots of money to their own machine. The interviewees from the front lines highlighted the fact that the company is highly appreciated and already that is creating value for the customer. This value can be seen to be at the top of the customer benefit hierarchy in figure 2.

At the same time, economic benefits from the customer benefit hierarchy (see figure 2) can be detected from the answers. The organization offers a possibility for the customer to operate in situations where it is not possible with their own machines. These situations

might be caused due to a broken machine or due to sudden additional work, for example. Providing a solution for these kinds of situations saves money for the customers. As one interviewee said:

It depends on the situation. If customer has a contract or they are operating in some factory where some of the critical machines are down, they need a new machine to fix that shortage with short notice. The losses the customer might get without the specific machine are much higher than the monthly fees of our STR machines, and this is situation where price is not so important.

Thus, the ability to serve customers in all situations gives more value to the case organization. One interviewee stated that the ability to provide service adds value to the customer due to other brands being unable to directly do that, and that customers might choose another producer only because they might be cheaper. In addition, another interviewee mentioned that the total cost of ownership is the highest value for the customer due to the fact that there is no point in renting a cheaper machine from somebody else if it does not work. The big picture, which is built from the fact that not only are the machines reliable, but the company also has the ability to serve customers' needs whenever they need it raises the trust in the company. As one interviewee said:

Locally in every country we know our customers, which means we have good understanding about who might need STR machine. We also know the needs of our customers and the maintenance and spare parts service is in good state for all the machines we have. Thus, customers are getting help when they need it, and they are trusting to that.

Since the absolute necessity of understanding the customer needs and the situation in which the customer is operating is highlighted many times during the interviews, it is important to notice. This increases understanding of the customer benefit hierarchy for the offering (see figure 2). Thus, it must be understood what the offering is able to provide for the customer, and the needs of the customer and the features of the machine must be crossed.

It is very important to propose the machine which is correct for the need, and spoke with the client about all the information of the type of the work, and then we can propose the correct machine and the correct type of the contract.

Thus, all these aspects that the customer benefit hierarchy (see figure 2) points out are recognizable from the interviews as well. At the same time the interviewees were raising things like service and its closeness, ability to understand the customer, reliability, the spare parts, and the trust that the company delivers what it promises, as an advantage

compared with competitors. There was an example where the quality of the company's machines was kept the most important advantage to the company. Two interviewees were referring the following way to the quality of the machines:

Our organization have higher quality and the main quality in our machines is the cabin, which is ergonomic, there is good visibility, and it is very comfortable, this is our main consideration and then of course the reliability of the machines.

Our biggest advantage is the quality of the machines and most of our customer are big companies which need something that works in their daily business and that of course suits the best supplier which in here is us.

However, it was interesting to find out that one interviewee mentioned that the challenge is the age and the condition of the machines as already mentioned above. It must be then remembered that every front line has their own fleet, which might be considerably different from each other. Additionally, the quality of the machines can also be detected to the overall reliability of the brand if compared with competitors.

The director of pricing emphasized that the existing contacts are an advantage to the company, for example. The ability to provide all the help, understanding and technical expertise if needed, was something he highlighted as well.

The value that customers emphasize to the price is also differing in different front lines. It is noticeable that some place more value on it than others. While trying to understand the key features it is important to understand how much value customers place on the price as well as the relation that the price has to the competing offerings. Interestingly, variation among the front lines could be detected. One interviewee said that it is very important and that it can be compared to a situation where a customer buys a Mercedes and not some other brand's car. Thus, in this situation the price was compared with the brand label of the products as the main thing for the price as well as the better quality of the products compared with other similar ones. While another interviewee said that the importance of the price for the customer totally depends on the situation where the customer is operating. As this interviewee was mentioning:

If customer has time to prepare the order for example three months or even two years before the need, it is able to organize a tender competition about the STR machines and then the price is much more critical matter.

There were different opinions concerning the importance of the prices. Half of the interviewees said that the importance of the price is dependent on the situation, the features the customer needs, and the urgency of the need. The right size and the right specification were seen as important features as well. One of them said that the price has the

value of 50%. This high valuation can be detected as quite important. However, none of the interviewees said that the price is not important at all. In conclusion, it can be detected that the weight for the price is differing in different front lines.

Understanding the value a customer places for the offering is one thing to consider, but also following the current state of the competition and competitors' prices needs to be observed while understanding the key determinants of pricing decisions. In other words, the competitive situation must be evaluated at least at on some level. Interviewing the pricing director, he placed value for market-based understanding as already mentioned in Chapter 5.2.1. In the implementation of observing the market prices, front lines were having quite various habits. Some front lines were saying that it would be good to follow these, but that it is hard to follow due to the features that old machines have, such as the differing machine hours, the different shape of the machines, and the wear of tires. In other words, it was seen as too challenging to follow the prices, because there are so many changing attributes concerning the old machines. As one interviewee referred:

It is not easy to follow competitors' prices, because old machines have different pricing, about the type of the brand and the type of the year and the type of the working hours. Competitors are cheaper starting from the new machines, so the price of the used machine could be also cheaper. It is usually around 10% to 15% up for us if compared to other competitors.

While some front lines were having difficulties following competitors' prices, some of them referred to that as a part of the whole business and as a base for their prices. As already mentioned, (see Chapter 5.2.1), some front lines had their prices based on the market-based prices where the calculations were done with the help of similar machines in the market.

Competition was seen as quite intense, but it was also seen that the advantages the case organization is having were even better. This is why it was trusted that the value the company has and can transfer to a customer is superior to competitors.

Yes, of course we feel the competition is quite big and it is increasing. Still, I feel we have correct pricing so and now we have good products and then the customer can be confident that we deliver what we promise.

Part of determining the key determinants of pricing decisions is about understanding the competitors' prices as discussed in Chapter 3.4.2. In addition, the director of pricing suggested as a solution for this, that the available resources should be utilized while building the understanding about the local market prices and that the documentation would be part of that. One interviewee also said that market prices are followed with the help of

expertise. In addition to these habits, webpages were also used as a help to check competitors' prices. One interviewee highlighted that after finding the right machine from the web search a personal contact can be arranged. However, situations where expertise is more difficult to utilize, due to for example younger work force with less experience, should be also considered.

After understanding the value the customer emphasizes for the short-term rental machines and the existing competition, there is a need to think about the company perspective as well. Hinterhuber (2004) suggested that CVP analysis would be a good tool for understanding good price levels. Part of this process also includes the need to understand the costs for the machine rentals. Some costs are directed to the customer and some to the case organization as interviews revealed. Costs that the interviewees mentioned were transportation, service, insurance, financial costs, the depreciation, the wearing of the machine, and the inspections of the machine before and after the rental.

Most often the transportation was directed to the customer to pay as interviewees referred. However, one front line mentioned that in situations where the customer is willing to rent the machine for a longer period, the company takes care of the transportation costs back to the company. The interviewee stated the following:

If we have longer term than ten months, then we pay the return charges for the shipping.

Most of the front lines also had the service contract included in the rental agreement, which is the reason for the importance of the maintenance-cost relationship (see figure 7) during the life cycle of the machines, because the costs of the whole life cycle of the machine must be considered. One front line explained that the reason for not including the service in the rental is due to the old age and high machine hours of the fleet. This was justified with the high service costs, due to higher risks of the machine breaking down. Although all other front lines were in most cases calculating the service as part of the rental, there were also opinions about how the age of the machine affects the risks of break down.

Sometimes we have really old machine but then we have to find agreement with the customer, and if we have some machine, then we sometimes say the machine is little bit old for example 20-year-old machine, but this is the machine. This is the price you can get it for Z€, but you have to take care of everything. Customer is taking care of service if the machine is old. Otherwise, the machine is always risk.

Concerning the service contract, it is quite contradictory that the front line, which does not include the service in the rental agreement, trusts the customer to service the machine, since other front lines most often do not. However, all the machines which are used in short-term rental business are old machines, and these can be seen to cause more maintenance costs than newer ones. In addition, if the service is included, it means that this adds costs for the company. One interviewee mentioned it this way:

If you have younger machine, you have lower costs in the beginning and older machine produce costs, and this is what you have to adjust for the pricing for the short-term rental. As I said, you have always the financial part, and normally that is very low if the machine is older, but you have higher costs for service.

However, as already mentioned, it was seen as an advantage to service the machines during the rental, because then it was seen as an investment for the future and the condition of the machine afterwards. The director of pricing also stated that the price depends a little on the service aspect and that goes hand in hand with the age of the machine.

There were also different procedures that were addressed with the insurance for the machines. Half of the front lines were mentioning that the insurance of the machine is something that the customer needs to take care of, and the other half of them mentioned that machines were insured during the rental period by the company. There were no reasons given to the underlying factors as to why it was either the customer's responsibility or the company's responsibility. However, one interviewee mentioned that it was considered as part of the monthly fee:

Additionally, we have half percent (0,5%) for each 1 000 hours in use in the yearly operations which is deduction due to insurance and wear costs.

The wearing of the machine is a part of the life cycle of the machine. Wearing contains the tires and all the wearable parts of the machines. Tires were most often mentioned as one. Additionally, all interviewees but one mentioned that this was agreed in the contract of the rental, that the customer is payable for these. The aging of the machines is also something that should be considered.

Only one front line mentioned that the depreciation rate was included in the calculation. Another front line was considering the aging of the machine also in their calculations but not directly using the depreciation rate. The depreciation rate which the case organization has set as a base line is 2%. This is something that should be considered in some extent at least. Key features are listed in table 3 below.

Table 3: Key features and factors mentioned by interviewees.

Key features		Factors
Customer	Things that customers value	Ability to serve customers' needs rapidly Quality preferences for the company Brand High quality of service Reliability of the machines TCO Ability to rent machine without investments
	Things that differentiate the offering from the competitors	Service and technical expertise Reliability Quality Spare parts Trust that the company delivers what it promises Company's ability to understand customers
Competition	Different procedures to either follow the market prices or not	Market prices are followed with: Expertise & available resources Webpages Contacts
Company	Using the CVP analysis to understand good price levels	Costs: Service Insurance Inspections before and after rental Financial costs & depreciation Wearing of the machine (tires etc.) Transportation

All these factors which are parts of the key features, which are presented in table 3, are having similar characteristics, as well as relatively differing characteristics. While making pricing decisions it is important to consider all these aspects and the fact that these might differ in different surroundings. This can be applied in the fact mentioned in Chapter 3.2 and which Hinterhuber (2004) explained: some pricing strategies might be a part of profitable pricing decision in one country while in another it might a blunder. This is something that is also a part of the key determinants. Some factors work better in some front lines than maybe in others. Nevertheless, best practices must be recognized and utilized.

5.2.4 Short-term rental characteristics

A business concerned with used machines, like the one in question, has its own characteristics. The main thing which this business confronts is the factor related to the existing fleet. Interviews revealed different kinds of ways to manage the fleet. Even though all short-term rentals are dealt with, the machines that have come off lease or returned when a new machine has been bought by the customer, there are possibilities to run this business in many ways. Since these machines are old, they cause various costs, for example, if the machines are only standing in the warehouses. In addition to the warehouse

costs, part of the life-cycle costs is also the 2% depreciation as the business controller referred. She also emphasized that there are costs if the machine has been bought to the company with a high price and it is not equivalent with the quality it should have been. However, she also said that sometimes the situation might be the opposite and that the value might be higher than expected. These are costs that should be considered during the life cycle because the fleet is handling used machines.

Some interviewees said that having the old fleet is a problem, because the business cannot be managed in a professional way. The decision of the company to decide if this business should be managed in a more professional way or to sell the stock after every year was also something that couple of interviewees mentioned. As one interviewee referred to:

Company wants low stock but also more business and sometimes it cannot make sense.

The ways the situation is handled, when there is a customer need but there is no available machine, were also differing. Most countries were saying that in these situations there is a possibility to buy a machine from the stock of some other front line if there is a machine available. Sometimes the customer was only told that 'sorry, there is no available one'. The reason to not preferably buy a machine from another country's stock was explained with different service levels, for example. As one interviewee described it:

However, we are trying to check if other front lines have suitable STR machine. We can offer a machine from other front line's stock but then we need to take that machine to our own inventory and to our own bookkeeping, and this is not done often. We might also propose a customer to buy that used machine or even the option to buy a new machine with leasing agreement from bank if there is a need for over one year. If we are renting the machine from other front line there are risks. These machines have not been under our service and we don't know who has been responsible for the maintenance in there, so it is a risk. There should be very good service and repairing history in order to have courage to bring it here, because after the machine has brought here and it is in our inventory it causes costs, and we need to get rid of it someday.

The interesting thing in this example was that this country was the only one to mention that service is not included by default while renting the machines, and at the same time they were quite careful with buying machines from other countries. Although, other front lines almost always had service done by the company itself.

However, some of them also mentioned the high transportation costs while transferring the machine from another country, which is something that could be taken into consideration while directing the costs to the customer. If the customer's need is very urgent, the transportation should be considered in the price. The director of pricing also suggested as one solution to use the other countries' availability as an advantage, if it is possible to reassign the transportation costs to the customer. Additionally, as all the interviewees said, the case is always something that must be recognized first. One interviewee referred to the transportation costs as follows:

In that case we need to check the rates of some machine in the North to see if there are ready machines, but the transportation will be a little bit higher if we go longer than that so it is difficult to do the business.

When buying the machines inside the company there is a need to understand the costs for the transportation and for the fact that these machines are moving into that country's bookkeeping. However, if there is significant business potential for the machine for example in the next 12 months, it would be good to even evaluate the situation.

In addition to these viewpoints, one interviewee was referring to two things: the bad state of the system and the inferior state of adding the stock statuses into the system. This was referred to as follows:

If customer and I have 12 months rental business, I want this deal, then first I look used machine, and back coming machines. We have also this dealer and we can use these machines, then we have different rental companies and we rent machines also from them. Then I check used machine for 12 months, because it makes for me sense to buy it from other country as well. So, then I look if some other front line has it in their system. Every country is only looking for their own business, and say that machine is not available, this is the way of thinking, we put all machine into the system.

Thus, fleet management could be better if other countries stocks were used as an advantage. To get a more common understanding of the common fleet, there is a need for a transparent system and a more transparent process. This way it would be easier to make the business more widespread and utilize all the available stocks.

5.2.5 Pricing procedure and policy

Structuring the pricing procedures and policies, it is important to understand the factors that affect different prices and the segmentation behind the prices. The aim of the interviews was to understand the current factors that are important to consider while pricing

short-term rental machines, which was done by interviewing the front lines. However, these factors were also something that were asked about from the central pricing director.

As already mentioned in Chapter 5.2.1, the pricing director highlighted the importance of the market-based view, when setting the prices. The business controller also emphasized the same thing. However, profitability was also one aspect that emerged during the interviews. Combining these two aspects was thus seen as a good way of starting to build the pricing procedure, without forgetting the value a customer is getting due to the superior offerings the company has.

The repurchase price was considered an important factor according to one front line. According to this interviewee, the price should start to form from the repurchase price. It might be important to consider the repurchase price in situations where the evaluation of the rationality of the price is needed, because according to the pricing director, there should be a line, under which the company should not go, albeit markets are doing it. Thus, using the repurchase price widens the understanding about the costs for the company and with the help of that provides a way of making profitable pricing decisions.

All interviewees mentioned that pricing short-term rental machines should consider aspects like operations where the customer is working, the running hours of the machine, and the need of the customer. In other words, understanding the case behind the customer was seen as one of the most important factors while setting the prices. The director of pricing also emphasized the importance of understanding the situation:

This is not transactional business rather this is done more rarely and with longer agreements, which is the reason that it is possible to consider customer and the case behind. We need to understand the customer.

In addition to understanding the case, the customer, the work where the machine is used, things like service, the period of the rental, the distance of the customer, the quality, the condition and the age of the machine, the size and the capacity of the machine and the type of the machine, were mentioned as important factors. Everything starts by understanding the situation in which the customer is operating and then finding the right machine for that work. One interviewee mentioned that if the machine is used for work where the machine is hard-pressed the price should be higher.

If they are used in a steel company or a hardworking, we look at that, we raise the price a little bit when we know that the machine will get hard and work hard in customer.

As the machines which are used in this business are repurchased and old, it is quite important to consider the quality and the condition of the machines. One interviewee highlighted the market price aspect due to this, because according to him there might be a situation where there are two machines that are exactly the same from the same year but their conditions are completely different. At this point the market understanding is something that can be used to support the right price adjusting. Nevertheless, the condition of the machine was also seen as a starting point for placing the right machine for the right work. This was mentioned many times. As one front line put this:

If it is long-term, I choose my better machine and for a short-term I can consider rent the machine in good condition but not excellent.

Many of the interviewees mentioned that if the customer runs the machine only a few hours in a week it is possible to offer an older machine. Despite this many of them also emphasized the importance of the solution provided for the customer even if it required a better machine with a higher price. It was seen as important to not offer the cheapest machine if it was not suitable for surviving in the customer's operations. The reason for this might be that case organization is known for solving the customer's problems and it was considered important to maintain that. One interviewee referred to the matter in the following way:

There is feedback about the quality of the machines, and that is also taken into consideration when you rent based on market value, because if you have machine on a small site, maybe operating ten hour per week, we can offer an old machine, but customer who is dependent to do its daily operations with that machine we would never rent that type of machine to them. And we would say you need machine which is maximum 5 years old, because you are dependent on this and you need to use more money to cover your needs. ... It is all about finding a solution because we want to make sure the customer is able to do its daily work and that is our mainly tasks and sometimes, we have to sell extra to make it work. But that is our main goal.

Interviewing the director of pricing also brought out one aspect that was linked to the age of the machine. According to him, maybe it does not matter how old the machine is, if it can perform the tasks that the customer needs. However, he also said that the age of the machine goes hand in hand with the costs of the service. The older the machine is the more risks there are, and those must be acknowledged.

And again, the understanding what are we renting out and the default value of the costs to us during the life cycle of it.

Multiple important things to consider were thus interwoven to the operations and applications of the customer. Many of the interviewees also mentioned that the type of the machine has an effect. Due to the organization renting different machines like machine type A, machine type B, and machine type C, there are different prices for these. One front line said that:

Machine type A and those have higher prices when compared to machine type C.

After the right machine type is selected it is possible to select the machine with right capacity for customer's use. This is something that is clearly considered when meeting the need of the customer. Many of the interviewees mentioned that the type of the machine affects the price, but also the capacity of the machine. It could be acknowledged that usually the bigger the machine is the more powerful it is, but also bigger machines were seen as a competitive advantage:

Our machines above 10 tons are well known in the business and the customer wants really high availability of the business and this is what we can offer, and we can promise to customer. And then maybe there is 16 tons machine, but competitor is not really experienced with the service of it and as he sees the machine: 'wow what a big machine', this is how we explain to the customer, and the customer knows it very well.

The size of the machine was also seen as one of the factors, due to the movability of the machine, for example:

And then it depends on the size of the machine, it is very easy to handle small machines in short-term rental.

The size of the machine can be linked to the capacity aspect as mentioned. The bigger the machine is the more capacity it most often has. The type of the machine and the capacity of it were also something that the director of pricing mentioned. He mentioned that the price should reflect the market prices. He also added that if there are many similar offerings available in the markets it might affect the pricing.

The connection between the capacity and the service is also something that should be considered. If the service of big machines is something that the case organization provides but its competitors do not, it should be considered in the pricing. Service came up many times. Interviewees mentioned that service is something that should be noticed while setting the price.

The period of the rental was also seen as a factor that should be included in the decision of the pricing. During the rentals, there are different costs. If the customer is willing to

rent the machine for a longer time, for example ten months, it should be noticed. As already came up, it is not sensible to rent the machine for one week due to the high costs that it causes. The business should make money for the company and in a situation like this it might not do it. One front line said that the minimum rental period is thus three months. However, this was the only country to make this kind of outlining. Another interesting aspect that came up, was that only one front line did not consider the period of the rental at all. It was the same fee whether the customer was renting the machine for one month or twelve months. A third interesting aspect was related to the transportation. One interviewee said that with longer rental periods than ten months the company was taking care of the return transportation costs as already mentioned in Chapter 5.2.3. The director of pricing emphasized that it would be good to consider the period of the rental, and that it would be logical to have a lower rental fee for longer periods, but that this does not have to be a default.

One front line mentioned that the customer type also affects the pricing, and that important clients are getting better prices. However, other front lines considered the customer as well if there was a situation where discounts were coming along. If the customer was important for the organization and if there was an urgent need for the replacement machine, discounts were considered.

Of course, always customer relationships have some weight concerning these discounts. If there is old and good customer which have urgent need of having a machine, then the aim is to find a good solution, and the flexibility might be needed.

The things that the interviewees mentioned as being important while making pricing decisions can be connected to different segment attributes as in figure 8. Competition was mentioned to be intense and during the interviews most of the interviewees mentioned specific competitors, thus those are also added on the table 4. In addition, in Chapter 5.2.1 it was mentioned that machine hours affect the quality and the condition of the machine and thus it is also added to the segment of product attributes. These factors are available in table 4, where they are categorized.

Table 4: Segmentation of the important factors affecting pricing decisions.

Attribute	Factors
Customer	Understanding the case, working conditions, customer type, distance of the customer
Product	Quality & condition, production year, machine type, size & capacity, machine hours
Transaction	Competitors, service, rental period

When it comes to discounts, there are examples of elements affecting those, but there are also examples where discounts are not usually given. Two of the interviewees said that typically discounts are not given. However, another one of them said that it should be considered already while making the calculations for the machine, because all customers ask for discounts. The other reason was that the price of the longer period rentals should not be higher than short-term rentals, and that was the reason not to discount these machines.

However, there were also differing reasons for giving discounts. It was not seen as wise to have the machine in the stock, if the customer was not willing to pay the price that was asked, for example. It was also seen that, if lowering the price could help to sell new machines or to lease new machines it could be used as such. Additionally, situations where the customer's own machine was down and there was maintenance underway or in the situations where the delivery of the new machine was delayed discounts were considered. In addition, the customer's importance was mentioned here as already discussed above. The director of pricing also added that sometimes it would be good to check the market conditions such as the competition, the need, and the situation. However, he also emphasized that if the delivery of the new machine is late, customers are waiting for attention on the situation, and that the company's main point is to try to keep the customer happy and operations running.

Most often it was mentioned that customers were not complaining about the prices. This was referred to the way that the discussion about the price level has been dealt already at the beginning of the offer. In addition, it was said that the machines are old which makes the monthly fees be at a reasonable level, and that customers understand that short-term rentals cause costs for the company, which makes the prices higher if renting rather than buying a machine.

In summary the factors that came up were the operations where the customer is working, the running hours, the need of the customer, the distance of the customer, the type of

the customer, the service, the period of the rental, the quality, the condition and the age of the machine, the type of the machine, and the size and the capacity of the machine. Thus, these factors were considered important while making the decision of the pricing. All these factors raise the idea of not just looking at the figures but rather the situation behind. As one interviewee said:

But you really always have to look into the application, you cannot look that in general. It does not work to look at the figures you need to look at the business of the customer.

Discounts are additional features, which should also be considered if the situation requires it. However, the director of pricing mentioned that sometimes there might be situation where it is not wise for the company although someone else is willing to offer that. Thus, in order to offer quality as the organization is known for, there are situations where someone else should be allowed to handle it, if it is not good for the company.

5.2.6 Distinctive things

As it can be assumed, since all front lines were having differing procedures to execute the pricing, there are things that were seen as good in some places and not so good in others. The first distinguishable thing was the quality of the machines. A few interviewees said that the quality of the machines is not good due to them being mostly quite old and that might cause problems. However, as one interviewee said the quality of the machines is the biggest advantage the organization has. Third view into this matter was the service of the old machines, which was seen as a tool for keeping the machines in a better shape.

However, the quality of the machines can be detected in two different ways. The quality of the machines can refer to the quality of the brand, so in other words the reliability of the machines overall. Whereas the other point of view for it can be the condition of the machines due to them being old. At least the other interviewee was referring to the condition of the machines due to their age, which was causing problems.

The interviewee, who was referring to the condition of the machines due to their old age, was also referring to the fact that there is no point in having service included automatically, because the machines are old and the parts that might be broken down are costly. The same interviewee also raised concerns about buying a machine from another front line if there was a customer need, due to the unknown service level. However, there was also a favourable comment concerning the service and the age of the machine from another interviewee:

Usually, the problem is that machine can run for very many years as long as maintenance is done according to the schedule, but if the customer drops to maintain the machine, then we have a big trouble and we have big repairs and problems are occurring.

The second interesting thing was the differing procedures concerning the rental periods. One front line had the minimum rental period of three months which can be seen as quite a long time, as the business should cover short-term needs. The long period was seen as reasonable to cover all the costs the business is causing. The other interviewee also raised the point of that there is no sense in renting the machine for example for one week due to the high costs of transportation. While most of the front lines were taking the length of the rental into consideration, there was only one that did not.

The third interesting thing was related to discounts. One front line mentioned that they had a few machines in the customer's use for free due to differing reasons. This front line was also having quite low profitability, so it might be connected to this. The interviewee referred to this issue this way:

We also have examples where service have done these stages, or we have trouble of delivering the machine then we have to rent for free. ... Then of course we have a lot of costs, we have to cover all the transport costs and handover costs.

No other front line was saying that machines were rented for free, which is why this was interesting. However, one interviewee said that sometimes the machine can be rented for free for one or two more months, if the customer is willing to buy a new one or to lease a new one. In this situation, the only thing the customer should take care of would be the service cost. The interviewee referred to this the following way:

For me, if the machine is coming back half a year later, for me it is fine, I can say you can have one or two months for free, you have to pay only the service part if we get a new deal. This is very good for customer, and you can play with this service part.

This was thus used for increasing new machine sales. All in all, although the customer must be kept satisfied, it should always be considered very carefully if the machines are rented for free.

A fourth interesting aspect came up, when one of the interviewees raised an idea to handle the business in a more professional way. The interviewee emphasized the idea of earning more money with additional features such as washing the machine and putting the costs on the customer. However, he also said it is not easy for the company like this, but an idea:

Professionals wash the machine and put the cost for customer. In our case it is not so easy, but they are professionals, and they have some additional ways to earn money.

This idea was however something that one interviewee mentioned they are doing. The interviewee mentioned that the customer is payable for the washing of the machines if it is returned uncleaned. Thus, this is something quite interesting, because one sees it as not easy to implement and another is already doing it.

As these results show, some things differ quite heavily between front lines. The reason they are analyzed is to understand that different market features might affect the objectives but also the whole business. There is no right or wrong way of working, rather it depends on the market conditions, the market's maturity, and the previous ways of working in the market. Since this business is managed with the machines that are available at a given time, it is important to understand that the condition of the machines might vary between different front lines. Due to various ways of working in different markets, it must be remembered to always understand the market and its customers case by case.

6. DISCUSSION AND REFLECTIONS

6.1 Empirical findings compared to literature

The study revealed different kinds of things that can be related to the literature. If considering the short-term rental characteristics and the objectives, it is possible to identify the idea that Waldman (1997) suggested. According to him, it is possible to get more profitable business if the company either sells or leases its second-hand machines to commit a high repurchase price. This is possible to identify from the objectives, where one of the objectives for this business is seen to be a strategic way of controlling the aftermarkets. In addition to that, one of the objectives is identified as covering costs. Waldman (1997) highlighted also that placing machines in the inventory causes costs until it is leased, sold, or disposed. Objectives that the study revealed are easy to separate into qualitative and quantitative classes as Avlounitis and Indounas (2005) were emphasizing. Objectives such as covering costs and making profit are clearly quantitative objectives whereas the customer relationship is an example of a qualitative objective.

One important factor, when classifying the key determinants, is to understand the customer and the elements that create value to the customer. Hinterhuber (2004) emphasized the importance of understanding the value that differentiates the offering from its competitors. There are many factors that the interviewees highlighted, which were seen as advantages compared to competitors such as high quality of the service, spare parts availability, reliability, and trust towards the company. In addition to the factors that are differentiating the company from its competitors, there are also benefits that customers are reaching with using company's offerings. All levels of the customer benefit hierarchy, which Smith (2016, p. 23) introduced, can be recognized from the answers. According to Smith (2016, p. 24) the higher the benefit goes in the hierarchy, the more inimitable value it creates. Behavioural, emotional, psychological, and hedonistic benefits' class can be recognized from the answers, as the brand or the reputation of the company was mentioned many times. It was said that customers select this company if they want the best. In addition, economic benefits can be recognized from the answers, as customers chose the producer due to lower total costs of ownership, the reliability of the machines and the available service, and the cost savings for the customer due to the ability to cover urgent needs in their productions, for example. At the bottom of the pyramid, there are features and attributes. The ability to serve high-capacity machines with the service can be detected into this class. The benefits that the case organization offers its customers, most likely create unique value to customers. This should be considered when pricing

the offerings. Shipley and Jobber (2001) introduced the price-benefit position strategy, which can be used in this situation. Clearly, the perceived benefits of the offering are high. It was mentioned that competition is intense and that the offering of the company is neither cheaper nor more expensive. Thus, this positioning should be used as an advantage. At least the company should position itself in the thriver positioning on the right side (see figure 3). As Shipley and Jobber (2001) mentioned, the thriver positioning on the right is more sustainable for the company, because for competitors it is harder to increase the benefits than to cut prices. As one of the interviewees mentioned, for competitors it is easier to drop prices because they do not have to think about the long-term rental prices.

Literature revealed that understanding and communicating the value to the customer is crucial. This is something that did not emerge so clearly during the interviews. However, one of the interviewees said that the ability to service the machines of over ten tons is something that the company can do, but competitors cannot. This was also told to the customers. However, it would be good to emphasize the unique machines more, and especially the whole offering the company is able to provide. Since the ability to service the high capacity machines is one way to stand out from the competitors, it is important to consider when pricing the service as a part of the short-term rental agreements. As Hinterhuber (2004) said, the ability to have higher prices and high market share is key for more profitable business, and this was also something that the director of pricing was seeking with the help of a more consistent business model. This why it is at least a good to reach the thriver position or even the chancer on the right side, as Shipley and Jobber (2001) introduced.

When it comes to understanding the competition in the markets, Hinterhuber (2004) emphasized the importance of understanding the existing price trends in the markets, due to it being typical for the customers to lie about the competitor's prices to get better contracts. The more structured way of controlling the market prices was also seen as an important thing that should be utilized more precisely according to the director of pricing. The use of market prices was also seen as a good starting point for setting prices for these machines because of the age of the machines and the different kinds of conditions of those. One of the countries was, however, using the repurchase price and the depreciation rate as the base for the prices. Anyway, this must be quite a truthful value due to the fact that the repurchase price should be equivalent to the condition of the machine when it is purchased back to the company, as the business controller referred. However, at this point the case organization should evaluate whether it is better to use the residual value of the machine, which is lower after every month, or the repurchase price, which

might not be equivalent with the condition after two years, for example. In addition, Pierce (2012) said that a key for profitable business is to evaluate the residual values correctly because if the residual value is overestimated, it yields losses when equipment is sold after the lease-end. In addition, Pierce (2012) added that if a manufacturer is setting a low residual value it is sending a signal about the quality and the expected performance of the equipment. Hence, if the residual values are used, those should be estimated properly. The case organization has a calculator for evaluating residual values, and it should be used to estimate the residual values correctly. All things considered, the comprehension about the competitors' prices is important, in order to understand the markets and the prevailing prices that exist there and to be competitive. Hinterhuber (2004) also highlighted the importance of understanding that different customers might have different reference values and thus the evaluation of the market prices should be continuous, and different products should have different reference values as well.

Part of understanding the company and short-term rental characteristics aspects, is including the understanding about the life cycle costs for the machines. Life cycle costs came up in different contexts. One of the interviewees mentioned that customers are willing to rent machines from the company, because there is no point of renting a cheaper machine from a competitor if it is not working. He indicated at the same time, that the case organization provides cheaper life cycle costs, and for customers it is important. If thinking about the maintenance-cost relationship figure which Woodward (1997) demonstrated, it is important to consider the optimum level of maintenance. This is possible to connect with the study. Maintenance is always considered in the rental fee, but one front line did not have the maintenance included by default. There might be specific reasons for that. Long distances in the country, for example, which increase the costs of travel to the site so high for the company that it might be more profitable to not to include the service by default and add it only if the customer is willing to have it. However, in this situation there should be a contract that the customer services the machine according to the service plan as this interviewee also mentioned. Another front line also mentioned that the customer's location affects the pricing because of the service. If the customer is far away, travelling costs should be considered. If the journey is long, it might also affect the service level that can be provided, due to the long distance, which takes a lot of time for the service technicians to travel. In addition to the distance, the age of the machine was seen as one reason. If the machine is very old, it might be almost impossible to offer a full-service agreement as the interviewee mentioned. According to him, outlining things is then required. It is crucial to consider these kinds of aspects while thinking about the

optimum service level. In other words, understanding the customer and the situation are the starting points.

When it comes to the pricing procedure and policy, the first step is to understand different segments. The different price segments that Bodea and Ferguson (2012, p. 86) introduced, are also identifiable in the study. Attributes that concern the customer are containing the case understanding, customer's working condition understanding, and the distance of the customer, for example. Hinterhuber (2008) also suggested that for different customers there might be different prices. This is possible to detect from the interviewees as one front line said that the customer type affects the prices. In addition, also when considering discounts, it was seen that customers have impact on it. One interviewee mentioned that if the customer is important and has an urgent need, it is considered when giving discounts. Additionally, there are also features such as quality, condition, machine capacity and machine hours, which can be detected as product attributes. At last, there are also transaction attributes like the period of the rental and competitors. It is possible to identify these attributes from the literature, which the empirical part of the work revealed.

Concerning the discounts a bit further, there should be clear procedures in which situations discounts are allowed to use. As Suomala et al. (2018) pointed out, if there is no good reason to give discounts, the company's profitability might decrease. The pricing capability grip which Hinterhuber & Liozu (2012) represented is a good tool for understanding the different pricing zones and their effect on price realization and price orientation. The aim is to reach the pricing power zone where pricing decisions are embedded in structures and processes, and where the company has the confidence to make list price increases. In that zone, the price realization is at a good level and the value-based pricing method is used. However, now the company is more like in between the white flag zone, the zone of good intentions, and the pricing capture zone depending on the market. Some of the front lines have a more advanced approach to price setting than others, some of them have quite excellent price execution for minimizing the unjustified deviations, but the prices might not reflect as much of the value that customer gets as they could. However, most of them are lagging key profitability indicators which should be at a more professional level. In other words, the pricing power zone where pricing reflects the customer value should be added.

6.2 Suggested solution in the case organization

The study revealed the best practices that the front lines have. These are also supported by the central personnel interviews as well as the quantitative data analysis. The way

the company should proceed should contain all the best practices, which different front lines have, and take these into practice. The consistent pricing procedure and policy should be shared with front lines. It should contain both things that should be considered while making pricing decision and the examples of how different front lines price their short-term rental machines. If needed, small corrections could be made into these practices in short-term. Since discount policies were differing in different front lines, these are something that central pricing should consider in cooperation with front lines after the short-term changes have implemented. Two front lines mentioned that discounts are not usually given, so this should be also considered as one option. Another front line (front line E) also had the best revenue per one machine. Thus, maybe this can be connected to this. Additionally, one front line mentioned that the monthly fee is the same for one month than for ten months. This is also good to consider. Hence, is there a need for lower prices for longer periods or could it be the same despite the rental period. As one front line has noticed that it is working well to have the same monthly fees, it might be worth considering at least.

The pricing framework, which is built with the help of literature, is used when highlighting the important things that are valuable to consider. The pricing framework includes the objectives for this business, the key determinants which are the customer, the company and the competition, and the short-term rental characteristics. All these areas change over time, thus evaluating these every now and then would be appropriate to implement profitable business. The pricing framework also includes aspects for pricing procedure and policy. This area contains both the segmentation of different attributes such as the customer, the product, and the transaction. In addition, there is also area which includes decisions concerned with pricing policy.

The framework starts by understanding the objectives of the decision. Since customer preferences might change, the way the short-term rental business is managed (is it either with an old fleet or with a newer fleet or is it managed locally or more globally) needs a revision sometimes. Thus, a decision is needed from the company's side to either run this business with a more professional way to make it even more profitable and to extend this business or to sell the used machines away after every year. In addition, it must be remembered that market features affect the objectives. The objectives that were seen to be the most important are in figure 20.

The middle area involves the key determinants. The key determinants such as the customer, the competition and the company concern different attributes. The customer part focuses on the value that a customer places for this business and to the value which differentiates the company from its competitors. The same elements were repeated by

interviewees. The company part focuses on the costs that the company must deal with in this business, and a CVP analysis can be used as a tool to analyze the feasible price changes. The competition part focuses more on the ways different front lines follow the market prices and competitors' prices. This part is absolutely one area that should be emphasized more in the future.

Due to the business being managed with a used fleet, there are some characteristics that are a part of the business. The quality of the fleet and the availability aspects which came up, are things that should be considered. Moreover, as already mentioned, the decision of managing this business with a newer fleet or with older machines, is something that should be evaluated every now and then according to the current situation. The framework suggested for the case organization can be seen in figure 20.

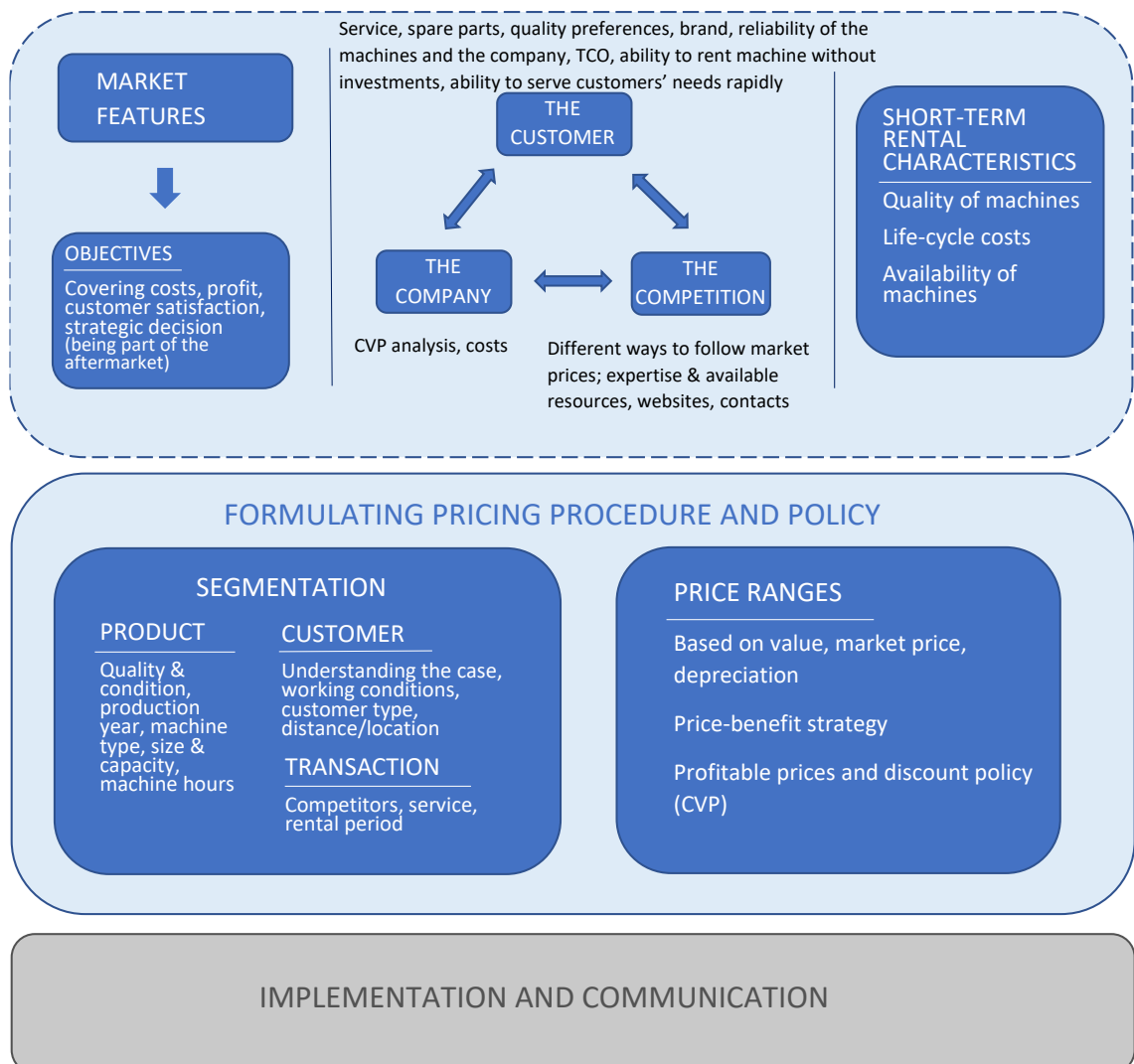


Figure 20: Pricing framework of the thesis.

Segmentation is the first step when starting to form the pricing procedure and policy. Segmentation should be made clearer among the organization. Although most of the

factors that were raised according to interviewees were the same, there is still a need for clarifying these. There were different ways of either including the service in the rental or not, due to various reasons. A good way to solve this is to give options for the front lines for how to consider this. The director of pricing suggested that the first the service should be included by default, and the second option would be that the customer is obligated to service the machine according to the service plan, for example. In other words, the service should always be considered case by case, and thus there should be a clear procedure for how to proceed in different situations. In addition, only one country had clearly different customer types affecting prices, and this should be also considered. It might be the best way to operate in that country but maybe not in others.

The understanding about different pricing policies should start by understanding the starting point for the price. As the aim of the value-based pricing is to emphasize the value that a customer is receiving with the offering the company provides, this area should be highlighted more. There is all the understanding that is needed about the value that the offerings have, it should only be communicated to the customer more clearly. The problem is that customers can not know the whole value if it is not communicated properly. In addition, there is also a need for a more structured way of following the market prices. The last things when structuring the prices are the repurchase price or the residual value, thus the costs such as the depreciation. Understanding this aspect supports the idea of not implementing prices that are not profitable. Front line F, which was using the repurchase price and the depreciation rate as a base for the monthly fee, had the lowest revenue per one machine when compared to the others (see figure 15). However, the business was not unprofitable. Hence, the depreciation rate with the margin level, as front line F was using, can be used as a minimum line for the price. As Pierce (2012) referred, the lessee should pay the price which covers the depreciation and the interest. Thus, the depreciation should be the total minimum line for the case organization, which should not be undercut.

When it comes to the discounts, there is a need for a clear discount policy. The CVP analysis that Hinterhuber (2004) introduced could be used as a tool while making these decisions. With the help of the CVP analysis, it is easy to make comparisons between different prices, and how much they have impact on the volume. An item's gross margin should be evaluated first, to understand how much a price increase is going to affect the required volume.

The last step, which is a part of the pricing framework, includes the implementation and communication. However, this is not a part of the case study. Nevertheless, this part of the work should be implemented in the short-term and preferably around the next two

years. Thus, the implementation of the small changes should take place immediately, but a more consistent approach should take place afterwards. In that time, more value-based pricing procedures should also be implemented, because everything is available, only communication is lacking.

When implementing the prices, all the features that affect them should be understood and communicated to all personnel. This way, the incoherence between front lines can be removed. After that, it is also easier to explain to the customers the reasons behind the prices, if personnel are aware of how the prices are formed. Shipley and Jobber (2001) highlighted the importance of communicating the changes to relevant audiences. Oxenfeldt (1983) added that then the activities are consistent among the organization and the decision validity is improved. Thus, all these are also supported by the literature.

One of the next steps that should be implemented would be to understand more precisely the profitability in different countries. One of the countries (front line D) has very low profitability. The gross margin there is low and the operating profit is negative. However, this front line uses one of the most structured ways of pricing these machines. Deep diving into the bottom of bad profitability would be thus required. Understanding the cases which are making the profitability look bad, would be a key to understand if the error is in the pricing habits or in the specific cases. The director of pricing mentioned that profitability is not followed very precisely at least at central level. Thus, attention should be paid to this. However, this business is quite profitable as mentioned in Chapter 5.1.3 and it should not be mixed with others. There is clear business potential.

While understanding the profitability more clearly, there should also be a tool or instructions for the front lines to use as a help, when deciding the prices for their machines, in order to not implement unprofitable prices. This part of the implementation should be done in the short-term.

In addition, it would be good to raise the prices as the director of pricing suggested. For example, this front line, which had unprofitable figures, had 0,5% added on top of the monthly fee due to wearing and insurance for each 1 000 machine hours. The director of pricing suggested that maybe this could be raised for example to 0,75%. However, this is something that should be evaluated more, and before doing it, it would be important to understand the features behind it, such as the unprofitable cases and their impact on the business. The changes that are suggested are good to take into action in different time periods. Some of them are good to implement straight away and some of them later. The time frame for different actions is shown in figure 21.

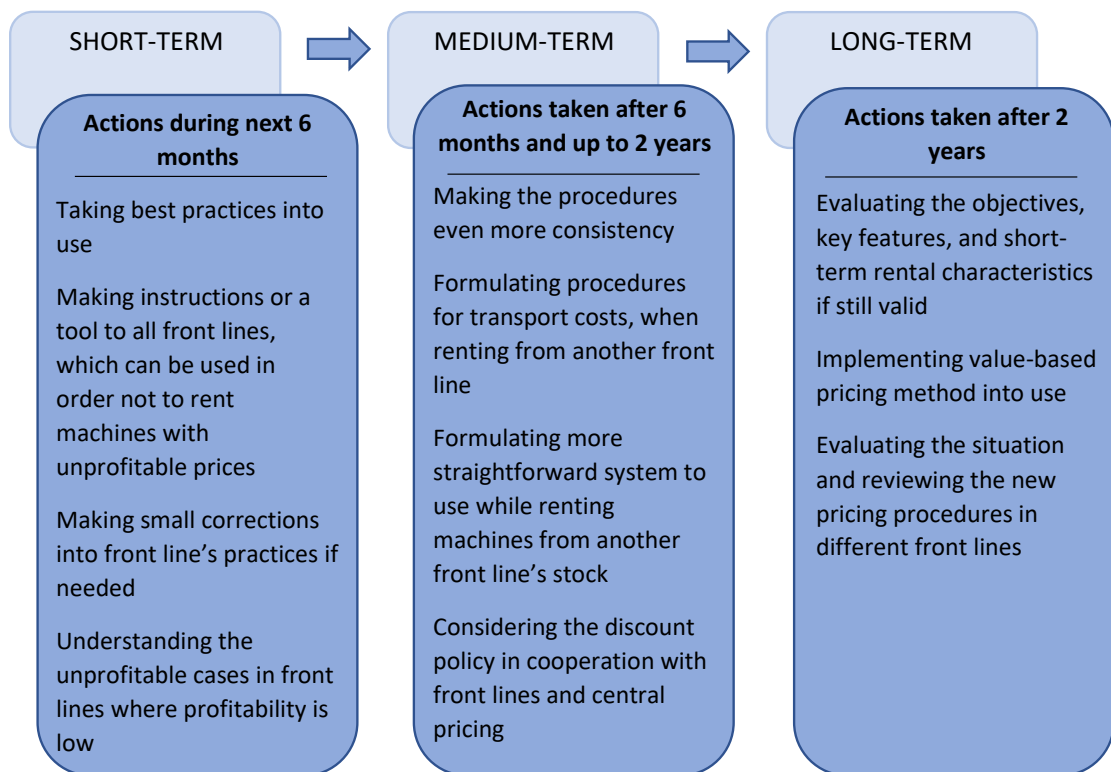


Figure 21: Time frame for recommended actions.

After all these changes in the short-term have taken place, there is a need for formulating clear procedures for transportation across the countries, and procedures for managing the costs of this. In addition, there is also a need for a more consistent way of following other front lines stocks. When there are clear procedures for action, then the value-based pricing method can be put into use. All the needed things are in place, only communication for the customers is lacking, as mentioned. However, this is also something that would be good to start right away. If started right away, after two years it is possible to implement the value-based pricing already into action.

All front lines have their own procedures, and all of these should be considered as the right procedures, because they have put a lot of effort to building these practices. However, there is a clear need for coherent procedure, and it should be considered to improve this business. It was emphasized many times that when these machines are priced, the evaluation of the customer's situations should be done first. As one interviewee said, if the machine gets hard use in the customer's use, the price might be raised. Thus, a tool or instructions might be good way of working, but it must be remembered to always look at the applications behind the customers operations when making pricing decisions.

7. CONCLUSION

7.1 Achievement of objectives

The objectives of this research were to find out the current methods of pricing short-term rental machines in different front lines, and to build a framework, with the help of literature, which can be utilized when pricing short-term rental machines in a more structured way. This framework was built in a way that would be coherent globally and usable in different kinds of markets. The objectives of this research were fulfilled accordingly. The first research question was following:

What are the current pricing methods and guidelines for short-term rentals in different areas?

The first research question was concerned with the current existing pricing procedures. The answer to this research questions was supposed to be discovered from the quantitative data analysis. However, the data was too narrow to answer this question. Thus, this was also analyzed with the help of the qualitative data.

The case study revealed that there are different ways to price the short-term rental machines. Every front line had their own way of proceeding with things. Some of them were using more market-based calculations, where the starting point for the price was compared with the market value of a similar machine. After that, the monthly fee was calculated using the 2% return on capital invested and aging of the machine and 0,5% was set for wearing and insurance costs. In addition, service costs were added on top of this monthly fee. Another front line was using the repurchase price as a base for the price setting. The monthly fee was calculated by using the 2% depreciation rate for the machine every month, and then using the 60% margin rate to obtain the price. The third front line was using the long-term rental prices to set the monthly fees for short-term rentals in order to make the prices higher for short-term rentals. In addition, one front line had a price list for machines, and it was purely used to set the prices.

The front lines also had different procedures for service. One front line stood out especially because they did not deliver service by default. However, it was mentioned that the customer is demanded to service the machine according to the service plan. All other front lines had the service included in the rentals.

In addition to the current procedures, there were also challenges that front lines mentioned. The old fleet, new prices which customers think to be expensive, inspections that

have not been done carefully and are causing problems afterwards when customers are complaining, competitors, getting compensation from the customer for the damages caused by them, overrun hours by the customer, getting the right information from the customer about the running hours and the time they need the machine for, the urge to ask the customer to hand the machine back after one year, and the extremely short period of the rental were mentioned as being challenging in this business.

There are different ways to price the machines currently and there is clearly business potential to make these procedures more coherent with each other. The director of pricing also emphasized that a more structured understanding about the market prices is needed. Thus, making the ways of managing the prices more similar, is a way of having a more straightforward understanding about the business and its profitability. The second research question was following:

What kind of framework, which is coherent globally, can be utilized in pricing and managing the pricing of short-term machine rentals?

The second research question was concerned with the framework which could be used as a tool when evaluating the prices for short-term rental machines. The framework was done so that it can be used globally, and it is quite flexible. The aim of the framework was to highlight the important things that should be considered while pricing these machines in different front lines. The framework which was built can be seen in figure 20.

The base for the framework is done with the help of the literature, and it combines the important things that front lines mentioned. The framework starts by understanding the objectives for this business and the key features of pricing decisions, which are the customer, the company, and the competition. In addition, there is also a need for understanding the characteristics of short-term rentals. All these attributes are changing over time so these must be evaluated now and then.

After understanding the aforementioned attributes, the framework focuses on pricing procedure and policy. As a part of this process there is a need to understand the segmentation behind the prices. There are three different attributes which are the customer, the product, and the transaction. In these clusters there are different things that affect the prices as the interviewees mentioned. These should be made even more coherent between the front lines. After understanding the segments, the pricing policy should start by understanding the base for the prices. Front lines should add more value-based pricing methods for their pricing habits because there is an understanding about the distinctive value the company has, only this should be communicated to the customer more

clearly to differentiate the offering from its competitors. In addition, the market price understanding is used in some front lines, however, this should be added to all front lines and it should be part of the process. Then when considering the depreciation rate for the machines, this is a good line for the company to not to rent the machines too cheap, in other words below this cost, in order to make the business as profitable as it can be. This brings together the fact that in front line F, where depreciation rate was used as a base for the price, the revenue per one machine was the lowest (see figure 15). However, this front line was having a good gross margin and operating profit levels. Thus, a more profitable pricing method could increase their profitability even more. Altogether, all these aspects should be understood correctly to make profitable pricing decisions. When the company is considering its prices, it should also understand the price benefit position (see figure 3) to place itself in the correct position.

When it comes to the discounts, there should be more straightforward structures about when it is feasible to use discounts and when it is not. At the same time as making these regulations, CVP analysis can be used as a help. Implementation and the communication of the new procedures is the last step for the framework and it is not a part of the case study. These suggestions should be implemented in the case organization according to the scheduling plan, which is presented in Chapter 6.2 (see figure 21).

The objectives of the research were fulfilled accordingly. The aim of the thesis was to give a good tool to understand the process better and emphasize the important things that should be considered, and this was fulfilled. Next steps should concern the implementation of the process, which is not a part of the thesis.

7.2 Contribution to existing knowledge

This research contributes to existing knowledge by exploring the pricing of the short-term rental machines. While there is available academic literature for pricing and pricing of services, the literature lacks the knowledge of pricing a business like this. The usage of the pricing framework which contributes to value-based pricing and combining it with the pricing of short-term rentals provides new knowledge. It is perceptible that it is possible to use this kind of framework when pricing short-term rental machines.

There is research available concerning the short-term rentals and the characteristics of it. This thesis concentrates on combining the short-term rental and the pricing parts and it provides a perspective into pricing services, because short-term rental does not consist of only machines, but the service is a part of the business as well. However, the main area of the thesis focuses on pricing the machines.

Hinterhuber (2004) provides the pricing framework which is used as a base for this study. An important part of the framework, provided by this study, is adding the short-term rental characteristics into the framework. Different characteristics, such as the quality aspect, came up from Hendel and Lizzeri (2002), and the life cycle costs, which included the maintenance-cost relationship understanding, were introduced by Woodward (1997). In addition, there are features such as segmentation of different attributes that Bodea and Ferguson (2012, p. 86) emphasized, which were highlighted in this study.

The study combines many elements from short-term rental features and pricing of offerings using the value-based understanding. In order to reach the value-based pricing methods, this study also considers the model that Hinterhuber and Liozu (2012) introduced (see figure 6), to understand the starting point for the price. Now the case organization is implementing prices based on more cost-based methods and market-based methods, but the aim is to reach the value-based pricing level. This is why all these aspects are also considered in the framework.

7.3 Research limitations

This research was implemented as a case study in one case organization. Due to this, it might be hard to generalize the results. In order to generalize the results, there is a need to understand the framework even better, and check if it suitable for wider use as well. The results are collected from one organization, which is why it is important to understand that procedures might vary considerably among service industries, which are operating in the same field. Case organization is globally operating company, but this study focused on investigating the Europe region. There are aspects like discount policy, which might differ in different front lines due to cultural characteristics. In some markets, discounts might be used because it is typical for the specific culture. This is managed by rising the prices beforehand. This aspect is not considered during the research while discussing the discounts. In addition, the maturity of the markets has a huge impact on business and it must be understood while implementing this framework into different front lines. Some markets might be more mature than others.

Due to the characteristics of the study, it is also important to bear in mind that the range of interviewees was quite small in this study. The interviews were arranged with the personnel who were the most aware of the business in different front lines, to gain the best understanding about the current procedures. However, it must be remembered that there might be various opinions about the best practices from people that are a part of the business somehow. In addition, information about the market prices or competitors'

prices was limited, thus it was not possible to create the prices for different machines and more understanding is needed in that area.

One thing that also limits the research, is that there was no directly relevant literature concerning this business. The framework was built by using the best available literature, which was concerned with the subject of the thesis. However, in order to generalize the results, there should be wider understanding about the practicability of the framework. When the framework is taken into use in case organization's operations, it is possible to analyze the viability of the model.

Additionally, one more important limitation for this research is that the formulated pricing model includes the implementation and communication part, but these are not part of the research due to its cross-sectional characteristics. Thus, the viability of the framework can only be detected after the whole process has been implemented and communicated to the personnel.

7.4 Recommendations for future research

The thesis points out possible areas for future research. A study of understanding more precisely the servitization aspect, as Lindholm's (2018) model was suggesting, might be needed. Combining the service part more tightly to the short-term rental machines and this way providing the servitization might need more investigation. Now there were different ways of either including the service in the contracts or not. In addition, it was sometimes priced separately while offering the short-term rental machine. Thus, understanding the situations where service is included by default to the contract, might require deeper understanding about the aspects affecting that. This research is focused more on the aspects affecting the prices of the machines, which are used in the short-term rental business. Although, it also considers the service aspect as it came up during the interviews of the research.

As already revealed this study does not provide a solution for the transportation from the stock of another front line, which was seen as a problem if the journey was long. There is an opportunity to investigate this matter more accurately to provide exact ways of handling this matter. Since the transportation of the machines across different front lines might need understanding about the different countries' freight costs and possible transportation channels, this provides a whole new subject for future research. There is also a lack of understanding about who should be responsible for the costs when machines are delivered across countries.

A third area that needs more precise understanding is formulating a wider market understanding about the business. As already mentioned in Chapter 7.3, the researcher has a limited understanding of the market prices, and this provides a whole new research area. There is a need to understand the market prices better and based on those there is a possibility to provide more information about the best price levels for these machines. All in all, the understanding about the markets and competitors' price levels are a part of wider understanding about the business and a key for a more profitable business.

A fourth area that would be interesting to investigate is the success of the implementation process. Are the ideas which the framework provides used as an advantage when implementing the best practices in place and do they make the business more coherent? Next ideas are examples which would be good to evaluate.

- **Tool or instructions.** It would be interesting to find out, what is the best way to price these machines in actual use. Do the front lines prefer a tool or instructions in their daily use? If the tool is the preferred way, is it possible to build it so that it considers different market features diversely enough.
- **Value-based pricing in use.** The goal of reaching the value-based pricing zone would be good to investigate in the future and guide the business even more towards it.
- **Managing the business more professionally.** There were expectations concerning the professional way of managing this business. Two things that were mentioned were related to the better availability of the machines and the additional revenues that can be achieved by, for example, washing the machines after rental periods. It would be good to find out, whether these things are considered when making the business more coherent.
- **Coherent ways of managing the business and its profitability in central.** There might be a need for coherent instructions in central use as well. Is business monitored more accurately in the future? This is part of the lacking strategy as mentioned in Chapter 4.1.

These are interesting topics that could be analyzed and evaluated in the future. The topics mentioned were highlighted by interviewees from central and from front lines, thus they are something that should be investigated, when building an even more coherent business strategy for short-term rentals.

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APPENDIX A: INTERVIEW QUESTIONS TO FRONT LINES

- Is it okay if I record this interview?
- Could you please tell who you are and how is your job related to short-term rental business?

CURRENT STATE

- Could you please tell how short-term rental machines are priced currently? What guidelines are there? (is there some kind of tool, calculation formula or something else in use?)
- Could you please tell who is/are responsible for pricing?
- Could you please tell what challenges are there for pricing short-term rentals?

PROCEDURE & POLICY

- Could you please tell what factors are affecting different prices? (E.G. How are different CUSTOMERS, MACHINES or RENTAL PERIODS priced?)
- Could you please tell what factors you think should be considered while pricing short-term rentals?
- Could you please describe what are the reasons for discounts AND what factors are affecting the size of these?
- Could you please tell are we getting feedback from customers about the short-term rental machine prices, and what kind of feedback is this?

KEY FEATURES

- Could you please describe what are our main advantages against local and global competitors concerning the short-term rentals?
- Could you please tell how market prices and trends (e.g. competitors' prices) are followed?
- Could you please describe the value a customer is getting from this business?
- Could you please describe how important the price is in a customer's decisions to rent a short-term machine?
- Could you please tell what costs are there related to short-term rentals? (service etc.) and how these costs are affecting the pricing?
- Could you please tell what factors are affecting the costs through the life-cycle of the machines? (e.g. size of the machine, age → more maintenance)

SHORT-TERM RENTAL CHARACTERISTICS

- Could you please describe how situations are handled if there is no available machine but there is a customer need?
- Is there anything else you would like to add concerning pricing of the short-term rental business?

APPENDIX B: INTERVIEW QUESTIONS TO CENTRAL SERVICE MANAGERS

- Is it okay if I record this interview?
- Could you please tell who you are and what your job includes?
- Could you please tell how is your job related to short-term rental business?

CURRENT STATE

- Please describe the short-term rental machine business?
- Could you please describe what kind of machines are we renting?
- Could you kindly explain the difference between short-term rentals and leasing agreements in this organization?
- Could you please describe what is working well in rentals?
- Could you please describe what is not working well in rentals?

- Could you please describe how rentals sales process in general is proceeding?
- Please describe how active are we in selling short-term rental machines?
- Could you please tell who is/are responsible for pricing?
- Could you please tell what kind of guidelines are there for pricing, which are used?

SHORT-TERM RENTAL CHARACTERISTICS

- Could you please tell is it default to have maintenance contract included?
- Could you please tell which markets have the most machine rentals?
- Could you please advise why some market areas do not rent machines?
- Could you please tell are we doing something in different way than our competitors/markets?

ADDITIONAL QUESTIONS:

KEY FEATURES

- Please describe the value of short-term rentals for us, so why are we doing this?
- Could you please describe the value a customer is getting from this business?

PROCEDURE & POLICY

- Could you please tell what factors you think should be considered while pricing short-term rentals?

- Is there anything else you would like to add concerning pricing of the short-term rental business?

APPENDIX C: INTERVIEW QUESTIONS TO CENTRAL PRICING DIRECTOR

- Is it okay if I record this interview?
- Could you please tell who you are and how is your job related to short-term rental business?

OBJECTIVES

- Could you please describe what objectives are there for short-term rental business both short-term and long-term? (market share, profit, image, customer satisfaction)
- Could you please describe how different objectives are varying in different markets?

PROCEDURE & POLICY

- Could you please tell what factors should take into consideration while pricing short-term rentals?
- Could you please describe how different machines should be considered while pricing short-term rental business or should they?
- Could you please tell how different customers should be considered while pricing short-term rental business or should they?
- Could you please tell how different time periods should be considered while pricing short-term rental business or should those?
- Could you please tell what are the factors that prices should be based on?
- Could you kindly tell what things should be considered concerning the discounts?
- Could you please describe in which situations discounts can be granted?
- Could you please tell what elements you think pricing tool should consist of?

KEY FEATURES

- Could you please describe what are the main advantages against local and global competitors concerning short-term rentals?
- Could you please describe what is the value that customer is getting from this business? So why are they choosing us?
- Could you please tell what value are we getting with this business?
- Could you please tell how should market prices and trends to be followed in this business?

SHORT-TERM RENTAL CHARACTERISTICS

- Could you please describe how situations should be handled if there is no available machine but there is a customer need? (e.g. should we sell no available, or should we offer upgrade version with similar price, or buy from another country)
- Could you please describe what would be the best way to deal with the fleet management issues concerning the pricing?
- Is there anything else you would like to add concerning pricing of the short-term rental business?

APPENDIX D: INTERVIEW QUESTIONS TO CENTRAL BUSINESS CONTROLLER

- Is it okay if I record this interview?
- Could you please tell who you are and what your job includes?
- Could you please tell how is your job related to short-term rental business?

CURRENT STATE

- Could you please describe the profitability of the short-term rental business and service business? How are these connected?
- What is the best way to measure the profitability of this business considering the pricing aspect? (ROSE%, OP%, GM%)

OBJECTIVES

- Could you please describe what are the objectives of short-term rental business both short-term and long-term? (market share, profit, image, customer satisfaction)

PROCEDURE & POLICY

- Could you please tell what factors you think should be considered while pricing short-term rentals?
- Could you please tell how much discounts are granted and how discounts are affecting the profitability of the business?

KEY FEATURES

- Could you please describe what are critical costs related to short-term rental business?
- Could you please tell what factors are affecting to these costs through life cycle of the machines? (e.g. size of the machine, age → more maintenance)
- If you could please tell what value are we getting with this business?
- Is there anything else you would like to add concerning pricing of the short-term rental business?