

Using an innovative price model to leverage the business model – The case of price model innovation in the largest Swedish taxi company

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Abstract

Purpose: The purpose of the paper is to describe how the biggest Swedish taxi company (Taxi Kurir) developed an innovative price model to leverage the business model.

Design/methodology/approach : The empirical data in the article describe Taxi Kurir's development of a new price model. Data about the Swedish taxi market and about Taxi Kurir has been compiled through interviews and document studies. Detailed information about the background, development and implementation of Taxi Kurir's new price model has been captured through interviews with representatives from Taxi Kurir.

Findings : Based on both the empirical example, and other investigations, we have found that a company can create substantial changes in their price model, by just changing some of its basic characteristics. A well designed price model can contribute to leveraging the intentions of the business model.

Practical implications : Most academic and practical texts about business models consider pricing to be an important component. However, they typically do not refer to the specifics of the price- or revenue models. According to the literature review in this paper, and the empirical findings, the configuration of a company's price model should be aligned with its business model. This will contribute to leveraging the business model.

Originality/value: The Swedish taxi market is one of the most deregulated in the world. Differently from most other countries, any individual or company can start and operate a taxi business. This case offers a unique description on how the biggest company in the market responded to the competition by introducing a fundamentally new price model, by making a small change in one of the dimensions in their existing price model.

Keywords: Price models, price model transformation, pricing, taxi, business model

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Introduction

Pricing and revenues are a fundamental component in every definition of what a business model is (Zott, 2011; Teece 2010; Osterwalder and Pigneur, 2005; Chesbrough and Rosenbloom, 2002). Some even indicate that it is the core of the business model: "*The essence of a business model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit*" (Teece, 2010, emphasize added).

However, most texts about business models only refer to the specifics of the price- and revenue models superficially. Pricing is considered important by all, but few present any systematic approach on how to design the specific parameters of the price model.

In this paper I take a closer look at the issues of pricing, in the business model context. My aim is to describe how an innovative price model can be designed to leverage the business model.

The theoretical foundation is based on 1) a brief overview of some influential business model articles and 2) a summary of a framework that can be used to analyze and configure price models. The result of the theoretical part is a greater understanding of how price models can be designed to leverage the business model.

The empirical content is based on how the largest Swedish taxi company (Taxi Kurir) developed an innovative price model. The new price model offers, opposite to all competitors, customers a binding fixed-price quote – for any arbitrary itinerary – prior to the booking. No other taxi company offers an equivalent price model.

I argue that the specific configuration of the price model affects the sustainability of the business model. Based on the findings in this paper, and previous research, I also suggest that the configuration of a company's price model should be aligned with its business model. Hence, it will contribute to leveraging the business model.

Conceptual elaboration on the pricing component in the business model

The term "business model" has gained an almost exponential popularity in the last 10 years¹. Still, several authors claim that there is no clear definition of what the concept refers to (e.g. George and Bock, 2010; Teece, 2010; Osterwalder and Pigneur, 2005).

Nevertheless, there is something appealing about the term. Its use in the corporate world hints at an applicability and usefulness beyond the buzzword and as with any new term, we should not be surprised by its ambiguity. A plausible explanation for this is given in the academic literature. Baden-Fuller and Morgan (2010) suggest that business models can be used for several purposes; as role models, scale models, scientific models and even recipes (in any combination) by different firms. Since the term can be used in so many different ways an exact definition becomes difficult. And it might not even be necessary.

Osterwalder seems to be one of the more popular references among practitioners. Especially his co-created handbook (which is underpinned by his more thorough investigation of the concept a year earlier in "The Business Model Ontology"; Osterwalder 2004). Together with his co-authors, he proposes that a business model is a *blueprint of how a company does business* (Osterwalder and Pigneur, 2005). They describe nine building blocks that constitutes the business model. One reason why Osterwalder may have gained such popularity outside academia, is his way of illustrating the components in the business model.

The illustrations confer a content structure on the term business model and turns it into a tool. Through the detailing of the aspects of the business model, a firm can use the concept to understand, analyse and manage the business logic as well as to innovate.

¹ Chesbrough and Rosenbloom (2000) performed a Google Search on the term "business model" in May 2000, resulting in 107 000 hits. Our own search in January 2012 resulted in 31 900 000 hits.

Furthermore, Osterwalder and Pigneur (2005) suggest that the business model is a conceptual tool linking strategy, business organisation and systems together. In this, they elaborate that a business model focus on how the business *works as a system*, while the strategy is more action oriented and includes execution and implementation. However, the authors note that the distinction between the terms is unclear and the literature divided on this issue. This is obvious in Casadesus-Masanell and Ricart (2010) who discuss the difference between business model and strategy (as well as tactics). They present a framework for distinguishing the terms from each other, arguing that *the object of strategy is the choice of business model* and thus a business model in action is a reflection of the realised strategy.

Chesbrough and Rosenbloom (2002) also note the ambiguous nature of the term business model and compare it with the term strategy. They conclude that the concepts overlap to some degree. The business model's main concern is *what mechanism to use in order to make money*. Strategy, on the other hand, focuses on sustainability versus competitors and creating shareholder value. More specifically, they argue that the functions of a business model is to articulate the *value proposition*, identify a *market segment*, define the *value chain*, estimate the *cost structure* and *profit potential*, position the firm in the *value network* and formulate the *competitive strategy*. As we can see, there are some striking similarities with the Business Model Canvas. This is no coincidence since the two authors are referred to numerous times by Osterwalder and Pigneur (2005) and included among the contributors of the building blocks.

Yet another viewpoint is held by Teece (2010), who argues that a business model contains the *financial 'architecture'* for value creation and that it is, in essence, a conceptual model used to describe how customer value is created. And how the value is monetized. The inherent transparency of a business model seems to be a problem to Teece; a successful business model risk to be copied by competitors. This is where strategy enters the game, according to Teece. A business model is more generic than the strategy. Hence the strategy is a tool to protect the successful business model from being copied. By segmenting the market, creating a

value proposition and delivery mechanisms, a firm will ensure that the business model survives. Again we can see the similarities with Osterwalder and Pigneur (2005), who, however, are not cited by Teece.

While there are several other sources that provide interesting discussions about business models, much of those views are considered by Osterwalder and Pigneur (2005). Their nine principles are based on a literature review of 14 authors.

From my perspective, the Business Model Canvas is a suitable starting point to explore some of the details that I find lacking in the business model research. Leaving the question of the relationship between business models and strategy for now, I use the definition from Osterwalder and Pigneur (2005) as a starting point:

A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams. (p 10)

Osterwalder's and Pigneur's (2005) model is based on an simple value stream view, where the partners and suppliers are described to the left, the "core" of the business in the middle and the customers to the right. In the bottom, the business is underpinned by its financial infrastructure (capturing revenues and costs).

In this article, I will mainly focus on the box in the lower right corner of the model: The Revenue stream. I believe *pricing* deserves more attention and elaboration than it usually gets in the business model literature. "Business" in business models and business strategies invariably involves contracting between firms, and in modern society it presents a huge range of alternatives on how to define what is sold and how the seller is remunerated. Therefore, we now turn our attention to pricing.

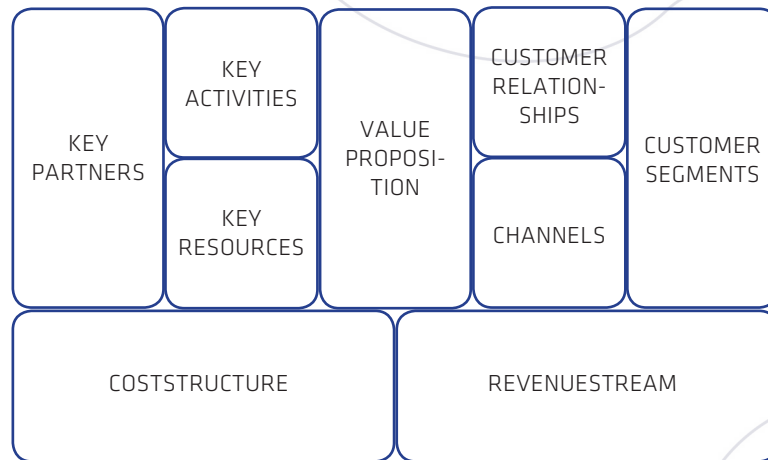


Figure 1 Simplified description of Osterwalder's and Pigneur's (2005) nine generic components in the business model canvas

The specifics of the price model in the business model context

As noted above, revenue is one of the fundamental components in every definition of what a business model is; in addition to the previous example “*The essence of a business model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit*” (Teece, 2010) it can be illustrated by quotes like this: “*the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams*” (Osterwalder and Pigneur, 2005). (Emphases added by us)

However, when studying how different authors elaborate on the way a company can price its offering, there is a need for improvements. Pricing is recognised as important by all, but no one presents a systematic approach on how to design and align the parameters in the price model with the surrounding business model.

I believe that the design of the price model is of great importance to *entice the customers to pay* for the offering. The price model should be configured so that customers want to pay for the company's offering in a

way that both assures the necessary cash flows in the short perspective and continues to monetise the offering as it continues to create value for the customers in the long run.

In our previous work we have suggested a systematic approach on how to configure the properties of a price model (Iveroth et al, 2013; Olve et al, 2013a, 2013b). When applying this model, it has become apparent that very small changes in the price model can result in radical transformation of the business model itself. A small shift in one of the dimensions in a company's price model can result in a totally different cash flow situation. Hence, the price model is a very important component in the business model. Unless the structure of the price model is aligned with the more explicit characteristics of the offering, there is a risk that the revenues will not increase when the offering delivers value to the customers, i.e. the price model risks to “leave money on the table” (Dolan and Simon, 1996).

In an EMJ article, and a subsequent book, we suggest a model with five dimensions that can be used to flesh out the characteristics of a price model (Iveroth et al, 2012; Olve et al, 2013b). This analytical model can both be used to analyze and to configure price models such that they contribute to leveraging the business model. A price model is a system of price-related aspects of

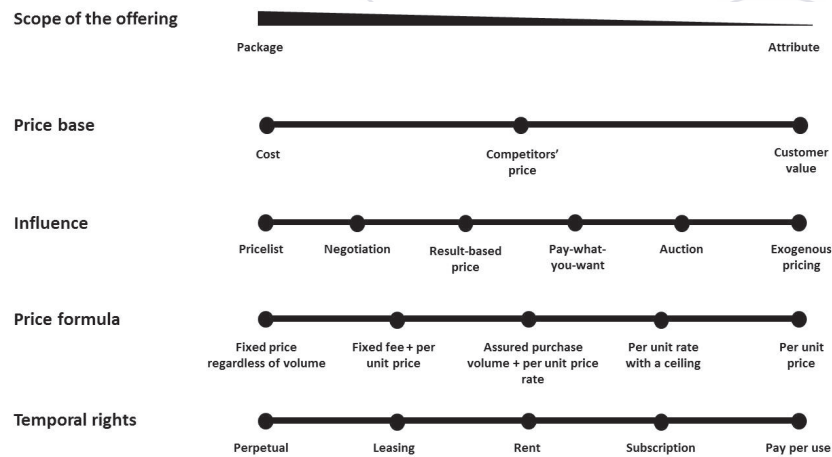


Figure 2 Five key dimensions in configuring a price model

an agreement between a seller and a buyer. Any agreement between a buyer and a seller uses some kind of price model. We propose that such models can be described through five dimensions. Together, they constitute a meta-model for price models.

The first dimension refers to the scope of the offering. At one end of the spectrum, a complete *Package* (bundle) of products and services is the object that is priced. At the other end, each *Attribute* is priced individually and may be bought individually. For example, Cunard Cruise Line offers a complete package when they price their seven-day cruises in Europe. The customers pay for a bundle of products and services (e.g. travelling, accommodation, food, spa and entertainment) irrespective if the customers choose to consume them or not (see for example Shapiro and Varian's seminal work on bundles). Opposite to this, Ryanair splits their offering into different products, such as flight, method of payment, priority boarding, luggage allowance, food and beverages, insurance et cetera. In this way, the customers can choose among the attributes and influence the total price by deciding what to include.

The second dimension focuses on what information is used to inform the pricing decision. The most classical alternative is to base the price on information about

the cost of (developing, producing, distributing and selling) the products and services (Malmer, 1996). This has lately been criticized by many pricing researchers, who claim that prices should rather be based on the competitors' price levels or customer value (Ingenbleek, 2007). Regardless if the company has any explicit policy on what shall govern pricing decisions, it is fairly easy to get an idea of the current state after just a few interviews. More common than not, "costs" still seems to be the most common foundation for pricing decisions.

The third dimension is concerned with the extent to which the seller or the buyer influences the price. In the most extreme situation, the seller has the power to set the price. As the customers' power increase, the pricelist is not absolute anymore. Instead, the price is set in a negotiation. The next type along this dimension is based on some observable outcome of the use of the product. We refer to this as result-based prices. The fourth type, on the influence dimension, is when the price level is set by the buyer: Pay-what-you-want, which is sometimes also referred to as pay-if-you-like (Kim, 2009). The next step along this dimension is when both the seller and each customer hand over the right to determine the price level to an auction. Finally, exogenous pricing is the case when circumstances beyond the influence of both the provider and the

customers determine the realised price level, e.g. when creating an index of exogenous factors that establish the price level.

The fourth dimension focuses on the price formula. It connects price and volume; from fixed price (regardless of volume) to a per unit price. In between, there are several alternative combinations of fixed and variable price components that can be used to calculate the final price level (Dolan and Simon, 1996).

The fifth, and last, dimension focuses on the customers' temporal right to the offering. To the left we find perpetual rights. The further we move to the right, the shorter the time the customer may use the product. Lease and rent are offerings for a specified period of time. Subscription is also a transfer of rights for a specified period of time, but the product's characteristics may change (day by day) as it is upgraded or enhanced during the contract period. Finally, at the right-hand side, we find Pay per use, which means that the buyer pays for every individual use of the product or service.

Any particular business contract can be characterised along these five dimensions. Depending on the design of the price model, obligations, risks, and likely financial outcomes are shifted between the buyer and the seller.

To summarise, I agree with most business model writers that pricing and revenue issues are of great importance to make the business model sustainable. However, in the growing body of literature on business models, we have not found any systematic approach on how to configure a price model. I argue that the model we have described above, can assist in generating profitable and sustainable revenue streams, hence leveraging the business model.

Methodology

In this paper I suggest that the details of the "pricing box" (revenue stream), embedded in most business model frameworks, can be better understood and designed by using the five dimensions presented above. Our model was developed in a collaborative research project together with the global telecommunication company Ericsson. For three years, we worked together

with practitioners from Ericsson to develop an understanding of the pricing challenges they face. The model, presented in the EMJ article and in a subsequent book, is one of the results from the research project. It has been presented in academic forums (Westelius et al, 2010; Iveroth et al, 2012) as well as practitioner-oriented texts (Olve et al, 2013a; Olve et al, 2013b).

I like to emphasise that the focus in this paper is on price model design. Not on determining price levels. The latter is the typical focus in pricing literature, and pricing of taxi services is no exception (see for example Wong's calculations on taxi prices in the Chinese market; Wong et al, 2002; Wong et al 2008; Wong et al, 2010). Neither do I focus on the more accounting-oriented topics of pricing, for example how revenues are reported in the accounting and financial reporting systems when customers are billed in advance, instead of in retrospect.

The empirical data in this article describe how the largest Swedish taxi company designed a new price model. Data about the Swedish taxi market and about Taxi Kurir has been compiled through interviews and document studies. Opinions about the taxi market have been compiled through interviews with persons in the Swedish Taxi Association, the Swedish Transport Agency, the Swedish Tax Authority and the Swedish Police. More detailed information about the industry has been compiled from governmental investigations about the industry, the Taxi Association's trend- and future outlooks, and academic studies of the taxi market. Information about the background, development and implementation of Taxi Kurir's new price model has been captured through interviews with representatives from Taxi Kurir, interviews with taxi drivers, interaction with Taxi Kurir's IT-based booking system (mainly the booking app) and consumption of the offering as such (using taxis as a mode of transportation).

How Taxi Kurir introduced an innovative price model to leverage the business model

The Swedish taxi market is one of the most deregulated in the world. Differently from most other countries, any

individual or company can start and operate a taxi business, as long as they comply with a basic set of rules regarding e.g. traffic safety, driver competence, visible declaration of terms and conditions, etc. There is, differently from most other countries, no restrictions regarding the number of taxi cars that are allowed to operate in the market or any regulations regarding price levels.

The Swedish taxi market turns over approximately 800 million Euros. It is operated by some 16,000 taxi cars. Most of the cars belong to a national or local taxi company. However, the cars are not owned by the taxi company, instead they franchise the brand name (the name and colour that is striped on the car), access to a central booking system (via telephone, the web and smartphones) and a set of contracts with large customers (like big companies and important travel hubs like airports, railway stations, hotels and entertainment arenas). The market is dominated by a few big taxi companies. In Stockholm, for example, the three biggest brands capture almost 60% of the market.

The taxi companies do not own any cars. Instead, the cars are owned by independent taxi owners. They typically own a handful of cars (1-5 cars). The owners, in turn, employ the drivers. The financial structure of the industry is thus two tiered; there is one financial structure in the umbrella organization, the taxi company. And one for the taxi owner operating the car(s). The taxi owners absorb the capital cost of the car and the risk of running the car.

The “switching cost” for a taxi owner – to move from one taxi company to another, or to go completely independent – is fairly low. It caters for a volatile market where taxi owners move between brands as soon as they believe that the costs of belonging to one brand are higher than the benefits of staying with it.

The taxi companies are typically membership organizations. They are founded, “owned” and controlled by the taxi owners that belong to it. The size of the brand (measured as number of members) is typically restricted by the fact that existing members often want to limit the number of taxi cars operating in the market (i.e. shortening the supply of taxi cars). This type of taxi company is often organized as federations

where the taxi owners populate the board; hence – simultaneously – act as superiors to the management team (being their owners) and “subordinates” being the “agents” in the network.

The alternative structure is to operate the taxi company as an independent business – on its own merits. Such brands are typically owned by someone else than the taxi owners. These companies rather view their business model as a franchise concept where the brand is the franchise owner and the individual taxi owners are the franchisees that utilize the resources from the franchiser (e.g. the brand name, the booking gateway, education, quality control, contracts with large customers, etc).

Developing a new price model

Taxi Kurir is the largest Swedish taxi company. Its business model is of the second type above. They are the only nationwide taxi company in Sweden and operate in 43 cities. Their turn over is almost 100 million EUR. The company is privately owned by the family Karlsson. The prime reason for Taxi Kurir to re-think the design of their price model was the turbulence in the Swedish taxi industry, following from the de-regulation of the market in the early nineties. Over the years, especially big city taxi markets (like Stockholm) had been flooded with solitaire taxi owners that deliberately, and legally, skimmed the market (charging up to 400% more than the “standard price” in the market – some times even more), operating under a legitimate taxi license. Visitors have been “fooled” by these independent taxis, and there was an intense debate in Sweden whether to re-regulate the market again. Taxi Kurir saw this problem and found that they had to act on it. They understood that the large price spread was provoking to many customers and that it could harm the taxi market as such. One way to deal with the challenge was to re-think the design of the dominant price model in the market – charging customers ex post, after the trip. A price model that was disliked by many customers.

Taxi Kurir decided to take opportunity of this and introduce a completely new price model: offering ex ante fixed prices for any trips, between any two addresses. Regardless of origin and destination, customers can book a taxi and get a binding price quote from the system before the booking. Regardless of

circumstances during the trip (traffic jams, the driver's choice of route etc), the price stays fixed.

In designing the new price model, Taxi Kurir could leverage two important features in their business model. First, they could leverage their advanced computerized booking system (a key resource) that served as their prime channel to the market. In the system, Taxi Kurir's customers book taxis directly (mainly large organizations that use Taxi Kurir's services repeatedly, like travel agencies and travel departments within large organizations).

Second, the owner's passion for customer demands – and how to align these with the value proposition – paved the way for the new price model. For a long time, many customers had complained about the variable price model. However, the industry had been reluctant to listen to this. Fixed prices were mainly regarded as an exception. They were only offered (officially) on trips to and from travel hubs, e.g. airports and railway stations².

The owner of Taxi Kurir had noticed that customers (both large public and corporate customers, and private persons) wanted to know the price for the whole trip in advance. In a large survey, it was observed that an astonishing 92% of the customers would like to know the price before the trip. In the same study it was also revealed that 81% of the customers didn't even understand the underlying bases for how taxi prices are calculated. The owner of Taxi Kurir saw this problem as a business opportunity.

To develop and implement a new price model, a set of different requirements had to be met. First; the calculation of the ex ante price (for each of the infinite number of trips that can be booked; from any Swedish address to any other Swedish address) had to be automated. It would not be possible for any human agent to immediately calculate these prices and give the customer a binding offer. Instead, it needed to be executed by a price engine.

² Fixed prices can of course also be negotiated, by exception and bi-laterally, between driver and passenger. In these negotiations, no explicit reference price is available, so the actual price level is a result of a negotiation between supply and demand.

The price engine could be developed, thanks to detailed digital maps that had become available in the market (which happened just recently, as a consequence of the wide dispersion of GPS-systems). To calculate a robust price, the engine needed 1) correct information about available roads, 2) a computerized optimization tool to identify potential routes and 3) information about speed limits throughout the whole route. Given a route, the price algorithm could calculate a “perfect” price. But, during the day – especially in larger cities, with a bad traffic infrastructure – there are periods when the conditions are everything but perfect. The price engine also had to take these dynamic aspects of the city's traffic situation into consideration.

These were the new key resources that had become available, that a team of business developers and analysts used to develop the new price model. It resulted in a price engine that was accepted by the board and the owner of Taxi Kurir.

Implementing the new price model

The ability to actually deliver the new price model – in practice – required more than just a valid price engine (key resources). To “deliver” the new price model (to the customers), Taxi Kurir used its original booking system (channels). Only modest changes needed to be made in the system to allow customers to book the trip at a fixed ex ante price (instead of the variable ex post price). The new price model was simply added as an alternative to the conventional price model. Some customers still wanted to “bet” that the variable price would be lower than the fixed, others valued the certainty (i.e. knowing the price in advance, even though it might be a little higher than the variable price). The customer base for the new price model was initially Taxi Kurir's corporate customers (that subscribed to the booking system).

In 2012 Taxi Kurir believed that the new price model was robust enough to be released to a wider audience. Instead of making the booking system available on Taxi Kurir's website, they decided to use smartphones as the delivery platform (a new channel to the market). An app was developed for both iPhones/iPads and Android telephones. In addition to presenting a fixed ex ante price, the app also gives priority access to available taxi cars.

Adding a new price model in a taxi company does not only require external marketing – convincing the customers about its merits. Existing internal structures also had to be challenged, as the taxi owners and the drivers had to be convinced about the new price model's qualities (convincing key partners about its merits).

The internal revenue structure in a taxi company is purely based on billing. The taxi owners pay a percentage of their revenue to the taxi company. The prices, however, are set for all vehicles that belong to the taxi company, hence the individual taxi owner can not choose whether to comply with the taxi company's new price model and price levels or not. When the taxi company reconfigures the price model, it has immediate effects for all taxi owners' financial results. The reward structure between the taxi company and the taxi owners is also mirrored in the relationship between the taxi owners and taxi drivers. The drivers are rewarded based on the money they generate.

Shifting price model, from a variable to a fixed price, moved "the risk" from the customer to the supplier. In the traditional model, the taxi company, the taxi owners and the drivers were always compensated for the trip; regardless of their choice of route and the traffic situation. They got paid for every kilometre and every minute they were occupied with a customer. The customer, on the other hand, had to bear the full risk; if a driver took a longer route than necessary, the customer had to pay a higher price.

Switching the risk from customers to taxi owners and drivers, of course, met some criticisms. However, the owner of Taxi Kurir was determined; he was certain that the market will reward companies that are aligned with their customers' preferences (aligning the value proposition with customer demands). Having seen the customers' opinions in the survey about the established price model convinced him that a "price model innovation" would 1) attract new customers, 2) grow the business, and even 3) put pressure on the internal efficiency of the business model. In meetings with taxi owners (the franchisees), Taxi Kurir argued that the new model would generate higher revenues and profits (in the long run). When presenting the new model, Taxi Kurir's owner ended every meeting saying that the new price model was mandatory. If the franchisees didn't

believe in it, they could always join another taxi company or go independent. No taxi owner left Taxi Kurir.

However, getting the taxi owners' acceptance for the new price model was not enough. The drivers also needed to be convinced. The challenge in the taxi industry is that the drivers can not be forced to accept the new price model. The dispatch system is designed as a market: a booking is released in the system and the driver that first confirms it will get it. The dispatch system, and the internal salary structure, is based on the assumption that every driver will try to grab any available booking (within her economic reach) as quickly as possible. Supply and demand, so to speak, meet in the dispatch system. The price level is set to promote drivers to pick up bookings. In essence, the price model and the reward structure affects the performance of the key activities.

The drivers are key partners in the business model, but still autonomous agents. They always make their own calculations on which booking to take (for example estimating the cost of getting to the pick up address as well as the chance of getting a new passenger close to the drop off address).

When releasing the new price model, one of the challenges was to make sure that the drivers' increased risk (of a fixed price booking) did not surpass the revenue from that booking. If all drivers ignored the fixed price bookings, because they'd rather hover (waiting for a traditional booking), the customers using the new price model would risk not being picked up at all, which would harm the brand tremendously.

Through internal education and explicit reporting on the effects of the new price model the drivers gradually accepted it as part of the value proposition. Taxi Kurir also made an effort to develop the drivers' knowledge about the geography. When evaluating driver behaviour, it was obvious that many drivers didn't take the shortest and fastest route to the destination. Instead they often took routes they were accustomed to. When the drivers understood that this eroded their margins, many of them saw an immediate reason for changing to better routes (the ones that were suggested by the optimization system). The fixed price model hence increased internal efficiency.

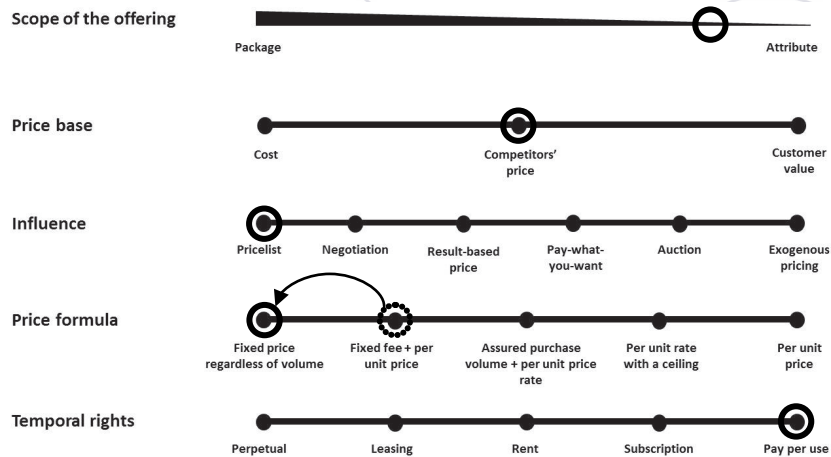


Figure 3 The minor change in Taxi Kurir's price model, that resulted in a fundamentally new price model

Taxi Kurir's new fixed price model was initiated by an awareness about the customers' preferences, specifically their wish to know the price before the product is consumed. The price model was first launched in Taxi Kurir's booking system. Later it was released to the broader audience through smartphones. The challenge was not to get acceptance for the new model from the customers, but to convince the taxi owners and drivers that it would be beneficial to them to employ the new price model – even though it would shift the risk from customer to supplier.

Analysis of the price model's importance to the business model

Based on the presentation of Taxi Kurir's new price model there are some aspects that become particularly interesting.

To start with, the perceived differences between Taxi Kurir's new and old price model is much greater than actual change in the dimensions of the price model. We have seen similar patterns in other industries. For example, Ryan Air positions themselves as a low-fare airline, but when we analyze their price model we see that it is mainly a questions of scoping. Many observers have commented on the "real" price of a Ryan Air

ticket, showing that the price is not as low as it is claimed if you include all the fees that Ryan Air charges separately for (which are typically included in the incumbents offerings). Hence, Ryan Air's innovation was rather a new price model than a new price level. Their scope lever is far to the right, compared to their competitors. For all other sliders, however, their configuration is identical with the other airlines.

A similar pattern becomes apparent in Taxi Kurir's new price model. Scope, price base, influence and rights are the same as for the traditional price model. It is only the price formula that has shifted: from fixed fee + per unit price to a solid fixed price for the trip. One small change, in just one of the dimensions, has resulted in a completely new price model that extends Taxi Kurir's value proposition.

We can also see some interesting interactions between the components in the business model. Taxi Kurir's prime focus, in the business model, is the customer. It was the customer's opinion regarding the traditional price model that led to the development of a new way to price taxi trips. 92% of the customers claimed that they would rather get a binding quote prior to the booking, than paying a variable price based on the time and distance travelled. Compared to Taxi Kurir's competitors, their business model is one-directional; they

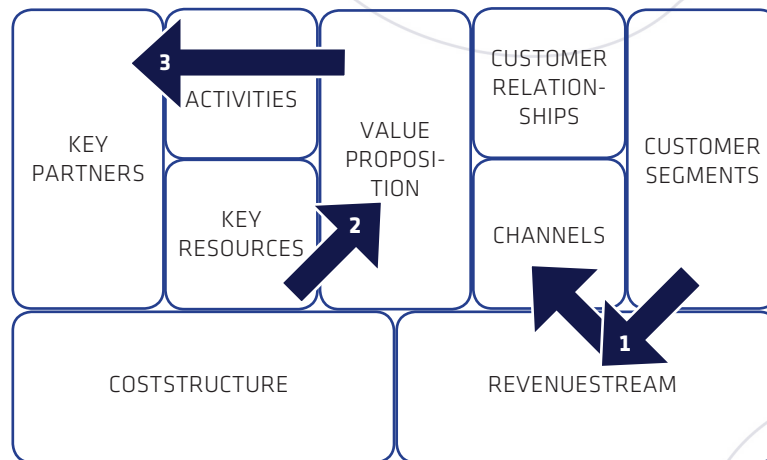


Figure 4 The minor change in Taxi Kurir's price model, that resulted in a fundamentally new price model

only have one customer (the travellers). The competitors, however, often operate as cooperative where the taxi company (the brand) has two equally important "customers": both the travellers and the taxi owners. I suggest that this is one important explanation why no other brand has picked up the new price model, since it shifts the risk from customers to the supplier. This is not in the interest of the owners (of the taxi company).

On a more detailed business-model level we can see three flows of events within the business model. All are an effect of the introduction of the new price model. The first flow is a result of the observation above; the main focus in Taxi Kurir's business model is the customer. The customers' opinion regarding the price model resulted in an assessment of how the price could be more aligned with their preferences. The new price model was not added as just a new pricing tactic. It essentially became the core message in the communication of the company's value proposition. Most of Taxi Kurir's marketing efforts during the last years have focused on fixed prices. The flow hence went from customer preference, via redesign of the price model to an extension of the value proposition.

The second flow focuses on Taxi Kurir's development of the new offering. The new offering could not have been created (at a reasonable cost) if there had not all

ready been a robust infrastructure of key resources. The new price model could be implemented in Taxi Kurir's existing dispatch system. The system was the prime channel for corporate customers and travel agencies to order taxis from Taxi Kurir. Only a few new functions needed to be added in the booking system. Also the concept of a customer-centric price models was easy to explain in relation to Taxi Kurir's value proposition. The additional investments were minor; purchase of digital maps and routing, programming of the price engine, and finally development of a smartphone app. The new price model, hence leveraged some key resources and existing channels to reach the customers. The existing business model hence served as platform for delivering the new price model.

Finally, the third flow focuses on the operation of the new price model in the business model. It started of as a new feature in the value proposition (following from explicit customer preferences, which was made available though existing key resources and channels). However, it required special attention to assure that the key activities were carried out. The dispatch system in a taxi company emulates a market. When a booking is made in the system it is published in the dispatch system. The driver that first picks it up will get it. There is no overall controller that allocates cars to orders. The underlying assumption is that drivers will

want to get every booking, since their compensation is based on the revenue they generate. As long as they know that they will get a risk-free revenue from every booking, they will be prepared to take them. But, as the new price model shifted the risk, the individual driver will not know that she will get compensated for the time and distances she spends in delivering a fixed fee booking. Some drivers, in worst case all drivers, might come to the conclusion that the risk of taking a fixed booking is too high (i.e. that the revenue will be lower than the alternative revenue they would get if they picked another booking). Hence, the new price model has dramatic consequences on the performance of the key activities in the business model and the priorities among the key partners.

Implications to further business model and price model development

Following from the patterns I have observed in Taxi Kurir's development of a new price model I believe that there are interesting issues to address in the interaction between business models and price models. This should be obvious from a business-model perspective, where most frameworks address revenue, pricing, income, etc as one important concept in the broader framework. Following from my reading of the business model literature, I believe our five dimensions can add to the understanding of how the price model can be configured to entice customers to pay for the value proposition. Typically, the pricing types and tactics in the business model literature do not offer a systematic approach to price model design, as our five dimensions do.

Based on both the empirical example in this paper and other investigations we have made, we have seen that a company can create substantial changes in the price models they offer. Just moving the slider one position, in any of the dimensions, will result in a new price model.

More important, however, is that the redesign of existing price models should be based on the content of the business model. The price model should be configured to leverage and promote the core features of the business model: leveraging the value proposition

and assuring that key activities are performed and that the key partners accept the changes. It is important to remember that small changes in the price model do not necessarily translate into small and easy changes in the organizational setting. This became apparent in Taxi Kurir's case where the design of the new price model led to repercussions throughout the business model, following from the way the "production system" and the relationships to the key partners were structured.

Therefore we sometimes like to compare the price model's five dimensions with the sliders in an Equalizer in a HiFi stereo. Depending on what music you listen to, you should enhance the right frequencies to enhance the experience. Different music require different configuration of the equalizer. The same goes for the dimensions in the price models; different configurations of the business model should result in different configurations of the price models.

Taxi Kurir has been able to configure a new fixed price model that leverages the core concepts in their business model. It is however not obvious that a competing taxi company could have introduced (or copied) the same price model since they do not focus on the same value proposition, they may use different channels to the market and they may rely on a different resource base. But more important, their relationship to their key partner (the taxi owners and drivers) is different.

In future research I would like to extend our knowledge of the contingent relationships between the business model and the price model. Are there any generic configurations of business models that would align neatly with equivalent standard configurations of the price model? And more specifically: are there some specifics in the business model that contradict particular configurations of the price model. I would also like to explore the usefulness of an equalizer as a metaphor to indicate the need for adapting the price model to the surrounding business model. This indicates that further research on the relationship between innovative price models and business model is of great importance.

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