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Factors Impacting on Pricing Decisions in Industrial Markets

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Abstract

The main objective of this study was to consider the impacting factors on pricing decisions in industrial markets. Research method was of experimental type and data was gathered using semi-structured interview. Population consists of all accountants in Industrial companies in Tehran Province, who 65 expert accountants on related field were selected as sample size through randomly sampling method and were interviewed by researchers. To gather data, the researchers, firstly, send an email to firm and researcher was allowed to interview with the accountants of the firms. Then, they go the firms and the interviews were administrated. Validity and reliability of interview questions were obtained using proposed method of Guba (Holloway& Wheeler, 2013), in such a way that researchers refer to participants and provide them the selected factors and variables and after that they confirmed them and provided their satisfaction, its validity and reliability were confirmed. Results showed that 23 sub-main factors are identified in which 6 sub-main factors belong to internal factors, 8 sub-main factors belong to external factors and price sensitivity has 9 sub-main factors. In addition to, 16 primary codes belong to internal factors, 22 primary codes refer to external factors and 12 primary codes belong to price sensitivity. Totally, 3 main factors impacting on pricing decision in industrial markets, 23 sub-main factors impact on pricing decisions in industrial markets and 50 primary codes are identified that impact on pricing decision in industrial markets based on accountant perspectives.

Keywords: Pricing Decisions, Determining factors, Industrial.

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Introduction

The industrial market is defined as business-to-business sales in which one business serves as a consumer, purchasing goods or services from another business. For example, Bussential is a company that provides cleaning, laundering, and other facility service needs to various businesses. The company services many different types of companies and needs to work on its structure to improve efficiency and increase profit (Benson and Bonoma, 1984). However, the characteristics of industrial market should explain term product, i.e., the product is all that can be under a specific name and the specific properties to offer in the market. So it is everything that would cause attention, use or supply the demand for a product, which intention it meet a need or solve the problem of consumers. A number of specific characteristics of industrial marketing and when you talk about it usually they are compared to consumer goods marketing. Generally, the characteristics of industrial marketing are, classified as: 1) Market characteristics, 2) Characteristics of the organizational buyer 3) the characteristics of supply and marketing 4) The relations of cooperation of buyers and sellers (Vidovic, 2011).

In addition to, marketing theory suggests that price is one of the 5 P's (Product, Positioning, Place, Promotion and Price) that contributes to the marketing mix in order to get potential customers' attention, motivate them, and get them to buy products or services. Pricing is essential and has always been one of the most difficult decisions in marketing because of heightened competition (Myers 1997), gray market activities (Assmus and Wiese, 1995), counter-trade requirements (Cavusgil and Sikora ,1988), emergency of intra-market segments (Dana 1998), and volatile exchange rates (Knetter, 1994). Consumers have different perception of the products depending on the price. Therefore, pricing products for consumers is a difficult task because a high price may cause negative feelings about products, and in the other hand a low price can be misleading on other products features such as quality (Musonera & Ndagijimana, 2014).

A pricing system model is a description of the relationships which lead to price increases and decreases and the effects of these price changes on goal variables and other outcome variables (Smith & Woodside, 2009). In our study, the pricing decisions is studied in relation to industrial markets. There are many pricing objectives that lead to different strategies and businesses have to develop and apply the best strategy in various situations. Some of the ways of pricing a product are: premium and penetration pricing, price skimming, economy and psychological pricing, product and optional product pricing, captive and product bundle pricing, promotional, geographical and value pricing (Musonera & Ndagijimana, 2014).

Of three main approaches to pricing in industrial markets - cost-based, competition-based and value-based - the latter is considered superior by most marketing scholars (Hinterhuber, 2004, Nagle and Holden, 2002) and pricing practitioners, (Forbis and Mehta, 1981, Dolan and Simon, 1996). In addition to, a meta-analysis of pricing approach surveys between 1983 and 2006 reveals an average adoption rate of 17% (Hinterhuber, 2008). Cost-based and competition-based approaches still play a dominant role in industrial pricing practice (Shipley and Bourdon, 1990, Noble and Gruca, 1999), but such approaches are not in our study scope. Review of literature show that some researchers attend to decision-making process (Cavusgil, 1996; Xia et.al, 2004; Musonera &

Ndagijimana, 2014; Taqipour & Taleiezadeh, 2019; Ghazizadeh et.al. 2010), however, the importance of decision-making and effective factors on is not considered in literature. Therefore, our study aim to consider the effective factors on pricing decisions in industrial markets. Our study contribution is that we could cover the research gap in this area. Our study could help industrial companies to have best decisions on their product pricing. Also, industrial experts could benefit our results and to help their favorite companies.

The reminder of our study is organized as: In second section, related literature review is provided, section three is devoted to methodology. In section four, results is provided. Lastly, section five is dedicated to discussion and conclusion.

Related Review of Literature

Marshall has developed the theory of how price influences customer's behavior, called "Neoclassical Theory." The theory states that customers have different tastes and preferences, and choose among products to maximize satisfaction or utility. "Utility means want-satisfying power that resides in the mind of buyer and is common to all products and services…Since it is assumed that prices serve only to indicate the amount of money that buyers must give up to acquire a product, how much to acquire of a particular product depends on the relation between the marginal utility of acquiring an additional unit and the price of that additional unit. Furthermore, the assumption of diminishing marginal utility implies that buyers are capable of ranking all alternatives in terms of increasing preference, and that they purchase first the most preferred product," (Musonera & Ndagijimana, 2014).

There are several options open to the firm in assessing pricing strategies, which are significantly influenced by a number of key factors. Given the customers' demand schedule, the cost function of the business, and the pricing strategy of competitors, a number of pricing strategy options are available, including those mentioned in the following text.

Markup pricing. The most common strategy used involves adding a markup on the product costs. Many companies compute the cost of producing a product and add a specific margin. Retail corporations such as Auchan, Carrefour, and Wal-Mart adopt a markup pricing strategy on the majority of brands retailed through their stores (except in the case of promotional pricing strategies, described in the following text).

Target return on investment pricing. In industries that require a high capital investment, target return on investment pricing is adopted as a safeguard to recuperate the costs of setting up complex infrastructure. The formula used to calculate the price includes a percentage return on investment that varies with different volumes of production in a given period. Firms implementing target-pricing strategies include automobile manufacturers and telecommunications, electricity, and gas service providers.

Perceived value pricing. Many companies base their pricing on perceived value as identified by the buyer. The price is set to maximize the value that the buyer assigns to the product based on its utility. The perception of value is a combination of tangible factors (such as the price of supplementary goods, the usefulness, or utility of the product)

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and intangible factors (such as product quality, service, or brand attributes). This type of pricing strategy is adopted in scenarios where the perceived value of the product is much higher than its cost.

Perceived value pricing is used for a large number of the brands owned by LVMH Moët Hennessy, the French multinational luxury goods conglomerate. Brands under its corporate umbrella include Fendi, Donna Karan, Givenchy, Louis Vuitton, Tag Heuer, and Bulgari. Competition-based pricing. In this form of pricing, prices are decided relevant to those of competitors. Such a method may well apply to medium-share companies competing against high-share competitors (such as local hotels competing with international hotel chains) or for products with low differentiation (such as gasoline).

Penetration pricing. This form of pricing strategy, also known as promotional pricing, involves temporarily setting prices below the market price or even lower than cost price. This is often used to maximize rapid market entry into new markets, or the market entry of new products into existing markets. The strategy was used effectively in the early days of mobile telephony for telecommunications providers to gain sufficient subscribers to sustain their networks. Dot-com companies are particularly likely to engage in pricing products below cost, or even giving them away for free to build a strong customer base. The customer base is then used to generate income from selling the company or its stocks, or generating revenue from advertising on the user platform (Sammut-Bonnici & Channon, 2017).

Pricing Strategies in Industrial Markets

Managers normally set prices one of three ways. The first is for management to maintain a strong internal orientation, basing prices on its own costs, and, usually, adding some standard industry markup to average costs. Cost-plus is a simple system, but it fails to consider competitors, customers, or the volume, price, and profit relationships among costs. A well-known sophisticated version of this approach, target rate-of-return pricing, was developed at General Motors during the 1920s and 1930s. While it included consideration of volume fluctuations through the business cycle and the cost of the capital involved in the business, target rate-of-return prices were still based totally on internal costs, not on the market (Shapiro & Jackson, 1978).

The second approach is to let competitors set prices, and then to meet them head-on. This strategy assumes that a marketer's company, its products, its image and position in the marketplace, and its cost structure are exactly like the competition's. A slightly more sophisticated version of this approach involves maintaining a set dollar or percentage differential between one's prices and the competitor's. A manager might, for instance, maintain a price of 5% below the market "leader" to allow for the leader's stronger reputation. However, this approach is mechanistic and does not allow managers either to build on their products' and company's unique strengths or to adjust for their unique weaknesses (Shapiro & Jackson, 1978).

The third approach, which is more difficult than the other two, focuses on the customer. It requires marketers to assess carefully the value customers place on the product. Typically, industrial marketers have shied away from this approach, but now, given the difficult market conditions we have described, the need for such a thorough, customer based approach seems clear. Fortunately, the opportunity for its application has been advanced by the emergence of new concepts and techniques. In what follows we will go into the customer-based approach and these concepts in more detail (Shapiro & Jackson, 1978). Dantas et al. (2014) investigate pricing strategies in a channel where a unique manufacturer sells two competing product formats (paper book and e-book) via a single retailer. They compare firms' pricing strategies and profits under the wholesale and the agency-pricing (i.e., RSC) models and identify conditions under which the agency model can be implemented. The authors find that both products' retail prices are lower under revenue-sharing, and this business model is Pareto-improving when the revenue-sharing parameter, which represents the part of the revenue that goes to the retailer, is selected in the interval [1/4, 1/2]. Gaudin and White (2014) identify the conditions under which the move from wholesale pricing to an RSC in the e-book industry contributes to the increase of e-book retail prices. They use a general demand system where the base product is available in one format, and consider two polar cases concerning the contingent product: either that consuming e-books requires use of the contingent product, or that there is perfect competition on the market for the contingent product, leading to a price equal to zero (no marginal costs).

Material and Methods

The objective of this study is to factors impacting on pricing decisions in industrial markets. Research method was of experimental type and data was gathered using semi-structured interview. Population consists of all accountants in Industrial companies in Tehran Province, who 65 expert accountants on related field were selected as sample size through randomly sampling method and were interviewed by researchers. To gather data, the researchers, firstly, send an email to firm and researcher was allowed to interview with the accountants of the firms. Then, they go the firms and the interviews were administrated. Validity and reliability of interview questions were obtained using proposed method of Guba (Holloway& Wheeler, 2013), in such a way that researchers refer to participants and provide them the selected factors and variables and after that they confirmed them and provided their satisfaction, its validity and reliability were confirmed.

Results

Respondents of this research were male 81.17 percentage, aged between 26-40 years, 47.54 percentage, studied bachelor's degree 79.48 percentage, experience 5-13 years, 62.99 percentage, and currently holding positions as accountant, 84.34 percentage. In the table 3, categorization and codification related to effective factors on factors impacting on pricing decisions in industrial markets from semi-structured interview with accountants.

Table 1 Results of categorization and codification related to effective factors impacting on pricing decisions in industrial markets

Main factors	Sub-main factors	Primary codes	Examples of sentences of interviewees
Internal Factors	Organizational Factors	Pricing decisions occur on two levels in the organization. (1)	One of accountants' state that the actual mechanics of pricing are dealt with at lower levels in the firm and focus on individual product strategies. The other interviewee suggest that some combination of production and marketing specialists are involved in choosing the price.
	Marketing Mix	Marketing experts view price as only one of the many important elements of the marketing mix. A firm may use price reduction as a marketing technique. A high-prestige product line. (3)	One says that A shift in any one of the elements has an immediate effect on the other three—Production, Promotion and Distribution. The other believe that the effort will not succeed unless the price change is combined with a total marketing strategy that supports it.
	Product Differentiation	The price of the product also depends upon the characteristics of the product (1)	One of accountants state that customers pay more prices for the product which is of the new style, fashion, better package etc
	Cost of the Product	The most important factor is the cost of production. Realistic of price (2).	A interviewee believe that in deciding to market a product, a firm may try to decide what prices are realistic, considering current demand and competition in the market.
	Objectives of the Firm	value-oriented objectives, maximizing sales revenue, maximizing market share, maximizing customer volume, minimizing customer	The attitude of an interviewee is that Pricing policy should be established only after proper considerations of the objectives of the firm

Main factors	Sub-main factors	Primary codes	Examples of sentences of interviewees
		volume, maintaining an image, maintaining stable price (7)	
	Explicability	The ability to justify the price it is charging, The ability to send cues to the customers about the high quality (2)	An accountant suggest that Consumer product companies have to send cues to the customers about the high quality and the superiority of the product.
External Factors	Demand	Demand is affected by factors like, number and size of competitors, the prospective buyers, their capacity and willingness to pay, their preference. if demand is elastic, the firm should not fix high prices (7).	An accountant: The market demand for a product or service obviously has a big impact on pricing such ad number and size of competitors which are taken into account while fixing the price. The other interviewee believe that A firm can determine the expected price in a few test-markets by trying different prices in different markets and comparing the results with a controlled market in which price is not altered.
	Competition	firm can fix the price equal to or lower than that of the competitors, based on the quality of product (2)	An interviewee: Competitive conditions affect the pricing decisions. An accountant: Competition is a crucial factor in price determination
	Suppliers	The price of a finished product is intimately linked up with the price of the raw materials. Scarcity of the raw materials also determines pricing. abundance of the raw materials also determines pricing (3)	One of the participants state that If the price of cotton goes up, the increase is passed on by suppliers to manufacturers. The other refer that hen a manufacturer appears to be making large profits on a particular product, suppliers will attempt to make profits by charging more for their supplies

Main factors	Sub-main factors	Primary codes	Examples of sentences of interviewees
	Economic Conditions	The inflationary or deflationary tendency affects pricing. In recession period, the prices are reduced to a sizeable extent to maintain the level of turnover. The prices are increased in boom period to cover the increasing cost of production and distribution (3).	An accountant: Prices can be boosted to protect profits against rising cost. The other accountant: Price protection systems can be developed to link the price on delivery to current costs. The other participant: Emphasis can be shifted from sales volume to profit margin and cost reduction etc.
	Product line pricing	A company extends its product line rather than reduce price of its existing brand (1)	An accountant: when a competitor launches a low price brand that threatens to eat into its market share. It launches a low price fighter brand to compete with low price competitor brands.
	Negotiating margins	A customer may expect its supplier to reduce price (1)	A participant refer that in such situations the price that the customer pays is different from the list price. Such discounts are pervasive in business markets, and take the form of order-size discounts, competitive discounts, fast payment discounts, annual volume bonus and promotions allowance.
	Buyers	The various consumers and businesses have different impact. Their nature and behaviour for the purchase of a particular product, brand or service etc. affect pricing when their number is large (2)	An interviewee refer that The various consumers and businesses that buy a company's products or services may have an influence in the pricing decision.

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Main factors	Sub-main factors	Primary codes	Examples of sentences of interviewees
	Government	Enactment of legislation, inflationary trend, government keeps a close watch on pricing in the private sector (3)	A participant state that Price discretion is also affected by the price-control by the government through enactment of legislation, when it is thought proper to arrest the inflationary trend in prices of certain products. The other participant refer that The prices cannot be fixed higher, as government keeps a close watch on pricing in the private sector. The other participant believe that e marketers obviously can exercise substantial control over the internal factors, while they have little, if any, control over the external ones.
Price Sensitivity	Unique-Value Effect	Uniqueness of product (1)	A participant: Buyers are less price sensitive when the product is more unique
	Substitute-Awareness Effect	Aware of substitutes (2)	An interviewee: Buyers are less price sensitive they are less aware of substitutes
	Difficult-Comparison Effect	compare the quality of substitutes (1)	An accountant: Buyers are less price sensitive with they cannot easily compare the quality of substitutes.
	Total-Expenditure Effect	Income (1)	An interviewee: Buyers are less price sensitive the lower the expenditure is to their income
	End-Benefit Effect	the total cost of the end product (1)	An accountant: Buyers are less price sensitive the lower the expenditure is to the total cost of the end product
	Shared-Cost Effect	Borne of cost (1)	An accountant: Buyers are less price sensitive when part of the cost is borne by another parry.

Main factors	Sub-main factors	Primary codes	Examples of sentences of interviewees
	Sunk-Investment Effect	Price of assets previously bought (1)	An accountant: Buyers are less price sensitive when the product is used in conjunction with assets previously bought.
	Price-Quality Effect	Quality, prestige, exclusiveness (3)	An interviewee: Buyers are Jess price sensitive when the product is assumed to have more quality, prestige, or exclusiveness.
	Inventory Effect	Disability to store products (1)	An interviewee: Buyers are less price sensitive when they cannot store the product.

In table 1, main and sub-main components to determine factors impacting on pricing decisions in industrial markets. According to it, 3 main factors including internal factors, external factors and price sensitivity are identified according to interviewees' ideas, in which, internal factor has six sub-main factors including organizational factors, marketing mix, product differentiation, cost of the product, objectives of the firm and explicability. The external factor has eight sub-main factors including demand, competition, suppliers, economic conditions, product line pricing, negotiating margins, buyers and government and the price sensitivity has nine sub-main factors include unique-value effect, substitute-awareness effect, difficult-comparison effect, total-expenditure effect, end-benefit effect, shared-cost effect, sunk-investment effect, price-quality effect and inventory effect. Totally, 3 factors and 23 sub-main factors. In table 2, frequency of main and sub-main factors are provided.

Table 2 Descriptive statistic related to main and sub-main components

Main factors	Number of Sub-main factors	Number of Primary codes
Internal factors	6	16
External Factors	8	22
Price Sensitivity	9	12
Total=3	23	50

As table 2 shows, totally, 23 sub-main factors are identified in which 6 sub-main factors belong to internal factors, 8 sub-main factors belong to external factors and price sensitivity has 9 sub-main factors. In addition to, 16 primary codes belong to internal factors, 22 primary codes refer to external factors and 12 primary codes belong to price sensitivity. Totally, 3 main factors impacting on pricing decision in industrial markets, 23 sub-main factors impact on pricing decisions in industrial markets and 50 primary codes are identified that impact on pricing decision in industrial markets based on accountant perspectives.

Discussion and Conclusion

Price still remains one of the most important elements determining company market share and profitability. Generally, prices were set by buyers and sellers negotiating with each other. Setting one price for all buyers is a relatively modern idea. Price is the only element in the marketing mix that produces revenue. Price is also one of the most flexible elements of the marketing mix. At the same time, pricing and price competition are the number-one problems faced by many marketing executives. Yet many companies do not handle pricing well. The most common mistakes are these: Pricing is too cost oriented; price is not revised often enough to capitalize on market changes; price is set independent of the rest of the marketing mix rather than as an intrinsic element of market-positioning strategy; and price is not varied enough for different product items, market segments, and purchase occasions.

The main objective of this study was to consider the impacting factors on pricing decisions in industrial markets. According to participants perspectives, results showed that three factors including internal factors, external factors and price sensitivity are identified impacting on price decisions in industrial markets, in which, internal factors include organizational factors, marketing mix, product differentiation, cost of the product, objectives of the firm and explicability. Based on participants' perspective, external factors include demand, competition, suppliers, economic conditions, product line pricing, negotiating margins, buyers and government and the price sensitivity factor include unique-value effect, substitute-awareness effect, difficult-comparison effect, total-expenditure effect, end-benefit effect, shared-cost effect, sunk-investment effect, price-quality effect and inventory effect. We could explain that in literature the factors influencing pricing decisions in industrial markets are divided into internal and external factors on the basis of whether the management has control over the factors or not. If the management has control over the factors, it will come under internal factors, if not it will come under external factors. So the internal factors are within the control of the management and are particularly related to the internal environment of a firm (Jackson et.al, 2009).

Having a pricing objective isn't enough. A firm also has to look at a myriad of other factors before setting its prices. Those factors may include the offering's costs, the demand, the customers whose needs it is designed to meet, the external environment—such as the competition, the economy, and government regulations—and other aspects of the marketing mix, such as the nature of the offering, the current stage of its product life cycle, and its promotion and distribution. If a company plans to sell its products or services in international markets, research on the factors for each market must be analyzed before setting prices. Organizations must understand buyers, competitors, the economic conditions, and political regulations in other markets before they can compete successfully. Next we look at each of the factors and what they entail.

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