

Pricing Strategy – An analysis of Exporting Firms

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Abstract

Pricing strategies adopted by organisations affect their sales, profitability and growth. Therefore, it is a crucial decision which should be taken with utmost caution. The present study is an endeavor to look into the favoured pricing strategies by the exporters. The analysis has been carried out on aggregate basis, status-wise and industry-wise. All exporters category, status, non-status category as well as the two industries i.e. Food processing and Engineering show consistency in results that the sales generally depend upon their prices. Only Textile industry responded that it happens occasionally. Consistent results were obtained in different categories of analysis that they generally follow their competitor's price with the only exception of Food industry where majority of firms reported that they do so occasionally. Allowing special incentive promotional discount was not found to be a popular strategy with any of the categories. They adopt it only occasionally. The responses were almost evenly distributed over the three-point scale regarding the use of 'setting the price of various items to stimulate profitable combination sales' strategy. Majority of firms belonging to different categories were consistent in their approach regarding 'setting of prices according to the extent of competition' and reported that they generally do it.

Keywords: Export Pricing Strategy, International Trade, Promotion

Introduction

International market is a place where the firm has to face three level competition. One from the domestic counter-parts, the other from the local sellers/manufacturers of destination market and the third from other

manufacturers/sellers from other countries. There may be lot of difference in cost of production i.e. the floor price of different countries. On account of difference in cost of raw material, labour, power, technology, government subsidy/support etc. But the firms may not be in a position to charge desired profit margin due to keen competition. Therefore, it becomes imperative for them to adopt suitable pricing strategy consistent to market conditions.

Objective & Research Methodology

The present study has been undertaken with the objective to find out the type of pricing strategies followed by exporters. The sample units belong to Haryana state and comprised of three major exporting industries of the state i.e. Textile, Food Processing and Engineering & Others. A total of 76 exporting units have been included in the sample out of which 32 units are from Textile industry, 20 from Food processing and 24 from Engineering & Other industries. A structured questionnaire was presented before respondents personally to collect the data. Several libraries (CII, EEPC, APEDA, ITPO etc) of different promotion councils were visited in order to collect secondary data. The reference year for collection of data is 2014-15. Arithmetic mean, percentage and ranking methods have been used to analyse the data. Comparative analysis on the basis of industry and export status has been conducted. The unit awarded any special status by DGFT (Director General of Foreign Trade) e.g. Export house, Trading house etc have been termed as special status units and other units that do not have any of such status are referred as non-status units.

Review of Literature

Obadia (2013) states that setting appropriate export prices is crucial to a company's economic performance, but it is also highly demanding because of the complexity and wealth of influential factors. Iyer et al. (2015) state that pricing is a decision that needs to be continuously examined and frequently adjusted, consequently pricing calls for detailed information on the environment as well as information on the impacts of prices on the company's

marginal profits. According to Sousa and Bradley (2009), appropriate pricing strategies vary with currency exchange rates requiring companies to develop creative pricing strategies for different markets at different times. They argue that the level of similarity in the distribution infrastructure between the home and the export market affects positively the degree of price adaptation. According to Dolgui and Proth (2010), competitors' reactions depend on the size of the company, the production capacity, conjuncture and psychology of the managers. Argouslidis & Indounas, (2010) reported that more experienced exporters apply a wider variety of pricing methods. More experienced exporters compete more actively, their pricing practices become more sophisticated. Such exporters may take advantage of different demand and market conditions and adjust prices accordingly Narangajavana et al. (2014) state that even the company image has a major impact on the success and competitiveness of companies.

Export size and Prices

The Table-I shows that majority of respondent firms (all exporters) feel that the size of their exports is generally determined by the level of prices set by them. Whereas 56.58 per cent of all the firms hold it true generally 34.21 per cent of the firms perceive that it is only occasionally that their exports are by the price level. Only 9.21 per cent of the firms have reported that the size of their exports does not depend upon the level of prices. Therefore, it appears that the level of prices have a significant bearing on the size of the exports.

Status-wise analysis (Table-II) also reveals similar results. In both the categories (special status and non-status firms) a very small number of firms only (9.30 per cent special status and 9.09 per cent of non-status) hold the view that the size of exports does not depend upon the level of prices. 58.14 per cent of the special status and 54.54 per cent of the non-status firms have reported that their exports are generally related with the level of prices while 32.56 per cent and 36.37 per cent of special status and non-status firms respectively, think that it happens only occasionally.

TABLE - I**RESPONSES TO SELECTED QUESTION ITEMS CONCERNING PRICES (ALL EXPORTERS)**

Question Item	Generally	Occasionally	Never	Total	No. of Responses
Sales of our products depend primarily upon prices	56.58	34.21	9.21	100%	76
We follow prices charged by our competitors	46.05	28.95	25	100%	76
Special promotional discounts to importers help a lot in our sales	10.52	44.75	44.74	100%	76
We set the prices of various items to stimulate profitable combination sales	32.39	35.22	32.39	100%	71
Prices for each product items are set according to the extent to competition	64.48	23.68	11.84	100%	76

TABLE - II

RESPONSES TO SELECTED QUESTION ITEMS CONCERNING PRICES (STATUS-WISE)

Responses	Special Status				Non-Status			
	Generally	Occasionally	Never	Total	Generally	Occasionally	Never	Total
Sales of our products depend primarily upon prices	58.14	32.56	9.30	100%	54.54	36.37	9.09	100%
We follow prices charged by our competitors	44.18	32.56	23.26	100%	48.48	24.24	27.28	100%
Special promotional discounts to importers help a lot in our sales	9.30	44.19	46.51	100%	12.12	45.45	42.43	100%
We set the prices of various items to stimulate profitable combination sales	32.5	37.5	30	100%	34.48	27.59	37.93	100%
Prices for each product items are set according to the extent to competition	62.79	25.58	11.63	100%	66.67	21.21	12.12	100%

TABLE - III

RESPONSES TO SELECTED QUESTION ITEMS CONCERNING PRICES (INDUSTRY-WISE)

Question Item	Textile Industry			Food Processing Industry			Engineering Industry		
	Generally	Occasionally	Never	Generally	Occasionally	Never	Generally	Occasionally	Never
Sales of our products depend primarily upon prices	37.5	43.75	18.75	80	20	0	62.5	33.33	4.17
We follow prices charged by our competitors	46.87	18.75	34.38	35	50	15	54.17	25	20.83
Special promotional discounts to importers help a lot in our sales	6.25	46.875	46.87	0	50	50	25	37.5	37.5
We set the prices of various items to stimulate profitable combination sales	37.93	34.48	27.59	36.84	36.84	26.32	21.741	34.78	43.48
Prices for each product items are set according to the extent to competition	59.37	28.13	12.5	70	25	5	66.56	16.67	16.67

Industry-wise analysis (Table-III) presents interesting results. 80 per cent of the firms belonging to the food processing industry and 62.5 per cent of engineering industry have stated that their export size depends primarily upon prices. Among textile industry it is only 37.5 per cent of the firms which affirm the significant impact of prices on export size of firms. 20 per cent of food processing industry and 33.33 per cent of engineering industry hold this view that their exports are related with the level of prices only occasionally. While 43.75 per cent of textile firms held the same opinion. There are very few takers of the opinion that the size of exports does not bear any relation to price level. In case of food processing industry (0 per cent) and engineering industry (4.17 per cent). However, 18.75 per cent of textile firms believe that there is no effect of prices on export sales. Therefore, it appears that in comparison to the other two industries, the size of exports in textile industry is less influenced by prices.

Price Followership

Table-I highlights that as many as 75 per cent of all the export firms accept that they follow the prices charged by competitors. 46.05 per cent follow the competitor's prices generally while 28.95 per cent do so occasionally. Remaining 25 per cent have reported that they never follow the prices set by their competitors. Industry-wise data reveals that majority of non-followers come from the textile group 34.38 per cent of the textile firms have reported that they never follow the competitor's prices. 20.83 per cent of engineering industry and only 15 per cent of food processing industry expressed similar opinion. Overall, it suggests that at least a certain proportion of firms charge prices independently.

It is the engineering industry which comes into sharp focus with approximately 80 per cent of the firms following the prices charged by competitors, 54.17 per cent doing so generally and 25 per cent occasionally. However, food processing industry also has an impressive percentage of firms with regard to price followership. But out of total 55 per cent, only 35 per cent follow the prices of their competitors generally and 50 per cent do so only occasionally.

Status-wise analysis (Table-II) does not bring out any significant differences with regard to price followership. As many as 44.18 per cent of special status firms generally follow the prices of the competitors while 32.56 per cent do so occasionally. Out of non-status firms, 48.48 per cent follow the competitors prices generally and 24.24 per cent occasionally. 23.26 per cent of special status firms and 27.28 per cent of non-status firms never follow competitors prices.

Industry-Specific: Special Status

However, industry-specific status wise analysis brings out some significant differences. 100 per cent of engineering industry special status firms follow competitors prices whereas number of firms following competitors prices in case of textile and food processing industry is 44 per cent and 28.57 per cent respectively. 64.29 per cent of food processing industry special status firms follow the competitors prices occasionally whereas in case of textile industry it is only 20 per cent. None from engineering industry special status firms has reported to follow the competitors price occasionally. As many as 36 per cent of firms report that they never follow the competitors prices while only 7.14 per cent from food processing industry have expressed the same views. There is no special status firm from engineering industry to support the same views.

Industry Specific: Non-Status

As many as 33.33 per cent non-status firms of food processing industry, 28.57 per cent of textile industry and 25 per cent of engineering industry have expressed the views that they never follow the competitors prices. 30 per cent of engineering industry non status firms, 14.29 per cent of textile and 16.67 per cent of food processing industry do so occasionally. 57.14 per cent of textile industry, 50 per cent of food processing and 45 per cent of engineering industry non-status firms follow the competitors prices generally.

It maybe concluded that majority of special status firms i.e. 64.29 per cent belonging to food processing industry follow the competitors prices only occasionally while in case of engineering industry all of special status firms have been found to follow the

competitors prices generally. In case of textile industry, however, a smart 44 per cent of special status firms generally follow the prices set by their competitors but still there is adequate number of firms i.e., 36 per cent of special status firm who have reported that they never follow the competitors prices.

Special Promotional Discounts

Responses to the question item 'Special promotional discounts to importers help a lot in our sales' have been analysed for all exporters, industry wise, status wise and industry specific status wise.

A very small number of all exporters (10.52 per cent) have expressed the view that special promotional discounts influence the size of exports generally, and 44.74 per cent of all exporters feel that it so happens occasionally. A significant number (44.74 per cent) of exporters are of the opinion that special discounts do not influence the size of exports at all,

Analysis of status-wise data also bring out the similar results. No significant difference is highlighted on the basis of status (12.12 per cent) of non-status firms and 9.30 per cent special status firms believe that special promotional discounts help generate sales for them. But a majority of firms in both categories hold the opinion that the special discounts do not help in increasing the sales at all. However, occasionally special discounts may yield desired results.

Industry-wise analysis has not put forth any different results. Majority of the firms in all the three categories confirms the view that special promotional discounts either do not help in generating sales or if they do so, it is occasionally. However, in case of engineering industry, a sufficient number of firms (25 per cent) agree that special promotional discounts help generating higher sales.

Further industry specific status wise analysis also brings out interesting results. Out of engineering industry special status firms as many as 50 per cent firms feel that special promotional discounts help in generating sales generally while 25 per cent think that it so happens occasionally. Remaining 25 per cent firms think that promotional discounts

do not help increase the sales in any way. Out of non-status firms from the same sample group, as many as 80 per cent are of the opinion that either the special discounts do not help in increasing exports at all (40 per cent firms) or if they do, it is occasional (40 per cent firms). Except engineering not other sample group has shown such results. It seems 'special promotional discounts' is a popular strategy to boost the exports with special status firms of engineering industry. It may be concluded that special promotional discounts generally do not help in sales growth.

Subhash (1988) confirms our finding that generally special promotional discounts do not help in increasing export size.

Combination Pricing

The respondents are almost equally divided on the three scale type question on combination pricing. 32.39 per cent of the total firms have reported that they generally set the prices of various items to stimulate 'profitable combination sales.' 35.22 per cent of firms do so occasionally 32.39 per cent of firms report that they do not set prices with a view to promote profitable combination of sale.

Status wise analysis shows that a higher percentage (37.93 per cent) of non-status firms than Status firms (30 per cent) have expressed the view that they never use the combination pricing to stimulate sales. A lesser Percentage (27.59 per cent) of non-status firms than status firms (37.5 per cent) do so occasionally. Hence, it appears, use of combination pricing to stimulate sales is used by special status firms more frequently than non-status firms.

Industry-wise analysis reveals that combination pricing is least used by engineering industry. 43.48 per cent of this group never use combination pricing. While 34.78 per cent use it occasionally. Only 21.74 per cent use it generally (while the firms belonging to the other two industries have been found to use combination pricing with equal favour) 37.93 per cent of Textile industry and 36.84 per cent of food processing industry do so generally 36.84 per cent of food processing industry and 34.48 per cent of textile industry have been found to use it occasionally 27.59 per cent and 26.32 per

cent of textile and food processing industry have reported that they never use combination pricing.

Industry-specific status wise analysis reveals interesting observations. Combination pricing has been found popular with special status firms of food processing industry. 42.86 per cent of this industry use it generally and 35.71 per cent occasionally while none from the engineering industry special status firms has reported to use combination pricing generally, 50 per cent do so occasionally and 50 per cent have reported that they never use it.

In case of textile industry combination pricing has been found to be generally used by non status firms. 57.14 per cent of non-status firms of textile industry use it generally and 14.29 per cent of the same group used it never.

It may be concluded that combination pricing is not a popular technique to stimulate sales with engineering industry neither with special status nor with non-status firms. In case of food processing industry, it is special status firms which make most use of combination pricing as to stimulate sales while in case of textile industry it is the non status firms who have been found to use combination pricing to boost their exports.

Pricing the Product

Responses to the question item 'Prices for each product item are set according to the extent of competition' have been analysed. The results show that majority of firms take into consideration the prices charged by the competitors while setting the prices of their own products. 64.48 per cent of all exporters generally consider competitors prices while setting the prices of their products, while 23.68 per cent do so occasionally and 11.84 per cent have reported that they never fix the prices of their products on the basis of competitors prices. Results of status wise analysis are also in the same tune. No significant difference is found among the special the status and non status firms.

Industry wise analysis show that the price followership is very high in food processing industry where out of total 95 per cent firms, 70 per cent firms take into consideration competitors price generally while fixing the prices and 25 per cent do so occasionally.

Only 5 per cent have reported that they set the prices independently. 66.66 per cent of engineering industry and 59.37 per cent of textile industry follow competitors prices generally and 16.67 per cent of engineering industry and 28.13 per cent of textile industry do so occasionally. Only 12.5 per cent of textile industry and 16.67 per cent of engineering industry have reported that they never take into consideration competitors prices.

Industry specific status wise analysis also make an Interesting reading. In food processing industry it is non-status firms which mostly follow competitors price 100 per cent of non status firms have reported that they take into consideration competitors price, 83.33 per cent do so generally and 16.67 per cent occasionally. None of non-status firm ever fixed the prices independently. Majority of special status firms follow competitors price 64.29 per cent generally and 28.57 per cent occasionally.

In engineering industry, 85 per cent of non-status firms reported that the prices of competitors are taken into consideration while setting the prices, 65 per cent doing so generally and 20 per cent occasionally while 75 per cent of special status firms generally followed competitors prices and 25 per cent never followed competitors prices, in textile industry no significant difference was found between the two categories. 60 per cent special status firms and 57.14 per cent of non status firms generally followed the competitors prices. 28 per cent of special status and 28.57 per cent of non-status occasionally and 12 per cent and 14.29 per cent of special status and non status respectively never followed the competitors prices.

Findings & Research

All exporters category is found to suggest that the sales of their products ‘generally’ depend upon prices. Status-wise analysis also gives us same results. Industry-wise analysis shows that Food processing and Engineering industry too are of the opinion that the sales of their products depend ‘generally’ upon prices, however, percentage-wise the difference between the two industries is quite high. On the contrary, the Textile industry units think it is ‘occasionally’ that the sale of their product depends upon prices. Majority of ‘all exporters’ follow their competitors while pricing their

products. Status-wise analysis too follow the same suit. In industry-wise analysis, it is Textile and Engineering industry where majority of firms follow their competitors in pricing their products. While majority of Food processing industry say, they do it occasionally. Quite insignificant number of 'all exporters' category gave any special promotional discounts and out of remaining units almost 50% do it occasionally and 50% never give any promotional discounts, this was observed in status-wise analysis.

Industry-wise analysis also shows that 'special promotional discounts' is not favoured generally by majority firms in all the three industry-types, they adopt this measure occasionally. However, a significant percent number of exporting units of Engineering industry do allow special promotional discounts 'generally'. 'All exporters' and 'special status' firms analysis provides us that exporters opinion is almost equally divided between three scale options of 'generally', 'occasionally' and 'never' regarding the question item 'we set the prices of various items to stimulate profitable combination sale'. Lesser percent of non-status firms do it 'generally' or 'never'. Industry-wise analysis shows that most of the engineering units do not set the price to stimulate combination sale. In the other two industries, no significant difference is observed in percent number of Textile and Food processing industry units who do it 'generally' and 'occasionally'. Towards last question item 'prices for each product item is set according to the extent of competition' majority of exporters irrespective of their status admitted that they 'generally' do it. Industry-wise analysis also brings out the same results that majority of all the three types of industrial units set the prices according to the extent of competition, however, a significant difference in percent number (almost 11%) of Food processing and Textile industry was observed, latter being on the lesser side.

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