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Pricing myopia: do leading companies capture the full value of their pricing strategies?

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Abstract

Purpose – Many companies lack insights or fact-based support for the pricing decisions they make in an increasingly complex environment. In order to optimize their pricing process, managers need to identify key indicators that may influence the performance of their decisions. The purpose of this paper is to report an investigation of pricing determinants in large companies manufacturing capital goods in France. First a conceptual framework is proposed, in order to fill several gaps identified in the literature on pricing practices and more precisely by operating a distinction between environmental variables (determinants), decision making (pricing strategy and price and product-line structures) and its consequence in terms of price level.

Design/methodology/approach – The author conducted an empirical research on the determinants of the pricing process. This study consistedof a questionnaire survey addressed to pricing managers (or executives in charge of pricing) in 98 of the largest manufacturing companies in France about their new-product pricing decision-making process.

Findings – The author studies environmental determinants and their influence on the pricing and describes the structure of pricing determinants as a five dimensions construct: market-based, value-based, position-based, competition-based and production-based. The results show that firms rely on environmental determinants as indicators of their pricing flexibility. These indicators operate as pricing levers: a good position on these variables gives firms more pricing power. But in the vast majority of the cases, companies extensively relied on competitive conditions instead of taking advantage of a favorable position, described as pricing myopia.

Originality/value – This paper describes current pricing practices in leading companies with key informants (mainly pricing managers) highly involved in the pricing decision process, and contrasts two pricing orientations, pricing power vs pricing myopia.

Keywords Performance, Strategy, Pricing

Paper type Research paper

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Introduction

Traditional approaches for managing prices are inadequate in a complex environment: with thousands of pricing opportunities annually, the challenge of making the right decision every time is huge. The results are inevitable: pricing performance varies greatly among business units, channel conflicts lead to profit losses, etc. Companies frequently find themselves with poor pricing information, decentralized systems that do not capture key pricing data (Bright *et al.*, 2006). In fact, a large proportion of US manufacturers – almost 60 per cent according to Nagle *et al.* (2010) – still rely on oldfangled cost plus pricing schemes: changing pricing formulas is an inevitable

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foundation for profit improvement (Aeppel, 2007). Some firms have found a solution to deal with such complexity implementing sophisticated pricing optimisation softwares. We think that an interesting first step should be to use the information already available in a firms' environment in order to identify key variables influencing pricing strategic choices. Our first objective is therefore to propose a model that uses variables already available to pricing managers in order to identify pricing opportunities.

Most of the empirical studies since then have focused on identifying the objectives used by managers in pricing decisions (see Diamantopoulos, 1991, or more recently Ingenbleek, 2007, for excellent literature reviews). Recently, some authors made serious progress in overcoming the lack of empirical validations of theoretical pricing models, linking pricing strategies to the firm's environment, i.e. pricing determinants: among others Noble and Gruca's (1999) contribution based on Tellis' framework of pricing strategies, Ingenbleek *et al.*'s (2003) contingent approach, Forman and Hunt's (2005) study on international pricing practices or practical pricing research such as Bang-Ning Hwang *et al.* (2011), Farres (2012), Gale and Swire (2012), Jobber and Shipley (2012), Johansson and Andersson (2012), Smith (2012), or Ingenbleek and van der Lans (2013).

Surprisingly, little empirical data are available on leading companies. Big businesses represent an interesting field of research as they have almost always been known for setting dominant patterns of business practices (Earley, 1956). Moreover, few authors have surveyed an emerging key informant regarding pricing decisions: the pricing manager.

The second objective of this study is therefore to provide a description of the way pricing decision makers rely on environmental determinants when making their pricing decisions. This is done with key informants in leading organizations in France.

Lastly, recent works have improved our knowledge of pricing viewed as a process, arguing that firms adopt complex configurations to leverage specific environmental conditions (Johansson and Andersson, 2012). A subsequent objective of the research is to provide a more realistic description of pricing practices that embrace the complexity of observed pricing decision making.

Theoretical framework and hypotheses

Based on exploratory personal interviews and an extensive literature review on pricing strategies and processes, we extended common representations of strategic pricing decision making by operating a distinction between environmental activities – determinants (see Appendix 1, Table AI) and a process-based approach of decision making (pricing strategy and price and product-line structures), as described in Figure 1.

A Pricing Strategy is a reasoned choice from a set of alternative prices (or price schedules) that aim at profit maximization within a planning period in response to a given scenario (Tellis, 1986, p. 147). Adapting Tellis' and Noble and Gruca's taxonomies to the French context, we identified a set of six major pricing strategies: skimming, penetration, opportunistic, leader, neutral and cost-plus. We excluded pricing strategies that were not adapted to the French market and were redundant with the two other decisions: the price and the product-line structure, as a way to distinguish the strategies from a more operational level, i.e. the structure.

The Price Structure (Dolan and Simon, 1996) is a decision of price customization that abounds in practice, also called nonlinear pricing, which usually involves a

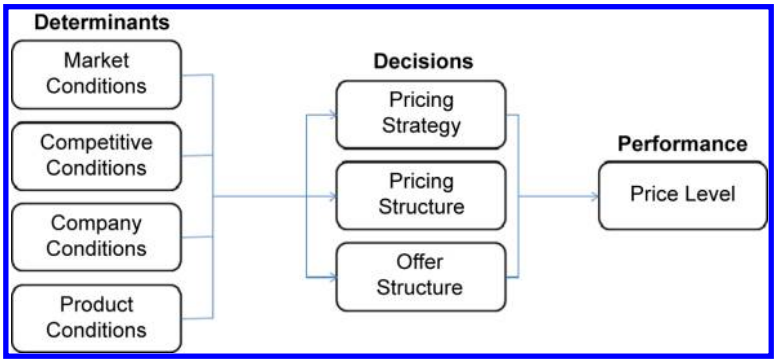


Figure 1.
Conceptual model

discount in the price with an increase in the number of units. We identified six different forms of price structure: Linear (uniform price), Two-Part tariff, Two-Block Tariff (Linear and Two-Part Tariff), Two-Block Tariff (2 Two-Part Tariff combined), Random Quantity Discount and Discrete.

The Offer Structure refers to a combination of offerings in order to take advantage of consumer surplus. Three forms can be identified: Normal, Bundling and Tie-In (Stremersch and Tellis, 2002).

Pricing performance

Instead of asking respondents to report the perceived performance of their strategic choices, we decided to measure it through the firm's capability to set a premium on the market (100 being the market price level) following the measure already present in Tellis' taxonomy (1986) and widely used by authors such as Ailawadi *et al.* (2003). The measure of the price level variable is also an interesting measure of pricing performance, as it follows the traditional economics distinction between price making and price taking. We expect "true" leading companies to capture the full value of their pricing decisions through their final price level on the market.

The next sections describe the main hypotheses of the research[1].

Influence of determinants on pricing strategy

The determinants represent the setting within which price decision making takes place (Diamantopoulos, 1991), in other words, the conditions under which a given strategy should be used (Noble and Gruca, 1999). We selected a set of determinants according to the literature on pricing practices. A distinction must be made between external and internal determinants. External determinants specify the market and competitive conditions that prevail in the choice of a pricing strategy and/or structure whereas internal determinants summarize the company and product related information which is under the control of the firm.

Market-related determinants allow us to define the attractiveness of pricing strategies under specific market conditions. Market size and market growth rate affect the choice of a specific price level, as well as price elasticity and price sensitivity. In inelastic segments for example, the optimal strategic choice is skimming (Schoell and Guiltinan, 1995) (see Table I).

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Hypothesis	Determinant	Decision	Rel.	Main reference
H1	Growth rate	Penetration	+	Diamantopoulos and Mathews, 1994
H2	Market size	Cost Plus	−	Greenbank, 1998
H3a	Elasticity	Skimming	−	Schoell and Guiltinan, 1995
H3b	Id.	Penetration	+	Noble and Gruca, 1999
H3c	Id.	Neutral	+	Id.
H4a	Sensitivity	Penetration	+	Simon *et al.*, 2000
H4b	Id.	Neutral	+	Id.
H5a	Demand estim.	Leader	+	Kotler and Armstrong, 2013
H5b	Id.	Cost Plus	−	Id.

Table I.
Hypotheses related to market conditions

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Competitive-related determinants are central in defining the success of a firm among competitors. The degree of price competition has a strong influence on a firm's pricing power. Differentiation also appears as the necessary condition for price discrimination (Simon, 1989, p. 223). The capability of a company to exploit in a flexible way the profit potentials of different market segments is also defined by the quality and the perceived value of a product offering (see Table II).

Company-related determinants represent the degree of flexibility or scope (as opposed to rigidity) in the definition of pricing strategies. Firm size represents a good indicator of the resources that can be invested in a product. Large companies often have the capability of supporting losses for a considerable time if the strategy achieves such goals as discouraging new competitors and squeezing marginal competitors from the market. The degree of capacity utilization should have a similar impact on some pricing strategies: a firm with low capacity utilization and high fixed costs would be more prone to adopt a volume-oriented pricing strategy. Experience and/or scale effects are control factors that contribute to a firm's flexibility in defining its final price level (see Table III).

Product-related determinants are a set of available information that represent the position of a product in a market, and define a firm's responses to changes in market and competitive conditions. The first indicator is market share, that allows firms to exploit a dominant position on the market: in high market-share contexts, Leader pricing will be preferred, and in low market-share contexts, companies will rely on Neutral pricing. The moment of introduction (age of the product) and the product life-cycle position refer also to a perceived position: a product early in its PLC generally

Hypothesis	Determinant	Decision	Rel.	Main reference
H6	Differentiation	Skimming	+	Noble, 1994
H7	Entry barriers	Skimming	+	Coe, 1988
H8	Market concentration	Id.	+	Id.
H9a	Price competition	Id.	+	Id.
H9b	Id.	Penetration	−	Id.
H10a	Price changes	Leader	+	Noble and Gruca, 1999
H10b	Id.	Opportunistic	−	Id.
H11	Price level	Neutral	+	Diamantopoulos and Mathews, 1994

Table II.
Hypotheses related to competitive conditions

Hypothesis	Determinant	Decision	Rel.	Main reference
H12	Comp. size	Cost plus	−	Simon, 1989
H13a	Prod capacity	Skimming	+	Noble and Gruca, 1999
H13b	Id.	Penetration	−	Id.
H13c	Id.	Leader	+	Id.
H13d	Id.	Neutral	+	Id.
H13e	Id.	Opportunistic	−	Id.
H14a	Fixed costs	Skimming	+	Diamantopoulos and Mathews, 1994
H14b	Id.	Penetration	−	Noble and Gruca, 1999
H14c	Id.	Leader	−	Id.
H14d	Id.	Neutral	+	Id.
H14e	Id.	Opportunistic	−	Id.
H15a	Exp./learning	Skimming	−	Id.
H15b	Id.	Penetration	+	Id.
H15c	Id.	Leader	+	Id.

Table III.
Hypotheses related to company conditions

will come as close to meeting the customer's needs as it ever will, and will probably have more differentiation from its competitors than at any other time (Noble, 1994). These indicators, along with the importance of variable cost in the final price act as thresholds in price setting (see Table IV).

Influence of determinants on pricing and offer structures

The Pricing Structure (Dolan and Simon, 1996) is a decision of price customization which usually involves a discount in the price with an increase in the number of units. We identified six different forms of price structure: Linear (uniform price), Two-Part tariff, Two-Block Tariff (Linear and Two-Part Tariff), Two-Block Tariff (2 Two-Part Tariff combined), Random Quantity Discount and Discrete. Wilson (1997) shows how different conditions influence the selection of a particular structure.

The Offer Structure refers to a combination of offerings in order to take advantage of consumer surplus and three forms have been identified: Normal, Bundling and Tie-In (Stremersch and Tellis, 2002) (see Table V).

Empirical study

An empirical study was carried out whose objective was to describe the structure of the pricing determinants in big business and their influence on pricing decisions as well as their consequence (e.g. price levels). A measure of pricing determinants was developed, based on the literature and on a pilot survey from a convenience sample of marketing

Hypothesis	Determinant	Decision	Rel.	Main reference
H16	Var. costs	Penetration	+	Simon *et al.*, 2000
H17a	Mkt share	Leader	+	Noble and Gruca, 1999
H17b	Id.	Neutral	−	Id.
H17c	Id.	Opportunistic	−	Id.
H18	Quality	Leader	+	Noble, 1994
H19	Value	Skimming	+	Simon *et al.*, 2000

Table IV.
Hypotheses related to product conditions

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Hypothesis	Determinant	Decision	Rel.	Main reference
H20	Fixed costs	Uniform	+	Wilson, 1997
H21a	Elasticity	Non-linear	+	Oren *et al.*, 1982
H21b	Growth rate	Non-linear	+	Braden and Oren, 1994
H21c	Exp./learning	Non-linear	+	Simon *et al.*, 2000
H22	Growth rate	Q. Discount	+	Diamantopoulos and Mathews, 1994
H23	Growth rate	Tie-in	+	Stremersch and Tellis, 2002
H24a	Prod. capacity	Bundling	+	Id.
H24b	Id.	Tie-in	+	Id.
H25	Compl. pdts	Id.	+	Id.
H26a	Elasticity	Bundling	+	Wilson, 1997
H26b	Mkt concentration	Normal	+	Id.
H26c	Comp. price	Id.	+	Id.

Table V.
Hypotheses related to pricing and offer structure

executives. We finally selected 23 determinants after having pre-tested the wording and meaning of the scales.

Data collection

The empirical study consisted in a questionnaire survey addressed between April-June 2007 to a selection of firms among the largest manufacturing companies in France. Following previous studies (Noble and Gruca, 1999; Ingenbleek *et al.*, 2003), and to avoid criticisms leveled at many empirical studies by Diamantopoulos (1991), we designed the questionnaire in order to focus on the most recent pricing decision for a single industrial capital good in which the respondent had been involved, rather than indicating an overall pricing strategy for all products or circumstances.

The identification of key respondents was a major challenge in this research as pricing traditionally spans functional and organizational boundaries. In this case, the traditional and dominant single-respondents designs are inadequate as capturing all the perspectives of the decision is central. Executives traditionally surveyed may have a good knowledge of some aspects, and often have an important role in pricing decision making, but the final decision is also often firm-specific.

Possible respondents (Directors of Marketing, Sales Managers, Product Managers and Pricing Managers, depending on who was in charge of pricing within the firm) were contacted by phone among a list of 588 industrial firms (from Expansion 1000, comprehensive French database on the largest companies in France) in order to request agreements to participate and contact information (e-mail appeared to be the preferred contact mode). Even if we checked price responsibilities before sending the surveys, respondents were asked to report their involvement in pricing or to forward the questionnaire to the person in charge of pricing in case they felt their involvement in the decision was too low.

After three reminders, a total of 98 valid questionnaires were returned, representing a response rate of 16,7 per cent. Given the size of the investigated companies, as well as the complexity and sensitivity of the survey and the data collection method, the sample size is satisfactory even if the rate is low (see Table VI).

As mentioned earlier, the sample consisted of large companies located in France, with an average firm size of a €1,457 million in annual sales. One important figure is

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that these companies operate with a dominant position characterized by a high market share in relatively concentrated markets (see Tables VII and VIII).

Respondents were selected according to their involvement in the pricing decision. On a five-point scale, the reported involvement was 3.95 (5 = high, 1 = low) which is satisfactory. The functions assumed by these managers were diverse as it is still difficult to clearly identify a person responsible for pricing in large companies in France. Respondents also reported who was in charge of the final decision. We observe that even if a pricing function is not necessarily created, pricing committees may play an important role in the final decision (21,4 per cent). And that in 52,1 per cent of the cases, top management is in charge of putting a final end to the process: pricing is still the territory of the big boss as Dean (1951) already stated almost 60 years ago ... (see Table IX).

Industry	Contacted	Returned (valid)	Response rate (%)
Aerospace/automotive	34	6	17,6
Food	88	14	15,9
Machine/Tools	123	22	17,9
Chemical/pharma	170	27	15,9
Electronic	86	14	16,3
Heavy industry	65	11	16,9
Textile	22	4	18,2
Total	588	98	16,7

Table VI. Response rate per industry

(%)	*n*	(%)	Cumulative %
Valid			
Less than 10	42	42,9	42,9
10-25	27	27,6	70,4
25-40	20	20,4	90,8
40-60	8	8,2	99,0
More than 60	1	1,0	100,0
Total	98	100,0	

Table VII. Market share of product considered

(%)	*n*	(%)	Cumulative %
Valid			
Less than 20	12	12,2	12,5
20-35	14	14,3	27,1
35-50	34	34,7	62,5
50-80	26	26,5	89,6
More than 80	10	10,2	100,0
Total	96	98,0	
Missing	2	2,0	
Total	98	100,0	

Table VIII. Market concentration (top four market share)

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Description of pricing strategies

We can identify within this research some differences with previous studies. Even if cost plus is still prevailing (ranked number 1, with 27,6 per cent), Leader or Skimming strategies seem to be more frequently reported than in previous surveys. One explanation may be the dominating position of surveyed companies in their markets. On the other hand, an extensive use of the Neutral strategy confirms our exploratory analysis: competitors' prices are acting as a psychological threshold for the decision maker, which implies certain price rigidity and creates a dissuading factor for using more sophisticated price structures (see Table X).

Regarding pricing structures, the vast majority of surveyed companies are not "pushing" the non-linear pricing button and single pricing, i.e. a constant price per unit, seems to be the rule, paired in some of the cases with random quantity discount: if a certain quantity is exceeded, a lower price applies to all units. Non-linear pricing is used by only 12, 3 per cent of the firms.

Resp. function	Freq	(%)	Reported final decision	Freq	(%)
CEO	1	1,0	Sales VP	3	3,1
Marketing VP	37	37,8	Marketing VP	23	23,5
Sales VP	11	11,2	Dir Bus Unit	4	4,1
Pricing manager[a]	14	14,3	CEO	27	27,6
Marketing manager	15	15,3	Board	20	20,4
Product manager	20	20,4	Pricing committee	21	21,4
Total	98	100,0	Total	98	100,0

Table IX.
Respondents and final decision

Note: [a]We observed that the pricing function is becoming centralized in some companies. Our respondents had different titles ("Global Pricing Director", "Pricing Manager", "Pricing Strategist", etc. and we therefore use "Pricing manager" as a convention

	Freq	(%)	Rank
Pricing strategy			
Skimming	12	12,2	4
Penetration	12	12,2	4
Opportunistic	8	8,2	6
Leader	15	15,3	3
Neutral	24	24,5	2
Cost plus	27	27,6	1
Total	98	100	–
Pricing structure			
Single	66	67,3	1
Linear	2	2	6
Two-part tariff	5	5,1	3
Two-block tariff	4	4,1	4
Random quantity discount	18	18,4	2
Discrete	3	3,1	5
Total	98	100	

Table X.
Pricing strategies and structures

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Model estimation

Our model aims to test the relationship between determinants and the pricing decision-making process (strategy and pricing/offer structures). More precisely, model estimation consisted in three main stages: relationships between determinants and pricing strategies and between determinants and price and offer structures. These three models were estimated through multinomial logit models. In addition, we tested the impact on price levels as a measure of pricing performance through linear regressions.

The multinomial logit model was preferred over discriminant analysis because of its robustness regarding the data and the sample size, and because of the discrete dependant variable that we used for strategies and structures. The multinomial logit model computes the probability of choosing an alternative as a function of the attributes of all alternatives available. The model in this sense has the appeal of being stochastic and yet admitting decision variables (Guadagni and Little, 1983).

Hair *et al.* (2006) present the multinomial logit model as an extension of the logistic regression, where the choice is made among more than two alternatives. As a choice model, the multinomial logit model can be presented as follows:

$$V_j = \bar{V}_j + \varepsilon_j \tag{1}$$

where $\bar{V}_j$ is the deterministic component of *i*'s utility to be calculated from observed variables, and ε_j the random component of *i*'s utility, varying from choice to choice, possibly as a result of unobserved variables.

Confronted by the set of alternatives, individual *i*, chooses the one with highest utility. Hence, the probability of choosing *k* is:

$$P(Y_j = i) = \frac{\exp(x_{ji}\beta)}{\sum_{k=1}^{n} \exp(x_{jk}\beta)} \tag{2}$$

Interpretation is more complex than with logistic regression as the estimated parameters have to be compared to a reference category (i.e. "skimming preferred against cost-plus"). The possible implications on cross-effects across categories have to be carefully addressed: the independence of irrelevant alternatives (IIA), which has been tested with the two different approaches usually recommended in the literature (Hausman and Small-Hsiao). Surprisingly, IIA has been rejected by the Hausman test, and accepted by the Small-Hsiao test. Such contradiction is quite frequent, and in such a case, a multinomial probit is recommended, although much more complex to analyse with more than three alternatives. This led us to maintain the choice of the multinomial logit.

Influence on pricing strategies. In order to test the theoretical framework proposed, we analysed with multinomial logit models all the possible combinations of choice, i.e. 690 combinations (23 determinants × six strategies × five reference categories. To ease the interpretation of results, we only present the results relative to the hypotheses tested, although multiple other interactions were actually measured in this analysis stage (see Table XI).

Our results show that there is no significant relationship between the market-related determinants and the choice of a specific pricing strategy. Many reasons can be identified to explain this result, such as the temporal and geographical differences between the literature used to build the theoretical framework and the present survey,

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Hyp.	Determinant	Decision		β (sign.)	Reference	Valid
Market conditions						
H1	Growth rate	Penetration	+	NS	...	Rejected
H2	Market size	Costplus	−	NS	...	Rejected
H3a	Elasticity	Skimming	−	NS	...	Rejected
H3b	Id.	Penetration	+	NS	...	Rejected
H3c	Id.	Neutral	+	NS	...	Rejected
H4a	Sensitivity	Penetration	+	NS	...	Rejected
H4b	Id.	Neutral	+	NS	...	Rejected
H5a	Demand det.	Leader	+	NS	...	Rejected
H5b	Id.	Costplus	−	NS	...	Rejected
Competition conditions						
H6	Differentiation	Skimming	+	0,993 (0,056)*	CP	Supported
H7	Entry barriers	Skimming	+	−2,083 (0,011)**	P	Rejected
				−1,209 (0,029)**	CP	
H8	Market concentration	Id.	+	NS	...	Rejected
H9a	Price competition	Id.	+	1,418 (0,071)*	P	Supported
				1,959 (0,034)**	O	
				1,283 (0,049)**	N	
H9b	Id.	Penetration	−	−1,418 (0,071)*	S	Supported
				−1,473 (0,055)*	L	
				−1,699 (0,014)**	CP	
H10a	Price changes	Leader	+	2,094 (0,010)**	P	Supported
H10b	Id.	Opportunistic	−	NS	...	Rejected
H11	Comp. price levels	Neutral	+	−1,933 (0,002)**	S	Partially
				2,275 (0,021)**	P	supported
				3,488 (0,004)**	O	
				−2,480 (0,002)**	L	
				−2,462 (0,001)**	CP	
Company conditions						
H12	Company size	Costplus	−	−0,553 (0,052)*	L	Supported
H13a	Prod. capacity	Skimming	+	NS	...	Rejected
H13b	Id.	Penetration	-	−1,030 (0,038)**	L	Supported
H13c	Id.	Leader	+	1,030 (0,038)**	P	Supported
				1,093 (0,047)**	O	
				0,720 (0,072)*	N	
				0,774 (0,056)*	CP	
H13d	Id.	Neutral	+	−0,720 (0,072)*	L	Rejected
H13e	Id.	Opportunistic	−	−1,093 (0,047)**	L	Supported
H14a	Fixed costs	Skimming	+	−1,514 (0,031)**	O	Rejected
H14b	Id.	Penetration	−	0,934 (0,060)*	CP	Rejected
H14c	Id.	Leader	−	0,804 (0,075)*	CP	Rejected
H14d	Id.	Neutral	+	−1,456 (0,022)**	O	Rejected
H14e	Id.	Opportunistic	−	1,514 (0,031)**	S	Rejected
H15a	Exp./learning effects	Skimming	−	NS	...	Rejected
H15b	Id.	Penetration	+	NS	...	Rejected
H15c	Id.	Leader	+	NS	...	Rejected
Product conditions						
H16	Variable costs	Penetration	+	NS	...	Rejected
H17a	Market share	Leader	+	NS	...	Rejected
H17b	Id.	Neutral	−	−2,316 (0,007)**	O	Supported
				−0,703 (0,075)*	CP	
H17c	Id.	Opportunistic	−	NS	...	Rejected
H18	Quality	Leader	+	NS	...	Rejected
H19	Value	Skimming	+	4,354 (0,003)**	O	Supported

Table XI.
Results pricing strategies

Notes: *Sig $<$0,01 **sig $<$0,05 *** sig$<$0,001. S: Skimming; P: Penetration; O: Opportunistic; N: Neutral; L: Leader; CP: Costplus

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in particular the growing pressure on price in a vast majority of industries in France. Another possible explanation lies in the fact that industrial companies in France are likely to be at a lower pricing maturity level than in North America, and therefore rely more on internal than external factors (Hunt, 2005).

Paradoxically, these large companies tend to choose skimming in situations of high competitive intensity. More precisely, they decide to skim the profits to be made on their markets when they can easily detect their competitors' price changes and above all when they deliver a superior value. In a similar environment, and when market share is high, decision makers tend to select an opportunistic strategy.

The existence of entry barriers is positively related to the choice of a penetration strategy. When these companies identify an advantage in terms of fixed costs over their competitors, they use penetration to maximize short term volume and market share[2]. Such a volume-oriented strategy is particularly efficient for recent products that account for high share of wallet. In such a case, managers select penetration over opportunistic pricing, as opportunistic low final price is more driven by competitors' price levels than volume objectives.

Opportunistic pricing is mainly driven by a favourable position in terms of fixed costs over competition, which plays a positive role in reducing the risk of over-discounting, or eventually starting a price war. One of the key motives is also price image, and the intention to influence a favourable price perception from purchasing managers.

Leader strategy was adopted mainly in large companies with a fixed cost advantage relative to competitors. These companies were also characterized by excess production capacity. This result is particularly interesting when put in perspective with the final prices realized by these companies (as discussed next), and in the context of the raw material cost increase observed at the time of the data collection period.

We observed that companies tend to use a neutral strategy in a context of easy identification of competitors' price changes, which would advocate in favour of price alignment. The results explaining the context of the neutral strategy do not allow a clear answer to the question of choice: is neutral a real strategy, or "non-decision"? We will discuss later the difference between strategic intent and realization.

Last, a large amount of literature discusses the determinants of a cost-plus strategy, and pinpoints its dominant aspect in pricing decision making as mainly explained by internal factors. Our results show that the decision to adopt a cost-plus strategy is explained by the existence of entry barriers and the ease of detecting competitors' price changes. In other words, external indicators that reinforce the feeling of being preserved from a possible threat and allow these companies to capture a "fair" profit (Oxenfeldt, 1951).

Influence on pricing and offer structures. We now examine the determinants of the adoption of pricing and offer structures and discuss the results of the multinomial logit models (see Table XII).

Pricing structure is often presented in textbooks as a technique allowing price customization. The literature on pricing structure suggests elasticity and market growth rate explain adoption on such approaches, which was only partially supported in our study. This is probably due to the fact that few of the firms surveyed seemed to adopt such price schemes despite important profit implications. The reason is that pricing structure decisions are considerably complex and require more information than decisions on uniform prices. In general, such methods, highly effective, are rapidly

Hyp.	Determinant	Decision		β (sign.)	Reference	Valid
Pricing structure						
H20	Fixed costs	Uniform	+	0,875 (0,057) *	NL	Supported
H21a	Elasticity	Non linear	+	NS	...	Rejected
H21b	Growth rate	Non linear	+	0,786 (0,082) *	F	Partially
				− 2,027 (0,001) **	D	Supported
H21c	Exp. effects	Non linear	+	− 0,982 (0,013) **	F	Rejected
H22	Growth rate	Discount	+	1,045 (0,039) **	F	Supported
				2,027 (0,001) **	NL	
Offer structure						
H23	Growth rate	Tie-in	+	0,842 (0,084) *	B	Supported
H24a	Production cap.	Bundling	+	0481 (0,078) *	N	Supported
H24b	Id.	Tie-in	+	0,675 (0,071) *	N	Supported
H25	Profit Compl. Pdts	Tie-in	+	0,949 (0,013) **	N	Supported
H26a	Elasticity	Bundling	+	1,627 (0,027) **	L	Supported
H26b	Mkt concentration	Normal	+	0,555 (0,047) **	B	Supported
				0,604 (0,096) *	L	
H26c	Comp. price level	Normal	+	0,897 (0,083) *	L	Supported

Notes: * sig $<0,01$ ** sig $<0,05$

Table XII.
Results pricing and offer structure

"cloned" by competitors, explaining that market indicators played such an important role in this regard.

The offer structure refers to a decision frequently adopted. We differentiated bundling from tie-.in, which implies that the sales of a product are tied to a complementary product. Market growth rate and elasticity increase the likelihood to adopt bundling, while production capacity and profitability of complementary product increase the likelihood to adopt tie-in.

Influence on price levels. Another aspect to look at is pricing performance, and more precisely the ability to take advantage of a good position on environmental indicators through a specific premium level. Surprisingly, the companies surveyed do not really take full advantage of their leading position, charging an 8 per cent premium in the best configuration. Even low-value strategies (opportunistic pricing) seem to be glued to the market prices ... (see Table XIII).

We finally ran linear regressions ($R^2 = 0,451$) in order to check influences on final price levels. Two main indicators appeared to have a significant influence: product differentiation ($+1,848$, $p < 0,017$) and price elasticity ($-1,815$, $p < 0,026$). As expected, competitors' price levels showed significant results ($+4,898$, $p < 0,000$).

Strategy	Average price level
Skimming	106
Penetration	99
Opportunistic	97
Leader	108
Neutral	100
Cost Plus	104

Table XIII.
Results price level

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Discussion

We find that managers use quite simple procedures, or routines, to set their prices. More complex methods, such as non-linear pricing, or bundling, are not really used in practice. If traditional methods still prevail, like cost-plus for example, managers in big companies in France seem to rely heavily on neutral pricing, to match competitors' prices. We attribute this finding to potential price rigidity, i.e. the fear of taking the price leadership in a low market growth rate context, or of starting a price war.

Key pricing indicators and pricing power

One of the interesting aspects of the multinomial logit models is their fit with the decision process, as managers decide alone or in committee the adoption of a specific strategy among several alternatives. The model also reveals the contrast of this choice, function of a set of environmental factors that can be the same ones for different decisions. It appears in the results that these common determinants represent the conditions of specific strategic pricing orientations, which act as Key Pricing Indicators (see Table XIV for a representation of significant determinants for each pricing strategy per reference category). More clearly in this representation, competitive conditions play a pivotal role in strategic pricing orientations, pushing on the one hand to harvest the profit opportunities, and on the other hand, to increase the competitive pressure by cutting prices (see Table XIV).

As these key pricing indicators represent the conditions of specific strategic pricing orientations, we decided for discussion purposes to represent the relative position of the surveyed companies on these indicators. We then calculated a score based on the weight of each determinant (from the survey) and compared each firm's score to the average of the sample. We used this relative score as a proxy of each firm's pricing power, i.e. their relatively more favourable position on these key indicators. A high score on the "price competition" determinant for instance means that the firm reported a low degree of price competition, suggesting a favourable environmental condition and therefore a higher potential pricing power (see Table XV).

We extended this exploration by analyzing the correlation between pricing power and the reported price levels, which appeared to be significantly high (0,329/sign. 0,01).

Finally, a linear regression allowed us to analyse the relationship between the chosen strategies and the calculated pricing power. Three strategies seem to influence

	S	P	O	L	N	C
Comp. price levels	P, O, N	S, L, N, C	S, L, N	P, O, N	P, O *(L, C)*	P, O, N
Entry barriers	P, C	S, O, L, N		P, C		
Price compet.	P, O, N	S, L, C	S, L, C	P, O, N	S, L, C	P, O, N
Price changes		S, L, N, C				
Pdt differentiation		L, N	L	P, O, C	P, C	S, L, N
Fixed costs			S, N, C			P, O, L
Comp. size				P, N, C		
Prod. capacity				P, O, N, C		
Mrk share			S, P		O, C	*(O)*, N
Substitute			S, N			

Notes: S: Skimming; P: Penetration; O: Opportunistic; N: Neutral; L: Leader; C: Costplus

Table XIV.
Representation of key pricing indicators

Determinants	Weight (%)	Sample	Comp 1	Comp 2	...
Comp. price levels	20	3,21	2	2	...
Entry barriers	10	3,62	3	5	...
Price compet.	20	2,14	3	2	...
Price changes	5	2,92	2	3	...
Prod. differentiation	15	3,47	2	4	...
Fixed costs	5	3,1	3	3	...
Comp. size	5	2,73	1	1	...
Prod. capacity	5	3,59	2	5	...
Mrk share	10	1,97	2	1	...
Substitute	5	2,83	4	3	...
	100				
Pricing Power (/10)		5,8	4,8	5,5	...

Table XV.
Pricing power scoring approach

pricing power: opportunistic pricing and penetration decrease it significantly while leader pricing strategy increases it (0,478/sign. 0,05), as reported in Table XVI.

Our results show the capacity of a limited set of companies to fully take advantage of their pricing power, in other words to transform a favourable position on key pricing indicators by capturing value through a premium price. However, the vast majority of surveyed companies relied extensively on competitive factors when deciding on a specific pricing orientation, and aligned prices despite favourable environmental conditions. This observation is a form of nearsightedness, or pricing myopia, that we could describe following Levitt (1960) not as an unfavourable market context but rather as the failure of decision making, i.e. management.

Concluding remarks

Sequencing the pricing process into three main stages (strategy, structure, level) showed interesting results:

(1) The vast majority of determinants of pricing strategies are related to competition (price levels, relative quality, differentiation, cost advantage) showing that companies' strategic orientations regarding pricing in our study are defined mainly by their competitors and/or the market prices.

(2) When firms use more sophisticated techniques (nonlinear pricing, bundling) to capture additional value through their pricing decisions, their choices are driven by market/product dynamics such as market growth rate or elasticity. Interestingly, it appeared that non-linear pricing was mainly adopted in Electronics or Chemical industries, both innovation-driven.

	Non standard coef		Standard coefs		
	A	E.S	Bêta	T	Sig.
Constant	5,968	0,095	62,633	0,000	
Opportunistic	−1,256	0,284	−0,390	−4,424	0,000
Penetration	−0,818	0,238	−0,304	−3,435	0,001
Leader	0,478	0,217	0,195	2,202	0,030
Adjusted R^2	0,272				

Table XVI.
Pricing strategies and pricing power

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(3) Finally, the key drivers of price premium are differentiation and inelasticity, showing that firms tend to overestimate competitors' reactions when setting their pricing policies and should focus on basic indicators.

Our findings on the structure of determinants show that firms rely on environmental determinants as indicators of their pricing flexibility. While Noble and Gruca (1999) stressed the importance of cost plus pricing, used in combination with a second strategy, we argue that a vast majority of the firms that we surveyed do operate in a purely internal focus, characterized by the selection of a pricing decision according to information which is readily under the control of the firm. This distinction is quite similar to the distinction between secondary and primary data: internal determinants operate as indicators available to the firm while external determinants need to be collected (research), extracted (data mining, expert pricing systems), measured (analytics), etc.

These determinants operate as key pricing indicators: a good position on these variables gives firms more pricing power. Moreover, some of these variables can be easily collected as they are readily available in the vast majority of companies.

These results have implications for both theory and practice. For researchers, the conceptual framework that we are empirically testing facilitates an integration of separate constructs (normative insights vs descriptions), extends previous studies considering the structure of pricing determinants, and finally preserves the process nature of pricing decision making through a more realistic representation.

For managers, this approach should allow inter-firm comparisons. Pricing is always thought of as firm-specific. Reducing this complex process to a set of key sequences, and identifying contingencies that affect the choice of a particular decision or strategy is highly relevant for pricing managers.

Notes

1. Given the high number of causal relationships tested in the model, the description of hypotheses is kept at a simplified level, with main (seminal) reference quoted only. More details on the conceptual framework supporting each hypothesis is available on request.
2. Objectives were measured as control variables.

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(See Appendix overleaf.)

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Appendix 1

		Determinant	Reference
External	Market conditions	Market growth rate	(5) (11)
		Market size	(11)
		Elasticity ($\Delta P/\Delta Q$)	(11) (13)
		Price sensitivity	(5) (10)
		Ease of determining demand	(11)
	Competitive conditions	Product differentiation	(5) (11)
		Entry barriers	(4) (11)
		Market concentration	(5) (11)
		Price competition	(4) (5) (6) (7)
		Ease of detecting price changes	(2) (11)
		Competitor's price level	(5) (7)
Internal	Company conditions	Firm size (sales)	(5) (8) (11)
		Factor capacity utilization	(4) (11)
		Relative fixed costs	(5) (11)
		Experience/learning effects	(11) (12)
		Scale effects	(11)
	Product conditions	Variable costs	(7) (13)
		Product life cycle	(1) (8) (11)
		Market share	(11)
		Profitability of complementary product	(11)
		Presence of substitutes	(5)
		Relative quality	(7) (11)
		Perceived value	(3) (7) (9) (13)

Notes: (1) Bass and Bultez (1982); (2) Bayus (1992); (3) Buzzel and Gale (1987); (4) Coe (1988); (5) Diamantopoulos and Mathews (1994); (6) Griffith and Rust (1997); (7) Ingenbleek (2002); (8) Jobber and Hooley (1987); (9) Mesak and Clelland (1979); (10) Monroe *et al.* (1986); (11) Noble and Gruca (1999); (12) Robinson and Lakhani (1975); (13) Simon *et al.* (2000)

Table AI.
Determinant structure

Appendix 2

Strategy	Description
Skimming	The firm sets the initial price high and then systematically reduces it over time. Customers expect prices to eventually fall
Penetration	The firm sets the initial price low to accelerate product adoption
Opportunistic	The firm always strives to have the lowest price in the market
Leader	The firm initiates a price change and expects the other firms to follow
Neutral	The firm matches the price set by the overall market or the price leader
Cost-plus	The firm establishes the price of a product at a point that gives a specified percentage profit margin over the costs

Table AII.
Pricing strategies and structure

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	Description
Price structure	
Linear	The price per unit is constant
Two-part tariff	Fixed charge and additional marginal price per unit. The customer pays for the right to buy the goods at a fixed charge and then has to pay the marginal price for each unit actually bought
Two-block tariff (2 two-part combined)	Each of the two blocks has both a fixed and a variable price component. This form is typical for utilities
Two-block tariff (linear and two-part tariff)	The price per unit is charged up to a certain quantity, then the price per unit changes to a smaller number for all units
Random quantity discount	If a certain level is exceeded, the lower price applies to all units
Discrete	Prices are set for specific units, and in each case the pattern is nonlinear. Price changes for each additional unit
Product-line structure	
Normal	The product is sold alone
Bundling	Two products or more separate products are sold in a package at a discount, without any integration of the products
Tie-In	A separate product that is bundled with other separate products. Tie-ins are secondary products that are bundled with primary products

Table AIII.
Price and product-line structure

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