Available online at www.sciencedirect.com

SCIENCE DIRECT®

Industrial Marketing Management 34 (2005) 133–146

INDUSTRIAL MARKETING MANAGEMENT

Managing the influence of internal and external determinants on international industrial pricing strategies

Howard Forman[a,*], James M. Hunt[b,1]

[a]501 Matheson Hall, 32nd and Market Streets, LeBow College of Business Administration, Drexel University, Philadelphia, PA 19104, United States
[b]321 Speakman Hall, Fox School of Business and Management, Temple University, Philadelphia, PA 19122, United States

Accepted 31 July 2004

Abstract

In developing pricing strategies, managers typically take into account a wide array of factors, including those that are internal to the firm as well as those that are external to its operations. However, little attention has been paid to how managers consider these factors in combination and how such judgments affect their ultimate choice of pricing strategy. These questions are the focus of this study, particularly as they pertain to international pricing decisions. Drawing on key dimensions thought to influence the relative weights that pricing managers place on both internal and external factors, the study details how those relative weightings influence the ultimate strategies managers employ. Findings indicate that international experience, product technology, degree of internationalization, market share, and certain external factors influence weightings managers give to internal and external factors in the process of making international pricing decisions. Furthermore, these decision-making factors combine to affect the specific strategies pricing managers employ in determining international prices.

Keywords: International industrial pricing strategy; Product technology; Market share

1. Introduction

Because pricing decisions have a direct effect on revenue, they have always occupied a crucial place in strategic planning. Regardless of product or industry, a well-established price enables the firm to best capture the value embodied in a product and thereby establish a competitively advantageous position in the market. Pricing decisions, however, can be difficult, and often speculative, due to the uncertainties associated with today's dynamic environments (Kortge, Okonkwo, Burley, & Kortge 1994). Rapid changes in information systems, proliferation of product lines, and advances in technology are but a few of the elements marketers are confronted with in developing pricing strategies.

This level of difficulty is compounded further when managers attempt to develop pricing strategies in the international arena. By attempting to operate in multiple markets, international firms are confronted with an even more complex and dynamic set of environmental contingencies (Phatak, 1998; Sundaram & Black, 1992), all of which serve to magnify the problem of decision uncertainty for managers. However, little is known about how managers attempt to cope with such complexity in the formulation of pricing strategy. This gap in knowledge is not inconsequential. Failure to understand how environmental forces affect pricing decisions exposes decision-makers and their organizations to unnecessary levels risk. Research that sheds light on these factors and their effect on pricing strategy not only expands the body of knowledge about pricing decisions, but it also offers a more informed decision-making context to pricing managers.

* Corresponding author. Tel.: +1 215 895 1998; fax: +1 215 895 6975.
E-mail addresses: forman@drexel.edu (H. Forman), hunt@temple.edu (J.M. Hunt).
[1] Tel.: +1 215 204 1620.

0019-8501/$ - see front matter © 2004 Elsevier Inc. All rights reserved.
doi:10.1016/j.indmarman.2004.07.011

As with any strategic decision, pricing strategy can be influenced by two types of factors, internal and external factors. One internal factor that exerts considerable influence on pricing decisions is that of corporate cost (production and/or marketing). Cost (Monroe, 1990) is frequently used by decision-makers as a basis of pursuing objectives such as profit maximization or target return (Forman, 1998). Some corporate objectives, however, may have strategic rationales that do not necessarily involve specific return rates, making the use of internal cost factors less viable as a basis for implementing pricing strategies (Ghoshal & Moran, 1996; Phatak, 1998). Thus, internal factors other than cost may play a significant role in an organization's pricing strategy formulation—e.g., capacity utilization (Noble, 1995; Noble & Gruca, 1999) or market contribution rates (Forman, 1998).

That external market factors influence the determination of pricing strategies is well established in the economic literature (Diamantopoulos, 1994; Sawyer, 1981). Market-related dimensions such as consumers' sensitivity to price (Montgomery & Rossi, 1999) and their switching costs (Coe, 1990) as well as industry barriers to entry (Davies, 1991) and elements of distribution (Chhabra, 1996) all have an impact on the pricing strategy managers ultimately adopt. As such, those strategies will differ considerably from those based on internal factors such as cost (Monroe, 1990). The question addressed here is whether and to what degree each factor type (internal, external, or both) influences the selection of pricing strategy (Shapiro & Jackson, 1978). In doing so, we attempt to assess the determinants that guide managers' emphasis on those factor types, particularly the determinants that arise in the domain of international pricing.

Research on international pricing strategy is relatively limited (Javalgi, Cutler, Rao, & White, 1997). Although price is the only marketing mix factor that does not require a substantial investment (Rao 1984; Samiee, 1987), and it underpins a firm's revenues (Diamantopoulos & Mathews, 1995; Monroe & Della Bitta, 1978), production, distribution (Fitzpatrick, 1964), and profitability (Marshall, 1979), little has been done to explore its role in the international arena.

In attempting to address this issue, the research presented here is designed with two objectives in mind. First, the study empirically investigates the antecedents associated with internal and external decision-making factors that presumably underpin pricing decisions. Second, we attempt to examine the importance of those decision-making factors on the specific pricing strategies enacted by pricing managers.

Fig. 1 depicts antecedents to international pricing strategies where international experience, product technology, degree of internationalization, and market share as decision-making determinants are hypothesized to affect the relative weight that managers place on various internal and external factors in determining pricing strategy. We tested this framework in the context of industrial pricing and found moderate support, which implicates both internal and external decision-making factors as significant inputs to managers' pricing decisions.

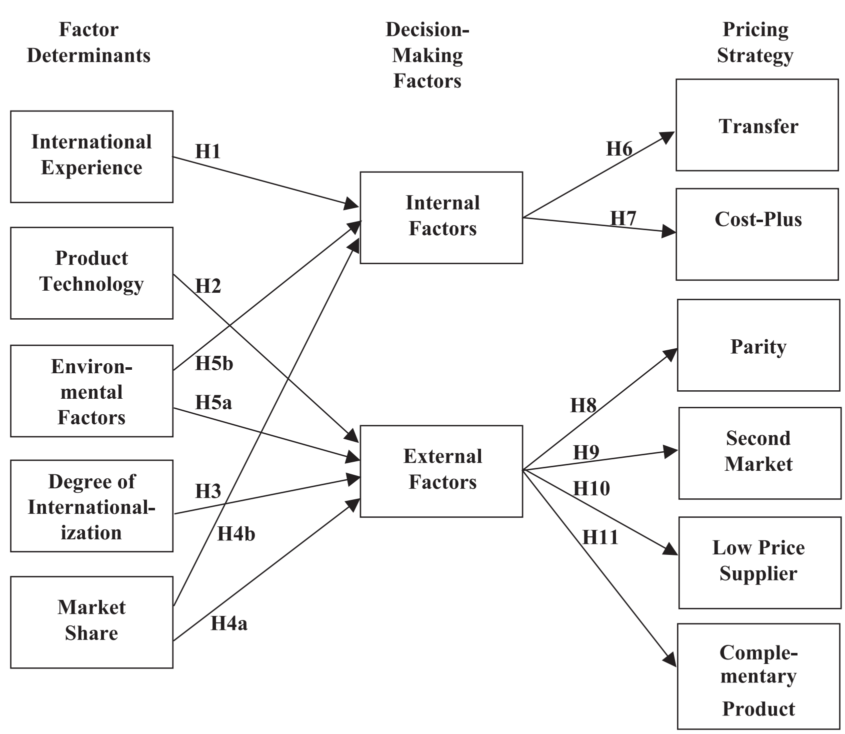

Fig. 1. Research model.