Industrial Marketing Management 47 (2015) 26–38

Contents lists available at ScienceDirect

Industrial Marketing Management

# Pricing superheroes: How a confident sales team can influence firm performance

Stephan M. Liozu *

*Case Western Reserve University, Weatherhead School of Management, United States*

ARTICLE INFO

*Article history:*
Received 30 July 2014
Received in revised form 16 December 2014
Accepted 26 December 2014
Available online 17 February 2015

*Keywords:*
Pricing capabilities
Firm performance
Collective confidence

ABSTRACT

Despite strong evidence of substantial impact on the bottom line, most companies counter-intuitively neglect the pricing function — as do most scholars. Although pricing is gaining in popularity, only a few articles published in major marketing journals focus on it, and scholars have long asked how organizational and behavioral characteristics of firms affect the link between pricing practices and firm performance. To address these practical and theoretical deficits, we surveyed 507 professionals involved in account and sales management at business-to-business (B2B) firms from around the world to measure the influence of five organizational factors on sales collective confidence associated with pricing and relative firm performance. Results demonstrate that four of the five factors (pricing capabilities, delegation of pricing authority, incentive and goal systems, and knowledge before negotiation) positively and significantly influence sales collective confidence associated with pricing. In turn, we find collective confidence in the sales force to be significantly and positively related to relative firm performance, suggesting that firms that are able to design organizations and allocate resources in a way that maximizes pricing confidence can achieve superior financial outcomes. In aggregate, these organizational factors promote competitive advantage and comparative firm performance.



## 1. Introduction

Numerous studies contend that pricing has a substantial and immediate effect on company profitability: small variations in price influence the bottom line by as much as 20% to 50% in both directions (Hinterhuber, 2004; Nagle & Holden, 2002). Pricing can have a significant impact on the profit performance of firms when managed with strategic intention (Liozu & Hinterhuber, 2013a).

But pricing is also a complex function for organizations to manage (Dolan & Simon, 1996; Lancioni, Schau, & Smith, 2005) and to operationalize, especially in the area of pricing execution when the sales force faces customers in the marketplace (Anderson, Kumar, & Narus, 2007). The publications related to the adoption of progressive pricing approaches by commercial teams point to difficulties in making customer value assessments (Hinterhuber, 2008a), to the complexity of value assessment tools available to the sales force (Anderson, Jain, & Chintagunta, 1993), to interdepartmental conflicts between sales, marketing, and finance (Lancioni et al., 2005), to the increased reluctance of purchasing managers to accept higher-priced offerings (Anderson, Wouters, & van Rossum, 2010), and to increased competitive intensity of markets (Ingenbleek, Debruyne, Frambach, & Verhallen, 2001) as impediments.

Historically, pricing has received little attention from either practitioners or marketing scholars (Hinterhuber, 2004, 2008a; Malhotra, 1996; Noble & Gruca, 1999). A review of 53 empirical pricing studies concluded that pricing literature is highly descriptive and fragmented and that theoretical understanding of firm pricing decisions is limited (Ingenbleek, 2007). While recent pricing papers have highlighted the topics of pricing delegation (Frenzen, Hansen, Krafft, Mantrala, & Schmidt, 2010), pricing championing by top executives (Liozu & Hinterhuber, 2013c) and the organization of the pricing function (Homburg, Jensen, & Hahn, 2012; Liozu & Ecker, 2012), the focus of B2B pricing-related literature has moved towards the concepts of value creation and value capture in B2B market (Aspara & Tikkanen, 2013; Simmons, Palmer, & Truong, 2013), as well as the pricing of service (Indounas, 2009; Indounas & Avlonitis, 2011; Toncar, Alon, & Misati, 2010). Specific pricing literature remains scarce (Leone, Robinson, Bragge, & Somervuori, 2012) and is still relatively silent about how organizational and behavioral characteristics of firms may affect pricing execution and pricing effectiveness of the sales force. More specifically, no study directly investigates the construct of collective confidence in pricing from a sales-force perspective or the relationship between sales-force collective confidence in pricing and firm performance. To address this deficit, and supported by the results of a qualitative inquiry with 44 managers in 15 B2B firms in the United States (Liozu, 2013), we surveyed 507 account and commercial management professionals and leaders involved in managing pricing activities for their B2B organization.

Our survey objectives are to

- examine the drivers of sales collective confidence for pricing and its impact on perceived firm performance.

* Tel.: +1 484 347 1458.
*E-mail address:* sliozu@case.edu.

http://dx.doi.org/10.1016/j.indmarman.2015.02.003
0019-8501/

- create a bridge between the fields of pricing and organizational behavior by linking three critical factors — pricing capabilities, knowledge prior to pricing negotiation, and collective confidence associated with pricing — to relative firm performance.
- highlight that the purposeful design of organizational programs to boost the pricing confidence of account management teams may have a strong and positive impact on perceived firm performance.

## 2. Theoretical background and hypotheses

The development of our theoretical model draws from related streams of literature: industrial pricing, the resource-based view (RBV) of the firm, and organizational theory, particularly the literature on social cognitive theory, organizational structure, and incentive and goal systems. Pricing is a multi-disciplinary function, and we position our research paper at the nexus of three critical concepts: B2B pricing, collective confidence of commercial teams, and firm performance. The selection of variables constituting our hypothesized research model is shown in Fig. 1, which was guided by a qualitative inquiry conducted in 2011 (Liozu, Boland, Hinterhuber, & Perelli, 2011), by our literature review, and our extensive commercial practical experience. The model hypothesized that five variables act as potential antecedents of the collective confidence of commercial teams with regard to pricing. In other words, these five dependent variables play a critical role in the development of the level of perceived confidence as a team to deploy and execute pricing programs and actions. Additionally, our model hypothesizes a positive and significant relationship between sales collective confidence and relative firm performance. Finally, we posit that these relationships will vary based on the primary pricing orientation adopted by their firms (cost, competition, or customer value). Controls are linked to the two independent variables to evaluate their effects on the overall model.

### 2.1. Capabilities and resource-based view of the firm

The RBV of the firm is a well established theoretical perspective in strategic management that explains the performance of organizations in terms of internal assets, resources, and capabilities. It explains and predicts why some firms are able to establish positions of sustainable competitive advantage leading to superior returns or economic rents, and it perceives the firm as a "unique bundle of resources and capabilities where the primary task of management is to maximize value" (Grant, 1996:110). Resources are generally rare, inimitable, and non-substitutable firm-specific assets that add value to firms' operations by enabling firms to implement strategies that improve efficiency and effectiveness (Barney, 1991). In contrast, capabilities refer to firms' abilities to perform a coordinated set of tasks, utilizing internal resources, to achieve desired outcomes (Helfat & Peteraf, 2003). Amit and Schoemaker (1993) split this general construct into two distinct concepts – resources and capabilities – defining the former as tradable and non-specific firm assets and the latter as non-tradable, firm-specific abilities to integrate, deploy, and utilize other resources within the firm. In this sense, resources are the inputs of production processes, whereas capabilities refer to the capacity to deploy resources using organization processes (Amit & Schoemaker, 1993). Capabilities are often developed in strategic, functional, and sub-functional areas by combining physical, human, and technological resources (Amit & Schoemaker, 1993). Although there is no predetermined functional relationship between a firm's resources and its capabilities (Grant, 1991), Makadok (2001) made a useful distinction: a resource is an observable but not necessarily tangible asset that can be independently valued and traded, whereas a capability is unobservable and hence necessarily intangible, cannot be independently valued, and changes hands only as part of its entire unit. Makadok (2001) further suggested that economic rents are created when firms are more effective than their rivals in selecting and deploying resources to build capabilities, and that resource-picking and capability-building are not necessarily independent but are complementary activities. The key characteristic of capability which separates it from resource is its organizational embeddedness, which suggests that capability cannot easily be bought from the external factor market, is embedded within the organization, and must be built or cultivated over time. Although resources by themselves can serve as a basic unit of analysis, firms build capabilities by assembling these resources into unique configurations, thereby transforming inputs

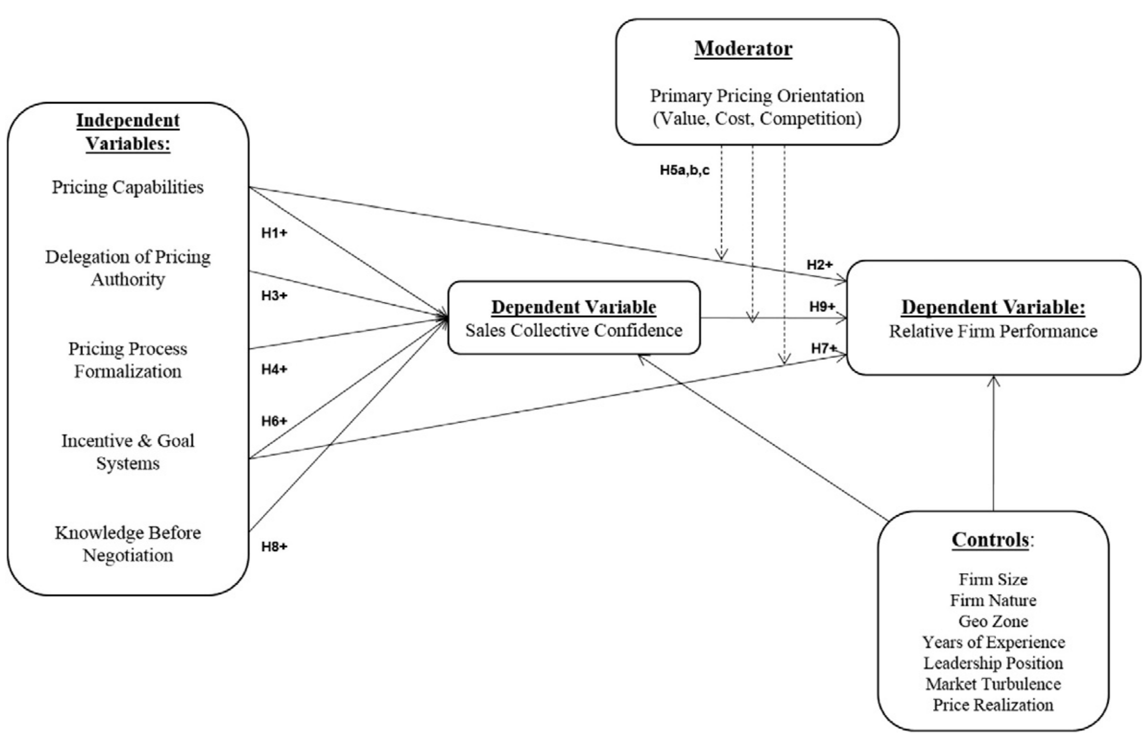


**Fig. 1.** Hypothesized research model.