



Marketing

Pricing strategies and levels and their impact on corporate profitability

Estratégias e níveis de preços e seus impactos sobre a lucratividade das empresas

Estrategias y niveles de precios y su impacto en la rentabilidad de las empresas

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Abstract

Price policy definition is one of the most important decisions in management as it affects corporate profitability and market competitiveness. Despite the importance that prices take in organizations, it appears that this element has not received proper attention by many academics and marketers since it represents, according to estimates, less than 2% of the papers on leading journals in the field. Thus, the aim of this study was to propose and test a theoretical model showing the impacts of pricing policy on corporate profitability. To this end, 150 companies in the metal-mechanic sector situated in the Northeast of Rio Grande do Sul State, Brazil were studied, integrating customer value-based pricing strategies, competition-based pricing strategies and cost-based pricing strategies with price levels (high and low) and performance with respect to profitability. The results indicate that the profitability of the surveyed companies is positively affected by value-based pricing strategy and high price levels while it is negatively affected by low price levels. Such findings indicate that pricing policies influence the profitability of organizations and therefore, a more strategic look at the pricing process may constitute one aspect that cannot be overlooked by managers.

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Keywords: Prices; Pricing; Pricing policy; Price strategies; Business performance

Resumo

A definição da política de preços é uma das mais importantes decisões no âmbito da gestão, pois afeta a lucratividade das empresas e sua competitividade no mercado. Apesar da importância que o preço assume nas organizações, parece que tal elemento não tem recebido a devida atenção de muitos acadêmicos e profissionais de marketing, por representar menos de 2% dos artigos das principais revistas da área, segundo estimativas. Desta forma, o objetivo deste estudo foi o de propor e testar um modelo teórico que indique os impactos da política de preços sobre a lucratividade das empresas. Para tanto, foram estudadas 150 empresas do polo metal-mecânico situadas na região Nordeste do Estado do Rio Grande do Sul, Brasil, integrando-se as estratégias de preços baseadas em valor para o cliente, na concorrência e em custos com os níveis (altos e baixos) de preços praticados e o seu desempenho no que se refere à lucratividade. Os resultados indicam que a lucratividade das empresas estudadas é afetada positivamente pela estratégia de preços baseada em valor e níveis altos de preço e negativamente pelos níveis baixos de preço. Tais achados sinalizam que as políticas de preços são impactantes na lucratividade das organizações e que, portanto, um olhar mais estratégico para o processo de formação de preços constitui um aspecto que não pode ser negligenciado pelos gestores.

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Palavras-chave: Preços; Precificação; Política de preços; Estratégias de preço; Desempenho das empresas

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Resumen

La definición de la política de precios es una de las decisiones más importantes en la gestión, ya que afecta a la rentabilidad de las empresas y su competitividad en el mercado. A pesar de la importancia que el precio tiene en las organizaciones, parece que este elemento no ha recibido la debida atención de muchos académicos y profesionales de marketing, dado que el tema aparece en menos del 2% de los artículos de las principales revistas del área, según estimaciones. El objetivo en este estudio es proponer y poner a prueba un modelo teórico que indique los impactos de la política de precios en la rentabilidad de las empresas. Para ello, se han estudiado 150 empresas del parque industrial metalmecánico ubicado en la región nordeste del estado de Rio Grande do Sul, Brasil, y se han integrado las estrategias de fijación de precios con base en el valor para el cliente, en la competencia y en los costos con los niveles de precios (altos y bajos) y su desempeño con respecto a la rentabilidad. Los resultados indican que la rentabilidad de las empresas es afectada positivamente por la estrategia de precios basada en el valor y niveles de precios altos, y negativamente por los niveles de precios bajos. Los hallazgos indican que las políticas de precios producen efectos en la rentabilidad de las organizaciones y que, por lo tanto, una mirada más estratégica al proceso de fijación de precios constituye un aspecto que los administradores no pueden dejar de tener en cuenta.

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Palabras clave: Precios; Fijación de precios; Política de precios; Estrategias de precios; Desempeño de las empresas

Introduction

Price is one of the most flexible elements of the marketing mix, which interferes directly and in a short term over the profitability and cost effectiveness of a company (Simon, Bilstein, & Luby, 2008). Despite the importance a price has on the performance of businesses, it seems that such element has not received the proper attention by many academics and marketing professionals (Avlonitis & Indounas, 2006). Typically, in marketing, the main focus is placed on the development of new products, distribution channels and communication strategies, and according to Lacioni (2005) this could lead to precipitated pricing decisions without properly evaluating market and cost factors. Thus, pricing is treated as the simplest strategy within marketing, perhaps because many companies determine their prices based on intuition and the manager’s market experience (Simon, 1992). In addition, only few managers strategically think about pricing while proactively administrating their prices in order to create favorable conditions that lead to profits (Nagle & Holden, 2003). Considering this, Liozu and Hinterhuber (2012) highlight the need for more research regarding the pricing preferences and practices because, according to the authors, less than 2% of all published articles in marketing journals are focused on pricing.

Strategic pricing requires a stronger relationship between marketing and the other sectors of a company. In order to enhance companies’ economic and financial performance, the pricing policies should be defined by their internal capacities and on the basic systematical understanding of needs and wishes of their customers, in addition to market conditions such as, economic conditions and degree of competition (Besanko, Dranove, Shanley, & Schaefer, 2012; De Toni and Mazzon, 2014). In this context, this study’s objective was to propose and test a theoretical model that indicates the impacts of pricing policies on company’s profit. On this regard, the theoretical assumptions consider as pricing policies the definitions that comprise the pricing strategies and the price levels used by companies in their respective markets.

In this study, the considered pricing strategies are based on Nagle and Holden (2003) studies, namely value-based, competition-based and cost-based pricing strategies; whereas the pricing levels are classified as high and low prices (Urdan & Osaku, 2005). Besides identifying the direct effects of these elements over profitability, this research also analyzed the impacts of moderating effects considering some independent variables on the business profitability (dependent variable).

It is important to mention that this study was performed on 150 metal-mechanic companies situated in the Northeast of Rio Grande do Sul State, Brazil, also call region of Serra Gaúcha, along with the people responsible for their companies’ pricing process. By using a hierarchical regression analysis, we were able to test the main model and the interaction models against our proposed hypothesis, which will be presented throughout this project.

Theoretical background

Pricing strategies

According to Monroe (2003), price decisions are one of the most important decisions of management because it affects profitability and the companies’ return along with their market competitiveness. Thus, the task of developing and defining prices is complex and challenging, because the managers involved in this process must understand how their customers perceive the prices, how to develop the perceived value, what are the intrinsic and relevant costs to comply with this necessity, as well as consider the pricing objectives of the company and their competitive position in the market (De Toni & Mazzon, 2013; De Toni and Mazzon, 2014; Hinterhuber & Liozu, 2014; Monroe, 2003).

In this way, Nagle and Hogan (2007) argue that companies which do not manage their prices lose control over them, impairing their profitability and cost effectiveness mainly due to the

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