

Uncertain Supply Chain Management

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An exploration investigation on important factors influencing pricing strategy for market share adjustment

Somayeh Hozouri*, Gholamreza Heidari Kord Zangeneh and Naser Azad

Department of Management, Islamic Azad University, South Tehran Branch, Tehran, Iran

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ABSTRACT

During the past few years, there have been growing competition among business owners and they mostly have no choice but to decrease their prices in an attempt to survive on the market. In some cases, suppliers offer goods and services for less than the cost of production to gain more market share. In this paper, we study different factors influencing pricing strategy in food industry. The proposed study designs a questionnaire in Likert scale consists of 36 questions, distributes it among 311 Iranian experts in food industry and analyzes it based on principal component analysis. Cronbach alpha is calculated as 0.86 and Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Approx. Chi-Square are 0.72 and 3614, respectively. Based on the results of our survey, we have derived seven factors including supply management, environmental factors, product management, distribution structure, standardization strategies, market leadership and market organization.

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1. Introduction

During the past few years, there has been growing interest on choosing the best pricing and marketing strategies (Azad & Hassanabadi, 2013a, 2013b). We have seen a growing increase on competition among business owners and they need to have competitive pricing strategies. Some choose penetrating strategies; the others try to use dumping strategies trying to gain more market share (Mainela & Ulkuniemi, 2012). There are literally various studies on detecting important factors influencing marketing planning and most of these techniques use multiple criteria decision making to handle various factors, which are mostly in conflict. In fact, when a person purchases products, he/she may consider the brand first since it associates the products with the quality, functions, and the design. Wang and Tzeng (2012) evaluated the customer's satisfaction of brand marketing by three electronic manufacturing firms in Taiwan based on factor analysis and reported that value pricing is the most important factor, followed by consumer's price perception. The webpage is often one of the most important factors that determine whether the browsers will stay or not.

* Corresponding author. Tel.: +98 912536-7924
E-mail addresses: saho84@rocketmail.com (S. Hozouri)

Tang (2011) categorized the major purchasing helper from most websites and further gathered the common principles of layout at e-commerce webpage; the layout of buying helper. The common principles actually provided position-oriented characteristics, which could offer necessary guidelines for planning e-commerce webpage. Li (2005) presented a Web-enabled hybrid method for strategic marketing planning where it combines the group Delphi technique with a Web-based expert system, called WebStra (developed by the author), to support some key factors of the strategic marketing planning process.

Li (2005) reported that the approach was effective and efficient in terms of overcoming time and geographical barriers, saving decision-making time, coupling analysis with human judgment, helping consumers improve decision-making quality. Li and Li (2010) investigated some linking Web-based decision aid methods for international marketing planning and exploring the value of such integration. Li et al. (2011) presented a Web-based hybrid knowledge automation system, called WebDigital for analyzing digital marketing strategies and reported that the Web-enabled knowledge automation system could be an efficient and effective method for improving the digital marketing strategy formulation process and its output.

Azad et al. (2014a) performed an empirical investigation to detect important factors influencing information and communication technology (ICT) implementation in Iranian banking industry. The survey applied factor analysis to find important factors and reported six factors influencing ICT including efficiency approach, new advanced technological achievements, human resource management, service strategy, growth strategy and supporting systems. Azad et al. (2014b) performed another empirical investigation to detect important factors affecting customer relationship management (CRM) in an ICT firm based on factor analysis. The survey detected six factors influencing CRM learning performance attributes, enterprise resource planning, perception attributes, structure oriented, perception image and organizational resources.

2. The proposed study

In this paper, we study different factors influencing pricing strategy in food industry. The proposed study designs a questionnaire in Likert scale consists of 36 questions, distributes it among 311 Iranian experts in food industry and analyzes it based on principal component analysis. Cronbach alpha is calculated as 0.86 and Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Approx. Chi-Square are 0.72 and 3614, respectively. Fig. 1 demonstrates the results of Scree plot. As we can observe from the results of Fig. 1, there are 11 factors, which could be extracted for further studies. Table 2 demonstrates the results of factor analysis on these factors.

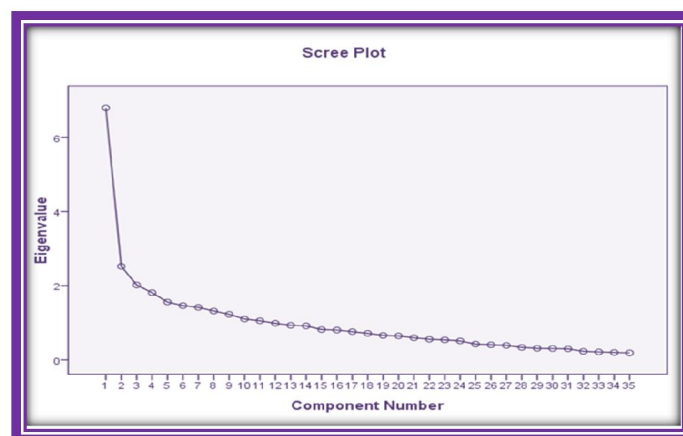


Fig. 1. The summary of Scree plot

Table 1
The summary of principal component analysis after rotation

	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.796	19.418	19.418	6.796	19.418	19.418	2.575	7.356	7.356
2	2.521	7.204	26.622	2.521	7.204	26.622	2.244	6.411	13.768
3	2.019	5.770	32.392	2.019	5.770	32.392	2.189	6.253	20.021
4	1.810	5.172	37.563	1.810	5.172	37.563	2.185	6.243	26.263
5	1.559	4.455	42.018	1.559	4.455	42.018	2.080	5.942	32.205
6	1.462	4.177	46.195	1.462	4.177	46.195	1.990	5.686	37.891
7	1.416	4.045	50.241	1.416	4.045	50.241	1.967	5.621	43.512
8	1.317	3.763	54.003	1.317	3.763	54.003	1.904	5.440	48.952
9	1.227	3.506	57.509	1.227	3.506	57.509	1.776	5.075	54.027
10	1.101	3.147	60.656	1.101	3.147	60.656	1.729	4.940	58.967
11	1.053	3.009	63.665	1.053	3.009	63.665	1.644	4.698	63.665
12	.985	2.815	66.480						
13	.931	2.659	69.139						
14	.916	2.619	71.758						
15	.816	2.331	74.089						
16	.803	2.294	76.383						
17	.759	2.170	78.553						
18	.714	2.039	80.592						
19	.658	1.880	82.473						
20	.646	1.847	84.320						
21	.595	1.701	86.021						
22	.556	1.588	87.608						
23	.538	1.536	89.145						
24	.509	1.456	90.600						
25	.425	1.215	91.815						
26	.405	1.158	92.973						
27	.389	1.112	94.085						
28	.336	.959	95.043						
29	.310	.886	95.929						
30	.305	.872	96.802						
31	.295	.843	97.644						
32	.229	.655	98.299						
33	.212	.605	98.904						
34	.197	.563	99.467						
35	.186	.533	100.000						

Based on the results of our survey, we have derived seven factors including supply management, environmental factors, product management, distribution structure, standardization strategies, market leadership and market organization. Next, we present details of our findings on testing the impact of various factors.

3. The results

In this section, we present details of our findings on seven influencing factors.

3.1. The first factor: Environmental factors

The first factor is associated with environmental factors. Table 2 demonstrates details of our study. As we can observe from the results of Table 2, “Investment in monopoly market in short term” is number one priority followed by “Market recession”, “Amount of media advertisement”, “Market activity with high level of political risk”, “Currency fluctuation” and “Rules and regulations”.

Table 2

The summary of factors associated with environmental factors

Option	Factor weight	P-Value	Results
Investment in monopoly market in short term	0.51	<0.001	Confirmed
Market recession	0.50	<0.001	Confirmed
Amount of media advertisement	0.041	<0.001	Confirmed
Market activity with high level of political risk	0.36	<0.001	Confirmed
Currency fluctuation	0.33	<0.001	Confirmed
Rules and regulations	0.32	<0.001	Confirmed

3.2. The second factor: Product management

Product management is the second important issues and they include four factors, which are summarized in Table 3 as follows,

Table 3

The summary of factors associated with product management

Option	Factor weight	P-Value	Results
The level of technology used in products	0.58	<0.001	Confirmed
Customer's needs	0.38	<0.001	Confirmed
Innovation in products and services	0.32	<0.001	Confirmed
Focus on related products	0.36	<0.001	Confirmed

As we can observe from the results of Table 3, all four factors of “The level of technology used in products”, “Customer's needs”, “Focus on related products” and “Innovation in products and services” are having positive effect on pricing strategy.

3.3. The third factor: Distribution management

Distribution management is the third important issues and they include five factors, which are summarized in Table 4 as follows,

Table 4

The summary of factors associated with distribution management

Option	Factor weight	P-Value	Results
The conditions for negotiation	0.58	<0.001	Confirmed
Competition among retailers	0.36	<0.001	Confirmed
Demand for national brand	0.34	<0.001	Confirmed
Offering products based on different cultures	0.57	<0.001	Confirmed
Offering product through internet	-	<0.074	Not confirmed

According to the results of Table 4, “The conditions for negotiation” is number one priority followed by “Offering product through internet”, “Competition among retailers” and “Demand for national brand”.

3.4. The fourth factor: Standardization strategy

Standardization strategy is the fourth important issues and they include three factors, presented in Table 5 as follows,

Table 5

The summary of factors associated with standardization strategy

Option	Factor weight	P-Value	Results
Dynamics of market	0.56	<0.001	Confirmed
Offering better services with no price change	0.40	<0.001	Confirmed
Applying necessary standards on products and services	0.30	<0.001	Confirmed

According to the results of Table 5, “Dynamics of market” is number one priority followed by “Offering better services with no price change ” and “Applying necessary standards on products and services”.

3.5. The fifth factor: Distribution structure

The structure of distribution channels is another factor with three sub-components, presented in Table 6 as follows,

Table 6

The summary of factors associated with distribution structure

Option	Factor weight	P-Value	Results
Life cycle of product	-	0.10	Not Confirmed
Product replacement	-	0.887	Not Confirmed
Speculation is raw materials	-	0.061	Not Confirmed

According to the results of Table 6, none of three factors is statistically significance and we can conclude that distribution structure has no impact on pricing strategy.

3.6. The sixth factor: Market leadership

Market leadership is the other factor with three sub-components, presented in Table 7 as follows,

Table 7

The summary of factors associated with market leadership

Option	Factor weight	P-Value	Results
Leadership in present market share	0.60	<0.001	Confirmed
Paid wages	0.50	<0.001	Confirmed
Leadership in price on the market	0.24	<0.001	Confirmed

According to the results of Table 7, “Leadership in present market share” is number one priority followed by “Paid wages” and “Leadership in price on the market”.

3.7. The seventh factor: Market orientation

The last factor is associated with market orientation with four factors presented in Table 8 as follows,

Table 8

The summary of factors associated with market orientation

Option	Factor weight	P-Value	Results
Integrated distribution channels	-	0.296	Not Confirmed
Handling distribution channels by firm itself	-	0.180	Not Confirmed
Clustering market based on customers	-	0.679	Not Confirmed
Having high quality products	-	0.100	Not Confirmed

According to the results of Table 6, none of four factors is statistically significance and we can conclude that market orientation has no impact on pricing strategy.

3. Conclusion

This paper has presented an investigation to detect important factors influencing pricing strategy. The proposed study of this paper has extracted five important factors including environmental, product management, distribution management, standardization strategy and market leadership. In terms of environmental factors, “Investment in monopoly market in short term” is number one priority followed by “Market recession”, “Amount of media advertisement”, “Market activity with high level of political risk”, “Currency fluctuation” and “Rules and regulations”. Product management is the second important issues where “The level of technology used in products”, “Customer’s needs”, “Focus on related products” and “Innovation in products and services” are having positive effect on pricing strategy. The next factor, distribution management, includes different factors including “The conditions for negotiation” is number one priority followed by “Offering product through internet”, “Competition among retailers” and “Demand for national brand”. In terms of following good standards, “Dynamics of market” is number one priority followed by “Offering better services with no price change ” and “Applying necessary standards on products and services”. Finally, market leadership is the last item where “Leadership in present market share” is number one priority followed by “Paid wages” and “Leadership in price on the market”.

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