Export Pricing in Business-to-business Market

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The importance of pricing as a profit driver led to development of strategies and methods to improve pricing. Although pricing in business-to-business (B2B) and retail markets has the same goals, but the challenges of them are different.

Export pricing and its distinguishing features from retail point: the consumer is a firm, business-to-business purchases are made by decision making unit, purchase decision have to satisfy different needs and objectives, business-to-business purchase has a formal dimension and the risk of a company’s purchasing decision is greater than of consumers in retail.

Pricing in business-to-business market has to involve the following features evaluation: currency considerations, market share dynamic, financial factors, the need that the price has to be predetermined by the quality and price balance.

The currency choice has become a critical consideration in securing exporting contracts and maintaining or increasing market share and profitability. The potential profits of a transaction can be lost by currency fluctuations.

In globalization and the increased market accessibility, goods tend to be very close substitutes to the goods produced in other countries. Because of imperfect information and adjustment costs, customers tend to purchase from the same firm repeatedly. Since customers do not immediately switch to the firm with the lowest price, a price change will have a gradual effect to the customer stock. Following it the pricing decision in B2B market can be evaluated as an investment problem. The firm invests in the customer stock (market share) by charging a price which finally affects future profits.

The prices in B2B market are not changed every week. The firms typically change their prices once or twice per year. Thus it is essential to allow for prices in business-to-business market to be predetermined.

The concept of dynamic competitiveness focuses on technology and it relates to productivity of the leading country. The unite value can be used as complementary indicator for assessing the qualitative sides of competitiveness.

The factors underlying competitiveness can be felled into two parts. One part is the cost side while the growth of export sector increases when a country’s costs and prices of exports are lower than its export competitors. On the other hand, the non-price competitiveness is usually expressed by qualitative factors in the export performance.

The results of investigation of popular in furniture production upholstery fabrics prices are presented. According to the research data managers consider pricing to be one of the most important element in the decision making process with only product quality being given a higher priority than pricing. The other elements are ranked as follows: goods availability, delivery terms, goods assortment, payment terms, minimum quantity requirements and the company name or brand.

In export price setting decisions in B2B market have to be taken into account purchase currency stability, the total effect of price on the market share, purchase payment terms and price validity terms. Only the balance of price and quality enables goods to be competitive.

Keywords: export pricing, pricing in business-to-business market, export pricing distinguishing features.

Introduction

Price is the means for organization to cover the costs of research, manufacturing, marketing and other activities. As price directly determines the amount of profit (or loss) in an organization this makes important to approach to pricing in a reasonable scientific manner.

The academic research on pricing is quite intensive. Researches have tried to distinguish the main factors in export pricing. The most common divide is into internal and external factors mentioned by Armstrong (1993), Albaum (1989), Nessim (1995), Foglio (2000) and others. Like main external factors making influence to the export pricing they have distinguished consumer demand, competition, legal aspects, and political environment. Kuvykaitė (1998) has added to this aspect goods ability to compete.


The literature also includes several qualitative models and approaches in overseas pricing situations (Farley, 1980, Walters, 1989). Much of the work in international pricing concerns transfer pricing in multinational corporations (Al-Eryani, 1990; Arpan, 1973). Gottfries (1999) offered a structural model of price and quantity dynamics and applied it to Swedish exports and export prices for manufactured goods 1972-1996. Global influences on manufacturing prices were investigated by Coutts and Norman (2002). Domestic competition influences to manufacturing prices analyzed Azam, Calmete, Lousta-

Swartz (2003) pricing in retail and business-to-business market described like having the same goals but different pricing complexity. Pricing can be thought of in any number of ways. In this article the main features of export pricing in business-to-business market will be extracted.

Research aim – is to distinguish the main export pricing features in business-to-business market and to base its application peculiarity.

Research object – export pricing in business-to-business market.

Pricing in retail and business to business markets

Price importance varies according to market conditions and the type of product or service being marketed. It is important to divide retail and B2B pricing markets. According to Swartz (2003), both of them have the same goals - improved profit, market share, competitive position, but the challenges in B2B require a combination of strategy, business processes, technology.

Retail companies have a high transaction volume, but a relatively simple pricing calculation. Typically, the price is simply “the price,” although sometimes there may be discounts, bundles, rebates, or other adjustments. Price optimization in retail involves processing large amounts of data to set a list price and to decide if and when to discount and by how much.

In the B2B exchange, the consumer is the firm. Organizational buyer behavior theorists (Moriarty, 1983; Heide, John, 1990) posit that organizational buying is distinct from consumer buying behavior in that:

1. organizational purchases are made in group form, typically by decision-making unit;
2. an organizational decision to purchase must satisfy differing need or objectives of participants;
3. certain types of organizational buyer information, including proposals, price quotes, and purchase contracts, add to the organizational purchase a formal dimension not found in consumer buying;
4. the personal and organizational risk of a company’s purchasing decision is greater than that of individual consumers (Cavusgil, 2002).

Given these parameters, organizational buying is seen as more rational in nature than consumer purchasing, and as a result more homogeneous. When the purchasing entities are importers, however, heterogeneity in the pricing decision models is enhanced by diverse economic conditions across the markets. In these exchange relationships, information deficiency still exists, yet this deficiency enhances problems beyond what is experienced in domestic exchange. For instance, the search costs of importers compared with domestic buyers will be considerably higher. Furthermore, transaction costs associated with travel, commercial risk and capital significantly exceed that of domestic exchange (Aulakh, Kotabe, 1997). Transaction volumes may be lower in B2B market, but the level of pricing complexity is considerably higher. Pricing has many more dimensions.

Distinguishing features of export pricing in business-to-business market

Currency considerations. As global sourcing of raw materials, components, and finished products has become routine practice, suppliers increasingly are compelled to consider pricing their products in non-domestic conditions. Industrial pricing schemes do not incorporate currency considerations explicitly, and industrial marketing and pricing literature are virtually void of any discussion pertaining to currency issues. Currency consideration in industrial pricing literature is a critical component of pricing that will gain importance as global competition among exporters intensifies and importers become more knowledgeable and demanding.

Export Evidence from international literature suggests that currency choice has become a critical consideration in securing exporting contracts and maintaining or increasing market share and profitability (Donnenfeld and Zilcha, 1991). The notion of working with stable currencies during the purchase decision process demands that exports be priced in the buyer’s currency. Consequently, both exporters and importers seek to minimize their foreign exchange exposure to retain their company profit margins. The pursuit of a customer-oriented philosophy mandates that export currency convenience and simplicity will be negotiated. Export pricing is an inherently complex phenomenon, and the potential profits of a transaction can be wiped out by currency fluctuations. Other challenges also influence the negotiation of the terms of export transactions:

1. products might be used in unpredictable circumstances (e.g., climate, maintenance), and the firm can not account and price for every contingency.
2. Information regarding markets and customer’s

<table>
<thead>
<tr>
<th>Factor</th>
<th>Retail</th>
<th>Business-to-Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction volume</td>
<td>High</td>
<td>Low to High</td>
</tr>
<tr>
<td>Pricing data</td>
<td>Accurate info</td>
<td>Many reside in many systems</td>
</tr>
<tr>
<td>Pricing calculation</td>
<td>Simple</td>
<td>Complex</td>
</tr>
<tr>
<td>Price authority</td>
<td>Centralized</td>
<td>Distributed, especially if sales team determines discounts</td>
</tr>
<tr>
<td>Pricing levels</td>
<td>Few</td>
<td>Many reside in many systems</td>
</tr>
<tr>
<td>Pace of change</td>
<td>Low</td>
<td>Medium to high</td>
</tr>
</tbody>
</table>

Figure 1. Key pricing factors in retail and business-to-business
creditworthiness is not readily available or, if available at all, is expensive to obtain.

3. Long lead times (12 to 18 months) between order and delivery are common for larger and special orders such as machinery.

4. Importers may delay payment as long as possible, particularly for high-priced transactions.

Examples of these dyadic diseconomies are easily made. For instance, market volatility, particularly in the form of foreign currency volatility and inflation rates, are characteristics of economic fluctuations, which result in risk and uncertainty in overseas markets (Aulakh, Kotabe, 1997). Frequent volatility of currency rates suggests that exporters may find themselves benefiting from weak currency one month and struggling with an over-valued currency the next. These exporters must be vigilant in their pricing by concentrating on the markets ability to purchase during exchange rate fluctuations. It should be stated that according to cost based pricing theories the degree of market power and the discretion it confers on firms is to set prices as a mark-up on some (unit) cost base, with demand and the prices of competitors playing a minor role or none at all. It is important to emphasise the competition in “customer markets” which trade in differentiated products.

Market share dynamic. In a customer market, each firm has a stock of customers. Because of imperfect information and adjustment costs, customers tend to purchase from the same firm repeatedly. Since customers do not immediately switch to the firm with the lowest price, a price change will have a gradual effect to the customer stock. Thus the firm faces inelastic demand for its products in the short run, but in the long run the elasticity may be very large. The customer market model has interesting implications for the specification and estimation for export equation. It implies that the lag in adjustment of exports will not be the same with respect to all explanatory variables: a change in foreign market demand will have an immediate effect on exports while the effect of a price change takes time.

Long term contracts at known prices, plus the uncertainty in supply availability at the expected prices may very well prevent purchaser from switching suppliers. Besides, relative prices do not have always to go in the same direction. Thus, switching B2B partners may not lead to the desired and expected decreases.

Gottfries defines that the pricing decision is an investment problem. By charging a low price, the firm invests in the customer stock (market share) which affects future profits. This opens the possibility for financial factors to affect directly pricing decisions. Fitoussi and Phelps (1988) and Phelps (1994) have emphasized the role of interest rates for pricing decisions and Gottfries (1991) showed that if firms are financially constrained, markups will be countercyclical.

According to Gottfries (1999), it seems reasonable to allow the possibility that goods produced by different firms (in different countries) are imperfect substitutes. Then according to Halpern (2004) and Koron (2004) the elasticity of substitution for variants from the same country has to be greater then the elasticity of substitution for variants from different countries. But in globalization and the increased market accessibility goods tend to be very close substitutes to the goods produced in other countries as it is assumed by Phelps and Winter. Thus the firm faces inelastic demand for its products in the short run, but in the long run the elasticity may be very large. So, setting export price must be evaluated possible effects to the stock of customers, because pricing is like an investment decision.

Financial factors. An important implication of customer market theory is that financial factors may affect prices. Financially constrained firms may be forced to set high prices although this has negative long run effects on the market share. According to Gottfries (1999), if a firm wants to borrow more money it will either have to convince the existing lenders to invest more money in that particular firm or convince new lenders to invest in the firm. Rising new outside capital implies a loss of control for those who currently control the firm. Thus, raising new capital is typically costly. When the firm is borrowing at a high rate, it is expected to raise the price so as to raise current profits and reduce borrowing, although this occurs at the expense of investment in the market share (Gottfries, 1999).

Price predetermination. Much macroeconomic theory about price and wage adjustment is based on the notion of infrequent price adjustment. There is also considerable microeconomic evidence that prices are not changed every week. Questionnaire studies such as Assarsson (1989) and Blinder (1998) suggest that firms typically change their prices once or twice per year. Thus it is essential to allow for prices being set in advance. If prices are predetermined they do not reflect the most recent information about costs, exchange rates etc.

The most common approach in the modern industrial pricing literature is to derive price setting behaviour from imperfect competition assumptions, including perfect information. Standard results give prices as a mark-up above marginal cost. The size of the mark up can be determined by the elasticity of the demand. While this approach does not enable to introduce cost factors through assumptions about technology, demand pressure through its impact on the elasticity of demand, and the influence of competitors through cross-demand effects, but it has significant limitations of pricing behaviour. First, the approach is static and assumes that the decision-maker has full information about all relevant responses of customers and rivals. Given that the price-making firms are assumed to face stable and well-defined demand curves, given technology and other cost conditions, price is uniquely determined by the usual marginal conditions. This approach neglects the pricing strategies that arise in reacting to rival producers, the uncertainties in knowing consumer for the product, and the dynamics of how firms change prices over time. Martin (1992) defines industrial economics as covering everything with except of perfect competition. As standard international economics relies predominantly on perfect competition assumptions, the derived hypotheses are potentially inconsistent and the task of reconciliation is considerable.

A number of surveys have been carried out for UK and US manufacturing firms. Couffts and Norman (2001) using survey for the UK by Bank of England summarised the main findings of surveys:

1. Manufacturing firms install capacity on a scale that permits them to produce with spare capacity in most situations. Competitive pressure is insuffi-
cient to force them to lower prices until capacity is fully utilised.

2. The existence of spare capacity allows most demand changes to be accommodated by changing utilisation to adjust production, rather than to adjust prices. The response of price to demand changes associated with the business cycle is likely to be small. When they occur, price responses to demand changes may be asymmetric. Strong demand may result in rationing rather than "charging what the market will bear". If the demand pressure is sustained, it may lead to higher prices, but also to a rise in investment to expand capacity. In conditions of low demand, firms may try to simulate sales and raise utilisation of capacity by cutting prices (e.g. sales, special offers). But if the fall in demand is prolonged, firms are under pressure to cut capacity (especially to reduce labour costs) in order to rebuild profit margins at a lower level of output and capacity.

3. Firms are not the static creatures of elementary economic theory that set their location, product specification and technology once and for ever. They are constantly ready to implement some changes.

Quality and price balance. The concept of dynamic competitiveness focuses on technology and it relates to productivity of the leading country. According to Aiginger (1998) it is possible to use the unite value as complementary indicator for assessing the qualitative sides of competitiveness. It increases with quality, consumer evaluation, marketing, customer orientation and etc. Thus higher unite values immunise products from low cost competition. Firms and consequently countries climbing up the quality ladder can afford higher wages by offering higher quality. The unite value is complementary to technology indicators. It helps to evaluate the success of countries in this respect. If unit values reflect costs and the product is homogeneous, then countries with lower costs should be net exporters in quantities and countries with higher costs should be net importers. If a country is a net exporter in quantities despite the fact that it has higher unit values, then this must be due to quality differences. Using this is possible to split industries/goods into those which are dominated by price competition and those, with revealed quality competition.

The factors underlying competitiveness can be felled into two parts. One part is the cost side. The growth of export sector increases when a country's costs and prices of exports are lower than its export competitors. On the other hand, the non-price competitiveness is usually expressed by qualitative factors in the export performance.

Trade performance is likely to be sensitive to a lot of determinants. Some of them are directly concerned with the environment and economic situation. As the example may be used the unit labour cost, which is considered as a key determinant of the cost competitiveness. The other factors are referred to as „exogenous“. They are related to the economic and social climate.

Trade performance is evaluated according to the approach in which we use information on trade balance in quantities and „quality premium“. The evaluation of quality premium is carried out using the relative unite values defined as unite value of countries exports divided by unit value of its imports. Aiginger (1998) identifies four market segments according to quality and price competition (Figure 2):

- Segment 1 combines the industries in which exported quantity exceed imports despite a higher unite value. This has to be the consequence of a quality lead which is appreciated by demand or signals successful specialization in the dearest market segment. This sector is the very target for an advanced country (successful quality competition).
- Segment 2 is a hopeless sector. An industry runs a trade deficit despite low prices. In this sector there have to be some exit barriers (structural problem area).
- Segment 3 contains price elastic goods in which the home country has a low unite value. This sector yields a trade surplus (successful price competition).
- Segment 4 contains price elastic goods in which the home country has a high unite value and consequently faces a trade deficit. Industries in this sector have lost price competitiveness in a market in which prices are important. This part of the deficit can said to be the consequence of high production costs (deficit in price competitiveness).

This classification is a country specific; the same industry at least theoretically can be in different sectors in different countries. A country with high costs is well prepared for future competition, if a large part of its industry is located in the sector where high unit values are consistent with an export surplus.

The key determinants expected to reduce the selling prices and increase competitiveness are:

- a lower unit labour cost which can be the result of a high labour productivity and low labour cost per employee;
- a free access to the foreign markets, which could be reinforced by eliminating trade barriers, non-trade barriers, minimizing the degree of market collusion, and finally increasing the transparency of information systems on the foreign markets.
- restructuring of the labour market, intensifying the degree of competition, stimulating mobility of employees between sectors and regions, reducing tax rate on capital and labour income, investing more on education and human qualifications.

Export pricing in furniture industry

Export pricing variables. The results of investigation of popular in upholstery furniture production upholstery fabrics prices are presented in Table 1. Research has been done of 7 firms selling 100% PES microsuede fabric.

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<table>
<thead>
<tr>
<th>Quality Elastic Segments</th>
<th>Price Elastic Segments</th>
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</thead>
<tbody>
<tr>
<td>Segment 1.</td>
<td>Segment 3.</td>
</tr>
<tr>
<td>Successful Quality Competition</td>
<td>Successful Price Competition</td>
</tr>
<tr>
<td>Trade Surplus in volume and Higher price</td>
<td>Trade Surplus in volume and Lower price</td>
</tr>
<tr>
<td>Segment 2.</td>
<td>Segment 4.</td>
</tr>
<tr>
<td>Structural Problem Area</td>
<td>Deficit in Price Competition</td>
</tr>
<tr>
<td>Trade Deficit in volume and Lower price</td>
<td>Trade Deficit in volume and Higher price</td>
</tr>
</tbody>
</table>

**Figure 2.** Market segments according to quality and price competitions (Aiginger, 1998).
To determine what are the most important variables in B2B pricing managers were asked to consider the relative importance of 8 different variables which define the price of the same products offers from different suppliers.

Seeking to evaluate the relative importance of separate price offers elements, buying managers were questioned. Managers’ responses to the question “consider the relative importance of each of the following elements in making decision to buy” were revised. The most important element has been ranked with 1 and the least important with 8. The results of this questioning are shown in Table 2.

Table 2

<table>
<thead>
<tr>
<th>Category</th>
<th>Mean</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company / Brand</td>
<td>7.4</td>
<td>8</td>
</tr>
<tr>
<td>Assortment</td>
<td>4.9</td>
<td>5</td>
</tr>
<tr>
<td>Product quality (technical data)</td>
<td>1.4</td>
<td>1</td>
</tr>
<tr>
<td>Price</td>
<td>2.3</td>
<td>2</td>
</tr>
<tr>
<td>Min order requirements</td>
<td>5.8</td>
<td>7</td>
</tr>
<tr>
<td>Availability</td>
<td>3.9</td>
<td>3</td>
</tr>
<tr>
<td>Delivery terms</td>
<td>4.8</td>
<td>4</td>
</tr>
<tr>
<td>Payment terms</td>
<td>5.5</td>
<td>6</td>
</tr>
</tbody>
</table>

According to the research data managers consider pricing to be one of the most important element in the decision making process with only product quality (technical data) being given a higher priority than pricing. After these the other elements are ranked: goods availability, delivery terms, goods assortment, payment terms, minimum quantity requirements and the company name or brand.

Currency considerations. Fluctuation of USA dollar exchange rates changes the situation in the market making supplier’s from China and Israel positions stronger or weaker (Figure 3).

Market share dynamic. Market globalization, international standards for fabric technical information description, colours according to International Pantone – all this help producers from different countries produce very similar fabrics which might easily be changed into other supplier’s products. So it is possible to assume, that upholstery fabrics in B2B market are perfect substitutes. But the existence of big price difference shows, that there is no perfect information in the market. It helps for the suppliers to have different price levels for the same products. Consequently, customers do not immediately switch to the supplier with the lowest price in the market, but tend to purchase from the same firm repeatedly and changes in the market may be done in the longer run.

Financial factors. Financial factors affect not only the final price of fabric, but also influence to the terms of payment. For buyers the terms of payment are very important, because it makes direct influence to buyer’s flows of money. Also great influence has minimum required quantity (Table 3).

Table 3

<table>
<thead>
<tr>
<th>Category</th>
<th>Price</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company / Brand</td>
<td>3.25 EUR</td>
<td>2002</td>
</tr>
<tr>
<td>Company A, Spain</td>
<td>3.20 EUR</td>
<td>2003</td>
</tr>
<tr>
<td>Company B, Spain</td>
<td>3.10 EUR</td>
<td>2004</td>
</tr>
<tr>
<td>Company C, Belgium</td>
<td>3.00 EUR</td>
<td>2005</td>
</tr>
<tr>
<td>Company D, China</td>
<td>2.95 EUR</td>
<td>2006</td>
</tr>
<tr>
<td>Company E, Poland</td>
<td>2.95 EUR</td>
<td>2007 (I - IV)</td>
</tr>
</tbody>
</table>

Figure 3. Suppliers offers for upholstery fabric price in EUR (2007 April data)
livery;
• the real width of fabrics: does it tend to change with deliveries;
• availability of standard colours and fabrics;
• period of transportation time, costs of transportation.

Conclusions

Pricing in B2B market is very complex, but it can help to go ahead of competitors and gain tremendous competitive advantage.

In B2B market the pricing problem involves a lot of dimensions making the search for an “optimal” price extremely difficult and perhaps irrelevant.

The customer market model implies that the pricing decision is an investment problem. In globalization and wit the increased market accessibility goods produced in one country tend to be very close substitutes for the goods produced in other countries. Thus, the firm faces inelastic demand for its products in the short run, but in the long run the elasticity may be very large.

Financially constrained firms may be forced to set higher prices although this has negative long run effects on the market share.

In B2B market prices tend to be predetermined. They do not reflect the newest information about costs, exchange rates, etc.

The relative importance of pricing was detected after the survey of furniture business managers on 8 different elements of the standard offer to buy upholstery fabric. The results of the survey of upholstery fabric pricing in furniture industry show that stock of customers, financial factors, frequency of price setting, quality and price balance are most important for export price formation in business-to-business market. Companies which have higher fabrics price in the market still have their customers, because of their fabrics better availability, variety of colours, good payment terms.

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Asta Valučkaityė, Vytautas Snieška

Ekspoto kainodara verslas-verslui aplinkoje

Santauka

Kaina tiesiogiai veikia galimą gauti įmontēs pelningumą, todėl mokslinės pagrįstos jos nustatymas tampa labai aktualus.

Šiame straipsnyje nagrinėjama ekspoto kainodara bei išsiskirtinių ekspoto kainodaros elementai verslas-verslui aplinkoje.


Ekspoto kainodara verslas-verslui aplinkoje išvengia verslo verslui aplinkoje, kai galutinis prekės ar produkto kainodara aplinkoje, kai galutinis prekės ar produkto kainodara veikia tik nuo prekės ar paslaugų tipo, bet ir nuo sąlygų rinkoje. Labai svarbu išvengti prekės ar produkto kainodaros, taip pat ir verslų kainodaros, atskirai verslui aplinkoje, kai kainodara yra įmontē. Tyrimo tikslo - išvengti prekės ar produkto kainodaros aspektas verslas-verslui aplinkoje ir išvengti jos taikymo ypatumai.

The article has been reviewed.

Received in June, 2007; accepted in October, 2007.