

PROFILING COMPANIES ACCORDING TO THE ADOPTED PRICING STRATEGY

The study presents the results from empirical research on the profiling of the companies operating in Bulgaria in terms of the pricing strategy adopted by them: cost-based pricing, competition-based pricing and value-based pricing. It includes a literature review of the theoretical and empirical research on pricing strategies, studies the most common pricing strategies used by the companies operating in Bulgaria and suggests the main criteria used to profile companies in terms of the pricing strategy adopted by them.

JEL: M39; D47

Introduction

Price is a complicated economic category. Within the marketing system of a company, it is used as a means of attracting customers, a competitive tool and an opportunity for an inflow of financial resources. Price is the most powerful marketing tool companies have at their disposal (Stiving, 2011). It is the most flexible element of the marketing mix and with it a company can most swiftly achieve impact on a price-sensitive market. In marketing policy, company policy respectively, price is the lever that influences the most the change in the profit, all other conditions being the same. A price rise of 1% leads to an 11.1% increase in the operating profit without a change of the volume (Marn and Rosiell, 1992).

Price is a bridge between a company and its customers. In terms of demand, product price is the quantitative assessment of the perceived value that a company creates for its consumers. In terms of supply, price is the strategic and tactical expression of the way a company wants to compete within the context of its business model and to make a profit (Lancioni, Schau and Smith, 2005). That is why every company needs an effective pricing strategy offering the customer a value and ensuring the company high economic results.

The development and implementation of pricing strategies is a priority of the modern business. Nowadays pricing is crucial for shareholders, financial analysts and company

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managers. Pricing decisions are among the major and most important business decisions (Dholakia, 2017). Managers are realising more and more the importance of price as a key element determining the volume of company revenue and profit to the greatest extent. A study of Simon & Kucher Partners shows that 80% of the respondents in the Global Pricing & Sales Study (GPSS) for 2017 consider pricing as the biggest engine of profit growth in the future and cost reduction less acceptable. A pricing manager is among the positions in greatest demand in large corporations. All this shows that nowadays the issue of prices and pricing is topical.

The object of research of this study is the pricing strategies of the companies operating in Bulgaria. The subject of research is the profiling of companies in terms of the pricing strategy adopted by them.

The aim of this study is to present the results related to the profile of the companies operating in Bulgaria in terms of the pricing strategy adopted by them³.

To achieve this aim the following research issues will be considered:

1. To find out which are the most common pricing strategies of the companies operating in Bulgaria;
2. To suggest the main criteria for the profiling of the companies operating in Bulgaria;
3. Based on the suggested criteria to profile the companies in terms of the pricing strategy adopted by them.

To achieve the aim of the study and explore the scientific questions, a survey was conducted in the period July-August 2017.

1. Literature Review

A literature review is made in this part of the study with a focus on the research on the essence of pricing strategies as well as on the empirical research on company profiling based on various criteria and in terms of the adopted pricing strategy.

1.1. Theoretical literature review

The purpose of this section is to summarise the authors' viewpoints on the use of the concept of pricing strategy. This needs to be done in order to clarify the concept of pricing strategy used in this study as well as to enumerate the kinds of pricing strategies that are the object of research in it.

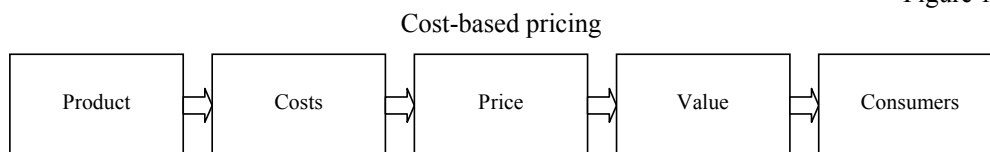
The term pricing strategy is used in two different meanings:

³ The results in the study are part of bigger scientific research under UNWE project № R&D ScR-16/2017 focused on the development and implementation of pricing strategies by the companies operating in Bulgaria.

- In its broad sense, a pricing strategy is viewed as a framework for making pricing decisions, a sequence of interrelated stages in which a set of key sections for particular pricing decisions is differentiated. Revealing the content of each stage and its correlation with the other ones answers the question of what it is to develop a company pricing strategy (Gladkih, 2013).
- In its narrow sense, a pricing strategy is related to options for a choice between alternatives as well as to making strategic pricing decisions, i.e. decisions that could lead to a change in the strategic positions of a company in the future. In the narrow sense, the pricing strategies include cost-based pricing, competition-based pricing and value-based pricing. Over the last years, it is these pricing strategies that are most often the object of a comparative analysis (Hinterhuber (2008), Cram (2010), Johansson et al. (2012), Macdivitt and Wilkinson (2012), Nagle, Hogan and Zale (2014), Smith (2012), Schindler (2012), Liozu (2015), Kotler and Armstrong (2018), etc.).
- Cost-based pricing: It is a pricing strategy in which prices are determined by production and marketing costs to which is added a profit element based on the efforts made and the risk taken.

First, „good” products are designed and developed. Then, the costs for their production and sale are determined. To them is added the desired profit volume and, thus, the „right” price is set. Finally, consumers are convinced in the value of the company product (Figure 1).

Figure 1

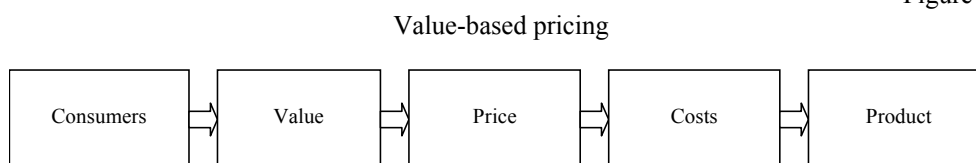


Source: Adapted from Nagle, Hogan and Zale (2014). *The Strategy and Tactics of Pricing – A Guide to Profitable Decision-Making*. 5 ed. Pearson New International Edition, p. 8.

- Competition-based pricing: It is a pricing strategy in which the prices of company products are determined based on competitors’ prices and pricing strategies. Consumers assess product value based on competitors’ prices for similar products. When assessing a competitor’s pricing strategy, a company has to answer a few questions: how is the company market offering perceived compared to competitors’ similar ones in terms of value, how strong are the current company competitors and what are their pricing strategies now (Kotler and Armstrong, 2018).
- Value-based pricing: With this pricing strategy price is determined based on consumers’ perceptions of the product value.

First, consumer needs and perceptions are considered in terms of value. A target price corresponding to these perceptions is set. Then, production and marketing costs are taken into consideration. Finally, a product that offers the desired customer value is designed and offered at the fixed target price. (Figure 2).

Figure 2



Source: Adapted from Nagle, Hogan and Zale (2014). *The Strategy and Tactics of Pricing – A Guide to Profitable Decision-Making*. 5 ed. Pearson New International Edition, p. 8

Over the recent years, an increasing number of scientists has stressed the importance of the nature and role of the value-based pricing strategy (Hinterhuber (2004, 2008), Cram (2010), Cressman (2012), Johansson et al. (2012), Liozu, Hinterhuber, Boland and Perelli (2012), Macdivitt and Wilkinson (2012), Smith (2012), Gladkih (2013), Lipsits (2014), Simon (2015), Voicheska (2015), Kostova-Pickett (2017), etc.). Hermann Simon (2015, p.13) says he has been asked thousands of times which the most important aspect of pricing is and he has always answered that it is „value”. Kienzler and Kowalkowski (2017) make a meta-analysis of the literature about pricing strategies in the B2B⁴ markets published between 1994 and 2013. The object of analysis includes 23 articles published in Scopus and two book chapters. The findings show that B2B companies are becoming increasingly client-oriented and implement pricing practices based on customer value. Insight2profit (2017) shows the trends in pricing that bring companies a competitive advantage and should not be underestimated. The first of these trends says that value-based pricing is replacing cost-based pricing. This means that theorists attach greater importance to the advantages of value-based pricing compared to cost-based pricing and realise that without an adequate system for control and allocation of high costs there is a waste of resources and disappointing results (Tanushev, 2009).

The review of the books, scientific articles, monographs and publications about prices, pricing and pricing strategies in particular, leads to the following conclusions:

- the term pricing strategy is used in two senses (broad and narrow) in order to describe two fundamentally things;
- over the recent years, three pricing strategies have been the object of comparative analysis: cost-based pricing, competition-based pricing and value-based pricing;
- there is an upward trend in the number of publications about value-based pricing.

1.2. Empirical literature review

What groups the studies mentioned below is the subject of research which is company pricing strategies. It should be taken into consideration, however, that the studies cited differ in the following: territorial scope (focused on different countries), time period (the studies have been done over the last 15 years), kind of research (qualitative or quantitative),

⁴ B2B (business-to-business) – the product is intended for business customers.

methods of data gathering (in-depth interviews or surveys including online surveys), sample size, primary units (only local or/and foreign companies offering tangible products and/or services intended for B2C⁵ or B2B consumers), observed units (CEOs, managers or experts), perceived restrictions, etc.

In this study, the empirical research on company pricing strategies is divided to four groups:

- research on the implementation of the three major pricing strategies in company practice

Hinterhuber (2008) summarised the results from studies published in the period 1983-2006 and focused on the frequency of implementation of cost-based pricing, competition-based pricing and value-based pricing. It was established that the implementation of competition-based pricing in practice was mentioned on average in 44% of the published research, cost-based pricing – in 37% and value-based pricing – in only 17%.

Marinov (2017) did empirical research on innovations in Bulgarian companies. For this purpose an online survey of 304 company managers was carried out. The companies operated in Bulgaria and had developed at least two new products over the last two years. It was found out that when launching new products on the market the most popular pricing strategy was the competition-based one and the least popular strategy is value-based pricing.

- research focused on the disclosure of the barriers to the implementation of value-based pricing

Hinterhuber (2008) considers the reasons why the implementation of the value-based strategy is so limited in company practice. For that purpose a two-stage empirical research was carried out. The first stage included qualitative research involving a survey of 30 business executives in charge of pricing in companies in three countries – Germany, Austria and Switzerland. Then, quantitative research was conducted involving 126 marketing and other managers from Germany, Austria, China and the USA. Five barriers to value-based pricing were identified: difficulties in making value assessments, difficulties with communicating value, difficulties with market segmentation, difficulties with sales force management, difficulties with senior management support.

Another study that was made by Töytäria, Rajalaa and Alejandrop (2015) deals with the barriers to companies in implementing value-based pricing on B2B markets. The research findings include the lack of understanding and influencing the customer's desired value, quantifying and communicating value in buyer–seller relationships and company challenges in capturing a share of the value created in industrial exchange.

- research aimed at revealing relation between the implemented pricing strategy and other aspects of company activity (financial results, new products success, etc.)

⁵ B2C (business-to-consumer) – the product is intended for end customers.

A survey conducted by Hogan (2010) set out to establish if there is a correlation between the adopted pricing strategy and company financial results. It was carried out with managers from over 200 companies from different sectors of the economy. Its aim was to answer two questions: which pricing strategies correlate with operating profit most and which is the bigger source of profit – a good strategy or effective execution. Depending on whether companies use value-based pricing and on the opportunity to implement it, companies are divided to four categories which are provisionally called value masters, well-intentioned, directionally challenged and runaway trains. A company profile for each category was prepared. It was found out that value masters, the companies developing and effectively implementing value-based strategy, have an operating profit which is on average 24% higher than the rest of the companies in the trade (which determine their prices based on costs and competition) and 33% higher than the runaway trains, the companies that can but do not implement value-based pricing.

Liozu and Hinterhuber (2013) conduct a survey of 1812 professionals in the field of pricing in order to measure the impact of the adopted pricing strategy on company results. The authors found out that the three basic pricing strategies have different influence on the capability for company pricing which is in close relation to company performance. A positive relationship between value-based pricing (but not competition-based pricing) and company performance was established.

Another study of Liozu and Hinterhuber (2013) examines the extent of influence of the CEOs of the best companies in pricing on pricing capability and company performance. The sample includes 358 CEOs of companies operating on B2B markets worldwide. It was found out that senior management involvement in pricing decisions has a positive influence on the rationality of pricing decision-making and leads to a better pricing capability and improved company performance.

Toni, Milan, Saciloto, and Larentis (2017) suggest and test a theoretical model showing the impact of the adopted pricing strategy on company profitability. For this purpose data was collected for 150 industrial companies in the field of material production in Brazil, the pricing strategies adopted by them (value-based, competition-based and cost-based), price levels (high and low) as well as their influence on company profitability. It was established that in terms of profitability the best results are obtained with value-based pricing and high price levels whereas in the cases of value-based pricing and low price levels company performance is negatively affected.

Ingenbleek and van der Lans (2013) set out to see if there is a relation between the pricing strategies and pricing practices of Dutch companies. For this purpose an online survey was conducted with CEOs of 95 small and medium-sized companies specialising in production, wholesale trade (the retailers are not included in the sample) and the public sector. The object of research was the pricing strategies and pricing practices of companies producing tangible products and/or offering services intended for B2C and/or B2B consumers. According to the researchers, pricing strategies are visible in the market whereas pricing practices remain hidden within an organisation. The authors prove that there is a relation between pricing strategies and pricing practices because pricing strategies are implemented through pricing practices based on information about the value a product has for consumers, competition and costs.

In a study conducted earlier, Ingenbleek et al. (2003), the relation between the adopted pricing strategy for product launching and its success on the market was examined. 77 marketing managers of B2B companies from two industries (electronics and engineering) in Belgium were surveyed. It was found out that the implementation of customer value-based pricing correlates with the success of new products whereas no such correlation is observed between the success of new products and the adopted cost-based or competition-based pricing.

Thus, the empirical research review shows that, similarly to theoretical research, over the last 15 years three pricing strategies have most often been the object of comparative analysis: cost-based pricing, competition-based pricing and value-based pricing. There was observed a tendency for increase in the number of empirical studies on value-based pricing but so far it has been underestimated by companies and implemented the least compared to the other pricing strategies.

On the whole, in Bulgarian specialised literature there are no publications based on empirical research on the pricing strategies of the companies operating in Bulgaria. The research presented in this study and its findings are an attempt to clarify this issue.

2. Research methodology

In accordance with the aim and research issues of this scientific study the following working hypotheses are tested:

H1: Most of the companies operating in Bulgaria use the strategy of cost-based pricing with very few companies using value-based pricing.

H2: Cost-based pricing is mainly used by small-sized companies, competition-based pricing is mainly used by medium-sized companies and value-based pricing is mainly used by micro-companies⁶.

H3: The companies which have adopted cost-based pricing have a bigger market share based on sales volume compared to the companies which have adopted competition-based or value-based pricing.

H4: Most of the companies which have adopted value-based pricing show better financial results than the companies which have adopted cost-based or competition-based pricing.

H5: The pricing strategy adopted by companies is not influenced by the kind of company (Bulgarian or foreign) or by the kind of consumers a product is made for (B2C or B2B).

The main method employed for data collection in the current study is the structured personal online survey. First, 20 in-depth interviews with managers are conducted in order to cover the best the respondents' professional language and answer formulations on which

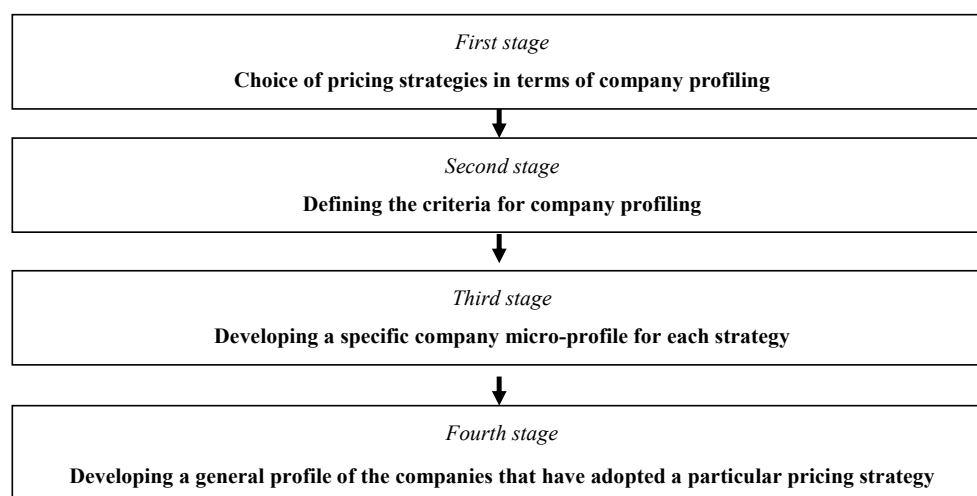
⁶ The classification of companies into micro-, small-sized, medium-sized and large- is not related to their annual turnover but to the number of employees they have (micro – up to 9 employees, small-sized – between 10 and 49, medium-sized – between 50 and 249 and large – 250 and over).

the final version of the online survey is based. The units observed in the survey are companies operating on Bulgarian territory (Bulgarian and foreign ones with a subsidiary or agency). The companies are from the material production and services sectors. The target respondent in each company is the CEO/marketing director/manager – the person that depending on the company structure is in charge of prices and pricing. The sample size is 200 surveyed units (companies) and the collected data are the object of analysis, which does not claim for a representation of the results in terms of the population. The research applies quota sampling based on two characteristics: company size (depending on employee number) and product type (material and non-material). The statistical data processing and analysis include: choice of the best clusterisation method (Contingency coefficient), preparation of company micro-profile within each strategy (Cluster analysis), defining the criteria for clusterisation (Kruskal-Wallis H test), company profiling for each strategy based on the most frequently given answer (Mode). The statistical hypotheses checks for all methods are carried out at a 5% risk of a type I error. The statistical data processing was carried out with the programme IBM SPSS Statistics v23.

The methodology of the current study consists of four stages (Figure 3).

Figure 3

A sequence of actions for company profiling in terms of adopted pricing strategy



Source: Developed by the authors.

First stage

As it was mentioned (item 1.1.) the concept of pricing strategy is used in its narrow and broad senses. For the purposes of the current study, it is assumed that a pricing strategy involves options for a choice of possible alternatives, i.e. the concept is used in its narrow sense.

Pricing theory and practice offer a number of pricing strategies (in the narrow sense) that we can provisionally group based on different criteria. From a marketing point of view, the most popular pricing strategy is the following one: depending on the key pricing determinant (basic pricing strategies) – cost-based pricing, competition-based pricing and value-based pricing; related to competition – aggressive (of the market challenger) and passive (of the market follower – closely following the price leader, following the price leader from a distance and selective following of the price leader); related to product features – strategies for the stages of the product life cycle, strategies for new products (price skimming and pricing for market penetration), strategies for standard products, strategies for product mixes, strategies for special order products; for consumer encouragement – price-cutting strategies (season reductions, for cash payment, low-interest consumer financing, free product maintenance, longer warranty, etc.) and high-price strategies (prestige pricing); for price adjustments – segmented pricing, geographical pricing, dynamic pricing, psychological pricing, etc.

The alternative pricing strategies used for company profiling in this study are cost-based pricing, competition-based pricing and value-based pricing.

The choice of these three pricing strategies was determined by the following reasons: first, these are pricing strategies of strategic importance for a company that could lead to a change in the company strategic positions; second, respondents' opinions from the 20 in-depth interviews; third, these three pricing strategies have been of greatest interest for the academic community, researchers and practitioners over the last years (items 1.1. and 1.2.).

Second stage

There are two arguments in favour of the choice of criteria for company profiling with regard to the adopted pricing strategies: first, the previous research of scholars working in this field (item 1.2.) and, second, the respondents' opinions expressed in the in-depth interviews.

The list of company profiling criteria in this study includes: company status (Bulgarian or foreign) (X3)⁷, kind of products (tangible products or services) (X4), kind of consumers (B2C or B2B) (X5), price level of the main product (X25), novelty degree of the new products that are being developed (X34), senior management attitude toward risk (X35), investment (X36), market share based on the sales volume of the main product (X37), sales revenue (X38), financial result reported for the last calendar year (profit or loss) (X39), level of company profit (X40) and number of employees (X41).

Third stage

A company micro-profile is made within each strategy with the use of cluster analysis. Seven hierarchical and one non-hierarchical (K-means cluster) clusterisation methods have

⁷ The number following X indicates the number of the question from the research questionnaire developed under Project № R&D ScR-16/2017.

been tested (Naidenov, 2016). The number of clusters for each strategy is determined based on a cluster dendrogram (Katrandjiev, 2011). The best clusterisation method within a strategy is chosen based on the highest amount derived from its contingency coefficients with other methods (Goev et al., 2019). After the choice of a clusterisation method, a statistical check of the hypotheses is done (Jelev, 2008; Nestorov, 2012) in terms of the criteria applied for the preparation of the micro-profiles through Kruskal-Wallis test, which checks for a statistically significant difference between the micro-profiles by a given criterion.

Fourth stage

The predominant opinion for the major criteria within each strategy is used for the final company profiling. In order to test the sustainability and reliability of the profiles, they are compared with the results from the micro-profiles.

3. Empirical results and analysis

Depending on the market they operate on, 60% of the companies are Bulgarian ones operating entirely on the domestic market, 26% are Bulgarian companies operating on both the domestic and foreign markets, and 14% are foreign companies operating on the domestic market. In terms of the number of employees in 24% of the companies from the sample the average monthly number of employees is up to 9, in 29% – from 10 to 49 people, in 30.5% – from 50 to 249 people and in 16.5% - 250 and over employees. In terms of consumer type – 65% of the companies in the researched aggregate sell mostly to end consumers (B2C) and 35% – mostly to business consumers (B2B). In terms of the nature of the products offered – 50% of the companies from the sample offer mostly material products and 50% offer services. In terms of pricing strategies, 51% of the companies have indicated that they use cost-based pricing, 28.5% – competition-based pricing and 20.5% – value-based pricing (Figure 4).

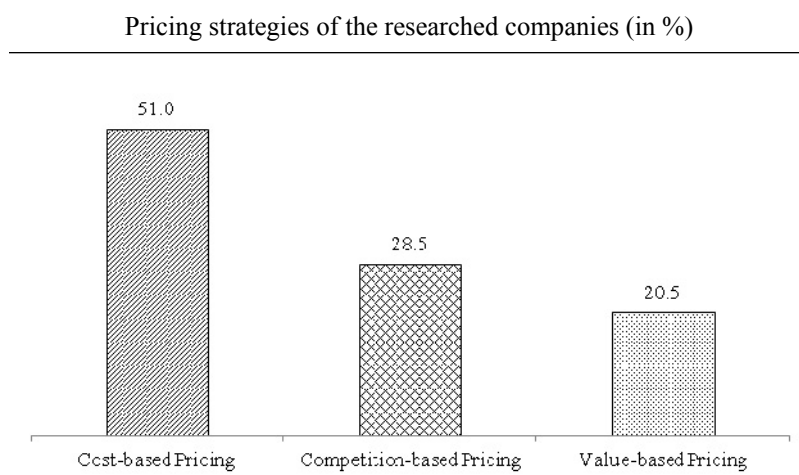
The data analysis shows that more than a half of the companies operating in Bulgaria implement cost-based pricing which confirms the first working hypothesis.

The highest profit can be achieved with value-based pricing according to 43% of the researched companies, with cost-based pricing – according to 38% and with competition-based pricing – according to 19% of the companies.

It is interesting to compare the results from an analytical point of view. On the one hand, the share of the companies using value-based pricing is the smallest but, on the other hand, this is the pricing strategy that is the most profitable one according to most of the respondents. 53.7% of the companies from the sample do not use value-based pricing mainly because they have difficulties measuring the customer value of the company product. Considering value-based pricing the most profitable strategy indicates that the managers of the companies operating in Bulgaria are increasingly realizing the relation

between the adopted pricing strategy and company financial results and are interested in the opportunities for the implementation of value-based pricing in practice.

Figure 4

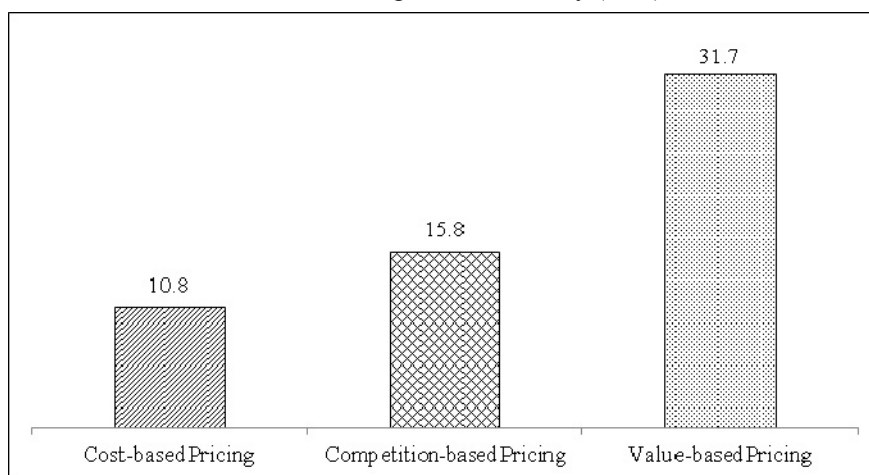


Source: Empirical survey from 2017.

Of the companies that made a profit bigger than the average level for the branch the biggest relative share is that of the companies that have adopted value-based pricing (Figure 5). This partly confirms the fourth working hypothesis according to which most of the companies that have adopted value-based pricing have higher financial results than the companies that have adopted competition-based pricing.

Figure 5

Share of the companies that have adopted the particular pricing strategy and have a profit above the average for the industry (in %)



Source: Empirical survey from 2017.

3.1. Preparation of micro-profiles within a pricing strategy

The preparation of company micro-profiles within a pricing strategy is preceded by a corresponding choice of a clusterisation method. Eight clusterisation methods were studied for this purpose and the choice of the best one was based on the highest cumulative value of the contingency coefficients of the corresponding strategy. The results from the cumulative value of the contingency coefficients are presented in Table 1.

Table 1

Choice of the best method for preparation of company micro-profiles based on the cumulative value of the contingency coefficients

Clusterisation methods	Cost-based pricing	Competition-based pricing	Value-based pricing
Average Linkage (Between Groups)	3.390	3.569	4.949
Average Linkage (Within Group)	2.968	3.595	4.863
Single Linkage	2.108	2.677	4.531
Complete Linkage	2.873	3.569	4.949
Centroid Method	1.599	2.677	4.531
Median Method	3.390	3.569	4.531
Ward Method	3.390	3.129	3.998
K-means Cluster (2 clusters)	1.034	2.012	2.814

Note: The highest cumulative values of the contingency coefficients for the corresponding pricing strategy are given in bold italics.

Source: Authors' calculations.

With cost-based pricing there are three most appropriate methods (Average Linkage (Between Groups), Median Method, Ward Method) whose micro-profile coincides completely. With value-based pricing there are two most appropriate methods (Average Linkage (Between Groups) and Complete Linkage) whose micro-profile coincides completely as well. The Average Linkage (Between Groups) method is among the most appropriate methods for both strategies and that is why company clusterisation for them was made based on it. With competition-based pricing the highest cumulative value of the contingency coefficients is that of the Average Linkage (Within Group) method.

After the choice of the most appropriate clusterisation method for each of the strategies, the criteria influencing the micro-profile preparation are presented in Table 2.

For all the three pricing strategies the criteria that were of importance for the micro-profiling were financial performance and company profit level. It can be concluded that the most important criterion for the profile preparation within the corresponding pricing strategy is company profit.

Table 2

Criteria of greatest importance for the micro-profile preparation based on the Kruskal-Wallis H test

Criteria	Cost-based pricing	Competition-based pricing	Value-based pricing
X3	-	-	-
X4	-	-	-
X5	-	-	-
X25	✓	-	-
X34	-	-	-
X35	✓	✓	-
X36	-	✓	-
X37	✓	✓	-
X38	-	-	✓
X39	✓	✓	✓
X40	✓	✓	✓
X41	-	-	-

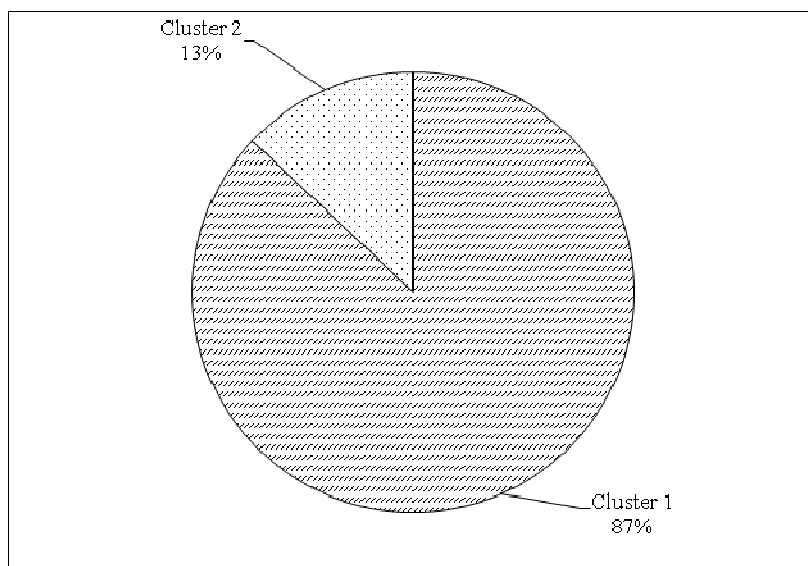
Source: Developed by the authors.

- Micro-profile of the companies that have adopted cost-based pricing

The number of clusters for this as well as for the next strategies is determined based on a cluster dendrogram. After the clusterisation of the companies that have adopted cost-based pricing, the set is divided to two subsamples (Figure 6).

Figure 6

Size of the micro-profiles of the companies that have adopted cost-based pricing



Source: Empirical survey from 2017.

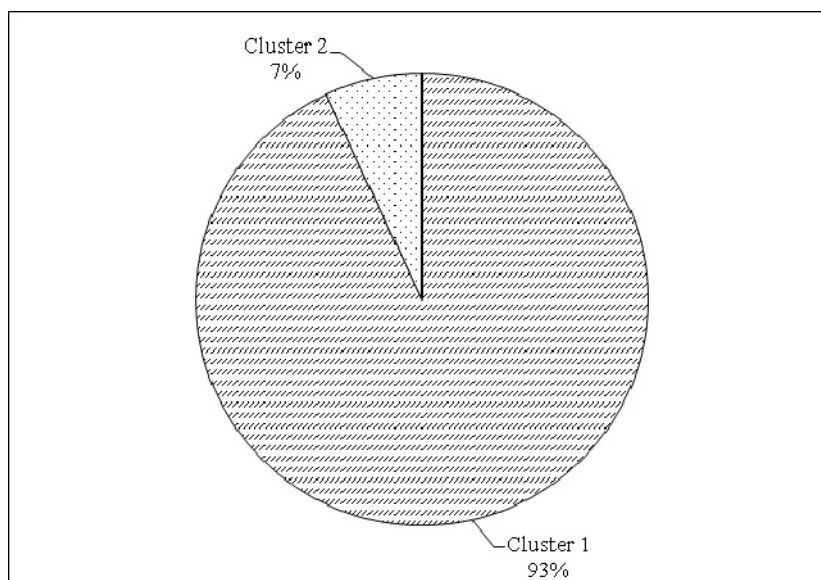
The first micro-profile (Cluster 1) consists mostly of Bulgarian companies operating entirely on the domestic market. These companies are small, with an average monthly number of employees between 10 and 49 people. They offer mainly material products for end consumers. The market share based on the sales volume of their main product is 21-34%. Their sales revenue has increased over the last two years. In the end of the last calendar year they had a positive financial result (profit). They sell their main product at a price at the average level for the sector. The profit they have is at the average level for the sector as well. The managers of these companies are more likely to take risks and make investments in different forms. Over the last three years, these companies have developed and introduced a new product or product line.

The second micro-profile (Cluster 2) consists of Bulgarian companies operating on the domestic market which are micro-, small- and medium-sized. They offer mainly services for end consumers. Their market share is up to 5%. Even though they sell their main product at a price at the average level of the sector and their sales revenue increased on the previous year, their financial result for the last calendar year is negative (loss). The managers of these companies are definitely not willing to take any risks. Over the last three years these companies have not developed and introduced a new product although investments have been made in different forms.

- Micro-profile of the companies that have adopted competition-based pricing

After the clusterisation of the companies that have adopted competition-based pricing, the set is divided to subsamples (Figure 7).

Figure 7
Size of the micro-profiles of the companies that have adopted competition-based pricing



Source: Empirical survey from 2017.

The first micro-profile (Cluster 1) consists of Bulgarian companies operating entirely on the domestic market which are medium-sized. These companies offer mainly services intended for end consumers. They sell their main product at a price at the average price level for the sector. Their market share is between 6 and 20%. Their sales revenue has increased compared to the previous year. In the end of the last calendar year they had a positive financial result. The profit they had is at the average level for the sector. The managers of these companies are sometimes willing to take risks and make investments in different forms. Over the last three years these companies have not developed and introduced a new product or product line.

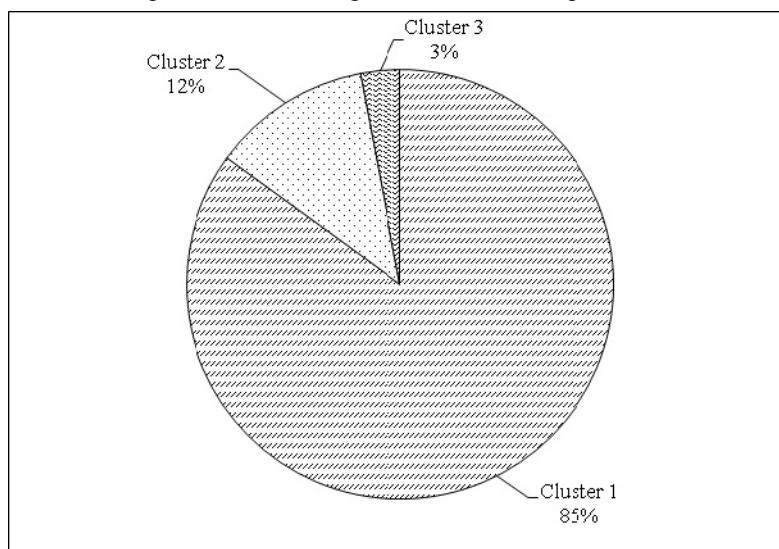
The second micro-profile (Cluster 2) consists mainly of Bulgarian companies operating entirely on the domestic market but there are also companies operating on both the domestic and foreign market. They are medium-sized companies offering mostly services for end customers. Their sales revenue increased in the end of the previous year. The share they have on the corresponding product market is over 35%. They sell their main product at a price at the average level for the sector but they are not at a profit. These companies' managers are definitely unwilling to take risks and there have not been made investments in these firms. Over the last three years these companies have not developed or introduced a new product. Although their sales revenue increased on the previous year and they have a bigger market share at the moment, they have to pay greater attention to their investment and innovation strategies in order to be successful.

- Micro-profile of the companies that have adopted value-based pricing

After the clusterisation of the companies that have adopted value-based pricing, the set is divided to three subsamples (Figure 8).

Figure 8

Size of the micro-profiles of the companies that have adopted value-based strategy



Source: Empirical survey from 2017.

The first micro-profile (Cluster 1) consists mainly of Bulgarian companies entirely operating on the domestic market. They are micro-companies with an average monthly number of employees up to 9 people. These companies offer mainly services intended for end customers. The share they have on the corresponding product market is between 6% and 20%. Sales revenue increased compared to the previous year. In the end of the last calendar year they had a positive financial result. They sell their main product at a price at the average level for the sector. The profit they realize is also at the average level for the sector. The managers of these companies are more likely to take risks. Investments in different forms have been made in these companies. Over the last three years they have developed and introduced a new product or product line.

The second micro-profile (Cluster 2) consists mostly of Bulgarian companies operating on the domestic market. They are small and offer mostly services for end customers. Their market share based on the sales volume of their main product is between 6% and 20%. Their sales revenue decreased on the previous year. They sell their main product at a price at the average level for the sector but they do not realize a profit. The managers of these companies are definitely unwilling to take risks but they have made investments in their companies over the last five years. To this micro-profile also belong companies that have not introduced a new product or product line over the last three years.

The third micro-profile (Cluster 3) includes Bulgarian companies operating on both the domestic and foreign market. They are big and offer mainly material products for end customers. Their market share is between 21% and 34%. Their sales revenue increased compared to the previous year and in the end of the last year their financial result was positive. They sell their main product at a price at the average level for the sector. The managers of these companies are sometimes willing to take risks but have not made investments in their companies over the last five years. The companies from this micro-profile have not introduced a new product or product line over the last three years.

The analysis of the data from the micro-profiles leads to the following findings:

First, regardless of the number of company employees and of the fact that the price of the main product is at the average level for the sector, companies can either work at a profit or at a loss.

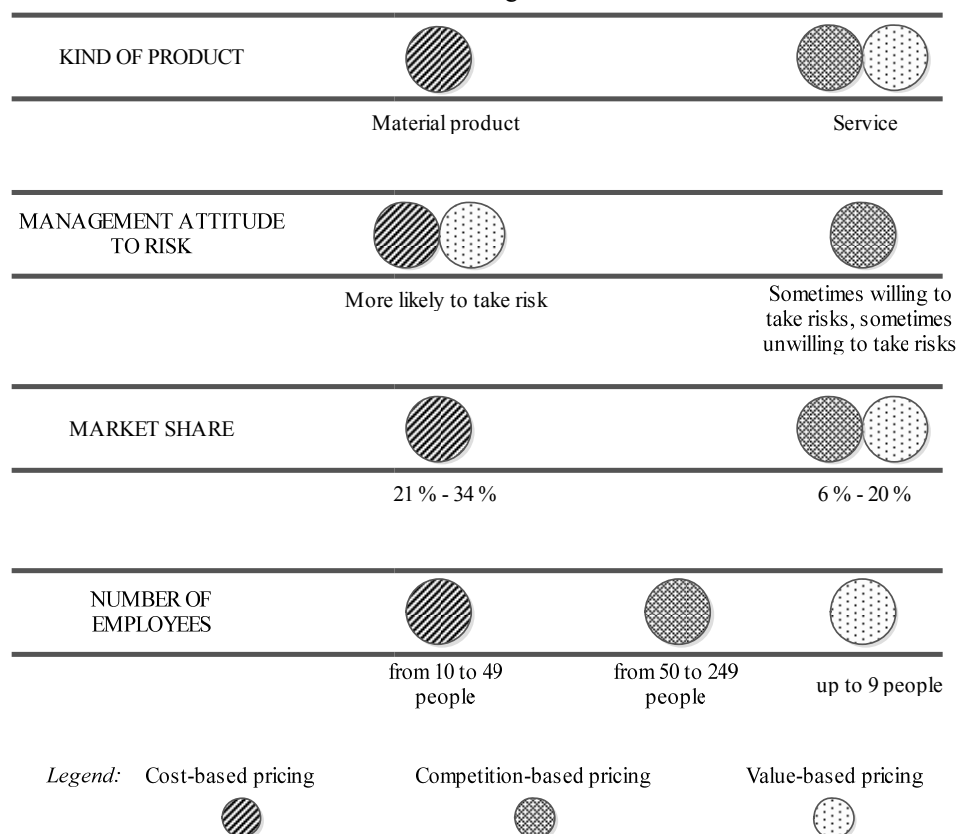
Second, the companies that have adopted the given pricing strategy have a similar model of market behaviour. An indicator for this is the differentiation of a leading cluster within the three pricing strategies which includes 85% of the companies and over.

3.2. Company profiling in terms of the adopted pricing strategy

In order to profile companies in terms of the adopted pricing strategy, the most frequently given answer for each criterion within the given pricing strategy is taken into consideration. It is compared to the distinct clusters by type of strategy. It is observed that there is a complete match between the leading cluster and the most frequently given answer. The comparison gives a reason to conclude that the final profile presents the characteristic features of the companies that have adopted the particular pricing strategy

comprehensively. Below are analysed only the criteria revealing differences between the profiles of the companies adopted the respective pricing strategy (Figure 9) and the following conclusions are made:

Figure 9
Criteria revealing the differences in the profiles of the companies adopted different pricing strategies



Source: Developed by the authors.

First, cost-based pricing is used mostly by companies offering material products. Competition-based and value-based strategies are mostly used by companies offering services. This can be explained with the fact that with material products it is easier to identify and account for the costs of their production and realization. With services this is difficult which is why when calculating and determining their cost base it is costs that are taken but competitors' prices or an emphasis is put on the value that the service provides to the customer.

Second, the management of the companies that have adopted cost-based or value-based pricing is more willing to take risks than the management of the companies using competition-based pricing. In terms of prices, the management of the companies using competition-based pricing prefers not to compete directly with its main rivals but to follow their pricing behaviour. On the contrary, the management of the companies using value-based pricing is proactive and willing to implement a more innovative pricing strategy.

Third, in terms of sales volume of the main product the companies using cost-based pricing have a bigger market share compared to the companies using competition-based and value-based pricing. This can be explained with the fact that cost-based pricing is associated with low price levels whereas value-based pricing is associated with high price levels and under equal other conditions a higher price leads to a smaller sales volume.

Fourth, cost-based pricing is implemented mainly by small companies, competition-based pricing is implemented mainly by medium-sized companies, and value-based pricing is implemented mainly by micro-companies. For big companies it could not be claimed that they use mainly one of these strategies. The use of value-based pricing by micro-companies can be explained with the fact that they are mostly start-ups with a small number of employees but innovative, proactive and following the current trends in all functional spheres of business (including pricing).

In summery, based on the empirical results mentioned in items 3.1. and 3.2., a check of the working hypotheses has been done and its results are given in Table 3. The table shows that of five working hypotheses four have been confirmed completely, one has been confirmed partly and none has been rejected.

Table 3

Hypotheses check results

	Hypothesis	Result
H1:	Most of the companies operating in Bulgaria use the strategy of cost-based pricing with very few companies using value-based pricing.	☑
H2:	Cost-based pricing is mainly used by small-sized companies, competition-based pricing is mainly used by medium-sized companies and value-based pricing is mainly used by micro companies.	☑
H3:	The companies which have adopted cost-based pricing have a bigger market share based on sales volume compared to the companies which have adopted competition-based or value-based pricing.	☑
H4:	Most of the companies which have adopted value-based pricing show better financial results than the companies which have adopted cost-based or competition-based pricing.	○
H5:	The pricing strategy adopted by companies is not influenced by the kind of company (Bulgarian or foreign) or by the kind of consumers a product is made for (B2C or B2B).	☑

Legend: ☑ completely confirmed ○ – partly confirmed ☒ – rejected

Source: Developed by the authors.

Conclusion

The current study has been the first one in Bulgaria focused on the profiling of the companies in terms of the adopted pricing strategy. The object of research is three pricing strategies: cost-based pricing, competition-based and value-based pricing. Even though globally value-based pricing has become increasingly popular over the last years, it is still the least preferred strategy by the companies operating in Bulgaria.

Cost-based pricing is implemented mostly by companies offering material products and competition-based pricing and value-based pricing are used by companies offering services.

The management of the companies that have adopted cost-based and value-based pricing is more willing to take risks compared to that of the companies that have adopted competition-based pricing.

The companies that have adopted cost-based pricing have a bigger market share based on the sales volume of their main product compared to the companies that have adopted competition-based and value-based pricing.

With all three strategies, most of the companies realise a profit at the average level for the sector but the biggest relative share of the companies with a profit above the average level for the sector is that of the companies adopted value-based pricing.

Value-based pricing is mostly implemented by micro-companies, cost-based pricing is mostly implemented by small companies and competition-based pricing is mostly implemented by medium-sized companies.

Company profiling in terms of the adopted pricing strategies is a vast and multifaceted subject. In order to achieve greater depth when considering this problem, it is possible to differentiate companies by other pricing strategies, by economic sectors or in several countries and to analyse the results in a comparative aspect. These directions provide new opportunities and challenges for future pricing research.

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