

Examining the Relationship between Pricing Strategies and Marketing Activities: Customer Relationship Management, Customer Service and Effectiveness of Promotion Activities

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ABSTRACT — Today, it is necessary that managers consider pricing as a strategic step than an automatic and rapid decision. Lack of an appropriate pricing strategy can lead to lower sales, lose customers and lose market share and profits. Therefore, purpose of the study is to examine pricing strategies and their relationship with marketing activities in producer and service companies in Tehran. Among eight introduced marketing processes, we will review three processes: customer relationship management, customer service and effectiveness of promotion activities and its relationship with pricing strategies. Given the normality of the obtained data from the population and using parametric methods and Pearson's correlation coefficient, we examined the hypotheses. The results confirmed the relationship between all independent and dependent variables of the research; in other words, there is a significant relationship between pricing strategies and marketing activities.

KEYWORDS: price, pricing strategy, customer relationship management, customer service, effectiveness of promotion activities, marketing activities.

Introduction

If producers are faced with uncertainty about future price of their products, they will show different behaviors (Minaqawa, 1998). On economic issues, especially microeconomics, price determination is one of main activities (Christensen, 1997). Lack of reasonable price to offer to market and lack of a proper guide to determine price have caused that many companies introduce goods or technologies to market that are not comply with the desired price of market (Ravi et al, 2003). In the past, it has been customary that buyers and sellers bargained with together to determine price. Thus, sellers offered a higher price than their expected price and buyers offered a price less than their expected price. After discussions and bargaining, both parties finally agreed on a price (Kotler & Armstrong, 2008). On the other hand, price shows understanding of seller and customer on product value (Che, 2009). Price is the most flexible element in marketing strategy, while pricing decisions can be relatively implemented faster than other elements of marketing strategy (Avlonitis & Indounas, 2005). Adjustment of prices is called pricing strategy. The purpose of pricing strategy is stability and sustain optimal price by maximizing the current profits and number of sale units (Dolgui & Proth, 2010). Product pricing decisions are main core of any business plan and will affect marketing strategy directly. All organizations, whether profit or nonprofit, have to determine price of their goods or services that the issue is affected by domestic or foreign factors of companies. Internal environment factors of a company include objectives, policy, combining elements of marketing and corporate costs. Some environmental factors include nature of market and demand, competitive conditions and brokers. When a consumer buys a product, in fact, he the will exchange a value with another one. The lost value is the paid price for goods and his acquired value is advantages of having the goods. Today, developing an appropriate pricing strategy is a difficult task and at the same time, it is essential for industrial companies' managers, so that failure in full understanding of correct pricing decisions will lead to lose profitable opportunities in market. Pricing is a multi-dimensional process influenced by product, profit margin level and customer relationships. In this article, we attempt to provide insights for managers, in which they understand the importance of developing appropriate pricing plan and they will be informed the effects of data on correct and optimal pricing. On the other hand marketing capability helps a company create a strong relationship between customers and other members. Marketing literature suggests that companies use their activities to change resources to output that are relevant with firm performance (Nath et al, 2010). There has been discussed the role of marketing activities as a source for competitive advantage in marketing strategy (Akdeniz et al, 2010). Srivastava, Shervani and Fahi (1999) suggested that assets and capabilities have enabled a company to implement organizational processes effectively (Ramaswami et al, 2006). Hunt and Morgan (1995) also stated that competitive advantage in tangible and intangible resources will create competitive advantage for company and ultimately provide higher values for to company and its customers. Those organizations with emphasizing on developing key capabilities have better ability to obtain and maintain distinct

competitive position (Vorhies, 1998). Therefore, a set of capabilities are necessary as basis to develop sustainable market advantage and thus create organizational benefits (Ramaswami et al, 2006). History and literature of the present research suggest that pricing strategies and marketing activities have been evaluated separately and independently. It has been less investigated the issue of pricing strategies and marketing activities to what extent are associated with each other. Therefore, studying the research is important from two aspects: firstly, in terms of the adopted pricing strategies and examining marketing activities by the studied companies; secondly, examining whether the adopted pricing strategies by the studied companies are related with marketing activities or not. Negligibly, we will study objectives including 1) determining the relationship between product pricing strategies and marketing activities; 2) determining the relationship between pricing strategies and customer relationship management; 3) determining the relationship between customer service; and 4) determining the relationship between the effectiveness of promotion activities.

The Research Theoretical Literature

Price and Pricing

Price is the paid money for a product or service. In a more comprehensive definition, price means the paid interest by consumers for benefits of having or using the product or service. In different markets, price of goods and services will be determined based on the Theory of Price. However, the determined prices in all markets are not necessarily prices with economic performance; in the other words, they cannot provide maximum benefit of society. Therefore, there is arose determining optimal price or issue of pricing in these markets. Pricing will be set to maximize profits, increase market share, quality leadership, and survival and increase market price (Kotler & Armstrong, 2008). In other words, pricing means set price for goods or services. Pricing is an activity that should be repeated and it is a continuous process. The continuity is resulted by environmental changes and instability of market conditions that creates necessity of price modification (Shipley & Jobber, 2001).

Pricing Plan

Developing and expanding a model of pricing plan requires cooperation with different sections of company. For appropriate pricing plan, the following three prerequisites are necessary in organization: 1) considering primary objective and understanding customers and market trends correctly; 2) having a pragmatic management process to develop and implement pricing plan; 3) performing a proper pricing plan with willingness to engage in pricing process. Researchers believe that if we want to have a proper pricing plan for our company, we should consider seven basic steps (Dolan and Simon, 1996):

- (1) Having a summary of pricing strategies: In short, it contains a general description of different parts of an organization as well as a pricing statement that states company's goals and strategies verbally. It tends to clear the matter for manager that how company can express its pricing based on annual targets.
- (2) Evaluating the current pricing of company: At this step, there will be determined details of general pricing policy of the company.
- (3) Pricing based on analyzing weaknesses, strengths, opportunities and threats: At this step, price is determined based on very general and comprehensive analysis. Determining strengths in enabling company are very important to maintain market share and profitable position.
- (4) Determining pricing strategy: This step refers to the fact that it should be identified the target market that pricing strategy should be defined for it; type of strategy is also determined by receiving information from other systems of organization.
- (5) Determining pricing objectives: In this section, it must be determined objective of pricing. It can be determined based on how much rate of return on capital in the future and how much percent of market penetration rate.
- (6) Determining pricing plan: This section can include describing certain products or production lines that both of them can be increased and decreased by fluctuations of price.
- (7) Price control and revision: The final step is to create a set of control measures for success in pricing. It can be controlled weekly or monthly on target market, product profit and market share.

Pricing Strategies

Today marketing and selling products and services are based on pricing methods. Oxenfeldt (1983) believes that pricing methods are clear steps and procedures that by considering them, a firm can decide on prices. Comprehensive reviewing history and literature of pricing identified twelve pricing methods that they can be divided into three categories: cost-based, competition-based and demand-based methods (Avlonitis & Indounas, 2005).

(1) Pricing Method based on Market Demand

Conducting product pricing based on market demand means pricing process of products and services is based on a value that customers consider for our products compared with products of competitors. Firms use this pricing method for low pricing with keeping real product value; of course, pricing methods based on market demand are efficient when clients have no sensitivity on price, in other words, in some cases, a specific group of consumers think that price of a product will be decreased when it has a little value. In such conditions, when there are certain customers in target market, this method cannot be used. In Iran, pricing is not consistent with real value of product, firms should review their prices for sale and marketing their products and they determine price of their products in equivalent to the real value of each product. It is based on the following types:

Penetrative or Powerful Pricing: When companies want to increase their power and influence in a particular market use this approach, in other words, they will supply their products to market at a lower price to take a specific market. However, this method is efficient and effective when consumers are sensitive to prices. For instance, in the past few years, Tehran Municipality has used this method for publishing and distributing the colored newspaper that is very expensive.

High Pricing: When companies supply an innovative and creative product to consumer market, they will select a high price because of unrivaled for the product. However, this method will be lucrative for a short period and when competitors supply product similar your product in market, you should decrease your prices and consider a price like your competitors. Of course, considering high pricing method will help you to compensate your paid macro capital for production and innovation.

Category Pricing: When a company produces more than one product in various branches, it must use this method of pricing. It means creating several price levels that cover entire production line and the produced goods. For example, clothing manufacturers consider different prices for their various products. As a result, consumers will buy a group of products that they can buy them, according to their money. However, in some cases, there may be selected same prices for all products, which the pricing method pricing is referred as similar pricing.

Prestige Pricing: Using prestige pricing, companies can induce high quality for consumers. As prestige pricing method selects high prices for products or services, you can use the methods for items such as watches, clothes, perfumes, colognes, jewelry, carpets and cars. Prestige pricing has a similarity with rich pricing: expensive price. They have also differences: firstly, companies can use prestige pricing method for a long-term in their pricing process, while rich pricing is short-term and it cannot be used after emerging a rival to market; secondly, in prestige pricing method, marketers will introduce cost as a part of product image, while rich pricing does not follow such an objective and main purpose is to gain high profit.

Pricing Methods based on Compete with Competitors in Product Sales Market

Competition is the most important factor in pricing methods based on competes with competitors in product sales market. To use this method, you must provide a price list of competitors and announce prices with that list competitively. Now, we will describe different competitive pricing models to clear the procedure of performing the method:

Pricing Method to Find Position in Market: This pricing method is used to fine product place on competitive market, but there is an important issue that products should maintain their prestige on market; therefore, it should not extravagagate to lower prices. For example, in competitive automotive market, Hyundai Company has been introduced as a manufacturer of low-cost automobiles by offering inexpensive automobiles with reasonable price.

Leader Pricing Method: Some companies try to attract customer of competitor companies toward their products and services using leader pricing, in a simple word, lowering price of one or more specific and best-seller products considerably. Using this method, companies can increase their net profit and attract customers of competitors and selling other products with few sold cheap ones reasonably. In such situations, profit of the products should be lowered in a way that is considerable. They can ignore benefits of the products and compensate profit of the products in pricing other products.

Pricing Methods based on Cost Price of Product

When organizations want to use pricing methods based on cost price of product, they should carefully consider all aspects and consider two important factors, namely understanding customer and competition in products and services' market. It is also necessary to mention that this method should be combined with other methods to avoid ignoring production costs and customers' understanding. Now, we introduce various models of cost price of product for clear description of the procedure:

Pricing based on Experience Curve: Pricing method based on experience curve means that production and marketing costs will be certainly reduced by developing business and enhancing experience. In the method, due to reduce production and marketing costs over time, current prices should be provided based on estimating future costs.

Pricing Method based on Product Cost Price together with Profit: In this pricing method, marketers set costs and specifically, they add percentage of costs to product cost price. This technique is mainly used in retail and wholesale due to its simplicity that it is also referred as pricing method with profit share.

Marketing Activities

As any business expands capabilities that in reality of their competitive market, they root in past commitments and the forecasted requirements, it is not possible to enumerate all capabilities. However, there are investigated reliable types of capabilities that can be considered in any business to respond vital processes. Some capabilities are known easier than others usually because of their inter-organizational activities. Emerging and prevailing capabilities that has been used successfully outside an organization will lead to some observations to study and argue, which companies define them as what they can do them as well as demands they search to be satisfied. This approach is not balanced because it is capacity of business that uses the potential of internal capabilities to exploit external ones. Therefore, there should be a comparison between the external capabilities with understanding the possibilities and make-decisions about how to provide the best (Day, 1994). Marketing capability is defined as an integrated process that using its tangible and intangible resources, a company understands specific needs of consumers and achieves differentiated products than its competitors as well as achieves an equity with a superior brand (Nath et al, 2010).

In the current studies, marketing capabilities have been defined as process of applying knowledge, skills and resources of organization to create value-added for products and services, satisfy competitive needs and response to market-related needs (Day,

1994). The importance of learning processes has been emphasized to develop marketing capabilities, especially when employees can solve marketing problems rapidly using their knowledge and skills. To describe marketing capabilities of a company, we will describe special marketing processes that can be consistent with competitive strategy of company (Rezaei Dowlatabadi & Khaef Elahi, 2006). Weerawardena (2003) has divided processes of marketing activities into eight processes as follows: service to customers (doing a defined work that includes buyer satisfaction or user's needs); the effectiveness of promotion activities to gain market share and sales growth; customer relationship management; powerful distribution networks (ability to manage channel, relationships with distributors); amount of the committed resources for advertising that consider advertising costs as a percentage of functional sales; marketing studies of company (as a set of required processes to learn about customer needs, especially latent needs, monitoring competitor products and providing services); ability to differentiate the supplied products to market by company (imaginary reinforcing products by showing attributes other than price such as higher quality, imagine or services); and finally, speed of introducing product because rapid development of new products and services is an integral part competitive innovation basics. From these eight processes, we will examine three of them: customer relationship management, customer service and the effectiveness of promotion activities and their relationship with pricing strategies.

Conceptual Hypotheses and Models of the Research

According to the mentioned literature, the following hypotheses will be examined and tested. This is an integrated model of pricing and marketing activities strategies, so that pricing strategies are a combination of the suggested strategies by Esmailpoor (2008), Avlonitis and Indounas (2005), Dolgui and Proth (2010) and Kotler and Armstrong (2008). To offer our model for marketing activities, we have used from the suggested dimensions of marketing activities by Rezaei Dowlatabadi and Khaef Elahi (2005), taken by Atuahene-Gima (1993):

Main Hypothesis: there is a significant relationship between pricing strategies with marketing activities.

The First Sub-Hypothesis: there is a significant relationship between pricing strategies with customer relationship management.

The Second Sub-Hypothesis: there is a significant relationship between pricing strategies with customer services.

The Third Sub-Hypothesis: there is a significant relationship between pricing strategies with the effectiveness of promotion activities.

The Research Empirical Basics

Methodology

The present research is an applicable one objectively and it is a correlation research in terms of method. In terms of grouping studies and collecting data, in other words, in terms of research plan, it is a descriptive one that has described sample features and then generalizes the features to the population. Descriptive studies include several categories, which we have used survey type in the present research. In summarize, it can be said that the research is a descriptive-survey and correlation type, in terms of method.

Population Society and Sample

Subjects: We have used manufacturing and service companies to achieve the research objectives. For this purpose, its population consists of manufacturing and service companies in Tehran.

Sampling Method and Sample Size: There has been used from simple random sampling method in the research. As we have a full access to manufacturing and service companies, we evaluated the sample size according to the following formula:

$$n = \frac{z_{\alpha/2}^2 \times S^2}{d^2}$$

In this formula, S^2 is the most important parameter that should be estimated because it is variance of the prototype. To calculate S^2 , there were distributed 25 questionnaires between the prototype and its variance was calculated (0.0729). $z_{\alpha/2}^2$ is a fixed amount that depends on confidence distance and error level (α). Usually, error level is considered as 5% or 1%, which we consider 5% for the level in the research. Therefore, confidence level will be 0.95. Thus, according to statistical table, value of $z_{\alpha/2}^2$ will be 1.96 and d-value is considered 0.05 based on the error level. Thus, according to the obtained numeric value by the formula, the sample size will be 112 persons; but by considering the possibility that some questionnaires are filled incorrectly or not get back, there were distributed 150 questionnaires, which there were used 115 questionnaires.

Data Collection Tools

In the present research, the data was collected through library studies and standard questionnaires, so that binary scale applications were used for pricing strategies and methods (1 for Yes and 0 for No). It determines that companies have selected which method. Atuahene-Gima Questionnaire (1993) with Likert scale was used for marketing activities, which Rezaei Dowlatabadi and Khaef Elahi (2005) have used in Iran. To calculate reliability using Cronbach's Alpha, there was pretested a prototype containing 25 questionnaires in available services companies. According to the obtained results and as Nunally (1978) considers 0.7 as the

minimum reliability coefficient for research questionnaires, it is seen that the obtained Cronbach's Alpha Coefficient is more than this value.

Data Analysis

Firstly, as shown in Table 1, we examined data normality at confidence level of 95% using Kolmogorov-Smirnov Test. As you can see, significance level (.sig) of all variables in the research is larger than significant level (0.05). Therefore, we accept hypothesis of data normality and use parametric methods and Pearson Correlation Coefficient to examine hypotheses.

Table 1. Results of data normality for the research variables

		Pricing Strategies	Customer Relation Management	Customer Service	Effectiveness Of Promotion Activities
	Number of data	115	115	115	115
Normal parameters	Mean	3.4386	3.1489	3.4638	3.4493
	Standard deviation	0.48441	0.79797	0.36251	0.69254
	Kolmogorov-Smirnov statistic	.748	1.077	1.143	1.292
	Significance level (Sig.)	.630	.197	.147	.072

Results of Testing the Research Hypotheses

According to the SPSS software output in Table 2, we have examined the research hypotheses in Table 3.

Table 2. Correlation coefficient between the research variables

		Pricing Strategies	Marketing Activities	Customer Relation Management	Customer Service	Effectiveness of Promotion Activities
Pricing Strategies	Pearson Correlation	1	.753**	.594**	.516**	.393**
	Sig. (2-Tailed)		.000	.000	.000	.000
	N	115	115	115	115	115
Marketing Activities	Pearson Correlation	.753**	1	.351**	.382**	.453**
	Sig. (2-Tailed)	.000		.000	.000	.000
	N	115	115	115	115	115
Customer Relation Management	Pearson Correlation	.594**	.351**	1	.202**	.108
	Sig. (2-Tailed)	.000	.000		.006	.150
	N	115	115	115	115	115
Effectiveness Of Promotion Activities	Pearson Correlation	.393**	.453**	.108	.516**	1
	Sig. (2-Tailed)	.000	.000	.150	.000	
	N	115	115	115	115	115

** Correlation is significant at the 0.01 level (2-tailed).

Table 3. Summarizes of results of testing the research hypotheses

Research hypotheses	Test results	Sig	Correlation coefficient	Overall result
Main hypothesis	Correlation between variables of pricing strategies with marketing activities is 0.516 that indicates relatively strong positive correlation.	0.000	0.753	Accepted
First sub-hypothesis	Correlation between variables of pricing strategies with customer relationship management is 0.030 that indicates almost no correlation.	0.000	0.594	Accepted
Second sub-hypothesis	Correlation between variables of pricing strategies with customer service is 0.590 that indicates relatively strong positive correlation.	0.000	0.516	Accepted
Third sub-hypothesis	Correlation between variables of pricing strategies with effectiveness of promotion activities is 0.382 that indicates relatively weak positive correlation.	0.000	0.393	Accepted

Discussion and Conclusion

Previous and current studies show that pricing is one of key and important elements in market and it is vital for success and failure companies. Many companies have been failed due to lack of considering pricing. As a competitive advantage and success factor for organizations, pricing has been studied from several aspects. Marketing researchers consider pricing as a behavior, culture, information current, decision-making and strategic planning. They consider pricing as one of the lowest cost method to solve

problems on customer and customer management. They believe that pricing can lead to high level of customer satisfaction and loyalty. It can attract new customers and access proper level growth, market share and organizational performance. Available evidence suggests that pricing will result to positive performance for organizations. Marketing capability helps a company to establish a strong relationship between customers and other members. Marketing literature suggests that companies use their activities to change resources to output that are relevant with firm performance. Marketing capability is defined as an integrated process that using its tangible and intangible resources, a company understands specific needs of consumers and achieves differentiated products than its competitors as well as achieves an equity with a superior brand. Main hypothesis of the present research is that pricing strategies play an important role to improve marketing capabilities and individual and group efforts of personnel in an organization can be coordinated through pricing, in order to create higher value for customers better than competitors and access a desired performance. According analyzing the research data, the results indicate that pricing strategies have a significant effect on aspects of marketing activities in the studied companies. In other words, there is a significant relationship between pricing strategies with aspects of marketing activities (customer relationship management, customer service, effectiveness of promotion activities and marketing researches).

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