

# Pricing as a Market Entry Strategy – A Study of Exporters of Haryana

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## ARTICLE DETAILS

### Article History

Published Online: 10 January 2019

### Keywords

Market Entry, Product Pricing, Export, International Trade

## ABSTRACT

Pricing of a product is a very important element for the success of a business firms. It is a major factor that influences a firm's revenues and its profitability. It may impact the growth, expansion and even survival of the firm. The objective of the study is to find out how the exporters use pricing as a market entry strategy. The study shows that 'competitive price' is followed as 'market entry strategy' by most of the sample unit irrespective of their status. Similar results were obtained through industry-wise analysis. Response in respect to 'price change in comparison to foreign competitors' 'all exporters' category shows that 'comparable price' is the choice of majority firms. Premium prices were also being charged by a significant number of firms, particularly status firms. Industry-wise analysis highlights that majority of Food processing units charged higher prices as compared to their foreign competitors. Textile and Engineering units were found to prefer comparable prices.

## 1. Introduction

Product pricing is a vital decision which carries multi-dimensional impact. It is a crucial decision which is to be taken in accordance with the objectives of the firm. Market situation guide the firms to determine their pricing objective. It may vary from to find an entry in a highly competitive market, to fight out competitors, to execute growth and expansion plans and sometimes just to survive. There are three basic factors that determine the limits of pricing decisions. While cost of the product serves as the floor price, the purchasing power of the buyer fixes the upper limit of the price of the product. Generally, the price is fixed somewhere in between by demand and supply forces of the market. A wrong decision about price may destroy the prospects of any firm whereas a right decision in this respect might brighten the future of enterprise.

## 2. Objective & Research Methodology

In the present study an effort has been made to identify that how the exporters use pricing as a market entry strategy. A sample of 76 exporting units has been chosen comprising of three industries having a major contribution to the export basket namely Textile industry (32 units), Food Processing industry (20 units) and Engineering & other industries (24 units).

To collect the information, the questionnaire has been administered to sample units personally. Secondary data has been collected from various published sources including but not limited to offices/libraries of Texprocil, APEDA, EEP, ITPO, CII (Delhi, Chandigarh. The reference year for collection of data is 2014-15. The analysis of the data has been carried out by using arithmetic mean, percentage and ranking. Comparative analysis has been conducted on the types of industry and export status. The unit enjoying any special status by D.G.F.T. (Director, General of Foreign Trade) e.g. Export House, Trading House etc. have been termed as special status units and other units that do not possess any of such status are termed as non-status units.

## 3. Review of Literature

Pinto (2007) verified that the entry or launch strategy is a key determinant of the success or failure of product innovations. Neubert (2013) suggested that managers base their pricing decisions in foreign markets on an extensive analysis of internal and external information. Due to missing access to relevant market information (Iyer, G. R., Xiao2015) and high levels of uncertainty in foreign markets (Hallberg, 2017), there is a tendency towards suboptimal pricing strategies (Iyer et al., 2015). As per Arregle(2006), the chosen entry mode has significant implications on performance. It determines whether accompany has full control over the foreign unit or has to share control with a partner.

As per Kaplinsky (2006) developing countries entering international markets they might face insufficient and/or highly elastic demand and start a 'race to the bottom' driving prices of exports downward. Gorodnichenko & Talavera (2016) established that online distribution channels greatly increase price transparency, which leads to reduced price differentials between countries and a global standardization of prices.

## 4. Market Entry Strategies

In international market, pricing decision becomes all the more crucial. One cannot ignore competitor's price. The firm has to keep an eye on the prevailing prices in the market. Accordingly, the firm can charge higher or lower price than competitors.

### Status-Wise Analysis

Table – I signifies that 'Competitive prices' are followed as market entry strategy by 83 per cent of all the exporters and 14 per cent firms follow 'lower than competitors' pricing strategy, only 3 per cent of firms have reported that they charge higher prices than their competitors. A large majority of firms belonging to special status (84 per cent) as well as non-status firms (82 per cent) have been found to follow 'Competitive prices', and a very small percentage of firms has been found to follow 'higher than competitors'.

**TABLE - I**  
**PRICING STRATEGY USED FOR MARKET ENTRY: A STATUS-WISE ANALYSIS**

Pricing Strategy	All Exporter	Special Status (%)	Non-Status
Competitive Price	83%	84%	82%
Lower than Competitors	14%	14%	15%
Higher than competitors	3%	2%	3%
Total	100%	100%	100%

**Industry-Wise Analysis**

Industry-wise analysis according to Table-II presents no different picture. More than 80 per cent in all three categories have been found to follow competitive prices. In case of textiles and engineering industries, only 3 to 4 per cent have been

found to charge prices higher than their competitors. Highest percentage (20 per cent) of firms resorting to prices lower than their competitors at entry stage belongs to food processing industry.

**TABLE - II**  
**PRICING STRATEGY USED FOR MARKET ENTRY: AN INDUSTRY-WISE ANALYSIS**

Pricing Strategy	Textiles	Food Processing	Engineering
Competitive Price	84%	80%	83%
Lower than Competitors	13%	20%	13%
Higher than competitors	3%	–	4%
Total	100%	100%	100%

**5. Prices vis-a-vis Foreign Competitors**

**All Exporters and Status-Wise Analysis**

Responses to the question item 'Prices charged in comparison to the foreign competitors' are enlisted in Table-III. The aggregate analysis (All Exporter's) reflects that 44.74 per cent of all the firms have reported that their prices are 'comparable' while 35.33 per cent claim to charge somewhat more in comparison to their foreign counterparts and 7.89 per cent have been able to charge prices considerably greater than foreign competitors prices. 9.21 per cent of firms are reported to charge somewhat lower and considerably lower prices are charged by only 2.63% of firms.

The status-wise analysis shows that majority of firms (48.84 per cent) have been able to charge not only prices comparable to their foreign counterparts but also somewhat greater than them (44.18 per cent) and considerably greater (4.65 per cent) even. Only 2.33 per cent of special status firms charge prices lower than foreign competitor's prices. Approximately one-fourth (24 per cent) of non-status firms have been found to charge either somewhat lower or considerably lower prices. Out of remaining 75 per cent firms as many as 39.39 per cent have reported to charge comparable prices, 24.24 per cent somewhat greater prices and 12.12 per cent considerably greater prices.

It may be inferred that the prices of our domestic exporters are generally higher than their foreign counterparts as about 43 per cent firms have reported their prices to be somewhat greater or considerably greater. While only about 12 per cent have reported their prices to be lower or considerably lower than their foreign competitors. Out of these 12 per cent firms, who have reported to charge lower prices, 10 per cent belong to non-status group of firms. Therefore, it may be concluded that it is the non-status group that make most use of lower prices in order to fetch more sales. In view of the intense competition in international markets, it is next to impossible to fetch higher prices unless the product is supported by better

differentiation (e.g. uniqueness and/or quality). The premium pricing highlights the competitiveness of Indian export industry.

Industry specific status wise results tell us as many as 44 per cent of special status firms exported their products either at somewhat greater (40 per cent) or considerably greater (4 per cent) prices. In case of non-status firms only 14.28 per cent sold their products at somewhat greater prices while majority of firms exported their products at either comparable prices (42.86 per cent) or at somewhat lower prices (42.86 per cent). It seems that while special status firms are able to charge higher prices by providing quality goods and thus consolidating their position, non-status firms try to maximise their sales by charging lower prices.

Among firms of food processing industry, no significant difference was noticed as between special status and non-status firms. No firm of this group charged prices lower than the competitors. 35.71 per cent of special status and 33.33 per cent of non-status firms charged comparable prices. 64.28 per cent of special status firms charged higher prices than the competitors while 66.67 per cent of non-status firms also reported to charge higher prices than their competitors. Special status firms of engineering industry exported their products either at comparable prices (75 per cent) or at somewhat greater prices (285 per cent).

However, 25 per cent of non-status firms were found to charge somewhat lower prices (15 per Cent) or considerably lower prices (10 per cent). 35 per cent of firms of this category have reported to charge either so somewhat greater (20 per cent) or considerably greater prices (15 per cent).

Out of total 12 per cent firm Who have reported to charge lower prices, 10 per cent belong to non-status group of firms. Therefore, it may be concluded that it is the non-status group which make most use of lower prices in order to fetch more sales.

**TABLE - III**  
**RESPONSES TO QUESTION ITEM 'PRICES CHARGED IN COMPARISON TO FOREIGN COMPETITORS' ACCORDING TO STATUS**

Status of Export	No. of Responses	Considerably lower	Somewhat lower	Comparable	Somewhat greater	Considerably greater	Total
Special Status	43	–	2.33	48.84	44.18	4.65	100%
Non-Status	33	6.07	18.18	39.39	24.24	12.12	100%
All Exporters	76	2.63	9.21	44.74	35.53	7.89	100%

**TABLE - IV**  
**RESPONSES TO QUESTION ITEM 'PRICES CHARGED IN COMPARISON TO FOREIGN COMPETITORS' ACCORDING TO THE TYPE OF INDUSTRY**

Type of Industry	No. of Responses	Considerably lower	Somewhat lower	Comparable	Somewhat greater	Considerably greater	Total
Textiles	32	–	12.5	50	34.37	3.13	100%
Food Processing	20	–	–	35	55	10	100%
Engineering	24	8.34	12.5	45.83	20.83	12.5	100%

**Industry-Wise Analysis**

Table-IV records industry-wise analysis of responses regarding question item 'Prices charged in comparison to foreign competitors.' Not even a single firm belonging to food processing industry was not found to export its products at lower than competitor's prices. 35 per cent of the total firms of this industry exported their products at comparable prices, 55 per cent at somewhat greater prices and 10 per cent at considerably greater prices. In case of textile industry except for a small percentage (12.5 per cent) of firms exporting their products at somewhat lower prices, the exporting firms sold their product at comparable prices (50 per cent) or more than that (34.37 per cent of textile firm). About 21 per cent of firms belonging to engineering industry charged either somewhat lower (12.5 per cent) or considerably lower (8.34 per cent) prices, however 45.83 per cent charged comparable, 20.83 per cent somewhat greater and 12.5 per cent considerably greater prices.

**6. Findings & Conclusion**

'Competitive price' is being followed as 'market entry strategy' by most of the exporters irrespective of their status. A very low percentage of exporters follow 'higher than competitors' price strategy. Industry wise analysis also brings out the similar results except that no unit from Food processing industry was found charging higher price than competitors, while considerably greater percentage of exporting units of this industry charged lower price than their counterparts. It appears

that food processing industry faces more competition as compared to the other two industries in entering the market and has to resort to charging lower prices in order to penetrate the market.

As regarding responses to the question item 'prices charged in comparison to foreign competitors' status-wise analysis shows that 'all exporters' category reveals that majority of firms charge comparable prices while a significant number of units charged 'somewhat greater' price. Special status category also charged 'comparable price' and 'somewhat greater price' It appears that a good number of status firms charge 'comparable prices'. Percentage number of firms charging 'somewhat greater price' of this category is almost half that of special status firms. It shows more status firms are charging premium prices as compared to non-status firms. A significant percentage of non-status firms is also found to charge 'somewhat lower' as well 'considerably greater' prices.

Industry-wise analysis highlights that responses from Food processing units is restricted to three points of sale i.e. comparable, somewhat greater and considerably greater with majority is found to charge premium prices. Most of the Textile units charge 'comparable prices' and significant number of units also charge premium prices. Responses of Engineering industry shows majority of firms change comparable prices while some units also charge higher prices than competitors.

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