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### **Authors**

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## **Pricing in International Marketing and Western European Economic Integration**

### **Abstract**

- A survey investigating relations between international pricing and Western European Economic Integration was carried out among export-orientated firms in Britain, France and Germany (old federal states).
- Against the background of the developing European Common Market, price differences arisen from market orientation of international pricing must give way to an approach in which possibly remaining cost differences play a more dominant role.
- Direct distribution channels may help firms to achieve a high level of central control over final prices.

### **Key Results**

- Even if a deliberate price harmonization is to take place, it would probably be necessary for firms to exert greater influence on the fixing of international pricing patterns.

### **Authors**

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## Economic Background

In the second half of the eighties the European Community (EC) Internal Market, planned for 1993, was in the centre of media and public discussions. Then, the political change in Eastern Europe led many enterprises to focus their attention on conceivable activities in this part of the world. However, many of the initial attempts of firms to establish themselves, e.g., in the form of trade or direct investment in Eastern European Markets were disappointing. Some enterprises had to experience that the way towards the building of a workable market economy based on the remnants of the planned economy was, to an unexpectedly great extent, connected with obstacles. Accordingly, the main part of the trade within the European sphere takes place as ever amongst the Western European neighbouring countries.

The opening of borders between the former two Germanies temporarily led to a push in economic activity because together with the German reunification an additional sales market was established. Demand resulting from this event could also be perceived in Germany's Western European neighbouring countries. Therefore, the German reunification can be seen as a further example how levels of business activities in individual countries influence each other and to what extent Western European countries rely on each other for a brisk exchange of goods and services.

Besides the developments mentioned, the creation of a Common Market, which was laid down in the Single European Act of 1986, continued. Not all real barriers of trade had been removed by 1993, and some bureaucratic barriers – e.g., with respect to the collection of data on trade for tax purposes within the Common Market – have even been replaced by new acts of administration. Nevertheless, within the survey to be described below the answers of the responding firms with respect to the statement – “A uniform market including the majority of countries in Western Europe” – “is at present perceptibly in formation” (37.6%) – “will develop during the next few years” (29.0%) – “developed in the last few years” (14.8%) – “has existed for a long time” (12.2%) – “will not even exist in the future” (6.3%) – show to what extent the process of Western European Economic Integration is taken into consideration in managerial decision making.

Even though – in the course of a debate about the Maastricht Treaty – there was a lot of talk about some mood of “crisis” with respect to the continuation of Western European Economic Integration, the EC Internal Market has become reality – at least formally – since January 1, 1993. A gradual coming-together with the economies of the European Free Trade Association (EFTA), either by applying principles of the EC Internal Market to an extended European Economic Area (EEA) which comprises the EC and the EFTA or by an entry of EFTA countries into the EC, is irreversible.

Against this background certain questions present themselves, e.g., as to what extent the respective changes in business environment have influenced the perspectives and marketing-orientated approaches of enterprises, and which concepts are appropriate in order to successfully overcome those managerial challenges that accompany such changes. Effects of Western European Economic Integration with respect to marketing strategies were amongst the topics which have been investigated with the help of a survey where special emphasis was given to international pricing for which far-reaching changes are expected. Selected results of this survey follow later in this paper.

### **Overview of the Literature on International Pricing**

Referring to a statement by Rao (1984) that "Despite the high importance of price, academic research on pricing issues in marketing has been modest at best.", Cavusgil (1988) notes: "The neglect of international pricing is even more serious." Early references on international pricing date back to the sixties (see, e.g., Business International (1965) and McAlley (1967)). Later, the management of international prices was mainly discussed in chapters of textbooks on International Marketing. Before the beginning of the eighties, intracorporate transfer prices have been in the centre of many discussions on international pricing (7 out of 13 references given by Cavusgil/Nevin (1981) in their "State-of-the-art" with respect to pricing in International Marketing referred to transfer pricing). More recent publications on international pricing have dealt with topics such as costing principles, price escalation, factors influencing international prices, international price differences, centralization of pricing decisions and currency issues (see, e.g. Ratnatunga 1987, Kublin 1990, Weekly 1992).

Of course, secondary data related to international pricing have been used for evaluations. Here, the perhaps most considered field of interest is export pricing behaviour in the case of currency fluctuations (see, e.g., Isard 1977, Mann 1986, Kreinin/Martin/Sheehy 1987, Feenstra 1988, Feinberg 1989, Markl 1991, Knetter 1989, 1992). Other studies emphasize spatial price discrimination in an international context (see, e.g., Greenhut 1981, Bryan 1990), the extent to which international prices are based on the prices of country-specific competitors (see, e.g., Caves/Williamson 1985, Yamawaki 1987), and reasons of price differences in the European automobile market (see, e.g., Mertens/Ginsburg 1985, Bourdet 1987, Le Cacheux/Reichlin 1989, Kirman/Schueller 1990, Lutz 1992).

Empirical surveys in which primary data with close relations to aspects of international pricing were collected can be distinguished according to the following objectives: Determination of factors influencing international transfer

pricing (Already Arpan (1972/73) found that U.S. as well as English, French and Japanese firms predominantly used cost-orientated transfer pricing systems while Canadian and Scandinavian firms preferred market-orientated alternatives, and Italian, German and Dutch companies tended to use a combination of both. As more recent contributions see, e.g., Hackmann (1984) for results of 4 additional studies and Al-Eryani/Alam/Akhter (1990) for a characterization of 7 surveys), consideration of the extent of international marketing standardization where pricing is one of the elements of the whole marketing mix (Already Sorenson/Wiechmann (1975) stated that "Price is probably the marketing mix element which is most difficult to standardize because of country-to-country differences." As more recent contributions see, e.g., Kreutzer (1989) and Bolz (1992) for comparisons of 4 and 5 surveys, respectively), evaluation of factors of success in exporting with findings related to international pricing (General overviews referring to research on factors of success in exporting are given by, e.g., Kamath/Rosson/Patton/Brooks (1987) and Gemünden (1991). Price-related results are put together in Table 1), and collection of mainly pricing-related

**Table 1.** Some price-related results of research on factors of success in exporting

Source	Countries	Main price-related results
Hirsch (1971)	DK, NL, Israel	Among ten different factors for export success or failure, "Price" is, for several sectors of industry most often mentioned as the most important one.
Tesar (1975)	USA	Heavy exporters perceive to a lesser extent that their prices are a competitive advantage than light exporters or even non-exporters do.
Fenwick/Amine (1979)	GB	Among 12 factors under consideration, the feature "Flexibility of pricing policy" is, after "Years of export experience" and "Product adaption", the third best for discriminating successful from unsuccessful exporters in terms of export share.
Bilkey (1982)	USA	Firms that charge higher prices for products exported than for those sold in the domestic market tend to perceive high relative profitability with respect to exporting.
Madsen (1989)	DK	"Price competitiveness" correlates significantly with export growth, but it does so to a lesser extent than factors such as "Planning and control intensity" or "Product strength".
Koh (1991)	USA	In consistence with Bilkey's (1982) results, exporters, who charge relatively high prices abroad, state that profitability from exporting is also high. Relative profitability tends to be lower for competition-orientated pricing than for cost-plus pricing.
Thach/Axinn (1991)	USA	The hypothesis that successful exporters (in terms of export share) perceived their prices as more competitive than less successful exporters was not confirmed at a statistically significant level.

**Table 2.** Empirical surveys on pricing in International Marketing

Source	Countries	Main results
Baker/Ryans (1973)	USA	On the basis of 42 questionnaires filled in by multinational companies, it was found that international pricing decisions were centralized and decentralized in a similar number of case, respectively. Cost as well as competitors' prices turned out to be main pricing factors as well as major problem areas in international pricing.
White/Niffenegger (1980)	GB	Personal interviews in 10 companies were conducted. The authors found out that responsibility for pricing policy was mostly taken by management, centrally. A lack of foreign price-related information and of protection against fluctuating exchange rates was identified.
Piercy (1981)	GB	According to this survey, in which information from 122 medium-size companies was used, a majority of the firms gave preference to a market-based pricing strategy over a cost-based approach, i.e., a tendency to practise price discrimination was observed. Besides this, a relationship was confirmed between the invoicing currency employed and the pricing behaviour under currency fluctuation.
Lecraw (1984)	several less developed countries	The author reported on results of a survey which was carried out in the second half of the seventies. According to data from subsidiaries of 111 multinational corporations international price discrimination was applied. Penetration strategies were followed in foreign markets in particular by Japanese multinationals. Multinationals were price leaders especially when the sector of industry under consideration was protected from international trade.
Diller/Köhler/Kneer (1992)	D	Semi-structured interviews with 35 exporters focused on "chances" and "risks" in exporting pricing. "Capacity utilization" and "Improvement of image" were considered to be chances, "Exchange rates" and "Market response" to be the most relevant risks

data in International Marketing (Findings of surveys in which international pricing was in the centre of interest are depicted in Table 2).

For the first two kinds of studies results of several surveys are given in the references mentioned. Additionally, to provide information about findings from empirical studies of the last two kinds at a glance, Tables 1 and 2 were put together for this paper. This facilitates the incorporation of the results of the following survey into a surrounding where pricing in an international context is combined with the process of Western European Economic Integration.



## Characteristics of the Survey

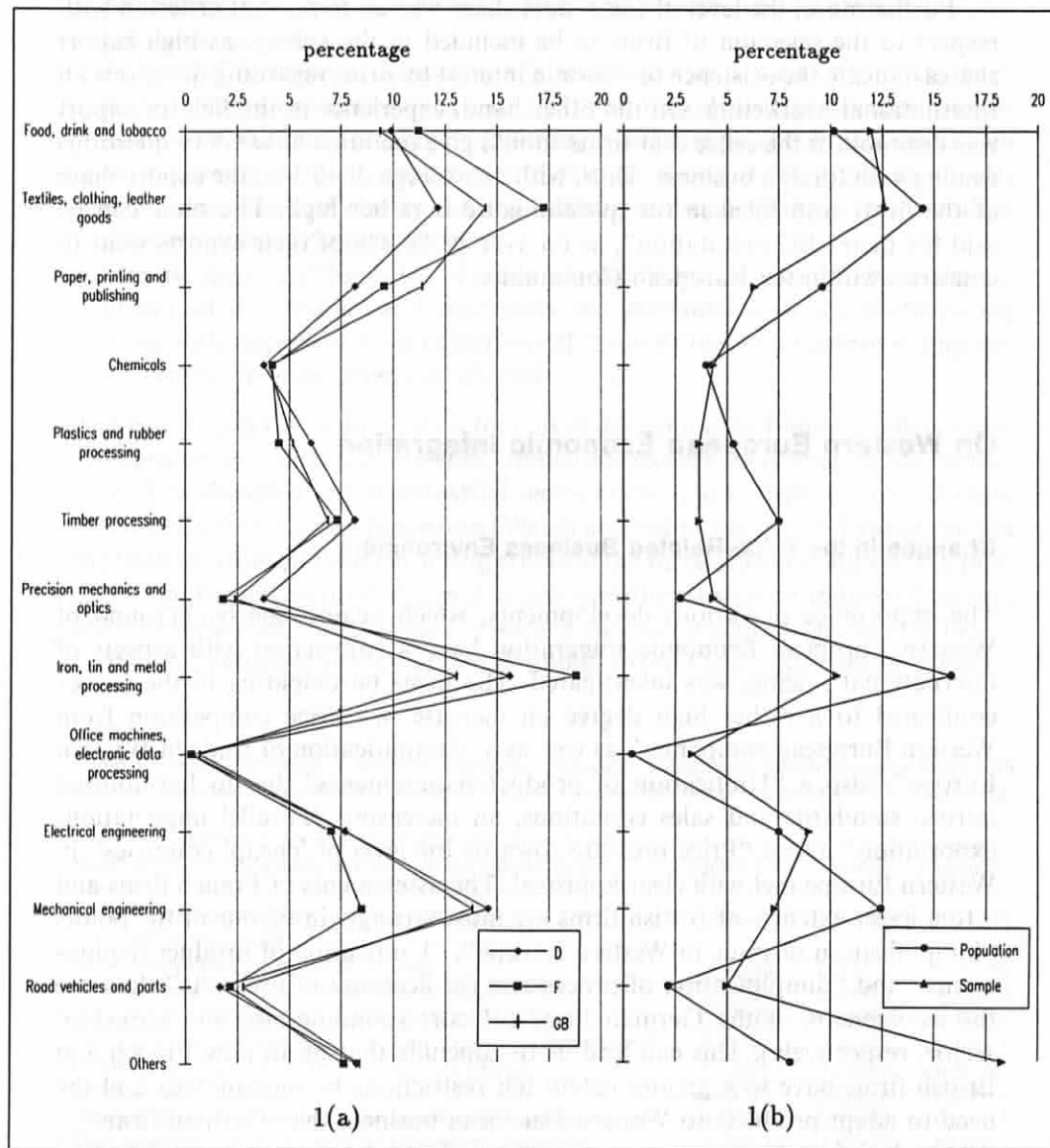
In the survey, British, French as well as German enterprises (from the old federal states) were investigated. (German firms in the new federal states were not included. Their situation was mostly characterized by reorganization, resulting from the transition to market economy, and therefore often not comparable with that of firms who have always acted within the framework of free enterprises). 416 out of the 898 firms considered (46.3%) responded to the mailing of our questionnaire. 110 of these firms informed us that they were unwilling to take part in the survey. Thus, a total of 306 questionnaires were filled in and sent back for assessment. The response rate amounts to 34.1% in total (20.0% for British firms, 22.4% for French firms, and 45.4% for German firms). Considering the fact that the questionnaire was rather extensive and that – despite the promise of discretion – firms may wish to keep information about pricing secret (Already in their “State-of-the-Art in International Marketing” article Cavusgil/Nevin (1981) write: “A special problem in conducting research on pricing is, of course, the secrecy which generally surrounds the pricing practices of international marketers.”), the response reached may be characterized as satisfactory.

The categories of industrial sectors used in the questionnaire were derived from a common statistical classification (e.g., Statistisches Bundesamt 1991), to ensure that a comparison of the portions of firms from different industrial sectors in the sample with the real distribution of firms in the underlying population was possible. In Figure 1(a) the portions of firms from industrial sectors belonging to the manufacturing sector in Britain, France and Germany (old federal states) are shown. It can be seen that the profiles of these three countries do not differ widely from each other. For this reason, considerations on representativeness with respect to industrial sectors are, in this report, given on the basis of the whole sample. In Figure 1(b) the portions of the firms from the industrial sectors in the assessed questionnaires were compared with those from the whole population in the three countries. Even though certain deviations can be observed, the distribution of the firms with respect to different industrial sectors sufficiently approaches representativeness. (Different comparisons on the basis of a representative partial sample, which are not described here, indicated only minor deviations with respect to the questions considered. Therefore, for the purpose of “stability” of results, which is influenced by the size of the sample, the following assessments were carried out on the basis of the whole sample.)

With respect to firm size, we chose to concentrate this survey on firms whose number of employees ranged from 100 to 5,000. According to the corresponding answers in the questionnaires, this was indeed the case for 92.1% of the firms. Thus, for the most part, the sample covers larger medium-sized and smaller

**Figure 1(a).** Portions of firms from industrial sectors in Britain, France and Germany (old federal states)

**Figure 1(b).** Comparison of the portions in the overall population with the portions in the sample under consideration



Sources: Statistisches Bundesamt 1991 and our own survey.



large-scale enterprises, of which it is generally said that they are particularly affected by the developments towards the EC Internal Market (e.g. Bruhn 1989, Kayser 1992).

Furthermore, the level of the export share was an important criterion with respect to the selection of firms to be included in the survey, as high export shares indicate the existence of a certain interest by firms regarding questions on International Marketing. On the other hand, experience in the field of export was desirable in the sense that firms should give qualified answers to questions dealing with foreign business. Thus, with an average of 40.3%, the export share of the firms who filled in the questionnaire is rather high. The same can be said for their "EC orientation", as on average 70.2% of their exports went to countries within the European Community.

## **On Western European Economic Integration**

### **Changes in the Price-Related Business Environment**

The importance of various developments, which against the background of Western European Economic Integration have a connection with aspects of international pricing, was investigated. The firms participating in the survey confirmed to a rather high degree an increase in "Price competition from Western European companies" as well as a "Simplification of trade in Western Europe"; also a "Unification of product requirements" due to harmonized norms, standards and sales conditions, an increasing "Parallel importation/exportation" and a "Price pressure towards the level of 'cheap' countries" in Western Europe met with clear approval. The assessments of French firms and – to a lesser extent – of British firms are more strongly in favour of the points "Simplification of trade in Western Europe", "Unification of product requirements" and "Simplification of procedures for licensing of products" than are the assessments of the German firms (of corresponding size and industrial sector, respectively). This can lead us to conclude that up to now French and British firms have to a greater extent felt restrictions by bureaucracy and the need to adapt products to Western European business than German firms.

On the basis of average assessments per industrial sector, three fundamental factors of Economic Integration in Western Europe were worked out with the help of factor analysis. In Table 3, the factor loadings derived from principal components analysis after Varimax rotation are shown (3 factors explain about 74% of the variance of the original 14 variables.).

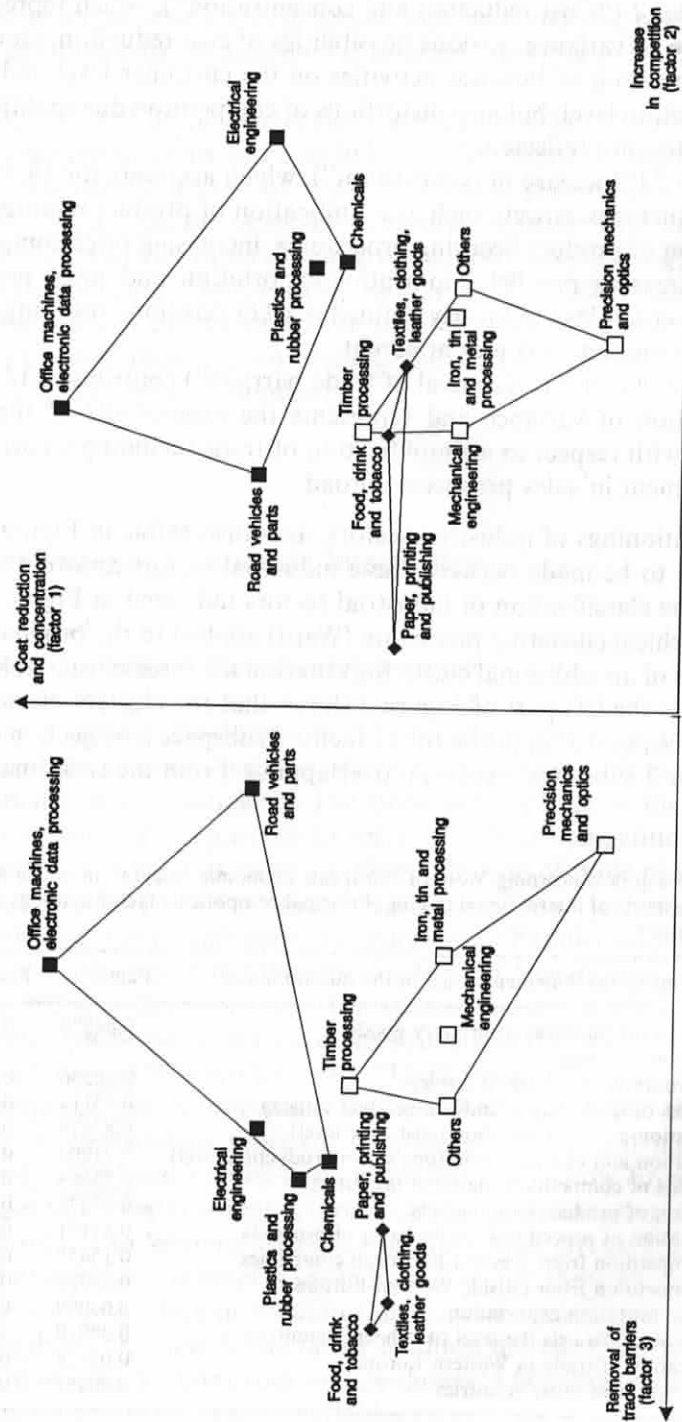
- In *factor 1* ("Cost reduction and concentration"), which represents a 42.5% portion of variance, various possibilities of cost reduction, co-operation and concentration of business activities on the customer level and at one's own production level, but also distortions of competition due to different national tax rates, are reflected.
- *Factor 2* ("Increase in competition"), which accounts for 18.5% of the variance, includes aspects such as a unification of product requirements, simplification of product licensing procedures, increasing price competition as well as increasing parallel importation/exportation and price pressure; in this dimension a loss of clearly defined market positions resulting from product differentiation, becomes apparent.
- Finally, *factor 3* ("Removal of trade barriers") contributes 13.1% to the explanation of variance and represents the assessments of the participating firms with respect to a simplification of trade including a corresponding improvement in sales prospects abroad.

The positionings of industrial sectors, as is discernible in Figure 2, allow comparisons to be made between these industrial sectors according to the factors used. The classification of industrial sectors indicated in Figure 2 results from a hierarchical clustering procedure (Ward) applied to the original variables. On the basis of an additional clustering criterion the three-cluster-solution is depicted. While the left part of Figure 2 shows that the clusters of industrial sectors are well-separated in the factor 1 – factor 3 subspace a projection onto the factor 1 – factor 2 subspace reveals an overlapping. From the coordinates of Figure 2

**Table 3.** Factors concerning Western European Economic Integration which are connected with aspects of international pricing (Principal components factor loadings after Varimax rotation)

Short forms of the statements used in the questionnaire	Factor 1	Factor 2	Factor 3
Possibilities for purchase of primary goods in foreign countries	0.84078	0.03097	-0.15849
More favourable purchase of services	0.80256	0.05330	-0.39986
Economies of scale (larger uniform product ranges)	0.73114	0.35422	0.41959
Co-operation and concentration (customer level)	0.87879	0.14099	0.18040
Co-operation and concentration (one's own production level)	0.71904	0.15271	0.16633
Distortions of competition (national tax rates)	0.75489	0.20605	-0.46398
Unification of product requirements	-0.03272	0.88210	0.10974
Simplification of procedures for licensing of products	0.47171	0.59642	-0.32233
Price competition from Western European companies	0.15457	0.88238	-0.00018
Price competition from outside Western Europe	0.28325	0.74781	-0.23964
Parallel importation/exportation	0.03090	0.72024	-0.52596
Price pressure towards the level of "cheap" countries	0.38919	0.65783	-0.43296
Simplification of trade in Western Europe	0.02118	-0.25400	0.56999
Sales prospects in other countries	-0.00881	-0.00598	0.91374

Figure 2. Positioning of the industrial sectors under consideration with respect to essential factors of Western European Economic Integration  
(Convex hulls depict the three-cluster-solution of the Ward procedure)

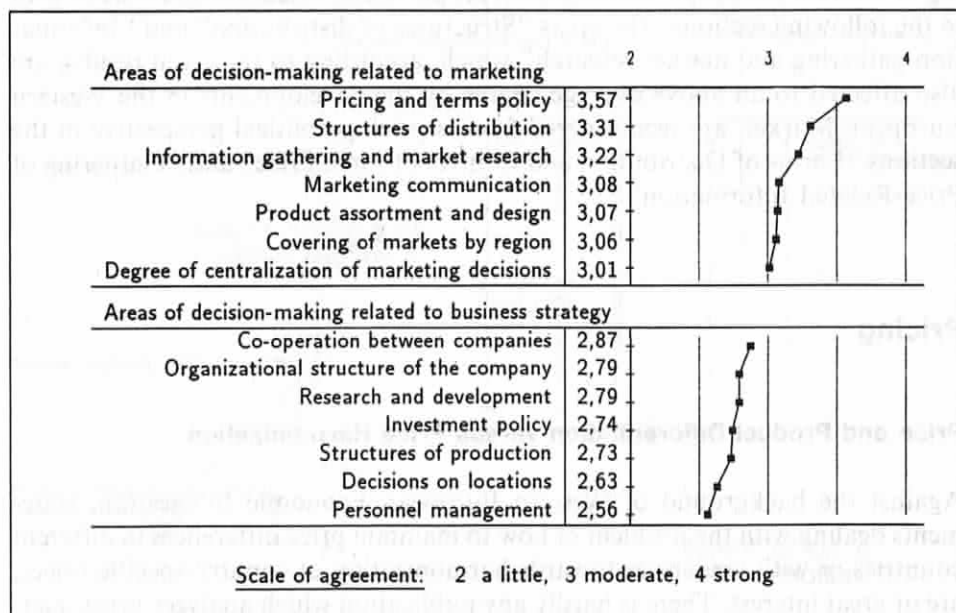


the factor 2-factor 3 subspace positionings can easily be determined but interpretation would be the same: Firms within industrial sectors such as food, drink and tobacco, textiles, clothing, leather goods, and paper, printing and publishing are more aware of developments which are described by the factor "Removal of trade barriers" than others. For firms within a second cluster of industrial sectors, "Cost reduction and concentration" becomes, to a more than average extent, apparent (This seems to be particularly true in the case of firms involved in the office machines, electronic data processing industry.). Within this cluster, firms from the electrical engineering industry see themselves, to a rather great extent, exposed to an "Increase in competition" (This factor does not discriminate sharply between the clusters shown.). Firms within a third cluster of industrial sectors perceive the developments connected with the three factors mentioned to a well-balanced or lesser extent.

#### Affected Areas of Decision-making in the Firms

In Figure 3, assessments of the firms participating in the survey, referring to the extent to which selected areas of managerial decision-making are affected by the developments towards the Common Market, are shown. The highest ratings

**Figure 3.** Assessments of the extent to which selected areas of managerial decision-making are affected by Western European Economic Integration



were found in the marketing-orientated areas of decision-making and foremost with respect to "Pricing and terms policy". (Of course, one cannot exclude the possibility that the respondents' attention was guided, to a certain extent, towards this item by the subject of the inquiry; however, similar empirical results have been cited in *absatzwirtschaft* 1991.).

Furthermore, according to the answers of many firms, "Structures of distribution" and "Information gathering and market research" are more greatly affected by market integration than others. (Changes in the area of distribution can – in the sense of "widening" of activities – mean an extension of own structures of distribution abroad; in practice, however, contrary to this, there have been reports concerning a "scaling-down" of already existing company-owned retail organizations in Western European foreign countries and concerning a centralization of logistics.).

Within the areas of decision-making related to business strategy, "Co-operation between companies" was given the highest rating, whereas, apparently, "Decisions on locations" and especially "Personnel management" are comparatively little affected by the market integration. The results of this investigation lend support to the supposition that many companies see decision-making areas related to marketing to be more affected than those more generally related to business strategy. (A statement by Daser/Hylton (1991), based on various interviews with experts and therefore of empirical character, also expresses this viewpoint: "The marketing function is considered to be the most important business function affected by the single market developments".) Thereby, pricing in Western European Markets deserves particular attention and is dealt with in the following sections. The areas "Structures of distribution" and "Information gathering and market research" which, according to the given results, are also affected to an above average degree by the developments in the Western European Market, are reconsidered from a pricing-political perspective in the sections "Forms of Distribution and Control of Final Price" and "Gathering of Price-Related Information".

## Pricing

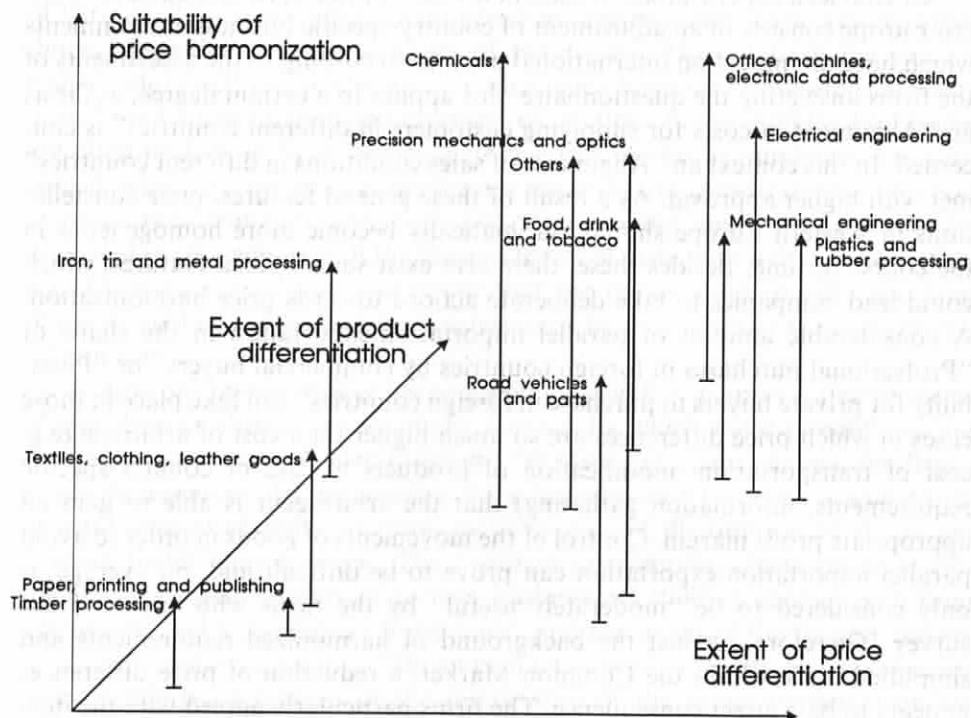
### Price and Product Differentiation versus Price Harmonization

Against the background of Western European Economic Integration, statements dealing with the problem of how to maintain price differences in different countries or with tendencies towards harmonization of country-specific prices, are of great interest. There is hardly any publication which analyzes price-relat-

ed aspects with respect to the EC Internal Market and does not contain hints concerning existing price differences by way of example. The parent organization of the European consumer protection organizations BEUC (Bureau Européen des Unions de Consommateurs) based in Brussels, and also the IFAV (Institut für angewandte Verbraucherforschung) in Cologne, regularly publish results of corresponding investigations in various product areas.

Figure 4 shows, for the industrial sectors under consideration, the average extent of present price differentiation, the average extent of current product differentiation (in both cases various variables are combined in one factor) and the average assessment by the firms of the sample with respect to the suitability of a policy of deliberate price harmonization. The positionings of the majority of the industrial sectors in question reflect a positive correlation between existing price and product differentiation. According to the firms' own assessments, in industrial sectors such as timber processing, paper, printing and publishing, and textiles, clothing, leather goods, markets are relatively homogeneous with respect to product policy and pricing.

**Figure 4.** Average positioning of the firms participating in the survey per industrial sector with respect to the extent of product and price differentiation and the perceived suitability of price harmonization





If in an industrial sector – e.g., iron, tin and metal processing – a relatively small extent of price differentiation in comparison with the reported extent of product differentiation is claimed, this may be an indication that possibilities to differentiate prices are not exploited. In industrial sectors such as, e.g., road vehicles and parts or precision mechanics and optics, the average extent of price differentiation is relatively high compared with the corresponding extent of product differentiation. In these cases, one should perhaps sooner consider whether it is necessary to harmonize country-specific prices than in those industrial sectors in which the above-mentioned characteristics are more balanced. In the precision mechanics and optics industry, this is reflected by the fact that “Suitability of price harmonization” meets with a particularly high level of approval.

As expected, the extent of present price differentiation correlates positively with the firms’ assessments regarding the suitability of a deliberate price harmonization. Compared with other industrial sectors, the firms assignable to chemicals and to iron, tin and metal processing, consider activities aimed at price harmonization to be more appropriate than it might seem necessary on the basis of the given proportions between price and product differentiation. Here, it becomes clear that, besides the extent of product differentiation, other features which influence the suitability of price harmonization should be considered.

Of course, a superordinate reason in favour of price harmonization in Western Europe consists in an adjustment of country-specific business environments which have an impact on international pricing. According to the assessments of the firms answering the questionnaire, this applies to a certain degree, as far as an “Alignment of costs for supplying customers in different countries” is concerned. In this context an “Alignment of sales conditions in different countries” met with higher approval. As a result of these general features, price constellations in Western Europe should automatically become more homogeneous in the course of time. Besides these, there also exist some special features, which could lead companies to take deliberate actions towards price harmonization. A considerable amount of parallel importation/exportation in the shape of “Professional purchases in foreign countries by commercial buyers” or “Possibility for private buyers to purchase in foreign countries” can take place in those cases in which price differences are so much higher than cost of arbitrage (e.g. cost of transportation, modification of products in case of country-specific requirements, information gathering) that the arbitrageur is able to gain an appropriate profit margin. Control of the movements of goods in order to avoid parallel importation/exportation can prove to be difficult and, on average, is only considered to be “moderately useful” by the firms who answered the survey. Therefore, against the background of harmonized requirements and simplified trade within the Common Market, a reduction of price differences appears to be a direct consequence. The firms particularly agreed with the item

"Professional purchases in foreign countries by commercial buyers", and less with "Possibility for private buyers to purchase in foreign countries", as a reason for a harmonization of prices in Europe.

Even without concrete parallel movements of goods, the "Negotiating-power exerted by purchasers because of different prices in different countries" increases. With respect to the necessity of price harmonization and in comparison with the other reasons already mentioned, this feature is considered to be of the greatest importance; as far as firms in the chemical, electrical engineering, mechanical engineering as well as plastic and rubber processing industries are concerned, it met with particularly high approval. A similar aspect is indicated by the fact that the manufacturer may experience a "Loss of confidence on the part of purchasers due to awareness of price differences". Compared with other reasons for price harmonization, "Legal restrictions concerning international price differences" play a rather subordinate role in the Western European Market.

#### **Forms of Distribution and Control of Final Price**

The harmonization of final prices abroad demands for control of international price setting to be carried out by the manufacturing firms themselves. The use of various "levels" of influence on prices in foreign countries is, among other things, dependent on the structure of purchasers. Thus, e.g., in the case of traders who resell the products in an unchanged form (and who are frequently to be found among the direct customers of the firms in the sample), final prices are often influenced by means of factory prices. As far as purchasers are concerned, who, e.g., process or supplement the products, a central determination of prices predominates. The feasibility of controlling final prices can also be discussed in connection with the various forms of distribution in question. (See, e.g., Cavusgil (1988) who points out that the opportunity to influence final prices abroad is, to a high degree, determined by the choice of the form of distribution.)

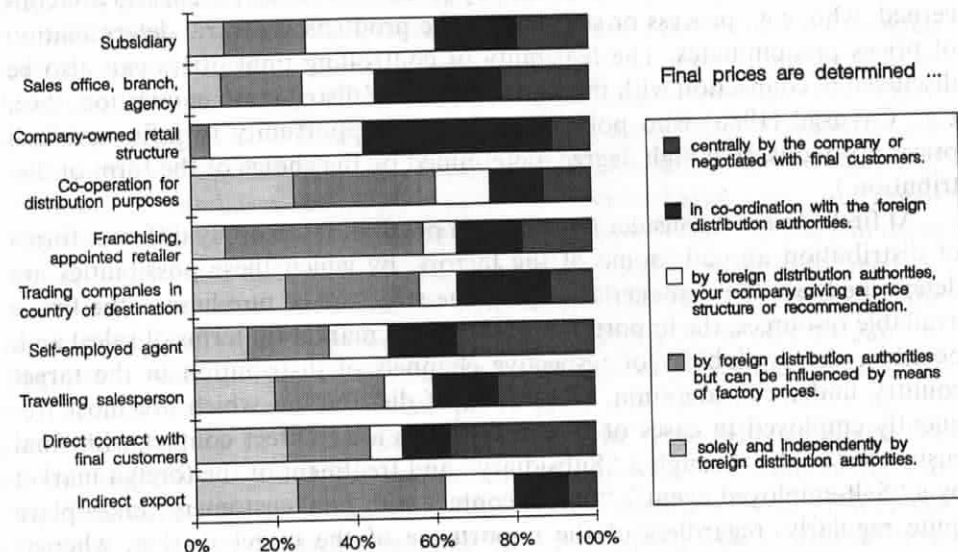
At first one must consider the common possibilities to apply different forms of distribution abroad. Some of the factors, by which these possibilities are determined, are the managerial targets, the structure of purchasers, the firm's available resources, the importance of the target market (in terms of sales) and, possibly, the availability of respective channels of distribution in the target country under consideration. The forms of distribution which are most frequently employed in cases of foreign business are "Direct contact with final customers", sales through a "Subsidiary" and treatment of the foreign market by a "Self-employed agent". "Direct contact with final customers" takes place quite regularly, regardless of the importance of the target market, whereas

"Indirect export" most frequently occurs in markets which are relatively unimportant. The use of alternatives, which require direct investment (especially "Sales office, branch, agency", "Subsidiary" and "Company-owned retail structure"), clearly increases when the relative importance of the target market (in terms of sales), increases. While a "Travelling salesperson" employed by the firm frequently looks after relatively important target markets, countries where sales are not so high are often left in the hands of a "Self-employed agent".

There is a tendency that the use of the distribution forms "Indirect export", "Self-employed agent", sales through "Trading companies in country of destination" (e.g. chain stores, wholesalers) and through a "Co-operation for distribution purposes" increases when the size of firm decreases; as a rule, this also applies – with exception in particular for firms with 2000 to 4999 employees – to the distribution forms "Direct contact with final customers" and "Travelling salesperson". On the other hand, the forms "Subsidiary" and – even though on a by and large lower level – "Company-owned retail structure" only gain significance within larger companies.

In Figure 5, forms of distribution are shown in relation to the extent to which control of final prices is feasible. It can be seen that final prices are mostly determined "centrally by the company or negotiated with final customers" if forms of distribution such as "Direct contact with final customers", "Self-employed agent" or – to a lesser extent – "Travelling salesperson" are employed. Contrary to this, the application of distribution forms such as, e.g., "Co-oper-

Figure 5. Extent of central control of final prices in Western European countries depending on forms of distribution



ation for distribution purposes" and "Indirect export" more often than for the other possibilities means that final prices are determined "solely and independently by foreign distribution authorities". It is plausible that a rather far-reaching control of final prices can be exerted by way of a "Company-owned retail structure". (For this form of distribution the items "Final prices are determined" . . . "centrally by the company or negotiated with final customers", "in co-ordination with foreign distribution authorities" and "by foreign distribution authorities, your company giving a price structure or recommendation" alone were chosen in more than 95% of the answers. Contrary to all other listed variants, the item "Final prices are determined solely and independently by foreign distribution authorities" was not at all mentioned in this case.) Of course, one must take into consideration the fact that not all of the listed forms of distribution might seem to be practicable for every industrial sector or product category. Nevertheless, with the help of the assessments at hand, coming from companies experienced in foreign business, plain tendencies can be realized with respect to the valuation of forms of distribution in foreign countries.

#### Gathering of Price-Related Information

Firms were also asked to rate the importance of various methods of gaining information on competitive prices and on price expectations of final customers. Again, factor analysis was used for structuring possible sources of information. In Table 4 the principal components factor pattern after Varimax rotation is given (4 factors explain about 63% of the variance).

**Table 4.** Factors concerning sources of price-related information gathering (Principal components factor loadings after Varimax rotation)

Short form of statements in the questionnaire	Factor 1	Factor 2	Factor 3	Factor 4
<i>Information about competitors' prices</i>				
Own observation of competitors' prices	0.65870	-0.09978	0.11608	0.29476
Conservations and negotiations with customers	0.41463	-0.07250	0.12300	-0.46447
Market research agencies, consultants	0.12218	0.79362	0.02078	0.08780
Information from Chambers and associations	-0.09555	0.71868	-0.04684	0.03922
Information from distribution authorities	-0.02940	0.00354	0.87966	-0.07215
Competitors' price quotations	0.12636	0.03006	0.05183	0.85348
Periodicals and other publications	0.04938	0.45262	-0.16487	0.61129
<i>Information about price expectations of final customers</i>				
Own experience with regard to price response	0.75773	0.00460	0.17227	0.13660
Direct contact with end-users	0.68844	0.17935	-0.14464	-0.31021
Own questioning of end-users	0.68190	0.39889	-0.22751	-0.10430
Survey conducted by a market research agency	0.15056	0.78551	0.00983	0.08628
Information from distribution authorities	0.08859	-0.03787	0.86170	-0.00741

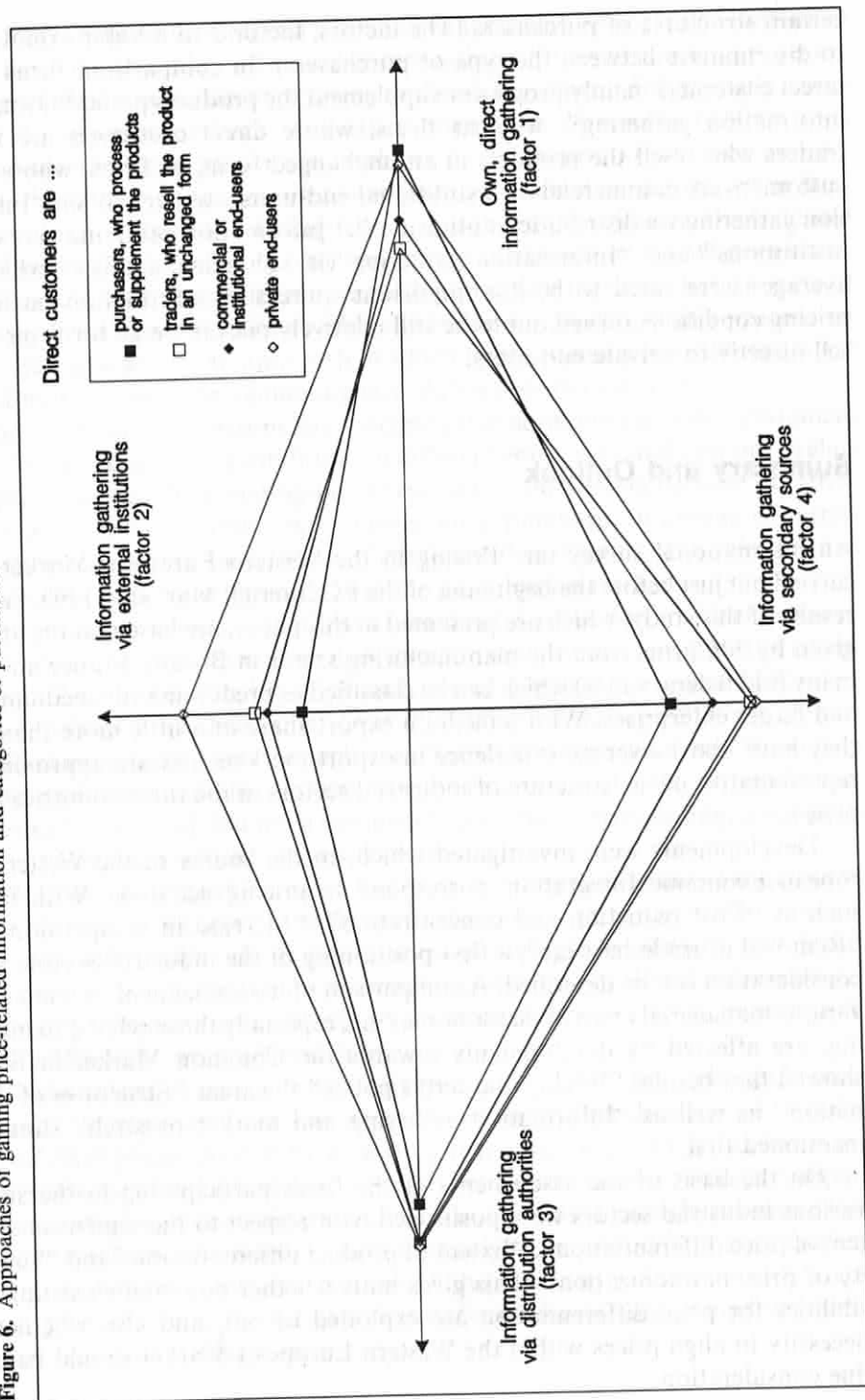
- *Factor 1* ("Own, direct information gathering"), which accounts for 22.8% of the variance of the data, comprises variables such as "Own observation of competitors' prices", "Conversations and negotiations with customers", "Own experience with regard to price response", "Direct contact with end-users" in foreign countries and "Own questioning of end-users".
- *Factor 2* ("Information gathering via external institutions") contributes 16.7% to the explanation of the variance and includes variables which evaluate the importance of market research agencies, consultants, Chambers of Commerce, associations as well as other institutions in the foreign price-related information gathering process.
- In *factor 3* ("Information gathering via distribution authorities"), which represents a 13.2% portion of variance, such variables are grouped together which describe the meaning of distribution authorities as information carriers with respect to competitive prices as well as to price expectations of final customers.
- In order to interpret *factor 4* ("Information gathering via secondary sources"), which stands for 10.7% of the variance of the data, variables such as "Competitors' price quotations" (e.g. taken from price lists, catalogues, advertisements, trade fairs) and "Periodicals and other publications" are summarized under the term secondary sources.

For firms with 200 employees or more, "Information gathering via distribution authorities" plays the most important part in the price-related information gathering process. Admittedly – as an analysis, separate from this, revealed – this source of information provides price-related information regarding competition rather than information regarding final customers but it can be used for collecting data on final price setting. The importance of most of the activities listed in the field "Own, direct information gathering" is, on average, estimated to be "moderate" to "strong"; the exception here is "Own questioning of end-users", which rather gains popularity by firms of 5000 employees or more. Firms assessed "Information gathering via secondary sources" to be of mean importance (where "Competitors' price quotations" was given a much higher approval than "Periodicals and other publications"). Finally, within the foreign price-orientated information gathering process, least importance was attributed by companies to "Information gathering via external institutions". (The importance of all variables strongly represented in this factor is, on average, rated to be between "none at all" and "a little"). Certainly, the assessment must be seen in connection with the size of the firms participating in this survey, as the valuations in favour of market research agencies and consultants clearly increased in the case of firms with 5000 employees or more.

As can be seen in Figure 6, statements can be made on the correspondence between the importance of individual approaches of gaining information and



Figure 6. Approaches of gaining price-related information and categories of purchasers





certain structures of purchasers (The factors, factor 3 to a lesser extent, allow to discriminate between the type of purchasers). In comparison, firms whose direct customers mainly process or supplement the products prefer "Own, direct information gathering", whereas firms, whose direct customers are mainly traders who resell the products in an unchanged form, or firms, whose direct customers are commercial or institutional end-users, sooner rely on "Information gathering via distribution authorities". "Information gathering via external institutions" and "Information gathering via secondary sources" which, on average, were rated to be less important sources of information on foreign pricing conditions turned out to be still relatively relevant, e.g., for firms which sell directly to private end-users.

### Summary and Outlook

An international survey on "Pricing in the Western European Market" was carried out just before the beginning of the EC Internal Market in 1993. Selected results of this study, which are presented in this paper, are based on the answers given by 306 firms from the manufacturing sector in Britain, France and Germany (old federal states) which can be classified as predominantly medium-sized and larger enterprises. With a medium export share of a little more than 40% they have above-average experience in export markets and are approximately representative of the structure of industrial sectors in the three countries under review.

Developments were investigated which, in the course of the Western European Economic Integration, correspond to pricing decisions. With factors such as "Cost reduction and concentration", "Increase in competition" and "Removal of trade barriers", a first positioning of the industrial sectors under consideration can be described. A comparison of assessments of to what extent various managerial areas of decision-making, especially those related to marketing, are affected by developments towards the Common Market in Europe showed that besides "Pricing and terms policy" the areas "Structures of distribution" as well as "Information gathering and market research" should be mentioned first.

On the basis of the assessments of the firms participating in the survey, various industrial sectors were positioned with respect to the dimensions "Extent of price differentiation", "Extent of product differentiation" and "Suitability of price harmonization". This gives hints whether potentially existing possibilities for price differentiation are exploited or not, and also whether the necessity to align prices within the Western European Market should be given due consideration.

As long as the realization of a Common Market with respect to an individual firm's field of interest has advanced comparatively little and, thus, markets are still separated, the assessments relating to the extent of price differentiation turn out to be significantly high. A market orientation of pricing (which, on a country-specific basis, puts more emphasis on competition-orientated and demand-orientated pricing than on cost-orientated pricing), as demanded in literature on International Marketing (see, e.g., Albaum/Strandskov/Duerr/Dowd 1989, Dudley 1989), is already practised in many fields within the Western European market. As a consequence, price differentiation increases but, in view of necessary price harmonizations within the European market, such a proceeding must often give way to an approach in which international price differences are guided more strongly by remaining cost differences than before.

The importance of reasons for concrete price harmonization was examined. Here, "Alignment of sales conditions in different countries" and customer-related aspects such as "Negotiating-power exerted by purchasers because of different prices in different countries", "Professional purchases in foreign countries by commercial buyers" and "Loss of confidence on the part of purchasers due to awareness of price differences" are the most important issues.

Patterns of application of different forms of distribution in Western European foreign business, as well as their categorization with respect to the extent to which final prices can be influenced, are also taken into account. Central control of final price determination is best achieved through "Direct contact with final customers" and through the "Self-employed agent" or "Travelling salesperson" forms of distribution. As far-reaching influence on final price determination abroad, but not a completely centralized price setting, is supported by a "Company-owned retail structure".

Different possibilities for gathering of price-related information were examined. The firms in the survey mostly use "Information gathering via distribution authorities" and "Own, direct information gathering". In comparison, "Information gathering via secondary sources" proves to be of slightly lesser importance, while "Information gathering via external institutions" is more significantly performed only by larger firms.

Within the scope of a general view, there is evidence that price differences which can be observed in the Western European Market decrease when influence on final prices exerted by exporting firms increases. As far as firms are concerned which exert a high level of central control over their prices, a comparatively low degree of price differentiation occurs. Thus, a claim by Jeannet/Hennessey (1988) is corroborated: "There are likely to be price differences resulting from those factors not under control of the company." Existing differences cannot generally be explained as a result of a discriminating pricing policy on the part of manufacturing firms.

If a deliberate price harmonization is to take place, it would probably be necessary for firms to exert greater influence on the fixing of international pricing patterns. Forms of distribution which are to a larger extent under the firm's control can help to achieve this goal. Already the intensification of activities aimed at gathering foreign price-related information can contribute indirectly to strengthen the possibilities of influencing pricing abroad. A reduction of existing price differences may require a turning away from a pricing policy which is individually aimed at country-specific market conditions.

The necessity of price harmonization in the Western European Market was confirmed by the answers given by the firms participating in the survey. Especially, when the extent of price differentiation is relatively high, when product requirements converge and when a simplification of trade between countries takes place as is the case in the process of Western European Economic Integration, an alignment of final prices can be expected.

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