

PRIORITIZING THE FACTORS INFLUENCING PRICING STRATEGIES FORMULATION IN BANKING SERVICE CONSULTING FIRMS USING MCCARTHY MODEL

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Abstract

The purpose of this research is the identification and ranking of the most important pricing factors and strategies and the final end is the identification of the relationships amongst the pricing strategies and the influencing factors. Regarding this research's theoretical model, these ten factors consist of price elasticity, pricing purposes, the discounts for the intermediaries, the intermediaries' profit margin, the legal environment, the geographical environment, competition, the costs, the demand, and the price of the other similar services. For this research, ten strategies were selected out of the marketing literature and on the other side, 60 factors which had been formerly verified by the experts were identified as the factors affecting the setting of pricing strategies. Thus, out of the whole 111 banking service consulting firms existent in the city of Tehran, 86 firms were selected randomly as the sample. The needed information was collected using questionnaires. At last, differentiating pricing, geographical pricing, and relationship pricing were identified to be the mostly used pricing methods by the banking service consulting firms. ,and certain tariffs, the image and reputation of the brand, the time period needed to supply the service, the distribution market and the selling place, and also differentiating in various areas were identified as the most important factors affecting the setting of pricing strategies.

Keywords: price, pricing strategies, services, service characteristics.

Introduction

It is clearly, we can claim that there is a lot of attention toward pricing in marketing issues and those decision making about pricing considered the most difficult and important ones in organization.so, those organizations that came up with the strategic role and the power of pricing, have the idea to use this asset as a competition point in contrast of the others (Nagle & Holden, 2002). Pricing is quite well-known as a shining star in the beneficial sky of the marketing (McCarthy, 1999). Marketing seeker will put value due to the goods production and servicing in the sake of customer satisfaction (Baker, Michael). Pricing is the matter of sharing some extend of this value for the seller (Baker, Michael).

The main aim of the pricing concept is to find a combination from the margin benefit and the marketing exchange that it will maximize the case of profit in the long term period (Nagle &

Holden, 1995). The concept of pricing is something beyond the point of the quantity and aimed to define the value of a product in the marketing exchange (Warner, Alan).

For determining price, Corporations are facing various factors. These factors are different in each sector of industry, and furthermore have different degree of importance for each corporation in the same industry. With recognition of these factors, and determining most important of them, we can suggest and adopt suitable pricing strategies, according these factors. Those corporations are successful in the context of pricing, which we can recognize these factors and adopt suitable pricing strategies according their changes. The subject of the current research is prioritizing the factors influencing pricing strategies formulation in banking service consulting firms using McCarthy model.

Pricing strategy

In the case of proving a well-qualified and strategic pricing, market seekers should pave the way for better servicing such goods product prices, time and customer behavior. Pricing is the gist of the common relation between principles and hypotheses on which include the individuals' behavior and companies in the specific pattern that in all means target the price frequency in the market (Roth, Stefan).

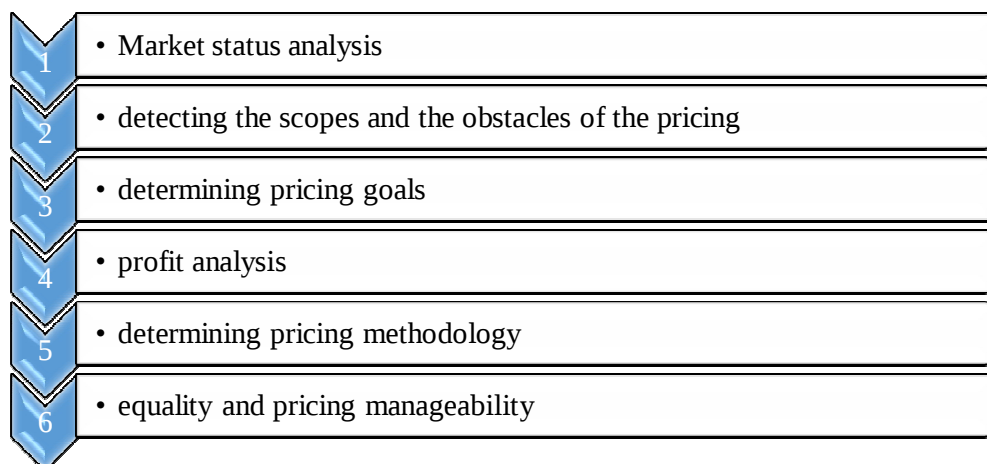


Figure 1- Pricing strategy process (Roosta, Ahmed et al, 2002)

Different kinds of pricing strategies

Most of the organizations use one of the bellow models to determine pricing for their goods or servicing (Kotler, 2000):

- Cost based model
- Request based model
- Competition based model

But there are two other models that suggested by (Jobber, 2001) and (Ealf, 1997), the former goes under the title of monotonous pricing approach and the later one covers the term of job providing pricing approach.

Effective factors on pricing strategy process

Shipley and Jobber, 2001 proposed a model for the study of effective factors in pricing on which include both internal and external factors.

Lovelock, 1996 pointed to the three base of the pricing (Lovelock, 2002, p175)

Research methodology

The present study aimed to be an applied one (Delavar, 1997). In the applied research one can use the obtained results for the solution of the social issues (Iran Nezhad, 1999) and it is referred to the descriptive form (John Best, 1999).

Questions and Hypothesis of the study

- 1) What are the most strategies in the pricing process in the banking servicing consultant companies?
- 2) How the effective priorities factors are affecting the pricing strategies process?

Hypotheses

- ✓ **Hypothesis 1:** price flexibility is considered influential on pricing strategy.
- ✓ **Hypothesis 2:** pricing goals factor is considered influential on pricing strategy.
- ✓ **Hypothesis 3:** discount factor for medium agents is considered influential on pricing strategy
- ✓ **Hypothesis 4:** rule based peripheral factor is considered influential on pricing strategy.
- ✓ **Hypothesis 5:** geographical based peripheral is considered influential on pricing strategy.
- ✓ **Hypothesis 6:** competition factor is considered influential on pricing strategy.
- ✓ **Hypothesis 7:** medium agents' profit marginal factor is considered influential on pricing strategy.
- ✓ **Hypothesis 8:** cost factor is considered influential on pricing strategy.
- ✓ **Hypothesis 9:** request factor is considered influential on pricing strategy.
- ✓ **Hypothesis 10:** price factor of other identical servicing is considered influential on pricing strategy.

Reliability and validity of the instrument

The influential factors priority questionnaire is conducted based to the 60 questions and 5 prospect of Likert in order to determine the strategy process, therefore, its reliability is proved by experts and the validity is examined by Koronbakh Alpha method. Koronbakh Alpha value is 0.8863 that reveal a well-suited validity for the questionnaire.

The population sheds light on the entire bank servicing consultant companies which are the members of bank investment and credit consultants' center of Tehran. Study duration period is about 6 months. According to the bank investment and credit consultants' center of Tehran there are 111 companies.

Determining the amount of the sample

Study sampling is determined by the following formula in the limited population about 86 companies. So, the final obtained sample is adjusted because of the huge amount of the population.

$$n = \frac{n^0}{1 + \frac{n^0}{N}} - \frac{86}{1 + \frac{86}{111}} = 49$$

n^0 Is the premier sample that it should be adjusted (Sarmad et al, 2004)

Data analysis

According to the obtained result of the Kolmogorov-Smirnov Test, the normality of the dependence variables (strategy) and the independence variable (influential factors in strategy process) were rejected and we utilized Friedman test for the prioritization.

Table 1: pricing strategy variables prioritization according to the three above mentioned tests.

Rank	Variable
1	Distinctive
2	Geographical
3	Relational
4	Value- based
5	Argumentative
6	Cost-based
7	Cumulative
8	Determinative
9	Penetrative
10	identical

Table 2: influential factors prioritization on pricing strategies (Ranks values and influential factors means in Friedman test)

Rank	mean	factors	rank	mean	factors
31	30,3458	Human resource costs	1	37,1333	Special tariffs
32	30,1458	Psychological pricing	2	36,6291	Geographical area pricing
33	30,0125	Expert stuff	3	36,2583	Time
34	29,7791	Numbers of substituted servicing	4	35,07125	Trade mark reliability
35	29,7166	Government subsidies level	5	35,3583	Servicing price
36	29,6166	Medium agents management	6	35,2625	Distributional market and selling
37	29,5416	Overhead costs	7	35,01125	Financial and functional resources
38	29,04625	Governmental rules or rules desolation	8	34,04541	Distinction making in different fields
39	29,04083	Geographical area	9	34,1708	Newcomers threatening
40	39,2041	Consumable income level	10	34,0666	Servicing design and quality
41	29,1833	Time and the manner of service delivery to the customers-medium agents	11	33,8125	Pricing or selling enhancement objective
42	29,1291	Required time influential level for service delivery to the customers	12	33,6208	Weather
43	29,0666	Software and facility utilization level instead of human recourse	13	33,5667	Market relative exchange
44	28,9	Financial and monetary policy	14	33,1208	Financial rules changes
45	28,8958	Exclusivity advantages of the medium agents competition	15	32,95	Focus to the specific part of the market
46	28,7458	Price frequency importance to the customer	16	32,4223	Advertising and marketing
47	28,4333	Controlling stability	17	32,3791	Personal features
48	27,8957	Price	18	32,375	leadership In cost reduction

49	27.8166	Competition intensity among the companies in the market	19	32.2875	Commitment level for the medium agents
50	27.6666	Change in the rules of the trademarks and servicing	20	32.275	Pricing with the aim of the market penetrating
51	27.4124	Government budget level	20	32.274	Medium agents market experiment
52	37.0208	Human resource and asset outcome	22	32.0625	Income enhancement
53	26.3708	Bargains power	23	31.7333	Recourses and abilities
54	25.9708	Physical facility	24	31.5458	Pricing according to the different part of the market
55	25.4166	Political circumstance in foreign countries	25	31.1667	Servicing price of the competitive companies
56	20.0541	Greatness of the cities	26	30.8541	Innovation in medium agents advertisement methods
57	25.0333	Request enhancement for all of the servicing in total market	27	30.8166	The level of the preexisted price for the price determination according to the government
58	24.3458	Localization	28	30.5875	Customer knowledge
59	23.8833	Internal production of the impure process	29	30.3833	Substitution servicing price
60	21.7416	Economical circumstance of the foreign countries	30	30.3791	Servicing quality compared to other competitors

Coefficient level between strategies and variables

To determining the coefficient in this study we manipulated Biserial coefficient. This model will be used in the case of bivariate statistical population on which we extracted a sample of one variable with the relative distance level and the other variable in the form of dichotomy.

Table 3: the relation between influential factors on pricing strategy and distinctive pricing strategy

Influential factors on the price strategy	r	T	Sig (2-tail)	r²
Request	-0.2588	2.1134	0.0366	0.0669
Price flexibility	-0.08653	0.6950	0.4883	0
Pricing goals	-0.18692	1.5127	0.1330	0
Discounts for the medium agents	0.071589	0.5746	0.5666	0
Costs	0.0859	0.6899	0.4915	0
The price of other identical servicing	-0.14515	1.1701	0.2443	0
Medium agents profit margin	-0.32365	2.6716	0.0086	0.1047
Price flexibility	-0.09997	0.8035	0.4232	0
Geographical environment	-0.27433	2.2454	0.0266	0.0752
Law environment	-0.15201	1.2261	0.2225	0

Biserial Coefficient

If the two variables aimed to be studied and the first variable is in the relative or distance level and the second variable is in the biserial level, we manipulate Biserial coefficient. In this case, for meaningful test of the Biserial coefficient we use T-test.

Hypothesis testing for meaningful relation between strategies and influential factors:

- ✓ Hypothesis 1) $H_0: p=0$ there is no meaningful relationship between request and distinctive pricing strategy.
- ✓ $H_1: p \neq 0$ there is a meaningful relationship between request and distinctive pricing strategy.

The level of r is about $r = 0.2588$ and the level of its meaningful relation is 0.0366. So, because the level of meaningful relationship is smaller than (R) , the zero hypotheses is rejected and the contrast hypothesis is accepted. Therefore, one can interfere that, there is a meaningful relationship between price flexibility and distinctive pricing strategy. Request variable is considered about $r^2 - 0.0669$ and justification distinctive price strategy.

- ✓ Hypothesis 2) $H_0: p = 0$ there is no meaningful relationship between price flexibility and distinctive pricing strategy.
- ✓ $H_1: P \neq 0$ there is a meaningful relationship between price flexibility and distinctive pricing strategy.

R is calculated about -0.08653 and the meaningful level estimated 0.4883, so, because the meaningful level is considered greater than the r , the zero hypothesis is accepted with the 95 percent assurance in other words, there is no meaningful relationship between pricing goals and distinctive pricing strategy.

- ✓ Hypothesis 3) $H_0: p = 0$ there is no meaningful relationship between price goals and distinctive pricing strategy.
- ✓ $H_1: P \neq 0$ there is a meaningful relationship between price goals and distinctive pricing strategy.

R is calculated about -0.018692 and the meaningful level estimated 0.1330, so, because the meaningful level is considered greater than the r , the zero hypothesis is accepted with the 95 percent assurance and the contrasted hypothesis is rejected, in other words, there is no meaningful relationship between pricing goals and distinctive pricing strategy.

- ✓ Hypothesis 4) $H_0: p = 0$ there is no meaningful relationship between discount for medium agents and distinctive pricing strategy.
- ✓ $H_1: P \neq 0$ there is a meaningful relationship between discount for medium agents and distinctive pricing strategy.

R is calculated about 0.071579 and the meaningful level estimated 0.5666, so, because the meaningful level is considered greater than the r , the zero hypothesis is accepted with the 95 percent assurance in other words, there is no meaningful relationship between discount for medium agents and distinctive pricing strategy.

- 1) Hypothesis 5) $H_0: p = 0$ there is no meaningful relationship between costs and distinctive pricing strategy.
- 2) $H_1: P \neq 0$ there is a meaningful relationship between costs and distinctive pricing strategy.

R is calculated about 0.0859 and the meaningful level estimated 0.4915, so, because the meaningful level is considered greater than the r , the zero hypothesis is accepted with the 95 percent assurance in other words, there is no meaningful relationship between costs and distinctive pricing strategy.

- ✓ Hypothesis 6) $H_0: p = 0$ there is no meaningful relationship between price of other identical servicing and distinctive pricing strategy.

- ✓ H1: $P \neq 0$ there is a meaningful relationship between price of other identical servicing and distinctive pricing strategy.

R is calculated about -0.14515 and the meaningful level estimated 0.2443, so, because the meaningful level is considered greater than the r , the zero hypothesis is accepted with the 95 percent assurance in other words, there is no meaningful relationship between pricing of other identical servicing and distinctive pricing strategy.

- ✓ Hypothesis 7) H0: $p = 0$ there is no meaningful relationship between medium agents profit margin and distinctive pricing strategy.
- ✓ H1: $P \neq 0$ there is a meaningful relationship between medium agents' profit margin and distinctive pricing strategy.

R is calculated about -0.32365 and the meaningful level estimated 0.0086, so, because the meaningful level is considered smaller than r , the contrasted hypothesis is accepted with the 95 percent assurance in other words, there is a meaningful relationship between medium agents' profit margin and distinctive pricing strategy. Also, one can claims that, medium agents' profit margin which is about r^2 -0.0669 has a justification on distinctive pricing strategy.

- ✓ Hypothesis 8) H0: $p = 0$ there is no meaningful relationship between price flexibility and distinctive pricing strategy.
- ✓ H1: $P \neq 0$ there is a meaningful relationship between price flexibility and distinctive pricing strategy.

R is calculated about -0.09997 and the meaningful level estimated 0.4232, so, because the meaningful level is considered greater than the r , the zero hypothesis is accepted with the 95 percent assurance in other words, there is no meaningful relationship between price flexibility and distinctive pricing strategy.

- ✓ Hypothesis 9) H0: $p = 0$ there is no meaningful relationship between law environment and distinctive pricing strategy.
- ✓ H1: $P \neq 0$ there is a meaningful relationship between law environment and distinctive pricing strategy.

R is calculated about -0.27433 and the meaningful level estimated 0.0266, so, because the meaningful level is considered smaller than r , the contrasted hypothesis is accepted with the 95 percent assurance in other words, there is a meaningful relationship between law environment and distinctive pricing strategy, in the form of law environment variable is detected about r^2 -0.0752 and has a justification on distinctive pricing strategy.

- ✓ Hypothesis 10) H0: $p = 0$ there is no meaningful relationship between geographical environment and distinctive pricing strategy.
- ✓ H1: $P \neq 0$ there is a meaningful relationship between geographical environment and distinctive pricing strategy.

R is calculated about -0.15201 and the meaningful level estimated 0.2225, so, because the meaningful level is considered greater than the r , the zero hypothesis is accepted with the 95 percent assurance in other words, there is no meaningful relationship between geographical environment and distinctive pricing strategy.

Results and suggestions

Influential factors on pricing strategies were prioritized and either pricing strategies were under classification. According to the obtained results among all of those factors, specific tariffs is considered in the top of the prioritization table and economic circumstances of the foreign countries is considered as the lowest one, thereafter, among all of those strategies, distinctive pricing strategies considered as the highest one.

Result based suggestion on the first hypothesis

According to the obtained results of the present study, bank servicing consultant companies should study the modern market request based on the three aspects of general request of the market, market area and the real sales and the market exchange. On the other hand, they should think up toward the future request, hence, we outline the following suggestion:

- * Bank servicing consultant companies should note that, determined prices should be on the base of exact researches of target market.
- * Price differentiation should be based upon customers, kind of goods distribution or purchase time.
- * Bank servicing consultant companies should note that, the first step in the request estimation is detecting the influential factors on request sensitivity.

Result based suggestion on the second hypothesis

Bank servicing consultant companies should put a worthy time considering the resource price influences due to the intensity of the competition.

In order to be renowned and vivid their pricing services, bank servicing consultant companies should be able to highlight their trade names.

Therefore, by benefiting the suitable price of their servicing, they can adopt a well condition for themselves in the market.

Because in such companies, the cost of providing services is almost high, pricing sensitivity will be increased automatically.

They also should be fair in determining pricing costs. All in all, by internet provision and the clearness of the price in the market, the more sensitivity is reclined in price determination.

Result based suggestion on the third hypothesis:

In bank servicing consultant companies, general pricing goals should be derived from general objectives of the organization.

Bank servicing consultant companies should divide their goals both qualitative and quantitative, because, quantitative goals are easy to measure and they are covering terms such as: profitable goals, purchase goals, market exchange and cost coverage goals. In the other hand, qualitative goals are covering terms like: customer relationship, competitors' relationship, distributors and long-term survival of the company.

They should divide the pricing goals into two subcategories of short-term and long-term.

Bank servicing consultant companies should survey the three basic below classes for general pricing objectives determination:

1- Required information about cost, profit, product and purchase. 2- required information about competitors. 3- Required information about customers.

Result based suggestion on the forth hypothesis:

Bank servicing consultant companies have close relationship with the medium agents.

Bank servicing consultant companies can use the cumulative discount for medium agents. They also can use these kind of non-cumulative discounts based to individual or group orders based.

It is preferred to use these kind of discount in the form of cash and such companies should not use operational discounts for medium agents.

Result based suggestion on the fifth hypothesis:

According to the obtained results of this study on which revealed that, influential factors have effect on distinctive pricing strategy, we can propose the following:

In bank servicing consultant companies, managers face problem for calculating intangible operation of making financial costs. So, it is better not to use distinctive pricing strategy.

They can recognize these financial or non-financial costs for the customer first, then, according to that, they can use distinctive pricing strategy.

Result based suggestion on the sixth hypothesis:

Prices need to be very clear for the customers, hence, these clarification will let the customers know about the level of the prices.

It is suggested that, bank servicing consultant companies tend to fabricate some teams in different parts of organization in order to detect the chances and evaluate the threads toward prices.

They also should select a well suited approach in order to overcome other companies with the identical servicing.

They should put a huge consideration on the working force, because, here, stuff are in direct relationship with the customers.

Result based suggestion on the seventh hypothesis:

We can suggest the following according to the study result:

Profit margin analysis will open up a matter of total costs and income variation which are the result of the last product purchase.

Detailed point case analysis will provide the company with the benefits of determining a specific price to cover all of the costs.

Result based suggestion on the eighth hypothesis:

According to the study results we can suggest the following:

The strategy is considered distinctive if only customers shows reaction to distinctions.

Bank servicing consultant companies always update their compare toward their close competitors in the case of purchase prices, medium agents and advertisements.

Determining a unique policy toward servicing according to resources, opportunities, objectives and placement will deliver a good advantage to the company. In other words, they tend to deliver a new service with a good quality and well-suited price.

Result based suggestion on the ninth hypothesis:

Bank servicing consultant companies are staggeringly influenced by the geographical environment.

Bank servicing consultant companies design and analyse environment force and the policies due to carry on the opportunities for the best solutions.

They should obtain a kind of managerial viewpoint and for controlling medium agents they should sign contracts.

It is a kind of principles that governmental institutions and other companies went under effect of that, are like: specific tariffs that paid to these companies as the fare of the servicing.

Result based suggestion on the tenth hypothesis:

Bank servicing consultant companies are staggeringly influenced by the political development and law environment.

The effect of law environment on the bank servicing consultant companies are initialized based to the three goals:

- Supporting the company against unfair competition.
- Supporting the customers against unfair processes

Supporting from society benefits. -

In general, it is not out of benefits for such companies to establish a warm and friendly relationship with the law stipulators.

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