



Institute for Market-Oriented Management

Competence in Research & Management

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IMU Research Insights

008

The Performance Impact of the Organization of Pricing in B2B Firms

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Relevance of Study <ul style="list-style-type: none">Price levels erode in many business-to-business marketsThere is little empirical research how firms should organize pricing internally to defend their price levels	Key Contributions <ul style="list-style-type: none">There are two issues when organizing pricing authority within the firm: The vertical delegation of tactical pricing authority to salespeople and the horizontal dispersion of strategic pricing authority across sales, marketing, and financeHigher horizontal dispersion of pricing authority increases both profitability and sales growth of B2B firmsHigher vertical delegation of pricing authority drives sales growth, but comes with both benefits and costs in terms of profitability. Thus, medium levels of vertical delegation are optimal for B2B firms	Sample & Method <ul style="list-style-type: none">Surveys of executive employees in marketing/ sales (e.g., head of sales) or management338 supplier surveysAdditional data on objective firm performance for two subsamplesDescriptive statistical analysis and regression models using STATA
Investigated Industries <ul style="list-style-type: none">Machinery, Chemical, Electronics, Building Materials, Plastics and Rubber, Medical Equipment,...		
Findings <ul style="list-style-type: none">Delegating tactical pricing authority from sales management to the salespeople comes both with benefits and costs in terms of profitability. In contrast, delegating pricing authority to the salespeople increases sales growth.Delegating tactical pricing authority to salespeople leads to higher profitability when salespeople's incentives are based on margins.Delegating tactical pricing authority to salespeople leads to higher sales growth when the market environment is highly dynamic.There is substantial horizontal dispersion of strategic pricing authority across sales, marketing, and finance. This has been neglected by prior research.Dispersing strategic pricing authority across sales, marketing, and finance is beneficial both in terms of profitability and sales growth. This impact is even stronger when the market environment is highly dynamic.Combining higher vertical delegation with horizontal dispersion further increases profitability and sales growth.		

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- Topic Relevance and Key Questions
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- Study Characteristics
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- Study Results
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- Managerial Implications
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- Contact and Further Information
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High importance of pricing authority in the business world, but only few empirical studies on pricing authority's influence on profitability of B2B firms

**Suppliers have to defend their price levels
at the customer frontier to secure their own profitability**

- In many business-to-business markets, price levels erode (Cave 2005; Mackintosh 2005)
- This price pressure can have dramatic consequences for B2B suppliers (Monroe 2003)
- In the average S&P 500 company, a 1% price decrease leads to a 12.3% profit loss (Garda and Marn 1993)

BUT:

- “There is little comparative research how companies go about setting prices” (Noble and Gruca 1999b, p. 459)
- Hence, empirical research on the influence of the organization of pricing authority on firm performance is scarce, despite the high relevance of pricing in today's business practice

This study tries to answer four central questions

- 1** What are the central decisions when organizing pricing authority within the firm?
- 2** How is the organization of pricing authority related to firm performance?
- 3** What additional external and internal factors influence the relationship between the organization of pricing authority and firm performance?
- 4** What are the managerial implications of the study results?

Method

- Mail Survey
- Open and closed questions
- Length: ~ 30 minutes

Sample

Unit of analysis:

- B2B suppliers

Target group:

- Executive employees in marketing/sales (e.g. head of sales) or management

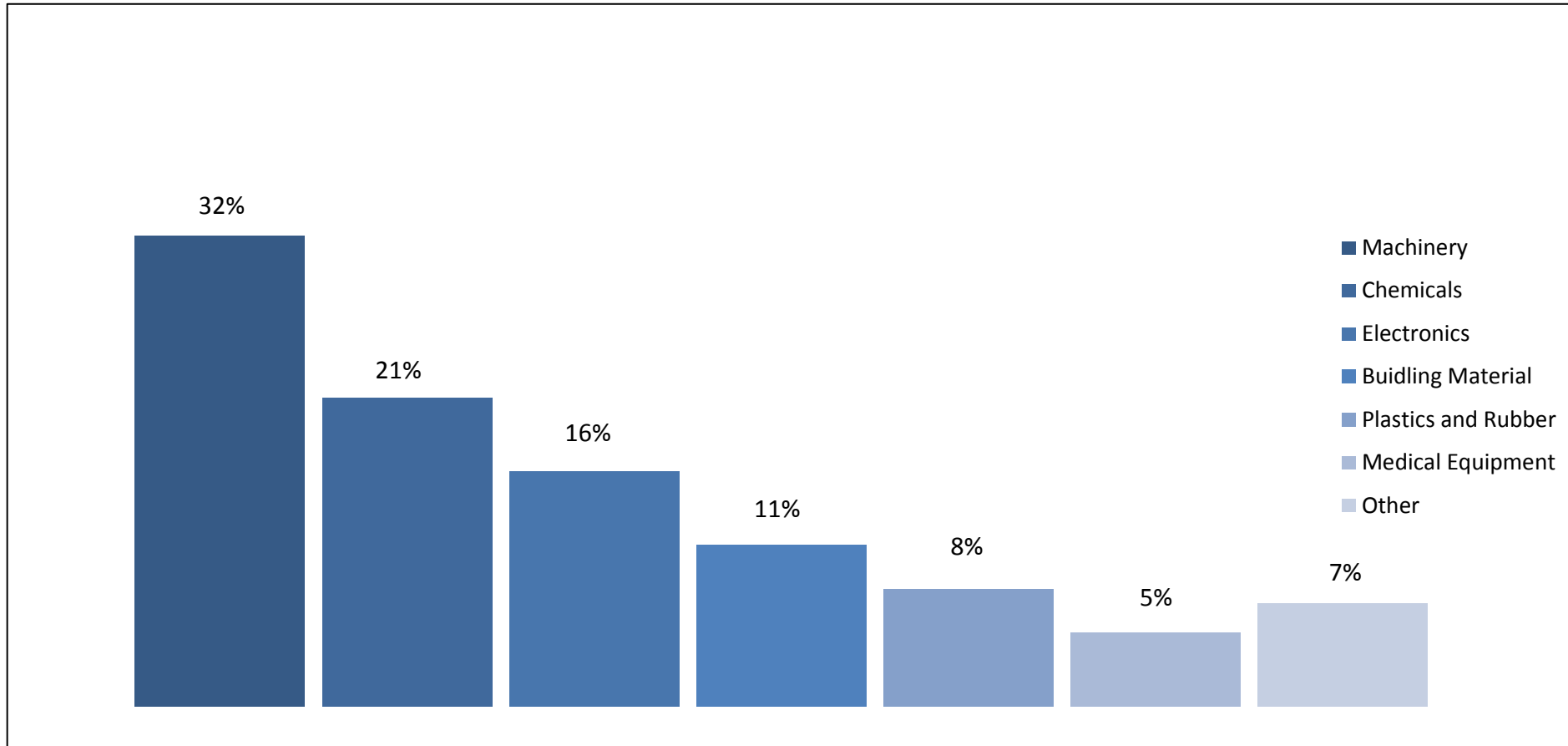
Observed industries:

- Cross-industry study: Machinery, Chemical, Electronics, Building Materials, Plastics and Rubber, Medical Equipment, etc.
- Sample: 338 B2B suppliers

Data Characteristics:

- Matched data with additional, objective profitability data for 124 B2B suppliers and with additional, objective sales growth data for 187 B2B suppliers
- Average work experience of the supplier representatives is 18.8 years

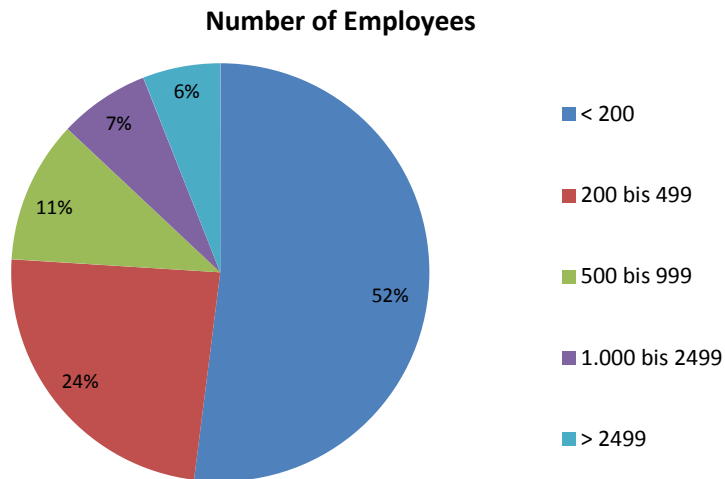
The sample consists of central supplier industries



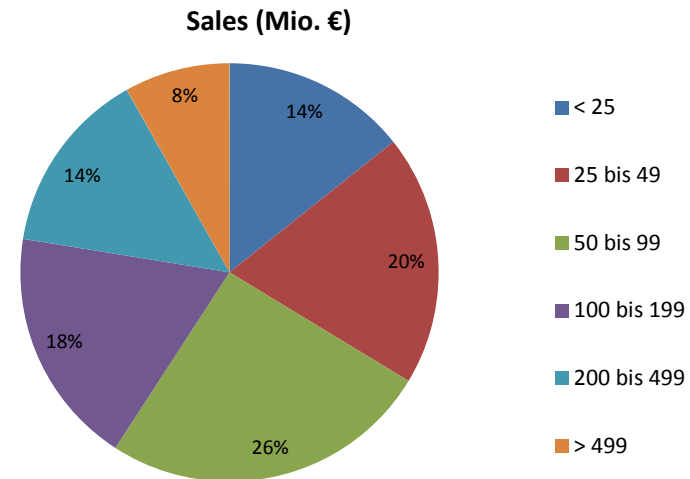
N = 338

The sample consists of companies and business units of all sizes

Number of Employees



Sales



N = 338

The organizational structure of pricing authority can be conceptualized across two key dimensions

Pricing authority is organized along two lines – this is the vertical decentralization (i.e., delegation) of tactical pricing authority within the sales function and the horizontal decentralization (i.e., dispersion) of strategic pricing authority across the sales, marketing, and finance functions

Vertical Delegation

Vertical delegation of pricing authority refers to the vertical decentralization of pricing authority within sales, such as the delegation of pricing authority from central management to decentralized salespeople

Operationalization

- In our business unit / company, sales employees in the decentralized / local units are autonomous in their pricing decisions
- In our business unit / company, the sales force has much freedom to decide setting of discounts
- In our business unit / company, sales employees can make pricing decisions quite independently and flexibly

Horizontal Dispersion

Horizontal dispersion of pricing authority refers to the extent to which firms spread influence over strategic pricing issues across sales, marketing, and finance

Operationalization

- What is the relative influence of the three functional units sales / service, marketing / product management, and finance / accounting on the following decision areas in price management:
 - strategic price positioning of new products
 - adaptation of list prices / price guidelines
 - design of discount and bonus terms
 - monitoring and analyzing prices

Respondents allocate 100 points between sales, marketing, and finance

Across firms, there is substantial horizontal dispersion of pricing authority across the sales, marketing, and finance departments – this has been neglected by prior research



	Sales	Marketing	Finance
Overall influence on strategic pricing	51	28	21
Specific influence on...			
...strategic price positioning of new products	45	37	18
...adaption of list prices / price guidelines	52	31	17
...design of discount and bonus terms	70	17	13
...monitoring and analyzing prices	38	27	35

Notes: Scores are based on the allocation of 100 points by respondents

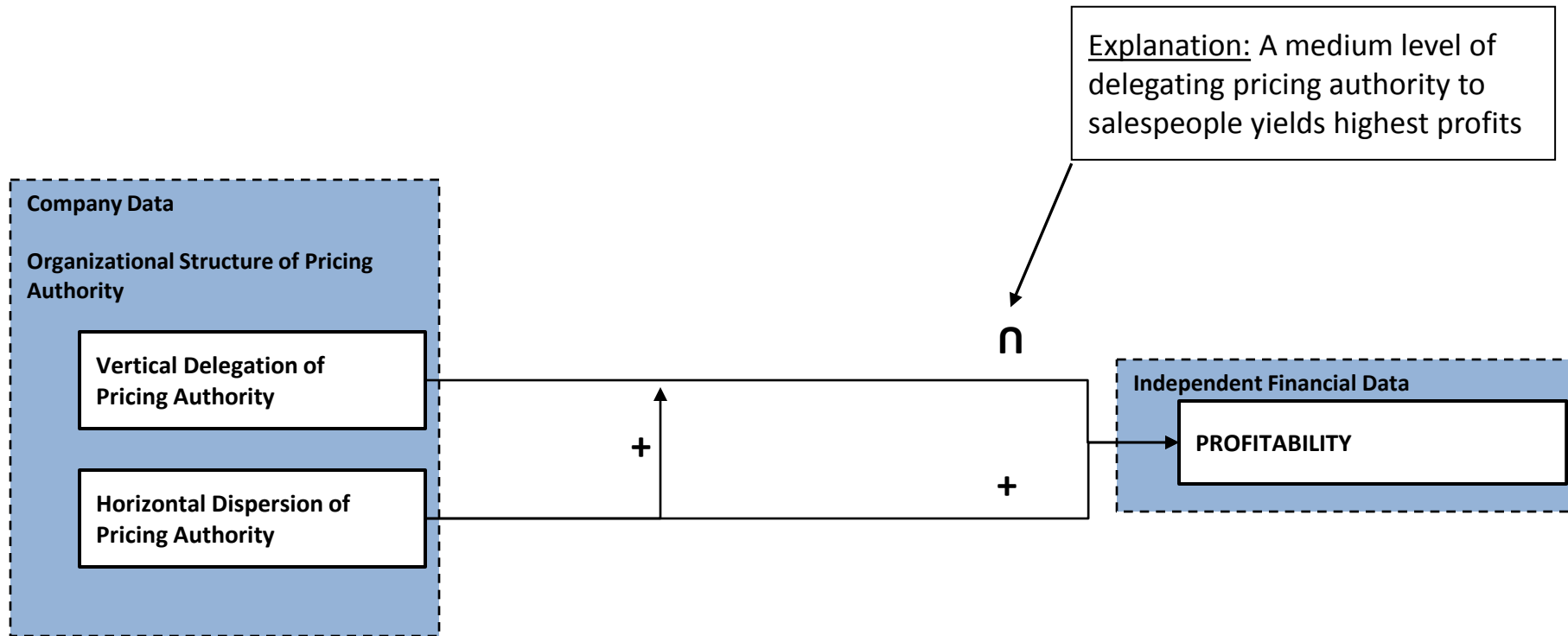
N = 338

Vertical delegation of pricing authority comes both with advantages and disadvantages – this has been neglected by prior empirical research

Domain	Advantages	Disadvantages
<i>Information Processing & Knowledge</i>	<ul style="list-style-type: none"> Better knowledge and exploitation of customer's needs and willingness to pay and local market conditions 	<ul style="list-style-type: none"> Less time and less capability to analyze costs and financial implications of pricing Lower alignment of pricing and long-term market strategy
<i>Motivation & Control</i>	<ul style="list-style-type: none"> Increased salesperson status and pride 	<ul style="list-style-type: none"> Increased use of discounts as a "safe" way to obtain orders and decreased effort to sell the value of products and services Increased psychological pressure and increased fear of negotiations Increased risk that price concessions granted by weak salespeople leak out and undermine prices of other salespeople Increased internal effort for escalating price approvals
<i>Competitive Responsiveness</i>	<ul style="list-style-type: none"> Faster reaction to changing market conditions Easier matching of specification changes and price changes 	<ul style="list-style-type: none"> Increased risk of nervous overreaction Increased risk of provoking competitive counterstrikes and price wars
<i>Induced Customer Attitudes & Behavior</i>	<ul style="list-style-type: none"> Increased customer satisfaction with speed of price quotation More positive attitude of customers toward the firm 	<ul style="list-style-type: none"> Increased risk of annoying customers by inconsistent pricing Reduced customer faith in price quotations and increased bargaining behavior of customers

based on Dolan and Simon (1996); Ernst, Hoyer, and Rübsaamen (2010); Frenzen et al. (2010); Lancioni, Schau, and Smith (2005); Nagle and Hogan (2006); Wilken et al. (2010); Zbaracki (2007).

- Vertical delegation of pricing authority has an inverted-U shaped relationship with profitability. Horizontal dispersion increases profitability.
- It also mitigates some of the disadvantages of vertical delegation.

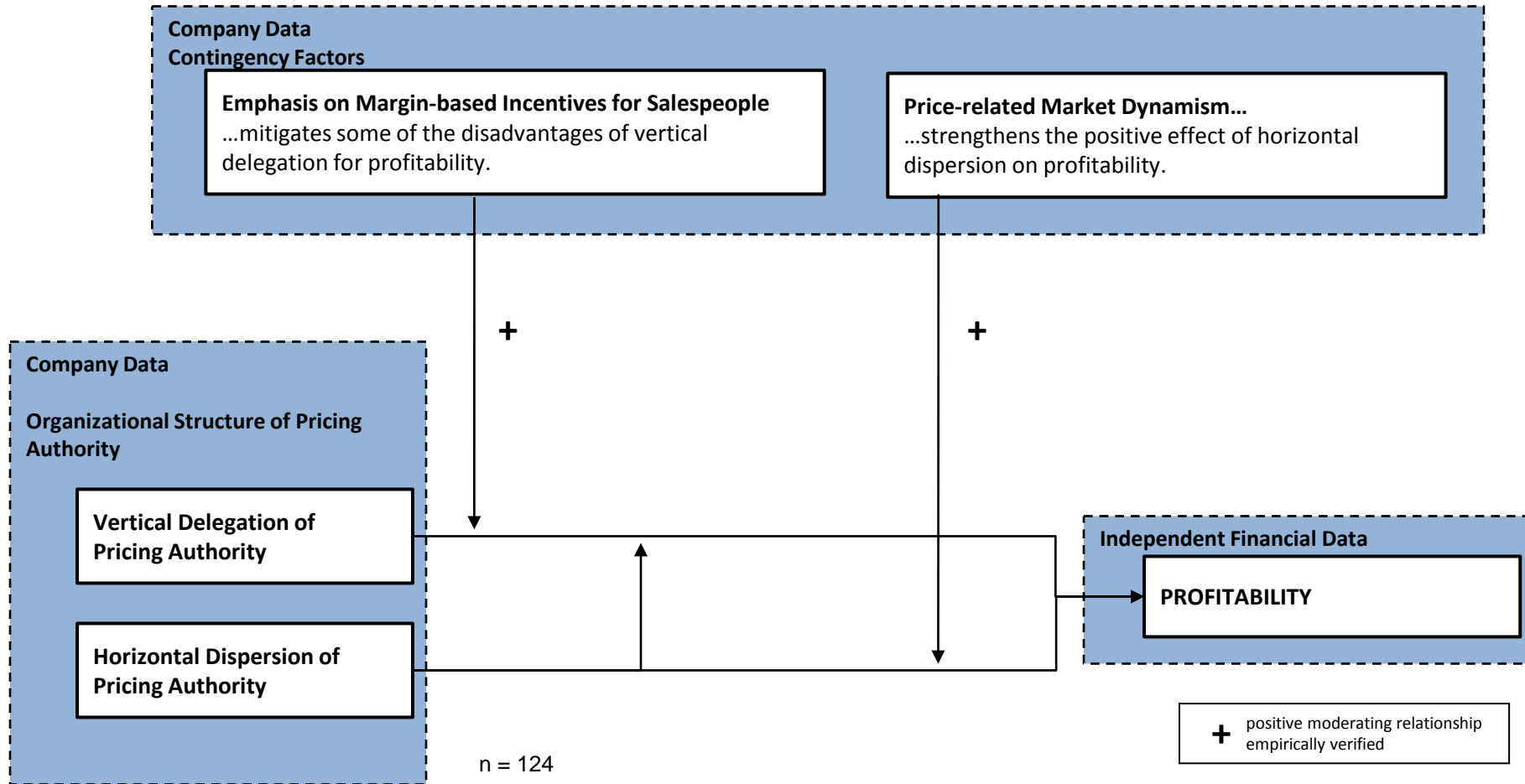


n = 124

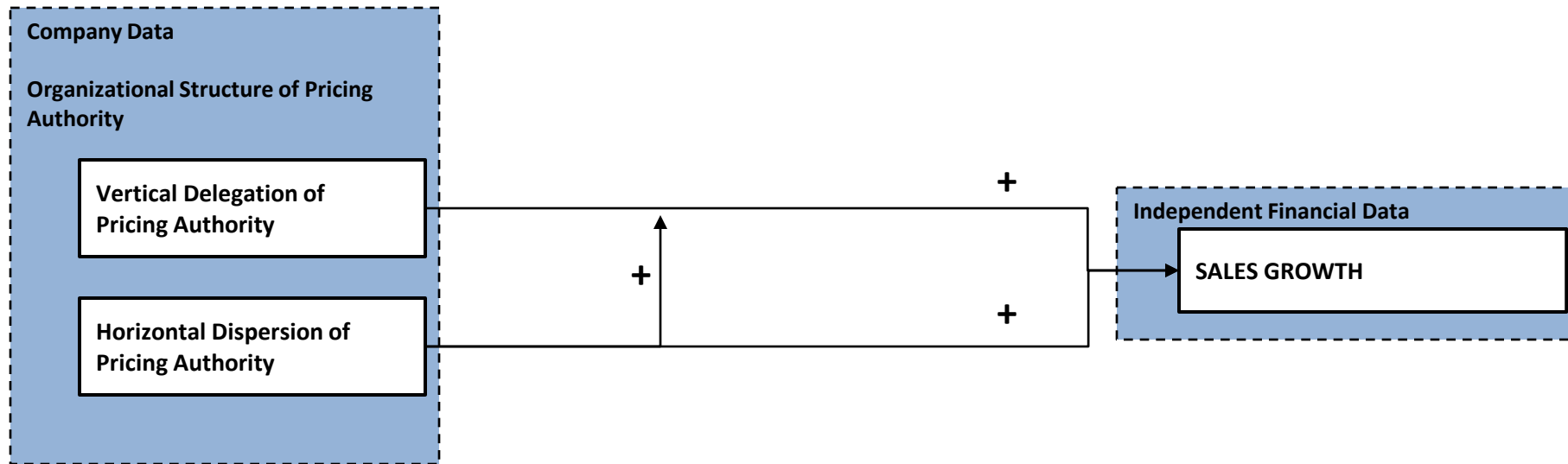
+ positive link empirically verified

n nonlinear link empirically verified

The impact of the organization of pricing authority on profitability is moderated by internal and external factors



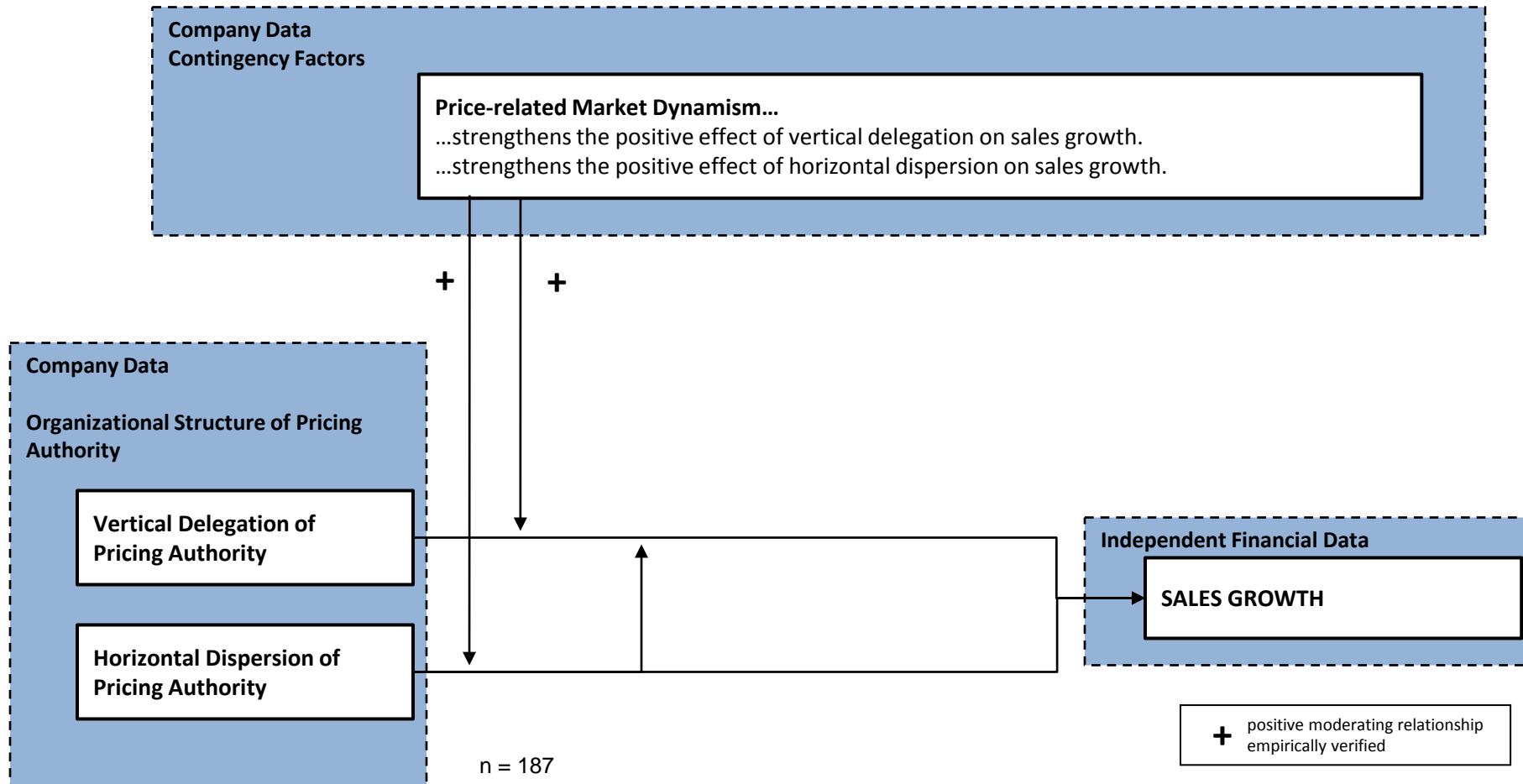
Both vertical delegation of pricing authority and horizontal dispersion increase sales growth. Horizontal dispersion strengthens the positive effect of vertical delegation.



+ positive link empirically verified

n = 187

The impact of the organization of pricing authority on sales growth is enhanced by price-related market dynamism



The study results lead to six managerial implications

1

Suppliers in B2B-markets should be aware that there are two dimensions of the organizational structure of pricing authority: vertical delegation of tactical pricing authority within the sales function and horizontal dispersion of strategic pricing authority across the sales, marketing, and finance functions.

2

A medium level of vertical delegation of pricing authority to the salespeople is optimal in terms of firm profitability. In contrast, for achieving sales growth firms should increase the vertical delegation of pricing authority to the salespeople.

3

Margin-based goals for salespeople present managers with an incentive scheme to mitigate some of the agency problems associated with vertical delegation of pricing authority.

4

Our results show that in many B2B firms there is substantial horizontal dispersion of strategic pricing authority across sales, marketing, and finance.

5

Horizontal dispersion of strategic pricing authority has beneficial profitability and sales growth implications. Thus, managers should involve various functions in strategic price decision making. This is even more beneficial in highly dynamic markets.

6

Managers should combine higher levels of vertical delegation with higher levels of horizontal dispersion as this creates a cross-functional checks and balances system.

Contact and Further Information: Institute for Market-Oriented Management at the University of Mannheim



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