The influence of value-based pricing and cost-based pricing strategy on organisational performance in Nigeria

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Abstract

The environment of business is competitive, as well as dynamic. Thus, businesses put up all necessary strategies to outsmart one another, because the performance of each organisation decides who will be the market leader, as well as market followers. One of the strategies that is being used by organisations is the pricing strategy. To this end, this research was conducted to find out the impact of value-based pricing and cost-based pricing on organisational performance. Organisations considered in this study are businesses that produce either goods or services, hence involved in offering exchange. Here, pricing strategy was measured using two variables, which serve as the basis to measure organisational performance, in order to know the extent of pricing strategy variables influence on organisational performance and these variables are valued-based pricing and cost-based pricing. The research adopted a descriptive -cross sectional survey research design using convenient sampling technique in selecting respondents. In total, 195 questionnaires were administered out of which 175 were returned correctly completed and found to be valid and useful. The finding revealed that there is a strong and positive relationship between value based pricing and cost based pricing strategy and organisational performance. Also, The result revealed that value based and cost based pricing has significant effect on organisational performance. The study, therefore, recommended that attention should be paid to providing better quality as this serves as the basis for consumer buying decisions, which in turn affects the organisational performance.

Keywords: Cost-Based Pricing, Value-Based Pricing, Organisational Performance, Pricing Strategy, Pricing Decision.

1. Introduction

A firm's marketing strategies can be described like a plan to set oneself apart from its competitors by exploiting their relative power to better address the needs of clients in a certain environment (Jain, 2004). Marketing techniques are set of events targeted at creating a competitive advantage, as well as out-performing the competitors through making educated, evidence-based judgments amongst available alternatives (Shane, 2000). Several other distinct definitions about marketing strategy are available, each reflecting a particular point of view (Li & Calantone, 2000). However, everyone agrees to the technique used in marketing as a way for a business to make use of its resources to be able to meet the organisation's stated goals and objectives. A marketing strategy can be described as a right distribution of resources to support firms in gaining a competitive edge in a certain market sector.

The environment of business is dynamic with some factors determining the survival of business entities. These factors speak volume about the organisation's performance, hence capable of predicting the future of such organisations. Some elements are well within the firm's control, while some are outside of the firm's control, which the organisation has little or no control over.

In addition, the ability of organisation to create innovative pricing strategy that enables them become competitive, as well as assists them to gain sales and revenues, thereby leading to sustainability and an improvement in the organizational performance (Tuan et al., 2016; Indriastuti et al., 2017). Sales and revenue are determined by various factors with price playing a major role. According to general marketing literature; White et al. (2003), Vorhies & Morgan (2003), and Olson et al. (2005), the efficient implementation of planned marketing strategy is crucial to linking marketing activities with business performance (2004). The pressures of pricing and sales compensation plans drive the type of marketing and sales approaches deployed may obstruct a diagnostics examination of any organisation's performance. Moreover, in order to improve enterprises' financial and economic performance, price plans must be determined by increased capacity, as well as a basic systemic understanding of consumers' wants and desires, as well as market factors such as economic circumstances and intensity of competition (Besanko, Dranove, Shanley, & Schaefer, 2012; De Toni & Mazzon, 2013b). A good pricing will mean an increase in the revenue of the organisation. Once this is achieved, it will have an impact on the organisation performance. A positive organisational performance will determine the survival and existence in both the short and the long run.

One of the most crucial aspects of the marketing mix is pricing. Pricing determines whether an organisation makes profit or loss; therefore, pricing is a major determinant of organisational performance. Most successful organisation pay more in conducting market research, before setting the price of their product. Pricing decision is, therefore, an important parameter that determines organisation performance, as well as success or failure. In today's business world, several organisations have either gone bankrupt or moribund due to poor pricing strategy.

That an organisation develops a new and better product, does not at times translate into prosperity for the organisation, because if the price of the product is arbitrary, due to lack of consideration for the intrinsic value of the product and competing market forces, before fixing the price. For example, when the price is fixed above the value of the product, the customers are turned off and if it is fixed below, they might consider such product as inferior. Some of the hurdles to implementing value-based pricing include: value assessment, segmentation, communication, sales team management, as well as top management commitment, according to previous study (Hinterhuber, 2008a). Many financial and economic parameters or variables, according to Robert (2004), can be used to analyse organisational performance, given many varied conclusions, as well as interpretations for performance that is effective. Each of the organisational performance indicators is presumably distinct. Performance management can take many forms, such as dealing with internal organisation challenges to satisfy stakeholders or deal with environmental issues.

Price is among the most modifiable elements of the marketing mix, according to Simon et al. (2008), affecting the profitability of the company and cost - effectiveness directly and even in the near term. Despite the fact that price has a significant impact on business performance, cost-based pricing that involves cost plus mark-up, which is ideal for organisations that do not have a pricing department, is not employed. Depending on the strategy employed by an organisation to ensure its performance and survival, efforts must be put in place to ensure that exchanges are fair, profitable and sustainable. Over the time, literature has shown that when the right pricing strategy is employed, it will serve as a vital weapon that lead to a desired organisational performance set to achieve (Singh et al., 2017; Shanker et al., 2017).

To this end, this paper therefore, considers the effect of value-based pricing and cost-based pricing strategy on organisational performance in Nigeria.

2. Literature Review

Value-based pricing strategy, organizational performance in Nigeria

Pricing has received a great deal of interest and has also been linked to a variety of factors, one of which is organisational success. Hinterhuber & Liozu (2014), argue that the amount of profit and general liquidity experienced by enterprises is determined by the pricing of goods and services. Wuollet (2013) agreed that the distinct pricing techniques of customer value-based, competition-based pricing and cost-based pricing cam predict the volume of income a company may create over time. Value-based pricing is price variety available to calculate their price difference between the value perceived by the buyer and supplier's cost (Kortge & Okonkwo, 1993; Forbis & Mehta, 1981).

The perceived net benefits limit the willingness to pay by the customer (for instance, Brandenburger & Stuart, 1996): "Benefits include total advantages, which include costs incurred by the consumer business in obtaining the desired advantages with respect to the purchase cost" (Anderson & Wynstra, 2010, 31). Difference between the seemingly total advantage and the amount paid is the consumer perceived value. As a result, suppliers cannot benefit by selling below cost, therefore pricing is set. The price determines how the value created is divided between both parties (Kortge & Okonkwo, 1993). Value-based, competition-based and cost-based pricing (Hinterhuber, 2008a) are the three main pricing models identified in the literature, which, depending on the pricing basis, employ supplier costs, present market prices, or customer’s value. Value-based pricing, according to Hinterhuber (2008b), is determined by the worth of a product or service provides to a designated segment of customers as the primary consideration in determining prices. Customer-perceived value is a changing target, when it comes to pricing. Because value is context-specific and dynamic, it is evaluated differently in different business contexts and at different periods. These are subjective variables, and difficult to predict perceptions. As a result, value-based pricing might remain challenging to enforce.

Nafuna et al. (2019) investigated the role of competitive advantage in moderating the association that exists among pricing strategies and financial success in Uganda private elementary schools. The findings show that the competitive edge mediates between the association among pricing strategies and financial performance to some extent (it is not a strong but a partial mediation).

Conceptual Model depicting the relationship between the dependent and the independent variables

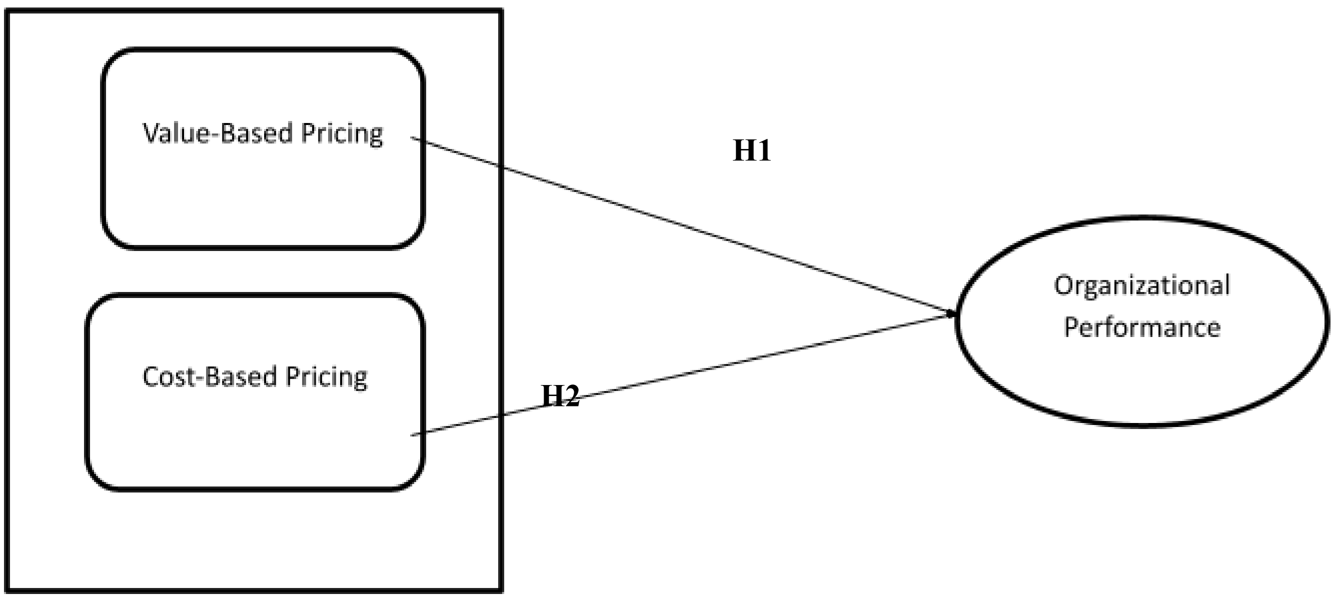

Figure I: Model of Relationship between pricing strategy and organizational performance

Therefore, the research stated the hypothesis:

$H_{1:}$ value-based pricing has a significant effect on organisational performance.

Cost-Based Pricing, Organisational Performance

A cost-plus pricing method involves analysing of all the fixed variables, direct, and indirect expenses connected with manufacturing of items. To get at the customer's price, these costs are converted to per unit price and a mark-up or profit is tacked on. When pursuing a target return, this mark-up can be a fixed percentage, or it can be a variable proportion. When pursuing a profit maximisation goal, mark-up is the most common price method (Rogers, 1990; Seymour, 1989;

Diamantopoulos, 1991; Morris, 1990). To calculate cost-plus pricing, add all costs associated with getting the goods to its final destination, including shipping and ancillary charges, as well as a profit percentage. Assuming that accounting expenses are accessible, obtaining a quote is relatively simple.

Balakrishnan & Sivaramakrishnan (2002) advocate the adoption of cost-based pricing. The authors suggest that pricing is closely linked to manufacturing capacity. They do recommend, however, that rather than seeking the best capacity planning and pricing options, the problem could be simplified by employing cost-based pricing. Hinterhuber & Liozu (2012). 44 managers from 15 organisations in the United States were interviewed about three pricing approaches: cost-based, competition-based, and value-based pricing. The fact that all the 15 organisations employed cost-based pricing supports the notion that this is the most common pricing approach. Their findings show that organisations that utilize cost-based pricing do not have specialised pricing departments and instead rely on informal pricing-review processes that focus solely on profits, rather than prices and make pricing decisions based on "gut feelings." As a result, the authors argue that value-based pricing is a more successful technique, and that organisations that use it have stronger company integration, Hinterhuber & Liozu (2012). The finding emphasises the need of a well-structured cost-based pricing strategy that relies on strong data about the production system to guide pricing decisions.

The price model given here is based on a cost-breakdown technique that links technical and economic parameters. The model is based on a previously presented cost model for manufacturing part cost (Ståhl, Andersson & Jönsson, 2007). Performance criteria, cycle duration, hourly equipment; people, cost of tool, batch size and raw material costs are all included.

In Nigeria, Michael et al. (2012) examined the influence of pricing strategies on corporate performance. The researchers used a descriptive research design and collected data using a secondary approach. For the analysis, they employed a regression model. The study discovered that breweries' pricing methods had a significant impact on their performance. It also highlighted the level by which the two variables were linked. The researchers' sales strategy was found to be negatively related to the success of the Nigerian brewery business. It was suggested that the beer business employs a cost effective, as well as discounting strategy, in order to appeal to more customers, provided the quality of product is not negotiated.

In Jeddah, Saudi Arabia, Mohsen & Sahar (2015) conducted a study on the Mediating Role of Competitive Strategies on firm's competencies and performance. A survey was used to collect data randomly from selected respondents out from survey area, with 213 SMEs chosen from the population of 496 registered SMEs. The study's hypothesis was analysed and tested using the Chi-square Test of Association. The result revealed that a cost-inclusive pricing strategy has no impact on SMEs' performance or gives them a competitive advantage. From the empirical evidence, we therefore, have the hypothesis as:

H_2: Cost-based pricing has a significant effect on organisational performance.

3. Theoretical Framework

The Weber-Fechner Law

The following is how the above law ties modifications in the evolved reaction to a stimuli: AS/S = k, where S is the sensory stimulus, while AS is the "just discernible difference" (that is, the difference between S + AS and S), and k is constant for each sensory input. The Weber-Fechner law was created by Fechner analysing subjective perceptions using increments that are different (Monroe, 1971). Several authors, including Adam (1970), Monroe (1966) and Gabor and Granger (1966), have used the Weber-Fechner rule to investigate price thresholds (1973). These publications' empirical evidence supports the idea of Price criterion (upper and lower), and hence a price range that has been determined to be acceptable. The Weber-Fechner law can also be used to empirically identify those thresholds. Prices underneath the lower barrier are deemed overly little (value is questioned), while prices above the upper boundary are deemed excessive. Adam demonstrated this empirically (Monroe, 1973). This theory is pertinent in the study, because of its use in explaining how consumers' perceptions of prices influence their decision to buy insurance. The more favourably customer sees these costs, the more sales it generates,

In this study, cross-sectional survey research design was adopted.

Sample Size Determination

The sample size used in this study consisted of 195 participants.

Organisational performance was measured using the instrument designed by Hayman (2005) with Cronbach alpha values of 0.93 for value-based pricing sub-scale with 4 items; 0.85 for cost-based pricing with work sub-scale with 4 items.

Data Presentation

Socio Demographic variables	F (%)
Gender	
Male	102 (59.6)
Female	69 (40.4)
Age	
21-30 years.	9 (5.26)
31-40 Years.	13 (7.60)
41-50 Years.	84 (49.12)
51Years and above	65 (38.2)
Marital Status	
Single	122 (71.34)
Married	40 (23.39)
Divorced	9 (5.26)

Educational Qualification	
SSCE	10 (5.85)
OND/NCE	14 (8.19)
HND/BSC	84 (49.12)
MBA/MSC	58 (33.92)
Others	5 (2.9)

Source: Analysis of Field Survey, 2021.

The table above shows the demographic information of the respondents in terms of their gender. It depicts the gender distribution of respondent with 59.6 percent of the respondents as male, while 40.4 percent were female. From

The table also shows the distribution of respondents in terms of age, 7.60 percent representing 13 of the respondents are within the age of 30-39years, 49.12 percent representing 84 are within 40-49years, 05.26 percent representing 09 were within 20-29years, while 38.02 percent representing 65 are 50years and above. This implies that there were more respondents, who are within the age of 40-49years than any other age group who participated in the study.

On marital status. 71.34 percent of the respondents were married, 23.39 percent were single, while 05.26 percent are divorced.

In terms of educational qualification, 43.69 percent of the respondents had Bachelor’s Degree/HND, 49.12 percent has Master’s Degree, 36.84 percent had other types of qualification, 8.19 percent has NCE/OND, while 5.85 percent are WASSCE/SSCE holders.

4.3 Hypotheses Testing

The regression analysis was used to examine the hypotheses raised in the paper.

4.4 Hypothesis

4.4.1 Hypothesis One

H1: Value-based pricing has a significant effect on organisational performance.

Table 4.5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.654[a]	.581	.431	2.0761

a. Predictors: (Constant), VBP

Table 4.5 shows the model summary indicating the effect on the observed variables.

The R-Square which is also known as Coefficient of determination explains what percentage of the total variation of the dependent variable is caused by the variation in the independent variables. The R^2 for the model is 58.1% which shows that value-based pricing has an effect on organisational performance and this indicates that value-based pricing is a major factor in determining organisational performance.

Table 4.6 Coefficients

Model		Unstandardised Coefficients B	Unstandardised Coefficients Std. Error	Standardised Coefficients Beta	T	Sig.
1	(Constant)	-2.161	3.007		-.719	.476
	VBP	1.038	.139	.63	7.459	.000

a. Dependent Variable: CONSTANT

The table 4.6 illustrates the model's relevance, or whether it adequately explains the deviations in the dependent variable. It demonstrates that the estimated p-value is smaller than the threshold p-value (0.00>0.05 and Beta value of 0.63 or 63%

4.4.2 Hypothesis Two

H2: Cost-based pricing has a significant effect on organisational performance.

Table 4.7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.634[a]	.501	.612	1.7795

a. Predictors: (Constant), CB

The result of the model from the table above shows that the R^2 =50.1%. It means that 50.1% of the total variation of organisational performance is caused by cost-based pricing. The R=.634 shows that the relationship between the dependent and independent variable is strong representing 63.4%, while the adjusted R-square = .612.

4.8 Coefficients[a]

Model		Unstandardised Coefficients		Standardised Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-.947	2.202		-.430	.669
	CB	1.026	.106	.71	9.647	.000

a. Dependent Variable: CONSTANT

The value (Sig.) which is 0.000 less than 0.01 implies that we would accept the model at significance level of 99%. That is, the model sufficiently explains the variation in the dependent variable. In other words, since the p-value (Sig.) of the model (0.000) is less than 0.01 level of significance, then we can conclude that there is significant relationship since Sig value (0.000) is less than 0.01 at 99% level of confidence. It also predicted that the beta value (0.71) is significant, which means, there is significantly high direct relationship between cost-based pricing and organisational performance.

Discussion of Findings

The study objective was to investigate the effect of pricing strategy on organisational performance. Our result showed that value-based pricing was a major determinant of organisational performance. The finding also suggests that customers are likely to pay the price for a product if the product's value is worth the money. This finding is consistent with the result of an earlier study by Agwu (2014) who submitted that producers should express value to customer through price, He was of the view that this would have effect on organisational performance. Also, from the analysis of the second hypothesis, result indicates that cost-based pricing has a significant influence on organisational performance. This also implies that cost-based pricing is a major determinant of organisational performance. This is consistent with the findings of Michael et al. (2012) who pointed out in his study the important role of cost-based pricing as a catalyst for customer's loyalty and consequently organisational's productivity

5. Conclusion

From the above analysis and discussion, there is a clear indication that pricing strategy is an important tool for achieving organizational goals which ultimately translates to good organisational performance. Pricing strategy is thus an important organizational practice that would not only allow for a competitive advantage over other brands, but also guarantees a sustainable organisational performance. It is hereby recommended that managers of organization should devote sufficient time to reflect on what makes for appropriate pricing for their goods and services before introducing them into the market.

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