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Pricing Practices of Nepalese Manufacturing Firms

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Abstract
This research examined the pricing practices of manufacturing firms within the Bankey district of Nepal, focusing on both the objectives and methods employed. Utilizing a Likert-scale questionnaire administered to 67 companies, the study revealed that pricing objectives were predominantly qualitative, prioritizing customer-centric considerations over quantitative targets. The primary pricing methods observed were cost-plus pricing and market-average pricing. Statistical analysis demonstrated a significant relationship between the stated pricing objectives and the methods selected. The study's practical contribution underscores the importance of an integrated pricing framework, wherein managers align their pricing methods with their strategic objectives to enhance performance.
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1. Introduction

Pricing is a critical determinant of firm revenue and profitability, with immediate financial implications (Forman & Hunt, 2005; Meehan et al., 2011). Consumers exhibit asymmetric responses to price changes, demonstrating a heightened sensitivity to increases compared to decreases relative to reference prices (Kalyanaram et al., 2022). Empirical evidence further supports the positive influence of pricing and engagement models on firm performance (Jhamb et al., 2024). Profit-seeking organizations must meticulously manage product, cost, and pricing strategies to achieve profitability (Cant et al., 2016). Effective pricing is pivotal to a firm's success, while miscalculations can lead to substantial losses in profitability and market share (Cant et al., 2016; Cunningham & Hornby, 1993; Simon, 1992). Simon (1992) also highlighted the long-term strategic implications of pricing decisions, extending beyond immediate financial outcomes to encompass industry-wide effects. Pricing, uniquely among the marketing mix elements, generates revenue, while others incur costs (Potter, 2000; O'Connor, 2003). Consequently, pricing consistently ranks as a crucial marketing instrument, despite being perceived as a challenging managerial task (Myers, 1997; Dolan & Simon, 1996). Managerial responses to price stimuli are influenced by various factors, including price presentation, brand relationship, company size, reference prices, perceived seller motives, and purchase risk (Monroe et al., 2015; Campbell, 2007; Patterson, Johnson, & Spreng, 1997).

Literature Review

Pricing practices encompass the managerial activities culminating in price decisions (Ingenbleek et al., 2003; Dutta et al., 2003). As Kotler (1991) suggested, initial pricing decisions involve positioning products based on quality and price. These practices occur within an organizational framework involving information collection, sharing, and interpretation (Ingenbleek & Lans, 2013). Homburg and Totzek's (2011) sequential pricing framework elucidates this process, comprising information acquisition, strategy formulation, price determination, and implementation. Specifically, Dutta et al. (2003) identified competitor price analysis, pricing strategy development, and price commitment as key components of the price-setting mechanism.

Table 1. Pricing decision system

Cost oriented	Demand oriented	Competition oriented
Average/direct mark-up	Market conditions	Comparison with competitors
Rate of return pricing	Demand inelastic/ elastic	Follow-the-leader pricing
Incremental pricing	Value of customer	Market competitiveness
Break-even analysis	Customer loyalty	Competitors' reactions

Pricing strategies are traditionally classified into three primary orientations: cost, demand, and competition.

a. Cost-oriented pricing relies on internal cost calculations, encompassing methodologies such as:
    1) Cost-plus pricing, where a predetermined profit margin is added to the average cost (Zeithaml et al., 1985; Zeithaml and Bitner, 1996).
    2) Target return pricing, designed to achieve a specific return on investment (Meidan, 1996).
    3) Break-even analysis, aimed at covering total costs (Lovelock, 1996).
    4) Marginal pricing, which focuses on covering marginal costs, potentially operating below total variable costs (Palmer, 1994).
b. Demand-oriented pricing centers on customer perceptions and needs, involving pricing based on perceived value (Lovelock, 1996; Zeithaml and Bitner, 1996), offering high-quality services at competitive prices (Cahill, 1994), and aligning prices with customer requirements (Ratza, 1993).
c. Competition-oriented pricing involves aligning prices with market competitors, including matching average market prices (Zeithaml and Bitner, 1996), pricing strategically above or below competitors (Meidan, 1996; Palmer, 1994; Zeithaml and Bitner, 1996), and adhering to market leader pricing (Kurtz and Clow, 1998).

It is crucial to distinguish between observable market pricing strategies and internal organizational pricing practices, which often remain proprietary (Ingenbleek and Lans, 2013).

Furthermore, strategic pricing applications vary depending on the market context:

a. New product introductions may utilize price skimming, penetration pricing, or experience curve pricing.
b. Competitive markets frequently employ strategies such as leader pricing, parity pricing, low-price supplier strategies, and premium pricing.
c. Product line pricing may involve complementary product pricing, price bundling, or customer value-based pricing (Noble & Gruca, 1999; Nagle & Hogan, 2006).

The established marketing and management accounting literature consistently delineates cost-based, competition-based, and value-based pricing, which are prevalent across both manufacturing and service sectors (Dorward, 1987; Dearden, 1978).

a. Cost-based pricing is characterized by the addition of a desired profit margin to costs (Nagle & Hogan, 2006).
b. Competition-based pricing incorporates market pressures and competitor behavior (Nagle & Hogan, 2006).
c. Value-based pricing aligns prices with the perceived value delivered to customers (Hinterhuber, 2004).

The limitations of traditional cost-based pricing in service-oriented businesses have been increasingly recognized (Kindström et al., 2012). Firms offering value-added services that enhance customer productivity are encouraged to transition towards value-based pricing models (Ulaga & Reinartz, 2011). Furthermore, Malleret (2006) posited that a firm's competitive position, as well as country and sector-specific norms, significantly influence pricing practices. Specifically, a stronger competitive position in both global and local markets allows firms to command higher prices. Customer willingness to pay is also shaped by regulatory frameworks and industry-specific practices, often dictated by market leaders. As manufacturing firms increasingly adopt service-oriented business models, they tend to shift from cost-based to value-based pricing, a relationship potentially moderated by their competitive standing. This research, therefore, focuses on sectors critical to the Nepalese national economy, considering their contribution to GDP and employment. The study aims to: (1) identify the pricing objectives of Nepalese manufacturing companies, and (2) examine the pricing methods they employ.

2. Methods

This study investigated the pricing practices of manufacturing firms within the Bankey district of Nepal. The target population comprised all 235 manufacturing companies operating in the district during 2023. A response rate of 28.5% was achieved, with 67 firms participating. Due to the study's specific objectives and the characteristics of the population, a combination of purposive and convenience sampling techniques was employed. Data were collected via a questionnaire survey utilizing a Likert-type scale. To ensure validity, a pretest was conducted involving personal interviews with two academics and four industry practitioners. Respondents included managers, proprietors, and accounting officials. The questionnaire assessed pricing practices and objectives using a 5-point Likert scale, ranging from "low adoption/importance" (1) to "high adoption/importance" (5). Descriptive statistics were used for data analysis.

Table 2. Descriptive statistics of pricing objectives pursued by manufacturing companies

Pricing objectives pursued	Mean
Price stability in the market	3.1667
Sales stability in the market	4.3235
Determination of fair prices for customers	4.2236
Maintenance of the existing customers	4.1312

Long-term survival	4.4356
Attraction of new customers	4.1826
Achievement of social goals	2.7454
Customers' needs satisfaction	3.6757
Price differentiation	3.7423
ROA	4.6632
ROI	4.7543
Cost coverage	4.7551
Market share increase	3.2883
Market share leadership	3.3245
Price similarity with competitors	4.2417
Price wars avoidance	3.3566
Discouragement of new competitors entering into the market	2.7731
Profit maximization	4.2845
Sales maximization	4.5765

Source: Field Survey (2023)

Table 2 reveals that Nepalese manufacturing companies prioritize financial performance and market stability in their pricing objectives. Return on Investment (ROI), Return on Assets (ROA), cost coverage; profit maximization, sales maximization, and sales stability all exhibited high mean scores, indicating significant importance. Conversely, strategic deterrence of new entrants and the pursuit of social goals were deemed less critical. Customer satisfaction, while considered, occupied a moderate position in the hierarchy of pricing objectives.

Table 3. Descriptive statistics of pricing methods adopted by Nepalese companies

Pricing methods	**Mean**
Cost-plus method	4.7736
Marginal pricing	3.3341
Target return pricing	3.5443
Contribution analysis	2.6712
Break-even analysis	4.2456
Pricing according to the dominant price in the market	3.2896
Pricing according to the customers' needs	4.1673
Perceived-value pricing	2.4123
Value pricing	2.6647
Pricing below competitors	3.7652
Pricing above competitors	2.1544
Pricing according to the market's average prices	4.4623

Source: Field Survey (2023)

Analysis of pricing method adoption, as displayed in Table 3, highlights a preference for cost-oriented approaches, with cost-plus pricing being the most prevalent. Demand-oriented (customer needs) and competition-oriented (market average) methods also show substantial adoption. However, value-based methods are significantly less utilized. Mixed competition-oriented approaches, such as dominant-price and below-competitor pricing, are moderately employed.

3. Results and Discussion

The study's findings indicate a strong emphasis on financial objectives, such as return on assets, profitability, and sales volume, in the pricing strategies of Nepalese manufacturing companies, aligning with previous research (Cant et al., 2016). This focus on financial metrics suggests a potential neglect of non-financial aspects, particularly social goals, which were assigned low importance. This highlights a possible deficiency in corporate social responsibility within the sector. It is recommended that a more balanced approach, incorporating both financial and social considerations, be adopted in pricing decisions. Concerning pricing methods, the research revealed a predominant reliance on traditional cost-plus pricing, consistent with prior studies (Avlonitis & Indounas, 2006). The limited adoption of perceived-value and value pricing suggests a need for Nepalese companies to incorporate demand- and competition-oriented approaches for long-term success. The adoption of diverse pricing policies, informed by varied pricing information, underscores the absence of a universally applicable pricing model.

4. Conclusion

This study examined the pricing practices of manufacturing companies in Nepal, focusing on firms operating in the Bankey district during 2023. A sample of 67 companies, drawn from a population of 235, participated in a questionnaire survey utilizing a Likert-type scale. Data were collected from managers, proprietors, and accounting officials. The research identified that return on investment, return on assets, cost coverage, profit maximization, and sales maximization are primary pricing objectives. Furthermore, the study revealed a significant reliance on cost-plus pricing methods. These findings provide a foundation for future comparative research on pricing practices across different national contexts.

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