

**AN INVESTIGATION OF THE PRICING ATTITUDES AND PRACTICES OF
KOREAN BUSINESS**

by

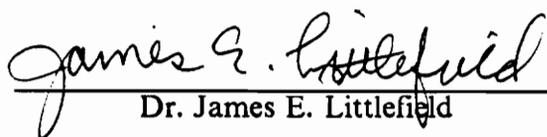
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APPROVED:



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(ABSTRACT)

The purpose of this study was to explore issues related to the development of pricing strategies. Important questions addressed included the importance of this topic and a description of how prices are set or why prices are set. Also, the concern of whether these issues are general across major types of pricing decisions, or specific to certain pricing decisions was investigated. Particularly, this study reviewed the descriptive survey research or case studies that have been done to determine how businesses make price decisions, and their key pricing policies and procedures.

While Korea is recognized as one of the most rapidly industrializing countries, marketing and marketing research have not been fully developed, and, furthermore, there has been little research on pricing. Therefore, this study reports on a survey with 303 Korean business people about their pricing attitudes and practices in order to obtain information about Korean businesses and help them improve their pricing strategies by suggesting ideas based on price theory and previous price research.

The basic results of the survey indicate that although pricing has been generally recognized as an important area in marketing by Korean business people, it has not been examined as a way to influence demand in advanced market environments. While it is revealed that Korean consumers are price sensitive and Korean business situations are competitive, Korean businesses seem to have offered similar products with a relatively

rigid pricing approach based on production costs. Their pricing strategies appear not to be related to the other elements of the marketing mix. However, promotional pricing, mainly as discounts, was regarded to be important to gain a competitive edge. In terms of actual price setting in industry and firms, many Korean businesses assume the characteristics of a price taker rather than price maker. Their primary short run pricing objective was to meet existing competition. However, the major basis of their pricing policies was either competitive situation or pricing what the market will bear.

This study provides a general view on the type of issues that should be considered in pricing, and evaluates the pricing practices of Korean businesses in comparison to those of more advanced countries'. The study is also of value to Korean business people because it offers them information on how prices are set in various industries, and the attitudes and opinions of business people about the pricing function.

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I. INTRODUCTION

CHAPTER OVERVIEW

The objective of this study was to address several important pricing issues and to contribute to Korean business by developing a framework for conducting pricing research in Korea. Of particular concern were issues related to the pricing attitudes and practices from the perspective of both customers and business people, as well as the actual pricing practices of businesses. To begin the research, a literature review was conducted to develop a set of pricing issues for the actual investigation. The purpose of the literature review was to develop an understanding of the importance of pricing and its function in marketing, identify issues needing further examination or research, and suggest desirable directions for future practice. Identifying some important emerging pricing issues will help managers to understand the increasing complexity of pricing and

the influence of pricing on the success of marketing. This understanding should be useful for the implementation of their pricing strategies in a dynamic environment.

Korea has realized a rapid economic development, and its domestic and export markets are expected to grow in the future. The resulting progressive marketing activities of Korean businesses require additional effort in marketing and marketing research, especially in pricing. While pricing was of secondary consideration when the Korean market was mainly oriented towards production and selling, Korean business people have begun to recognize the impact of pricing strategies as domestic markets have developed and as they enter international markets with more value-added products. However, their limited experience in pricing and the lack of pricing research indicates a need to first develop a broad understanding of pricing theory and relevant pricing issues, as well as more comprehensive information about how pricing has been practiced in Korean businesses. Therefore, some descriptive pricing research with Korean businesses will be helpful for indicating necessary pricing issues and pricing practices to be implemented.

This study starts with a literature review based on previous pricing research. The literature review indicates not only theoretical pricing attitudes and behaviors but also historical business practices in advanced countries, mainly in U.S.A., and today's pricing issues. Secondly, the significance of accomplishing pricing research and the expected roles of descriptive pricing research for Korean business are discussed. Descriptive pricing research was regarded as a preferential task considering that little pricing research has been conducted and a ground work for pricing development for Korean business has not yet been prepared. Next, the process and analysis of the survey on pricing attitudes and practices of Korean business are explained in terms of methodology. A convenience sampling was executed and 303 responses were obtained. The analysis of this survey mainly depends on frequency distributions, means, and

standard deviations. Finally, the results of the survey are discussed. The results are viewed in terms of what issues should be considered in setting prices among today's market environments, what strategies can be applied to Korean business situations, and what pricing policies should be implemented for Korean businesses in order to perform advanced level of marketing activities.

OVERVIEW OF PREVIOUS RESEARCH

Since Lanzillotti (1958) launched the first survey for pricing objectives in large companies, research about how businesses set price decisions and pricing policies and procedures has continued as pricing has emerged as a key factor to successful marketing. His survey interviewed officials of selected large companies, and a second set of interviews followed several years later to ascertain if any changes had been made in price policies since the original interviews. According to this survey, the most typical pricing objectives were (1) pricing to achieve a target return on investment, (2) stabilization of price and margin, (3) pricing to realize a target market share, and (4) pricing to meet or prevent competition. However, it was concluded that price decisions by any one firm were not always ruled by a single objective. Additionally, the survey revealed: (1) Large companies had a fairly well-defined pricing goal that was related to a long-range profit horizon. (2) Their management sought (especially in multiproduct multimarket operations) a simultaneous decision with respect to price, cost, and product characteristics. (3) Pricing formulas were handy devices for checking the internal consistency of the separate decisions with the general company objective.

Udell (1964) surveyed companies with mail questionnaires to determine what were the key policies and procedures common to successful marketing management in various manufacturing industries. In this survey, pricing was selected as an important policy area by 50% of the surveyed firms; in contrast, product research and development was selected by 79% of the firms. Consequently, the importance rank of pricing in marketing policy was sixth; product research and development was ranked one, followed by sales planning, management of sales personnel, advertising and sales promotion, product service, and then pricing. These results implied that the non-price facets of competition like product and sales occupied a prominent role given the nature of the market in those times.

Kelly and Coaker (1976) contacted and asked large manufacturing companies about the importance of price as a choice criterion for industrial purchasing decisions. A total of 112 randomly selected purchase decisions were evaluated within the five firms. The results indicated that while over half of the investigated total purchases were made from the lowest bidder, the frequency of acceptance of the low bid varied significantly over the five organizations utilized in this study. This result implied that generalizations about important choice criteria depended heavily upon and varied by product type. Another important aspect was that each of the successful purchases was made when a product met requirements stated in the specifications, suggesting that the most important choice criterion was meeting the specifications, followed by price.

Robicheaux (1976) carried out a mail survey to determine the importance of pricing in competitive strategy. In this survey, the perceived relative importance of pricing was first among marketing activities although pricing had been ranked sixth in Udell's survey (1964). It implied that the environment in which executives were making decisions in 1975 differed dramatically from that of 1964. The first five years of the seventies were represented by shortages of critical materials, inflation, recession, unemployment,

consumer discontent, and citizen dissatisfaction with almost all American institutions including government, business, education and religion. It appeared that marketing executives of manufacturers of consumer and industrial goods were responding appropriately to their perceptions of the most critical environmental issues. In response to the threat of inflation and recession, both groups perceived pricing and cost budgeting and control to be very important. However, three marketing variables were believed to be vitally important at both times (at Udell's survey (1964) and Robicheux' survey (1976)). These were customer services, sales personnel management and product research and development.

Tatham (1976) completed a mail survey through purchasing agents in 152 firms including consumer goods firms, both consumer and industrial goods firms and only industrial goods firms. The main objective was to gain additional insight into buyers reaction to changing pricing systems: fixed price, price at time of delivery, and escalated pricing by index. Most of these purchasing managers stated that moving away from fixed prices was inevitable if the economy displayed strong long-run inflationary tendencies. However, many firms strongly resisted escalator pricing when vendors instituted it.

Nimer (1977) surveyed all members of The Innovation Group with a questionnaire about their companies' pricing practices in order to provide a practical framework for a discussion of the links between technological and pricing decisions. Many of the replies indicated a clear awareness of some of the critical aspects of pricing. However, there were noticeable inconsistencies, from question to question, in most of the replies. A brief summary of the first 100 responses to the questionnaire are shown in Tables 1.1 and 1.2.

Coe (1983) surveyed a group of companies via mail to determine (1) corporate pricing objectives, (2) importance of pricing, (3) strategic market planning, (4)

Table 1.1 Pricing Practices of Companies in the Innovation Group

Questions	# of relevant response		
	yes	no	sometimes
Does your company have specific pricing objectives	89	9	2
Is everyone involved with the pricing process familiar with these objectives	77	12	
Is there specific document outlining your company's pricing rationale	22	74	3
Is your initial price based on a desired return on investment?	48	34	5
Is your initial price based on sales?	62	18	6
Do you assume future changes in calculating market prices in calculating returns?	62	31	4
Do you assume future changes in costs in calculating returns	56	33	7
Do you attempt to estimate demand on the basis of alternative prices?	67	30	3
Do you estimate when your new product will encounter competition from a similar product?	82	17	1
If so, do such estimates affect your pricing strategy?	70	12	
Do you estimate the lowest price at which competitive products could be brought to market?	65	27	5
Do you estimate the economics or utility of your new products for the customer?	87	8	5
If so, does this affect your pricing?	76	11	

(Table 1.1 continued)

Has your company established factors governing the minimum level for initial prices?	71	27	
Has your company established factors governing the maximum level for initial prices?	27	68	
Do you follow the same pricing policy for all your new product?	33	65	
Do you aim to amortize R&D costs?	40	52	7
Do you ever use marginal, or incremental, pricing?	60	36	

Table 1.2 Responsibility for Setting Pricing Policy

A. Who in your company makes the final pricing recommendations?

Final pricing recommender	number of relevant companies
Sales or marketing manager or equivalent	48
Interdepartmental committee	18
President, general manager or executive committee	11
Comptroller or other financial executives	8
Various others or "varies"	8

B. Who in your company makes the final pricing decisions?

Final pricing decision maker	number of relevant companies
President / chief executives (general manager, vp operations divisional manager, or executive committee	65
High-level sales or marketing executives	21
Interdepartmental group	3
Financial executives	3

competitive forces impacting pricing, and (5) seller's position in relation to pricing among industrial marketers in the 1980s. It was revealed that the overall pricing objective shifted from a profit orientation to market share during the 1980-1982 period. A significant majority of respondents cited pricing as a very important part of the current development of marketing theory. It was also revealed that pricing was more seriously considered in the overall development of the marketing mix.

Bonoma, Crittenden and Dolan (1988) interviewed pricing managers in a variety of industries to complement the pricing determinants and pricing process research by identifying and classifying problems of managerial importance in pricing. They selected firms to obtain variations in price level, extent of industry product differentiation, product end user (consumers or business), distribution method, end user pricing system (fixed price list, fixed price list with negotiation, price set by negotiation), and special supply considerations. From these considerations four products were selected: firms of numeric control, personal care products, computer software and pleasure boats. According to the interviews, the pricing of numeric controls was dominated by a cost perspective. For personal care products, the major role of price was as a sales promotion device. The pricing of personal care thus had two components; (1) everyday invoice price and (2) trade promotional schedule of temporary price discounts. This pricing reflected the market characteristics of a very strong trade, a low interest product, and little product differentiation in personal products. It was found that software was very selective in its distribution and set a suggested retail price (SRP). The suggested price was set primarily relative to customer value and the actual price. The actual price of software was generally close to the suggested retail price because of the selective distribution policy. The company of pleasure boats was found to set price through a rationalization process. At first, the company set a derived margin and checked it against the competitor's price to see whether the derived margin was acceptable. If the

margin proved to be unacceptable, the company considered the need to deviate from standard margins in order to compete in the segment. Consequently, the interviews with these firms showed that the basis for pricing varied systematically across firms depending on internal cost factors, distribution of channel power in the industry, and customers' use of the product.

SIGNIFICANCE OF DESCRIPTIVE RESEARCH

Previous research covering corporate pricing objectives, policies, procedures and managerial attitudes for pricing has primarily been descriptive. Descriptive research may serve three different but important functions (Rosenthal and Rosnow 1984). First, descriptive research provides a framework for understanding the nature of an ambiguous situation. The foundations from descriptive pricing research provide reference points for investigating the different pricing attitudes and practices in business. Second, such research helps to establish the boundaries of the research problem, once the nature of the situation is revealed. The research not only helps to discover existing phenomena but also, helps us clarify the shape and structure of the phenomena. Third, such research raises ideas that can be tested in further relational or experimental studies. Investigations on how pricing attitudes are related to other business factors and how these factors influence pricing decisions may also be included in future studies.

Considering that there has been little marketing research development in Korea, descriptive research exploring Korean business people's opinions about general pricing issues would be first step in developing a pricing research program for Korea. Since

Korean business people are not well acquainted with pricing theory, descriptive analyses of their opinions based on normative pricing attitudes and practices will provide them some necessary first-hand knowledge about pricing. Their strong opinions on particular issues may reveal Korean-specific issues and their deviation from normative practices may indicate either a particular level of development of pricing in Korea or specific environmental factors. It is expected that important latent factors, which are more related to Korean marketing activities will be revealed through this analysis. This descriptive research can then be extended by comparing its results with other countries' pricing practices or concentrating on specific pricing issues. Finally, in order to understand Korean business practices with greater specificity, some interesting issues could be explored later by experimental research.

SIGNIFICANCE OF DOING RESEARCH ON KOREAN BUSINESS

While Korean business has expanded to the extent that some Korean multinational corporations are threatening industrialized countries' market shares, the importance of flexible pricing has not been recognized by Korean business people and adequate pricing practices have yet to be developed. Previously, only a small number of companies dominated the consumer and industrial markets and these companies could enjoy monopolistic power offering fixed prices, that had been set by adding a profit margin to their costs. However, today's Korean market development is characterized by intensified

competition, demand sensitivity to prices, and extended product choices, requires a rigorous pricing strategy. Additionally, in order for Korean export business to obtain a competitive edge in international markets, an aggressive and flexible pricing should be developed.

Considering that creative pricing strategies are derived from investigating pricing issues including consumer pricing attitudes, price influence on competitors, and successful pricing practices, etc., a pricing research program on those issues should be a priority of Korean businesses. This pricing research would help Korean business managers to enforce their pricing goals and prepare pricing schemes by offering information about pricing issues and critics for present pricing practices. Because there seems to be little research that provides substantive information on pricing decision variables and their impact on managerial practices, descriptive pricing research that provides a framework for Korean pricing issues is necessary. This research should include information about buyers' pricing attitudes and behaviors, relationships with competitors, and relationship of price with elements of the marketing mix. Additionally, it is desirable for this research to examine managerial pricing practices in terms of pricing goals, objectives and policies. As Korean businesses prepare their management system with a better developed infrastructure, their pricing responsibilities become more complicated as their pricing decisions are extended to issues of product line pricing and pricing for international markets. The importance of correct pricing decisions has been increased by environmental pressures on Korean businesses and the problem of pricing lies not so much in setting the initial list price, but more in managing pricing appropriately. Therefore, pricing research which adds information on firms' pricing objectives and its bases, procedures for implementing pricing goals, and pricing responsibility as well as consumer and competitor pricing attitudes would be of great value to the development of Korean business.

OVERVIEW OF THE THESIS

This study firstly introduced objectives of this research and the significance of doing research on Korean businesses. The research was made for the purpose of developing a framework for conducting pricing research in Korea. It was expected that investigated pricing issues would impact Korean businesses' pricing practices and contribute to Korean businesses. Doing pricing research with Korean businesses was regarded as important particularly under the considerations of emerging Korean domestic and international market situations. A fast developing Korean domestic market and the competitive international market situation demand rigorous and flexible pricing strategies. However, Korean business people not only have not recognized the importance of flexible pricing but also have not developed adequate pricing practices. Accordingly, it was concluded that descriptive pricing research should first be conducted in order to provide broad information incorporating necessary important pricing issues and actual practices for Korean businesses.

In Chapter II, this study reviews general pricing issues in order to understand the nature of pricing. Issues covered are pricing attitudes and practices from the perspective of customers and business people. Through this literature review, the increasing importance of pricing in marketing strategies is recognized. A chronological research review on this issue revealed the fact that the importance of pricing in marketing activities shifted from a relatively less important factor to a level of top consideration in the two decades from the 1960's to the 1980's. Buyers' price consciousness is discussed and their behaviors are shown to influence pricing decisions. The relationship of a firm with its competitors is discussed relative to pricing a product over its product life cycle. Additional issues are discussed in the context of the marketing mix. Particularly,

managerial departures from pricing theory will be examined to understand the gaps between academic's pricing perspectives and actual pricing practices. The latter part of this review includes practical issues on how prices have been set in industries and firms. Especially, issues concerning pricing objectives, pricing policy and its determinants, and management responsibility for setting pricing policy and calculating actual selling prices are discussed in order to establish a framework for further research on pricing decisions.

The next chapter, chapter III, discusses the significance of conducting pricing research by examining role of pricing research, pricing trends and environment affecting Korean businesses. It is concluded that pricing is taking a greater role in an increasing complex marketing climate than ever before and that business people need help from pricing research in order to make more proactive pricing decisions. The increased importance of empirical information about what pricing goals have been adopted by firms, and about the procedures employed for implementing and evaluating these goal is emphasized. Furthermore, it is also pointed out that environmental pressures developing in the 1970's and continuing into the 1980's require flexible and more competitive pricing policies and practices. Compared to pricing trends in the American market, the importance of pricing research for Korean business is raised as an issue. The environment for a developing economy of Korea is overviewed and connected to the significance of pricing research for Korean business. Since there has been little research about pricing policy of firms or pricing attitudes for consumers in Korea, a descriptive pricing research seems to be necessary in order to provide a comprehensive ground work for pricing development and stimulating further research.

The following methodology chapter, Chapter IV, introduces the content and procedure of the survey. The content of the survey is explained on how each issue, which was raised in the literature review and in the consideration of Korean business environment, is investigated by the survey. The procedures of the survey are explained

in terms of questionnaire design, structure of the questionnaire, sampling method, and actual survey procedures. The questionnaire consists of five parts: (1) Part I refers to general attitudes on pricing, (2) Part II refers to discounts practices, (3) Part III refers to pricing practices in firms and industries, (4) Part IV offers scenarios for pricing decision, and (5) Part V refers to information for respondents. A convenience sampling by judgment was made due to time and cost constraints, and 303 responses from 460 business people, to whom questionnaires were distributed, were obtained. According to the obtained information about the subjects through Part V in the survey questionnaire, many of the respondents belonged to large firms and most of them belonged to customer or industrial goods manufacturing firms. This survey also included many non-manager level people (48.1%), and business people who had comparatively short business experiences of less than 10 years (51.7%).

The results of the survey are presented in the Tables from 5.1 to 5.50, and analyzed in Chapter V. This chapter first introduces how the data were coded and tabulated for the analysis, and next explains the data analysis procedures and results. Although factor analysis was used as a first step in order to reveal underlying factors and concentrate the study on those factors, it did not bring satisfactory results. Therefore, the raised issues were analyzed not according to extracted factors but according to the a priori design of the Korean version questionnaire. Through descriptive data analysis, including frequency distributions, means and standard deviations, responses obtained from Korean business people are interpreted and evaluated in terms of whether Korean business people responses reflect the raised issues, whether they follow appropriate pricing practices, and whether they are implementing their pricing systems effectively.

Pricing information obtained from Part I of the survey questionnaire addresses issues related to competition, customers, cost-plus pricing, pricing advertising, promotional pricing, discounts, relationship of price with other factors, skimming vs.

penetration pricing strategies, experience economies, price-quality relationship, and relationship with distribution channel. Actual discounting practices in industries and firms were examined in Part II through the issues of negotiated vs. published discounts and what the discounts are offered for. Part III refers to how prices are set in the respondents' industries and their firms. The results of Part III indicate (1) characteristic of respondents' industries, (2) how their companies review prices, (3) short-run pricing objectives of the firms, (4) long-run pricing objectives of the firms, (5) responsibility for setting pricing policy, (6) responsibility for actual selling prices, (7) pricing authority of the sales force, (8) firm's competitive situation, (9) the size of the respondent's firm, (10) company's pricing policy, (11) bases of their company's pricing policies, (12) whether their firm ever changed different prices to different customers or places, (13) the importance of pricing strategy, (14) price-modification by non cost-related factors.

Part IV examined pricing decisions of Korean business people through three scenarios. Descriptive information about the subjects are obtained through Part V. In addition to that, a supplementary analysis is provided to examine any differences by types of respondent groups. Although the difference according to response groups of (1) manager level vs. non-manager level, (2) long business experience vs. shorter business experience, and (3) major experience in marketing area vs. major experience in other areas were investigated, the results did not reveal any significantly different patterns between those groups. However, it was revealed that business size influenced pricing practices on the areas of responsibilities for setting pricing policy and calculating actual selling prices, and pricing policy and objectives.

The last chapter, chapter VI, discusses these results from the survey. In order to promote understanding how pricing issues were investigated through the survey, relevant issues in the study are reviewed and the survey results are considered and discussed

within the context of those issues. Finally, limitations in developing this study are indicated and implications for further research are presented.

SUMMARY

In this chapter, the objectives of this study were indicated. The primary purpose of this study was to provide a groundwork for the pricing development of Korean businesses. Since there has been little concern on pricing, and pricing research has not been developed as a result, a descriptive research with Korean businesses was regarded as a necessary first research step.

In order to introduce historical pricing practices and issues to be discussed, an overview of previous research was prepared. This overview included (1) surveys for business people's attitudes about pricing through 1960's to 1980's, (2) research about how businesses set price decisions and their pricing objectives and policies, and (3) research for pricing determinants and pricing processes for successful pricing management.

Additionally, the important function of descriptive research and the significance of doing research on Korean business were discussed, clarifying the need and role of this study. Although Korean business has developed without a sufficient infrastructure to develop an effective marketing mix including price, and Korean business people have not been well acquainted with pricing theory, the importance of appropriate pricing decisions are expected to increase as Korean markets develop and Korean businesses

extend their activities into international competition. Therefore, it was suggested that a descriptive pricing research would provide reference points for Korean business peoples' pricing attitudes and practices, and the resultant analyses following examinations would be of great help for Korean businesses in establishing their pricing and developing their pricing strategies.

II. REVIEW OF LITERATURE

CHAPTER OVERVIEW

Pricing is one of the most important marketing decision variables and its importance is increasing as the economic and competitive pressures facing business increase. As a means of understanding how these pressures impact pricing decisions, it is helpful to investigate the historical and current business attitudes and practices towards pricing. From such a study new ideas for more appropriate directions for pricing policies or new considerations may lead to more profitable pricing decisions. Therefore, this chapter is intended to review previous research on general pricing issues including pricing attitudes of consumers, relationships with competitors, relationships of price with the marketing mix, and pricing practices of businesses.

This review is divided into two sections:

- 1) An explanation of general issues that are related to pricing management, and a review of research on actual practices and attitudes relative to these issues.
- 2) An investigation of how prices are set in industry and firms using a conceptual and research review.

ISSUES IN PRICING PRACTICES AND ATTITUDES

This section reviews previous research according to important pricing issues and explains the significance of those issues in pricing decisions based on pricing theory. Issues which have been treated through previous research are introduced in chronological order and their results are compared in order to grasp changes in pricing attitudes or practices. Some issues are included to help the understanding of the marketing context that influences pricing decisions and practices although little previous research on this issue was found. Major issues reviewed includes the importance of pricing in marketing strategies, buyers' perceptions and behaviors, relationship with elements of the marketing mix, and managerial departures from theory.

THE IMPORTANCE OF PRICING IN MARKETING STRATEGIES

Pricing a product or service is one of the most important decisions within the marketing mix. Behavioral price research also suggests price does communicate information to buyers. However, price has often been the most neglected marketing decision variable in marketing research. Although it is the unique factor to generate revenues among the marketing mix factors, it has often been regarded as simply a measure of sacrifice to buyers. A previous study made by Udell (1964) revealed that the non-price facets of competition occupied a more prominent role than pricing. According to his research, the product and the customer were the determining factors in a company's marketing strategy and pricing ranked sixth among marketing activities.

The following factors probably accounted for the relatively low ranking for pricing. First, in those days' economy, supply or production capacity generally exceeded demand. Therefore, the market situation forced nearly all sellers to be competitive in their pricing and to rely on product differentiation and sales efforts. Second, in appealing to the customers in those days' markets characterized by customer orientation, management emphasized products and sales efforts in an attempt to satisfy consumer desires. Third, it was believed that through successful product differentiation a manufacturer could obtain some pricing freedom. Accordingly, Udell suggested that to compete successfully in a setting characterized by oligopolistic firms offering rival products to a customer-dominated market, the firm had to be customer-oriented.

In contrast to these research results, according to a later survey through marketing or sales executives, it was shown that there had been a substantial increase in the importance of pricing in marketing management (Robicheaux 1976). In this survey, the perceived relative importance of pricing was ranked first among marketing activities

while pricing had ranked sixth in Udell's survey (1964). In response to the threat of inflation or recession, marketing executives of manufacturers of consumer and industrial goods perceived pricing and cost budgeting and control to be very important.

Additionally, Nimer (1976) stressing a feedback effect of pricing, argued that since revenue was not only the output of the business, but also, to a large extent, the input for continued operation, setting the wrong price could cancel whatever plans are made for the future. He also stressed the importance to know the "envelope of acceptable prices" made by maximum-demand curve, maximum price, minimum price and minimum volume. Although it was difficult in business to predict costs and sales, the marketing manager could know the "envelope of acceptable prices" through their sales projection and ROI-based initial prices. He pointed out that all points on the maximum-demand curve yielded the same maximum profit, which showed why it was undesirable to stick to a fixed mark up with single price point. For competitive or other reasons, a price might be deviated from points on the maximum-demand curves. He also pointed out that it is not unit prices by themselves but unit price times volume that influences profits. Another study by Tatham and Allen (1976) revealed the need for flexible pricing systems. According to their interviews with purchasing agents, most of them stated that moving away from fixed prices was inevitable because of changing economic situations.

Perceptions of the role of pricing in the 1980s among industrial marketers were investigated by Coe (1983) through a mail survey with vice presidents of sales or marketing of selected companies in selected SIC groups. A significant majority cited pricing as a very important part of the current development of marketing theory. Especially, price was more seriously considered in the overall development of the marketing mix than any other factor.

In the last two decades, the importance of pricing in marketing activities shifted from a relatively disregarded factor to a level of top consideration. In particular, pricing

has been regarded as a creative marketing challenge rather than a technical problem to be solved by applying rules or procedures (Nagle 1983). It has become perceived that pricing can be more effective by the design of creative strategies that reflect differences among buyers. Therefore, pricing strategy also has made great progress in the form of theoretical explanations, more precise models, and innovative pricing strategies. A number of pricing strategies were presented by Tellis (1986) in comparable terms, emphasizing the principles underlying each and demonstrating the relationship among strategies, the circumstances in which each can be used, and the legal and policy implications of each.

BUYERS' PERCEPTIONS AND BEHAVIORS

This topic aims to show how buyer/customer perceptions and behaviors relative to prices can influence pricing decisions. In order to clarify these influences, this section overviews the role of customer behavior in pricing.

The key to effective pricing is the same as in other marketing functions: a creative awareness of who buyers are, why they buy, and how they make their purchase decisions. The recognition that buyers differ in these dimensions is as important for effective pricing as it is for effective promotion, distribution, or product development (Nagle 1983).

With buyer/customer oriented approaches, a firm anticipates a price, even before a product's development, by simply evaluating proposed product benefits. Such prices are only tentative; however, they are a starting point to market development. After each

step in the developmental process, those initial prices should be reevaluated based on consumer research and changes in the market. In terms of consumer research, recent research indicates that price has a function more complex than simply indicating purchase cost to buyers. Traditional theory based on the downward sloping demand curve, that is, as price of a product is increased, few buyers would decide to purchase the product, needs modification because of the complexity of buyer/consumers' perceptions and behaviors. Therefore, price setting must reflect buyer/consumer perceptions and behaviors so that products have price cues which are congruent with the perceptions of target group members.

One of the major pricing errors that firms could make would be not to consider buyers' perceptions as much as a company's perception. Although the key to value analysis is to remember the customer wants, many companies often disregard these aspect of their customers. As a simple example, when the cost of a product is reduced according to any internal factors, a firm may try to reduce the price to meet customers without any analysis of buyers' perceptions. However, if the product is not price sensitive and the buyers' perceived value for the product remains unchanged, it is not necessary for a firm to reduce the price. Also, the price elasticity is greatly affected by buyers' perceptions. Therefore, buyers' perceptions and resulting behaviors should be analyzed before any price change or setting. Especially, it is important for marketing managers to be concerned with identifying the cues used by buyers in order to act to secure accurate perceptions of their offerings (Monroe and Petroshius 1981). Moreover, it should be noted that buyers value the same product benefit differently. Those different consumer values enable price differentiation to different market segments with product differentiation.

Buyers' perceptions and behaviors are connected to price awareness and price consciousness, the price-quality relationship, and adaptation theory. These concepts are explained below.

Price Awareness and Price Consciousness

According to economic theory, the buyer is assumed to have perfect information concerning the prices of comparable product alternatives. It is also assumed that buyers are price sensitive in that they will search for lower-priced choices. But in actual purchasing situations, does the level of price awareness and price consciousness vary according to consumer differences or situational variations? Consequently, how do price awareness and price consciousness affect consumer's buying decisions? Relevant matters related to those questions are explained below by examining the results of previous research.

Price awareness: the ability of the buyer to remember prices

Price consciousness: the buyer's sensitivity toward price differentials.

Although, to determine the extent of buyers' price awareness is difficult, an early study revealed that price awareness seems to be negatively associated with income, with the exception of the poor, and that price awareness seemed to be lower for low-involvement branded products (Gabor and Granger 1961). Another research study found out that although buyers could not remember the exact prices paid, they had a general knowledge of the current price range of fast-selling items (Progressive Grocer 1964).

Price consciousness is explained according to the degree that buyers are willing to pay a higher price for a product. If the buyer considers the price of a product greater than his or her acceptable level, the product will not be purchased. Moreover, the price conscious shopper will seldom purchase a product which commands a high price for its distinguished features if the price difference for these features is considered too large for the shopper (Monroe and Petrosius 1981).

Additionally, Moyer and Boewadt (1976) explained buyers' reactions or price sensitivity in special situations such as pricing industrial goods.

- (1) If an industry input is an insignificant part of the final product's total costs, buyers are not price sensitive and their demands are inelastic.
- (2) When an industry input is vital to the manufacturing process and, in addition, represents a minimal portion of the total cost, price is of secondary importance. The purchasing agent is more interested in quality and reliability of delivery.
- (3) When an industry input represents a large share of the end product's total costs, price changes may have an important effect on the amount demanded.

Price-Quality Relationship

Several studies have investigated the price-quality relationship. These studies found that the perception of product quality was a function of price. First, Leavitt (1954) found the following facts through his experimental study in which subjects were asked to choose between two differentially priced hypothetical brands. They tended to choose the higher-priced brands when

- (1) Price was the only differential information,
- (2) The products were perceived to be heterogeneous in quality, and
- (3) The price difference was large.

A number of research efforts have followed Leavitt's initial study, including comprehensive reviews of this research by Monroe (1973), Olson(1977) and Monroe and Krishnan (1985). In general, the results of these investigations support the conclusion that the perception of product quality is positively related to price. Moreover, it was shown that the price-quality relationship has been applied to actual pricing situations in order to set pricing policies or strategies of various firms.

Actual case studies through a series of interviews with top management of a representative group of large scale enterprises in the fields of primary production, manufacturing, and distribution by Kaplan, Dirlam and Lanzillotti (1963) found that reliance on a stable price accompanied by relative profit stability might be accompanied by continuously improved quality, so that apparent price stability might in effect be real price reductions. The interviewed managers also suggested that to the extent that quality differences could be stressed, or actually obtained and maintained by continuous research, the income flow to the company was protected against cut-throat competition.

Adaptation-Level Theory

Although price can influence buyers' perceptions of product value, there may be a specific way price influences buyer's information processing and decision making. Previous research suggests that the price influence is not consistent in its effect and

depends on the purchase context (Monroe, Della Bitta, and Downey 1977). The adaptation-level theory provides a suitable foundation for understanding contextual influences on buyers' perceptions of prices.

According to the adaptation-level theory,

- (1) Prices are judged comparatively
- (2) Therefore, each price to be evaluated is compared to a reference price
- (3) The reference price changes and is influenced by exposure to previous prices, frequency of past price changes, expected price changes and belief of a fair price to pay.

This theory implies that price perceptions depend in part on other prices, on how the product is to be used, and on the value associated with that use. It has been confirmed that buyers compare prices of the products with same usage values. In such a situation, reference prices can be some average of the ranges of prices for similar products, or prices last paid or the current market prices. Additional findings in adaptation-level theory is that there is a region of indifference about a reference price; changes in price within this region produce no change in perception.

RELATIONSHIP WITH COMPETITORS

In many markets, competitor's reactions to price changes or competitor's pricing strategies can affect each firm's profits and sales volume significantly. Accordingly, investigations about competitors and relationships with them are an important part of

developing a firm's pricing strategy. It was said that competitor reaction is useful to delineate several measures of demand elasticity and to indicate the market strategies necessary to take advantage of each by Moyer and Boewadt (1976). Especially, they stressed that industrial marketing researchers should devote more effort to analyzing competitors such as the producers of potential substitutes. If such competitors offer lower prices, a firm may lose sales. However, on the other hand, price cutting by a firm may not likely cause a major shift in market shares in the long term if competitors soon meet the lower prices. Therefore, pricing strategies of each firm should take into consideration its relationship with competitors, and this relationship should be interpreted according to each situation. Particularly, a case study in pricing in big business made by Kaplan, Dirlam and Lanzillotti (1958) found that large companies whose resources were concentrated in established standard products were confronted with similarly large and resourceful competitors. Hence it was also found that they tried to find factors which could reduce internal costs or increase customers' preferences for their products to maintain competitive strength at the going price.

Given the competitive situation, internal costs of a company directly affect a pricing strategy. While the demand variable provides an upper limit on the pricing discretion the firm has, costs set a floor to a firm's pricing discretion. Costs indicate whether the product can be made and sold profitably at any price. Since costs for pricing must deal with the future, planned costs are more important. Particularly, experience economies, the phenomenon that costs decline by a predictable amount each time accumulated experience is doubled, should be noticed as a significant explanatory variable for price declines of a product. Especially, in very competitive, rapid growth, technological industries, prices tend to parallel costs over time. A pricing strategy using the experience curve can obtain a favorable position in marketing very competitive products. The cost/price experience curve concept also suggests the need to develop

marketing plans over the product life cycle. Besides the internal cost factor, favorable location, availability of adequate supplies or satisfactory service to customers can be used to improve a competitive advantage. Additionally, product differentiation as an alternative to price agreements or price warfare was emphasized by Kaplan et al. (1958).

RELATIONSHIP WITH ELEMENTS OF THE MARKETING MIX

Relationship to Product Management

For many companies, costs tend to decline by a predictable amount each time accumulated experience is doubled. This phenomenon, experience economies, has been used to develop successful marketing plans since it may be possible not only to forecast one's own costs, but also to forecast competitor's costs. Accordingly, the analysis and pricing for a product should project estimated cash flows over the entire investment life cycle as well as at the start of the development stage of a new product. Specifically, it would be desirable for a firm to have some preliminary price/volume/cost estimates for the different stages of the product life cycle. However, this cost/price relationship to accumulated experience does not occur by accident, so there are some disadvantages to an uninformed use of this phenomenon. Therefore, it is very important for a firm to match its pricing strategies according to the life cycle of a product, manipulating possible advantages at each stage. Additionally, when firms utilize the experience curve in order to develop their long-term pricing strategy, they should be cautious not to fall into the volume trap, which leads them to price the product so as to build volume. Price

alternatives should be considered not in terms of volume but in terms of total contribution.

Alternative Strategies for Pricing a New Product

There are two general alternatives in pricing a new product: "skimming" pricing, calling for a relatively high price, and "penetration" pricing, calling for a relatively low price. However, these two alternative strategies should not be viewed as either/or alternatives. Therefore, considerable latitude exists in choosing the specific price level for a new product according to the marketing situation or product characteristics such as demand, price/market segments, cost of producing or marketing, and capacity constraints. Besides these two strategies, the price range of existing substitutes can be a natural frame of reference for pricing a new product.

Pricing a Growth Product

At this period, a major dangerous factor would be entrance of competitors. They usually enter the market and serve to establish a market price, producing and selling a similar product. Subject to such competitive conditions, pricing decisions during the growth stage focus on selecting a particular price that enables the firm to realize its profit or sales volume. In addition to that, possible price-related changes should be noted; (a) the range of feasible prices will have narrowed since the introductory stage, (b) unit variable costs will have decreased due to economies of scale, and (3) fixed expenses will have increased because of increased capitalization and fixed marketing costs.

Pricing a Mature Product

Peculiar phenomena of this stage are that replacement sales now constitute a major share of demand, and competition from private-label products typically increases. At this point, many companies try to reduce their prices to increase revenues. However, for reduced price of a mature product to be profitable, industry demand must be elastic, the firm's demand must be elastic, and the marginal revenues associated with the increased volume must be greater than the marginal costs of producing and selling the additional volume. Besides these, with the accumulation of know-how and the lowering of costs, subsequent pricing turns on whether the product can readily be imitated and the prestige acquired in its pioneering can be prolonged through improvement and product differentiation.

Pricing a Declining Product

During the declining phase of a product's life, direct costs are very important to the pricing decision since competition has driven the price down close to direct costs. It would be preferable for most firms to eliminate all period marketing costs and remain in the market as long as price exceeds direct variable costs.

Relationship with Promotional Strategies

Advertising

An initial period of heavy investment in advertising is necessary to bring the product to the point where it can be commercially marketed. Companies then attempt to determine a price at which mass production can be achieved, taking into account the fact that in order to have large sales, extensive advertising will be required. Generally, the expectation that price sensitivity is greater when price advertising is high is perceived as buyers' responses to price advertising.

The relationship between advertising and price has been a most controversial issue. In particular, the impact of manufacturer advertising on the retail price of consumer products has been investigated by Farris and Albion (1982). This investigation presented theoretical arguments relating advertising and price sensitivity and discussed the impact of advertising on factory selling price, retail profit margins, and consumer price. Initially, this study explained two plausible economic models of advertising and price sensitivity: the first model views advertising as a persuasive communications tool that marketers use to make consumers less sensitive to price and to increase the firm's market power. The second model regards advertising as informative, increasing consumer's price sensitivity and stimulating competition among firms. The first model has been used to argue that advertising results in "artificial" product differentials that lead to higher prices and consumer price insensitivity. But price insensitivity can be created by any number of factors such as higher product quality, favorable usage, and market position rather than only advertising. The alternative argument has maintained that advertising provides information to consumers, and thereby increases price sensitivity, lowers prices, and reduces monopoly power. Although reducing the elasticity of demand via advertising and increasing profits with a higher price can be a concern for manufacturers, it is difficult to experiment with price changes because of marketer's greater uncertainty about the market effects, and methodological problems of measuring the price change effect.

Business people seem to believe that the net effect of advertising is to lower, not increase costs (Greyser and Reece, 1971). As the reason for their beliefs, they argued that advertising has made possible the national markets which allow large-scale production and lower manufacturing costs.

Considering, the manufacturer-retailer interaction to predict and analyze the effects of advertising on prices was discussed by Steiner (1973). It was asserted that there would be an inverse relationship between manufacturer advertising expenditures and retail gross profit margins. Because manufacturer's advertising can increase the number of retail outlets handling producer's brands and dealer support of advertised products, the resulting greater competition at the retail level leads to a decrease in retailer gross margins. However, the connection between advertising and prices or business costs requires more evidence through further research.

Promotional Pricing

A promotional discount is given to distributors as an allowance for the distributors' efforts in promoting the manufacturer's product through local advertising, special displays or other promotions. Trade or functional discounts are based on a distributor's place in the distribution sequence and represent payment for performing certain marketing functions. The justification for trade discounts is that different distributors perform different functions within the distribution channel and should be compensated accordingly. A quantity discount is granted for volume purchases, either in a single purchase or over a specified period of time. It is worth providing if economies of bulk buying of raw materials or any other economies of large scale production can be achieved. Recently, quantity discounts have been viewed as a tool for achieving channel cooperation, a subtle form of profit sharing between levels in the channel (Jeuland and

Shugan, 1983). A cash discount is a reward for the payment of an invoice or account within a specified time. The cash discount is closely related to credit policy and a financial and a marketing decision since the extension of credit incurs costs from two basic sources; the risk of bad-debt losses and resources embedded in accounts receivable that can be used for alternatives.

Relationship with Distribution Channels

According to the research by Bonoma, Crittenden and Dolan (1988), the power of the trade markedly influences the pricing process of firms. With a powerful trade, it is difficult for manufacturers to have control over end-user prices, but with a weaker trade, manufacturers can have control over end-user prices. However, the problem of controlling price through the channel lies in the setting of discount policies for distributors. Pricing decisions and the policies that are derived from considerations for channel members can have impact on dealer cooperation and motivation as well as on sales force morale and effort. Moreover, it is possible to motivate people to adhere to company-determined pricing policies. When a firm wants to use price as a means of influencing channel members, trade discounts or special price promotions and deals may be offered as a strategy.

MANAGERIAL DEPARTURES FROM THEORY

It is not sufficient to say that skillful practices of the art of pricing can lead a company to profits and success. However, Daniel Nimer (1976), a vice president of a large Chicago company, said that business in general was still far too inflexible in its pricing techniques, and too prone to take a merely satisfactory return. It has also been argued that some managerial influences tended to limit a flexible pricing policy which recognizes and seeks opportunities to vary, upwards or downwards, the prices of a firm's products (Burkart 1976). Therefore, Burkart (1976) stressed interests should lie in what prevents changes and adjustments to prices being made more frequently. In other words, why were the firms reluctant to adjust their prices. He also offered specific reasons for those interests as summarized below:

- The full utilization of the plant is a major objective of management.
- The practice of cost-revenue budgeting, especially if conducted on an annual basis without frequent updating, reinforces managerial orientation toward production without any modification in the pricing scheme.
- The administrative complications of price adjustments produce further obstacles to flexibility in pricing which, coupled with a time lag between the decision to make a change and its date of implementation, tends to reinforce a firm's desire to maintain its current price level.
- Retailers are acutely sensitive to the possible effects of price changes on local demand. Therefore, apprehension of retailers' reactions to changes in price are likely to weigh on a firm to keep prices unaltered.

- Management is more readily afflicted by a sense of failure if its market share is not maintained and is correspondingly more reluctant to experiment with price adjustments which might nevertheless yield more revenue from the market.

A previous survey of pricing reported that instead of being guided by marginal principles, business firms used mark up rules based on theories of target return pricing (Kaplan, Dirlam, and Lanzillotti 1958). Additionally, this survey revealed the predominance of target return-on- investment pricing. Lanzillotti (1958) expressed that target pricing enables a firm to manage its profits. Some target return policy advocates including Lanzillotti seem to have viewed target return pricing not as a form of rule-of-thumb behavior, but rather reflecting market control or as an effective instrument for achieving market control. However, continuing studies on pricing have drawn a variety of inferences about the performance of large firms. The use of target return policy based on standard costs seems to result in inflexible prices that lag in response to changes in consumer tastes or competitive situations. It was assumed that each firm's standard costs were known to all other firms and that to maintain oligopolistic discipline like standard-costs, target-return pricing did not engage in price competition.

Empirical research also found that while target return explanations substituted results for efficient management processes, they were used in screening standards with objectives rather than in the development of efficient planning and control systems. Therefore, Weston (1972) raised the importance of the investment valuation framework - dynamic and adaptive management processes instead of a target return concept. He pointed out that the rigid views of the role of return on investment and the use of standard costs systems resulted in inapplicable explanations of pricing rigidity in

concentrated industries and lack of incentives for increased efficiency. Within the investment-valuation framework, adaptive learning by firms becomes a central feature of economic behavior through the firm's use of (1) plans and standards of controls, (2) periodic review and analysis of divergences between planned and actual results, and (3) an information feedback system providing for revisions of plans, standards and policies (Weston 1972). It is concluded that in a dynamic and competitive situation, firms should get out of a price inflexible doctrine and include pricing decision revisions and other adaptive behavior in pricing policy.

SUMMARY

In this part of the literature review, the important issues in pricing have been reviewed. Specifically, the increasing importance of pricing in marketing strategies has been emphasized. It has been concluded that an ability to develop a flexible pricing strategy adjustable to the today's pricing environment will have a major impact on the success of marketing. It has also been suggested that flexible pricing is possible by rigorous and relevant pricing analyses.

Pricing issues concerned with the reactions of consumers were explained based on the adaptation-level theory. This theory implies that price perceptions depend in part on other prices, on how the product is to be used, and on the value associated with that use.

Considering today's competitive situation, experience economies are regarded as an effective base for developing pricing strategies to gain favorable market position. Additionally, different pricing situations along the product life cycle was explained.

To explain the relationship between advertising and pricing, an investigation by Farris and Albion (1982) was introduced. They explained the impact of manufacturer advertising on the retail price of consumer products using two models. One views advertising as a communication tool to make consumers less sensitive to price and the other views advertising as an information tool to increase consumers' price sensitivity and stimulate competition among firms.

Since today's competitive environments stimulate the widespread availability of price discounts, promotional pricing has emerged as an important issue. Various types of promotional pricing were explained, and the possible effects on channel members was considered.

Lastly, some considerations about why are firms seem to be reluctant to adjust their prices was examined in a managerial context. The problems of target-return pricing was raised and the importance of the role of an investment valuation framework was suggested.

In the next part of this study, the empirical research that has been done to address how businesses actually set price will be reviewed. This review will also include looking at what factors businesses consider when making pricing decisions.

HOW PRICES ARE SET IN INDUSTRY AND FIRMS

PRICING OBJECTIVES

In response to the sharpened interest in administered prices and inflation in the late 1950s, a case study to obtain some empirical information on pricing objectives in large companies was done by the Brookings Institute (Kaplan, Dirlam and Lanzillotti, 1958), and interpreted and concluded by Lanzillotti (1958). In that study, officials of twenty large companies were interviewed to find out (1) whether any formal or informal goals had been adopted by the corporation, (2) the procedures employed for implementing and evaluating the goal, (3) the techniques of price determination and (4) the functions of pricing executives (individuals, committees or special divisions). Based on the interviews, the most typical pricing objectives were

- (1) pricing to achieve a target return on investment
- (2) stabilization of price and margin
- (3) pricing to realize a target market share
- (4) pricing to meet or prevent competition.

Pricing to Achieve a Target Return on Investment

Among these previously mentioned goals, target return on investment was perhaps the most frequently mentioned pricing goal. Many companies such as Alcoa, du Pont, Esso, General Electric, General Motors, International Harvester, Johns-Manville, Union

Carbide, and U.S. Steel had this particular objective. As to specific pricing implications, the corporation's executive committee in du Pont, while having a corporate target return in mind, did not expect the same rate of return from all departments. It recognized differences in earnings potential by product groups. But it expected each to approximate an optimum rate in the light of such facts as the age and degree of stabilization of the product line, the elasticity of demand, whether the product was mainly for use by other departments in du Pont, or whether it was a by product of another du Pont product. In the case of Union Carbide Corporation, while the management of a division was conscious of a target for pricing purposes, the conditions affecting the implementation of policy objectives varied within each division and among the different divisions due to a policy of divisional pricing autonomy. As another specification, Union Carbide placed greater emphasis on its role as supplier to industry than it did as supplier to customers.

Generally, the rate of return pricing (standard cost-plus target profit) requires willingness on the part of management to make the necessary cost studies over a long period, in order to translate the company's operating experience into realistic norms of volume and unit cost and realization in investment. Additionally, the case study found that while some firms adopting a target return policy were able to realize the target price or something like that, others used it only as a guide.

Stabilization of Price and Margin

The stabilization of price and margin involves an expectation of "proper" price. Lanzillotti (1958) explained this particular pricing objective as follows: Having earned what is necessary during poor times to provide an adequate return, companies would refrain from raising price to exploit more margin in prosperity. Likewise, in pricing

different items in the product line, there will be an effort to refrain from exploiting any items beyond the limit set by cost-plus.

According to the Brookings study (Kaplan, Dirlam and Lanzillotti, 1958), some companies put high priority on maintaining steadiness of price in their industries, which by their nature were subject to wide fluctuations in demand. Besides, more companies would probably favor a policy of stable pricing, if only because the sale of their operations requires forward planning in which price assumptions have a significant part. However, in the case of the United States Steel Corporation, acceptance of no more than it regards as a reasonable profit had meant that U. S. Steel had not increased its prices as rapidly as other steel producers in times of shortage, so it had lagged in the market.

Target Market Share

The target market share of the market as a guide to pricing tended to be used for those products in which the firm did not, at the outset, enjoy a patent or innovative monopoly. This objective means not that these firms were indifferent to the level of profits, but that pricing was related to other policies. In the case of Sears, it had exerted pressure on price, as a large distributor representing aggressive price competition on comparable merchandise. The price consciousness expressed itself through concern of the company for its share of the market. Also Sears had emphasized the economies associated with large-scale production and at the same time elimination of the expense of distribution. On the other hand, it had stressed the buyer-supplier relationship significantly.

"Meeting" or "Matching" Competition

What is common in companies with this pricing objective is their belief that many of their prices are determined by conditions outside the company's control rather than to one of a number of positive pricing policies that itself might decide to adopt. For example, the pricing policy of National Steel was one of matching the market. It had disregarded costs in pricing, because it assumed that it was at least as efficient as any of its competitors in its field. Therefore, it was able to meet a competitor's price no matter what that price may be. With additional analysis, it seemed that in some cases the companies that had this policy were not simply meeting or matching competition - they were preventing it.

Other Rationalizations

As to other rationalizations, some companies like General Electric or General Food Corporation priced relating to product differentiation. In these cases, the effort to differentiate their product by qualities that could be associated with the name of the company was a factor in price policy. G.E. management said that it found out what the customer wanted and then built it. So, consideration of price at which the customer will take the company's new offering was a benchmark for the company's effort to incorporate the features it regarded as essential. In the case of General Foods, the company had considerable interest in specialties and in the price premiums they could command. It also had a zone of discretion in setting and adjusting the prices of those items retaining their specialty status. However, a major shortcoming was that a high

price would restrict the volume and that it would speed up the process of developing competition.

Particularly, product differentiation is a significant aspect of pricing policy when a company features products that can offer the purchaser special satisfactions for which he will pay a higher price. To exploit this policy successfully, a company must have a product line that lends itself to innovations with marketable advantages over comparable standard products.

Summary

Based on this case approach, Lanzillotti (1958) derived the following conclusions.

- (1) In most of the companies, price-setting by any one firm was not always ruled by a single policy objective. Instead, many companies had a composite set of pricing objectives.
- (2) The pricing policies were in almost every case equivalent to a company policy that represents an order of priorities and choice from among competing objectives rather than policies tested by any simple concept of profit maximization.
- (3) Individual products, markets, and pricing were not considered in isolation; the unit of decision-making was the enterprise, and pricing and marketing strategies were viewed in this global context.
- (4) Pricing was frequently done for product groups with an eye to the over-all profit position of the company.

Besides the principal pricing goals mentioned above, the case study investigated some collateral pricing goals set up in order to supplement major goals. They were

- "Promotive" policy on new products
- Price stabilization
- Meeting competition
- Changing what traffic will bear over the long run
- Maximum return for new products - "life-cycle" pricing
- Maintaining market share
- Full line of food products and novelties
- Maintain "position"
- Stable margin

In a more recent study to explore pricing objectives in industries Coe (1983) surveyed a group of companies to find out: (1) corporate pricing objectives, (2) importance of pricing in marketing activities, (3) strategic marketing planning, (4) competitive forces impacting pricing and (5) seller's position in relation to pricing. Through this study, it was found that during 1980-1982, pricing objectives shifted from a profit orientation to a market share orientation. Therefore, the most frequent pricing objective in this survey was market share, followed by profit, and then competition. For more specific objectives, growth was the highest in frequency followed by fair appearance/ giving fair value, price leader, to help other items in line, and maximizing profit in turn. This study also indicated that pricing was more seriously considered in the overall development of the marketing mix than previously.

RESPONSIBILITY FOR SETTING PRICING POLICY

The pricing decision may be centralized with top management or decentralized to the individual sales people. While upper management lacks the first hand knowledge of the market, sales people lack an overall knowledge of corporate goals and strategies. Therefore, who should set pricing policy is an important issue for companies. In response to this issue, Monroe and Mentzer (1985) suggested that although the major decision-making authority for price should rest with a marketing person, the pricing process should be integrated through the whole marketing organization and within a dynamic long-run marketing strategy.

A survey to provide a practical framework for pricing decisions by Nimer (1976) included the issue of responsibility for setting pricing policy. The results are shown in Table 1.2. According to the survey done by Nimer, the following facts were revealed:

- A high-level sales or marketing executive is the one who should formally present, and bear the responsibility for, the recommendation worked out by a pricing committee.
- Except in small companies, presidential pricing was apt to become routine-bound, since most presidents just do not have the time to consider all the factors a price should reflect.
- As a rule, the final decision properly belonged to the top departmental level.

PRICING POLICIES

Based on economic theory, Haldi (1958) suggested several issues to consider when pricing policies are set:

- Competition vs. Oligopoly
- Price and quality vs. Other variables
- an Operational vs. a Subjective approach
- "Rule-of-thumb" vs. Profit maximization

The first issue included an explanation for "price-taker", that is, sellers do not have effective control over their selling prices and they can have no established pricing policy other than to take what the market is offering; and "price-maker", that is, sellers who either quote prices which are the results of their own calculated pricing policies, or follow an established price- leader, who in turn has a definite, calculated pricing policy.

The second issue was explained by two major variables. One is an endogenous variable over which entrepreneurs have control. Price, quality, style, advertising, research and development belong to this category. The other is an exogenous variable. Shifts in demand, elasticity of demand, taxes and the rate of interest belong to this other category.

The third issue raised two major approaches to pricing policy. Full-cost theory aims at making objective, quantitative statements about prices through a percentage mark up (for profit) derived from an operational approach. In contrast to that, marginal theory is a more subjective approach and focuses on how price and quantity vary with changes in the exogenous variables. Although full-cost pricing has been used continuously, it has some critical shortcomings. First, it ignores demand and fails to

reflect competition adequately. Second, it distorts the information needed to analyze the product mix and the marketing mix. Third, it fails to recognize that in multiproduct companies, the products are in different stages of their life cycles and will not be equally profitable. Finally, it does not recognize the benefits of low-price-induced volume, which may lead to lower per unit costs as volume increases.

Considering the realities of corporate pricing policies, Burk (1976) introduced a study by Weston, who launched U.C.L.A.'s Research program in competition and business policy. Weston (1) criticized the concept of target pricing as an arrant oversimplification of what actually happens in large companies, (2) suggested that pricing was too much interwoven with other factors to be formulated independently of them, and (3) argued that target-return pricing was not any more than an interim check point set up by management to specify tentatively the company's potential.

For short run pricing, Lere (1976) suggested that accepting any price greater than total variable unit cost under the circumstances would maximize short-run income or minimize short-run loss.

The research accomplished by Bonoma et al. (1988) was to complement the pricing determinants and pricing process research by identifying and classifying problems of managerial importance in pricing. It showed that the basis for pricing varied systematically across firms depending on internal cost factors, distribution of channel power in the industry, and customers' use of the product.

An investigation for industrial pricing systems and the changing roles of buyers and sellers was made by Tatham (1976). He suggested that price changes as a consequence of economic instability, with primary reference to inflation, as a fundamental and enduring change in the manner in which prices were determined, and when transactions

were completed based on negotiations between buyers and sellers in an industrial market.

COMPETITIVE SITUATION FACING A FIRM

As previously explained, in highly competitive market, sellers are apt to be "price-takers". Conversely, in markets characterized by monopoly, monopolistic competition, oligopoly, and kinked oligopoly, the sellers are apt to be "price-makers". Therefore, it goes without saying that the competitive situation facing a firm greatly affects the pricing policy of a firm. According to the survey made by Lanzillotti (1958) for some big companies, the requirement that the product price "meet competition" appeared to be the most important pricing policy of a firm.

SIZE OF A FIRM IN AN INDUSTRY

Size of a firm in an industry was treated as an issue by Kaplan, Dirlam and Lanzillotti (1958). Their results are summarized below:

Restraints for Big Size Business

(1) Susceptibility to market pressures: Market factors limited severely the

independence of a large company's pricing. Realizations of market factors such as price competition seemed to be more important among big companies than among smaller companies.

(2) Exposure to public pressures: Another type of pressure, aside from that of the market, stems from the fact that outstanding size makes the firm an obvious target for antitrust suits. Legislation, congressional investigation, and similar restraints called for additional care in pricing.

Types of Pricing Associated with Size

The survey did not provide a confident generalization on the influence of size on the pricing policies of the companies. However, there was an indication of the influences of size on certain types of pricing.

(1) Administered pricing: Administered pricing was not confined to the large firms. Nevertheless, codes of conduct and elaborate expressions of pricing principles seemed to have been issued mainly from the big firms, while smaller ones depended more on rule of thumb.

(2) Price stability: Stability, in the sense of relatively infrequent price changes, was commonly associated with absolute size. The big firms tended to command price changes sluggishly, and mainly after the industry, in general, recognized the necessity of any changes.

(3) Price cutting: Big business did not as a rule engage in price cutting, at least of the day-to-day variety, and it had been noted that greater ability to control supply in the long run was a fact in stable price in big companies.

On the other hand, Burk (1976) pointed out the advantages of big size business. At first, the big firms were more easily able to aim at a given market share because they did not have to stake their futures on reaching a given level in any particular market, having so many product lines to fall back on. Secondly, this in turn enabled them to use competitive techniques that, while they might not bring immediate results, might be more productive over the long run, in contrast with small firms that had to depend on price cutting to achieve their market share objectives.

ADDITIONAL CONSIDERATIONS IN PRICE SETTING

The problem of pricing is a very complex one, so incessant efforts are needed to be profitable. Accordingly, it would be desirable to consider the following questions as additional considerations in order to arrive at any final price. These questions are selected from a study by Davis and Hughes (1975).

- Do we apply a price indefinitely into the future? (product life cycle)
- Do we apply this price to everyone? (individual negotiation)
- Do we apply it regardless of the quantity bought? (quantity discounts)
- Do we apply it regardless of the time factor? (peak load problem)
- Do we apply it regardless of geography? (price discrimination)
- Do we consider its effects on other products? (interrelationship of demand)
- Do we apply the price within the company? (transfer pricing)

SUMMARY OF LITERATURE REVIEW

This chapter develops an overview of the general issues that are related to pricing attitudes and behaviors, and the application of these issues to actual pricing practices and policies in business. Additionally, this overview provides an integrative framework for making pricing decisions in business based on the results from surveys of business people.

Surprisingly, the importance of pricing in marketing strategies has increased over the past 20 years. According to Robicheux's (1976) survey, the perceived relative importance of pricing was ranked first among marketing activities while in Udell's (1964) survey, pricing ranked sixth. This phenomenon indicates that marketing activities have been adjusting to a changing environment. The dynamic and complex current environment makes price a key factor for successful marketing. Additionally, Nimer (1976) emphasized the feedback effect of pricing. He suggested that since revenue is not only the output of the business loop but also, to a great extent, the input for continued operation, a wrong setting of price resulting in reduced revenue can have a detrimental effects on future plans. Tatham and Allen (1976) found that most of purchasing managers surveyed regarded moving away from fixed prices as inevitable since the economy displayed strong long-run inflationary tendencies.

The traditionally assumed role of price as a measure of purchase cost (sacrifice) to the buyer is contrasted with the emerging evidence of the complexity of price as an influence on purchase decisions. It is also revealed that buyer/consumer perceptions and behaviors of prices lead business people to creative pricing decisions. Those perceptions and following behaviors, therefore, should be analyzed before any price changes or

settings. Buyer/consumer perceptions and behaviors are connected to price awareness and price consciousness, the price-quality relationship, and adaptation-level theory. The level of buyer price awareness and consciousness is a determinant of the level of demand elasticity relative to price changes. However, this demand elasticity due to price changes should be interpreted in the context of product markets and the economic situation. Previous studies have found that perceptions of product quality was a function of price and positively related to price (Monroe 1973 ; Olson 1977). It has also been shown that this price-quality relationship has been applied to actual pricing situations in order to set pricing policies or strategies of various firms (Monroe 1973 ; Olson 1977). Adaptation-level theory provides support for understanding the contextual influences on buyers' perceptions of price.

In many markets, competitor's reactions to price changes or competitor's pricing strategies can affect each firm's profits and sales volume significantly. It was said that competitor reaction is useful to measure demand elasticity and indicate market strategies necessary to take advantage (Moyer and Boewadt 1976). Pricing strategies of each firm should take into consideration its relationship with competitors, and this relationship should be interpreted according to each situation.

It is very important for a firm to match its pricing strategies according to the life cycle of a product, manipulating possible advantages at each stage. There are two alternatives in pricing a new product: "skimming" pricing and "penetration" pricing. These two strategies should not be viewed as either/or alternatives. When a product enters its growth stage, a major dangerous factor would be entrance of competitors. Therefore, the range of feasible prices will be narrowed. In the mature stage, many companies try to reduce their prices to increase demand. During the decline stage, many companies reduce their prices closer to direct costs.

Although, advertising is important in stimulating consumers to purchase marketed products, there has not been much research about the effects of price advertising. Recently, Farris and Albion (1980) investigated the impact of manufacturer advertising on the retail price of consumer products. This study suggested two plausible models: the first model viewed advertising as a persuasive communication tool to make consumers less sensitive to price and to increase the firm's market power, and the second model regarded advertising as informative, increasing consumer's price sensitivity and stimulating competition among firms. As another promotional strategy, promotional pricing uses various discounts (promotional discounts, trade or functional discounts, quantity discounts and cash discounts) to increase demand for products and maintain favorable relationships with channel members. The problem of controlling price through the channel lies in the setting discount policy for distributors.

Nimer (1976) pointed out that business in general was still far too inflexible in its pricing techniques and too prone to take a merely satisfactory return. It was said by Burkart (1976) that the reluctance to adjust prices was in part, due to managerial influences on a firm's pricing policy. Besides, it was revealed that the use of target pricing, which was a predominant pricing policy according to previous research (Kaplan, Dirlam and Lanzillotti 1958), results in inflexible prices that lag in response to changes in demand. Therefore, Weston (1972) suggested dynamic, adaptive management processes in organizations using the investment valuation framework.

In the second part of this review, how prices are set in industry and firm was investigated. According to the case study done by Brookings Institution, Lanzillotti (1958) derived the following conclusions concerning pricing objectives: (1) In most of the companies, price-setting by any one firm was not always ruled by a single objective. Instead, many companies had a composite view of pricing objectives. (2) The pricing

policies were in almost every case equivalent to a company policy that represents an order of priorities and choice from among competing objectives rather than policies tested by any simple concept of profit maximization. (3) Individual products, markets, and pricing were not considered in isolation; the unit of decision-making was the enterprise, and pricing and marketing strategies were viewed in this global context. (4) Pricing was frequently done for product groups with an eye to the over-all profit position of the company.

Additionally, the issue on responsibility for setting pricing policy was discussed. In response to this issue, Monroe and Mentzer (1985) suggested that although the major decision-making authority for price should rest with a marketing person, the pricing process should be integrated through at the entire marketing organization and with a dynamic long-term marketing strategy.

In the aspect of realities of corporate pricing policies, Burck (1976) introduced a study by Weston. The following criticisms were made: (1) the concept of target pricing was an arrant oversimplification of what actually happens in large companies; (2) pricing was too much interwoven with other factors to be formulated independently of them; and (3) target-return pricing was not any more than an interim check point set up by management to specify tentatively the company's potential.

Issues about the competitive situation facing a firm and the size of a firm were also reviewed. Competitive situations often determine sellers' positions as "price-makers" or "price-takers". The size of a firm affects its pricing policy toward price stability and price cutting. Besides, these issues, additional considerations should be geared in pricing for a firm to be profitable. More discussion on pricing practices and attitudes would help develop more profitable pricing strategies.

This chapter has examined issues to be considered in setting prices and how pricing attitudes and alternatives can be developed based on previous conceptual and descriptive research. Pricing is a complex and multifunctional subject. In order for a firm to develop successful pricing strategies, not only additional investigation for pricing attitudes and practices should be included, but also legal considerations should be encompassed by management.

III. SIGNIFICANCE OF PRICING RESEARCH

CHAPTER OVERVIEW

The purpose of this chapter are to identify why pricing research is needed for Korean businesses and to show how it can help Korean business managers in making pricing decisions. Issues raised in the literature review in chapter II are discussed in terms of the kind of changing environments facing Korean managers, and therefore, the need for them to be more concerned with specific pricing issues. The chapter also discusses the contribution of research on these issues to managerial practices.

American pricing trends are first traced along with changes in the business environments, then, the current environment for American business is contrasted to the environment of the developing economy of Korea. Consequently, the need for pricing

research with Korean businesses is asserted by raising new issues resulting from the developing Korean marketing activities in domestic and export markets.

ROLE OF PRICING RESEARCH

Pricing is taking a greater role in an increasing complex marketing climate than ever before. As shown in the survey by Robicheaux (1976), business people regarded pricing as the most important factor in marketing activities. More and more, firms are rediscovering price as an active determinant of demand and are making more aggressive pricing decisions. As the importance of pricing has been rising, managers have needed help in price decision making and literatures which address their key concerns. Pricing has been studied in economics and in marketing science. While price theory in economics deals with how markets behave, price theory in marketing science deals with how managers should act. In other words, a typical economic analysis will simplify the model of the manager's task in order to study the essential forces of the market. In contrast, a typical marketing science analysis will simplify the model of the market mechanism in order to study the essential profit impact of the actions by the marketing manager.

With these functional emphasizes, the two areas can contribute to each other: economics offers marketing a theoretical framework and marketing offers economics empirical grounding, measurement, consumer models, and an understanding of the manager's problems (Hauser 1984). In order to develop studies in these two areas, especially in the aspect of marketing science, marketing decision making should be

investigated with priority. Therefore, normative and descriptive marketing research is developed to incorporate decision variables that are of interest to marketing managers. The actual decision making at the level of a firm would be more complex than the economic model. However, the added complexity is both necessary and relevant and is what should be found through descriptive marketing research. The findings from pricing research will not only guide managers towards improving profitability, but also help economists improve their theoretical bases.

Accordingly, comprehensive descriptive research, which can add an understanding of any appropriate trade-offs for problems in market situations and abstract essential marketing phenomena, should be encouraged. In particular, more empirical information is needed with respect to the motivational hypothesis of the firm, i.e., the specific objectives upon which business firms base pricing decisions, and the mechanics of price formulation such as (1) whether any formal or informal commercial goals have been adopted by the corporation, (2) the procedures employed for implementing and evaluating the goal, (3) the techniques of price determination, and (4) the functions of pricing executives. However, previous pricing research seems to have relatively little impact on managerial practice. There is a significant gap between the interests of managers and the consideration of academics in pricing (Bonoma, Crittenden and Dolan 1988).

The relatively few efforts to impact managerial practice in pricing are due partly to the fact that pricing research has not built on the descriptive work reported in the marketing and economics literature, but has been built on microeconomic theory, which has served as a rough guide. Furthermore, the importance of correct pricing decisions has increased (1) to adapt to today's changing environment (2) as competition is becoming more intense and public and governmental concern more profound (3) as technological progress is increasing rapidly. Therefore, descriptive survey research about

pricing attitudes and practices is necessary in order to provide a ground work for understanding the nature of pricing situations and to help managers shape and structure their pricing strategies.

PRICING TRENDS

The landmark survey on pricing was made by the Brookings Institution and interpreted by A. D. H. Kaplan, Joel B. Dirlam, and Robert F. Lanzillotti (1958). It analyzed the pricing policies and strategies of 20 of the country's largest companies. However, pricing practices have differed radically from the old in aim and concept. According to the survey by the Brookings Institution, it was revealed that companies set a price that they believed would provide a desired long run target rate of return at a given production volume. Although price changes were necessary to face competition, they were regarded as the exception rather than rule, and initial pricing structures were maintained. But entering the 1970s, the following environmental pressures have raised new pricing issues.

Environmental Pressures

- **Faster technological progress:** Accelerating technological progress has reduced the gap between invention and innovation. It also has reduced that average age of products. Thus, a new product does not have much time to become profitable, and any pricing mistakes made during introduction makes it more difficult to become

profitable. Additionally, alternative uses of the buyer's money and time have increased rapidly. As a result of this intensified competition, demand is more sensitive to relative prices and shifts in prices.

- **Proliferation of new products:** Product lines have been widened and distinctiveness of products has been blurred. Therefore, the ability to determine prices for an entire product line has become more delicate, more complex, and more important.
- **Increased demand for services:** Increase in demand for services built into products. These product -attached services may help protect the product from competition if the price is correct, i.e. if the prices for these products are at levels that people are willing to pay.
- **Increased foreign competition:** liberalization of foreign trade and the reduction of trade barriers, the narrowing of American superiority in productivity, and the emergence of new industrialized nations. The increase in foreign competition is also due to some incorrect pricing policies and attitudes of American business.
- **The changing legal environment:** The increased cost of medical services, automobile insurances, legal services, repair services, education, foreign competition, and product proliferation has led to new and proposed legislation at the federal state and local levels. This changing environment implies more government involvement.
- **Material shortages and inflation:** Price increases due to persistent inflation coupled with periodic shortages of basic materials increased customer resistance. As a result, many firms rediscovered the need for new approaches to developing pricing strategies. (Monroe 1979)

Moreover, price controls introduced by the Federal Government and double digit inflation undermined the predictability and stability of growth as planning assumptions. Therefore, target pricing just did not prove to be as viable as it once had been. Firms

were becoming much more flexible in their price thinking. Additionally, the new environment forced companies to violate the price-leader and price-follower pattern in order to keep market share from shifting to competition, since obtaining market share was regarded as a major determinant of profitability.

Although there would be pricing routines that are sometimes expressed as rules, the markets in 1970s was characterized by soaring costs and sharpen competition, these factors demanded better, faster, and more frequent pricing decisions than ever before. While most prices reflected the same basic elements-costs, profits, demand, and competition-the weight and priorities assigned to each varied with the nature of the product (commodity or specialty), company (manufacturing, wholesale, or retail), corporate objectives, management style, and everything else that makes one company different from another (Business Week, 1974).

In the past, many consumer companies and really all industrial companies priced new products on the basis of costs, plus some predetermined markup, then adjusted the price to meet or anticipate competition. However, controlling price became impossible since costs were changing on one end of their business, while competition and markets were on the other, and inflation kept everything and everyone continually off balance. Therefore, in the absence of any one ideal pricing formula, most well-managed companies simply tried to improve the broader mechanism and organization that come to bear on their particular formulas: they obtained more and better pricing information, used it more effectively, and gained more control. Consequently, the problem was not setting the initial list price but managing discounts or special services, and more and more new product pricing became market or value oriented, rather than cost oriented (Business Week, 1974). In some aspect, this flexible pricing meant an unstable economy - any surge in demand likely led to quicker and bigger price boosts than in the past, while

lower demand resulted in quicker price cuts. This trend toward less stable pricing intensified into the 1980's.

According to Economic Outlook USA (1986), it was revealed that consumer sentiment has now remained at very favorable levels for three years. At the start of 1986, favorable attitudes toward buying conditions for homes, vehicles and large household durables reached new all-time record levels due to the widespread availability of price discounts and reductions in interest rates. Though the expected size of nominal income increases has trended downward during the past few years, lower rates of inflation have also maintained consumers' evaluations of their own financial situation at favorable levels.

In order to grasp consumers' favorable buying attitudes, a flexible pricing system including wide range of price discounts would be an appropriate strategy. While consumers represent favorable attitudes for marketing, foreign competitors who often set prices that are lower than comparable prices set by American business continue to threaten market share. Besides Japan, and developed countries like West Germany, newly industrialized countries on the Pacific Rim and in Central and South America are increasingly penetrating the American market. Therefore, a giant company can no longer be counted on to hold a high-price safety net. They are likely to follow a flexible pricing strategy aimed at effective competition and to use their prices to catch up imports.

Flexible and more competitive pricing would be widespread due to today's sophisticated computer technology. Using computers, companies are now able to continuously monitor costs of inputs such as labor, raw materials, and energy across a wide range of product lines.

While more complicated pricing issues are raised and the importance of pricing decisions are emphasized in American business according to today's changing environment, pricing has not been regarded as a major marketing activity and pricing policies are not properly developed in Korean business. Pricing practices in Korean business appeared to be maintained by a initial pricing structure based on costs without any modifications. Korean business people seem to regard pricing as fixed decision area rather than dynamic one. However, they are now facing a new marketing phase as Korea market is activated with increased competition, proliferation of new products and enhanced technology. Furthermore, Korean business try to enter international market with value added products under their own brand name deviated from offering products by subcontracts with industrialized countries. Therefore, their previous primitive pricing practices do not fit to their today's marketing progress any more. It is urgent for Korean businesses to implement their pricing according to their situations. Accordingly, environments affecting Korean business should be explained and specific pricing issues under the consideration of new environments should be screened.

ENVIRONMENT AFFECTING KOREAN BUSINESS

ENVIRONMENT FOR DOMESTIC KOREAN MARKET

- Growth in personal income would allow for a healthy growth in personal consumption: (1) The overall growth in employment should continue to outstrip

that of the population as a whole. With fewer dependents per employed person, the proportion of pay available for discretionary spending or saving will again increase.

(2) Industry earnings will probably represent a real income increase. (3) There is a continuing switch in employment out of agriculture into jobs with higher productivity and higher incomes.

- It is also expected that Korea is enjoying rising living standards and greater demand for others' exports as Korea contributes to world economic growth.
- Strong income growth will leave room for market activation.

ENVIRONMENT FOR EXPORT MARKET

- In the struggle for a share of world trade, as a newly industrialized country, Korea has a large and growing advantage; lower costs in labor-intensive output and the latest technology in selected advanced production processes. Moreover, Korean currency, which is relatively devalued against the dollar, makes Korean export business to have favorable prospects.
- There are signs, despite the dollar's trade weighted depreciation, that U.S. manufacturers are increasingly willing to source in South Korea, in order to be able to compete in world markets (Country Report, 1986).
- As the U.S.A. and Japan each increasingly seeks cheap South Korean electronic components in its struggle to compete with each other, export demand is causing manufacturing production to rise rapidly (Country Report, 1986).
- According to a survey that the South Korean Trades Association carried out in April, 1986 on 402 foreign buying offices operating in the country, 25.6% of the

respondents said that South Korean products were cheaper than those of trade rivals (particularly Taiwan and Hong Kong), compared with 16.3% of respondents to a 1985 survey. It was also revealed that 34.4% thought that South Korean prices were higher than Taiwan's and Hong Kong's, compared with 51.9% in 1985. In the aspect of product quality, in 1984 only 21.6% of respondents thought the quality of South Korean goods superior to those of Taiwan and Hong Kong. This rose to 30.3% in 1985, 34.4% in April 1986. Accordingly, it was assumed that industrial purchasers rated South Korean price and quality competitiveness more highly. However, selling on price alone can be hazardous. It was said that if Korean products are perceived only as cheap and nasty no more business for South Korea would be in the international market (Country Report, 1986). Therefore, it is time for South Korean businesses to rearrange their pricing strategy with upgraded quality products.

THE IMPORTANCE OF PRICING IN KOREAN BUSINESS

- As the Korean domestic market has complex aspects to meet diversified and broader demands resulting from growth in personal consumption, business people would more concern about their pricing strategies to get more profits by appealing to consumers' pricing attitudes and behaviors.
- While in the 1970s, only several big corporations safely dominated the domestic market with a high price net, the competitive marketing situation in the 1980s with pressures from newly growing businesses is forcing new marketing approaches and strategies, particularly in the area of pricing.

- In the expectation of the export boom in the late 1980's and 1990's, marketing strategy must gear to high competitiveness in international markets. Therefore, more flexible and competitive pricing will be necessary in order to get maximum profits from favorable environments.

SUMMARY

While rapid development in business with favorable domestic and international environments needs updated information and gradual improvement in marketing strategies, especially in pricing, there seems to have been little research about pricing policies of firms or pricing attitude of consumers in Korea. In view of the Korean situation, in which most of natural resources should be imported, a price system of a firm has an essential role in that it can furnish the guide points to indicate what products and services should be produced, how these products and services should be produced and for whom these products and services should be produced. If business investments are assumed to be increasing for the time being due to growing industry trends and favorable export prospects, the pricing policy of firms would be a determinant of their success since their prices directly affect their revenues and profits.

In the aspect of consumers, as people are beginning to enjoy rising living standards and becoming available for more discretionary spending, more new businesses can penetrate or skim the consumer product market. Since for the consumer with a given income level, prices influence what to buy and how much of each product to buy, firms should be not only knowledgeable about consumers pricing attitudes and behaviors, but

also capable of making successful pricing strategies to generate desirable profits. Moreover, in order to compete and take a favorable position compared to trade rivals such as Taiwan and Hong Kong or prospective rivals such as China, the pricing system of Korean business should be flexible so that it incorporates any changes in external factors as favorably as possible and make the maximum use of price. Therefore, Korean businesses encouraged by developing and rising living standards need a rigorous approach to impact on managerial practice. In view of lack of previous literature about pricing theory or studies on pricing policies and practices in Korea business, descriptive research about pricing attitudes and practices would be a primary task to undertake.

In order to meet the goals of descriptive pricing research, a survey was done with Korean business people about broad pricing issues. The next methodology chapter explains what specific issues were treated and what information on actual pricing practices of Korean businesses would be obtained in the survey. Additionally, the design of the questionnaire and sampling procedures for the survey are presented.

IV. METHODOLOGY

CHAPTER OVERVIEW

The review of the pricing literature and an understanding of the significance of pricing research stimulated a survey with Korean business people in order to accumulate valuable information about Korean business practices. The analysis of the results of this survey was expected to impact on Korean businesses by helping them focus on how they have been setting prices, their attitudes towards prices, and implementing their pricing strategies.

In this chapter, the content of the procedures of the survey are introduced. Since this survey was designed to incorporate issues raised in the literature reviews and in the consideration of the specific Korean business environment, each survey question is related to these pricing issues. In order to clarify the correspondence between the

content of the survey and the raised issues, the survey is first described according to how each issue is investigated. Then, each survey question is explained also in terms of the issues raised according to the sequence of questions in the survey.

The latter part of this chapter first explains the procedures used to design the questionnaire, how the issues to be investigated were modified to fit Korean businesses, and how it was translated into the Korean version. Next, pre-sample size determination to meet satisfactory precision level of analysis is shown and the survey procedure is explained. This explanation of the survey procedure includes what sampling scheme was used, who were selected as eligible respondents, how the eligible respondents were contacted, and consequently, how many responses were collected.

CONTENT OF SURVEY

ISSUES IN PRICING PRACTICES AND ATTITUDES

The importance of pricing in marketing strategies is investigated by asking business people to rank pricing among marketing activities according to importance levels they perceive. The importance of pricing in marketing strategy would be related to the development of pricing strategy. The more important that business people realize pricing is in their marketing mix, the more they are motivated to develop effective and profitable pricing schemes.

Buyer/consumer perceptions and behaviors are investigated through questions about customer price sensitivity, quality sensitivity and price awareness and price

consciousness. Particularly, the price-quality relationship is explored by asking whether price differences are perceived as actual quality differences and low-priced products are regarded as low-quality products.

In order to know about relationships with competitors, questions on competitor profile, such as competitors' sensitivity to a firm's pricing strategies and competitors' products similarity with a firm's products are included in the questionnaire. Additionally, a question on the competitive situation, such as the effect of competitor's pricing strategy and relative market position of the firm is included in the questionnaire.

The relationships with elements of the marketing mix are surveyed extensively. In view of the Korean export market situation, in which Korean businesses extend market shares by setting low prices, taking advantage of lower costs in labor-intensive output and using advanced production processes in selected areas of technology, the issue of the relationship with experience economies should be of the major concern for present and future Korean businesses facing international markets. Especially, it has been known that pricing along the learning curve to maximize market share has been a strategy of the Japanese for years in gaining a hold on U.S. markets. Accordingly, the importance of pricing strategy using experience economies is more important than ever before. On the other hand, considering that the Korean domestic market also has good prospects of economic growth, and new businesses are expected to flourish to meet growing personal consumption, alternative strategies for pricing a new product would have a great impact on managerial aspects. Therefore, specific questions designed to tap business people's attitudes and behaviors about skimming and penetration strategies are encompassed.

As more and more new product pricing has been market or value oriented, promotional pricing and discounts are getting more attention since they allow the prices to be used to gain a competitive edge effectively. Considering that promotional pricing

or discounting has varied according to the product life cycle, in the context of product life cycle, promotional or discounts schemes of business are investigated. Furthermore, to be of value to managers, the manner in which discounts are quoted in their present industry is examined. Additionally, some questions examining advertising effects related to low/high price and quality level and price sensitivity are included.

A survey made by Bonoma, Crittenden and Dolan (1988) shows that the basis for pricing varies systematically across firms, depending on internal cost factors, distribution of channel power in the industry, and customers' use of the product. Moreover, in today's competitive market, without cooperation with channel members it is impossible for a firm to obtain sufficient market share. Therefore, managers should be knowledgeable about market channel requirements, such as wholesaler and retailer price sensitivity. Accordingly the included questions referring to the information about those requirements or considerations would be helpful for managers to develop a successful marketing mix.

HOW PRICES ARE SET IN INDUSTRY AND FIRMS

A descriptive investigation of pricing objectives of firms can offer keys to understanding ongoing market situations, market strength of firms in selling products or services, market competitiveness, or characteristics of the products or services in the market. Particularly, in this survey, short run pricing objectives and long run pricing objectives are investigated separately to find out whether there are any differences between firm's short-term and long-term pricing schemes. Since it can be assumed that according to

characteristics of industry, pricing objectives of firms vary, characteristics of industry are also investigated for more classified analysis.

There are no clear-cut suggestions for the responsibility for setting pricing policy, because while upper management lacks the first hand knowledge of the market, sales people lack an overall knowledge of corporate goals and strategies. However, by investigating who is responsible for pricing policy in what industries and what situations, the roles of relevant manager levels can be interpreted more clearly. And these results can provide clues for rearranging the managerial system for effective marketing strategies. As setting pricing policy and calculating actual selling prices are considered different responsibilities, two separate questions are asked about actual practices.

Pricing policies have frequently been major subjects in much of pricing literature. The study of the available literature shows that there have been significant changes in pricing policies. Not only previously prevalent practices of target-return pricing based on full-cost theory have revealed shortcomings and have been replaced by a valuation framework based on managerial theory, but also the new environment has forced companies to blur the price-leader and price-follower patterns in order to obtain profits in intensified competitive situations. Accordingly, in order to accumulate information on pricing trends, pricing policies of firms are investigated. Business people's perceptions of cost-based pricing also are evaluated to ascertain whether their attitudes are different according to varying environments, to the facts revealed by previous studies.

The competitive situation facing a firm influences a firm's pricing policy more than before, as markets are developed and competitive pressures are increased. The question about the competitive situation of a firm is included to provide more reasonable interpretation of any pricing policies and procedures relative to the competitive factor.

The size of a firm may also affect a firm's pricing practices such as price control or price variations with price cutting or discounts. Therefore, the size of a firm in an industry is examined. Similarly, the category of industry to which a firm belongs is also inquired.

OUTLINE OF THE QUESTIONNAIRE

The structure of the questionnaire used in this study is briefly detailed in this section. A copy of the English and Korean versions of the questionnaire is in Appendix A and B.

PART I is composed of questions about business people's attitudes or their practices toward pricing issues and pricing-related situations their businesses are facing. Responses to each question are measured by a 7-point bipolar categorical scale agree-disagree modality.

Section 1 is concerned with relationships with competitors. Question #1 asks about competitors' sensitivity to pricing strategies of the respondent's firm. Question #2 asks whether competitors' products are similar to the respondent's. Question #3 concerns whether competitors' pricing strategies affect respondents' sales volume.

Section 2 is concerned with customer characteristics. Question #4 is a measure of customer price sensitivity. Question #5 is a measure of customer quality preference. Question #6 measures customer price-change awareness and question #7 measures

customer price recall. Each of these questions is measured from the perspective of the business firm, and represents the respondents' beliefs about their customers.

Section 3 is concerned with pricing policies of the respondents' firm. Question #8 asks whether their policies are based on costs. Question #9 asks about the necessity of a predetermined profit margin. Question #10 asks about the feasibility of charging different prices to different customers. Question #11 asks about the appropriateness of cost plus pricing. Question #12 concerns the difficulty in obtaining cost data, while question #13 asks about the appropriateness of cost plus pricing for contract business. Question #14 asks whether there is a direct positive relationship between cost and price. Finally, question #15 asks about the possibility of setting a price too low for promotions.

Section 4 is concerned with the relationships between price and advertising. Question #16 measures which price level, low or high, is more appropriate for obtaining strong advertising effects. Question #17 asks about the association between low price and high level of advertising. Question #18 asks about the relationship between price sensitivity and high level of advertising. Question #19 asks about the relationship between price sensitivity and price advertising.

Section 5 deals with the effects of promotional pricing on various market phenomena. Question #20 asks whether promotional pricing is effective for new product introduction. Question #21 concerns about the effect of promotional pricing on market expansion, while question #22 asks about maintaining market position. Question #23 concerns the effectiveness of promotional pricing when competing products and services are similar. Question #24 asks about the difficulty of controlling promotional pricing, while question #25 asks whether promoting savings instead of the basic price is an advantage of promotional pricing.

Section 6 deals with discounts. Question #26 asks whether discounts are effective to increase sales in a declining market whereas question #27 concerns the effectiveness

of discounts in mature markets. Question #28 asks about the effectiveness of discounts for obtaining extra business.

Section 7 covers other factors which can command high prices. Question #29 asks whether price can be used to promote an image of status and prestige. Question #30 checks whether a strong demand can command a high price. Question #31 asks whether highly differentiated products can command high prices, while question #32 asks whether a market leading product can command a premium price. Question #33 asks whether price itself indicate quality directly. Question #34 asks if high brand-loyal items can command high prices. Question #35 asks if strong competition leads to low prices. Finally, question #36 asks whether new products command higher prices than mature products.

Section 8 is about skimming pricing policy and penetration pricing policy. Question #37 asks whether skimming price is the best way to price a new product. Question #38 asks whether skimming price is less risky in introducing a new product than in any other periods of a product's life cycle. The next three questions asks about the appropriateness of a skimming price when buyers are not price sensitive (#39), when the product is unique (#40), or when production capacity is limited (#41). Question #42 asks whether a skimming price limits a product's market. Question #43 asks about the requirement for penetration pricing, while question #44 asks whether a penetration price is appropriate when the firm has a cost advantage.

Section 9 is examines possible advantages of experience economics: cost advantages (#45), price flexibility (#46), and low prices due to cost savings (#47).

Section 10 investigates price-quality relationships: whether price differences reflect actual quality differences (#48) and whether low-priced products are generally of low quality (#49).

Section 11 covers relationships with the distribution channel. Question #50 is about wholesaler and retailer price sensitivity. Question #51 is concerned with the importance of distribution costs. Question #52 asks whether high-priced products need special channels, and question #53 is asks about the effect of the competitive environment on distribution costs.

PART II refers to the manner in which discounts are quoted. Respondents are required to check the relevant items in the questions in this part.

Question #1 asks how discounts are offered, by formal structure or by negotiation. Question #2 is about the type of discounts, published discounts or negotiated discounts, in different distribution channels, for instance when products are sold to customers, to wholesalers and to agents. Question #3 is about the bases on which discounts are offered: quantity bought per order, quantity bought over a period of time, a special category of customers (large customers), and for cash or settlement.

PART III investigates pricing practices: how prices are set in industries and firms. Respondents are required to check the relevant items for most of the questions in this part.

Question #1 is asks about the characteristics of industries for a clearer interpretation of this survey; one strong market leader, concentrated market, fragmented market, or other. Question #2 asks about the frequency of price reviews: quarterly, continuous, annual, and usually not taking place. Question #3 asks about their knowledge of short run pricing objectives: (1) to meet existing competition, (2) to discourage new competition, (3) to secure key accounts, (4) to increase cash flow, (5) to attract new customers, distributors, or agents, (6) to use spare capacity, (7) to reduce excess demand, and (8) other. Question #4 asks about long run pricing objectives: (1) to maximize

return on sales, (2) to maximize return on assets, (3) to stabilize price and margin relationships, (4) to obtain target market share, (5) strategic pricing in different markets, (6) to keep competition out of key markets, and (7) other. Question #5 asks about the responsibility for setting pricing policy for list price and negotiated price, while question #6 asks about the responsibility for calculating actual selling prices. Question #7 is concerned with the level of pricing authority for the sales force. This question is measured by 7-point semantic differential scale. Question #8 asks about the level of competitive situation facing the firm, while question #9 asks about the size of the firm in its industry. Question #10 asks about the company's pricing policy, while question #11 asks about the base of a company's pricing policy. Question #12 asks whether price differentiating to different customers has been done by quantity discounts, annual discounts, financial terms or as a method of sale. Question #13 asks about the importance of pricing strategy in a firm's marketing policy (7 point semantic differential scale). Question #14 asks whether selling prices are modified according to non-cost-related factors.

PART IV suggests scenarios for explaining pricing situations. This part investigates business people's situation analyses and the resultant pricing strategies. Three scenarios offer multiple choices for responses.

Scenario 1 checks on how business people deal with two consumer groups with different requirements and different price sensitivities. Scenario 2 adds a free entering competitor cue to the scenario 1 situation to find out any effects resulting from entering competitors in price management. Scenario 3 checks on how people set prices relative to quality levels.

PART V consists of general questions about the firms and industries in which respondents are engaged. Question #1 is about a firm's size in terms of the number of employees and annual sales revenue. Question #2 is about the number of different marketing product/service categories in the firm. Question #3 is about the category of industry to which the firm belongs. Question #4 is about the level of competition within the industry the firm belongs to (7-point semantic differential scale). Question #5 asks about the relative market position or competitive strength of the firm (5-point semantic differential scale). Question #6 asks for information about the respondents, such as present title, experience with the present firm, total business experience and past experience.

QUESTIONNAIRE DESIGN

The initial questionnaire for pricing attitudes and practices of businesses was developed by Kent B. Monroe and R. Krishnan. This questionnaire is for a pricing survey for U.S.A., Canada, and Japan. As a part of this survey, an investigation of the pricing attitudes and practices of Korean businesses is intended. Since Korea is one of the fastest developing countries, it is assumed that a descriptive research for Korean business will be useful not only for Korean managers, but also for Korean trade partners including U.S.A., as long as Korea is taking part in international trade.

Considering that the development level and the environment of Korean business are different from those of America, a modification of the questionnaire was necessary to survey Korean business people with more appropriate questions. Therefore,

questions regarded as adjustable to Korean business situations were selected. For example, questions related to economies of scale were extended to investigate how this factor affects relatively low prices of Korean products in international markets. However, questions related to sophisticated promotions such as rebate and coupons were deleted since such promotional techniques were assumed not to be used in the general Korean market.

Since this survey intended to cover opinions and attitudes about pricing from a broad range of business people from low level managers to top executives, it was assumed that a too detailed or long questionnaire might burden the respondents who did not have much specific information or experience with surveys. Accordingly, compared to the initial questionnaire, the questionnaire for this study was reduced by selecting only appropriate questions to Korean business and deleting several repetitive questions that were designed to examine item reliability.

The sequence of the questionnaire was also modified. In the initial questionnaire, questions regarding pricing attitudes about general pricing issues were randomly arranged regardless of the same topics or issues. In the questionnaire for this study, the placement of questionnaires is strategic and non-arbitrary. The questions derived from the same issues were arranged in one section to provide more cues to respondents. Since these questions in the questionnaire are arranged by sections of the same issues, the questionnaire had some artifacts by offering sequential cues for questions to respondents. However, these cues were intentionally provided to lead respondents to a clearer understanding of the context of the questions.

Since the relevant respondents for this survey were Korean business people, these questionnaires were then translated into Korean. Although all the questions were not changed in format or order, for some questions, an additional explanation or simple

examples were added to clarify the meanings of the questions in the process of translation.

SAMPLE SIZE DETERMINATION

The sample size appropriate for this survey was roughly calculated according to the formulas below. The desired precision level and confidence level were arbitrarily set. Since questions in PART I were measured by 7 point categorical scales, range of variation was assumed as 6 (7-1) approximately.

For PART I

1. Measured scale : 1 - 7 (7 categories)
2. Estimated range of variation : 6 (= 7-1)
3. Estimated standard deviation : $6/6 = 1$
(range of variation = $\pm 3\sigma$ for normal distribution
 $\sigma = \text{estimated range of variation} / 6$)
4. Needed sample size : $n = (Z^2/H^2)\sigma^2 = \{2^2/(0.2)^2\} \times 1^2 = 100$
(for seven category scale items)

Where n is the needed sample size, H is the precision level chosen (it is desired for the estimate to be within ± 0.1 of the true population value). Z is the standardized normal distribution value which satisfies 95% confidence level (rounded from 1.96); σ is an estimated standard deviation.

This calculation is based on the fact that when population variance is unknown, an alternative estimation for standard deviation is to take into account the fact for a normally distributed variable, the range of the variable is approximately equal to plus or minus three standard deviations. Thus, if the range of variation is estimated, the standard deviation can be estimated.

Therefore, in order to estimate the mean response within ± 0.1 of the true population value and 95% confidence level, a minimum sample size of 100 was needed for seven category scale items.

For the response measurement of questions in PARTs II, III, IV, and V, respondents were required to check marks to relevant item categories. Since the number of categories varies from two to eight, a range of standard deviation and sample size were estimated. Although some questions had only two categories for response variables, the variables are assumed as continuous and normally distributed.

For PARTs II, III, IV, and V

1. Measured scale : 1 - 2 (2 categories) ----- 1 - 8 (8 categories)
2. Estimated range of variation : 1 (= 2-1) ----- 7 (= 8-1)
3. Estimated standard deviation : 1/6 ----- 7/6
4. Needed sample size to meet precision level : $n = (Z^2/H^2)\sigma^2 = \{2^2/(0.2)^2\} \times 1/36 = 3$
of ± 0.1 and confidence level of 95% : $n = \{2^2/(0.2)^2\} \times 49/36 = 137$
5. Estimated precision with sample size of 100

$$H = Z \times \sigma / \sqrt{n} = 2 \times 1/6 \times 1/10 = 1/30 = 0.033 (\pm 0.0016)$$

(for two category scale items)

$$H = Z \times \sigma / \sqrt{n} = 2 \times 7/6 \times 7/10 = 7/30 = 0.233 (\pm 0.116)$$

(for eight category scale items)

Therefore, needed sample sizes to meet precision level of ± 0.1 and confidence level of 95% were minimally 3 for two category scale items and maximally 137 for eight category scale items. Additionally, with the same sample size from PART I, 100, it was possible to estimate the true mean with 95% confidence level and within ± 0.016 of the true population value for two categorical scale items, and within ± 0.116 of the true population value for eight category items. Therefore, the minimum acceptable sample size was set at 100.

SURVEY PROCEDURES

In order to survey all the representative businesses and get as many responses as possible in a short period, convenience sampling was used. Although judgmental sampling can be dangerous when it is employed in descriptive or causal studies due to lack of generalizability, the Korean market structure makes the judgmental sampling quite appropriate. The major big companies take a major share of the consumer and industrial markets in Korea. The rest of the market is occupied by a small number of medium-level businesses and a large number of small sized businesses with undeveloped management systems. Thus, it is assumed that to include major big companies by judgement can be useful for understanding the developing stage of Korean domestic and export markets. Accordingly, 11 major big companies were selected. Additionally, to include small-to-medium business people, members of the top manager classes in Yonsei University, Korean Foreign Language University and Rotary club members were selected as representatives.

For this survey, a sampling unit was defined as business people of each company. In order to ensure that the sample could be selected proportional to business scale, quota sampling was used by distributing a larger number of questionnaires to bigger companies. For the biggest four companies, Samsung Co., Hyundai Co., Lucky-Goldstar Co., Daewoo Co., 30 questionnaires were distributed and for the other seven big companies, 20 questionnaires were distributed as a quota according to business scale. Additionally, each of 50 questionnaires were sent to the top manager class members in Yonsei University and Hankuk University of Foreign Studies, and 100 questionnaires were sent to Rotary club members. For the distribution of these questionnaires to major big companies, manager-level people of each company were personally contacted and asked to distribute the questionnaires to people in several departments such as marketing and planning of that company. One week after distributing the questionnaires, the responses were retrieved. For the mail survey with top manager class members in Yonsei University and Hankuk University of Foreign Studies, the latest 100 members engaging in small-to-medium level businesses were arbitrarily selected from the student registration lists in each school. The mail response rate was very low; it was less than 15%. For the survey to Rotary club members, East Seoul Rotary Club was selected as representative and 100 questionnaires were distributed; some of them were sent by mail and the rest of them were distributed directly to respondents. Therefore, a final sample of 303 was obtained from the distribution of 460 questionnaires, a response rate of 65.9 %. Due to time constraints, no follow-ups of the non-respondents was accomplished.

SUMMARY

This chapter first explained the contents of the survey. This survey was developed to investigate issues raised in the literature review and the specific Korean business environment. Each issue was explained in terms of its implication for Korean businesses and its influence on their pricing practices.

Secondly, the structure of the questionnaire was outlined. Part I of the questionnaire consists of questions about business people's attitudes on general pricing issues and pricing-related situations. Part II refers to discount-related practices on respondents' industries, while Part III investigates practices in the setting of prices in industries and firms. Part IV offers three scenarios requiring pricing decisions in different situations. Part V includes supplementary questions about the firms and industries in which respondents are engaged, and about the respondents.

The questionnaire used was structured to fit the level of Korean business development and was translated into Korean. The questionnaire was arranged by following questions on the same issues in the same section in order to provide a clearer understanding of the context of the questions.

Fourth, pre-sample size determination process was presented. The minimum sample size was calculated to meet a precision level of ± 0.1 and 95% confidence level. Finally, the survey procedures were presented. Convenience sampling was used due to time and cost constraints, and judgment sampling was implemented to include representative businesses of the Korean market structure. The questionnaires were personally distributed to respondents in big businesses and rotary club members in order to get as many responses as possible in a short period time. Some of questionnaires were mailed to the respondents in small-to-medium level businesses. Consequently, a total

of 460 questionnaires were distributed and 303 responses were obtained (response rate of 65.9%).

V. RESULTS AND ANALYSIS

OVERVIEW

Through Chapters I, II, III, the objectives of this study were clarified, pricing literatures based on pricing research was reviewed, and the significance of pricing research, particularly to Korean business was discussed. In Chapter IV, the content of the survey was examined and each survey question was explained in terms of raised issues. Additionally, the questionnaire design and sampling procedures were explained.

In this chapter, it is first shown how the question variable of the survey are coded and tabulated as an input form for computer analysis. Then, analyses of the response data are presented. While an effort to reduce broad pricing issues to a manageable number of factors by factor analysis was made, the factor extraction appeared not to be a satisfactory way to reduce the data. Therefore, the major analysis depends on a

descriptive data analysis using frequency distributions, means, and standard deviations. The results of this analysis are examined according to the priori sections of the issues explained in the outline of the questionnaire in Chapter IV. Finally, an additional concern, the pricing practices of big businesses and small companies are compared.

CODING AND TABULATING DATA

The data were coded and tabulated prior to inputting the collected data into the computer for an effective way to handle the data set. A variable number was assigned successively according to the order of presented questions (Table 5.1). Also, each variable was named by taking some initial characters from the questions. Variables grouped a priori into the same category were given the same beginning characters in order to be sorted more easily without requiring a full explanation of the questions. The variable range varied according to how the responses were measured. For Part I, since every question was measured by scale items, the variable range of every question was from 1 to 7. For Part II, questions asking selection between two alternatives had variable values of 1 or 2, and questions asking whether to choose a particular item or not had variable values of 0 or 1. Since many questions in Part III were also asking whether to choose an item or not, they were assigned a variable range from 0 to 1. Some questions in Part III were measured by multiple category items and they had variable values pertaining to the number of items. Since question #10 in Part III was asking for respondents to indicate the relative importance of 7 items, each item was regarded as one variable which could have values of 0 (not relevant), and from 1 (the most important)

Table 5.1 Coding and Tabulating the Data

question	coded name	variable number	variable range
Part I			
Relationship with competitors (rc)			
1	rcps	va 1	(1-7)
2	rcpd	va 2	(1-7)
3	rcec	va 3	(1-7)
Customer profile (cp)			
4	cpps	va 4	(1-7)
5	cpqs	va 5	(1-7)
6	cppa	va 6	(1-7)
7	cppr	va 7	(1-7)
8	ppcb	va 8	(1-7)
Pricing policy (pp)			
9	pppm	va 9	(1-7)
10	ppdp	va 10	(1-7)
11	ppap	va 11	(1-7)
12	ppdc	va 12	(1-7)
13	ppcc	va 13	(1-7)
14	ppcr	va 14	(1-7)
15	pplp	va 15	(1-7)
Relationship with advertising (ra)			
16	raal	va 16	(1-7)
17	rapa	va 17	(1-7)
18	rasa	va 18	(1-7)
19	rasp	va 19	(1-7)
Promotional pricing (pm)			
20	pmwn	va 20	(1-7)
21	pmwe	va 21	(1-7)
22	pmwm	va 22	(1-7)
23	pmws	va 23	(1-7)
24	pmdc	va 24	(1-7)
25	pmas	va 25	(1-7)
Discount (ds)			
26	dswd	va 26	(1-7)
27	dswm	va 27	(1-7)
28	dseb	va 28	(1-7)
Price relationship with other factors (ro)			
29	roip	va 29	(1-7)
30	rosd	va 30	(1-7)
31	ropd	va 31	(1-7)
32	roml	va 32	(1-7)
33	roql	va 33	(1-7)
34	rohb	va 34	(1-7)
35	rosc	va 35	(1-7)
36	ronp	va 36	(1-7)

(Table 5.1 continued)

Skimming vs. penetration (sp)			
37	spns	va 37	(1-7)
38	sprs	va 38	(1-7)
39	spwb	va 39	(1-7)
40	spwu	va 40	(1-7)
41	spwc	va 41	(1-7)
42	spwl	va 42	(1-7)
43	sppr	va 43	(1-7)
44	spwa	va 44	(1-7)
Experience economies (ee)			
45	eela	va 44	(1-7)
46	eepf	va 45	(1-7)
47	eelp	va 47	(1-7)
Price-quality relationship (pq)			
48	pqdd	va 48	(1-7)
49	pqll	va 49	(1-7)
Relationship with dist. channel (rd)			
50	rdwr	va 50	(1-7)
51	rddc	va 51	(1-7)
52	rdhc	va 52	(1-7)
53	rdce	va 53	(1-7)
Part II: The manner that discounts are quoted (md)			
1. How offer discounts ?	mdho	va 54	(1,2)
2. Type of discounts			
sold direct to customer	mdsc	va 55	(1,2)
sold to wholesaler	mdsw	va 56	(1,2)
sold to agents	mdsa	va 57	(1,2)
3. What are the discounts offered for ? (do)			
quantity bought per order	doqo	va 58	(0,1)
over a period of time	doqt	va 59	(0,1)
for special customer	dosc	va 60	(0,1)
for cash or settlement	docs	va 61	(0,1)
Part III: How prices are set in your industry and firm (y)			
1. Characteristics of industry	ychr	va 62	(1,2,3,4)
2. Price review	yrev	va 63	(1,2,3,4)
3. Short run pricing objectives (ys)			
to meet existing competition	ysmc	va 64	(0,1)
to discourage new competition	ysdc	va 65	(0,1)
to secure new accounts	yssa	va 66	(0,1)
to increase cash flow	ysic	va 67	(0,1)
to attract new customers	ysic	va 68	(0,1)
to use spare capacity	ysac	va 69	(0,1)
to reduce excess demand	ysuc	va 70	(0,1)
other	ysrd	va 71	(0,1)

(Table 5.1 continued)

4. Long run pricing objectives (yl)			
maximize return on sale	ylms	va 72	(0,1)
maximize return on assets	ylma	va 73	(0,1)
stabilize margin ratio	ylsr	va 74	(0,1)
obtain target market share	yltm	va 75	(0,1)
strategic pricing	ylsp	va 76	(0,1)
keep competition out of market	ylkc	va 77	(0,1)
other	ylot	va 78	(0,1)
5. Responsibility for setting pricing policy (yr)			
list price	yr1p	va 79	(1,2,3,4,5)
negotiated price	yrnp	va 80	(1,2,3,4,5)
6. Responsibility for calculating actual selling prices (yr)			
list price	yr1s	va 81	(1,2,3,4,5)
negotiated price	yrns	va 82	(1,2,3,4,5)
7. Pricing authority of sales force	yrns	va 82	(1,2,3,4,5)
8. Competitive situation	yasf	va 83	(1-7)
9. Size of your firm in your industry	ysiz	va 85	(1,2,3)
10. Your company's pricing policy (yp)			
profit maximization	yppm	va 86	(0,7)
long run welfare	yplw	va 87	(0,7)
discourage competition	ypdc	va 88	(0,7)
adapt to competitive situation	ypas	va 89	(0,7)
flexible prices	ypfc	va 90	(0,7)
segmented price	yppsp	va 91	(0,7)
exploitation of situation	yppes	va 92	(,7)
11. Base of your company's pricing policy (yb)			
reasonable return	ybri	va 93	(0,1)
trade association	ybta	va 94	(0,1)
cost analysis	ybca	va 95	(0,1)
agreement	ybaw	va 96	(0,1)
customer wanting price	ybcw	va 97	(0,1)
competitive conditions	ybcc	va 98	(0,1)
price leader	ybpl	va 99	(0,1)
contract	ybct	va 100	(0,1)
what the market will bear	ybwm	va 101	(0,1)
other	ybot	va 102	(0,1)
12. Ever charge different prices to different customers?			
quantity discount	ydqd	va 103	(0,1)
annual discount	ydad	va 104	(0,1)
financial terms	ydft	va 105	(0,1)
method of sale	ydds	va 106	(0,1)
other	ydot	va 107	(0,1)
never	ydsne	va 108	(0,1)
13. The importance of pricing strategy	yips	va 109	(1-7)
The level of modification	ymnc	va 110	(1-4)

(Table 5.1 continued)

Part IV

scenario 1	sc01	va 111	(1-5)
scenario 2	sc02	va112	(1-5)
scenario 3	sc03	va113	(1-4)

Part V: Classification of the subjects (cs)

1. Your firm's size			
number of employees	csne	va 114	(1-5)
annual sales revenue	csas	va 115	(1-5)
2. Different product or service in the firm	cscp	va 116	(1-5)
3. Category	csic	va 117	(1-8)
4. Degree of competition	csdc	va 118	(1-9)
5. Relative market position	csmc	va 119	(1-5)
6. Questions about yourself			
present title	cspt	va 120	(1-3)
experience in the present firm	csep	va 121	(0-)
total experience	cset	va 122	(0-)
past experience	cspe	va 123	(0,1)

to 7 (the least important). For part IV, since scenarios 1 and 2 had 5 response choices, they had variable ranges of 1 to 5. Since scenario 3 had 4 response choices, it had a variable range of 1 to 4. For Part V, questions 1 to 5 had variable ranges pertaining to the number of response choices. In question #6 in Part V, the present title had values of 1 to 3 since it was represented as one of the three categories; non-manager (1), manager (2), and top manager (3). Variables representing experience with the present firm and total business experience had actual values pertaining to respondents' actual experiences in years.

DATA REDUCTION PROCEDURES

In order to investigate many pricing issues, a large number of questions were surveyed. However, it is likely that some questions can be interpreted as belonging to the same underlying factor, and that the revealed factor may help explain interrelationships among these variables. Moreover, it will be easier to overview the pricing issues and concentrate our study on more meaningful contexts by extracting a reduced number of factors. Therefore, as a data reduction technique, factor analysis was used.

Since questions in Parts II, III, IV and V carried many two category variables, it was anticipated that those dummy like variables might deter statistical conclusions because they do not conform to the normal distribution assumption of variables used for factor analysis. Furthermore, questions in Part II, III, IV and V were related to specific issues for a more concentrated investigation, whereas questions in Part I treated general

issues and needed to be grouped if several issues belonged to the same factor. Therefore, only questions in Part I, which were measured by 7-point category scale items, were analyzed by factor analysis.

The correlation matrix was used as the input data for the factor procedure in SAS. If a data set contains data rather than a matrix or factor pattern, then observations with missing values for any variables in the analysis are omitted from the computations. Factor extractions were made by the Guttman cut-off procedure which retains factors with eigen values greater than 1 when the correlation matrix is decomposed. The varimax rotation method was also used to find simpler and more easily interpretable factors, while keeping the number of factors and communalities of each variable fixed. Accordingly, 17 factors were extracted (Table 5.2). In this research, the criterion for the significance of factor loadings was regarded by the rule of thumb of 0.4. This factor model explained 33.2 % of the variance of our selected issues. Therefore, it can be assumed that there were many factors which did not have a significant eigenvalue in this analysis. Because the explained variance is small, it is difficult to grasp the entire context of pricing issues using only factor analysis.

The results of the factor analysis were not satisfactory not only in terms of the explained variance but also in terms of the correlations among the variables in the factors. Additionally, internal consistencies of the variables in the factors were measured. However, the results of many of them were also unsatisfactory for the factors to be considered as meaningful constructs.

The extracted factors are shown in Tables 5.3 to 5.19. To help interpretation of the extracted factors, the tables show the distribution percentages, means, and standard deviations of the variables, and the correlations among the variables in each of the factors.

Table 5.2 Varimax Rotated Component Factor Analysis Results

(VA 1 - VA 53)

Factor	#	Significantly loaded variable (question)	Factor loading
1	43	penetration price to require a large amount of resources	0.70
	44	appropriateness of penetration price	0.70
	45	cost advantages of experience economies	0.66
	46	possibility of flexible prices due to experience economies	0.51
2	14	price change according to cost change	0.41
	21	promotional pricing when introduce new product	0.66
	22	promotional pricing when expand the market	0.63
	23	promotional pricing when competing products are similar	0.53
	26	discount when increase sales in declining market	0.69
3	1	competitor's price sensitivity	0.70
	3	effect of competitor's pricing strategy	0.68
	4	customer profile about price sensitivity	0.65
	6	customer profile about price change awareness	0.46
	8	cost based pricing policy	0.45
4	39	skimming price strategy when buyers are not price sensitive	0.79
	40	skimming price strategy when the product is unique	0.63
	41	skimming price strategy when production capacity is limited	0.42
	42	whether skimming price limits a product's market	0.43
5	15	pricing policy of low price when promoting	0.48
	16	advertising effect with low price	0.76
	17	association between low price and high level of advertising	0.77
6	36	price relationship with new product	0.69
	37	skimming price for new product	0.83
	38	risk of skimming price	0.81
7	6	customer profile about price change awareness	0.44
	7	customer profile about price recall	0.52
	24	customer profile about price change awareness	0.53
	25	advantage of promoted savings	0.66
8	30	price relationship with strong demand	0.81
	31	price relationship with product difference	0.71
	32	price relationship with market leading product	0.47
	34	price relationship with high brand-loyal item	0.48
9	33	price relationship with product quality	0.59
	48	price difference vs. quality difference	0.57
	49	low price vs. low quality	0.73
	50	wholesaler and retailer price sensitivity	0.40

(Table 5.2 continued)

10	9	pricing policy of a predetermined profit margin for every product	0.53
	11	easiness to administer cost-plus pricing	0.73
11	15	pricing policy of low price when promoting	0.45
	29	price to promote an image of status and prestige	0.66
	34	price relationship with high brand-loyal item	0.41
12	18	relationship between price sensitivity and high level of advertising	0.42
	20	promotional pricing when introduce new price	0.56
	51	the importance of distribution cost	0.73
13	28	whether discounting are best way for extra business	-0.44
	46	possibility of flexible prices due to experience economies	0.52
	47	low prices due to experience economies	0.72
14	27	discount when market is mature	0.74
	32	price relationship with market leading product	0.42
15	5	customer's quality sensitivity	-0.40
	10	different prices to customers when the cost of serving is about the same	0.73
16	12	difficulty to obtaining cost data	0.69
17	13	cost-plus pricing for contract business	0.75
	41	skimming price strategy when production capacity is limited	0.41

Factor 1 revealed an explainable context in terms of correlation and internal consistency among the variables (Table 5.3). The correlation among the variables were significant and their internal consistency measured by Cronbach's α was a reasonable 0.72. Factor 1 contained issues about penetration price strategy and suggested a relationship between experience economies and penetration pricing. The analysis indicates that the more the respondents regarded experience economies as leading to cost advantages and price flexibility, the more they believed that a penetration price strategy was appropriate, so long as the firm had a significant cost advantage, and when penetration pricing required a large amount of resources. This context implied that cost advantage and price flexibility generated from experience economies made penetration pricing strategies profitable.

Factor 2 did not produce a satisfactory correlation matrix or measure of internal consistency (Table 5.4). Not only was the correlation between variables 14 and 23 not significant, but the internal consistency was marginal, $\alpha = 0.68$. Deleting variable 14 seemed to be reasonable in view of the correlation matrix, although the internal consistency did not improve much, $\alpha = 0.682$. Excluding variable 14, this factor suggests that the more pricing promotion was regarded as useful for expanding the market and maintaining market position, the more pricing promotion was also regarded as effective for introducing new products. Also when competing products and services were similar, a promotional discount was regarded as more useful for increasing sales in a declining market.

Factor 3 was mostly about the relationship with competitors and customers' price sensitivity and price awareness (Table 5.5). This factor implied that the greater customers' price sensitivity and awareness were, the more were competitors sensitive to respondents' pricing strategies. Also competitors' pricing strategies affected

Table 5.3 Factor 1

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 43	23.8	27.2	25.8	11.7	6.7	4.4	0.3	298	2.65	1.39
va 44	25.5	29.5	23.5	9.4	8.7	2.7	0.7	298	2.57	1.39
va 45	45.8	34.4	13.7	3.3	2.0	0.7	.	299	1.83	1.00
va 46	27.3	43.0	19.0	6.7	2.0	1.3	0.7	300	2.20	1.12

B. Correlation among Variables

variable	va 43	va 44	va 45	va46
va 43	1.00	0.40	0.43	0.32
va 44		1.00	0.41	0.26
va 45			1.00	0.62
va 46				1.00

Cronbach's $\alpha = 0.72$

Table 5.4 Factor 2**A. Distribution Percentage, Mean and Standard Deviation**

variable	1	2	3	4	5	6	7	N	Mean	SD
va 14	20.5	24.1	24.8	14.2	8.9	6.3	1.3	303	2.91	1.53
va 21	24.2	42.1	22.2	6.3	2.0	2.0	1.3	302	2.31	1.20
va 22	13.6	36.2	28.6	11.6	5.3	3.0	1.7	301	2.74	1.31
va 23	31.4	34.3	22.1	6.9	3.0	1.7	0.7	303	2.23	1.21
va 26	15.3	40.3	28.3	6.0	6.0	3.0	1.0	300	2.60	1.26

B. Correlation among Variables

variable	va 14	va 21	va 22	va 23	va 26
va 14	1.00	0.23	0.22	0.10	0.29
va 21		1.00	0.42	0.28	0.38
va 22			1.00	0.32	0.30
va 23				1.00	0.38
va 26					1.00

Cronbach's $\alpha = 0.68$

Table 5.5 Factor 3**A. Distribution Percentage, Mean and Standard Deviation**

variable	1	2	3	4	5	6	7	N	Mean	SD
va 1	55.3	25.7	11.7	4.0	1.7	1.3	0.3	300	1.76	1.11
va 3	31.8	29.8	21.2	8.9	4.0	3.6	0.7	302	2.37	1.36
va 4	35.4	30.5	18.5	8.6	2.3	4.0	0.7	302	2.26	1.35
va 6	52.0	28.8	12.3	2.0	3.0	1.7	0.3	302	1.81	1.14
va 8	16.3	30.6	24.9	11.6	4.7	7.6	4.3	301	2.98	1.63

B. Correlation among Variables

variable	va 1	va 3	va 4	va 6	va 8
va 1	1.00	0.43	0.35	0.19	0.23
va 3		1.00	0.39	0.24	0.15
va 4			1.00	0.47	0.21
va 6				1.00	0.26
va 8					1.00

Cronbach's $\alpha = 0.68$

respondents' sales volume. This factor additionally included a somewhat distant variable of cost based pricing policy. The internal consistency of this factor was marginal, $\alpha = 0.68$, and it seemed to be reasonable to delete the least loaded variable indicating cost-based pricing policy.

Factor 4 was related to a skimming price strategy (Table 5.6). It indicated that those who regarded a skimming price strategy as appropriate when buyers are not price sensitive also regarded a skimming price as appropriate when the product is unique or when production capacity is limited. A skimming price strategy was also reviewed as limiting a product's market. However, it might be careless to accept the results without further validity analysis because the internal consistency was so low, $\alpha = 0.462$.

Factor 5 concerned promotional relationships, specifically advertising, and low price. However, according to Table 5.7, the mean of all three variables was around 4, meaning that the respondents were uncertain as to whether it was possible to set too low a price when promoting a product, whether advertising was more effective when price was set low than when it was set high, and whether a low price is usually associated with relatively high levels of advertising. The internal consistency of this factor was also low, $\alpha = 0.60$.

Factor 6 showed a relationship between new products and skimming price, in that new products were highly correlated to skimming pricing and higher prices. This factor also revealed that the more respondents indicated that the best way to price a new product was to set a skimming price, the more they expected minimum risk when using a skimming price to introduce a new product. But the mean scores of variables in this factor indicated respondents, on average, neither agreed nor disagreed with the statements for these variables (Table 5.8). Therefore, factor 6 failed to reveal respondents' significant tendencies towards those issues although it had a reasonable internal consistency of $\alpha = 0.75$.

Table 5.6 Factor 4

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 39	15.6	30.5	27.8	12.9	5.3	5.3	2.6	302	2.88	1.47
va 40	27.2	41.5	19.9	4.0	4.0	2.0	1.3	301	2.27	1.25
va 41	18.5	31.2	30.9	8.1	3.7	6.4	1.3	298	2.72	1.41
va 42	15.6	31.9	26.6	11.6	8.0	4.3	2.0	301	2.85	1.44

B. Correlation among Variables

variable	va 39	va 40	va 41	va42
va 39	1.00	0.51	0.26	0.25
va 40		1.00	0.44	0.25
va 41			1.00	0.17
va 42				1.00

Cronbach's $\alpha = 0.46$

Table 5.7 Factor 5

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 15	5.9	19.8	30.7	11.6	14.5	12.5	5.0	303	3.66	1.62
va 16	6.0	11.9	14.9	26.8	18.2	16.6	5.6	302	4.12	1.58
va 17	5.0	7.9	15.2	21.5	19.2	22.8	8.3	302	4.44	1.61

B. Correlation among Variables

variable	va 15	va 16	va 17
va 15	1.00	0.27	0.25
va 16		1.00	0.52
va 17			1.00

Cronbach's $\alpha = 0.60$

Table 5.8 Factor 6

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 36	3.3	18.4	24.1	17.7	16.7	12.4	7.4	299	3.93	1.61
va 37	3.7	12.0	17.7	21.3	20.3	17.3	7.7	300	4.25	1.59
va 38	1.7	8.6	17.3	19.3	22.9	19.3	11.0	301	4.55	1.54

B. Correlation among Variables

variable	va 36	va 37	va 38
va 36	1.00	0.42	0.43
va 37		1.00	0.61
va 38			1.00

Cronbach's $\alpha = 0.75$

The other extracted factors except those explained above failed to reveal any significant contexts. In terms of internal consistency as well as the correlation matrix, those factors are too weak to be explained as acceptable findings. A possible reason for It was assumed that these weak results might be due to the skewed distributions of the responses for many of the variables. These results are shown in Tables 5.9 to 5.19.

DESCRIPTIVE DATA ANALYSIS

As the data reduction procedures did not offer many acceptable interpretations, a priori sections of the issues explained in the outline of the questionnaire in the Methodology chapter will be used to interpret each variable using descriptive data analysis including frequency distributions, means and standard deviations. The initial sections of the questionnaire were regarded as reasonable because a modification of the previous factor analysis, deleting weakly correlated variables and improving internal consistency, revealed similar groupings with many of the priori sections. The distribution percentages, means and standard deviations of variables and correlations among variables were arranged by sections in tables from Table 5.20 to 5.46.

PART I

Questions in Part I were related to general pricing issues.

Table 5.9 Factor 7

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 6	52.0	28.8	12.3	2.0	3.0	1.7	0.3	302	1.81	1.14
va 7	40.2	38.2	13.0	4.0	2.7	2.0	0.0	301	1.97	1.12
va 24	7.9	20.2	33.8	15.9	12.3	7.3	2.6	302	3.37	1.46
va 25	18.2	36.8	28.8	8.3	3.0	3.0	2.0	302	2.58	1.31

B. Correlation among Variables

variable	va 6	va 7	va 24	va 25
va 6	1.00	0.48	0.07	0.29
va 7		1.00	0.15	0.30
va 24			1.00	0.29
va 25				1.00

Cronbach's $\alpha = 0.58$

Table 5.10 Factor 8

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 30	27.0	38.0	18.3	6.7	5.7	3.7	0.7	300	2.40	1.35
va 31	15.7	33.3	20.0	16.0	7.7	4.7	2.7	300	2.91	1.51
va 32	5.0	19.3	25.6	18.6	15.6	8.6	7.3	301	3.76	1.61
va 34	18.3	37.2	27.6	8.6	3.3	3.0	2.0	301	2.58	1.32

B. Correlation among Variables

variable	va 30	va 31	va 32	va 34
va 30	1.00	0.46	0.26	0.38
va 31		1.00	0.27	0.37
va 32			1.00	0.28
va 34				1.00

Cronbach's $\alpha = 0.67$

Table 5.11 Factor 9

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 33	10.3	37.2	27.6	8.6	3.3	3.0	2.0	301	3.20	1.48
va 48	6.4	16.1	21.7	20.7	17.1	12.7	5.4	299	3.86	1.61
va 49	7.7	21.7	25.7	17.0	15.3	10.7	2.0	300	3.51	1.53
va 50	23.0	30.0	27.0	11.0	5.3	2.3	1.3	300	2.58	1.34

B. Correlation among Variables

variable	va 33	va 48	va 49	va 50
va 33	1.00	0.25	0.34	0.19
va 48		1.00	0.33	0.17
va 49			1.00	0.30
va 50				1.00

Cronbach's $\alpha = 0.58$

Table 5.12 Factor 10

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 9	16.6	22.2	24.5	11.6	14.2	7.9	3.0	302	3.21	1.65
va 11	18.2	33.4	25.5	10.3	7.0	5.0	0.7	302	2.72	1.39

B. Correlation among Variables

variable	va 9	va 11
va 9	1.00	0.25
va 11		1.00

Table 5.13 Factor 11

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 15	5.9	19.8	30.7	11.6	14.6	12.5	5.0	303	3.66	1.62
va 29	19.9	42.5	22.6	4.0	4.7	3.3	3.0	301	2.53	1.42
va 34	18.3	37.2	27.6	8.6	3.3	3.0	2.0	301	2.58	1.32

B. Correlation among Variables

variable	va 15	va 29	va 34
va 15	1.00	0.19	0.16
va 29		1.00	0.20
va 34			1.00

Cronbach's $\alpha = 0.40$

Table 5.14 Factor 12

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 18	10.0	21.3	31.0	16.3	9.0	9.7	2.7	300	3.33	1.53
va 20	10.3	23.9	19.9	17.6	10.3	14.0	4.0	301	3.51	1.70
va 51	10.0	30.0	29.7	12.0	9.7	8.0	0.7	300	3.08	1.43

B. Correlation among Variables

variable	va 18	va 20	va 51
va 18	1.00	0.23	0.18
va 20		1.00	0.27
va 51			1.00

Cronbach's $\alpha = 0.47$

Table 5.15 Factor 13

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 28	14.6	27.2	25.9	15.0	8.3	5.3	3.7	301	3.06	1.55
va 46	27.3	43.0	19.0	6.7	2.0	1.3	0.7	300	2.20	1.12
va 47	20.0	28.0	26.0	14.0	5.3	5.7	1.0	300	2.78	1.44

B. Correlation among Variables

variable	va 28	va 46	va 47
va 28	1.00	0.07	0.00
va 46		1.00	0.37
va 47			1.00

Cronbach's $\alpha = 0.54$

Table 5.16 Factor 14

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 27	5.6	6.3	11.0	20.3	24.6	21.3	11.0	301	4.59	1.62
va 32	5.0	19.3	25.6	18.6	15.6	8.6	7.3	301	3.76	1.61

B. Correlation among Variables

variable	va 27	va 32
va 27	1.00	0.24
va 32		1.00

Table 5.17 Factor 15

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 5	23.8	35.1	24.2	8.9	5.6	2.3	0.0	302	2.44	1.23
va 10	16.6	34.4	25.8	7.3	8.6	4.3	3.0	302	2.82	1.50

B. Correlation among Variables

variable	va 5	va 10
va 5	1.00	-0.10
va 10		1.00

Table 5.18 Factor 16

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 12	12.3	18.2	25.2	11.3	14.6	14.6	4.0	302	3.57	1.73

Table 5.19 Factor 17

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 13	20.9	25.2	30.2	13.6	5.3	3.3	1.3	301	2.72	1.37
va 41	18.5	31.2	30.9	8.1	3.7	6.4	1.3	298	2.72	1.41

B. Correlation among Variables

variable	va 13	va 41
va 13	1.00	0.18
va 41		1.00

The first section in Part I concerned the respondents' perceived relationships with competitors (Table 5.20). The respondents perceived very strong competition in their markets. Over 90% of the respondents agreed that their competitors were very sensitive to their pricing strategies, and over 80% of the respondents agreed their product similarity with competitors and that competitors' pricing strategies had a strong influence on their sales volume.

The second section concerned the respondents' customer profiles (Table 5.21). While the modal response was "strongly agree" to questions 4, 6, and 7, the modal response in question 8 was "moderately agree". Therefore, it might be concluded that customers are perceived by Korean business people to be more sensitive to price than they are to quality.

The third section concerned their pricing policies (Table 5.22). It was indicated that most people regarded costs as a primary base for pricing, cost-plus pricing as appropriate, and prices change proportionately to cost changes. There was little concern about the difficulty of obtaining cost data.

The fourth section concerned the relationship of price with advertising (Table 5.23). On average, respondents believed that price advertising led to price sensitivity, but there was disagreement whether advertising was more effective when price was set low than if it was set high, or whether a low price was associated with a relatively high level of advertising.

The fifth section concerned promotional pricing (Table 5.24). Generally respondents agreed on the relative effectiveness of promotional pricing. But, they were relatively uncertain that promotional pricing should be used to introduce new products. They moderately agreed that promotional pricing was often used to expand the market.

The sixth section concerned discounting (Table 5.25). Respondents agreed

Table 5.20 Part I : Relationship with Competitors

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 1	55.3	25.7	11.7	4.0	1.7	1.3	0.3	300	1.76	1.11
va 2	24.8	40.7	21.2	4.3	4.6	4.0	0.3	302	2.36	1.28
va 3	31.8	29.8	21.2	8.9	4.0	3.6	0.7	302	2.37	1.36

B. Correlation among Variables

variable	va 1	va 2	va 3
va 1	1.00	0.14	0.43
va 2		1.00	0.21
va 3			1.00

Cronbach's $\alpha = 0.51$

Table 5.21 Customer Profile

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 4	35.4	30.5	18.5	8.6	2.3	4.0	0.7	302	2.26	1.35
va 5	23.8	35.1	24.2	8.9	5.6	2.3	0.0	302	2.44	1.23
va 6	52.0	28.8	12.3	2.0	3.0	1.7	0.3	302	1.81	1.14
va 7	40.2	38.2	13.0	4.0	2.7	2.0	0.0	301	1.97	1.12

B. Correlation among Variables

variable	va 4	va 5	va 6	va 7
va 4	1.00	0.23	0.47	0.28
va 5		1.00	0.17	0.22
va 6			1.00	0.48
va 7				1.00

Cronbach's $\alpha = 0.73$

Table 5.22 Pricing Policy**A. Distribution Percentage, Mean and Standard Deviation**

variable	1	2	3	4	5	6	7	N	Mean	SD
va 8	16.3	30.6	24.9	11.6	4.7	7.6	4.3	301	2.98	1.63
va 9	16.6	22.2	24.5	11.6	14.2	7.9	3.0	302	3.21	1.65
va 10	16.6	34.4	25.8	7.3	8.6	4.3	3.0	302	2.82	1.50
va 11	18.2	33.4	25.5	10.3	7.0	5.0	0.7	302	2.72	1.39
va 12	12.3	18.2	25.2	11.3	14.6	14.6	4.0	302	3.57	1.73
va 13	20.9	25.2	30.2	13.6	5.3	3.3	1.3	301	2.72	1.37
va 14	20.5	24.1	24.8	14.2	8.9	6.3	1.3	303	2.91	1.53
va 15	5.9	19.8	30.7	11.6	14.5	12.5	5.0	303	3.67	1.62

B. Correlation among Variables

variable	va 8	va 9	va 10	va 11	va 12	va 13	va 14	va 15
va 8	1.00	0.24	0.07	0.24	0.00	0.12	0.15	0.08
va 9		1.00	0.13	0.25	0.12	0.25	0.22	0.13
va 10			1.00	0.09	0.07	-0.04	-0.13	0.02
va 11				1.00	0.16	0.16	0.26	0.20
va 12					1.00	0.11	0.12	-0.02
va 13						1.00	0.15	0.11
va 14							1.00	0.07
va 15								1.00

Cronbach's $\alpha = 0.79$

Table 5.23 Relationship with Advertising

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 16	6.0	11.9	14.9	26.8	18.2	16.6	5.6	302	4.12	1.58
va 17	5.0	7.9	15.2	21.5	19.2	22.8	8.3	302	4.44	1.61
va 18	10.0	21.3	31.0	16.3	9.0	9.7	2.7	300	3.33	1.53
va 19	15.0	28.9	28.2	12.6	8.0	5.6	1.7	301	2.93	1.45

B. Correlation among Variables

variable	va 16	va 17	va 18	va 19
va 16	1.00	0.52	0.26	0.11
va 17		1.00	0.14	0.20
va 18			1.00	0.31
va 19				1.00

Cronbach's $\alpha = 0.68$

Table 5.24 Promotional Pricing

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 20	10.3	23.9	19.9	17.6	10.3	14.0	4.0	301	3.51	1.70
va 21	24.2	42.1	22.2	6.3	2.0	2.0	1.3	302	2.31	1.20
va 22	13.6	36.2	28.6	11.6	5.3	3.0	1.7	301	2.74	1.31
va 23	31.4	34.3	22.1	6.9	3.0	1.7	0.7	303	2.23	1.21
va 24	7.9	20.2	33.8	15.9	12.3	7.3	2.6	302	3.37	1.46
va 25	18.2	36.8	28.8	8.3	3.0	3.0	2.0	302	2.58	1.31

B. Correlation among Variables

variable	va 20	va 21	va 22	va 23	va 24	va 25
va 20	1.00	0.11	0.15	0.06	0.10	0.14
va 21		1.00	0.42	0.28	0.03	0.12
va 22			1.00	0.32	0.03	0.18
va 23				1.00	0.07	0.23
va 24					1.00	0.29
va 25						1.00

Cronbach's $\alpha = 0.75$

Table 5.25 Discounting

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 26	15.3	40.3	28.3	6.0	6.0	3.0	1.0	300	2.6	1.26
va 27	5.6	6.3	11.0	20.3	24.6	21.3	11.0	301	4.59	1.62
va 28	14.6	27.2	25.9	15.0	8.3	5.3	3.7	301	3.06	1.55

B. Correlation among Variables

variable	va 26	va 27	va 28
va 26	1.00	-0.04	0.19
va 27		1.00	0.03
va 28			1.00

Cronbach's $\alpha = 0.16$

discounts could be used in a declining market and for getting extra business. They did not believe that discounts should be used only in mature markets.

The seventh section concerned the relationship of price with other factors (Table 5.26). While respondents agreed that strong demand, highly differentiated products, and high brand loyal items could command high or premium prices, they did not agree that premium prices could be obtained for market leading products. There was considerable uncertainty that higher prices could be obtained for new products relative to their costs than for mature products.

The eighth section measured respondents' beliefs about the use of skimming vs. penetration pricing strategies (Table 5.27). Generally respondents agreed on the requirements and appropriate usage of each strategy, however, they did not regard a skimming price as the best way to price a new product with minimum risk.

The ninth section was about experience economies (Table 5.28). In view of the Korean export situation in that Korean businesses offer products with lower prices in order to penetrate the international market, the issue related to cost reductions should be of concern to them. As expected, the responses revealed a high level of agreement that experience economies led to price flexibility and low prices due to cost advantages.

The tenth section concerned the price-quality relationship (Table 5.29). According to this analysis, respondents indicated that price differences do not necessarily coincide with quality differences. This belief would mean that the same quality products might be offered with either lower or higher prices according to companies' pricing strategies.

The last section concerned relationships with the distribution channel (Table 5.30). It was revealed that respondents perceived the important role of distribution costs in pricing, the particular importance of distribution channels for high-priced products, and the need for distributor cooperation. Respondents generally felt that wholesalers and retailers were price sensitive.

Table 5.26 Price Relationship with Other Factors**A. Distribution Percentage, Mean and Standard Deviation**

variable	1	2	3	4	5	6	7	N	Mean	SD
va 29	19.9	42.5	22.6	4.0	4.7	3.3	3.0	301	2.53	1.42
va 30	27.0	38.0	18.3	6.7	5.7	3.7	0.7	300	2.40	1.35
va 31	15.7	33.3	20.0	16.0	7.7	4.7	2.7	300	2.91	1.51
va 32	5.0	19.3	25.6	18.6	15.6	68.6	7.3	301	3.76	1.61
va 33	10.3	24.0	32.0	15.3	9.0	6.3	3.0	300	3.20	1.48
va 34	18.3	37.2	27.6	8.6	3.3	3.0	2.0	301	2.58	1.32
va 35	34.6	34.6	19.9	6.3	2.7	1.7	0.3	301	2.14	1.17
va 36	3.3	18.4	24.1	17.7	16.7	12.4	7.4	299	3.93	1.61

B. Correlation among Variables

variable	va 29	va 30	va 31	va 32	va 33	va 34	va 35	va 36
va 29	1.00	0.06	0.09	0.06	0.25	0.20	0.17	0.05
va 30		1.00	0.46	0.26	0.07	0.38	0.15	0.14
va 31			1.00	0.27	0.24	0.37	0.09	0.23
va 32				1.00	0.23	0.28	-0.00	0.23
va 33					1.00	0.39	0.10	0.18
va 34						1.00	0.29	0.18
va 35							1.00	0.02
va 36								1.00

Cronbach's $\alpha = 0.88$

Table 5.27 Skimming vs. Penetration

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 37	3.7	12.0	17.7	21.3	20.3	17.3	7.7	300	4.25	1.59
va 38	1.7	8.6	17.3	19.3	22.9	19.3	11.0	301	4.55	1.54
va 39	15.6	30.5	27.8	12.9	5.3	5.3	2.6	302	2.88	1.47
va 40	27.2	41.5	19.9	4.0	4.0	2.0	1.3	301	2.27	1.25
va 41	18.5	31.2	30.9	8.1	3.7	6.4	1.3	298	2.72	1.41
va 42	15.6	31.9	26.6	11.6	8.0	4.3	2.0	301	2.85	1.44
va 43	23.8	27.2	25.8	11.7	6.7	4.4	0.3	298	2.65	1.39
va 44	25.5	29.5	23.5	9.4	8.7	2.7	0.7	298	2.57	1.39

B. Correlation among Variables

variable	va 37	va 38	va 39	va 40	va 41	va 42	va 43	va 44
va 37	1.00	0.61	0.08	0.14	0.06	0.02	0.02	0.01
va 38		1.00	0.22	0.10	0.14	0.09	-0.07	-0.01
va 39			1.00	0.51	0.26	0.25	0.11	0.06
va 40				1.00	0.44	0.25	0.20	0.25
va 41					1.00	0.17	0.27	0.28
va 42						1.00	0.25	0.23
va 43							1.00	0.40
va 44								1.00

Cronbach's $\alpha = 0.87$

Table 5.28 Experience Economies

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 45	45.8	34.4	13.7	3.3	2.0	0.7	.	299	1.83	1.00
va 46	27.3	43.0	19.0	6.7	2.0	1.3	0.7	300	2.20	1.12
va 47	20.0	28.0	26.0	14.0	5.3	5.7	1.0	300	2.78	1.44

B. Correlation among Variables

variable	va 45	va 46	va 47
va 45	1.00	0.62	0.39
va 46		1.00	0.37
va 47			1.00

Cronbach's $\alpha = 0.72$

Table 5.29 Price-Quality Relationship

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 48	6.4	16.1	21.7	20.7	17.1	12.7	5.4	299	3.86	1.61
va 49	7.7	21.7	25.7	17.0	15.3	10.7	2.0	300	3.51	1.53

B. Correlation among Variables

variable	va 48	va 49
va 48	1.00	0.33
va 49		1.00

Table 5.30 Relationship with Distribution Channel

A. Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	N	Mean	SD
va 50	23.0	30.0	27.0	11.0	5.3	2.3	1.3	300	2.58	1.34
va 51	10.0	30.0	29.7	12.0	9.7	8.0	0.7	300	3.08	1.43
va 52	28.3	31.7	22.3	10.7	5.0	1.7	0.3	300	2.39	1.26
va 53	10.3	30.3	34.0	16.7	5.3	1.7	1.7	300	2.88	1.23

B. Correlation among Variables

variable	va 50	va 51	va 52	va 53
va 50	1.00	0.21	0.24	0.31
va 51		1.00	0.11	0.10
va 52			1.00	0.34
va 53				1.00

Cronbach's $\alpha = 0.63$

PART II

Questions in Part II were relevant to actual discounting practices in industry and firms. The first section in Part II concerned whether discounts were offered by means of a formally structured price list or by means of negotiation in the respondents' industries (Table 5.31). According to the results, negotiated discounts were more popular than published discounts. However in the case when products were sold directly to customers, both of these types of discounts were offered with similar preference. In the case when products were sold to wholesalers and agents, negotiated discounts were used more than published discounts.

The second section was about what the discounts were offered for (Table 5.32). The results revealed that the distribution percentages among discounts for quantity bought per order, quantity bought over a period of time, or for a special category of customers, were similar - each of these three took over 30%. However, it was revealed that discounts for cash or settlement were relatively rare, 11.8%. This latter result might be due to the fact that cash payments were regarded as a method for settling payments rather than a discount method.

PART III

Questions in Part III referred to how prices were set in the respondents' industries and their firms.

The first two questions solicited information about the characteristics of their industry and how their company reviews prices (Table 5.33). About 50% of the

Table 5.31 Part II : How Offer Discounts ?

Distribution Percentage, Mean and Standard Deviation

variable	1	2	N	Mean	SD
va 54	37.8	62.2	283	1.62	0.49
va 55	48.7	51.3	273	1.51	0.50
va 56	34.1	65.9	258	1.66	0.47
va 57	43.7	56.3	254	1.56	0.51

* 1 means respondents' choices on published discounts.

2 means respondents' choices on negotiated discounts.

Table 5.32 What are the Discounts Offered for ?

Distribution Percentage

variable	0	1	N
va 58	66.5	33.5	272
va 59	63.6	36.4	272
va 60	66.2	33.8	272
va 61	88.2	11.8	272

* 0 means respondents did not offer that kind of discount.

1 means respondents offered that kind of discount.

Table 5.33 Part III : Characteristics of Industry and Price Review

Distribution Percentage

variable	1	2	3	4	N
va 62	10.6	50.2	37.5	1.7	293
va 63	19.5	46.7	20.6	13.2	287

* va 62

- 1 means one strong market leader with market share 60% or more.
- 2 means a concentrated market.
- 3 means a fragmented market.
- 4 means other.

* va 63

- 1 means quarterly review.
- 2 means continuous review.
- 3 means annual review.
- 4 means that a company usually do not review prices.

respondents characterized their industry as a concentrated market (3 or 4 leading firms and several small firms). Slightly less than 50% of respondents reported their company reviewed prices continuously, while 40% reviewed prices either quarterly or annually. Thirteen percent indicated their companies usually do not review prices.

The third question concerned the short run pricing objectives of the firms (Table 5.34). It was revealed that the most popular pricing objectives were to meet existing competition and to secure key accounts. A little over 20% of the respondents indicated that discouraging new competition or attracting new customers or distributors were objectives. The other objectives were not used much in Korean businesses.

The fourth question asked for their long run pricing objectives (Table 5.35). The primary long run pricing objectives seem to be to maximize return on sales, obtain target market share, and stabilize price and margin relationships. There were some indications of developing strategic pricing objectives in different markets, or to keeping competition out of key markets.

The fifth and sixth questions concerned who has responsibility for setting pricing policy and actual selling prices (Table 5.36). The most interesting finding was that for the setting of pricing policy for either a list price or a negotiated price and the calculating of the actual selling price, primarily responsibility remained with the sales or marketing directors. The financial manager or controller had little responsibility in setting pricing policy or prices.

Questions seven, eight and nine asked about the pricing authority of the sales force, the firm's competitive situation, and the size of the respondent's firm (Table 5.37). One noticeable finding was that 49% of respondents indicated that sales force had little pricing authority, yet 12% of the respondents indicated that their sales force had a relative high pricing authority. The remainder of the respondents indicated that their

Table 5.34 Short Run Pricing Objectives

Distribution Percentage

variable	0	1	N
va 64	35.6	64.4	295
va 65	79.7	20.3	295
va 66	37.6	62.4	295
va 67	94.2	5.8	295
va 68	75.9	24.1	295
va 69	93.6	6.4	295
va 70	96.6	3.4	295
va 71	96.3	3.7	295

* 0 means respondents did not use the objective.

1 means respondents used the objective.

Table 5.35 Long Run Pricing Objectives

Distribution Percentage

variable	0	1	N
va 72	49.0	51.0	296
va 73	84.4	15.6	295
va 74	54.2	45.8	295
va 75	49.2	50.8	295
va 76	80.0	20.0	295
va 77	78.3	21.7	295
va 78	99.3	0.7	295

* 0 means respondents did not use the objective.

1 means respondents used the objective.

Table 5.36 Responsibility for Setting Pricing Policy and Actual Selling Prices

Distribution Percentage

variable	1	2	3	4	5	N
va 79	25.2	48.8	17.8	3.7	4.5	242
va 80	17.0	55.1	25.1	1.2	1.6	247
va 81	19.3	40.8	29.2	5.2	5.6	233
va 82	17.0	47.5	34.0	2.1	2.9	238

* va 79 : responsibility for setting pricing policy of listed price

va 80 : responsibility for setting pricing policy of negotiated price

va 81 : responsibility for calculating actual selling prices of listed price

va 82 : responsibility for calculating actual selling prices of negotiated price

* 1 means responsibility was on president/chief executive.

2 means responsibility was on sales or marketing director.

3 means responsibility was on marketing manger.

4 means responsibility was on financial manager/controller.

5 means responsibility was on another person.

Table 5.37 Pricing Authority, Competitive Situation and Firm Size

Distribution Percentage

variable	1	2	3	4	5	6	7	N
va 83	5.5	6.8	12.6	26.3	9.6	11.9	27.3	293
va 84	7.1	39.4	53.5	N/A	N/A	N/A	N/A	297
va 85	9.5	33.8	56.8	N/A	N/A	N/A	N/A	296

* va 83 scale value

1 : very high ---- 4 : moderate amount ---- 7 : very little

* va 84 scale value

1 : little, 2 : average, 3 : intense

* va 85 scale value

1 : small, 2 : medium, 3 : large

sales force had a moderate amount of pricing authority. Over 50% of the respondents classified their competitive situation as intense and their firms as large.

Question ten asked about their company's pricing policy (Table 5.38). For this section, the relative importance of each pricing policy alternative was represented as a relative value for each pricing policy. Therefore, the relative importance order for each policy could be obtained by comparing the mean values of variable #86 to variable #92, which were computed excluding "0" responses on those variables ("0" responses meant that the relevant pricing policies were not used at all). The lower value among the means indicates the most important pricing policy, because respondents ranked the choices with one being most important. Based on the analysis, maximizing profits for the whole product line was ranked first, followed by promoting the long-run welfare of the firm, adapting price to fit the individual competitive situation, setting flexible prices so as to meet changes in economic conditions, varying prices among customer segments, discouraging competition from entering the field, and exploiting the competitive situation in turn.

Question 11 asked about the bases of their company's pricing policies (Table 5.39). The frequently used bases were reasonable return on investment, cost analysis, competitive conditions and what the market would bear. Essentially, their pricing policies seem to be based on costs, competition, demand, and ROI objectives, the four major considerations for setting price.

Question 12 asked whether their firm ever charged different prices to different customers or places (Table 5.40). The companies charged different prices to different customers or places mainly due to quantity discounts or because of the method of sale (direct sale vs. through distributors).

Question 13 was about the importance of pricing strategy in the company's marketing policy (Table 5.41), and question 14 was about the extent that selling prices

Table 5.38 Your Company's Pricing Policy

Distribution Percentage, Mean and Importance Order

variable	0	1	2	3	4	5	6	7	N	Importance	
										Mean	order
va 86	23.1	44.8	18.2	4.9	3.5	1.7	2.1	1.7	286	1.86	1
va 87	35.7	20.6	17.5	4.9	3.8	5.9	5.6	5.9	286	2.96	2
va 88	45.6	4.6	6.7	8.1	6.3	9.5	7.7	11.6	285	4.45	6
va 89	27.5	16.7	14.6	18.5	9.4	5.6	4.5	3.1	287	2.98	3
va 90	35.9	12.2	7.7	14.3	13.2	9.8	4.2	2.8	287	3.38	4
va 91	40.9	7.3	6.3	10.5	10.5	9.4	9.8	5.2	286	3.99	5
va 92	44.2	3.2	6.0	5.7	7.4	6.7	13.8	13.1	283	4.83	7

* 0 means not at all important.

1 means the most important.

2 means the second in importance.

3 means the third in importance.

4 means the fourth in importance.

5 means the fifth in importance.

6 means the sixth in importance.

7 means the seventh in importance.

* Mean values were obtained excluding "0" responses on those variables.

Table 5.39 Base of a Company's Pricing Policy

Distribution Percentage

variable	0	1	N
va 93	37.5	62.5	293
va 94	94.9	5.1	293
va 95	37.3	62.7	292
va 96	77.1	22.9	293
va 97	82.9	17.1	293
va 98	45.7	54.3	293
va 99	86.3	13.7	293
va 100	75.1	24.9	293
va 101	43.3	57.0	293
va 102	98.3	1.7	293

* 0 means respondents did not use the base for their pricing policy.

1 means respondents used the base for their pricing policy.

Table 5.40 Does Your Firm Ever Charge Different Prices to Different Customers?

Distribution Percentage

variable	No	Yes	N
va 103	39.5	60.5	291
va 104	86.3	13.7	291
va 105	94.8	5.2	291
va 106	43.3	56.7	291
va 107	96.2	3.8	291
va 108	90.7	9.3	291

* va 103 : Quantity discounts

va 104 : Annual discounts

va 105 : Financial terms

va 106 : Method of sale (direct vs. through distributor)

va 107 : Other

va 108 : Never

Table 5.41 The Importance of Pricing Strategy

Distribution Percentage

variable	1	2	3	4	5	6	7	N	Mean	SD
va 109	29.4	20.3	14.5	27.7	4.1	2.0	2.0	296	2.71	1.50

* scale value

1 : very important -- 4 : moderately important -- 7 : not at all important

are modified by non cost-related factors (Table 5.42). The important finding was that most respondents (64.2%) agreed that pricing strategy was quite important in their companies' marketing policies, while many respondents (27.7%) also indicated that pricing was moderately important. It was also revealed that prices based on costs were sometimes modified by non cost-related factors (57.9%).

PART IV

Part IV consisted of three scenarios to examine individual pricing strategies in varying situations. Although scenario 2 was different from scenario 1 in that the former had a free entering competition cue, the strategies of the respondents in the two scenarios did not have any significant differences in their choices (Table 5.43). In scenarios 1 and 2, most respondents chose option d, the optimal choice (54.7 and 49.5% respectively). Nearly 20 percent chose option a, leading to a loss of \$600 for the hypothetical firm. For scenario 3, most respondents selected choices a or b: 23% of respondents selected choice a and 64.9% of respondents selected choice b. These choices imply that prices should represent the actual quality level. Additionally, it could be assumed that many respondents did not regard consumers' costs in their analysis. Because consumers' opportunity cost of time ranges from \$0 to well over \$20 to find the quality product, their losses resulting from buying low quality products at \$50 would be equivalent to an additional opportunity cost of \$20 when buying quality products after search. Therefore, consumers might buy the product at \$50 without searching for a better deal.

Table 5.42 The Level of Modification of Selling Prices

Distribution Percentage

variable	1	2	3	4	N
va 110	5.5	20.2	57.9	16.4	292 2.85 0.75

* scale value

1 : usually, 2 : frequently, 3 : sometimes, 4 : rarely

Table 5.43 Part IV : Scenarios

Distribution Percentage

variable	choice					N
	a	b	c	d	e	
va 111	18.7	8.7	13.5	54.7	4.5	289
va 112	19.5	13.6	12.9	49.5	4.5	287
va 113	23.0	64.9	7.4	4.6	N/A	282

PART V

Part V was used to obtain descriptive information about the subjects. Additional information about respondents of this survey is summarized in Tables 5.44, 5.45, 5.46 and 5.47. Many of the respondents belonged to large firms; 36.8% of respondents belonged to firms with more than 1500 employees, 45.8% of respondents belonged to firms with annual sales of over \$20 million, and 28.2% of respondents belonged to firms marketing 100 or more different product and/or service categories (Table 5.44). Most of the respondents belonged to consumer goods manufacturing firms and industrial goods manufacturing firms : 24.2% belonged to the former and 25.9% belonged to the latter (Table 5.45). While 33.6% of the respondents described the degree of competition among firms within industries they belonged to as very intensive, the modal value, another 22.1% of the respondents described it as moderate (Table 5.45). One interesting finding was that 32.6% of the respondents rated their firms' relative market positions or competitive strengths as above industry average and 29.2% of them rated these as somewhat above industry average (Table 5.45). Essentially, over 60% of the respondents regarded their firms' position as quite strong. Table 5.46 indicated that nearly half of the respondents, 48.1%, belonged to a non-manager level and two thirds of them have had business experiences in some area other than marketing (Table 5.46). This fact is unfortunate regretful because top manger-level people with experiences in marketing related areas were expected to be surveyed considering that pricing issues would be more related to and precisely examined by these people. The selection of respondents was due to a lack of time conducting the survey and to difficulty contacting top level people personally. It was also unfortunate that most of respondents had

Table 5.44 Part V : Classification of the Respondent (I)

(Number of Employees, Annual Sales Revenue, and Number of Different Products and Services)

Distribution Percentage

variable	1	2	3	4	5	N
va 114	21.6	20.3	9.1	12.2	36.8	296
va 115	17.5	10.9	9.8	16.0	45.8	275
va 116	34.0	17.5	9.3	11.0	28.2	291

scale value	va 114 # of employees	va 115 Revenue	va 116 # of product categories
1	Fewer than 100	less than \$1 million	Fewer than 10
2	100-499	\$1-\$2	10 to 24
3	500-999	\$2-\$5	25-49
4	1000-1400	\$5-\$20	50-99
5	1500 or more	\$20 million -	100 -

Table 5.45 Classification of the Respondent (II)

(Industry Category, Degree of Competition, and Relative Market Position)

Distribution Percentage, Mean and Standard Deviation

variable	1	2	3	4	5	6	7	8	N
va 117	24.2	25.9	19.1	4.8	3.8	9.2	1.4	11.6	293
va 118	6.0	4.4	6.0	22.1	9.7	18.1	33.6	N/A	298
va 119	32.6	29.2	25.5	9.1	3.7	N/A	N/A	N/A	298

* va 117 type on industry respondents' firms belong to

- 1: Consumer goods manufacturers
- 2: Industrial goods manufacturers
- 3: Consumer and Industrial goods manufacturers
- 4: Firms offering Services (other than financial)
- 5: Retailers
- 6: Wholesalers
- 7: Financial Institution
- 8: Other

* va 118 degree of competition

scale value 1 : not very intense -----7 : very intense

* va 119 competitive strength of a firm

scale value

- 1 : above industry average
- 2 : somewhat above industry average
- 3 : same as industry average
- 4 : somewhat below industry average
- 5 : below industry average

Table 5.46 Classification of the Respondent (III)

(Present Title and Past Experience in Marketing Area)

Distribution Percentage

variable	0	1	2	3	N
va 120	N/A	48.1	38.7	13.2	266
va 123	66.9	33.1	N/A	N/A	263

* va 120 present title

categories

1: non manager, 2: manager, 3: top manager

* va 123 past experience

categories

0: some area other than marketing, 1: marketing

comparatively short business experiences; slightly over 50% of respondents had total business experiences less than 10 years (Table 5.47).

SUPPLEMENTARY ANALYSIS

As was mentioned in the previous section, many non-manager level people with little experience in marketing were included in the sample for this survey. Accordingly, it was anticipated that (1) responses of manager-level people may differ from non-manager level people, (2) those who had short business experiences may differ from those who had relatively longer experiences, and (3) those who had past experiences primarily in marketing may differ from those whose past experience was in other areas when viewing pricing issues. To examine the extent of these possible differences, the data were analyzed and compared by respondent groups of non-manager level vs. manager level, those who had longer experiences vs. those who had shorter experiences, and those who had past experiences primarily in marketing vs. those who had past experiences in other areas. However, means, standard deviations and frequency distributions between these pairs groups appeared to be similar and to have no significant differences. Therefore, the results are similar even though many of the respondents were not manager level people with substantial experiences in marketing.

As a additional concern, the pricing practices of big companies and small companies were compared. For this analysis, big companies were defined to have \$20 million or more annual sales revenue and small companies were the others. This selection criterion of \$20 million in annual sales revenue was made in consideration of

Table 5.47 Classification of the Respondent (IV)

(Experience with the Present Firm and Total Business Experience)

Distribution Percentages

variable	years							N
	1-	5-	10-	15-	20-	25-	30-35	
va 121	39.8	34.4	7.9	2.1	4.3	0.4	0.0	279
va 122	26.6	25.1	18.6	5.8	5.1	3.0	1.2	259

the Korean business environment. While this analysis revealed slight differences in long-run pricing objectives, responsibility for setting pricing policy and a company's pricing policy, for the rest of the issues, there appeared to be no significant differences. Based on this analysis, it can be concluded that the long-run pricing objectives of big businesses focus on maximizing return on sales and obtaining target market share, than the objectives of small businesses (Table 5.48). Small businesses seemed to use the long-run pricing objectives of maximizing return on assets or stabilizing price and margin relationship more than big businesses did, although the differences were proved to be not statistically significant.

Another finding was that big businesses regarded the pricing policy of maximizing profits for the whole product line more important than small businesses did (Table 5.49). The other interesting finding was about the responsibility for setting pricing policy and calculating actual selling price. It was assumed that presidential pricing would be more popular in small businesses than in big businesses since small businesses are more likely to have a more centralized organizational structure. The analysis comparing the responsibility for pricing policy between small and big businesses backed up this assumption to some extent (Table 5.50). According to the information in the Table 5.50, presidents/chief executives appeared to have pricing responsibilities more often in small businesses than in big businesses, while sales or marketing directors have more responsibility in big businesses than in small businesses. In both sizes of businesses, sales or marketing directors were the most responsible persons for setting pricing policies. In both classes of businesses most pricing responsibilities lay with either presidents/chief executives, or sales or marketing directors (75.6% for small businesses and 72.1% for big businesses).

Another concern was whether size of business was related to presidential pricing vs. departmental pricing. In this analysis, presidential pricing meant that

Table 5.48 Comparison of Long-run Pricing Objectives

Small Business vs. Big Business

variable	Small Business (n = 177)	Big Business (n = 126)	T test for mean difference
	percentage of respondents who selected this policy	percentage of respondents who selected this policy	(Prob > T)
va 72	44.7	59.5	0.01*
va 73	18.3	11.9	0.12
va 74	48.5	42.1	0.27
va 75	45.0	58.7	0.02*
va 76	18.9	21.4	0.60
va 77	21.3	22.2	0.85
va 78	0.6	0.8	0.84

* This means that the two means are significantly different at the significance level.

** For this analysis, the mean values on these variables coincide with the percentages of respondents who selected the relevant pricing policies because "0" response means that they did not use the policy and "1" response means that they use the policy.

- va 72 : Maximizing return on sales
- va 73 : Maximizing return on assets
- va 74 : Stabilizing price and margin relationship
- va 75 : Obtaining target market share
- va 76 : Strategic pricing in different markets
- va 77 : Keep competition out of key markets
- va 78 : Other

Table 5.49 Comparison of Pricing Policy

Small Business vs. Big Business

Variable	Small Business (n = 177)		Big Business (n = 126) test		
	Mean*	Importance order	Mean*	Importance order	(Prob > T)
va86	2.09	1	1.59	1	0.01*
va87	2.83	2	3.17	4	0.28
va88	4.55	6	4.29	6	0.44
va89	3.02	3	2.91	2	0.67
va90	3.54	4	3.11	3	0.09
va91	4.01	5	3.97	5	0.89
va92	4.86	7	4.78	7	0.78

* The least mean value indicates the most important pricing policy.

** This means that the two means are significantly different at the significant level of $\alpha = 0.01$.

va 86 : Maximizing profits for the whole product line

va 87 : Promoting the long-run welfare of the firm

va 88 : Discouraging competition from entering the field

va 89 : Adapting price to fit the individual competitive situation

va 90 : Flexible prices so as to meet changes in economic conditions

va 91 : Varying prices among customer segments

va 92 : Exploiting the competitive situation

Table 5.50 Comparison of Responsibility for Setting Pricing Policy and Actual Selling Prices

Small Business vs. Big Business

1) Responsibility for Setting Pricing Policy (Distribution Percentage)

	List price		Negotiate price	
	small business	big business	small business	big business
a.President/chief executive	31.3	18.0	22.6	10.0
b.Sales or marketing director	44.3	54.1	54.0	56.4
c.Marketing manager	16.0	19.8	21.2	30.0
d.Financial manager/controller	3.8	3.6	1.5	0.9
e.Other	4.6	4.5	0.7	2.7

* Chi-square test for interrelationship between firm size (small vs. big) and pricing responsibility (presidential - president/chief executive vs. departmental - sales or marketing director, marketing manager, financial manager/controller, etc.)

for list price: chi-square = 5.62, DF = 1, P = 0.02
 for negotiated price: chi-square = 6.89, DF = 1, P = 0.01

2) Responsibility for Calculating Actual Selling Price (Distribution Percentage)

	List price		Negotiate price	
	small business	big business	small business	big business
a.President/chief executive	24.6	13.5	16.7	9.4
b.Sales or marketing director	40.2	41.4	46.2	49.1
c.Marketing manager	24.6	34.2	32.6	35.8
d.Financial manager/controller	5.7	4.5	2.3	1.9
e.Other	4.9	6.3	2.3	3.8

* Chi-square test

for list price: chi-square = 4.58, DF = 1, P = 0.03
 for negotiated price: chi-square = 4.62, DF = 1, P = 0.10

presidents/chief executives had pricing responsibilities, while departmental pricing meant that sales or marketing directors, marketing managers, financial managers/controllers, or others had responsibilities. According to a contingency test using chi-square analysis, size of business was significantly associated with responsibility for setting pricing policy, $p = 0.02$ for list price and 0.01 for negotiated price respectively. Size of business also was significantly associated with responsibility for calculating actual selling prices, $p = 0.03$ for list price, and 0.10 for negotiated price (Table 5.50). The reason for the latter result may be ascribed to the fact that, generally, responsibility for actual selling prices belongs more to departmental-level people than to a president, irrespective of business size.

SUMMARY

Although factor analysis did not lead to the extraction of satisfactory factors to permit an examination of all the important issues, and although supplementary analyses according to respondents' management level or previous experiences did not produce significant differences, the result of this survey did reveal substantial information about Korean business peoples' pricing attitudes and their actual pricing practices in industry and firms. The overall results are summarized below.

Part I

For information relevant to competition and consumers, respondents appeared to perceive very strong competition in their markets, and they believed consumers are more sensitive to price than to quality.

For the development of pricing policies, respondents regarded costs as a primary base for pricing, and cost-plus pricing as appropriate.

In terms of the relationship of price with promotion, respondents generally believed that price advertising led to price sensitivity, but they did not recognize any stronger advertising effects, regardless of whether price was set high or low. While they also agreed on the effectiveness of promotional pricing, they seemed to be uncertain as to when promotional pricing should be used. Particularly, they agreed that discounts could be used in declining markets and for getting extra businesses.

However, respondents were not sure that higher prices could be commanded for new product, nor could premium prices be obtained for market leading products. Although for entry pricing strategies, respondents perceived both skimming and penetration price strategies to be appropriate, they did not accept that skimming price is the best way to price a new product with minimum risk. Respondents did strongly agree that experience economies led to cost advantages and price flexibility.

In terms of the price-quality relationship, respondents indicated that price differences did not necessarily reflect quality differences.

For the relationship with the distribution channel, respondents generally perceived the important role of distribution costs in pricing, and recognized the particular importance of distribution channels for high-priced products.

Part II

The first section of Part II referred to the manner in which discounts were offered. It was revealed that negotiated discounts were more popular than published discounts, especially when products were sold to wholesalers and agents. The second section revealed that discounts were usually offered for quantity bought per order, quantity bought over a period of time, or a special category of customers.

Part III

Part III was concerned with how prices were set in the respondents' industries and their firms. About 50% of the respondents indicated that their industry was a concentrated market, and 90% of the respondents reported that they regularly (continuously, quarterly, or annually) reviewed prices.

As to most popular short-run pricing objectives, the preferred objectives were to meet existing competition and to secure key accounts. The primary long-run objectives were revealed to be to maximize return on sales, to obtain target market share, and to stabilize price and margin relationships.

For responsibility for setting pricing policy, and actual selling prices, major responsibility was revealed to be either with sales or marketing directors in the setting of pricing policy for either a list price or a negotiated price, and the calculating of the actual selling price. For the pricing authority of the sales force, about half of the respondents indicated that their sales force had little pricing authority.

For their companies' pricing policies, respondents ranked maximizing profits for the whole product line first, followed by promoting the long-run welfare of the firm, adapting price to fit the individual competitive situation, selling flexible prices so as to

meet changes in economic conditions, varying prices among customer segments, discouraging competition from entering the field, and exploiting the competitive situation in turn.

The most frequently used bases for setting pricing policies were reasonable return on investment, cost analysis, competitive conditions, and what the market would bear. Additionally, it was found that the companies changed different prices to different customers or places mainly due to quantity discounts or because of the method of sale (direct sales vs. through distributors), while 57.6 % of respondents agreed that prices based on costs were sometimes modified by non cost-related factors.

Part IV

The three scenarios revealed that while respondents chose optimal choices for scenarios 1 and 2, they appeared to believe that prices should represent the actual quality level and not to consider consumers' costs in their analysis.

Supplementary Analysis

For this analysis, the pricing practices of big companies (\$20 million or more annual sales revenue) and small companies were compared. According to this analysis, the long-run pricing objectives of big businesses focused more on maximizing return on sales and obtaining target market share than did the objectives of small businesses. While small businesses used more long-run pricing objectives of maximizing return on assets or stabilizing price and margin relationship than big business did. The big businesses also regarded the pricing policy of maximizing profits for the whole product

line more important than small businesses did. Interestingly it was found that presidential pricing was more popular in small businesses than in big businesses

VI. DISCUSSION AND CONCLUSIONS

GENERAL OVERVIEW OF THE THESIS

This thesis followed this step: (1) Introduction, (2) Literature Review, (3) Significance of Pricing Research, (4) Methodology, (5) Results and Analysis, and (6) Discussion and Conclusions.

In the first chapter of this thesis, the objective and the significance of this research was introduced. The research objective was to investigate several important pricing issues that might contribute to Korean business by developing a framework for conducting pricing research in Korea. Considering that there has been little marketing research in Korea, descriptive research exploring Korean business people's opinions about general pricing issues was regarded as a first step to be conducted for Korean business. For this pricing research, the following information was desired; (1) Korean

business people's perception about pricing, (2) customer (buyer) pricing perception and behavior, (3) pricing relationship with competition, (4) pricing relationship with elements of the marketing mix, and (5) Korean businesses' pricing practices compared to pricing theory in the areas of firms' pricing objectives and their bases, procedures for implementing pricing goals, and pricing responsibility. Doing this kind of descriptive research on Korean businesses is regarded as particularly important because it is expected that there will be increased importance of correct pricing decisions, especially, managing pricing appropriately according to the level of development of Korean business activities in domestic and international markets. Furthermore, it is assumed that there will be increasingly more complex pricing responsibilities, and pricing decisions will be extended to issues of product line pricing and pricing for international markets.

This thesis explored some important issues related to pricing through a literature review in Chapter II in order to: (1) understand actual pricing attitudes and practices from the perspective of consumers and business people, (2) identify issues needing further examination or research, and (3) evaluate current managerial practices and suggest some desirable directions for future practice. The literature review was composed of two sections. The first section primarily developed explanations about how businesses should develop prices and how prices affect consumer behaviors. The second chapter also reviewed research on (1) what kind of pricing objectives businesses have used, (2) how prices have been set in terms of policies and responsibilities, and (3) development of prices in particular situations.

Through this review, it was revealed that pricing has emerged as one of the most important factors in marketing activities since the middle 1980's, and the importance of a creative pricing strategy has been more evident in the 1980's than in the 1970's. The traditionally assumed role of price as a measure of purchase cost (sacrifice) to the buyers

was contrasted with the emerging evidence of the complexity of price as an influence on purchase decision. Especially, increasing competitive pressures and a need to better understand the total business environment have enhanced the role of pricing as a way to gain a competitive edge. It was suggested that pricing strategies of each firm should take into consideration its relationship with competitors, and this relationship should be interpreted according to each situation. It was revealed that it is very important for a firm to match its pricing strategies according to the life cycle of a product. There has not been much research about the effects of pricing advertising. Although, the need for a creative pricing strategy leading to profits in competitive situations has been recognized by previous pricing research, previous research indicated that actual business pricing practices were still too inflexible in its pricing techniques and too prone to take a merely satisfactory return. The managerial influences were found to even limit a flexible pricing policy sometimes. In the second part of this review, how prices are set in industry and firm was investigated. It was revealed that (1) price-setting by any firm was not ruled by a single objective, (2) pricing was frequently done for product groups with an eye to the over-all profit position of the company, (3) the size of a firm affects its pricing policy toward price stability and price cutting. Since the 1970s, the widely used practices of cost-revenue budgeting and target return pricing were criticized and the importance of the investment valuation framework was suggested as a dynamic and adaptive management process.

The objective of Chapter III was to indicate why pricing research was necessary and what would be the role of such pricing research. While pricing has taken a more important role in an increasingly complex environment, and more firms have reorganized their pricing strategies to increase profitability, nevertheless little research has been done on current pricing attitudes and practices of businesses. Particularly, it was pointed out that there is a significant gap between the interests of managers and the consideration

of academics in pricing, because previous research has had relatively little impact on managerial practices. Therefore, normative and descriptive marketing research on the important decision variables that are of interest to marketing managers would enhance managers understanding of the complexity of pricing decisions, and hopefully, that understanding would improve profitability.

It would also be desirable for pricing research to indicate the future directions for pricing decisions to adapt to today's changing environment such as intensified competition, government restrictions resulting from protectionism, and rapid progress of technology. To be able to suggest these directions, current pricing trends due to these changing environment pressures were investigated. Although previously it was possible for many companies to price their products by adding a predetermined mark up on their costs, and then adjust the price to meet or anticipate competition, today it is more difficult to set prices because there are so many factors affecting the price-volume-cost relationships. Therefore, more firms have developed pricing policies that are value oriented rather than cost oriented, and they try to obtain more and better pricing information so as to set prices more effectively. However, a flexible pricing system with rigorous and relevant pricing analysis is necessary if the firms want to obtain consumers' favorable buying attitudes and thereby obtain a desirable market share.

The environment affecting Korean business was also examined in this chapter to determine what issues are relevant to the Korean market and what topics should be concentrated on in further research. While Korea has developed rapidly in business with favorable domestic and international environments, and has emerged as a newly industrialized country with good export prospects in the international market, little research has been done about the Korean market and especially about pricing policies of firms or pricing attitudes of consumers in Korea. Domestically, Korean customers are beginning to enjoy rising living standards and have more income available for

discretionary spending. However, domestic market development has brought intensive competition among businesses and Korean customers have begun to search for products offered at lower prices. As a result, demand has become more sensitive to price as more extended product choices have become available due to this activated domestic market. Accordingly, the expectation of a market boom in Korea should stimulate business people to research the pricing attitudes and behaviors of customers and implement their pricing strategies. Furthermore, today's international marketing situation represented by intensified competition and protectionism prescribes the need for a rigorous analysis of the pricing system, so as to suggest changes for Korean firms if they are to survive and compete with others. Particularly, Korean businesses now try to enter international markets with value-added products. Although they did not realize the importance of creative and rigorous pricing because they usually entered international markets at the mature stage with imitative products, they are now facing new phase of marketing activities by shifting up their product level and requiring more advanced pricing strategies.

Chapter IV explained the methodology used by the survey to obtain descriptive information about the pricing attitudes and practices of Korean Business. A questionnaire developed by Kent B. Monroe and R. Krishnan to survey American business in the area of pricing practices was modified and developed to address issues raised in the literature review and the specific Korean business environment. Due to a lack of time and the need to include a representative cross-section of business, a convenience sample of Korean businesses was conducted. Most of survey questionnaire were personally distributed to respondents in big businesses and rotary club members. This survey included the big four companies of Korea: Samsung Co, Hyundai Co., Lucky-Goldstar Co., and Daewoo Co.. Part of the survey questionnaires were mailed to the respondents in small-to-medium level businesses. Consequently, 460

questionnaires were distributed and 303 responses were obtained (response rate = 65.9%). According to information obtained through survey questions in Part V about survey subjects, around half of the respondents were engaged in big businesses with annual sales of over \$20 million. Most of respondents (51%) belonged to consumer goods manufacturing firms and industrial goods manufacturing firms. It was revealed that nearly half of the respondents, 48.1%, belonged to a non-manager level and two thirds of the respondents have had business experience in some area other than marketing. Slightly over 50% of respondents had total business experience less than 10 years.

The results of the survey were presented and analyzed in Chapter V. Although factor analysis first was used as a data reduction technique to reveal common underlying factors across the various pricing issues and contexts, the extracted factors did not reveal many satisfactory results in terms of the correlations among variables in the same factor or in terms of the internal consistency measured by Cronbach's α . Therefore, the primary analysis relied on descriptive analysis using distribution percentages, means, standard deviations, and correlations among variables. The results from the descriptive analysis were explained according to issues as outlined in Chapter IV.

In this chapter, Chapter VI, several limitations about this survey research are raised and implications are discussed. It is expected that this research should contribute by adding information on Korean marketing practices, especially pricing, impact on present managerial practices, and suggest directions for future practices. Additionally, further research is required according to domestic and international environmental pressures. Domestically, a more complicated market situation, and increased domestic consumption require more information about buyers' perceptions and behaviors. A new phase of pricing is now needed for venture products and more value-added products. For export market, it is desired to compare Korean pricing practices with advanced

countries' and implement pricing practices in order to be competitive with businesses of industrialized countries in international markets.

REVIEW OF ISSUES RAISED IN THE STUDY

THE IMPORTANCE OF PRICING

The importance of pricing in marketing strategies has been investigated in previous research by asking business people to rank pricing among marketing activities according to its relative importance. While the importance of pricing was sixth in Udell's survey (1964), it emerged as the most important marketing activity in Robicheaux's survey (1976). A survey done by Coe (1983) also revealed that not only was pricing cited as a very important part of the current development of marketing theory, but it was more seriously considered in the overall development of the marketing mix. However, these recent studies address American businesses, not Korean; therefore, we know very little about Korean attitudes regarding the importance of pricing. In this research it was not an objective to obtain a rank importance of pricing from Korean business. Rather than that, the research was intended to diagnose Korean business people's perceptions about the importance of pricing and to know their practices in pricing policies and strategies.

Earlier research efforts added to the importance of pricing in that (1) pricing and cost budgeting and control were regarded as very important because of the threat of

inflation or recession (Robicheux 1976); (2) there was a need for flexible pricing systems (Tatham and Allen 1976), and (3) a creative marketing strategy recognizing the important role of pricing was essential (Coe 1983). Especially, in view of the Korean situation emphasizing exports, recent export market environmental pressure including protectionism in advanced countries, requires more information about importing countries' pricing systems and a developed pricing strategy to penetrate barriers in the export markets.

BUYERS' PERCEPTIONS AND BEHAVIOR

The need to know about buyer's perceptions and behaviors has been stressed previously (Nagle 1983; Monroe and Petroschius 1981). Particularly, in view of the Korean domestic market situation in which growth in personal consumption has led to diversified and broader demands, pricing strategies that reflect consumers' pricing attitudes and behaviors need to be developed. Buyers' perceptions and behaviors are related to their price awareness and price consciousness, the price-perceived quality relationship, and their use of reference prices.

Formerly, the Korean market has not had aggressive marketing and sales strategies requiring heavy investment in marketing and sales organization. It had not been necessary for major manufacturers to sell their products aggressively because the market was essentially a sellers' market with low levels of competition. However, today, the Korean market is characterized by a rapid expansion of industry with stronger competition from both large and medium-to-small businesses. Accordingly, as the Korean market is evolving into a buyers' market, the developing market situation

requires business people to implement their marketing strategies with more information about buyers' perceptions and behaviors. One noticeable fact that needs to be considered is that different buyers value the same product benefit differently. This fact provides the logical basis for segmenting markets on the bases of product and price differences. Since there has been little research about the Korean market, customer characteristics indicating their price sensitivity, quality sensitivity, or price awareness should be investigated as a first step. Possible ranges of products' prices will be determined in consideration of consumers' price sensitivities. If a substantial number of quality sensitive consumers exist, high value-added product segments can be profitable and some businesses may as well try to market niche toward these segments.

COMPETITION

In order to develop a successful pricing strategy, information about competitors is necessary. Indeed, competitor reaction has been used to delineate several measures of demand elasticity (Moyer and Boewadt 1976). Furthermore, the competitive marketing situation of Korea in the 1980's with newly growing industries prescribes a need for new marketing approaches and strategies. Thus, competitor characteristics such as competitors' sensitivity to a firm's pricing strategies or competitors' products, not only may be descriptive of current pricing approaches, but this information may suggest appropriate pricing decision approaches.

In competitive situations, a way to reduce costs should be sought because the internal costs of a company directly affect a pricing strategy. Considering that Korea is poorly endowed with natural resources and Korean businesses are importing most of the

raw materials for their products, sourcing cheaper foreign suppliers of the needed material would be important to reduce product prices. Especially, for Korean exporting businesses, competition is threefold: competition from domestic manufacturers in foreign countries, competition from NICs (Newly Industrialized Countries) which offer similar quality and price levels, and competition from newcomers such as China, Philippines and other upgrading underdeveloped countries.

The extent of competition will indicate a set of feasible prices to gain a competitive edge. When a company already has established a favorable brand image from consumers by obtaining a substantial market share and intensified competition is expected in marketing the product at the present level of prices, the company may upgrade its products to get away from strong competition and enter into a quality product market, which is less competitive and more profitable. In this situation a company would face another pricing phase for the upgraded product with a valuation framework.

ELEMENTS OF THE MARKETING MIX

The relationship of prices with the other elements of the marketing mix introduces many other important issues. First, as a product management related factor, the role of experience economies is an important consideration. Experience economies impact on pricing strategies because they lead to cost advantages and provide pricing flexibility. In view of the Korean export market situation, in which Korean businesses are attempting to penetrate international markets, the extent that Korean business people regard advantages of experience economies in their business is worth investigating. As

an aspect of product characteristics, determining which products can command high prices and which products need to be low-priced is an important consideration.

Secondly, it seems to be very important for a firm to match its pricing strategies according to the life cycle of a product in order to maximize profits over the long run. Not only is new product pricing a most difficult decision area, but it is also an important issue because it influences whether products are successfully marketed or not. Therefore, the use of skimming vs. penetration pricing strategies for new products should be investigated in terms of specific situations and the requirements for each strategy.

Third, the relationship of price with promotional strategies, especially the relationship of price with advertising has been a controversial issue. The impact of manufacturer advertising on the retail price of consumer products has been discussed by Farris and Albion (1982). Compared to advanced countries like U.S., there seems to have been little advertising in Korea. However, as Korea has become industrialized so that advances in media technology lower the cost and help to improve the media infrastructure, the use and effectiveness of advertising have been growing. While much of U.S. advertising is price oriented and tries to take sales from competitors, much of Korean advertising is teaching new consumption behaviors. Therefore, Korean business people may regard advertising effects on product prices differently from America.

Another important issue is the relationship of price with promotional strategies according to how discounts are used to gain a competitive edge. Considering that discounting is used more frequently as products progress through their life cycles, to decide the appropriate time of discounting in a product's life cycle is an important issue. Furthermore, information on the practices of discounting in actual businesses would be valuable to managers when they review their pricing systems, and develop discounting practices for better pricing strategies. Another issue to be considered is the influence of

the distribution channel and the type of discounts that can be used to increase demand for products and maintain favorable relationships with channel members.

PRACTICE VS. THEORY

Managerial pricing practices seems to deviate from many academic pricing theories. It has been pointed out that pricing policies are too inflexible in actual businesses (Nimer 1976). It was argued that some managerial influences limit a flexible pricing approach (Burkart 1976). Accordingly, it is helpful for further pricing development to examine how prices are set in industry and firms.

Because the Korean market has been characterized as a seller's market and there has been little pricing research, executives of some large firms in Korea may have repeatedly referred to "feel" or "rule of thumb" pricing decisions rather than to a particular decision model. But as successful Korean firms are growing to the level of multiproduct, multidimensions, or even multinational, they need a systematic procedure for their pricing decisions, and pricing policies and objectives are an important part of the operations of these firms. Moreover, Korean exporting businesses have moved from a stage where their comparative advantage lays in cheap manual labor to one where the advantage lies rather in relatively cheap skilled labor and line management (Country Profile / South Korea, 1987-1988). Their exports are no longer dominated by textiles and clothing, but include ships, motor vehicles, integrated circuits and consumer electronics. Therefore, Korean exporting businesses can not depend on penetration prices from labor intensive products any more. Their expanded product line demands

systematic product line pricing considering variables such as the product life cycle or seasonal impacts.

Coping with protectionism in U.S. and Western European markets, Korean exporting business should be aggressive in selling by investing in marketing and sales organization and developing flexible pricing policies in order to obtain market share in difficult situations. Additionally, introducing some measure of specialization in their products and selling the products with value-added prices would enable Korean business to be competitive in international markets. Domestically, wage increase and a relatively fair distribution of income surplus compared to the past will stimulate Korean people's consumption and development of domestic industries. The market for consumer goods and service is booming and consumer goods manufacturers and service firms are reorganizing their infrastructures in order to determine consumers' wants and needs, and satisfy them with differentiated products and value based pricing.

As to another issue in the domestic market, Korea is gradually liberalizing its own import restrictions against foreign goods. Imported foreign goods will increase competition in consumer markets and more rigorous price analysis is necessary for domestic marketers to meet this expected competition. For the long run, domestic industries for the supply of parts and materials, previously used to export productions, should now be developed. Those industries' productivity and following pricing strategies affect export pricing greatly. Accordingly, Korean businesses are now faced with a new phase of pricing, with ventured products and more valued products. They should realize that a company's long-run survival depends on how well the pricing task has been undertaken, and that a systematic planning approach to establishing prices would require for the firms to establish their pricing goals first.

Although there are no clear cut suggestions for the responsibility for setting pricing policy, who should set pricing policy is an important issue for companies. Nimer (1976)

denoted that a high-level sales or marketing executive is the one who should bear the responsibility for pricing policy. But, as a rule, the final decision properly belongs to the top departmental level based on his survey with management level people in the Innovation Group. Monroe and Menzer (1985) suggested that although the major decision-making authority for price should rest with a marketing person, the pricing process should pervade the entire marketing organization and within a dynamic long-run marketing strategy. Since Korean business has been composed of major big corporations nurtured on government preferences, and small businesses which do not have fully developed infrastructures, there seems to be some differences between big and small companies. For instance, responsibility for setting pricing policy may be different if it is assumed that in big corporations specific roles are assigned to each department or persons, while in small companies responsibilities for various kinds of works are not specified and usually controlled by the president or chief executive. The responsibility for setting pricing policy and for calculating actual selling prices would imply the specific level of role specifications, especially in the pricing decisions.

Pricing policy includes several issues regarding whether Korean businesses use particular pricing policies according to their specific domestic and export situations, and whether a cost base pricing with predetermined margin is popular among Korean businesses. Since major Korean businesses have experienced dual pricing, penetration pricing in export markets and high mark up pricing in domestic markets to complement their low profit margin exports, they might have used different bases in these two cases. However, since this survey did not investigate their pricing practices in the export market and the domestic market respectively, it would be difficult to reveal whether particular bases of pricing policies were relevant to the export market or the domestic market. But it was expected that different bases of pricing policies adjustable to different market situations would be revealed through this study. Moreover, the base of Korean

companies' pricing policies can imply the extent of pricing development of Korean businesses, considering that American businesses are more likely to follow a flexible pricing strategy based on competitive conditions that deviate from their traditional cost plus profit margin approach.

Finally, the size of Korean companies was assumed to influence their pricing practices because small to medium level companies seemed to be different in their infrastructures from big companies. Although the Korean government now tries to foster small to medium businesses instead of its previous support for big businesses, according to new economic development plans, there are still great opportunity for Korean small to medium level businesses to be as competitive as those in advanced countries. This situation may be partly due to the fact that Korea had been originally an agricultural country with a substantial degree of barter and homegrown supplies for subsistence survival and it has recently emerged as an industry-oriented country. Therefore, marketing concepts including the marketing mix were have been recently introduced and they have not yet substantially developed in Korea.

DISCUSSION

Korea is recognized as one of the most rapidly industrializing countries based on the export of manufactures. The policy adopted by the Korean government for economic development was to give priority to exports by developing export industries with import substitution. The export-oriented policy of Korea has proven to be successful and now Korea has moved from a stage where its competitive advantage was

cheap labor to one where that advantage is on technical skill and high productivity. Rapid industrialization resulting from exports has brought increases in productivity and employment, and has boosted domestic consumption. Although there are still many gaps between urban areas and rural areas, consumers' expenditures in major cities reveal an increasingly affluent pattern. Therefore, a developed market environment needs additional attention to the development and implementation of pricing strategies and systems. Widely used pricing practices of cost-revenue budgeting and target return pricing should be replaced by a valuation framework with rigorous and relevant pricing analysis in order for Korean businesses to evolve towards a more advanced level and to be competitive internationally. However, it was assumed that Korea had had little emphasis on marketing and marketing research compared to their emphasis on producing and selling. Particularly, the use of appropriate pricing strategies in Korean businesses was assumed to be far behind that in advanced countries. Accordingly, this study was intended to examine pricing perceptions and practices of Korean business people, and investigate how they coped with newly emerging situations in terms of their pricing practices.

IMPORTANCE OF PRICING

The first issue was about Korean business people's perceptions towards the importance of pricing. One noticeable fact was that while many people regarded pricing strategy within a marketing policy as very important (29.4%), a similarly large percentage of people (27.7%) regarded it as moderately important. Although it was impossible to compare this result to the results from previous research by Robicheaux

(1976) or Coe (1983), in which pricing emerged as one of the most important marketing activities, because in this survey a rank importance of pricing was not obtained, it can be concluded that some people did not regard pricing as one of the most important factors within their marketing policies. This result can be interpreted in the context of the particular environments pertinent to Korea. Domestically, the Korean market was characterized as a buyer's market rather than a seller's market. Previously, several major big companies supported by government protection represented Korean business and they dominated consumer and industrial markets. At that point, the Korean market was mainly production and selling oriented, and rigorous marketing strategies were not necessary and pricing strategies were of secondary consideration. However, pricing should be examined as a way to obtain a competitive edge in today's active Korean market with competition from growing new firms and free imports. Furthermore, pressures on exports by the protectionism of advanced countries stimulate Korean people to implement the past rigid pricing strategy with creativeness. As to another aspect, if Korean products are upgraded to get a stronger market share in international markets in the long term, a valuation framework for pricing will need to be introduced to Korean business people. Consequently, as Korean business is developed successively in domestic and foreign markets, pricing should be recognized more important than before or currently.

BUYERS' PERCEPTIONS AND BEHAVIORS

Since there has not been sufficient marketing research for Korean businesses, the information about pricing perceptions of consumers and relationship with competitors

in Korean market will be valuable to Korean business managers. It is noticeable that Korean customers were perceived by Korean business people to be more sensitive to price than to quality, and that Korean products were regarded by Korean business people very similar among various competitors, and that competitors' pricing strategies had a strong influence on sales of products. In view of this result, Korean businesses seemed to rarely use product differentiation.

COMPETITION

As a way to cope with increasing competition, it can be suggested for Korean businesses to make scaling up or scaling down adjustments of their products, implementing pricing according to the adjustments, and obtain stronger demand in small market segments. Those product differentiation strategies and the resulting adjusted pricing strategy will enable more businesses to be profitable in limited markets and result in more consumer satisfaction. For export markets, it is desirable for Korean businesses to progress from imitating producers to adjusting producers and creative marketers with flexible pricing on relevant values. Additionally, considering Korean customers are more sensitive to price than to quality, Korean business people should keep their prices not too high compared to competitors, reducing costs by increasing productivity from experience economies.

ELEMENTS OF THE MARKETING MIX

The relationship of prices with other elements of the marketing mix suggests several important impacts on Korean business practices. As experience economies were assumed to be important to Korean businesses, most Korean people realized that experience economies led to cost advantages, price flexibility and low prices because of cost savings. The issue of pricing strategies according to the life cycle of a product revealed an interesting finding. While Korean business people perceived the appropriateness of skimming price when buyers are not price sensitive, the product is unique and production capacity is limited, they seemed to believe that a skimming price limits a product's market and they did not agree that a skimming price is the best way to price a new product with minimum risk. This might be due to Korean businesses' frequent practices of penetration pricing in exports. Since Korean export business usually entered international market after innovating countries with imitating products, penetration pricing was inevitable. However, the future domestic market situation likely will had to use of skimming prices from companies with substantial market shares and established brand images. Although some Korean industrial products had high prices domestically in order to make up export sales with lower margins, those high prices were different from skimming prices in that they were protected by government and did not result from free competitive market dynamics.

The relationship of price with advertising in Korean business was not as developed as expected. Several advertising issues surveyed failed to reveal any strong opinions (Table 5.23). While they agreed price advertising increases price sensitivity, they seemed not to perceive different advertising effects according to different level of prices, low and high. It can be assumed that since most of Korean advertising had been for product

information rather than price, advertising effects on product price have not been regarded as an important consideration.

Promotional pricing, specially discounts, was regarded to be important to gain a competitive edge. Generally, Korean business people thought that promotional pricing was often used to expand the market. They strongly agreed that promotional pricing was very effective when competing products and services are similar. Their limited perception about promotional pricing may result from the fact that because rebate or couponing, which can be used to introduce new products, have not been popular yet in Korean consumer markets, they usually think of discounts as a form of a promotional pricing. Moreover, since similar products with little product differentiation were offered in the Korean market, it is reasonable for discounts to be regarded as strongly effective to price sensitive Korean consumers in getting extra businesses. Considering Korean people slightly disagreed that discounts should be used only in mature markets, they seemed to have used discounts through wide period of a product life cycle, whenever they want to obtain desirable market shares among strong competitions.

Little product differentiation in the Korean market was revealed from the investigation about the price-quality relationship. Korean people did not agree that price differences between brands reflected actual quality differences. This means that although there were some differences in prices offered by various brands, the actual product differences were not significant.

PRACTICE VS. THEORY

Managerial pricing practices were one of the major concerns of this study because it was intended to impact on managerial pricing decisions by providing valuable information on current pricing policies and objectives. Furthermore, as Korean businesses are growing toward multiproduct, multidimensional or multinational levels, they need information from pricing research as a base for their pricing decisions.

Most of pricing practices in Korean businesses were proved to be generalizable across big businesses and small businesses. Korean companies appeared to have reasonable price reviews, continuous or quarterly. However, thirteen percent of respondents indicated that their companies usually did not review prices. It can be suggested that a periodic price review should be implemented in even small businesses in order to meet flexible demands in marginal markets and as a feed back for their sales achievements.

The primary short run pricing objectives were revealed as meeting existing competition and securing key accounts. Therefore, it can be assumed that Korean businesses mainly have offered competitive prices rather than premium prices by emphasizing psychological product characteristics. However, as more value added products are introduced and the Korean market is segmented according to various product positioning using product differentiation, pricing to enhance product images or informing product values will deserve more attention.

The major long run pricing objectives were maximizing return on sales, obtaining target market share, and stabilizing price and margin relationships. While meeting competition was a very strong objective for the short run, it was not referred for as a long run pricing objective. Therefore, it can be concluded that although Korean

business people perceive strong competition and try to meet competition in every situation, their pricing in the long terms based more on maximizing return on sales and obtaining market share.

The importance rank of several pricing policies was obtained. According to the survey, maximizing profits for the whole product line was ranked first, followed by promoting the long run welfare of the firm, adapting price to fit the individual competitive situation, setting flexible prices so as to meet changes in economic conditions, varying prices among customer segments, discouraging competition from entering the field, and exploiting the competitive situation in turn. From this rank order, it may be assumed that while pricing policies in Korean businesses are oriented to competition, they are mainly to meet the competition rather than to prohibit entering competition. These policies may be due to the particular Korean export situations in which Korean businesses have tried to enter established foreign markets and meet existing competition rather than to obtain market share as a market leader and to discourage new comers.

The primary bases of Korean companies' pricing policies were revealed as reasonable return on investment, cost analysis, competitive situations and what the market will bear. These bases implied that Korean businesses are not very involved in creative pricing because they have been in an inactive position in export markets, they have been price takers rather than price makers, and because the domestic market has not been developed enough to apply sophisticated marketing theories. however, it was found that quantity discounts were frequently used as a way to depart from for their rigid pricing approach.

In order to provide more precise information, the pricing practices were also analyzed by subgroups of business size, small companies and big companies. This supplementary analysis was made by consideration of Korean business structure, in

which big businesses have a developed infrastructure comparable to a multinational level while the medium level business base is very weak, and small businesses with underdeveloped infrastructures serve the rest of the market. However, the supplementary analysis added little additional information since it was shown that there were not significant differences according to business size in many pricing practices. One of the revealed differences was that long run pricing objectives of the big businesses focus more on maximizing return on scale and obtaining target market share than those of small businesses. This result may be attributed to the fact that big businesses have had substantial market share through advertising and have offered prices with reasonable margins while most of smaller businesses have had to cater to marginal markets by imitating products with lower prices. Another difference was that presidential pricing was used significantly more in small businesses than in big businesses, as expected. However, in both classes of businesses, pricing responsibilities were proved to primarily lay with sales or marketing directors. The other difference was that modification of selling prices according to non-cost related facts was used more frequently in big businesses than in small businesses. This result implies that big businesses are more likely to be applying a valuation framework of pricing in their marketing practices while small businesses still strive to offer low prices by reducing costs in order to obtain market share.

Three scenarios to examine Korean business people's opinions of pricing strategies to meet particular situations revealed interesting results. While in the previous issue of the price-quality relationship, they did not agree that price differences between brands reflected actual quality differences of the comparing brands, in scenario III (Table 5.43) most of them represented their opinions that prices should reflect the actual quality level by indicating low quality product should be sold at a low price and high quality product

should be sold at a higher price. They appeared to depend on a too strict pricing orientation without any application of marketing theories. For instance, they seemed not to take consumers' costs such as researching for quality product, but to count only their manufacturing costs when they priced a product.

LIMITATIONS

Initially, this survey was intended to investigate the pricing practices of all Korean businesses. However, it seemed to be too difficult to develop a sampling design using available lists of Korean businesses, contact business people of randomly selected companies, and obtain responses from them, all within a two month time span. First, it was assumed that to contact people of companies selected from a systematic sampling design would take much time and money. Second, convenience sampling based on judgment replaced a probability sampling approach. It seemed to be more reasonable to include representative big companies by judgment rather than to select some of them by probability using in contrived sampling scheme. Because in the Korean market, several major big companies lead national industries and exports and small to medium companies cater to only marginal markets, a survey with those big companies would bring more substantial information for Korean business practices than one by a probability sampling.

This survey also tried to contact top manager-level people with experience in marketing related areas since it was considered that pricing issues would be more related to their management experience. However, it was inevitable to include business people

with comparatively less experience mainly due to the limited time for the survey and the difficulty of contacting top level people. Although it was anticipated that the analysis of the surveyed pricing practices might have response biases because some of non-manager level people with little knowledge about their pricing practices responded to the survey, the deviation resulting from the selection of survey respondents proved not to be significant according to a supplementary analysis that compared data by respondent groups of non-manager level and manager level. Accordingly, business people located in Seoul headquarters or branches of 11 major big companies and small-to medium businesses were contacted by judgment. Although most of big businesses are located in Seoul and almost one third of the Korean people reside in Seoul, this survey may not include information about heavy industries because most of heavy industries are located in the regions outside of Seoul.

Another limitations for this survey is that pretests for this questionnaire were not accomplished. Although through pretests, a relevant questionnaire should be implemented and carefully selected, it was difficult to contact Korean business people several times because this study was processed in the U.S.A. to prepare a thesis for a masters degree in marketing. Similarly, follow up mail survey for non-responses was not made due to time constraints for this survey. These non-responses are expected to cause some errors in interpreting the data.

In terms of the issues investigated, this study did not clarify whether the surveyed issues should be viewed in the export market aspect or domestic market aspect. While these issues can be interpreted across different market situations, some issues can bring more meaningful discussion when they are analyzed according to these different market situations.

Another limitation relevant to the issues in this study is the fact that the issues were not selected from a particular Korean market development level but chosen based on

considerations in the U.S. market. Although this study can be extended by comparing pricing attitudes and practices among different nations through additional surveys of this questionnaire, this study may not include specific issues revealed to be unique to each country. For instance, considering Korea is endowed with little natural resources and has to import raw materials and basic components, the influence of these imported material and product costs would be an important issue to Korean businesses. Accordingly, substantial familiarity with and knowledge for the investigated countries are required before making a survey questionnaire.

This study has limitations in terms of the process used to analyze the data. Firstly, an attempt was made to reduce the data by factor analysis, extracting latent factors in the context of pricing issues. However, this attempt failed to reveal many salient factors. This failure might be ascribed to the fact that responses on each question could not be assumed to come from a normal distribution because many of the responses to the questions were heavily skewed and some of the responses were measured by two category scale items. Secondly, the data did not reveal significant differences between the respondent groups of non-manager level vs. manager level, between those who had longer experiences and those who had shorter experiences, and between those who had past experiences primarily in marketing and those who had past experiences in other areas. Accordingly, more extensive analysis according to those subgroups was not pursued. For the in-depth analysis comparing those groups, a contrived sampling design incorporating the same number of responses in each subgroup would be desirable in order to enhance the precision of the analysis. Additionally, comprehensive discussions for each specific issues were not developed since this study was intended to provide a framework for further pricing research by treating general pricing issues.

IMPLICATIONS FOR FURTHER RESEARCH

This study has tried to explore the pricing attitudes of Korean business people and pricing practices of Korean businesses. The expected contribution of this study would be to add information on Korean marketing practices, particularly on pricing, and to impact on present managerial practices and suggest directions for future practices. Moreover, as exports of Korean businesses to U.S. and Western Europe have increased, their practices in export markets have been more oriented toward advanced countries, and information about their pricing practices may influence advanced countries' pricing policies to discourage competition from newly industrialized countries such as Korea, Taiwan, Hong Kong and Singapore. However, above all, information about Korean export practices and its analysis would improve Korean pricing practices through comparing them with advanced countries', and by suggesting directions according to particular situations so that Korean businesses may become more competitive. Therefore, research for Korean export practices is expected as a independent further research subject. Additionally, considering that Korea has emphasized exports and committed different pricing for export market products from that for domestic products as a way to protect and nurture infant businesses in the international market, it would be desirable to discuss issues in the domestic and export market situations respectively.

As Korea has become rapidly industrialized, increased employment and productivity are boosting domestic consumption. Expenditures of Korean consumers living in cities reveals an increasingly affluent pattern. Therefore, intensive research of consumers' perceptions and behaviors is needed for Korean marketers than ever before. There has been little research about Korean consumers in terms of product pricing. Moreover, their attitudes and behaviors are expected to be different from those in the

past. Finally, the Korean domestic market is evolving into a buyer's market. Their complicated market situation requires business people to implement their pricing policies and practices with more information about buyers' perceptions and behaviors. Especially, as Korean businesses are now faced with a new phase of pricing with ventured products and more valued products, they are more susceptible to buyers' attitudes towards their pricing.

In order for Korean businesses to be competitive with businesses of industrialized countries in international markets, it would be necessary to compare Korean pricing practices with advanced countries' and discover what should be implemented to Korean pricing practices. A comparative research for pricing practices would provide a dynamic aspects of pricing and following adjustments of pricing according to particular situations.

Lastly, more extensive independent research is expected to accumulate knowledge about individual pricing issues. While this study was concluded by introducing important pricing issues and tapping pricing practices of Korean business, further study should bring critical issues from new emerging situations and develop comprehensive analysis and discussions about those issues. Each issue raised in this survey also would deserve to be investigated as a specific topic and more valid research methodology for the topics are expected.

SUMMARY

This chapter has discussed Korean business people's pricing attitudes and practices with relation to specifically raised issues. It was revealed that while Korean business people perceived the importance of pricing, they appeared not to prepare flexible pricing based on the valuation framework according to their newly developed market environments. Korean consumers were believed to be price sensitive, Korean products seemed to be very similar among competitors, and competitors' pricing strategies were found to have a strong influence on sales of products. However, it was expected that the developing Korean market situation with diversified demands would make Korean businesses profitable with differentiated products and value-added pricing according to these product differentiations.

For the pricing practices of Korean businesses, they seem to have used target return pricing based on cost-revenue budgeting. The base of Korean companies' pricing policies revealed their traditional cost-plus pricing orientation rather than flexible pricing orientation. They also appeared to be more dependent on penetration pricing due to their particular export market situation. Therefore, it was suggested that Korean companies begin to implement their pricing systems with more flexible and creative strategies in order to obtain stronger market share with ventured products and more valued products. Lastly, it was expected that although this study was concluded by treating general issues through descriptive research analysis, further pricing research be conducted as a means to provide a more comprehensive discussion on important pricing issues.

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Appendix A

SURVEY ON PRICING ATTITUDES AND PRACTICES

During the 1980's it has been recognized that pricing is a relatively important function of business enterprise. However, little research has been done on the pricing attitudes and practices of businesses. The objective of this survey is to obtain some information on how prices are set, the relative importance of price in the development of business strategies, and the role of price in the development of marketing strategies. A second objective is to determine the attitudes and opinions of business people about the pricing function, and how they believe prices should be determined.

We believe that the information obtained from this survey will be of value to Korean businesses in terms of helping them focus on how they have been setting prices, their attitudes towards prices, and perhaps help them begin to reflect on how their pricing activities can be re-structured to improve the effectiveness of their efforts. Secondly, the information obtained from the survey will be helpful for the development of educational programs for executive development programs and for the education of students enrolled in colleges and schools of business.

The results of this survey will be used to prepare my thesis for the master of science degree in marketing. Results of this survey will be made available to all participants who complete it. It is anticipated that these results will be available on a preliminary basis late spring, 1988. To receive a copy of the results, please complete the last page of the survey, which will be detached from the survey results.

All answers will be held in the strictest confidence. Analysis of the data will be on an aggregate basis, and no individual person or firm will be identifiable on the basis of the data or the reports that stem from it. *It is important to note that there are no right or wrong answers. Please answer in terms of your own beliefs or how you actually set prices, depending on the nature of each question.*

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STRONGLY AGREE	MODERATELY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	MODERATELY DISAGREE	STRONGLY DISAGREE
1	2	3	4	5	6	7
26. Discounting can be used to increase sales in a declining market.						
1	2	3	4	5	6	7
27. Discounts should be used only in mature markets.						
1	2	3	4	5	6	7
28. Discounting is the best way for getting extra business.						
1	2	3	4	5	6	7
29. Price can be used to promote an image of status and prestige.						
1	2	3	4	5	6	7
30. If there is a very strong demand for a particular product, then it can command a high price.						
1	2	3	4	5	6	7
31. Highly differentiated products can command higher prices.						
1	2	3	4	5	6	7
32. A market-leading product can command a premium price.						
1	2	3	4	5	6	7
33. For many products, the price itself is the most significant indicator of quality.						
1	2	3	4	5	6	7
34. High brand-loyal items can command high prices.						
1	2	3	4	5	6	7
35. Strong competition leads to low prices.						
1	2	3	4	5	6	7
36. New products usually can command a higher price in relation to their costs than more mature products.						
1	2	3	4	5	6	7
37. The best way to price a new product is to set a high (skimming) price.						
1	2	3	4	5	6	7
38. There is minimum risk using a skimming price to introduce a new product.						
1	2	3	4	5	6	7

STRONGLY AGREE	MODERATELY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	MODERATELY DISAGREE	STRONGLY DISAGREE
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1	2	3	4	5	6	7
----------	----------	----------	----------	----------	----------	----------

52. High-priced products need distribution channels that communicate the product's worth.

1	2	3	4	5	6	7
----------	----------	----------	----------	----------	----------	----------

53. The price paid for distributor cooperation must reflect not only the marketing functions distributors perform but also the competitive environment.

1	2	3	4	5	6	7
----------	----------	----------	----------	----------	----------	----------

PART II. The questions on this page refer to the manner that discounts are quoted in your industry.

1. How does your industry offer its discounts?

_____ by means of a formally published account structure in the price list

_____ by means of informal discretionary discounts that are negotiated

2. Which type of discounts is more likely to be offered through which channel of distribution

sold direct to customer

published discounts _____;

negotiated discounts _____

sold to wholesaler

published discounts _____;

negotiated discounts _____

sold to agents

published discounts _____;

negotiated discounts _____

3. What are the discounts offered for?

_____ quantity bought per order

_____ quantity bought over a period of time

_____ a special category of customers (large customers)

_____ for cash or settlement

PART III. The questions in this section refer to how prices are set in your industry and firm. As before, there are no right or wrong answers, nor will the data be used to identify any specific industry or firm.

1. How would you characterize your industry? (Please check the most correct answer.)

- a. One strong market leader with market share 60% or more _____
- b. A concentrated market (3 or 4 leading firms and several small firms) _____
- c. A fragmented market (no one firm is a strong leader) _____
- d. Other (please specify) _____

2. How often does your company review its prices?

- a. Quarterly reviews _____
- b. Continuous reviews _____
- c. Annual reviews _____
- d. Usually do not review prices _____

3. Our short run pricing objectives are (check all that apply):

- a. To meet existing competition _____
- b. To discourage new competition _____
- c. To secure key accounts _____
- d. To increase cash flow _____
- e. To attract new customers, distributors, or agents _____
- f. To use spare capacity _____
- g. To reduce excess demand _____
- h. Other (please specify) _____

4. Our long run pricing objectives are (check all that apply):

- a. Maximize return on sales _____
- b. Maximize return on assets _____
- c. Stabilize price and margin relationships _____
- d. Obtain target market share _____
- e. Strategic pricing in different markets _____
- f. Keep competition out of key markets _____
- g. Other (please specify) _____

5. Who has the primary responsibility for setting pricing policy in your company? (please check the most appropriate)

	list price	negotiated price
a. President/chief executive	_____	_____
b. Sales or marketing director	_____	_____
c. Marketing manager	_____	_____
d. Financial manager/controller	_____	_____
e. Other (please specify)	_____	_____

6. Who has the primary responsibility for calculating actual selling prices? (check the most appropriate)

	list price	negotiated price
a. President/chief executive	_____	_____
b. Sales or marketing director	_____	_____
c. Marketing manager	_____	_____
d. Financial manager/controller	_____	_____
e. Other (please specify)	_____	_____

7. How much pricing authority is delegated to the sales force? **CIRCLE** the number that best describes your opinion.

1	2	3	4	5	6	7
very high			moderate amount			very little

8. Please classify the competitive situation facing your firm:

a. little _____; b. average _____; c. intense _____

9. Please classify your firm as to its size in your industry:

a. small _____; b. medium _____; c. large _____

10. What is your company's pricing policy? **PLEASE NOTE:** In cases where several answers apply please indicate the relative importance of each with 1 (most important), 2, 3, etc.

- a. Maximize profits for the whole product line _____
- b. Promote the long-run welfare of the firm _____
- c. Discourage competition from entering the field _____
- d. Adapt price to fit the individual competitive situation _____
- e. Flexible prices so as to meet changes in economic conditions _____
- f. Vary prices among customer segments _____
- g. Exploit the competitive situation _____

11. On what would you say your company's pricing policy is based? (check all that apply)

- a. Reasonable return on investment_____
- b. Trade associations_____
- c. Cost analysis_____
- d. Agreement (within the industry)_____
- e. Price customers want_____
- f. Competitive conditions_____
- g. A price leader_____
- h. A contract_____
- i. What the market will bear_____
- j. Other (please specify)_____

12. Does your firm ever charge different prices to different customers or places in cases such as these: (check all that apply)

- a. Quantity discounts_____;
- b. Annual discounts_____
- c. Financial terms_____;
- d. Method of sale (direct vs. through distributor)_____
- e. Other (specify)_____;
- f. Never_____

13. How important to your company's marketing policy is your pricing strategy? **CIRCLE** the number that best describes your opinion.

- | | | | | | | |
|-------------------|---|---|-------------------------|---|---|-------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| very
important | | | moderately
important | | | not at all
important |

14. To what extent are your selling prices that are based primarily upon costs modified by non cost-related factors?

- | | | | |
|---------|------------|-----------|--------|
| 1 | 2 | 3 | 4 |
| usually | frequently | sometimes | rarely |

PART IV. In this situation you will find some pricing scenarios. After reading each scenario, you will be asked to select a pricing strategy (or strategies if you pick more than one) that you feel is appropriate for the scenario described. You may select more than one pricing strategy for each scenario.

SCENARIO I

Consider a firm with average total unit costs (i.e., all costs (production and marketing, fixed or variable) plus acceptable profit divided by number of units) of \$55 at 20 units and \$40 at 40 units. There are 40 consumers per period that are interested in the product. Half of them are fussy and want the product only at the beginning of each period even if they have to pay \$50 per unit. The other half are price sensitive and would take the product at any time but will pay no more than \$30 per unit.

THE FIRM SHOULD:

- a. produce 40 units and sell at \$50 _____
- b. produce 40 units and sell at \$30 _____
- c. produce 20 units and sell at \$50 _____
- d. produce 40 units and sell at \$50 at the beginning of each period, and discount the product at the end of the period to \$30 _____
- e. any other suggestion (please specify) _____

SCENARIO II

Consider a firm with average total costs (i.e., all costs (production and marketing, fixed and variable) plus acceptable profit divided by number of units) of \$55 at 20 units and \$30 at 40 units. **OTHER COMPETITORS CAN FREELY ENTER THE MARKET** with the same cost structure. There are 40 consumers per period who are interested in the product. Half of them are fussy and want the product only at the beginning of each period even if they have to pay \$50 per unit. The other half are price sensitive and would take the product at any time, but will pay no more than \$30 per unit.

THE FIRM SHOULD:

- a. produce 40 units and sell at \$50 _____
- b. produce 40 units and sell at \$30 _____
- c. produce 20 units and sell at \$50 _____
- d. produce 40 units and sell at \$50 at the beginning of each period, and discount the product at the end of the period to \$30 _____
- e. any other suggestion (please specify) _____

SCENARIO III

Consider a market in which firms can produce products at two different quality levels, under the constraint that the minimum average cost is \$20 for the low quality product and \$40 for the high quality product. Assume that, to avoid image conflicts, each firm chooses to produce only one quality but may sell at either price, \$30 or \$50. There are at least a few firms selling the high quality product for \$50 and the low quality product for \$30. Consumers can easily find the lowest price (in negligible time), say by a phone call or consulting a price list. They generally prefer high quality, but it takes them 1 hour of study and consulting manuals to tell quality differences. Further, assume consumers' opportunity cost of time ranges from \$0 to well over \$20 per hour.

THE FIRM SHOULD:

- a. Produce the low quality product and sell it at \$30 _____
- b. Produce the high quality product and sell it at \$50 _____
- c. Produce the low quality product and sell it at \$50 _____
- d. Any other suggestion (please specify) _____

PART V. Please answer the following general questions about your firm and industry.

1. What is your firm's size in terms of:

(a) Number of Employees

_____ Fewer than 100

_____ 100-499

_____ 500-999

_____ 1000-1499

_____ 1500 or more

(b) Annual Sales Revenue

_____ Less than \$1 million

_____ \$1 million up to less than \$2 million

_____ \$2 million up to less than \$5 million

_____ \$5 million up to less than \$20 million

_____ \$20 million or more

2. How many different product and/or service categories does your firm currently market?

_____ Fewer than 10;

_____ 10 to 24;

_____ 25 to 49;

_____ 50 to 99;

_____ 100 or more

3. Of the following categories check one category that best describes the type of industry to which your firm belongs:

_____ Consumer Goods Manufacturers

_____ Industrial Goods Manufacturers

_____ Consumer and Industrial Goods Manufacturers

_____ Firms Offering Services (other than financial)

_____ Retailers

_____ Wholesalers

_____ Financial Institutions

_____ Other (Please specify): _____

4. Please rate the overall degree of competition among firms within your industry. **CIRCLE** the number that best describes your opinion:

1	2	3	4	5	6	7
not very intense						very intense

5. Please rate the relative market position or competitive strength of your firm when compared to other firms in your industry. **CIRCLE** the number that best describes your opinion:

1	2	3	4	5
Above Industry Average	Somewhat Above Industry Average	Same as Industry Average	Somewhat Below Industry Average	Below Industry Average

6. Please answer these questions about yourself:

(a) Present Title: _____

(b) Experience with the present firm: _____ years

(c) Total Business Experience: _____ years

(d) Past experience has primarily been in (please check one):

_____ marketing _____ some area other than marketing

THANK YOU VERY MUCH FOR YOUR COOPERATION.

If you would like to receive a copy of the report please provide your name and mailing address:

NAME _____

ADDRESS _____

Appendix B

가격설정의 실태에 관한 설문조사

가격설정의 실태에 관한 설문조사

1980 년대에 접어들면서, 가격설정은 사업경영의 비교적 중요한 분야로서 대두되어왔습니다. 하지만, 가격에 대한 태도와 실제 행해지는 가격 정책에 대한 연구는, 그 중요성에 비해서 그다지 많이 이루어지지 않은 것 같습니다. 따라서, 이 설문조사의 목적은 어떻게 가격이 책정되는가에 대한 정보와 경영전략의 전개에 있어서 가격설정이 차지하는 상대 중요성, 그리고 마케팅 전략을 전개시키는 데 있어서의 가격의 역할에 관한 정보를 얻는 데에 있습니다. 또 한가지 목적은 경영자들의 가격설정에 대한 태도와 의견 그리고 어떻게 가격이 결정되어야 하는가에 대한 그들의 생각을 알아보려 합니다.

이 설문조사로 부터 얻어지는 정보는 사업 경영자들이 어떻게 가격을 책정하여 왔으며, 그들의 가격설정에 대한 태도가 어떠 하였는지를 파악하는 데 매우 가치 있으리라 여겨지며, 또한 경영의 능률을 높이기 위해 어떻게 가격정책을 재구성 하느냐에 대한 검토자료로서도 사용될 수 있을 것입니다. 부차적으로, 본 설문조사로부터 얻어지는 정보는 최고 경영관리자 개발 프로그램이나 경영학을 전공하는 학생들의 교육 프로그램에도 매우 유용하리라 생각됩니다.

본 설문조사의 결과는 저의 마케팅 분야에서의 석사논문의 기초자료로 이용될 것이며 1988 년 5 월쯤 발표되리라 예상됩니다. 이 설문지에 답해주시는 모든 분들께 얻어진 결과를 보내드릴 수 있으며, 결과를 얻기 원하시는 분은 설문지의 마지막 페이지에 마련된 주소란에 성명과 주소를 기입해 주시기 바랍니다.

얻어진 자료들은 절대로 타인에게 공개되지 않으며, 자료분석은 집단분석에 의거하므로, 결과자료로 부터의 개인이나 회사의 확인이 불가능합니다.

이 설문들은 결코 옳거나 그른 답을 요구하는 것이 아니므로, 본인들의 신념이나 실제 정책에 따라서 응답하여 주시기 바랍니다.

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부분 I) 다음 사항들에 대해 어느 정도 동의하는가를 해당하는 번호에 동그라미를 쳐서 표시해 주십시오.

매우 동의함	얼마만큼 동의함	동의한다고 할수 있음	동의하지도, 않지도않음(중립)	동의안하는 편에 가까움	별로동의 하지않음	매우동의 하지않음
1	2	3	4	5	6	7

1. 우리의 경쟁업체들은 우리의 가격정책에 대해 매우 민감하다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

2. 일반적으로 우리의 상품들은 우리경쟁업체의 상품들과 비슷하다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

3. 우리의 경쟁업체들의 가격정책은 우리 상품의 판매량에 심한 영향을 미친다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

4. 우리의 고객들은 매우 가격에 민감하다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

5. 우리의 고객들은 가장 품질이 좋은 상품을 찾는다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

6. 자주 같은 상품을 사는 구매자들은 드물게 상품을 사는 구매자들보다 가격변화를 잘 파악하고 있다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

7. 대부분의 구매자들은 그들이 자주사는 상품에 대해 그들이 지불한 값을 잘 기억한다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

8. 우리상품의 가격은 주로 제조하는 데 드는 비용을 기준으로 산출된다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

9. 모든 상품은 짧은 시일내에 미리 예정된 이윤을 확보할 수 있도록 가격이 책정되어져야 한다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

10. 가능하다면, 제조원가가 비슷한 상품일지라도 소비자들에게 다른 가격으로 팔 수도 있다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

11. 제조원가에 이윤을 더하는 식의 가격설정이 마련하기 쉽다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

12. 관련되는 비용에 대한 정확한 자료를 얻기가 힘들다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

매우 동의함	얼마만큼 동의함	동의한다고 할수 있음	동의하지도, 않지도않음(중립)	동의안하는 편에가까움	별로동의 하지않음	매우동의 하지않음
1	2	3	4	5	6	7

13. 제조원가에 이윤을 더하는 식의 가격설정이 계약으로 판매가 이루어지는 사업에 적절하다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

14. 제조원가가 변한다면 가격도 반드시 같은 방향으로 변해야 한다. 예를 들어서, 비용이 증가하면, 가격도 따라 올라야 하며, 비용이 감소하면, 가격도 따라서 줄어야 한다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

15. 상품판매를 촉진시키기 위해 아주 낮은 가격을 책정하는 것은 가능하다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

16. 상품광고는 가격이 높게 책정되었을 때 보다 가격이 낮게 책정되었을 때 더 효과적이다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

17. 낮은 가격의 상품은 비교적 상품광고를 많이하는 경향이 있다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

18. 소비자들의, 어떤 상품의 가격에 대한 반응은, 그 상품에 대한 광고를 많이 한 경우에 더욱 민감해진다.(가격에 대해 민감하다는 것은, 예를 들어 어떤 상품의 가격이 조금만 높아져도, 그 상품의 판매량이 많이 줄어들고, 대신에 가격이 조금만 내려가면, 그 상품의 판매량이 큰 폭으로 늘어난 경우를 말한다.)

1	2	3	4	5	6	7
---	---	---	---	---	---	---

19. 상품의 가격을 광고하는 것은(일반적으로 저렴한 가격을 광고하는 경우), 소비자들이 가격에 대해 민감해지도록 만든다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

20. 일반적으로 판매촉진을 위한 가격정책(할인판매, 할인쿠폰등)은 새 상품을 판매하는 데 사용된다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

21. 판매촉진을 위한 가격정책은 주로 시장점유율을 높이기 위해 사용된다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

22. 일반적으로, 판매촉진을 위한 가격정책(할인판매, 할인쿠폰등)은 원하는 판매량을 유지시키는 데 매우 유용하다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

23. 판매촉진을 위한 가격정책은 경쟁 상품이나 경쟁 서비스가 비슷한 경우에 매우 효과적이다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

24. 판매촉진을 위한 가격정책은 조절하기가 힘들다.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

25. 판매촉진을 위한 가격정책은 원래 가격 대신에 줄어든 가격을 소비자들에게 알릴 수 있다는 점에서 유리하다.(예를들어, 40%할인판매나 40%할인 쿠폰의 경우, 소비자들은 제조원가에 상관없이 이전가격보다 40%가 줄었다는 점에 마음이 끌릴 수도 있다.)

1	2	3	4	5	6	7
---	---	---	---	---	---	---

매우 동의함 1	얼마만큼 동의함 2	동의한다고 할 수 있음 3	동의하지도, 않하 지도않음(중립) 4	동의안하는 편에 가까움 5	별로동의 하지않음 6	매우동의 하지않음 7
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26. 가격할인은 시장 점유율이 쇠퇴하는 경우에 판매를 늘리기 위해 사용될 수 있다.

1 2 3 4 5 6 7

27. 가격할인은 시장이 성숙기에 있을 때 (시장 점유율이 최대로 늘어나 있는 경우)에만 사용되어야 한다.

1 2 3 4 5 6 7

28. 가격 할인은 여분의 상품을 파는데 가장 적절한 방법이다.

1 2 3 4 5 6 7

29. 가격은 상품의 이미지와 수준을 높이는 데 이용될 수 있다.

1 2 3 4 5 6 7

30. 만약에 어떤 상품에 대한 강한 수요가 있다면 (예를 들어 소비자들이 어떤 특정 상품을 많이 찾는다면), 그 상품은 높은 가격에 팔릴 수 있다.

1 2 3 4 5 6 7

31. 타 회사 제품과 많이 틀린 상품은 높은 가격에 팔릴 수 있다.

1 2 3 4 5 6 7

32. 시장 점유율이 가장 높은 상품은 프리미엄 가격을 요구할 수 있다.

1 2 3 4 5 6 7

33. 많은 상품들에 있어서, 해당 상품의 가격은, 그 상품의 품질 수준을 가장 잘 나타내 주는 척도이다.

1 2 3 4 5 6 7

34. 좋은 품질로 알려진 상표의 상품은 높은 가격을 요구할 수 있다.

1 2 3 4 5 6 7

35. 비슷한 상품들끼리의 심한경쟁은 상품의 가격을 낮추게 만든다.

1 2 3 4 5 6 7

36. 새로운 상품은 충분히 시장을 확보하고 있는 상품보다, 제조원가에 비추어 볼 때, 더 높은 가격을 붙일 수 있다.

1 2 3 4 5 6 7

37. 새로운 상품의 가격을 정하는 데 있어서, 처음에는 일단 높은 가격을 책정 해 놓는 것이 좋다.

1 2 3 4 5 6 7

38. 새로운 상품의 판매를 시작할 때는, 일단 높은 가격으로 상품을 파는 것이 상품이 잘 안 팔리는 경우 생길수도 있는 손실을 최소로 줄일 수 있는 방법이다.

1 2 3 4 5 6 7

매우 동의함	얼마만큼 동의함	동의한다고 할수 있음	동의하지도 않지도않음(중립)	동의안하는 편에 가까움	별로동의 하지않음	매우동의 하지않음
1	2	3	4	5	6	7

39. 높은 가격으로 그 상품을 꼭 필요로 하는 사람들에게 판매하는 가격 정책은 구매자들이 가격에 대해 민감하지 않은 경우에 적당하다.
1 2 3 4 5 6 7
40. 높은 가격으로 그 상품을 꼭 필요로 하는 사람들에게 판매하는 가격정책은 독특한 상품일 경우에 적당하다.
1 2 3 4 5 6 7
41. 높은 가격으로 그 상품을 꼭 필요로 하는 사람들에게 판매하는 가격정책은 상품제조 설비가 제한된 경우에 적절하다.
1 2 3 4 5 6 7
42. 높은 가격으로, 그 상품을 꼭 필요로 하는 사람들에게 판매하는 경우에는, 그 상품의 시장이 어느 한도까지는 늘어나지만, 그 이상으로 시장을 확보하는 것은 높은 가격 때문에 힘들다.
1 2 3 4 5 6 7
43. 새로운 상품을 아주 낮은 가격으로 파는 경우에는, 예상되는 수요를 만족시킬 수 있는 충분한 물적자원이 있어야 한다.
1 2 3 4 5 6 7
44. 낮은 가격으로 많은 수요자들에게 널리 상품을 팔려는 가격정책은 그 판매회사가 제품을 만드는 데 드는 비용이 다른 회사에 비해 적게 들 때 적당하다.
1 2 3 4 5 6 7
45. 대량생산의 잇점과, 여러번 상품을 만들어 낸 경험에 따른 잇점등은 그 상품을 만드는 데 드는 비용을 줄일 수 있다.
1 2 3 4 5 6 7
46. 대량생산의 잇점과, 여러번 상품을 만들어 낸 경험에 따른 잇점등은 그 상품의 가격을 경우에 따라서는 낮추는 것도(혹은 높이는 것도)가능하게 한다.
1 2 3 4 5 6 7
47. 대량생산의 잇점과, 여러번 상품을 만들어 낸 경험에 따른 잇점등은 그 상품을 만드는 데 드는 비용을 줄일 수 있으므로, 그 상품의 가격을 낮게 책정하도록 만든다.
1 2 3 4 5 6 7
48. 각각 다른 상표를 가진(즉, 다른 제조회사로 부터 만들어진) 같은 상품의 가격차이는 이들의 품질 수준이 실제로 차이가 남을 말해준다.
1 2 3 4 5 6 7
49. 낮은 가격의 상품은 일반적으로 품질 수준이 낮은 경우가 많다.
1 2 3 4 5 6 7
50. 도매상들과 소매상들은 항상 가격에 대해 민감하다. (즉, 가격이 조금만 올라가면 그 물품을 판매하려고 하지 않으나, 대신에 가격이 조금만 내려가면, 그 물품을 판매하려고 제조회사, 혹은 중간 거래자들과 협상하려고 노력한다.)
1 2 3 4 5 6 7
51. 상품을 판매하기 위해 판매망(판매 대리점, 혹은 소매점)을 구축하는 데 드는 비용은 그 제품의 가격을 결정하는 데 중요한 영향력을 미친다.
1 2 3 4 5 6 7

매우 동의함	얼마만큼 동의함	동의한다고 할수 있다	동의하지도, 않지도않음(중립)	동의안하는 면역가까움	별로동의 하지않음	매우동의 하지않음
1	2	3	4	5	6	7

52. 높은 가격의 상품은, 그 상품의 가치를 설명해 줄 수 있는 판매원을 포함한 판매망이 필요하다.

1	2	3	4	5	6	7
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53. 어떤 상품을 판매하는 사람들 혹은 그 판매점들에게 지불되는 비용은, 그들의 판매활동뿐만 아니라, 그 상품과 경쟁하는 다른 상품들의 판매량에 따라서도 영향을 받는다. (다시 말하면, 판매하려는 상품과 비슷한 타 경쟁 회사의 제품이 많은 경우, 자사의 제품을 판매하는 사람들 혹은 그 판매점들에게 지불되는 비용은 올라가야 한다.)

1	2	3	4	5	6	7
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부분Ⅱ) 이 페이지에 있는 질문들은 당신이 속한 산업에 있어서, 가격 할인이 어떻게 이용되는가에 대해 알아보려는 것입니다. (해당하는 난에 V표를 하시오.)

1. 당신이 속한 산업은 어떤 방법으로 가격할인을 실시합니까?

- _____ 가격표에 공식적으로 표시된 계약 구조에 따라서(예를 들어 판매가격에 대해 20%할인을 고시하고 실시하는 경우)
- _____ 비공식적으로 구매자, 혹은 중간 거래자와의 협상에 의해서

2. 다음의 판매의 경우에 어떤 형태의 가격할인이 주로 실시됩니까?

1) 소비자에게 직접 파는 경우

- _____ 공식적으로 표시된 가격 할인에 의해
- _____ 협상에 따른 가격 할인에 의해

2) 도매상에게 파는 경우

- _____ 공식적으로 표시된 가격 할인에 의해
- _____ 협상에 따른 가격 할인에 의해

3) 대리점에게 파는 경우

- _____ 공식적으로 표시된 가격 할인에 의해
- _____ 협상에 따른 가격 할인에 의해

3. 다음의 어느것에 대해 할인이 이루어집니까?

- _____ 그 상품을 주문 받을때마다의 주문량에 따라
- _____ 일정한 기간동안의 상품 구매량에 따라
- _____ 특별한 소비자들에게 만(예를 들어 대량소비자)
- _____ 값이 미리 지불되는 경우에

실 합 II

20개의 제품을 생산하는 데 드는 총 평균 단위 원가가 5,500 원이고 같은 40개의 제품을 생산하는 데는 총 평균 단위 원가가 4,000 원인 제품을 생산하는 회사를 생각합시다. 또한 다른 경쟁회사가 언제든지 자유로이 이 제품의 판매시장에 같은 가격의 제품을 가지고 침투할 수 있다고 생각합니다. 그런데 이 제품에 관심이 있는 소비자는 매 주마다 40명 정도 됩니다. 그들 중 반은 요구가 좀 까다로워서 매 주기의 처음에만 그 제품을 원합니다. 하지만 대신에 그들은 단가 5,000 원에 기꺼이 사려고 합니다. 나머지 반은 어떤 적절한 시기에 관세없이, 언제든지 제품을 사려고 하지만, 가격에 무척 민감해서 단가 3,000 원 이상에는 그 물품을 사려고 하지 않습니다.

이런 상황에서 회사는 어떤 전략이 요구 된다고 생각하십니까?

- a. 40 개의 제품을 생산하여 단가 5,000 원에 판다. _____
- b. 40 개의 제품을 생산하여 단가 3,000 원에 판다. _____
- c. 20 개의 제품을 생산하여 단가 5,000 원에 판다. _____
- d. 40 개의 제품을 생산하여 각 주기의 처음에는 단가 5,000 원에 팔고 각 주기의 끝에는 단가 3,000 원으로 할인하여 판다. _____
- e. 그 밖의 다른 의견 (간단히 설명하시오.) _____

실 합 III

어떤 제품의 판매시장에 있어서, 그 제품을 만드는 회사들은 두 가지 다른 품질 수준의 제품- 낮은 품질 수준의 제품을 만드는 때는 최소 평균 비용이 4,000 원이고, 고급 품질 수준의 제품을 만드는 때는 최소 평균비용이 8,000 이 드는 -을 생산할 수 있다고 합니다.

회사 이미지를 한 방향으로 모으기 위해 (다시 말하면, 고급품을 만드는 회사로 인식되거나, 좀 수준은 떨어지지만 저렴한 가격으로 제품을 판매하는 회사로 인식되도록 하기 위해) 각각의 회사는 오직 한 품질수준의 제품만을 생산하기로 했다고 합시다. 하지만 같은 품질 수준의 제품을 6,000 원에 팔 수도 10,000원에 팔 수도 있습니다. 적어도 몇몇 회사들은 고급품질의 제품을 10,000 원에 팔 것이고, 어떤 회사들은 조금 수준이 떨어지는 제품을 6,000 원에 팔 것입니다.

소비자들은, 별로 많은 시간을 소비하지 않고서도 전화를 걸거나 다른 가격 참조표를 통해서 쉽게 저렴한 가격을 찾아낼 수 있습니다. 그들은 일반적으로 고급 품질을 원하지만, 품질의 차이가 있을수록 그들이 알아낼려면 1시간 정도의 탐색 (물어보거나 비교하거나 혹은 다른 사람의 의견을 참조함으로써) 이 필요하고, 소비자가 이러한 탐색에 쓴 시간의 기회비용은 0 ~ 4,000 원 이상이라고 가정합시다. (극단적인 예를 들어, 어떤 소비자가 이러한 탐색 대신, 자신의 명업을 했다면 4,000 원 이상의 순이익을 2 시간 동안에 마련했걸지도 모릅니다.)

이러한 상황에서 회사는 어떤 가격정책을 마련해야 하겠습니까?

- a. 조금 수준이 떨어지는 상품을 생산하여 6,000 원에 판다. _____
- b. 고급품을 생산하여 10,000에 판다. _____
- c. 조금 수준이 떨어지는 상품을 생산하여 10,000에 판다. _____
- d. 그 밖의 다른의견 (간단히 밝히시오.) _____

5. 당신이 속한 회사에서, 누가 가격정책을 세우는 데 우선적으로 책임이 있습니까? (가장 적당하다고 생각되는 항에 V표를 하십시오.)

	정할가격	협상가격
a. 회장이나 최고중역	_____	_____
b. 판매 혹은 마케팅 담당 중역	_____	_____
c. 마케팅 담당 관리자	_____	_____
d. 재무 담당 관리자	_____	_____
e. 그 밖의 사람 (간단히 설명하십시오.)	_____	_____

6. 누가 실제 판매 가격을 산정하는데 우선적으로 책임이 있습니까? (가장 적당하다고 생각되는 항에 V표를 하십시오.)

	정할가격	협상가격
a. 회장이나 최고중역	_____	_____
b. 판매 혹은 마케팅 담당 중역	_____	_____
c. 마케팅 담당 관리자	_____	_____
d. 재무 담당 관리자	_____	_____
e. 그 밖의 사람 (간단히 설명하십시오.)	_____	_____

7. 가격을 조절할 수 있는 권한이, 판매하는 사람들에게 (영업부 사원, 혹은 세일즈 맨) 어느 정도 주어집니까? (당신의 견해를 가장 잘 표현한 번호에 동그라미 쳐 주십시오.)

1	2	3	4	5	6	7
매우 많은			보통으로		극히 적은	
정도로					정도로	

8. 당신이 속한 회사와 상대회사와의 경쟁은 어느 정도입니까?

a. 별로 경쟁이 없다. _____	b. 보통이다. _____	c. 경쟁이 매우 심하다. _____
------------------------	----------------	-------------------------

9. 당신이 속한 회사는, 규모에 있어서 같은 산업에 종사하는 다른 회사들과 비교해 볼 때, 어느 정도입니까?

a. 소기업 _____	b. 중기업 _____	c. 대기업 _____
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10. 다음중 어느것이 당신회사의 가격 정책이라고 생각하십니까?

(여러가지 목적이 포함 될 때에는 그 중요도에 따라, 가장 중요한 목적은 1, 차례로 2, 3...으로 표시하여 주십시오.)

- a. 전체 생산라인의 이윤을 극대화 시키는 것 _____
- b. 장기적인 회사의 복지를 증진시키는 것 _____
- c. 당신의 회사가 속해있는 산업에 착수하려는 경쟁회사를 물리치는 것 _____
- d. 그때 그때 타 회사와의 경쟁적인 입장에 따라 가격을 조절하는 것 _____
- e. 그때 그때 경제상태의 변화에 따라 가격을 조절하는 것 _____
- f. 소비자 집단의 특성에 따라 가격을 변화시키는 것 _____
- g. 타 회사와의 경쟁적인 입장을 이용하려는 것 _____

11. 어떤 사항에 근거하여 당신은 가격을 결정합니까? (해당 사항은 모두 V표로 표시하십시오.)

- a. 투자에 대한 정상적인 이유에 근거하여 _____
- b. 무역협회의 약정에 따라서 _____
- c. 비용분석에 의해 _____
- d. 같은 산업에 종사하는 회사들끼리의 협정에 따라 _____
- e. 고객이 원하는 가격에 맞추어 _____
- f. 타 회사와의 경쟁적인 상태에 따라서 _____
- g. 시장 점유율이 가장 높은 회사의 가격 결정에 맞추어 _____
- h. 계약에 의해서 _____
- i. 판매시장의 특성이나 조건, 상태등에 따라서 _____
- j. 그 밖의것 (간단히 설명하십시오.)

12. 당신이 속한 회사는 다음의 어떤 경우에 다른 고객들에게 혹은 다른 장소에서, 다른 가격을 제시한 적이 있습니까? (해당 사항에 모두 V로 표시하십시오.)

- a. 구매량에 따른 가격 할인을 할 때 _____
- b. 일년마다 가격 할인을 할 때 _____
- c. 재무계획의 주기에 따라 _____
- d. 영업의 한 방법으로 (직접판매 혹은 중간거래자를 통해서) _____
- e. 그 밖의 경우 (간단히 설명하십시오.) _____
- f. 그런 경우가 없음. _____

13. 당신이 속한 회사의 경우, 가격 정책이 마케팅 전략에서 차지하는 비중은 어느 정도입니까? (가장 적당한 번호에 동그라미 쳐 주십시오.)

1	2	3	4	5	6	7
매우 중요하다		보통이다				전혀중요하지 않다

14. 당신이 속한 회사에서는, 제조원가에 따라 산출된 판매 가격이, 비용이 아닌 다른 요인에 의해 어느정도 자주 재조정 됩니까?

1	2	3	4
일반적으로 재조정 됨	자주 재 조정 되는 편임.	때때로 재조정 될 수도 있음.	거의 재조정 되지 않음.

부분Ⅳ) 다음에는 어떤 가격 결정 상황이 가상적으로 설명되어 있습니다. 각각의 상황을 읽는 후에, 그 상황에 가장 적합하다고 생각되는 가격 정책을 골라 주십시오. (두개 이상을 골라도 됩니다.)

상 황 I

20개의 제품을 생산하는 데 드는 총 평균 단위원가(단가: unit cost, 제조 판매에 걸쳐서 고정비용, 변동비용을 포함한 총 비용에 요구되는 이윤을 제품수로 나눈 값을 더한 값)가 5,500 원이고 같은 40개의 제품을 생산하는 데는 총 평균 단가가 4,000 원인 제품을 생산하는 회사를생각 합시다. 그런데, 이 제품에 관심이 있는 소비자는 매 주기마다 40명정도 됩니다. 그들 중 반은 요구가 좀 까다로워서 매 주기의 처음에만 그 제품을 원합니다. 하지만 대신에 그들은 단가 5,000 원에 기꺼이 사려고 합니다. 나머지 반은 어떤 적절한 시기에 관계없이, 언제든지 제품을 사려고 하지만 가격에 무척 민감해서 단가 3,000 원 이상에는 그 물품을 사려고 하지 않습니다.

이런 상황에서 회사는 어떤 전략이 요구된다고 생각하십니까?

- a. 40개의 제품을 생산하여 단가 5,000 원에 판다. _____
- b. 40개의 제품을 생산하여 단가 3,000 원에 판다. _____
- c. 20개의 제품을 생산하여 단가 5,000 원에 판다. _____
- d. 40개의 제품을 생산하여 각 주기의 처음에는 단가 5,000 원에 팔고, 각 주기의 끝에는 단가 3,000 원으로 할인하여 판다. _____
- e. 그 밖의 다른 의견 (간단히 설명하십시오.)

부분) 다음의 질문들은 당신이 속한 산업이나 회사에서 어떻게 가격이 결정되는가에 대해 알아보려고 하는 것입니다. 밑에서 말한 바와 같이 이더의 질문들에 대한 특정한 혹은 담도, 혹은 관련된 답도 없으며, 이 자료는 어떤 특정한 회사를 알아내는데 쓰이지 않습니다.

1. 당신의 회사가 속한 산업은 다음의 어디에 속한다고 생각합니까?

(가장 가까운 설명을 하는년에 V표 하시오)

a. 한 회사가 전체 시장의 60% 이상을 확보하고 있는 경우 _____

b. 몇몇 회사가 전체 시장을 점유하고 있는 경우 _____

(즉, 3, 4개의 주요 회사와 몇개의 소기업들) _____

c. 전체 시장을 많은 기업들이 나눠 가지고 있는 경우 _____

(어떤 한 특정한 회사가 특히 많은 시장을 차지하고 있지 않은 경우) _____

d. 그밖의 경우 (특정에 대해 간단히 설명해 주십시오.) _____

2. 당신이 속한 기업은 얼마나 자주 특정상품에 대한 가격을 검토합니까?

a. 계절에 한 번씩 _____

b. 계속적으로 _____

c. 일년에 한 번씩 _____

d. 일반적으로 한번씩 결정된 가격을 다시 검토하지 않음. _____

3. 우리 회사의 단기적인 가격 정책의 목적은? (해당 사항에 모두 V표를 하십시오.)

a. 현재 있는 경쟁사에 대해 대응하는 것 _____

b. 새로운 경쟁회사가 시장을 확보하는 것을 막는 것 _____

c. 중요한 구매자들 (대량 구매자들, 혹은 연속적인 구매자들)을 확보하는 것 _____

d. 유동자산 (특히 현금 보유)을 늘리는 것 _____

e. 새로운 고객, 판매자 혹은 대리점을 확보하는 것 _____

f. 예분의 설비를 사용하는 것 _____

g. 초과된 수요를 줄이는 것 _____

b. 그밖의 목적 (간단히 설명하십시오.) _____

4. 우리 회사의 장기적인 가격 정책의 목적은? (해당 사항에 모두 V를 하십시오.)

a. 판매에 대한 이용을 극대화 시키는 것 _____

b. 과산에 대한 이용을 극대화 시키는 것 _____

c. 가격과 이용의 관계를 안정화 시키는 것 _____

(예를 들어, 판매가격에 대해 10%의 이용을 얻고자 하였다면, 가격의 변동에 따라 변

한 가격에 대해 10%의 이용을 얻도록 판매 가격을 결하는 것)

d. 목표한 시장 점유율을 확보하기 위해서 _____

e. 각기 성격이 다른 시장에서 각기 다른 전략적인 가격정책을 실시하는 것 _____

f. 우리 경쟁회사가 주요한 목표시장에서 판매량을 늘리는 것을 막는 것 _____

g. 그밖의 것 (간단히 설명하십시오.) _____

부분 V) 다음은 당신이 속한 회사와 산업에 대한 간단한 질문입니다.

1. 당신이 속한 회사의 규모는?

a) 전체 고용원의 수에 있어서

- _____ 100명 이하
- _____ 100 ~ 499명
- _____ 500 ~ 999명
- _____ 1000 ~ 1499명
- _____ 1500명 이상

b) 매년 판매 수입에 있어서

- _____ 8억 이하
- _____ 8억 이상 16억 이하
- _____ 16억 이상 40억 이하
- _____ 40억 이상 160억 이하
- _____ 160억 이상

2. 당신이 속한 회사는 몇가지 종류의 상품이나 서비스를 판매하고 있습니까?

- _____ 10개 종류 이하
- _____ 25 ~ 49개
- _____ 100개 이상
- _____ 10 ~ 24개
- _____ 50 ~ 99개

3. 다음 항목 중에서 당신이 속한 회사의 산업을 가장 잘 표현한 항목을 골라 V표를 하십시오.

- _____ 소비자 상품 제조업체
- _____ 공업 상품 제조업체
- _____ 소비자 상품과 공업제품 제조업체
- _____ 금융기관을 제외한 서비스 업체
- _____ 소매업
- _____ 도매업
- _____ 금융기관
- _____ 그 밖의 것 (간단히 명시하십시오) _____

4. 당신의 회사가 속한 산업은 타 회사들과의 경쟁이 어느 정도입니까? (당신의 견해를 가장 잘 표현한 번호에 동그라미 쳐 주십시오)

- | | | | | | | |
|--------------------------|---|---|-------------|---|---|-----------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 별로 경쟁이
심하지 않다 | | | 보통이다 | | | 매우 경쟁이
심하다 |

5. 당신의 회사는, 같은 일에 종사하는 다른 회사들에 비추어 볼 때, 어느 정도의 시장세력을 갖고 있고, 어떤 경쟁적 위치에 있다고 생각합니까?

- | | | | | |
|-------------------------------------|------------------------------|------------------|------------------------------|-------------------------------------|
| 1 | 2 | 3 | 4 | 5 |
| 평균보다
높은 시장세력과
경쟁적 위치 | 약간
평균보다
높은 정도 | 평균
정도 | 약간
평균보다
낮은 정도 | 평균보다
낮은 시장세력과
경쟁적 위치 |

6. 당신에 관해 다음에 답해 주시면 감사하겠습니다.

- a) 현재 직위 _____
- b) 현재 회사에서의 경험 _____ 년
- c) 전체 회사 경험 _____ 년
- d) 전의 회사 경험은 주로 어떤 분야에서 쌓았습니까? (하나만 표시해 주십시오)
_____ 마아케팅 _____ 마아케팅이 아닌 다른 분야

협력해 주셔서 대단히 감사합니다.

이 연구 결과를 얻기 원하시는 분은 다음의 칸에 성명과 주소를 기입해 주십시오.

성명

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Master of Science in Business Administration:
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