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**International Export Pricing Decisions**  
*Managerial guidelines for SMEs*

Master`s Thesis in  
International Marketing

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## LIST OF ABBREVIATIONS

**B2B:** Business-to-business

**CEO:** Chief Executive Officer

**OECD:** Organisation for Economic Cooperation and Development

**SMEs:** Small-and-medium enterprises

**EPS:** Export pricing strategy





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**ABSTRACT**

In the actual context of recession in Europe small and medium enterprises are striving to expand their business abroad. Export pricing strategies are an essential tool for market expansion but the literature still presents a big gap. This gap is ascribable to a lack of qualitative studies which can produce advancements in the field and also managerial guidelines are needed to undertake export activities. Through the analysis of business cases this research is aimed at the identification of the main determinants that characterise an export pricing strategy jointly with the in-depth understanding of managerial issues that can be used by managers involved in export activities. This study will reach its goal through the achievement of three main objectives that are the creation of a theoretical model after analysing the existing literature, make an empirical investigation through interviews and obtain a final version of an export pricing model after reviewing the findings. Qualitative data will be collected with in-depth interviews within a range of managers directly involved in export pricing decisions and coming from different business sectors. Six determinants will be asked directly in the interviews and the other will be deducted from data collected. The innovative feature of this research is the introduction of a cultural dimension that has never been analysed before by previously researches but for two studies on psychic distance. At the end of the investigation, the results will show a different picture in respect of what has been observed in the literature. Different level of adaptation in respect of what has been observed by the theoretical constructs is shown and two new determinants are highlighted. The main limitations derives from the usage of qualitative analysis which generalizability is not verified, therefore further studies adopting a quantitative approach should be undertaken in order to verify and test what has been found. This research was also important as a vehicle of introducing practical guidelines that marketers need in performing export activities. From the interviews will emerge also that knowledge on different cultures is strongly needed and has an influence on export pricing strategies at the initial stage in which skimming pricing strategies are engaged in overcoming the cultural gaps.

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**KEYWORDS: EXPORT PRICING STRATEGIES, DETERMINANTS, ADAPTATION/STANDARDISATION, CULTURE, PRICING MODEL**



## 1. INTRODUCTION

### 1.1. Background

*“Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment” (Verheugen, 2005).*

As analysed by the Organisation for Economic Co-operation and Development (OECD), the 2008-2009 financial and economic crisis was the most severe in decades and deeply affected the business and financing environment in many countries. In 2009 the GDP fell by 3.6% in the OECD area as a whole, and by 4.3% in the Euro area. (OECD, 2013: 24). In this scenario, small-and-medium enterprises (SMEs) play a key role in the economies, they represent the most important employment and income generators, but also promoters of innovation and growth. SMEs represent the bulk of the European Union’s economy, they account for over than 99% of all enterprises and 91% of them are micro-firms with less than 10 employees (OECD, 2009: 6). SMEs are also important for nations and for what concerns the economic security; it has been observed that during crisis with limited domestic growth, SMEs have the characteristic of being more active with uncertain market conditions (Lages & Montgomery, 2004).

The actions undertaken by SMEs to overcome the crisis can be translated in the study conducted by the European Commission (2013) advocating that there is a direct link between internationalization and increased SMEs’ performances. International activities have the important role to reinforce growth, enhance competitiveness and support the long term sustainability of companies. Despite the fact that international activities produce a lot of benefits and especially for SMEs is an important vehicle to recovery growth and profitability (Albaum et al., 2011); a large number of SMEs still depend largely on their domestic markets, that is especially verified in European SMEs (European Commission 1, 2013). These evidences highlight the importance of providing new guidelines for marketers in enlarging their presence in foreign markets.

In undertaking international activities or, in other words, in undertaking an internationalisation process, exporting is the preferred mode of ice-breaking in foreign

market's sales (Albaum et al., 2011). Export activity also is one of the most successful way to compete with multinationals for two main reasons: first of all a SME has a lighter structure than a MNC introducing adjustments more quickly; second SMEs management presents an higher corporate commitment in performing export activities (Czinkota et al., 2007: 285-287).

Exports are also very important for both nations and firms. It contributes to the economic development, influences the amount of foreign exchange reserves, the level of imports that a country can afford, influences the public participation of national competitiveness, but also creates new jobs and improve the wellness of nations. For companies export activity represents an opportunity to become less dependent by domestic markets, exploit economies of scale, improve abilities, explore new foreign markets and being involved in other international activities such as licencing, franchising, joint ventures or direct investments (Czinkota, 1994).

Once decided the target market and identified the competitive advantage, the firm is ready to set the marketing mix, in other words the complex of the product-service offering, pricing, the promotional methods and the distribution system. Marketing mix permits to bring a specific additional value to a certain group of consumers. The four elements of the marketing mix, considering distribution as place, are the so called four Ps of the marketing mix. Every target market needs a specific marketing mix in order to satisfy the requirements of the target consumers and meet the firm's goals (Gitman & McDaniel, 2008: 378).

Marketing researchers such as Dolan and Simon (1996), Monroe (2002), Nagle and Hogan, (2006), Oxenfeldt (1973), Ross (1984) and Smith and Nagle (1994) recognise the importance of considering price as a strategic variable of the marketing mix. It comes from that executives directly involved in export activities should set pricing goals, objectives and strategies in order to achieve consistencies with corporate goals, objectives and strategies. In fact, pricing decisions are an important instrument to achieve dimensions in term of competitiveness and organisational success being typically, for these reasons, tactically and short-term oriented (Monroe, 2002; Nagle & Hogan, 2006).

Increasing pricing, in example, can increase unit margins and generate short-term profits (Marn & Rosiello, 1992); on the other hand lowering prices stimulates short-term sales

volume (Stephenson et al., 1979) and can be used to fight back against competitors (Oxenfeldt, 1973). Another example is represented by the fact that having higher prices in the market is an evidence of better quality, exclusivity or status (Nagle, 1984; Olson, 1977). All these forces recognise the importance of export pricing setting and underline the difficulties that can derive at organisational level; hence, the managerial relevance of this research.

Pricing decisions are very important because directly correlated with multiple goals such as customer retention, profit, sales and market share, and a single change can cause an important deviation from the original specific goal. The relationship between price and the consequent goal variables are very difficult to estimate and manage separately (Stundza, 2008). For example, for some products-services an increase of the 4% of the price can be ignored by the customers and don't trigger a negative performance on their purchases. This fact could induce pricing strategist to maintain constant the annual 4% increase but probably after the fourth or fifth year the increase in price become too great ignore provoking a sales decreasing.

Because price is the only element of the marketing mix revenues generating, while the others are costs in the form of expenditures or investments of funds, for some strategists price decisions are perhaps among the most important (Rao, 1984). Price also is the most important element in a trade for the evaluation of the offers and represents one of the most important tools to face directly market competition (Czinkota et al., 2007: 354). The importance of price in the marketing mix is also demonstrated in terms of profit generation. Marn and Roisello (1992) demonstrate that an increase of 1% of prices with the same volume produces 11.1% of profit increase, while a 1% increase in volume with the same prices produces only 3.3% of more profits.

## **1.2. Research gaps**

Export pricing is among the most crucial decisions that a manager faces (Myers, 1997; Stöttinger, 2001), but few guidelines for effective export pricing exist (Tan & Sousa, 2011). Scholars have neglected pricing research despite acknowledging on its importance (Myers et al., 2002; Stöttinger, 2001; Sousa & Bradley, 2009) leaving practical application of the

pricing decisions merely to managerial intuitions and prior experiences (Cavusgil, 1996; Myers & Cavusgil, 1996; Tan & Sousa, 2011).

The existing literature on pricing can be broadly divided into four research streams (Myers & Cavusgil, 1996): (1) micro-economic research on pricing; (2) consumer-oriented research covering consumer perceptions and reactions to pricing; (3) intra-corporate pricing, pricing issues within a company, such as transfer pricing; and (4) export pricing.

The first three streams have attracted considerable research attention, while export pricing has been a less examined area of research (Myers & Cavusgil, 1996; Lages & Montgomery, 2005; Theodosiou & Leonidou, 2003; Leonidou et al., 2010), recording overtime a negative trend in terms of publications in the mainstream marketing journals (Leonidou et al., 2010). Given the critical nature of export pricing decisions, more empirical researches are needed to guide managers in their international operations (Sousa & Bradley, 2009).

It is also important to take in evidence that most of the studies so far, are basically based on North American companies and especially in the US (Walters & Samiee, 1990; Winer, 1998). For this reason European companies but also emerging markets as well, have been neglected, being one of the most important gap in export marketing literature (Leonidou et al. 2010). The lack of studies in marketing is especially referred to export pricing, showing a fragmented, diverse, and inconsistent collection of findings that impedes academic and practical advancement in the research field (Tan & Sousa, 2011).

The major contribute of the empirical studies, in the field of pricing, till now is represented mainly by answering at the question “what”, providing a picture of what happened; leaving unanswered the other important questions like “why” and “how” an international pricing strategy should be implemented. Furthermore international transfer policies in the literature, are introduced without providing any analytical model in pricing decision process, showing a lack of instruments that managers may use in pricing decisions. The gap also regards the method implemented in export pricing researches, based mainly on longitudinal quantitative studies. A need for more studies adopting qualitative methods is required (Tan & Sousa, 2011).

Export pricing is part of the firm's marketing strategy, the latter is the central construct in the standardization/adaptation debate and has traditionally been defined as the statement of how the company is going to achieve its marketing objectives; for this reason standardisation/adaptation debate represents an issue that researchers usually put close with export pricing studies (Kotler & Armstrong, 2001).

Despite the evident need for research on price standardisation/adaptation in export markets little headway has been made in the understanding of the issue (Sousa & Bradley, 2009; Theodosiou & Leonidou, 2003). The literature shows that approximately two-thirds of the studies examine the strategies pursued by the foreign subsidiaries of MNCs, while the remaining examine the standardization/adaptation of exporting firms, with less attention paid in pricing while the other component of the marketing mix have been analysed more frequently (Theodosiou & Leonidou, 2003).

The analyses of the most important contributions in export pricing highlights several important gaps that this research will try to fill up: lack of contributions on international marketing especially located in non-US based countries (Leonidou et al., 2010); the need of instruments for export managers (Tan & Sousa, 2011); the need of analyse the level of standardisation/adaptation in export pricing strategies (Sousa & Bradley, 2009; Theodosiou & Leonidou, 2003); the lack of empirical studies on export pricing using a qualitative approach; and finally the need to face some practical issues such as exchange rate (Tan & Sousa, 2011). In conclusion the theoretical constructs existing in the literature seem to be too general, explaining probably the decreasing of the studies in this research filed. This research is needed in order to acquire more experience and provide new insights for further investigations.

### **1.3. Research goal and objectives**

Several advancements in export pricing should be done, in particular is necessary to strengthen the research on the pricing process as a capability to help exporters in setting the right price (Tan & Sousa, 2011). There are a lot of studies concentrated in what has been done: we know what are the main strategies adopted, the consequences, the market characteristics, what influence an export price but there is still a lot of confusion (Tan &



Sousa, 2011). None of the studies in the literature provide a clear guideline for SMEs in undertaking export activities.

The aim of this research is to partially fill the existing gaps replying at the following main research question:

*What are the key determinants of a SME's export pricing strategy?*

In order to reply at the research question three main objectives are settled:

- 1) Provide a conceptual model of export marketing pricing strategy analysing the theoretical constructs of export pricing literature, the principles given by the contingency theory and the ground of cultural dimensions.
- 2) Outline the main determinants, threats, patterns and their evolution in export pricing decisions, through the empirical investigation.
- 3) Verify, comment and adapt the theoretical model with the findings and provide guidelines for export managers.

Using a framework built from the analysis of the literature review, combined with empirical results, an effort will take place in understanding how SMEs set the right price, what are the main characteristics taken in consideration, and in the same time if the principles provided by the literature is still verified. An effort will also take place, in order to provide practical guidelines for SMEs that want to extend or improve their presence in foreign markets.

The focus of this study is settled on SMEs that are operating in foreign markets, especially in emerging markets such as South Korea, Russia, China etc. but also as well operating in mature markets such as United States and Europe.

#### **1.4. Key terminology**

**SME.** The term Small-and-medium enterprise in this research is referred to the principles applied by the European Commission (2003). According to the latter a SME is an enterprise that employs less than 250 persons and whose annual turnover does not exceed 50 million

euros or an annual balance sheet total not exceeding 43 million euros. Within this category are included small enterprises defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro; and micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro.

**International marketing.** International marketing very much retains the basic marketing tenets of “satisfaction” and “exchange.” International marketing is a tool used to obtain improvement of one’s present position. The fact that a transaction takes place across national borders highlights the difference between domestic and international marketing (Czinkota et al., 2007:4). The reasons why international marketing is important are different and several authors tend to define the benefits of a globalised marketing strategy in different ways; i.e. Czinkota et al. (2007:4), define a successful international marketing as essential for the prosperity of many business organizations operating in today’s highly globalized and competitive economy. Another example provided by Albaum et al. (2011) look at international marketing as an important activity for economic recovery and resumption growth after the 2007-2008 recession.

International marketing combines the science and the art of business with many other disciplines such as economics, anthropology, cultural studies, geography, history, languages, jurisprudence, statistics, demographics, and many other fields. (Czinkota et al., 2007:4). For this reason the basic principles of marketing can be applied but their application, complexity, and intensity may vary substantially. These differences could be translated in a new set of macro-environmental factors, different constraints, and conflicts resulting from different laws, cultures, and societies (Czinkota et al., 2007:4). That implies the introducing of different parameters such as facilities, documentations, currencies; but also by different customer behaviours, languages etc. (Albaum et al., 2011; Czinkota et al., 2007: 244-245).

If all these issues are integrated into each decision made by individuals and by firms, international markets can become a source of growth, profit, needs satisfaction, and quality of life that would not have existed for them had they limited themselves to domestic activities (Czinkota et al., 2007:5; Czinkota, 1994). International marketing may assume different forms such as export-import, licencing, joint ventures, wholly owned subsidiaries, turnkey operations, and management contracts (Albaum, et al., 2011; Czinkota et al., 2007:4). As a

result, issues relating to the design of international marketing strategies in order to permits to companies to compete effectively and efficiently in a globalised business environment have been the focus of a sizeable stream of research (Theodosiou & Leonidou, 2003).

**Marketing strategy.** A marketing strategy can be defined as an organization's integrated pattern of decisions that specify its crucial choices of concerning the element of the marketing mix in the creation, communication and/or delivery of products/services that offer value to customers in exchanges with the organization and thereby enables the organization to achieve specific objectives such as increasing sales and achieving a sustainable competitive advantage (Aaker, 2008; Varadarajan, 2010). The concept of marketing mix is referred at the four components of the marketing strategy, also called the four Ps of the marketing mix: product, price, place and promotion (McCarthy, 1960).

**Export activity.** The definition provided by the OECD (2013) defines exports as "*foreign demand for goods produced by home country*" defining export as transactions of goods and services from resident to non-resident countries. In the case of exchanging goods the export occurs when there is a change of ownership from a resident to a non-resident and this process does not imply the physical crossing of frontiers, there are some cases in which is considered export even if no change of ownership is verified, is the case of a multinational and its subsidiaries. Export of services consists in all the services that a resident performs to a non-resident, in national accounts are also included direct purchases by non-resident in the economic territory such as expenditures of tourists (Lequiller & Blades, 2006).

Exports have two main channels: channels between the nations and channels within the foreign market. These channels characterise the three different ways to perform export activities: indirect exporting, direct exporting and integrated exporting (Albaum et al, 2011; Cherulinam, 2010; Czinkota et al., 2007: 425-426). In the situation of indirect exports, firms are usually located at the initial stage of the internationalisation process and they don't have consolidated experience in foreign markets. Typically they run small businesses abroad which responsibility is shifted to home-based intermediaries which provide the marketing support required (Cherulinam, 2010). In other words the marketer deals with another domestic firm which is committed in buying and re-selling abroad on behalf of the marketer (Czinkota et al., 2007: 425-426; Albaum et al., 2011).

When the export is direct, the producer sales directly to foreign customers. These customers may assume the form of importers, agents, brokers, distributors, government departments, state buying organisations, industrial buyers, wholesalers, retailers, joint venture/licensees and consumers. If the direct export is not addressed to the final consumer the customer is considered a marketing middlemen placed in the supply chain between the producer and the final consumer. (Cherulinam, 2010). The marketer takes responsibility on abroad sales acting directly with a foreign entity that will represent the marketer abroad (Czinkota et al., 2007: 425-426; Albaum et al., 2011). As third solution, integrated exporting is a situation in which the marketer is involved with additional direct investments in a foreign country (Czinkota et al., 2007: 425-426; Albaum et al., 2011), i.e. joint ventures or subsidiaries.

**International pricing.** There are three main categories of international pricing: transfer pricing, foreign-market pricing, and export pricing. Transfer pricing concerns sale of products within the corporate family, for example from the headquarter to a subsidiary. Foreign-market pricing is done by a firm with production facilities within an overseas market, in this case finished products or services do not cross borders to reach the customer. Export pricing refers to products made in one country and sold to customers outside the corporate family in another country, i.e. independent distributors (Myers et al., 2002).

There are three main broad categories of export pricing: cost-based export pricing; market-based export pricing; and same price as domestic. The cost-based pricing methods calculate price on the basis of firms' costs. This method is frequently used by managers because it is easy to implement and makes intuitive sense. Costs are relatively easily measured and provide a basis below which prices cannot go in the long-term (Myers & Cavusgil, 1996). According to Seifert and Ford (1989), exporters often simply place the same price on their exported products as that of those sold domestically. Price is determined on the basis of costs with little interest in market or competitive factors in the export market (Myers et al., 2002). This method has been criticised in the literature because it pays little attention to the market and disregards competitors' actions (Tzokas et al., 2000).

**B2B transactions.** The transactions regarding the producer and wholesalers or distributors assume the feature of business-to-business (B2B) transactions. These transactions are performed between two entities, i.e. a manufacture and a retailer, located in the middle of the supply chain. This activity must be differentiated by business-to-consumer (B2C) and

business-to-government (B2G) that are operations involving the final user of the product or service. The importance of the B2B transactions is represented in example, by the volume of transactions that is much higher than the volume of B2C transactions (Sandhusen, 2008; Shelly, 2011; Garbade, 2011).

### **1.5. Structure of the thesis**

In chapter 1 was introduced the importance of the export pricing strategy and the main research strategy and related objectives were settled. In the second chapter a literature review will be provided in order to be able to reply at the first objective, that is the creation of an export pricing strategy model. In the third chapter the research strategy will be explained and the empirical data will be analysed in chapter 4 in replying at the objective number two. In chapter 5 the last objective of this research is accomplished explaining the main findings and comparing them with the theoretical model. The research strategy will be replied in providing an EPS model as a result of the empirical investigation.

## **2. EXPORT PRICING STRATEGY IN THE LITERATURE**

The aim of this chapter is to review the most important publications on export pricing in order to, first of all, provide the theoretical constructs necessary to understand the thematic of export pricing and second, build a theoretical model of the export pricing process that will represent the basis of the empirical investigation. The chapter is divided in seven main parts: in the first paragraph a general explanation of what is an export pricing strategy will be provided and the analysis of pricing determinants will be provided in paragraphs two, three and four. The theoretical constructs underpinning this research will be provided respectively in paragraphs five and six and the theoretical model of an EPS will be provided in paragraph 7. At the end also a brief summary is shown.

### **2.1. The concept of export pricing strategy**

A pricing strategy can be viewed as an organisation's plan to set and manage prices in a way to compete in a market and achieve the organisation's goals and objectives. Directly correlated is the implementation of the pricing strategy that can be described as a specific action and behaviour that execute, perform and establish pricing judgments and decisions (Bonoma, 1984; Bonoma et al., 1988; Walker & Ruekert, 1987). As a consequence the pricing implementation might be designed in a way to achieve and sustain commitment to strategic pricing goals and purposes (Porter, 1980:242).

As observed by several theorists pricing strategy is an integral part of organisational attention, cognition and interpretation (Dutton, 1988; Dutton & Jackson, 1987; Pfeffer, 1985). This statement means that a pricing strategy might be implemented. A pricing strategy enters in the category of strategies in which the future actions are planned in advance and with a clear purpose (Mintzberg, 1987). Pricing strategy shouldn't be viewed as static, is planned in advance but not without changes over time. Pricing strategy is a sort of actions that continuously changes and adapts in striving to anticipate the future events and changes in the business environment (Mintzberg, 1987).

Nagle and Holden (1994) advocate that strategy formulation and strategic analysis are features of pricing strategy. They argue also that the activity of planning pricing strategies might have common characteristics: long-term oriented, forward-looking and goal driven. The outcomes of planning pricing strategies are the complex of rules or standards for taking pricing decisions. Planning pricing strategy is not concentrated only on a single transaction or event but involves a group of transactions classified by market segments, customers, products or services and competitors.

As already mentioned, planned pricing strategy must have a relevant presence in organisational attention, cognition and interpretation. As observed by Dutton (1988), the priorities in a corporation depend on the strategic agenda. The issues on strategic agenda are those that can affect the ability to survive or can affect the ability to achieve corporate's goals. For these reasons the presence of pricing issues on the strategic agenda, depends on the perceived impact of pricing issues on corporate's goals achievement. As result organisational actions will be undertaken if executives perceive that strategic pricing issues have a strategic significant impact on the organisation (Dutton & Jackson, 1987; Daft & Weick, 1984; Hambrick & Mason, 1984; Stubbart, 1989; Smircich & Stubbart, 1985; Smircich, 1983). This recall the importance of firm commitment on export activities, if exports are viewed as an important part of the general firm's strategy, then pricing strategy will have an important role in firm's organisational plan.

For the previous reasons during the empirical investigation it will important to identify who takes the final decision in the organisation. Generally is an individual that has an high rank in the stuff. Some companies instead of concentrating the pricing responsibility in one person, they institutionalise it creating pricing committees and groups in charge of pricing decision making process, establishing specific roles, obligations and rules (Pfeffer, 1985). The importance of setting the right price is translated in opportunities and profits, if the marketer fails in setting the right price, the result is less opportunities and lower profits. In other words, an incisive pricing strategy is crucial to be successful in foreign markets (Forman & Hunt, 2005; Lancioni, 2005; Raymond et al., 2001).

The difficulties that marketers have to face in export pricing have different nature: heightened competition (Cavusgil, 1996), grey market activities (Myers, 1999), counter-trade requirements (Cavusgil & Sikora, 1988), regional trading blocs (Weekly, 1992), the

emergence of intra-market segments (Dana, 1998), and volatile exchange rates (Knetter, 1994). These difficulties are amplified by the fact that nowadays there is still a significant gap in the research in terms of guidelines that managers can use in establishing their international pricing efforts (Clark et al., 1999; Tan & Sousa, 2011). Typically, they rely on intuitive measures and give more strategic focus to other marketing decision variables (Cavusgil, 1996).

It has widely recognised in the export pricing literature that the export pricing strategy is mainly composed by three fundamental groups of determinants. Determinants called antecedents that directly affect the decisions on pricing, a second group of determinants characterised by strategies and practices and a third gathering composed by performance determinants (Cavusgil & Zou, 1994; Sousa & Bradley, 2009; Myers et al. 2002; Tan & Sousa, 2011). In the following paragraphs initially the three parts of the export strategy will be separately analysed, providing an in-depth explanation of the three group of determinants of an EPS. Afterwards contingency theory in export pricing will be introduced followed by an introduction on cultural dimensions. Finally a framework of export pricing will be provided according to the first objective of this research.

## **2.2. Export pricing antecedents**

The antecedents of export pricing can be described as the background forces that influence firm's export pricing decisions (Tan & Sousa, 2011). These determinants directly condition strategy formulation. For instance skimming pricing strategies involve relatively high price and are used frequently for new product pricing. Skimming pricing strategies are frequently implemented in contexts with high product differentiation and/or when a firm has a significant cost disadvantage. In mature markets, with usually a situation of high competition, competitive pricing strategies are more frequently adopted (Noble & Gruca, 1999).

In the literature is possible to configure four different types of antecedents: antecedents coming from firm and managerial attitudes; antecedents correlated specifically to the type of product or service, antecedents related to the industry, and antecedents regarding the differences between foreign and domestic market (Cavusgil & Zou, 1994).



Firm and management determinants are defined by Cavusgil and Zou (1994) as the resources or managerial capabilities that can bring a competitive advantage to the firm in undertaking international activities. These assets are represented in practice by firm size, resources, international experience, centralisation, location facility, and other firm capabilities and competences (Sousa et al., 2008). I.e. a management composed by expertise have a better chance to formulate and implement effectively an export pricing strategy (Douglas & Craig, 1989; Terpstra, 1987). Another example is provided by the firm's commitment toward the export venture: if more resources are allocated to the formulation of a marketing strategy, this can be implemented more effectively (Aaby & Slater, 1989; Christensen, et al. 1987) leading also to a better performance (Aaker, 2008); as a consequence the same benefit can be transposed to pricing strategies.

The second group of antecedents arising from the literature are related to the product or service exported. Product's factors have a strong influence in export pricing, frequently is a central focus for pricing decisions (Tzokas et al., 2000). Referring to the product characteristic, cost of product, product type and stage of international product life cycle, are the most frequent antecedents (Myers & Cavusgil, 1996). Cost is the most used parameters in price determination because it represents the floor under which the price cannot be settled in the long term (Myers et al., 2002). For the previous reason cost-related pricing strategies are the most frequent strategies adopted (Myers 1997; Myers & Cavusgil, 1996; Tan & Sousa, 2011).

The third gathering of antecedents that influences the pricing strategy, is industry characteristics. Industry characteristics are mainly referred to competition, regulation (Cavusgil & Zou, 1994), and technology orientation (Zou & Stan, 1998). Perhaps the most important industry characteristic is the one regarding technological orientation, because in a global competition the technological advancement is a significant factor of success and probably the most important in the firm's export pricing strategy (Abratt & Pitt, 1985)

The fourth conglomerate of antecedents is represented by foreign/domestic market factors which are influential environmental factors (Sousa et al., 2008; Zou & Stan, 1998). It is widely recognised by the literature that environmental factors are substantial elements of influence over pricing decisions (Chung, 2005; Lages et al., 2008). Examples of the influence of these

antecedents on export pricing strategies are easily made. For instance, currency volatility results in risk and uncertainty overseas (Aulakh & Kotabe, 1993).

Exporters might be very careful about pricing policies due to the inclination of the importers to concentrate purchases during advantageous fluctuations. Import policies and trade barriers have a significant effect on pricing decisions (Cavusgil, 1988, 1996) because high tariffs reduce the opportunity to obtain profits. Tensions between nations on trading policies issues such as intellectual property rights (Maggs & Rockwell, 1993), non-tariff barriers (Frank, 1984), and anti-dumping legislation have an obvious correlation with export pricing matters (Joelson & Wilson, 1992) because markets with strict regulations can weaken the marketer reducing its ability to compete (Myers, 1997) and frequently must follow some regulations regarding non-price aspects, such as the usage of another currency and volume discounts (Weekly, 1992).

As observed antecedents of export pricing strategy are environmental factors that in some way have an effect over export pricing decisions. These environmental factors have different nature: from the peculiarities of the company, for the type of product, for the specific industry or from the differences arising between the domestic and the foreign market. In the following paragraph the second group of determinants will be examined, that is export pricing strategies and practices.

### **2.3. Export pricing strategies and practices.**

Among the different classifications of this group of determinants, the one of Tan & Sousa (2011) results to be more updated and complete for this research. The classification is made from a managerial point of view, identifying four main aspects of an EPS: competitive posture, price setting philosophy, price process, and price practices. In the following paragraph all the elements of an EPS will be analysed according to this classification.

#### **2.3.1. Competitive posture.**

Export market during the last years was subjected to rapid changes in technology, governmental regulations and economic foundations shift (Simon, 1995). In a situation of

rapid changes is frequently verified that the market is characterised by an increased level of differentiation (Sheth, 1985). In some specific markets, the customer base is equally homogeneous and supplied by different sellers with specific technologies. In this situation, with homogeneous buyers, the level of differentiation becomes less relevant in terms of competitive advantage and sales are mainly based on competitive prices (Tellis, 1986).

This construct brings to the adoption of competitive pricing posture. In competitive pricing strategies, competitors' prices are constantly monitored and the main philosophy is to set prices at the same level of competitors. A disadvantage of this approach is that competitors located in the export market, being a domestic market they remain unaffected by the antecedents regarding the differences from domestic and foreign market. For example economical and regulatory shifts effect only external marketers and not the local competitors. Is frequently verified that marketers adopting this approach, mainly limit their pricing strategies at following competition, establishing their level of prices in a specific amount above or below competitor's prices (Myers et al., 2002).

Other antecedents also effect a competitive pricing posture. Is demonstrated that international experience is positively related to export performance (Kirpalani & Macintosh, 1980) and due to the fact that pricing is part of the overall marketing strategy, the choice of the adoption of competitive export pricing by the management will be influenced partially by the firm's international experience (Myers et al., 2002). This is explained by the research of Katsikeas and Morgan (1994) advocating that experienced firm perceive pricing issues as a key element of the marketing strategy and perceiving the complexity of pricing strategies, they are willing to adopt deliberately a competitive posture.

The high management commitment in competitive pricing is related to the degree of importance that the management confer to the exports. In example, a firm that enact a competitive pricing strategy such as predatory pricing, establishing prices to a low level or unprofitable level in order to reduce or eliminate or impede rivals' entry, they reduce or eliminate profits in the short-term in pursuing long-term profit objective. Only the long run it will be possible to obtain profits, and only a firm with high commitment can pursue a pricing strategy that considers no profits or losses during the initial stage (Guiltinan & Gundlach, 1996),

Myers et al. (2002) advocate that competitive posture calls for standardised supplies. This fact depends on whether the firm is performing competitive advantage offering a product or service at lower prices or through differentiated products (Nagle, 1987). With differentiated productions most of the time a company is emphasizing non-price benefits for the client, such as quality or technological innovation, and may not perceive price as a competitive tool (Porter, 1986). Instead, a firm offering a comparable product at lower prices i.e. through opportunistic pricing, the practice of set the prices at the level of market's perceived fairness (Jenster et al., 2005:185); can obtain a competitive advantage but can be maintained only if the costs are constantly under control and a method of controlling costs is the adoption of standardised productions (Monroe, 2002).

Another aspect of a competitive pricing strategy is represented by the currency influence. The currency choice becomes a competitive tool when the marketer is in a country with a weak domestic currency, in this situation the price can be used in a way to conquer market share a defeat competitors (Kobate & Helsen, 2001). Another situation is when the export market is hit by currency depreciation, in this situation the marketer loose competitive advantage and sometimes has to negotiate again the prices (Cavusgil, 1988). In the case in which the export market suffer by high inflation rates, the marketer can exploit the competitive advantage as in the first situation, with weaker currency, and set the prices below the domestic competitors without losing profits (Myers, 1997).

In summary a firm that adopts a competitive posture has to consider several antecedents such as the economic and regulatory aspects of the firm, its international experience, management's commitment, level of standardisation of the product and currency fluctuations. Usually a firm that adopt a competitive posture is a firm that operates in markets with an high competitive intensity, it has a professed international experience, the management's commitment is high, the product/service is standardised and the foreign currency volatility is high (Myers et al., 2002).

### **2.3.2. Price setting philosophy.**

The price setting philosophy is the managerial principle used by firms to guide their pricing strategy (Myers et al., 2002). It involves mainly four aspects: pricing centralisation, pricing objectives, pricing method and pricing orientation.

The first aspect of pricing philosophy is the centralisation of an EPS. Centralisation is referred to the level within the organisational hierarchy at which the pricing decision is taken (Abratt & Pitt, 1985; Clague & Grossfield, 1974). Who has the responsibility or the level of responsibility assigned, is crucial for an EPS (Baker & Ryans, 1973). Exporters have to deal with different customer's sophistication that is totally different from the domestic (Kotabe & Helsen, 2001); for this reason the sales force play an important role. The sales force has to deal directly with the sophistication of the customers and most of the time point-of-sale decisions increase the responsiveness of well-informed customers (Anderson, 1985).

Given this information arises a dichotomy between sales force and management because the former is usually concentrated on sales volume and its factors; on the other side management is usually more concentrated on profit margins above the cost of the product (Myers, 1997). Despite the fact that sales force for most of the times is unaware of the determinants that effect the costs (Groove et al., 1992), sales force remains the final centre of decision control because it has to deal with sophisticated customers that are used to address price objections to them and they better meet the buyers' needs (Winkler, 1983).

The second aspect of the pricing philosophy are the pricing objectives; setting the pricing objectives is the first step in determine an EPS (Diamantopoulos & Mathews, 1995). It is possible to define pricing objective as a strategic and economic goal, settled by the management, in pricing products or services (Diamantopoulos & Mathews, 1995). Pricing objectives reflect not only a firm's export factor, but reflects also the pricing goals of the firm being themselves part overall corporate strategy (Morris & Morris, 1990). Changes in markets at different ages of the product that also differ within the markets (Engleson, 1995), make pricing objectives changing over time. For this reason the comparison between pricing strategies from an empirical analysis prospective, is not possible (Diamantopoulos, 1991).

There are several classification of pricing objectives in the literature, i.e. Diamantopoulos (1991) classifies them in three main categories relating to the content, the desired level of attainment and the associated time horizon; or Morris and Morris (1990) that identify 21 different objectives. Objectives can be profit or competitive positioning (Samiee, 1987). Examples of profit objectives are ROI and profit growth hence competitive objectives are i.e. barriers to entry, matching competition, market share etc. Pricing objectives can be also

conflicting and in the same time complementary, but also subject to hierarchical considerations (Paun & Albaum,1993). The most frequent reason of this conflicts arises from temporal issues, regarding the mismatch of short-term and long-term objectives that are not well related to each other (Guiltinan & Gundlach, 1996).

Pricing objectives are influenced by pricing antecedents, an example is represented by the stage of product life-cycle, when a product or service changes status from new product/service status to mature product/service status the pricing objective also should change: at initial stage is common to have profit-oriented objective hence in a mature situation is common to adopt a competitive-oriented strategy (Morris & Morris, 1990; Porter, 1986). Another example is the market growth, when a competition within a market increases it will be necessary to adopt a competitive posture in order to survive (Simon, 1995). Again inflation and exchange rate fluctuations affect the objectives (Cavusgil, 1996) because are key elements for price decisions (Athukorala & Menon, 1994).

The third aspect of an EPS's philosophy is referred to the method used. Method is considered the specific way to calculate and achieve a final price (Myers et al., 2002). There are several methods to calculate the price and they vary depending on the industry sectors, product types and production, distribution channels (Diamantopoulos, 1991). For this reason a lot of organisational and environmental antecedents effect the method used, hence, in this review only the methods related to the SMEs will be considered, i.e. monopolistic pricing will not be included.

Generally pricing methods can be classified in two broad categories: cost-based or market based. The cost of product and resources influences the pricing strategies (Cavusgil, 1988), and frequently represents the basis for a price determination. The reason is, first of all, that costs provide a threshold under the which prices cannot be settled in the long-run (Simon, 1995); and second costs are very easy to implement, setting a price that covers costs and generates profits result to be very intuitive to managers (Morris & Morris, 1990). Cost-based pricing strategies are a signal of firms that are pursuing profits, especially for firms with short-term expectations within the market (Cavusgil, 1996), and in some cases are opportunistic companies that take advantage of market inefficiencies exploiting market fluctuations, i.e. new technology developers (Myers, 1997).

In more price-sensitive markets, on the other hand, EPSs built taking in consideration demand and competitive dimensions result to be more suitable than cost-based pricing (Morris & Morris, 1990). Sometimes the choice to adopt a market-based strategy is influenced by the fact that are operating in high competitive markets and the prices are chosen mainly the market leaving low level of discretion for the marketer, this is verified especially if the latter is not a market leader (Engleson, 1995). Mostly, however, as advocates by Myers et al., (2002) “*firms adopting a market-based EPS focus on the customer's ability to pay for the goods, or the value placed on that good, or both*”. An example of EPSs based on the market is penetration pricing, the practice to set a low price for a new product in order to speed the adoption and establish in this way a normal standard. Companies with a scale advantage and so costs advantages use this method (Tellis, 1986).

The last aspect of an EPS philosophy is pricing orientation. The first researchers using this term were Smith and Meiskins (1995) in describing factors influencing export pricing decisions. Their research shaped a behavioural account of managerial pricing orientations such as cost, sales, competition, strategic pricing etc. In other words pricing orientations are the antecedent factors that directly influence a characterise the managerial choices of pricing strategies and are specifically related of the firm. I.e. in study of Tzokas et al. (2000) five orientations are identified for the industrial export pricing: number of competitors, product life cycle, influences forces such as transportation and marketing costs, foreign customers and production and productivity costs.

To conclude the pricing setting philosophy is characterised by forces and aspects that in different ways guide the managerial choice in setting an EPS. The EPS are drawn considering the level of centralisation of pricing choices, by the different objectives of short and long term, method implemented in order to calculate the final price and the antecedents that directly affect the managerial inclination toward an EPS.

### **2.3.3. Elements of the pricing process.**

One of the most important element of the pricing process is pricing quotation. The quotation process is referred to the business condition with which productions are sold to the customer. These practices may influence the level of price in connection with their application. The most wide spread and internationally recognised conditions are called INCOTERMS.

INCOTERMS' conditions are officially provided by the International Chamber of Commerce that is the most representative organisation in the World. An INCOTERMS list is provided in Table 1 according to the 2010 updating. Price quotation will play an important role in this research in order to understand firm's practices, determinants and how they influence the pricing choices.

**Table 1.** INCOTERMS conditions (Ramberg, 2010).

Quotation	Acronym	Description
<b>RULES FOR ANY MODE OR MODES OF TRANSPORT</b>		
Ex Works	ExW	A trade term requiring the seller to deliver goods at his or her own place of business. All other transportation costs and risks are assumed by the buyer.
Free Carrier	FCA	A trade term requiring the seller to deliver goods to a named airport, terminal, or other place where the carrier operates. Costs for transportation and risk of loss transfer to the buyer after delivery to the carrier. When used in trade terms, the word "free" means the seller has an obligation to deliver goods to a named place for transfer to a carrier.
Carriage Paid To	CPT	The seller is responsible for arranging carriage to the named place, but not for insuring the goods to the named place. However delivery of the goods takes place, and risk transfers from seller to buyer, at the point where the goods are taken in charge by a carrier.
Carriage And Insurance Paid To	CIP	The seller is responsible for arranging carriage to the named place, and also for insuring the goods. As with CPT, delivery of the goods takes place, and risk transfers from seller to buyer, at the point where the goods are taken in charge by a carrier.
Delivered At Terminal	DAT	The seller is responsible for arranging carriage and for delivering the goods, unloaded from the arriving conveyance, at the named place. Risk transfers from seller to buyer when the goods have been unloaded.
Delivered At Place	DAP	The seller is responsible for arranging carriage and for delivering the goods, ready for unloading from the arriving conveyance, at the named place. Risk transfers from seller to buyer when the goods are available for unloading; so unloading is at the buyer's risk.
Delivered Duty Paid	DDP	The seller is responsible for arranging carriage and delivering the goods at the named place, cleared for import and all applicable taxes and duties paid. Risk transfers from seller to buyer when the goods are made available to the buyer, ready for unloading from the arriving conveyance.
<b>RULES FOR SEA AND INLAND WATERWAY TRANSPORT</b>		
Free Alongside Ship	FAS	In practice it should be used for situations where the seller has direct access to the vessel for loading, e.g. bulk cargos or non-containerised good. In practice it should be used for situations where the seller has direct access to the vessel for loading, e.g. bulk cargos or non-containerised good
Free On Board	FOB	In practice it should be used for situations where the seller has direct access to the vessel for loading, e.g. bulk cargos or non-containerised goods. Seller delivers goods, cleared for export, loaded on board the vessel at the named port. Once the goods have been loaded on board, risk transfers to the buyer, who bears all costs thereafter.
Cost and Freight	CFR	In practice it should be used for situations where the seller has direct access to the vessel for loading, e.g. bulk cargos or non-containerised goods. Seller arranges and pays for transport to named port. Seller delivers goods, cleared for export, loaded on board the vessel. However risk transfers from seller to buyer once the goods have been loaded on board, i.e. before the main carriage takes place.
Cost, Insurance and Freight	CIF	A trade term requiring the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier.



After quotations another element of relevance is the level of control and monitoring. Control and monitoring in export pricing is usually attributable to the control exercised by manufacturers toward their global intermediaries, representing a critical marketing control issue (Bello & Gilliland, 1997; Bradach & Eccles, 1989; Cavusgil, 1996; Lassar & Kerr, 1996). In export context, control, is referred also to the specific directives provided by manufactures to their distributors in order to pursue them in performing marketing activities and in supporting manufacturer's goal achievements (Bello & Gilliland, 1997). Pricing control occurs, hence, when the exporter influences the behaviours of the distributors in order to establish the desirable prices in the foreign markets. This influence can be reached through discounting polices: selling productions to the distributor at lower prices it grants also lower prices in the market; or through threats in those channel services in which the prices are not attractive or simply too high (Myers & Harvey, 2001).

Another element of a pricing process is keep rigid versus systematic pricing dilemma. Changing pricing according to the changes in the marketplace is the core study of macroeconomics (Carlton, 1986; Blinder et al., 1998). The latter suggest that marketers must continuously adapt their prices according to the market changes of competitive productions. This is a difficult procedure because most of the time a company serves different and differentiated market segments, causing an uncertainty in price elasticity and performance forecasting (Dutta et. Al, 2003).

The last element of pricing process is the willingness to change the previously settled prices according to special circumstances; in other words price flexibility that is placed in the opposite side of rigid posture price setting (Myers et al., 2002). Usually the general policy of price review is based on an annually re-negotiation of the price (Diamantopoulos & Methews, 1995), however the literature poses the construct that prices should be changed more than one time a year in order to meet the customer's needs of cost and budget reviewing (Garda, 1984). In concerning of the fixed discount, Williamson and Bello (1992) in studying the relationships between producers and export management companies, advocate that is a common practice for producers to provide a fixed discount to the export companies. This practice is widespread for the major reason that producers instead of provide a costly long-term marketing program, they set a fixed discount as a contribution for distributor's marketing efforts.

#### **2.3.4. Pricing practices.**

Price practices can be described as directives that improve the validity of pricing decisions and achieve consistency of action in firm's pricing decisions. In other words are prefabricated decisions that provide guidelines in a way to anticipate pricing situations (Oxenfeldt, 1983). In the literature several pricing practices have been studied such as: skimming pricing, special pricing, price discrimination, etc. In this paragraph only those relevant for the research will be explained, that are price adaptation/standardisation and currency choice.

The level of standardisation and adaptation is one of the most marketing topics of the twenty-first century (Kahn, 1998). Scholars of the standardisation approach principle underline the world's trend toward the homogenisation of world markets and the cost saving benefits. Increased advances in communication and transportation technologies, with the increases also in travels, contribute to the globalisation of markets (Levitt, 1983). Essentially standardisation can be considered an essential means by which a firm can achieve low-cost competitive position because of the economies of scale that standardisation brings in value-adding activities (Cavusgil et al. 1993). At the opposite is placed adaptation principle; it views the markets as heterogeneous, hence composed by customers with different wants and needs. The concept of global standardisation of needs and preferences is viewed as too simplistic, myopic, and contrary to the marketing concepts (Douglas & Wind, 1987; Wind, 1986).

In order to overcome the two extreme point of views, standardisation and adaptation, from scholars of general system theory (Boulding, 1956) and behavioural theory of the firm (Argote & Greve, 2007); have followed different research streams by supporting what is called the "middle-of-the-road perspective", in other words the contingency theory. Contingency approach will be adopted in this research and its implementation will be explained more in detail in the paragraph 3.1.

The second pricing practice considered, currency choice, has become a critical choice in securing exporting contracts and maintaining or increasing market share and profitability (Donnenfeld & Zilcha 1991; Quinn 1992). From the importer point of view buying at the domestic currency means to simplify the global sourcing thanks to the simplified comparison between prices assuring also a price stability, at least in the short term. Working with stable

pricing during the purchase process means by definition that the transaction is conducted at buyers' currency. Both importers and exporters try to minimize their foreign exchange exposure to maintain stable margins. Export currency, however, in the customer-oriented philosophy, mandates that should be negotiated being part of the export transaction (Quinn, 1992).

The latter is typically performed by export sales and marketing staff that are responsible for the negotiation with the importers (Martinovitz 1985), and as a consequence, they are the most familiar with the customers, their purchasing habits and price sensitivity. Currency choice should be part of the exporter's pricing policy (Clague & Grossfield 1974; Piercy 1983) having an impact on other departments and on the global performance of the firm (Donnenfeld & Zilcha 1991; Martinovitz 1985). For these reasons and for the lack of studies on currency choice, will be one of the focal issues in this research.

#### **2.4. Price performances.**

Export performance represents the consequence of the marketing strategy, it is the result of the ongoing export activity and in particular of pricing choice. In export pricing decision a distinction between economic and strategic performance can be made (Myers & Harvey, 2001). Among economic performances is possible to recognise economic indicators such as ROI, or performance indicators such as profitability, sales or percentage of exports on total sales. Strategic performances, in the other side, are those performances that are difficult to evaluate and provide a specific monetary value is hard. These performances represent the outcome of management decisions and most of the time the result of specific strategic objectives of market share, competitive advantage, strategic expansion etc. (Tan & Sousa, 2011).

In this paragraph only strategic performances will be analysed and especially for two variables an in-deep explanation will be provided. These two variables degree of internationalisation and distribution relationships that are part of the central focus of this research.

The degree of internationalisation has been studied only one time by Stewart (1991). In this study was found a significant relation between export pricing strategy and degree of internationalisation. Stewart (1991) advocates that firms that operates in markets in which price is not the only strategic advantage and has developed a well-planned marketing strategy for its distributors' support, this firm has a better success in export markets and an higher degree of internationalisation.

In an export context, the relationship between the exporter and the international intermediary is usually translated in the degree of control over the marketing functions that the distributor, or other kind of intermediaries, agrees to perform in supporting the exporter's objectives (Bello & Gilliland, 1997). Control permits also to protect product quality and price from opportunistic behaviours of the third party (Cavusgil & Sikora, 1988), i.e. settling prices at lower levels.

Among the empirical evidences of Myers and Harvey's (2001) study, a negative relationship between control and performances was founded. They advocate that an higher level of control over distributors ends in lower level of strategic performances. For this reason understanding the relationship between marketer and its partner is a key element of an export pricing strategy and more studies must be conducted in order to clarify if the degree of control over the intermediary in general and specially over distributors, really affects the whole firm's performances.

Before to draw the export pricing model according to the first objective of this research, it is important to describe the principles of contingency theory, that is the theoretical construct of this model; and in second instance the cultural dimensions that characterise the innovative feature of the research.

## **2.5. Contingency theory and export pricing.**

According to contingency perspective, standardisation and adaptation should not be seen in isolation from each other, but be viewed as two extremes of the same continuum (Jain, 1989; Onkvisit & Shaw, 1987); no universal set of strategic choices can be considered optimal for all organisations and circumstances (Ginsberg & Venkatraman, 1985). For this reason, the

recent literature of international marketing studies is mostly oriented on the prospective of contingency approach (Alashban et al., 2002; Chung, 2003; Lee & Griffith, 2004; Özsoyler & Prussia, 2000; Shoham, 1999; Sousa & Bradley, 2005; Theodosiou & Katsikeas, 2001; Tan & Sousa, 2011). Contingency approach recognises both advantages and disadvantages associated with each of the two extremes of having standardised or adaptive productions (Lages & Montgomery, 2004).

The adaptation of the marketing strategy involves all the elements of the marketing mix, price, product, promotion, place. For what concern the export marketing studies, the major expression of adaptation, or standardisation, is represented by the differences between the domestic strategy and the one applied in foreign markets. The characteristics that can be adapted/standardise are several, in example the product sold in export markets can be disclosed with a different brand name, design, labelling, quality or variety. The price can differ from concession of credit, discount policies, and margins; the promotion can be adjusted according to advertising idea, themes, media channels, promotion objectives, budgets, public relations emphasis, and direct marketing or mailing. Place strategy or distribution strategy can differ in the criteria of selection of the distribution systems, transportation methods, budgets, and distribution networks (Lages & Montgomery, 2004).

For what concerns pricing, several contributors in export marketing literature, such as Walters (1989) and authors such as Gabor (1988) and Morris and Morris (1990) recognise that a successful price decision making is dependent on situational variables in dynamic environments. This calls for a contingency approach applied at export pricing; since pricing process is too complex to be attributed to an universal explanation (Diamantopoulos & Mathews, 1995).

In the literature of export pricing, several theories were adopted by researchers: economics of scale, theory of friction, transition cost paradigm, general competition theory, mimic isomorphism theory, attribution theory, relational paradigm, resourced-based theory and contingency theory. The most adopted theories are three: resource-based paradigm, the relational paradigm, and contingency paradigm (Francis & Collins-Dodd, 2000; Tan & Sousa, 2011). The resource-based approach is focused mainly on the internal resources and capabilities of the company options (Morgan et al., 2004; Zou & Stan, 1998).

The relationship model poses its basis on the firm's network, viewing export activities as a result of a relationship between exporter and buyer (Styles & Ambler, 1994). Both of the latter approaches show a lack of attention on the environmental factors that influence companies behaviours and performances (Sousa & Bradley, 2009), which are the most important variables of the contingency theory; probably for this reason contingency theory has been adopted for the majority of the studies (Tan & Sousa, 2011). Contingency variables provide only limited or indirect possibility of control over internal and external forces, response variables, and performance variables. A successful implementation of EPSs depends on the accurate identification of contingency variables and the proper fit of pricing decisions and actions by the firm (Myers et al., 2002).

These variables were firstly identified in the study of Cavusgil (1988) which recognises six factors that affect export pricing: nature of the product/industry, location of the production facility, chosen system of distribution, location and environment of the foreign market, US government regulation, and attitude of the firm's management. These variables were reclassified in into four categories by Cavusgil and Zou (1994): firm and management characteristics, product characteristics, industry characteristics and foreign/domestic market characteristics. An explanation of these variable was previously provided in the paragraph called export pricing antecedents at the point 2.2.

The contingency approach suggests, therefore, that we can observe wide variations in effectiveness, but that these variations are not random. Effectiveness depends on the appropriate matching of contingency factors with internal organisational designs that can allow appropriate responses to the environment. For this reason a theoretical and practical application of contingency theory, is achieved only through three main steps: identifying important contingency variables that distinguish different contexts; grouping similar contexts based on these contingency variables, and determining the most effective internal organisational designs or responses in each major group (Zeithaml et al., 1988).

Contingency theory-building also involve three types of variables; contingency variables, response variables and performance variables. Contingency variables represent external situations in respect of the organisation or manager; in most of the cases the control is limited or indirect. Response variables are the organisational or managerial actions taken in response to current or anticipated contingency factors. Performance variables are the dependent

measures and represent specific aspects of effectiveness that are appropriate to evaluate the fit between contingency variables and response variables for the situation under consideration (Zeithaml et al.,1988).

In addition to contingency variables there will take in considerations also variables coming from cultural studies. This represents the innovative part of this investigation because none of the researches in the literature has considered cultural differences as a force influences export pricing decisions. For this reason in the following paragraph the most important studies on culture will be considered and some cultural aspects will be chosen as part of the export pricing process to be considered.

## **2.6. Cultural dimensions in export pricing**

In the export pricing field till now culture has been studied as psychic distance which was considered in two empirical studies: Sousa and Bradley (2005) and Sousa and Lengler (2009) reaching the conclusion that psychic distance has a significant, positive influence on pricing adaptation. In international business and marketing, psychic distance is perceived as the differences between a home country and a foreign country regardless of physical time and space factors which differs across diverse cultures. (Usunier and Lee Marketing across Cultures, Essex, UK: Pearson Education, 2005)

The origin of this idiom can be attributable to the research conducted by Beckerman (1956) and Linnemann (1966). The consolidation of the concept was further provided by Vahlne and Wiedersheim-Paul (1973) described subsequently by Nordstrom and Vahlne (1992) as:

*"Factors preventing or disturbing the flow of information between potential or actual suppliers and customers."*

These factors are associated with country-based diversities and dissimilarities and can be grouped into four areas: linguistic differences, cultural factors, economic situation and political and legal system. In this research one aspect of psychic distance will be investigated that is culture. The most important contributor in terms of cultural researches is represented by the Dutch anthropologist Geert Hofstede and his study on IBM's employees. His study conducted through a survey during the 70s lays the groundwork for countless further

researches in a different multitudes of disciplines such as international management (Minkov & Hofstede, 2011). Several contributions in cultural dimensions were inspired by Hofstede's (1980) work such as Chinese Culture Connection (1987); Schwartz (2004); and GLOBE's project.

In this research, introducing for the first time the concept of culture dimensions in export pricing as a general dimension affecting the entire process, the cultural framework will be formulated taking in consideration the most important study on cultural dimensions provided by Hofstede (1980).

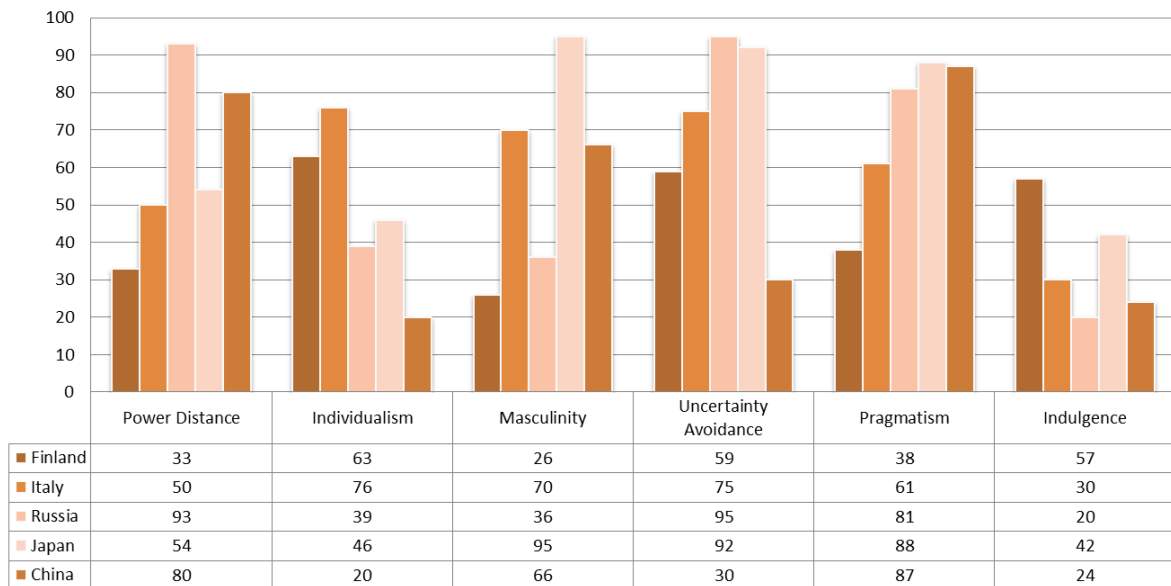
Hofstede argued that the differences in norms, beliefs, self-description, and values can be explained by statistical and conceptual associations through four cultural dimensions, (Minkov & Hofstede, 2011) became six after further studies. Hofstede's dimensions are considered at the basis of the identification of societies' problems that have to face every day. The dimensions as identified by Hofstede are: Power Distance, Individualism-Collectivism, Masculinity-Femininity, Uncertainty Avoidance, Pragmatism, and the most recent Indulgence vs Restraint (Hofstede et al., 2010). An example of these dimensions is reported in figure 1.

Power Distance regards the social inequality including relationships with the authority. This dimension expresses the degree with which the less powerful members of a society accept and expect that power is distributed unequally. The fundamental issue here is how a society handles inequalities among people. People in societies exhibiting a large degree of power distance accept a hierarchical order in which everybody has a place and which needs no further justification. In societies with low power distance, people strive to equalise the distribution of power and demand justification for inequalities of power (Hofstede, 1991). This construct is very important in international business because power inequality is a fundamental characteristic of all societies, and also all societies are unequal but at different levels (Hofstede & Mc Crae, 2004).

As is possible to observe in the Figure 1, Finland with the score of 33 underline the characteristics of Finnish philosophy: being independent, hierarchy for convenience only, equal rights, superior accessible, coaching leader, and management facilitates and empowers. Furthermore power is decentralised and member's experiences are at the central way of



success. Communication is direct and participative and managers are informal. At the opposite side Russia score 93 representing a high perceived distance from the power, due to the high centralisation of the country; the wide difference between less and more powerful individuals, brings to a great importance of status symbols. Behaviour also has to reflect the status role in all areas of business transactions (Hofstede, 2014).



**Figure 1.** Examples of Hofstede's cultural dimensions (Hofstede, 2014)

In the second instance Hofstede (1991) analysed Individualism-Collectivism defining it as the relationship between the individual and the group. The high side of this dimension, called Individualism, can be defined as a preference for a loosely-knit social framework in which individuals are expected to take care of only themselves and their immediate families. Its opposite, Collectivism, represents a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty. A society's position on this dimension is reflected in whether people's self-image is defined in terms of me or us. In individualistic groups the ties versus the other members of the society are very low and most of the interests are concentrated on the single person or family, at the opposite collectivist society's people

are more integrated and collaborative to each other, often families are very large, unified and present strong ties (Hofstede & Mc Crae, 2004).

In the example of the latter dimension, Italy scores 76 and China scores 20; that means that Italy is an individualistic country where individuals seek to bring to completion individual objectives and personal ideas. Friends are very important in business and viewed as a business network. China instead with a score of 20 is highly collectivistic where people act mainly for the interest of the group. They have a low commitment with the organisation and personal relationships prevail over task and company (Hofstede, 2014)

The Masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material rewards for success. Society at large is more competitive. Its opposite, Femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented. In the business context Masculinity versus Femininity is sometimes also related to as tough-versus-gender cultures (Hofstede, 1991). With Hofstede's study the values of women and men were identified as different poles. The masculine behaviour is the assertive pole and the feminine is the caring pole. Feminine countries have caring behaviours that means that men and women share the same values; masculine countries instead are more assertive and competitive with a greater inclination in men's values generating a gap between men's values and women's values (Hofstede & Mc Crae, 2004).

In the reported example, Finland and Japan are the countries that scored respectively the lowest level, with 26, and the highest level with 95. Is possible to assert that Finland is a feminine society in which work is viewed as a vehicle for living, managers seek for consensus, people has the same value, solidarity and quality are characteristic of the working life. Conflicts are solved through negotiations and compromises and incentives are promoted, a good manager is the one that support their employees and decisions are taken involving all the team. The status is not shown. At the opposite side Japan is one of the most masculine countries in the World. Being also a collectivistic country assertiveness and competitiveness is not performed at individual level but at group or team level. For women is still difficult to climb the corporate's ladder because of the strong masculine feature of the work, expressed in workaholic behaviour (Hofstede, 2014).

The fourth dimension identified in the initial study was Uncertainty Avoidance, which was described as the “*ways of dealing with uncertainty, relating to the control of aggression and the expression of emotions*” (Hofstede, 1991). The Uncertainty Avoidance represents the tolerance of a society toward uncertain and ambiguous situations. Cultures with a propensity of avoid uncertainty try to minimise it with strict rules, laws, and security measures; at the opposite uncertainty-accepting cultures are more tolerant, phlegmatic and contemplative. Hofstede released his cultural dimension from the previous study of Lynn (1971) and Lynn and Hampson (1975) correlated to the level of cultural anxiety or neuroticism (Hofstede & Mc Crae, 2004). In the figure 2 Russia and Japan have a high score with 95 and 92. Dealing with this countries means that they present a high level of bureaucracy, formality is considered a sign of respect and negotiations are long and very detailed. At the opposite side Chinese society with a score of 30, take in evidence that Chinese are flexible and they adapt easily to changes. They have an entrepreneurial attitude and the majority of the businesses are run at family level (Hofstede, 2014).

Every society has to maintain some links with its own past while dealing with the challenges of the present and the future; societies prioritize these two existential goals differently. That was the principle that inspired Hofstede in the introduction of the fifth dimension: Pragmatism. Through the utilisation of a questionnaire in 23 countries drawn by Chinese scholars, long-term versus short-term was investigated, focusing on people’s efforts toward future, present and the past (Hofstede & Mc Crae, 2004). Societies who score low on this dimension, in example, prefer to maintain time-honoured traditions and norms while viewing societal change with suspicion. This is the example of Finland in which the score of 38 classify this society as normative, in other words they strive to find the absolute truth and they show great respect for traditions (Hofstede, 2014).

Those with a culture which score high in Pragmatism, such as Russia, Japan and China on the other hand, take a more pragmatic approach: they encourage thrift and efforts in modern education as a way to prepare for the future. Values associated with long-term orientation are thrift and perseverance; values associated with short-term orientation are respect for tradition, fulfilling social obligations, and protecting reputation (Hofstede & Mc Crae, 2004). This dimension represents the cultural explanation of the East Asian economic miracle (Hofstede & Bond, 1988). The truth is not absolute and strongly depends on the situation (Hofstede, 2014).

The last and most recent dimension is the Indulgence vs Restraint. This dimension is the result of a study conducted in 93 countries by Minkov Michael that was asked to join Hofstede's studies on culture (Minkov & Hofstede, 2011). An indulgent society is the one that allows free gratification of basic and natural human drives related to enjoying life and having fun. While a restraint society is a society in which strict social norms are suppressed and gratification of needs is limited (Hofstede et al., 2010). Examples of restrain societies are Italy, Russia and China that share the characteristic of cynicism and pessimism; indulgence is viewed as something wrong and put their emphasis on controlling the gratification of their desires (Hofstede, 2014).

Cultural dimensions have a wide range of applicability in business field, for instance in leadership positions there are several kind of what is considered good leadership, or how teams should be led; in change management several types of models and implementation procedures are implemented according to the different cultures; customer services centres fail because they don't take into account cultural differences; all aspects of consumer behaviour are strictly correlated to customer's cultures. The example are several and show how culture is so important in international business (Hofstede, 2014).

In export pricing as already mentioned before, negotiation, in other words the practice of establishing the price with the international partner, has a crucial importance in export activities. Cultural aspects have an important role in pricing negotiation because foreign partners not only speaks a different language but also, for cultural reasons, think in different ways and have different priorities in doing business (Tayeb, 1998). These differences manifest themselves in, for example, approaching business meeting in informal way and using first name and adopting an informal style they perceive to build trust in the relationship, but as observed before i.e. Russian culture reject this approach.

Two partners from these different cultural backgrounds could easily misunderstand each other if they negotiate without a previous knowledge of one another's assumptions and values. There are several differences, for instance, in the negotiating styles and how the negotiating process is carried out. One of the major differences is the amount of authority that the negotiator has to approve an agreement (Rugman & Hodgetts, 2000).

For the importance of culture in doing business and in export pricing setting, in this research the culture will be viewed as a whole effecting the pricing process and not a mere dimension, antecedent or contingency. Its application in the process is shown in the following paragraph in which the model of an export pricing strategy will be developed.

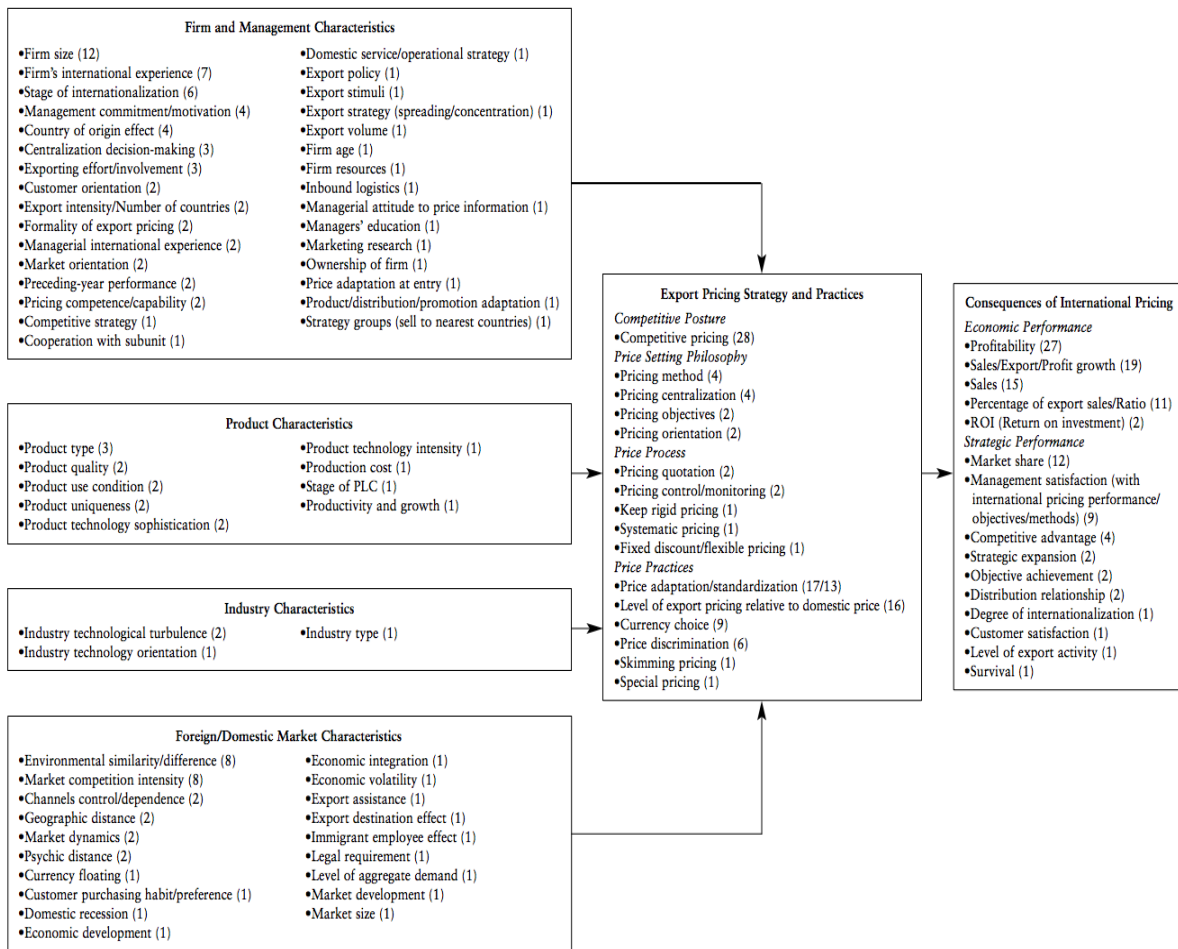
## **2.7. Theoretical model for export pricing decisions**

The theoretical model for an EPS will be built starting from the basic construct of contingency theory regarding the debate of standardisation vs adaptation. First of all contingency theory located three different types of contingences as analysed in chapter 2: contingency variables, the variables affecting directly the pricing strategy; response variables that the actions undertaken to overcome the contingency variables; and performance variables that are the consequences of the strategy adopted. For this reason the model should be separated in three main blocks in which the three different contingency variables are incorporated.

Contingency variables, also called determinants, have different nature and different classifications as observed in chapter 2. The most updated and reliable source of determinants that literature presents, is represented by Tan and Sousa's (2011) framework of export pricing represented in figure 2. This framework is the result of the literature analysis over the last 30 years, in which 62 determinants have been collected. As it's possible to observe on the left side of the figure, characteristics are reported representing the antecedents of an EPS already mentioned in the paragraph 2.2. The box in the middle is composed by response variables illustrated in paragraph 2.3. and the box on the right Consequences of International Pricing are shown, representing the analysis of the performances faced in the paragraph 2.4. This framework will be the main source of determinants for the theoretical model.

Secondly according to what already said, an EPS should not be seen the same for all markets in which the firm is exporting or wants to enter, but a level of standardisation, or adaptation, should be established. This construct bring at the separation of different market segments involved in the pricing process bringing at different measures adopted in setting the EPS and performing in different ways. For example the export market should be divided by nations: China, Japan and Russia; or could be classified according to a conglomerate of countries such

as Middle East, South East Asia and North America; or cultural features such as Latin, Nordic or Asiatic countries and so on. These different markets, that in this case will be names market segments, requires different actions in overcoming the different contingences arising from the market separation, that is the main principle underpinning contingency theory. Finally also different performances will be observed due to the different actions that can be end in different performance objectives. According to these principles the three blocks of the model are composed by variables and by the different aspects of the strategy: market segmentation, pricing practices, performance variables.



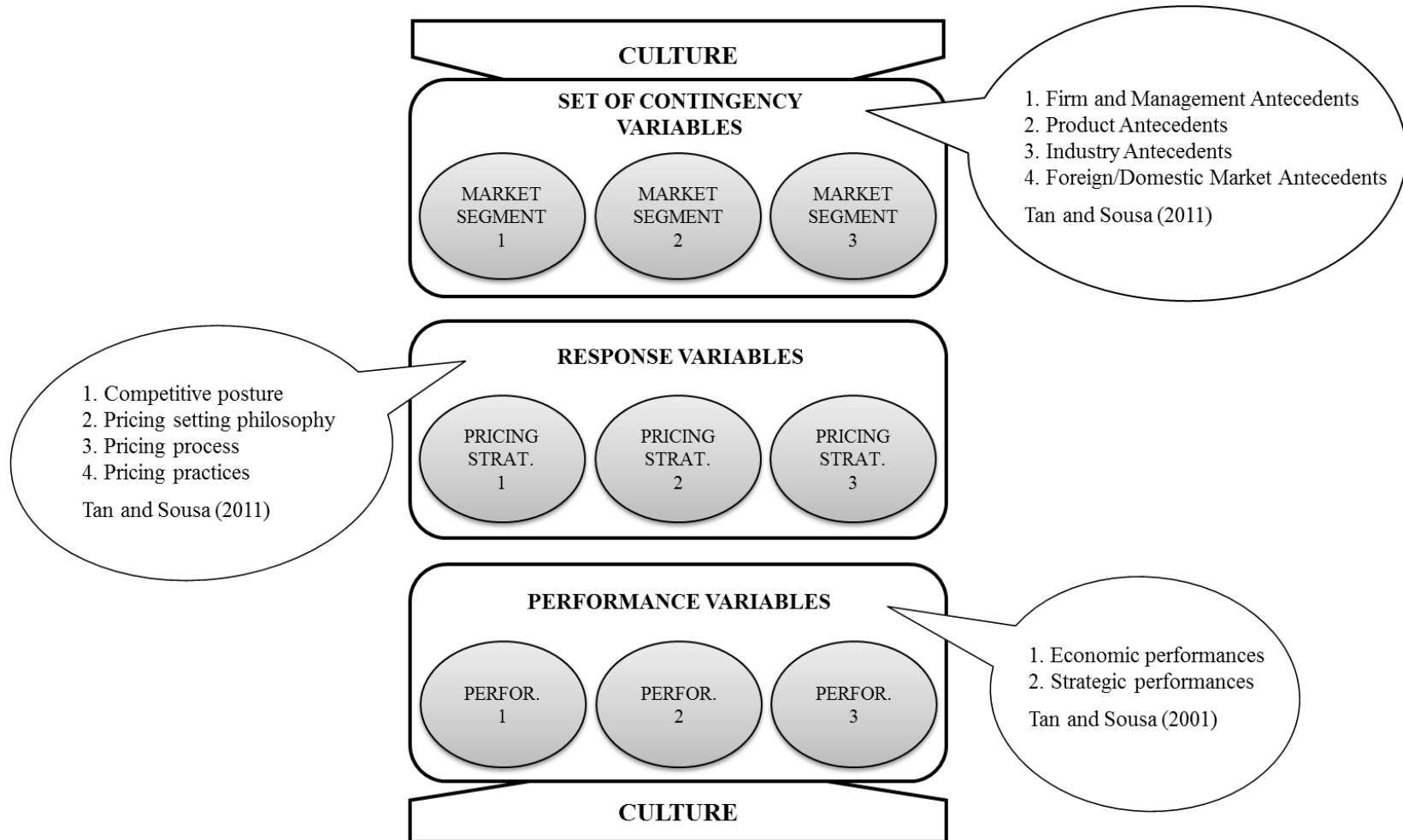
**Figure 2.** Framework of Export Pricing (Tan & Sousa, 2011).

Established the basic principles, the model is represented in figure 3. As already said is divided in three main blocks according to the three kind of contingences characterising the three main steps of the model. In the first box contingences variables condition the choice of the markets, in other words market segments are chosen on the basis of their characteristics and variables that the company is not able to control, or has can only partially influence. Contingences are placed in right side of the box highlighting the four main categories of contingences observed in Tan and Sousa's (2011) framework.

In the second step, response variables block represents the concrete actions that the firm undertakes in order to overcome contingency variables, shaping the different pricing strategies for each segment of the market. On the left the four parts of the response variables are shown: competitive posture, pricing setting philosophy, pricing process and pricing practices. After setting the different actions the last block shows performance variables, that are the result of the pricing strategies. These variables have two different nature, economic and strategic. Each market segment may have different performances due to for example to the different objectives among the market segments. This model will be the basis of the this investigation. Empirical study will be settled in a way to analyse at least one aspect of the blocks and finally a comparison between findings and the theoretical model will be provided.

## **2.8. Summary of the chapter**

In this chapter the concept of EPS has been analysed outlining that is an integral part of the general strategy and that is affected by several variables that can have an internal or external nature. These variables are called in the literature antecedents. The antecedents represent the environment in which the firm is operating and directly affect pricing decisions. Antecedents can have different source broadly classified in four main categories: managerial, product, industry, and countries' differences.



**Figure 3:** Theoretical model of an EPS (Author's elaboration)



In an EPS is important to consider four main aspects: the competitive posture if the company is operating in high competitive markets and the level of standardisation is high; the pricing philosophy concerning the method used in price setting, the hierarchy and who in the organisation takes pricing decisions, the objectives of export pricing and pricing orientation; the price process concerning mainly quotations, the level of control and the frequency of pricing re-negotiations; and finally pricing practices in other words how in practice pricing decisions are applied to the final customer.

The main source of evaluation of an effective EPS is the evaluation of the performances that in the literature has been analysed from two main prospective, strategic and economic. Strategic and economic performances are considered the consequences of an EPS and the primary control over EPSs' objectives. As a consequence an EPS can be divided in three main parts respectively antecedents, strategies and practices, and performances. These parts are considered the main three steps of EPS building and will be taken as a basic construct for the theoretical model.

### **3. RESEARCH ARCHITECTURE**

The importance of a well thought research architecture is reflected on the ability to answer to the research question(s) and meet the objectives. The choice of the research strategy is guided by the research question(s) and objectives by the achievements in terms of knowledge in the literature, the resources and the amount of time available, and researcher's philosophical beliefs (Saunders et al., 2009:141).

After reviewing the main contributions in export pricing literature in chapter 2 and obtaining the theoretical model at the basis of the export pricing strategy, this section continues in designing the appropriate research strategy in order set the empirical investigation and reply at second objective of this research, that is the identification of the main determinants of an EPS and outline the main threats, patterns and their evolution during the last years.

The chapter is divided in six main parts, at first instance the delimitation of the study is shaped, secondly the research design is studied including the strategy and the methodology for this research. In the third paragraph the sample will be chosen followed by an explanation of data collection and analysis technique provided in the fourth paragraph. The main issues of validity and reliability are discussed in the fifth paragraph and at the end a summary of the research strategy is produced.

#### **3.1. Delimitations of the study**

Before to explain how in practice the empirical investigation will take place, it's necessary to define the delimitations of this study. It's possible to outline two source of delimitation, the first one concerning the market in which the research will take place and the second one regarding the contingency variables analysis.

Setting an investigation for all countries apart of being very costly and difficult to realise, issues on reliability, validity, generalizability would rise. For this reason Italy has been chosen to be the target market of this research. The logic beneath this choice has two different

nature, first of all the investigation can be conducted in mother tongue and second of all it will be more easy to gain access to the business cases.

The other study delimitations concerns the analysis of the variables according to the model obtained in the paragraph 2.7 in replying at the first objective of this research. The model shows the main categories, grouping all determinants that in the literature have been analysed. Adopting all determinants would be very complex to analyse. In order to comply with the research question, only few relevant variables will be analysed directly while the remaining will be deducted during the investigation when revealed. The main criteria of variable selection is ascribable to the research gap stressed in chapter 1. According to the gap the need to provide instruments for managers is compelling, secondly more studies on practical issues are required and third more studies on adaptation/standardisation issues on EPSs are suggested.

For the previous reasons six variables were chosen to directly investigate: currency choice, currency floating, method, objectives, price quotations, price adaptation/standardisation. Due to the need to provide practical directions on EPS setting, more response variable were chosen to be included in the investigation. The study will be not concentrated only on pricing determinants; also issues such as cost evaluation and problems on payments will be faced to provide more practical insights.

Variables analysis jointly with managerial issues will be the body of this empirical investigation which findings will be collected and analysed in a way to be verified and implemented with the theoretical model of EPS. Managerial suggestions and guidelines for SMEs will be also formulated.

### **3.2. Research design**

In this research the ontology, the researcher's view of the nature of reality or being; the epistemology, the researcher's view regarding what constitutes acceptable knowledge; and the axiology, the researcher's view of the role of values in research; take its theoretical construct from the interpretivism philosophical principles (Saunders et al., 2009:119). This construct stress the necessity to explore subjective meanings motivating the actions of social

actors in order to be able to understand these actions (Saunders et al., 2009:119). This assumptions will condition also the data collection techniques calling for small samples, in-depth investigations, and qualitative data.

The use of theory in this research is mainly inductive in which data are collected in order to develop theory as a result of data analysis (Saunders et al., 2009: 124). The advantages of inductive approach are several; first of all permits to understand the way in which humans interpret their social world, second is a more flexible methodology, recognising alternative explanations of the facts. It also provides a better understanding of the problems through interviews and is more concentrated in the context in which is positioned requiring a small sample for the investigation (Saunders et al., 2009: 126). Furthermore researchers adopting an inductive approach usually work with qualitative data and more than one tool is adopted for data collection, in a way to possibly provide different views of the same phenomena (Easterby-Smith et al., 2008).

Continuing with research design, is important to define the research purpose because will effect all the subsequent choices, and it is usefull to clarify the final purpose of the investigation (Saunders et al., 2009:138); in other words the research purpose is important in how turning the research question into a research project (Robson, 2002:409). Considering the philosophy, the direction and the research question the study will adopt an exploratory purpose. Exploratory studies are a valuable source of finding in respect of what is happening, to seek new insights, to ask questions and to assess phenomena in a new light (Robson, 2002:59). Exploratory studies are very significant in clarifying and understanding of a problem and usually is conducted through three methods: studying the main contributions in the literature, interviewing experts in the subject and conducting focus group or in-depth interviews (Saunders et al., 2009:139-140).

As partially anticipated, case study strategy will be adopted. Case study refers to a research which involves the investigation of a contemporary phenomenon within the real life context (Robson, 2002:178). With the case study is possible to obtain a better understand of the context and its process (Morris & Wood, 1991). The case study strategy permits to answers at the questions “why”, “what” and “how” and is possible to combine different data collection techniques in order to answer to the questions; these techniques may involve examples, interviews, observations, questionnaires etc. (Saunders et al., 2009:146). In this research

multiple case studies will be used because of the need to establish whether the findings of the first case are verified in other cases and, as a consequence, the need to generalise from these findings (Yin, 2003). Using multiple case studies as a research strategy entail that qualitative data will be collected. Qualitative data are mainly linked to collection techniques, such as interviews, or data analysis, such as categorising data, that generates or uses non-numerical data (Saunders et al., 2009:151).

In defining the method, there are two main kind, mono-method or multiple methods. Mono method is referred at a single data collection technique and corresponding analysis procedures. Multiple methods is referred to the use of more than one data collection technique and analysis procedures to answer to the research question (Saunders et al., 2009:151). Due to the lack of resources and time limit one method will be implemented for this research. For this research an non-standardised instrument that typically refers to qualitative researches is implemented: semi-structured interviews (King, 2004). Due to the qualitative nature of the data coming from non-standardised and non-numerical sources, the analysis results to be very complex. For this reason a classification into categories will be provided and the use of conceptualisation will be used for data analysis (Dey, 1993; Healey & Rawlinson, 1994).

### **3.3. Research's sample**

After defining the design of the research, it's important to define the method to reduce the amount of data by considering only data from a sub-group rather than all possible cases. Due to the limited amount of time and resources it will be not possible to investigate the entire population; for this reason a sample will be selected in a way to explain the general phenomena.

Due to the main goal of the investigation and the information required to reply the research question and objectives, the population of the investigation is represented by all the individuals that have reached a deep understanding on export dynamics through their experiences in exporting firms and have acquired a substantial knowledge of pricing issues. Derives from it that export managers, CEOs, sales managers and project managers that have at least ten years of work experience will be the main target of this research. As already

mentioned in the first paragraph of this chapter, managers with experience in Italian firms will be the main focus.

Quantify the number of individuals directly dealing with export activities in a country is very difficult, and using conventional instruments of selection such as mailing list, it will be very hard to gain access to samples. For these reasons the population of the research will be designed from LinkedIn that is one of the most popular social network dedicated to the creation of business networks and with its 200 million members announced in 2013 (LinkedIn, 2013) will be a valuable source for gaining access to business samples. Using the website's tools, the population has been quantified at the date of 1<sup>st</sup> February 2014 in the way that follows.

Entering the word "export" in the general research box, that permits to search in the work descriptions of the members, enable to identify only those members that professionally are directly involved in export activities. A fast verification has been made scanning the initial results, consisting in verifying whether all the members are effectively dealing with exports, sales and international trading. As expected, sales managers, export managers, CEOs and project managers were outlined by the research. After this first scanning, further two other filters were used in narrowing down the research's population, that are the filter by work experience and country. After excluding those careers shorter than ten years and including only those working in Italy, the resulting number of the population is 42,125.

Due to the nature of this study and its research question and according to the settled strategy, non-probability sampling techniques are adopted. With the adoption of non-probability techniques generalisation takes its source mainly to theory rather than about a population; as a consequence the sample size is dependent on research question and objectives. That means that the selection of the sample is strongly dependent by what it's necessary to find out, what is useful, what has enough credibility and what can be done with the available resources (Patton, 2002).

The first sampling technique adopted by this study is purpose sampling through heterogeneous or maximum variation sampling that provide the collection of more different cases as possible identifying different characteristics (Patton, 2002). For this reason two or three cases for each business sector will be taken. In example in two or three in the food

industry, engineering, fashion, and so on. The second sampling technique adopted is the self-selection sampling. Self-selection sampling occurs when there is the possibility for each case to take part in the research, promoting the research through internet, mailing or media and collect data from who respond (Saunders et al., 2009: 241). The major reason of the adoption of the latter is in the nature of the population which is taken from a social network, therefore private messages, posts and group's comments are used to reach the desired sample.

### **3.4. Data collection and analysis**

Interviews will be conducted in mother tongue in order to avoid any language bias and will be collected in a cross-sectional period between April 2014 and August 2014. In appendix 1 the Italian version is reported and in appendix 2 an English translation is provided. In the situation in which managers are willing to participate to the research but they may not have time for the interview, the list of questions are sent by e-mail giving the possibility to reply in a written form; for further questions by e-mails will be exchanged as well.

The structure of the interview is composed by two main parts. The first part is composed by six preliminary questions that for most of them are typically collected in advance, but if not available on LinkedIn's profile or in internet will be directly asked before the interview. The first two questions are dedicated to privacy matters, asking separately if name of the interviewee and name of the company can be mentioned in the text of the research. In this way any biases coming from the possibility that personal data can be published are avoided. Furthermore asking if his/her name or company's name can be used in the research, will make the respondent more comfortable and free to talk about the topic.

The third question regards firm's data: company name, business sector, product description, annual global turnover, annual export turnover and number of workers. These information are important in order to identify the feature of the firm, classify it in the research by sector and understand the dimension of the business. Continuing with the preliminary part of the interview personal information of the respondent data are asked: experience, education and if they participate at any refreshment courses. This is important in order to understand if there are any dichotomies from the job in which are in charge and their backgrounds.

In the second part of the interview the investigation of the main determinants, patterns and threats are faced. In this part nineteen questions are settled. As already mentioned at the beginning of this chapter, six variables from the theoretical model are chosen and for their investigation the first twelve questions are settled as shown in table 2.

**Table 2.** Variables investigation (Author's elaboration)

VARIABLES	QUESTIONS
Method	4. Which are the main criteria adopted in choosing export's prices? And if there are any, which are the main models/guidelines used? 9. Do you apply any particular discounts or conditions in your commercial practices? (I.e. promotions, special discounts, payment's delays etc.)
Objectives	1. Which are the main customers regarding your exports activities? How many are considered long-term and how many are only occasional? 2. In which countries/clusters does your company perform export activities? And which is the incidence in terms of revenues of each country/cluster? 3. What are the main criteria that you use in choosing a target country? 5. Is the price applied part of global strategy involving the general trend of the company?
Price adaptation/standardisation	6. Is the offer of your products/services homogenous or differentiated according to the destination? 7. Does your company generate the same marginality in all the countries that is supplying? 8. Are different strategies/methodologies applied among your clients/countries/clusters? If yes, what are the main adjustments/modifications?
Currency floating and Currency choice	10. Does your company supply any countries with different currencies than euro? If yes, based on your experience, how and how much has an influence on the transaction with the client? Do you adopt any measures in order to avoid, forecast or solve any problems generated by currency floating?
Pricing quotations	11. What are the main INCOTERM conditions applied to your exports?

For what concerns threats on EPSs the question number 13 asks about problems on payments, the question 14 about the difficulty of cost evaluation and the question 15 tries to point out the main mistakes in setting the export price. For what concern the consistency of an EPS the question 16 asks about the level of influence that the price has on final performances and the question 17 about the role on the EPS in respect to the general strategy, with these two questions will be possible to understand what is the importance of an EPS but as well understand in a certain way the level of commitment that management involves on setting



the right price. The question 18 is dedicated to the culture view as whole effecting the EPS, the aim of this question is to understand if cultural aspects are really effecting business transactions and whether or how they affect pricing decisions. The question is direct and asks about any particular problems arose in dealing with different cultures. At the end of the interview an effort on the understanding of the evolution of the EPSs over the last ten years will be done.

As a consequence of the research strategy adopted, data display and analysis principles are adopted. With this technique data from the interviews will be analysed according to a scheme summarised in Table 3.

**Table 3.** Data analysis categories (Author's elaboration)

<b>Categories</b>	<b>Determinants</b>
EPS's determinants	Method Objectives EPS adaptation/standardisation Currency floating and currency choice Pricing quotations and payments Culture
Managerial issues	Cost evaluation difficulties Common mistakes in EPSs Price influence of performances Role of the EPS in respect of the general strategy Particular conditions applied Evolution of the market

Business cases will be analysed according to their type of industry. For what concerns contingences variables or EPS's determinants as are called in the table, a summary scheme will be provided in order to verify the generalizability of the findings and implement the theoretical model of export pricing strategy. The advantages of this approach are mainly addressed to this form of display because summarise the amount of data and help in developing an analytical thinking, allows the comparison between data and permits the identification of relationships, key themes, patterns and trends that may be evident (Miles &

Huberman, 1994). Managerial issues, evolution of the market and culture will be separately discussed in the conclusions.

### **3.5. Validity and reliability concerns**

With semi-structured interviews there is a concern about reliability. In qualitative researches reliability is translated in the possibility that alternative researches would outline the same information (Easterby-Smith et al., 2008; Silverman, 2007). The firm issue related to the reliability of data is linked with interviewer bias. For this reason comments, tone or non-verbal behaviour will be kept as formal as possible, trying to avoid any possibility to influence the interviewee through the questions. Also bias from the interpretation of data are possible, this is ascribable to the fact that sensitive information which the interviewee do not wish to explore or is not empowered to discuss with the interviewer (Easterby-Smith et al. 2008). The possible outcome could be that the interviewee provides only a partial explanation of the situation or casts himself in a desired role for the firm they work in a positive or even negative fashion (Saunders et al., 2009: 326). For this reasons an initial effort in creating trust with the interviewee will be taken, this attempt is translated in an informal presentation about the interviewer's background and a brief explanation of the topic. Qualitative studies using semi-structured interviews have an high level of validity because questions have the possibility of being discussed, meanings of responses probed and topics discussed from a variety of angles (Saunders et al., 327). However, qualitative research using semi-structured or in-depth interviews will not be able to be used to make statistical generalisations about the entire population where this is based on a small and unrepresentative number of cases. This is often the situation when adopting a case study strategy (Yin 2003). For this reasons issues regarding generalizability of the research arise.

For what concerns reliability, the issues related to the repeatability of findings using non standardised research, is overcome because of the dynamic and complex circumstances in which the research is settled. For this reasons further researches in this topic may find differences in some of the peculiarities that this study will outline. Is notable that this research is conducted in market that is subjected to an economic recession, therefore findings coming from this research may be influenced by this particular historical period.

### **3.6. Summary of the chapter**

Six variables from the contingency framework shown in figure 3, six variables were chosen to directly investigate: currency choice, currency floating, method, objectives, price quotations, price adaptation/standardisation jointly with practical implications that the research gap outlined, such as payments issues, evolution of the market and the role of the EPS in respect to the general strategy. Furthermore cultural aspects will be investigated being the most innovative feature of this research.

In setting the actions of research strategy an exploratory direction resulted to be the more appropriate with an inductive approach; semi-structured interviews will be used to investigate multiple business cases which results will be analysed in order to provide new insights about EPS's determinants and managerial guidelines for SMEs.

## **4. EMPIRICAL INVESTIGATION**

In this chapter the analysis of the empirical investigation will be shown. For this research fifteen business cases were collected. Six of them have been conducted using skype, four through phone calls, three were sent in a written way and two were held in person. As shown in table 4 business cases are divided by type of company, manufacturer or engineering, and for business field such as food and drink, furniture, automotive, agribusiness etc. The analysis will follow the separation for typology, for this reason in the data analysis a separation by industry will be made.

### **4.1. Introduction to the business cases**

According to ethical behaviour, information about the name of the company and the name of the interviewees are kept private. At the beginning of the interview in asking the authorisation for mentioning the name of the company or their name in the text, the majority asked to keep it anonymous; for this reason for most of the cases will be only mentioned company 1, company 2 and so on, and respectively interviewee 1, 2 and so on; in referring to business cases and interviewees.

It's important to underline that of the fifteen business cases, 3 cases were excluded because not relevant with the topic or because only one case was collected arising several problems of reliability and generalizability. In table 4 a summary of company's profiles is provided. From the turnover data and the respective incidence of exports, is notable that for most of the cases exports have a relevant importance in the composition of the turnover, and for most of them export business represents more than 40% of total revenues, for three case exports revenues are more than 80% and for one case represent the totality of the turnover. This fact increase the validity of the business cases and then the entire research. It's also important to underline that for the majority of the companies the international markets are not unknown having for the majority twenty or more years of experience. A mature international experience is shown also for the interviewees which possess ten or more years of experience in export field.

Another aspect that comes at light from these preliminary data, is that despite the fact export activities are so important in the composition of firm's turnover, the number of human resources involved directly in export activities, remains low. That's probably due to the fact that for their international relationships with local distributors transactions are performed with large sizes of expeditions, but also could represent a lack of resources allocated to exports and an underestimation of its importance.

As already mentioned at the beginning of this chapter, the analysis will be conducted separating the cases for industry type identifying 4 main kind of industries, respectively food and drink, furniture, fashion and engineering. The analysis the business cases will be conducted according to table 3 shown in chapter 3, therefore of the different issues investigated are variables, managerial issues, evolution of the market and culture.

As is possible to observe from the table Company 1,2 and 3 represent the business field of food and drink. Company 1 was the first firm interviewed and the first of the research representing the interview's pilot. This company is based as the others in Italy and is selling long-life food products for the Ho.re.ca. segment, hotels, restaurants and catering. With a turnover about 60 million euros, more than 40% is represented by exports in more than 63 countries. The most important areas are Russia, South East Asia, Europe and Central America through distributorship agreements. This company is a distributor itself and commercialises its own brands outsourcing the production entirely.

Company 2 is an oil producer for human consumption. This firm is selling different kind of oils such as olive oil, palm oil, seed oil etc., the main differences are represented by their quality and their the applications. Export market represents the 44% of its revenues divided by the 30% East Europe: Poland, Baltic countries and Russia; and Far Est: Korea, China, Malaysia, Taiwan, etc.. For what concerns the other 70% is distributed in North Africa, South Africa, Madagascar, Australia, Cuba, Mexico, Brazil, Venezuela, Colombia, Canada and USA. Their relationships with the clients have distributorship nature but also is some cases supermarkets are supplied directly but represent a small part of the export turnover.

**Table 4.** Summary of business cases profiles (Author's elaboration).

Industry type	Name of the company	Sector specific	Turnover (million €)	Exports on total turnover	Workers	Employees involved in exports	Firm's experience (years)	Interviewee's experience (years)
Food and drink	Company 1	Ho.Re.Ca.	60	42%	20	3	20	13
	Company 2	Oil and margarine	25	44%	12	3	25	15
	Company 3	Oil and margarine	11	27%	17	4	20	12
Forniture	Company 4	Interior design	10	60%	40	15	50	10
	Effeti industrie Srl	Interior design	5	50%	15	3	20	15
	Company 6	Luxury design	7	100%	30	30	40	10
Fashion	Company 7	Sportswear	120	50%	100	10	15	10
	Company 8	Swimwear and underwear	18	22%	100	4	40	12
	Company 9	Watches	15	53%	50	8	23	10
Engineering	Company 10	Automotive	20	90%	50	5	20	20
	TEC MAC Srl	Chemical	4	88%	13	2	33	20
	Company 12	Food and drink	60	83%	90	40	25	15

Company 3 is an oil producer as well, with an export turnover in this case, less important in terms of percentage on the total, 27%. In this case the company is managed by the owner family and a member of it was interviewed. This company sells in more than forty countries being USA, Netherlands, Russia, Great Britain, Algeria and Japan the most important markets.

Company 4, Effeti Industrie Srl, and Company 6 are all furniture manufacturers. Company 4 produces home and office furniture and Effeti Industrie Srl is specialised in kitchens. Both of them have a high target of clients and exports represent 50% or more of the entire business. The first located in the north of Italy and the second in Tuscany they produce their creations thanks to a network of top craftsmen located in the surrounding areas. Company 6 as is possible to observe in table 4 was further classified as luxury, because the design furniture that they produce are addressed to the top range of clientele. An example of their clients are sultans, princes and wealthy businessmen. With 7 million of turnover is producing top range furniture intended for the foreign market, all turnover is composed by exports resulting to be a 100% exporting company.

For the nature of their businesses they sell their productions through a network of agents, contractors, design studios, interior designers and resellers. Relationships with distributors are taken in place especially for Japan and far East countries. For what concerns company 6, their furniture are sold only through design studios and architects as well. For Company 4 and Effeti Industrie Srl the most important market remains Europe with an increasing presence in Russia, India, USA, Africa and South East Asia. Both companies have a strong presence in the international field being exporters for more than twenty years. Company 6 performs its selling mostly in Russian market for the 50% of its business, 35% in Middle East, and the remaining 15% in China, India, Central America. Few sales are performed in Europe as part of sales that finally performed off-shore anyway.

Companies operating in fashion industry are typically footwear, accessories, makeup, etc. In this research this kind of industry is represented by three companies operating respectively in sportswear, underwear and beachwear, and accessories. All these three companies, respectively Company 7, 8 and 9, are dealing with distributors but as well agents, boutiques, chains and online stores in performing their export activities. As for the previously analysed business cases, mainly the relationship with their distributors are taken in consideration.

Company 7, located in sportswear sector, is a multi-brand reseller and distributor as well. The export turnover represents the 50% of the business and north Europe jointly with Russia are the main market for exports. An important role has also Japan with 7-8% of market share and USA with 3-4%. It's for the latter market that distributors are mainly adopted in exports.

Company 8 is a well-known brand in Italy related to underwear and beachwear sector. This firm possess franchising stores and an online store. Distributors are located in China and UAE which are the most important market of their exports that represents the 22% of total turnover. Company 9 is another fashion industry well placed in the accessories sector and in the specific is a manufacturer of watches. The production is mainly located in China established with a local partner. The export market represents the 60% of the entire business and their products are sold in more than 50 countries through distributorship agreements. The main market is represented by the Middle-East with 30% of market share.

The business cases of engineering market were three represented by Company 10, TEC MAC Srl and Company 12. These three companies are all producers of machines for different applications. Company 10 is a producer of washing implants for the automotive market segment. Its major business is made with big car producers and exports are mainly addressed to the different production facilities of the latters. TEC MAC Srl produces machines for the manufacturing of polyurethane and is located within the chemical sector. In performing their export activities they deal with local agents or they sell directly to the clients. They perform exports in more than 98 countries being also an official United Nations supplier. Company 12 is a coffee machine manufacturer. Exports in more than 80 countries through their network of distributors and the export market represents more than 80% of the total business as for the other two engineering business cases.

#### **4.2. EPS's determinants analysis**

In this paragraph the determinants of the EPSs are analysed according to the strategy explained in the previous chapter. Determinants of method, objectives, adaptation/standardisation, currency floating and choice, and pricing quotations and payments will analysed in this section. In analysing each variable, a distinction between the four industries from the business cases will be provided.



#### 4.2.1. EPS method

**Method (Food & drink).** The first element of analysis is the method. In investigating this variable two main important aspects are shown separately: pricing method and entry pricing method, distinguishing the two different moments of entering in a new market and the ongoing relationship. For the criteria with which prices are settled the following assertion that describes the concept:

*“The main criteria applied when we decide a price policy, is to settle a price that the market is willing to absorb” (Interviewee 1).*

The statement reflects a market orientation in setting the pricing strategy. In all three cases emerged that market conditions are the first aspect that determine the EPS. Other elements ascribable to market orientations are the concept of image of the product and market reputation. These companies settle the EPS in a way to preserve the perception of the clients and increase the reputation in foreign markets, avoiding to settle prices just as competitors but striving to create their own market niche with their product diversification. For example, products considered commodities, such as tomato sauce, prices are established at the same price of competitors because there are no other contractual powers, the product is basically the same for everybody. Instead for a production such as olive oil D.O.P., Denominazione di Origine Protetta, Controlled Designation of Origin, has an higher value added. Value is an important determinant in setting the EPS.

Continuing in asking the methodology of price calculation was reiterate by the three interviewees that cost is the basis of price calculation to which apply a determined margin:

*“The cost is the main component that influences the strategy, especially for us that the product cost continuously changes” (Interviewee 3)*

Cost remains one of the most important variable in export pricing decisions.

About the investigation of EPS entry method the common behaviour is to adopt penetration strategies in order to be more attractive and gain market share as soon as possible. This penetration practices are translated in a reduction of prices in respect of new clients, distributors, located in markets in which the company is not known. The following quote from the export manager of Company 1 explains clearly the concept:

*“When we want to enter in a new country in which we are not known, the price, and as a consequence, marginality suffer. The best and fast way is to set a price policy but without compromise products’ image” (Interviewee 1).*

This assertion shows that marginality is reduced, but never under certain level, because there is the continuous link with market perception, that is the imagine of the product. If the prices levels are settled too below the perceived quality, the product loses appealing and is perceived not valuable. Another answer that reiterated this concept is the one issued by the export manager of Company 2 that commenting the relationship with new clients affirmed that:

*“Sometimes I give for free an entire cargo, I mean I sell it at cost level” (Interviewee 2).*

This reflects also that the quality of Italian food products is not always well known and the counterpart in not well aware of the quality supplied. In these business cases the price is perceived as an indicator of quality. As emerged from the latter two assertions a penetration pricing posture is adopted in dealing with new customers or new markets in general.

In asking if some particular conditions are applied they mostly replied that there aren't. Export manager of Company 1 asserted:

*“We sell with a net price list, that means that we approach the client as it's would be a for-life client, we don't apply any particular discount and the price list reflects already the final price” (Interviewee 1).*

This assertion confirms the firm's willingness to create tight connections with international partners and provide a solid imagine of the company. International partners receive the same treatment as domestic's.

**Method (Furniture).** For what concerns the methodology adopted, the main methodology emerged are multiples. The price is determined applying a multiple on the total costs, that in the case of furniture industries is between 3.5 and 4. The price obtained is the price retail price that will be discounted according to the intermediary with which the company is dealing with. This methodology is not strictly adopted for all the international intermediaries:

*“For the contracts with distributors, there is longer negotiation in respect of volumes and future prospective that these orders will bring to the company” (Interviewee 4).*

As is possible to deduce, in dealing with distributors the methodology changes and long-period dynamics are considered in setting the EPS. The latter is negotiated with the client and takes more efforts in its realization. Multiples remains the most important tool in setting the final price.

Being the targets of these companies oriented to a class of customers with high purchasing power, prices are settled only regarding the position in the market. That means that prices are not decided on the basis of their costs, but most decisions of prices are made on the basis of the reputation of the company in the business field, and then market-based parameters are adopted. The following assertion summarised the concept of the furniture industry:

*“Our prices are applied according to the market and brand’s image, our clients don’t have any money problems, in facts our target is any rich individuals in the World” (Interviewee 6).*

Particular conditions are applied only by Company 4 that introduces promotions and special discounts according to the projects in which are participating. Discounts patters are also introduced in respect of the volumes of the purchasing. For the other two business cases no particular conditions are applied.

**Method (Fashion).** The main principles related to fashion industry is the market price. Market price is the main principle with which prices are decided. The main method used to calculate the price is multiples. The firm calculates a the retail price that must be applied to the resellers. From the retail price a discount is applied which represents the margin for the distributor. Also in this case multiples are used to calculate the retail price on the cost:

*“There is a brand manager in charge of studying the market, he understands the range of the products, the next step is the research of the materials, and so on. In Europe there is the same mark-up of 2.75 while in Italy is lower 2.4. The retail price is the same for all, is the wholesale price that changes”(Interviewee 7).*

This assertion anticipates the concept of adaptation that will be discussed later, and also shows that this company is well structured, more than the others. Is clear that the EPS in based market price in which the brand is located, from that value the desired margins are applied and a cost limit is determined. The objective is to obtain the best productions with the given cost.

In asking the methodology of new market approach, was outlined that exhibitions are very important in approaching new clients:

*“Basel exhibition for us is crucial. When we identify a potential distributor that is willing to commercialise our products this becomes our exclusive distributor for that country, yes we have one distributor for each market. The first step is to establish a statement of purpose that will be accepted by both parties and then we start with the relationship” (Interviewee 9).*

This assertion highlight in details how a distributorship agreement starts but also reflect the absence of a market entry strategy. The statement of purpose is an agreement signed by both parties in which they establish the parameters of their relationship. Sector specific exhibitions represent also in this case an important way to acquire new clients.

When directly asked if they apply any particular question the following assertion describes the main commonalities of fashion business sector:

*“No, we don’t apply any particular conditions to new clients, prices are the same. The main differences are linked in country specific requirements” (Interviewee 9)*

**Method (Engineering).** For what concerns engineering companies the dominant criteria of decision is cost plus margin. No market criteria were mentioned in the interviews for this reason is possible to assert that cost-based methodologies are adopted in engineering industry:

*“We have a catalogue in which prices are indicated. The distributor receives a discount on this price that correspond at its margin” (Interviewee 12).*

In entering in a new markets discounts polices are applied and marketing plans support the expansion activity, that means that also in this case penetration pricing policies are introduced in approaching new markets:

*“We apply price polices when we are not known in the market” (Monchiero, M.)*

*“Usually the expansion take place through marketing plans” (Bonetto, P.)*

No particular conditions are applied but discounts in rare occasions.

#### 4.2.2. Objectives

The other variable investigated by the empirical investigation is the variable regarding the EPS's objectives, in the specific the kind of relationship with their customers, the criteria of market selection, and the role of the EPS in respect of the general strategy of the company.

**Objectives (Food & drink).** For what concern the first element of the analyses in all cases managers assert that the main objective of the EPS with their customers, mainly distributors, is to establish long-term relationships:

*"Usually when we enter in a new market, we try to establish a long-lasting relationship with a local distributor, that is considered a business partner" (Interviewee 1).*

Local distributor is not considered as a mere client but represents the international intermediary with which extend and oversee a market entry and its role assumes a great importance for the companies.

Continuing with the investigation of the second parameter, criteria of market selection, is notable the two following citations:

*"What we are looking for is to be present in all the countries in which Italian foodservice is present, that means that for our products any country could be a potential target" (Interviewee 1)*

*"There is no a market criteria, the nature of the product permits to sell it in all the countries without restrictions, so it is possible to export everywhere" (Interviewee 3).*

These two affirmations at the beginning can sound reasonably but in reality shows that the company doesn't have a well thought strategy at the support of the export activity, the marketing strategy is not well planned and the EPS is the most important element of the marketing mix. But in the very last question in asking what are the main changes in the market and talking about the increased competition in the markets, emerged the basic principle of market selection that is represented mainly by a market, or a single country, in which the level of competition is low or relatively low, in a way to avoid, or reduce, possible price challenges with competitors and as a consequence perform the established margins. Considering both entry market principle and what stated about the methodology is possible

to assert that the company settles predetermined margin objectives and strive to perform this margins in targeted countries.

For what concerns practical implications of market entry criteria, economic indicators such as OCSE reports, remains the most important factor, but not sufficient to plan to entry in a new market:

*“It could be that in Vietnam there are rich people, but they don’t buy olive oil because in their traditions they usually seed oil. But there is more, now more than ever is important to pay attention to media, because for example, in Taiwan after a scandal regarding oil, the Taiwanese first lady declared to consume only European oil, after that speech we observed an increase of sales of 15%” (Interviewee 2).*

These examples demonstrate that there are multiple indicators that can drive a company in choosing a target market and push it to make investments. Media and culture in these examples are the main important factors that affect an entry market choice and as a consequence an EPS.

The last aspect of EPS objectives is the role of the EPS in respect of the general strategy. In asking the role of the EPS toward the general strategy, the main objective is to establish a long-lasting relationship:

*“At the basis of our strategy there is concept to treat every client as a for-life client” (Interviewee 1).*

*“A firm should be wise and take a long-term prospective, and not extemporizing like it’s happening now in Italy” (Interviewee 2).*

The last statement takes in evidence that now several companies are entering in export markets because the domestic one is losing share and profitability. A well thought structure for the foreign market is necessary. The EPS has the responsibility to reflect product’s quality in respect of the competition.

In investigating the objectives the following assertion underlines that a driving force in performing export activities is that the profitability is higher in respect of the domestic market:

*“The leading criteria that drives us in entering in a new market is given by the possibility to obtain higher marginality in respect of the domestic market” (Interviewee 3).*

Is evident that the possibility to obtain better marginality is given by the fact that still there is an informational gap and the market competition intensity is lower than domestic market. The firm can obtain competitive advantages in promoting its quality products.

**Objectives (Furniture).** In all cases the market entry criteria are based on information collected by the firm and no external agencies are involved. The main market entry strategy is based on historical data and missions that export managers perform are the most common resource in market expansion. The participation at showrooms and sector specific exhibitions are at the basis of the entry marketing strategy. No particular strategies are applied in entering in a new market.

The objectives are all long-term oriented with the willingness to establish durable partnership with their clients:

*“The main objective is to create loyalty with our dealers, we are also introducing some instruments like the creation of three typology of accounts, silver, gold, and platinum. In this way we want to make feel our dealer as a partner” (Interviewee 4).*

Is evident that exporters are striving to create long-lasting relationships and not only market expansion. The willingness to create partners reflects the efforts that the firm is investing in creating tight tails with the foreign markets.

In regarding to the market selection the following assertion represents what mostly happens, reflecting also the importance of firm’s commitment in market expansion and firm’s resources:

*“All developed and developing countries are target markets. Then the choice mainly depends on the company’s energies in approaching a new country” (Interviewee 5).*

For what concerns the role of the EPS, in the case of furniture industry is strongly related to the imagine of the firm in the market:

*“We have few clients but very high-level. Our clients are not scared if a dining table costs 40.000 euros” (Interviewee 6).*

Clients are willing which is the imagine, and as a consequence the costs of their productions, in the case of furniture productions the EPS is fundamental in reflecting brand image in quality of productions.

**Objectives (Fashion).** The following two assertions are very representative:

*“All planned orders. We strive to select our clients and create an history behind the working relationship” (Interviewee 7).*

*“Sometimes there is a market with no distributors of our productions, so we receive requests of direct supply but it’s not common” (Interviewee 9).*

As is possible to observe the main objective is to establish, as in the other industries, solid relationships with their distributor, being for most of the time also an exclusive distributor of their productions.

The market selection criteria have three different parameters:

*“Concentration on markets with more economical capability and also outwear productions, Greece, Spain etc. are too hot for this king of productions. The criteria is to create a network distribution” (Interviewee 7).*

*“Barriers and market potentiality” (Interviewee 8)*

*“There is no criteria, the countries that want to sell this products are welcome” (Interviewee 9)*

From the first assertion is obvious that the nature of the product affects the market selection because this company is selling mainly winter clothes, as well it’s verified for Company 8 that most of its business is composed by beachwear. In the specific it’s important to underline that again the objective of long-term relationship is mentioned, indeed the main goal is to create a network of distribution. The second methodology is concentrated on barriers and market potentials underlying that legal requirements and environmental similarities are directly involved in the EPS.

Thirdly, the assertion of interviewee 9 affirms that no criteria are applied but all countries are potential and who is interested in selling them a potential client. This could be a specific characteristic of watch business. It was not possible to clarify the aspect of market criteria because the interviews seem not completely aware of the general criteria.



The third aspect investigated among the objectives is the role of the EPS and the connection in respect of the general strategy, the following assertion represents the industry:

*“EPS has an important role with the product. Must be coherent. The collection also must reflect the price with which are sold” (Interviewee 9).*

Price and the general strategy are strongly correlated.

Special conditions are applied in specific situations such as big volumes or strategic importance of the client, making evident that a consequence of the EPS is also market share and not only long-lasting relationships:

*“Yes, we apply discounts or special pricing policies when conditions of high volumes or strategic importance of the client is verified” (Interviewee 9).*

**Objectives (Engineering).** Again also for the engineering industry, the relationships with their intermediaries are settled in a durable way. The example of the coffee machines of Company 12 is very representative:

*“We want to establish long-term relationships with our distributors, because also we need particular distributors that are able to provide the customer service” (Interviewee 12).*

In this situation the distributor has not only the task to sell their product but also to provide the assistance service to the final client.

*“Mainly there is a participation at the sector exhibitions. No market researches because the market is very specific. It’s very difficult to find any agency able to provide a serious market research” (Monchiero, M.)*

Sector specific exhibitions again represents one of the most important tool to promote export expansions. Also for Company 12 due to the nature of the product for which their machines are designated the possibilities are open to each market in which there is coffee consumption.

The EPS in engineering sector is again a tool to reflect the quality of their productions and perform better marginalities:

*“We prefer to perform lower level of volumes but maintain a marginality that the others don’t have. EPS is part of a research and development plan, if we settle the wrong pricing policy, it’s not possible to make further investments” (Interviewee 12).*

Is notable to observation that for Company 12 located in food and drink sector, how they choose a new target market:

*“According to the data coming from Ucimac agency, we decide to focus more in a country rather than others. There is a collaboration with coffee producers. They decide what kind of product from their line can be sold in specific countries” (Interviewee 12).*

This company takes the main information from an association of coffee machines producers called Ucimac in which they take part also. The exports are influenced also by coffee producers that provide general guidelines on products to sell. Also in this situation there is not a clear evidence of market selection, clients are acquired mainly at sector specific exhibitions.

#### **4.2.3. Adaptation vs standardisation**

The other important topic faced according to the interview’s strategy, was the debate of standardisation and adaptation. Three main elements of standardisation/adaptation were analysed in the interviews: level of product differentiation according to the target, differences in marginality and level of EPS adaptation and modifications.

**EPS adaptation/standardisation (Food & drink).** Product differentiation results to be mostly the same in all countries:

*“Performing very low margins, also the level of differentiation is very low” (Interviewee 2)*

*“The offer of our products is the same for all the countries” (Interviewee 3)*

The above quotes, reflect the firm’s inclination to standardisation but with some modifications, according to the different destinations. The interviews reveals that the companies doesn’t have a own marketing strategy but is thought and settled with the distributors. The product sold doesn’t change, and only adjustments in terms of labelling are done according to the different languages, cultures and appealing. The most important

modifications coming from the interviews regards the labelling of the products according to the different cultures:

*“We don’t want to be offensive or promote an offensive message of sadness using improper colours and symbols” (Interviewee 2)*

For what concerns margins, the level of differentiation resulting to be very high due to the different characteristics of markets and again market conditions translated in characteristics of the country and especially what the market is able to absorb in terms of marginality. The following affirmations from the export manager of Company 1 and Company 2, justify what asserted:

*“Marginality differs from country to country, it depends on how much the market is able to absorb”(Interviewee 1).*

*“No absolutely, we have a differentiation based on country area and product” (Interviewee 2).*

The same thing was confirmed by the third interview in which emerged that differences in marginality are correlated to country differences. These differences are translated in the level of prices accepted by the market and entry barriers such as customs duties and taxes, in other words by legal requirements.

Continuing with analysis of the level of standardisation and adaptation was asked if in their export activities there is an adoption of different EPSs and which are the main adjustments. The first answer to report is the following from export manager of Company 1:

*“The reality is that we have the same strategy but we try to be flexible. We are selling made in Italy then the strategy is the same in all countries”(Interviewee 1)*

This affirmation shows not only that they there is an high level of standardisation of the productions, but also that there are no need for different strategies. There is a particular caring about the appealing of the product more than an EPS itself, the EPS seems to be very standardised and each market and client is approached in the same way.

**EPS adaptation/standardisation (Furniture).** In analysing the level of adaptation and standardisation came at light that for Company 6 operating in luxury sector, there is a total

level of standardisation. Their productions are the same and there are no modifications in term of product and in term of margins. Also the strategy is the same:

*“The company has been in the market for many years, the expert in our sector have a deep knowledge about the company, then we cannot have different strategies”. (Interviewee 6)*

With this assertion the interviewee wants to highlight that the brand of this company is well positioned in the market, and according to its brand imagine cannot change export pricing polices according to the market, but the same conditions are applied everywhere. This is probably a distinct feature of luxury segment for this reason cannot be generalised.

For the other two companies, the situation is different and presents similar traits of the manufacturing companies, as observed before in the food and drink manufacturing sector:

*“Being a product addressed only for a middle and high market segment, it requires a high level of customisation of the project. Product gamma impedes the standardisation but only a concept of mass production in terms of the product’s structure, while the aesthetic trait is different each time” (Interviewee 5)*

This assertion from interviewee of Effeti Industrie Srl, shows that product is subjected to a series of modifications according to the customer requests. The modification doesn’t concern the structural essence of the product but differs mainly in terms of fabrics, colours and dimensions in the case of Effeti’s kitchens.

In investigating the marginality there was a sort of reluctance in explaining the main differences. Anyway in asking how margins differs emerged mainly that there is a medium-high level of differentiation, due to the adaptation of the productions and the different nature of their international intermediaries.

In investigating the different level of adaptation or standardisation of the EPS was asserted that strategies are commonly the same for conglomerate of countries:

*“It is necessary to gather together, it’s useless to have different strategies for Italy, Spain and France”. (Interviewee 4)*

With this affirmation interviewee 4 reiterate that countries with the same characteristic are considered in the same way, in this there is an high level of EPS standardisation but the affirmation of Effeti's interviewee states another situation:

*“Mostly depends on the counterparts. If an agency or an intermediary are involved. Another aspect regards the situation in which the firm is dealing with projects, in this case an increased production in terms of volumes can reduce the production costs” (Interviewee 5).*

The latter assertion shows an high level of adaptation in regards of the intermediary and explain when a different EPS take place, that is the situation in which big supplies being part of a bigger project are provided. Is possible to assert that an EPS in the furniture market, probably due to the different export channels, there is an high level of adaptation of the EPSs.

Another element that recalls what has been found in the food and drink business analysis, is ascribable at the following state:

*“When a new product is launched, the objective is to force the sales and in the case of a new market discounts or different polices are applied” (Interviewee 4).*

In the situation in which a new product is launched, different polices and in some situation discounts are applied.

**EPS adaptation/standardisation (Fashion).** For what concerns product adaptation, or standardisation, the following two assertions are important to report:

*“The company is very differentiated, there is a division for each kind of product. According to the brand products are different for the kind of customers. The collection is the same everywhere” (Interviewee 7)*

*“We produce and sell the same products in all the countries” (Interviewee 9)*

Companies in fashion industry are producing and selling the same collections everywhere, a differentiation in terms of brand is done in order to reach different target customers.

In asking what kind of differences on the marginality are verified, the following assertions were collected:

*“Margins are different according to the firm's policy. The retail price-list is the same for all the World” (Interviewee 7).*

*“We perform different marginality in respect of the destination” (Interviewee 8).*

*“Not in all the countries, there are some modifications in respect of the taxes and entry barriers” (Interviewee 9).*

Margins are basically standardised in all countries, productions are sold at the same retail price everywhere but some modifications are applied in respect of the taxes and the entry barriers.

But in asking about EPSs adaptation the emerged that in fashion industry EPSs may vary substantially according to the projects in which company and distributor, or reseller, are involved in:

*“Yes, there are different policies according to the general projects” (Interviewee 7).*

*“Wholesale prices are the same everywhere, exception for the US in which special projects are studied for a short period called Start Up” (Interviewee 8).*

The latter assertions take in evidence that the EPS differs according to a general marketing strategy. Is possible to assert that EPS and general strategy are strictly related in fashion industry.

**EPS adaptation/standardisation (Engineering).** In the case of the coffee maker producers the product is very standardised. Also company's productions are not differentiated in order to acquire new market segments:

*“The same all over the world. We have only one product with high quality and we don't want to produce cheaper machines to extend our target customer” (Monchiero, M.)*

*“No it's the same line product in all countries. In Finland in example there is the highest consumption rate of coffee per capita but the 95% of the coffee sold is for drip coffee makers and only 5% of espresso. If we would have a product for drip coffee we could be able to sell more” (Interviewee 11).*

Given the level of product standardisation, also the margin is not subjected to high adaptation in respect of the market:

*“We a 5-10% of adaptation. In respect of the country” (Monchiero, M.).*

In the same line of the product and margins, also the EPS is mostly the same everywhere:

*“We have the same strategy everywhere” (Monchiero, M.)*

*“We have a common strategy, there are some few adjustments according to the situation. EPS are different according to the product gamma, high quality low quality” (Company 12).*

Is possible to assert that EPS in engineering industry is very standardised with a low level of adaptation according to the customer type and for the adjustments made of the product. Adjustments that are significant on the structure of the product that is highly standardised.

#### **4.2.4. Currency issues.**

In investigating currency issues three main aspects were analysed, currencies used in export transactions, influence of currency on export transactions and the main measures undertaken by firms against currency's floating.

**Currency (Food & drink).** The most adopted currency is without any doubts euro, even if sales are performed in countries that are adopting other currencies. Sometimes also dollars are adopted if strongly required. Interviewing these managers seemed that are now willing to accept any risk from currency fluctuation and the client has to take all the measures to protect himself from the fluctuations.

*“It's the client that has to worry about purchasing and paying the most favourable moment” (Interviewee 3)*

Continuing in their affirmation, Company 3, asserted that also that prices are increased when dollars are adopted for the transaction in order to cover any possible currency fluctuations.

Asking their opinions about the influence of the currency on export transactions, the common answer was that the influence is low or very low. It's emerged that only in particular situations currency becomes very important in transactions and the example of Russia was mentioned:

*“ During the last month we became more costly that 15%”(Interviewee 1).*

Fluctuation in the situation of Russia is something that effected exports, and the major measure adopted in overtake the fluctuation was a discount for the period of time in which the fluctuation was at high levels. That means that this firm, Company 1, is willing to reduce the marginality in order to keep relationships with their clients and the relation is more important than the best margin to obtain. In the case of oil producers, there is no real measure adopted because their marginality is too low, also clients are willing of that, so the common behaviour is to wait the currency levels become acceptable again.

**Currency (Furniture).** Furniture exporters in dealing with international partners adopt only Euro currency despite the fact that are dealing with countries with different currencies. There is an exception for the US market with which US dollar is adopted.

Regarding currency issues again company 6 differ from the others because in trading luxury furniture and dealing with wealthy customers, currency's fluctuation does not affect the transaction in any way and as a consequence no currency measures are adopted:

*“Is the client that has to protect itself, is clear that it must adopt some measures to cover the fluctuations against euro” (Interviewee 6).*

Interviewee 6 assert that is the client that has to face the fluctuations and it's not a concern of the exporter.

Different situation for Company 4 and Effeti Industrie Srl. For these two firms currency fluctuations are very important and are considered a threat for the business transactions:

*“If you don't pay attention on this matters, the risk is to make an own goal” (Interviewee 4).*

The currency fluctuation is something that a firm has to consider acting in the international market, but its influence on the transaction is low because does not affect the relationship with the international partner. The major threat is to lose portions of market but in the short-term.

Effeti Industrie Srl doesn't adopt any measures against currency fluctuations, while Company 4 affirmed that sometimes some measures are adopted reporting the example of Japan. In that



situation the Japanese yen drop and the company introduced a temporary discount policy according to the variations.

**Currency (Fashion).** In asking what kind of currency is adopted in business transactions there were different answers, for Company 8 and 9 the main currency adopted is euro and sometimes US dollars. The situation of Company 7 is different because of the following assertion:

*“We usually adopt the currency of the client, we deal with Euro, Yen, Dollars, Swiss Francs, and Scandinavian Krone” (Interviewee 7).*

Not all the companies are using a single currency, Company 7 in dealing with different currencies because of the kind of their customers. For what concerns distributors Euro, USD and Yen are the currencies adopted. For company 7 that is the more internationalised in respect of the others, the main measure to overcome currency issues is to establish an exchange rate that will be applied in a contractual relationship for the duration one year:

*“At the beginning of the year an average currency is calculated” (Interviewee 7)*

The other measures adopted are ascribable to discounts for the Russian market due to the last fluctuations.

The interviewees also asserted currency effects only partially business transactions being its influence very low.

*“Currency issues are important but its influence over the transaction is not high” (Interviewee 8)*

**Currency (Engineering).** In asking the degree of influence of currency on transactions the answer from interviewee 12 is reported:

*“Not so much, in Russia for example it's a strong country so there is no high influence, in Africa is more sensible so maybe the fluctuations can delay the shipments. It depends but not that much” (Interviewee 12).*

Also in this industry, the influence of currency is very low. In their transactions Euro and Dollars are mainly adopted and the major interventions on currency are:

*“The currency is established during the agreement process where a fixed exchange rate is established” (Interviewee 10)*

*“The main action that we usually adopt is to keep prices 5% higher than transactions made in Euro” (Monchiero, M.)*

*“We don’t apply any special condition, mostly we delay the shipment of goods in waiting that the fluctuation ends” (Interviewee 12).*

Three different practices are applied, as already observed in the other sectors, mostly a fixed exchange rate is established, prices are increased about 5% in order to cover the risk of eventual currency floating and delay on supplies are introduced.

#### **4.2.5. Quotations and payments conditions**

In this part of the empirical analysis quotations and payment conditions are analysed jointly because most of the times are strictly related. Quotations will be inserted in the model and payment conditions will be discussed in the conclusions with managerial issues.

**Quotations and payments (Food & drink).** About quotations the main INCOTERM conditions were asked; the list of INCOTERM conditions is provided in chapter 2 with table 1. Companies in this business sector are mainly using Ex-works conditions strictly related to the payment conditions:

*“The goods doesn’t exit from the warehouse until money are in our bank account” (Interviewee 1).*

This is the common principle of these companies toward export transactions. The most adopted term of payment is in advance or with letter of credit linked to the pickup of the goods at exporter’s location. Even if the relationship between exporter and local distributor are solid and long-lasting, the lack of trust on payments it’s still widespread. Sometimes also FOB, Free On Board and CIF, Cost Insurance and Freight are used but always followed by letter of credits. It was also indicated that FOB is not recommended because if any problems arises, it’s difficult to identify who is responsible for who is not.

The most issues on payments regards mostly the delay of payments from the client, it was indicated that even if the payment is in advance, sometimes it takes a lot of time to receive the payment exceeding the agreed dates, the main issue regards the goods ready for

dispatching remains in the warehouse for a long time increasing the cost of storage. Another threat concerning the dealing with international entities is related to the fact that guarantees are never enough and it should be very careful, for example a manager mentioned that there are some countries in which own a bank is not difficult and with less than 50.000 \$ is possible to establish a new bank. The possibility is that your bank's guarantees are approved by a bank owned by the client itself.

**Quotations and payments (Furniture).** The main INCOTERM conditions applied in furniture industry are ex-works for countries out of the European Union.

Payments are divided in UE and Extra-UE. In the first scenario the delay of payments is 30 or 60 days and in the second situation are all in advance or with a letter of credit.

*“The debt collection procedures are very hard for us, if we sell 500.000 euros of furniture for example to a king or a sultan, it will be difficult to pursue any actions” (Interviewee 6).*

In this case the payment in advance is justified by the big values of the transactions and by the type of customers. The main issues regarding payments are ascribable to the European market in which delay of payments are very frequent and debt collecting procedures are costly and time consuming. The second issue regarding payments is linked as in the food sector to the verification of the letter of credit.

**Quotations and payments (Fashion).** Ex-works remains the most adopted INCOTERM condition applied. Also DAP, Delivery at Place is used for European countries and Ex-works, FOB and CIF are the most commonly adopted for waterway transports.

For what concerns Company 9 the payment conditions are all in advance, for the other two business cases, adopt different measures for European and Extra-European countries; respectively 60 day and former and in advance for the latter.

The main issues reported are the following:

*“Russia and other countries very risky in advance. For the others they establish a credit limit” (Interviewee 7)*

*“In Europe some countries like Portugal, Spain and some others” (Interviewee 8)*

*“Delay of payments, Spain, Portugal. Greece is closed” (Interviewee 9)*

Also for the fashion industry the same problems are verified in terms of delay of payment for the European countries, especially for the South of Europe, and in terms of riskiness of East countries such as Russia.

**Quotations and payments (Engineering).** The main payments conditions also for the engineering industry are in advance with letter of credit or bank transfers and Ex-works is the INCOTERM condition applied. It’s interesting to report the assertion of Mr. Monchiero of TEC MAC Srl in reporting a payment iss

*“There was a problem with a letter of credit of a customer from Libya, there was a war with Gheddafi and the Libyan bank didn’t pay because was under embargo, and our bank didn’t pay the amount that were obliged to pay. Our bank every time waits to receive the money from the bank that guarantees. Another time with a check from the United Nations about 1 million of euros we received the money and after ten days the bank kept the money back because the carrier lost the check” (Monchiero, M.).*

This is an example on issue not related to the customer but related to the credit institute that in the situation of letter of credit is the intermediary. This examples shows how also important are the financial institutions in international transactions.

#### **4.2.6. The role of culture in EPSs**

Issues regarding culture were asked and will be analysed jointly from all sectors on the basis of the principles established by this research that culture affects export transitions and EPSs as whole. Cultural issues were asked to interviewees in order to better understand the role of culture in EPS and in business transactions as well.

In asking about cultural issues, several examples were outlined:

*“In the past there was a cultural gap, but the mistake came from both counterparts” (Interviewee 2)*

*“English is the language of the international trading but sometimes the counterpart is not fluent arising several misunderstandings. In many situations is necessary to wait that the client teaches us the way to act with him” (Interviewee 3).*

*“For Chinese red is a symbol of bad luck, it’s important to understand and be very tolerant toward the other cultures, furthermore making gaffe with Asiatic people is very easy” (Interviewee 4)*

*“The major problems are from the Arabic countries with which there are some problems of understanding” (Interviewee 9).*

*“For a certain period we had a female export manager that in the Arabic countries was not accepted. Once I offended a Japanese client that came without any previous advise and I was not able to have dinner with him. Generally I hadn’t big problems” (Monchiero, M.)*

These assertions outline several issues related to the communication with different cultures. Is common that sometimes a lot of time is employed to reach a good understanding of each other and an high tolerance is requested. It is evident how lack of knowledge of different cultures provoke a slowing down of the relationships especially during the initial stage. As observed before the initial stage is usually faced with a penetration pricing probably to overtake the initial cultural gap. Is possible to assert that EPS at the initial stage represents the main tool in dealing with cultural differences.

From the interviews also emerged that the product’s offer is sometimes effected by culture resulting to be a source for new business opportunities:

*“Culture here is very important mostly related to cultural habits very often linked to religions. For example in Hebraic culture is necessary to comply with Kosher tradition” (Interviewee 1).*

For interviewee 1 the fact of dealing with Hebraic markets in a prospective of business expansion, was the element that pushed for the introduction of new product gamma enhancing the offer and influencing its market opportunities.

Furthermore have a well-known knowledge of customer’s culture is a source of advantage, because is possible to create cultural links making feel the counterpart more comfortable and relaxed during the transaction. Interviewee 2 provided the example very representative, that gave him an advantage in establishing a relationship:

*“Every Chinese studies Matteo Ricci at school, the fact of knowing him gave me the opportunity to create immediately a cultural bridge. What we need is to receive guidelines of how to create this cultural connections that now we don’t have”(Interviewee 2).*

Culture is not only about different labels or language, but is something that managers need to know in both dealing with foreign customers and in setting the EPS that seems to be very effected from it. Cultural bridges in this case can be translated in trust, confidence, and long lasting relationship that is the main objective of these firms. Again the EPS results to be very crucial in dealing with this lack of knowledge.

Finally cultural issues are considered important but are not perceived as fundamental:

*“In this kind of businesses there are no cultural problems, the target is very high and then cultural differences are understood and well tolerate” (Interviewee 6).*

*“I deal with Arab client in the same way of the Scandinavian. Culture does not affect transactions in this type of business. In order to make business abroad a firm must be prepared to support a foreign company” (Interviewee 7)*

*“I’ve never had problems. Usually when I approach a new country I collect information, for example in Turkey I know that we have to settle very high prices because they usually take a lot of time before to reach the deal and discounts are asked continuously. In approaching a country it’s important to understand the dynamics” (Interviewee 12).*

In conclusion is possible to assert that culture affects the EPSs especially in the initial stage when the relationship is not established and a lack of knowledge of the approached culture is still high.

#### **4.2.7. Summary of determinant’s analysis**

In table 5 a summary of the EPS determinants’ results is provided. First of all is notable that another sector has been added because of the distinctive characteristic of the customer target hat has been classified as luxury. Generalizability is particularly affected because only one business case is provided.

The second aspect form the findings is that engineering sector presents substantial differences in terms of the method applied in establishing the EPS that is mainly based on costs. A different situation is verified for the other sectors being al manufacturing companies. In fact for the latter market-based principles are considered in making EPS decisions. Is notable that penetration pricing is a methodology applied by both typologies. Cost-plus-margin is the common way to monitor the EPS but also multiples technique in furniture and fashion

industry is applied. No particular conditions are applied but promotions and discounts but rarely.

For what concern the second variable analysed, objectives, in all business cases long-term relationships result to be the main goal in setting the EPS. Is possible to generalise that the main objective of the EPS is long-term oriented. The criteria of new market selection was not clearly underlined by interviews. Only one criteria was identified that is the market ability to absorb the product offered and mainly sector specific exhibitions were the most adopted tool in expand their markets without making any distinctions. Continuing with analysis of the objectives emerged again a distinction between manufacturing and engineering companies. For manufacturing, the main objective of the EPSs were market oriented reflecting the brand's image or the reputation of the company in the market. For engineering segment quality was the main principle underpinning EPSs' objectives.

The third variable, adaptation and standardisation of the EPS the results weren't uniform. In showing data the adaptation level was reported, respectively values are classified in null, low, medium, high and total level of adaptation. The levels were very different from each other. Is possible to assert that in no cases there was an high level of product adaptation for different markets. Basically products are standardised and a certain degree of adaptation is made in regarding of customer's requirements, was found that no more than 30% of product is adapted to the different market/client. Also margins were different, generally due to the sophistications on products margins can vary but no substantially, the highest value registered was medium. Also the EPS adaptation was low or totally absent in the case of luxury companies. Is possible to assert that EPS are only partially adapted, basically the strategy is applied in the same way everywhere.

On currencies issues the most adopted currencies were Euro and USD. Was found that the incidence of currency floating on exports is very low. Companies adopt mainly discount polices. Also contractual terms are established on a yearly basis. If a contract does not include currency issues, it was registered that the exporter raised the prices in order to reduce the risk of currency fluctuations.

The most adopted quotation is Ex-works. The customer has the obligation to manage the collection of the goods from the exporter locations.

**Table 5.** Contingency variables (Author's elaboration).

	<b>Food and drink</b>	<b>Furniture</b>	<b>Luxury</b>	<b>Fashion</b>	<b>Engineering</b>
<b>Method</b>					
Export pricing criteria/method	Market-based	Market-based	Market-based	Market-based	Cost-based
Market entry EPS	Penetration pricing	-	-	-	Penetration pricing
EPS practice	Cost+margins	Multiples	Cost+margin	Multiples	Cost+margin
Particular conditions	-	Promotions	-	Discounts and special polices	Discounts
<b>Objectives</b>					
Customer relationship	Long-term	Long-term	Long-term	Long-term	Long-term
Criteria of market selection	Market ability	-	-	-	-
Main role of the EPS in respect of the general strategy	Company's reputation	Brand's image	Brand's image	Brand's image	Product quality
<b>EPS adaptation</b>					
Product adaptation	Low	Medium	Null	Null	Null
Margin differentiation	High	Medium	Null	Low	Low
EPS adaptation	Low	Medium	Null	Low	Low
<b>Currency choice and floating</b>					
Influence of currency on export transactions	Low	Low	Null	Low	Low
Measures adopted to overcome currency issues	Price raising, discounts	Discounts	None	Contractual terms and discounts	Contractual terms, price raising and payments delays
<b>Pricing quotations</b>	Ex-works	Ex-works	Ex-works	Ex-works	Ex-works
<b>Cultural influence on EPSs</b>			Initial stage: high		

Culture affects the EPS especially during the initial stage of the distributorship relationship; misunderstandings, lack of trust and time consuming deals are the major consequences that a lack of cultural knowledge brings. Usually in order to overcome these difficulties,



penetration pricing strategies are used. The most important source of adaptation, despite to be cultural in the specific, seems to be derived from psychic distance.

### **4.3. Managerial issues**

In this part of the investigation issues regarding costs evaluation, main mistakes in setting an EPS, how much the EPS influences the final performance, the degree of interdependence between price and the other elements of the marketing mix, and finally the evolution of exports during the last ten years are analysed. Respectively these issues correspond to questions 14, 15, 16, 17 and 19 of the question lists provided in appendix 1.

When was asked to provide an opinion on the level of interdependence between price and the other elements of the marketing mix, product, promotion and place. The question was not really understood by every interviewees because for most of them they hadn't a complete proper marketing strategy or they weren't aware of it. For this reason this aspect has been excluded from the investigation.

#### **4.3.1. Cost evaluation difficulties**

The first issue regarding the setting of an EPS that this research investigates is the cost evaluation difficulty. Cost represents one of the most important component in setting the EPS as observed previously. Its evaluation is crucial for the accuracy of price setting. Generally costs are considered very easy to determine because for example in the case of the first company in which all the productions are outsourced, the cost is strictly linked with the price paid. The same situation is verified mostly for all companies and when an higher level of adaptation is shown, like for Effeti Industrie Srl and Company 6, also the complexity of cost components is higher. The main difficulties in setting an EPS is related to the calculation of total costs especially when there is a variation on the cost of materials, or there are some components that for some reasons could not be included.

*“It's difficult to forecast because influenced by seasons, but the cost is on average easy to determine”  
(Interviewee 2).*

*“The costs are easily recognised, the most difficulty component is to evaluate the labour costs” (Monchiero M.)*

*“Production costs are easy to determine. We have a budget in which we have also to keep also our expenses that are considered part of the sales” (Interviewee 12).*

Determine costs result to be very easy in all the industries analysed, the main difficulties are related to country specific barriers, business trips, seasonality of products, and costs deriving from modifications on products.

#### **4.3.2. Main mistakes in EPS settings**

Another crucial aspect of setting an EPS that was directly asked to the interviewees was the common mistake in setting pricing decisions. The most complete and representative affirmation in this case was the one provided by the export manager of the Company 1:

*“The bigger mistake is to introduce products that the client could buy in its country at lower prices, in other words that the client has not the abilities to evaluate the value added of the product” (Interviewee 1).*

*“Prices that are not related to the quality of the product, or settle prices too high in respect of the brand” (Interviewee 7)*

*“To be able to make understandable the qualitative peculiarities of a product related to an imagine that often is flattered with the extended global competition” (Interviewee 5)*

*“Provide the right price is very important because it reflects the quality and reliability of company. It should not be nor too low neither too high” (Interviewee 7).*

*“The worst thing is to don’t take into account the country factors.. Some embassies for example have huge Visa costs. There are several expenditures in making business with another country for example the internal transports. Another is the evaluation of the letter of credit discount”(Monchiero, M.)*

With this assertions the concept of quality and brand imagine are expressed. In setting the EPS one big mistake is to mislead the client in the perception of quality and brand image. In the example of interviewee 1 the mistake is ascribable in promoting products which quality cannot be understood by the client. This is verified when the customer is in the conditions to compare with local products sold at lower prices and with a lower quality, if both productions are considered the same the cheaper will be preferred and a misleading image of the firm is

perceived. The export manager of Company 1 made the example to clarify the concept: in the case of mushrooms; normal mushrooms sold at 2€ and mushrooms with a special recipe which cost is 10€ in some countries are perceived at the same level and promote the latter kind of it would be provide a bad imagine of the company and mislead customer's perception of the company, it's a market mistake said.

Another example of EPS mistake is provided by interviewee 4 which asserted that setting prices higher than domestic's is a common practice due to the distance of the other customers and for the made-in-Italy effect, but in the range of 5-10% no more. This company settled prices higher than domestic about 40-45%, provoking a loss in the credibility and the introduction of grey commerce.

*"The mistake that I saw was an increasing of export prices in order to recover the lower level of margins in the domestic market. In this way not only grey markets are promoted, but also the imagine of the company is at risk" (Interviewee 4).*

Again the EPS seems to be strictly connected with brand's image.

The main difficulty in the EPS is to respect the marginality according to the objective of the company and be competitive at the same time. This is mostly verified in new markets.

*"Guarantee a certain marginality but at the same time being competitive, especially in new markets" (Interviewee 8).*

Is possible to assert that the main EPS mistake is to settle prices for productions which quality is not perceived in specific markets for several reasons, such as traditions, cultural habits or simply lack of knowledge. The main treat is to provide a misleading opinion of the company and lose market opportunities.

### **4.3.3. EPS and final performances**

That leads at the analysis of the importance of the price, and then of EPS, on the final performance of the company. Managers replied commonly that the price is very important but there also other aspects that determine the relationship with the distributor:

*“When nobody knows you in a new market, the first parameter with which you are judged is price, after, when business relationships are settled, there are other factors regarding services and the quality supplied that make the difference” (Interviewee 1)*

This take in evidence that price is very important especially at the beginning of a new relationship when the firm is not known and price is the only impartial parameter of judgment. It's consolidated that when the relationship with the distributor is established and there is a better knowledge of marketer's productions, other variables become fundamental such as services provided and the quality supplied. Quality of productions are not perceived at the beginning, then the main goal of the marketer seems to advise the local partner on product characteristics and with the ongoing relationship the export assistance becomes more important in the export relationships.

The influence rate on final performances in the engineering industry is resulted to be less important than the other industries, the price as asserted, has about 30% of influence on final performance although price was declared one of the most important component of the global strategy:

*“For the 40% the price composes the global strategy” (Monchiero, M.)*

*“In the price is considered a ratio in supporting the marketing campaign of the distributors. Price is the most important component of the strategy” (Interviewee 12)*

#### **4.3.4. Evolution of the market**

The following statements are important to take in evidence the evolution of the markets:

*“Based on my experience, I think that pioneers on this sector had the opportunity to settle pricing policies very high, now with the increased competition, there is contraction of prices” (Interviewee 1)*

*“Before, anybody was able to sell, now who has not the structure, the competence and is not dedicated to export, has no success. Now clients are more conscious and more professionally prepared than before. It's important to be prepared” (Interviewee 2)*

*“Now the remaining companies are serious, before made-in-Italy was enough to selling products, now customers are more educated and take joke of them is not possible anymore. Before everybody was able to export, now there is an open war” (Interviewee 6).*

*“In the past, technology had an important role more than the price. Now the market is changed and prices received a big contraction. The most challenge is to follow the clients in their shift of productions” (Interviewee 10)*

*“Now there is more attention on all the details about the costs” (Monchiero, M.)*

These assertions provide two different insights, the first one is that the market became more competitive, the offer of similar products is strongly increased and prices are settled at lower level than before. The second aspect that come at light is that customers are more prepared than before, are more prepared to deal with foreign marketers and pay more attentions on details such as cost components. These assertions reflects the need of stronger commitment of managers and more resources that must be appointed to export activities. Costs are an important component in the judgemental process of the customer.

The following assertions underline the difficulties that the European market is facing and the changes of the international market due to the emerging markets. Who is selling products for an high target of customers, is not suffering for the simple principle that wealthy people don't change their purchasing habits. Emerging countries are expanding their boundaries becoming more and more important in the international context:

*“Now sales are contracted, but the range of client is very high, who spent money ten years ago continues now. There are a lot of companies that failed” (Interviewee 7)*

*“I believe that the main difficulties of some of European countries and the importance of the emerging countries overseas have changed the rules of the market. Now we have to create ad-hoc product lines in order to reach with satisfying results and some markets” (Interviewee 8).*

*“A disaster!. The historical countries (European)are dropping and sometimes I receive requests from clients which origin country I have to look at the map because I have no idea where are they. For example in Bali there are only shopping moles, you have to reach one client that supplies everybody”((Interviewee 9).*

*“Nowadays with economic recession in Europe clients are more sensible about prices and sometimes they judge only on catalogue prices. The best moment was 20/30 years ago, now there is a lot of competition and pricing now influences much more than before. It's important to know which is the firm's direction because price now reflects a lot of the company” (Interviewee 12)*

The following assertion also introduce the concept of the brand consolidation:

*“If you want that a product is well sold, you must have a history in your country of origin, a Chinese customer could ask me: In your country, are you selling your product? Why should I purchase it? (interviewee 4).*

With this statement enforce the concept of brand imagine that nowadays must be very solid and the EPS must reflects this concept.

#### **4.3.5. Managerial issues summary**

In this part of the investigation managerial issues regarding business practices, threats and difficulties in EPS setting were analysed. First of all emerged that production costs are easy to determine but there are possible threats in evaluating all cost components such as labour costs, business trips and so on. The main mistakes in setting the EPS are the one associated to the imagine of the company and the quality of the products. The EPS must reflects both of them and misleading customer perception from what desired can be a big threat on the ongoing relationship especially in the initial stage. Another mistake reported sees the export prices settled at higher level of domestic's. This practice again misleads customer's perception of the company and encourage the born of grey markets.

In asking the role of the EPS in respect of the final performance was indicated by the interviewees that price is very important. The importance of price is linked especially in a new market entry phase, in which the judgement is basically established on prices offered. When the relationship starts, other factors such as export assistance and quality offered become more important than price. The role of price is also linked with the promotion, because is the indicator with which the marketing strategy is based: distributors receive a discount that must be invested in marketing campaigns on behalf of the exporter.

The last important aspect to underline are the market changes. During the last years the European crisis caused a contraction of the European markets especially in southern countries such as Spain, France, and Italy. At the opposite side emerging countries such as Russia, China, Middle East and South East Asia areas became the most important export markets and main source of market expansion. Also was outlined that customers now are more educated in dealing with international operators and a strong knowledge and structure is needed to success in the international markets. Only who has an appropriate structure and resources for export can perform well and extend their activities.

## 5. CONCLUSIONS

In this chapter the conclusion of the research is shown. In the first paragraph the determinants of an EPS arose in the research will be compared with the theoretical model obtained in chapter 2. As a result a model for EPS decisions will be outlined. Secondly managerial guidelines will be provided in paragraph 2. These the paragraphs will achieve the third objective of this research accomplishing the main research question. In the third paragraph the main contribution and suggestions for future research will be exhibited.

### 5.1. Findings

In the analysis of the main determinants of an EPS, emerged more than expected. First of all several determinants were outlined during the interviews especially regarding contingency variables. Contingency variables, or also calls antecedents. Most of the antecedents outlined were taken from the Tan and Sousa's (2011) framework, but for two of them it was not possible to find their location in the framework. This two determinants are cost of product and firm/brand reputation. For was concerns cost of product, the determinant production cost was reported in the framework, but it refers only at the cost of the production, what was outlined by the research is that the cost components affecting the EPS is not only the production, several costs related also the distance of the markets such as customs duties, cost of the business trips and customisations according to the country-factors are very important in the determination of the EPS and represent one of the main mistakes in determining product costs. For this reasons the complete determinant is cost of the product involving all the costs previously indicated.

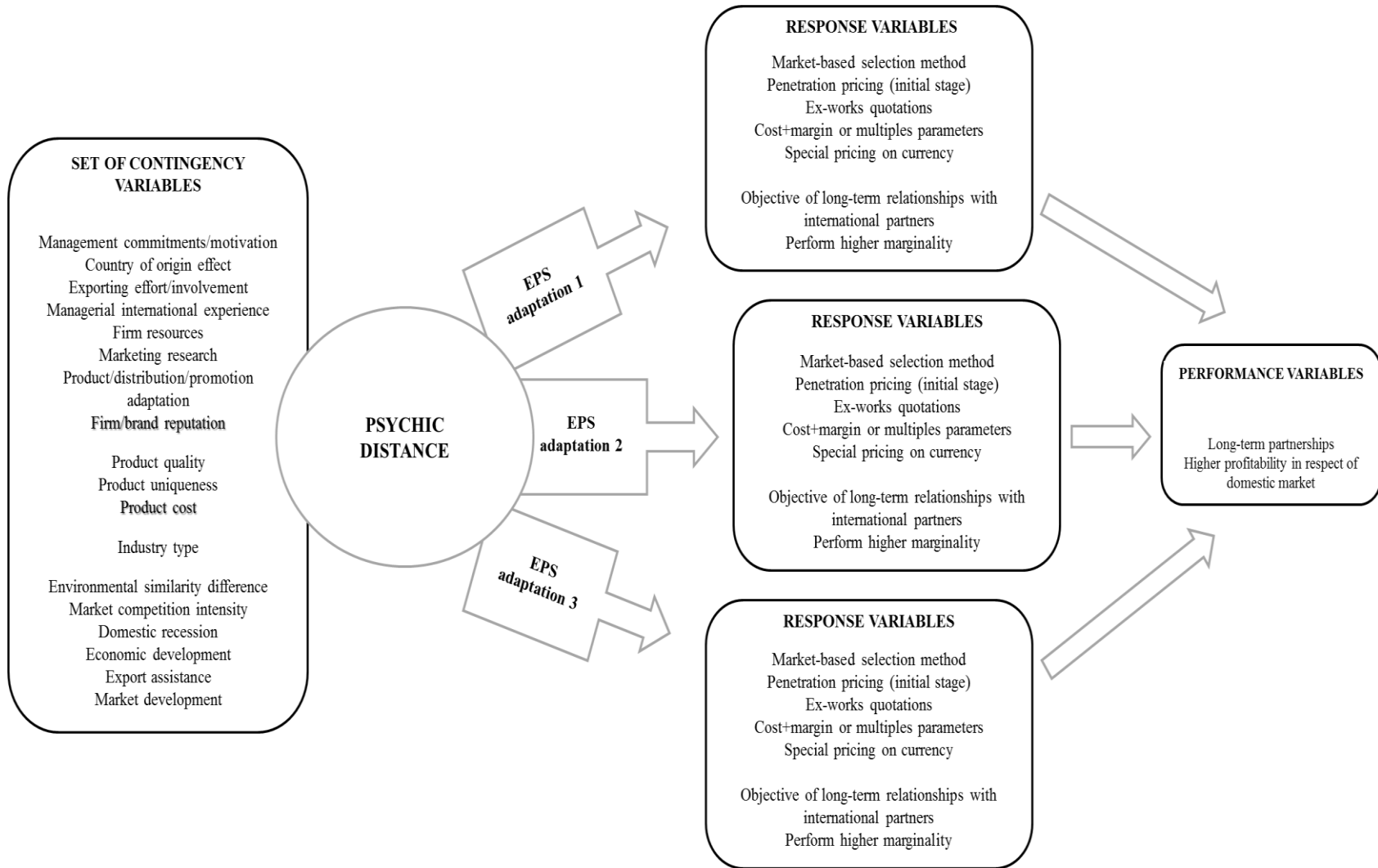
The second determinant outlined by the research that has never been studied is the firm/brand reputation. From the interviews emerged that the EPS is important because in respect of their imagine and reputation in the market they are able to establish different level of prices. For example it was common that in entering in new markets the most adopted practice was skimming pricing, reduce prices in order to acquire market share. This practice resulted to be the consequence of the lack of knowledge of the company. After that a reputation is established through a relationship, that in this case is a distribution relationship, prices changes in respect of the ability of the marketer to explain the quality of the products and as

a consequence the reputation of the firm. For this reasons firm/brand reputation is an important determinant that should be included in the model.

Looking at the model from the literature in figure 3, as already explained, was built on the basis of the theoretical construct of adaptation and standardisation for which principles a separation between markets should be done in advance, a set of determinants should be attributed to the different markets and different EPSs and as a consequence different export performances take place. After the interviews asking of the level of standardisation, or adaptation, emerged that in reality there is an high level of standardisation and EPSs are only partially modified according to the different markets. Products is partially modified, in terms of labelling, fabrics used or colours but the product is basically the same everywhere. Instead of being a strong adaptation to the country there is a differentiation of the product gamma, or the totally standardisation of products is verified. For this reasons is not possible to divide the market in different markets, as previously. Form the interviews was seen that the EPS is mostly standardised, it follows that the set of determinants will be the same for each market segment. After identifying the main set of determinants an adaptation of the EPS is done in respect of the psychic distance and in respect of product/distribution/promotion adaptation. Psychic distance has an influence as already explained in regards of country cultural differences, and product/distribution/promotion characterise the actions undertaken in EPSs In the very right side of the model, as a consequence of the EPS, there are no different performance variables for each EPSs, as the theoretical model shows, because performance objectives result to be the same: long-term partnerships and higher profitability in respect of the domestic market.

In figure 4 the model of an EPS is shown according to what previously explained. On the left side of the model the set of contingency variables is presented with the all outlined determinants from the empirical investigation. Sixteen variables have been identified. Form the firm and management characteristics management commitment/motivation, country of origin effect, exporting effort/involvement, managerial international experience, firm resources, marketing research, and firm/brand reputation has been identified. In product characteristics product quality, product uniqueness and product cost are underlined. The industry type also affects the EPS because as observed in the investigation there is a substantial difference between engineering industry and manufacturing.





**Figure 4:** EPS model (Author’s elaboration)

The last aspects of contingency variables is domestic/foreign characteristics in which market competition intensity, domestic recession, economic development, export assistance and market development are shown.

Response variables are made mainly by market-based principles for the manufacturing sector and cost-based principles for engineering. Penetration pricing is adopted in the initial stage of the export activity, ex-works quotations are the main INCOTERM condition applied, parameters of cost or multiples are the parameters in calculating the profitability and special pricing is sometimes adopted in overcoming currency floating. The objectives of the EPS has mainly two sources, the first has a strategic nature that is establish long-term relationship with their international partners and the second one has an economic nature, that is to perform higher marginality in respect of the domestic market. The objectives are also reflected on performance variables that result to be long-term building relations and higher margins.

The other important finding of this research, representing also the innovative feature of it, is the role of culture on EPSs. From the interviews emerged that cultures influence the pricing strategy and the cultural gap can prolong business negotiations and mislead customer perception of the exporter. That has been verified especially during the initial stage of transactions in which a cultural gap is still in place. For the previous reasons culture has been located in the model with the determinants that affects the EPS but only at the initial stage. The same thing is true for penetration pricing that is the direct consequence of cultural gaps at the initial stage.

## **5.2. Managerial implications**

As a result of the empirical investigation managers should be careful in setting the EPSs because the perception of them in the market strictly depends on the prices that they settle. Managers operating in manufacturing sector should be aware that the EPS is the first main tool with which is possible to enter in a new market. Managers should be also aware that a cultural gap at the initial stage take place and if a there is a lack of knowledge a price policy can compensate the initial disadvantage; but also they have to be aware that a solid and prepared structure for exports in needed nowadays. In fact the operators in the international markets are now more prepared to the global competition but still marginality is higher that

domestic market is the quality of the products is well perceived and the brand image is consolidated.

Managers should also be aware that threats on payments are very high, and sometimes letter of credit, that is one of the most secure way of payment because granted by a financial institution, is not secure as well. Payments should be performed all in advance with bank transfer. In order to avoid also misunderstanding Ex-works quotations should be introduced.

### **5.3. Contribution and suggestions for future research**

The contribution of this study in the literature takes its fundamentals from the gap exposed in the first chapter in which the call for more qualitative studies on European companies, more studies on adaptation/standardisation matters and the need to face more practical issues were outlined. In the results the principle of standardisation/adaptation was not as expected. As observed by Sousa and Bradley (2005) and Sousa and Lengler (2009) psychic distance is the antecedent that more has an influence on EPSs that are for the most standardised. Culture was identified as a contingency that affects the EPS in the initial stage of the market expansion. As a result, more studies on psychic distance and culture are needed in order to understand their real effect on pricing decisions and provide a better understanding on these issues in order to help exporters in dealing with international intermediaries. Culture in the context of psychic distance should be analysed more in-depth because could be the source of success in market expansion. Also more studies on the two new variables of cost of product and firm/brand reputation should be adopted in future studies.

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**APPENDIX 1: Interview's questions Italian version****Domande preliminari:**

I. Il nome dell'azienda può essere menzionato nella stesura della tesi?  Sì;  No

II. Il Suo nome può essere menzionato nella stesura della tesi?  Sì;  No

III. Dettagli dell'azienda:

- a) Ragione sociale:
- b) Settore merceologico (es: alimentare, ingegneristico, metallurgia, IT, etc.):
- c) Descrizione del prodotto o gamma di prodotti commercializzati:
- d) Fatturato annuale complessivo (c.ca):
- e) Fatturato export annuale (c.ca)
- f) Numero di addetti (c.ca)

IV. Dati dell'intervistato:

- a) Nome e Cognome:
- b) Anni di esperienza nel settore export:
- c) Tipo di istruzione:
- d) Corsi di aggiornamento:

V. Da quando è iniziata l'attività export nella Vostra azienda?

VI. Come è organizzato il Vostro ufficio in termini di numero di addetti e dedicati all'export, chi è responsabile delle più importanti decisioni?

**Intervista.**

1. Quali sono i principali clienti coinvolti nelle attività export della Vostra azienda? Quanti si possono considerare di lungo termine e quanti occasionali?

2. In quali paesi/cluster si trovano i maggiori clienti della vostra rete commerciale e ogni paese/cluster quanto incide in termini di vendite?

3. Quali sono i principali criteri applicati nella scelta di un paese target?
4. Quali sono i principali criteri che vengono adottati per l'imputazione del prezzo e se ve ne sono quali sono i vostri principali modelli che vengono utilizzati?
5. Il prezzo applicato dipende da una strategia più ampia che riguarda l'andamento generale dell'azienda?
6. L'offerta dei Vostri prodotti è omogenea o molto differenziata a seconda della destinazione?
7. La Vostra azienda genera le stesse marginalità in termini di marginalità lorda, in tutti i paesi che serve?
8. Vengono applicate diverse strategie/metodologie di pricing tra i Vostri clienti/paesi/cluster?  
Se sì, quali sono i principali aggiustamenti?
9. Applicate sconti o particolari condizioni nelle pratiche commerciali con l'estero?
10. La vostra azienda serve paesi con diverse valute dall'euro?  
Se sì, in base alla sua esperienza, quanto e come incide sulla transazione con il cliente?  
Adottate delle misure in modo da evitare, prevedere o risolvere eventuali problemi generati dall'oscillazione cambio?
11. Quali sono le principali condizioni INCOTERM che applicate alle Vostre esportazioni?
12. Qual è la dilazione media di pagamento dei vostri clienti esteri? (Specificare se UE o Etra UE)
13. Se ce ne sono, quali sono i principali problemi sui pagamenti e in quali paesi soprattutto sorgono o possono sorgere delle problematiche?

14. In base alla Sua esperienza, qual è il grado di difficoltà nella valutazione dei costi e quindi nell'imputazione del prezzo?

15. In base alla Sua esperienza, quali sono i principali errori che si possono compiere nell'imputazione del prezzo sulle esportazioni?

16. In Sua opinione, il prezzo quanto influenza la performance finale con i clienti?

17. In base alle Sue conoscenze, all'interno della Sua azienda qual è il grado di dipendenza tra prezzo e altri elementi del marketing mix, ovvero luogo, promozione e distribuzione?

18. Se ce ne sono, quali sono i principali problemi che ha riscontrato nell'intrattenere rapporti lavorativi con clienti ma soprattutto con culture diverse?

19. In base alla sua esperienza, come pensa che le esportazioni si siano evolute negli ultimi dieci anni?



**APPENDIX 2: interview's questions English version****Preliminary questions**

I. Does the name of the company be mentioned in the thesis?  Yes;  No

II. Does your name be mentioned in the thesis?  Yes;  No

III. Firm's details:

g) Company name:

h) Commodities sector (example: food, engineering, steel, IT, etc.):

i) Product description:

j) Annual global turnover (ca.):

k) Annual export turnover (ca.)

l) Number of workers (ca.)

IV. Interviewee information:

e) Name and Surname:

f) Years of work experience in export activities:

g) Type of education:

h) Refresher courses:

V. For how many years does your company perform export activities?

VI. How many dedicated employees are working in the export department or are involved in export activities?

**Interview.**

1. Which are the main customers regarding your exports activities? How many are considered long-term and how many are only occasional?

2. In which countries/clusters does your company perform export activities? And which is the incidence in terms of revenues of each country/cluster?

3. What are the main criteria that you use in choosing a target country?
4. Which are the main criteria adopted in choosing export's prices? And if there are any, which are the main models/guidelines used?
5. Does the price applied is part of a more wide strategy that regards the general trend of the company?
6. Is the offer of your products/services homogenous or differentiated according to the destination?
7. Does your company generate the same marginality in all the countries that is supplying?
8. Are different strategies/methodologies applied among your clients/countries/clusters?  
If yes, what are the main adjustments/modifications?
9. Do you apply any particular discounts or conditions in your commercial practices?
10. Does your company supply any countries with different currencies than euro?  
If yes, based on your experience, how and how much has an influence on the transaction with the client? Do you adopt any measures in order to avoid, forecast or solve any problems generated by currency floating?
11. What are the main INCOTERM conditions applied to your exports?
12. Which is the average payment's delay of your foreign customers? Please, specify between UE and extra-UE customers.
13. If there are any, which are the main problems on payments and in which countries mainly arises?
14. Based on your experience, which is the degree of difficulty in evaluating costs and as a consequence the final price?

15. Based on your experience, which are the main mistakes that commonly take place in setting the export price?

16. Based on your opinion, how much does the price effect the final performance with the customer?

17. Based on your knowledge, in your company which is the degree of interdependence between price and the other elements of the marketing mix, that are place, product and promotion?

18. If there were any, which are the main problems that you encountered in dealing with customers from different cultures?

19. Based on your experience, how do you think that export activities changed over the past ten years?