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Determinants of Corporate Pricing Strategies: A Case from Suriname

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ABSTRACT

This paper examines the possible use of pricing strategy as to achieve competitive advantage in a liberalized corporate environment. The relevant influencing factors focus on industrial products, approached from different perspectives. From a conceptual framework, the paper uses Case study methodology to develop a link between determinants of pricing strategies and the characteristics of engineer-to-order (ETO) manufacturing companies. A preferred pricing strategy for engineer-to-order manufacturers should be a combined approach based on different variables and finalized with a process of value negotiations to meet customer satisfaction in a given scenario.

Keywords: Cost-plus, Company objectives, Determinants, Environment, Engineering-to-order, Pricing strategies, Profit margin

Price, one of the four Ps of the marketing-mix, is an often overlooked marketing strategy, with a tendency to focus on the other Ps[1]. Pricing strategy is important because it relates to product positioning which, in turn, affects other marketing-mix elements (Pricing strategy, http://www.netmba.com/marketing/~..). Companies miss the opportunity to actively influence customers' perceptions to increase profitability and customer satisfaction, when they set prices in reaction to what customers are willing to pay without understanding the factors affecting that willingness (Nagle & Holden, 2002). It is said that there are only three ways to increase profits: sell more, cut costs or raise prices, assuming increased demand and limited supply.

THEORETICAL BACKGROUND

Zhang (2003) has argued, many companies tend to 'set a price, stick to it and hope for the best', which is not the best way to set prices. The Advantage newsletter (2006) remarked that back in the 1980s, pricing was not a major issue for most manufacturers and their customers. The 1990s taught every business that pricing cannot be taken for

[1] Other ps of the marketing mix are promotion, product and place (distribution).

granted, because of global transformation as seen in industrial, business and consumer markets; buyers wanting - and demanding - better value. In recent years, businesses have tended to look at organizational behavior, downsizing, benchmarking and reengineering, and companies cut costs drastically without spending as much time thinking about the best possible pricing strategies (Zhang, 2003). Today's manufacturing industry can be characterized by declining markets, product abundance, growing power of the intermediaries and overcapacity on all levels of the value chain. As a result prices are increasingly used as buying incentives (Simon, 2006).

Sustainable competitive advantage is recognized as a critical factor for survival in the liberalized environments (Thompson & Coe, 1997). With the cost of raw materials determined by global forces, manufacturers in developing countries such as Suriname are reaching tipping point. They have no choice but to continuously absorb; they can do no more because the cost of raw materials has 'bludgeoned' both their margins and resolve (Lewis, 2005). They can by no means influence global changing forces which result from liberalization. Surinamese manufacturers working in engineering-to-order (ETO) sector, and dealing with this challenge, are the main focus of this paper. Global and regional changes as liberalization of markets such as the Caribbean Community (CARICOM) create increasing competition and make intelligent pricing a business imperative.

Cost-plus pricing is the pricing strategy currently used pricing by ETO manufacturing companies in Suriname. An example of a Surinamese ETO manufacturing company using this pricing method is the United Suriname Steel company (VSHSTEEL), established in 1982 to manufacture construction of steel buildings. A recent internal study conducted at VSHSTEEL revealed that customers tend to make their final purchasing decisions based on attractive order price (unit = per ton steel) for the steel rather than other considerations. Thus, to customers, company product manufacturing costs are irrelevant for their purchasing decisions. They are consequently unwilling to pay cost-based prices. Margins are therefore coming more and more under pressure as efforts to match price to customer value is becoming more evident. This is especially so in the CARICOM single market, where prices are affected by strong competition. To be competitive, these companies have to assess their pricing strategies regularly as tools for competitiveness, while simultaneously striking a balance between customers' desire for good value and the company's profit pursuit without the challenge of a price-war.

The preceding analysis raises a number of questions. What changes can be made in the current pricing strategy in ETO companies in Suriname? Can such changes ensure competitiveness in a liberalized Surinamese corporate environment? Is there a more appropriate pricing strategy in the ETO sector? What is the nature of the relationship between price and sales volume in steel manufacturing?

Answers to these questions are crucial to the economic survival of the Surinamese ETO manufacturers constantly dealing with the challenges of increased market share in

the CARICOM region. A brief review of literature is relevant to a search for possible answers to the questions raised.

LITERATURE REVIEW

There is a taxonomy of relevant pricing strategies in the literature. As regards manufactured products, the literature to make a distinction between consumer and industrial products. The product under review falls under the category of manufactured products. We examine, for a start, the different pricing approaches and the role of cost in price formulation.

Pricing as Competitive Strategy

We define price in the context of this paper conceptualized as payment in exchange for a product or service. As it is the ultimate objective of every business to aim for overall business success such as profit, sales growth, return on investment (Engelson, 1995), price, according to Simon (2006) has become increasingly important over the last 20 years as profit-driver. Simon demonstrates in equation (1) that profit is determined by three profit drivers that are shown on the right side of the equation, namely, price, volume and cost.

$$\text{Profit} = \text{Price} \times \text{Volume} - \text{Cost} \quad (1)$$

Raju and Zhang (2003) cited a study by McKinsey in 1992 of more than 2,400 companies showing the impact that various decisions would have on the bottom-line. According to the study, a 1% reduction in fixed costs improved profitability by 2.7%; a 1% increase in volume resulted in a 3.3% increase in profit; a 1% reduction in variable costs prompted a 7.3% rise in profit; but a 1% hike in pricing can boost profitability by 11%. Marn (2004) defined price advantage holistically as a superior capability to use price as a source of real competitive advantage.

Pricing Approaches for Manufacturers

Textbooks have categorized into three different approaches to pricing industrial products. These are:

i) **Cost-based pricing:** This approach utilizes the product cost structure as product-driven rather than customer-driven. The benefit of this approach is the low chance of loss. However, the drawback is the possible risk of overpricing or under-pricing (Kotler, 2002). Besides, it ignores the role of competitors. (http://oakcats.ohiou.edu/~..).

ii) **Value-based pricing:** By setting its target price based on customer perception of product value, this pricing strategy is customer- and value-driven (Kotler, 2002).

iii) **Competition-based pricing:** As pricing relies on prices of market leaders or other competitors, this approach is common in perfectly competitive and/ or oligopolistic

market structures (Kotler, 2002).

The Role of Cost in Pricing

Costs should never determine price, but they do play a critical role in formulating a pricing strategy (Nagle & Holden, 2002). However, the quantities that sellers produce depend critically on their production costs. The traditional mistakes that most sellers tend to make is in first estimating the price that buyers can be convinced to pay and then choosing what quantities to produce and in what markets to sell. In effect, that price decides what to produce and sell by comparing the prices that can be charged with the costs that must be incurred. Consequently, costs affect the prices charged (Nagle & Holden, 2002). According to Nagle and Holden, not all costs are relevant for every pricing decision. There are incremental and avoidable costs. Incremental costs are those associated with the changes in pricing and sales. Avoidable costs are those that either have not yet been incurred or can be reversed. Another distinction is the variable and fixed costs. Fixed costs are costs of being in business such as overhead and product design costs. Variable costs result from doing business, for example, the costs of raw material in a manufacturing process. Variable costs are always incremental for pricing, while most fixed costs are not. The estimation of the relevant costs affected by a pricing decision is mostly a managerial decision.

Cunningham (1993) also stated that, in general, company pricing departs significantly from traditional price theory, which concentrates on company price and output, as well as on demand, supply and cost functions. This theory incorrectly assumes profit maximization as a firm's sole objective, and price decisions as being based on simplistic "rules of thumb" cost-plus pricing strategy. The price is composed of direct materials, direct labor, factory overhead, selling and administrative costs plus the desired profit margin.

Zimmerer and Scarborough (2005) have proposed a more useful costing technique for managerial decision making. This is the variable costing technique in which the cost of the products manufactured includes only those costs that vary directly with the quantity produced. Variable costing includes only the cost of direct materials, direct labor and variable factory overhead. Fixed factory overheads are period costs unrelated to the costs of the finished products. Zimmerer and Scarborough also suggest that, when determining prices, a manufacturer should also consider the cost combination of selling price and sales volume that covers the variable costs of producing the product and contributes toward covering fixed costs and earning a profit. Using full-absorption costing for this will cloud the true relationships among price, volume and costs, since fixed expenses will be included in the unit cost. Pong and Mitchell (2006) gathered evidence which also demonstrated that the selection and the knowledge between full and variable costing have potential practical significance for some companies to determine their reported profits over time.

Moustafa's study (1978) gives insight into the different costing methods to determine the cost-price of a manufactured product for export. His starting point is that developing nation's place is based on cost-price strategy. He distinguished three types of costing methods to determine this cost-price: the full-cost method; the direct-costing method; and the differential cost method. He rejected the full-cost method as unsuitable for export pricing. Instead he recommended a combination of direct-costing and differential-costing methods to establish a floor price which can lead to profit maximization for the company and to maximization of foreign currency net inflows by other firms dependent on management decisions on cost elements for the purpose.

'The Many Faces of Pricing Strategies' (Tellis, 1986)

Different models of pricing strategy for industrial products have been formulated by a number of scholars. We now critically examine those most relevant to the focus of this paper.

Tellis (1986) has defined pricing strategy as a reasoned choice from a set of alternative prices that aim at profit maximization within a planning period in response to a given scenario. Giving it a broader scope, Noble and Gruca (1999) defined pricing strategy as a means of achieving a pricing objective within a specific level of costs, competition or number of customers.

Laric (1980) overviewed the marketing literature on pricing and formulated a conceptual framework and classification system for different types of pricing strategies in industrial markets. The emphasis in Laric's framework was negotiation.

Tellis (1986), on the other hand, developed a variety of company pricing strategies after observing need for formal theoretical explanations on pricing. He formulated a unifying taxonomy of strategies and their underlying principles. Based on these principles, he classified pricing strategies in a two dimensional framework of company pricing objective and consumer characteristics. Included under pricing objectives were differential pricing, competitive pricing and product line pricing. He classified relevant consumer characteristics into: search costs, price sensitivity and transactions costs. A nine box matrix was thereby created, highlighting necessary conditions for each pricing strategy, including special strategic situations in each cell of the matrix. The goal of this strategy is profit maximization through pricing products to match consumer demand. Tellis' nine cells, shown in Figure-1, are assumed to apply to a shared economy. However, in complex real world conditions, a combination of these strategies would be needed.

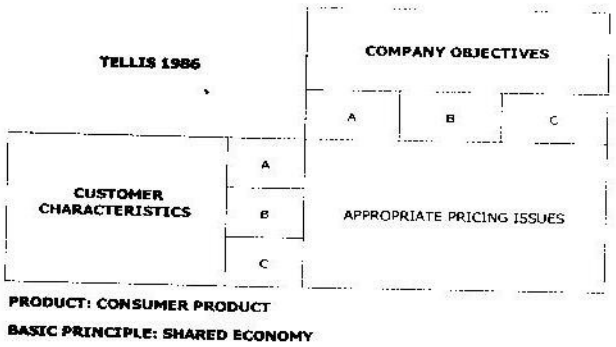


Figure-1: Tellis's framework (Source: Author's Investigations)

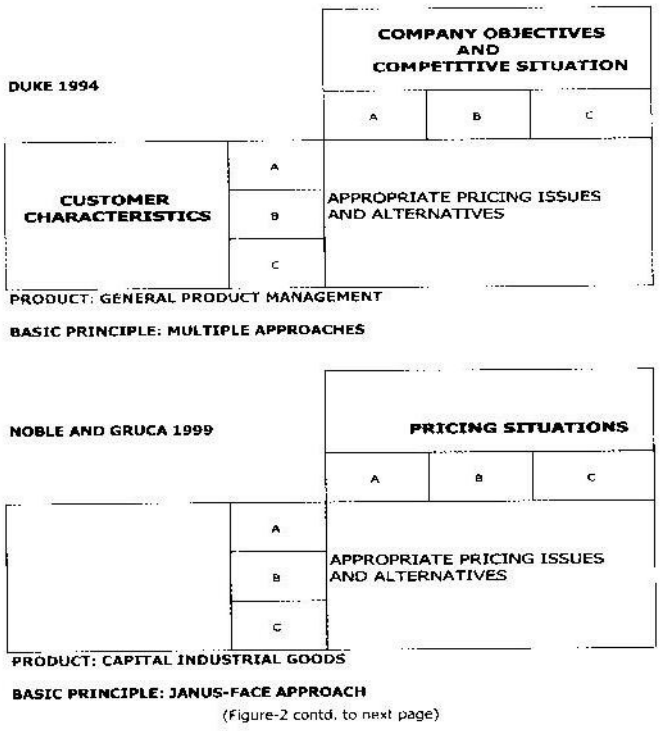
Duke (1994) extended Tellis' study by emphasizing product management. He modified Tellis's Price Strategy Matrix framework to include strategy matrix approach, a multiple approach to match customer characteristics with company objectives and competitiveness. He criticized Tellis' matrix: for excluding such managerial pricing issues as price estimation and implementation. He also noted that Tellis' matrix might give the impression that a single cell should be used to describe all strategy options for a certain situation. However, in the real world several variables can interact simultaneously in a given situation.

Noble and Gruca (1999) conducted and validated an empirical study, through a national survey, of pricing strategies that managers use in capital goods industries. This study was intended to bridge the gap between normative research on pricing and actual managerial behavior. The two scholars found that product, company and competitive conditions are what determine which pricing strategies should be adopted in any given situation: stating that there can be one or more pricing strategies involved in a single pricing decision. They cited other empirical studies on pricing which confirmed that, in practice, managers tend to use more than one pricing strategy in fixing price for a single product.

Noble and Gruca organized the existing theoretical pricing research into a new two-level framework (pricing situation/ pricing strategy) focusing on smaller sets of industrial pricing problems for capital goods industries. This framework allows for multiple pricing strategies for a single product. They identified a set of industrial pricing strategies and determinants following the work of Tellis. Ten principal pricing strategies were then put in a framework with related strategies that could be expected to apply under similar conditions and similar price levels. They excluded the strategies used for consumer goods and export markets but added cost-plus and customer value pricing methods. They found cost-plus to be the most often cited pricing strategy. The study implied that one third of the managers used a combination of cost-plus pricing and one

of the other nine market-based strategies, indicating that managers tend to look both inward and outward when setting prices for their products – a Janus faced approach.

Forman and Lancioni (2002) focused on pricing strategies for international markets, identifying pricing as a major factor that best explains most variances in consumers' purchasing behaviors. They even suggested that prices are key factors in foreign economies that ultimately determine how resources are allocated. They also identified a literature gap in pricing, especially on the pricing of industrial products in international markets. A number of interesting issues were raised in the study of industrial pricing strategies in international marketing. They started with a caveat about the vast and dynamic nature and the complex problems involved in selling industrial products internationally. These could limit the applicability of their findings in the long run. They further addressed the issue of export pricing, which may be affected by various factors, including the nature of the industry, location of production facilities and governmental regulations. Although Tellis' "unifying taxonomy" assumed managerial goal of profit maximization, Forman and Lancioni combined this taxonomy with Shapiro and Jackson's (cited in Forman & Lancioni, 2002) approaches which made a distinction between cost-, competition-, and customer-oriented approaches. Forman and Lancioni categorized pricing strategies into competition-based; internationally-based; cost-based; and demand-related strategies. Their basic principle is matching these pricing strategies with their different determinants. Figure-2 gives an overview of frameworks by Duke, Noble and Gruca; and Forman and Lancioni.



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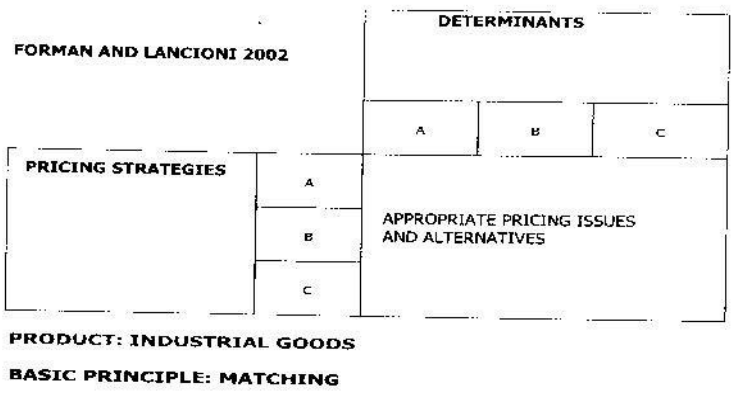


Figure- 2: Overview of Frameworks by Duke, Noble and Gruca and Forman and Lancioni

The Role of Value in Pricing

Pricing is not a decision that can be driven solely by numbers (Nagle & Holden, 2002). Survival and prosperity in turbulent liberalized environment, requires companies to identify and sustain competitiveness (Thompson & Coe, 1997). According to Simon (2005), value-to-customer is an essential price determinant. Understanding and quantifying customer value is thus critical for pricing and profit maximization. Yama (2004) also approached pricing from the value viewpoint. He advised setting prices based on unique value that is delivered through the product and to negotiate value delivery instead of price. He promoted value communication and value-based negotiation because, in sales negotiation, stakes are high due to the leverage that price has on profitability. In this way the frontline of the organization has a role to play in communicating value to the customer as a justification for price paid. The key to success is to maintain the connection between the willingness to pay and the value received from the product, while the impact of the product on customer's business is worth serious consideration by the seller. Mohammed (2005) maintained that customers choose the price they are willing to pay based on the perceived value they receive from a product. He argued that the only role that costs should play is to act as a price floor: all value-based prices should at least cover a product's incremental costs, other than that it is all about value. A multi-price mindset enables a company to profit from each customer's unique product valuation: different customers attach different valuations to the same product.

Table I: Determinants on value of pricing

	YAMA (2004)	MOHAMMED (2005)
PRODUCT	Industrial products	Consumer and industrial products
DETERMINANTS OF PRICE	Customer value perception; Customer willingness to pay	Different valuation; Customer willingness to pay
BASIC PRINCIPLE	First understand value then communicate it; Negotiating value	Multi-price mind set

Source: Authors' Investigations

The Influence of Competitive Market Conditions

Shipley and Bourdon (1990) found substantial downward price flexibility, extensive discounting, and widespread price competition by British industrial distributors operating in depressed markets, where multiple suppliers market relatively undifferentiated product offerings. Their findings indicate that distributors in highly competitive markets focus considerable attention on pricing. A wide range of pricing objectives are set, but setting competitive prices is among the objectives that are highest rated. The pricing methods used are multiple, indicating considerable pricing flexibility, which can be used as an effective response to environmental developments. As a result of the competitive nature most prices are set and influenced by reference to prices of competitors. Since a price-war strategy needs financial depth, competitive pricing behavior has become an industry-wide phenomenon. Shipley and Bourdon's recommendations for long-term survival and profits are to build competitive edge by creating product or service advantages in the offerings of firms.

A conceptual framework will now be developed based on the findings of the preceding literature review.

CONCEPTUAL FRAMEWORK

Our conceptual framework consists of internal and external variables. The internal variables are cost-, company- and product-related issues which arise from production processes. The external variables, on the other hand, are market-, competition-, government-, and transport-related issues. The customer is both an external and internal variable. Price is the main problem object for managerial decision making. The internal

variables are interrelated. The production processes affect the cost structure, which again is subject to company objectives. The external variables are also interdependent, but each has a direct impact on price. They are, therefore, directly linked to price. When deciding on which pricing strategies to adopt, a distinction should be made between *local* and *export* projects as illustrated in Figure 3. Furthermore, *long-term* and *short-term* profits should be estimated and analyzed.

Production processes product cost company price are internal variables which can be classified as technological and organizational factors. They are important for cost structure decisions on which conventional approaches to pricing are based. The distinction between direct and indirect costs of production processes needs a clear understanding of the company's operations for managerial decision making purposes: *full or variable costing* (Pong & Mitchell, 2006).

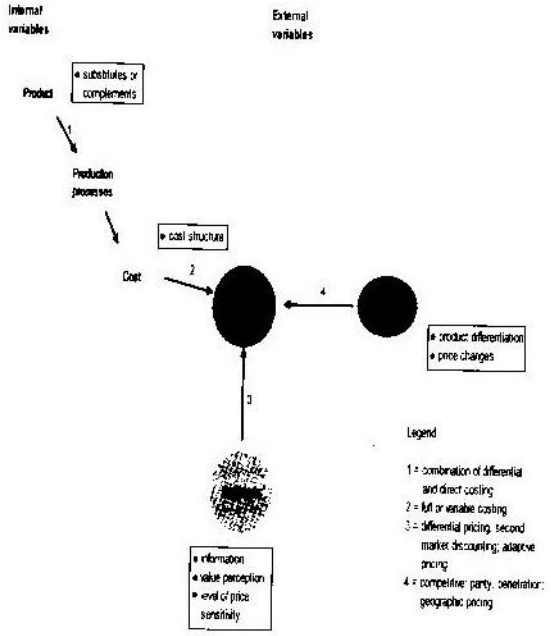


Figure- 3: Final Conceptual Framework for both Local and Export Market Source (Authors' Design)

The external variables consist mainly of environmental factors: government, transport, market etc. The market determinants are demand, growth, switching and costs. These external determinants may sometimes be ignored whereas 'competition' and 'customer' are considered to be important not to be considered in pricing.

Competition can be considered a variable with an impact on the formulation of company's strategy (Mohamed, 2006). A higher level of intensity of market competition

increases the importance of precise information the company's cost structure.

Customer base in a market is more likely to have a significant influence on price. In reality, there are probably almost as many different valuations of a good (a commodity) as there are customers.

From the dimensions in Figure-3, the preferable pricing strategy can be delineated as follows: Four major determinants tend to drive pricing strategy. These are production processes, cost, competition, and customers. While the internal production processes prescribe a minimum price to be viable in the long run, the external market environment (customers and competition) sets maximum price. The final price is influenced by value negotiation with the customer, which should indicate the dynamism of the process, the environment, and the strategy itself. However, this framework is general and theoretical, but it provides a good starting point in strategic thinking about pricing decision. With this framework, we can identify and delineate determinants that influence pricing strategy, and yield optimal results to maximize profit. Profit maximization is the overall goal of the study company that should underlie the pricing decision. But for the long term, this probably requires a series of different pricing decisions. Thus, pricing strategies are best described as a series of pricing decisions that maximizes a set of objectives, subject to constraints, and aiming at achieving the underlying overall objective.

RESEARCH METHODOLOGY

The Case study approach has been chosen since it allows the research to be tailored to a specific company, and facilitates more in-depth analysis, and at the same time, enables detailed information to be extracted. While restricting generalizations, a case study often allows more in-depth information to be obtained in complex situation and from sensitive subject (Yin, 1984). In our case, the current pricing strategy of the study company will be compared with the approaches suggested by the conceptual framework. The current pricing strategy, which follows the study company's long-run profit maximization objective, will be pitched against a set of strategies suggested by the conceptual framework. The managerial tools of break-even analysis and sensitivity analysis will also be used to investigate the suggested pricing strategies.

UNITED SURINAME STEEL COMPANY

The study company, VSH Staalmij.-United Suriname Steel company- VSHSTEEL- is part of the VSH United Suriname Holding group of companies with nine subsidiaries, eight of which are operating in Suriname and one in Miami. The group was established 47 years ago. The family philosophy of this first privately owned and equity funded corporation was to become a vital member of the business community of Suriname in diversified companies, while minimizing risk.

Organizational Structure

VSHSTEEL, established in 1982, is the largest of the nine subsidiaries in the VSH United Suriname Holding group of companies in Suriname. It is located in Paramaribo and employs approximately 50 employees. VSHSTEEL is responsible for 20-25% of the consolidated turnover of the holding. The main functions are: Sales, Engineering and Manufacturing.

VSHSTEEL designs and produces a diversified range of prefabricated steel products, such as structures for buildings, warehouses, storage tanks and barges. These customized (make-to-order) products are delivered to general building contractors, engineering consulting services, architects, individuals and the public sector. For this research the product focus will be on the production of the steel structures for buildings and the customer focus will be on the general building contractors, engineering consulting services and architects. VSHSTEEL is one of the largest companies in this sector in Suriname. It is assumed that VSHSTEEL is the market leader in the Surinamese steel business, which is another reason to further concentrate this research on this company as a single case. The goal of the company is to maximize profit. VSHSTEEL is a typical Surinamese engineer-to-order (ETO) manufacturing company.

General Categorization of Engineer-To-Order Companies

An ETO is an engineer-to-order company, make-to-order company. An ETO manufacturer can be defined in terms of the products they produce since they are producing to customer specifications, which requires unique engineering designs or significant customization. Each customer order results in a unique set of part numbers, bills of material and routings. Customers are heavily involved throughout the entire design and manufacturing process and not only at the end when the product is completed. Changes or revisions are a way of life. Material is purchased for a specific project and only a stock of standard material is kept as inventory. All actual costs are allocated to a project and tracked against the original estimate. Once complete, the product is typically installed at the customer's site. (http://www.4eto.co.uk).

Engineer-to-order indicates a style of manufacturing rather than a specific industry segment; other terms are 'project-based' or 'custom' manufacturers. ETO companies consider themselves a hybrid of manufacturing and construction. The main business activities of the companies are the design, manufacture and construction of 'capital structures' (Cutler, 2006). With regard to their interaction with customers, business processes can be broken down into three stages:

i) **Marketing** - A two-way process that evolves potential customers' awareness of the company and its products.

ii) **The response to an invitation to tender for a particular contract** - The tendering involves the preliminary development of the conceptual design and the definition of major components and systems. The tendering success rate is often less than 30% (Hicks, et al 2000).

iii) **After the contract has been awarded** - These activities include non-physical processes, such as design and planning (Hicks et al, 2000). ETO companies base their price on estimates of costs, in general, full cost or cost-plus.

In this research paper in the context of Suriname, the ETO sector is limited to make-to-contract, project-based design and manufacturing to the customer's technical specifications of steel structures for buildings. Since these manufacturing companies are, in general, subcontractors of other general building contractors, engineering consulting services or architects, they prepare bids, of which price is a basic decision factor. In many cases private companies are the customers or end-users. They make use of general building contractors, engineering consulting services and architects as an intermediary but the financial means originate from them.

The Current Pricing Strategy

At the study company, in general, prices are set based on costs or prices charged by competitors. This currently used strategy based on full costing is easy and it complies with the conventional part of the theories in the literature. Cost-plus pricing can lead to similar prices across firms with similar cost structures (Cannon and Morgan, 1990). The importance of costs of raw material and of the production process is significant and evident, which justifies the current cost-based approach used on contracts. Competitive bidding is also used for these customized products.

The cost-based price negotiations (Corey, 1982) are based on the cost structure of the company such as direct labor, direct materials, overheads and profit for steel constructions to be sold. In these cost-based price negotiations the objective of VSHSTEEL is to get a fair return (on sales, investments or both) and to minimize cost-factor risks. When prices are not set through cost discussions with customers, they are set by competitive bidding (Corey, 1982). The use of competitive bidding is sometimes required according to the purchasing company's procurement rules and regulations.

The current contracts at VSHSTEEL leave room for price negotiations. However, the development of these frequently price negotiations indicates that when the use of the cost-based approach is continued as the single strategy the result can be that the company prices itself out of the market, especially when taking the competition into consideration. Not all customers have time for negotiations. It also does not encourage the company to use its resources efficiently. It can be concluded that there is room for improvement to use pricing strategy as strategic tool as VSHSTEEL is for a great deal financially and product focused. The company acknowledged that there is a gap in using price advantage as a tool, which is why the company fully agreed to this research. Price advantage is especially pertinent at the international level, where price is the main determinant of purchasing decisions as there is a lot of choice from the competition.

RESULTS

To validate the ideas of the conceptual framework, the applicable managerial tools, such as cost-profit-volume analysis and sensitivity analysis were used to calculate short- and long-term profits. A competitors' and a customers' analysis were also follow in the coming sections. The basic assumptions are the 2005 figures of the study company. The figures are disguised, for confidentiality. Other assumptions on break-even analysis are, however, valid such as: steel constructions as the single product sold; a linear relationship between price and volume; one capacity limit. The equation method at break-even point was used to analyze the changes in volume on operating income: substantial changes in volume at a fixed price resulting in increases of the variable cost at a constant fixed cost and a final increased operating income.

In both the full-absorption and direct-cost income statements, the material costs are considered a foregone conclusion since the price at the world market cannot be influenced by the company. Nevertheless, the high cost of direct material causes a relatively low operating leverage, which should indicate that small changes in sales volume have a smaller effect on the company's net income than highly leveraged companies. In VSHSTEEL's case operating profit improvement is best yielded with 2.5% by an increase of 1% of volume.

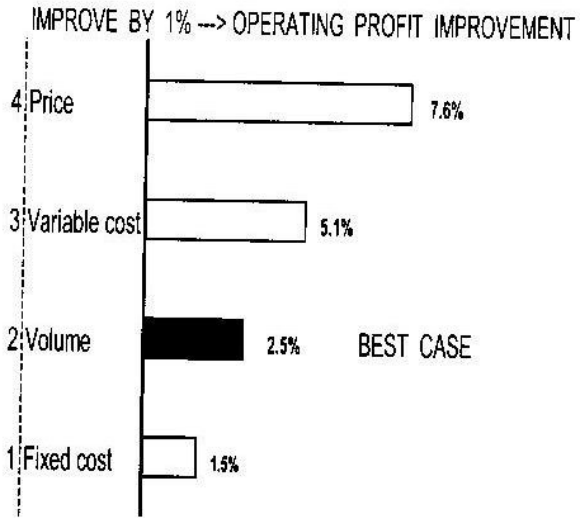


Figure- 4: Influence on operating profit (Source: Authors' Investigations)

The changes in price and sales volume in table 2 mostly yield operating income due to the price increase, rather than the impact of volume increase. The impact of volume increase does not have a substantial impact due to the low operating leverage. However, the most feasible case is a volume increase to 1500 ton, but at a steady job price with a contribution margin not lower than 33%. At an assumed volume of 1200 ton the minimum selling price is € 1,082.67 per ton.

Table II: Impact of Changes in Price and Volume on Operating Income

		Price			Contribution Margin		
	Volume	1008	1208	1408	1008	1208	1408
Worse	900	-7%	5%	17%	20%	33%	43%
Base	1200	-3%	12%	30%	20%	33%	43%
Best	1500	1%	22%	42%	20%	33%	43%
		Worse	Base	Best	Worse	Base	Best

Source: Authors' Investigations

Porter's five forces were analyzed to investigate the profitability of the industry sector. Taking this into account, it is not to be expected that a competitor of the CARICOM will enter the Suriname market to start a new company. Only with a particular product differentiation can local competition be attracted to enter the market. However, the threat from Trinidad imports is a reality to deal with for VSHSTEEL. Differentiation by VSHSTEEL can be created in terms of product attributes, delivery performance, quality treatment and design of construction detail by custom-made products, frequent communication with the customer which may result in relationship-building with the customer.

The bargaining power of the suppliers will remain high, since mergers and acquisitions are the trend of the world market. In the end, higher prices are for traders and the manufacturers the worst case scenarios to consider.

Buyers' power is considered to grow since they have more options to purchase their steel constructions from the CARICOM. The competitive advantage of local manufacturers is that they can provide direct and relevant information of their steel construction design, delivery and installation to their local purchasers, which is a way to build communication and relationships with general contractors, architects and consulting engineers. These last become the key intermediaries with the end users. Information supply to customers will take an important position in further price negotiations.

In the highly competitive market of CARICOM which VSHSTEEL is entering, the suggested approach is differential pricing. The specific costs, such as transportation

costs and value-added taxes contribute to the use of parity pricing. This implies that VSHSTEEL should set its prices within a range acceptable to most of the buyers. Such prices should neither be significantly above nor below the market price.

The customer is an important intermediary between the end user and the company. The general contractors, architects and consulting engineers communicate the advantages of steel construction with regard to price, quality and delivery time. It is extremely important that information about the steel construction is communicated to and through them so that they can advise the decision maker. The specific added value searched by customers is the 'after market service' and supervising during installation on customers' construction sites. With regard to the second market discounting and adaptive pricing Porter's five forces are applicable.

To compete in a liberalized environment cost-plus pricing strategy is insufficient as a starting point. Though easy, this strategy is inadequate for efficiency and cost control. Information on cost structure and its behavior generates and encourages constant awareness by management, supporting them in both daily and long term decision making. As can be deduced from the preceding analysis, a price discount which is easy to apply in practice would have a substantial impact on net income. The most likely solution in this case is a sales volume increase at the same price while controlling the behavior of variable and fixed cost to yield higher financial profit. The basic principle in the current environment should be a combination of cost-plus and the previously suggested strategies in a given situation to determine an acceptable price for the customers. This calls for a more flexible approach to increase sales volume. A flexible price quotation, that follows customers' technical specifications would yield profit through fixed price strategy rather than a simple direct price increase.

CONCLUSIONS AND RECOMMENDATIONS

The currently used pricing strategy of the study company tends to follow the conventional pricing theories but appeared insufficient, given the actual circumstances of the study company's operations. For a manufacturing company with a customized project-based product, the appropriate pricing strategy should be cost-based rather than the single 'stand-alone' strategy, supplemented with other appropriate pricing strategies for each given environmental conditions.

As regards future competition, information on the cost structure relating to the pricing strategy of the study company is a prerequisite for relevant commercial decision making. The different variable and fixed cost behavior patterns are also to be taken into consideration. The choice and method of costing techniques would call for regular analysis of 'cost', 'competition' and 'customer' determinants. The gross profit margin gives a quick indication of the bottom-line results. However, the contribution margin method of analysis is normally preferred for highlighting the behavior of variable costs. In the study company, the high cost of direct material causes low operating leverage;

however, the most likely situation that will yield the most feasible profit improvements is a 25% sales volume increase at a constant price, since the demand is assumed feasible. In view of the key position of the intermediaries to end-users, provision of information to customers, together with relationship building, should take key positions in price negotiations.

Company management should specify preferred cost reduction measurements. The single cost-plus approach should make room for a multiple - approach pricing strategies to increase sales volume and stabilize price. For CARICOM customer acquisition, the study company should establish its physically presence in the region. The focus on pricing strategies is necessary but not sufficient as a tool for profit improvement. Current competitive conditions also require a combination of pricing strategy with other elements of marketing-mix in the virile and dynamic CARICOM environment. The use of price as competitive weapon is not a project. Rather, it is a medium for a long-term journey, a day-to-day behavior. This implies that the whole organization needs to be involved: Workers at all levels have to understand the need for the company's competitive advantage under the current market conditions.

Negotiation, rather than conventional text book methods, remains the logical basis of pricing. Providing sales representative with the flexibility to negotiate the offer, not just the price, is the next step toward moving away from unstructured discounting. Finally, frequent assessments by management of the company's pricing strategy are a necessity due to changing customer valuations and competitive environment.

This study has several limitations. The first relates to its being a single case from which no generalizations may be made for all manufacturing companies even within the same industrial sector. The individualistic and complex nature of price fixing makes reliable quantitative information extremely difficult to obtain. Gathering information on a company's pricing policy is both complex and sensitive. To get broader information, research must be conducted over several years; the size of the company and the stage of the product life cycle may play a role. The first suggestion for future research would therefore be to include more companies in the research. A final direction for further research would be to conduct a more comprehensive study focusing more on the significant interrelationships among various determinants of pricing strategies; their complexity notwithstanding.

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