

Strategic Management Approach of Pricing in Achieving Organizational Objectives. A Case Study of Sunshine Rubber and Shoe Company

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Abstract

Pricing is one of the marketing mix used by marketers to achieve their objectives. It is one of the flexible and most adjustable variables that can be manipulated by marketers in order to meet customers demand, and at the same time achieving organizational goals and objectives. The strategic management of pricing is important in order to empower customers to afford the products, minimize the effect of competition, and finally increases the rate of sales of the products. The researcher adopted secondary method of collecting data, which includes the use of journals, periodicals, and other sources for relevant materials. Analysis of variance (ANOVA) was adopted in analyzing the data collected from the case study. The findings of this research show that Sunshine Rubber and Shoe Company, like others in this sub-sector has effectively applied strategic management to the pricing of their products. The calculated F-Statistics showed that the value of 1.354, which lies within 0.05 level of confidence, implied that there is no significant difference in the effects of the three categories of product prices. The paper concludes that price should be strategically managed if organizational objectives must be achieved

Keywords: Strategic Management, Pricing, Achieving, Organization, Objectives

INTRODUCTION

For an organization to succeed in this global competitive environment there is need for such organization to effectively incorporate the idea of marketing management into her management portfolio. The issue of marketing management is not only vital to private organization but also to the public as well. In fact, the trend now is the adoption of strategic marketing view. An organization may fail to realize its objectives if it does not implement strategically the essential marketing mix (price) This is a concept that links the organization to its target market, growing, and delivering superior customer value. Marketing management rested on four components of marketing mix variables. In other words, marketing mix variables serve as the heart beat of any organizational marketing management. The four basic components of marketing mix variables are product, price, place and promotion. At times, these marketing mix variables are called 4Ps of marketing. Adrian Palmer (2004). Price is one of the four marketing mix variables that marketing managers control. Price refers to the worth of a product of an offer, usually expressed in monetary terms. A price is simply an offer or an experiment to test the condition of the market. Aderemi (2003) as a basic and vital component of marketing elements, it is necessary for managers to strategically place vital

emphasis on price. In other words, their products should be strategically priced. Before an organization can effectively strategies its pricing variable, such organization must take into consideration the pricing strategies, objectives for setting prices, and factors determining the choice of pricing strategies. After incorporating these factors, it is then necessary to price the product effectively in a strategically manner. Having noted the four basic components of marketing mix, and the realization of the importance of price as a vital component, it is necessary for any objective oriented organization to effectively apply strategy to its price because it forms the core value for the realization of organizational objectives. For any serious minded organization to operate effectively in this global and dynamic environment, it must firstly acknowledge and recognize the bases for its existence. The bases for existence are elements in the envelope of the objectives for existing in the environment. However, some of the objectives for setting up business organizations are profitability, survival, growth, expansion, satisfaction of needs etc. Having known the objectives for its existence, and the management of the four basic components of marketing mix in order to achieve its objectives maximally, it is necessary to understand the pricing strategy(ies) that can be adopted in order to achieve

the organizational objectives. It should be noted that organization that fails to apply strategic management approach to the price of its product will run at a loss which may eventually leads to folding up of business at the long run. Therefore, organizations must be conscious of the management strategies applied to the price of their products because it forms the key to achievement of organizational objectives.

The objective of this paper is to evaluate three different categories of product prices in order to determine whether there are differences in effectiveness.

Strategic Management of Pricing in Achieving Organizational Objectives.

Strategic management can be viewed as the dynamic process of formulation, implementation, evaluation and control of strategies to realize the organization’s strategic intent. (Azhar, 2008). It is a dynamic and continuous process. Glueck (1984), looked strategic management as ‘a stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives.

Sharphin (1985) opined strategic management as the formulation of plans and carrying out of activities relating to the matters which are of vital, pervasive or continuing importance to the total organization. Price has been defined by different authors. Frances Brassington and Stephen Pettitti (2006) viewed price as the value that is placed on something, it is measured in money, as a convenient medium of exchange that allows prices to be set quite precisely. It is a flexible element of the marketing mix. Sharing this same view with Brassington et al., (2006), put price as the amount of money customers have to pay to obtain the product(s). To them, price is the amount of money charged for a product or service, or the sum of the values that customers exchange for the benefits of having or using the product or service. Whereas Bamigboye (2001) saw price as the mechanism through which a firm communicates to the market, its intended positioning of its products. This is the easiest of the 4Ps to manipulate. Strategic Pricing is the art and science of formulating, implementing and evaluating cross-functional decisions on pricing strategy that will enable an organization to achieve its objectives. It enables the organization to assess the business and the industries in which the company is involved, assess its competitors and set goals and strategies to meet all existing and potential competitors, through a process of continuous improvement revaluation strategy.

Strategic Approach: Although there are various strategic approaches but Sunshine Rubber and Shoe Company adopted the sociological approach. This approach deals with human interaction in order to achieve organizational objectives. This organization

feels that no organization can succeed effectively without proper interaction within the organization, and between the organization and its environment. This approach gives room for integrated efforts within the organization, and between the organization and its environmental factors thereby creating harmonious interaction in order to achieve organizational objectives. Sunshine Rubber and Shoes Company, as one of the companies in Lagos State, produces different types of rubbers, shoes and plastics. This company applied strategic management to the prices of its product. Having adopted sociological approach, the company interacted with the target market in order to fix its prices, taking into cognizance, the need not to neither over price nor under price their products. This approach allows the company to price its products within the affordable length of the target market, taking the objectives of the company into consideration. Three basic products will be selected among the products of Sunshine Rubber Company with respect to their prices.

Table 1: Prices of Product of Sunshine Company

Plastic	Rubber	Shoes
Small – 150	Smaller – 170	Size less than 35–160
Medium – 180	Small – 220	Sizes 35 – 180
Large – 190	Large – 180	Sizes 36- 38 – 150
Mixed colour – 220	Family – 270	Sizes 39- 41 – 190
Small (unicolour) – 110	Big – 210	Sizes 42-43 – 220
		Sizes 44-45 – 240

(Source: Field Survey, 2010)

To evaluate the three different categories of product prices in order to determine whether there are any differences in effectiveness.

The researcher chooses 16 products of the company from different categories at random, to get the ground mean of the 16 products e.g.

$$\frac{150 + 180 + 170 + 190 + 220 + 110 + 220 + 270 + 180 + 210 + 170 + 180 + 240 + 190 + 160 + 220 + 150}{16} = 190$$

Table 2: Product Prices

Plastic	Rubber	Shoes
150	220	180
180	270	240
190	180	190
220	210	160
110	170	220
$850 \div 5x_1 = 170$	$1050 \div 5x_2 = 210$	$1140 \div 6x_3 = 190$
$n_1 = 5$	$n_2 = 5$	$n_3 = 6$

(Source, Field Survey, 2010)

Statement of Hypothesis

H0: N1 = N2 = N3 (Null Hypothesis).

H1: N1, N2, and N3 are not all equal (Alternative Hypothesis).

The reason for using analysis of variance is to decide whether these three categories of prices sample (a sample is the small grup from the population) have the same means. Because we are testing the effectiveness of the three categories of product prices, we must determine whether the three categories of product prices represented by the sample mean $x_1 = 170$, $x_2 = 210$, $x_3 = 190$ could have been drawn from the products having the same mean.

Steps in Analysis of Variance

1. Determine one estimate of the population variance from the variance among the sample means.
2. Determine a second estimate of the population variance from the variance within the samples.
3. Compare these two estimate if they are approximately equal in value.
Calculating the variance among the sample means.

Step I: Find the first estimate of the population variance. This indicates that we must obtain one estimate of the population variance from the variance among the three categories of product prices. In statistical language, this estimate is called the between-column variance.

$$\text{Sample variance} = \frac{\sum(x - \bar{x})^2}{n - 1} \tag{1}$$

Since we are working with three categories of product prices (sample means) and a grand mean, let's substitute \bar{x} for x , \bar{x} for \bar{x} , and k (no of samples variance among the sample mean).

Estimate of between column variance.

First estimate of the population variance

$$\hat{\sigma}^2_b = \frac{\sum n_j (x_j - \bar{x})^2}{k - 1} \tag{2}$$

$\hat{\sigma}^2_b$ = first estimate (the between column variance).

n_j = size of the j th sample

\bar{x}_j = sample mean of the j th sample.

\bar{x} = grand mean,

k = no of samples.

Table 3: Estimation of Between Column Variance

n	x	\bar{x}	$x - \bar{x}$	$(x - \bar{x})^2$	$n(x - \bar{x})^2$
5	170	190	$170 - 190 = -20$	$(-20)^2 = 400$	$5 \times 400 = 2000$
5	210	190	$210 - 190 = 20$	$(20)^2 = 400$	$5 \times 400 = 2000$
6	190	190	$190 - 190 = 0$	$(0)^2 = 0$	$6 \times 0 = 0$
					4000

$$\hat{\sigma}^2_b = \frac{\sum n_j (x_j - \bar{x})^2}{k - 1} = \frac{4000}{3 - 1} = \frac{4000}{2} = 2000$$

This is between column variance.

Calculating the variance within the samples.

Finding the second estimate of the population variance.

Step 2: This step in ANOVA requires a second estimate of the population variance based on the variance within the samples. In statistics, this can be called the within - column variance.

$$\text{The sample variance } S^2 = \frac{\sum(x - \bar{x})^2}{n - 1}$$

Since we have assumed that the variance of the three categories of product prices are the same, we could use any of the three sample variance. Statistically, we can get a better estimate of the population variance by using a weighted average of all three-sample variances. The general formular for this second estimate of 62 is estimate of within - column variance.

Second estimate of the population variance is

$$\hat{\sigma}^2_w = \sum 6_w^2 = \sum \left(\frac{n_j - 1}{nT - k} \right) f_j^2 \tag{3}$$

Where

$\hat{\sigma}^2_w$ = Second estimate of the population variance based on variances with the samples (the within - column variance).

n_j = size of the j th sample

S_j^2 = sample of variance of the j th sample

K = number of samples

$nT = \sum n_j$ = total sample size

Table 4: Calculation of Variance within the Samples and the Within Column Variance.

Plastic		Rubber		Bowl	
$x - \bar{x}$	$(x - \bar{x})^2$	$x - \bar{x}$	$(x - \bar{x})^2$	$x - \bar{x}$	$(x - \bar{x})^2$
150 - 170 = - 20	$(- 20)^2 = 400$	220 - 210 = 10	$(10)^2 = 100$	180 - 190	$(10)^2 = 100$
180 - 170 = 10	$(10)^2 = 100$	270 - 210 = 60	$(60)^2 = 3600$	240 - 90	$(50)^2 = 2500$
190 - 170 = 20	$(20)^2 = 400$	180 - 210 = - 30	$(-30)^2 = 900$	190 - 190	$(0)^2 = 0$
220 - 170 = 50	$(50)^2 = 2500$	210 - 210 = 0	$(0)^2 = 0$	160 - 190	$(-30)^2 = 900$
110 - 170 = 60	$(60)^2 = 3600$	170 - 210 = 40	$(-40)^2 = 1600$	220 - 190	$(30)^2 = 900$
				150 - 190	$(-40)^2 = 1600$
	$\sum(x - \bar{x})^2$		$\sum(x - \bar{x})^2$		$\sum(x - \bar{x})^2$
7000		6200		6000	
$\frac{\sum(x - \bar{x})^2}{n - 1} = \frac{7000}{5 - 1} = \frac{7000}{4}$		$\frac{\sum(x - \bar{x})^2}{n - 1} = \frac{6200}{5 - 1} = \frac{6200}{4}$		$\frac{\sum(x - \bar{x})^2}{n - 1} = \frac{6000}{6 - 1} = \frac{6000}{5}$	
Sample variance = $\int_1^2 = 1750$		Sample variance = $\int_2^2 = 1550$		Sample variance = $\int_3^2 = 1550$	

NOTE: $\hat{\delta}^2 = \sum \left(\frac{n_j - 1}{nT - k} \right) \int_j^3$

$$= \left(\frac{4}{13} \times 1750 \right) + \left(\frac{4}{13} \times 1550 \right) + \left(\frac{5}{13} \times 1200 \right)$$

$$= \frac{7000}{13} + \frac{6200}{13} + \frac{6000}{13} = \frac{19200}{13} = 1476.9$$

(The within column variance)
 NOTE
 The between column variance is 2000
 The within column variance is 1476.9
 It is therefore necessary to test the hypothesis using the F statistics.

The F – Hypothesis Test: Computing and interpreting the F Statistics.
 NOTE: Finding the F – ratio.
 Step 3: This step in ANOVA compares the two estimate of the population variance by computing their ratio, called F as follows.
 F = first estimate of the population variance base on the variance among the sample means

Second estimate of the population variance based on the variance within the samples, If we substitute the statistical shorthand for the numerator and denominator, it will become

$$F = \frac{\text{between column variance}}{\text{within – column variance}} = \frac{\hat{\delta}^2 b}{\hat{\delta}^2 w} \quad (4)$$

$$= \frac{2000}{1476.9} = 1.354$$

Interpreting the F – Ratio

First, examine the denominator which is based on the variance within the samples. The denominator is a good estimator of δ^2 (the population variance). If the hypothesis (Null) that the categories of product prices have equal effect is true, then the numerator or the variation among the sample means of the three categories of product prices is also a good estimate of δ^2 (the population variance).

The nearer the F ratio comes to 1, then the more we are inclined to accept the null hypothesis. Conversely, as the F ratio becomes larger, we will be more inclined to reject the null hypothesis.
 The F ratio = 1.354

Calculation of Degree of Freedom
 The degree of freedom in the numerator is (number of samples – 1) = 3 – 1 = 2.
 The degree of freedom in the denominator of the ratio = $\sum (n_j - 1) = n_j - k$
 $(5 - 1) + (5 - 1) + (6 - 1)$
 $4 + 4 + 5 = 13$

Suppose the researcher wants to test at 0.05 level of significance of numerator 2 at denominator 13, the table value is 3.81. Since the calculated sample value for F of 1.354 lies within the acceptance region, we would accept the null hypothesis and conclude that, there is no significant difference in the effects of the three categories of product prices.

CONCLUSION

Having known that price is one of the manipulative elements of marketing mix, the organization (Sunshine Rubber and Shoe Company) strategically priced its products in order to make sure that there is no significant effect in the categories of their prices. The H₀ (Null Hypothesis) which shows that there is no significant effect in the prices of the products was accepted while the alternative hypothesis which shows that there is significant effect in the prices of the products was hereby rejected.

RECOMMENDATIONS

Having conducted this study, the researcher hereby recommends the following:

1. Organizations should be careful when strategically fixing their prices.
2. Organizations must constantly monitor the prices of competitors products.
3. In the field of strategic management, organizations must carry other mixes (products, place, and promotion) along.
4. Organizations should not just fix prices but fix in a strategic manner.
5. Organizations must constantly watch the reactions of target market in price fixing.

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