ARTICLE IN PRESS

Industrial Marketing Management xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Industrial Marketing Management

journal homepage: www.elsevier.com/locate/indmarman

Research paper

The contingent effect of product relatedness on B2B firms pricing strategy. Evidence from India

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ARTICLE INFO

Keywords:
Pricing strategy
Resource-based view
Corporate-level strategy
Product-related diversification
Promotion strategy
India

ABSTRACT

This paper empirically examines the contingent effect of product-related diversification on B2B firms' pricing strategy. Drawing our arguments from the recent advances in corporate strategy (i.e., resource-based view of the firm and product diversification strategy) and industrial marketing literatures, we argue that product-related diversifiers are more capable in adopting a high rather than a low pricing strategy. We also contend that this relationship will be positively moderated by a number of firm-specific factors, namely a firm's ability to establish high barriers to entry in its focal industry, as well as its strategic decision to invest in promotion strategy. We test our hypotheses against primary data collected from India. The data consists of a cross section from 127 domestic firms and subsidiaries of foreign MNEs operating in the chemicals / pharmaceuticals and the electronics industry. The results provide support for all the aforementioned hypotheses.

1. Introduction

The new era of industrial market globalization and the introduction of new production technologies has resulted in supply often exceeding demand and increased price competition (Hultén, Viström, & Mejtoft, 2009). This is forcing B2B marketing to evolve and raises a set of challenges for industrial marketers that need to be addressed since B2B markets are the dominant component of economies (Wiersema, 2013). In particular, emerging markets are rising in importance and require different approaches and marketing needs to become more strategic by aligning itself with the new realities. On top of these challenges and despite its significance, pricing in industrial markets has not received the strategic importance it deserves; there is the general belief that industry managers view pricing as a headache and they give up as they feel that the market dictates prices (Lancioni, 2005). For this reason, it is worthwhile examining the strategies of B2B market players who are able to command higher prices in emerging markets. In this manner and in contrast with the general belief that industrial companies in emerging markets are price takers, we address the issue of setting higher prices in emerging industrial markets where both local firms and MNEs meet. We suggest that product relatedness is a corporate-level strategic choice that enables such a pricing strategy.

Product relatedness (i.e. the extent to which a firm's product lines are related with each other) describes a choice by a firm in terms of its scope which is a key strategic decision. In particular, firms with higher levels of product relatedness, develop "unusually productive core factors" and enjoy profitability premiums (Rumelt, 1982, p. 368). The benefits of product relatedness extend beyond achieving efficiencies; product relatedness leads to extensive quality perceptions which are critical in the success and survival of industrial firms (Mukherjee, Makarius, & Stevens, 2018). We therefore posit that the selection of product-related diversification as a corporate-level strategy will have significant implications in the firm's ability to achieve premium pricing. Overall, the relative importance of product relatedness has also been increasing in emerging markets (Peng, Lee, & Wang, 2005). For example, Indian Business Groups have been transitioning into more product-related strategies post the 1991 reforms (Kedia, Mukherjee, & Lahiri, 2006). More specifically, India is an enormous emerging market with > 1 billion consumers where while its B2B markets are seen as very price sensitive, a number of firms are able to charge higher prices (Almén & Staxäng, 2012). Thus, our first research question examines *whether product-related diversification leads to a high pricing strategy*.

Pricing, one of the most important elements of the marketing mix, plays a pivotal role in firms' marketing strategy as it is the only variable

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https://doi.org/10.1016/j.indmarman.2019.04.012
Received 18 June 2018; Received in revised form 6 March 2019; Accepted 18 April 2019