



Journal of Services Marketing

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Article information:

To cite this document:

Kostis Indounas, (2018) "Market structure and pricing objectives in the services sector", Journal of Services Marketing, Vol. 32 Issue: 7, pp.792-804, <https://doi.org/10.1108/JSM-03-2018-0087>

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Market structure and pricing objectives in the services sector

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Abstract

Purpose – The purpose of this paper is to investigate the pricing objectives (e.g. customer-related objectives, sales-related objectives, profit-related objectives) that service companies pursue to set their prices and to examine the impact of market structure on these objectives.

Design/methodology/approach – To achieve the research objectives, data were collected from 184 companies operating in four different service industries, namely, logistics companies, financial services providers, information technology companies and airlines.

Findings – The findings indicate that the companies that were investigated in the current study seem to follow a hierarchy of pricing objectives, in which their main focus is on the maintenance of the existing customers and the attraction of new ones to ensure their long-term survival in their market without, however, disregarding financial issues and objectives. The study also revealed that the market structure, along with the sector of operation, has an impact on the pricing objectives pursued, as different market conditions were found to lead to different pricing objectives.

Practical implications – The above findings indicate that managers responsible for setting prices within their firms should be guided by the unique characteristics of their markets.

Originality/value – Given the lack of similar studies within the existing services sector literature, the originality/value of the paper lies in the fact that it presents one of the first attempts to empirically examine this issue from a marketing point of view.

Keywords Marketing strategy, Quantitative research, Field study

Paper type Research paper

Introduction

Momparler *et al.* (2015) and Weisstein *et al.* (2016) argued that pricing is a critical element for the success of any company operating in a service industry. Similarly, authors such as Hoffman *et al.* (2002) have stated that pricing is the only element of the marketing strategy that generates revenues and profits for any service firm, while all the other elements of this strategy are associated with costs.

The above statements illustrate a consensus within the existing service sector marketing literature regarding the importance of pricing. A review of this literature reveals a number of empirical studies across different topics. Many authors have focused on the relationship between price and customer behavior by examining how customers respond to different price stimuli, such as high-priced services (Dominique-Ferreira *et al.*, 2016; Stangl *et al.*, 2017), price reframing (Bambauer-Sachse and Grewal, 2011), divided pricing effects (Estelami and De Maeyer, 2010) and price bundling (Naylor and Frank, 2001). Avlonitis and Indounas (2005, 2006) studied the concept of the pricing process in six different service industries. Other authors have focused on pricing behavior in specific service industries, such as auditing (Climent-Serrano *et al.*, 2018), hospitality (Repetti *et al.*, 2015), telecommunication (Jallat and Ancarani, 2008), business-to-business (Indounas, 2014; Schau *et al.*, 2005) and online services

(Grewal *et al.*, 2011; Pan *et al.*, 2002, 2003). Another stream of research has focused on the development of mathematical models that may help a service firm set its prices (Chen *et al.*, 2017; Esteves and Resende, 2016; Jiang *et al.*, 2014; Lin, 2017; Shugan *et al.*, 2016).

However, there is lack of empirical studies on the impact of market structure on price decision making. There have certainly been normative recommendations within the existing service industry marketing and pricing literature with reference to the critical role of environmental conditions such as competitive prices and customer characteristics in price setting (Estelami, 2012; Grewal *et al.*, 2014; Kienzler and Kowalkowski, 2017; Wirtz and Lovelock, 2016). Authors such as Monroe (2011) and Nagle and Holden (2002) have argued that market conditions should always be taken into account if effective price strategies are to be determined. Moreover, these authors have pointed out that these strategies are expected to differ in different market contexts. In other words, there does not seem to be a “one and only” pricing recipe that can be applied universally to all industry situations. Thus, a single paradigm for pricing does not exist, and the contextual environmental characteristics that shape these decisions need to be examined if an adequate body of knowledge is to be developed.

This fact notwithstanding, knowledge is limited about the relationship between market structure and price determination in service settings. Building from the above arguments, the contribution of the current manuscript is that it is one of the first attempts to examine the aforementioned relationship from an

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Journal of Services Marketing
32/7 (2018) 792–804
© Emerald Publishing Limited [ISSN 0887-6045]
[DOI 10.1108/JSM-03-2018-0087]

Received 16 March 2018
Revised 17 August 2018
24 September 2018
Accepted 2 October 2018

empirical point of view. In particular, the pricing objectives that companies that operate in service industries formulate to determine their prices, along with the impact of their market structure on these objectives, are investigated. The decision to focus on pricing objectives is based on their importance for making effective pricing decisions since, as [Tzokas et al. \(2000\)](#) have suggested, they should be the starting point in every pricing decision. Pricing objectives constitute the basis on which pricing methods and policies are formulated, and a better understanding of pricing objectives can guide a company's entire pricing process.

Based on the above arguments, the objectives of this paper are as follows:

- to investigate the pricing objectives that service organizations pursue to price their services; and
- to examine the impact of the market structure on these objectives.

Literature review

Pricing objectives

Pricing objectives provide directions for executing every part of the pricing process. As [Tzokas et al., 2000a](#) (p. 193) stated, "to have them is to know what is expected and how the efficiency of the operations is to be measured". Previous authors have attempted to examine the concept of pricing objectives in service industries and have identified that a number of different objectives may enter the pricing function of a firm.

[Avlonitis and Indounas \(2005, 2006\)](#) studied the extent to which 28 pricing objectives were followed by 170 service organizations operating in six different industries and concluded that these organizations mainly followed qualitative pricing objectives, with emphasis being placed on customer-related ones. Additionally, the complexity and multidimensionality that characterizes price decision-making imposed on companies the need to pursue more than one objective. These authors argued that pricing objectives can be classified according to their content, their desired level of attainment and their time horizon:

As far as their content is concerned, both quantitative and qualitative objectives can enter the objective functions of firms. Quantitative objectives can be measured easily and include financial indicators such as profit, sales, market share and cost coverage, while qualitative objectives put more emphasis on the relationship with customers and competitors, the long-term survival of the firm and the achievement of social goals ([Avlonitis and Indounas, 2005](#), p. 48).

Regarding the desired level of attainment, pricing objectives may be divided into objectives that, on the one hand, focus on achieving maximum financial results (e.g. sales maximization, profit maximization) and objectives that, on the other hand, pursue satisfactory financial results. This distinction is based on the notion that maximization-related objectives are hard to operationalize and achieve in reality, and most managers make pricing decisions by emphasizing objectives that are satisfaction oriented (e.g. market share increase by 5 per cent within the next year). With reference to their time horizon, pricing objectives may be divided into short- and long-term objectives. An overemphasis on short-term objectives may put in peril the firm's long-term survival in the market.

Moreover, [Morris and Fuller \(1989\)](#) investigated the pricing behavior of 71 US accounting firms and found that the achievement of a satisfactory short-term profit was the most

popular objective among the companies in their sample. Other significant objectives were the achievement of long-term profit and the "determination of competitive prices". Within the same context, [Meidan and Chin \(1995\)](#) investigated the pricing practices of 45 building societies operating in the UK and concluded that the vast majority of the companies considered objectives associated with cost as being the most important ones.

Market structure

According to [Diamantopoulos \(1991\)](#), conventional classical and neoclassical economic theories were historically the first to examine how market structure affects a firm's prices. Under this theory, profit maximization (i.e. the point where marginal cost equals marginal revenue) is the reason for the existence of any company and relies on finding an equilibrium point that maximizes profit under different market structures (i.e. monopoly, oligopoly, monopolistic competition, perfect competition).

Industrial organization theory is another school of thought, focusing on the relationship between market structure-business-behavior-business performance (the SCP paradigm). Within this context, price behavior is a function of the unique characteristics of a market (e.g. consumers' price elasticity, suppliers' bargaining power, product differentiation, regulation, technology, intensity of competition, market concentration, among others). However, even within this paradigm, profit maximization is considered to be the main pricing objective that triggers price decision-making.

In an effort to examine the concept of market structure, the marketing discipline is based on the above theories. A review of the marketing literature reveals that there is no universally accepted way to define and measure market structure. [Diamantopoulos \(1991\)](#) suggests that the main market structure-related characteristics that may influence a firm's pricing behavior are the following:

- the extent to which the products or services that are offered in the market are homogeneous or differentiated;
- the concentration level;
- the size of the market (number of customers and competitors);
- the existing profit margins;
- the degree of governmental intervention;
- the customers' price elasticity;
- the extent to which customers are informed about the existing prices;
- the extent to which customers are informed about the existing products or services offered in the market;
- the barriers to exit from the market;
- the rate of technological change;
- the growth rate; and
- Porter's five forces.

Porter's five forces, which were developed by the famous Professor Michael Porter, include:

- the bargaining power of buyers;
- the bargaining power of suppliers;
- the threat of new competitors entering the market;
- the threat of substitutes; and
- the intensity of competition ([Avlonitis and Gounaris, 1997](#); [Narver and Slater, 1989](#)).

It is interesting to note that different authors have examined the impact of some of the above characteristics on various marketing-

related decisions. For instance, regarding the antecedents of market orientation adoption by a firm, [Narver and Slater \(1989\)](#) investigated the impact of buyers' and suppliers' bargaining power along with the barriers to exit and enter the market. [Kohli and Jaworski \(1992\)](#) highlighted the role of competitive intensity, and [Avlonitis and Gounaris \(1997\)](#) examined the influence of technological rate and market growth.

Conceptual framework and research hypotheses

In line with the aforementioned difficulty in developing a universal way to measure market structure, a review of the existing literature reveals a lack of empirical studies regarding the impact of market structure on pricing decisions in general and pricing objectives specifically. Nevertheless, it is expected that different market characteristics may lead to differences in pricing objective formulation, suggesting that it might be useful to study how pricing objectives may differ across different market conditions and situations. The present study tries to contribute to this underresearched area. Figure 1 presents the conceptual framework of the research, in which the impact of market structure and sector of operation on the formation of pricing objectives is examined.

Market structure and pricing objectives

Adopting the classification put forward by [Diamantopoulos \(1991\)](#) regarding the elements of market structure and presented in the previous section, it is expected that companies operating in different markets will face differences in terms of these elements. For instance, different markets are expected to face differences in how customers respond to various pricing stimuli ([Grewal et al., 2011, 2014](#); [Pan et al., 2003](#)), their size, growth or level of competitive intensity ([Monroe, 2003, 2011](#)).

Authors such as [Monroe \(2003, 2011\)](#) and [Nagle and Holden \(2002\)](#) have suggested that market conditions should always be taken into account if effective pricing decisions are to be made. Similarly, regarding service companies in particular, authors such as [Avlonitis and Indounas \(2005\)](#) have argued that there does not seem to be a single paradigm of price determination that can be applied universally to all service industries. To this end, it is expected that price setting in general and pricing objectives in particular will be influenced by the type of market structure, leading to the formulation of the following research hypothesis:

H1. Market structure has an impact on the pricing objectives formulated.

Sector of operation and pricing objectives

Building from the above arguments, companies operating in different service industries are also expected to face differences in their market structure. Regarding the industries that are investigated in the current study and presented in more detail in the following section, logistics companies operate in a fragmented market in which a large number of businesses exist. Financial services providers are subdivided into mainly banks, insurance companies and investment-related businesses. Banks and insurance companies operate in a concentrated market in which a small number of firms dominate and set the rules of the game in

regard to average market prices. Information technology companies target business-to-business customers that are, by and large, price insensitive and seek customized and tailor-made solutions. Finally, airlines operate in a rather internationalized context in which various types of businesses (e.g. conventional airlines, low cost airlines, charter flights) exist.

It is to be expected that the above businesses may behave differently in terms of their pricing strategy, which may also be reflected in the pricing objectives that they pursue. Thus:

H2. The sector of operation has an impact on the pricing objectives formulated.

Research methodology

Selection of industry sectors and population of the study

The study was conducted in Greece and is part of a wider project on the pricing practices of service providers. Despite the fact that the focus is on only one country, authors such as [Nagle and Holden \(2002\)](#) have suggested that the pricing phenomenon is characterized by some kind of universality. To this end, although different national contexts are characterized by unique structural elements, specific pricing practices could be applied to all these contexts. Based on this argument, it is expected that specific pricing objectives, which are examined in this study, might also be followed by companies operating in different countries.

With a view to broadening the generalizability of the findings ([Aaker et al., 2013](#)), a cross-industry population was included, which involved four primary sectors, namely, logistics companies, financial services providers, information technology companies and airlines. The above sectors were chosen on the rationale that they all represent major sectors of the Greek economy in terms of importance to the national economy and the amount of capital and labor employed. In particular, based on the ICAP Directory (a Gallup's subsidiary in Greece), these sectors account for 25.8 per cent of the country's GDP and employ approximately 130,000 employees. Based on the same directory, which was used as the sampling frame of the research, the total population of the study consisted of 1292 companies.

Personal in-depth interviews

Exploratory qualitative research through personal in-depth interviews was conducted in the initial phases of the research to generate insights and gain a deeper understanding of the research problems (i.e. pricing objectives, market structure) that were investigated in the present study. When conducting qualitative research, the ideal number of interviewees is rather subjective and is based on the researcher's belief regarding whether the research problem has been adequately covered. Similarly, the selection of interviewees is based on whether they have the knowledge to provide information about this problem ([Hague et al., 2013](#)). To this end, 16 personal in-depth interviews were conducted with senior executives who were responsible for setting prices within their firms; interviewees were selected from an equal number of firms for each of the four sectors of our study (four interviews per sector). In particular, after conducting these interviews, it emerged that the top

management along with the sales, marketing and finance managers were mainly responsible for setting prices within their firms. Thus, these types of managers (one per sector) were interviewed. Interviewees were asked open-ended questions regarding the pricing objectives that their companies pursue when they set their prices and the nature and characteristics of their market structure.

Questionnaire development and pretesting

The data collection instrument was a structured questionnaire that was designed to be self-administered. Prior to the full-scale data collection, the questionnaire was pretested with senior academics specializing in pricing and the 16 managers who participated in the field interviews to increase its validity (Malhotra *et al.*, 2012). These two groups of pilot respondents provided their comments (concerning mainly the sequence of questions), and the instrument was revised accordingly.

Sampling, data collection and response rate

A requested sample of 700 companies was set, and the selection process was based on a proportionate stratified random sample. A requested subsample size per sector (stratum), in direct proportion to each stratum's relative size in the parent population, was determined (Table I). Using a table of digits, a random sample of companies from each stratum was selected (Levy and Lameshow, 2008).

Data were collected by means of a mail survey. Together with the questionnaire, the survey pack included a formal letter on university letterhead explaining the academic purpose of the research and ensuring respondents' full anonymity and confidentiality (Aaker *et al.*, 2013). It emerged that the determination of prices within smaller companies was very much a top-management decision, whereas at larger companies, a marketing, sales (where a marketing manager did not exist) or financial manager was mainly responsible for setting prices. Consequently, in the smaller companies, the questionnaire was sent to the managing director or an equivalent, while in the larger companies, it was forwarded to the marketing, sales or financial director.

The choice to use this "key informant technique" was compelled by the respondent's familiarity with the research topic (Dholakia *et al.*, 2004). To check key informants' competence, respondents were asked to evaluate their level of knowledge about price decision making in their firm (1 = Not very knowledgeable to 5 = Very knowledgeable; mean rating = 4.23; SD = 0.72) and their degree of involvement in the pricing process of their firm (1 = Minimally involved to 5 = Extensively involved; mean rating = 4.06; SD = 0.67). The above mean rating values are a strong indication of the key informants' competence.

Table I Total population, requested sample and response rate

Type of companies	Population	Requested sample	No. of companies that responded	Response rate (%)
Logistics companies	487	264	72	27.2
Financial services providers	296	160	41	25.7
Information technology companies	267	145	37	25.5
Airlines	242	131	34	26.0
Total	1,292	700	184	26.2

Two weeks after the original mailing, a remainder letter was sent to the nonrespondents to enhance the response rate. The two mailings yielded 203 questionnaires, nine of which were not usable, thus leaving an operational data set of 184 returns and an effective response rate of 26.2 per cent, which is in line with other studies in the field of pricing (Tzokas *et al.*, 2000). Table I summarizes the breakdown of responses across the different sectors.

To evaluate possible sources of nonresponse bias, the extrapolation procedure based on a comparison of the study's main variables between early (first mailing) and late (second mailing) respondents was undertaken (Levy and Lameshow, 2008). This comparison found no significant differences, suggesting that nonresponse bias was unlikely to be a problem.

Measures

Pricing objectives

Avlonitis and Indounas (2005) studied the pricing objectives of 170 service organizations by examining 28 different objectives. Given that the present study also focuses on services, the original scale developed by Avlonitis and Indounas was adopted. The respondents were provided with a list of 28 pricing objectives (presented in Table III), and were asked to indicate, using a five-point scale (1 = Not important at all to 5 = Very important), how important they considered each objective in pricing the service that they had chosen for discussion (e.g. a loan in the case of a bank or life insurance in the case of an insurance company).

Market structure

Given the lack of a widely accepted scale to measure market structure, as explained in the literature review section, the market-related characteristics that were normatively suggested by Diamantopoulos (1991) to affect price decision making were used in the current study. The operationalization of these characteristics is presented in Table II. Some of these characteristics have been operationalized by other authors while examining their impact on various marketing-related decisions. In that case, the original scale developed by these authors was used. Regarding all the other characteristics, relevant scales were developed.

Data analysis and research results

Pricing objectives

The mean scores and the standard deviation of each pricing objective are presented in Table III, where it can be seen that the three most important objectives are those that are related to customers. More specifically, the most important objective is the "maintenance of the existing customers" followed by the "attraction of new customers" and the "satisfaction of customer needs".

Table II Operationalization of the characteristics that comprise the structure of a market

Characteristics	Statements
<i>Likert-type statements</i>	
The extent to which the services that are offered in the market are homogeneous or differentiated	"The competitive services that are offered in the market are homogeneous"
The concentration level	"Our market is characterized by a high concentration level"
The number of customers and competitors in the market	"A large number of customers exist in our market"
The existing profit margins	"A large number of competitors exist in our market"
The degree of governmental intervention	"More customers in comparison with competitors exist in our market"
The customers' price elasticity	"The profit margins in our market are high"
The extent to which customers are informed about the existing prices	"Our market is characterized by an increased governmental intervention"
The extent to which customers are informed about the existing services offered in the market	"Our customers are characterized by a high price elasticity, which results in paying particular attention to the prices offered"
The buyers' bargaining power	"Our customers are informed about the existing prices in the market"
Suppliers' bargaining power	"Our customers are informed about the existing services offered in the market"
Threat from substitutes	"Many of our customers have the power to negotiate and impose their terms when doing business with our company"
Intensity of competition	Originally developed by <i>Narver and Slater (1989)</i> "Our company has the power to negotiate and impose its own terms when doing business with our major suppliers"
	Originally developed by <i>Narver and Slater (1989)</i>
	"It is easy for our customers to find substitutes to our services"
	"Competition in our market is extremely intensive"
	"It is quite usual to have price wars in our market"
	"Every day we learn of a new action taken by our competitors"
	"Competitors are weaker in comparison with us"
	Originally developed by <i>Kohli and Jaworski (1992)</i>
<i>Other statements</i>	
Barriers to entry and exit from the market	"How easy it is for new competitors to enter the company's market"
	"How easy it is for the existing competitors to leave the market"
	Originally developed by <i>Narver and Slater (1989)</i>
Rate of technological change	"Have you been involved in new service development?"
	Originally developed by <i>Narver and Slater (1989)</i>
	and modified by <i>Avlonitis and Gounaris (1997)</i>
Market's growth rate	"How did their market evolve during the last five years and what is your forecast for the next five years?"
	Originally developed by <i>Avlonitis and Gounaris (1997)</i>
	(1 = Rapidly declining to 5 = Rapidly growing)

These findings indicate that the companies in our sample understand the importance of considering customer-related objectives in making effective pricing decisions. Other important objectives are "cost coverage," the "creation of a prestigious image for the company," the "long-term survival" of the company and "service quality leadership." This emphasis on service quality and a prestigious image is in line with suggestions made by a number of authors regarding the importance of these objectives in the service sector (*Wirtz and Lovelock, 2016*).

Furthermore, the mean values of the pricing objectives indicate that the companies in the sample seem to pursue more than one objective, perhaps due to the complexity that characterizes pricing decision making (*Avlonitis and Indounas, 2005*). Additionally, although, as mentioned above, qualitative objectives seem to be of primary importance for these

companies, quantitative objectives, such as those related to profits or sales, are not disregarded because quantitative objectives are important to the survival of the company in their market (*Tzokas et al., 2000*).

Market structure

Table IV presents the mean values along with the standard deviation of each of the environmental forces/characteristics constituting the market structure examined in this paper. Based on these values, it can be argued that the companies in our sample operate in a market characterized by intense competition with strong competitors and a large number of customers who are informed about the existing prices of the rather homogeneous services offered in the market and who have moderate bargaining power and price elasticity; high growth and concentration level,

Table III Mean scores and standard deviation of pricing objectives

Pricing objectives	Mean	SD
Maintenance of the existing customers	4.29	1.14
Attraction of new customers	4.24	1.11
Customers' needs satisfaction	4.15	1.21
Cost coverage	4.04	1.15
Creation of a prestige image for the company	4.01	1.20
Long-term survival	4.00	1.26
Service quality leadership	3.98	1.29
Achievement of satisfactory sales	3.84	1.21
Achievement of satisfactory profits	3.81	1.14
Sales maximization	3.77	1.32
Market development	3.61	1.40
Achievement of a satisfactory market share	3.51	1.38
Determination of "fair" prices for customers	3.47	1.34
Profit maximization	3.44	1.31
Sales stability in the market	3.32	1.41
Achievement of social goals	3.31	1.51
Price differentiation	3.20	1.48
Price stability in the market	3.15	1.39
Liquidity achievement and maintenance	3.14	1.58
Market share leadership	3.11	1.41
Price similarity with competitors	3.06	1.33
Coverage of the existing capacity	3.01	1.41
Price wars avoidance	2.95	1.42
ROI (Return on investment)	2.91	1.62
Market share increase	2.81	1.64
ROA (Return on assets)	2.72	1.51
Distributors' needs satisfaction	2.59	1.51
Discouragement of new competitors' entering into the market	2.52	1.54

Note: Minimum: 1, Maximum: 5

an increased rate of technological change and a moderate threat from substitutes; and suppliers with low bargaining power, low barriers to exit, low governmental intervention, low profit margins and high barriers to entry.

The fact that many of the above variables/characteristics were interrelated led us to conduct a factor analysis (principal components analysis, varimax rotation). On the basis of eigenvalue > 1.0 and factor loadings > 0.4, seven factors were identified. Having identified these factors, it was deemed appropriate to classify the respondents on the basis of these factors. Following the methodology used by Avlonitis and Gounaris (1997), a cluster analysis with the use of a quick cluster was used. More specifically, to perform this analysis, the factor scores that were derived from the factor analysis presented above were used as the independent variables. The decision to use the factor scores rather than the initial market characteristics was justified by the fact that the cluster solution that was derived from these scores, and that will be discussed below, was more appropriate in terms of interpretability, internal cohesion and parsimony (Aaker *et al.*, 2013). For the clustering of the data, the quick cluster method was employed, which is an alternative to the more common hierarchical clustering, offering clear and distinct clusters.

Table IV Mean scores and standard deviation of market structure characteristics

Market structure characteristics	Mean	SD
Competition in our market is extremely intensive	4.18	0.62
A large number of customers exist in our market	4.11	0.72
More customers in comparison with competitors exist in our market	3.83	0.92
It is quite usual to have price wars in our market	3.74	0.94
A large number of competitors exist in our market	3.71	0.91
Market's evolution during the last five years	3.66	0.82
The competitive services that are offered in the market are homogeneous	3.63	0.91
Our market is characterized by a high concentration level	3.61	0.88
Our customers are informed about the existing prices of the market	3.55	0.86
Our customers are informed about the existing services offered in the market	3.52	0.96
Rate of technological change	3.51	0.90
Every day we learn of a new action taken by our competitors	3.50	0.85
Forecast about the market's evolution within the next five years	3.51	0.84
Our company has the power to negotiate and impose its own terms when doing business with our major suppliers	3.50	0.83
Easiness for the existing competitors to leave the market	3.48	1.43
Our customers has the power to negotiate and impose their own terms when doing business with our company	3.32	0.81
Our customers are characterized by a high price elasticity	3.29	0.82
It easy for our customers to find substitutes to our services	2.91	0.86
Our market is characterized by increased governmental intervention	2.82	1.05
Our competitors are weaker in comparison with us	2.71	0.76
The profit margins in our market are high	2.42	0.88
Easiness for new competitors to enter the company's market	2.21	1.22

Note: Minimum: 1, Maximum: 5

The goal of the quick cluster method is to form a predetermined number of clusters that will display a high degree of internal similarity while being distinct from each other. Because the number of clusters needs to be determined in advance, in our analyses, the six-, seven- and eight-cluster solutions were examined. Because the seven- and eight-cluster solutions resulted in very small clusters, the six-cluster solution was adopted. To validate this solution, we conducted a random split-half cluster analysis, which resulted in the same clusters. Further, we performed multiple discriminant analysis with cluster membership as the grouping variable and the seven factors derived from the factor analysis and representing different market structures as the independent variables. This analysis showed that 95.1 per cent of the cases were correctly classified, giving support to this six-cluster solution. Moreover, we ran an analysis of variance along with Duncan's multiple range tests for each of

the original variables and across each cluster that showed that the six-cluster solution fit the data in a meaningful way. Table V summarizes the results of this analysis.

As seen in this table, Cluster 1 refers to a “competitive market in which the company possesses a competitive advantage.” Cluster 2 describes a “competitive market in which the company does not possess a competitive advantage,” while Cluster 3 refers to a “competitive market in which customers place an emphasis on price.” Cluster 4 describes a “competitive market with a lack of differentiation among existing competitors,” whereas Cluster 5 describes an “oligopolistic market.” Finally, Cluster 6 refers to a “noncompetitive market in which the company offers high-priced services.” An oligopolistic market in particular is a type of concentrated market in which a few large firms dominate in terms of market share. These large firms may often collude in an attempt to control the market over smaller competitors and to reduce risks (Diamantopoulos, 1991).

Market structure and pricing objectives

To identify the extent to which pricing objectives vary across the aforementioned different market structures, an analysis of variance and Duncan’s multiple range tests were performed, and the results are presented in Table VI. What can be seen from this table is that the customer-oriented objectives such as “satisfaction of customer needs” and “attraction of new customers”, as well as the objectives of “long-term survival,” “service quality leadership,” “creation of a prestigious image for the company” and “cost coverage” seem to be significant regardless of the type of market, indicating their importance for making effective pricing decisions.

Companies that operate in competitive markets but possess a competitive advantage seem to emphasize maximizing profits through the prices that they set. This finding might be attributed to this competitive advantage, which allows them to pursue the objective in question.

However, companies that operate in a competitive market without possessing a competitive advantage are particularly interested in determining “fair” prices for their customers. Thus, contrary to the companies described above, it seems that intense competition and the lack of a competitive advantage lead companies to adopt a customer-oriented approach by endeavoring to formulate “fair” prices. Furthermore, these companies aim to achieve a satisfactory return on the investments that they have made for the services that they offer in the market.

Regarding companies operating in competitive markets in which customers place an emphasis on prices when making purchase decisions, they seem to consider the “achievement of a satisfactory market share” and the “achievement and maintenance of liquidity” to be very important, while at the same time, they place some emphasis on satisfying their distributors’ needs. Thus, the price sensitivity of customers may lead firms to set prices that cover their costs and give them the opportunity to increase their market share, achieve and maintain liquidity and at the same time satisfy their distributors’ needs.

It seems, however, that companies that operate in competitive markets in which there is a lack of differentiation among competitors do not exhibit clear behavior regarding their pricing objectives. It is also characteristic that these companies place the least emphasis on all the pricing objectives in comparison with the rest of the companies operating in

different market structures. It seems that the conditions pertaining to this market structure (intensity of competition and homogeneity of services) create difficulties in formulating clear pricing objectives.

Companies that operate in oligopolistic markets pay attention to stabilizing sales in their market. This finding might be explained by the nature of these markets, since these companies might avoid pricing practices that could put the stability and balance of their market at risk, and they might prefer practices such as price collusion (Diamantopoulos, 1991). It is also interesting that the objective of the “maintenance of existing customers” was found to be the most important for companies operating in this type of market. In other words, oligopolistic situations force businesses to adopt pricing practices that place an emphasis on retaining their existing clientele base.

Finally, companies that operate in noncompetitive markets and offer high prices do not consider maintaining their existing customers, setting fair prices, or satisfying distributors’ needs to stabilize their sales in the market to be important objectives. The lack of competition may leave some “freedom” for businesses operating in these markets when formulating their pricing objectives.

The above findings indicate that market structure exerts an influence on the pricing objectives pursued. To this end, *H1* is accepted.

Sector of operation and pricing objectives

Table VII presents the extent to which the pricing objectives pursued vary across the four different service sectors. What is evident from this table is that the customer-related objectives are the most important objectives for all sectors. However, these objectives seem to be particularly important for airlines, which endeavor to maintain their existing customers and attract new ones (e.g. through “air miles” packages and high customer service such as self-check-in facilities for business class customers). Moreover, it seems that these businesses try to satisfy their distributors’ needs through the pricing objectives that they formulate (e.g. travel agencies, tour operators) to motivate them to support their services.

Financial services providers endeavor to develop their market by charging ‘fair’ and differentiated prices to their customers. In contrast, logistics companies are mainly guided by quantitative priorities and, more specifically, by increasing their sales and covering their existing capacity due to the difficulty that they face in efficiently using the capacity of their assets (e.g. lorries, ships, etc.). Finally, information technology companies are keen to offer high-quality services to their business-to-business customers.

As in the case of market structure, sector of operation also seems to influence the pricing objectives set, leading to the acceptance of *H2*.

Discussion and implications

Theoretical implications

The objectives of the current research were:

- to investigate the pricing objectives that service organizations pursue; and
- to shed some light on the influence of market structure on these objectives.

Table V Cluster analysis of market structure characteristics

Market Characteristics	Cluster 1 Competitive market where the company possesses competitive advantage (25.9%) (1)	Cluster 2 Competitive market where the company does not possess competitive advantage (21.6%) (2)	Cluster 3 Competitive market with customers that place emphasis on price (15.2%) (3)	Cluster 4 Competitive market with lack of differentiation among existing competitors (11.3%) (4)	Cluster 5 Oligopolistic market (10.2%) (5)	Cluster 6 Non-competitive market where the company offers high priced services (10.9%) (6)	F	Sig.
Competition in our market is extremely intensive	4.35 [4.42]	4.25 4.16	4.24 4.22	[4.41] 3.82	4.03 (2.89)	(3.80) 4.03	2.97 15.31	0.011 0.001
A large number of customers exist in our market	3.95 [4.21]	3.86 3.53	3.87 [4.23]	3.82 (3.02)	3.32 3.53	4.11 (2.91)	5.31 6.67	0.001 0.001
More customers in comparison with competitors exist in our market	3.01 4.06	2.91 3.91	[4.23] [4.14]	4.21 3.71	(2.55) 4.01	2.82 3.54	15.43 3.41	0.001 0.002
It is quite usual to have price wars in our market	[4.01]	(3.39)	3.35	3.42				
A large number of competitors exist in our market								
Market's evolution during the last five years								
The competitive services that are offered in the market are homogeneous	3.81	3.86	3.31	[4.03]	3.67	(2.33)	10.49	0.002
Our market is characterized by a high concentration level	3.85	3.53	(2.76)	3.64	[3.94]	3.65	5.69	0.001
Our customers are informed about the existing prices in the market	[3.85]	3.65	3.41	(2.82)	3.59	3.21	4.11	0.001
Our customers are informed about the existing services offered in the market	[3.80]	3.63	(2.84)	3.01	3.51	3.46	3.82	0.003
Every day we learn of a new action taken by our competitors	3.83	3.80	3.03	[4.42]	3.24	(2.61)	11.14=	0.001
Forecast about the market's evolution within the next five years	[3.81]	3.09	3.75	(2.61)	3.59	3.64	8.61	0.001
Our company has the power to negotiate and impose its own terms when doing business with our major suppliers	3.99	3.21	2.71	3.63	(2.74)	[4.05]	17.48	0.001
Easiness of the existing competitors to leave the market	2.55	3.81	3.55	[4.73]	2.52	3.81	8.48	0.001
Our customers are characterized by a high price elasticity	3.30	3.35	[3.63]	3.31	2.91	(2.55)	4.91	0.001
The profit margins in our market are high	2.08	2.53	(1.96)	2.03	2.17	[3.01]	5.92	0.001
Our competitors are weaker in comparison with us	[2.94]	(2.04)	2.81	2.92	2.41	2.86	8.53	0.001
Easiness of new competitors to enter into the market	2.21	2.19	[3.38]	(1.72)	1.76	1.94	5.49	0.001

Notes: The figures represent the mean score of each characteristic in each cluster. Maximum values are in brackets while minimum in parentheses (based on Duncan's multiple rang tests, $p < 0.1$). Sign indicates level of significance based on one-way analysis of variance

Table VI Market structure and pricing objectives

Pricing Objectives	Clusters of Market Structure						F	Sig.
	Cluster 1 Competitive market where the company possesses competitive advantage	Cluster 2 Competitive market where the company does not possess competitive advantage	Cluster 3 Competitive market with customers that place emphasis on price	Cluster 4 Competitive market with lack of differentiation among existing competitors	Cluster 5 Oligopolistic market	Cluster 6 Non-competitive market where the company offers high priced services		
Maintenance of the existing customers	4.41	4.41	4.39	3.86	[4.54]	(3.67)	1.85	0.095
Attraction of new customers	4.38	4.38	4.38	3.54	4.26	4.04	1.39	0.221
Customers' needs satisfaction	4.29	4.31	4.51	3.94	3.83	3.85	1.27	0.256
Cost coverage	4.05	4.01	4.68	4.01	3.91	3.62	1.56	0.165
Creation of a prestige image for the company	4.18	4.09	4.31	3.89	4.09	3.79	0.65	0.621
Long-term survival	4.09	4.30	4.04	3.55	4.32	3.51	1.65	0.168
Service quality leadership	4.11	3.99	4.41	3.85	3.76	3.69	0.73	0.587
Achievement of satisfactory sales	4.12	3.81	4.38	3.28	3.82	3.58	1.66	0.159
Achievement of satisfactory pro-fits	3.90	3.89	4.01	3.01	3.78	3.64	1.32	0.234
Sales maximization	4.11	3.70	4.08	3.16	3.81	3.53	1.49	0.210
Market development	3.65	3.70	4.17	2.91	3.90	3.29	1.31	0.235
Achievement of a satisfactory market share	3.64	3.61	[4.37]	(2.32)	3.61	3.62	3.05	0.016
Determination of "fair" prices for customers	3.49	[4.08]	3.61	3.05	3.09	(2.98)	2.45	0.038
Profit maximization	[3.84]	3.20	3.50	(2.79)	3.20	3.71	1.94	0.096
Sales stability in the market	3.44	3.71	3.71	2.95	[3.89]	(2.69)	2.45	0.041
Achievement of social goals	3.43	3.79	2.90	2.91	3.53	3.29	1.02	0.423
Price differentiation	3.18	3.66	3.75	2.94	2.97	2.84	1.58	0.189
Price stability in the market	3.21	3.52	3.71	2.62	3.17	2.78	1.76	0.143
Liquidity achievement and main-tenance	3.26	3.61	[4.09]	(2.68)	3.01	2.61	2.47	0.042
Market share leadership	3.41	3.31	2.53	2.53	3.08	2.89	1.22	0.321
Price similarity with competitors	3.12	3.52	3.30	3.05	3.09	3.05	0.65	0.656
Coverage of the existing capacity	3.18	3.40	3.46	2.41	3.55	2.69	1.54	0.197
Price wars avoidance	3.11	3.25	3.20	2.45	2.68	2.74	1.03	0.411
ROI	3.00	[3.49]	3.33	(1.94)	2.89	2.89	1.89	0.097
Market share increase	3.10	2.75	3.21	2.24	2.73	3.53	1.32	0.262
ROA	2.86	3.01	2.75	1.91	2.59	2.46	1.05	0.382
Distributors' needs satisfaction	2.42	2.80	[3.44]	2.52	2.42	(2.24)	1.97	0.089
Discouragement of new competitors' entering into the market	2.48	2.66	3.31	2.46	2.41	2.69	1.09	0.378

Notes: The figures represent the mean score of each objective in each cluster. Maximum values are in brackets while minimum in parentheses (based on Duncan's multiple rang tests, $p < 0.1$). Sign indicates level of significance based on one-way analysis of variance

Analyzing data from 184 service companies operating in four different sectors, the study's findings seem to be in line with previous studies in the field of pricing in general and service pricing in particular.

More specifically, adopting the original scale developed by Avlonitis and Indounas (2005), first, it was found that the above companies are mainly interested in the customer-related objectives of attracting new customers, maintaining existing customers and satisfying those customers' needs when they set their prices. Avlonitis and Indounas (2005) also found that customer-related pricing objectives were the most important objectives among the companies in their sample. These findings indicate that the companies in the current study understand the importance of considering customer-related objectives in making effective pricing decisions. Adopting a customer-oriented philosophy when setting prices gives a service firm the opportunity to reach final prices that are adapted to customers' individual needs and characteristics (Wirtz and Lovelock, 2016).

Second, other important pricing objectives are related to the effort to cover costs, offer a high-quality service, create a prestigious image, survive in the market and be a leader in terms of service quality. Quantitative objectives, such as profit and sales, were also indicated. These findings might be attributed to the complexity and multidimensionality that characterizes price

setting in services markets, which requires the formulation of more than one pricing objective, with emphasis being placed on both qualitative and quantitative objectives, as previous studies have indicated (Indounas, 2014).

Third, after conducting a factor and cluster analysis on a set of variables that were proposed by Diamantopoulos (1991) and comprise a market's structure, six different types of market structures were identified:

- 1 a competitive market in which the company possesses a competitive advantage;
- 2 a competitive market in which the company does not possess a competitive advantage;
- 3 a competitive market in which customers place an emphasis on price;
- 4 an oligopolistic market;
- 5 a competitive market in which competitors are not differentiated; and
- 6 a noncompetitive market in which the company offers higher prices.

The study's findings are in line with the recommendations made by a number of authors such as Monroe (2011) and Nagle and Holden (2002) in that "a one and only" pricing approach that could be applied to all different market

Table VII Sector of operation and pricing objectives

Pricing objectives	Logistics companies (n = 72)	Financial services providers (n = 41)	Information technology companies (n = 37)	Airlines (n = 34)	F	Sig.
Maintenance of the existing customers	4.19	4.23	(4.01)	[4.59]	3.29	0.011
Attraction of new customers	4.08	4.12	(4.02)	[4.33]	3.31	0.015
Customers' needs satisfaction	4.11	4.18	4.17	4.21	1.89	0.132
Cost coverage	4.01	3.97	4.10	3.95	1.78	0.145
Creation of a prestige image for the company	3.97	4.03	4.01	4.00	1.12	0.246
Long-term survival	3.96	3.81	3.82	3.95	1.18	0.239
Service quality leadership	(3.78)	4.00	[4.31]	3.97	2.88	0.024
Achievement of satisfactory sales	[4.11]	3.81	3.99	(3.71)	2.45	0.041
Achievement of satisfactory profits	3.90	3.91	3.78	3.73	1.09	0.312
Sales maximization	[4.14]	3.91	3.71	(3.54)	2.51	0.049
Market development	(3.58)	[4.00]	3.71	3.74	3.01	0.019
Achievement of a satisfactory market share	3.61	3.72	3.49	3.56	1.01	0.387
Determination of fair prices for customers	3.51	[4.23]	3.61	(3.30)	3.47	0.005
Profit maximization	3.40	3.51	3.42	3.58	0.89	0.402
Sales stability in the market	3.39	3.28	3.21	3.28	0.91	0.399
Achievement of social goals	3.28	3.41	3.21	3.39	1.35	0.275
Price differentiation	3.19	[3.78]	(3.00)	3.21	2.24	0.073
Price stability in the market	3.15	3.23	3.11	3.29	1.14	0.341
Liquidity achievement and maintenance	3.18	3.10	3.12	3.14	0.88	0.488
Market share leadership	3.21	3.13	3.32	3.28	0.79	0.494
Price similarity with competitors	3.10	3.01	2.97	3.12	0.82	0.483
Coverage of the existing capacity	[3.23]	2.78	(2.54)	2.98	2.04	0.091
Price wars avoidance	2.99	2.91	2.89	2.82	1.02	0.392
ROI	2.89	2.96	2.99	2.81	0.94	0.502
Market share increase	2.76	2.81	2.59	2.66	1.13	0.327
ROA	2.84	2.81	2.71	2.73	1.19	0.354
Distributors' needs satisfaction	2.54	2.61	(2.31)	[3.03]	3.67	0.001
Discouragement of new competitors' entering into the market	2.32	2.18	2.23	2.28	1.07	0.402

Notes: The figures represent the mean score of each objective in each sector. Maximum values are in brackets while minimum in parentheses (based on Duncan's multiple rang tests, $p < 0.1$). Sign indicates level of significance based on one-way analysis of variance

contexts does not seem to exist. Companies operating in different environments were found to pay attention to specific pricing objectives.

The statements made by the above authors are also reflected in the differences that were found among companies operating in different service industries in terms of the pricing objectives that they formulate. Logistics companies were mainly interested in quantitative objectives, whereas financial services providers were found to pursue objectives related to imposing fair and differentiated prices. Information technology companies were mainly guided by their effort to offer high-quality services, while airlines endeavored to satisfy their final customers' and intermediaries' needs.

Certainly, these findings require further validation if an adequate body of literature is to be developed. However, the contribution of these findings lies in the fact that they could be the starting point for understanding and investigating in detail how market structure affects price decision-making.

Managerial implications

The above findings indicate that the companies that were investigated in the current study are interested in satisfying their existing customers' needs (e.g. through high-quality services that convey a prestige image) along with attracting new customers to ensure their long-term survival in the market. It is also interesting that these objectives were found to be significant regardless of the type of industry in which a company operates. Certainly, this is not to say that other objectives that are related to financial results are not taken into account. In contrast, covering costs together with achieving satisfactory profits and sales were also found to be important. These findings reflect a hierarchy of pricing objectives. More specifically, relationship marketing strategies aimed at attracting new customers and retaining existing ones may help a business to ensure its long-term financial performance and consequently its survival in the market. Within this context, managers responsible for setting prices within their firms might benefit from adopting a customer-oriented approach to their pricing behavior if positive financial results are to be realized.

Moreover, pursuing more than one pricing objective indicates the complexity and multidimensionality that characterizes pricing behavior. This complexity and multidimensionality are also reflected in the fact that different objectives were found to be pursued by different service providers operating in different market structures.

However, this variation of pricing objectives across different market situations necessitates further insights. More specifically, apart from a customer-oriented approach to setting pricing objectives, which was evident in all the different types of market structures, companies that operate in competitive markets and have managed to develop a sustainable competitive advantage are mainly guided by the effort to impose prices that lead, as we should expect, to maximum profits, while companies that lack a competitive advantage are forced to adopt more 'conservative' pricing strategies (i.e. achieve a satisfactory return on their potential investments and determine 'fair' prices for their customers).

In contrast, companies operating in competitive markets with price-sensitive customers seem to pursue a variety of pricing objectives. More specifically, despite this customer price sensitivity, it is interesting that these companies seek to retain their existing customers and attract new customers (both final customers and distributors) by differentiating on nonprice elements such as offering high-service quality that conveys a prestigious image, with final goals of achieving adequate financial results and ensuring their long-term survival in the market. Thus, contrary to what might be expected, companies in this market seem to invest in building a "high-quality" rather than a "low-cost" image through the prices that they set.

Companies operating in highly competitive markets characterized by a lack of differentiation among existing competitors do not seem to pursue clear pricing objectives. More specifically, the lack of differentiation characterizing these markets, which, along with the rather intensive competitive environment, may gradually lead to saturation and lower profit margins, forces them to set prices mainly to cover their costs, without placing any particular emphasis on their financial performance (e.g. profits, liquidity and ROI).

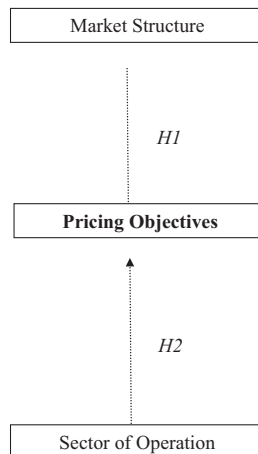
Companies operating in oligopolistic markets are mainly interested in maintaining their dominant position in the market through the prices that they impose (i.e. by stabilizing total sales in the market and maintaining their existing customers). This is not surprising given that this type of market is characterized by efforts such as price collusion and the avoidance of pricing wars to prevent the entrance of other companies in the market and to establish an environment that benefits all existing leading companies.

Finally, companies operating in noncompetitive markets characterized by the existence of high-priced services seem to place more emphasis on attracting new customers rather than maintaining their existing customers (both final customers and distributors) by charging fair prices to stabilize sales in the market. It seems that the absence of a competitive environment results in the absence of the need to invest in pricing strategies that facilitate the development of long-term relationships with existing customers.

Limitations and future research directions

Although the current study represents an empirical attempt to examine the impact of market structure on pricing objectives pursued, its findings and implications should be viewed in light of a number of limitations. More specifically, the context of the study (Greece) is an obvious limitation, since it limits the ability to generalize the results to other countries. Thus, future research that replicates the current study in other national contexts could further improve the understanding of the major concepts that were presented in the current study.

Another limitation of the study is related to the increased heterogeneity associated with cross-sectional samples (as in the present study) because they induce negative effects on the quality of the findings (Malhotra *et al.*, 2012). However, such samples can increase their generalizability, while they have also been adopted by other studies in the field of pricing (Tzokas *et al.*, 2000). Certainly, future research on individual sectors could lead to a more thorough understanding of how companies operating in these sectors set their prices.

Figure 1 The conceptual framework of the study

Another area for further research may be the refinement and reassessment of the concept of market structure as it was underlined in the present study. Future research could shed more light on this issue and aid in developing an empirically based and tested construct that incorporates contextual variables that, perhaps, were not examined in the current study.

Additionally, it might be interesting to introduce some profitability measures to investigate the influence of market structure on pricing objectives. In particular, it might be fruitful to examine whether specific pricing objectives work better (in terms of profitability) in specific market structures and industries. Finally, building from the current study's findings, future research could investigate hypothesized relationships between different types of market structure and different pricing objectives through the use of causal analyses such as regression analysis or structural equation modeling.

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