

# The Impact of Global Cultural Differences on the Pricing Strategies in United States of America

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## ABSTRACT

*The purpose of the study was to examine the impact and the extent to which global Cultural differences affects a company's pricing decisions, a study based on Da-Wood Trading in the United States of America. Data for this study was collected through observation during a three month internship at the company, and questionnaires were later administered to respondents. Personal interview was also used to gather data from one respondent. The findings were then presented in form of tables and graphs. The data collected indicates that there are globalization factors that play a role in determining prices for services offered. Exposure to crime comes out as the most prominent global political factor while literacy rates and global oil prices stand out as the most influential cultural and economic factors, respectively. However, factors like tariffs, religion, and currency fluctuations are seen to not have a significant impact on pricing decisions. The factors that are considered and highlighted in this study therefore are seen to vary in degree of importance and in how they influence pricing decisions.*

**Key Words:** Global Cultural Differences, Pricing Strategies, United States of America.

## 1.0 INTRODUCTION

In today's hypercompetitive global marketplace, a company's pricing policy can make or break the bottom line. Few managers, even those specializing in marketing, think strategically about pricing. There are situations where the pricing decisions are made in reaction to a pricing problem, or to exploit an opportunity. On one hand the decisions may focus purely on price or immediate profitability, without considering how the reactions of customers or competitors may affect the picture (Holden & Nagle, 2006).

The ultimate objective of every business manager, no matter what the function or management designation, should be to aim for overall business success (Engelson, 2000). And, for all the advantages that businesses pursue, there is one powerful advantage that is accessible to

virtually every business, but actually pursued by too few-and ultimately by even fewer. That advantage is price advantage (Baker & Marn, 2010). Creating and sustaining the price advantage ensures pricing excellence which generates superior returns to shareholders and enables a company to invest in sustaining its advantages in other areas. In many markets, increased competition and falling marketplace prices have forced many companies to reduce costs (Lalwani & Mangan, 2008). Hence, the overall goal of logistics is to achieve a targeted level of customer service at the lowest possible cost (Bowersox, Closs & Cooper, 2002).

Da-Wood Trading is a company in the state of Georgia in the United States, in the freight and logistics services industry. Da-Wood Trading's main activity is providing packing and crating services of cars for export using ocean transport. To facilitate this, Da-Wood Trading carries out hauling of cars from various auctions, minor parts assembly to cars before shipping, trade document preparation, and warehousing for cars before freight. Da-Wood Trading's income therefore is generated from ocean freight charges, hauling fees, loading fees and labor charges for part repairs.

## **2.0 LITERATURE REVIEW**

The impact of global cultural differences on pricing decisions

Central to any society is the common set of values shared by its citizens that determine what is socially acceptable. Culture underlies the family, educational system, religion, and social class system, and affects people's tastes, preferences for colors, and attitudes towards product classes (Muhlbacher, Leihs, & Dahringer, 2006). The network of social organizations generates overlapping roles and status positions. These values and roles have a tremendous effect on people's preferences and thus on the marketer's options (Gitman & McDaniel, 2000).

Understanding business partners and their open as well as latent expectations means understanding the reality in which they subjectively live. This personal view of the world determines the business partners' goals, decision making, and behavior (Muhlbacher, Leihs, & Dahringer, 2006). As growth of international business predominates, managers are often tasked with developing effective global pricing strategies for customers that are characterized by different cultures and different perceptions as to the value of the different services they are buying (Doole & Lowe, 2008).

### **2.1 Language**

Language provides access to local society. Although English may be widely spoken, and may even be the official language, speaking the local language may make a dramatic difference. Firms that translate promotional materials and information are seen as being serious about doing business in the country, but this implies that internal costs to be absorbed by the firm are high (Czinkota & Ronkainen, 2007).

Even as globalization takes place, English still remains a second language for many people and an organization with a diverse workforce is able to take advantage of the opportunity to reach these markets. As globalization brings different categories of customers to the market place, organizations are prompted to ensure they have the appropriate workforce to meet the needs of such customers (Pollitt, 2006). Cultural diversity has broad organizational implications as different cultures represent a variety of values, work ethics and norms of correct behavior. In industries where knowledge of the local language is important, companies tend to employ and assign territories to persons on the basis of language (Gillespie, Jeannet, & Hennessey, 2010).

Since not all cultures want the same things from a company, firms with a diverse workforce are better placed to adjust accordingly to meet their customers' needs. The important resource of a diverse workforce therefore saves the company the need to have to adjust all its job-processing, customer contact, and production for non-English speaking customers (Cummings & Worley, 2009). In this way, when translation is required, a different person from the one who made the first translation can step in to ensure that blunders and omissions are detected (Czinkota & Ronkainen, 2007). Also, as companies must take care in advertising in the global markets to ensure that the body copy of the advertising gets translated into the local language with the right nuances of the original copy drive marketing costs up, which translate into higher prices for products (Mathur, 2010).

## **2.2 Values and norms**

An important indicator of culture is the values shared by individuals within a given social group or society. Values influence customers' perceptions, and underlie social norms. Values that potentially have an important impact on customer behavior are based on work, achievement and wealth, risk taking, and consumption in general (Muhlbacher, Leihs, and Dahringer, 2006). Different cultures have different perspectives on work, achievement and wealth, and these values change over time. With increasing wealth, readiness to work for long hours has declined in Japan. This also seems to be the case in South Korea, where an attempt by government and business firms to diminish production costs by increasing working hours has led to violent mass strikes (Duina, 2006). The price of a product depends on the perceived value of the product. If the product is perceived a status symbol, for example by being of a particular brand, the customer is willing to pay a higher price for it (Gerbe, 2007).

In addition, when faced with a buying situation, consumers and organizational buyers consider varying levels of risks associated with products in the market. For instance, environmental risk is perceived by consumers regarding products that cause harm to the environment (Muhlbacher, Leihs, and Dahringer, 2006). Environmental concerns have come to loom very large in the globalization debate, and these range from pollution and ozone layer depletion, to endangered species and global warming (Lane, 2006). With the opening of national borders to international trade, the growing need to conserve the environment places restrictions in what may be available to customers as import. The environmental prevention principle enacted internationally involves changes to products and processes to prevent environmental damage from occurring rather than relying on remedial action to repair damage after it has taken place (Johnson & Turner, 2009). For instance, countries like Ecuador do not allow for importation of used cars to reduce pollution in the country, while Jordan has outlawed importation of hybrid cars in order to conserve its natural resources. This means that firms exporting cars into these countries incur high costs of production to meet these standards, and this in turn drives the prices of their products up. The Kyoto Protocol which addresses climate change encourages governments to tax greenhouse gas emissions in various ways, thereby making pollution more costly. Governments nowadays try to include damage to the environment or human health in the price of products by imposing "green" or ecotaxes on producers and consumers, for example on cars or electric appliances (Love & Lattimore, 2009). This increases a firm's costs in trying to ensure as much as possible that products' negative effects on the environment are minimized.

With regards to consumption, basic values concerning the importance of material possessions strongly influence the consumption and saving patterns in a country. The US culture largely supports consumption and hence emphasizes short-term orientation. As a result, saving rates are three times smaller in US than in Japan, where longer-term orientation supports savings and self sacrifice for the long-term good. This has economic effects on the population's purchasing power (Muhlbacher, Leihs, and Dahringer, 2006). Each country has its own customs and traditions that determine business practices and influence negotiations with foreign customers. This trickles down to how much a company spends in terms of retaining foreign clients, since in many countries, personal relationships are more important than financial considerations. For instance, skipping social engagements in Mexico may lead to lost sales, while negotiations in Japan include long evenings of dining, drinking, and entertaining; only after a close personal relationship has been formed do business negotiations begin (Gitman & McDaniel, 2000). As such, the ease with which a firm accommodates a country's customs and traditions affect the pricing decisions, since all the costs incurred affect the cost of sales (Grigsby, 2007).

The social organization of a group of people helps define their roles and the expectations they place upon themselves and others in the group (Keillor, 2007). Social organization provides the framework of a culture. It includes virtually every aspect of how people live together from day to day, the assignment of social tasks, and how and why people join together to meet their basic needs. Because the social organization of a society is so basic in terms of what consumers and organizational buyers are expected to do or not to do, information on social organization is extremely important to international marketers. Where social roles are strictly defined on the basis of gender and change in social roles is taking place very slowly, if at all, the international marketer needs to understand those roles in order to predict buying and consumption behavior (Muhlbacher, Leihs, & Dahringer, 2006). The primary kind of social organization is based on kinship, and this varies from society to society. In developing countries, the extended family fulfills several social and economic roles, and this means that consumption decision making takes place in a larger unit and in different ways. Pooled resources, for instance, may allow for larger purchases (Keillor, 2007). Therefore, prices of products are almost impossible to standardize because customers have differing abilities to pay the same price (Doole & Lowe, 2007).

### **2.3 Religion**

Religion defines the ideals for life, which in turn are reflected in the values and attitudes of societies and individuals. A firm operating outside national borders must be aware of the differences not only among the major religions but also within them. The impact of these differences may vary from hostility to barely perceptible but with long-standing suspicion. Within Christianity, for instance, a major difference between Protestants and Catholics is in their attitude towards making money. While Catholicism questioned it, the Protestant ethic has emphasized the importance of work and accumulation of wealth for the glory of God. At the same time, frugality is stressed and the residual accumulation of wealth from hard work has formed the basis of investment. With other religions, such as Hinduism, people may be divided into groups, which determines their status and to a large extent their ability to consume (Czinkota & Ronkainen, 2007).

Religions contain key values and norms that are reflected in their adherents' way of life. It influences international business in many ways, and business firms try to adopt practices that will satisfy religious decrees without undermining modern business practice. Mandatory alms for Moslems also necessitate that a firm budgets for excessive profits to be used for charitable purposes (Keillor, 2007). Major holidays are also tied to religion, and are observed differently from one culture to another, the same holiday having different connotations (Czinkota & Ronkainen, 2007). This provides an opportunity for a firm to price its products differently for different seasons and tap into the busy holiday seasons where consumers are willing to pay for more than the regular prices. As religion influences the value system of people, religious preaching plays a role in shaping the consumption behavior of a society. As such, religion and values are both closely linked together and affect consumers' buying habits (Milenkovic, 2009).

#### **2.4 Literacy levels**

Education can transmit cultural ideas or be used for change, and it usually involves formal training in school. However, even people living in indigenous cultures are, at a minimum, educated through the transmission of the existing culture and traditions to the new generation (Zhiwen, 2004). A country's system of formal education provides insight into the knowledge of consumers in these different countries. National enrolments into the various levels of formal education-primary, secondary and college or university- can give an international firm insight into the sophistication of consumers in different countries. There is also a strong correlation between educational attainment and economic development (Keillor, 2007). The intellectual capability of a country's population has a significant influence on its wealth (Muhlbacher, Leihs, & Dahringer, 2006). It is therefore natural that pricing strategy for low literacy regions must be in tune with the product and packaging strategy. Considering the low income levels and poor cash flow associated with lack of education, pricing has to be on the lower side (Sarangapani, 2010). On the other hand, in regions where literacy levels are high, marketers perceive their consumers to be very price sensitive, and as such, strategies reducing non-monetary costs incurred by consumers rather than prices are employed (Pecotich & Shultz, 2006).

### **3.0 METHODOLOGY**

#### **3.1 Research Design**

The research design used in this study was case study. This method of research design was deemed appropriate because the study was a single case based on Da-Wood Trading, and the main purpose was to understand a real-life phenomenon in depth (Yin, 2009). In this case the research was carried out to establish the impact of globalization on pricing decisions made in Da-Wood Trading.

#### **3.2 Population and Sampling Design**

The population from which data was collected included the managers directly involved in the review of performance and planning and implementation of new strategies. The company directors also formed a part of the population due to their involvement in the policy making processes in the company. The final say on whether or not to implement a new pricing strategy is the directors', hence the choice to involve them in the study. The total number of managers was four and the directors were two.

### **3.2.1 Sampling Frame**

With regards to this study, the sampling frame was the list of all employees and directors in Da-Wood Trading, obtained from the payroll department. The list showed each manager's position in the company. The two directors of the company were also classified as managers in the payroll list; hence only one list was obtained.

The small size of the population did not necessitate sampling. As such, all the managers and both directors in Da-Wood Trading participated in data collection. The managers involved in this research study were the operations manager, dispatch manager, documentation manager, and finance manager.

### **3.2.2 Sampling Technique**

This research project involved collecting data from all the decision makers in the company, and since they were considered as the population, the sampling technique applied in this study was census sampling. With regards to this study data was collected from all the managers and both directors of Da-Wood Trading, who constituted the whole population involved in the decision making process in the company. This technique was chosen because the size of the population is small and therefore allowed for collection of data from all members and not just a portion. Involved were the managers and supervisors directly involved with pricing decisions and performance review, and the directors, who were involved with policy making in the organization. The census method was advantageous in this case in that the data collected was accurate and a true reflection of the actual situation on the ground in Da-Wood Trading.

### **3.3 Data Analysis**

Analysis of data collected in this study was done using Excel, and involved the use of frequencies tables, charts and graphs that described the data and highlighted the trends displayed by the data collected. Measures of central tendency like mean, median, mode, proportion and percentages were also used to analyze the data.

## **4.0 FINDINGS**

### **4.1 The impact of global cultural differences on pricing decisions**

All the respondents in this study indicated that global cultural differences affect how they price products in Da-Wood Trading.

#### **4.1.1 Language**

While all the respondents agreed that in Da-Wood Trading there are employees who speak different languages, 3 respondents disagreed with the fact that the cost of maintaining these employees increased the prices charge to customers, and the remaining 2 respondents strongly disagreed. Table 1 below shows these ratings.

**Table 1 Impact of varying languages on pricing**

<b>Variable</b>	<b>Frequency (n=1)</b>	<b>Mean = <math>\sum n/n</math></b>
Employees from different nationalities	3	3
<b>Total</b>	<b>3</b>	<b>3</b>

*(Mode: Employees from different nationalities)*

#### **4.1.2 Values and norms**

Of all the respondents in this study, one strongly agreed that customers who value wealth creation are charged higher prices than those who do not. The remaining 4 respondents agreed

to this fact. With regards to environmentally sensitive customers, 2 respondents strongly agrees that they are charged higher prices because of the costs incurred to adhere to their standards, while 3 respondents simply agreed to his statement. In addition, 2 respondents agreed that customers who place value on material possessions are charged higher prices than those who do not, while the remaining 3 respondents disagreed. Also, 4 respondents strongly agreed that higher prices are charged to customers who bargain a lot, while one respondent disagreed to the statement. All the 5 respondents disagreed with the fact that costs incurred in terms of entertaining customers who value social engagements are passed on to the customer in terms of higher prices. Lastly 3 respondents disagreed with the fact that customers who operate as a family are charged higher prices than those whose family ties are not evident in their businesses. The table below shows the ratings of these responses in detail.

**Table 2 Impact of values and norms on pricing.**

Variable	Frequency (n=1)	Mean = $\sum n/n$
Customers who value wealth creation	19	14.6
Environmentally sensitive customers	23	14.6
Customers who value material possessions	9	14.6
Customers who bargain a lot	29	14.6
Customers who value social engagements	5	14.6
Customers with evident family ties	3	14.6
<b>Total</b>	<b>88</b>	<b>14.6</b>

(Mode: Bargaining Customers)

#### 4.1.3 Religion

Of the five respondents, 2 disagreed with the statement that Da-Wood Trading taps into different religious holidays and charge higher prices during these periods, while the remaining three respondents strongly disagreed. The rating for this response is shown below in table 3.

**Table 3 Religion and pricing**

Variable	Frequency (n=1)	Mean = $\sum n/n$
Religious holidays	2	2
<b>Total</b>	<b>2</b>	<b>2</b>

(Mode: Religious holidays)

#### 4.1.4 Literacy rates

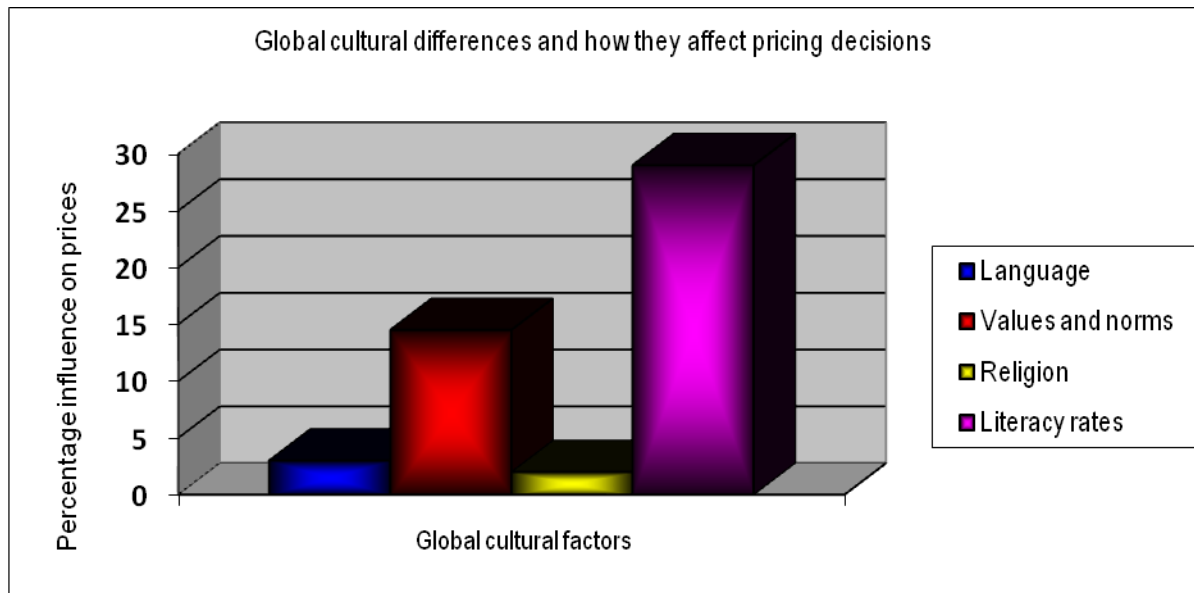
Three respondents strongly agreed to the statement that well educated and knowledgeable customers are charged lower prices than customers whose literacy levels are low, while the remaining 2 respondents simply agreed. Table 4 is used to illustrate the ratings of this response.

**Table 4 Literacy rates and pricing.**

Variable	Frequency (n=1)	Mean = $\sum n/n$
Educated and knowledgeable customers	29	29
<b>Total</b>	<b>29</b>	<b>29</b>

(Mode: Educated customers)

The chart below summarizes the global cultural differences discussed above using the mean for the variables considered in each factor.



#### 4.2 Discussion of findings

From the data collected, literacy rates had the highest average rating of 29, in that well educated customers are charged lower prices than customers whose literacy levels are low. This is in line with what Pecotich and Shultz (2006) noted that in regions where literacy levels are high, marketers perceive their consumers to be very price sensitive, and as such, strategies reducing non-monetary costs incurred by consumers rather than prices are employed. This was however contradicted by Sarangapani (2010), who pointed out that considering the low income levels and poor cash flow associated with lack of education, pricing has to be on the lower side. Second to education in the findings of this study were values and norms as a global cultural factor, with an average rating of 14.6 from the respondents. Emphasis was on a customer's bargaining capacity, environmental sensitivity and value placement on wealth creation. Implied here is that customers who bargain a lot convince the company to lower the prices through discounts. This was pointed out by Gitman et al (2000), in that each country has its own customs and traditions that determine business practices and influence negotiations with foreign customers. In addition, Muhlbacher et al (2006) noted that environmental risk is perceived by consumers regarding products that cause harm to the environment. For instance, countries like Ecuador do not allow for importation of used cars to reduce pollution in the country, while Jordan has outlawed importation of hybrid cars in order to conserve its natural resources. This means that firms exporting cars into these countries incur high costs of production to meet these standards, and this in turn drives the prices of their products up. Muhlbacher et al (2006) also continued that basic values concerning the importance of material possessions strongly influence the consumption and saving patterns in a country, which in turn economic effects on the population's purchasing power.

Lastly, regarding language and religion, the data collected shows insignificant ratings for these two factors, and this indicated that in Da-Wood Trading, employees from different nationalities



are not retained at a significantly extra cost. Rather, they replace the normal budgeted costs of running the business in terms of salaries and wages. Da-Wood Trading also does not vary the prices of products during religious holidays, and this can be attributed to the fact that consumption that increases during religious festivities and holidays is mostly localized. Therefore, as noted by Czinkota et al(2007), religious holidays provide an opportunities for firms to price products differently for different seasons and tap into the busy holiday seasons where consumers are willing to pay for more than the regular prices, but this is applicable to local companies located within the same geographical region as the consumer.

## **5.0 CONCLUSION AND RECOMMENDATIONS**

### **5.1 Conclusion**

The findings indicated that global cultural differences have an impact on Da-Wood Trading's pricing decisions in terms of literacy rates, and values and norms. Customers' literacy rates have the greatest impact as seen in this study since well educated customers are charged lower prices than customers who are less educated. Customers' values and norms are also seen to have an impact on prices charged by Da-Wood Trading, and this study highlighted the specific ones as being customers' bargaining capability, environmental sensitivity and value attached to wealth creation. As the various cultural factors impose extra costs and raise prices charged by Da-Wood Trading, we can conclude that global cultural differences have a negative impact on pricing decisions made by Da-Wood Trading.

### **5.2 Recommendations**

The findings of this study indicate that cultural differences have a negative impact on Da-Wood Trading's pricing decisions, and this can be attributed to the fact that Da-Wood Trading applies an offensive approach when dealing with cultural factors instead of taking advantage of them to work in the company's favor. To remedy the situation, Da-Wood Trading's management should take time to study the culture of their customers in order to anticipate their needs and hence gain leverage against foreign competitors. In addition, it became evident that Da-Wood's customers are clustered in specific countries, regarded as generally wealthy nations. To diversify, the company should consider avenues of gaining access to more developing countries. In the course of conducting this research, one of the areas that need further research has been identified. This study therefore recommends that further study be conducted on religion and its impacts on business strategies.

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