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This paper contributes to a long-lasting debate between practitioners who argue that academia is unable to understand what pricing is all about and academics who criticize practitioner pricing approaches for lacking rigor or rationality. The paper conceptualizes a Resource-Advantage (R-A) perspective on pricing by drawing on the R-A theory of competition. After a review of R-A theory, the paper integrates the price discretion concept and pricing as a spanning competence by introducing a separation between resources that create and resources that extract value, thereby expanding R-A theory to pricing. The perspective aims to shed light on how the process of competition helps organizations to learn/benefit from pricing capabilities. The research shifts the focus of pricing research from an equilibrium-based static view to a dynamic, disequilibrium-provoking pricing competence. In this way, it draws attention to what is perhaps most relevant to pricing in practice: the actual means necessary to determine price.

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Introduction

Studies in pricing include independent research in whole areas of economics, marketing, management science and, more recently, strategic management. Whilst the body of literature is considerable, a number of key limitations in the state of pricing policy knowledge can be determined from an organizational and managerial perspective. As Diamantopoulos (2003, p. 343) summarizes: 'the field is characterised by a paradox. On the one hand, 'price theory is one of the most highly developed fields in economics and marketing science' (Simon, 1989, p.ix). On the other, 'there is hardly another business subject area that has had so little reverberation in practice as has price theory' (Diller, 1991, p.17).' The key reason for this paradox is an overreliance on neoclassical price theory as a research paradigm for guiding theory development, epistemology and methodological approach (*e.g.* Devinney, 1988; Diamantopoulos and Mathews, 1995). The consequences for the nature and scope of work in pricing decision-making, however, have been considerable (Dorward, 1987).

First of all, there is little research addressing the key pricing concerns of managers. As Bonoma, Crittenden & Dolan (1988, p.357) argue 'managers appear concerned largely with proximal interrelationships of costs, competition, distribution channels, and the end user's utilization … to arrive at a price that hopefully represents value added.' Meanwhile, academics have persistently focused on 'the distal end state of the pricing process: value provision to the end user' (Bonoma et al, 1988, p. 357). In a citation and profiling analysis of pricing research from 1980 to 2010 Leone, Robinson, Bragge & Somervuori (2011) further confirm that academic work in pricing is still very much focused on end-state marketing models and the consumer's perceptions of, and reactions to, price. Secondly, scant attention has been paid to the complexity of pricing in practice (*e.g.*, Diamantopoulos, 1991; Jeuland and Dolan, 1982; Lieberman, 1969; Monroe and Della Bitta, 1978; Oxenfeldt, 1973; Said, 1981). As Gijsbrechts (1993, p.117) commenting on Tellis' (1986) framework observes 'in real life, a manager may find himself in different ''cells'' at the same time, and face the problem of combining various principles into one set of pricing rules.' Or as Bonoma *et al*. argue (1988, p.340) 'the academic literature has largely avoided the issue of complexity of price by considering it a single number'. Also, Monroe and Mazumdar (1988, p.364) conclude that 'no single modelling effort can be expected to address the entire decision problem'. In the words of Nagle (1984, pp.22-23) 'no economic model captures the full richness of a practical pricing problem or sets out a complete prescription for solving it. Even with an understanding of economic theory, marketers are still left with the problem of how to

price products'. Thirdly, the literature provides no link with the concept of marketing orientation (Ingenbleek, 2002). For example, Cressman (1999, p.456) questions why we advocate managers to adopt a market orientation whilst the literature fails to link pricing practices with the factors that drive customer needs. 'If pricing practice is seen as the means through which managers ''harvest'' the ''seeds'' planted in a market-oriented strategy process, why are there no pricing practices based on the value delivered to customers in the marketing literature?' As Dutta, Zbaracki & Bergen (2003, p.615) explain 'a firm that has created value, however, may not capture the potential rents associated with that value. To capture rents, a firm must set the right prices for what it sells.' In other words, a strategy in which the firm sets out to deliver superior customer value is profitable only if the firm is actually able to determine the price that customers are willing to pay in return (Ingenbleek, 2002). Fourthly, there is not enough descriptive and comparative research to empirically validate theoretical work, and to allow a better understanding of the variety of pricing environments that exist in business (Monroe and Mazumdar, 1988; Rao 1984). Silberston (1970) observes that there is a scarcity of empirical published work on pricing. This paucity applies to both the external and internal environment. Raviv (1984, p.37) states that an essential research step would be to 'document the pricing practices encountered in various products and markets' and Ingenbleek (2002) calls for more detailed qualitative and descriptive case studies which focus on the cross-national and cross-cultural differences in pricing practices, as well as industries not previously examined.

Neoclassical price theory, the methodology of which forms the root of these limitations, has a predisposition toward equilibrium reasoning to investigate the static determination of relative prices. It is an end-state theory of competition which focuses on the systematic, regular and persistent forces that determine long-term, natural or equilibrium prices, instead of short-term, actual or market prices which accidentally or temporarily deviate from their natural or equilibrium level (Bridel, 2001). Conventional price theory does not focus on the process of competition but, rather, views competition as a state in which the behavioral process has run its limits, with perfect competition as the ideal state and welfare norm. In other words, the neoclassical paradigm defines (im)perfect competition as a market structure instead of a behavioral activity. Neoclassical theory, therefore, can only partially serve as a foundation for developing knowledge on pricing from a managerial and organization perspective as end-state and process methodologies are each capable of addressing different type of phenomena or different aspects of the pricing problem studied. If pricing is viewed from an end-state perspective, primary emphasis is placed on external and static analysis. That is, as external forces impose pressures on a firm, strategies are dictated by market imperatives and hence, prices and pricing strategies will be determined which correspond to (a static end-state of) those market imperatives. However, if pricing is considered from a process point of view higher weight will be placed on the inner workings of a firm and the dynamic competitive behavioral process that guides and informs pricing decision-making based on incomplete information, risk and uncertainty.

While the end-state approach (*e.g.* Tellis, 1986) has enriched understanding of the external factors that impact upon pricing, it has also neglected the firm's idiosyncratic internal factors. As a result, domination of end-state based theories has lead to a gap in the current state of pricing knowledge. Whilst there are various process theories of competition available (see Alderson, 1965; Clark, 1961; Kirzner, 1973; von Hayek, 1948) which provide a conceptual and methodological basis for examining these internal factors, it is believed that the resource-advantage (R-A) theory of Hunt & Morgan (1995, 1996, 1997) is the most significant. First of all, resource-advantage theory is the first dynamic process theory of

competition which was important enough to warrant a special symposium and which has been subject to discourse in several different disciplines and research traditions, including marketing, management, neoclassical economics, institutional economics, socio-economics, Austrian economics, and general business (Hunt, 2002b). Secondly, it is the only dynamic process theory of competition which incorporates neoclassical theory as a special case and as a consequence, 'R-A theory incorporates the predictive success of perfect competition and preserves the cumulativeness of economic science' (Hunt, 2000, p.6). However, applying the R-A perspective is not entirely without criticism. It is argued to be an incomplete and over-generalized theory (Hodgson, 2000). Moreover, it is condemned because it fails to be explicit enough about the exact composition of resources and capabilities that drive comparative firm effects (Schlegelmilch, 2002).

The purpose of the paper is, therefore, to further develop the study of pricing by expanding the scope of resource-advantage theory to include the processes and resources that influence how a firm determines prices in return for the customer value it creates. It presents a conceptual model to address the root of the neoclassical limitations whilst providing a more specific conceptualization of R-A theory. Moreover, it proposes a delineation of value creating and value extracting resources, instead of tangible and intangible, as argued by Hunt and Morgan (2003). The structure of the paper is as follows. Firstly, the resource-advantage perspective taken in this study is explained. Its foundational premises are explicated and the theory is linked to pricing concepts derived from conventional price theory. In this way advances in economic science are preserved without denying knowledge of pricing accumulated through other research traditions. Secondly, a conceptual model of resource-advantage pricing is presented to provide a basis for discussion, implications, and directions for future research. The paper ends by suggesting that, due to an increasing velocity of change in markets (Day, 2011), pricing in the real world will become more future-focused, and to improve the pragmatism in the nature of the pricing problems studied by academia, more interaction between strategic management and pricing research is needed to develop knowledge on how to strategically manage pricing and its increasingly complex challenges.

R-A Theory: an evolutionary, process theory of competition

Whilst there are various perspectives on the notion of theory (Hunt, 2002a) there is general consensus that the purpose of theory is 'to increase scientific understanding through a systematic structure capable of both explaining and predicting phenomena' (Rudner, 1966, p.10). Hunt and Morgan (1995, p.2) argue that a theory of competition 'should satisfactorily explain the micro phenomenon of firm diversity'. This diversity may exist across as well as within industries or countries and it may manifest itself through differences in size, scope, methods of operations, investment policies, and so forth. From a business perspective, therefore, the ultimate goal of theory of competition is to explain why some firms, relative to others, differ in financial performance. R-A theory is a general theory of competition that describes the process of competition (Hunt and Morgan, 2003, p.5). That is, it describes which internal or external processes (*e.g.* pricing practices) explain firm diversity (*e.g.* one firm having higher prices and price margins than the other).

As Figure 1 illustrates, R-A competition 'is a constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance' (Hunt, 2000, p.135, emphasis added). Thus, some firms achieve superior financial performance because they have a relative competitive advantage arising from a relative comparative advantage in resources.

Insert Figure 1 about here

Organizational learning is endogenous to the process of R-A competition as a certain level of performance may generate knowledge about the competitive position and the specific resources on which this position is based. A firm may thus learn in which resources it should (not) invest in order to improve its market position.

Resource-advantage theory stems from no single research tradition. It draws on paradigms in economics, management, marketing, and sociology. However, although sharing affinities with many research traditions, it is not a *composite*; it draws on only those aspects that *fit*. It is a general theory of competition that incorporates neoclassical perfect competition as a special case. In this way, R-A theory preserves the cumulativeness of economic science but at the same time it is also said to explain and predict phenomena better than neoclassical perfect competition because its foundational premises are more descriptively realistic (Hunt, 2000b).

As a key difference with neoclassical theory, R-A theory posits that heterogeneous and imperfectly mobile resources are central to understanding why some firms produce more or less efficiently and/or effectively than others. In R-A competition firms compete for a relative comparative advantage in resources to enable them to produce a market offering that is (1) perceived to have superior value and/or (2) can be produced at lower cost. This comparative advantage may translate into a position of competitive advantage and superior performance. Hunt and Morgan (1996) forward nine possible competitive positions resulting from the firm's resources. Furthermore, a second key difference with conventional price theory involves the Structure-Conduct-Performance paradigm. R-A theory maintains that environmental factors (structure) only *influence* strategic choice (conduct) and performance, as opposed to the neoclassical view that a firm's environment *determines* conduct and performance. As Figure 1 illustrates, how well competitive processes work, is influenced by a number of (f)actors: societal resources from which firms draw, the societal institutions that form the 'rules of the game', the actions of competitors and suppliers, the behavior of consumers and the decisions which comprise public policy. As price only receives implicit attention in R-A theory, the concept of price discretion is introduced to discuss the role of pricing in the process of resource-advantage competition.

The price discretion concept: a conceptual framework for pricing

The price discretion concept lies at the heart of pricing as it refers to the ability or power to make informed pricing decisions. It represents the seller's price range, variously defined as 'range of mutual benefit' (Boulding, 1966, p.34), 'pricing discretion' (Monroe, 2003, p. 11), and 'strategic gap' (Winer , 2006, p.7), and can only be determined empirically (Diamantopoulos, 1989). The concept originates from seminal work by Menger (1871) who argued that price is not the fundamental value in exchange since exchange involves subjective utility gains (that differ) for each party. As a result, *actual* prices are theoretically indeterminate (as opposed to long-term *natural* or *equilibrium* prices) and therefore fall within a range set by the marginal utilities of the buyers and the seller. The price discretion framework thus comprises a useful heuristic for the wide range of price behavior predicted by microeconomic and industrial economic theory.

Figure 2 suggests that a theoretical maximum initial price discretion exists. This discretion is defined by customer-value produced (utility / preferences ceiling) and value sacrificed (cost floor). Ordinal utility determines the absolute highest price a consumer is willing to pay (Mill, 1848; Pareto, 1906). Direct variable costs determine the absolute lowest price a firm can offer without making a loss in the short-term (Quesnay, 1756; Senior, 1836). In practice this *initial* price discretion will be influenced by a number of factors that affect firm's ability to build and maintain successful relationships with customers. The existence and dynamic nature of these influences – which are internal and external to the firm's operating environment – lower the maximum and raise the minimum level of the initial price discretion, thereby narrowing it down to a range of *feasible* prices.

Insert Figure 2 about here

Internal factors, indicated by (a) and (c), involve the company's tangible and intangible resources (*e.g.* relational and competences), corporate policies and objectives. External factors, shown by (b) and (d) comprise demographic, regulatory, economic, technological and social forces that impact upon the nature of competition, as well as the behavior of customers, competitors, suppliers and intermediaries. It is, therefore, management's arduous job to discover the firm's real and feasible (non-theoretical) price range that forms the final price discretion. This ultimate discretion comprises the prices at which the customer will make a purchase (e) equal to the prices at which the firm will sell (f).

The notion of price discretion has been an important innovation in pricing theory (Ingenbleek, 2002). A firm with relatively high costs and relatively low customer-value produced will have a relatively smaller range of feasible prices. For such a firm, pricing will be more difficult as the probability of finding the range of mutual benefit will be relatively lower. As Ingenbleek (2002, p.37) states 'the less efficient and effective a firm enables its resources, the less freedom it has in determining a price for its marketing offerings.' The opposite also holds in that a firm that consumes relatively low costs and produces relatively high customer value will have a larger range of feasible prices. The latter will have relatively fewer difficulties due to a relatively higher probability to find the range of mutual benefit.

The difficulty of finding the final price discretion has also been addressed in the strategic management literature. Whilst the neoclassical perspective assumes that firms can readily set appropriate prices, Dutta *et al.* (2003) found that pricing is a surprisingly difficult process due to the sheer variety of possible prices and inherent rigidness of systems design. Pricing, for example, requires nested routines to collect competitor data, to agree on setting list prices or to convince customers of the logic behind price changes. As these routines are not easily developed, imitated, traded or substituted for, Dutta *et al.* (2003) suggest that pricing is a 'capability'. This capability involves both capturing value and balancing competing interests within the firm. The same authors conclude that in addition to competing through value-creating resources firms should also compete by investing in value-capturing resources. In their view, a theory of the process by which prices are determined must, therefore, address the different resources and capabilities required to set and change prices. Whilst their notion of pricing as a capability is a major contribution to the pricing literature, there has until now been no follow-up to develop a resource-based process theory of pricing.

Integrating R-A theory with the price discretion concept

R-A competition suggests that management's price discretion of, for example, marketing offerings in parity market positions (cell 5, See Figure 3) is identical because competing firms have similar value and cost considerations. It also suggests that the price discretions of offerings in indeterminate market positions are either downward skewed (cell 1) or upward skewed (cell 9). Price discretions in competitive advantage market positions (cells 3,2/6) and competitive disadvantage market positions (cells 7,4/8) are respectively wider and narrower. Assuming an ordinal scale, the suggestions are illustrated by Figure 3.

Insert Figure 3 about here

The arrow-headed lines in Figure 3 illustrate the width and position of each range of feasible prices as derived from each of the nine market positions as proposed by Hunt and Morgan (1996). The indeterminate and parity market positions (cells 1,5 and 9) have similar price discretions at different price point positions within the maximum price discretion. The widest price discretion exists in a competitive advantage market position (cell 3) and the narrowest in a competitive disadvantage market position (cell 7). Assuming that relative narrow price discretion (*e.g.* cell 7) reduces the probability of setting appropriate prices, it can be inferred that pricing may be a more important competence to firms with weak positions, than to those with strong market positions (ceteris paribus). Firms with a weak market position may benefit from a strong pricing competence as it may enable the transformation of a weak into a strong market position. However, strong pricing competence will not compensate a position of competitive disadvantage. Competitive (dis)advantage is a function of relative cost and value and not price. A strong competence may optimize financial performance, but it will not generate long-term superior returns for firms in competitive disadvantage market positions. Assuming that relatively wide price discretion increases the probability of setting appropriate prices, it can be inferred that pricing may be a less demanding competence to firms with strong market positions, than to those with weak positions (cet. par.). For example, a firm with a strong market position may benefit from a strong pricing competence as it may increase the financial returns that flow from this market position.

The role of pricing in the process of R-A competition

The fact that price only receives implicit attention in R-A theory, reflects businesses' preference for non-price rather than price competition (Oxenfeldt, 1975). However, in the international business environment pricing is relatively important. R-A theory assumes that firms which achieve superior financial performance also set appropriate prices. If prices are too high, customers may buy from competitive firms which may affect financial performance. If prices are too low, the competitive advantage may not result in superior financial performance (Ingenbleek, 2002). Furthermore, the theory assumes that pricing processes are influenced by the various factors stipulated in Figure 1. Inflation, anti-trust legislation, customers' price sensitivity, competitive (re)actions, to name but a few, may create unique and complex pricing problems for each decision process. Especially when these problems pertain to influences that are difficult to assess in the future, decision processes can become sufficiently important and complex to warrant strategic investments in pricing resources.

R-A theory suggests that a firm should reconsider prices when its competitive position matrix is altered. As reconsideration implies both initial and subsequent processes,

one may distinguish between price *setting* processes and price *changing* processes. Setting refers to a strategic planning process, whereas price changing signifies a tactical process. R-A competition also suggests that prices result from organizational processes which are rooted in tangible and intangible pricing resources. For example, tangible pricing resources might include customer databases or monthly forecasts whilst intangible pricing resources may include inter-functional relationships, pricing competences such as knowledge of the competitive set, an attitude to sell or a capability to communicate price information to the market.

With the exception of specific work by Dutta *et al*. (2003) and Van der Rest (2006), a detailed enumeration of pricing resources is unavailable from the literature. As a first step to fill this omission, Ingenbleek (2002) proposes to utilize Day's (1994) work on inside-out, spanning and outside-in capabilities. For example, a financial management capability is deployed from *inside-out* and activated by market requirements, competitive challenges and external opportunities. Conversely, the focal point of, for example, a Sales Directors' market sensing capability is almost exclusively outside the firm. The purpose of this *outside-in* capability is to connect the processes that define the other organizational capabilities to the external operating environment and to enable the firm to compete by proactively anticipating market(ing) requirements and creating long-lasting relationships with key clients and third-party distributors. A *spanning* capability is needed to integrate the inside-out and the outside-in capabilities. Pricing should therefore be informed both by external and internal capabilities.

Pricing as a spanning capability is a specific pricing resource which enables management to organize the pricing processes in ways that enable understanding of the price discretion *and* extraction of value created. This process evolves through the process of learning right and wrong things (Hunt and Morgan, 1996). Firms with a clear market-orientation may have superior outside-in capabilities that inform and guide both spanning (*e.g.* value-based pricing) and inside-out processes. The effect is said to be 'to shift the span of all processes further downward the external end of the orientation dimension' (Day, 1994, p.41). The spanning and inside-out capabilities of internally focused firms, however, may be poorly guided by external considerations which, confine them to the internal end of the orientation spectrum. Pricing processes are different from other spanning processes. For example, new product, service and strategy development may recognize, create or deliver customer value. Pricing mainly extracts customer value.

Pricing as a distinct marketing capability is increasingly recognized in the literature. For example, Vorhies (1998) finds that market information processing capabilities, including pricing, influence marketing capabilities development. Moreover, Vorhies and Harker (2000) find a positive association between the processes needed to competitively price a firm's products and monitor it in the market and superior firm performance. Vorhies and Morgan (2005) illustrate that benchmarking, as a particular way of learning, has the potential to become a key learning mechanism for identifying, building and enhancing a pricing capability. Vorhies, Morgan & Autry (2009) find strong evidence that pricing positively mediates the product-market strategy and derived business unit performance relationship. Furthermore, Blyler and Coff (2003) suggest that the informational benefits of managerial ties (*e.g.* with customers or suppliers) can optimize pricing. Kemper, Engelen & Brettel (2011) investigate the role of top management's social capital as a micro level origin of four specialized marketing capabilities including pricing. They argue that there is a positive relationship between (a) managerial tie utilization and a firm's pricing capability, (b) trust

and a firm's pricing capability, and (c) solidarity and a firm's pricing capability. Pricing capability is therefore significantly influenced by top management's social capital. Moreover, the same authors also find that the relationships between managerial tie utilization and pricing capabilities are stronger in national cultures with lower power distance. In addition, Isler and D'Souza (2009) find that price discrimination in the airline industry depends very much on a technical capability, specifically computer power and distribution systems. What is missing, however, despite increasing evidence on pricing as a capability, is a larger theoretical framework which explains why the business concern of finding the right price (in practice) can be further understood if pricing research focuses on the actual manipulable internal processes and strategic resources that are necessary to determine price, rather than placing principal interest in explaining and predicting how external and unmanipulable exogenous or (partially) endogenous variables may affect price (in theory).

Adaptation of the resource-advantage perspective

R-A theory places emphasis on competition as a creative human activity, including proactive (disequilibrating) and reactive (equilibrating) processes, placing higher weight on the inner workings of firms. According to Hunt and Morgan (2003) it adds to extant work as it shows *how* the process of competition itself contributes to organizational learning. That is, R-A theory claims that firms *learn through the process* of competition (*i.e.* the striving of rivals to gain advantages relative to another). As Hunt and Morgan (2003, p.8) explain:

> When firms competing for a market segment learn from their inferior financial performance that they occupy positions of competitive disadvantage […] they attempt to neutralize and/or leapfrog the advantaged firm(s) by acquisition and/or innovation [...] they attempt to acquire the same resource as the advantaged firm(s) and/or they attempt to innovate by imitating the resource, finding an equivalent resource, or finding (creating) a superior resource. Here, "superior" implies that the innovating firm's new resource enables it to surpass the previously advantaged competitor in terms of either relative costs (i.e., an efficiency advantage), or relative value (i.e., an effectiveness advantage), or both.

In R-A theory, learning does not (merely) constitute gaining knowledge of the necessary conditions in the long-term for the process of competition to reach its limits. Disequilibrium and not equilibrium is the norm. Competition in R-A theory is viewed as an inherently dynamic nonconsummatory process. R-A competition is a never ending process of change which is simply *moving* (*i.e.* varying), not moving *towards* a (partial) equilibrium (Hunt and Morgan, 2003). Learning is thus crucial to R-A theory and constitutes an evolutionary knowledge discovery process necessary to advance, acquire or imitate resources which improve efficiency or effectiveness yielding a market position of (sustainable) competitive advantage which enables superior financial performance.

What R-A theory fails to distinguish, however, is an explicit difference between competitive processes which contribute to learning about resources that are necessary to *create* value and those that are needed to *extract* value. This paper argues that a theory which aims to explain how the process of competition itself contributes to organizational learning is incomplete if differentiation is not made between the creation and the extraction of value. Learning about resources that enable the creation of value may not yield a sustainable competitive advantage if that value is not sufficiently captured. As pricing is a relatively difficult process for firms (*e.g.* Dorward, 1987; Dutta *et al.*, 2003; Hague, 1971; Ingenbleek, 2007), the Inductive Realist position of the R-A theory gives warrant to attempt to find out whether there are resources that may enable the extraction of value as postulated by Figure 1. To identify and categorize such resources is in line with the criticism of Hodgson (2000,

p.68) who has argued that R-A theory is not yet a complete theory as 'it is over-general in scope and fails to distinguish between different types of resources'. Schlegelmilch (2002, p.223) also remarks that although there is little to argue about R-A's central message 'not much light is shed on *how* companies accrue their comparative resource advantages in the first place and *how* they manage the process of turning comparative advantages into competitive advantages'. However, the latter does agree with R-A's position that 'firm effects' better explain variance in firms' performance than 'industry effects'. Nonetheless, Schlegelmilch (2002) criticizes Hunt (2000) for explaining little about the exact nature of the resources/capabilities that drive those firm effects. R-A theory therefore appears to lack specificity in terms of explaining the actual process by which resources lead to competitive advantages.

Therefore, it could be argued that a model which enables the development of pricing from a resource-advantage perspective adds to the development of R-A theory as it examines the actual process of pricing to find out what type of resources are utilized to *capture* value. That is, the model adaption proposed in this paper suggests that resources cannot only be defined as tangible or intangible, or as Hunt and Morgan (2003) argue in financial, physical, legal, human, organizational, informational, and relational terms, but also as *creating* and *extracting*. In other words, as resources that *produce value-in-use* and those that *capture value-in-exchange*. As Figure 4 illustrates, financial performance does not only signal which relative value creation resources are required to develop or maintain a sustainable market position. Firms also learn through competition as a result of the feedback from relative financial performance signaling relative knowledge of the price discretion, which in turn signals relative requirements in value extraction resources. More explicitly than suggested by Hunt and Morgan (1995), the model conceptualizes a R-A perspective on pricing as postulated by Figure 1.

Insert Figure 4 about here

As illustrated by Figure 4, in the *process* of competing with competitors a firm can learn from its inferior financial performance that:

1. it occupies a position of competitive disadvantage, signaling what resources are needed (*e.g.* by acquisition, imitation, or innovation) to enhance its cost efficiency or value creating effectiveness, and, thereby, its market position; but also
2. it can learn that it has an inferior level of understanding of the price discretion which signals what resources are required to enhance its knowledge of the price discretion, and thereby, its effectiveness to make informed pricing decisions in order to extract value; as
3. it can compare its level of understanding of the price discretion to its understanding of the relative resource-produced value (in)effectiveness and its relative resource cost (in)efficiency, signaling whether value creating and/or value extracting resources are needed to enhance financial performance.

In this way, the model builds on work of Varini, Engelmann, Claessen, & Schleusener (2003) who argue that pricing calls for a strong understanding of what customer segments value. The model also illustrates that pricing is not only a process of analyzing demand and competition but also a process of competitive knowledge discovery of which resources enable superior (*i.e.* better than that of some referent) pricing decisions. As Kimes and Wagner (2001, p.11)

state 'firms with strong revenue-management systems may find that competitors are trying to learn their secrets'. The international hotel industry provides an example of where pricing practices were altered from being based on a simple cost-based *rule of a thousand,* to the *Hubbard formula*, and then to the utilization of very advanced *yield management* (Van der Rest, 2005). In this process, industry firms learnt that each technique enabled (others) the superior extraction of value.

In addition, in a more explicit way than the R-A Theory the model shows that a firm may not readily set appropriate prices. The link between market position and financial performance is therefore marked with a dotted line. It is argued that value extraction is the result of understanding the ultimate price discretion which can be developed by investing in value-capturing resources. Superior financial performance may thus not solely be the consequence of a market position of competitive advantage, but may also require a superior level of understanding of the price discretion which arises from a relative comparative advantage in value-capturing resources. However, as the price discretion itself is based on the market position a link must be made between market position and price discretion (*i.e.* good pricing resources will not make up for bad value creating resources). Moreover, a thorough understanding of what produces the market position is key to the determination of the price discretion, especially in the context of value-based pricing where knowledge is required about how customers trade off perceived quality and sacrifice to form value perceptions which affect willingness-to-pay (*i.e.* reservation price). Furthermore, by explicitly linking market position to the price discretion the model also suggests that without investments in *value-creating* resources and processes, pricing will become far more difficult as:

1. the market position will gradually erode in the competitive process;
2. narrowing the final pricing discretion;
3. making it harder to span outside-in and inside-out capabilities, and
4. decreasing the funds available to invest in pricing resources required to extract value.

In addition, it is not only the tangible resources that a firm has in its *possession*, but also the intangible relational resources and competences that it has *available*, which are relevant to developing an understanding of the price discretion. Relational resources can be significant to the gathering of data in every dimension of the pricing process. Moreover, resources that enable the creation of value-in-use may also form a basis for the resources that allow the capture of value-in-exchange (and vice versa).

In the resource-advantage view, a firm can create value by developing capabilities that improve quality and/or lower cost. A capability thus enables the production of some essential output. Dutta *et al*. (2003, p.627) argue that 'price-setting is that essential output'. This paper, however, argues that understanding price discretion is the essential output of a pricing capability. Superior understanding of the price discretion enables the capturing of value which is a precondition for achieving superior performance. For example, Ingenbleek (2002) argues that in R-A theory when a firm "forgets" to set a price for the value it creates, it will not be paid in return for the value it delivers. As a consequence, the creation of superior value will not result in superior financial performance, nor will a firm be able to achieve sustainable competitive advantage through an investment in resources. While firms will not forget to set price, the same logic applies to setting price inappropriately. Therefore, 'pricing is important in understanding the relation between market positions and performance' (Ingenbleek, 2002, p.35). To have superior understanding of the price discretion, a firm thus

needs to have a *comparative advantage in its pricing processes and resources*, and hence the model posits a link between resources and the price discretion.

Discussion and implications

For decades there has been a discord in the field of pricing. On the one hand, there is a majority of academic researchers who focus on explaining and predicting how consumers or markets behave. When the latter investigate consumer behavior or external market forces they typically simplify the model of the manager's task. On the other hand, there are managers in practice who generally concentrate on trying to understand how a price decision affects their future revenue and profit. When they make a price decision they typically simplify the model of the market mechanism. It is this divergence in foci for which this paper has developed a R-A perspective on pricing to bridge the persistent gap between theory and practice. The R-A perspective suggests that the business concern of finding the right price can be further understood if pricing research focuses on the actual malleable *internal processes and resources that are necessary* to determine price, rather than placing principal interest in explaining and predicting how external and unmalleable exogenous or (partially) endogenous variables may affect an equilibrium price (in theory). In this way, the paper builds on the work of Monroe and Mazumdar (1988) who call for changing 'what has been primarily an ends-oriented research program to a means-ends-oriented program' (Devinney, 1988, p.333). This paper has responded to their call by developing a R-A approach as a basis for building further research. It has provided a general framework in which pricing research can be placed that focuses on the inner workings of the firm. The conceptual model enables a more complete understanding of pricing practice and its relation to strategic investment decision-making as it brings together different theories and concepts which enable better insight into the pricing process and its impact upon financial performance. The model merges the competitive position matrix (Hunt and Morgan, 1997) with the price discretion concept (Monroe, 1990). In this way, it expands the work of Dutta et al. (2003) which does not explicate the *relative* competitive importance of 'pricing as a capability'. The conceptual model explains how a firm can learn from the *process* of competition in which processes and (in)tangible resources it can invest to enhance its knowledge of the price discretion and, thereby, its effectiveness to find the right price. With the R-A framework the study of pricing practice is less constrained by the inherent empirical and methodological difficulties that result from the strategy and structure of neoclassical theoretical economics. In particular, R-A theory is argued to explain and predict prices better than neoclassical theory because its foundational premises are more descriptively realistic. With a R-A view the determination of prices can be studied in its true nature, namely, *as a competitive knowledge discovery process* of what practice enables superior (*i.e.* better than that of some referent) pricing decisions. Academia can, for example, collect knowledge of 'best practices' which are openly displayed and place it within the R-A framework to evaluate and empirically test what works and what does not work. Likewise, it can investigate the hitherto unknown but important behavioral internal factors that *influence* pricing decision-making (conduct) and financial performance. In this way, the paper contributes to the further development of the study of pricing by drawing attention to what is perhaps most relevant to pricing practice: the actual means necessary to determine a right price.

Several implications can be drawn. First of all, a R-A view on pricing draws attention to the strategic aspects of pricing practice. Pricing generally perceives the future as a relationship of the *current* buyer and *current* product at some time in the future. In other words, the concept of pricing optimization involves a stagnant product and customer need. In strategy, both the product and the customer are assumed to change over time, and therefore a

new interaction must first be understood before pricing can be considered effectively. To strategically manage pricing, an area which has recently been called upon requiring more research (Leone *et al*, in press), work on the nature of pricing as a spanning capability is needed. Moreover, as a gap is currently developing between the demands of markets and the 'ability of firms to address the complexity and velocity of change in their markets' (Day, 2011, p.194), the more adroit and vigilant competitors will see opportunities and establish capabilities to respond to whatever direction the market moves. More research attention should therefore be given to the interaction between adaptive capabilities, such as market learning, adaptive market experimentation and open marketing, and the pricing spanning capability. Secondly, a R-A view on pricing refocuses attention to a behavioral perspective and the significance of intangible resources in a value-informed pricing policy. It suggests that a firm learns from the dynamic process of competition which processes and resources it can invest in to enhance its knowledge of the price discretion and, thereby, its effectiveness to find the right price. In this context, more research could be carried out along the lines suggested by Ingenbleek (2007) who conceptualized that learning involves both learning about the information (sources) competitors use as well as the way they deploy resources more effectively in the process of pricing.

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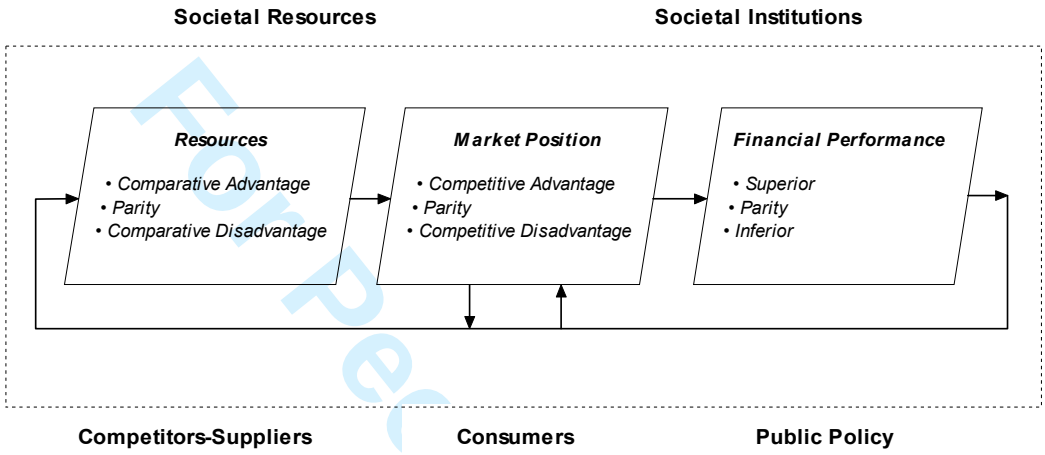
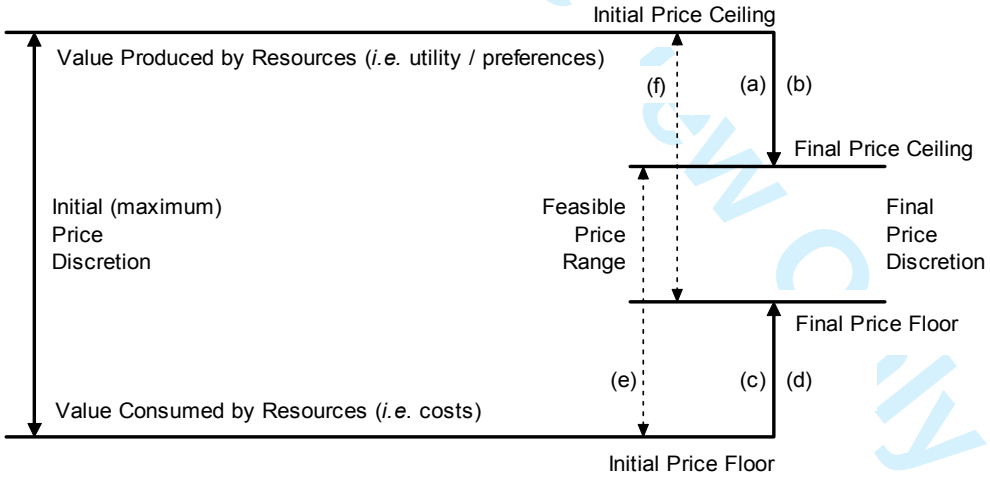
Figure 1. Resource-Advantage Competition



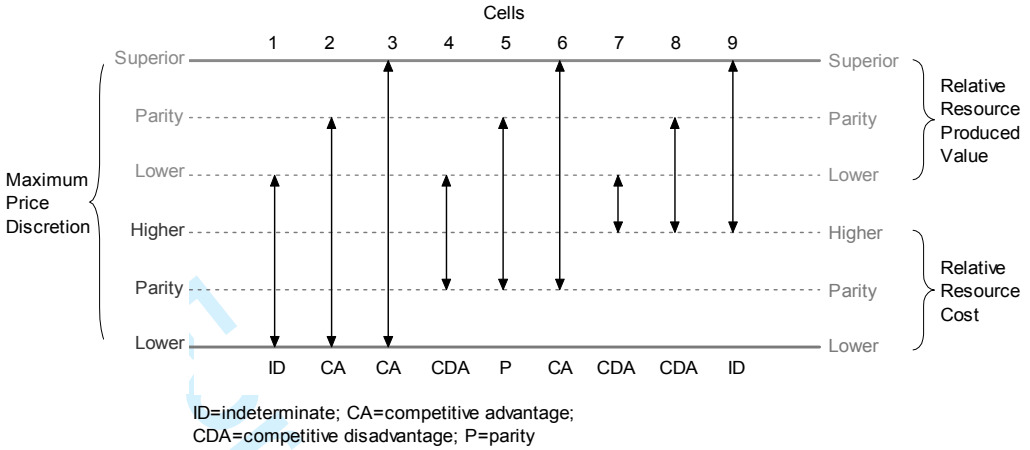
Source: Hunt & Morgan (1997, p.78).

Figure 2. Conceptual Framework for Pricing Practice



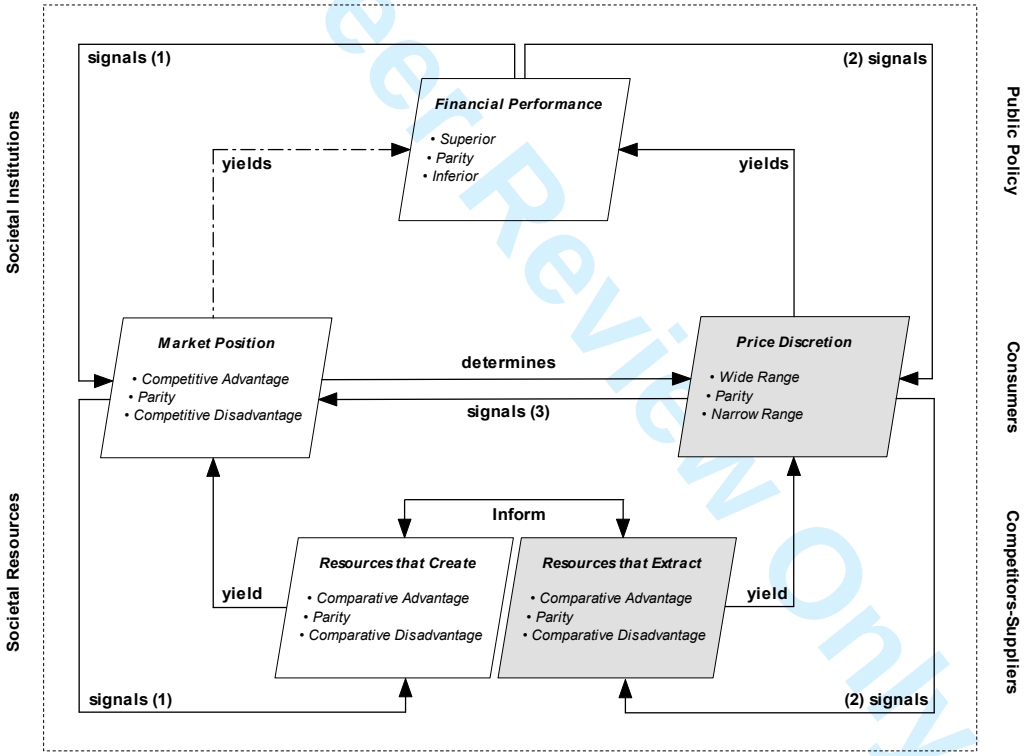
Source: Adapted from Monroe (2003, pp.11-21), Ingenbleek (2002, p.37), and Dutta, Bergen, Levy, Ritson & Zbaracki (2002, pp. 61-66).

Figure 3. The Relative Price Discretion per Market Position



Source: authors.

Figure 4. R-A Theory Modified



Source: expanded from Hunt & Morgan (1997, p.78). NB The figure is adapted from Figure 1 which is conveniently rotated 90° to the left.