Assessing the Application of Pricing Strategy in Audio Music CD: Empirical Study on Ethiopian Music Industry

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Abstract

Even if the world music CD market is at the maturity stage, Ethiopian audio music CD market is on its growth stage where the sale of audio music CD is booming from time to time leaving only some stakeholders benefit from this growing industry. This study assesses the overview of the Ethiopian audio music CD market, specifically, the kind of audio music CD pricing strategies that firms adopt and a discussion of the various factors affecting the adoption of these strategies. It is also assesses the relationship between the three key elements of the pricing decision under an integrated framework: the pricing strategies adopted by a firm, the pricing objectives that these strategies are meant to achieve, and the pricing strategy determinants that can influence the firm's choice of pricing strategies for an audio music CD. For the purpose of assessing the application of pricing strategies on audio music CD, a two-stage random sampling technique was applied. The first stage involves purposive sampling of recording companies, music CD distributors, vendors, artists, and promotion and marketing companies out of the total business involved directly or indirectly in the marketing of music CD marketing. In the second stage, random samplings of 20 businesses were selected. Using linear regressions and correlation analysis, the relationship between pricing strategy determinant factors and the appropriate pricing strategies were tested. The findings reveal that there is a week relationship between the

pricing strategy adopted by firms and the factors influencing pricing strategies.

INTRODUCTION

Music is the glue that holds many complex media-products together (Wallis, 2001). In most countries both the industrialized and the developing world, music stands as one of the most significant of the creative industries, whether assessed in economic or in cultural terms. Music is a primary form of artistic expression; since the dawn of civilization, music has been one of the most significant means by which cultures have defined themselves. In the contemporary world, music is a relentlessly commercial industry generating billions of dollars in revenues for composers, performers, publishers, record companies, and many other players (Throsby, 2002). The industry for recorded music is worth a 45 billion US$ in the world (with around 20 billion US$ in Europe and North America, (IFPI, 2010). Music plays an important role in the life of most people; they often spend several hours per day listening to pre-recorded music. Music can sustain employment and be a significant net contributor to export earnings; as well as adding to cultural enthusiasm, social and individual confidence and identity.

The Ethiopian music industry, which is characterized by few players dominancy (like record companies, artists, music writers, and composers) and existence of unstructured and informal marketing and unlawful practices, is reached its current stage having contributed little to the country's economic development and cultural values with little innovations. Ethiopia has a growing export market opportunity from the music industry. If the industry is able to capitalize on these sales it may provide an important stimulus to the country's local industries, regions and nations. In this way music could become a tool of development. Despite the music sector is growing, it is surrounded with a number of problems from the conception to consumption. Some of the problems are:

- the different functions performed in the course of production, circulation and distribution tend to be undertaken by a relatively low number of actors with limited institutional specialization;
- Like similar industries, it is not protected by government bodies and institutions;
- the Ethiopian music industry is surrounded by piracy of music CDs. Some of the pirates own the record labels, they sign you up and still pirate your work;
- existence of higher audio and video CD prices in the retail market which complement to low purchasing power of most of Ethiopians markets; and
- music marketing principle, concepts, and theories are not properly implemented by any of the music market players, either unknowingly or just by negligence.

There is no empirical information supported with scientific research that shows the performance of Ethiopia's music industry, its contribution to the country's economic development, the magnitude of the music industry players benefit from the industry, to what extent the marketing principles and theories are applied, specifically how music CD prices are set and the degree of satisfaction from every angle. This research will, therefore, attempt to empirically investigate the above issues and bridge information gaps. The goal of this research is to assess the application of pricing strategies of audio music CDs in Ethiopian music industry and the extent marketing principles and theories are exercised in the same industry. In more detail the goal is to identify factors and costs influencing audio music CDs price and examine the methods used by key marketing players in setting audio music CDs price. Pieces of empirical information that has been generated by this study would be of paramount importance for all the stakeholders of the music industry. It would be useful for the concerned bodies of the music industry under consideration in improving their marketing performance through maintaining appropriate methods in setting out their audio music CD price and hopefully, since it is a unique research in Ethiopian music marketing practices, will set up a stepping stone for other researchers by providing conceptual frame work for further study in the future.

The structure of the paper is as follows: In section two, I will make a general overview of the music CD marketing in general, and pricing specifically, literature. This is followed by a literature review of the major factors affecting the pricing of audio music CD and the pricing methods available. In section three the key methodological and sample related issues are discussed. Section four presents the key results of the study. Finally, section five presents discussion, conclusions and proposals for future research avenues based on the study.

LITERATURE

Pricing Decisions

According to Rao (2008), the factors that affect a firm's choice of a pricing strategy can be classified under two broad categories: the pricing objectives of the firm, and pricing strategy determinants. The latter refers to the various company/product conditions, market and customer (consumer) conditions, and competitive conditions that may influence the pricing strategies adopted.

In a nutshell, pricing strategies are the means by which the firm's pricing objectives are to be achieved.

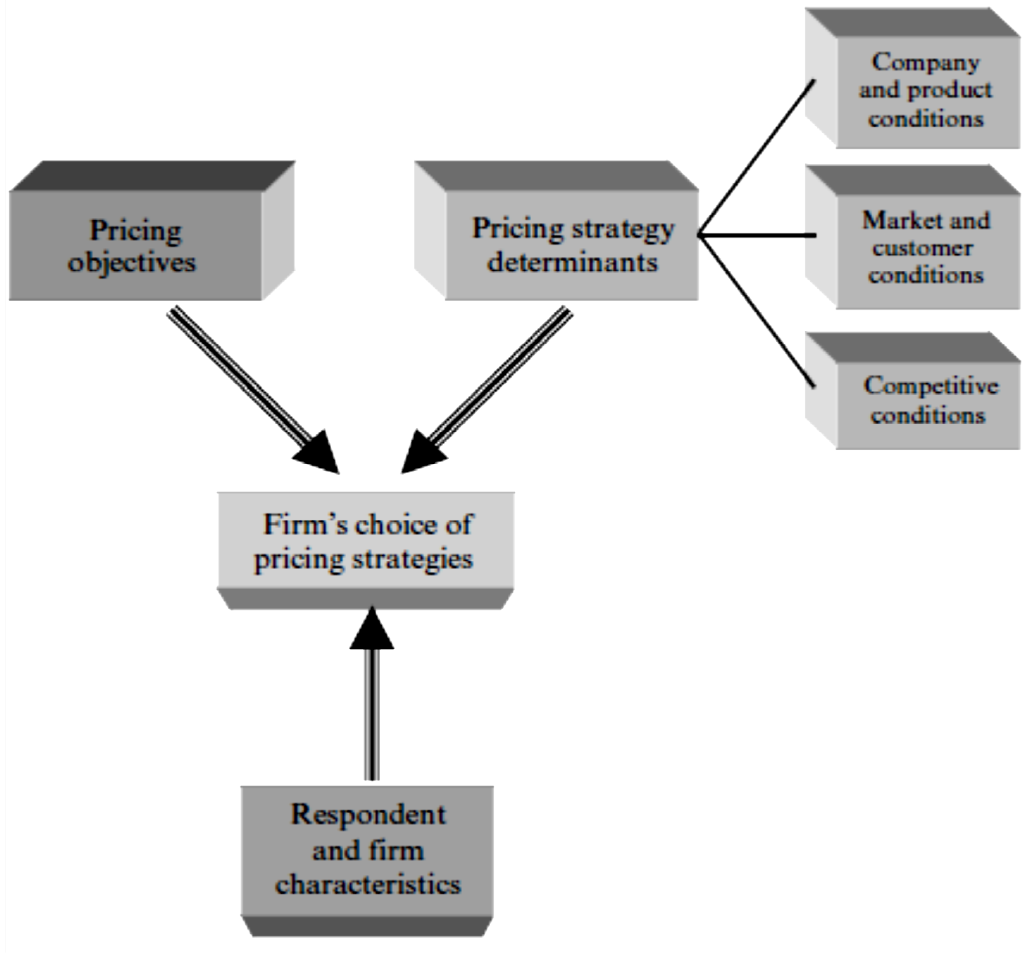

Figure 1: The pricing decision: a framework for analyzing a firm's choice of pricing strategies; adopted from Rao (2008)

Pricing strategy determinants are expressed in the form of company and product conditions, market and customer conditions, and competitive conditions in influencing choice of pricing strategy.

- **Company and product determinants** included the age of the product, issues relating to product design, production costs and capacity utilization, the firm's market share and coverage, the profitability of accompanying and supplementary sales, and the number of intermediaries in the supply chain.

- ☞ **Market and customer determinants** of pricing strategies included the sensitivity of the firm's customers to price differences between brands, sensitivity of market demand to changes in average price, ease of determining market demand, market growth rate, customer costs and legal constraints.
- ☞ **Competitive determinants** included the degree of product differentiation between brands, the ease of detecting competitive price changes, and market share concentration of the leading firms in the industry.

Pricing Objectives

Just as price is a component of the total marketing mix, pricing objectives also represent components of the organization's overall objectives. The objectives of the firm and its marketing organization guide the development of pricing objectives, which in turn lead to development and implementation of more specific pricing policies and procedures. While pricing objectives vary from firm to firm, they can be any of the following (Rao, 2008):

1. Increase or maintain market share
2. Increase or maintain sales volume
3. Project a desired product image
4. Match competitor pricing
5. Increase or maintain money gross profit
6. Increase or maintain sales revenue

7. Avoid price wars
8. Maintain level of competition
9. Maintain distributor support
10. Increase or maintain gross profit Margin
11. Cover costs
12. Undercut competitor pricing
13. Avoid government attention or Intervention
14. Avoid customer complaints about unfair prices
15. Erect or maintain barriers to entry

Pricing Approaches

The price the firm charges will be somewhere between on that is too low to produce a profit and one that is too high to produce any demand. Product costs set a floor to the price and consumer perceptions of the product's value set the ceiling. The firm must consider competitors' prices and other external and internal factors to find the best price between these two extremes. Firms set prices by selecting a general pricing approach that includes one or more of the following approaches (Rao, 2008).

Cost Plus Pricing

Cost-plus pricing refers to the pricing of a product at a predetermined margin over the product's estimated production costs. In adopting cost-plus pricing, the most significant pricing objectives are to increase or maintain profit and to maintain a rational pricing structure. In terms of the pricing strategy determinants, the firm's cost disadvantages have a significant and negative impact on the choice of a cost-plus pricing strategy. The higher a firm's estimated costs of production, the more necessary it will be to cover these costs adequately and, hence, the more one would expect the firm to adopt the cost-plus method (Rao, 2008).

Perceived Value Pricing

Perceived value pricing refers to the practice of pricing the product in accordance with what customers perceive the product to be worth (Rao, 2008). It is a customer-centric approach to pricing that prioritizes the customer's product valuation above cost, competition and other considerations. The higher the degree of involvement of the respondent with the pricing decision, the more likely it is for the firm to practice perceived value pricing, since this method requires a more flexible approach to pricing.

a. Parity Pricing

Parity pricing refers to the practice of setting a price for the product that is comparable to that of the market leader or price leader. In the former case, it means pricing the product close to the prices set by the biggest player(s) in the industry (which may or may not be the lowest or highest price on the market). In the latter case, it means pricing the product close to the prices set by the lowest-price players on the market. It is a strategy that takes into account competitive pricing pressures more than other factors.

A firm's likelihood of employing parity pricing can be high if the pricing objective of the firm is maintaining competitive level, erecting or maintaining barriers to entry, and the desire to maintain distributor support. A number of pricing strategy determinants has a positive relationship with a firm's likelihood of using parity pricing (Rao, 2008). First, the higher the impact of the Internet on the firm's operating and business conditions, the more likely it is to adopt parity pricing. Next, the higher the customer costs (in the form of search, transaction and switching costs) and the higher the customer price sensitivity, the more likely it is for a firm to practice parity pricing. In addition, high cost disadvantages and market development costs also lead to the increased likelihood of using parity pricing.

b. Price Signalling

Price signaling is the strategy of using price as an indicator to customers of the product's quality. Although other product attributes (such as brand name) may also influence customers' perceptions of a product's quality, price appears to be particularly influential, and most customers assume that price and quality are positively correlated. Accordingly, price signaling is one of the most popular pricing strategies that firms employ, as not only does it improve customers' quality perceptions of its product, the higher price also translates into larger margins. Like perceived value pricing, it is a customer-centric pricing strategy that focuses more on customers' product perceptions than on other factors.

The only significant pricing objective that increases a firm's likelihood of adopting price signaling appears to be maintaining the level of competition. Since the goal of price signaling is to communicate the quality of your product vis-à-vis the competition, it often involves setting a price that is comparable with (if not higher than) than the prices of competing products, thereby maintaining (or reducing) the level of competition and reducing the likelihood of a price war. The variables increase the likelihood of price signaling being adopted by a firm are impact of the Internet, capacity utilization and product differentiation.

c. Premium Pricing

Premium pricing is the strategy of pricing one version of a firm's product at a premium, offering more features than are available on the firm's other products. It is a strategy employed by firms that have multiple versions of the same product along a product line, with each version targeted at different customer segments. Maintaining distributor support and projecting a desired product image increase a firm's likelihood of adopting premium pricing. As for maintaining a desired product image, premium pricing can certainly help to differentiate the premium product from not only other products in the firm's product line but competing firms' products, as well, thereby contributing toward the image desired for the product. Market growth rate has a positive impact on the likelihood of adopting premium pricing. This is because the faster the market and the firm's customer base grow the more diverse customer tastes are likely to be. Hence it becomes more likely for firms to introduce, to suit different customers different versions of the product, at least one of which is likely to be premium-priced.

d. Leader Pricing

The sixth most frequently used pricing strategy is leader pricing, which refers to the practice of initiating a price change or establishing a benchmark price for a product in a category, and expecting other firms to follow. It is a pricing strategy that market leaders typically adopt, which makes its apparent popularity as a pricing strategy. The more a firm wants to avoid government attention in its pricing decision, the more likely it is to adopt leader pricing. Similarly, leader pricing is more likely to be used when the firm wants to project a certain product image. The higher the firm's market share, the more likely it is to adopt leader pricing since competitors are more likely to follow. Similarly, the more intermediaries there are in the supply chain (which translates to a cost disadvantage), the more likely it is that a firm will use leader pricing.

Other pricing approaches can be:

i. Price skimming
ii. Penetration pricing
iii. Experience curve Pricing
iv. Low-price supplier
v. Price bundling
vi. Complementary product pricing
vii. Break-even pricing
viii. Image pricing
ix. Internet pricing
x. Geographic pricing
xi. Second market discounting

1.1. Marketing in Music Industry

One can say that music makes out an enormous part of today's every-day life as well as it did in the past. According to Robert Burnett music is the language that connects a large segment of young people, due to the fact that music involves emotions, no matter whether those emotions are connected to experiences, dreams or hopes, those emotions are an important fact what a music marketer always has to consider when marketing music, since it enables to the marketer to communicate with the audience on a different level (Wikström, 2009). One way to define music marketing is: “Music marketing is an extension of the artist and the artist’s music” (musicmarketing.com).

Music Industry Structure

The music industry’s structure has undergone several changes over the past century as technological advances force it to adapt to new innovations.

Traditional music Industry Structure and value chain

According to Bockstedt and Riggins (2004), the traditional or conventional and the main drivers for value in the traditional recorded music value chain include copyright and licensing (airplay), production, distribution and inventory, and promotion and marketing costs.

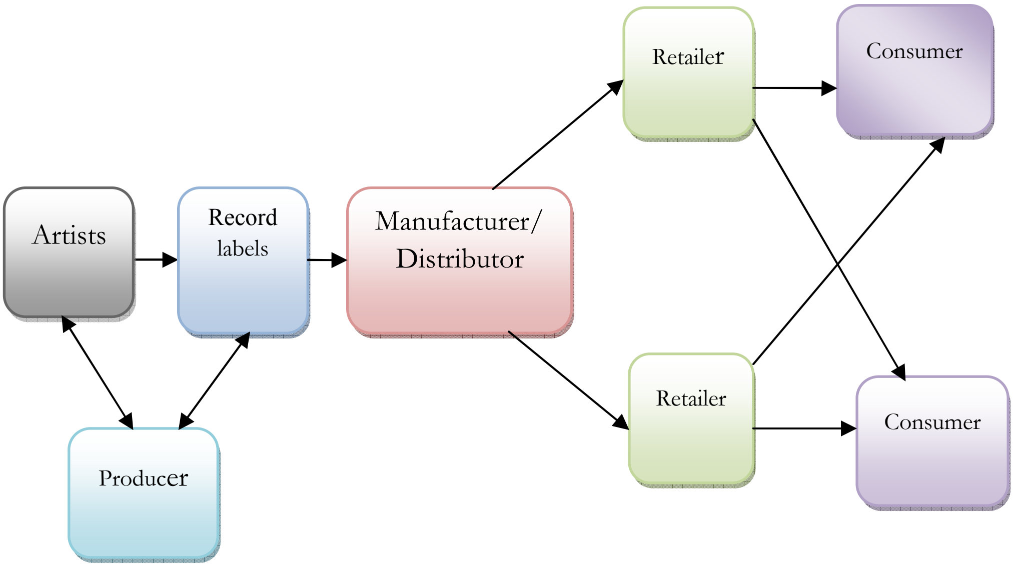

Figure 2: Traditional Music industry market structure

Source: Bockstedt and Riggins (2004)

According to Bockstedt and Riggins (2004), record labels retain most of the revenues received from retailers in the supply chain of the music market.

Current music Industry Structure and value chain

According to Meisel and Sullivan (2000), the music industry currently has three principal segments: 1) the industry for purchases of recorded music; 2)the industry for broadcasting recorded music ; and 3) the industry for attending live performances.

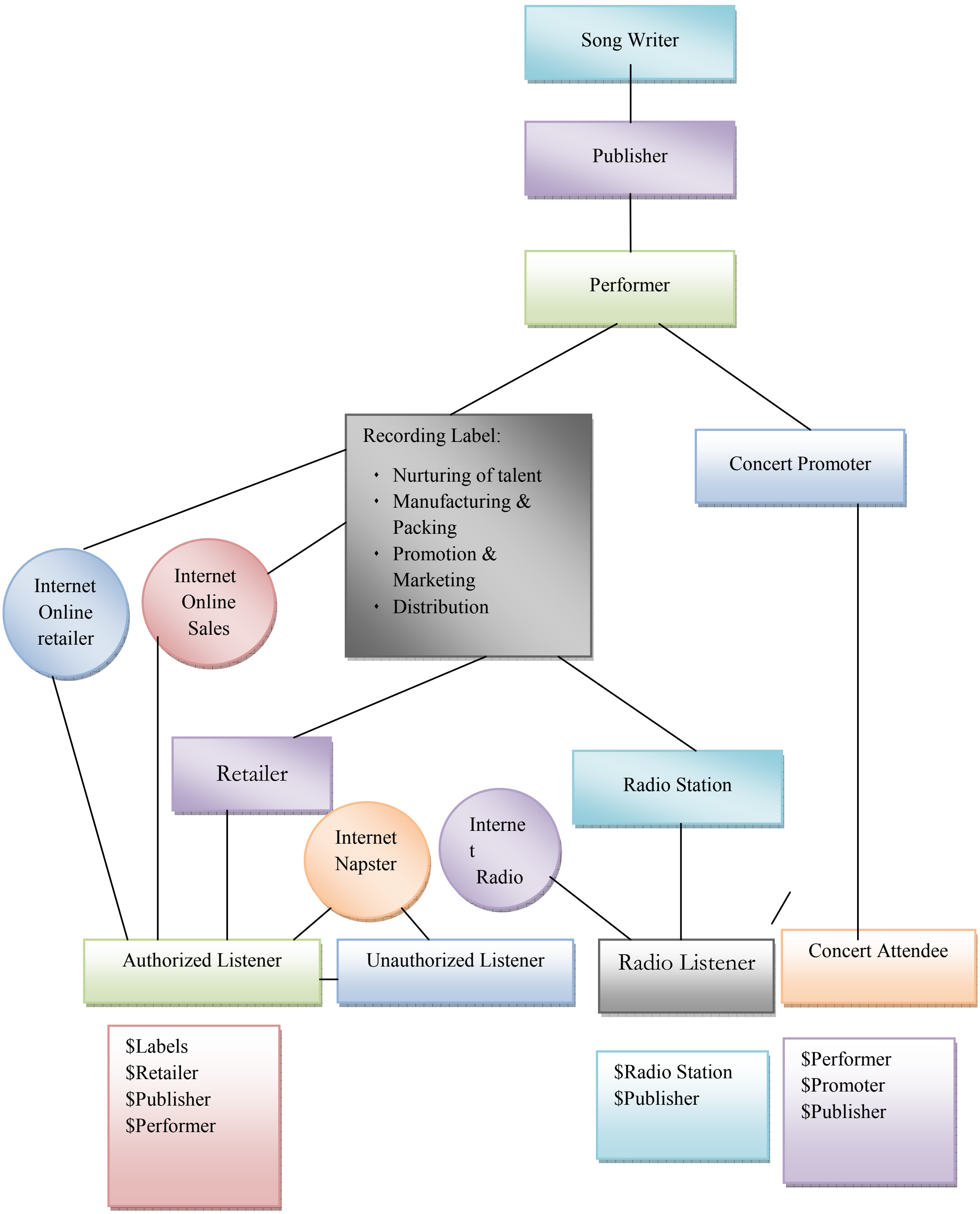

Figure 3: The music industry principal segments and supply chain.
Adopted from Meisel and Sullivan (2000)

The record company\label or promoter is responsible for all marketing activities which surround the “physical” recording and image of the artist (which is most salient to consumers), while it is the publisher that handles marketing for the intangible songs (Passman, 2002). Publishers try to place their writers’ songs with record labels in order to generate profits (Ibid, 2002). The record label, in turn, generates profits for them from using the songs in recordings. The publisher also generates profits from live performances of their songs. Both the publisher and record label are seen to be the artist’s and songwriter’s protectors of creativity (Tschmuck, 2003). This structure has been under stress due to the internet (Meisel and Sullivan, 2002). While physical channels are still the dominant means of music product distribution (Lathrop, 2003), other business models and structures are emerging. These new models can take the form of downloading of music from the Internet retailers and webcasting (Internet radio stations) which should eventually earn money for the artist, record label and publisher (Passman, 2002). Addressing how the Internet affects the music industry as a whole, Meisel and Sullivan (2000) point out three major effects: it bypasses the retailer, causes illegal distribution, and induces Internet radio. It provides a method for new artists to compete with established ones via its low barriers to entry and global reach (Lathrop, 2003; Lee et al., 2002).

What Factors Affect Sales of Music?

There are many factors that can influence music sales. Boorstin (2005) listed them as follows:

- Album Prices
- Consumer Income
- Music Quality and Consumer Taste

- New Recording Formats: A new recording format might boost sales because it can induce consumers to purchase new copies of the works that they already own in the old format (Joseph 2004).
- Population Age: Different age groups buy different amounts of records per capita. Perhaps because of time constraints and musical culture, youths aged 15 to 19 have long been the heaviest purchasers of records (Joseph 2004).
- Number of new music CD Releases
- Portability: The amount of recorded music people listen to is limited by the places in which they can listen.
- The availability of Substitutes like illegal downloads, video games, free download music, radio stations...
- Distribution Channels like existence of mass discount retailers, length of the distribution channel, consumers retail preference, etc

2.4.3. The Market for Music CD

The choice of music CD as a product is driven by their commodity-like nature and their popularity in the electronic marketplace. Lee and Gosain (2000) argued that Music CDs have lower asset specificity, are easy to describe, and are therefore, suited for electronic markets. Besides, a number of music CD stores have been set up in the Internet. According to Lee and Gosain (2000) the proliferation of this product could be due to the following reasons:

- Suited to Internet demographics (Well-off, educated consumers)
- Ability to make use of the medium (audio files) for consumer sampling

- Low product cost limits the consumer and seller risks, also stimulates impulse buying
- Competitive market with large number of buyers and sellers

It has been reported that it costs a major label approximately one dollar to manufacture and package a CD, one dollar for distribution, between one and two dollars for royalties to the artist and songwriter, and five dollars for the retailer (Burnett, 1996). Hence, there are major incentives for the large labels to knock-off the retailers from the value chain. The industry is highly concentrated with about 90% of the gross sales of recorded music worldwide coming from albums, singles and music videos owned or distributed by one of six multinational corporations: Time Warner, Sony, Philips, Bertelsmann, Thorn-EMI and Matsushita (Lee and Gosain, 2000). The traditional distribution channels for pre-recorded music are retail shops, record clubs, rack jobbers, and "one-stops" (Peralta, Ken and Rayport, 2007). Retail shops consisting of large store chains and independent record shops account for a major part of the industry revenue. Another interesting feature of the CD market is the availability of prices for comparison. Bakos (2003) showed that even a small searching cost leads to different price structures among sellers.

Pricing Strategy in the Music Industry

Pricing strategies occur as one facet of a product's marketing strategy. Different pricing strategies are often employed, despite the marketing of very similar products, due to the unique targeted customer demographics, for the product. These generic strategies include: skim pricing, penetration pricing, and neutral pricing. For example, skim pricing produces high margins and low sales volume for products. In today's hyper-competitive music industry, the pricing strategies implemented, for CDs, by music manufacturers are crucial to their success. Threats from the plethora of music a label now producing music, as well as substitutes to CD purchase, such as online downloads are significant. As such, organizations have implemented a variety of tactics to ensure their success. From product bundling to segmented pricing, a sound pricing strategy in the CD industry not only gains competitive advantage, but can also place a company in a leadership position (Zieman, 2005).

There is little information on the costs of making a CD. In general, a CD can be seen as an example of a good with large fixed costs and low variable costs. Considering that the industrial cost of the CD includes the cost of making the blank CD and different costs that are incurred at various stages of making a music CD. There are manufacturing costs including the costs for recording and the pressing of the CD, royalties paid to the artist and costs for production, marketing and promotions (Peitz, 2004).

Methodology, data collection and sample

For the purpose of assessing the application of pricing strategies on audio music CD, a two-stage random sampling technique was applied. The first stage involves purposive sampling of recording companies, music CD distributors, vendors, artists, and promotion and marketing companies out of the total business involved directly or indirectly in the marketing of music CD marketing. In the second stage, random samplings of 20 businesses were selected. Most of the data related to assessing the pricing strategies and practices employed were generated from primary data sources. The primary data was collected using structured questionnaire. The questionnaire was pre-tested and its contents were refined on the basis of the results obtained during the pre-test. Consequently, the primary data was also collected through organizing interview with sample respondents, while guided type of questionnaire were also distributed to most of the sample business firms related to their application and practices of pricing strategy. The study was also relayed on secondary data from the syndicated sources available to contextualizethe general music industry of Ethiopia and audio music CD marketing practices in Ethiopia specifically. The research used different academic purpose, journals, articles (on printing media and accessed from website) and books as recourse of secondary data.

This study was basically using both descriptive and inferential statistical models to analyses the data collected from the above mentioned sources. The descriptive statistics will be used to reveal the main features of the gathered data in the study. Hence, descriptive statistics such as mean, standard deviation, and percentages were computed to summarize and analyze the collected data. The attention of this research objective was to assess the application of pricing strategies of audio music CDs in Ethiopian music industry and assess to what extent pricing strategy affecting factors: pricing objectives and pricing strategy determinant factors influence the pricing decision of audio CD sellers in the music industry. In order to know if there exists strong or weak relationship between pricing strategy and its influential factors, the researcher has used correlation analysis. The researcher has also examined the relationship between the firms' choice of pricing strategies, pricing objectives and pricing strategy determinant factors by carrying out linear regressions with the choice of the pricing strategy as the dependent variable and relevant variables representing the objectives, determinants, as well as firm and respondent characteristics as the explanatory variables.

As the dependant variable i.e., pricing strategy, the right modeling specification would be a linear regression model, Since this model is more appropriate when the dependent variable has more than two continuous independent variables, in this case pricing objectives and pricing strategy determinant factors, the outcomes can be ranked orderly (Larson-Hall, 2010). The relationship and firms' choice of pricing strategy and that of pricing objectives and pricing strategy determinant factors could, thus, be specified as:

$$\mathbf{Y= \beta_0+ \beta X_i + \beta Z_i+U_i,} \text{ where:}$$

Y - dependent variable, i.e., pricing strategy

β - Vector of coefficients to be estimated,

X_i - vector of pricing objectives variables,

Z_i –vector of pricing strategy determinant factors, and

U_i - random error

Since the response variable Y is not observed, which pricing strategy is mostly used by the firms and which pricing strategy determinant factors or pricing objective that a firm is using would affect strongly the pricing strategy is computed as an index. On the basis of the computed value, it is possible to know to which pricing objectives and pricing strategy determinant factors mostly affect the pricing strategy of a firm.

RESULT AND DISCUSSION

The study was conducted via a survey of 17 firms operating in Ethiopian music industry, specifically, those who are engaged in production and marketing of audio music CDs.

Table 1: Profile of Respondent by type of business

Type of business	Frequency	%	Valid %	Cumulative %
Record label company	2	11.8	11.8	11.8
Street vendor	5	29.4	29.4	41.2
Music Distributor	8	47.1	47.1	88.2
Event organizer	1	5.9	5.9	94.1
Advertising & promotion company	1	5.9	5.9	100.0
Total	17	100.0	100.0	

Source: Computed from own survey data

A guided questionnaire were sent to a total of 20 sample respondents from the population and only 17 usable responses were obtained from them, and of which 2(11.8%) were from recording label companies, 5 (29.4%) were from street vendors operating in mainly on the streets and door to door music CD selling, 8 (47.1%) were from music CD distributors operating as a retailer of music CDs, 1 (5.9%) was from event organizer operating as organizing and managing music concerts and events, and 1(5.9%) was from advertising and promotion company which engages in performing promotion and advertising campaigns for record label companies and artists. Hence, as the above table depicts the majority of responses were taken from music CD distributors residing in Addis Ababa.

Table 2: Relationship of the type of business and experience in the music industry

Type of business	Experience in the music industry (Years)				Total
	1-3	4-6	7-9	10 and above	
Record label company	0	1	1	0	2
Street vendor	2	1	1	1	5
Music Distributor	3	2	3	0	8
Event organizer	0	0	1	0	1
Advertising & promotion company	0	0	1	0	1
Total	5	4	7	1	17

Source: Computed from own survey data

Table 2 shows the business firms range of experience in the music industry. As it can be inferred from the table, 5 (29.4%) of them have had 1-3 years business experience in the industry (where 2 from street vendors and 3 from music CD distributors), 4 (24.5%) of them have had average of 4-6 years experience (where 1 from record label company, 1 from street vendor, and 2 from music CD distributors), 7 (47.2%) of them have had an average of 7-9 years experience in music industry (where the 1 from record label company, 1 from street vendor, 3 from music CD distributors, 1 from event organizer, and 1 from promotion and advertising company), and the remaining 1 (5.9%) from the street vendors have had an average of 10 years and above work experience in music business. Thus, according to the above discussion it can be inferred as the majority of the sample respondents have had 7-9 years work experience in music business.

Pricing Strategy Determinants

To examine the role of various pricing strategy determinants in influencing choice of pricing strategy, the respondents were asked to rate the level or intensity of these conditions with regard to audio music CD. Table 3 presents a summary of the respondents' mean ratings of these pricing strategy determinant factors, together with the appropriate rating scales.

Table 3: Factors affecting pricing strategy of firms (N=17)

Items	% of Responses					Mean	Std. Deviation
	Extremely important	Most important	Important	Moderately Unimportant	Extremely Unimportant		
Recording and production cost	52.9	17.6	11.8	17.6	5.9	4.00	1.323
Perceived quality of the audio CD	17.6	23.5	17.6	23.5	23.5	2.94	1.478
Royalty fee paid to artists	29.4	47.1	11.8	47.1	0.0	3.94	.966
Promotion and marketing costs	47.1	23.5	17.6	23.5	5.9	4.00	1.225
Level of piracy and copy right laws	17.6	11.8	17.6	11.8	23.5	2.71	1.448
Number of intermediaries	11.8	76.5	5.9	76.5	0.0	3.94	.659
Availability of substitutes	17.6	29.4	17.6	29.4	17.6	3.12	1.409
Type of song and singer	64.7	23.5	11.8	23.5	0.0	4.53	.717
Number of songs in the album	0	41.2	17.6	41.2	11.8	2.65	.931
Number of new releases in the market	11.8	35.3	11.8	35.3	23.5	2.94	1.435
Consumer income and taste	17.6	17.6	5.9	17.6	17.6	2.76	1.437
Population age	17.6	29.4	11.8	29.4	23.5	3.00	1.500

In the survey, each respondent was presented with the list of 12 pricing determinant factors encompassing a variety of pricing situations. The respondent was asked to indicate, from the list, the relative importance of each determinant factor, in a 1-5 relative importance scale, such that they summed to 100 percent . As it can be seen in the table 3, for the sample as a whole, the most frequent pricing strategy determinant factor was the type of song and singer, with a mean percentage importance of 4.53. This was followed by recording and production cost and marketing and promotion costs both with mean importance of 4.00, royalty fee paid to artists and number of intermediaries and length of channel in music CD distribution both with mean importance of 3.94, availability of substitutes like broadband internet with a mean importance rating of 3.12, and population age with a mean importance rating of 3.00.

The least frequent pricing strategies determinant factors were number of songs in the album with mean importance rating of 2.65, level of piracy and copy right laws with a mean importance rating of 2.71, consumer income and taste with a mean importance rating of 2.76 and both perceived quality of the audio CD and number of new releases in the market with mean importance of 2.94.Besides choosing from the given list of pricing strategy determinant factors, the respondents were also given an option to describe any additional factor used by their firm that were not part of the given list, however, none of the sample respondents have given any other determinant factor than the given lists.

Pricing Objectives

To better understand the role of pricing objectives in the organizations' choice of pricing strategy, the respondents were presented with a list of 15 possible objectives and asked to rate the importance of achieving each objective with regard to the most important pricing strategy they have selected on a five-point scale where 1 represents extremely unimportant' and 5 represents 'extremely important'. Table 4 depicts respondents' response concerning which determinant factor would mostly affect they have considered in order to set an appropriate pricing strategy for an audio music

CD, and presented as frequency, percentage, mean importance and standard deviation from the mean value.

Table 4: Pricing Strategies of Firms: Pricing Objectives

Items	% of Response					Mean	Std. Deviation
	Extremely unimportant	Moderately unimportant	Important	Most important	Extremely important		
Increase or maintain market share	11.8	5.9	17.6	35.3	29.4	3.65	1.320
Increase or maintain sales volume	11.8	23.5	35.3	5.9	23.5	3.06	1.345
Project a desired product image	41.2	17.6	17.6	11.8	11.8	2.35	1.455
Match competitor pricing	41.2	41.2	5.9	5.9	5.9	1.94	1.144
Increase gross profit	11.8	17.6	41.2	17.6	11.8	3.00	1.173
Maintain level of competition	29.4	47.1	0.0	23.5	0.0	2.18	1.131
Avoid price wars	11.8	23.5	35.3	11.8	17.6	3.00	1.275
Increase or maintain sales revenue	11.8	11.8	11.8	35.3	29.4	3.59	1.372
Maintain distributor support	5.9	17.6	17.6	29.4	29.4	3.59	1.278
Erect or maintain barriers to entry	23.5	47.1	17.6	5.9	5.9	2.24	1.091
Undercut competitor pricing	47.1	23.5	23.5	5.9	0.0	1.88	.993
Avoid government attention or Intervention	41.2	23.5	35.3	0.0	0.0	1.94	.899
Avoid customer complaints about unfair prices	29.4	17.6	23.5	17.6	11.8	2.65	1.412
Cover costs	17.6	17.6	5.9	23.5	35.3	3.41	1.583

The above table may be read as: out of the whole sample respondents, for 6 (35.3%) and 5 (29.4%) respondents with mean importance rating of 3.65, the most important objective was increasing or maintain market share respectively, for 6 (35.3%) and 4 (23.5%) respondents with a mean importance of 3.06 increase or maintain sales volume is the most important pricing objective respectively, for 6 (35.3%) and 5 (29.4%) of respondents with a mean importance rating of 3.59, the most important pricing objective was increasing or maintain sales revenue. The table can be interpreted like this for the other pricing objectives. For the sample as a whole, the most important objectives were those of increasing or maintaining market share (mean importance rating of 3.65) and increasing or maintaining sales revenue (with mean importance rating of 3.59) and maintain distributor support (mean importance rating of 3.590 respectively. These were followed by the objectives of covering cost (mean importance rating of 3.41), the pricing objective of increasing or maintaining sales volume (mean importance rating of 3.06), and that of avoiding price wars (mean importance rating of 3.00). The least important pricing objectives pursued by the sample firms were those of undercutting competitor pricing, match competitors price, and avoiding government attention or intervention (mean importance rating of 1.88 and 1.94 respectively). The complete list of objectives and the importance ratings of each pricing objective for the sample as a whole are given in Table 4.

Besides choosing from the given list of pricing objectives, the respondents were also given an option to describe any additional objective used by their firm that were not part of the given list, however, none of the sample respondents have given any other pricing objectives than the given lists.

Pricing Strategies

Each respondent was presented with the list of 17 pricing strategies encompassing a variety of pricing situations in relation to audio music CD, and asked to rate the importance of using each pricing strategy with regard to the most important pricing strategy they have selected on a five-point scale where 1 represents extremely unimportant' and 5 represents 'extremely important'. Then the relative importance of each selected strategy summed up to 100 percent.

Table 5 may be read as: out of the whole sample respondents, for 23.5% and 5.9% of the respondents with mean importance rating of 2.65, price skimming is the most important pricing strategy, whereas for the remaining 12 (70.6%) of the sample firms it is not an important pricing strategy, for 7 (41.2%) and 1 (5.9%) respondents with a mean importance of 2.24 price penetration is most importantly pursued pricing strategy whereas for 8 (57.8%) penetration pricing is not the most important pricing strategy employed , for only 3 (17.7%) of respondents with a mean importance rating of 1.88, the most important pricing strategy was experience curve pricing, whereas for the majority of the respondents, 14 (82.4%), this strategy did not given weight. Leader pricing, on the other hand, was being used by 7 (41.1%) with a mean importance rating of 2.53 most importantly however, for the remaining 9 (58.9%) of the sample respondents it is not an important pricing strategy. The table can be interpreted like this for the other pricing objectives.

For the sample as a whole, the most frequently used pricing strategy was cost-plus pricing (64.8 percent of firms), with a mean percentage importance of 3.24 percent. This was followed by competitive parity pricing (58.8 percent of firms, mean importance of 2.94), geographic pricing (57.6 percent of firms, mean importance rating of 2.88), and image pricing (55.2 percent of firms, mean importance rating of 2.76). Then came skimming pricing, low price supplier, perceived value pricing and leader pricing strategies with mean importance rating of 2.65, 2.59, 2.53, and 2.53 respectively. The least frequently used pricing strategies were second market discounting with mean importance rating of 1.53, and both experience curve pricing with mean importance rating of 1.88 and premium pricing strategy with mean importance rating of 2.00. In some cases, the data obtained from the table, the most frequently used pricing strategy among the whole sample respondents were cost plus pricing and the less frequently used pricing strategy was second market pricing strategy. This imply that most of the businesses engaged in the marketing of audio music CD use cost pricing method for determining or setting price for their music CD. Besides choosing from the given list of pricing strategies, the respondents were also given an option to describe any additional strategies used by their firm that were not part of the given list, and none of them has stated any other strategy than those mentioned on the questionnaire.

Table 5: Audio Music CD Pricing Strategies used by Sample Firms

Pricing Strategy	Response (%)					Mean	Std. Deviation
	Extremely unimportant	Moderately unimportant	Important	Most important	Extremely important		
Price skimming	11.8	41.2	17.6	23.5	5.9	2.65	1.222
Penetration pricing	23.5	23.5	41.2	5.9	0.0	2.24	.970
Experience curve pricing	35.3	47.1	5.9	11.8	0.0	1.88	.993
Leader pricing	23.5	29.4	17.6	5.9	17.6	2.53	1.463
competitive parity pricing	11.8	11.8	29.4	23.5	23.5	2.94	1.278
Low-price supplier	17.6	41.2	17.6	5.9	17.6	2.59	1.417
Complementary product pricing	35.3	41.2	11.8	0.0	11.8	2.12	1.269
Price bundling	35.3	23.5	23.5	17.6	0.0	2.41	1.176
Customer value pricing	35.3	23.5	11.8	17.6	11.8	2.53	1.505
Cost-plus pricing	23.5	5.9	5.9	35.3	29.4	3.24	1.678
Break-even pricing	41.2	29.4	5.9	11.8	11.8	2.18	1.468
Image pricing	17.6	29.4	23.5	11.8	17.6	2.76	1.348
Premium pricing	35.3	41.2	5.9	17.6	0.0	2.00	1.118
Second market discounting	58.8	23.5	17.6	0.0	0.0	1.53	.800
Geographic pricing	23.5	11.8	29.4	11.8	23.5	2.88	1.409
Perceived value pricing	23.5	17.6	41.2	11.8	5.9	2.53	1.125
Internet pricing	29.4	47.1	11.8	11.8	0.0	2.06	.966

Empirical Result and Interpretation

This part of the thesis will try to interpret and present the data summarized and described in the previous sections by using regression analysis to test whether there exists a strong/weak relationship between pricing strategy and its determinant factors like those of pricing objectives and other pricing strategy determinant factors in the case of audio music CD. The researcher has also examined the relationship between the firms' choice of pricing strategies, pricing objectives and pricing strategy determinant factors by carrying out linear regressions with the choice of the pricing strategy as the dependent variable and relevant variables representing the objectives, determinants, as well as firm and respondent characteristics as the explanatory variables. This section describes the researcher's data analysis procedure and its results.

Table 6: Summary of the various Factors Affecting the Choice of Pricing Strategy

Category	Factor
Pricing objective	Cover cost Increase or maintain sales volume Project a desired product image Match competitor price Increase or maintain gross profit Maintain level of competition avoid price war Increase or maintain sales revenue Maintain distributors support Increase or maintain gross profit margin Erect or maintain barriers to entry Undercut competitors price Avoid government attention or intervention Avoid customer complaints about unfair price Increase or maintain market share
Pricing strategy determinants	Recording and production cost Perceived quality of the audio CD Royalty fee paid to artists Population age Level of piracy and copy right laws Number of intermediaries and length of channel Availability of substitutes like broadband internet Type of song and singer Number of songs in the album Number of new releases in the market Consumer income and taste Promotion and marketing costs

Source: Extracted from own survey data

In the study, the researcher has also examined a list of 17 possible pricing strategies, and the researcher has tried to focus the analysis on six of the most important strategies as chosen by the respondents. First selected the specific pricing strategy deemed by each respondent as the one with largest importance (out of possible five strategies that could be indicated by the respondent) for the audio music CD. Then identified the following four strategies that are most frequent with this criterion; the six strategies according to the respondents rank are: cost-plus pricing, competitive parity pricing, geographic pricing, and image pricing strategy. Consequently, the researcher has estimated the choice model in the form of linear regressions for each of the four pricing strategies. Based on the factor analyses done, there were 27 independent variables: 12 variables were for the objectives of pricing strategies, and 15 for the determinants factors of strategy. The linear regression model was run with all the 27 variables. The estimated coefficients for the six pricing strategies are given in Table VII. The following section discusses the estimation results and the observed relationship between the key elements of the pricing decision.

Discussion*:* This section discusses the estimation results and the observed relationship between the key elements of the pricing decision.

Cost-plus Pricing

Cost-plus pricing refers to the pricing of a product at a predetermined margin over the product's estimated production costs. Although it is historically a commonly used pricing method, critics have warned against the viability of cost-plus pricing as a profitable pricing strategy because not only does it ignore the customer's valuation of the product, it may in fact harm profitability by overpricing the product in weak markets and under pricing it when demand is strong. In fact, some researchers argue that using a product's cost to determine its price does not make sense because it is impossible to determine a product's unit cost accurately without first knowing its sales volume (which depends on price), and thus cost-plus pricers are 'forced to make the absurd assumption that they can set price without affecting volume' (Nagle and Hogan, 2006, p. 3). Nevertheless, the results of the present study suggest that it is in fact the most popular pricing strategy used by many of the firms under study.

In adopting cost-plus pricing, the estimated regression coefficient results, in table 4.28, show that the most significant pricing objectives are to increase or maintain gross profit and to increase or maintain sales volume with estimated regression coefficient of 0.389 and .367 respectively. Indeed, one of the key reasons behind the popularity of cost-plus pricing is that it brings with it an air of financial discretion. It is a conservative approach that balances risks and returns by seeking to achieve an acceptable level of financial viability rather than maximum profitability. In terms of the pricing strategy determinants, according to table 4.28, the population age, perceived quality of the audio CD, royalty fee paid to artists, and recording and production cost of the audio music CD, with estimated linear regression coefficients of 0.248, 0.107, 0.048, and 0.028 respectively, have a significant and positive impact on the choice of a cost-plus pricing strategy.

Table 7: Estimated Linear Regression Coefficients for the six Pricing Strategies

	Cost-plus pricing	Competitive parity pricing	Geographic pricing	Image pricing	Price skimming	Low-price supplier
Pricing strategy determinants						
Recording and production cost	.028	**.105**	.035	-.105	.232	.634
Perceived quality of the audio CD	.107	**.124**	-.244	-.447	.507	-.311
Royalty fee paid to artists	.048	**.286**	-.464	.133	.299	.027
Promotion and marketing costs	-.213	0.000	-.217	**.189**	.459	-.540
Level of piracy and copy right laws	-.124	-.074	**.105**	-.326	-.133	.212
Number of intermediaries and length of channel	-.213	-.145	**.127**	-.228	-.493	.307
Availability of substitutes like broadband internet	-.620	**.337**	.007	-.378	.171	.339
Type of song and singer	-.006	-.484	-.491	.072	-.130	-.264
Number of songs in the album	-.103	-.018	-.415	-.518	-.281	.404
Number of new releases in the market	-.150	-.164	.058	-.040	-.298	-.412
Consumer income and taste	-.442	-.331	**.176**	**.163**	.484	.103
Population age	.248	-.062	-.118	-.062	-.273	-.088
Pricing objectives						
Increase or maintain market share	-.073	.086	.077	-.506	-.160	.151
Increase or maintain sales volume	.367	.002	.136	-.095	-.177	.473
Project a desired product image	-.497	-.276	-.558	**.277**	.496	.226
Match competitor price	-.253	-.002	**.189**	-.253	-.060	.293
Increase or maintain gross profit	.389	.009	-.265	-.475	.218	.188
Maintain level of competition	-.372	**.548**	-.261	-.545	.093	-.147
avoid price war	-.088	-.182	-.278	-.036	.682	-.208
Increase or maintain sales revenue	-.390	-.285	.070	**.181**	.467	.132
Maintain distributors support	.019	**.240**	**.233**	-.132	.181	.073
Increase or maintain gross profit margin	-.082	-.093	-.141	-.492	-.311	.284
Erect or maintain barriers to entry	.002	**.095**	-.509	-.342	.394	.107
Undercut competitors price	-.095	.041	-.145	-.209	.634	-.170
Avoid government attention or intervention	.010	-.261	-.154	-.167	.151	-.118
Avoid customer complaints about unfair price	-.042	-.045	-.166	**.209**	-.041	-.202
Cover cost	.008	**.147**	-.275	.019	-.372	.303

Source: Extracted from own survey data

This result appears intuitive that, since population age status, the higher perceived quality of audio music CD, the higher the royalty fee paid to artists and a firm's estimated costs of production, the more necessary it will be to cover these costs adequately and, hence, the more one would expect the firm to adopt the cost-plus method. Here on the table we can see also, the greater the availability of substitutes like broadband internet in the market, the less likely the firms are to adopt cost-plus pricing. This is because high availability of broadband internet will not only let the music consumer get the opportunity to get music free of charge, but also leads to more cost disadvantages for the firm with regard to the final price charged to consumers, making it more difficult for the firm to specify a target profit margin for its audio music CD.

Competitive Parity Pricing

Competitive parity pricing refers to the practice of setting a price for the product that is comparable to that of the market leader or price leader. In the former case, it means pricing the product close to the prices set by the biggest player(s) in the industry (which may or may not be the lowest or highest price on the market). In the latter case, it means pricing the product close to the prices set by the lowest-price players on the market. It is a strategy that takes into account competitive pricing pressures more than other factors (Vithala and Kartono, 2008, p.30). Looking at the coefficients on the pricing objective variables, we can see that two objectives that involve meeting competitive pricing pressures (maintaining competitive level, and erecting or maintaining barriers to entry) have a positive relationship with a firm's likelihood of employing competitive parity pricing, which is in line with expectations. Furthermore, the desire to maintain distributor support also increases a firm's likelihood of using parity pricing. This is because in competitive markets, distributors are just as likely as customers to switch to a different supplier if the latter presents them with an opportunity to earn higher margins (Nagle and Hogan, 2006, p. 8). Finally, the more a firm wants to increase or maintain its revenue, the less likely it is to adopt parity pricing. This is also intuitively reasonable because, in this case, the firm is more concerned with setting prices that are comparable with the competition instead of maintaining or maximizing the product's revenue level.

There are four of pricing strategy determinants that have a positive relationship with a firm's likelihood of using competitive parity pricing. The higher the impact of the internet on the firm's operating and business conditions, the more likely it is to adopt competitive parity pricing. The exponential growth in global Internet usage over the last decade has greatly facilitated the flow of market information and reduced search and transaction costs for customers and distributors, making it easier for consumers to compare prices across potential suppliers. Next, the higher the fee paid to artists as a form of royalty, the more likely it is for a firm to practice competitive parity pricing. In addition, high recording and production cost creates cost disadvantage and this will also leads to the increased likelihood of using competitive parity pricing.

Geographic Pricing

Geographic pricing is charging different prices for the same product depending on where their customers are locate. It is adjusting an item's sale price based on the buyer's location. Sometimes the difference in sale price is based on the cost to ship the item to that location or what the people there are willing to pay. Geographical pricing might result in a product costing less in one location than in another. Companies will try to gain maximum revenue in the markets in which it operates, and geographical pricing enables such practices (Investopedia, 2011). The wholesale price, and thus the retail price, is based on factors such as competition in the area, the amount of traffic the product distributor receives and average household incomes in the area, and also on the cost of delivering the product to the area. The significant pricing objective that increases a firm's likelihood of adopting geographic pricing appears to be maintaining distributor support and match competitors' price with linear regression coefficient of 0.233 and 0.189 respectively. Since the goal of setting geographic pricing is to meet the needs of different people locating in different areas and distributors have the capability to meet this goal, maintaining distributor support is sensible pricing objective in this instance. Looking at the coefficients on the pricing strategy determinants, the following variables increase the likelihood of geographic pricing being adopted by a firm: consumer income and taste, number of intermediaries and length of channel, level of piracy and copy right laws with estimated linear regression coefficient of 0.176, 0.127, and 0.105 respectively.

Image Pricing

Image pricing which is sometimes referred as prestige pricing is lending prestige to a product or brand by virtue of a price relatively higher than the competition. With prestige pricing, some of the traditional price/demand curves cannot properly predict sales or market response because it violates the common assumption that increasing price decreases volume. From the perspective of financial returns, prestige pricing is a phenomenal approach because, everything else being equal, commanding a premium price reflects directly on margins and bottom line (James and Kumcu, 2008, p. 105–17).

Promotion and marketing costs and consumer income and taste with estimated linear regression coefficient of 0.189 and 0.163 respectively, are significant in influencing the likelihood of adopting image pricing strategy (see table 7). The positive coefficient on the promotion and marketing cost variable can thus be explained by the notion that the more the firm has invested in promotion and marketing the more likely the product is in fact of considerably communicated as higher quality than alternative products and, hence, the more likely the firm is to use image pricing to communicate this quality to customers. Similarly, the level of consumer income and taste will also increase a firm's likelihood of adopting premium pricing.

In terms of the impact of availability of substitutes like broadband Internet, the ease of obtaining product information provided by the Internet may induce the firm's customers to explore other product options like download free music online easily at a lower cost, and increase the likelihood that these customers will continuously search for free downloads that buying an original audio music CD. Hence it has a negative impact on the probability of adopting image pricing. As for the pricing objectives, the following variables are observed to have a positive influence on the likelihood of image pricing being adopted; project or maintaining a desired product image (0.277), avoid customer complaint about unfair price and (0.209), and increase or maintain sales volume (0.181). As for projecting a desired product image, image pricing can certainly help to differentiate the premium product (in the case of an audio music CD) from not only other products in the firm's product line but competing firms' products, as well, thereby contributing toward the image desired for the product.

SUMMARY AND CONCLUSIONS

Summery

The overall objective of this research was to assess the application of pricing strategies of audio music CDs in Ethiopian music industry and the extent pricing principles and theories are exercised in the industry, especially the degree of music businesses practice in setting their music CD prices based on the actual pricing decision theories and principles

From the data obtained from audio music CD businesses the following findings were obtained:

- The majority of responses were taken from music CD distributors residing in Addis Ababa having 7-9 years work experience in music business.
- The most frequent pricing strategy determinant factor were the type of song and singer, recording and production cost, and marketing and promotion expenses respectively. Accordingly, the least frequent pricing strategies determinant factors were number of songs in the album, level of piracy and copy right laws consumer income and taste, perceived quality of the audio CD and number of new releases in the market respectively.
- The most important pricing objectives were those of increasing or maintaining market share, increasing or maintaining sales revenue, and maintain distributor support respectively. The least important pricing objectives pursued by the sample firms were those of undercutting competitor pricing, match competitors price, and avoiding government attention or intervention respectively.
- The most frequently used pricing strategy was cost-plus pricing, competitive parity pricing, geographic pricing, and image pricing

respectively. The least frequently used pricing strategies were second market discounting, experience curve pricing, and premium pricing strategy respectively.

Conclusions

Throughout this study the researcher has attempted to empirically assess the application of pricing strategies of audio music CDs in Ethiopian music industry and the extent marketing, in general, and pricing, specifically, principles and theories are exercised in the music industry. It can be conclude that the Ethiopian music CD marketing practices are now trying to gear themselves towards adopting proper marketing theories and practices existed in western markets. However, lots of efforts still remain and most of the real time marketing philosophies and practices are violated by the major players in the industry.

In the study, the researcher has examined a list of 17 possible audio music CD pricing strategies. As it has been clearly demonstrated in the data analysis and interpretation part of the study, respondents have identified the following six strategies that are most frequent with their own criterion. The sample firms adopt different pricing strategies to achieve a variety of objectives and the following are the major strategies adopted by the sample firms: cost-plus pricing, competitive parity pricing, geographic pricing, image pricing, skimming pricing, and low price supplier pricing respectively.

As the survey depicted, for the sample firms as a whole, the most frequent pricing strategy determinant factor was the type of song and singer. This was followed by recording and production cost, marketing and promotion costs, royalty fee paid to artists, number of intermediaries and length of channel in music CD distribution, availability of substitutes like broadband internet, and population age respectively. Furthermore, the most important objectives that are taken in to account for setting price of an audio music CD were those of increasing or maintaining market share, increasing or maintaining sales revenue and maintain distributor support respectively. These were followed by the objectives of covering cost, the pricing objective of increasing or maintaining sales volume, and that of avoiding price wars respectively.

1. In adopting cost-plus pricing the most significant pricing objectives are to increase or maintain gross profit and to increase or maintain sales volume. In terms of the pricing strategy determinants the population age, perceived quality of the audio CD, royalty fee paid to artists, and recording and production cost of the audio music CD, have a significant and positive impact on the choice of a cost-plus pricing strategy.
2. There are four of pricing strategy determinants that have a positive relationship with a firm's likelihood of using competitive parity pricing. The higher the impact of the internet on the firm's operating and business conditions, the more likely it is to adopt competitive parity pricing. Next, the higher the fee paid to artists as a form of royalty, the more likely it is for a firm to practice competitive parity pricing. In addition, high recording and production cost creates cost disadvantage and this will also leads to the increased likelihood of using competitive parity pricing. Objectives that involve meeting competitive pricing pressures (maintaining competitive level, and erecting or maintaining barriers to entry) have a positive relationship with a firm's likelihood of employing competitive parity pricing.
3. The significant pricing objective that increases a firm's likelihood of adopting geographic pricing was maintaining distributor support and

match competitors' price. Consumer income and taste, number of intermediaries and length of channel, level of piracy and copyright laws have a tendency to increase the likelihood of geographic pricing being adopted by a firm.

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