The Thinking of Product Pricing Strategies for Private Petrochemical Enterprises

Aailing WANG1, Xingming ZHANG2, Jiao WANG3
1 Fuels Marketing and Logistics Research Institute, School of Economics and Management, China University of Petroleum, Qingdao, China
2 Shandong Shida Shenghua Chemical Group, Dongying, China
3 Qingdao Institute of Marine Geology, Qingdao, China
Email: wangling666@126.com, 13656477@sina.com, wjwal@sohu.com

Abstract: From the development of the private petrochemical companies, it can be concluded that pricing strategy is the primary and important part of marketing strategy for such companies. Common mistakes in product pricing strategies of private petrochemical companies includes the low price strategy, the high price strategy and the price changing strategy. The reasons can be explained by the unclear pricing objectives, the inaccurate and untimely access to the market information, the incomplete organizational structure, and the unreasonable inventory control and customer structure. In the premise of good pricing strategy, private petrochemical companies should firstly determine a basic price daily, and then formulate a specific price according to the specific circumstances of the day, especially the competitors’ condition.

Keywords: Private companies; Petrochemical product; Pricing strategy

With the rapid economic development, sustained and rapid growth in the consumption of oil products market has been pulled. Private petrochemical has become diversification of petrochemical market competition model in a very important role[1]. Review of private petrochemical development history, you can fully understand the important factors affecting the development of petrochemical enterprises, then focus on these important factors, to improve the ability of development of private petrochemical companies.

1 The review of development of private petrochemical enterprises

1.1 Period of rapid growth

In 1992, the oil market began to open, the State Council called on the use of private capital into the oil market, then the private enterprise formally entered the oil market. By 1998, they could engage in oil products wholesale and retail business[2]. As a result, the industry was considered the most profitable industry.

1.2 Period of difficult development

In 1998, PetroChina and Sinopec were set up, all the oil products turned to the two large groups, private petrochemical companies began a difficult life. In 1999, the State Council office issued “The views on cleaning up small refineries and regulating the order of crude oil circulation”. The document provided that the oil of all domestic refineries must turn to the two major groups and other enterprises cannot sell by themselves. So many private oil enterprises were cleaned up[3]. Beginning in 2005, domestic oil shortage emerged. And once again, the development of private enterprises was increasingly difficult. In 2006, the Ministry released administrative measures on the product market. The approach improved the industry's threshold, meaning that some private enterprises exited or be integrated by three major groups. Private petrochemical enterprises were shuffling again.

1.3 Recovery period of private petrochemical enterprises

From 2007, the state frequently introduced the national public policy and gradually lifted the ban to private oil enterprises. In May 2009, China began to implement the new oil pricing system. It is provided that when the international market of crude oil for 22 days moves average price of more than 4%, we can adjust the domestic prices of refined oil. New product pricing system of pricing were more transparent. So some private petrochemical companies, under guidance of national pricing policies, fully grasped the of the market conditions and began to profit and rapidly develop[4].

2 The importance of pricing strategy in the
private petrochemical companies

Many factors affect the petrochemical product price change, especially more and more speculation in international oil prices. The biggest difference between oil products on the chain with other products (such as fast moving consumer goods) is the frequency of price changes. Private enterprises have the strong market viability and flexible mechanism. Though they cannot stir up the market, they can take full advantage of prices. Some enterprises report a price one day, and some may report more than one price even one day. Especially in May 2009, the State introduced a refined oil pricing mechanism, making some private enterprises began to start and profit. It can be seen that product pricing strategies affect other petrochemical companies to develop marketing strategy, and is an important self-control factor which the private petrochemical enterprises use to participate in market competition, profit and development. So pricing policy is the most important marketing strategies.

3 Wrong types in private petrochemical enterprises pricing strategy

The so-called wrong pricing strategy mainly refers to the set price, which brings some of the losses. Such losses primarily refers to the expected benefits that lower than peer companies (the same type competitors) earnings.

3.1 Low price strategy

The so-called low-price strategy is the enterprises sell most of the products in a low-price and get a low-return within a market (or a sales) cycle. In Figure 1, In a rising market condition, when the price of ‘b’ slightly greater than ‘a’, we assume that the business point of sales in ‘a’ is much larger than points in ‘b’. Then the products are primarily sold in ‘a’ point of sale. In Figure 1, the stock 1 and the price curve is the reflection of the relationship between inventory and price changes when the company uses a low-cost strategy during a certain time. The intention of petrochemical enterprises is to provide a large number of shipments in the highest or mostly highest to maximize profits. But when the prices are rising in, downstream firms often increase the order quantity, leading to rapid decline in business inventories. So it is often that the business inventory is in the lowest level before the arrival of highest price.

3.2 High price strategies

The so-called high-priced strategy is that companies will make price higher than the major competitors in a period of time. In Figure 1, Inventory 2 and price curve is a reflection of the relationship between inventory and price changes during a certain period of time when enterprises take high price strategies. In Figure 1, Assuming a market price, the price of ‘b’ is slightly larger than point of ‘a’ when the main competitor is on sale, but the company’s own sales are in the point of ‘b’. If the sales amount of ‘a’ is much larger than that of ‘b’, then that time can be mainly judged as a high-priced strategy. Generally, companies have no inventory pressures when their business inventories are smaller, or when crude oil prices continue to rise, and the firm’s price-makers make their product prices higher than competitors’ prices. At this point, companies give competitors relatively high-priced shipping opportunities, and they are in a state of the highest price.

3.3 Price change strategy

Price change strategy is derived from high-priced strategy. It refers that downstream customer receive the order in high price when a majority of the petrochemical industry chain enterprises are optimistic about the market conditions. But the rapid reversal of market conditions occurs, the entire industry products’ price rapidly falls. At this time, some opportunistic customers in high-priced orders often do not fulfill the contract, resulting in avoidance of the contract, leading the real business inventories to increase. Price change strategy brings to the enterprise inventory risk and the risk of breach of contract.

4 Causes for the failures to develop pricing strategy

4.1 Pricing objectives are not clear

some private enterprises lack of clear objectives in the development of petrochemical prices. Usually their rivals change, so they change. Enterprises do no develop their own appropriate pricing strategies based on their actual situation and market position.

4.2 Market Intelligence is incomplete, inaccurate, not timely
Factors affecting the price changes of petrochemical products mainly include international oil prices, in addition to the market supply and demand. Factor in international oil prices are more and more speculative and the fluctuations are more and more frequent; macro economy, in addition to the domestic economy, world economic development, has an impact on the petrochemicals market price; changes in prices of related products (including the price fluctuations of industrial chain upstream products and alternative products), are most concerned factors when private petrochemical companies develop their prices.

4.3 Cost is not clear, inventory control is unreasonable

As private petrochemical companies involved in market competition, Survival is the first consideration and on this basis, to obtain a certain profit. Therefore, companies should identify their various costs, including start costs, profit costs, fixed costs, sales costs, especially the start cost. But more companies in the development of prices, often pursue profit, ignoring the cost guidance. At last the high prices they make lead to mistakes. Meanwhile, on the inventory management, there is no clear scientific line of the highest and lowest stock inventory lines. The enterprises are often in pursuit of the lowest inventory, developing low-price, and lose the deserved profit.

4.4 Structure of customer portfolio is irrational

The types of customers of private petrochemical include broker customers and end customers. End-user purchasing products intend for their own processing, the order cycle is stable. Generally, the normal purchases would not be impacted by the change of raw materials’ prices; broker customers mainly buy the products in a high price and sell them in a low price, taking the difference, so brokers are more cautious and speculative with purchase behavior. If the proportion of intermediary business customers is in large type, it will affect the transaction price and transactions at a low price are possible, affecting the level of corporate profits.

All in all, the main reasons, which leading to mistakes in pricing strategy, is the market intelligence is incomplete, inaccurate, and not timely.

5 The premise of private petrochemical enterprises to formulate price strategies

5.1 Clearing pricing goal and direction

For enterprises in different periods of development, pricing goals and direction should be different. When it comes to the economic crisis, or fierce competition, the aim of enterprise is to survive, and the method of pricing should be cost-oriented. In other words, the pricing of enterprise should be at least higher than the starting cost. When it comes to the rapid movements of oil price, private petrochemical enterprises’ pricing goals should be profit maximization at this time.

5.2 Strengthening market survey, and setting up “price factors” information bank

It should be comprehensive, timely and accurate to get information with the formulation petrochemical product’s price. Enterprise shall collect or integrate information every day to establish a “price factors” information bank. Firstly, the price changes of crude oil, the world economic situation and our country’s economy variation must be included. Basically this information can see some basic data, such as employment rate, index futures, inflation and economic growth data and so on. What’s more, this information can form long-term factors of the price changes; Secondly the information of competitors’ information, the upstream material's offer that day, the downstream customer order's quantity estimate and the enterprise's inventory situation, can directly affect the price's formulation that day. Price makers should comprehensively consider the variation of these factors, than balance the product's price and the effect to develop the suitable price that day.

5.3 Organizing a pricing committee, and making the price dynamically

Private petrochemical enterprise shall form a pricing committee, which including high, middle and the basic marketing manager's main backbone personnel. The staffs of the Marketing department often contact market and they are much stronger sensitivity about the market, so they can grasp the market dynamically. The pricing committee making the price dynamically on the basis of the information database every day.

5.4 Timing the control cost, and increasing the proportion of factory clients

When enterprises make price, the price makers should master their own dynamic changes of the cost to clear and definite the Construction cost line and the Profit cost line, since the prices of the raw materials change rapidly; they must combine the historical data and the capacity of the inventory to make clear the lowest and highest inventory; also they should master the detailed information about the upstream and downstream customers to make clear customer's type and the amount of customers of all types, especially to increase the number of terminal customer ratio. Mastering these specific data can adjust the price flexible, according to these data to the pricing makers.
6.1 The formulation of basic price

Firstly, Pricing Committee makes the recent general inventory control by the recent crude oil price trend judgments, then according to the inventory control, determines the size and sales price level. In general, when crude oil prices soaring, companies should control the recent shipments and increase inventory reserves. The purpose is to sell more product in a higher price in the future will be more products. So enterprises typically raise prices gradually.

Secondly, the pricing committee will concern about the price trend of competitors and the price changes of alternatives. According to the differentiation between their own product and competition’s, their inventory, customer loyalty, customer purchases, customer type, the pricing committee then makes specific pricing strategies.

6.2 Assessment of the implementation of pricing strategy

Whether the evaluation of the implementation of sales price is good or bad can adopt the standard of "price action accuracy," which is the ratio of weighted average price and arithmetic price. If the ratio is more than 1, it indicates the business today made more profit than the expectations, illustrating the implementation of better pricing strategy.

Accuracy of price action = weighted price / arithmetic average price

Weighted price = 
\[(P1*Q1+P2*Q2+...+Pn*Qn)/(Q1+Q2+...+Qn)\]

Arithmetic average price = \((P1+P2+...+Pn)/n\)

In today's changing environment, private petrochemical companies survive in the gap of the market through their own flexible marketing strategy and the appropriate pricing strategy, that has been an important purpose to compete successfully in the market for private petrochemical companies.

References