THE ANALYSIS OF COST-PLUS METHOD IN PRICING: CASE-STUDY OF SME'S IN ESTONIA

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Abstract: The paper explains hysteries brought in previous studies about pricing objectives and pricing methods. Based on a case-study the paper defines two-level pricing management using different pricing methods. The paper argues against the simplified approach to the cost-plus method and explains more deeper the outcome of that method. In the paper I have differed costs used in the cost-plus method and stating hypothesis why companies have different approach to those costs.

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1. INTRODUCTION

Several studies have quoted pricing as the most efficient response of a company to the changes of a business environment.On the other hand the financial results as profit/loss and costs has been considered useful indicators to feedback company's perfomance. Therefore remains the question how much companies are following financial results in price management of a company. To analyse the influence of financial results on price management overall objectives of price management should be discussed first.

The first subject discussed in pricing is the objective of the pricing. Eventhough literature distinguish short-term vs long-term objectives together with quantitative and qualitative objectives most empirical studies based on questionaries to managers do not distinquish them (Avlonitis and Indounas 2005; Carson et al, 1998). Few studies have that the short-term profit objective is the prevailing pricing objective (Meidan and Chin, 1995; Guilding et al, 2005). Complexity of pricing decision impose often the need to apply more than one objective at a time (Diamantopulus, 1991;Carson et al, 1998). Even if the objective is declared to be profit maximation empirical studies show that managers tend to behave more in line with market share objective then maximising profit (Keil et al, 1999). The wide scope of objectives mixed by different time horison gives very confusing picture of objectives on price setting.

While the pricing objectives provide general direction for action pricing methods contain explicit steps or procedures by which companies act. Many studies do not separate distinctively pricing objectives and pricing methods as the object of the study arguing that methods themselves also containing the pricing objective (Guiding et al, 2005; Garson et al 1998;). Few empirical studies confirm dependency between pricing objectives and pricing methods like dominant price in the market as the objective and pricing below competitors as the method (Avlonitis and Indounas, 2005). Most companies tend to use parallely more than one pricing method where cost-based methods are prevailing ones (Avlonitis and Indounas, 2005; Urbany, 2001; Lere, 2000; Guilding et al, 2005). It is interesting to point out that despite the wide scope of objectives most popular pricing method used by companies is the cost-plus method. This method cannot be linked directly to the profit maximation objective and therefore the use of this method should be analysed more deeply.

The most popular cost-based method used in empirical studies is the cost-plus method. The common belief is that the use of the cost-plus method indicates the profit maximation objective of a company (Carson et al, 1998). Therefore it would be reasonable to argue that cost-plus method doesn't apply as the pricing method to the loss-making companies eventhough such indications have not been presented. The massive use of cost-plus method despite the wide variety of objectives put some doubts of cost-plus method implementation in companies.

There has been stated that the use of cost-plus method effects company's pricing behaviour – the increase of costs causes the increase of prices (Lucas, 2003; Pasura and

Ryals, 2005). This behaviour pattern of companies has often been described in the different aggregated level papers but not much at the company level. Taking into consideration that most of the empirical studies which state the dominant use of cost-plus method were carried out in very competitive business environment and mainly by SMEs then this simple approach of implementation of cost-plus pricing seems oversimplified. Therefore the implementation of cost plus method in company level should be analysed more deeply.

The paper is organized as follows: a comprehensive review of the literature on pricing objective and pricing methods is presented. It is followed by the description of the methodology and competitive industry analysis. Thereafter has been presented the case-study along with the cross-case analysis and conclusion.

2. LITERATURE REVIEW

The limitation of the literature rewiev is that on the focus are companies in competitive markets. Markets with monpopolies, oligopolies, with low competitive environment or with any other market distortions has been excluded.
The litreture review has been organised in following way. First, pricing objectives are under discussion. Pricing objective gives the aim of pricing decisionand explaines the motivation of companies in decision making process. Second, pricing method has been analysed where the method chosen by companies could be related to pricing objective. Finally, cost-plus method as the most used method has been analysed. Eventhough cost-plus method has wide use in companies there is still not enough specific knowledge how companies apply the method in the case of costs increase.

Pricing objectives

The pricing objective provides the direction or the purpose of the pricing decision. Most of the studies who distinguish the pricing objective from the pricing method argue that the objective for the pricing is profit maximation (Carson et al, 1998; Urbany, 2001; Guilding et al, 2005; Hunt, 2002; Lere 2000; Avlonitis and Indounas, 2005). However, it is interesting to mention that the objective as the profit maximation has time to time criticized and replaced by generating the profit.

Despite the generating profit companies have quite often other objectives where not all of them are compatible with each other (Keil et al, 2001). The objective as the sale maximation for example could lead to lower profit. It has been explained by hysteris stating that managers tend to misinterprete some objectives as the elasticity of prices or the price awareness of customers (Urbany, 2001). Also has been stated that some industries just have different objectives for pricing (Guilding et al, 2005) or different companies have different pricing objectives (Carson et al, 1998). It can also be explained by different time horizon of the price attainement (Avlonitis and Indounas, 2005).

The pricing objectives can be qualitative and quantitative (Diamantopulus, 1991). Quantitative objectives are easily measured (profit, market share) whearas qualitative objectives are followed within company (relationship and satisfaction of customer).

Few empirical studies that have been conducted on the issue of the pricing objective tend to regard profit maximation or achievement of a satisfactory profit the most pricing objective used (Meidan and Chin, 1995; Carson et al, 1998; Guilding et al, 2005).

There is some discreapancy between theoretical studies which argue multiple objective approach of companies in pricing and empirical studies which state the dominance of the profit maximation objective in price decisions.

Pricing methods

Pricing method is the „road map" of pricing decisions consisting explicit steps or procedures by which companies arrive at pricing decision. Pricing methods itself can be grouped into three categories (Avalontis and Indounas, 2005).

Cost-based pricing.

These methods base on some quantitative/financial indicator that indicates pricing. Most quoted cost-based method is cost-plus method. Cost-plus pricing has been considered as the oldest pricing principle where historical evidences dating back to the end of 18th century. Principle of pricing was that price should cover costs associated with manufacturing, marketing and distribution with addition of desired profitability. Such approach has been criticised on many aspects. Firstly it is extremely difficult in practice to identify true costs of products. In many cases companies having joint costs or fixed costs not easily allocated. Nowadays cost-plus pricing has more considered as method of pricing eventhough it consists some of the motives aspect as well – in longer run costs of the company should be covered and some reasonable profit should be created. .

In recent studies has been discussed pricing method based on activity based costing which combined with product portfolio differentiation gives powerful tool to manage pricing (Lere, 2000; Urbany, 2001).

Other cost-based pricing methods are less popular among managers. Methods like marginal pricing where company sets the price in level of marginal costs could be popular among scholars but get few support by the managers of companies (Lere, 2000; Avlonitis and Indounas, 2005; Garson et al, 1998).

Competition-based methods

These methods give guidlines to behave in competitive surroundings. Few thumb rules which are widely used but not much studied are pricing according to the dominant price in the market or pricing below to the competitors prices (Urbany, 2001). These methods have discussed widely in most of studies concerned pricing policy in SME. These strategies are more discussed on companies with bundle of products. The composition of product portflolio and competition determines pricing of each product.

Another competition-based pricing method is to use industry average return approach (Kuehl and Lambing, 1987). In an industry with many competitors it is probable that all will sooner or later have same pricing structure. Therefore companies would use the same pricing structure allowing them to keep market share and industry-average profitability.

Demand-based pricing

These pricing methods are based on the value created to customers. Idea behind these methods is that the amount that customers are ready to pay reflecting the value they obtain and that could be very different from the cost to make the product. The biggest obstacle of value-added method is to determine the value created to the customer.

There have been studies proposing complex method to determine the value created to the customer by dividing product to the separate sub-grades and through the pricing of product substitutes to calculate value-added to the product. Also there has been number of studies to determine optimal pricing in certain business sector still companies usually lack datas as the relationship between price changes and sales volumes, the link between demand levels and costs and responses of competitors to price changes (Urbany, 2001).

Another widely used demand-based pricing approach is psychological pricing. In some sectors customers' price awareness is very low therefore allowing to establish much higher prices than cost for product. Two practical methods have been discussed under psychological pricing. Focus-group pricing method deals with determination of acceptable pricing level based on deep study of focus group (Allen and Maybin, 2004). Another approach is the cost-point method where prices would round to the upper price limit customer is ready to accept (Hunt, 2002).

Some studies argue that companies could use successfully „hunches" for price-setting (Blackburn, 1986). Based on this approach managers who have wide experiences in the field use dominantly their intuition and experienced judgements. Therefore pricing could be treated more as a managerial art than science.

A common empirical finding is that the most used pricing methods is the cost-plus method (Morris and Fueller, 1989; Avlonitis and Indounas, 2005; Carson et al., 1998; Guiding et al, 2005; Paleologo, 2004). These studies stress the simplicity and easiness to use as the main argument of users of the cost-plus method. The use of cost-plus method is not correlating with the size of a company but has some correlation with industries.

The dominance of cost-plus method in results of empirical studies do not correspondent to the findings of empirical studies of pricing objectives. Also it contradicts many papers concerning demand-based pricing and competition-based pricing as the main pricing tool of SME in competitive economic surrounding.

Pricing influenced by financial indicators

The influence of financial indicators of company – expenditures, profit/loss, financial ratios – to the pricing is not so obvious. Eventhough many theoretical and empirical studies stating the influence of financial indicators in pricing method there is no specific explanation which indicators are used and on what range. In current study the influence of financial indicators to the pricing has been analysed through the different pricing methods.

Demand-based pricing methods and competition-based pricing methods has not been considered methods which follow financial figures. Both of these methods focus on external aspects of a company and therefore have very little to do with financial figures of a company. The cost-plus method itself declares the focus of internal matters of a company and therefore should be analysed more deeper in connection with financial indicators.

Cost-plus method has often treated as the method of cost-covering in a price setting procedure (Guilding et al, 2005; Lere, 2000; Carson et al, 1998) therefore granting the required profit level to a company. Eventhough the method itself has been widely mentioned there is no good explanation how this procedure works in companies with high competition. The only simplistic explanation has been on aggregated level (Domowitz et al, 2001) or at the industry level (Barth and Ramey, 2000) where the overall costs influencing directly companies' price levels.

Another important aspect is the range of costs what companies are using in cost-plus method. Most of studies do not refer to that aspect at all (Carson et al, 1998; Paleologo, 2004; Avlonitis and Indounas, 2005; Urbany, 2001; Morris and Fueller, 1989). Some studies pointing out that they use „full-cost" approach but without any reasoning of it (Guilding et al, 2005). The approach of „full-cost" is widely used in discussions about pricing in aggregated level (Domowitz et al, 2001; Barth and Ramey, 2000;). There has been argued that cost-plus pricing are more probably used in high-competition industries; also that the size of a company doesn't have impact on the use of cost-plus method (Guilding et al, 2005). On those studies has been noticed that the costs structure of a industry requires special attention in price settings to certain kind of costs.

Another group of studies have focused on implementation of ABC influenced by use of cost-plus pricing in companies (**Lere**, 2000; Ness and Walker, 1995). Those studies stressing the importance of dividing costs on the way the pricing works and point out differences of costs related directly or indirectly into production.

3. Research metodology

Research method used

The research focus of this study was to understand the decision-making process of the companies and investigate factors influencing them. Eventhough the first glance to research topic could suggest quantitative ana lysis still those processes are highly unordered and company-specific therefore requires for indepth understanding a qualitative research approach according to Yin (Yin, 1993).
The case study approach has been preferred for distance observation (studing deeply the financial and managerial reports, price-lists etc) because of the complexity of price-setting procedure. As the study shows some companies have changed their pricing approach during the period eventhough prices itself stayed unchanged. Therefore case-study gives much better viewpoint to the subject of the study – the direct approach of managers with their understanding and meaning of the situation.
The emphasis of interpretation has been carried throughout the study. This allows data to be initially coded in seve ral ways (also during the interview process), then re-analysed and interpreted as further data are gathered. The further analysis of data is conducted in accordance of procedures of comparative case analysis mentioned by Ragin (Ragin, 1994). These procedures consist three steps. First step is within-case analysis conducted to each separate case to determine a direction of dependencies between studied variables on each individual case. The second step is to compare results of individual cases in order to find cause-effect dependencies between variables. The final step compares results with theoretical debates to draw some conclusions or hypothesis.

Companies selection

Companies have been selected based on the discussion in literature review. The first task was to select companies in competitive environment.

To select industries should be followed the concentration of the net sales to avoid markets with tendencies to somebody's domination. In following table is presented the info of some industry's concentration where biggest companies have grouped in three groups and analysed their dominance in the industry (by comparing their sales to total sale).

Table 2. Concentration of net sales by economic activity in 2004 (milj EUR)

industry	First four	Second four	Third four	Total sales
Manufacturing	313	229	174	5546
(% of total sales)	5,3	4,1	3,1	100,0
Construction	340	147	92	2124
(% of total sales)	16,0	6,9	4,3	100,0
Wholesale	618	459	371	11222
(% of total sales)	5,5	4,1	3,3	100,0
Hotels and restaurants	51	19	15	319
(% of total sales)	15,8	5,9	4,7	100,0

Source: Statistical Yearbook of Estonia 2006

As it follows these industries are competitive without the dominance of small number of companies. Despite that companies were asked their opinion on their market share in their markets to avoid dominancies even in those market niches.

Another important selection criteria was to have companies with different cost structure including companies with the high financial gearing (except financial institutions) and with the influence of the exchange rate exposure (companies trading outside the eurozone or quasieurozone).

All these companies should have stable management at least for three years and follow-up of monthly or quarterly financial results. They should have during that period the constant ownership and management personel. Also there should not be any other big changes in company like acquisitions, new strategies, huge investments etc

Data collection

The research itself in current study consisted of in-depth interviews carried out with five companies´managers in Estonia. The objective of these interviews was to allow managers to describe their views in relation to what, when and why they do.
Questionnaires has been built up to minimise possible biased answers what can be caused by influence of question itself where managers of the company tend to adapt the mode of the recipient to their views (Carson et al, 1998). This is deemed to be particularly so if they have had technology transfer or prior knowledge in an area of discussion. Therefore first steps were designed to get the description of the business, everyday management issues, the description of procedures and managerial tasks. Only the final part of questionary have been constructed specificly to each company based on their description to price settings in company and on financial perfomance of the company. Those questions have been targeted to clear out the real influence of financial figures to companies´ price settings.
Another aspect is the use of terminology. Deliberately was avoided the use of marketing and financial terminology where a slang of the company was used during the interviews. Eventhough it needed additional work to clear out the exact meaning of the terminology it still gave more relaxed atmosphere for interviews.
Interviews itself followed relatively unstructured pattern using the"tell me about…" approach. This approach allows respondents to describe their views on what they do in their own words and gives recipient are wide overview of the company. It also gives a unique opportunity for identification and exploration of the key issues as they are revealed bacause of the open-ended nature of interview itself.
Interviews were organised to discuss following topics:

1. business model and results: key figures of the company; dominance in the market; customer structure; financial performance; management structure and procedures of company
2. price setting procedure: what procedures have been used during the time; persons involved in pricing; how regular/often pricing takes place; what determines pricing

3. the influence of financial figures to pricing: the influence of profit/loss; the influence of the cost of raw material (exchange rate); the influence of other direct costs; the influence of interest rates

4. Case analysis

Case 1: the hotel
This company ownes and operates a hotel and a restaurant in Narva (town in eastern part of Estonia). Mainly results are influenced by hotel customers whose company holds 13% of market share in the area. The company has very dilluted customer structure where biggest customer have brought less than 3% from revenues. Company has been active in market since late 2002.

In 2005 company had turnover 401 thousand EUR and made loss 12thousand EUR. Company had interest bearing liabilities ratio 0.76 what is high compared to industry average. Still the highest cost within total costs were personnel costs accounting 38% followed by interest costs at 26%. The cost structure has been quite stable; the financial results has improved during 2006. Loans of the company are basing on 6-month EURIBOR (and small amount on fixed interest rate).

The company is managed by the owner. Financial results have been reported monthly and benchmarked mainly on to previous years' results. Pricing issues have been studied more deeply twice a year before seasons. Pricing issues have been discussed with controller and marketing specialist. Due to weak profitability management has desperately looked for the profit throughout the whole period. Despite the fact that company has had negative results in previous years the operating profit has been positive.

The pricing discussion usually starts with the analysis of financial results – mainly the cost analysis based on activities. The cost structure and revenues of different activities have been studied carefully what has been resulted with the lease-out some premises (the cafeteria and the health center); with reorganisation of activities (the loundry and cleaning services has been outsourced). Another aspect aside with costs of the company is the analysis of competitors. The company has chosen two benchmarks from the market who have similiar locations, sizes and the customer focuses. The cost follow-up and the analysis of competitors are two pricing methods used in the company. Eventhough the company looks for profit they have not increased prices during the three years period due to tough competition

Case 2: the knitting company
This company is active in producing and selling knitted aparell. The company locates in Pärnu and operates under the Knityard brand. Approximately half of the production has been sold domestically another half has been exported. Company operates also two outlets: one in Pärnu and other in Tallinn. The market share of the company is less than

5% in each segment of the market. The company states to have good personal relations with customers.

The company had turnover 447 thousand EUR in 2005 and 19 thousand EUR profit. Company has liabilities from banks and owner's loans totalling 96% of liabilities. The most important cost were personnel costs consisting 38% of total costs followed by raw material costs by 28% and interest cost 11%. Due to the high increase of personnel costs company has financial losses in 2006 despite the increase of turnover.

The company is managed by one person supported by the chief-accountant and production manager. The design of the new product is outsourced. The main responsibility of the manager is customers' relations including also price negotiations. Due to the seasonality of business pricing decisions are mainly done twice a year. The price setting is accompanied with the development of new products. During that development phase they discuss intensively the price expectation of final customers as well as middlemens' expectations. The new product should be available with that price setting targets to the model design (labor optimisation) and the cost of raw material. Production manager together with chief-accountant reporting final raw material costs and direct labor costs to each and every product. Thereafter prices will be corrected by the coefficient what should include all other costs and some profit. The company targets minimum costs to each and every product. The launhcing period ends with signing contracts where final prices are determined. Contracts do not guarantee production volumes to the company therefore all issues including pricing is still up for discussion at the moment of ordering. The company practices heavy discounts on quantities as well as seasonal discounts.

Case 3: the liquer trader

This company is the importer and distributor of alcohol and non-alcohol beverages. The company holds exclusive selling rights of many worldwide famous brands. All products have been imported. The company rents a custom-warehouse in Tallinn. Beside the selling of the product the company provides different kind of marketing support to those brands in the local Estonian market. Eventhough company has exclusive rights for some brands they still have market share less than 10% in all product groups they deal with. Company operates through the distributors and direct contacts with shops and HoReCa customers (more than 100 customers).

The company had very good results in 2005 due to increasing demand (high growth has been in wine segment). The company had turnover 11.5 milj EUR and net profit 705 thousand EUR. The main costs were purchase of goods accounting 83% of total costs followed by 11% of personnel costs. The amount of interest bearing liabilities were less than 50% from total liabilities and financial costs were unsignificant. The company has done also strong financial results in 2006 increasing the sale as well as profit figures.

The company is managed by three owners each responsible for certain type of products. Due to volatile prices and currency rates selling prices are settled on ongoing bases.

Mainly the method in use is the simple cost-plus pricing eventhough company has very good knowledge about the competitors' prices. Additional margin what is included to cover overall costs and give some profit is discussed four to five times per year. Mainly it is the subject of the competition comparision then financial results (time-to-time the company carries through the pricing research of competitive brands).

The company uses heavily different kind of seasonal and promotional discounts. Mainly these seasonal discounts have been initiated by shops or restaurants-bars and have already became a kind of tradition in the market.

Case 4: the constructing company

The company is active in building industry which has boomed during the last four-five years. Company locates in Tartu eventhough has been active all around Estonia (and few buildings in Riga, Latvia). The company has approximately 40 employees plus subcontractors. In the building industry the company is in middle-size with market share less than 2%. The company has been in the market more than eight years.

2005 was excellent year for the company with turnover of 3.8 miljEUR and net profit 578 thousand EUR. The biggest costs were material costs counting 41% of total costs followed by personnel costs by 27% and costs related to subcontractors by 22%. The company had low interest bearing liabilities – only loans from owners. The company has avoided the increase of prices for materials by contracting material purchase at the beginning of construction contracts. The company expects the same good year eventhough the salary levels have increased around 30%.

The company is owned and managed by two persons. Eventhough the company has been active with many clients from different locations the main customer structure has remained the same. The manager states the extra-value working with the same customers whom they diminish communication problems and financial frauds.

The pricing practice in the company has been based on contracts/proposals. On proposing first they calculate all direct costs related to the work (material costs, labor costs, logistics, costs for subcontractors etc). Thereafter some amount is added where the main component is the possible price-increases, miscalculations etc. It also includes all indirect costs, interest expenditures and expected profit. This added amount can be 20% to 50% of total sum. One important component on pricing has been the benchmarking of the market. The manager admits that on recent years benchmarking has worked quite often at the opposite way to avoid too low pricing. Quite often company has practiced „refusal offering" proposing deliberately very high prices. Few times these „refusal offerings" have been accepted creating long overhours but also some extra profit.

Case 5: the recycling company

This company is active in recycling business buying and recycling different type of industrial waste. Company has network all over Estonia and the processing plant near by

Tallinn. Total assets in the balance are over 12 milj EUR where some assets as land have much higher market value than the book value. Company had loans 7 milj EUR from mother company with fixed interest rate.

Due to the high demand of recycling products in world market company reached on turnover of 64 miljEUR and profit 3.2 miljEUR in 2005. The biggest expenditures were the raw material costs accounting 77% of total costs followed by personnel costs by 9% and logistic costs by 8%. The company has interest bearing liabilities in amount of 18 miljEUR but the interest cost influence to the total costs is around 1%. The company expects strong financial performance also in 2006.

Due to the small size of Estonian recycling market company has the dominant position in the market counting its market share close to 50%. After the enlargement of the European Union the boundaries of the market have enlarged as well as created additional competition. In the last two years has appeared more competitors some of them are well-known at the Baltic Sea region. All selling items are exported. Selling items are traded in liquid world market therefore the company is strongly exposured to the international price risk together with the currency risk. To fight with growing competition the company has recently launched different logistic service packages to provide additional value-added to customers. Also there has been introduced price discrimination to different customers.

Due to the high price fluctuations in world market company is forced to correct prices weekly. With many customers with whom the company has signed cooperation agreements have been agreed pricing formula consisting weekly pricing corrections based on international price-level. Otherwise company follows the competitors' behaviour and own purchase volumes. If the world market prices are growing or dropping but competitors doesn't react the company keeps the pricelevel. Other costs like salaries, fuel costs, maintenances etc are included in pricing through the „coefficient" calculated as the cost per sold ton. If these costs increase they raise the „coefficient" eventhough at the pricing competitors' pricing are considered. Interest costs are not influencing directly prices; company reports internally the EBIT.

5. Cross-case analysis

By longer term objective (on three years time-frame) all companies mentioned their orientation to the profit on pricing decisions. It would be suprising if the answer would be something else or in the opposite. The recycling company and the hotel stated another additional long-term objective for pricing - to keep the market share; the knitting company was considering the customers' price expectation. Eventhough all companies mentioned their orientation to the profit non of them considered the profit or the loss in their pricing decision.

The short term objectives in pricing would be more sophisticated. Eventhough companies stated the profitability of a company as the main objective it was unclear what they meant on it. The construction company says that they concern more to make a deal and the cost calculation is the tool to explain price proposal. The hotel and the knitting company stated the importance of customer relations. The recycling company and the liquer trader mentioned the aim to have competitive price. Therefore companies having different short-term objectives were still concerned the profitability of the company. This also explanes the use of many pricing objectives in the short time horizon mentioned by Diamantopolous, Avalontis and Indounas etc (Diamantopolous, 1991; Morris and Fueller, 1989; Meidan and Chin, 1995; Avlonitis and Indounas, 2005). Definitely these different objectives cannot be considered as contradictionary objectives giving different guideline to pricing decisions.

The price management even in small companies was more sophisticated then suggested in literature (Carson et al, 1998; Avlonitis and Indounas, 2005; Guilding et al, 2005). The price management in studied companies was organised in two levels. The first level (s.c. quick pricing) is based on the raw material price and the fixed amount of add-up. This method was used very much in companies with high influence of the raw material – like the recycling company, the liquer trader. It explains also the correlation of the use of cost-plus pricing and industries (Guilding et al, 2005). Should be mentioned that companies with high raw material costs followed in the decision-making process the competitors' behaviour.

In other companies where raw-material margin was important but not so dominant – the construction company, the knitting company – the cost-plus pricing method in quick pricing covered also other direct costs. On those companies the cost-plus method was always accompanied by other methods, mainly demand-based methods but also competition-based methods. The same cost-structure and client-structure could be followed in service sector what then explains the use of the cost-plus method in case of customer-oriented objective.

The second-level price management (s.c. long pricing) existed in all of these companies. These pricing meetings were regularely planned, well-prepared and included different people with different wievpoints. On those meetings profitability of previous periods were analysed along with the cost structure (in all cases), the competition situation in market (in all cases) and the customers' price expectation (the knitting company, the hotel, the recycler). Eventhough the costs were discussed very much on those meetings the cost-plus method itself was rarely used. Therefore makes sense that the use of the cost-plus method together with other external methods turns to have internal effect in cost-restructuring or in cost-cutting.

In some companies where cost structure is dominated by financial costs or depreciation (costs related with long-term investments) only long-pricing decisions were made. Eventhough interest rates affect all companies in the industry sector the same way as the increase of the raw material costs in other industries companies' pricing decisions still are following competition-based methods. This is in line with findings of Guilding that hotels tend to price based on competition-based methods (Guilding et al, 2005).

6. Conclusions

The aim of the paper is to present deeper look to the price management of companies through the case-study analysis. These case-studies had special attention to the managers' view for pricing procedures, pricing objectives, pricing determinants and other managerial issues related to the pricing. Also was analysed cases of price changes and determinants to that.

The results of the case-study shows that the wide range of objectives are much better organised than has been expected. All companies pointed out the strong orientation to the profit maximation in the long run where in short-run they would face some obstacles. The wide spectrum of objectives are indication of complexed dialemmas of profitability companies facing in their price negotiations.

The use and influence of the cost-plus method is more sophisticated. First, quite many companies may use the two-level price management were some part of the pricing decisions are made often (flexible raw material prices etc) and based dominantly on the cost-plus method whereas other part of pricing decisions are made more rarely and not based on the cost-plus method. Therefore companies using dominantly the cost-plus method might still be very concerned competition and maximising their profit as much as they can. Secondly, companies tend to use very many pricing methods at the same time where the cost-plus method is used paralelly with allmost all other methods. Still it doesn't mean that the cost-plus method has dominant role in final price settings.

The final result what should be pointed out the cost discriminaton in applying the cost-plus method. Companies who directly applied the cost-plus method had difficulties to include indirect costs into the cost calculation. All companies analysed within the case-study did not respond in their cost-calculations to the change of financial costs and other indirect costs.

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