

Pricing Strategies of Organic Products in Surkhet Valley, Nepal

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Keywords:

Pricing strategies, organic products, production costs, market demand, competitor price, distribution costs, economic condition

DOI:

<https://doi.org/10.3126/jnmr.v5i1.61382>

ABSTRACT

This study explores the pricing strategies of organic products in Surkhet Valley, Nepal. It seeks to examine how several factors, including production costs, market demand, competitor prices, distribution costs, and overall economic conditions, interact with one another. The study uses a quantitative methodology and includes 150 participants from the Surkhet Valley of Nepal, including farmers and organic products vendors. The study uses statistical tools to analyze the data gathered, concentrating on Smart PLS-4. The study finds that there is a strong relationship between important variables such as market demand, competitor prices, distribution costs, economic conditions, production costs and the price of organic products. The results highlight how important it is for companies to keep an eye on rival pricing strategies, minimize distribution expenses, and modify price strategies in reaction to shifting market dynamics. For businesses in Surkhet Valley, Nepal, to thrive sustainably, they must improve their comprehension of the factors that affect the price of organic products. The report emphasizes how crucial it is to keep production costs under control and match pricing policies to the demands of the market. It also emphasizes how important it is to monitor rival pricing, streamline distribution procedures, and maintain flexibility when modifying price tactics. Restrictions include the sample size and the exclusive focus on Surkhet Valley, which make it dangerous to extrapolate the findings to other settings. Still, the study provides a valuable starting point for businesses looking to expand sustainably in the organic product space.

1. INTRODUCTION

Faith (2018) described that in the past, buyers and sellers negotiated pricing; in some industries, bargaining was a common practice. However, as large-scale retail sales developed in the late nineteenth century and uniform prices for all customers became the norm, a more modern strategy arose. Effective pricing setting is recognized as a critical competency for entrepreneurs (Ademi & Avdullahi, 2021). The expensive and complex nature of product pricing is emphasized by recent research, as noted by Hallberg (2017), which also shows differences in enterprises' capacities to use price strategies.

Over the past three decades, there have been significant changes in consumer product choices due to increased public awareness of health and environmental issues. The effects of modern farming methods that include chemical fertilizers, herbicides, and pesticides have come under closer investigation in developed countries. Modern agriculture has resulted in the spread of agents that cause cancer (Anam & Soedarto, 2022), which has led to an increase in degenerative diseases like diabetes, heart disease, and stroke linked to the use of agricultural chemicals (Subroto et al., 2010; Alavi et al., 2019). According to Misner and Florian (2013), the likelihood of pesticide contamination in organic products is thirty percent lower than that of inorganic ones. The main reason people choose organic products, according to a Surabaya study by Trott et al. (2008), is because they believe they will be healthier. Other factors like food safety, affordability, environmental friendliness, and quality are not as important as this perception. It is well-accepted that eating organic products will boost your health because they are higher in nutrients (Smed & Andersen, 2012).

Farmers have different pricing methods for organic products. To ensure a respectable profit margin, some farmers calculate their production costs and include a pricing margin. Some set their rates based on what the local market will bear. Most farmers probably combine the two methods. Pricing also varies on the market outlet you utilize, such as selling directly to a grocery store or restaurant, or to retailers like farmers markets (Geethika et al., 2023). That is why, in conclusion, organic product pricing is based on production costs, market demand, competitor price, distribution costs and economic conditions.

The primary objective of the study is to assess and understand the pricing strategies of organic products in Surkhet Valley, Nepal, with a focus on production costs, market demand, competitor prices, distribution costs and economic conditions.

2. LITERATURE REVIEW

Isojärvi and Aspara (2023) analyzed the consumer behavioral reactions to price promotions or reductions of organic fast-moving consumer goods (FMCG); this study fills a research vacuum. The study shows that online advertisements with a 20% price promotion or the standard price, varying in the presence of explicit organic claims and implicit organic cues, were shown to participants in the experiment. Results show that price promotions increased the click-through rate, regardless of whether implicit cues or overt organic claims supported them. Like conventional items, consumers seem to see price promotions for organic FMCG products as sporadic promotional actions and believe that regular prices are high enough to cover sporadic discounts. This study challenges earlier research that questioned the efficiency of price promotions and discounts for organic products by shifting the focus from premium pricing to evaluating the effectiveness of such promotions.

Liu and Shi (2023) studied a more flexible interactive bundle pricing strategy (IBPS) for agricultural e-retailers in comparison to the classic bundle pricing strategy with fixed items. The study considers

consumers' organic preferences and creates a mixed bundle pricing model for organic and inorganic agricultural items because more and more consumers are choosing to purchase healthier and more ecologically friendly organic agricultural products. To maximize merchant profit and optimize customer surplus, free delivery is used.

Carrión-Bósquez et al. (2023) have focused on the levels of purchase intention of organic products using the theories of planned behavior (TPB). Buying intentions for organic products are influenced by the price. This study is among the first to be conducted using TPB's constructs to determine the purchase intentions of consumers.

Liu and Sam (2022) examined the factors that influence consumers' willingness to spend more for organic baby food, considering things like retail channels, food kinds based on developmental stages, organic labelling, frequency of purchases of organic products, and temporal patterns. The empirical results show that, even after controlling different product and market factors, parents are generally willing to pay a premium of between 17% and 27% for organic baby food compared to conventional options. This indicates that, despite organic infant food's higher price due to its proven health and safety benefits, there may be a discernible customer preference for it.

Ali and Anwar (2021) have analyzed how pricing strategies impact the behavior of customers. The findings indicate that price skimming, blogs, sharing sites, penetration pricing, and competitive pricing all have a statistically significant positive influence on consumer behavior at a 5% significance level.

Katt and Meixner (2020) studied the positive correlation between hedonic purchasing values, environmental concern, health consciousness, and the intention to buy organic products. Notably, in this study, the intention to purchase organic products is directly and negatively impacted by price concerns. The results highlight the fact that in comparison to price consciousness, environmental concern, health consciousness, and hedonic purchasing values have a greater impact on consumers' intentions to purchase organic products.

Sarma, Nanere, and Trebilcock (2020) analyzed the variables affecting Indonesian consumers' willingness to pay (WTP) for several types of organic vegetables, such as lettuce, carrots, pack-choir, broccoli, cauliflower, and cabbage. The demand in Indonesia for organic products is still relatively low, despite possible worries about the chemical risks present in conventional food. This muted demand is caused by several factors, such as high costs, fewer product options, customer skepticism about organic products, satisfaction with conventional alternatives, and the impression that organic fruit lacks flavor distinction.

Shen et al., (2019) have examined the competitive dynamics between green and non-green products. When faced with non-green alternatives, analytical models are created to investigate the best pricing and advertising tactics for eco-friendly items. Examining two pricing strategies—sequential and simultaneous—it becomes clear that the latter is more successful and exhibits a "second-mover advantage." The research highlights that the use of a sequential pricing approach by the green supply chain, wherein the price of the non-green product is set first, can lead to increased profitability, and reduced environmental effects within the circular economy concept, showing that simultaneous pricing is undesirable, especially in high product substitution scenarios. These results add to the growing body of research on sustainable production in the age of the circular economy.

3. CONCEPTUAL FRAMEWORK

A conceptual framework is an arrangement of connected ideas, beliefs, and suppositions that help structure and organize information about a certain problem or circumstance. It provides a theoretical framework that guides research and helps explain how independent and dependent variables are related to one another.

1. **Production Costs:** The expenses a business incurs when manufacturing or creating goods and services are referred to as production costs. These expenses cover a range of items, including labor, raw materials, overhead, and other direct and indirect costs related to the manufacturing process. Businesses must comprehend and control production costs to assess the profitability of their activities and make wise choices regarding pricing, resource allocation, and general productivity.
2. **Market Demand:** The total amount of an item or service that buyers are willing and able to buy at different price points in a specific market and time frame is referred to as market demand. Considering elements like cost, customer preferences, and general economic conditions, it expresses the desire of consumers for a specific good or service. Understanding market demand is essential for firms and governments to make informed decisions on production, pricing, and resource allocation. It is a fundamental concept in economics.
3. **Competitor Price:** The term "competitor price" describes the pricing tactics used by companies in reaction to the prices established by their rivals in the market. It entails examining and modifying product or service prices considering competing businesses' dominant pricing tactics. This strategy aligns or differentiates one's prices in relation to what competitors are offering to stay competitive, draw in customers, and hold onto market share. Companies frequently keep an eye on and make regular adjustments to their pricing strategy in response to shifts in the competitive environment.
4. **Distribution Costs:** The expenditures incurred in moving a good or service from a producer or manufacturer to the final customer are referred to as distribution costs. These expenses cover a range of tasks like shipping, storage, packing, and organizing. Effective distribution management is essential for companies to guarantee on-time delivery, reduce expenses, and improve overall supply chain performance.
5. **Economic Condition:** The term "economic condition" describes the general state of an economy, considering several variables, including employment levels, inflation rates, economic growth, trade balances, and the general well-being of the populace. It provides information on the opportunities and difficulties that face people, firms, and policymakers at any given time. It also reflects the state and performance of an economy at that moment. To determine the stability and direction of an economy, important indicators and data are frequently used to evaluate economic circumstances.
6. **Organic product Price:** "Organic product price" is the price of agricultural products or objects made from organic farming methods. No artificial fertilizers, pesticides, genetically modified organisms (GMOs), or radiation is used in the cultivation of organic products. Owing to the more labor-intensive and ecologically friendly production techniques employed in their creation as well as the certification procedures necessary to fulfill organic standards, organic products are frequently more expensive than their equivalents grown conventionally. Considering these items' alleged health and environmental benefits, consumers are willing to pay more for them.

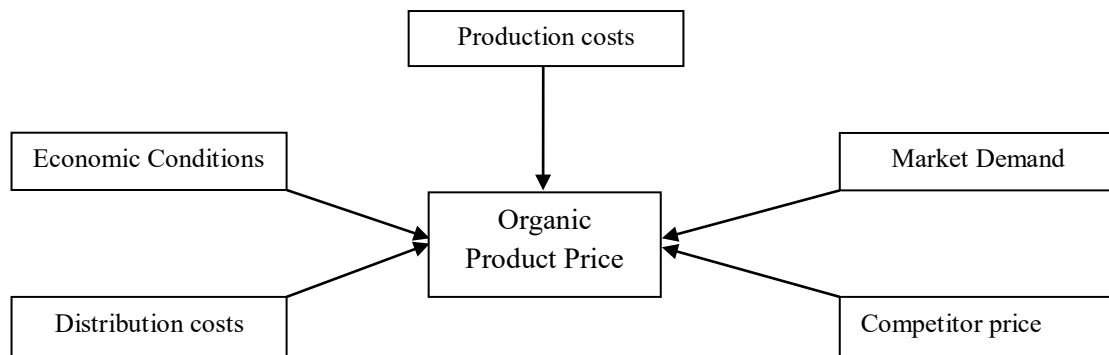


Figure No. 1: Conceptual Framework

4. METHODOLOGY

The study used a quantitative research methodology to identify the pricing strategy of organic products in Surkhet Valley, Nepal. Using convenience sampling methods, 150 participants made up the sample. The sample consisted of farmers and sellers of organic products. Likert scale questionnaires with structure were created to gather quantitative data. To summarize the demographic features of the participants, descriptive statistical analysis was carried out, and statistical software (e.g., SPSS, Excel, and Smart PLS-4) was used to execute the data analysis. Similarly, the following hypothesis was developed to show the relationship between a dependent variable and independent variables.

H₁: There is a significant relationship between production costs and organic product prices.

H₂: There is a significant relationship between market demand and organic product price.

H₃: There is a significant relationship between competitor price and organic product price.

H₄: There is a significant relationship between distribution costs and organic product prices.

H₅: There is a significant relationship between economic condition and organic product price..

5. RESULT AND DISCUSSION

Demographic Profiles

Table 1

Demographic Profiles of the Respondents

Variable	Categories	No. of respondents	Percentage
Age	Below 30	10	6.67
	30-40	60	40.00
	41-50	50	33.33
	Above 50	30	20.00
Marital Status	Married	120	80.00
	Unmarried	30	20.00
Gender	Male	90	60.00

	Female	60	40.00
Qualification	Primary or below	30	20.00
	Secondary	90	60.00
	Graduation	20	13.33
	Above Graduation	10	6.67
Income level	Below 30,000	90	60.00
	30,001-50,000	40	26.67
	Above 50,000	20	13.33

Source: Field Survey, 2023

Table 1 shows the distribution of respondents in terms of their age, which has been categorized into four groups. The majority, 40.00 percent, fall under 30-40, which accounts for 60 respondents out of 150 respondents. In terms of respondents' marital status, out of 150 samples, 120 are married, while 30 are unmarried. It is observed that 60.00 percent were males, and the rest 40.00 percent were females. The level of qualification of the majority, 60.00 percent, which accounts for 90 respondents, was secondary level. The study has been conducted on respondents with different income levels, and the majority, 90 respondents, fall to under 30,000.

Reliability Test

The reliability of the study instrument was assessed using the Cronbach alpha reliability coefficient. A dependable coefficient of less than 0.6 indicates dubious and low reliability, but a reliable coefficient of 0.6 and above is acceptable and high (Dikko, 2016).

Table 2

Reliability test

Code	N	Cronbach Alpha	Remarks
PC	5	0.702	Good
MD	5	0.652	Acceptable
CP	5	0.784	Good
DC	5	0.633	Acceptable
EC	5	0.805	Excellent
OP	5	0.682	Good

As shown in Table 2, Cronbach's Alpha of the variables is higher than 0.60; thus, we can say that there is internal consistency among the variables.

Rotated Component Matrix

The factor loadings of every construct that was found to be more than 0.5 are displayed in the matrix. The research criteria have been satisfied. Furthermore, all the items' communalities values have been shown to be higher than 0.5, indicating a very high degree of reliability. Every construct's value is also greater than 0.7, which is extremely valuable (Hair et al., 2012). Parallel to that, table 3 indicates that 24 of the 30 items meet the requirements due to factor loading exceeding 0.5. At the same time, the remaining six components are not included in this analysis due to factor loading falling below 0.5.

Table 3*Factor Loading of the Items*

Items	Factor loadings
PC2	0.567
PC4	0.730
PC5	0.907
MD1	0.776
MD3	0.898
MD4	0.686
CP1	0.762
CP2	0.654
CP3	0.846
CP4	0.623
DC1	0.912
DC2	0.801
DC3	0.785
DC4	0.863
DC5	0.733
EC1	0.656
EC2	0.768
EC3	0.834
EC4	0.622
EC5	0.553
OP2	0.912
OP3	0.707
OP4	0.881
OP5	0.698

Smart PLS-4

Structural equation modelling (SEM) analysis frequently makes use of the software program Smart PLS (Partial Least Squares). Smart PLS uses the partial least squares algorithm to test hypotheses, which is an essential component of SEM. Path coefficients, which show the relationships between the variables in the model, are often evaluated for significance in Smart PLS hypothesis testing. Here, Pricing strategies of organic products are the subject of this study. The following path analysis table describes the P-value of variables.

Table 4*Path Analysis*

Path	P-value
PC-> OP	*** (0.000)
MD -> OP	0.01
CP -> OP	***
DC -> OP	***
EC -> OP	***
EC -> OP	***

Source: Smart PLS-4

Note: (***) denotes p-value significant at 0.01 level of significance, (PC = Production costs, MD = Market demand, CP = Competitor price, DC = Distribution costs, EC= Economic condition and OP = Organic product price)

According to the above table, the P-value of production costs, market demand, competitor price, distribution costs and economic condition are less than 0.01, which indicates that there is a significant role of the variables mentioned above on organic product prices at a 1% level of significance.

6. CONCLUSIONS

The study discovered a strong correlation between the price of organic products and their production costs. This suggests that for businesses to set the price of organic products, it is essential that they comprehend and control manufacturing costs. To maintain a reasonable profit margin and compete in the market, farmers and sellers must account for these expenses. Although there is a correlation between the prices of organic products and market demand, it is not as significant as that of certain other elements. This implies that although pricing is influenced by consumer demand, other factors might have a greater influence. To satisfy customer expectations, firms should nevertheless take market demand into account when determining pricing.

Similarly, Prices of competitors and organic products were found to be significantly correlated by the investigation. This highlights the need for companies to keep an eye on pricing methods used by rivals and modify their pricing plans accordingly. Achieving sustainable business growth requires finding a balance between competitive pricing and profitability maintenance. Distribution costs and the price of organic products were found to be significantly correlated by the study. For firms to optimize supply chain efficiency, effective distribution cost management, including shipping, storage, and packaging, is essential. This emphasizes how companies could optimize their distribution procedures to reduce expenses and ultimately affect pricing.

The study demonstrated a significant relationship between economic conditions and organic product prices. This suggests that businesses operating in Surkhet Valley, Nepal, should be attuned to the overall economic environment when determining pricing strategies. Adapting pricing strategies based on economic conditions can contribute to sustained business success.

7. RECOMMENDATIONS

To compute production costs precisely, businesses need to invest in effective cost management techniques. Labor, raw materials, overhead, and other direct and indirect costs must all be evaluated in this process. Businesses may set profitable and competitive prices for organic products by being aware of these costs and managing them. Track and evaluate rival pricing methods on a regular basis. Companies can make educated decisions on how to modify their prices to be competitive in the market by keeping up with competitors' pricing strategies. Reduce distribution expenses by increasing distribution efficiency. Simplifying procedures for packaging, shipping, and storage can help reduce costs and enable companies to offer competitive pricing without sacrificing profitability.

To comprehend consumer tastes, behaviors, and the need for organic products, conduct frequent market research. Businesses can use this data to help them match their products to customer expectations and make

informed price decisions. Remain flexible in response to shifting market conditions. Businesses should be ready to modify their pricing plans in response to changes in the economy so that they may continue to be profitable while keeping prices appealing to customers. Examine the success of price reductions on organic products. To draw customers and boost sales, businesses could consider implementing promotions into their price plans. They are updated about and in compliance with government regulations pertaining to the price of products and organic farming. Regulation changes may influence market dynamics, production costs, and pricing tactics.

By implementing these recommendations, businesses in Surkhet Valley, Nepal, can enhance their understanding of the factors influencing organic product pricing and make informed decisions to optimize their pricing strategies for sustainable growth.

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