MANAGEMENT RESEARCH AND PRACTICE Vol. 2 Issue 2 (2010) pp: 191-199

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Management Research and Practice

Volume 2, Issue 2 / June 2010

THE SUBSTANTIATION OF THE PRICE STRATEGIES ACCORDING TO THE CONSUMERS' BUYING BEHAVIOUR

Vasile DEAC[1], Gheorghe CÂRSTEA[2], Constantin BÂGU[3], Florea PÎRVU[4]

[1]*Academy of Economic Studies, Piata Romana 6, Bucharest, Romania, deac_vasile@yahoo.com*
[2]*Academy of Economic Studies, Piata Romana 6, Bucharest, Romania, gheorghe.carstea@man.ase.ro*
[3]*Academy of Economic Studies, Piata Romana 6, Bucharest, Romania, bagucmaster@yahoo.com*
[4]*Academy of Economic Studies, Piata Romana 6, Bucharest, Romania, parvu.florea@yahoo.com*

Abstract

The firm's position on the market is determined by the value offered by selling its products or offering its services, the public relations depending on the customers' perception of the value of the product or service offered to them, and the position occupied in relation to the competitors is determined by the level of the product's prices and advantages offered by the competition. The price and the value-price ratio are two fundamental variables of which the firm's survival depends in the competitive environment.

To ensure the fact that the pricing strategy be a long-term success we must define in the early stage of development-research the value-price ratio, having in view that it's possible for a product with an increased perceived value not to be introduced on the market with a competitive price, an aspect that can be approached using the target costs and target value method, a method that allows to define the production costs limits and fixing the target price to avoid the launching errors.

Keywords: price strategies, perceived value, strategic competitive advantage, target value, value/price ration, optimal level of performance.

1. POSITIONING THE PRICE ACCORDING TO THE CUSTOMERS' BUYING BEHAVIOUR

After the early 90s, the price's role and significance radically changed, "the mild competition" which was characteristic to a development context transformed into a "competitive war", in which the price plays a role of competitive strategic weapon. From the managers' point of view, the price puts an increasing pressure in the triangle customer-firm-competitors, as it results from figure 1 (Corey, 1982).

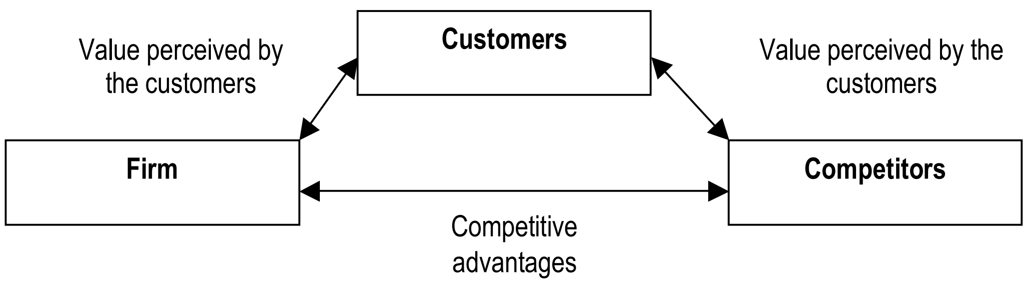

FIGURE 1 - STRATEGIC TRIANGLE

eISSN 2067- 2462

Figure 1. synthesizes in a very suggestive manner the new approach that it necessary. The firm's position is determined by the value offered through selling the products or its services, the public relations depend on their perception of the value of the product/ service suggested, and the place which it will occupy in relation to the competitors is determined by the level of the products' prices and competitive advantages. The price and the value/ price ratio are two fundamental variables of which depends the firm's survival in the competitive environment (Deac, Cârstea and Pârvu,2010).

The classical approach of many firms presupposes concentrating on public relations, trying to identify precisely their needs and to satisfy them as well as possible. They spend a considerable energy to understand the clients' reasoning on each segment, to anticipate their needs and the future tendencies on the market. In the same time, a detailed study is necessary to clarify the relationship with the competitors, analyzing the competitive advantages that permit a firm to differentiate from other and to defend from competitors .

A strategic competitive advantage must meet the three requirements below (Popa, I. 2004):

- to refer to an <u>important</u> characteristic for the customer;
- to be able to be <u>perceived</u> by the customer;
- to be <u>durable</u>, meaning not to be imitated so easily by the competition.

To simultaneously satisfy these three requirements is a difficult task, but the price is one of the key factors over which the firm can act to gain this kind of strategic competitive advantage. In general, it satisfies the first two requirements, but a reduced price can't constitute a durable competitive advantage unless the firm is capable to maintain it on long term (considering the fact that the other competitors can appeal to discounts, thus eliminating the competitive advantage).

Generally speaking, developing a competition advantage involves one of the following actions (Cârstea and all., 2002) :

- offering a performance that can be compared with the competitors', even better, but at an inferior price. On a long term, this isn't possible unless the costs are lower;
- offering a greater value and maintaining this position based on other factors than the price (for example, quality, services, communication, image, etc.). If this strategy is applied correctly, the clients will buy the product at a higher price than that of the competitors.

Establishing the price depends on the adopted strategy, inside a target segment it can be possible a different positioning of the price, the representation of these different positioning constituting a value-price matrix, as it results from figure 2 (Deac, 2008).

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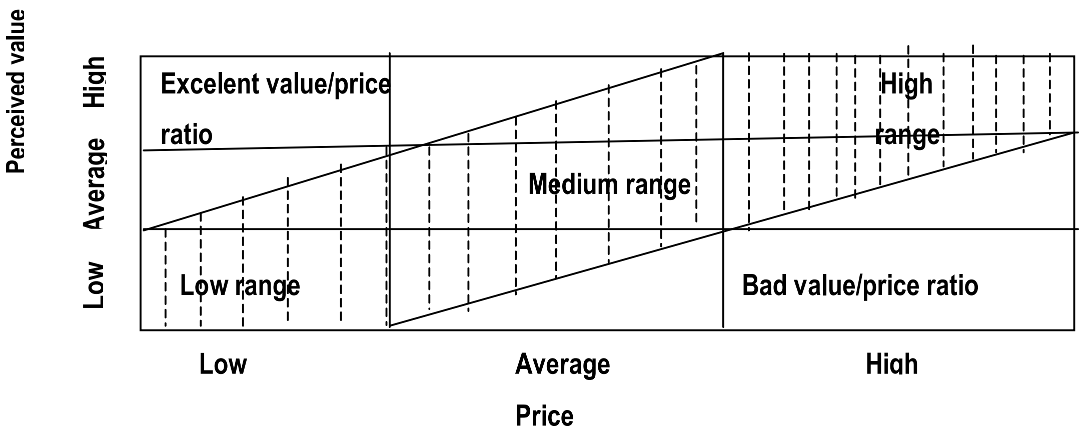

FIGURE 2 - THE PRICE POSITIONING MATRIX

The shaded area corresponds to a coherent positioning of the price, the price and the product's performances (the perceived value) being at comparable levels, in the economic reality, in general, it can be noticed that this principle of coherence is generally obeyed, the prices situating in this area.

The firms that just appeared on the market or who want to increase their share market frequently choose a up right positioning, which corresponds to a low or average price for a relatively high value, this kind of positioning helping them to quickly gain new clients (this strategy is frequently adopted by the Japanese or South Coreean firms, to enter the markets from EU or SUA), but it's essential to determine if the firm can maintain this kind of positioning on long term.

The opposite strategy is the one of the "flash in a pan" product strategy, which aims at obtaining the highest profit and involves establishing an average or high price for a low or average value, which makes the firm obtain substantial profits until the moment in which the clients renounce to a product that is perceived as having a unsatisfying value, in the end the product being put off the market (this strategy was used frequently on our country's market, when the market was "invaded" by a series of products, at high prices, but of an low quality).

A study that was performed in 2008 on 1.300 consumer goods that in two years 22% of the new products are released on the market and 26% of the products are significantly modified. The majority of the new products are launched on the market at very high prices, and this error of positioning determines many products' failure. For a successful launch the price difference must be justified through a supplementary perceived value. For example, in 1998 Colgate-Palmolive launched the toothpaste Colgate Total, the first toothpaste which fights with gingivitis is certified by the American services of hygiene control. In spite of the fact that its price was with 25% higher to the competition, Colgate Total became leader on the market in a period of one year, with a market share of 10% because of the supplementary value perceived by the customers about the new product (Garibaldi, 2009). This supplementary perceived value was due to an efficient communication

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with the buyers, the same campaign of customers' informing and education being practiced by the Colgate company on the Romanian market, too, in the '90s (having in view the campaigns from the kindergartens and schools), which allowed it to gain the battle with Aquafresh and to become a leader on the market.

The Euro Disney Fair from Paris is a good example of mistaken positioning of the initial price. When it was launched, it practiced a high pricing strategy, during the first three years the number of the visitors and the number of guests of the hotel being a lot inferior to the predictions, the society of exploiting the park suffering losses and being in the bankruptcy. As a consequence, at the beginning of 1994, the price had been reduced with around 30% and, as a result, the number of the visitors increasing, in 1995 enlisting profits in the fair, whose name was changed in Disneyland Paris (Simon, Jacquet and Brault, 2006).

In order that the pricing strategy be a success on long term it must that, from the early stage of research and development, to be clearly defined the value/price ratio, having in view that that a product with a high perceived value may not be possible to be introduced on the market with a competitive price. It's the case of firm Nestle when it launched a product named Café Noir on the market, presented in a luxurious black box, but whose fabrication costs were so high, that the product was launched at a prohibitive price, to be taken from the market and offered again to the customers in a simpler packaging.

When a firm attributes a supplementary value to a product, a fact that leads to a very high price, that firm takes the risk of surpassing the customers' exigencies, the superior performances not justifying the difference in pricing. In 1997, Nintendo, producer of video games playstations and one of the leaders on the market, through a bad positioning value/price launched the 64 bits console at the price of 300€,while the Playstation 32 bits, created by Sony, already on the market, cost 230€. After three months from the launching, Nintendo had to align his with the Sony Playstation's prices, the superior performances of the 64 bits technology being considered by the customers insignificant (they continued to buy Playstation 32 bits) and wasn't enough to make them pay a difference of 70 (Deac, 2009).

2. THE TARGET-VALUE AND THE TARGET COSTS

The examples presented above highlight the importance of understanding the perceived value and of the supplementary costs from the early stage of researching and development, aspects that can be approached using the target-costs method and the target-value method, a method that allows defining the limits of the production costs and establishing the target price to avoid the launching methods. The respective method is based on reversing the usual process that presupposes the product's projecting, determining its costs and, then, according to the profit targeted, learning the answer to the difficult question: "can we sell it with this price?"

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In figure 3, it's presented in a scheme the procedure of determining a product's target price based on the method of value and target cost (Bâgu and Deac, 2000).

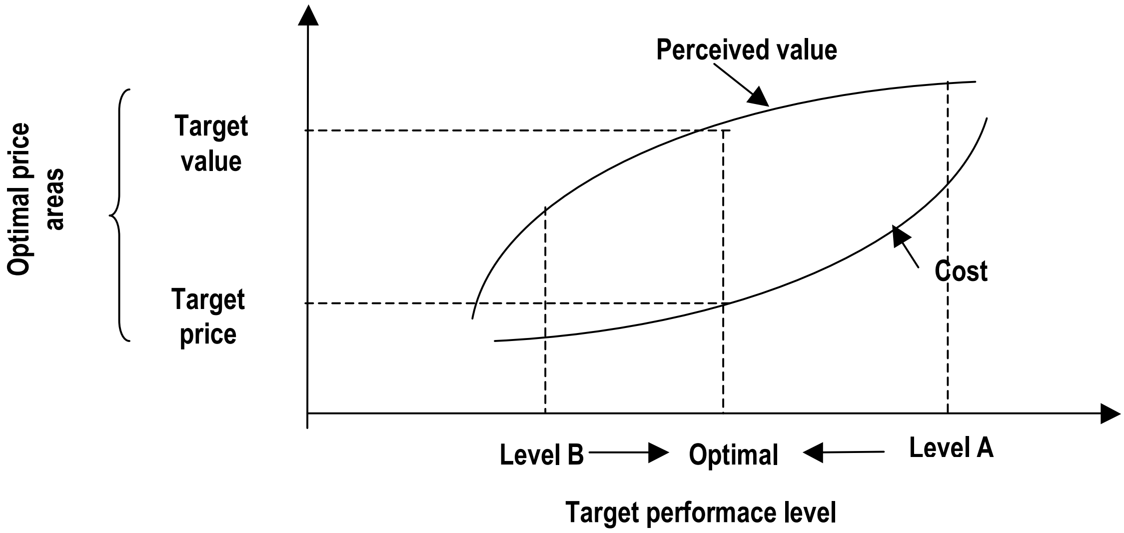

FIGURE 3 - THE METHOD OF THE COST AND TARGET VALUE

The rate of the curve perceived by the customer (his willing of paying a certain price), according to the performance level of the product or service that was offered shows that this doesn't increase proportionally with the performance level, its increasing being less and less significant while the performance level raises. On the contrary, the cost's curve is on an increasing slope, which shows that this rises faster than the performance.

Therefore it results that, from the economic point of view, it isn't too relevant to develop a product at the higher performance level. It's more important to establish the target value and the target-cost for which the distance error from the two curves is maximal, the level of target-performance representing the level for which the perceived value is the best perceived and the flexibility of the price is the greatest (Pârvu, F. and Olaru,S., 2008). In consequence, if the product situates at the level B of performance, in order to exploit the best the perceived value of the clients, which determine their will to pay, it's imposed to increase the product's performance level, and in case in which the product it at level A, it's imposed a decrease in the level of performance.

The company Compaq Computer used this method in order to create the line of personal computers Prolinea. Leaving from a target price established by the marketing department and a profit objective established by the company's management, the product's project party determined the level of performance and the target-costs in which the production must situate in order to practice the respective price. From this moment all the involved persons concentrated on achieving these target-costs. The designers' team designed a computer with fewer and simpler prices, the production was reorganized to reduce the specific costs and the supplies

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found the modalities to produce the components of a certain quality at the prices that were solicited. Limiting itself to the suggested target-price, Compaq company was able to practice the target-price and to posit on the market, the sales and the profits substantially increasing (Kotler and Amstrong, 2007).

3. THE CUSTOMER'S IMPACT ON ESTABLISHING THE PRICES

A lot of people think that a company can be considered successfully as long as its customers are contended, satisfied with the products offered, many managers concentrating their efforts in this direction. But this vision is a totally wrong one, **the customer's satisfaction being pretty easy to obtain, offering a bigger value and a smaller price.** The customers' expectations seem to be planned. When they are asked, they answer like an echo: they want more from the same thing, at the same price. This way of approaching things, even if they can determine a sale increase, cat be considered a veritable success. A lot of clients would choose with difficulty and find a reasoning for their choice between winning 10 lei with 100 clients and 100 lei with 10 clients. We think that the purpose of determining the prices strategically, having in mind the client's impact, is represented by practicing more profitable prices, understanding their perceived value and not exactly increasing the sales' volume.

The action taken by a lot of sellers, fixing the prices according to the value which the clients are willing to pay, not according to the real value of the product, can be perfectly suitable when it wants to achieve an immediate selling objective and when they aren't interested in the profit (or in a crisis context, like the one we are right now, when people want selling's stimulation). A recent and extremely eloquent example is the one of the real estates, in which, even if for the buyers the real value of a house (and especially when you don't have where to live) is raised, they aren't willing, considering the financial crisis, to pay that value, the sellers reducing the prices a lot to stimulate the sales.

The customer's reaction, especially when the prices are significantly reduced, can be different. If it's a product from a high category of prices, the clients can think that the product is at the end of its life cycle, that it might have some problems with the quality, that there are some financial problems in the company and, not after a long period of time, to renounce at the respective business (risking that in the future not to be able to offer the exchange pieces, if needed), or it can be thought that the price lowers, a reason for which the client think that it might be worth to wait a little to see what happens (how it happens now, in the real estate business).

This kind of action in understanding the value perceived by clients can be practiced in the case of other innovative products, where it wouldn't make any sense to spend a lot of time and money to try to understand which is the real value and the price which the potential buyers would be willing to pay for a product they had never heard about. Imagine what is the real value of the microwave oven perceived by a housewife when it

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2067- 2462

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first appeared and what its value is today! Being aware of the fact that, in an objective way, the potential clients can't realize the new product's value, when a product is launched, it can be practiced a price that is inferior to the price that product deserves to have, with the purpose of questioning the clients and of correctly understanding the product's value for the satisfied customers and the communication of this value to the other potential clients (Nedelea and all., 2008).

Integrating the client's behaviour in elaborating a pricing strategy, another important aspect that must be held in mind is the fact that, on most markets, the buyer isn't satisfied with the catalogue price proposed by the seller, trying to negotiate the price (Nagle and Hogan, 2008). Having in mind this aspect it's necessary to be established in what extend the direct sales agents have a certain authority in changing the price and what is the area of negotiation.

In the direct practice there are the following circumstances (Nicolescu and all., 2003):

- the direct sellers have a wide decisional power in fixing the price (in some circumstances, the price decision being in totality theirs);
- the direct sellers have a limited decisional power for negotiating the price and granting a discount (according to the hierarchical level in which they are);
- the direct sellers possess no kind of authority related to the price (all the modifications of the catalogue price must be approached at the top level);

In many cases a lot of opportunities of increasing the incomes and implicitly the profits because of the lack of authority of the direct sellers in negotiating the prices are missed. We can't imagine an action of negotiating the price with a potential seller in a hypermarket when the client is surprised in front of the shelf, reading the price of a product he wanted to buy and eventually he renounces at that product, considering that the sacrifice he should make is too big. Things are different in the case in which a client enters late at night in a hotel and is surprised when he reads the lodging prices displayed at the respective hotel's reception. Not a long time ago, a hotel's manager in a renowned mountain resort asked the shareholders to give him the chance to apply flexible tariffs, negotiating directly with the clients. He argued that, offering a client lodging at a lower price, suggesting him to renounce the breakfast that was included in the price (not to let him think that negotiating a lower price is something that can be obtained anytime and very easy), this reduced level of price enters directly in the profit (the variable costs being negligible). Considering that the hotel has a lot of empty rooms and there isn't a real possibility that the demands exceed the available capacity of the hotel, nobody could argue that, offering a discount to a client, the hotel missed the chance of gaining a higher price from another client. This logic is perfect and the argumentation is correct, but the decision of granting some

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decisional power in offering discounts to the people who are in direct contact with the clients (being able to see their buying behaviour) isn't that simple as it seems at first.

First, the person who is in contact with the client must be learned and must possess the necessary abilities to evaluate the real possibilities of the client to pay (Monroe, 2003). Also, when it comes to discounts, these shouldn't influence the result of the firm on the whole and it must be determined in a pretty rigorous way the area of negotiation. But, even in cases in which this area of negotiation isn't determined (in the case of the respective hotel), conflicts of interests at different hierarchical levels can arise. In great majority of cases, the variable part of the direct sellers' income is established according to the sales' volume (the turnover), being interested to maximize it and, in consequence, they're interested in discounts, an aspect that can influence in a negative way the profit and the profit margins. Even if in theory this conflict of interests can be eliminated, paying the variable part of the sellers' income according to the profit margin, not to the sales' volume, in the practice, this system is less desirable for the top management, because it introduces an enormous risk, which is the risk of revealing the profit margins of the products and, in consequence, an increased pressure on the prices, which are considered too high. A more important aspect, beside the one mentioned, is the one of the way the client perceives a discount, when it's offered to them (we don't refer to the business-to-business transactions) and the future possible negative aspects (for example, for the future the faithful clients of the respective hotel might feel offended hearing that, in cases, it practices also reduced prices).

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