PRICE CHALLENGES IN A CONTEXT OF CRISIS

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ABSTRACT
In the competitive environment, price is always perceived by stakeholders as a great challenge and even a source of conflict: customers complain that it is too high, competitors use it as a weapon of attack to gain competitive market share, vendors exercise a high pressure over it, relying on high bargaining power they have, all of which are an unavoidable reality of modern competition. Nobody can set prices effectively without first understanding cost, understanding cost is probably the most challenging aspect of pricing, particularly in a context of crisis. For a customer to buy a product its price must be at least tempting, if not convenient, customers hardly resisting sellers' challenges, like "70% discounts". "Sexy Prices" etc. Integrating aspects related to competitive reactions, the major task of management is to understand the conditions triggering a "price war" (a direct challenge).

KEYWORDS: *pricing strategy, relevant costs, irrelevant costs, perceived value, economic sacrifice, psychological sacrifice, "price war".*

In recent times it is often is said, and especially in our country, that the lack of economic performance has its justification in the absence of relevant strategies or their implementation in situations where they exist. The practical approach to strategy formulation, given the company's mission, derives from the main strategic objective to be achieved by that strategy, objective different from company to company, although competing, and different from one period to another, even and in the same company. Thus we have profit-oriented objectives (profit maximization, which is the ultimate goal of any economic company, obtaining a certain level of profit, company survival (especially in a context of crisis and intense competition, etc.) sales-oriented objectives (achieving a certain volume of sales, achieving a certain market share, etc.) etc. But whatever the strategic objective concerned, price is critical in achieving it and in general in the success of the company's overall strategy, not few are situations where a wrong price strategy undermined the company's overall strategy.

In the competitive environment, price is always perceived by stakeholders as a great challenge and even a source of conflict: customers complain that is too high, competitors use it as a weapon of attack to gain competitive market share, retailers are exerting a high pressure, relying on the high bargaining power they have, all of which are unavoidable realities of modern competition. A survey in Western Europe and USA, among marketing managers, on the most difficult problems of their work shows that item price is the first cited [7], far outpacing issues such as competition, market saturation, promotion, etc.

The question that arises is: what should be the price level of a product for the company to compete in the market in a crisis context?, a question that represents the biggest challenge for the management of a firm. There is no accurate method of pricing to ensure sustainable success in the market, but **the fact is that the price level should be set taking into account the following main factors: the company's objectives (in a context of crisis, survival), demand and supply, production and sales costs**. A profitable price level, given the objectives cannot be determined from a simple mathematical calculation of costs, given that it is not known how the clients will react, but nor can it be fixed by customers, as long as competitor response cannot be predicted. It follows that none of these factors can be determined without taking into account the others, the pricing mechanism being very complicated and subtle, given its many effects.

As noted above, the cause of many failures can be attributed to a lack of strategy and, considering this aspect, it is very important for Romanian companies to firstly prepare global strategies, that would provide them with realistic development opportunities, on longer intervals of time, in a more complex and powerful national and especially international competitive environment. This overall strategy, which is able to provide articulation of process and structural components of the company in a "whole" and give it features of a complex, open and organically adaptive system, form the basis of partial strategies (functional) [6], which operationalizes overall strategy, pricing strategy being an important component part of such strategies.

In economic reality very few managers look on pricing from a strategic perspective, this approach being treated as an ordinary, routine issue which the company is facing, to solve new problems arising and to adapt to a given situation (if the shop next to mine, which is a competitor, put a poster with the "50% discount" then I shall do the same as not to lose), as price decisions taken rarely fit in the strategic decisions.

With companies changing market behavior by transitioning from focusing on production phase behavior (the only objective was to produce) or product (products that were made by the producer and are believed to satisfy customers) to market-oriented behavior (production of products that provide a degree of satisfaction expected by each market segment), we might think that everything undertaken by a company is for the exclusive benefit of customers, hence the phrase "our customer, our master", but companies are not charitable organizations. **In the strategic approach to pricing there can be only one final major objective - profit maximization**, which is also the fundamental objective of any economic organization and all sectors of the company, through their particular strategies must contribute to achieve this objective.

The more delicate problem is that in the company, at the management level of departments directly involved in this strategic price setting, a uniform view on the practical aspects of action doesn't exist. We could say that, in contrast, often are contradictory opinions, each compartment imposing certain constraints on price strategy. Sales compartment advocates on lower pricing arguing that in this way they will immediately obtain an increase in volume and sales transactions, which will almost immediately result in higher profits, the financial department supports the strengthening and preservation of the minimum contribution margins to cover costs and achieve planned profits, dictating a minimum price level and the marketing department believes that price, as an instrument of markering mix should be used selectively in combination with other tools, seeking big profits in the long term, even at the risk of lower profits (or losses) in the short term. Each is right in his view, but we should not forget that in a company each compartment has its own objectives, which may be in conflict (often only apparent), with the objectives of other departments and employees within the compartment may have individual targets whose achievement does not always lead to a company's major objective.

Regardless of the size and competitive position of a company, pricing strategy must be based on three fundamental principles [5]: it is based on value, it is proactive and it is determined by profit, these principles represent pieces of a puzzle which, although containing only three parts, is very difficult and complicated to solve, constituing another challenge for company management, but whose correct solution leads to a more efficient pricing approach.

Nobody can set prices effectively without first understanding the costs. Understanding costs is probably the most challenging aspect of pricing, particularly in a context of crisis [1]. Understanding costs isn't about just knowing the total amount. It's easy to know which are the costs of raw materials, salaries, overhead costs etc., **but understanding the costs involved implies much more than their knowledge, but also the knowledge of how they will change and their impact on sales resulting from decisions in establishing or amending prices**. In business management, the typology of production and selling costs is much different from the theoretical perspective of political economy or the rigid perspective of accounting. Taking into account this issues in terms of elaborating strategy prices acquire a different meaning, being divided into **relevant costs and irrelevant costs**. In a company some cost categories remain unchanged (in total) regardless if it sells a smaller quantity at a higher price or a higher volume at a lower price. Accordingly, these costs do not affect the relative profitability of a price compared to other, being considered irrelevant costs. Only costs that increase or decrease (in total) when changing prices affect the relative profitability of different pricing strategies, these costs are considered relevant costs.

Analyzing price by taking into account the customer's purchasing behavior, we believe that **this represents the total sacrifice agreed by the customer to purchase a product or service, the customer systematically comparing this sacrifice with the value assigned to a product they want to buy. Price and perceived value are the two major foundations of all economic transactions**. This sacrifice fully agreed by the client, in our opinion, has an objective side (consisting in an **economic sacrifice**), but also a subjective side (consisting in the **psychological sacrifice**). The economic sacrifice agreed by the customer is given by all the costs that they incur to obtain and use that product, such an indicator consists of [5], the purchase price of the product, plus the additional costs of implementing the service (transport, handling, installation), and costs of using it (maintenance, repair, assuming the risk of failure or poor performance). Psychological sacrifice, unquantifiable, but with a very large purchase decision in some situations, is given by the discomfort state that a buyer may have when he decides to purchase a product for which, given various reasons, had to give up other products or options that he had to invest his available money. In a crisis it's role becomes major in the purchase decision

Many believe that a company can be considered successful when its customers are more happy, more satisfied with the products offered, many managers focus their efforts in this direction. However, this view is entirely wrong, customer satisfaction can be very easily obtained by offering a greater value and a lower price. Customer expectations look as if programmed. When asked, they respond like an echo: more of the same, the same price. This approach, although it can increase sales, can not be considered a true success. Many could hardly choose, and find a justification, between the choice of winning 10 lei from 100 customers or that of winning l00 lei from 10 customers. We believe that the purpose of determining prices strategically, taking into account customer impact, **consists in fixing more profitable prices by capturing value and not necessarily increasing sales volume**. For a customer to buy a product its price must be at least tempting, if not convenient, customers hardly resisting sellers challenges, like "70% discounts. "Sexy Prices" (promotional slogan for the Sephora chain of stores) etc..

If we add to that a context of crisis, like the one we cross now, the value related elements previously presented get a new meaning. Customers inform better, negotiate tougher, show more prudence, set their priorities better, etc.., And even if customers understand the value of the product correctly, and in a normal context being prepared to pay the price demanded, in a context of crisis this total sacrifice can be perceived by some clients as too much and, therefore, refrain from buying the product, although the price is lower. You ask, naturally, the question of **why, in the current economic and financial crisis, prices of many products in our country, have not decreased, but in contrast, have even increased?** A short answer is: because in Romania you can sell with higher prices, this issue is already addressed by the author [2].

Integrating aspects related to competitive reactions, price strategies are becoming more complex and require a large quantity of accurate information regarding the competitor's reaction to a given change in price or to the price level, all activity areas and all markets can be the scene of a "price war ". The main task of management is to understand the conditions triggering a **"price war" (a true direct challenge)**, but also to identify the ways that they can use to achieve desired objectives with regard to the competition. For this purpose, **correctly anticipating various business strategies effects not only on sales volume, market share, cost and its final results, but also on competitors is vital**. Depending on how these elements are influenced competitors will react one way or another.

The place a company will occupy in regard to competitors is determined by the strategic competitive advantages that the company will be able to develop, but **rarely can price be an element of strategic competitive advantage**, as shown before. A price below the competition, or an approach to reduce the price, either explicitly or disguised in various forms (discounts, promotions, higher payment terms, etc..) can provide an immediate increase in sales and profits, proving an effective short-term tactical maneuver, but may not be a successful long-term strategic approach by inevitably registering a deterioration in profitability in that domain. **Competitive pricing is usually a "negative sum game" and the more intense it is the more it will undermine the market value on which this competition takes place.**

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