CONSIDERATIONS ON THE PRICING STRATEGY FOR THE PRODUCT LINE

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Abstract
Many of the companies offer for selling a product line, that is a closely interrelated products group, which operates in a similar manner, there are generally sold to the same customer groups, there are distributed through the same type of distribution channels and ranges between the same price limits, which makes the process for establishing the price strategy to become extremely complex. Throughout this article, I have highlighted the role of the price in the firm's strategy, I have presented some price strategies, commonly used in the product lines, and in the end I have tried to emit a series of predictions on the price strategies under acceleration of the globalization process.
Keywords: Price, Product, Profit, Strategy.

1. INTRODUCTION

In a competitive environment, the price is always perceived as a great challenge and even a source of conflict for those involved in the market. For the buyer, the price is the economic sacrifice made by him/her to buy a product and therefore the price must be at least tempting, or convenient.

Integrating the aspects of competitors, pricing strategies become more complex, and in this context, all fields of activities and all markets can be the scene of a "price war". The task of the management is to understand the outbreak of such a war, because the more intense the pricing competition, the more undermine the market value on which it takes place.

To be successful or simply to survive the changing economic environment, companies need to know how to organize their work and how to set priorities that can be monitored, measured and completed in a timely manner (Cioană, 2011, p. 74). At the moment, the role of decisions, strategies, policies and programs is essential in increasing the chance of survival and success of the organizations (Vlăsceanu, 2014, pp.35-36).

Considering the current behaviour of the companies focused on the market, it is natural that the price to be based on the product value for the buyer. Actions on estimating the value, its communicating and establishing the differentiated pricing policy are elements of a strategic approach to pricing.

An efficient pricing strategy involves finding a compromise between volume and margins, leading to *profit maximization* and an efficient coordination of actions, so that by lowering the price to be able to capitalize on an opportunity to increase the sales volume, or when a increasing price is more efficient, to be able to give up at the volume and the market share.

2. PRICE IN THE STRATEGIC APPROACH OF THE FIRM

Within the competitive competition, the companies have sought to increase the operational efficiency, so, to do the same thing better than its competitors. This growth is necessary but not sufficient, because the competitors can easily imitate the management techniques. Practically, the more clearly a company defines its strategic marketing objectives, the easier it establishes the pricing strategy. Companies can have very different strategic goals, such as: profit-oriented objectives, sales-oriented objectives, goals such as survival of the company, or market dominance through the product quality. But, whatever the strategic objective targeted, the price plays a decisive role in achieving this objective and in ensuring the success of the company's overall strategy. For example, if we consider a target of profit, factors that influence its size are: the cost, the price and the sales volume. Out of these three factors, the price is essentially the primary factor.

There isn’t an accurate method of pricing that ensures the sustainable success in the market, but it is certainly that the price level should be established, taking into account the following factors: the company's marketing objectives, supply and demand level, production and distribution costs. Pricing is a science and an art, which is based both on the precise calculations and solid reasoning and the elements based on intuition, hunches flair and experience.

To perform correctly a step for pricing a product, first, it must be understood what the product is. Thus, “a product is something offered on the market, in order to capture the interest, purchase, use, or consumption and that can satisfy a need or a desire” (Kotler, Saunders, Amstrong, Wong, 2007). Based on this definition, any product can be structured on several levels, as follows: the basic product (for example, buying a car), the next level is the effective product, around the basic product (buy a Ford), and the last level is the improved product, formed around the effective product by offering additional benefits such as: facilities purchase, free transport, warranty for a period of time, fast repair services, free permanent telephone consultation or fast intervention in cases of arising the problems. For the customer, all these additional benefits satisfied and delighted him, and they become an important part of the product as a whole, influencing the willingness the buyer to pay.

In developing the pricing strategy, we must consider the products destination, which can be classified into consumer products and industrial products. There are situations where the same product belongs to both categories, the classification being made according to the purpose for which the product was purchased. For example, if a buyer purchases a car for personal needs, it is a consumer product and in case it is used in a business, it is an industrial good.

Manufacturing a product involves a number of costs (research and development, designing, production and sales), which determines the cost of that product, which will be recovered by the proposed price. A certain level of the proposed price, provide a perception and a number of information to the consumer. For example, a very low price can be interpreted as a consequence of a poor quality, with the risk that the product will not be sold, while a high price may be associated with high quality, high reliability, uniqueness or distinctiveness.

Consequently, in the mutual influence price - product will be correlated the price, the product features and other elements that determine the value perceived by customers, an essential prerequisite for accomplishment of buying selling.

Price is a very effective tool for influencing the sales volume, market shares and profits, however, it must be taken into account that the decision to propose a price on the market, involves a number of risks. A wrong estimation of the customer feedback and / or competitors, may cause consequences difficult to overcome, or even irreparable.

Although the specialists in the market consider that the price is not the most important element of the competitive strategy, in the business management it has a decisive role because a competitive price will ensure the success of any business.

The global strategy, which is able to ensure articulating of the procedural and structural company components in a “whole” and to impress the features of a complex system, represents the foundation of the partial strategies (functional) (Popa, 2004) that operate the global strategy.

In the strategic approach to pricing, there can be only one major objective, namely the maximization of the profit, which represents the fundamental object of any business organization. The strategic approach to pricing requires a new kind of relationship between the key departments of an entity in order to achieve a balance between customer need to get value in exchange for the paid price and the company's need to cover costs and make a convenient profit.

Regardless of the size and competitive position of the companies, the pricing strategy should be based on three fundamental principles (Nagle, Hogan, 2008):

- is based on the value;
- is proactive;
- Is determined by the profit.

No one can effectively determine the prices, without to first understand the costs. Understanding the costs involves knowing their levels, how they will change and impact on sales resulting from establishing the decisions or changing the prices. A first step is to identify all the relevant costs, those that determine the impact of determining the decisions/changing the price on the profit. Only costs that increase or decrease are considered relevant, when the prices are changed affecting the relative profitability of pricing strategies.

Breakeven or equilibrium point is given by that volume of production and sales, for what the income level is equal to the spending, so, the threshold at which losses cease and begin to run the profits.

Based on the relation:

$$CA = CT$$

Where, CA = turnover;
CT = total costs.

Obtain the relation for calculating the breakeven point:

$$Q_r = C_f / (P_v - C_{vu})\text{, in which:}$$

- Q_r = breakeven point;
- C_f = fixed costs;
- P_v = unit selling price;
- C_{vu} = unit variable costs.

In conclusion, it is clear that although the price may be a marketing quick changeable tool with immediate effect, the objectives of a differentiated pricing strategy should be thought on the long term.

3. PRICING STRATEGIES FOR THE PRODUCT LINES

Many of the companies offer for selling a product line that is a products group closely related between them, which operates in a similar manner, there are generally sold to the same customer groups, there are distributed through the same type of distribution channels and varies between the same price ranges, which complicates the process for establishing the price strategy.

In formulating the pricing strategies, the companies must consider the length of the line and features that differentiate the items. The length of the product line can be increased by extending or completeness. Extending of the product line occurs when the company develops its product line beyond the current assortment range and can be extended downstream, upstream, or in the both directions (Deac, 2009).

Extending downstream, take place in circumstances in which the company has high or medium range products and consists in widening downwards of the line of products. Such an approach can have various motivations, such as covering a niche of a market to prevent the emergence of a new competitor. However, extending downstream presents some risks, such as the takeover by the new product part of customers purchasing other products of the company, or the risk of damage to the image of the existing products, located on the upper level of the market.

Companies with low or medium range products may try to expand upstream penetrating the superior area of the market, attracted by higher profits, by the growth of that market segment, or from desire to develop the product line, thus providing to the current products a prestigious image. And this type of extension presents risk, because the competitors will react and the potential customers may not be convinced that the new entrant will provide a better quality.

The companies with medium range products may decide to develop their product line in both directions, but they will have to set prices so as to maximize the profits of the whole products. Pricing is more difficult because the products from the line have different costs and facing application and different degrees of competition.

In the approach the pricing, the company has to take into account the existed cost differences between the products that make up the line, the consumer evaluations about the various attributes of them and the competitors' prices. If the price difference between two successive products is low, buyers will purchase the most advanced product. This can lead to increased profits if the costs difference between the two products is less than the price difference. If the price difference is significant, many buyers will go towards the cheaper product.

For example, Mercedes-Benz Company, traditional positioned with high range cars, entered on the small and medium cars segments, whose price is considered modest compared to prices of other models. This strategy has allowed to the company to expand the range of price and to exploit better the will payment of the customers. Conversely, Toyota and Nissan companies have completed their range of cars targeting the upper segment, introducing premium brands such as Lexus and Infiniti.

If in the presented examples, the product and pricing strategies aimed at attacking the new segment of buyers, the strategy of broadening its product line by filling the line can aim and attract new customers, belonging to the same segment, which might be tempted by the new product. In this case, the issues of pricing strategy are more delicate, considering the prices are relatively close in the range and can involve a serious risk, namely, the phenomenon of cannibalization of a mark by another own brand. As examples, we show cases of the Volkswagen Polo brand, which conquered the market shares from the Golf or Ford Ka, which substantially reduced sales to Ford Fiesta. Another major risk in broadening the product range by introducing low range products is represented by the damage of the image brand. An illustrative example in this regard is the one of Porsche, which on the whole period of its existence, has focused on the segment of financially successful buyers. However, in the mid-80s, the company has strayed from this concept, planning an increasing of the sales volume by 50% and focusing on lower-priced models. The possibility to buy a Porsche, at a price close of a typical car has attracted many new buyers, the company suffered a profound change, moving from the class car market to the regular ones, change that deeply affected the image of the company, creating confusion among the loyal customers, but very demanding. This aspect and powerful competition of the new sports car Japanese models, led to a further decline in sales.

At that time, the Porsche Company has endeavoured to restore wrinkled image and regain the customer confidence, redesigned their models and aiming back to the class car market. To eliminate this risk, one solution would be to use another brand for low range products.

Conversely, when broadening product line is made up by introducing high range brands, the potential benefits of this strategy covers the entire company's products, through increasing the brand prestige. Typically, this way of broadening product line is more difficult to make, because the company is marked by a certain perception of its historical positioning on the low or medium price segment. Consequently, the company should decide whether to broaden the line will appeal to their own brand, or if it uses a totally new brand for the high-range product. An example is the Honda Company, with the Acura model, which in less than a year after its launch, became the best selling luxury car in America, displacing the Mercedes Company, or Toyota Company, with the new luxury model under the new Lexus brand. Another approach, less risky, of broadening the product line up is to buy already prestigious brands on the market, such as the takeover by Ford of the Jaguar brand, or takeover by Volkswagen of the Bentley and Bugatti brands.

Although the price image, in the mood of the customer, is difficult to exploit, the recent researches emphasize the fact that before to form the price image, the customers notice a wide range of prices and

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products, giving a great importance to the consistency of the range of the products price, than focusing on a few products, which benefit from promotions or special offers.

4. CONCLUSIONS AND PREVISIONS

Accelerating the globalization, internationalization of firms and increasing the independence of the markets, make the approach of the price strategy to turn into a genuine dilemma. On the one hand, the price must be fixed for a number of different markets, and on the other hand, if until the creation of the EU it was able to speak about the separate and heterogeneous markets with the sustainable tailored products to the specific national needs, currently these markets become increasingly similar and interdependent.

In the European market, when it is possible a delimitation of the national markets, it is possible to establish an independent pricing strategies for each country, but adopting the single European currency by all countries, will require in the near future, to define a price strategy at the European level.

Purchasing behaviour, purchasing power, competitive structure and the distribution channels differ from country to country, aspects that creating opportunities for adapting of the pricing strategy to these features and to take advantage of the potential benefits. Faced with the phenomenon of globalization, the unique price is rarely the best solution, imposing finding the best compromise between differentiation and standardization the price.

In the last years, at the European level, in many markets, the parallel imports and the internationalization of the sales have determined an erosion of the prices, in their downward, as a result of the product flows from countries with low prices to countries with high prices, where they are resold. When referring to Romania, the paradox is that following the entry into the EU, we are witnessing of a reverse situation, so, the flows of goods from countries with high prices, enter in our market with a low purchasing power, which has led and will lead to increase the market prices.

This variation of the price in the EU countries highlights the diversity of demand-price elasticity and using the price as a competitive weapon. For an effective exploitation of this different potential from one country to another and for the implementation of the pricing strategies, taking into account the structural upheavals related to the euro and the EU countries, should consider the following issues (Beju, 2000):

- demand curve in that country;
- differences in price, elasticity - internationally different price;
- distribution structure;

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- specific entry barriers;
- Volume and the market potential, specific growth rate to each country.

For defining a European strategy it will have to address the following issues (Deac, 2009):

a. identifying the current and future competitors in each market segment;
b. evaluating the strategies of competitors;
c. determining the positions of competitors;
d. Analyze the strengths and weaknesses of competitors to identify the competitive advantages.

Another trend observed in Europe, which has left its mark on the Romanian market is the development of the large sales network and increasing their power in determining the pricing strategy. The vision of this great network, that militate for reducing the prices, putting increased pressure on the manufacturer is to impose at the European level, the best prices available in Europe. The objective of these networks is to achieve a higher profit, based on the increase of the sales volume.

In general, a differential pricing strategy by the country is more advantageous against a unique international price strategy. A pertinent analysis of the demand curve in each country, taking into account the perceived value and willingness to pay of the customers, according to the price, will allow maximizing the margins and profit, even if a price reducing strategy, which is a simple and less expensive solution. A total freedom in pricing causes greater differentiation of the price between countries.

Within the European Union, considering that some countries haven't wanted to adopt (Great Britain), or have not yet adopted the euro (Romania), another issue, which should be considered in developing the strategy of price, is the fluctuation of the exchange rate between the euro and the currencies of those countries. Fluctuations in the foreign currencies must be integrated in the pricing strategy because they can significantly change the price positioning such a competitive item and unbalance the market. In case of great fluctuations of the exchange rate, maintaining a constant price is not a solution, as any attempt to maintain the same margin in the currency of provider is not recommended. The optimal solution is the most often, a compromise between the two actors, so that, both the client and the supplier to share the risks, but and the potential gains.

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