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THE RIGHT PRICING STRATEGY IN A TIME OF ECONOMIC CRISIS

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ABSTRACT

The purpose of this paper is to identify and direct price specialists towards the price strategy most suitable to their specific company situation in the conditions of a global economic crisis and a shrinking market. Each marketing specialist dealing with market needs research and assisting company managers in making the right decision regarding a product or service will find it essential to have a notion of: how to make a product's price acceptable and attractive in the eyes of potential customers, how to optimize expenses, and, especially, how to make a company's pricing strategy work and generate increasing income. The right answer to these questions is even more important at a time of economic crisis and limited consumer abilities. The idea or this paper is to look at and analyse the world experience in the sphere of price formation and price policy and draw a universal model of company price behavior at a time of crisis.

Key words: price, price formation, efficiency

The definition of crisis most commonly encountered in specialized literature associates it with the process of economic downturn, resulting in the bankruptcy of a significant number of companies that have not succeeded in resisting market pressure so as to become the most competitive ones and to continue their profitable existence by skillfully employing marketing tools, and namely the price (by applying correct price strategy). According to the Bulgarian interpreting dictionary, the term "crisis" is defined as follows: a period of sharp turning point / dangerous situation / development of something; severe lack / shortage of something (1). From economic point of view, the crisis relates to a prolonged period of time in which the GNP growth is lower, even lacking at all, there is high unemployment and limited volume of commerce and investments.

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The global economic crisis of the last couple of years, still dominating in the world, which started in 2007 and led to severe consequences for the world economy, finances and banking system is a huge challenge for all market participants. The struggle to stay in business is extremely fierce, and it is inevitably linked to the use of the entire arsenal of marketing arms against competitors. Proper pricing policy and strategy represent the thin red line between survival and bankruptcy. The purpose of this report is to make a short analysis of the most frequently used pricing strategies, and to attempt to come up with a universal model for price behavior during economic crisis.

Price is not just one of the marketing mix elements, but it is also the only one that's not related to costs, quite the contrary – it is a source of company proceeds, it generates income, and the firm's financial results rely to a great extent on its level. The pricing policy run by a particular company, resulting in the formation of a product /individual, company/ price, includes a multitude of activities for the transformation of a given calculative price, generated through elementarily calculation of the expenses incurred in production and marketing /prime costs/ and the desirable margin, the latter being the award for entrepreneurial skills and efforts, into a real and acceptable by the market participants price. The pricing policy is aimed at making the product salable; on one hand, the price should look attractive to the prospective buyers, and on the other – it has to conform to the quality characteristics it possesses, and it should deliver to its consumers a certain product /high quality = high, but acceptable price/, and on the third hand – the price should bring the company the desired profit.

In times of crisis, it is the consumers who dictate companies' behavior in the market – not only in terms of price, but also in terms of their overall marketing conduct. Prices are the economic category on which the final consumer has the highest requirements – prices should match product quality and be within consumer's financial possibilities, so that his necessities are met within a restricted level of income. Hence, in an economic crisis situation, what could have the biggest effect in attracting and preserving consumers' attention on a product are correct company decisions concerning prices. Price reduction is perceived by the customer easily and well as compared to other actions stimulating consumption, such as different bonuses: basic product plus an extra one free of charge; additional services like free delivery, free installation, complete warranty and after-sales service. There is a great variety of definitions for price strategy. A lot of authors ignore it as an autonomous phenomenon and see it as part of company's general marketing strategy. Knowing that price and its level is our primary tool in the fight for customers, for attracting and keeping them during crisis, we can not afford the luxury of considering it as part of the whole. The definition that could completely satisfy the audience summarizes the most important aspects, and indicates the most important results for the company applying proper price strategy – the strategy includes approaches, methods and specific activities that will result in the achievement of company's goals. At the same time, the pricing strategy appropriate for a certain situation is the one that will bring competitive advantages for the company employing it. Therefore, the achievement of company targets as a whole, in particular, of this marketing strategy, depends very much on selecting and applying correct pricing strategy.

The complete arsenal of possible pricing strategies could be brought down to ten:

1. Lack of any company pricing strategy whatsoever – despite being the most common course of action on the part of small retailers, it could hardy be the most appropriate one, resulting in something positive for companies that want to have a permanent marketing position and to achieve their financial goals, especially in a period of economic crisis and limited consumer power;
2. A strategy in which the leading price-formation method is the method of complete costs – the purpose here is to cover sustained expenses and post a decent profit. This strategy, if you can say so, is the one most easily applied, but it could hardy be considered as the most adequate one in times of crisis. The price we are going to come up with in that way should serve only as a reference point, and it must fix a lower limit on the company's price decisions that we should not cross, if we are to avoid negative financial result and quick business insolvency. Therefore, this pricing strategy must always be applied together with another one;
3. Pricing according to competition – this strategy is linked to the making of a deep analysis of competitive environment, including analysis of the prices for each competitor's product in a particular product line. Needless to say, this is associated with a lot of difficulties in collecting pricing and other information about competitors' products, which takes time, special skills and resources. No wonder this activity in most cases is being outsourced of the company, which, however, is linked to additional and substantial costs – something that does not count as the most reasonable thing to be done by companies' managers in a crisis period when expenses are being restricted;
4. So called "freemium" pricing strategy – this is the most widely spread pricing strategy nowadays, in which the lack of computers and applied software is unthinkable. The price of software products – computer programs and games, different mobile applications – is generated based on this model in more than 90% of the cases. The pricing here is expressed either in the supply of a completely functional product

/computer program/ with a limited utilization period, following which the consumer would be able to use all the functions provided he pays the product's price, or in the supply of a free of charge product with basic functions, the extended ones costing extra money. This pricing strategy will continue its further development, and it will be used more often. Its advantage lays in the creation of a feeling in the consumer about him paying for something only if he really needs and wishes to use it in his daily life, while having at the same time basic functionality free of charge – that's something that brings his attention to the product. This is indeed a pricing strategy of the future with many supporters and applications in these times of economic crisis and tight consumer spending;

5. Dynamic pricing strategy – this strategy is mainly used in online trade. Pricing here is done based on the consideration of various sets of factors and indexes that characterize unambiguously a particular consumer. The determination of an individual offer price is made automatically by special software integrated in the electronic trade page. This strategy is subject to attention and extensive use in the electronic sale of flight tickets by different airlines – ticket price takes into account factors such as: geographical location and IP address where the request is generated from, history of client's purchases, as well as how many searches a particular flight has registered. The pricing strategy is really worth the attention and application in a crisis like the present one – economic and financial one - especially when adding the factor that dynamically determines the online price, and namely, registering customers' solvency based on geographical location, and offering the most acceptable price so as not to miss any single one of them;

6. "Cream-skimming" - this strategy should be used with caution, although inevitably even in times of crisis there are consumers who anxiously wait for a product to come on the market, on which product we could safely put an extremely high price that would be paid by them simply because they have waited just for that product, possessing features and qualities meeting their needs, for many months, even years. The high price we use to post big profits from a small turnover is workable in crisis, yet it should be noted that it is logical and accepted by the market for much shorter stretches of time than the ones that would have been there had the economy and consumer confidence been growing. Companies not considering this advice and using this pricing strategy for longer periods of time will certainly rapidly lose part of their market share, and will damage their market position, which will result in the accumulation of losses due to the fact that the quickly generated high proceeds would not be able to compensate for the expenses made on the development of the new product. Companies need stable and constant income, even at low margins as compared to the costs incurred, accordingly, incomes that generate a more modest profit when a new technological product is launched on the market during crisis;

7. "Loss leader" strategy – grocery stores are specialists in the application of this strategy. Establishing a price for a specific product below its market value generates losses for the company that offers it, but the idea of the companies employing this pricing strategy is to have the psychological effect, created by the lower price of this product, selling many other goods, which do not have the same price characteristics and which the consumers would realize they would need in the process of searching for the product with attractive price that, for some unknown reasons, always happens to be placed at the other end of the store. It is indeed a very good pricing strategy, especially in economic crisis when all kinds of marketing weapons are not only permitted but also obligatory in order to sell yet one more product unit generating income and profit;

8. "Market penetration" strategy – as suitable as it is not in a crisis situation. Setting low prices for our new product, along with proper application of the remaining marketing mix elements, will quickly bring us consumers and secure a market share, but would we be able to preserve it? The boundary between losses and profits is a very thin one. We can't keep this lower price forever, because the goal of our business after all is profit – the reward for our entrepreneurial skills and abilities. So, when we decide that our pricing strategy has worked out and gained us customers and market share, we should very carefully switch to a strategy that will utilize the momentum created and bring us profit - smooth, barely noticeable increase in prices within a longer period of time. Unless we make this pricing move in this correct way, the

loss of quickly gained market positions shall be inevitable, even in times of economic growth;

9. Psychological pricing – this is probably the most popular pricing strategy in which the customers feel they are gaining something, or at least, that they will be getting the desirable product for less money (yesterday you could buy it for $1.00, and today – for just $0.99). This strategy is a pure trick, yet it really works – it gets consumers' attention and brings us profit. It's not accidental that it is successfully used in all the stages of the economic cycle, so we should not give it up in times of crisis, because it gains for us priceless customers;

10. "Prestige prices" strategy – hardly the most appropriate pricing strategy in a period of economic crisis. Expecting our potential client to be able to appreciate the fact that the higher price set for our product is linked to its superior quality and consumer value, and that the leading factor for him, when making his choice, would be the uniqueness and image of a product, symbolizing the higher price, is very risky, especially when consumers have limited financial possibilities as is the case with an economic crisis.

The short review of the most used pricing strategies as a whole, not only in troubled times, leads to the conclusion that it would be very hard, even impossible, for the employment of a single pricing strategy to help us stay on the market. Correct pricing strategy is to apply the most relevant set of pricing forms depending on market reality specifics. For the companies, the most important thing is to have clear objectives before themselves, including explicitly defined target markets where we meet consumers with behavior specifics already known to us. Entrepreneurs who have ignored market's analysis and its segmentation should start rethinking their stand, as it is quite clear that nobody is capable of meeting all the market needs and will have to pick up the market segment that includes consumers interested in our product due to their necessities, with all our efforts being directed towards these consumers.

Economic crisis is the one that makes producers and merchants understand that pricing based on costs as a primary price-formation factor is extremely limited and conservative. What such an elementary cost calculation should serve for is to be a landmark-restrictor protecting us from excessive price decrease. Demand and competition should be the factors fixing the price. While determining correct price for our company product in a period of economic growth is not that strategically related to the expansion of market share and the posting of a positive result, as such shall be achieved at least due to market realities' common and positive movement, in times of crisis, prices' management and preservation of valuable customers become an issue of strategic choice. Simply said, for the merchants to survive in troubled times, they should not set as their top priority market share expansion, but rather should switch to keeping established, permanent and loyal customers, who of course represent company's most lucrative market share. Pricing strategy as an essential part of the general marketing strategy must be targeted at satisfying demands and has to match the financial possibilities of this consumer group. It is not logical for us to start looking for new market niches and have them gained with aggressive pricing strategy – the development of these segments is associated with big additional costs, and the aggressive pricing strategy – with low margins covering these expenses; new markets are a luxury we can afford as soon as the crisis is over and out financial state has been stabilized. In every market there are three pricing groups of customers: "prestige" group – searching for high quality and willing to pay high price for it; "middle" – looking for acceptable quality – acceptable price balance; and finally, a group of customers that wants low prices, without caring too much about quality. In a crisis period there is a clearly expresses trend of a large number of customers from the middle group moving into the group of those asking for the lowest price (2). That should be a guiding signal for the managers determining company's pricing strategy.

CONCLUSIONS

-there isn't any and there could not be established a single pricing strategy as the most appropriate one in times of crisis;

- leading criterion when taking pricing decision in a crisis period, and not only then, must be consumer demand, and not the costs made;

- during an economic downturn the most important thing is to keep the loyal clients; establishment and development of long-term relations with them, which include also answering their calls for recommended price.

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