PRICES IN COMPETITIVE SYSTEM

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Abstract

Regularities of competitive market determine rules for determining prices and their dynamics.

Orientation prices to competition (competitive pricing) is the strategy most frequently used in countries with market economies and especially for exports. Moreover, in an economy dominated by market competition it cannot be ignored without certain risks the prices resulting from competition between products bidders. Companies that use this type of strategy seek to maintain a level of prices linked to that charged by other competitors (or exporting producers) generally no longer covering production costs or demand, relying on the assumption that the average market price is a reasonable basis of costs. But the way how practical guidance and reporting to the competition in every price strategy, will be determined by the company's market position, by the available power and enjoyed prestige, objectives and prospects of its market share etc. according to these elements, there may be several versions of pricing strategies oriented to competitors.

Keywords: pricing policy, competition, knowing, new products

JEL Classification : M40, M41

1. Introduction

Strong companies, through their pricing policy will seek to anticipate and exploit to their advantage the reaction of the other competitors held their shares on the market. Weaker (smaller) firms with a low market share or new entrants in the competition will try to align their prices so as to be competitive to withstand competition. There is also the possibility of agreements between competitors on prices (to the extent that in some countries the law does not prohibit them). But in general, prices in the market are the result of spontaneous deployment of power relations between competitors.

Firms with modest positions on the market are forced to take account of stronger competitors, the prices charged to market by them, by adopting a pricing strategy purely imitative or strategy differentiated, as are considering accurate imitating of main competitors maneuvers, or in response to their movement, but with a certain spacing.

Purely imitative version strategy is totally defensive and has drawbacks especially for weak competitors, who may be in a position to sell at prices below their own costs. But it cannot be avoided trade of certain mass homogeneous products, which can be differentiated from one firm to another.

Price differentiation strategy versus the competition's is high, but requires a lot of skill. It requires careful monitoring and even anticipating competition actions and evaluating the effect of those actions. Using this strategy makes necessary assuring consistent prices with competition, but without making a copy of them. For example, if competition increases or reduces prices, this movement is followed by the company concerned but price changes relative proportions may be different or can be operated with a time lag. If such movements of the company are thoughtful, they can provide company registration in market trends, the gradual strengthening of its position and even expanding the company's market.

2. Price competition strategies

Great importance can have also the offensive attitude of the company, by taking a certain separation from the movements of competition, to clearly decipher its subsequent intentions and try other possible response to competitor actions or compensation effect of the change in price. For example, a price reduction can respond to competition by improving service activity by providing facilities of buying, through publicity campaigns etc.

This version of strategy, although it is superior to purely imitative one, it is more difficult to put into practice and, therefore, is little used.

Price competition strategies oriented to competition, in different variants (purely imitative or conventional differential - when many firms collaborate in terms of prices), have a range frequency, both intern and foreign markets.

Using these strategies on foreign markets raises some problems in addition, when determine their effective enforcement. One problem is the comparability of its products with those of its competitors, given the difference between product characteristics. This is a problem because it is difficult to find similar or related products (especially when it comes to machinery and equipment and chemicals etc.) in two different countries, even if they perform the same function. Then there is the problem of their comparability in time as the pace of change technical and quality level of products is different from country to country. In order to compare product performance are used regression analysis, of correlation between technical and economic parameters and establish equivalence factors of these parameters, and based on their approximate export prices (or internal prices) depending on the level of prices charged by competition .

Another problem is the evaluation of distribution costs and selling expenses plus export price itself, resulting in the final price. Firms from other countries usually include these expenses in comparable prices. A base plating to determine these costs (and export price) would be taking into account the price to be paid by the final purchaser of the importing country (the retail price for consumer goods or the purchase price of the means of production), price to be subtracted from domestic export price (converted to currency).

Adopting a strategy of export prices, oriented to competition, should be based on a more realistic and careful evaluation of prices on the foreign market with which to compare export prices expected to learn the competitiveness of its products and determine the most effective strategy. But the problem of knowing foreign prices is one of the most difficult problems, due to the particularities of each market of each product group. Thus, if for consumer goods of special importance or for resource information they are easier to obtain (particularly through exchange prices), machinery and equipment information are difficult to obtain, not only because of their complexity, but also due to technological secrets.

At a certain pricing strategy, firms practice proper pricing tactics for each situation obtaining favorable market positions. Thus, if a firm has an advance on technical progress or good times, which ensures a strong market position, will practice active tactics, rush to capitalize on these advantages. Instead, competitors with fewer opportunities align their export-import prices on those charged by competitors and take account of market pressure, adopting passive tactics. It can be practiced also tactics of penetration rates in cases where quotas tried taking as much of the absorption capacity of the markets by means of temporarily lower prices than those of competitors. Substantiation of price strategies and tactics must be based on forecasts of internal and international prices. As a result of those given in the previous paragraphs on price differentiation strategies may also derive from what has concretely in establishing the price level determined by factor which is given priority: costs, demand and competition.

It is important that there cannot be a definite orientation, with exclusively character of a strategy by a factor or another, but it is only to be granted priority or the predominance of one or other of them. In developing a strategy for price and generally in pricing must take into account all these factors, more or less.

Price determination must be consistent with the marketing mix variables chosen and must rely on the simultaneous analysis of five factors, whose confrontation will lead to one or more possible prices, which will be tested before choosing the final solution. These factors are: legal constraints, business objectives pricing, demand, product characteristics and competition [1]. To these are added the role of distributors in price fixing. In view of these factors it may be presented a sketch of the approach of price fixing [6].

There are frequent situations in which firms produce a wide range of products and must set the price for each item or landmark in hand. This is not a simple problem because of interdependence relationships which may exist between them and of complex relationships between demand and their costs. Prices strategy must meet the need to segment the market, to diversify products so that the company can benefit from a competitive advantage in different market segments chosen, pursuing the ultimate objective of that optimize performance across the whole range.

Fixing prices of a products range requires a wide product selection that will have the lowest price and the product will have the highest price, and establish price differentiations that must exist between product range. These choices are based in interdependence of products that fulfill the range, but should be also considered consider the effects of complementarity and substitution between products. So for example, for complementary products and in case of a heterogeneous demand, the enterprise will have the incentive to propose prices for a range of goods. The proposed price is lower than the amount for the combination of different price components (eg, parts and subassemblies that create a car or any machinery) [2].

When the products are complementary and when there are fairly large differences in the cost of products forming range (eg, a commodity product and accessories that form it) is used as a strategy for price fixing, that is to sell a small price product with the highest cost (for ease of purchase) and to recoup losses or lack of profitability margin account other product ranges. Such practice may meet captive price, especially in the case of machinery and spare parts, cameras and photographic film, razors and blades etc.

In the service sector, such a practice is carried out by a price of two components, a base price and a variable price usage (phone price). In the distribution it corresponds to the call price and decrease price of the well-known brand to attract customers to other products where distributors margins are more important.

To substitute products which have economic differences on scale and over a request for heterogeneous enterprise will offer some products at high prices, with significant margin in relation to the cost (premium), others at low prices, even with negative margin (loss). Such practice is common in some foreign companies for ranges of machines, where the bottom of the range are not profitable, but instead the top of the range generates substantial profits. Such a strategy is used to price fixing the seats in an auditorium or rates for hotel rooms.

In situations where consumers are price sensitive as quality image and product range have the same economic conditions of realization, the organization may use identical versions of the same product with different names and prices. The product which has the highest price serves generally as subsidizing the product with the lowest price. Such strategies can be seen with the prices of clothing, footwear and cosmetics [4].

Setting of prices for a range of products is restricted in the areas of employment prices acceptable to consumers. Also to fixing them should be taken into account the price range that separates the same product range, is sufficiently important to be noticed by consumers. However, this interval should be adapted to differences in cost of production as the actions of competitors and market developments.

The pricing fixing process (to new products) has as a starting point the firm objectives. Hence, further are analyzed on the one hand, the external factors: competition, demand and prices regulations and competition, and on the other hand, internal factors: cost, position and grip firm on marketing - mix product range and component products prices. Depending on these factors base price are fixed and are determined the scales of differentiation (change) of component products.

Price fixing in industrial area, for means of production, presents some particularities. First, because the role of prices is different from that of consumer goods prices. So the price is considered by many buyers (companies) as not being a decisive element in the purchasing decision as in the case of consumer goods. Factors that guarantees delivery, product quality, after-sales service play a role at least equivalent. Secondly, there are specific procedures for determining the price. Generally, they are fixed by direct negotiation [5].

Buyers and sellers (fewer in number) are set to agree on a price. But in common cases prices actually paid will be different from those suggested as a result of their influence by means of payment, volume of orders, rebates, etc.

3.Conclusions

Derived demand phenomenon has effects on how to establish prices. A reduction in final demand of a product sometimes lead to decreases in the prices of its components. Industrial pricing is in some cases by tendering or adjudication proceedings. It is characterized by the importance played by the reactions of competitors and the absence of a price negotiation since the proposed award once made, is no longer possible to reopen discussion of the terms of sale. Chances of success by competitors reactions require the use of methods based on probability calculation.

Competitive price formation mechanism in the economy is under the joint action of four regularities: the influence of supply and demand on price, price is the effect of changing demand and supply of that good; the exchange sale-purchase of goods and services occurs when they coincide in size and tend to balance; interdependence of various goods prices.

In modern competitive economy, the competition is an open confrontation, rivalry or cooperation between vendors-offer operators to ensure high and secure profits.

4.Bibliography

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