Selected components of pricing strategies of organizations and their perception by customers in Slovak Republic

Abstract
At present, the ratio of such parameters as price and quality of the product is dominant in decision making of the (end) consumer. Comparison is the most common and most frequent method that customers use when buying products. They compare expectations of products, products with each other, their individual parameters and characteristics. Price is the basic characteristic that is compared and applied to most customers, producers and their products. For this reason, this paper focuses attention on selected components of the current pricing strategy of organisations (price vs. quality, unit price and cost structure for the acquisition of the product) and their perception by end customers in Slovak Republic. The aim of the paper is to present the attitudes of end customers in Slovak Republic to pricing strategies and to compare them with their perception of product quality. The results presented in this paper may serve as a good starting point for organizations operating at the end customer markets, since they realize the importance of creating an optimal relationship between price and quality of the product.

Keywords: Pricing Strategy; Quality; Perception of Relationship between Price and Quality; Unit Price; Cost of Acquisition of Product

JEL Classification: M10; M30
1. Introduction

Price as an element of the marketing mix which organizations charge for their products is largely dependent on the economic macro environment in which organizations operate. The economic environment in the Slovak Republic was affected by two significant transformation crossings: the country’s transition to a market economy in 1989 and the changeover to the Euro in 2009. There are a few indicators to demonstrate the maturity level of the economic environment of the Slovak Republic. Table 1 shows levels of purchasing power per capita in European countries.

Another indicator, which is monitored by the Statistical Office of the Slovak Republic and Eurostat is the ability to pay usual expenses (see Table 2).

In this paper, we have investigated the relationship between the price of products and their quality. That relationship is the subject of many research, for example, [3; 4], especially because the quality of (material) products, and services is currently a trend, already observed in a number of areas such as planned (moral) obsolescence of products, problem solving of the streamlining production processes, design of organizational structure [5; 6; 7] and others. In the conditions of the Slovak Republic, there are special features of quality management, respectively its monitoring and control in comparison with the pre-transformation period. These were due to the fact that ensuring the quality was before 1989 under the supervision of the state. At present, the correlation between price and quality is less balanced because surveillance by the state is limited and concerns only some sectors; market competition tends to sharpen. Cost reduction [8], the introduction of private label products in the retail [9] as well as other factors (such as managing relationships with selected categories of customers have [10] have an immediate effect on price and quality.

2. Brief Literature Review

Price is one of the most important elements of the marketing mix, and also an important factor influencing the buying decisions of customers. Price is a monetary expression of the value of the product and is established by «agreement» between the seller and the customer. It can be simply equated with the price of a product with the perceived value by the customer. Price is one of the most important elements of the marketing mix, and also an important factor influencing the buying decisions of customers. Price is a monetary expression of the value of the product and is established by «agreement» between the seller and the customer. It can be simply equated with the price of a product with the perceived value by the customer. Price is one of the most important elements of the marketing mix, and also an important factor influencing the buying decisions of customers. Price is a monetary expression of the value of the product and is established by «agreement» between the seller and the customer. It can be simply equated with the price of a product with the perceived value by the customer. Price is one of the most important elements of the marketing mix, and also an important factor influencing the buying decisions of customers. Price is a monetary expression of the value of the product and is established by «agreement» between the seller and the customer. It can be simply equated with the price of a product with the perceived value by the customer. Price is one of the most important elements of the marketing mix, and also an important factor influencing the buying decisions of customers. Price is a monetary expression of the value of the product and is established by «agreement» between the seller and the customer. It can be simply equated with the price of a product with the perceived value by the customer. Price is one of the most important elements of the marketing mix, and also an important factor influencing the buying decisions of customers. Price is a monetary expression of the value of the product and is established by «agreement» between the seller and the customer. It can be simply equated with the price of a product with the perceived value by the customer. Price is one of the most important elements of the marketing mix, and also an important factor influencing the buying decisions of customers. Price is a monetary expression of the value of the product and is established by «agreement» between the sell
spending on marketing activities, competitor activity and regulatory measures taken by the state [11].

Price is a marketing tool that greatly affects product demand. Traditional economic theory predicts that a fall in product price increases demand and conversely, growth in the product price causes a decline in demand. However, there are exceptions from this relationship, in which, for example, customers identify a high level of price with product quality and, respectively, with exclusivity of the product. The sensitivity of customers to price changes is different with respect to the product category and customer segment. According to Kotler [12], by setting prices at a certain level, organizations can affect customer demand for the product, thus increasing or decreasing demand.

According to Pajtinkova Bartakova and Gubiniova [13], price is an important element by which customers evaluate the product and its value, but it is not the only factor entering into the purchase decision of the customer. In the strict sense, a price represents the amount of money charged for a particular product. The legal definition of price is reflected in Act no. 18/1996 Coll. Prices are regulated in §2 as follows: the price is the amount of money agreed in the purchase and sale of goods and services. According to the above definition, price is an element of the marketing mix based on the exchange and is producer-oriented, since it relates to the amount of money obtained by the producer (retailer) from a customer on the place of transaction. From a broader perspective, price enters into several aspects and features. Peattie understands them as follows [14]:

1. It reflects production costs.
2. It represents the quality of a product for the customers.
3. It may form a starting criterion for market segmentation.
4. It reflects the demand for a certain product, as well as the availability of its supply.
5. It constitutes an important starting base for the competitors.
6. It is a key marketing variable through which a broad spectrum of (not only) marketing objectives can be achieved.

The purpose of the paper is to present attitudes of end customers in the Slovak Republic to pricing strategies of organizations and to compare them with the customer-oriented aspect of product quality. A juxtaposition based on the comparison of the parameters such as price and quality in the current market environment and many other secondary dominants affects purchase decisions of end customers at present.

Material and Methods. The results presented in this paper are based on a primary, representative and quantitative research. The research was undertaken in the period from September to November 2014 with a sample of 1,200 respondents. The represented the population of Slovakia in terms of gender, age, education, nationality, regional representation and size of settlement. For the purpose of showing the paper to the breakdown of respondents, we used the demographic age criterion, which divided the sample into five groups, whose brief characteristics are as follows. The first group consists of respondents under 26 years old. Among these are graduates, namely people who gain working habits in their first job. This fact directly determines the amount of their average disposable income, which is based on the results of the survey, the figure ranges from 400 to 600 Euros netto, while creating a free choice in the process of purchasing decisions and behavior. The second group consists of participants from 26 to 36 years old. People who make it up have a relatively stable life situation, they are able to plan (which is also reflected in their ability to make rational purchasing decisions and their behavior); they are building their career, but deal with the dilemma of either having a family or enjoying life. The average disposable income declared by this group of respondents is higher than in the first group. It ranges from 600 to 1,000 Euros. The third group of respondents has some peculiarities, especially in the aspect that people aged 36-46 create their households, as the family makes almost all of their purchasing decisions. According to respondents, an increase in their disposable personal income, varied from 1,000 to 1,200 Euros. The upper limit of the age of the penultimate group in the Slovak Republic consists of the retirement age population of 62 years old or older. The respondents from 46 years old to the retirement age are sober, experienced people, who in many cases are subject to the same stereotypes (especially with regard to the purchasing decision). It is recognised that their expenses have very few outliers, and therefore it is a group whose purchasing behavior has a very high degree of rationality. The level of disposable income is about the same level as in the previous group. The last group is made up of retired people, i.e. people older than 62 years old whose income declared in the survey is around 500 Euros.

4. Results

One of the aspects of our research is concerning the acceptance by the end customers of the philosophy of modern marketing management was to study the relationship between price and quality as two major criteria for making buying decisions. Since the concept of a product falls within marketing, to give a precise definition we divided products into several categories. We included grocery, medications and clothing in the group of everyday products, whereas toys and electronics were included in the group of products for occasional demand. Examining the relationship between price and quality of five product categories (Table 3), we have come to several conclusions.

<table>
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<tr>
<th>Tab. 3: Comparison of the importance of price and quality as criteria for the purchase of various categories of products to end consumers (%)</th>
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<tr>
<td><strong>Grocery</strong></td>
</tr>
<tr>
<td>price</td>
</tr>
<tr>
<td>Under 26 years old</td>
</tr>
<tr>
<td>26-36 years old</td>
</tr>
<tr>
<td>36-46 years old</td>
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<tr>
<td>46-62 years old</td>
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<tr>
<td>Above 62 years old</td>
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Source: Own research

Suppose that the group of respondents under 26 years live mainly in the same household with their parents, suggesting that primary needs satisfied by food, medications and clothing are provided by them. In this case, respondents would rather buy some kind of standard product listed in the categories above. For this reason, the relationship between price and quality depends on a higher standard/price, accordingly, a higher price corresponds to a higher quality. In the case of this group of respondents, the electronics category is specific, because the achievements of modern information technologies are the domain of the young and a balance between price and quality is provided, for example this corresponds to access to detailed information about the product. Toys are on the opposite side because the respondents of this age group do not feel like children and the purchase of toys is replaced by the consumer electronics. We can conclude that both criteria (price and quality) show a high degree of balance within this group of respondents. These customers do not make compromises, but they expect to buy a product of corresponding quality at a certain price. Respondents aged 26-36 have the first experience of managing their own (often single-member) households. As they become independent and take responsibility for the financial managing of their household, they plan to arrange their financial expenses. In this case, we see an increased demand for quality with regard to grocery, clothing and electronics. Building weight of a more sober allocation of finance the respondents of this age group look for ways to get a higher quality product at a lower price. Medications are sub-

 project to the most significant impact on marketing activities and related purchases of new, innovative products that are generally associated with a higher price, even though their quality is comparable to the previous variants, accordingly, a gap is generally caused due to a higher price of the new product. The respondents in this age group even buy toys for their personal use (not for their children). Thus, the conclusions are identical to the conclusions made regarding the previous group.

Respondents aged 36-46 have sufficient experience in the management of their households; they are capable of financial planning, which creates their steady and realistic view on the relationship between cost and quality and they conduct a targeted search for products that meet this ratio. They are used to getting products of a certain quality standard at a certain price, corresponds to their expectations, as we have noticed in the case with grocery. In the case of drugstore goods when it comes to the survey results with regard to medications, we expect that the impact of marketing activities continues. Nevertheless, such respondents prefer brand products. In case of clothes, the relationship between price and quality clearly reflects a steady dress style, as the respondents and their quality group are sufficient knowledgeable in this respect. In terms of electronics, we have noted that the end customers in this segment have their needs satisfied, as the respondents take into account the costs associated with use and disposal. Their attitude towards the relationship between price and quality, if compared with the previous groups of products, are vastly different since they buy products for their descendants, and based on the results of the survey, we may conclude that in their purchase depends on the quality of a product.

The group of respondents aged 46-62 buy products without extremes. The price of a product depends on financial resources available to those customers. Their expectations, regarding the relationship between price and quality are quite balanced when it comes to the first four product categories. In the case with electronics, we see a greater disparity in favour of price. Thus, we assume that it is due to weaker informational awareness, compared, for example, with the respondents under 26 years old.

The respondents of the retirement age or older are almost entirely influenced by the level of financial funding available to them and, in many cases, they refuse to buy a product which cannot be acquired at a lower price. This reflects the fact that the respondents of this age group acquire lower qualities due to their limited financial resources. Such respondents have occasional demand for products, such as toys or electronics, and they are willing to consider price adjustments (rebates) and promotions, in order to acquire such a product. Attitudes of end customers towards the unit price of products are summarised in Table 4.

The notion of unit price was introduced in the Slovak legislation due to the adoption of Directive 98/6/EC of the European Parliament and of the Council of 16 February 1998 on consumer protection in the indication of prices of products offered to consumers. The legislator states that consumers must be guaranteed a high level of protection and the European Community should contribute to the specific action which supports and supplements the policy pursued by the EU member states regarding precise, transparent and unambiguous information about the prices of products offered to consumers. The legislator introduces the notions of selling price and unit price, which must be unambiguously used in the selling and promoting of the product. The unit price is the actual price charged for the product which is widely and customarily used in the selling and promoting of the product.

One reason for this trend may be the fact that end customers show a relatively low level of awareness and knowledge regarding the information conveyed to them, for example because of small font, etc. The results of two checks on labelling information by unit price are published at the website of the Slovak Trade Inspection. Between 15 and 26 May 2006, inspectors from the Slovak Trade Inspection controlled product labelling unit price in the establishments of supermarket chains and other retail chains. The summary results of the checks are shown in Table 5.

Another piece of information [16] was published for the period from 28 December 2005 to 15 January 2006. That check was focused on sale events in chain stores and other commercial establishments. The Central Directorate of the Slovak Trade Inspection concluded their report with observations that the situation had substantially improved. Table 6 shows the costs that the customer has to spend on the purchase of the product broken down into three categories (P – costs related to the purchase of the product;
U – costs associated with the use of the product; D – costs associated with product disposal).

Costs related to the purchase of the product (sometimes referred to as transaction costs) include the triad variable costs; and it is important to highlight the fact that there is no need to spend financial costs, which can be viewed as a juxtaposition of monetary and non-monetary costs: search costs related to products; costs regarding product-related information such as price, product attributes and features, comparison of a product with competing products; costs related to acquisition of a product, for example transport costs which are directly related to the intensity of product distribution – the longer the distance is, the fewer products are available to the customer, hence the cost increases.

Costs associated with the use of a product are often underestimated or ignored by the customer at the moment of the purchase transaction. In the case with durable products, such as houses, cars, washing machines, refrigerators, customers spend a considerable amount of money on maintenance and energy during their use.

The last group consists of the costs related to product disposal, which consist of the cost of accumulation, storage and disposal of the product. The key characteristics (attributes) affecting the level of costs related to product disposal are the amount of packaging, product design, product durability, amount and type of materials used to manufacture the product and the existing opportunities to resell or recycle the product. In general, it can be concluded that customers have a relatively low level of awareness of the costs related to product disposal (a fact confirmed by our survey).

The survey clearly shows that respondents of different ages pay little attention to costs related to product usage and its disposal and, therefore, the focus of their attention is predominantly on the financial/monetary costs which they have to pay to acquire a product. This fact appears to be related to the level of purchasing power (see Table 1).

The product category, in which the respondents declared the importance of costs related to the use, is electronics, to promote which considerable efforts, such as creation of legislation, provision of activities in public relations, are exerted so that the careful buyer could make the right decision, for example with regard to choosing electric appliances with electricity consumption of either class A or B, etc.

5. Conclusions

Of all the decisions implemented by the marketing managers, correct pricing has a direct impact on the achievement of the organization’s objectives related to its share in the market, as well as on the overall level of profit. Ideally, the correct price will ensure fulfillment of the corporate objectives and make it possible to withstand competitive attacks.

In the paper, we have reviewed the selected components of pricing strategies and their perception by end consumers. The survey has allowed us to make several conclusions: the price criterion is dominant for most customers with regard to the relationship between price and quality; the respondents paid little attention to the unit price of the product (despite the fact that this is a certain guarantee of consumer protection); the respondents of almost all age groups paid little attention to the costs related to product use and disposal, as they focused primarily on the financial costs related to the purchase of the product.

References


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