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Orientation to Value in Substantiation of Price Strategy - A New Approach of the Modern Enterprise

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Abstract *Price can be considered a source of messages, set up in clues relating to the characteristics of the product it targets. How these messages are received, coded and interpreted by consumers should be a major preoccupation for decision-makers. If it knows the perception of the price, the enterprise can harness its psychological potential. In justification of the decisions, the enterprise should adopt a proactive vision enabling anticipation of competition or customers at the prices charged by it. Strategic marketing planning must act in such a way to effectively manage the uncertainty that governs decisions concerning the price. The provider should focus on the value offered to consumers, the concept around which should gravitate the marketing strategy of the enterprise. Priority orientation towards costs at the expense of focus on the market does not allow for proactive price management. In this context, the need to consider the concept of value before anything else.*

Key words Value, the perception of value, price strategy, competitive strategy, process, organization

JEL Codes: **A10, D10, D21, D46, D47**

1. Introduction

In the activity of any enterprise producing material goods and services, price plays a special role, of utmost importance to achieve its objective - profit maximization. Price is one of the four variables of marketing mix, which has the most influence in the enterprise business in general, in marketing, in particular, because it directly and promptly affects: profit, sales volume, market share and position on the market.

As an instrument of market and the essential indicator of economic and social reality, market prices represent "a currency amount that the buyer is willing and able to provide the manufacturer with in return for the asset the manufacturer can offer" [8, p. 27].

An important criterion in setting prices is the perceived value to the client. Perception is a process that generally involves the employment of some experiences in relation to exposure to a number of stimuli into categories defined by previous experiences related to the same type of stimuli. Thus, through exposure to a price, the consumer tries to compare prices with one that he faced in the previous purchasing experiences and place it within some existing categories in his mind. In many situations this placing is done by taking into account other information that may be clues for price indices to the meaning: quality, brand, market services provided by shop etc. The perceptual process is selective; the individual perceives only certain stimuli in the external environment. At the same time, given the large number of stimuli they encounter and the speed of action, the perceptual process is continuous. The importance of this process for the marketer is that marketing actions are transformed into external stimuli for the individual, and information on how they are perceived is required. For the perceptual mechanism to be understood, it is necessary to understand the knowledge information processing system in the consumer, i.e. all activities by which data on the stimuli are transformed into information that subsequently will be stored. The stages of this process are: exposure, attention, interpretation, and memory, the first three being included in the perceptual process [5, p. 272].

The nature of the perceived stimuli and their perceptions are based on two types of determinants: stimulus characteristics and consumer characteristics. Due to the limits imposed by the information processing system, and due to the different level of interest manifested, the consumer does not perceive all the stimuli in the environment. It is therefore necessary to identify the characteristics that contribute to the enhancement of attention. Thus, since certain marketing stimuli can be controlled, it is necessary to know how their characteristics influence perception.

2. Methodology of research

In order to conduct this study, we have complied with some guidelines regarding the methodology of scientific research. Thus, the principle of unity between theoretical and empirical aspects, the principle of unity between informative judgment and evaluative judgment (all researchers should involve morally to support general values), as well as the principle of unity between quantitative and qualitative, used in order to render efficient the results of the research. This mixed methodology is typical of social sciences. In order to fulfill our goal, we have used fundamental research methods consisting in reading of the specialized literature in this field and some articles and studies covering this topic. Our methods have been: analysis, synthesis, comparison, deduction and induction.

3. The process of price perception

The characteristics of consumer concern how the perceptual process is influenced by the physical and mental characteristics of an individual. The predominant factors with influence on the perceptual process have two approaches. The first, the "bottom-up" emphasizes the role of external stimuli, while the second "top-down" emphasizes the personal characteristics [11, p.231]. The selective nature of perception, determined by the two categories of factors can lead to the following reactions of consumers: undistorted acceptance of the stimulus, distorted acceptance or non-acceptance of stimulus [3].

The price represents the monetary expression of value, as well as the cost incurred by consumers for utilities provided by a product or service. Within the framework of marketing policy, price is a mix instrument and a non-tangible component of the product, which gives it a high degree of interdependence in relation to other variables. For this reason it is difficult to gauge the consumer's reaction to price, addressed independently, this being influenced by exogenous variables (economic factors, demographic, socio-cultural, situational), as well as endogenous variables (personality, self-esteem, motivation, attitude).

In the description of the response consumers have in relation to the price, the description of the perceptual process is required, the process by which consumers receive, identify, select, evaluate and interpret information relative to the price. Compared to the product, distribution or promotion, the price is typically a stimulus more easily perceived. Also, compared to all other elements of the marketing mix, the price seems to represent to consumers rather a cost item than a benefit of. In this regard, the consumer may consider that the price is a measure of the sacrifice made (you have to give up in a transaction) to get the desired benefit, so that the way of framing the price can generate different perceptions thereof.

Selectivity of perception contradicts the economic model that determines the reaction of demand to changes in price. In accordance with it, buyers will choose among similar products with the lowest price. In reality, the market many products meet different prices for similar products almost. The explanation lies in the fact that, even though in economic terms two products are perfectly interchangeable, consumers may perceive them as being relatively different. Thus, efforts are directed to stimulating the providers towards stimulating perceptions which give rise to the creation of a favorable image, enhancing loyalty for their own products or other effects designed to uphold the objectives.

Consumers are exposed to the same information, assigns different meanings price goal, turning it in the price charged or psychologically perceived. They compare the price at which they were exposed with a price that represents the expected level of adaptation, which is defined by H. Helson in 1964 under the theory of adaptation. According to this theory, individuals interpret stimuli to which they were exposed according to certain standards (levels of adaptation), a result of their experience in relation to these stimuli. The level of adaptation is called reference price, it is not necessarily a point value, but rather a range that can change from one moment to the next. In this sense, the new prices faced by consumers can change the level of adaptation, to the extent that they contrast sharply with it. Thus, if the reference price for a computer was 1,400 monetary units, exposure to the buyer at a price of 1,800 monetary units will result in moving the adjustment level. Because the adaptation level varies from one consumer to another, when comparing this price with this level, the price charged may be high for some, and low for others. If P_0 is the retail price in the store and P_r is the reference price (adaptation) of the individual, then a positive value of P_0- P_r difference is perceived negatively, while a negative value of this difference is welcomed.

Another theory that seeks the formation of consumer reaction to price is the string theory (range theory), developed in 1951 by J. Volkmann. It considers how the perception of a stimulus that is part of a string depends on other stimuli included in latter. Applied to behavior towards price, this theory suggests that individuals use string recalled prices to establish a minimum level, i.e. maximum expected price and price attractiveness of a product is a function of the place it occupies in the string. In assessing the price, consumers build their mental scale. An increase in prices experienced string leads to an expansion of the scale used.

Thus, the change in price meant to influence consumer demand increases as price dispersion that was previously exposed individual is greater. It also increases uncertainty in terms of price, as the price string extends. Knowledge of variability influences prices and consumer uncertainty over this perception provides clues as to the context in which the prices mentioned might have a significant impact on the assessment of the price. Thus, price reductions for products placed at the end of the gondola are more effective than those for products on the shelves. This is due, on the one hand, to the fact that gondola ends attract more attention, and on the other hand, the growing demand may be a consequence of the isolation of the product at the end of the gondola of the product in which it participates. A price reduction assessed in the context of pricing a product of specific points is more likely to have a stronger impact than a price reduction be assessed in the context of the string of evoked prices product group it belongs to.

Starting from string theory, another theory, namely that of dual standards, asserts that the oscillations of the scale with which it is judged the price depend on the extreme levels of intensity of stimulus. So, how the price of a given product interpreted by a purchaser is depends to a greater extent on extreme levels of prices, at which the string was exposed, than on its average value. For example, a product with a price of 600 monetary units may be perceived as expensive when prices are valued in the range of 400-600 monetary units; as having a moderate price, when the prices subject to assessment is between 300 and 900 monetary units; or as cheap, when prices of the product varies between 600 and 900 monetary units.

The price charged is memorized, being designed the ability to remember where consumers would face a similar situation of price assessment in relation to the internal reference price levels, according to other information held by the individual, as well as of their own motivations, attitudes towards perceived price. The final reaction to price, respectively buying or non-buying the product, is preceded by taking into account other information.

Factors influencing the price of perception by consumers can be structured in several categories, as follows:

a) Motivators that affect the price perception process are: degree of involvement with regard to price, brand loyalty, the internal reference price, planning to purchase decision, price's role in the decision-making process.

The degree of involvement in relation to price consumer aims at the consumer’s motivation to seek, to pay attention and to process information about the price. It is necessary to distinguish between involvement in relation to the price and involvement in relation to the product. In a broad sense, by implication means the degree of motivation in any particular endeavor. Thus, for a particular class of products, consumers with a greater involvement in price compared to the product can be characterized as "price shoppers" and, in general, they prefer lower prices. Consumers more involved in terms of product characteristics compared to the price level are more likely to pay higher prices. The degree of involvement in relation to the price is influenced by: financial constraints (the larger, the higher the degree of involvement), the inclination to special offers, susceptibility to prestige (price as an indicator), the search for value, the degree of perceived risk in buying the product.

Brand loyalty is the positive attitude towards the brand, which has as a consequence its loyal purchase. It is necessary to distinguish between brand loyalty and inertia, the latter involving the purchase of the same product due to habit, due to sensitivity to stimuli from inside the store. The higher brand loyalty is, the lower the interest in data processing aimed at the price.

The internal reference price is based on the knowledge available to the consumer as a result of past experience, which affects the interpretation of the information about the price and the formation of attitude towards it. Consumers shall determine certain levels in respect to the price that they would have to pay for a product. In doing so, they turn to memory in order to identify the last paid price, the highest price or the lowest at which they were exposed, among prices most frequently paid.

The internal reference price has varying degrees of availability by categories, subcategories or brands of products.

The degree of planning the purchase decision is influenced by the attention paid to the price. If there is a planned decision to purchase a particular brand, responsiveness to price shall be restricted to the range of products of this brand. If the decision is planned depending on the price, consumers show a greater openness regarding information related to price, thus seeking for products with prices closest to the planned level. In other situations, it is possible that the buying decision may be taken at the place of sale, in which case the situational variables have a significant influence (display of prices, trimming products, special offers, etc.).

The role of price in the purchasing decision process influence the perceptual mechanism because the price may be the basis for determining the set of alternatives evoked, may be a criterion to be considered in the assessing prices, the consumer applies in many situations the decision-making rules based on price (ex: lowest price, price as an indicator of quality).

b) Cognitive factors influencing the price perception: price awareness, ability to assess the quality of the product; trust in the provider, and in their own judgment.

The degree of price knowledge has decreased lately following its level variability, determined, in particular, by the effects of inflation, and by the increased diversity of the mix of products existing on the market. Research carried out at the exit of shops, requiring buyers to specify the prices paid for products that were purchased, have led to the conclusion that consumers know very little about prices. Sometimes this is stimulated by the bidders to increase responsiveness to stimuli of purchasers at the sale place.

Awareness of price has been operationalized in several ways: the ability of buyers to specify the exact price of the purchased products, the ability to recognize the price of a given product, the ability to order products according to price, possibility of placing products in certain categories (cheap, cheap, cheapest, most expensive). This degree is influenced by socio-demographic characteristics, and there is differentiation, in this sense, according to age, income, gender, level of education. Also, price awareness is influenced by the frequency of purchase of products (for products purchased more frequently, in general, awareness is higher), the availability of information about price at the sale place, and in adverts published in the media, the dispersion of prices on the market (the bigger, the lower the awareness) the intensity of competition by price (when price competition is more intense, the awareness is higher).

In terms of understanding the phenomenon of price awareness, it is necessary to analyze the process of representation of numerical stimuli. Thus, research in the field of psychology has come to the conclusion that the representation of numbers is achieved through three types of code: a code that processes a report, a non-numeric expression (expressed in words such as "ten", "thirteen"), a visual numerical code (digital expression "10", "13") and a code of intensity that makes an assessment of the range of numeric values ("10 is less than 13") [10, p.73]. Consumers can retain the numeric or verbal expression of prices, depending on how it was originally encoded for this information. Research on the degree of knowledge regarding price appeal to all three modes of representation. Thus, by unassisted mentioning of the price of a product the verbal representation is explored, the acknowledging of a price from a list appeals to visual representation, and researching the extent to which consumers' falls within a certain range enables representation based on intensity.

Processing of information on price can be done consciously or unconsciously. Consciously, a buyer can demonstrate attention to price, evaluate and transfer into long-term memory information either at its level or regarding the category employed (too expensive, reasonable, and inexpensive). Unconscious processing assumes that a consumer who has been exposed to a piece of information on the price does not pay attention to it, but does a set of evaluations of the product, transferred into the long-term memory, allowing price-entry into categories (too expensive, reasonable, inexpensive).

Another factor which influences cognitive process of perception the price represents the ability to evaluate quality. The relationship between the provider of products and the buyer can be affected by the information asymmetry phenomenon that implies that one party has more information than the other about the product that may be the subject of the transaction. There are products for which the quality level is very difficult to determine before buying, particularly, services. In terms of information asymmetry two problems arise: adverse selection, i.e. the buyer uncertainty with regard to the information provided by the bidder in respect of product quality, and moral hazard, i.e. the buyer's fear that the provider of products will change the quality level of the product in the following transactions. In order to reduce this lack of information, the purchaser can rely on a series of clues regarding the quality of the product: price, brand image or guarantees granted upon purchase (warranty period and the promise of restitution of the money in case of poor performance).

Confidence in the provider relates to the degree of confidence displayed by consumers with regard to the correctness of actions aiming at the price of sellers, with implications for the just price perception.

Confidence in one's own judgment has implications upon perception as an indicator of quality. The less the buyer's confidence in one's own judgment, the higher the tendency to purchase the product with the higher price. When the buyer is confident in one's own assessments and when risk is lower, the buyer will be prone to choose the product with the lowest price.

c) Situational factors influencing the perception of price by the way it is displayed, the manner of payment, the complexity and urgency of the purchase, the price level of competing products, the destination of the product, the price variation, the characteristics of the product, the buyer's financial situation. The price can be displayed so as to attract attention (in case of price reductions) using different colors to represent him. There are times when, alongside the product price, the price per unit of measurement is displayed as well in order to facilitate comparisons. More attention is paid to price when payment is made in cash, compared to payment by credit card. Payment method influences consumers' perception about price, and about their reservation price (maximal price they are willing to pay). Thus, a marketing experiment conducted by researchers J. Monger and R. Feinberg has come to the conclusion that the price that buyers consider just is significantly higher in the case of payers with credit card than those with cash or by cheque. Also, the price levels of reservation by credit card are perceived as being higher than in the case of other categories of payers [6, p. 145]. Also, credit card payers buy more than cash payers in identical buying situations, as in the first case the sacrifice perceived is lower than in the second case.

The less complex the purchase is, or done in a shorter time, the less attention the consumer pays to price. For durable products, processing information about the price is generally longer compared to the current situation of consumer goods. However, some researchers have shown that the desire for engagement in the process of searching for prices of durable goods did not increase with their level variation [4]. The basis of such behavior is the Weber's law of Psychophysics that suggests that the intensity of an individual's response to a stimulus change is inversely proportional to the size of that stimulus. Also, the usefulness perceived by an individual in respect of the savings that can be done a result of the research is inversely proportional to the average value. These arguments lead to the conclusion that the assessment of savings associated with the price in relative terms rather than absolute terms, consumers becoming less interested in seeking information about the price in order to make savings, the higher the price.

When assessing a given level of price, the buyer has in mind some points of interests, and standards for comparison. They can be influenced by situational factors; there are situations where this influence is exercised unconsciously. Thus, researchers R. Adaval and K. Monroe, in two marketing experiments, demonstrated that a product was evaluated as less expensive when it was presented together with products with a higher price than where it was exhibited next to low-cost products, although in the latter case the product's price was lower [1].

4. Perception of value and price

Price knows many interpretations depending on the ratio between price and value, as well as depending on the monetary or non-monetary expression. The notion of value plays the central role in economy. Generations of economists have developed corresponding theories attempting to define and to better understand the concept of value and its economic implications. The general value approach helps to develop value-judgments and decisions in a much wider range of situations than in market-exchange. The concept of general value provides a solid basis for analysis and decision-making processes in economy. In accordance with the generally accepted notion of value, a value may be either subjective or objective; some values are subjective, while the other values are objective. A value can be both subjective and objective; a value can be partly subjective and partly objective [9]. The overall value in economics plays a similar role as energy in physics and can be referred to as "economic power" [2]. This analogy can be extended to the principles of balance.

The perceived value of a product is the ratio between the benefits perceived by the consumer to be offered by that product and the perceived sacrifice to be supported, as a result of purchasing the product. In the sphere of perception, the relationship between price and value is based on the fact that the price can be set both as an indicator of quality (as a representation of the benefits provided by the product), as well as an indicator of perceived monetary sacrifice, being, in sum, a landmark in the perception of value. Double dimension of price gives it both positive values (as an indicator of quality), and negative (as an indicator of the sacrifice borne). The influence of perceived value price is double so that growth can lead, on the one hand, to increase perceived quality, and on the other hand to enhanced sacrifice perceived by the consumer when he/she purchases the product. As the price rises, the sacrifice perceived outweighs the perceived quality, so that the perceived value will decrease. Also, the purchase intention correlates positively with the perceived value.

The perception of the value involves a mental quality dimension, i.e. perceived sacrifice, and given the fact that they act in the opposite way, compensation is needed. If the perceived quality is superior to the monetary sacrifice perceived, the result of compensation is positive, which leads to favorable perception of value and increases the purchase intention. This mental process of evaluation of the price through two dimensions is difficult, the consumer is predisposed, in most cases, to give higher importance to either quality information, or to that related to cost.

Grounding and operationalizing the price strategy should have as its point of reference the concept of value. It is stipulated in the marketing strategy, but price strategy, however, may become the best source of messages to the market, leading to the formation of the image of the value offered by the organization. The process of making the price based on a value strategy must take into account the competitive strategies of the enterprise, as well as the marketing strategy focused on value.

Before acting on a new market, the enterprise conceives its price strategy conceived from the outside inwards, i.e. by building a competitive strategy, followed by designing a marketing strategy based on value and, finally, to initiate the process for determining the price. If a review of the price strategy of the enterprise on the market where the enterprise acts already, it is good to start from the inside outwards [7, p.151]. In determining prices, it is necessary to define two elements: the structure of prices and the price-setting process. The first relates to the points of reference in relation to price levels defined for a product, and the second sets out the steps required determining prices.

In providing value to consumers, a price structure is needed to reflect the differences in the economic value of a product or service. In the design of this structure, the basic elements are:

– the criteria to categorize consumers (segmentation variables), which can be attributed to differential pricing in order to highlight different levels of value; for example, an insurance company can assign different prices for the same insurance to employees and pensioners;

– the unit of measure of value (value metrics) that underpins the establishment of price rules. Thus, for a service offered by a fitness centre, price can be set per hour, per visit, for a longer period or for performance. Finding the most appropriate units of measure to mark differences in value provides better results, both in terms of sales volume and profits. The unit of measure of value can cover rather the measuring of characteristics of the consumer rather than attributes of the product.

By creating a price structure based on segmentation variables and units of measure it is aimed at preserving the balance of the price-value, which means that the price assigned to a product should reflect its value. The inequality between the two dimensions can lead to situations of non-used value or over-evaluated value of the product, by practicing a price well above its insured value, which may lead to bad results for the enterprise.

The process of fixing prices within this structure is proactive and it is necessary that the enterprise should ensure coordination regarding prices in terms of policies, strategies and tactics. Decisions concerning the establishing of price reductions or other practices that aim at price must be managed proactively and not implemented as a reaction to the lack of consumer information or as an attempt to manipulate them. Over a period of time, consumers can change their attitude towards price and the amount they are willing to pay for a product. The decision-taker needs to adapt oneself to changes, while maintaining the integrity of the price within the coordinates set by the strategy. For this purpose, the price based on the value requires the replacement of flexible prices for a fixed offer with a fixed price [7, p.157]. The use of such a fixed pricing structure has the advantage that it can be de-centralized at the level of implementation, thus ensuring a quicker response to consumer demands.

Pricing based on value can result in getting the desired effects if consumers don't perceive correctly the value that price quantifies. Communicating value through advertising, sales promotion, sales forces, after-sale services, or other techniques has the role to determine less informed consumers to pay the same price as consumers who have more information on the product.

The basis of building a value-based strategy out of five elements, known as the "five C" arranged chronologically from top to bottom, in the order in which they must be achieved [7, p.164]:

– knowledge (understanding) of elements that ensure value for consumers;
– creating value for consumers through the product, considered in all its components;
– communicating the value created, both through components of the product (tangible or intangible) and through techniques of the promotional mix;
– persuading consumers to pay the price for the value received;
– capture (using) value by creating appropriate structures price.

5. Conclusions

In its interaction with the external environment, the individual gets in touch with a number of stimuli that he/she tries to identify, to evaluate, and to assign a meaning. Perception is the process of sensing, selecting, interpreting stimuli from the external environment acting on consumers [11, p.230]. In this process, the individual, through senses, receives and encodes messages sent by external stimuli and at the same time, interprets, giving them a meaning

Value-based price strategy aims to ensure equivalence between consumer-perceived value and actual benefits provided to them by the organization. For this approach to be effective it is necessary that the product value can be evaluated similarly by both the buyer and the seller. Substantiation of the price strategy should have as its starting point the value expected by consumers to be the reference in determining the price level. Subsequently, costs and production volumes will be established, managed in such a way as to ensure the desired profit. Such a strategy can bring a higher return compared to other similar approaches, leading to the formation and support of a favorable image of the organization.

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