Price – Between Economic Theories and Marketing

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Abstract
This article emphasizes that price is a multidimensional concept that, due to its economic and psychological valences, becomes both a macroeconomic and a microeconomic tool that the enterprise can use as basic tool in taking strategic and tactic decisions. Given its universality and complexity, it has been the object of research for several economic-social sciences; marketing ensures a multilateral approach meant to define attitudes and behaviour of the enterprise that can meet the requirements of the market. Price in an enterprise should not be approached only from the operational point of view but also from the strategic point of view, since it represents one of the tools of the marketing mix and it has the ability to measure the value offered to consumers and to contribute to generating the financial results of the enterprise.

Key words: price, value, enterprise, marketing mix, price strategic valences

Introduction
Approaching price from the point of view of the political economics may be the starting point in defining price from a marketing perspective. Economic literature provides the basic elements of the price mechanism although a marketing approach means not taking it over but revisiting the concept. Thus, the high determinism in forming price, typical of the political economics, as an equilibrium point at the crossroads between demand and supply, may lead to the idea that price is an exogenous variable. The marketing approach contradicts this idea since there are also other variables in the price – forming mechanism: economic or psychological variables, not taken into account by the classical and neoclassical economic models. For the buyer, the price he would pay measures the need and satisfaction as a result of the acquisition of a product. For the seller, the price is the measure of the value included in the manufacturing of the product plus the profit the seller hopes to obtain [7].

1. Perspective of economic theories upon price
In the approach of the political economics, price has various interpretations, depending on the relation between price and value, and depending on the monetary or non-monetary expression in which it can be expressed. The concept of value underlies the price definition; value can have several approaches corresponding to various economic schools and trends, among which 2 main directions: objective theory and subjective theory of value [2].

According to the objective theory, the value of goods lies on its rarity, and living work expenses as well as materials implied by its manufacturing. The link between work, value and price is given by Adam Smith in the „Wealth of Nations”: „in all times and
places, it is expensive what is achieved with difficulty or involves more work and it is cheap what is easily achieved or with very little work” [11]. He stressed that the price of any goods lies on hard work and efforts made to achieve it, work is in a way the original monetary unit. The theory of value-work has been adopted also by English classics: W. Petty and D. Ricardo. The latter distinguishes between usefulness value and exchange value. Usefulness value cannot create exchange value since the most useful things (air) have no exchange value and things with highest exchange value (gold) are less useful [1]. Usefulness is the condition of value but not its measure. D. Ricardo stresses the monetary expression of price that is the amount of money for which a product can be exchanged. K. Marx takes over the theory of value from English classics and makes the role of labour absolute, especially physical labour, in the creation of value, however, physical labour not being directly linked to the law of determining price. He denies the role of usefulness of goods as a determinant of value, usefulness being seen as a pre-requisite of value. Labour is the only real measure serving to assess and compare the values of all goods and it is the real (natural) price of goods while the amount of money defines the nominal price [3].

The subjective theory considers that value, that is price, lies in the usefulness of goods and not in their objective characteristics; human needs prevail and goods production should be subordinated to them. The pioneers of this theory were Condillac and Turgot, together with the neoclassic like S. Jevons, L. Walras and C. Menger. According to this theory, value is determined by marginal usefulness and rarity of the respective goods. Irrespective of the amount of work invested to achieve that economic goods, this asset will acquire value only to the extent to which is demand on the market because of its usefulness which gives demand a role in defining the exchange value and the price, but the size of the value is defined by costs as expression of the rarity of the production factors. The higher the value of goods, the more useful the last unit consumed.

The subjective approach of value, according to J. B. Say, implies a comparative aspect, so that the assessment of an object implies comparing with another object with a value.

Supporters of the objective theory of value think as supplies who want to recover their work expenses, while the supporters of the subjective theory support the consumers’ interests where price is an indicator of usefulness and rarity of the product, on the one hand, and of the solvability of the demand, on the other hand. There is no opinion consensus on the relation price - value. Price reflects entirely the value of goods according to the marginal usefulness theory while the objective theory states that price cannot be equal to value, there are cases where price does not coincide with value (the latter is established by the demand-supply relation and not by the value expressed by the work done to achieve the product).

Another element to define price is the monetary or non-monetary expression in which price is expressed. Many economists among which: A. Smith, R. Malthus, J.B Say, K. Menger, A. Wagner are adepts of the view that price of a product can be expressed by another product or by the intensity of the work done to achieve that product. In that respect, A. Wagner thinks that the price of a product is the quantity of another product for which it can be exchanged; thus, a product can have as many prices as many products it can be exchanged for while the monetary expression is just a form of price, usually used [5]. Among the adepts of the monetary view: D. Ricardo, J. S. Mill, C. Gide, the latter believes that money is the only measure of value.

Milton Friedman considers price is an element of the product easily perceptible by consumers that in many cases raises no problems of interpretation. It is an economic indicator, a psychological indicator (indicates the value ensured by the consumption of the
respective product), and in many cases, a quality indicator [6]. Other definitions consider that, from an economic perspective, price is the expression in money of the value of products and services that are the object of the exchange, thus being a market tool and an indicator of reality [10].

At macroeconomic level, price plays a major role in the operation of the overall economic system as an economic leverage of the way in which resources should be allocated and coherently integrated in all structures of economic circuit. Price fulfils a set of functions such as:

- Measure of social work consumption;
- Stimulation of production and movement of goods;
- Distribution and redistribution of national income, according to general interests [12].

At macroeconomic level, price is one of most important decision-taking areas since it contributes to balancing the supply amounts with demand amounts across national economy, allows stimulating investors and discourage non-competitive market operators, contribute to allocation of resources according to efficiency criteria, ensures distribution according to economic criteria of results achieved.

At microeconomic level, price fulfils functions such as:

- Guides economic agents regarding directions to use resources;
- Defines amounts of products to be supplied on the market;
- Ensures the income needed to continue the economic activity in an organization;
- Harmonizes the interests of the participants to the exchange process;
- Assesses the sacrifice made by the consumer in exchange of the benefits of the product;
- Informs consumers about the value of the product.

The diversity of standpoints about price does not cover it exhaustively but provide the main directions to define it from the point of view of the marketing.

2. Concept of price from the point of view of the marketing

Price must be defined by comparing all the time the value that consumers associate with the product, depending on their expectations about it. The consumers’ expectations depend on: perception of a “fair” price, prices paid in the past, prices of the competition and perception on quality. In defining price, the relation price – product must be taken into account; otherwise, price may become an abstract variable without object. For the supplier, the product must be seen as a set of utilities, objectives or perceptions that can be supplied to the consumer, price being the expression of the satisfaction as a result of consumption / use. The concept of value used in the marketing approach is somehow different from the one used in economic literature in which it has 2 meanings: usefulness value and exchange value. In the marketing approach, the perceived value of the acquisition is defined by the ration between the perceived benefit (quality) provided by the product to consumers and the total sacrifice perceived by consumers about the acquisition and the use of the respective product. The benefit perceived is given by a combination of physical and functional attributes and by the technical support in the use of a product. The total sacrifice perceived by consumers is the set of costs paid by consumers to acquire and use a certain product or service. Such an indicator is equal to the acquisition price plus the additional costs incurred with the putting into operation of the product (transport, installation, handling), and the usage costs (repairing, maintenance, risk of malfunctioning or poor performance) [8]. Thus,
Price is a basic element in forming value. In order to take the best decision regarding price, the decision-taker must know the way in which consumers assess the price paid through its monetary expression and other costs incurred by consumers, measuring their importance at the same time. Price can be a major element of the marketing mix but decisions regarding price must be coordinated, especially regarding the product, promotion and distribution. The framework of this coordination is defined by segmentation and positioning strategies adopted by the enterprise; this is the general guideline to establish the marketing mix. Price is a specific variable of the mix with a few characteristics. The profitability of the enterprise depends on the price. All the other elements of the mix can create value for consumers and costs for the enterprise, but only price causes income, allowing cost recovery and profit gain. Price is one of the most visible variables, easily perceptible by consumers, and when it can be controlled by the enterprise, it is highly flexible. Price does not imply cash flow initially negative; investments in price are quickly recovered. The tactical valence of price is special since price does not generate effects that are quicker than other variables but it can be used similarly by competition. Thus, the advantages of price cannot be always protectable; the enterprise should have long-term means (ex: low costs, high quality, good brand image) to support a certain price. Price should be coordinated with other marketing mix variables along the guidelines indicated by the market strategy.

Price can be defined as the ratio between the amount of money that must be paid by the buyer to acquire a certain amount of a product or service. Price change may imply changes in the quality of products or services that may be paid by the buyer, the quality of the product, of the moment or place of transfer of the merchandise, of the way of payment, of reductions made. Thus, price defines a complex sub-mix, including the set of categories and forms of price of the enterprise, seen from the point of view of the relations among them, thus allowing the supplier to make his decisions more flexible.

In an enterprise, price is seen from a double point of view: as a tool to stimulate demand and as a factor to influence long-term profitability. The difference between establishing prices and their strategic approach is similar with the difference between the response as a result of changes in the market and their proactive management. The strategic view upon price imposes coordination of the marketing decisions with financial decisions in order to achieve the objectives proposed. A reconsidering of the relation between marketing and finance is needed, to ensure a balance between the wish of consumers to get value and the wish of the enterprise to make profit. The strategic valences of price are established starting from the level of control that the enterprise has over price and from the level of flexibility of price. The price limits are defined by demand (higher limit) and costs (lower limit), while competition and legislation are elements influencing the horizontal evolution of price, thus leading to the so-called „manoeuvre margin”. Depending on this, the enterprise can decide to what extent price can be used as a strategic and tactic tool.

The strategic valences of price are supported by several arguments:

- It is a sign for the consumer used by the consumer as source of information when the product is difficult to assess;
- It is a competitive tool since it allows immediate attack on the competition or means to avoid confrontation with competition;
- It is a means to obtain financial results;
- It is a positioning tool.

Depending on its level and role in the marketing strategy of the enterprise, price can be:
- high, with active role in the strategy of the enterprise, used when the buyer cannot easily assess the quality of a product, price being seen as a sign of the value or used when a good image must be supported;
- High, with a passive role when price financially supports the characteristics of the product, which are its positioning elements;
- low, with active role when price is a major factor in the decision to buy and competition is not very strong or the enterprise has a cost advantage;
- Low, with passive role for lower quality products and low potential enterprises.

No matter how important price may be, it cannot compensate the lower characteristics of products, unprofessional staff or poor implementation of marketing plans.

3. The role of price in the marketing mix

Compared to other mix elements, price may be for consumers a cost element rather than a benefit element. Thus, the consumer may consider that price measures what he should give up in a transaction in order to get the right benefit. The graphic representation of price within the marketing mix can show as follows:

![Price within the Marketing Mix](image)

**Fig. 1. Place of price within the marketing mix**

Three elements underlie the relation between product and price: characteristics and quality of the product, the product mix and the brand strategy [4]. Price is an intangible component of the product and it has a bi-univocal relation with the product. The product, because of expenses involved in the manufacturing, causes costs which must be recovered in price. The more the product possesses distinct, perceptible characteristics on the market, the higher its value, the less important the price. At the same time, price is a means to support the image of the product, and sometimes, an indicator of quality.

A direct relation can be established between price-quality perceived: the higher the price, the higher the quality perceived by the buyer, when some requirements are met. Price plays a major role when it is one of the little information available, used in assessing a product. The more the number of stimuli suggesting quality (brand image, image of the shop), the less price is used as an image indicator. Price is a quality indicator when the opportunity cost generated by the provision of additional information is higher than the risk posed by potential wrong decisions. The relation quality-price differs from one product from another; it is weaker for frequently bought products. The strength of the relation quality-price depends on the brand image; the price should be correlated with the brand strategy of the enterprise.

In case of brand-line strategies or brand-range strategy there should be defined a level of the price that should be convergent with the brand image wanted for the products it
Price can influence the acceptance of the product on the market since it underlies the perception of its value. Price strategy in case of a new product launched on the market should take into account its characteristics, the market structure and competition, thus stressing the novelty of the product or its accessibility. In terms of product mix, the price policy shall stress the link between products in consumption or in use, in order to stimulate sales of captive products and avoid cannibalization among the replaceable products.

Since the products offered by an enterprise can be meant for various segments of consumers, prices should be adjusted to their expectations and competitive against the competition’s prices. The decisions regarding price shall be managed in such a way so that the profit objectives should be achieved for the entire manufacturing line, not only for each range of products. Some products of the line, called “marginal”, often have a competitive role, enticing consumers that are sensitive to price, thus strengthening the place of the enterprise against the competition.

When establishing the link between price and distribution, the following aspects must be taken into account: strength of distribution, type of channel and its configuration. In choosing the distribution channel and the price, the enterprise must take into account the image it wants about the product and the kind of buyers it wants. A luxury product will have an exclusive distribution and it will be sold at higher prices while a mass product will have an extensive distribution and the selling price will be moderated, even low. The type of channel influences the price of the product since the more go-betweens, the higher the price, in order to ensure a decent income to each of them. Price is a means to stimulate the members of the distribution channel and an instrument to cover distribution costs. In choosing the distribution strategy of the producer - push or pull – price can have significant importance. Thus, the distributing enterprises can use the appeal price tactics to sell products that use pull-strategy at attractive prices, which sometimes leads to the sacrificing of the profit [13]. This means attracting consumers to the shop and orienting consumers, by merchandising techniques, towards products that use pull-strategy, thus ensuring a higher unitary profit. Interference with the distribution policy appears in the area of final price management; the producer can recommend the retail seller to maintain a certain price, by using some stimulation techniques.

The link with the promotional communication is that price is a means to support promotional efforts as a promotion tool, being perceived as a source of messages for the consumer. A high price can suggest higher quality; a stable price can indicate stability of the value provided by the product, while high demand generated by a low price can draw attention upon the product [9]. The promotional policy supports the decisions about price, causing lower elasticity of demand as against price towards a certain brand, by strengthening the differentiation elements of the band as against competition’s products. In the case of adopting a strategy to penetrate new markets, promotional efforts can be directed towards increasing elasticity of the demand by raising awareness, at a higher extent, about the possibility of replacing the existing products with the new product.

Some of the techniques to promote sales are based on price: special offers, vouchers, quantity sales, reimbursement offers. Promotions can cause increased sales an implicitly increased production, which leads to large scale savings and lower unitary cost per product, thus enhancing the flexibility in handling price.

Given the stronger relation between the brand image and the quality perceived than between price and the quality perceived, enterprises are interested in building strong brands, well-known and with a good image by making promotional efforts [13]. This allows higher prices because of the trust consumers have in their brands.
Conclusions
Approaching price from the marketing point of view ensures an integrating view which, together with theories in political economy and psychology, defines an enterprise’s behaviour meant to ensure consumers the value they expect for the price paid. Price has strategic, tactic, communicational and psychological valences; the role of marketing is to add value to these valences and to manage them in order to support the interests of the organizations and consumers. Managing price-related decision (establishing price must be a process, not an isolated action) should not be a reaction to the current manifestation of influencing factors but it should involve a proactive attitude of the organization meant to take into account and anticipate its future evolution.

References