УДК: 339.138
JEL: M31

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ВІДПОВІДЬ НА ЗМІНИ ЦІН У КОНТЕКСТІ ЗРОСТАЮЧОЇ МІЖНАРОДНОЇ КОНКУРЕНЦІЇ

В умовах збільшення кількості компаній, що функціонують як на вітчизняному, так і на закордонному ринках, надзвичайно важливим стає правильний підхід до відповіді на різні типи змін конкурентної ціни. Подано правильний підхід щодо відповіді на цінову конкуренцію. Адекватна реакція на зниження конкурентної ціни може запобігти ціновій війні, яка є абсолютно негативним феноменом.

Ключові слова: ціноутворення, цінова конкуренція, цінова війна, відповідь на ціну.

RESPONDING TO PRICE CHANGES IN THE CONTEXT OF GROWING INTERNATIONAL COMPETITION

In terms of increasing the number of companies operating on the market, both domestic and foreign companies, right approach to respond to the different types of competitor' price moves becomes extremely important. The purpose of this article is to present the proper approach to respond to price competition. Adequate reaction to competitor's price reduction may prevent price war, which is absolutely a negative phenomenon.

Key words: pricing, price competition, price war, price response.

Problem formulation and analysis of current research output and publications. Price is the only element of the marketing – mix that brings revenues to a firm [1, p. 9]. For this reason, all pricing decisions should be carefully considered in terms of both long-term and short-term implications. Direct fight with a competitor involving the repetition of price reductions can have devastating consequences – in the short term erosion of profits and in the long term deterioration of brand image. Therefore, it is clear need for intelligent price management. The pricing policy is one of those competencies that the company can continually improve [2, p. 113].

Article objectives. The purpose of this article is to present the essence of the process of price reacting in the context of growing international competition, including price competition. Specific attention was paid to the phenomenon of price war.

Presentation of the main material. Any change in price made by competitor may initiate price war. For this reason, it is essential to clearly communicate the price moves. To avoid competitors misreading a seller's pricing moves, it is important to use signals. Using public media, firms should signal their estimates about the future growth of the market, their excess inventory, reasons for price changes and any other information that will help competitors avoid misreading the firm's actions. Transparency of pricing policy has also a huge impact on the customers' perception. Managers should be aware that modern consumers are not passive price takers. They root out and disseminate information about a firm's prices, exploiting social media platforms to publicize policies that they believe are unfair. And they don't hesitate to abandon companies that cross the line [3, p. 97]. The reaction of consumers is just as important as the reaction of competitors. In the efficient process of introducing price changes the company which is an initiator of these changes should focus on several stages [4, p. 14-17]:

1. Understanding the relationship between profit and sales volume.
2. Clear formulation of the objectives of price changes.
3. Choosing the right method of price changes implementation.
4. External and internal communication for price changes.
5. Effective implementation and monitoring the effects of price changes.

It is also possible to identify a number of common errors related to the price management (table 1) – the sooner companies learn how to avoid them, the better for them.

Table 1

Examples of pricing errors and methods of avoiding them

Examples of pricing errors	Ways of avoiding the errors
Relying on intuition.	Basing on objective and accurate data.
Using of unproven methods.	Commitment to pricing process employees from sales department and customers.
Faulty measurement of customer willingness to pay.	Indirect questions or expert estimates.
Cutting prices in search of additional profit.	Quantifying the effects of the price cuts.
The belief that raising prices leads to a loss of customers.	Price elasticity analysis.
Pricing by using cost-plus method.	Including customer willingness to pay.
Price management is limited to determining the new price.	A thorough analysis of price's structure.
Establishing a uniform price for all customers.	Price differentiation depending on the specific of customers.
Imitating competitors who take away most our customers.	Develop our own strategy.
Leaving prices unchanged for as long as it is possible.	Adjust prices is possible in every 1-2 years.
The belief that customer acquisition is possible only with the use of price cuts.	Use of different tools in order to gain customer loyalty.

Source: [5, p. 39]

Table 2

Factors affecting price competition

Factors that increase the intensity of price competition:
– high interbrand price sensitivity among consumers; price cuts will increase sales at the competitors' expense, – low competitive barriers to entry or growth; new firms with low incremental costs can enter the industry and build market share, – consumers perceive very few differences between the products available in the marketplace (low differentiation), – manufacturers in a particular industry fall into the commodity trap, believing that price is the determinant of sales.
Factors that reduce the intensity of price competition:
– differentiated brands with low interbrand price sensitivity, – firms that have a sustainable low cost advantage (low cost producer); there is only one low cost producer in any particular industry and/or geographic region.
Factors that mitigate the intensity of price competition:
– stability of the industry environment, – relative market positions of companies in the industry, – management philosophies of companies in the industry, – relative strengths and weaknesses of companies in the industry, – price history of the various products and services offered by companies in the industry.

Source: [6, p. 109-110]

Another very important issue is the awareness of existing factors that have radically different effects on price competition (table 2). Particularly important are mitigating factors – their existence is evidence that the risk of aggressive price competition may be limited. Companies should make all possible efforts to avoid this kind of competition on the market.

One of the basic principles of responding to price changes is: think before you act. It is essential for companies to understand that each pricing decision must be carefully examined in terms of long-term consequences [7, p. 105]. Many managers are so fully aware of the risks of price wars and the importance of competing from a position of strength that they think coolly and logically before initiating price competition [8, p. 126]. However, it should be emphasized that it is not so easy to think logically about whether or how to respond when company is already under attack. Figure 1 illustrates the complex flow of thinking required to make thoughtful decisions about reacting to price competition.

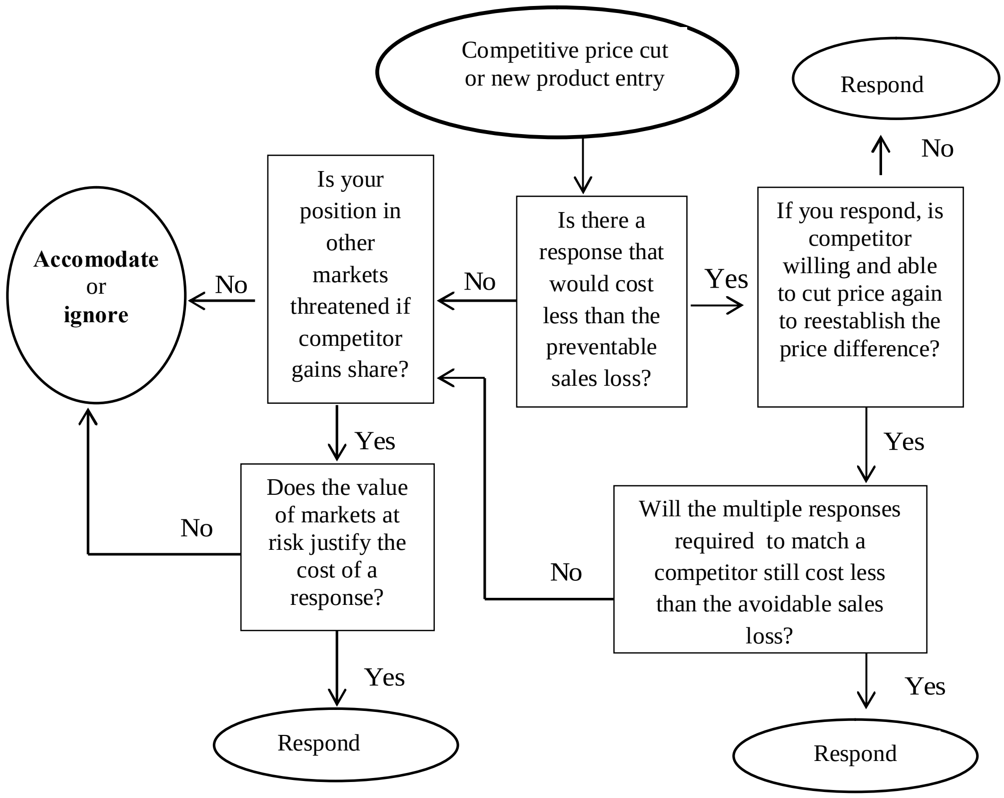

Figure 1. Thoughtfully reacting to price competition
Source: [8, p. 128]

There are few important questions to be answered – depending on the nature of the response (yes or no) appropriate actions are recommended. Outwardly it may seem that finding the right answers to these questions is not difficult – nothing could be more wrong. This requires a good knowledge of both the internal situation of the company, as well as the determinants of the external environment. The more company knows about itself and its competitors, the less is the risk of making wrong pricing decisions.

It should be noted that in the worsening process of internationalization the problem of proper price management becomes even more important. There are two distinct approaches. First – to keep separate pricing on foreign markets. Second – technology development approaches distant markets and makes it harder to lead a different price regime in the home country and abroad. Among the arguments for price standardization on the international market can be identified as follows: the gradual elimination of trade barriers, lower transport costs, development of gray import. While, the arguments for price differentiation on the international market include the following: different customers' preferences, increasing international competition, different inflation rates, exchange rates. No matter what solution will be implemented, company must make decisions about the price level, it's possible modification and differentiation [9, p. 65-66]. Therefore, it is necessary to take into account several important factors affecting the final price level on the international market [10, p. 106]:

– form of action on the international market,
– the inflation rate,
– the phenomenon of parallel imports,
– exchange rates of the country of the exporter and importer,
– form of payment in international trade,
– legislation on pricing freedom valid in different countries,
– intensity of the international competition,
– approach to imported products.

What is important, the company has no effect on the majority of these factors. As a result, the company may have to deal with three types of product price offered on foreign markets. First type – the price uniform throughout the international market, this kind of price is rarely implemented due to differences in income and expenditure structure of buyers in different countries. The second type is diverse price – the nature of the different markets or regions significantly affects the price level and possibility of price differentiation. The last type of price is the dichotomic price – in the home country price is different than on the international market (for all foreign markets price is uniform) [10, p. 123-124]. As noted one of the factors limiting the freedom to manage prices on the foreign market is a form of corporate action. Companies operating on the international market with more advanced forms of internationalization (e.g. network of franchise, own subsidiaries, sales offices) are one of the many actors on the supply side. In connection with this during making pricing decisions company must take into account the general principles of marketing including pricing principles. When determining the price level and the rules of the price differentiation the company should also take into consideration a number of interrelated factors: company's goals, the product life cycle and the intensity of competition in the various phases of product life cycle, demand and responses to prices' changes, production costs, the impact of current period sales for future sale, price of competitive products [9, p. 73]. As it can be seen, the appropriate price management is becoming more difficult if company takes into account changes occurring on the market. Currently, it is difficult to imagine any company operating in isolation from rivals – both domestic and foreign. The more competitors on the market, the greater the risk of a price war.

A price war occurs when one competitor on a market significantly undercuts the prices which leads to a cycle of one or more competitors lowering their prices in order to undercut each other. Often, the initiator of the price cut is a company with significant market shares. In this case, the other market players have a choice of how to proceed in terms of pricing. Price-leader is a company that has a significant market share and has a well-known, often prestigious brand. Price leader can also be a company that does not have these features but has the best access to information, especially information about costs and demand. The most important is that the pricing decisions made by that type of company became a reference point for other operators on the market [11, p. 170]. If there is no price leader on the market, price competition is disadvantageous even for large companies, which would have a chance to implement their aggressive pricing. This attitude follows from the fear of calling a price war. The result of price war is an increase of consumers price sensitivity [12, p. 499]. Companies engaged in a price war should not be too encouraged if a price war initially brings more visitors to their stores or buyers to their brands. A price move may reengage customers to compare prices in the short run, but in the long run they are expected to return to their usual shopping frequencies as a result of a price war stores with an unfavorable price image tend to lose store visitors in the long run. To prevent a price war escalation, it may be a good idea first to analyze consumer responses when one market player begins to cut prices. If purchase behavior changes only modestly or temporarily, it may be better to focus on marketing-mix instruments other than price to win back customers. If the changes are strong, there is little resort other than to respond by offering price reductions as well, possibly spiraling down to a price war [12, p. 515]. It should be clearly noted that price competition is a negative sum game. There are usually no winners on a market that competes on price. Company can call itself a winner but the truth is that no matter who wins, the combatants all seem to end up worse off than before joined the battle. Price wars can create economically devastating and psychologically debilitating situations that take an extraordinary toll on an individual, a company and industry profitability [13, p. 107-108]. We can specify the four main reasons to avoid price wars [14, p. 244]. First, low prices have a significant impact on profitability – costs related to price wars could lead the company to bankruptcy. Second, hardly ever the result of a price war is a long-term market rationalization. Aim of firms which initiate aggressive price competition is to eliminate the competition. However, even if some companies will disappear on their site may appear new rivals – they can be more dangerous, because there are unknown. Third, constant price undercutting can damage brand equity and erode profit margins. Meanwhile, customers develop low expectations and become disengaged [15, p. 87]. Unfortunately, consumers have a very short memory and quickly forget what was the level of prices before the outbreak of a price war. As a result, they perceive low prices as a standard and communicate strong opposition against any price increases. Finally, the benefits of price reductions are rarely permanent. In the long-term price cuts undermine consumer loyalty. It is common that buyers perceive the price as the main quality indicator, so any price reduction means value decrease in comparison with previously offered value. Consumers' sensitivity to price differences increases and their willingness to pay prewar prices declines. The result is that buyers become loyal to price rather than to value [16, p. 93]. The best specialists in the field of pricing strategies avoid price wars – what is the purpose of participation in the price war, if it is harmful to all participants? What's more, the effects of aggressive price competition are always negative and last much longer than might be expected. [14, p. 242] If price wars carry such negative effects, what are the reasons for the outbreak? Most of the price wars are not the result of deliberate cut prices – usually there are an reaction to the exaggerated market players behavior. Obviously, sometimes price wars start intentionally. That is, a firm strategically wants to enter a new market, increase its market share, or change the business is conducted in the market. Undoubtedly, the most common reasons for price wars are that seller either misread a competitor's intentions or misread changes in demand or market share. For this reason, a fast-acting and high-quality market intelligence is irreplaceable. If a company has a professional market intelligence, the best strategy against price war is to create and defense market niches. Most companies define a niche market as one that consists of relatively few customers willing to pay premium prices for goods and services that meet their specialized requirements [17, p. 71]. Another way is to increase the value to the customer – to create a unique value (in terms of type and quality) that competitors can not copy [14, p. 243]. In the context of what has already been said about the price wars it is possible to identify four main reasons for this type of price competition. One reason is the difficulty in comparing competitive prices – often our ideas about competitors are wrong. Another reason is the ignorance about additional circumstances that led to a price cuts – a lack of reliable information about the details of transactions made by competitors. Very often companies are able to see only the final price level offered by their rival, but they do not know the reasons of such a move price – what was the basis for determining so attractive price? Typically, when one seller reduces its prices, the reaction of competitors is to not let it get away with that reduction. They may not realize that the competitor is simply reducing prices for a limited time to reduce some excess inventory or that there are very specific conditions on how a buyer may qualify for the price reduction, including a limit on the quantity that can be purchased at the lower price. Or the seller who has reduced price may have simultaneously reduced some level of benefits or service that previously was included with the product purchase [16, p. 94]. Another reason for the price war may be incorrect assessment of the threat from competitor. Not always respond to competitor' price movements are justified, because not every competitor decisions can be dangerous for our market position. This is also connected with misunderstanding the intention of competitor.

Company engaged in a price war should understand that there are several non-price options to defend yourself and recognize that it is sometimes best to cede the turf under contention and seek greener pastures. If the current combatants can't be vanquished, it may be wise to observe the price war from the sidelines and enter the fray after everyone else has been eviscerated. Sometimes, to the bystanders go the spoils of war (table 3).

In view of the fact that the price war has no real winner, there should be emphasized the factors that determine the duration of aggressive price competition [11, p. 180]:

– competitors' behavior,
– costs associated with participation in a price war,
– companies' ability of absorbing losses,
– possibility to obtain support from the other participants in the distribution channels.

Table 3

Ways to fight a price war

Tactic	Example
Nonprice responses	
Reveal your strategic intentions and capabilities	Offer to match competitors' prices, offer everyday low pricing, or reveal your cost advantage.
Compete on quality	Increase product differentiation by adding features to a product, or build awareness of existing features and their benefits. Emphasize the performance risks in low-priced options.
Co-opt contributors	Form strategic partnerships by offering cooperative or exclusive deals with suppliers, resellers, or providers of related services.
Price responses	
Use complex price actions	Offer bundled prices, two-part pricing, quantity discounts, price promotions, or loyalty programs for products
Introduce new products	Introduce flanking brands that compete in customer segments that are being challenged by competitors
Deploy simple price actions	Adjust the product's regular price in response to a competitor's price change or another potential entry into the market

Source: [13, p. 107]

Taking into account these factors some managers indicate three circumstances where it may make sense to launch a price assault. It is crucial, however, to ascertain whether in fact the following conditions are met. First reason is customer opportunity – some markets have significant latent demand at lower price. There may be many consumers willing to buy when prices drop to an affordable trigger level. A company matching this required price wins rapid volume growth. Second reason is competitive opportunity – if there are considerable volume and profit at a lower price and, what is essential, there are non-cost reasons why competitor cannot follow. And the last explanation for price war can be company cost advantage. If one company have a significant and sustainable cost advantage over rivals, then it is an option to take market share using price [6, p. 111].

Concluding discussion of price wars is worth quoting the results of the third edition of the international research Global Pricing Study realized in 2012 by Simon-Kucher & Partners in 20 countries and 24 industries. Graph 1 illustrates the distribution of responses to the question addressed to entrepreneurs: Is your company currently involved in a price war? The results are evidence that price wars are not fiction – regardless of the place of business the companies are exposed to aggressive price competition.

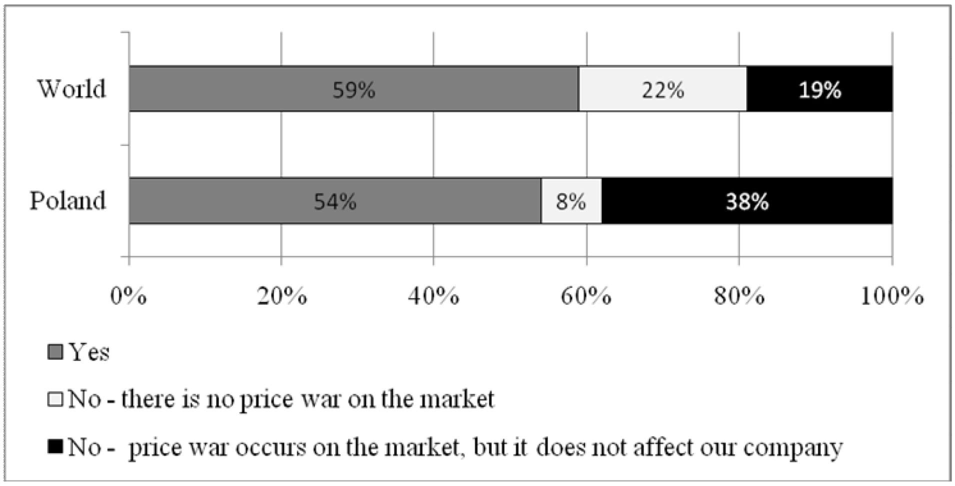

Figure 1. Participation in the price wars – Poland vs. world
Source: [18, p. 21]

Conclusions and perspectives for further research. One of the most important conditions for a successful pricing is to understand the essence of the price game. Managers have to be able to think strategically multiple moves ahead of the current decision. It is crucial to change the perception of pricing – not as a lose – lose game but the win – win game. Marketers need to take into consideration all players in this game – not only their firm, but also competitors, customers, suppliers or even supporting institutions such as banks and financial institutions. Companies should aim to reduce price competition because price wars can harm an entire industry. It is not possible to operate on the market in isolation from competitors, for this reason it is necessary to take into consideration decisions made by other companies. One of the most important areas of decision-making is pricing. Price changes made by one company force activity of others, but this activity should be defined as the interest in change and analyze the new situation – not necessarily prices changes. There are no two identical firms on the market, therefore price change in one company may be effective, while in the second the same decision can be a total failure. It is recommended that the company responds to competitors' price moves but adequate to its abilities. It is crucial to analyze consequences of change in the price – what will be the reaction of our customers, what about our profitability and market share, etc. Without a thorough analysis of the impact of prices changes company exposes itself to losses. The negative consequences of blindly following competitor's price moves can causes consequences – both tangible (decrease the number of clients, reduction in revenues) and seemingly invisible consequences (e.g. consequences connected with company image). The issue of proper response to price changes on market becomes even more important in the context of growing international competition. The more company will be aware of its possibility of price competition on the market, the better it can cope with the situation of being force to respond to rivals' price moves. It is crucial to analyze the possibilities for adapting the actions of competitors and preparation for changes the other market participants – mainly customers and other competitors. Other competitors should be advised to avoid the phenomenon of escalation of price reductions. However, it is essential to prepare our existing customers to price changes – to explain what are the reasons for price cutting and what are the objectives of company' pricing policy. In a situation where the physical distance between the supplier and the customer does not matter, companies must be prepared for the different behavior of different competitors (both domestic and foreign). It is not possible to predict who will communicate the price changes and what kind of price changes it will be, but it is possible to analyze these price moves that our company can afford and the other type of price moves – these which should be necessarily avoided. The worst possibility is to mindless suit for fear of losing customers. The result of such action may be a temporary improvement but significant long term profitability decline. Knowledge of the issues raised in the article is even more important that in the context of intensifying the process of market internationalization the number of external factors affecting pricing policies is growing. What is crucial these factors are beyond the direct control of companies.

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УДК 339.16
JEL: D11, L86, M31

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ПОВЕДІНКА МОЛОДИХ СПОЖИВАЧІВ З ВИБРАНИХ ЄВРОПЕЙСЬКИХ КРАЇН НА РИНКУ ЕЛЕКТРОННИХ ПОСЛУГ

Зміни, які відбуваються в процесі надання послуг, пов'язаних з розвитком інтернет-каналу розподілу, впливають на функціонування ринку електронних послуг, зокрема і на споживання послуг. Використання послуг в Інтернеті можна вважати інноваційним (порівняно з використанням традиційних послуг) та необхідним в епоху постіндустріального суспільства. Сьогодні багато споживачів використовують електронні послуги, особливо молоді споживачі. Презентовано результати досліджень, що стосуються поведінки молодих споживачів на ринку електронних послуг в окремих європейських країнах (Франція, Португалія, Польща, Румунія, Італія, Словаччина). Дослідження було проведено у 2012 році в ННЦ (Національний науковий центр) грант «Е-споживача в Європі – порівняльний аналіз поведінки».

Ключові слова: електронні послуги, поведінка споживача, Європа.

YOUNG CONSUMERS` BEHAVIOURS FROM SELECTED EUROPEAN COUNTRIES ON MARKET OF E-SERVICES

Changes which occur in the process of providing services, related to the development of Internet channel of distribution influence the functioning of market of e-services, including consumption of services. Using services on the Internet may be considered innovative (compared to using traditional services) and necessary in the era of post-industrial society. Currently, many consumers use e-services, young consumers in particular. This article will be devoted to the presentation of research results concerning behaviours of young consumers on market of e-services in selected European countries (France, Portugal, Poland, Romania, Italy, Slovakia). The research was conducted in 2012 within NCN (National Science Centre) grant 'E-consumer in Europe – a comparative analysis of behaviours'.

Key words: e-services, consumer` behaviours, Europe.

Problem formulation. The 21st century is the century of information society. Technological progress, and precisely technological (information) revolution causes changes in the functioning of society and economy, it changes the functioning of market of e-services. The development of information society may be treated as the authentic reason of the occurrence of e-consumer.