PRICE DETERMINATION AND PRICE STRATEGY
IN THE MARKETING VIEW

Nicolae TEODORESCU, Nicolae Alexandru POP, Aurelia-Felicia STĂNCIOIU
Academy of Economic Studies, Bucharest

Abstract. *Taking into account the four marketing politics, the price may seem to hold a special place both in theory and practice. This assertion is sustained by the fact that some specialists consider prices a variable unable to be controlled by a company, while others are adepts of another theory according to which there is a real possibility of using the price in the company's best interest, whether on short but most of all on long periods of time. Like in many other circumstances, taking also into consideration what has already been proved in the field, the truth may lie somewhere in between, meaning the price cannot be controlled by a company like other market poles, as product policies of distribution and promotion, but at the same time it cannot be considered an external variable, impossible to be used in marketing terms.*

Key words: price, consumers, demand, price sensitivity measurement.

1. Price structure profitability threshold

Complex reports between costs, sold quantities, profit and price can be theoretized and abstractized, the starting point being what the specialists call *price structure*. This concept should be defined with the best clarity beacuse it lies as base for all assertions regarding price policy.

From various approaches, the most general formula of price structure can be deducted from balance equation of certain period of time, which can be stated as following

$$\text{PROFIT} = \text{INCOME} - \text{EXPENSES} \tag{1}$$

In order to obtain a more analytical structure the balance equation may suffer the following replacements:

INCOME = PRICE × QUANTITIES

EXPENCES = VARIABLE COSTS+ FIX COSTS

The balance equation can be rewritten as following

$$P_r = P_a \times Q - C_v \times Q - C_f \tag{2}$$

In which:

P_r = *PROFIT;*

P_a = *UNITARY PRICE, the selling price of a single product;*

Q = *QUANTITY, that is the number of products sold at a unitary price;*

C_v = *VARIABILE COSTS, which can be delimited and quantified for each product sold. This costs are also named unitary costs;*

C_f = *FIX COSTS , which canntr be found and cannot be quantified for each product. These costs are also named costs of activity maintenance.*

Starting from this price structure one may pose the problem of defining the relationship between costs, quantities, profit and price, in order to obtain pertinent elements of analysis and fundamenting of price policy, all in marketing terms. A convenient method to formalize these relationships is the balance point model between costs and income, also named the method of rentability threshold. The analysis of rentability threshold allows in essence to determine the selling volume necessary to cover the anticipated costs, the starting point of sellings that bring profit and its amount.

At the same time the analysis of rentability threshold gives answers to numerous complex questions which marketing reaponsables have to deal with: what would happen to the profit if the sales drop? What would the profit be if the unitary price raises? What would happen to the profit if the costs are lower? What marketing efforts should be made to conserve the company's market share or to raise it? Which is the company's position regarding competitor's products?

In order to determine the balance point between costs and income, respectively *Break-even point analysis* (Demetrescu, 1982) one may pose the problem of calculating the critical amount of products that must be sold, at a given unitary price, in order to cover integrally the costs.At balance point the losses are non existent because the amount of product sold had to equalize integrally the costs. At the same time the profit is non existent since there is none. The balance equation in this situation has the following form (the meaning is specified above in the second equation):

$$P_a \times Q - C_v \times Q - C_f = 0 \qquad (3)$$

By taking into consideration this equation one may easily calculate the critical amount the physical number of products that must be sold in order to equalize the costs (let's note this entity with $Q_{critical}$)The third equation can be rearranged under the following form.

$$P_a \times Q_{critical} - C_v \times Q_{critical} - C_f = 0 \qquad (4)$$

Continuing the transformations the following expressions can be deduced.

$$P_a \times Q_{critical} = C_v \times Q_{critical} + C_f \qquad (5)$$

$$C_f = P_a \times Q_{critical} - C_v \cdot Q_{critical} \qquad (6)$$

$$C_f = Q_{critical} (P_a - C_v) \qquad (7)$$

From equation 7 it may reach to the formal expression of critical quantity:

$$Q_{critical} = \frac{C_f}{P_a - C_v} \qquad (8)$$

The analysis of the threshold is very useful for the deciders, because one can establish the levels of sells that brings profit. When the difference between the balance point corresponding sells and the ones determined by anticipated demand is higher then the products or the services present a higher degree of rentability.

In this context one may add that the threshold analysis has important applications including the measurement of production capacity. The knowledge of the balance point between the quantities sold and the achieved values can fundament the projection decisions of production capacity- problem that is of the most importance for each company's investment policy. Subdimentioning the production capacities leads to the loss of potential customers and implicitly to losing the chances to raise the company's market quote. Oversized production capacities is yet more harmful because it generates effective losses through higher investments, which expences won't be deduced. This errors can be avoided by achieving in a professional manner an analysis of the rentability threshold.

At the same time the analysis of the rentability threshold has numerous applications in marketing, for example one of them being the projection of possible range of prices, the risk analysis, profit projection, distribution evaluation and the promotional activities, fundamentment of the decisions regarding the companies' market strategy.

2. Price determination

The knowledge of rentability threshold, mentioned above, is not sufficient to gestionate adequately the price policy. *The effective price determination* is also necessary which in this market economy must be projected in order to obtain profit which would not cover only the expenses and their recoverage. In projecting the prices one should distinguish between *basic prices* (or the ones in the catalogue) and the final or *resulting ones, by the price policy* which includes mixed sales and rabats, correlations between prices of a product range.

Further it would be mentioned some of the most important elements and aspects that should be taken into consideration to determine the *basic prices* on the market:

- The profit introduction in the price equation;
- The identification of potential consumers;
- The anticipation of competition reaction;
- The establishment of market quote;
- The selection of price strategy in accordance with the target market category;
- The correlation of product policy, of distribution and promotion channel and price strategy.

a) For effective determination of prices one may start among others by the analysis of the rentability threshold, through which it can iterated the implications of different price levels on production amount. Successive research and the right variant election require that the analysis of the rentability threshold should also contain *the profit problematics*.

The introduction of the profit in the equation can be made by relating to expression 5 from the last chapter rearranged in the subsequent form:

$$P_a = C_v + \frac{C_f}{Q_{critical}} \qquad (9)$$

This equation (9) establish the required price in accordance with the rentability threshold, when the profit is non existent and the critical quantity of products equals the variable and fix costs.

In order for the activity to be truly profitable, in this equation one should introduce also the profit, under the form of a margin which has to be connected to the quantitites assumed to be sold. The critical quantity has to be connected to the quantities assumes to be sold. The critical quantity should be replaced with a higher quantity which is the premis of obtaining profit. The new equation for price structure would be the following- the news are specified at the second eqation from the previous subchapter:

$$P_a = C_v + \frac{C_f}{Q} + \frac{P_r}{Q} \qquad (10)$$

This equation distinguishes a more analytic price structure on which base one can make the following commentaries:

- The raport C_f/Q is an absolute margin which should be added to maintain the company's activity;
- The raport P_r/Q is an absolute margin added to obtain profit;
- The total cost is given by the expression $C_v + C_f/Q$;
- Commercial Addition is given by the sum between the two margins respectively $C_f/Q + P_r/Q$.

If the economical advantages and the marketing activities associated with this expressions (10) are obvious (especially to the fact that costs appreciation can be easily achieved due to bookkeeper precision) still neither the practical differences of its effective appliance can't be ignored, this due to main motifs: 1) the quantities that are about to be sold 9Q are difficult to anticipate due to a wide range structure of products and 2) variable costs also include a fee which is expressed in percentage.

Due to these reasons the specialists have reached the conclusion that it is better to drop the usage of absolute value of maintainance margins (C_f/Q) and of profit (P_r/Q), still keep them in relative values in percentage. Their expressing in percentage is more flexible, although the calculation method becomes more complicated and in the end it is not that transparent after all.

For example, in the case of percentual margin of the profit, this could be determined on account of the unitary price or on the selling price. In the case of calculating the profit margin on acount of the unitary price one obtains a mere percentage while considering the selling price as basis leads to the so called „augmented hundred". The percentage calculated to the augmented hundred is smaller in numeric expression than the one at mere hundred that leads to their transformation in absolute margin which should respect certain correlations.

b) In order to determine more realistically the price, in addition to the calculation base mentioned above, it is necessary *to identify potential consumers.*

Refering to this purpose complex market studies were conducted which include the problem of price on research plan. The testing of various range of prices for the same product or service allows the knowledge of the price levels the customers expect, according to their motivation and preference. These type of studies are projected and realized both by using a pertinent both qualitative and quantitative method. In this context it is highly important to identify in quantitative terms, the range of consumers that are going to buy the product at a given price, which would at the same time justify the company's marketing efforts and obviously the profit.

c) *Demand estimation* is another aspect of price determination. The specialists consider this to be the most general marketing problem which needs to be clarified, though demand determination depend on all company's marketing resources, its efficiency and efficacy of marketing activities.

The demand is represented by the quantity of products and services that the consumers need, and for which they can and want to buy at a given price on a well determined period of time and on a certain territory. The final request is constituted when several components are met simultaneously and for the same product and service, they are the following:

- Needs wishes tastes and preferences;
- Their monetary power to buy;
- Their desire to buy.

Although these components are different, respectively they represent the psychological, economical and volitional part of the demand, they are inseparable in expressing the final market request. All these demand components exists separately, but only their conincidence can materialize in effective request.

Among these demand components the *willingness to buy,* customer's usage of his option to buy the product or service he/she needs is manifested on the market by accepting a certain price level. The integration of the willingness to buy in any

function of request is accompanied by the precisation of the variables which describe this component of demand (such as, for example the amount bought, the consumer's preference, his income, other prices, marketing efforts, ambiental factors etc.). At the same time, it should be taken into consideration the consequences of the theory of marginal utilization on their buying volution, in the sense that while the bought quantities raise the willingness to buy reduces itself. This assertion makes the demand function to have certain curves.

In essence demand estimation deals wihith, on one hand *to the investigation of the relationship between effective demand corresponding to certain price level.* To this purpose the prices of similar products may be traced, a series of experts may be referred to, research may be conduced regarding potential consumers or experimental sales organized. If the reactions of the market are not favorable or the prices potential consumers accepted under the expectations of the company, then new marketing efforts are needed in product policy (perfecting it, adding more attractive components, etc), distribution policy (selecting distribution channels to reach buyers of similar products, but with higher prices) and promotional policy (launching promotional campaigns to increase the interest of consumers toward the product or service in cause).

Integrating the request estimation in the computing of the price must take into consideration and the following reality of the market: low prices don't always lead to an increase of sales. Higher quality goods, for example, or the ones offering social prestige, to which the price is the sole guarantee to the buyer, the request will not only not rise after the decrease of the price, but may even diminish.

Using the *elasticity coefficients* of the request allows the estimation of the sales to the different price levels. The ratios between the request change percentages and the price change percentages, respectively the elasticity coefficients of the request as a function of price, are a convenient measure to test different possible price levels. The increase of the price of a product with elastic request is, usually, less accepted by buyers, when compared to the increase of the price of a product with non-elastic request. In this case, the buyer cannot stop expressing his request.

d) *Anticipating the reaction of the competition* also influences the calculation of the price. Existing competition, as well as potential, is felt by all companies, even in the case of new products.

Competition spans in many directions, it is generated by the existence of similar products or services, of some replacing products/services and, on a larger scale, as a result of all other products or services that consumers may purchase. Anticipating the reaction of competing companies is based on the study and profound knowledge of the final consumers or users, that is to say of the product or service market. Such an approach is necessary because competing companies must base their decisions regarding price starting from the same premises.

Under such circumstances, calculating the price takes into consideration the prices used by the direct competition, as well as those associated with replacing products or of other product ranges. The thorough study of this issue must include knowing the sold quantities of products at each level price to allow the treatment in quantitative terms of the customer acceptance of different levels of prices.

e) *Establishing the market share* that the company is trying to achieve is useful in calculating prices as well. The size of the predicted market quota is directly linked to the market strategy of the company, and the established prices are very strongly influenced by the physical quantities of products that are to be sold, as well as the number of consumers.

Integrating the market quota in the calculation of the price is based on the fact that market position enlargements can take other shapes except the price itself (publicity, personal sale, specific promotion etc.).

The size of the market quota is mainly influenced by:
- The production capacities of the company;
- The costs of expanding the production capacities;
- The ease of entering the market for the competition.

Increasing the market quota when all necessary production capacities are not available is a mistake. A low price can be attributed to a new product, for example, to help penetrate more market segments, due to the favorable reaction of the buyers, however, if the production of the company cannot satisfy the customers' requests the low price tactics is not only inoperable, but also costly.

The analysis of the relation between price and market quota is also based on the flexibility of the request for the respective product/service, in the sense that, according to the established level for the market quota increase, a price reduction can be projected. The new market quota must be well fundamented on thorough studies, especially quantitative studies and on a good knowledge of the competition, in order to avoid decisional errors in calculating prices.

f) Calculating the price depends a lot on the *price strategy* adopted by the decisional factors.

In order to achieve the targeted market quota, several price strategies may be employed. These alternatives are better analysed by stressing out the two opposing types: high price strategy and penetration price strategy.

Establishing a certain price strategy is not a purpose in itself, in the sense that it does not automatically produce better economic results, profit etc. The price strategy is, however, a very useful tool to achieve all marketing objectives, from product related, going through distribution related and finishing with promotional activity related ones. The price strategy is established only after decisions have been taken regarding:
- The market strategy of the company
- The market quota to be accomplished.

In practice this aspect is very important because between the price strategy is included in the two aforementioned instruments, not viceversa. The strategy and the market quota cannot be subordinated to the price strategy. Error decisions that occur in practice are generated by the difficulty of establishing clearly the company's market strategy and quote. Although it may seem to be an easy task, the establishment of a market strategy may be sometimes shallowly trated by the leadership, which view solving a technical problem much more useful for the company. Things are not right in this case since the same situation put it in medical terms makes the doctor prescribing something for the patient without taking into consideration or ignoring the diagnosis.

g) *The correlation of price with elements of marketing mix* is another important aspect in the problem of price forming.

Novelty or the product's time on the market, its degree of perishability can influence significantly the price establishing policy. Also the incorporable materials should be taken into consideration, that is in its price. Price competition is almost neglected by the same producers of materials, between industrial gases providers, half-finished aluminum products since its importance in the ready made product is insignificant.

At the same time the product's price would be different in accordance with the way the product is sold under a brand or under the distributor's brand. At the same time when it comes to sortimenting variety of products, the prices have to be correlated between themselves at the same time when supplementary elements are added (for example transportation, installing) the price reach various levels, which would include the price of these added services.

The producer's price is also influenced by the already established distribution channels, types of intermediars that one has to deal with as well as their sales requests in order to have the mentioned activity. A producing company that sells their products both to the retailers and to the wholesale dealers would establish delivery prices differently, specific to both client class.

Similarily the producer's prices would be differentiated as the intermediars would introduce a series of promotional activities, or services after selling (warranty, repairs).

3. Price and consumers

The use of price as marketing instrument is closely connected to the consumers. The producers use to project the variety of prices various equations and suppositions which are based most of the time on costs and profit. They still must take a close look at competition and customers all of the time. The most important problem of price projectors in their relations with customers is the profit margin. If this is not correlated with the market's real possibilities that is the profit margin is too high as

compared to the buyer's possibilities, there is the risk of non achieving the product, the risk of achieving no profit or the risk of not recovering the expenses necessary to bring the product or the service on the market. This is why the detailed analysis of the buyer's reaction, its rationing and attitudes is worth taking into consideration regarding the price of the merchandise they want to buy.

The general analysis schemata of the buyer's reaction to the price is given by the general theory and the global model of studying the customer's behavior known in the literature under the name of Marshall model. This model links customer's perception of prices and their income at the same time proposing to take into consideration economical factors to determine behavioural reactions. The same author sustains that the consumers use the „money counting ruler" to measure the level of the products' influence on their level of satisfaction.

Then consumers are highly sensitive to the price levels, and the producers seem to know this sensitivity very well. In a traditional way in the market research the buyer's sensitivity regarding price is given by the product or service curve. The curves dealing with **price sensitivity** are extremely useful and are broadly used to establish the market price and strategy (Lewis and Shoemaker, 1997). The following schemata represent an eloquent exemplification of price sensitivity measurement.
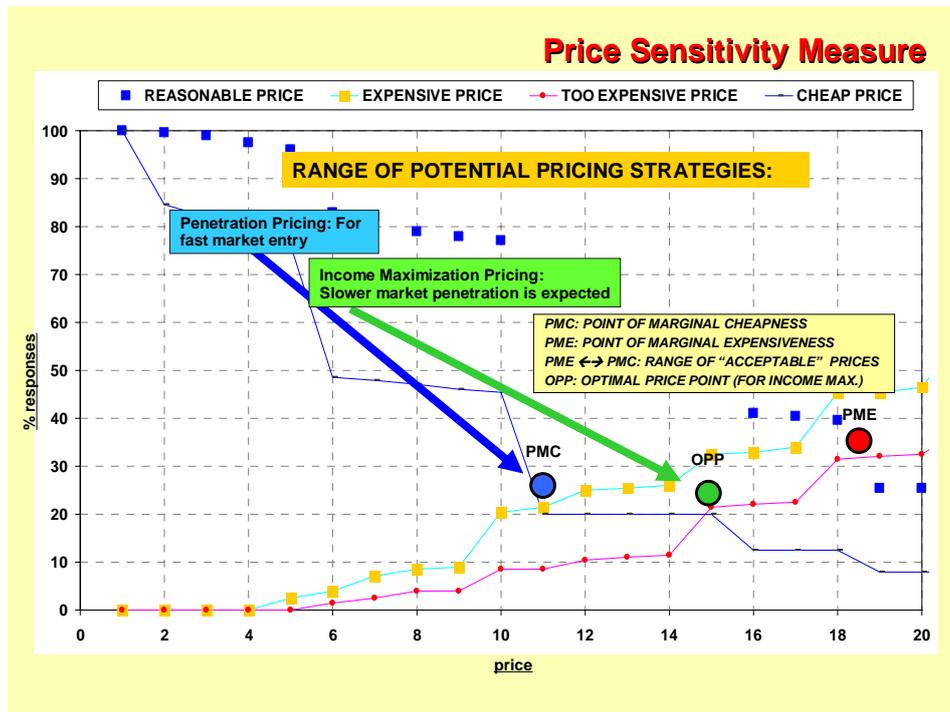

Figure 1. Price sensitivity measure

29

Price sensitivity curves are made for a certain product and refer to a well established time period. At the same time it is necessary to take into consideration the exchange unit (retail, kg, liter, package) in order to make the price.

The time period is chosen regarding the product specific but especially taking into consideration the frequency of his sell. Among merchandise with high rate of sell a short period of time is chosen (weeks or months) but for the goods with lower rate of sell longer periods of time are used (especially semester or year). The origin of the period seem to be a starting season for the product or the service taken into consideration.

Generally the price sensibility curves are descending, from the axe of price to the one of quantity, they provide much useful information regarding price strategy fundamenting:

- Quantity ((expressed in exchange units) which the buyers may buy during the period taken into consideration;
- Price (expressed in monetary units) for a unitary part of the product;
- The amount of sells (expressed numerically);
- Minimal price, that makes the consumer reluctant to buy certain product or service;
- Maximal price after which the buyer is no longer willing to buy the product and gives up;
- The price at which the buyer reduces deastically the amount bought without even renouncing to buy the product or the service.

For most products and services, price sensitivity curves have three big segments (these are not equal but only accidentally):

- Rigid segment;
- Proportional segment;
- Elastic segment.

The rigid segment of the curve represent a *rigid sensitivity*, characterized by minor drops of the amount bought as compared with the relative price rise.

The proportional curve segment is named *proportional sensitivity*, it represents the proportional decrease of the amount bought at high price levels.

Finally the elastic segment is also named *elastic sensitivity* and is characterized by significant rise of the amount bought, in accordance with a significant drop of price

If for a product or service the price sensitivity curve has the rigid segment higher as compared to the elastic one then the product/service is with rigid sensitivity. On the other way if the elastic segment is higher the product/service is with elastic sensitivity.

In most of the cases the price sensitivity curve has both rigid and elastic characteristics, the quantity of physical units for selling corresponding to the proportional segment is fundamental in establishing the price. This decision is

determined by the concrete product/service situation for which the price sensitivity curve has been drawn:

- If the company's product/service is placed on the rigid segment then a strategy based on price variation is required;
- If the company's product/service is placed on the elastic segment then a strategy based on the amount of quantities sold is imposed.

Based on these considerations, it is worth mentioning that a consumer would not buy a quantity smaller than the minimum or higher than the maximal because on this interval the product/service utility is significant for him. Depending on the preponderance of one term or another on the price sensitivity curve, one may describe the following variants for fundamenting the price decision:

- Price rigid sensitivity;
- Price elastic sensitivity;
- Price proportional sensitivity;
- Price rigid elastic sensitivity;
- Price proportional elastic sensitivity.

This particular curves reflect the consumers' sensitivity to the price variation. The shape of the curve is influenced by the product/service specific, by the analysis period and consumer's income. At the same time the shape of the sensitivity curve is marked by the product's nature which can be of prestige or no name. Due to the fact that there is a certain inertia between the product's evolving anf the consumers' income, meaning that the augment and decrease of income is not automatically followed by specific reactions on consuming area, the price sensitivity curves are drawn for three type of consumers according to their income:

a) Consumers with lower incomes;
b) Consumers with medium incomes;
c) Consumers with high incomes.

The decisions regarding the price are in accordance with price sensitivity of the consumers in order to maximize the profit and can be summed as following:

Table 1

Relationship between price sensitivity and decision regarding the price

Price sensitivity	Decision regarding price and the quantities presumed to be sold
Rigid	High prices and lower quantities sold
Proporțional	Moderate prices and moderate quantities
Elastic	Smaller prices and higher quantities sold

In the end it is worth mentioning that in the practice of introducing the consumers in various price equations made researchers reach to various unloyal considerations in the sense that certain prices are established on account on certain

aspects associated with consumers' behaviour which generates confusions and errors: buyer's lack of information, his incapacity to evaluate the quality of certain sophisticated products and services, emotional effects on the consumer's. Due to these aspects certain price categories appeared:

- *Psychological price the numeric price with high rate of precision the roundness added that the buyer does to pose the seller in advantage, especially for small products;*
- *Attraction price a price shown in a minimal form, at some basic products to attract customers in stores;*
- *Ununitary price when the price is established on other criteria than the unitary measurement easy controlled by the buyer.*

The practicing of this type of prices is tightly connected to the legislative permissive background for offertants at the same time with fragile preoccupations to protect the consumers.

From this category of ofertants' unloyal practices one may include the troublesome way of presenting certain prices which poses consumers in disadvantage. For example the lack of proper specification of VAT (for example the price brewing 34 without VAT) makes the buyers confused which are not properly aware of the real price they have to pay. This is caused by two reasons: on one hand most of the buyers don't know exactly how much the VAT is (which in fact is different from one category of products to another) and on the other hand due to the adaptating and anchoring the effect that the consumers must face.

In what the anchoring effect may concern the following example is worth mentioning quoted from (Demetrescu, 1982):

„*Anchoring operates not only when certain person discovers the reference point that is the initial value, but when that person counts on the estimations of an incomplete calculation. Tverski şi Kahnemann quotes regarding this aspect from a research regarding intuitive numeric estimation which illustrates the anchoring effect. This research also showed that when a person is asked to multiply 8x7x6x5x4x3x2x1 they gove a much higher sum than if they are asked to multiply in 5 sec 1x2x3x4x5x6x7x8. In order to answer more quickly to these questions the persons that estimate the result might multiplicate first ciphers estimate the result for the final numbers by extrapolation and adjustment. Though the adjustments are insufficient because this euristical method would bring sub estimations. Due to the fact that the result of the first multiply from left to right is higher in a descending order than the augmenting one, the first expression being considered to be higher than the second. In the already mentioned in research the estimated median value that the participants give for the augmenting series was 512 but for the descending series was 2,250. The correct answer was 40,320*".

In conclusion one may say that decisions regarding price determination must absolutely take into consideration the consumer's reaction regarding the providers, but at the same time loyal practices both to competitors and to buyers are the main company's partners.

4. Marketing problems regarding prices

The attention given by specialists to price policy, concretized in theories, models and approaches of analytical and synthetic nature determined various practical applications, but the process of finding new and new solutions is permanent. This is why presentation of the most recent practices regarding price, even brief, is useful to show numerous fundamenting possibilities of the marketing activities used by various companies.

A. An eloquent example being a probabilistic price approach of certain products or services which can be sold separated or grouped under the form of a package (Venkatesh & Mahajan, 1993). This approach lead to *the optimization of a package of product/services which would maximize the profit.*

Starting from the wanted purpose, this study focused on the possibility that the buyers' decisions are based on various criteria. To create the model and empirically apply it a sport music and dance concerts package offer has been taken into account with reference to certain season. At the same time researchers started on the fact that the buyer's decisions are a function of the following independent premises: their disponibility to participate to the activities from the package (in accordance with time) and the expected price for each component of the offer.

This model suggests the optimal prices for package offer or the individual components of them, which would obtain maximum profit on the bases of three alternative strategies :

a) The separate components offer, each of them at certain price;
b) The offering only in package with certain price;
c) Combined offer, both package or their components offered separately, with the required prices.

In order to evaluate these alternative strategies the seller must know the answer to the following questions:

- Which are the optimal prices for packages/components for each strategy?
- Corresponding to the optimal prices which are the levels of the profit?
- Which part of the potential market is drawn by this strategy?
- How sensitive is the profit at price variation?

After validation the created theoretical model and its practical application, the prices and the optimal profits are generated by combined offer and at the same time, the optimal profits are generated by combined offer, both the package and its components, presented separately, with their afferent prices (c). Thus if we note with

33

100% the net profit of this strategy, the net presumed profits of the other two strategies are: for a) 75.8%, and for b) 51.2%.

B. Starting from the study elaborated by Venkatesh and Mahajan, at which several references have been drawn before, Ansari, Siddarth and Weinberg (1996), have developed *the approach for package/product offers*, they also brought several improvements to it.

That is, these authors have extended the results of their study, as compared with the previous example in the following directions:

- First by proposing a model in which the optimal number of components of each package is determined endonenly. The individual components take into consideration the managerial capacity and not by the number of persons who wish to follow manifestations of the one taken into consideration;
- Secondly, the optimal policy for non profit organizations have been determined this being characterized by an objective function which maximize the use of this type of service or the number of consumers (in a market segment well defined);
- Third, a wide variety of politics regarding package offer have been taken into consideration, at the same time investigating the effect of objective maximization function on optimal component both of non profit organization and on profitable companies.

After model development and result validation the same basic conclusion has been reached at, that is combined offer is the best to use (both package and its components presented separately) but also to a secondary conclusion different from the precedent study, according to which the alternative of package offer dominates the alternative of separate components sell.

The main conclusions of this examples, regarding the same price policy is that there are many modalities to approach this problem, depending on the product or service specific and the complexity of the decisions that must be drawn. Anyway the extension of the problematical area of the price policy on the non profit organizations is edificative for the serious and professional way in which the concept of price should be treated, not to mention the implications of this type of decision on the other components of the marketing mix. At the same time these examples are illustrative for the continuous development of theory and practice regarding price policy.

C. Finally another example (1998) which deals with *the marketing practice of price partitioning* is based on the model elaborated by Morwitz, Greenleaf and Johnson.

Market practice have taken out the fact that various companies divide the price in two components, such as the mail delivery basic cost of a product and the transport expenses, instead of using a total price (which would include the product's price and delivery expenses). This authors name this price strategy the „price partitioning".

Although companies start from the presumption that this practice determines the augment of request and profit, there is not a clear theoretical background for this reason. For this reason the already mentioned authors have tested the following main hypothesis:

- How do consumers perceive partitional prices?
- How do partitional prices affect the consumers' image on the total price ?
- How do partitional prices affect the consumer's intentions to buy certain type of goods?

Starting from this hypothesis two experiments were conducted: one regarding an auction and the other on telephonically offer. Both experiments took into consideration both the partitional price and the cumulative total price. At the same time the partitional price has been tested in two ways: as sum added to the basic price and as percentage added to the basic price. After relatively sophisticated calculations the conclusion of both experiments was undutiful: the partitional prices determined the consumers' downfall perception on total costs and significant augmenting of demand.

This conclusion has important consequences on three plans:

- Implications on **marketing theory** plan in the sense that partitional prices have positive effect upon demand
- Implications regarding **marketing practice,** partitional prices are recommended in order to increase the sells and income.
- Implications for **market's decision factors,** all the necessary conditions should be assured for the customers to gain access to both price components. There are forbidden and unethical the usage of smaller characters than the additional part of price or the product's presentation in certain places where it would be unseen by consumers.

References

Asim, A., Siddarth, S., Weinberg C. B. (1996) Pricing a bundle of products or services: the case of nonprofits, *Journal of Marketing Research*, Vol. XXXIII(Number 1)

Cătoiu, I., Teodorescu, N. (2004) *Comportamentul consumatorului,* Ediția a II-a, revăzută și adăugită, București, Editura Uranus

Demetrescu, M. C. (1971) *Metode cantitative în marketing,* București: Editura Științifică

Demetrescu, M.C. (1982) *Analiza de sistem în marketing,* București: Editura Științifică și Enciclopedică

Harmon, R.R., Unni, R.A., Timothy, R.(2007) School of Business, Portland State University, USA; Department of Engineering and Technology Management, Portland State University, USA – *Price Sensitivity Measurement and New Product Pricing: A Cognitive Response Approach*, Management of Engineering and Technology, Portland International Center, Location: Portland, OR, USA, ISBN: 9781890843151

Lewis and Shoemaker (1997) *Price-Sensitivity Measurement: A Tool for the Hospitality Industry*, Cornell Hospitality Quarterly

Morwitz, V.G., Greenleaf, E.A., Johnson E.J. (1998) Divide and prosper: consumers' reactions to partitioned prices, *Journal of Marketing Research*, Vol. XXXV (Number 4)

Nagle, T.T., Holden, R.K. (1994) *Strategy and Tactics of Pricing: A Guide to Profitable Decision Making*, Second Edition, Prentice Hall

Venkatesh, R. and Mahajan, Vijay (1993) A probabilistic approach to pricing a bundle of products or services, *Journal of Marketing Research*, Vol. XXX (Number 4)