

OPINIONS ON SOME SPECIFIC ASPECTS OF THE PRICE STRATEGY IN SERVICES

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Abstract: The price policy in services respects almost totally the concepts used by the classical marketing mix developed for the consumer goods. The specific elements have appeared later being related to the particular features of the services, those being in fact the factors that have allowed the separation of the services marketing as a distinctive scientific domain. Determining the price for services is difficult because it is an experience taken place in real time. One of the major elements that must be taken into account while establishing the price of a service is referring to the fact the consumer directly participates to the process of carrying out the services.

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1. Introduction

The price was considered initially an unchangeable variable in report with the mix of marketing, but it became obvious afterwards the price has a special role in the domain of services, and different formation mechanisms and evolution in comparison with the domain of consume goods.

In the domain of services, *the price expresses the totality of the benefits offered by a service, in which are included on one hand the costs made by the enterprise, and on the other hand, the efforts made by the buyer during the services experience.*

The process of establishing the prices is far more difficult and complex in the case of services than in the case of material goods. Many characteristics of the services bring their contribution to this situation, specifically:

-the lack of property on the services – it is much more difficult for the managers to determine in these conditions the cost of an activity or of carrying out an activity in the benefit of the consumers

-the services' incapacity to be stored, inventoried – the price plays a principal role in balancing the demand and the offer (applying some different levels of price depending on the variation of the demand during the year)

-the time factor – the consumers are willing to pay a higher price when the quality and promptitude of serving help them to save time.

The price of services is actually reflecting the price of the experience the consumer lives during carrying them out. Besides the costs that generate monetary fluxes during the process of producing and “delivering” the services, their carrying out determines a number of *non-monetary specific costs* provoked especially by the consumers participation to the entire experience of carrying them out.

Among the specific elements that influence the establishing of the prices in the domain of services, we mention the following:

The costs related to *the time consumed by the client for carrying out the service* – most of the consumers perceive the time linearly, separating it clearly in hours, days, weeks, months

etc.; the time is analyzed as it would have substance – it can be planned or spend or even lost. Therefore, if a service force the consumers “To lose” more time than they have planned, they will perceive it as a supplementary cost that reduces the value of that service (the lost time could have been used more profitably in another direction);

The physical “costs” (the physical efforts) – are referring to the efforts the consumers make in order to have benefit of a service, if it is necessary for them to move to the unit where the service is carried out, and most of all, if they participate effectively at the realization of that service (self-service at the gas stations or in certain units of public alimentation);

The psychological “costs” – certain services imply special physical efforts from the consumers’ behalf, very intense feelings, uncertainty and even fear to assume certain risks (before a chirurgical intervention)

Sensorial „costs” – are referring to the unpleasant sensations the consumers are feeling before, during and even after the carrying out of a service (noise, unpleasant smell, excessive heat or cold, lack of comfort, unpleasant ambient environment etc.) and which influence the perception the consumer has on the price of a service.

2. Price strategy for services

The company’ price strategy is elaborated depending on the designated price objectives, in concordance with the global marketing objectives, and according to the other variable of marketing mix.

Though it is considered that the objectives of price generally accepted on the consumer goods market (objectives related to sales, profit, company’s status and objectives of social nature), the particularities of the services have determined the formulation of some objectives adapted to its specificities.

The services company’s principal objectives of price are oriented in the following manner:

1. Objectives regarding incomes and profit

a) The realization of profit

-maximizing the profit

-achievement of a certain market quota;

-maximizing the incomes at the same capacity of production (using tactics of adaptation and variation of prices in time and of the target segments depending on the fluctuation of the demand)

b) The revenue/return of the costs

- the total cover of the costs of carrying out the services and of the company’s general expenses;

- the cover of the additional costs regarding the sale of a supplementary unit of service or selling an existent service to a new customer.

2. Objectives oriented towards the creation of the demand

-maximizing the demand (when the production facility allows it), with the condition of a guarantying a minimal pre-established income.

-the complete use of the production capacities, especially when this situation increases the appeal for the potential clients („sold out” sales for a show, the reservations necessary with months in advance for a restaurant or the appointments for a medical cabinet) and allows the use of prices higher than the effective value of the respective service.

3. Objectives oriented towards the creation of a clients’ database

-the stimulation of trying out and adopting a service – objective important especially for the new services launched on a market which mean significant infrastructure costs or for the services that assure incomes as a consequence of the use of those services becoming permanent (e.g. phone subscription, life insurances etc.)

-assuring a market quota and a clients database especially when economies are guaranteed at substantial costs that generate a competitive advantage on the competitors. [Lovelock C., Wirtz J., *Services Marketing*, 6th Edition, Prentice Hall, 2007, p.126]

Beside these objectives formulated by Lovelock and Wirtz, it must be said *the objectives of social nature* can be even more important than the material goods in certain

domains of the services (e.g., granting access to the health, education, sport, culture services etc.)

The marketers have at their disposition many criteria for the determination of the prices in the case of the material goods' marketing as following: depending either on the costs; or on the competitors' prices; or the demand; or the income; or the perception of the costumers.

In the services marketing, depending on the specific price objectives, the options of the marketers for determining the prices are focused on three main directions:

- -based on *costs*;
- -based on *competitors*;
- -based on *the value perceived by the consumers*.

The orientation of the prices depending on the costs is the most rational technique because it means the price will cover in totality the costs (production, promotion and distribution costs and will allow the gain of an income.

The determination of the prices depending on the costs is based on the fundamental objectives of any company – maximizing the incomes, in order to cover in totality the expenses and the gain of an income as high as possible.

This method does not always takes into account the economic aspects such as the demand and offer for the respective product, or the price policy developed by the enterprise so to achieve the specific objectives.

Though this technique is considered the most rational one in the case of goods, the characteristics of the services- intangibility, variability, perish and inseparability- make more difficult the calculation of the costs and therefore the determination of the prices.

The basic principle of this technique is represented by the idea of covering the costs, fixed as well as variable ones, and for this it is necessary to anticipate the sales volume adequate to the various levels of price targeted by the carrier out.

The manner in which the price is determined varies depending on the specific of each service, being necessary to set a *consumed unit of service*:

-like the carrying out of a service such as the reparation of an electronic appliance or cleaning a costume etc.

-like the access of a consumer to a service (e.g. to a theater spectacle, concert, cinema theaters etc.)

-the time unit consumed (renting an automobile for a day/week, a sport aula for a certain number of hours, an hour long consultation to a psychologist etc.)

-the distance covered (services of transport) etc.

For determining the selling price a certain margin of profit is added to the cost determined for the consumed/delivered service unit depending on the strategy of the person carrying out the service to enter the market with a low, medium or high price.

For the achievement of the price objectives and of the global ones, it is of large interest for the company carrying out the services (but also for the consumer) to reduce the costs by the following ways:

- reducing the time afferent to the service bought/consumed (for the company it means the possibility to increase the productivity of the carrying out the service);

- minimizing the mental or psychological effort done by the consumer during the carrying out of the service;

- elimination or reducing of the physical effort (exception making the situations in which the physical involvement is desired, even requested by the consumer) involved in the carrying out of the service;

- minimizing the unpleasant sensorial effects felt by the consumer during the carrying out of the service, the creation of a more pleasant, comfortable ambient etc. [Stan, A.-Ș., *Politici de marketing în domeniul serviciilor*, Bacău, 2005]

The orientation of the price depending on the competitors is recommended when the services company targets to attract a number as large as possible of consumers, the growth of the market quota or the improvement of the sales volume.

On the material goods market, this strategy is used when there are an important number of competitors on the market, and their products are similar in quality. The characteristic of services, especially their variability, heterogeneity make the comparability extremely difficult

and therefore is very hard to determine the price based only on this. By adopting this strategy to determine the price, the enterprise has to choose between:

A price similar to that of the competitors (prices aligned to the competitors' ones) – when the services are alike;

An inferior price (promotional prices) – corresponding to the adoption of the new strategy of *low prices*;

A price superior as level to the direct competitors' prices for offers differentiated qualitatively (*high prices* strategy).

The companies of services using this technique to determine the prices must not neglect to cover the costs necessary to make the products in order to have a sure profit.

The orientation of the price depending on the demand – is a technique less used in the case of material goods because it intervenes usually when the demand is ahead of the offer and then the price is superior to the one calculated depending on the costs. The price will be diminished accordingly, of course, when the offer is higher than the demand.

In *services marketing*, the use of this orientation is dictated by the firms' desire to correlate the demand with the offer so to assure the maximum utilization of the capacities of production in any given moment. In the case of the hotel industry, the target is to completely use the capacity of accommodation; in the case of car services, the aim is to use the entire capacity to carry out the reparations and the manpower available. In the first example given above, the adaptation of the demand to the offer can be realized by establishing some high prices in the rush hours and some lower prices off season. As far as the reparation workshops are concerned, there should be some discounts made in the periods when the demand is stalling.

In order to use successfully the technique of determining the price depending on the demand, the marketer must estimate the quantities of product that will be bought at various levels of price and to choose that level that grants the highest profit.

The marketers recommending this method are aware of the fact that, beyond the production costs and the influence the competitors have on the price, the customers do not pay the determined price in the end if they are not convinced they receive an equivalent value.

According to the economist Valerie Zeithaml, the value of a service is defined by “the global evaluation of its utility for the consumer depending on his perception on how much he is giving and how much he receives in exchange“. Consequent to a study made to observe the manner in which the services consumers perceive the notions of *value*, *quality* and *price*, the American author sets out four modalities in which those comprehend the concept of value: [Zeithaml V., “*Consumer perception of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence*”, *Journal of Marketing* vol.52 (July 1988), <http://areas.kenan-flagler.unc.edu/Marketing/Pages/>]

Value – as a low price paid for a service.

When the consumers are not loyal to a certain product or brand, they appreciate the value of the products they buy at special prices, by the mean of coupons, the week's offer etc.

Value – reflected by some qualities expected by each consumer from the product/service bought.

Even if it is not a real superior value, the consumers appreciate certain products/services when those satisfy certain preferences, tastes or desires.

Value – reflected by the report quality/price.

The consumers want products/services of superior quality at an accessible price. Therefore, they appreciate the value of a transaction when they succeed to buy the brand product/service at a lower price.

Value – reflected by the report quantity/price.

The consumers do not perceive value only in report with the price or the quality but also depending on the quantity of a product/service they can purchase at the same price.

The conclusion is that the term of *value or utility* represents for each consumer something else: for some of them it means low prices, while for the others it is expressed by the characteristics they expect from the service. The utility may also signify the quality a consumer receives in exchange for the price paid or, even simpler, the utility is what the consumers receive in exchange for what they give. Some authors recommend the use of the notion *net*

value defined as the sum of the benefits received minus the sum of the costs made by the consumer.

If the price for a service is higher than the benefit obtained, the consumer will perceive negatively the value of the service and will not repeat the purchase. The consumers actually evaluate the net value/utility when they evaluate the service. These evaluation might be however subjective, based on incorrect or incomplete information. Even more, the appreciation of the utility varies from one consumer to another and from one situation to another.

The value of the service is determined by the following factors:

-the quality of the service or “the experience expected” evaluated depending on the consumer’s perception on the offer of services;

-the monetary costs (the price) and the non-monetary costs (time, physical effort and psychological costs) associated to the use of the service;

-the existence of some services or substitutable goods able to satisfy the same need;

-the consumer’s characteristics, his experience in regard to the services of the firm and of the competitors;

-the characteristics of the market’s segment the firm is targeting. [Stan, A.-Ș., *Politici de marketing în domeniul serviciilor*, Bacău, 2005]

The services companies can use all the three orientation to determine the prices, depending on their evolution on the market they are active on, on the objectives specific for each step or period from the life cycle of the company or service provided etc.

In regard to the operationalization of the price strategy in services, Lovelock and Wirtz suggest the following essential questions to which the marketers in the domain of services must find optimal solutions, in concordance with the resources and the objectives targeted:

How high will be the price?

-which are the costs that must be returned?

-how sensitive are the target-clients to the different levels of price?

-which are the competitors’ prices?

-which are the cuts/discounts offered?

-are used the psychological prices on the respective segment of the market?

Which is the base on which the price is determined?

-the execution of a specific task

-the access to facilities

-the time unit (hour, day, week, month, year)

-percentage to the transaction’s value

-the material resources consumed

-the distance covered

-the offer’s physical dimension

-the price will be determined for the entire package of services or for each element of a service separately?

Who cash in the price?

-the one carrying out the service

-intermediaries that are specialized such as tourism agencies, ticket placement agencies etc.

-the intermediary will be paid either with a fixed sum or with a negotiated percent from the cashing.

Where will be made the payment?

-at the place where the service was carried out or delivered

-at an intermediary point (e.g. the .bank)

-at the client’s home.

5. *When the payment is made?* It has to be established whether:

-before or after the carrying out of the service

-within each day’s hourly program

- in all the days of the week.

6. *How the payment is made?*

-by cash, checks, vouchers

-by electronic transfer

-by cards.

7. *How are communicated the prices to the target-segment?*

-which will be the communication channels (advertising, electronic displays, sales agents, maintenance personnel etc.)

-which will be the contents of the messages (which is the percentage of the price element in the promotional message?)

[Lovelock C., Wirtz J., *Op.cit.*, p.147]

3. Conclusions

The prices are part of the very few tangible, real elements of the services that can be analyzed, compared and evaluated in a concrete manner, being considered the main indicator for appreciating the services' quality. The studies have shown the prices of services are perceived by the consumers as one of the main evaluation indicators for their quality; they influence the manner in which the consumer appreciate the services' value and they also affect the inclination of buying. The characteristics of the services give to the price policy a series of specific features, among which we enumerate:

the price can make the product tangible,

offers significations about quality,

reduces the variability by the appropriate differentiation of the strategies

diminishes the effects of the perish and inseparability. [Olteanu V., *Marketingul serviciilor. O abordare managerială*, Ecomar Publishing House, p. 205]

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