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SMALL AND MEDIUM ENTERPRISES SERVICE PRICING STRATEGIES IN AN ECONOMIC CRISIS ENVIRONMENT

STRATEGIE CENOWE MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW W WARUNKACH GOSPODARCZEGO KRYZYSU

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Streszczenie. Od 2007 roku aż do dzisiaj (połowa 2012 roku) gospodarka światowa przeżywa głęboką recesję. Doprowadziło to do załamania się sektora produkcyjnego i literaturze przedmiotu można znaleźć wiele przypadków przedsiębiorstw borykających się z trudnościami i zagrożonych upadkiem. O wiele rzadziej jednak spotkać można podobne prace w odniesieniu do sfery usług – nie ma opracowań pokazujących, jak kryzys wpłyną na funkcjonowanie handlu czy usług gastronomicznych, i czy w związku z trudnościami podmioty te zmieniają coś w swojej strategii funkcjonowania na rynku. Badanie przedstawione w niniejszym artykule pokazuje wpływ kryzysu na małe i średnie podmioty sfery usług, działające w Polsce. Część empiryczna pracy obejmuje wyniki 180 wywiadów bezpośrednich przeprowadzonych z właścicielami i osobami zarządzającymi. Analiza w szczególności dotyczy strategii cenowych stosowanych przez badane podmioty w warunkach kryzysu gospodarczego. Przeprowadzenie takiej kwerendy wydaje się być uzasadnione, ponieważ cena jest jednym z kluczowych elementów strategii marketingowej podmiotów i wpływa na takie aspekty, jak pozycjonowanie produktu, segmentacja rynku, zarządzanie popytem, dynamika sprzedaży i osiąganie większego udziału w rynku. W artykule podjęto próbę stwierdzenia, w jaki sposób przedsiębiorcy ustalają ceny, od czego ceny ich zdaniem zależą i w jakich warunkach powinny się zmieniać. W podsumowaniu zawarto konkluzje odnoszące się do wpływu strategii cenowej na sytuację podmiotu i możliwość radzenia sobie z kryzysem.

Key words: costs, marketing, Poland, profits, services, strategy.
Słowa kluczowe: koszty, marketing, Polska, strategia, usługi, zyski.

INTRODUCTION

The approach of small and medium enterprises' to pricing in conditions of economic crisis is an important topic. Much of the literature has focused on the multinational companies' strategies, with minimal attempts to capture strategies for smaller companies. In terms of general pricing strategies, an economic crisis entails a fall in economic activity, which results in a sharp decline in Gross National Product, resulting in decreasing real income, a fall in investments, and in high unemployment.

SMEs must take into consideration product cost considerations while ensuring that they obtain a reasonable return on investment. Companies must consider both fixed costs, which do not vary with the amount of output, such as space rental, maintenance, and staffing, together with variable costs, which vary with the amount of output, such as raw materials, packaging, and shipping costs (Naidoo 2010, Deshpandé et al. 1993). Economic factors, such as inflation, interest rates, and, especially a recession or an economic crisis, affect pricing decisions because they affect the cost of producing a product and the willingness of the consumer to purchase the final product. In order to maintain market share under these conditions, pricing competitively may mean charging such low prices that companies are not making a profit. During an economic crisis, the cost of materials, supplies, and labour are among the many costs that are not within a firm's control, and SMEs may have to decide between maintaining a competitive presence in a market and weathering the downside of the economic cycle or abandoning the market.

Pricing Strategies

Price, recognised as a value of certain goods defined in monetary units, can be understood as exchange value or as a cost that a buyer has to incur, if they want to posses a given product. Usually it is believed that the price means the cost for a consumer that they have to pay (Michalski 2003). However, there are other costs on a customer's facet as well: cost of time spent on purchasing, cost of energy used, and cost of mental commitment. Approving the price (i.e. exchange value) determined by a seller, and approving other conditions of exchange, a buyer assumes that the product value stems from its utility traits and agrees to incur it. The exchange value depends then on product attributes (utility value) hence on a level/possibility of meeting the needs of clients.

Price strategy means long-term planning of structure and level of prices. It encircles a way of setting a price for a product placed on the market as well as methods of price differentiation depending on market situation.

The most commonly used pricing strategies are penetration price strategy (diffusion strategy), market price strategy (average price), high price strategy (skimming price). Penetration pricing refers to offering market goods at very low prices (which sometimes may not even cover the product or service costs) in order to stimulate demand (Clark et al. 1999). In theory, this strategy is temporary, and after a certain period a seller raises prices, although this first stage very often leads to price wars (everybody sets very low prices). As such, an attempt to increase prices is extremely difficult. Companies, in spite of this threat, decide to use the penetration strategy to drive competition out of the market and to gain a larger market share (Kotler 1999).

A company using a market pricing strategy sets prices at a level close to average prices in a given market this strategy is used to maintain current market share/level of sale. The advantage of this strategy is the possibility of reaching a large consumer segment, although this strategy is defensive, and does not allow the company to build a strong image as a market leader relative to competitors.

Image pricing strategies are used by expensive products of exceptional quality and by products that are under patent protections, with no competition. However, high prices attract new competitors and discourage middle-income customers from trying the products.

The price strategy applied by a company depends on both internal and external factors. The former encompasses: 1) goals of a company, such as market share or good image, 2) incurred costs, connected with quality or location. The latter group should embody: 1) competitors' activities, 2) strategies used by intermediaries, 3) customers income, 4) natural factors such as climate, 5) legal regulations.

As mentioned, customers' income is amongst the determinants influencing prices. This factor is one of the strongest because it creates the upper price limit. Apparently, depending on a given product's character and market circumstances, price increases can cause both decreases and increases in demand. Usually demand and price are inversely correlated, so higher prices result in declining demand, although in the case of luxury products higher prices can be perceived as a sign of even better quality, therefore a higher price can bring greater demand. Surely, comprehension of dependences between demand and price is one of the main issues in business activity (Quillinan 2010). Other external determinants refer to competitors' and intermediaries' activity. In case of the first one, a company can significantly suffer from price reduction by competitors wanting to gain market advantage.

PRICING OBJECTIVES UNDER ECONOMIC CRISIS CONDITIONS

Different types of SMEs in the same industry may have different pricing objectives predicated on firm size and in-house capabilities. They may adopt sales-based objectives, aimed at increasing sales volume and market share relative to competitors. The premise of this strategy is that sales growth will lead to dominance in the marketplace achieved at low per-unit cost. However, this strategy may be difficult in a crisis situation, as many of the firm's competitors are also likely to decrease prices to be able to keep their customers.

A profit-maximisation pricing objective, aimed at recovering the costs of product development quickly, while simultaneously providing value to consumers, might also be challenging for the SME during an economic crisis. If companies introduce new products, they are most likely unable to charge the price that will yield the maximum profit, or return on investment, again, because consumers are unwilling to pay high prices and they would most likely turn to competitors charging lower prices.

Status-quo–based objectives are typically used during times of crisis. Such objectives are used to minimise the impact of competitors, and to avoid sales decline. This strategy does not mean that the firm does not change prices – it must match competitors' price reductions if it wants to keep its customers. However, it should be noted that status-quo–based objectives could be adopted only in the short term, to weather a particular condition or challenge and that, in the long term, companies must be proactive, rather than reactive, to be able to succeed.

From a marketing point of view, it is essential for SMEs to create a crisis-focused strategy that involves strict monitoring of the market, identifying sudden changes, and examining indicators that may provide insight into potential developments in the market – for example, watching gasoline prices, and examining construction data and retail activity (Hurley et al. 1998). During this time, it is important to fight to maintain market share, despite possible changes in the competitive landscape. This may involve reducing costs and reducing prices.

SME PRICING IN POLAND UNDER CRISIS CONDITIONS

Poland is among the six largest EU member states, and one of few EU countries reporting GDP growth during the current global economic crisis. After decades of developmental lags due to the postwar division of Europe, Poland has much catching up to do in various fields – for example, in the areas of innovation and in the research and technology sector. Nevertheless, the Polish economy successfully (and quickly) transitioned from a centralised command economy to a viable market economy, with the Polish political system changing from a single party to a liberal democratic multi-party as affirmed by the Polish Constitution of 1997. Successive Polish governments pursued economic policies resulting in economic growth, creating favorable conditions for private enterprise, and curbing inflation.

Since late 2008, Poland has been hit by two shocks: the recession in high-income countries, which hurt external demand for exports, and the global financial crisis, which reduced capital inflow and thereby lowered domestic demand (World Bank 2011). But, the global crisis hit less hard in Poland due to a relatively solid initial macroeconomic situation (robust growth and manageable internal and external imbalances); the large size of the domestic market; the flexible exchange rate; and appropriate policy responses on the part of the government (World Bank 2011).

Even in a crisis situation, Poland's performance has been impressive: its GDP is at US$ 528,000 billion, with a GDP growth rate of 3.8% for 2010 and 2011. It is the only economy in the European Union that has not contracted during the current economic crisis (Eurostat 2010).

In this article, we explore approaches to price setting used by Polish service SMEs. Our aim is to describe importance of different factors while choosing pricing methods and price strategies.

METHODS AND RESULTS

In the process of exploring SME pricing strategies in Poland, personal interviews were conducted with a judgment sample of SME service providers in North-Western Poland. A total of 180 respondents were interviewed, 107 men and 73 women, with an average age of 38.3, ranging from 21 to 68 years. Of these, 116 were business owners and 64 were employees.

PRIMARY APPROACH TO DETERMINING PRODUCT PRICE

Respondents were asked to discuss how they determined the final purchase price of their offer in the current crisis environment and their responses were coded post-hoc into categories. Most respondents reported using a cost plus (41.7%) or an average-competitive price (26.7%) strategy. Only 10.6% only percent stated that their pricing was based on demand. For 7.2% of respondents, time for delivering the service was also an important consideration (Table 1).

Table 1. Primary Approach to Determining Product Price

Basis for Determining Price (elicited responses coded post hoc)	Total Indicating Basis	Percent
Cost plus profit	75	41.7
Average competitive price	48	26.7
Demand	19	10.6
In advance	4	2.2
Negotiation	1	0.6
Individually	7	3.9
Competition	1	0.6
Based on service quality	3	1.7
Execution time	13	7.2
Other	2	1.1

Source: own study.

Consumer Purchases in Times of Crisis: Do They Buy Less?

Respondents were asked if consumers are likely to buy less during crisis. While, intuitively, service providers would expect consumers to purchase less during an economic crisis, this perception is not widely shared. In fact, as many as 35 percent of all respondents disagreed with this statement. See Table 2. This may, however, be a service-specific issue that might be investigated further by future research. Certain service providers, such as doctors, lawyers, and others may provide services that are indispensable, whereas other service providers, such as beauty parlors, fast-food restaurants, and others might be seen as a luxury that consumers might decide to forgo or postpone during an economic crisis.

Table 2. In a Time of Crisis Consumers Buy Less

Opinion	Total Indicating	Percent
Disagree	63	35
Agree	117	65

Source: own study.

Factors That Most Affect Service Prices in Crisis

Respondents were also asked to indicate the factors that most affected the price of their services during the crisis situation. As expected, most respondents (41%) indicated that demand was the factor that most affected service prices, followed by product quality, with a total of 25.6 of respondents indicating that quality was a primary determinant. This is an important finding: even under crisis conditions, small and medium enterprises feel strongly that quality products can command premium prices. Service costs and operating costs were also identified as factors that most affect services prices in a time of crisis, with 13.3 percent of respondents indicating each as the most influencing factor, respectively. See Table 3 and Fig. 1.

Table 3. Factors That Most Affect Service Prices in Crisis

Factors	Total Agreeing	Percent
Operating costs	24	13.3
Demand	81	41
Supply	11	6.1
Cost of service delivery	24	13.3
Producer prices	11	6.1
Exchange rates	1	0.6
Quality	46	25.6
Fuel costs	4	2.2
Competition	0	0
Brand	15	8.3
Promotion	7	3.9

Source: own study.

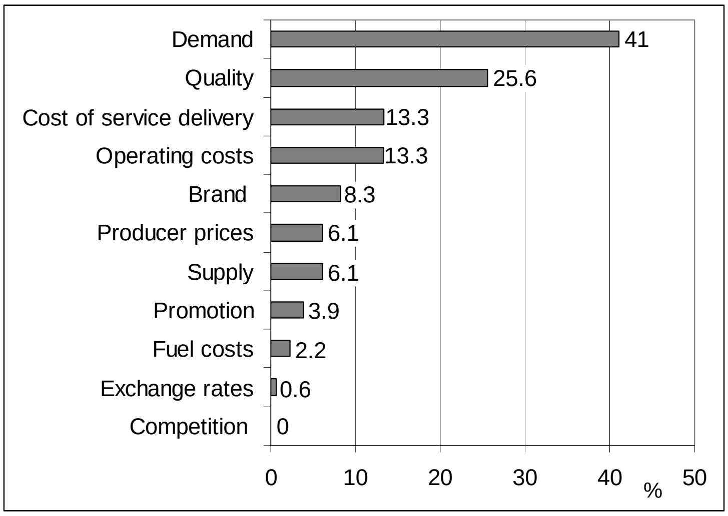

Fig. 1. Factors That Most Affect Service Prices in Crisis (in percents)
Source: own study.

GENDER DIFFERENCES IN PERCEPTIONS OF PRODUCT PRICING STRATEGY

The study also examined gender differences in perceptions of what is the primary approach to determining service prices under crisis. The analysis indicated significant differences between men and women ($\chi^2 = 21.57$; $p < 0.05$), with proportionately more males than females indicating cost plus profit as the primary approach to determining service prices. Interestingly, many more women than men, proportionately, felt that the primarily approach to determining service prices was the average competitive price. See Table 4. Clearly, more women perceive competition to be a key pricing determinant during crisis conditions, whereas men perceive costs to be the key determinants, most likely attributing success to a lower-cost approach. Moreover, more male respondents, proportionately, perceive that demand is a primary factor in determining service prices, as compared to women.

Table 4. Gender Differences in Determining Product Pricing Strategy

Way of conduct	Male (n = 107)	Female (n = 73)	All (n = 180)
Cost plus profit	52	23	75
Average competitive price	17	31	48
Based on demand	13	6	19
In advance	4	0	4
Negotiation	1	0	1
Individually	4	3	7
Quality	1	2	3
Execution time	7	6	13
Other	3	0	3
Total ($\chi^2 = 21.57$; $p < 0.05$)	102	71	173

Source: own study.

CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The current study found that most service providers reported using either a cost plus profit strategy (males, in particular) or an average-competitive price strategy (females, in particular). Clearly, demand is not a primary consideration for the individual respondents when making pricing decisions, nor is the time it takes to provide the service. However, when asked, in general, what are the factors that most affect pricing decisions, a large proportion of respondents agreed that it was demand, quality, and the cost of delivering the service. The brand and available supply also play a role, although not as big as could be expected. And, interestingly, the respondents did not believe that the price can be affected by competition.

From the discussed answers, we know that 10% of business-people do not deal with questions of prices at all. Among the others, 41.7% ascertain prices using the principle of costs and profit markup and it would be hard to say that this approach inclines to price management, because the only parameter one can manipulate is the margin of profit, so the elbowroom is significantly limited. It is worth adding that in the same group of respondents, 26.7% state that their prices depend on costs of supplies and purchases. Consequently, a conclusion can be drawn – respondents have to incur other costs than those connected with purchases, which they did not mention during interviews… Most probably, they are costs of workers' salaries and taxes.

Summing up the conducted analysis, one can say that in the respondents' opinion intermediary costs and demand have the biggest influence on prices. In spite of the prices role as a marketing tool, a small minority of respondents say that prices depend on promotion strategy or a product character. Amongst 180 service companies, only 8.3% noticed that prices are correlated with a brand, so it can be stated that entrepreneurs do not perceive price as a market tool that can be used to influence the crisis situation.

As mentioned before, according to the answers, the most important factor shaping level of prices is demand. Uncertainty of demand may be connected with the size of the market (how many consumers will potentially buy a given product) or assessments and choices made by customers (how big part of the market will accept a given offer; Kalchschmidt et al. 2006). Activity of companies depends then on issues beyond their control: such as, they will expand their offer or change price dependent on the consumers' decisions and market size especially under influence of competitors' behavior (Padmanabhan et al. 2010). Therefore, it seems that demand volume determines which strategy an entrepreneur will use, and competitors' behavior or crisis situation on the market will lead to a change of strategy – from high prices strategy, through average market prices strategy toward penetration strategy (Gendall et al. 1997). An issue of correlation between a method of price ascertaining and level of crisis may be a matter for further research, since results shown in this paper seem to show that difficult a market situation of a company can stem from inflexible, preservative price policy, usually based on the formula: price = costs + profit.

Price strategy influences not only current incomes and profits, but also relations in a distribution channel and a company image for example. That is why alterations in the field of prices should be planned and adjusted when they do not lead to pointed goals. Approaches to reviewing prices are surely key issues in every company.

It would seem that as economic development in Poland is moving towards competitive market; businesspersons will withdraw costs conception and implement more flexible approaches, taking into account market dynamics and marketing rules conceptions, especially in the time of crisis. The conducted survey does not confirm this assumption.

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