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Pricing Strategy in Services - Pricing Strategies in Transport Services

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The paper aims to highlight the main ways in price fixing strategies in general and customized in the field of transport services. Establish strategies and tactics price is a complex process requiring consideration of a multitude of influencing factors and experience a wide variety of options. Pricing strategies are grounded and chosen by taking into consideration the conditions of service offerings, demand, competition, cost and price perception by consumers and the objectives of the firm in the market. There are a great variety of strategies and tactics price for the services sector. This gives companies the freedom to choose the most suitable options in relation to their factors or profile, offer services, marketing objectives, the targeted segment, etc. The most used of price strategies and tactics can be classified according to the novelty of the service provided, and for new services and existing services.

Key words: price, strategy, services, transport services

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1. Introduction

The component price is of vital importance in view of marketing and developing competitive strategies as a determinant factor of performance. Price is the unit of measure by which customers appreciate the value of an offer, which has a strong impact on the selection of one of several competing alternatives. Moreover, price is the only element of the marketing mix that generates revenue for the company. It is generally acknowledged that the price is a determining factor for the competitiveness and even the viability of a company, in the strategic decisions of the price involved a number of factors direct or indirect influence among which stands out costs, demand and market competition.

2. Pricing strategy - determinant factor of a firm's market success

Substantiation of pricing policies according to the objectives set on medium and long term lead to survival results in the company on the market and of course to its success by gaining a substantial profit margins. Price strategy involves coordination of marketing and financial decisions interdepenedent, mainly focused on managing costs, price reactions of consumers and competitors in a given market, in order to achieve common goals. It defines a general attitude of the company in relation to prices, which allows setting their levels before the start of the product development process (Vranceanu, 2006). Analysis of factors which affecting and influence global price strategy includes both organization-specific factors (organizational and marketing objectives, cost structure, characteristics of supply of services, etc.), and environmental factors (law of the country of origin and the country concerned, currency fluctuations, inflation, etc.) and market (consumer expectations, market growth potential, frequency of purchase, degree adaptation / standardization of services, etc). Price setting strategy must take into account the company's objectives, internationally may involve centralization or location, depending on the advantages and disadvantages of each alternative evaluated according to the factors identified above. Setting price strategy is followed by the development and selection of the most suitable option pricing, implementing cost option selected and continue with overseeing transactions, evaluating and updating strategy and policy of price options.

Regarding the assessment of price competitiveness is necessary to identify those tenderers who are perceived as offering the greatest value to consumers. Because the value is a combination of price and perceived quality, value analysis requires assessing how consumers perceive the quality of competing offers from the market. Such an evaluation can be done in several ways, which generally follows the steps outlined below:

- identify quality dimensions - those attributes of services that consumers have in mind when choosing the service provider;

- measuring the quality dimensions - identifying attributes that are considered most important by consumers;
- evaluating competitors as quality dimensions - by giving scores to consumers for each competitor, for sizes identified;
- identifying preferences quality / price - respective, combinations of the most sought after by consumers (Doyle P., and Stern P., 2006)

Given the complexity of developing and implementing a strategy of price is recommended to follow a methodology as shown schematically in Figure 1, internationally.

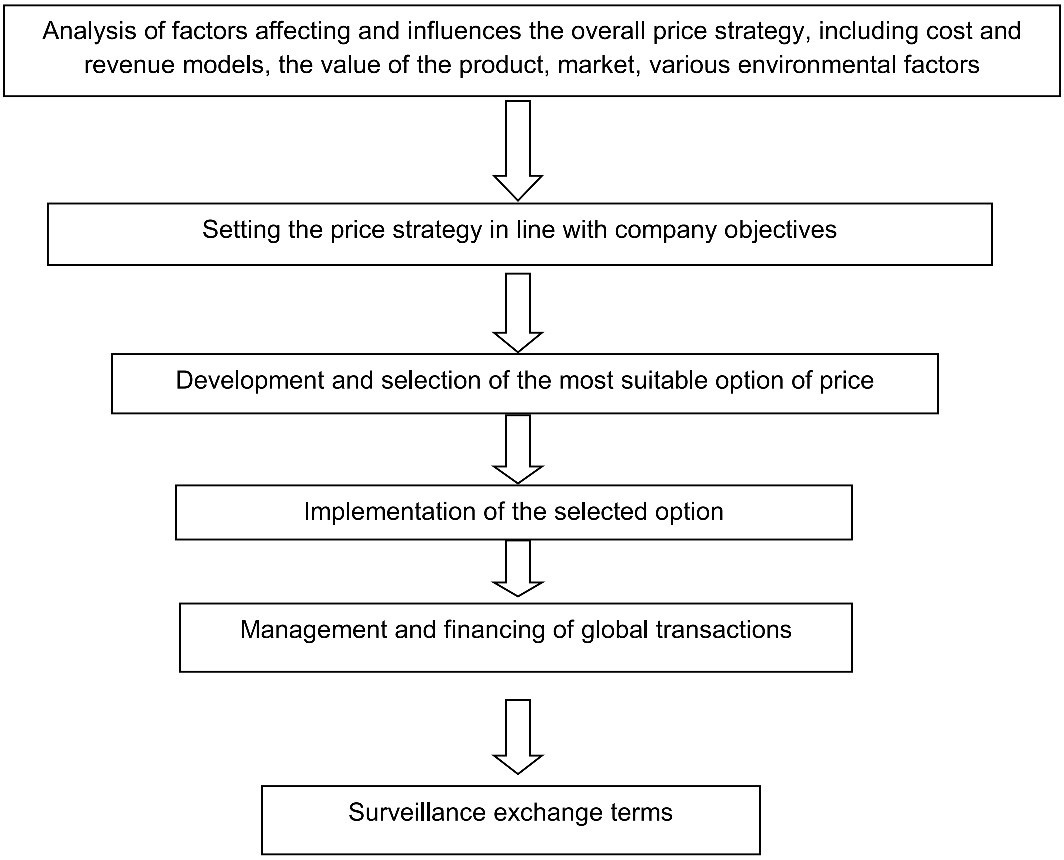

Figure 1. Steps of international price development strategy
Source: Lee K., Carter S., 2005.

Strategic alternatives of price can be differentiated depending on a number of criteria, namely: services offer, temporal variation in demand, level and way the price formation, mobility of price. The synthesis of these alternatives is shown in Table 1.

	Position of the company to:				
	1. Offer	2. Demand variation	3. The orientation	4. Price level	5. Mobility of prices
STRATEGIES	*a. Strategy of flat prices*	*a. Temporally differentiated pricing strategy*	*a. Oriented after costs*	*a. The strategy of high prices*	*a. The strategy of prices relatively stable*
	b. Pricing strategy differentiated on component	*b. Undifferentiated temporally pricing strategy*	*b. Oriented after demand*	*b. The strategy of moderate prices*	*b. Prices change frequently strategy*
	c. The strategy of combined prices		*c. Oriented after competition*	*c. The strategy of low prices*	

Table 1 - Strategic alternatives in the price policy
Source: Olteanu V., 2003.

In the table above we capture the most strategic alternatives that have a company at hand in terms of pricing in the market.

3. Strategies and tactics of pricing in services

There are a wide variety of strategies and tactics price for the services sector. This gives companies the freedom to choose the most suitable options in relation to their factors or profile, offer services, marketing objectives, the targeted segment, etc. The price strategies and tactics most used can be classified according to the novelty of the service provided, so for new services and for existing services.

Pricing for new services is generally more closely approached by companies because they do not have experience with a service on which to base their decisions. In this sense, it should meet the following objectives (Scarborough N. M., and Zimmerer T., 2006):

- price acceptable to potential consumers;
- price must to preserve the market share when the competition intensifies;
- established price must afford a profit.

Based on these objectives, the most used pricing strategies for new services are:

- Penetration strategy - involves setting a low price for the new service provided to ensure its rapid acceptance by consumers. The strategy is advisable when market competition is intense, there are a large number of similar services and offer opportunities for differentiation are reduced. Usually, the introduction of a new service on market using the price penetration strategy is accompanied by strong promotion services through advertising, discounts, etc.

- Skimming strategy - involves setting a high price for the new service offered for fast return of investment for development and launch offer and making a profit. This strategy is used mainly when market competition is little or no competition, or there is a market segment of consumers who are willing to pay a high price for high quality services and research and development costs or input market are substantial. Using this strategy allows at any time reduce the price to increase sales volume and profit respectively.

- “Slip” strategy - is a variant of skimming strategy, which involves determining the "slip" demand curve by introducing a new service at a high price and because of technological advances held by the company is able to reduce price earlier than competition can. By reducing price faster than competition the company can achieve a high sales volume, and at the same time discouraging competitors. This strategy involves the emergence and intensification of competition in the market after the introduction of the service, but can be used even if there is no competition, to attract a broader segment of consumers.

4. Strategic and tactical price alternatives for air transport services

Air transport has become, over time, more cheap, on the one hand, due to lower tariffs absolute, and on the other hand, due to tariff range expansion that allows access to air transport audiences with a very elastic demand price. They proliferated, thus, very low rates, but conditional upon compliance by the traveling public of terms or restrictions which do not affect the quality of services, while benefiting airline companies (for example, by reducing the seasonality of demand). Differences high of tariff ranges have raised the discriminatory character of pricing policy in air transport. According to economic theory, price discrimination occurs when a manufacturer perceive different unit prices for the various units of the same product or service, citing reasons unrelated to changes or differences in costs of production.

A. **Official rates** (published in specialized textbooks and distributed by computerized reservation systems - CRS), which can be:

A.1. IATA rates
A.2. Rates of company

A.1. IATA rates are negotiated by member companies and registered in the IATA system, generally at Meetings of Coordination Tariff.

The criteria for establishing tariff structures, levels and conditions of application relating to:

- for levels of tariffs are envisaged distance of route, the economic potential of the market, local currency evolution, changes in operating costs items with worldwide effects, etc;

- for structures / application conditions are taken into consideration IATA resolutions with binding and / or guidance character, specific structure of traffic, etc.

A.2. Company rates are not recorded in the IATA system, which are negotiated between partner companies and aviation authorities in those countries, according to the specific requirements of intergovernmental aviation agreements. These rates, which are lower than tariffs IATA, represents special offers of some carriers and generally reflect the level of market sale, containing specific restrictions of route, carrier, documentation, location of selling. Distribution of company rates experienced in recent years, in the context of liberalization of international air transport regulatory framework, emphasizing competition and over-capacities offer, a development boom, consisting of effective tools to attract traffic, by the advantage posed to be approved, recorded and distributed quickly.

B. **Market rates**, are not subject to negotiations between member companies IATA or between partner companies (except only contracts BSA - Blocked Seats Agreement - which may provide tariff coordination, including the market rates) and do not have a universal distribution (by manual CRS). In fact, market prices achieved an improvement of the whole system of tariffs in a market-based through diversification of prices depending on variety of conditions:

- type of journey (business, excursion, group, travel arrangement included, etc.);
- traffic categories;
- length of stay;
- age.

The level of market rates is determined based on market conditions and specific market segments based to be raised or maintained to transport, allowing adaptation operative and permanent of own offer to the competition. Within market rates may differ two types of rates: private rates and negotiated rates.

Private rates are all prices limitations on distribution and use, using special input systems "pricing" for their viewing.

Negotiated rates is a subcategory of private rates, are also not viewed and shared publicly, but offered to customers and agents selective and differs from any published fare in terms of the conditions for the application or class of service, or commission paid to an agent that differs from the standard fee. Air carriers can charge such rates in CRS sites which offer the following advantages: viewing / automatic issuance, control / upgrading of distribution, the possibility of changing / updating without circulation of papers. CRS-sized role has been expanding its importance in the life cycle of rates through the development of new systems that are sensitive to changes of customer requirements. Another aspect of the operation of the CRS, with important implications for competition in the air transport market, refers to the possibility of access to a huge volume of market information, provided by CRS holders priority. This information is particularly useful for estimating the price elasticity of demand, forecasting the profits, enhances competitive advantage.

Whatever tariff categories mentioned above, tariff structures can be grouped as follows:

A. Normal rates

B. Special rates

Normal rates are the rates for which the following conditions are met:

- is published as OW (one way) or RT (round trip);
- has one year validity;
- no restriction on: advance purchase, minimum stay, booking / payment / ticket issuing, time of day of the trip, flight specific, framing under certain conditions.

Special rates are any rates other than normal (for example, PEX type rates, SUPERPEX, APEX, etc.).

5. Conclusions

The choice of policy options for responding to competition price-based requires consideration of the competitive advantages of the company, its strengths and weaknesses in relation to competition, demand, and of course costs. You cannot ever say that is the most important element in pricing.

A favorable cost structure can be a significant advantage for a firm even in conditions where competing against larger companies because small unit costs generates higher profits, despite the setting of relatively small prices.

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