MARKETING

ADRIAN MICU

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CONTENTS

Chapter No. 1 1
THE CONCEPT OF MARKETING
1.1. The definition of marketing 1
1.2. The place of the marketing activity within the company 21
1.3 A synthetical approach of the marketing goals and functions 23
1.4. The marketing specialization 29
1.5. The marketing critic 30
1.6. The place of marketing within the economic sciences. The interdisciplinary character of marketing 31
1.7. The evolution of the marketing in the world economy ... 32

Chapter No. 2 39
THE MARKET OF THE ECONOMIC ORGANIZATION

Chapter No. 3 63
THE PRODUCT POLICY

Chapter No. 4 78
PRICE POLICY
4.1. The strategic role of the price 78
4.2. The price and the purchasing behavior 80
4.3. The reactions of the competitors and the price strategies 86
4.4. Price sizing methods 91
4.5. Price strategies on the basis of the experience phenomenon 103
4.6. The segmenting of the market and the price strategy ... 110

Chapter No. 5 120
THE DISTRIBUTION POLICY

5.1. The marketing channels…..…… 120
5.2. The participants to the distribution process 121
5.3. The dimensions of the marketing channel 124
5.4. Types of channels.....125

Chapter No. 6 130
THE COMMUNICATION POLICY.....130
6.1. The communication system of the modern economic organization and the promotional activity. 130
6.2. The structure of the promotional activity.....131
6.3. Advertising or Publicity.....133
6.4. The sales promotion.....139
6.5. The public relations (PR).....143

BIBLIOGRAPHY 145

Foreword,

The marketing does not represent anymore only the attribute of companies, goods competitors and a couple of high tech companies with pioneering role; once with the globalisation emphasis of the consumers and markets, the managers from most of the activity sectors are becoming more and more preoccupied with the evolutions on the internal and international markets. The large companies together with the small companies are being influenced by these events, the companies from the traditional activity sectors, high tech companies as well as services companies. In order to succeed in such an environment, the managers must be flexible and capable to develop and to implement dynamic marketing strategies.

The company from the internal and international markets must elaborate and implement the marketing strategies within a complex and continuously changing environment. By doing so, it has to respond also to the needs and requests of the customers, confronting itself in the same time with the competition.

Such changes are hard to imagine without the adaptation of the marketing in its management process. By the optics and the content that it promotes, the marketing imposes to the economical agents a new kind of conduct that requires the receptivity towards the requirements of the society, high capability to adapt to the evolution of requests and exigency of the market, innovation spirit, flexibility of the acting mechanism of the economic agents, unitary vision upon the unfolded activities and maximum efficiency, obtained as a result of efficient orientation of the economic activity to the requests of the market.

Putting into practice these desiderates, surely, implies the profound acquiring of the marketing knowledge, knowledge that offers besides the economic theory, the key to decipher the complex mechanisms of market economy in which Romanian companies are engaged.

Covering a large thematic area I have tried to structure the most significant modern marketing issues which

can be found in the economic practice and in the specialty literature. I have also tried that besides the presentation of the fundamental concepts of modern marketing to select the most representative papers from the vast specialty Romanian and international bibliography in order to emphasize the novelties from the theoretical point of view, the registered experiences and solving methods of a wide and diverse scale of problems that might appear in the economic practice, configuring in this way the multidimensional and interdisciplinary character of the marketing science.

I express my conviction that, as a whole, the present paper offers to the interested people the possibility to better understand the complex problematic of the modern marketing, facilitating the learning and the studying of the knowledge from this vital field for the activities of the Romanian companies.

Associate Professor Ph. D.
ADRIAN MICU

Introduction

This book is intended for theoreticians and practitioners in the field of marketing. If you are the general manager or the executive manager of an organisation, you must know not only to take risks, but also how to navigate between them, in such a way that you should obtain the desired reward by satisfying the needs of the consumers and only by permanently adapting to the consumer and to the "chaotic" environment. Moreover, you must know the role that you have in the sizing of these activities in order to eliminate the risks of the market and to maintain your position on the market.

You could disagree with me, by saying that the strategy is the responsibility of the leadership, but it is more and more obvious that the success of a strategy depends upon the understanding of the role that each person from the hierarchy has within this process. In the case of any marketing policy and strategy the risks do not appear only by their application but also in their research phase. The challenge offered by this book was the offering of an easily to digest material to help the managers, students and master's degree students to internalize the concepts that I develop within these chapters, maintaining in the same time the general character of the concepts in order for these to be applied on a wide variety of businesses.

In the following lines I will offer a general perspective of the organisation manner of this book. The book is made up from six chapters and an introductive section.

Thus: **Chapter I** The marketing concept emphasizes the fact that the marketing direction for the activity of the modern company highlights as main characteristic features the following: the receptivity towards the requests of the society, of the market; the rigorous knowledge and even the anticipation of these requests; a higher flexibility, respectively

the capability to adapt the activity to the evolution of the consumption needs, ingenuity, creative spirit, permanent concerns for renewing and modernisation; wide unitary vision, upon the assembly of activities that make up the economic cycle of goods and services, maximum efficiency, due to the efficient orientation of the activity towards the consumption needs and the requests of the market.

Such coordinates and features establish the image of the marketing in general, not being reported to a certain type of economy, economic development stage or the actual activity field.

In the second chapter I am going to discuss the economic organisation market in which the market represents the field of capitalizing the activity of a wide and heterogeneous circle of companies; each of these companies attempting to occupy a certain position on the market in order to ensure the efficient manufacturing of the products (services) offered for sale.

By its activity the organisation will seek to maintain or even to improve the position held on the market at a given moment; the accomplishment of such an objective requires the delimitation of its own coordinates within the market, the mentioning of the relations and the products that the company already has with the other participants to the activity on the market.

From the perspective of these exchanges, it results that the marketing and the actual activities unfolded from its point of view are undoubtedly connected to the economic area of the market, to the nature, the size and its functioning mechanism.

Chapter II treats the economic organisations market starting from the fact that the marketing activity field in the test for the consumers. In essence, the consumers market is that status of the market in which the offer exceeds or has the tendency to exceed the request. Only such a market offers the consumer the possibility to choose a product (service) or another without precisely defining a market, the marketing practitioner must understand the structure and the functioning of these markets from the point of view of the

request. This desiderate assumes the mastering of some key concepts of the market.

Chapter III treats the product policy starting from the fact that, with the help of its informational marketing system, the company can perceive the signals of its environment focusing using the unfolded marketing policy on adapting its decisions to the exigencies of the market for the significant increase of its competitiveness level. The materialization of these decisions is made within the marketing myth, with its most important component represented by the product policy.

The product policy is often compared with "the heart of the marketing", by this metaphor trying to express the idea that the development of products, services and ideas and launching them on the market along their life cycle represents the nucleus of the marketing activity.

Chapter IV examines the price policy. Within the four marketing policies, the price seems to hold a special place in the specialty theory and practice. This assertion is sustained by the fact that some specialists consider that the price does not represent a controllable variable at the level of the company, while others are the supporters of a real opportunity to use the price in the interest of the company, on a short term or more often on a longer time perspective. The price has already overcome its strictly economical significance in the modern approaches of prices in the vision of the marketing science this is adding psychological, social, psychographic and demographic meanings. All the activities made on the market have their price, inclusively, somehow paradoxically, wrong decisions. The price seems to dominate the market and the marketing operators, no one and nothing could derogate from the rigors of the price policies, without rigorous negative consequences.

Chapter V tackles the distribution policy; the harnessing of the opportunities of the market and the efficient finalizing of the goods and services productive companies are conditioned by the goods reaching to the consumers and to the final users, to satisfy the needs for which these goods have been intended. The results of the company specifically integrate in a certain type of market offer according to the

manufacturing degree and company resources use and according to the consumption needs for which these results are intended. In the space and time that separates the finalizing of the production phase from the goods/services entry a sum of economic operations and processes are taking place, whose efficient orientation makes the object of the third component of the marketing myth – the distribution policy.

In the system of the relations with the economic-social environment, with the market, the marketing efforts of the modern companies cannot be limited to the production and the distribution of goods and services; these imply at the same time a permanent and complex communication with the external environment, with the market, which implies a careful informing of the potential customers and intermediaries, specific actions in order to influence consumption and buying behaviour, to support the sale process. All these activities with extremely varied objectives and action possibilities make up the communication policy – an important component or part of the marketing policy for the modern company.

Chapter No. 1
THE CONCEPT OF MARKETING

Objectives:

- The understanding of place and role of marketing within an organization;
- The knowledge of basic goals of marketing;
- The understanding of the information content provided by accountancy;
- The knowledge of marketing functions;
- The identification of the reference element of marketing – the customer.

1.1. The definition of marketing

According to certain authors[1], the concept of marketing comprises three meanings.

Marketing signifies advertising, promotion and sale under pressure, namely the use of sales techniques extremely aggressive in view to gain the existent markets. From this very mercantilist perspective, the marketing is applicable especially to high consumption markets and less to the sectors which are focused on high-tech products, public administration, social and cultural services.

Marketing integrates a mix of analysis tools, forecasting methods and market surveys which are useful for a prospective approach of the needs and demand.

Marketing is the "architect" of the consumption society that is a system in which the individuals represent the object of a "commercial exploitation" by the seller.

Behind these schematic points of view, we can emphasize three dimensions specific to the concept of marketing: markets conquest, markets comprehension and a spirit state. From these trends, the most frequent is the reduction of marketing to the dimension related to markets conquest (operational marketing); in these conditions, we remark the underestimation of the dimension related to markets comprehension (strategic marketing), fact that can have a negative impact in the firm activities.

In the last years, the requirements for an efficient management considerably increased[2]. Factors with high technological transformation, the high maturity level of the majority of markets, the opening of eastern markets, the tendency regarding markets fragmentation, the changes

[1] Jambin J., "Le marketing strategique", Mc Hill, Paris, 1989
[2] Bruhn M., "Marketing", Gabler, Germany, 1997

observed on the consumers' behaviors and the business globalization are only few examples referring to the dynamics of internal and international markets.

These development trends lead to difficulties in what concern the companies' reputation on markets and the design of loyalty strategies in view to diminish the churn rate.

The recognition and overtaking of market changes represent tasks which are subordinated to **marketing**, as an organization function. All the professionals in this field agree the fact that marketing must be understood as "strategic thinking focused on market". The customers' needs and expectations can be found in the core of this thinking.

In view to advance our approach, we will take into consideration the **following marketing definition**.

Marketing is an entrepreneurial thinking way. It focuses on the planning, organization, execution and control of all internal and external activities from a company that lead to the achievement of the goals oriented to the clients.

The definition emphasizes the fact that marketing represents a dominant pillar in a company's management. Marketing mustn't be perceived just a business function, because it is on the same position with the other functions as production, R&D, HR, financial. In this way, marketing is understood as a dual concept of management oriented towards market. Marketing represents, in the same time, an entrepreneurial manner of thinking.

Marketing is not defined in a homogeneous way due to the differences observed on the semantic meanings of this word. Marketing represents the present participle that reveals the idea of continuous action of the verb "to market", which is synonym with the development of transactions on market. We will emphasis the most significant definitions of marketing.

1. The American Marketing Association considers marketing as being "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large".
2. Denner: "Marketing is the permanent analysis of the demand on the one hand, and the development of the ways to satisfy the customers, in the conditions of a maximal profit, on the other hand". Synthesizing this definition ander the form of an equation, the author wrote:
   Marketing = Demand fulfillment + Profit
3. Philip Kotler: 'Marketing is a management and social process by means of which the individuals and the groups get what they need and wish, by the creation and exchange of products and values with others.'

In order to understand this definition, it is necessary to define the following economic terms: needs, request, wishes, products, exchange,

transaction, market. The essence of the marketing concept is presented in figure no.1

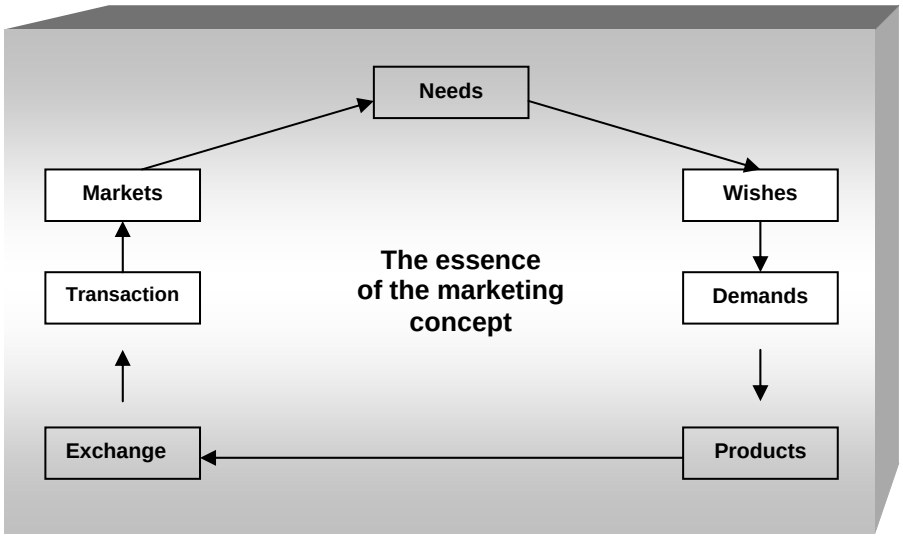


Figure no. 1.1 The components of marketing concept

Need[3]: Sometimes it is stated that on a free market the individual request for certain goods doesn't reach the level considered by "society" or "community" as being appropriate. Thus, there is a distinction between the personal request of a certain individual for a product and his need to have it. The concept of "need" can be associated to the idea of a high quality product whose consumption is desired. Another argument which is used more and more often is that the need refers to the request for goods that should be provided for others' consumption. Thus, a person's need to get medical assistance by the public health institutions can be considered as being determined by the request of the rest of the community in his or her benefit, attitude based on altruism. If the utility at an individual level is affected by the amount of goods and services consumed by other individuals, we talk about an independent utility. It is about the effects of some phenomena like altruism or envy. Traditionally, the wellness economy is based on the hypothesis that the utility functions are independent; considering this hypothesis, the utility at the individual level depends only of his good and service consumption.

Abraham Maslow[4] emitted the hypothesis that the needs should be satisfied in a certain order of their importance, as it is presented in figure no.1.2.

The theory shows that the fundamental needs placed towards the basis of the pyramid will have to be satisfied before giving more

[3] MacMillan Dictionary of Modern Economy
[4] Blythe J, "Customer Behaviour", op. cit., pg. 27-28

importance to the more sophisticated needs, placed on the top. For example, a person who is cast away on a deserted island will be first of all concerned with the satisfaction of the immediate physiological needs, to find food and water and to build a shelter. Once satisfied these immediate needs, the following priority would be to make sure they are permanently satisfied: in other words, to protect the shelter from any hostile force and to make food provisions for unpredictable situations.

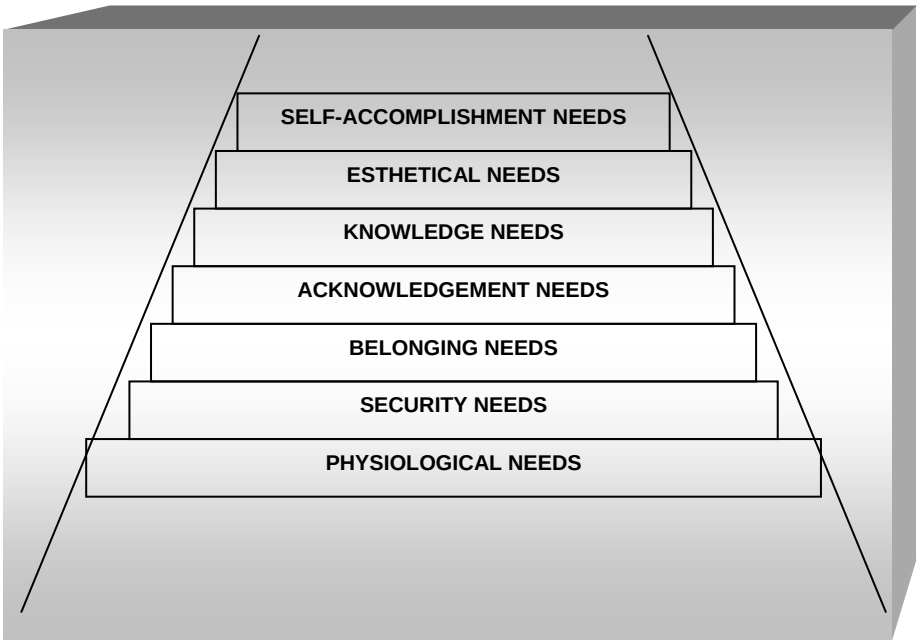


Figure no. 1.2 Maslow's hierarchy of needs
Source: Adapted after Abraham Maslow, Motivation and Personality, New York, Harper and Row, 1954)

Our hypothetical cast away would like to find other people, a group he could belong to; and once found the group, he will want to be respected by its members (the appreciation need). The necessity of a time for thinking and satisfying certain artistic aspirations may be a result of the wish to be good at something only from ambition.

The self- fulfillment represents reaching the stage of full accomplishment of the personal aspirations or the purpose of life. It is the fulfillment of the wish to become anything you want to be, to accomplish what you are capable of, sometimes to make an important change in the world you live in. In our society, the people who operate at the self-fulfillment level are usually those who had a successful career, who have enough financial security to provide the satisfaction of their physiological needs and have already won the trust and respect of the social group they belong to. Such people mostly become interested in arts, sometimes

playing in the rhythm of their own music; they will get involved in charity activities, they will support a certain cause or they will focus on who knows what valuable activity, without any economic importance.

Maslow's hierarchy of needs doesn't strictly involve the satisfaction of every need before the needs of superior level show up, except the case when there is a main concern of the subject in this direction.

This means that a sales representative can be more interested in the competitiveness of the sale than the insurance of a big enough commission in order to cover the mortgage, but the theory explains eloquently the real framework of the businesses in order to be useful. There should also be mentioned that the circumstances can equally determine the subject to go up or down the hierarchy; the diagram presents rather the relative importance of each need at a certain moment than the significance of life evolution.

Wishes[5]: Wishes represent the form taken by the needs, modified by means of culture and individual personality. They are described in terms of objects which satisfy the needs. As the society evolves, people's wishes diversify. The producers try to provide the goods that highly satisfy these wishes because there are a larger number of objects than the people's interest and wish.

Many sellers mistake wishes with needs. They forget that a product is only a tool to solve the consumers' problems as they are concerned only about the existent wishes and they miss the essential needs of the consumers. These sellers will have problems when it will be launched a product which satisfies better or cheaper the need. The consumer with the same need will want a new product.

Demand[6]: Quantity of a good or service an individual or group wants to buy at a current price. The total demand of an economy represents the aggregated demand. The aggregated demand supported by the real market can be considered as effective demand.

The real demand: The aggregate demand for goods and services for which there are payment resources. The real demand distinguishes itself from the national demand which refers to the need of goods and services that is not supported by the incapacity of payment and thus it cannot be communicated to the providers by the price mechanism.

The importance of this difference consists in the fact that the market economy is characterized by a state of unbalance because the price mechanism cannot signal the national demand. This creates uncertainty regarding the idea of general balance revealed by Walras.

The hypothesis of dual decision: In the modern approaches of Keynesian theory, the hypothesis of dual decision is the argument according to which the conventional functions of demand and offer don't create relevant signals in view to settle the market balance. The

[5] Sasu C., "Marketing", Ed. Univ. "Al. I. Cuza" Iaşi, 1995
[6] Dictionary of Modern Economy, 1999

conventional curves of demand and offer reveal the quantities that buyers and sellers are disposed to exchange, taking into account the estimated receipts. If the current receipts differ from the estimated ones, the buyers and the sellers are constrained to review their planning.

Reciprocal demand: The demand of a country for the goods of another country. J. S. Mill proceeded to build a model that included both cost and demand determinants of international values and the terms of trade. The produce of a country exchanges for the produce of other countries, at such values as are required in order that the whole of her exports may exactly pay for the whole of her imports.

Exceeding demand: Situation in which, at a certain level of price, the demand exceeds the offer. The curve related to demand surplus is inclined towards bottom from the left to the right and intersects the vertical axis at the balanced price level. In the figure no. 1.3, the demand level D_1 is smaller than the offer provided at the price P_1. As a consequence, the demand surplus is negative. At the level P_2, the offer and the demand are equals, the surplus being zero. At the level P_3 there is a demand surplus equal to the difference between $D_3 – S_3$.

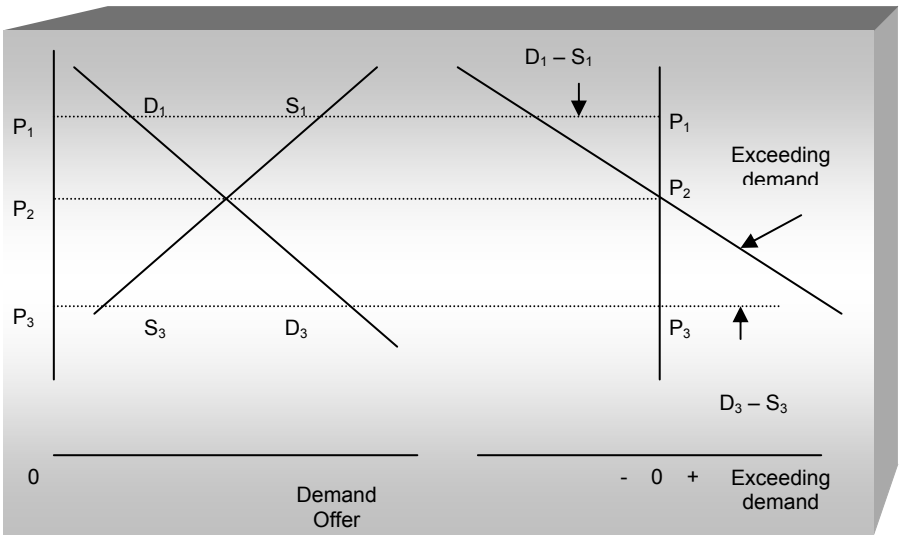


Figure no. 1.3 The exceeding demand

Induced demand: The demand for a production factor is sometimes called induced demand, because it is determined by the demand for the final good to which production is involved the respective factor. It is the phenomenon that after supply increases, more of a good is consumed.

Product: is something that can be provided to a market in view to be bought and can satisfy a need or wish.

Heterogeneous product: is a trait of lines of products or services provided by the economic agents to the market which have different attributes combinations in the perception of consumers.

Marginal product: additional production obtained by using an additional unit from a given input (production factor). Thus, we must specify which input is about – for example, the marginal product of the capital, etc.

The decreasing returns law: when a variable factor is used in higher and higher proportion in comparison with other factors which remain constant, at a certain moment, a decrease of the marginal return and then the medium returns start to be produced.

The value average product: the physical average product of an input (production factor) multiplied with the average income. As the average income equals the price, we can write:

$PVM = P \cdot PFM$

where: P = the product price;

PFM = the average physical product.

Homogenous product: a product is said to be homogenous if the goods or services provided by a firm on a certain market are found in combinations which make them be identical in the customers' points of view.

Adequate products: term generally used referring to the products designed for being used in developing countries. Some economists state that by means of the international trade and multinational companies, inadequate products and technologies are often exported in less developed countries. The multinational companies usually provide adequate products only for the circumstances in the western economies and try to use the same raw materials in developing countries as well where they could sometimes be inappropriate. For example, the construction materials which are specific to the cold climate conditions or for the skyscrapers cannot be the most adequate for the construction of one or two floor house in Africa. Once with the adequate products, we usually talk about the use of some adequate technologies.

Conjoint product: goods which have propriety by means of which any change in the production level of one of them generates a change in the other. As a consequence, any change in the demand and offer conditions is transmitted on the conjoint product markets.

The marginal physical product: the production surplus which results from the use of work additional unit and can be derived from the production function keeping unchanged the other factors. The diagram of the marginal physical product may be considered a curve of the work demand. Work is used up to the point when the payment of the last unit from it is equal to the production provided by the last unit. Usually this calculation is done by means of a change of the marginal physical product in its value that is multiplying it with the product price.

If there is an income decrease or increase, the number of the work units used goes down or up according to the diagram slope of the physical marginal product. On a long term, the work demand is

determined by the work marginal physical product, though in a way which is more complicated. An income increase for example has a negative effect of substitution because the company substitutes more expensive workforce with the cheaper capital, reducing the amount of work which is required.

On the production scale, a negative effect also appears because an increase of the income leads to a higher marginal cost of the production which in its turn leads to the decrease of the company's optimal production and from here the work derived demand. The two effects reinforce each other, determining an inverse ambiguous relation between the income and the company's work demand. This curve of the demand is more elastic than the short term demand.

The value marginal product: equal size with the marginal physical product multiplied with the marginal income from the selling of an additional production unit derived from an additional input – work unit. Under the conditions of a perfect competition, the price equals the marginal income so we can write:

$MRP = MPP \cdot P$

where: MPP – marginal physical product

P – the price.

Under the conditions of an imperfect competition, the price doesn't equal the marginal income and it is necessary to change the equation in:

$MRP = MPP \cdot MR$

where: MR – marginal income which concerns selling an additional product unit

Exchange: Marketing is achieved when people decide to satisfy their needs and wishes by means of the exchange which represents the process of getting an object wished from somebody by offering something in return. The exchange is only one of the ways to get the wanted product.

The exchange is the key concept of marketing: For its existence, a few conditions must be accomplished:

1. to attend at least two parts;
2. each of parts should have something valuable to offer to the other;
3. each part should want to change something in order to get something else;
4. each part should be able to communicate and to deliver.

These conditions create only a potential possibility of the exchange; if it takes place, this will depend only on the agreement of the parts concerning its conditions. If the parts agreed, we can conclude that at the end of the exchange all the participants will get advantages or at least they will not lose anything because each of them was free to accept or reject the offer.

The transaction: if the exchange is the marketing essential element, the transaction is the measure unit. The transaction is the provider concept used to design the economic flow which reflects the

creation, transformation, exchange, transfer or redemption of an economic value and which supposes the property change on the goods and / or the financial rights, the service delivery or the dismissal of workforce and capital.

The transaction can be monetary or barter type depending on the way the money or another product is offered in exchange.

The actual financial system with numerous sophisticated financial tools hasn't showed up over night. It is the result of the evolution along the centuries. The financial core system is represented by money.

Money: is an asset which serves as a generally accepted way in the accomplishment of the exchanges or as a payment tool.

The goods were the first method of payment but along the time they evolved to banknotes and the bank accents. All these have the same essential quality: they are accepted at the goods and services payment.

Barter[7]: the barter, as an actual form of the international trade, is a particular compensation which is carried out between companies from two countries, each partner having both the quality of exporter and importer, the values of the two consignments are equal, being mutually counterbalanced (figure no. 1.4)

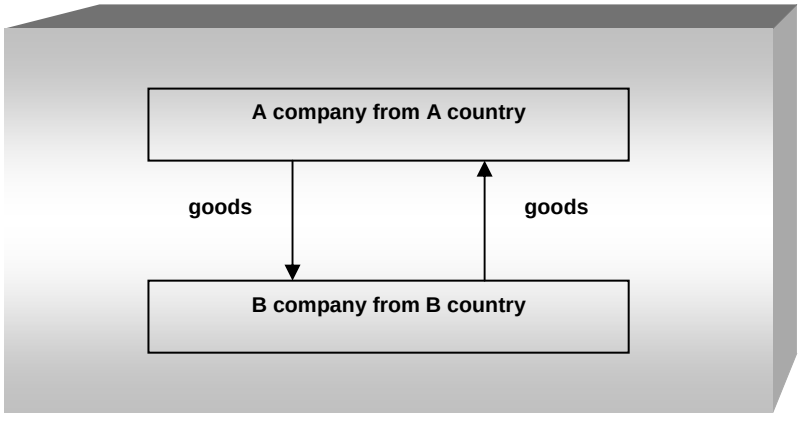


Figure no. 1.4 Barter operation

The barter transactions present the following characteristics:

a. the goods exchange is carried out based on the single contract which contains regulations referring to the both flows of goods (export and import)
b. the goods which represent the exchange are not invoiced in convertible foreign bills and so no currency exchange takes place;

[7] Popa I. , "International Commercial Transactions" op. cit., p. 283-286

c. the goods exchange takes place simultaneously or at very short term periods.

A barter variant is the compensation by means of which an exporter delivers its products in a foreign country and accepts to be paid in kind in the next period. The operation is based on a single contract and the deliveries of the exporter are counterbalanced with goods, the money serving only to set the value of the good consignments or eventually the payment of the outstanding balance. (figure no. 1.5)

As a consequence, the transaction represents a kind of barter with a delay of the payment in goods.

The contract which is signed between the two companies contains the compensation clause in which is stipulated that the payment of the imported goods in the B country will be made by an export of equal value in the A country. In a larger sense, in the category of barter operations there are included the extended triangular or chained compensations, but in this case the transactional mechanism is more complex.

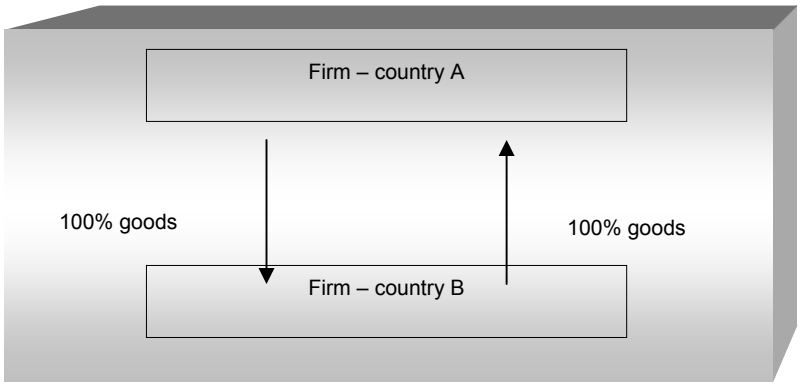


Figure no. 1.5 – The compensation

The extended compensations: it is concluded with the involvement of two or more partners from each country, both as export and import partners. The whole operation is developed within a barter agreement signed between groups of companies or governmental bodies from two countries.

The import /export goods consignments are wholly counterbalanced in kind, the goods circulate between the two countries and the settlements are made within each country, between the partners who are sellers and buyers, both in the external and the internal relations. This means that the exporter of a country will get the equivalent value of his exported goods from the importer of his country, in the national currency, without being necessary the circulation of the foreign bills between the two countries. (figure no. 1.6)

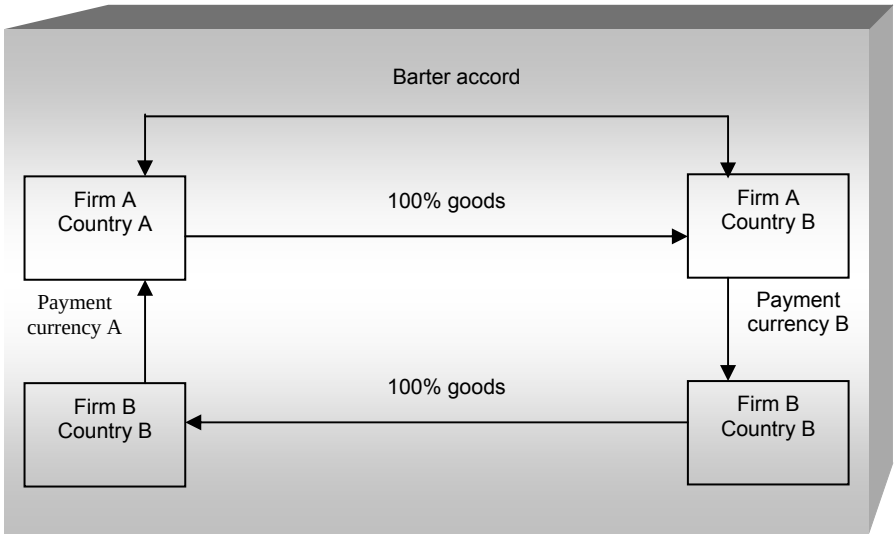


Figure no. 1.6 Extended compensation

The chained and triangular compensations suppose the participation of some companies from three of more countries to these operations. The goods delivery between the involved companies takes the form of a closed circuit. The redemption of the obligations is carried out in the same manner, avoiding again the external currency settlements (figure no.1.7.)

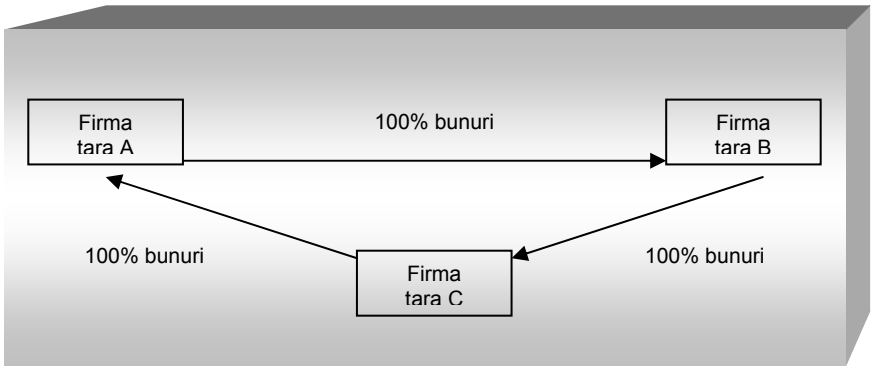


Figure no. 1.7 The chained and triangular compensations

In this case, contracts are signed between the involved companies from different countries, the operation being multilateral; the compensation is complete and the compensation obligation is transferred from a company to the other which increases the operation's costs and risks.

An important problem in the negotiation of the barter operations is represented by the exchange report between the goods which are the subject of the mutual flows.

If in the case of the fungible goods, it is established starting from the quotations of the respective products, there is no recognized market price for the manufactured products. Thus, there is a tendency to overbid the prices of these products.

The market is a mechanism by means of which the connection between buyers and sellers is made in order to establish the price and quantity for a certain good or service.

The transaction concept leads to the market one which represents a sum of actual or potential buyers of the product.

In order to understand the market concept, we imagine the transaction in the primitive economy in the following manner: we design A as a member of the primitive community with a certain occupation; we design B another member with another occupation etc. for example, up to the seventh member of the community with another occupation than the A, B, C, D, E members of the primitive community.

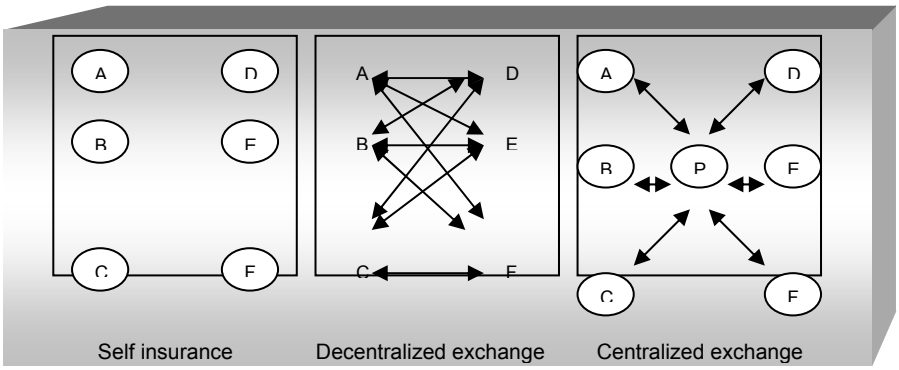


Figure no.1.8 a shows the way they can satisfy their needs.

The case can be generalized to “n” members of the primitive community with distinct preoccupations.

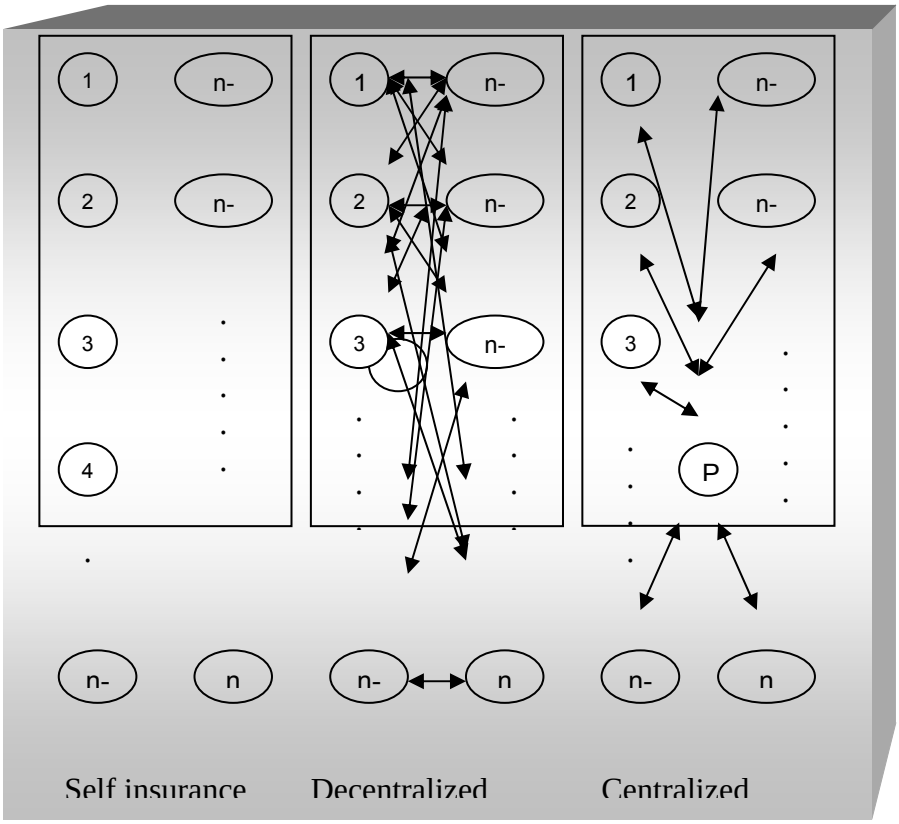


Figure no. 1.8.b The three ways to satisfy the needs of some “n” members of the primitive community with distinct preoccupations

Note: a, b ,c ,d ,e ,f represents the preoccupations of the A, B, C, D, E, F members. The same for the general case.

Self insurance: Each member of the community gets the goods for his own use. Thus, in most of the time, the A consumer is in charged with the “a” activity. He’s also in charge with “b”, “c”, “d”, “e”, “f” activities. Consequently, he will be less efficient in the other five activities (b, c, d, e, f).

Decentralized exchange: Each member sees in the other five members of the primitive “community” some possible buyers who are in competition for the marketplace. The A member can move to the other five in order to carried out the exchange of products.

Centralized exchange: It is produced when a new person called *buyer* appears, who is in the middle of the distance between them and

represents a centralized place where the various transactions take place. All the six members come to this place with their six goods (a, b, c, d, e, f) and negotiate the goods exchange between them. In this way, a decrease of the number of transactions takes place.

The market economy[8] is a complex mechanism related to the coordination of the people, activities and companies by means of a market and price system. It is a communication tool designed to intermediate the exchange of knowledge and shares between the millions of individuals from worldwide. Without disposing of an information system, it solves the production and division problems which involve millions of relationships, problems which surpass even the performances of the most rapid computer.

The marketplace is not someone's masterpiece. Still, it works very well. In the market economy, the production, consumption, division and price setting are not the responsibility of a single person or an organization.

How can the marketplace determine the level of the prices, incomes and production? First of all, it has a place where the buyers and the sellers can negotiate face-to-face.

Generally, the marketplace must be considered a mechanism by means of which the sellers and the buyers can set the level of the prices and can exchange products and services between them. Almost every thing has a market starting with the art objects and ending up with recycling materials. The market may be centralized, as it is the case with stock market or decentralized, as it is the case of labor or real estate market.

It can also exist only online, as it is the case of many financial products and services which are sold and bought by means of the computer. The essential feature of the market is that it gathers sellers and buyers determining them to fix the prices and amounts.

Facing the buyers with the sellers (offer and demand) on every market, the system of the market economy solves simultaneously three of its problems: **what**, **how** and **for whom**.

The market balance is generally presented in the following manners:

1. The goods and services that will be produced are determined by the consumers' acquisition decision which is not expressed from time to time but every day by their decision to buy. The money they pay and which appears in the company's account books are eventually used to pay the wages, the rents and dividends the consumers, as employees, receive as an income.

But the companies want to maximize their profits. The **profits** are the net incomes or the difference between the total value of the sales and the total costs. The companies give up those activities that generate losses; moreover, they are attracted by high profits generated by the production of the goods with very high demand.

[8] Samuelson P., "Political Economy", Bucureşti 2000, op. cit. p. 44-46

2. The **way** in which the production will be achieved is determined by the present competitiveness between different producers. The best thing the producers can do to face the competition by price and to maximize the profits is to keep the costs at a minimum level by applying the most efficient production methods. Sometimes, the change is almost insignificant, consisting in something more than the simple reconditioning of the equipments or the adjustment of the entries mix in order to have a cost advantage which can be proved to be very important in the struggle for leading positions.

3. For whom it is produced – who consumes and how much – mostly depends on the offer and demand which exists on the market of the production factors. It is the one which determines the level of the incomes, the land rent, the interest and the profit or the so-called **price of the production factors**. The same person can earn a wage for the delivered work, dividends for the shares he/she possesses, interest for the certificate of deposit and even rent for the property he or she owns. Gathering all the incomes obtained as a result of the production factors, we can determine the so-called market incomes of the people. The revenues distribution between the members of society is determined both by the amount of the production factors (work hours/person, hectares, etc.) and their price (the income, the rent, etc.) Figure no. 1.9 outlines the system of the market economy based on the balance between the offer and demand.

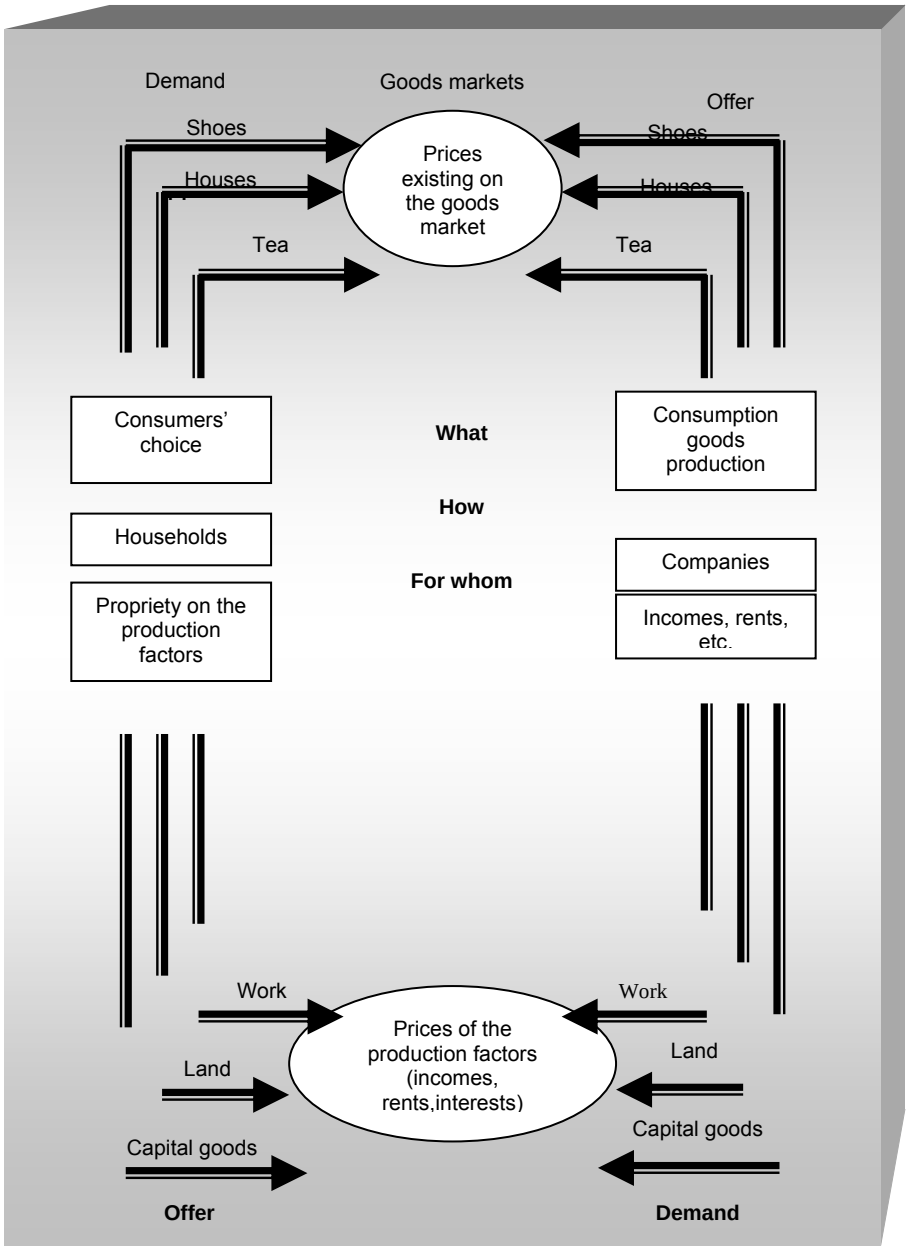


Figure no. 1.9 Production factors markets

We observe in the figure no. 1.9 the circular flow of the market economy. The monetary decisions of the households interact on the goods' market with the companies' offer, thus deciding what exactly is produced. Then, the demand of the production factors from the part of the companies deals with the job offer and other entries on the market in order to determine the income, the rent and the interest; the incomes influence the goods destination (for whom these goods are produced). The competition between companies in what concerns the acquisition of the production factors and the sale of the goods to a lower price determine the way in which production is achieved (how it is produced).

Vern Terpstra. "Marketing represents a complex of activities undertaken by the companies to keep the connection between profit and markets."

If we try to analyze and to interpret this definition, we observe that we must know the five imperatives of accompany and that is:

1. The first imperative is to analyze the possible buyers: who are they?, where are they? What criteria are relevant when buying?
2. The second imperative is to design products or service deliveries to satisfy the consumers' needs.
3. The third imperative of the company is represented by the setting of the prices for products and services.
4. The fourth imperative is represented by the products distribution to the buyers.
5. The fifth imperative is represented by the market awareness about its products and services.

Taking into consideration these five imperatives of a company, we can conclude that according to this vision, the buyer is on the core of the company's activity as it results from figure no. 1.10.

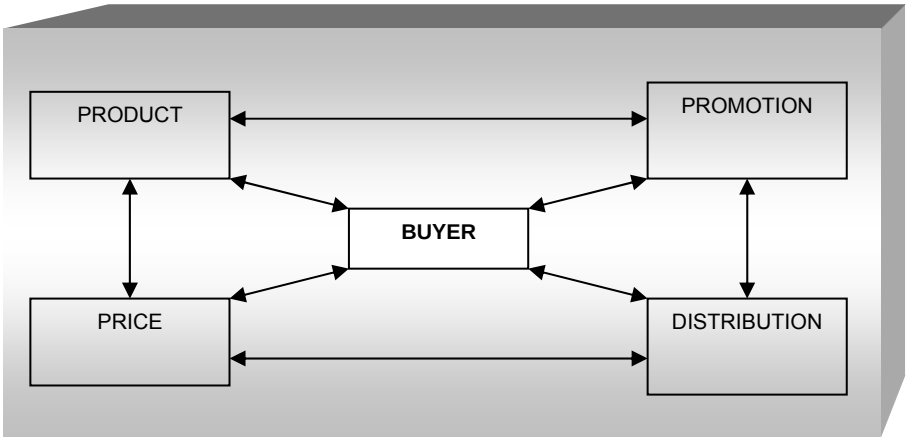


Figure no. 1.10 Terpstra conception on marketing

Marketing is a mix of concrete practical activities, a way of managing the economic activities towards a definite purpose.

The marketing promotion has also determined the appearance of new activities such as: the market and consumption survey, the acceptability test of the products and services launches on the market, the consumption behavior analysis.

For the solving[9] of the different problems the marketing specialist deals with, he makes use of a mix of methods and techniques specific to other sciences.

This mix includes:

- Methods and techniques from the domain of exact sciences (mathematics, statistics, informatics) used in the analysis and forecasting of the sales, in the developing of the quantitative surveys;
- Methods from the human sciences domain (psychological, sociological), used in the study of motivation and the drawing up of the advertising messages;
- Techniques specific to other sciences of administration (general and analytical accountancy, the stock management, the financial management, etc);
- Knowledge from the domain of the economic theory, law (the competition law, the competition situations).

The marketing understanding is simplified if the couple product / market, the relations which connect the product to its market are taken into consideration.

From this point of view, we can identify three ways of practicing marketing:

1. The unilateral or traditional conception

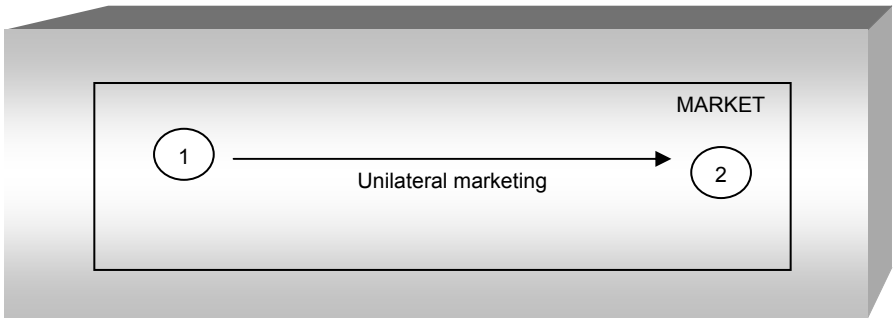


Figure no. 1.11 Unilateral marketing

[9] Negruț C. , "Introduction in Marketing" op. cit. pg. 8-13

The product approach predominates in this conception. We deal with an unilateral marketing. First, it is made the product and then, the marketing asks: 'I have a perfect product, who wants it?'

Marketing discovers the consumers who are interested in the product in the second stage.

There are two possible situations:

1. The market exists; the engineer's creative intuition is confirmed. The product is a definite success or half of it, depending on the qualities of the distribution plan on the market of the product.
2. The market doesn't exist. The commercial service is held responsible for not knowing how to sell the product.

Historically speaking, this conception corresponds to the period after the second World War; it is part of a lack economy.

This conception about marketing is based on some brilliant successes (Citroen DS, the Mirage de Dessault series), but counterbalanced by many failures. Most of these failures are caused by the products derived from the projects of the 1960s and 1970s, such as the Concorde plane and the pattern of the SECAM TV in France.

The disregard of the consumers' exigencies, favored by the political dimensions of these projects was directly sanctioned by the market, which refused the products although they were technologically excellent.

Still, we must underline the fact that the actual technological innovations, their complexity (telematic, micro information, biotechnology, etc) leads to an unexpected turn back of this vision about marketing.

As the consumer is unable to mention his expectations, desires, the company is tempted to come back to the unilateral marketing, also called 'the offer marketing'. The classical techniques of the market survey also emphasize their limits when they have to deal with highly efficient markets.

2. The bilateral conception

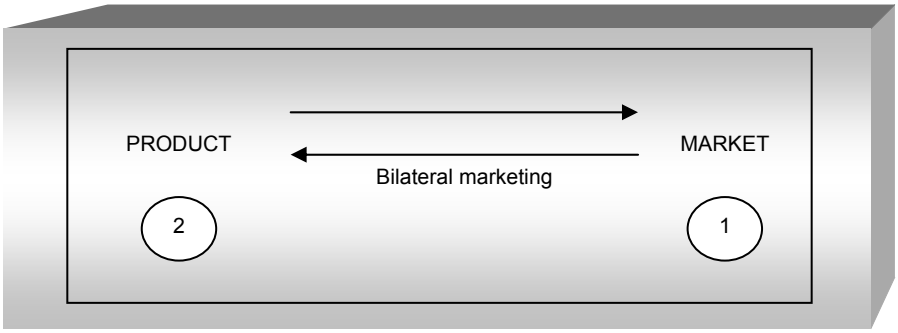


Figure no. 1.12 Bilateral marketing

The market is analyzed in the first stage in order to manage the design of the product in the second stage. The role of the market survey is crucial for the product success. The report of the market survey presents the expectations of the market and formulates a marketing recommendation which is able to clearly guide the strategy according to the consumers' exigencies. The product distribution will be carried out according to a launching plan reproduced after the information provided by the initial market surveys.

3. The integrated conception

It is a follow-up of the bilateral marketing and has in view a dynamic system which is in a continuous circuit.

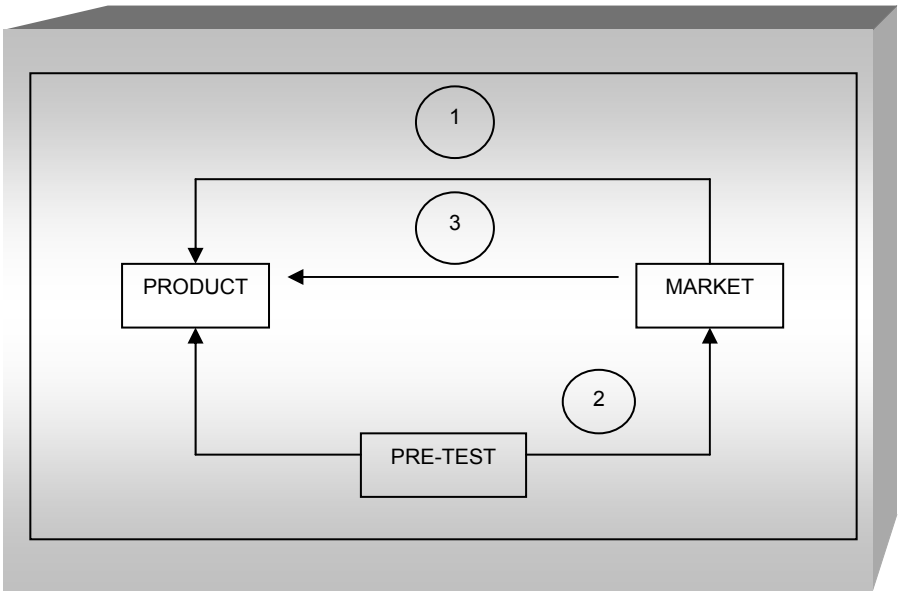


Figure no. 1.13 Integrated marketing

In this conception, we can identify three stages:

Stage 1: *Market → Product*

This first stage is similar to the one of the bilateral marketing conception and studies the market expectations.

Stage 2: Product → Test(s) → Market

The product is progessively developed by means of necessary changes based on the results of the different tests made with the future consumers. These tests may be: acceptability tests, market surveys, etc.

Stage 3: Market → Product

The third stage of this conception concerns the retro-effect (return or feedback) of the market. It underlines the fact that a market is never stable, but it constantly evolves: the consumers exigencies are changing, the competition provides new products, etc.

The product/market couple is dynamic by its nature and a marketing success is still temporary.

In conclusion:

a. Marketing is the one which solves the company's problems in a profitable manner;
b. Marketing means:
- satisfied clients;
- profitable businesses;
c. The necessity of using marketing is imposed in the following cases:
- when the results of the company are not satisfactory;
- when there are some defaults in the company's management;
- when the competition increases or the interest for the company's products decreases;
d. The client is:
- the most important person in the company;
- he doesn't depend on us, we depend on him;
- the client is the purpose of our work, he does us a favor appealing to us;
- he is part of the company;
- he is the person who emphasizes his wishes. We are here to accomplish them in the beat way.

1.2 The place of the marketing activity within the company

Analyzing the activities developed in a company, Henry Fayol makes a classification of them in six functions: technical, financial, commercial, accounting, security and administrative. Fayol's conception was expressed at the beginning of 20^{th} century and his predecessors have come with new approaches, getting to the clear distinction of the five basic functions of a company towards at the end of the century: research-development, commercial, production, financial-accounting and human resources.

In firm functions approach, marketing is a component of the commercial function, besides supply and sales, situation which is also met in the organizational structures in that period. The increase of the marketing role within the organizations led to its detachment from the commercial function and the customization as a distinct function next to the other five.

The importance of the marketing activity within the company is different, as it follows:

1. Marketing is a function like any other in the company, non of the functions having a predominant role (figure no. 14.a)

2. Marketing is a more important function of the company (figure no. 14.b)
3. Marketing is the main function of the company (figure no. 14.c)
4. The client is the control function of the company, all the functions must serve the client (figure no. 14.d)
5. The client as a control function and marketing as an integrating function (figure no. 14.e)

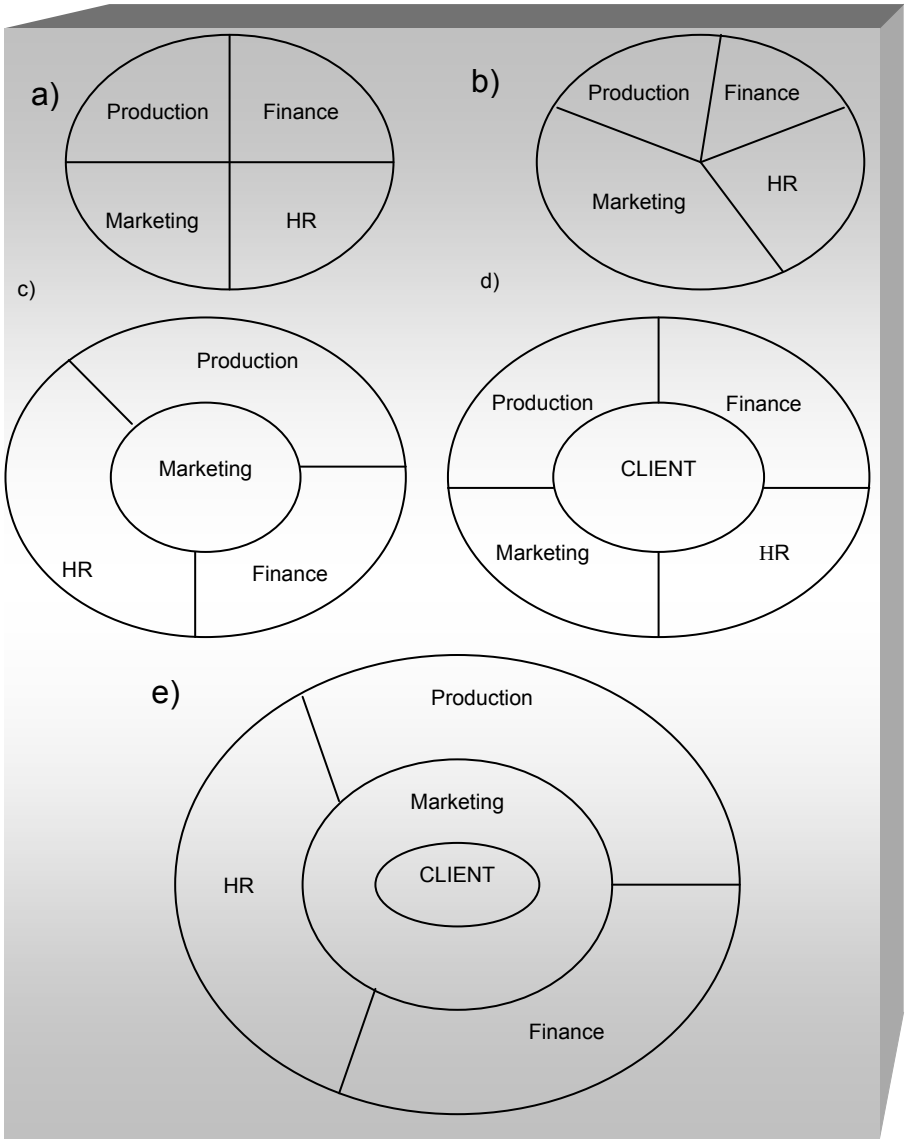


Figure no. 1.14 The place of the marketing within the firm

The modern conception of the company's functions found in many marketing definitions raises a certain resistance at the company's level, the so-called „organized resistance" from the part of the managers of the other departments, who consider that such an approach is subordinated to the marketing department. In fact it's not about a hierarchical subordination, but a change of the way of thinking, believing that only if you think in the marketing spirit, you can achieve the company's goals.

1.3 A synthetical approach of the marketing goals and functions

The marketing role is better emphasized in the analysis of its functions. The knowledge of the marketing functions, the setting of the peculiarities of each of them and their classification present a major importance as, on the one hand, each of them ensures the solving of certain task, and on the other hand, they determine the essential development directions of the marketing methods and techniques.

In what concerns the number and classification of the functions, we find the same diversity of opinions like in the case of marketing definition. Thus, the first functions referred to the transfer of the products from the producer to the consumer: functions with propriety transfer (sales, acquisitions), functions concerning the physical distribution (stoking, warehousing, transport), support functions for distribution process (packaging, financing, risk taking, information gathering from the market). Some authors divide the marketing functions in two categories: strategic and operational, and other authors make distinctions between micromarketing and macromarketing functions. (figure no. 1.15)

The majority of the clustering patterns of marketing functions[10] reveal several limitations regarding the delimitation of marketing areas in the concrete processes developed in order to be achieved. It is important not only the number of the functions, but the integration in their content of the entire marketing areas; every function must include homogenous activities and processes from the perspective of nature and complexity.

[10] Florescu, C. (coord.), Marketing, Marketer, Bucureşti 1992

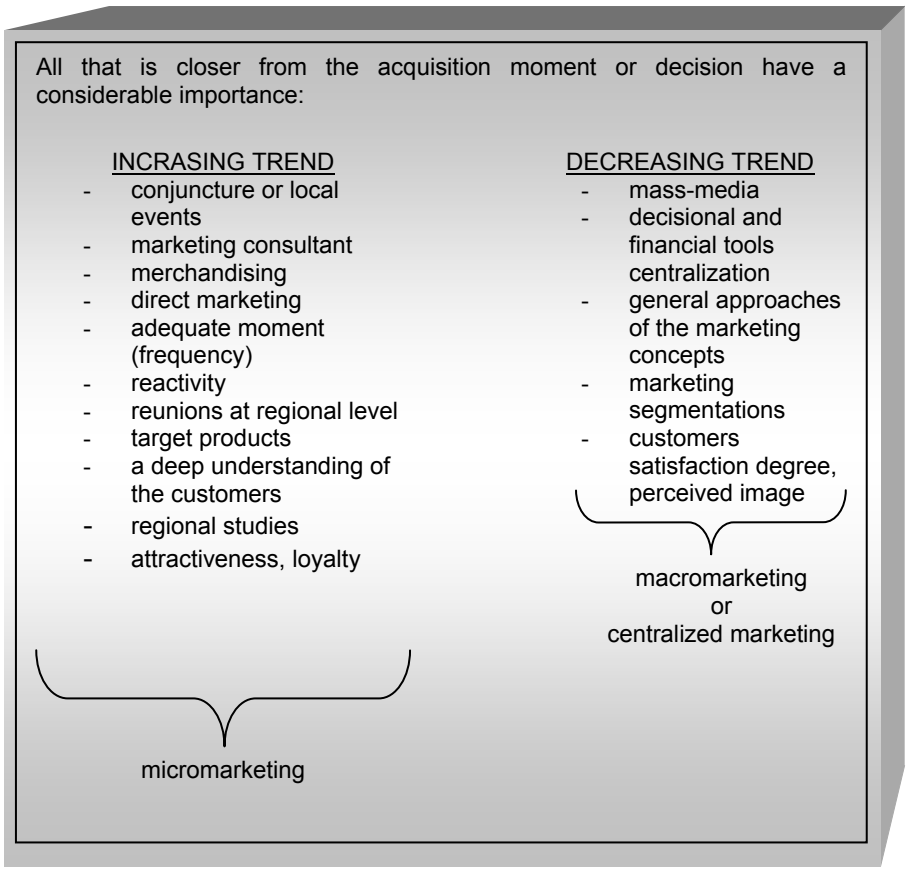


Figure no. 1.15 Micromarketing or geomarketing

The implementation of marketing presents peculiarities according to the company's profiles, the application domain, the market types, etc. Although, the role of marketing is emphasized on the function which was developed by the Bucharest Marketing School: **market and customers' needs investigation, the dynamic connection of the enterprise to the socio-economical environment; the satisfaction in superior conditions of the consumption needs** and **the increase of the economical efficiency and implicitly of the profit.**

a. **Market and customers' needs investigation** represents the **premise-function**, the departure point for the orientation of the entire marketing activity. Focusing on the deep knowledge of the market and consumption needs, marketing can't be conceived without their investigation. This function insures the permanent information flow that the companies needs in order to design their forecasts, decisions or marketing programs. The main categories

of information refer to the existent and the potential market, all the consumption needs and the customer behavior.

b. **The dynamic connection of the enterprise to the socio-economical environment** reveals the new vision of the marketing on the relationship between the company and the business environment, which emphasizes the fact that the firm must permanently adapt to the environment and to actively influence it. In this approach, it represents a **tool-function** because it mobilizes all the company's resources in view to market products according to the consumers' exigencies.

The continuous increase of the company's adaptation capacity to the environment's requirements supposes a permanent improvement processes related to promotion and distribution of the products in order to determine the best correlation between the offer (from dimensional, structural and qualitative points of view) and consumption needs. This fact also requires a high innovative capability in the entire activity of the organizations.

c. **The satisfaction in superior conditions of the consumption needs** is an **objective-function** of the marketing, which is focused on the strategic goals of the company. This function is concretized in a set of measures that has in view the production of these products which are really necessary for the consumption, their promotion and distribution in optimal quantities and the opportunity provided to customers to select the goods that fit to their preferences. This function also includes the activities regarding the consumers' needs anticipation and the ways to induce them by means of creation of new ones.

d. **The increase of the economical efficiency and implicitly of the profit** represents the second **objective-function** of the marketing. In order to accomplish this function, there are necessary rationing measures of the economic activity in all its stages. First of all, it's indicated an efficient resource allocation in the investments processes, production capacity and workforce; secondly, the economic efficiency provides the optimization of production structures; in the same time, this function determines the improvement of the economical processes (production, transport, warehousing, sales). On the entire economical flow, marketing provides the information necessary for evaluation processes.

There is a tight unity among marketing functions. The premise-function opens the perspectives of marketing promotion and provides useful information for the tool-function, which contributes to the achievement of the objective-functions. The two objective-functions highlight the finality of the marketing within the economical activity which reflects both the social perspective (first objective-function) and the economical one (second objective-function).

The definitions mentioned above reflect the following **main goals** of marketing[11]:

- **consumption maximization**, starting from the principle "more signifies better" revealing the direct dependence between the acquisitions of a person and its satisfaction degree;
- **customers satisfaction maximization** (not only of the consumption of merchandises acquired), which can be only realized by a better tailoring of the products to their needs;
- **the maximization of consumers' choice possibilities**, which is linked to the maximization of the products diversity (this solution may be very expensive);
- **life quality maximization,** which is not only focused on the quantity, quality, availability and prices of products, but also on the quality of the physical, cultural, social and political environment.

Marketing plays an essential role in: consumers' stimulation, sales achievement, jobs creation, production support, customers' satisfaction and life improvement.

The specific objectives of the marketing research[12] result from the fundamental strategic goals of the companies, materialized in the increase of the economic efficiency.

In this respect, the objectives can be:

- A better satisfaction of the consumers' needs;
- The intensification of the innovation process by introducing some new products, technologies and processing and marketing methods;
- The increase of the sale or distribution;
- The increase of the benefits.

Achieving these objectives can be achieved only in the conditions in which the marketing research answers some problems concerning:

A. The position of the company and its products on the market – this is the general objective of the marketing research, because from here it starts a much deeper research that concern: the product, the sale or distribution, the service, the advertising etc.

The establishment or setting of the position of the company and its products on the market is made on the basis of knowing the capacity and dynamics of the market, respectively the dimensions and the dynamics of the sales or distributions of the company.

The comparison of the momentary indicators offers the possibility to establish the participation share of the company or of the product on the market, and by comparing the dynamic indicators it results the dynamics of the participation share. The two aspects (the share and the dynamics

[11] Ph. Kotler, G. Armstrong: Marketing: An Introduction, Second Edition Prentice – Hall, New Jersey, 1990, p. 16-17

[12] C-tin Negruţ, Introducing marketing, Ed. Augusta, Timişoara 1997, op. cit. p. 15-18

of the share) are being watched or noticed both globally for the entire production, as well as on: production groups, distribution or sale channels, categories of buyers.

In the case of the complementary products thoroughly research is made regarding the market development of the staple commodities.

B. The study of the consumption and of the buyer's behaviour is of interest for the decision factors from the production, as well as for the ones from the field of commodity movements.

The determination of the consumption of the population, of the volume, dynamics and its structure help us determine the trends and the forecasts.

For the food products, the consumption is compared with the physiological consumption norms (optimum norms).

On the world or international market, the consumption structure evolution is very important because of the regional differences, from one country to another etc.. In this way, it is not only important to study the trends in selling our products on the market, but also to know the prognosis and development programs developed by different states.

a. For the food products we must take into consideration the following: the self-consumption, the incomes of the population and the credits in order to be able to determine the buying power or spending capacity;
b. The shopping habits of the different categories of buyers;
c. The storage habits of the different categories of buyers by categories of goods, as well as the storage time interval (2-3 days, 1-2 weeks), on this basis being able to determine the periodicity and frequency of the buyers.

It is also investigated:

- The originators and performers of the purchases (in most cases they do not coincide, especially at the goods meant for the family consumption);
- The time allotted for the purchases and the time interval in which they are made (the beginning or end of the week, during the day etc.).

This research category helps to: inventory optimization; establishing the optimum timetable/ schedule of the shops; finalizing the campaigns to promote the sales methods.

The consumption habits are also related to: the evolution of the demographic structure of the population by age; the degree and structure of employment; the sources of income; the cultural level; the family structure.

The research is mainly oriented upon the consumption of the families and of the households on the basis of the micro-census, which offers the possibility to obtain certain information concerning:

- The household size and structure , by categories of population;

- The volume and total household income structure, by categories of population;
- The volume and structure of the family spending, by social categories and types of households;
- The family budget survey etc.

1. **The product research**. It refers to four categories of objectives: the analysis of the level of quality of the obtained products; the analysis of the product aging; the analysis of the goods movement; the analysis of the products behaviour at the beneficiary.
2. **The identification of the opportunities to increase sales** – takes place within the distribution networks and among the buyers and users of goods or services, having as aim the collection of information for the substantiation of the decision and strategies in the field of product sales or distribution. The information is collected through different research that target: the image of the company, of the product or of the brand; the advertising and promotional activity; the functioning of the used distribution channels and the opportunity to adapt some new channels; the actual sales activity .
3. **Research regarding the competition activity**– has as aim to better know the working methods and future intentions of the competition. The information concerns:

a. The sales volume;
b. Determining the cycle of the buyers and their tendencies to broaden or to restrict;
c. The specific characteristics or features of the competitive products, that are much better appreciated by the buyers;
d. The manner in which the buyers would react to the new products of the competition;
e. The strategy of the advertising actions and of penetration of the competition and the results obtained;
f. The image on the market against the competition , the abandoned market segments, captured or those that it intends to capture and the reason for which ot does this thing;
g. What distribution channels and forms of sale uses the competition;
h. Its storage and sale/ distribution policy;
i. What types of services ensures to the users at sale;
j. What other methods uses the competition in order to increase the consumers' attachment.

The object of the marketing results from the particularization of the objectives. The particularization degree is established depending upon the specific conditions, such as:

- The size of the company and of the market;
- The product destination;
- The information need of the decisional factors;
- The size of the research department;
- The capacity of the information processing centre etc.

The detailing is made based on the practical needs of the companies, their own experience or of the similar companies.

1. 4. The marketing specialization

As it was revealed, in its development or evolution[13], the marketing extended its field of action. However, the rhythms and assimilation proportions are very different from one field to another. The causes of the differentiations are found in the own conditions of each field, in the accumulated experience and , last but not least, in the concrete tasks that the marketing has in each of the fields in which it manifests. The existing differences from one field to another, from one concrete situation to another, led to a marketing specialization, including the marketing methods and techniques. As a result, as J. Lendrevie and D. Lindon mention and highlight, we distinguish nowadays not „a marketing", but „ marketings".

At the basis of the marketing delimitation there are various criteria. Besides the ones already anticipated, we consider that the most important ones are the following:

A) **The job or activity profile**, that allows the categorization of the following „sector marketings ":

a. Industrial marketing : the consumer goods marketing; the capital stock or means of production marketing ;
b. Agricultural marketing;
c. The services marketing: touristic marketing ; bank marketing ; transport marketing etc.;
d. The sale or distribution marketing;
e. The marketing of the „non-commercial" sectors (that do not imply commercialization and profit): political marketing (elective); public and administrative marketing (educational, cultural, health etc.); the marketing of the social causes – extended at the level of the private companies, with philanthropic vocation, cultural, charitable vocation.

B) **The territorial criterion** leads to the delimitation of the marketing in internal marketing intern and international marketing (import and export one).

C) **The level of economic organization.** On the basis of this criterion we can identify:

a. micromarketing – at the level of company (enterprise, company, non-profit organization);
b. macromarketing – at the level of branch or national economy.

[13] George Medrihan, "Marketing", Ed. Gama 1997, op. cit. p. 39-40

J. Boddewyn noted that among the existing marketing systems from the different national economies there are profound differences regarding the : „actors" (buyers, sellers , intermediaries); the processes themselves (purchasing, selling, promotion activities etc.); the marketing structures; the environment, fact that obliges and leads to a comparative analysis of the whole marketing issue. By insisting upon this aspect, the teacher M. C. Demetrescu submits to our attention the so-called **compared marketing.**

D) **The criterion of the tasks**

Taking into account the concrete situation of the demand, the tasks of the marketing are modified, the following delimitation being possible:

a. Incentive marketing – for an non-existent demand, that must be created;
b. Conversion marketing – for a repellent demand, that must be modified;
c. The development marketing – for a latent (implicit) demand, that must be developed;
d. remarketing – for an hesitant demand, that must be revitalized;
e. de-marketing – for an excessive demand, that must be reduced;
f. counter-marketing – for a demand that must be braked;
g. Marketing for timing – for an irregular demand, that must be synchronized.

All these tasks of the marketing are considered to be key elements in the definition of the strategies of the companies (enterprises), in a time period or another.

1.5. The marketing critic

The positive appreciations and assessments concerning the benefits of the marketing for the producers and consumers are not unanimous, since numerous fundamental objections were brought lately by specialists from different fields. There are a few or some criticisms and reproaches concerning the marketing: it involves too many funds, it stimulates the consumption for the sake of consumption, the inefficiency of the marketing specialists, the inefficiency of the marketing actions etc.

Whatever might be the reality about the much praised contribution brought by marketing to the success a company, the big budgets that have been allocated along more decades begun to draw the attention, and even criticism.

The reality is that doubts have penetrated to the foundation of modern marketing: what value does a publicity have, made for a new and more expensive product, if it concerns only a few irrelevant elements of its novelty?

But marketing promotions are often only a pompous denomination used for the discounts? An answer may be the fact that the environment has changed so radically , that the marketing specialists simply cannot receive the right signals.

We do not need a marketing of the increased sales volume, but one based on experience and knowledge, that should involve and imply the final disappearance of the sales or commercial agent.

The two fundamental concepts of the new marketing, the experience and knowledge, are going to be more and more the foundation or stay at the basis of the successful companies.

The marketing[14] based on knowledge is being applied in the companies that hold a wide range of knowledge about the contestants, about the clients, about the new technologies that might modify the competitive environment and, at the same time, about their own form of organization, about the possibilities, plans and the way in which they make their businesses. Holding this type of knowledge, the companies are going to be able to promote a marketing based on knowledge in three different directions: first of all, integrating the customer into the process of product design, so that it should ensure and guarantee not only the satisfaction of his demands, but also the strategies that must be applied and followed. Secondly, adopting a niche concept, in order to exploit at maximum the knowledge acquired by the company, the channels and markets with which it works, by identifying the market segments to whom it might address. Thirdly, the improvement of the supplier's infrastructure, of the distributors, the partners' and consumers', whose experience contribute to the reputation of the company and to its technological strengths.

1.6. The place of marketing within the economic sciences. The interdisciplinary character of marketing

In the specialty literature we can find numerous points of view connected to the character and the place of marketing in the economic theory and practice. In the present section we want to express some considerations regarding the hypothesis towards which we do not hold anything back, and that is: marketing is a science, respectively a relatively young economic science, which in a short period of time went through all the known stages from the general evolution of sciences – descriptive, inductive, deductive, reaching to a final stage, the axiomatic one, of development and to the level of full maturity and autonomy in the sciences system[15]. Being an autonomous science the marketing benefits from an own activity field, uses an own research toolkit and has a specific terminology. Contributing to the enrichment of the economic theory, to the development of new branches within the economic sciences system, the marketing is a science circumscribed within this system. It represents a borderline economic science, together with the economic cybernetics, economic psychology, economic sociology and others, having a powerful interdisciplinary character. We agree with these positions and with this character of the marketing, taking into account the following arguments:

[14] Manual de marketing, Michael J. Thomas, Ed. Codecs, 1998

[15] Florescu, C., "Strategies in managing the activity of the company", Bucharest 1987, page 66

1) The marketing appeared due to the splitting of some economic researches and the delimitation, as a distinct area, of the activities that concerns the interdependence which exists between the sale of the products on the market and their fabrication process. By its appearance it contributed to the enriching of the economic theory with new dimensions. We remind the following: the reconsidering of the ration between the production and consumption, the role of the consumption in the reproduction process; the study of the mechanism of consumption needs transformation in goods and services requests; the market influencing mechanism, etc. In its quality of economic science, the main links of the marketing manifest mainly with other economic sciences – political economy, branch economic sciences, economical and social statistics, social cybernetics and others. The economic background of the marketing as theoretical ideas as well as practical ideas is integrated in the category background and the background of economic research methods and techniques.

2) The interdependence relations within the knowledge area exist not only between sciences from the same category but also between sciences from different categories and systems. The marketing is also subordinated to this reality; it integrates the knowledge from different fields of science which it gathers together and adapts itself to its research needs. The heterogeneousness of the products and socio-economic phenomena studied by the marketing imposes the taking and adapting of some concepts, methods and techniques from fields belonging to all categories of socio-economical sciences, technical of the nature. Subsequently, the marketing has interdependence connections not only with other sciences from the economic sciences system mentioned before but also with sociology, psychology, mathematics, statistics, urbanism, etc. The complex and heterogeneous assembly of knowledge define the interdisciplinary character of the marketing, fact that imposes also the interdisciplinary collectives for the marketing studies.

1.7. The evolution of the marketing in the world economy

The role of the marketing in a market economy is the ensuring of an efficient adaptation of the offer to the request, which implies the assuming of the following responsibilities:

- **the material organisation of the exchange**, meaning the organisation of the physical exchange of goods and services, from the producer to the consumer;
- **the organisation of the communication**, meaning the organisation of the information flow which precedes, accompanies and follows the exchange;

A) **The organisation of the exchange** of goods and services is the task of the distribution, which has three functions by which the added value by this is made up:

- **the material function**, meaning the assembly of required materials transformation required to bring the goods in consumption stage; it is all about conditioning, dosing, making up of assortments;
- **The spatial function** or the spatial transformations, like transportation, geographical allocation that make the goods available at the transformation, use and consumption site;
- **The temporal function** or the temporal transformations, like storage, by which the goods are at the disposal of the consumer at the moment desired by the consumer.

The value added by the distribution is measured using the distribution margin, meaning the difference between the price paid to the producer by the first buyer and the price paid by the final consumer of the product (the commercial addition). This margin can also include the commercial addition of one or more distribution agents (wholesale, retail sellers); it remunerates the functions made by these intermediaries.

It can be said that in the consumption goods sector the weight of the distribution expenses is on average of 40% from the retail sale price, differentiated according to the product and distribution channels (see also Ph. Masson, „Agriculture et evolution des prix", quoted by Louis Lagrange in „La comercialisation des produits agricole et agroalimentaire", Lavoisier, 1985, page 5).

B) **The organisation of the communication**

The assembling of these material conditions is not enough to ensure the adapting of the offer to the request. In order for the exchange to take place the distributors, the consumers and the final users must know about the existence and the characteristics of the goods. The marketing has the task to organise the communication, the information flow between the producers and the final consumers (before the goods are produced, after making them, and after their purchase by the consumers or users). The information and the exchange flow are present even in an economy based upon the most rudimentary form of exchange (barter), but its expression is spontaneous and does not cause organisation problems.

The progressive transition, **from a passive marketing to an active marketing,** results from the evolution of the occidental economies.

This evolution can be divided into four phases, to which it corresponds specific stages of the economical development, like:
- The industrial revolution;
- The economic growth;
- The consumer economy;
- The post-industrial economy.

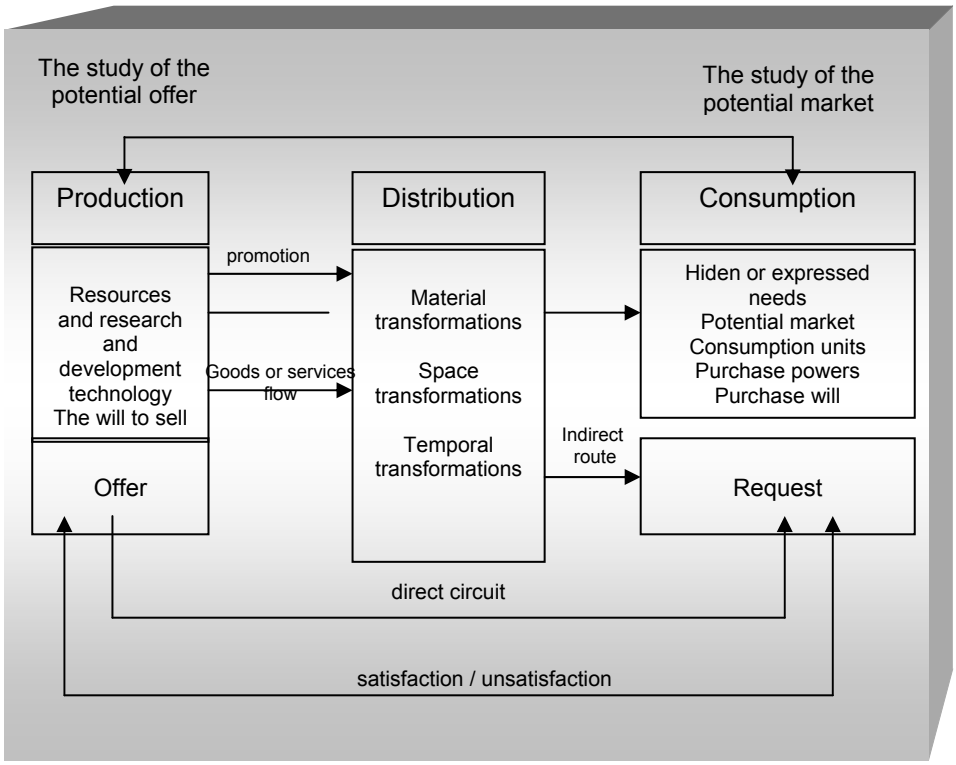


Figure no. 1.16 The role of marketing in the economy / Source: J. J. Lambin, PUFF 1977

Each of these steps are characterised from the marketing point of view by certain dysfunctions that are on the route production-distribution-consumption (figures 1.17, 1.18, 1.19).

A. The industrial revolution

The essential characteristics of this stage are:

- The offer is smaller than the request;
- The insufficiency of the production means necessary to respond to the request;
- The role of the technicians is predominant, the production logics being dominant;
- The organisational efforts are based mainly on the increase of the productivity and on finding the favourable financing sources.

In this stage the marketing has a limited and passive role when talking only about the sale of the produced goods.

The information flows are organised in the direction of producer-consumer and are subsequent to the production phase.

On the organisational plan, the company is characterised by the dispersion of the marketing specific activities between different departments, without the presence of a marketing department.

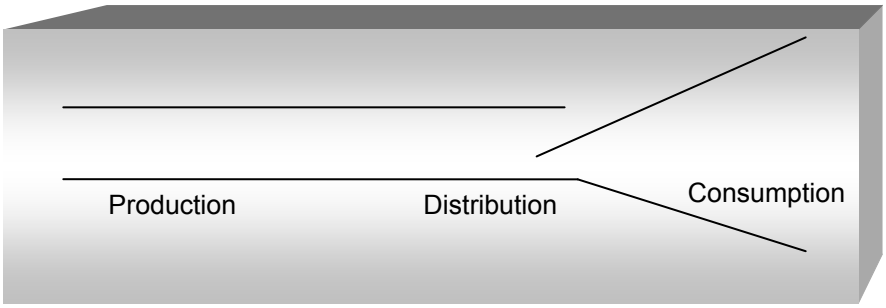


Figure no. 1.17 The stages of the industrial revolution

B. Economic growth

This stage has the following features:

- The increase of the distribution between producer and consumer that leads to a geographical enlargement of the markets;
- The maladjustment of the traditional distribution channels to the exigency of the large distribution.

So, in this stage, the problems are located at the level of the distribution. The priority object in this phase is the accomplishment of an efficient commerce, able to absorb the usual production.

The role of the marketing becomes less passive, the marketing proposing the research and organisation of the markets for the previously made products. A regrouping of the marketing tasks takes place and the sale division is formed. Also, the importance of the market studies is starting to manifest itself.

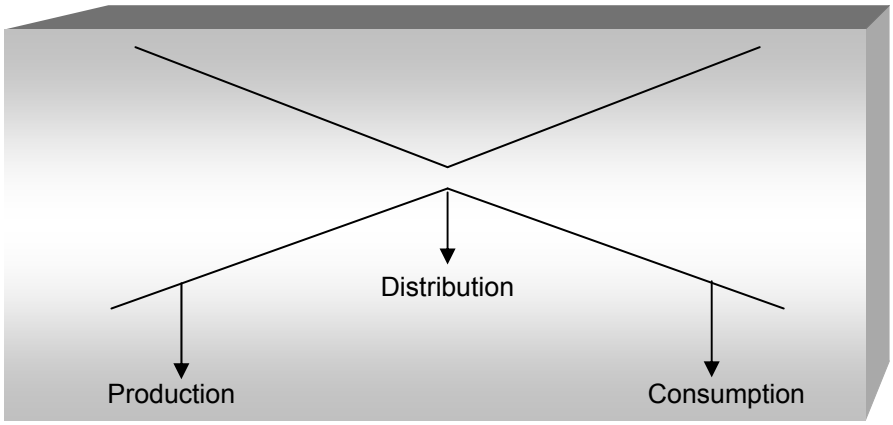


Figure no. 1.18 The stage of the economic growth

C. The consumption economy

The objectives of the economic growth being fulfilled, in this stage the consumtion request has become insufficient. Thus, three profound modifications of the market characteristics are produced:

- The offer tends to overcome the absorption capability of the base market;
- The essential needs being satisfied and in the same time being obvious, the desire replaces the need, the powering element of the consumption is more difficult to realize because the unstable and various psychological elements arise;
- The acceleration of the technical process leads to a reduction of the life cycle of products with implications upon the marketing strategy.

The role of the marketing has become predominant within the company and orients its activity. The most important information flows are the ones that precede the production activity (the study of the potential request, motivation, attitudes, etc.)

These changes will be translated by the necessity to create "the marketing direction" regrouping activities previously dispersed within other departments.

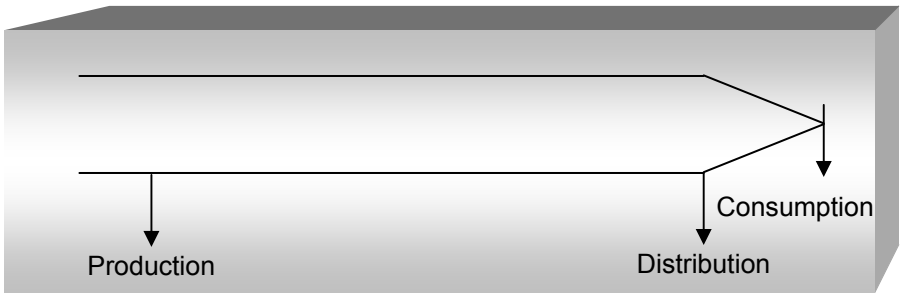


Figure no. 1.19 The consumption economy stage

D. The post-industrial economy

The level of the marketing within this phase can be explained by:

a. *The social awareness of excesses* of a manipulation marketing, of a marketing based upon the influencing of the request rather than adapting the products to the needs of the consumers.

The absence of regulation mechanisms has stimulated the quantitative consumption, the promotional means exploiting the impulsivity of the buyers. These excesses have favoured the appearance of some consumer organisations, at the initiative of the consumers or at the initiative of the political power.

b. *The ecological awareness* of quantitative growth excesses of the consumption.

Thus, by stimulating this quantitative growth of the consumption, the marketing provoked negative effects, sometimes intolerable, like:

- The pollution and the destruction of the environment;
- The deterioration of the health and hygiene conditions (tobacco, alcohol, unbalanced diet);
- Publicity pollution.

c. *The politico-economical awareness* upon the power of the market by the countries that produce raw materials.

The quantitative growth of the consumption, stimulated by the marketing, has caused an overutilization even a waste of the limited natural resources.

This fact has determined the substantial increase of the raw materials prices, also fundamentally modifying the conditions imposed to the bidders and the accelerated replacement of the products.

This phase transmits to the marketing a new dimension – the social one.

Otherwise, these statements have determined Ph. Kotler (quoted by J. J. Lambin in „Le marketing strategique", McGraw, Hill, 1991, page 31) to propose the adopting by the companies of a social marketing, defining it in this way:

„The social marketing optics is an orientation management that admits that the priority task of the organisation is the study of the needs and wishes manifested on the targeted markets in a way in which to satisfy them better than the competition and also, the maintaining or the improvement of the welfare of the consumers and of the community"

The main concern of the marketing in this stage is finding a balance between the objectives of the companies and the objectives of the community, between the request expressed by the consumers and the request wanted by the community.

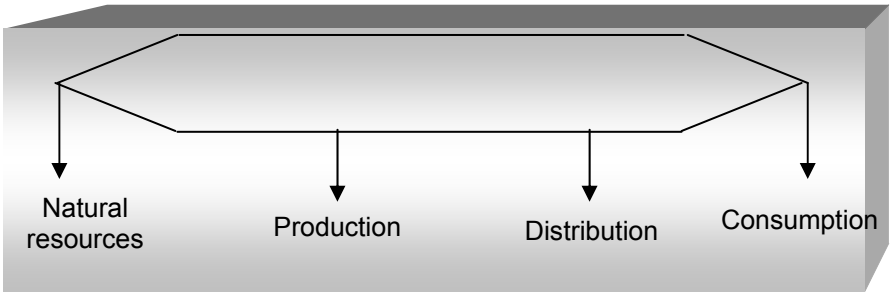


Figure no. 1.20 The post-industrial economy

In the countries with an advanced economy the marketing principles and techniques have developed in an environment favourable to the evolved infrastructure (on the administrative level, service level, communication level), buyers with experience in choosing the goods, etc.

In the countries in transition from a centralised economy to a market economy, these conditions are not united, and different impediments are in the way of applying the marketing (practical and of principle).

The main identified impediments are:

1) The first impediment is connected to the idea that also these countries **have to follow the mentioned stages**, taking advantage of the fact that they can shorten them and avoid some errors, using the experience of advanced countries. In this process, the marketing follows and does not precede the economic development.

2) The second impediment is determined by **the costs of the marketing activity**: these costs are sometimes high and are considered by many companies a waste of financial and human resources;

3) The third impediment comes from the **Marxist doctrine**, which inspired the economic development of these countries; this doctrine (which ignores marketing) includes in the added value generating activities only the extraction, agricultural and manufacturing activities. The distribution is considered more or less a parasite activity. Just like the practical impediments, for applying the marketing in the transition countries we can mention:

- **The domination of the "technical" spirit** that handles mainly the production with any cost of goods and the sale of these goods being considered a minor issue.

This idea is reinforced also by the nonmaterial and non-quantifiable character of the marketing activity.

Also, it is easier to take from the advanced countries the technical knowledge, while the components of the marketing require an adaptation to the difficult to grasp habits and local complex habits.

- **The structure of the distribution channels**, inefficient and costly compared to the provided services.
- **The undeveloped infrastructure** (transportation, communications, inefficient administrative organisation, the insufficiency of the socio-economic and demographic statistics.
- **The social and economic environment** characterised by a pronounced **instability** (with phenomena like inflation, recession, change of mentalities).

These create difficulties in the promotion and adaptation of marketing to the mutations determined upon the lifestyle of the population, the buying behaviour, the polarisation of the society and subsequently the segmentation of the market according to the incomes.

- **The heterogeneity of the companies**, companies coexisting with private capital with the ones with state controlled majority capital, small companies with large companies, profitable companies with unprofitable companies.

Thus it is very difficult to close some firm contracts, the creation of some organised distribution channels (contractual).

Chapter No. 2
THE MARKET OF THE ECONOMIC ORGANIZATION

Objectives

- Understand the content of the enterprise market.
- Learning the elements that define the size of the enterprise market.
- Understanding the market structure.
- Acquiring items that express market capacity.
- Familiarity with the concept of enterprise market dynamics and the components that define it.

The market is the ground for the capitalization of a large and heterogeneous span of firms; each of them shall occupy a certain position in the overall market, to ensure its effective realization of products (services) offered for sale.

Through its activity, the economic organization will seek to maintain or even improve the position held at a certain time; achieving such an objective requires the demarcation of its own coordinates in the market, stating the relationship of the firm and its products with other participants in the market activity.

In the light of these relationships, it becomes clear that marketing and the concrete activities carried out in its optics are inextricably linked to the economic sphere of the market, the nature, size and its operating mechanism.

Content of the economic organization market

The marketing approach to Market is based on the content that has been attributed by the economic theory, namely "the economic category of commodity production that finds expression in all acts of sale seen in its organic unity with the relationships they create and in connection with the space where it develops " . 1

This definition brings to the fore how to complete the market work. The Market picture, however, remains incomplete without consideration of its two categories - supply and demand. A more complete definition of the market would be the "economic sphere where the production (of goods and services) appears as a tender of goods and the needs (solvent) of consumption - as freight demand; the market is the manifestation of and confrontation between supply and demand, their realization through the sale activities".

Given such a starting point, the market marketing approach cannot remain, however, within some general theory coordinates; it will be,

above all, a practical approach, the market knowledge having to be operated to serve practical actions. This makes it necessary to complete the general market acceptance, as outlined previously, with new elements so that business reference to the market make sense and get substance.

The market of the economic organization will be found within these overall coordinates, regarded as an independent trader. It appears on the market through its products (services), the latter representing the tender of goods. Alone or together with other organizations, it will face the consumer/user demands thus aiming to meet it all or part of it.

Actual or potential degree of penetration into consumption (use) of products or services of companies specialized in their production or marketing defines the market of an economic organization.

Regarded as a field of confrontation between supply and demand, the economic organization expresses the relationships between its own offer, consisting of one or more products (services) and the demand for them. The products (services) of an economic organization are to found in most cases in the demand of other economic organizations offer. The product, as a whole (ignoring the company in whose name it appears on the market), demarcates its own market. As a subdivision of the total market, the market of the product (service) can be defined by its degree of penetration in consumption, demand by consumers, through its current and future possibility of retailing.

Circumscribed to a particular territory, the total market is built from all markets of the companies operating within it and, at the same time, all markets for products covered by the deeds of sale; simplifying the amount of the markets of the economic organizations is equal to the amount of markets of their products.

Dimensions of the economic organization market

The marketing approach to market makes use of a number of criteria and tools to determine the specific content and its main dimensions

In such an approach it should be first distinguished between the *actual market* and the *potential market*. In the first case we refer to the *dimensions of the market reached at a certain time*, ie market transactions actually carried out; it shows the extent to which the confrontation between supply and demand took place and resulted in the sale documents. The potential market refers to the possible size of a market, the largest limits where the confrontation between supply and demand is to take place; the potential market is realized with a certain probability, according to the relationship of the formative factors at that time.

The actual market is the expression of the needs of the current consumers of the company, while the potential market includes relative non consumers (who currently do not buy the product because their need is temporarily absent).

To evaluate the size of a market, whether actual or potential, means ultimately to determine its scope, structure and capacity.

Area (location) of a market

Among the ways to expand the market, there is, on the one hand, new geographical areas approach and , on the other hand, increased activity in areas where the company operates. Choosing one of these ways has its starting point in the assessment of the spatial sizes of the market at a certain time. It starts from the observation that the market, seen in connection with the space (within the confines of the confrontation between supply and demand), knows various forms of location, different geographic densities and regional peculiarities of the very content and way of carrying out the market transactions. Knowledge of market-area relationship is particularly important for both manufacturing and commercial companies ; tender/offer structure, logistics of goods, size and dispersion of the storage facilities and outlets, etc. sales organization are directly or indirectly related to the territoriality of the market, the economic and geographical area where the supply and demand are to meet.

According to the place where the relations of sale take place, the market may be internal or external. Among them there are significant differences, the market in each country having its characteristics. In our country, there are additional features from the "treatment" that has been subjected to in prior periods, and the specifics of the transition to a market economy. These features relate to how suply and demand are formed and operate , how competition takes place, how deeds of sales are concluded.

Foreign markets make up the *international market*. Market can also be seen worldwide, globally, i.e. the sum of all acts of sale, made both within and outside national borders: thus we have the image of the *global market*

Both domestic and external (international) markets can be examined in their territorial structures, making delimitations depending on the features they have in an area or another. Thus it can be distinguished among various regional , local, urban, rural etc. markets.

In the domestic market, for example, the market relations feature a certain concentration depending on the territorial location of production, concentration of population and economic power of cities, the direction and intensity of population flows etc. In this context one can speak of the existence of local markets, with specific features as regards both the extent and patterns of the goods circulations processes. Some examples: the capital goods market shall have a strong development in areas with pronounced industrial progress, the sea coast market is characterized by a pronounced seasonality, a predominance of food sales (including catering sector) due to high tourist flows; the agricultural areas market is characterized by predominantly non-food products purchased by the population from the commercial network, etc.. Mention must be made also that some markets have a flow demand in other areas: as a

compensation, other markets retain only a portion of the local demand. Sensitive differences are in the sales relationships in urban areas compared to rural areas; we can therefore speak about an urban market and rural market, which defines broadly, its domestic supply and demand.

Globally, however, the market activity is undergoing a certain degree of territorial concentration, it is "*polarized*" around certain centers or commercial areas. Spatial distribution of market phenomena is determined both by the territorial distribution of production and consumption points. The meeting point of demand and supply is located somewhere in space between producer and consumer, being closer to one or the other, but there are many cases when the most pronounced market activity is reached at the junction of flows of goods and consumers, at the crossing of major "*trade routes" or* linking roads (sea, road, etc).

In the area of international trade, a number of geographical areas and urban centers have won world renown as a meeting point for the trade of certain goods; in such centers networks of international fairs have developed, there is an intense activity of the stock exchange and auctions, there is wide "army" of brokers/ intermediaries of all kinds. In foreign trade we can also speak of a geographical concentration of exports (imports) of a country or a company. For example, the trend of extending our commercial relations with as many countries as possible does not exclude the concentration of exports and imports of certain goods on a more limited number of markets. This is important, above all, to the extent that avoids fragmentation of foreign trade operations, ensure exports (imports) in large parts at lower unit costs. For example, with perishable products, concentration also requires the optimal distance to the points of production; with roducts of a certain degree of technicality, whose use implies the existence of adequate stocks of spare parts, maintenance and repairs during functioning (tasks that usually fall on the exporter), concentration should allow the efficient compliance with such obligations.

The concentration of market activity takes place in smaller spaces, on some national or even local markets. The demand of goods is met only partially at the points where it forms, a particular part of it moves to meet the demand, it "migrates" to areas or centers of intense market activity. Widely spread is the phenomenon of migration within the consumer goods market Here this is closely intertwined with another phenomenon - the spatial mobility of the population – acting sometimes as its cause and sometimes as its effect (normal migration and forced migration). As a general rule, the demand for goods migrates from small towns to large cities. The city is still the main pole of attraction for business. In fact, between urban functions, the business occupies one of the main places. And this function concerns not only the urban community, but also the entire area where is located . So important are the commercial relations of the city with the surrounding region that attempts to quantify the "centrality" of the city (ie the degree of influence

of the city on all levels - economic, cultural, administrative, etc..) the indicators most often used refer to commercial activity.

The phenomenon of attraction of the centers on buyers from surrounding areas, was named in the literature commercial gravity. It highlights the city's commercial polarizing force, of attracting non-residential population. This force depends on many factors, including providing the city with commercial areas, or the distance to be covered by the consumer. With the tourism market, concentration is also high, as determined by the stiffness of tourism resources and the unequal resources distribution in the territory

If the market for different products (services) have, by their nature, locations and different degrees of spatial concentration, these features will reflect its operation too so as to be able to provide better value to the resources available

Market Structure

Depending on the profile, size and scope of activity, the market of the economic organization belongs to some structures of the global market, representing a fraction of this. At the same time, the market of the economic organization consists of different segments, defined by certain criteria. It has not , therefore, a uniform character even in case of economic organizations with relatively limited business profile.

In this context, it is obviously necessary to know the structural component in which the company is evolving in order to follow its market relationships. For this, we must first clarify the aspects related to the global (total) market structure. From the very beginning, it should be noted that the global market structure - in which the market of the economic organization occupies a particular place - has a very complex character. The wide variety of goods to be found in the deeds of sale, the very different nature of partners involved in the market relationships, the particular conditions the supply and demand have to face - all these occur in different combinations and with varying degrees of aggregation, making the market to look like a huge conglomerate of subdivisions, moving in successive steps to an infinity of segments.

Each of the market subdivisions listed in the previous subsection has, in turn, a complex structure being made up of a relatively high number of specific markets, specific to each product (service) individually. Delimitation in the market structure reaches, in this case, the market of the product (service), a very tangible economic sphere, whose coordinates have been presented above.

However, the market for a product or service is not homogeneous; it has its internal structure consisting of market segments. Dividing the market into such segments is based on the features in the formation and manifestation of buyers' demand , the demand frequency, the level of requirements in terms of quality and structure of supply, etc.; in the market differentiation and shaping individual segments within it

there are criteria involved , such as: the nature of the buyer (natural or legal persons), income level, purchasing behavior and others.

Identifying the variety of segments market is make up of, structured according to specific criteria of the demand provides the key to understanding how the company will adjust its work to the market. Without understanding this way of making a market, practical attempts to implement the marketing theory, as expressed by adjusting the supply to the demand, will prove fruitless because of the extremely varied ways in which demand occurs and the relatively low means the economic organization has to comply with it.

For this reason, the task of marketing specialist consists, on the one hand, in identification, sizing and description of the market segments and, on the other hand, the establishing measures allowing the creation of conditions for complying with these segments. Research of the market structure is achieved by specific methods (which will be presented in another chapter). It starts from the overall picture of the market, down to its individual components, achieving varying degrees of depth, depending on the practical goal pursued.

They are, in essence, the market structures to which the economic organization refers to and in which it will carry out its work. Its market is therefore related to a certain area of the structures above. Rarely limited to one segment, the market of the economic organization will cover several structural components (more market segments or markets of several products), and sometimes areas belonging to different subdivisions of the market. For example, a company providing machinery and equipment will be present both in the market of material goods (in this case, the capital goods) and that of services, to the extent that it can provide services to beneficiaries for both operation and repair of those products; a tourism company operates on the service market, but its profile usually covers the sale of products to tourists as well.

Two observations need particular attention, valid for both the overall market structure and the market of the economic organization. Firstly, regardless of the complexity of its internal structure, the market is a whole, and although apparently isolated and independent, the market segments are only interdependent parts of an organic whole. They interact, mutually interfere, even if sometimes there are only indirect influences and of lower intensity. Secondly, the market structure has a dynamic character. Amid an overall market developments (including the market of the organization), there are mutations in its structure; it involves not only quantitative changes of the relations between the components of the market, substitutions and reallocation between these components, but also deepening the market structure itself - elements to be taken into account in designing the company's marketing policy

Market capacity

Considered globally or in its detailed structure of segments, on a large or smaller territorial areas - the market must be brought, in a final analysis, to a quantitative form of expression, so as to serve as a reference for the company to be able to size its own work. It is necessary, in other words, to assess the market capacity for the marketing activities.The market capacity can be expressed by means of several value and physical indicators. To understand them different considerations are involved among which the sources of information used, market supply-demand ratio, research purpose, etc.

In principle, the indicators used have as a starting point the meaning assigned to the market and its components. Thus, the market capacity can be expressed in terms of the scope of supply, demand or market transaction (sales). These dimensions will be borne in mind by the firm's marketing activities when establishing its position in the market, i.e.the market share.

The *scope of supply* is an indicator usually used in situations where the demand is greater than the supply, the number of suppliers acting on the market is smaller , publications provide comprehensive information on production, etc.. In most cases, evaluation is based on information obtained from static sources. Such a method proves extremely useful especially in international trade where this information relating to the production of certain goods is more extensive than that relating to the demand. There are well known ,in this respect, the periodic assessments of the market of cereals and other food products, the systematic estimates of the energy generating raw materials or other non-renewable products, etc.., conducted by different institutions and specialized bodies - all starting from the resources known at a certain time, resources that represent the potential supply on the market of these products.

The *scope of demand* expresses in a more appropriate way the effective capacity of the market; it is indicated in all cases where the company seeks sizing its work in relation to the demand, when this is higher than the supply. In fact, viewed in terms of this indicator, the meaning of the market capacity is identified with the degree to which the supply covers the demand, being possible to establish the existing gap and the ways of filling it.

The *amount of market transactions (sales*) is the way most frequently resorted to in order to express the market capacity. This indicator, reflecting the outcome of the confrontation between supply and demand, quantifies the actual (real) market sizes . It does not , however, show to what extent the demand have remained uncovered by the supply or the supply without selling.

The *market share* means the share held by a company or a product within the reference market. And the reference market is the subdivision of the global market in which the company or product are components.

Expressing the capacity of the company (product) market through the above indicators is based on value or physical parameters - depending on the purpose and nature of the available information. In all

cases, however, the information refers to a specific period of time (usually one year).

The market capacity can also be assessed by the number of consumers (users) of the product, namely the number of customers of the company (for example, the market of a car maintenance repair company can be evaluated taking into account the number of car owners; a company producing school uniforms will be guided in evaluating the market after the number of pupils). In this case, it may be considered the number of consumers (customers) at a given time or the average number of a period. It should be noted the preference for this indicator in the tourism sector: here, the number of tourists, along with other derived indicators, provides a clear enough picture of the capacity of the tourism market.

The market dynamics of the economic organization

The market of the economic organization is dynamic; over time, its sizes e (absolute and relative) evolve , its internal structures change, the market configuration alters. Located in the products (services), the market of the economic organization, in its dynamics, will be decisively marked by their tendency. Separation and evaluation of these relationships and trends within the evolution of the market allows the company to formulate realistic strategic objectives, to identify the main courses of action and establish the necessary means to achieve them.

The market dynamics of the economic organization is determined essentially by the dynamic environment in which it appears and grows. Among direct-acting environmental factors we can highlight the following: the stage in which the target market is, product market trends and relationship between the product market and other product markets.

The development stages of the target market

The target market, like any other market, passes in its development, through four stages that make up the life cycle of that market, namely the emergence, growth, maturity and decline.

The emergence stage is marked by the existence, within an environment, of a need not satisfied by the emergence of an entrepreneur who starts a business whose purpose is to satisfy this need.

To the extent that we are dealing with a new need and a new product, we are witnessing the birth of a new market. In this case, the market is equal to the product life.

When the entrepreneur starts a business that aims to satisfy needs insufficiently satisfied, producing or selling products similar to those of other entrepreneurs already existing on the target market, we shall see an increase of it.

The market growth is the stage when other firms enter the market thus contributing to increased sales. In such a stage the company has two ways of entering the market: occupying one or more "niches" or directly competing with the companies already operating in it.

With the emergence of ever new competitors, unfilled positions on the target market disappear. Under these conditions sales stagnate, the market penetration is accomplished by "attacking" other agents on the market, thus causing a strong products differentiation. We are in the stage of market maturity, which is basically made up of the market of several competing products .

Finally, with the evolution and emergence of new needs, the companies abandon the market of certain products, entering the decline stage. Companies create new products and further new markets, the cycle being resumed on a different basis

Product market development

Viewed through the relations expressed above, the market of the economic will be influenced , of course, by the general direction of the market where that product is included, along with a series of other products and services. But it can also describe specific trends (sometimes even opposed to the general ones), depending on the nature and destination of the product, and its relations with other products

Indeed, in terms of mobility of its sizes, the product market can be elastic, slightly elastic or even rigid; the bakery products market, for example, has a rigid character as compared with the market for clothing. The market nature viewed from this angle depends on the elasticity of demand, largely but not excessively. Of course, high elasticity of the demand - according to income, price, etc.. - for any product, is a key element of market size mobility . If, together with this factor, there comes another acting ever stronger with the improvement and diversification of the supply: the substitution of consumption, competition between products. A need can be met in very different ways, with different products.

Summarizing, it can be emphasized the dependence of product market on a number of objective and subjective factors.

The product market depends, above all, on the category of needs that are addressed to. If it is a pressing need (food, clothing), the product will have a large market, more or less rigid, a market represented by a large number of outlets, spread in all localities. On the contrary , if the products are for secondary , peripheral needs or higher-order needs not widespread yet or not solvable in the large mass of consumers, then the market will be smaller, more focused and also more elastic . In the combination, as seen above, comes the nature of the relationship between the product concerned and other products which accompany it on the market.

The degree of accessibility of the product is another factor its market depends on , namely the number of buyers and intensity of consumption. Of course, accessibility is closely related to the price; but it can not be inferred directly and exclusively in the size of the price, but in a system of relations between income and price, between price and quality , between the product price and price of the products able to substitute it and the

price of other goods. In the case of "competing" substitutes, accessibility depends on the degree of competitiveness.

Another factor, of growing importance in the contemporary period, is the age of products. Of course, there are many “ageless” products , traditional products whose qualities, packaging, presentation etc., remain unchanged over extended periods of time. It is ever wider the circle of products characterized by a cycle of "life. " The dimensions of the market at a given time will thus depend on the "age" of the product, i.e. its life cycle phase.

The product market also depends on the quality of sales, and the marketing actions of the company. Note that a series of new products have to make room on the market of the existing products, to gain customers and to establish a market of their own - in a carefully prepared program launched and supported by manufacturing and commercial firms. As to products intended for new needs, marketing efforts should focus primarily on "creation" of these needs to consumers. Further, the reference or extension of the market sizecalls for a rational use of ways and forms of product distribution to consumers, a sustained advertising program, a pricing policy, etc. The inevitable decline and withdrawal of obsolete products from the market must not only expected, but other products should be prepared in time to fill the gap left by the obsolete items on the market.

The *resource-need ratio* directly affects the relationship between the supply and demand in the market. In this way, the companies specialized in products whose resources are increasingly limited in terms of raw materials will have declining trends, while those operating in markets with abundant resources will experience increasing trends. Due to the links established between different products within the total market, the *resource-need ratio* will directly influence the markets of the companies whose products are derived or based on those raw materials

The influence of the resource-needs ratio influence on the economic organization (and related products) becomes obvious in the field of energy; as is well known, the prospect of depletion of some of these resources has led to restructuring the economies in many countries all over the world.

To some extent, the market of some products - and hence the profiled firms - will be influenced by the state's economic policy, implemented through specific tools (taxes, subsidies, operating permits, etc.).

Relationship with other product market

As shown above, the market of the economic organization is part of one or more products market. For this reason, the market dynamics of the economic organization must be expressed in terms of trends in the market of that product s) covered by its scope. Changing the position of a product on the total market or of a reference sub-division affects , -it’s true, to varying degrees – the market of all companies that produce t (sell) that product.

The product market has not an isolated existence, but is an organic part of a wider economic area- that of a market sector, a branch of products or a global (national or international) market. Belonging to such an area requires certain dynamic interdependence - relations. The physiognomy, but above all the movement of the product market can not be fully understood but only in the context of these relationships.

The product market relationships with *the global market* are, in fact, relationship from a part to the whole unit ; the total market consists of the sum of product markets that give its outline. The share of the product market from the total market changes in time, reflecting the dynamic nature of the market. This change occurs due to factors influencing the progress of the overall market and specific factors (which will be examined below), which only modifies the size of the product market.

Another side of the product market belonging to a wider market is the relationship with other product markets. These relations are, in turn, different; we can establish the following three types: association relationships, substitution (competition) and indifference relationships

The product market has association relationships with the market of another product when one's changes entail changes (in the same direction) of the other. These relationships are often observed between the market of consumer goods and certain services. For example, durable goods market is in association with the market of maintenance services for such products, changing the market of these products entail a modification of the services market as well . This relation is determined by the combination of products to satisfy certain needs.

Certain product markets are in competition relations when they dispute the same consumers, targeting the same needs. In such competitive relationship there are, for example, natural product market and the mixture product market, the market of shoe leather substitutes ,the market of goods and services (series clothing market and those made upon order), the market of different brands etc. Typically, these relationships do not change the total market size, but only cause redistribution of its components.

Finally, there are products whose markets are in a relationship of indifference, i.e. the market change of some product does not influence at all the market of another product.

Ways of economic development of a market organization

Each company will be interested to strengthen its market position, to increase its sales volume and possibly even the share in the market. In this respect, its concerns will target (full or partial) coverage of the gap between actual and potential markets. The development of the company's market activities can be done essentially in two ways: extensively and intensively.

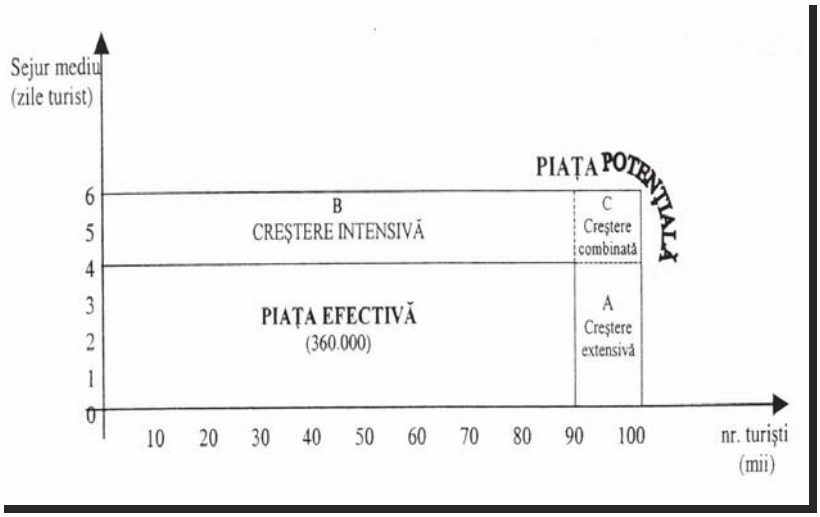
The extensive way implies to attract new buyers for the company products either from among relative non consumers or among customers of competing firms. It is one of the ways most frequently encountered in

practice because its limits are quite wide. On domestic markets, the extensive way is reflected particularly in approaching new geographic zones , new external markets .

Such a path is implemented in two ways: identification of new users and discovering and promoting new uses.

The intensive way means to increase the average purchases made by a consumer unit - individual, family, company user. Such an increase may be due to the quantities consumed by them or decommissioning of certain goods intended to be used for a longer period of time

The intensive way has some limits, determined by the nature of the products subject to sale deeds. Thus, in the case of food, this approach implies, in theory, a rise in consumption up to the physiological limits; for non-food goods, especially for a large part of the services rendered to the population, such limits are difficult to establish, so that growth opportunities of the market remain much higher. In case of goods of productive use, the intensive way can be more used by launching products of higher performance, which results in increased moral "wear" and disposal of obsolete products.



Sejur mediu (zile turist)= Average stay (days for each tourist)
Crestere intensiva=Intensive growth
Piata efectiva= Actual market
Piata potentiala=Potential market
Nr turisti (mii)= Number of tourists (thousands)
Crestere combinata=Combined growth
Crestere extensiva= Extensive growth

Ways to expand the market of the economic organization The two ways of increasing the market size - extensive and intensive - occur in different proportions from one product to another. Thus, there may be one of the ways in which products have been exhausted (for example, involve all relative non consumers), the focus being further on the use of the other way.

There are products where consumption has reached a peak, so that the market is saturated, and its possibilities to expand are exhausted. The figure illustrates the situation of a tourism product where the effective market is of 360,000 days-visitor and the potential market amounts to 6000.000 days -tourist, the effective market representing 60% of the potential market size. From its current level, the product market can expand on the account of the relative non consumers (area A in the figure) or on account of increasing "consumption" (Area B) ; acting on both ways up to the extreme limits of the potential market may cover Area C as well ,ie on the account of rising to an optimal level the consumption of those who are now still part of the relative non consumers category.

In the selection of effective marketing decisions it is important to start from understanding the customer. To this end, we shall review the main steps that managers must go through when they have to make choices for their future customers.

1. Defining the market being analyzed

The market can be defined as an economic area where the production (of goods and services) appears as a supply /offer of goods while (solvent) needs of consumption - as goods demand; the market is the area of manifestation and confrontation between supply and demand , and their achievement through deeds of sale – purchase1.

Market definition can be more succinctly given in terms of several competing brands - or more broadly - including a variety of different types of products. The results we expect in the next steps will depend on how the market is defined

2. Analysis of the main demand for the market concerned

At this stage, marketing managers will try to understand the dimensions of the buying process for all brands and products on that market. They will also analyze who the actual and potential customers are and will determine which are the causes for consumers to choose to buy or or not.

3. Analysis of the selective demand on the market concerned

related to the way buyers select alternative brands or certain suppliers within the limits of that market.

4. Defining the market segments

There is number of buying situations where all customers have similar motivations and run through similar selection processes.

The concept of market segmentation explicitly recognizes this reality. In this stage of market analysis some alternatives are presented in relation with the separation of buyers into segments whose members are alike in their response to marketing issues.

5. Identification of potential target markets

The purpose of market analysis is ultimately to identify the best opportunities to create customers. This final step shows how information from previous stages can be used to identify specific markets and market segments that managers might consider as target when selecting marketing strategies. Steps to be taken to market analysis are presented in fig.2.1.

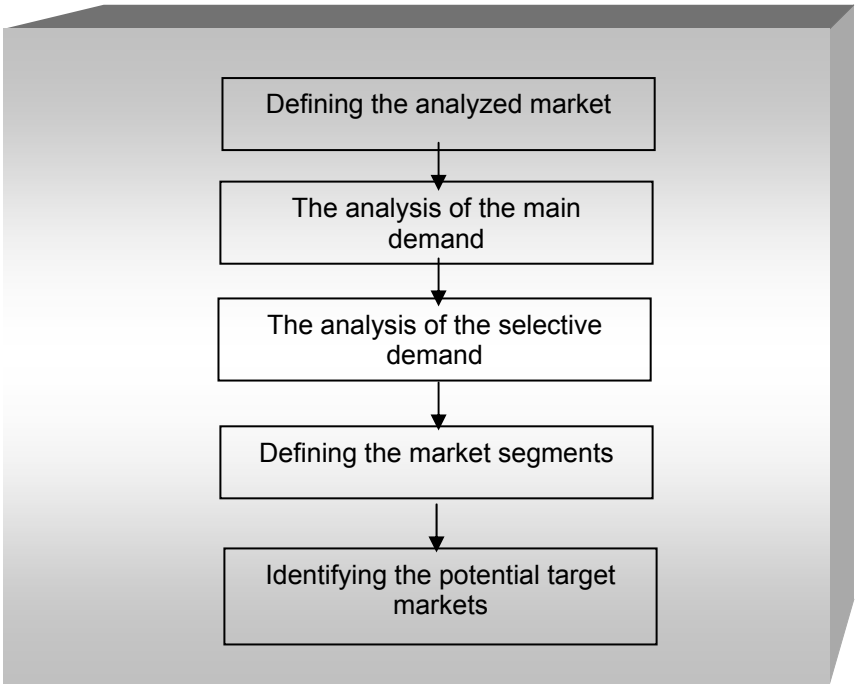


Figure no. 2.1 The stages made in the market analysis

5.1.1. Defining the market concerned. General description

The market being analyzed represents a set of products and /or services (in the market structure of the total product) that the manager regards as important in terms of strategy (fig. 2.2).

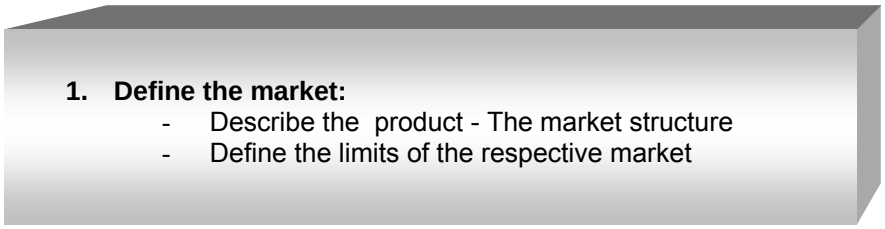


Figure no. 2.2 Defining the market

The top management in the process of planning the product mix seeks primarily to define the relevant market because the rate of industrial growth and the market share of the company depend on how the market is defined.

It is known that a market can only exist when buyers and sellers are present, situations in which managers must identify what are the needs of the buyers and what goods or services are offered by the sellers In defining markets, managers are confronted with two problems, namely:

- specific needs that may vary between different buyers and different situations that may cause individuals to buy or not the product.
- provide a variety of alternative products and services that can meet customers' needs a little differently.

In support of these situations we give the following example. The need to "**transmit business and personal communications**, " in U.S.A is generally satisfied by the U.S. postal service. In spite of this , the telephone system and electronic telex systems are the most viable alternatives of the Postal Service in certain situations. Competition may exist between products and services which are not similar in terms of technology, but are able to satisfy the same needs.

5.1.2. Description of the product market structure

The product market structure refers to the representation of the degrees of substitution to be found in a set of products and / or services that meet similar needs. Based on the knowledge of the product market structure , managers can easily identify the various ways in which the market can be defined for a product. At the same time, they may observe the types of products and services that have to compete with.

Managers can separate alternatives of competitions into three levels:

- major competitors (or suppliers) into a form of the product;
- forms of the competing product into a class of product;
- classes of the competing product serving a general need . To define the market to be analyzed, the starting point is the product forms and classes.

To this end, several methods1 can be used based either on the technical similarity or on the situations aiming at involving the customer.

Technical similarity

In connection with this approach, managers identify and rank the alternatives based on similarities in product features or functions. It will be classified as similar products or services similar in size, with a physical or chemical composition which is identical or follows the same technological process of use. For example, in the general need for " breakfast food", cereals, eggs, pasta will be regarded as a distinct class of products that differ in their composition and the process used in their preparation. Cereals can be divided into the product forms - nutritional cereal, pre-sweetened cereal - with the same technical features, but have some differences as well.

Usage situations

Consumers do not always select the most similar alternative technique when switching product types or classes. For this reason managers want to know customers' views on the similarity of the different product alternatives and take into account the differences in various use situations.

5.1.3. Defining the limits of a big market or a large market

The top management of a company will see to approach that market from a wider perspective. To this purpose it will seek to identify opportunities for long-term product growth and potential threats that may affect the company's development due to environmental changes. For example, the soft drink manufacturers habe been concerned with changing consumers' preferences to natural and healthy products 1.

Managers, especially those of higher level, largely define the relevant market the following conditions occur as determined by:

- Technological changes and regulations to create new alternatives on the market from the vendor;
- The economic, social, demographic, cultural changes etc. that will probably change the type or frequency of using market situations of the buyer;
- Gains and losses of the company's vendors that increase or decrease from the alternative forms and classes (rather than form the competing brands);
- Often, there are no competitors in the form / product because the product is an innovative form

5.1.4. Defining the limits of a narrow market

At the mid-level managers the relevant market will be defined with particular emphasis on the shape/ form of the product and not on planning the short-term decisions to take when:

- Competition of the brand or company is more important than competition between forms and classes;

- Environmental changes are not anticipated or at least are not expected to lead to major changes in circumstances or alternative forms or uses;
- Form or class of the product is used for a single set of use cases as there is no easily substitutable products.

However, environmental changes affecting the choice of the product form and class are generally gradual, and the cost and time caused by major product changes are vast.
If mid-level management within the firm will deal with the development of marketing strategies and programs for individual models and brands, in the form of the product, the company top management strategies will be keen to establish long term strategies reflecting the product growth potential , the different forms and classes of the product.

Managers who are concerned about the limits of a narrow market will focus their efforts on the choice of brands or suppliers, which is known as a selective demand . If management chooses the limits of a large market, its main concern is to analyze the main demand.
Market selection and the consequences arising from the choice of narrow or wide limits are shown in Figure 2.3

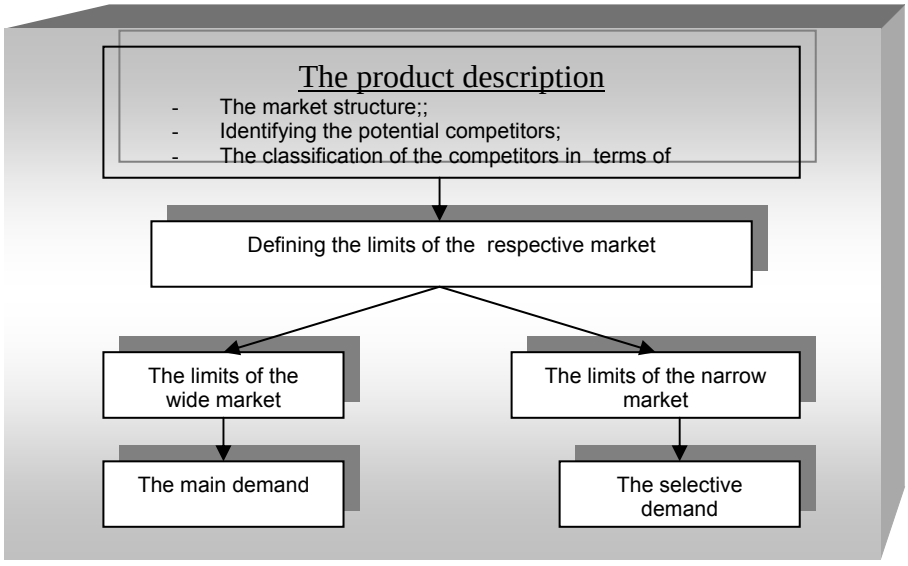


Figure no. 2.3 Selection and consequences arising from the choice of narrow or wide limits

By defining the demand, the management will have to identify the set of competitive products and services where the purchasing process should be analyzed. Thus, a manager who is responsible for selling a specific product or service should understand where the product can be used and identify the most direct competitors. By analyzing the main demand , managers can learn **why** and **how** customers buy a form or a class of a

product , and **who** are the buyers in that market. If, for example, we define the relevant market of nutritional cereals, the main demand analysis should show us **who** buys these cereals (and who does not) and **why** some people buy nutrition cereals and others do not.

Analysis of the main demand
In this analysis we start, as is natural, from the definition of **main demand** which is the demand for the product form or product class that has been identified as representing the relevant market (fig 2.4).

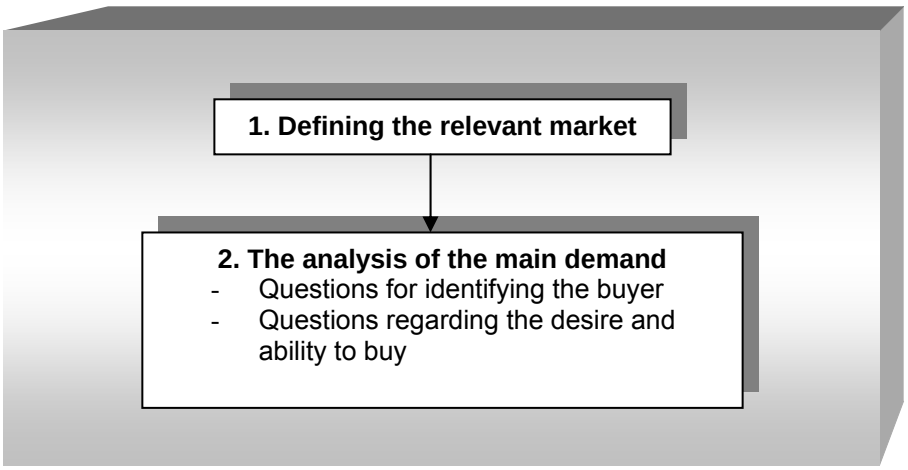


Figure no. 2.4 Stages of the main demand analysis

To analyze the main demand, it is necessary to identify the growth opportunities of the form or class of a product. This information is necessary both for managers of new products and for managers of low growth products who attempt to identify new ways to capitalize sales of that product form or class.
To this end, managers should guide their efforts to respond to a series of diagnostic questions related to the buying process, questions regarding:

- **Identification of the buyer and**
- **Willingness and ability to buy.**

We will try to refer to these issues below.

Questions about the buyer's identification
Identification of the actual buyers of a form or class of a product allows managers to get an overview of the potential growth opportunities in a market and the most appropriate means for communication to the market. Identifying current buyers, managers can specify which are the types of buyers who need a product form or class. To the extent to which

these buyers can be described in terms of age, financial situation, similar features, managers can design changes in the main demand based on trends of population belonging to different groups

Having noted who are the potential buyers of a form or class of product, managers can select effective communication media to reach buyers and may indicate the individuals who can be visited by the sales forces. Table.1 illustrates the major diagnostic- questions which could be used to identify the buyer.

Analyzing these questions, we can make the following clarifications. With regard to consumer characteristics, we must consider three main features, namely: location, demography and lifestyle

Table no. 1

Diagnostic- questions to identify the buyer.

1. Consumer's features.
Can buyers of this category of products be classified according to place, demography and psychographically ?
2. Shopping center.
Who is involved in the purchase process (reference groups : colleagues , family members)?
3. Customer's turnover.
Is there a high customer turnover due to mobility or because purchase is related to age or other demographic factors?

- ***Location*.** The rates of purchasing different product forms can be determined by the population density, climate, cultural and other factors that vary by regions, urban, suburban or rural areas where the products are supplied. For example, weather conditions result in a higher demand for ski equipment in New England and other northern and western states. In these areas, ski equipment manufacturers would have to spend more of their advertising budgets and to create more retail outlets
- **Demography**. Age, sex, education and family size are among the features that characterize buyers of a certain form of product. If it is known that most buyers are aged between 25 and 45,an average can be selected to reach these customers. Knowledge of buyers features is very important both for company managers and retail store managers, who often consider that most buyers will buy from the units in which managers are of the same age, education or have

other similar demographic characteristics , and to this end sellers will also supply products on the grounds of similarities with users / customers.

- ***Lifestyle***. Lifestyle measures (known as psychographics) reflect how the products fit to the normal lifestyle of customers, thus examining how people spend their time, what things are important to them, how they feel about such things and about the world around them. In a certain way lifestyle is related to product purchase behavior and can inform us why people use or do not use a product regularly or not. In addition, advertising will reach customers more easily if it is consistent with their lifestyle.

The segmentation criteria used by services structures are: geographical criteria (territory, climate), socio-demographical criteria (age, sex, income, family size, educational level, socio-professional category), psychological criteria (life style, social group, personality), all these criteria are dependent on the assessed service, the desired advantages, utilization degree, fidelity level and attitude towards the service. There are specific criteria for each type of services – for instance:

- for touristic services, the segmentation criteria are income level, age, health, socio-professional status, number of children per family, the periods for holidays and vacancies, etc.
- for medical services, the segmentation criteria are age, sex, profession, residency, income level[16].

It should also be considered the center for purchasing a product that target all individuals involved in the purchasing decision. Not always the present –day buyer is also the frequent consumer of the product or service. Managers should identify all individuals who may be involved in the buying process and understand what influence each of them has. In the U.S.A publicity concerning cereals was directed both to parents and to children because both groups of users are involved in making the purchase decision, in many families. Or a manufacturer of sophisticated medical diagnostic equipment finds out that the selling force pays too much attention to the sales agent buying and is not sufficiently concerned with the head of the office, the pathologist doctor, chief nurse and other persons interested in that product and with influence in the purchase decision.

The customer's turnover should not be neglected either.

It is known that any organization can have a problem with the customer turnover, which in some cases is unavoidable. The high rate of geographical mobility in the U.S.A means that a large proportion of the customers of retail local institutions such as banks, will be newcomers. In other cases, age may be a key factor in customer turnover. For example, buyers of baby diapers are usually in the market for a short time. For this, the marketing effort should be focused on the continuous identification of

[16] Susanu I.O., Cristache N., Services Marketing, Denbridge Press, New York, 2008

those using a particular product for the first time, and manufacturers producing for the first time. Because these targets adressing such products a lesser known, marketing programs and strategies other than the ordinary ones must be designed .

Knowing the identity of buyers, managers can direct their communication to individuals who are already on the market.

In order to analyze opportunities of that market, it is necessary to identify the absolute non consumers from former buyers.

The potential market1 for a product form is often higher than the current level of demand when some potential customers do not buy the product or service or do not buy as frequently as they might.

Although a market may be extended due to the fact that there are other potential consumers of a product, this is not enough for managers with marketing problems, because they should understand, in addition, factors that can influence willingness and ability to purchase the product form or class.

Questions about buyers' willingness and ability to buy

Next, we will refer to the diagnostic -questions regarding the buyers' ability and willingness to buy.

Customers cannot be attracted to a particular company if potential buyers do not want and are unable to buy the form or class of a product. As managers identify ways to improve the willingness and ability to purchase, the main demand may increase, on the one hand, due to the fact that potential buyers become actual buyers and, on the other hand, because the current buyers increase the product use rate.

In Table. 2 we present the list of the most important diagnostic -questions on the desire and ability of buyers to buy a particular product

Table no. 2
Diagnostic - questions on the desire and ability of buyers to buy a particular product

1. Ability to purchase.
• To what extent the purchase price and other acquisition or maintenance costs inhibit purchase? • Does the size of the product or packaging create problems of space for customers? • is there inadequate availability of the product space?
2. perceived utility
• Will the new , related or improved products or services the utility of the product being analyzed? • What using problems exist or are perceived as such ? • Is the product or service compatible with the values and experience of the buyer?
3. Perceived risks.
• What types of risks are perceived as significant when purchasing a product?

1. Purchase ability

There is a multitude of factors that can limit the ability of buying a certain product. Out of these the most significant may be the following:

A.1. Cost factors

If a product is an article to be found at discretion or if there is a cheaper form-product alternative, price and / or costs associated with the buyer, such as maintenance cost, installation cost, cost of credit, operating cost , may inhibit the basic demand.

A.2. Packaging and size factors

Sales relating to the products of a certain shape and size may be limited due to space they occupy. Thus, some potential buyers of home computers or larger screen TV sets can have problems of space in their rooms . Space limitations may inhibit the purchase of a product that have a large volume

A.3. Spatial availability

The cost of acquiring a product may be a function of location factors. For example, the rural population has less access to health care and less often resort to medical centers. This contributes to a reduction in the rate of purchase of medical products for buyers in rural areas, buying that can be stimulated by improved access to health services. In this

connection we consider, for example, what impact the soft drinks not available at all kiosks and vending machines would have on buyers .

2. The usefulness as perceived by buyers

The main incentive of the buyer's willingness to purchase the form or class of a product is linked to the perception that the buyer has in terms of the product usability in manifold situations. Analyzing the structure of the product market, managers shall be able to identify the use situations where a form of the product is potentially applicable. A number of specific questions might arise as to why some potential buyers do not use the product with one or more uses. Here are some of them:

B.1. The existence of related products and services

Using a product may be limited due to the fact that the major products and services that are related and can meet the same needs are inadequate. Thus, manufacturers of personal computers realized that the lack of software applications is a serious barrier to PCs sales growth. Instead, the market of video recorders has expanded due to the fact that their users could rent tapes for many films and were not forced to buy

B.2. The problem of using a product

Some items are not considered to look well enough in all circumstances. To eliminate such instances, the causes of such problems must be identified in order to plan the steps to be taken.
a) product characteristics or
b) the buyer's lack of knowledge about how to use the product correctly.
In the first case, it should be clarified which are the features of the new product, and in the latter case, it is necessary to train the buyer and provide appropriate technical assistance in order to overcome the deficiencies perceived. The increased use of microwave ovens by many housewives was largely due to the efforts of both manufacturers and retailers to educate consumers on the proper use of the product so as to avoid situations of overbaking of not baking of some food.

B.3. Compatibility in value or experience

When a product requires a change in buying of use behavior, which conflicts with the experience of previous use experience of the purchaser or with greater value systems, the adoption rate will certainly be lower. To overcome this source of resistance, managers should increase communication outlining not only the advantages of the product but also the benefits arising from the exchange of values or the experience in using the product adequately.

Of course, consumer's values and attitudes change in time and managers need to assess how these changes may influence the shape and class usefulness of the alternative product and what effect it will have on prices and special benefits.

If, for example, we refer to factors that influence the demand for bottled water, we can think of a diet and the strong desire to look well to be found with many people (especially females), for which the demand

for carbon-free water and gaseous water as an alternative to other beverages in the world increased sharply compared with the sale of beer which is stationary, and the sale of soft drinks increased by only a few percent per year 1.

3. **Risks perceived**

Wanting to buy a form or class of product will depend on the types of risk perceived by potential buyers. Such risks exist when buyers consider that there is great similarity between making a bad decision and the consequences of a bad decision .

There are six types of risk that the buyer takes into account when buying a product form or class.

C.1. Financial and economic risks can occur when the purchase price, maintenance costs or operating costs are high.

C.2.. **The risk of time or comfort** arises when it takes a long time to buy or use a product.

C.3. Physical risks – if there is a menace to the buyer's health or look

C.4. Performance risks – if there is concern about how well the product or service performs its basic function.

C.5. Psychological risks - considering the circumstances under which the purchase or use of the product may influence on the buyer's image.

C.6. Social risks refer to whether buying or using the product may affect the attitude of the reference group1 towards the buyer

Knowing the types of risk perceived by customers, managers will be able to conceive special marketing programs to reduce these risks and increase willingness to purchase. For instance, bottled water suppliers in the U.S.A offers to deliver at home in order to reduce the comfort risk of the consumer who does not want to bring home large and heavy bottles of water. The risk may be associated with both the purchase process and the product bought.

When managers analyze the perceived risks they may find that their buyers differ in terms of the type of risk they are concerned about . These differences arise due to the fact that the form of the same product can be used in different situations or that buyers differ in terms of experience regarding a form of a product and / or their perception towards alternative brands and suppliers.

Chapter No. 3

THE PRODUCT POLICY

Understanding the concept of product policy.
Learning the decision duties and areas of product policy. Understanding the objectives and tasks of product policy.
Learning the content of the product policy.
Understand the meanings of a product from the marketing viewpoint

With the help of its marketing information system the company perceives the signals from its environment and focuses, by its marketing policy, on the adjustment of its decisions as closely to the market requirements in order to significantly increase its competitiveness. The materialization of these decisions is seen in the marketing mix, the most important component of which is the *product policy.*

The Product policy is often compared to "the heart of marketing" , this metaphor trying to express the idea that the development of products, services and ideas and their market leadership along their vital cycle is the very nucleus of the marketing activity.

Duties and decision areas of the product policy

The Product policy is the conduct an economic organization chooses to take as regards the size, structure and evolution of the range of products and services which is the object of its own activity , an attitude that always relates to the requirements of the market environment, the trends shown by other competitors. The economic organization in turn, by the offer to the market, plays an active role in shaping the demand both of the economic agents and population.

The object of the product policy is represented by the economic assets in the broadest meaning of the term, meaning by this concept both *real assets* (everything that can be felt directly by human senses), and *nominal assets* (money, securities etc.). Real property in turn relates to both *material goods* (objects) and *intangible goods* (services and rights, patents, licenses, know-how, etc..). Linking and combining these components of economic goods is so diverse in the contemporary society that is becoming increasingly difficult for specialist to explain consumers' behavior, to separate the role of each entity, in the decision to purchase. In spite of all this , the practical consequences of this process to the firm can not be neglected

In its most comprehensive sense the product policy includes:

- product policy strictly
- assortment policy
- service and warranty policy.

Among these components there is a close conditioning, all decisions involved representing the content of the product policy

Objectives and tasks of the product policy

The objectives pursued by any product policy must serve the business purpose of the economic organization. Beyond their specific time frame, the profile of the economic activity or nature of organization to which a market addreses, the objectives of the product policy concern the concrete allocation of resources for the proper sizing of the manufacturing structure or assortment being marketed.

The product strategy means the main directions in which the economic organization can mobilize its human, material and financial resources to achieve the preset economic and financial indicators . Within these strategic directions, the product is the central object on which act all metric forces of the economic organization and environment. Components of this policy, the product strategies belong to the company's overall strategic arsenal. This dual subordination, however, should not lead to confronting terms: in practice, the same product policy aiming, for example, at strengthening the company's market position, can manifest in a strategy of continuous improvement of the goods manufactured or a strategy leading to such product diversification able to meet the demands of a growing number of consumer segments.

The effective way of implementing a particular product strategy results in a rich arsenal of marketing tactics or techniques. They can involve technological changes, referring to the substance of the product or packaging material, price differences in relation to the target customer segments, variations in the size of a line of products, accreditation of a new image of the goods or services being sold, changes in the structure distribution channels or sales forms, customer-induced changes on perception of product placement within the perceptual field of the demand carriers.

Understood as a set of strategies and tactics, the product policy should not be taken for a succession of technological decisions, called to ensure a certain structure of production, but as a complex economic process of continuous tailoring of the economic organization to the market needs , adjusting the supply components to such requirements. Regarded as a whole, the product policy at the firm/company level may be assigned three main tasks:

**introducing new products* in manufacturing and marketing to gain new customer segments or to have certain market niches filled, a task which is a central factor for a successful company. The effects of this approach should be evaluated in the context of the product becoming

obsolete, in an increasing research and development phase, an increasingly higher rate of failure of new products or variants or a low level of novelty that many of the prototypes brign about when launched on the market.

- *modernization of the products* marketed is the task of any product policy by which the economic organization is always concerned with the modeling of its services so as to best respond to changes in purchasing habits and consumption patterns, recorded over time, in the target-groups of customers for those products . This task calls for differences and variations in the structure of a product range, relaunching or placement of some parts of the range to better respond to intensifying competition in the target markets

- *disposal of "old " products* if customer acceptance is obviously decreasing and no longer have strategic success factors, is also a task of the product policy, which should not be neglected by the company. The latter, in order to preserve performance indicators, need to promote a planned withdrawal of clearly obsolete products and keep their costs of withdrawal from the market as low as possible.

Content of the product policy

The component activities of the product policy can be grouped , according to their theme, into the following sets:

a) *Product research* –[17]-distinct component of market studies – refers to assessing the quality of the products being manufactured and / or sold, the study of their economic aging (through their life cycle), product circulation analysis and tracking them in use or consumption. The investigations are supplemented by those on product positioning. The latter is a comparative assessment of competing products - designed to meet the same necessities - reflecting the ability to highlight from the others based on consumer's objective or imaginary differentiation.

The product research means a diagnosis analysis able to point out ot the „strong and weak" points of the manufacturing or sold items in order to provide an as appropriate as possible strategy of the company

b).The main orientation of the product policy is the *innovation activity*. It concerns not only the product but also the stimulation of the creative capacity in research and production , the discovery of new raw materials and technologies, developing service- - in other words, creating an innovative ambient in all departments of the economic organization , which compete directly to the technical-economic achievement of the new good.

[17] Mareş, D., Crăciunescu, V., Product Research and Development Economy, "Facla" Publishing House, Timişoara, 1973, page 28 and the following.

c) All transactions by which the manufacturing company gives identity to the goods it creates is the *product modeling* activity . It envisages the design and implementation as a prototype or sample of all the components that give the outline of the future product. They refer to both raw materials and manufacturing technology, product functionality and efficiency, its aesthetics and ergonomic valences. Regarded as a component of the product policy, modeling does not make sense technologically , but it has an orientation significance in compliance with the market exigencies , with all elements that contribute to the future commodity. In this respect, it applies equally to tangible and intangible components gathered under a product where each receives adequate attention in relation to each role in initiating the demand.

d) *Legal insurance of the product* means all legal actions meant to protect it against counterfeiting. Our legal framework provides various forms of protection, both for the Romanian products and for import products intended to the domestic market. At the same time, such protection is given - reciprocally – to the Romanian products on the international market. Among the legal instruments to ensure protection of products and services there are : patents, trademarks, trade and services, utility models, industrial designs, taste samples, the designation of origin (indication of origin), copyright etc. Legal insurance of the product entails a permanent responsibility of the manufacturer to keep unaltered (compared with standard) the quality of the commodity throughout its life. The most commonly used way of a good legal insurance is a trade mark; this implies product customization, detaching it from the anonymous mass of goods. The set of decisions taken by the economic organization as regards branding, represents a genuine *policy of branding*, whose elements are reflected, under specific forms, on all other components of the marketing mix.

e) Another component of the product policy is the *attitude to the old products*. This means the company concern for the fate of the obsolete goods with low profitability.The focus will be proportional to their place occupied in the production or sale of the company. It is thus necessary to know the level of the profitability of each product, the degree of damping of the production means used to produced the goods and the contribution they make to the company's total profits. Linking the information gained by means of the market data on its "vitality" , followed by sales index, allows the organization to formulate a clear attitude towards the future fate of each product in manufacturing.

The composition of the manufacturing range and the assortment policy

Bringing together strategic and tactical decisions on product policy find its most complex field of application in the composition of the manufacturing range. Synthesis component of the product policy, it leverages all the effects of endogenous and exogenous factors that influence the goods at some time during manufacturing. The range

composition should be achieved taking into account not only the profitability of each of its components or technical considerations, but also the market exigencies , the need to adjust the company to the claims of its social-economic environment. A high mobility means the ability of the economic organization to interfere with the lines of goods that make up the range of manufacturing products, by restriction, diversification, differentiation and renewal of its classification of goods.

All steps taken by the economic organization to define its range of manufacture, acquire, from the perspective of marketing, the outline of a program. The degree of flexibility of the manufacturing program is essentially an indicator of the firm capacity to adapt to the demands of the market environment.

For a company, the correspondent of such concerns is the *items policy* . It deals with the size and structure of an assortment of goods delivered by a company in relation with its potential and the market demand that is addressed to. The specificity of the activities carried out within the circulation area marks the content of the items as well ; composition of the range and its distribution to the network sales must combine criteria related to commodities with the manifestations of the demand, the latter increasingly gaining ground.

The association criteria in the range of products are based on knowledge of the relations between them in the sale and consumption processes (indifference, complementarity or substitution relationship) and quantification of the factors affecting the demand .

The assortment policy ensures, on the one hand, the tool for connecting the structure of the commodity to the demand evolution and on the other hand, allows the capture of the extremely diverse information from the market. It concerns the composition of the assortment of goods at both company and store levels . The main criterion for the latter situation is to achieve faster inventory turns with a higher sales volume and a minimum level of circulation charges. Achievement of this goal is based on modeling the commercial range against different guidelines imposed on the market. We consider an assortment policy is based on criteria regarding.

- Nature of the goods (home, imported - in general and according to geographical areas of origin, etc.).
- Merchandising features (food, textiles, footwear, metal-chemical, furniture, etc.).
- Target consumer groups (ranging from popular shops to luxury shops)
- Price level (range of consumer markets, the big department stores, the discounts, etc.).
- Complementarity of needs (variety of stores such as: "Everything for the Household", "All for infants, etc.).
- The assortment policy of a company is increasingly influenced by the "problematic" or "unproblematic" character of the supply in terms of its confrontation with the demand.

Expanding sales through self-service forms and free exposure significantly increased the role of merchandising in "invigorating" the commercial range in order to increase the attractiveness of the supply.

Service and warranty policies

A distinct and increasingly important role in the product policy, broadly speaking, is played by the service policy.

Service is an additional benefit package of basic services offered by the product or the set of goods for its full valuation for consumption or use. Any owner of a durable good is now aware of the significance of maintenance and repair services , expert advice, etc. regarding the good operation and use at the maximal parameters of an electronic computing device, a VCR or a car. The variety of benefits that accompany the core product increases significantly when it comes to industrial equipment (a central heating plant, a cement mill, a computer-tomography device, etc..) and is minimal or zero in case of some household goods.

- the increasing importance of the service in a product economy, which is the offer to the market, is based on the following arguments:
- there is growing competition across multiple markets, while presenting a high degree of saturation;
- the potential buyer's increasing desire to be free of any problems related to the use, maintenance and repair of the product;
- acquiring a competitive advantage by streamlining the company's business to service;
- choice of producers to significantly differentiate their suply/offer from that of their competitors ;
- rapid growth of the degree of products complexity which makes indispensable a certain service activity.

From the point of view of the service activity offered to the market this can be divided into [18]:

1. technical service
2. commercial service

The main tasks of the *technical servicing* concern: ensuring the normal operation of the product for which it is granted; consumers' acquisition of all the information they need; offering spare parts, substitutes or alternative products, as needed.

Of particular importance for products of high complexity (eg.: aircraft, computerized radiological equipment, installation of automatic control of the production processes, etc..) are the activities of technical advice, installation, training of the maintenance personnel, regular inspections, supply of spare parts.

Systematic recording of information that can be obtained from the technical service for durable production and consumer goods shall constitute a valuable database for marketing research with the aim of

[18] Weis, Ch., *Marketing 9Auflege*, Kiehl Verlag, Ludwigshafen (Rhein) 1995, p. 239-240.

monitoring the reaction of the products in use or consumption. Adequate capitalization of this information in marketing decisions of producers and distributors of goods depends overwhelmingly on the representative character and systematic way of obtaining such information.

The *Commercial service* usually provides a series of activities intended to help buyers in the purchasing act and in some cases even transforming it into a very nice job. Services offered in this context are non-technical and relate to activities that are conducted before, during and post-sales. Among the benefits that make up the commercial service there are usually consulting services and / or information, providing free courtesies (eg.: samples of food products, cosmetics, etc..), invitations to tastings of new food goods, free trade benefits (eg.: gift packaging of the goods purchased, financial paperwork for returning VAT to non-resident buyers etc)

. Unlike the technical service, the commercial service is designed as an element adapted by excellence to the customer or differentiated according to segments of consumers and not necessarily oriented toward the product. Moreover, it should not be conceived as dependent on the act of purchase, featuring promotional meanings, in the long term.

Warranty policy of the company completes in its turn, the arsenal of means by which the operator (whether manufacturer or distributor) is striving to become more competitive.

The warranty represents an extended producer responsibility, a period of time beyond the time of sale, regarding the operation of an industrial equipment or asset, keeping the composition of a food product as set out in standards, internal norms, the recipes or other acts normative meant to regulate the quality of a commodity.

Facilities provided during the warranty period (changing defective product with another of the same normal operating condition, replace faulty components, etc. damages payable to the Buyer.) are elements likely to improve the confidence of potential consumers in a particular brand of product or service, helping *to increase customer loyalty and their business reputation.*

For durable goods the security policy has become a significant element of differentiation strategy of product policy . The judgments made by any contemporary consumer, by means of the value –price binomial, the elements of the service and warranty policies is increasingly becoming important. As a differentiation element the warranty can be used as a competitive weapon3. Thus, for example, a less poweful firm can be placed better in the competitive arena by offering a longer warranty than its competitors. Such was the case with the French car manufacturer "Simca", a company that has managed a better position against stronger rivals, being the first in providing on the European market a warranty for essential automotive spare parts of two years or until completion of least 60,000 km.

The modern user, concened to size as exactly as possible the maintenance costs, in time, of an industrial equipment or a durable good,

attaches growing importance to the two policies referred above (service and warranty) .

The marketer's response to this major trend in consumer's behavior is the systematic approached to the product concept and the implementation of this approach has its own conceptual and operational framework represented by *total quality management.3*

The warranty policy is placed in the product post-purchase period with noticeable effects in its efforts to promote it or its mark in the long term. The literature points out to numerous instances in which local producers from economically developed countries have lost key positions held on the domestic market due to competition of imported products that had more attractive warranty and service policies3. The efforts to clearly define the guarantee terms and clauses have evolved considerably in recent decades, subject to consumer protection actions4. The consequences of these actions are punishing, more drastically , the producers and dealers who are introducing standards non-compliant products, as counterfeit or new fake items.

Products significance from the marketing viewpoint

Clarification of concepts is one of the prerequisites of practical action, effective in any field of human knowledge and even more in the economy. In this case, it is necessary to clarify conceptually and operationally the product from the viewpoint that marketing has well established in the economic science.

Conceptual definition of the product

Multiplying the human needs found its correspondent in the exponential growth of material goods and services required to meet such needs while causing increased concerns of the specialists in finding answers to questions like "what is a product?", "which are the bearers of novelty?" , "how is it judged by its beneficiary ?", etc.

The concept of product has been in time subject to multiple approaches which, although they were largely based on the subjective understanding of the term value, have made notable steps in the evolution of the concept being analyzed.3

In the contemporary period, the classical concept according to which a product is " a sum of tangible attributes and physical and chemical characteristics, combined into an identifiable form" undergoes , according to the science of marketing, structural changes. Representing all the instruments that trigger the demand as expressed by the consumers, the product must be considered, at present, a *concept of system* incorporating, apart from the material substance of the good, the whole atmosphere around it, consisting of a wide range of non corporal elements . The literature more often defines this meaning of integrating character by the element of *total product*.3

Extending the coordinates of a product well beyond its material contour is required by the diversification and refinement of the consumer needs . Determined by the scientific and technical progress and an increased solvency of the demand, this refinging causes in turn an increasing selectivity in the act of purchase, on behalf of the demand

bearers. They do not express exclusively by their intrinsic necessity impulse. The purchase action falls increasingly under the psychological valences of the products, so we can speak of a subjective aspect of the demand.3 The intensity of the psychological and sociological variables that triggered the demand is related to the nature of the products and the need category they have to meet. As the consumer ‘s choice expands, the importance of these variables in the decision to purchase increases too. Purchasing a bonnet is determined not only, or primarily, by a woman’s need to protect her head, but especially by the image she wants to bring about in the social environment she lives in, the role or status that she wants to reach and/or keep. The purchase of an electronic computer are crucial not only its technical performance levels, related to the materiality of the product, but also instructions for use, technical documentation and the set of accompanying programs without which such goods would not be fully exploited.

These arguments are supplemented by the fact that today, an increasingly wide range of needs are satisfied by "competition" not with the help of tangible products, but through services. A life insurance consists of a service package combining protection with an investment component in various funds, with the prospect of extra comfort for its owner, when he/she reaches old age and benefits from an annuity; it is a complex product without material components, but involving a fully motivated purchase decision. Moreover, fewer products or services today are "pure". Most goods, whether destined for industrial users or consumption, are a symbiosis of material products and services and separating the two components in the sale or consumption process may render each of them unusable.

Another trend determining services reconsideration in the product economy is the involvement, more frequently, of the end-user in the design of a new commodity3. This refers to both production and individual consumption of goods. The co-working of designer - manufacturer - user acquires new dimensions which will expand information services, technical assistance and advice attached to the modular components of a product. The modern consumer, for example, is given today more opportunities to assemble by himself an electronic or electrical device , to build a home or to arrange furniture and household furnishings.

Based on these considerations, the components that define a product from the marketing viewpoint can be grouped as follows:

a. *Corporal components*, including product merchandising features and packaging due to their material substance and their functional utility. Under this category fall qualitative dimensions of the product related to shape, dimensions and capacity, structure and content, weight and density, installed capacity and resistance to the action of environmental factors etc.;

b**.** *Acorporal components,* including items that have not material body, such as brand name and instructions for use (Use), legal protection by a patent, license to manufacture or marketing, pricing, any other

service provided for the product (installation, commissioning service, service, warranty period,etc)

c. *Communications regarding the product,* comprising all the information submitted by the manufacturer or dealer to potential consumers (merchandising, point of sale promotion, advertising through mass media) in order to facilitate presentation of the product and strengthen the emotional or rational arguments the purchasing decision is based on.

d. *Product Image* meaning synthesis of mental representations of cognitive, emotional, social and personal nature of the products among buyers. Being a motivational component of a subjective nature, it is the result of the perception of a product or a mark by users or consumers. A clear, positive and differentiated image "highlights" the product giving it an independent position in the global supply, while a dim negative image may compromise the market success of a quality good. Associating the image to the consignee, it is estimated that many of the former have an "age" and "sex". The significance of such attributes is linked to the use of certain products primarily or exclusively by persons of one sex or of a certain age. Lipstick is essentially a "feminine" product, while cigar or pipe is a "male" commodity ; if the toy is a product of childhood, the stick is good for the "third age.

Compared to the integrated concept, which defines a commodity by the components reviewed above, the literature also suggests a functional conception according to which that product is "... a sum of partial functions or partial use values, distinct from one another , although they do not appear on a market as such" 3. Such a definition groups functions by their nature, in objective and subjective, depending on how they are perceived by the product beneficiary . Each of these functions, with a determining counterpart of the real material body, provides the conditions for the approach called "value analysis" and the application of its techniques in the design phase of a new product (value engineering)3. The features of the approach to the products from the marketing viewpoint are its changing status on the market. Being a very dynamic element, it is at a certain point at the confluence of technical and economic possibilities of the society and the needs of demand agents. The product can be "new" today and tomorrow, the "latest trend" of the demand , it can be already "old"; it may be , where appropriate, a highly marketable commodity or difficult to sell , cheap or expensive in relation to the user's value judgments. Only constantly confronted with the market can the product loose its validity thus meeting an effective marketing policy.

The three meanings (integrated, functional and its status on the market) are not opposable, but rather different approach angles of the same whole - *the total product.*

Alternative strategies to the product policy

Firm options regarding the size, structure and dynamics of the range of products they currently manufacture (sell) is reflected in *product*

strategy. This is not an end in itself but will be subject to market strategy and correlated to the pricing, distribution and promotion strategies .

Depending on available resources, the company uses the product strategy to achieve objectives such as : strengthening the position of the current consumer segments, increasing consumer penetration of a product, enhancing the product spread on the market by attracting new segments of users to differentiate similar or close products from other manufacturers (dealers), a better positioning in the range which includes the product and increase its market share, etc.

The type and complexity of the product strategy are directly influenced by human, material and financial potential of the company, the nature of the goods, its position on the market(s) they addressed and the profile of the latter. Product strategy, for example, will be more complex for a manufacturer of high performance electronic goods, intended for both domestic and export market, compared to one that cater exclusively for the internal market and produces precast concrete.

Changes in the *size of the products range* can result in either increase or decrease of the product lines and / or increased level of depth. Restriction of the size range can be achieved resorting to a *selection strategy* ;maintaining them is accomplished by *assortment stability strategy 3* while growth has many variations of the assortment diversification strategy .

The *quality level of products* is another important strategic element. Faced with a strongly divided market, in which segments are clearly divided by specific characteristics, the firm can choose a strategy of quality adaptation in relation to the requirements of each segment or a strategy of qualitative differentiation from other competitors' offer. When he has a strong market position, the operator may choose a strategy of qualitative stability, thus consolidating its status precisely through this feature of his offer/supply.

The *degree of product renewal* is also subject to a series of strategic directions. It can be kept constant (the economic organization takes out and introduces the same number of articles annually in its nomenclature, without affecting the range structure) it can be improved relatively (through the development of some goods from the production lines) or it can grow by assimilating new products. In this last case, the new product may be the result of research and development in its own design, technical implementation in the form of license or manufacturing it according to a reference model.

The strategic option as regards the product is a decision of utmost practical importance for the economic organization. It involves an accurate assessment of the relationship between the market potential and its demands for the products addressed. Each strategic option has advantages and limitations being indicated only in certain specific circumstances. Thus, addressing a segmented market and having an advanced concept of marketing, the economic organization may choose a *strategy of selection* within the range. It consists in the elimination of products with a relatively high degree of moral wear and those having low

demand, or simplifying the range by reducing its width or depth. Adopting such a strategy is required either due to previous excessive diversification, or when certain indicators regarding the effectiveness of the range have unacceptable levels

With a manufacturing company this strategy calls for the study of possibility to resize the sections based on the principles of technological homogeneity, the concentration of similar operations within the technological flow. A simplification of the manufacturing range may, in such cases, have significant market effects. Simplify the assortment structure, as an alternative to this strategy, provides a clear demarcation between products, allowing a concentration of the company potential. The selection strategy within the manufacturing range also meets the goals of entering or strengthening a firm position on a given market, in relation to its specificity, the level of competition and the possibility of identifying certain “niches” inside.

In terms of clothing, a higher selectivity in the manufacturing range of some of our famous producers would allow to achieve clothing and knitwear in short series or even unique, "the author’s models" capable of finely implementing the creator’s fantasy , the traditions in clothing and domestic fabrics , while carrying out products of boutique type obtained through cooperation with foreign partners.

In the distribution area , this strategy has resulted in a more pronounced specialization commercial network by the "revitalization" of small units that can meet the demands of clearly outlined customer segments (by socio-economic and demographic criteria). These units have a wide assortment with fewer product lines but a much greater depth than the big stores. This applies, for example, to performance electronic products, the latest fashionable clothes (haute couture) or goods intended to satisfy certain passions (hobbies and DIY products)

A strategy less approved than those materializing by a pronounced diversification of the supply, the selection in the range of goods was more frequently encountered in the last decade among the producers’ options worldwide. The effects of the global energy crisis and natural resources and the consequences of the impact of the new scientific and technical achievements on production has called for a more severe manufacturing classification , the disposal of high energy-consumption goods , reconsideration of some goods and "rediscovery" of certain goods whose life cycle is already completed 3.

Product selection strategy aims at strengthening the economic and financial indicators of the economic organization place in the market. Gaining a better position by winning a larger market share can be achieved by resorting first to the *strategy of size range growth*. The main way of implementing this strategy is the *range diversification 3*

It seeks to refine the ways of meeting the need to be addressed by the product and thus, to enlarge the market or entering new markets. Suitable in the growth and maturity phases of the commodity vital cycle, its practical implementation has a very rich arsenal, involving: multiplication of type-dimensions (weight), models, color shades,

packaging, acorporal elements of the product; specialization according to functions or combination of product functions; extension of the the scope of application or functionality, etc.. Diversifying the range of products can be developed along three main lines: horizontal, vertical and lateral3. It is not excluded the alternative of combining all these directions.

Horizontal diversification is achieved by increasing the number of products within the range. The Footwear Company "Antelope" SA in Bucharest, initially producing leather goods, included in its range of footwear of textile substitutes, first rubber footwear and then recreation footwear of plastic material. The Company "Allgäuer Alpenmich" A.G. in Germany, producing condensed milk and chocolate products for children, noting that it is facing a saturated market, decided to open a new technological line for production of table wine under the brand "Golden Oktober", starting from the observation that this drink has a large potential market; using the same system of production organization as for dairy products, the company has significantly improved its market position.

Vertical diversification is accomplished by extending a product line "upstream" or "downstream" including into the manufacturing classification some goods previously purchased as raw materials or others using the existing company products as constructive components. For example, a company producing woven garments, by opening a section of knitted garments, is also able to produce the raw materials required. A civil construction company can build its own cement factory and a precast concrete processing section. Major holdings of the German chemical industry - BASF, Bayer and Höchst - have emphasized the degree of integration by vertically diversification of production; they no longer manufacture only chemical products as 35 years ago, but also produce synthetic wires and fibers, plastic sheets , magnetic tapes and pharmaceuticals. In the vertical diversification, the economic organization compete with its former suppliers and customers; evaluating the potential consequences of this situation requires a careful preliminary market investigation.

Lateral/side diversification is a development of the range of product along lines related to the basic structure. For example, the company "A & S International 200", one of the largest and most dynamic companies in Bucharest, specializing initially in medicines and supplies for pets and assemblying radiological equipment along with the service for such equipment, is developing a production range of insecticides and disinfectants for general use, and recently switched to producing medicines for human use. It should be noted that this version of product diversification is much more common in developed countries with market economies, being imposed as an alternative to increased competition. The holding "Ford Motor, the second largest producer of automobiles, provides more than a fifth of its turnover by manufacturing radios, tv sets, video facilities, computers, whilw working in the field of space research and having an insurance company. The American company "Singer", known for its sewing and knitting machines worldwide for a very long

time, today made half of its turnover from the production of air navigation instruments, office machines and calculators, furniture and air conditioning equipment.

A complex form of diversification of the product range is the specialization according to functions and their subsequent combination, which finds wide application in the field of durable electronic goods . In this case, diversification takes specific forms for each category of products. For example, On-line coupling of the basic equipment functions of recording and playback of sound lead to new appliances of new complex functionality (stereo music device); the specialization and coupling of primary functions lead to electroacoustic chains (amplifier, tuner, cassette, deak record player) ; by diversification and deepening of each type of device of mono sound playback, stereos, cuadrophony , and in case of the image - black and white, colour and stereoscopy are achieved3 .

To meet the specific requirements of certain markets or categories of users (buyers), the company may choose a *strategy of the range structural adjustment*. The adaptation effort involves technical, functional, dimension (weight or dose) changes, conditioning modifications or related to the services that accompany the product. This option is considered in the case of products undergoing very rapid changes in their technological environment, fashion, or when being supplied to markets with pronounced features. An example of adaptation to the requirements of certain foreign market may be a company producing bearings, manufacturing such goods in sizes measurable in inches to be exported to the U.S.A; the same question arises in case of "tropicalization" of machinery and equipment intended for export in hot climate countries.

The problem of quality optimization of goods under manufacturing and / or marketing in relation to different levels of stringency of the main segments of consumers (users) founds a wide applicability solution in *the strategy of quality differentiation* of products and services. Reaching a certain quality of products (services) may be a target or a step in the evolution of the economic organization in relation to the objectives that it has set. Qualitative changes may be generated to improve current performance of the products or maintain them at a level already achieved3. The desire to continuously raise the performance of the products made by an economic organization can no longer provide an alternative global strategy under an increasingly changing environment. In turn, the choice for longer preservation of the quality level achieved is no longer a condition for maintaining a certain position on the market. It appears increasingly obvious the need for a differentiated treatment of product quality in relation to the specificity of the various market segments. Qualitative differentiation elements are multiple each having its origin in improving usability, increasing the field of use, simplifying use procedures, improving the quality or aesthetics of materials

Qualitative differentiation of products does not always have a completely objective basis, generated by an enhanced accumulation of quality reflected in the quality of goods. Situations may arise where the differentiation elements are of psychological nature 3.

A manufacturing company can set, by adopting the qualitative differentiation strategy, the objective of producing only high-performance goods characterized by a high quality level (such as, for example, Hi-Fi products in the electronics industry), while another may choose a standard quality level of its products.

The more complex and dynamic among the strategies of a product is the *assortment renewal.* The renewal of the assortment leads to new product lines within the existing range, putting in motion the entire human, material and financial potential of the economic organization. Suitable for the mature component phase of a product line, it is intended to replace "old " goods by new higher quality ones. In this way, the consumers of the eliminated product are guided to the new product to be launched on the market.

In the sphere of circulation of goods this strategy can take the form of the innovative store: it makes up its trading range exclusively of news items in a certain field (clothing, the electronic equipment, literature, etc..) The degree of assortment renewal in this situation is extremely fast, and the recipient of these products features a high level of loyalty to that stores chain.

The product strategy acquire specific meanings in case of the alternatives penetrating foreign markets. The marketer must choose in this situation between *standardization* and *adaptation* in relation to the destination market. He can choose between three alternatives:

- the same product not adjusted for a particular foreign market
- the same product adjusted for a particular foreign market (eg a "tropicalized" car for countries with hot and humid climate)
- a new product for a particular foreign market.

Adaptations that can be made to products intended for export may be: *mandatory adjustments* (required by the laws and regulations of the destination country under certain safety, hygiene or technical rules) or *essential adjustments* required by customer's expectations of the target market. If the first category is required by law, the second one is required by consumer's exigencies . Standardization or adaptation of production for export may be alo operated according to the *service characteristics* or certain *symbolic characteristics* of the product, where the prominent place is taken by the *country image*.

Since almost all economic organizations produce a relatively large number of items, several strategic options may be followed concurrently , separate for the specific range lines and the market they addres. The formulation of these options involve combinations of strategic components, not merely a "pure" strategy .

Chapter No. 4

PRICE POLICY

4.1. The strategic role of the price

One of the main objectives of the strategy of any company is maximizing profit, and the factors that influence the level of the profit are: **cost, price and sales volume**. Out of these three factors the price is the primary factor. Nowadays, after the companies have reduced the level of the costs to a minimum level and have made from their sale force a primary weapon, these have an increased interest in the possibilities offered by the price.

In the competitive market environment, the price is always perceived as a source for problems: customers complain about the prices that they are too high, competitors use the price as a weapon in order to win market shares and the distributors exert an increased pressure upon the price, all these being inevitable realities of the modern competition.

The question that appears is the following one: Which must be the level of a product in order for the company to be competitive on the market? There is no exact method for establishing the price in order to ensure a sustainable success on the market, but there can be said for sure that the level of the price must be established taking into account the following factors: the commercial objectives of the company (usually maximizing the profit), the level of the supply and demand, the production and sale costs.

But none of these factors can be established without taking into account the other factors, as the mechanism for establishing the price being complicated and delicate, taking into account the multiple effects of the price upon the profit of the company.

Is obvious that the level of the price directly determines the price share that the company can obtain, a higher price will increase the price share obtained by each sold product, but an increase of the price will always lead to a reduction of the sale volume, fact that can negatively influence the level of the profit. Also, the price has consequences upon the costs, for example a reduction of the price can determine an increase in the volume of the sales and, finally a reduction of the total cost per unit due to the scale economies and the experience effect.

In order to emphasize the influence of the price change upon the profit we can start from the profit scheme presented in figure 4.1.

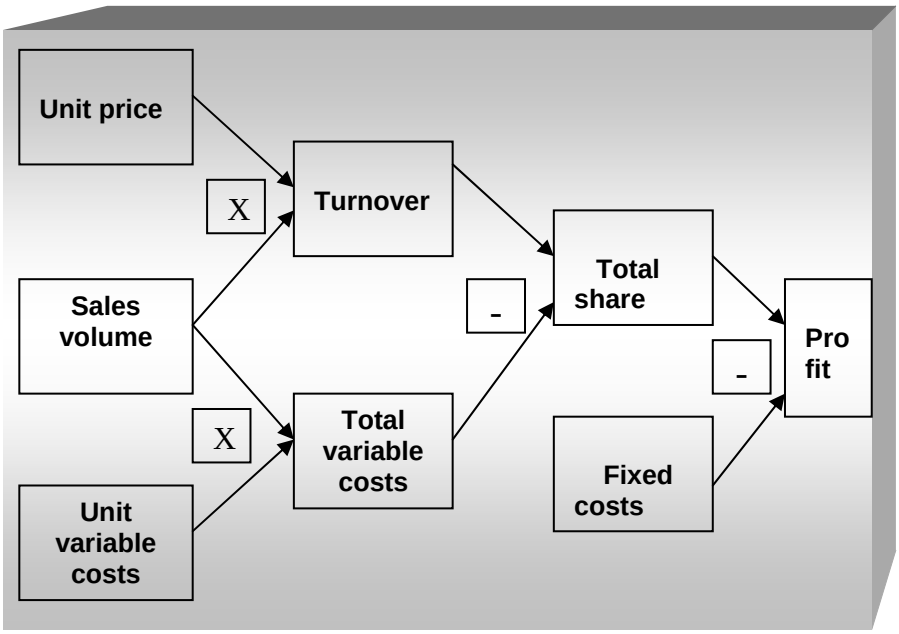


Figure no. 4.1 Profit scheme

An apparently insignificant price reduction, can substantially diminish the obtained share and implies a considerable increase of the sales in order to maintain the same level of profit and, vice versa a slight increase of the price can determine a powerful improvement of the share and of the profit, despite a significant reduction of the sales volume.

In the services business area (for example: hotels, airlines, communications, etc.) the variable costs are low and the fixed costs are high.

We must note the fact that the structure of the costs has a powerful influence upon the interaction between price and profit, when taking the decision for a certain price it is very useful to simulate different scenarios in which we must emphasize the impact of reducing and increasing the price in different hypothesis for variable unit costs and for a given total share. **This manner for pertinent examination for price review does not take into account the reactions of the customers and of the competition towards the price change, but emphasizes the conditions in which these changes remain variable regarding the long term objectives of the company**.

The modifications of the price generally have a high influence upon the shares and the market shares. For general goods for example, the price-elasticity is 10 to 20 times superior in comparison with the publicity-elasticity. This shows that the effect of modifying the price by 5%, for example, upon the volume of the sales is 10 to 20 times superior

to the one represented by the increase with 5% of the advertisement budget (the studies have shown that in the case of the industrial goods this ratio is even larger). **The impact of the price is not only more powerful but is also faster than the impact of advertisement.** The performances of an advertisement company or of a new product policy must be evaluated for many months, in exchange, the effects of the price change can be estimated in a couple of days or even a couple of hours. Also, **the price represents the only element of the mixed marketing in which a change does not require expenses or previous investments.** Taking into account this fact an optimization of the price is always possible, especially in the situations in which the financial reserves are limited. Advertisement, research-development in order to improve the products requires expenses and massive investments, and the results will be felt only after a certain time interval.

These particularities determine the fact that the price represents a very efficient tool in order to influence the volume of sales, market shares and profit, **but it introduces a series of risks**. A wrong estimation of the customers and/or competition's reactions can determine a series of consequences that are difficult to overcome or are even beyond repair. The modification of the price always determines faster and more powerful reactions from the competitors that the advertisement companies. The competitors consider the price reduction a more powerful threat, because it directly influences the market share, the price becoming, for this reason a "dangerous weapon" which causes uncontrollable reactions from the competitors, unleashing a "prices war" which endangers the stability of the sector and out of which no one is going to win.

4.2. The price and the purchasing behavior

Analyzing the price and taking into account the buying behavior of the customers, **this represents the economic sacrifice (effort) consented by the customer in order to buy a product or a service, the client systematically comparing this sacrifice with the value it attributes to the product he wishes to buy. The price and the perceived value are the two main fundaments of all economical transactions.**

Confronted with many options, the customer prefers the product which offers him the highest net worth, meaning the highest difference between the perceived value and the acquisition price. Consequently the term of maximum price depends upon each customer, the diversity of the customers determining the market segments according to the preferences of the customers groups and the differentiation of the prices on each market segment. Also, the concept of perceived value suggests the fact that the price must be determined in a dynamic manner, it must fluctuate in time and depends upon the maximum price that each client is willing to pay.

In order to measure the impact of price change upon the demand we will take into account the notion price-elasticity which emphasizes the modification of the demand volume in relation with the variation of the price. This can be determined using the relation:

$$E_{c/p} = \frac{\frac{\Delta C}{C_0} \cdot 100}{\frac{\Delta P}{P_0} \cdot 100}$$, in which

- $E_{c/p}$ = price-elasticity;
- Δ C = demand variation;
- C_0 = demand before the price change;
- Δ P = price variation;
- P_0 = initial price.

The following situations determine in general an increased elasticity (but we must not generalize anything that manifests as tendency);

- **High similitude between products, a weak differentiation of the products eases their interchangeable character;**
- **The knowledge of the prices by the customers, the transparency and the ease of the price comparisons;**
- **The high frequency of the purchasing;**
- **A good knowledge of the products by the customers, the capability to objectively evaluate the products (especially in the case of industrial products);**
- **The payment for the product must be made by the person who decides upon that product (and not by the supply department or by another person);**
- **The reduced faithfulness towards the brand;**
- **The wide distribution of the product;**
- **The reduced importance granted to the brand image or prestige;**
- **The intense promotional activities made for the specific product type;**
- **Reduced market shares (the studies show that the products that hold reduces market shares have a superior price-elasticity in comparison with other products within the same class).**

These generalizations supply useful landmarks for the evaluation of the price-elasticity, but as it was pointed out before, each product represents a distinct case, being recommended to rigorously determine the elasticity in each case by applying a combination between the presented models and clearly stating which price-elasticity are we talking about: for a complete range of products, for a whole line of products or for a certain product.

After the beginning of the 90's the role and the signification of the price has changed radically, "the cordial competition", characteristic for a growth context has changed into a "competition war" in which the price has the role of a competitive strategic weapon. From the managers point of view the price exerts an increased pressure in the triangle customer-company-competitors, as it results from figure 4.2

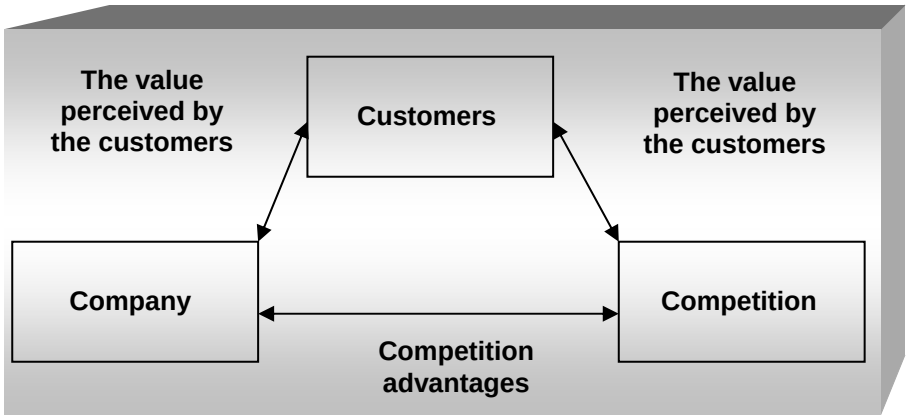


Figure no. 4.2 The strategic triangle

Figure number 4.2. very suggestively synthesizes a new necessary approach. The position of the company is determined by the value it offers by the sale of its products or services, the customer relations depend upon their perception upon the value of the proposed product/service, and the place it will occupy in comparison with the competition is determined by the level of the product's prices and the competition advantages. The price and the value/price ratio are two fundamental variables on which the survival of the company in the competition environment depends.

The classical approach of many companies is focusing on customer relations by searching to precisely identify their needs and to satisfy these needs the best way they can. These companies spend a considerable amount of energy in order to understand the reasoning of the customers on each segment in order to anticipate their needs and the future tendencies of the market. In the same time, the relations with the competitors make the subject of a detailed study, creating competition advantages that allow the company to differentiate and to defend itself.

A strategic competition advantage must fulfill the following three requirements:

- **To refer to a characteristic <u>important</u> for the customer; ;**
- **To be <u>perceived</u> by the customer;**
- **To be <u>durable</u>, meaning not to be easily mimicked by the competitors.**

The simultaneous satisfaction of these three requirements is a difficult task, but the price is one of the key factors upon which the company can act in order to have a competition strategic advantage. Generally, it allows the satisfaction of the first two requirements, but a lower price cannot be considered a durable competition advantage unless the company is capable to maintain that price on the long term (we take into account the fact that other competitors can also make price reductions, thus eliminating the created competition advantage). In a general manner, the developing of a competition advantage requires one of the following measures:

- **Offering of a performance comparable to the competition, but at a lower price. On the long term this thing is not possible unless the costs are lower than the costs of the competition;**
- **Offering a higher value and maintaining this position on the basis of other factors instead of price (for example, quality, services, communication, etc.)**. If this strategy is correctly applied, the customers will buy the product at a higher price that the price of the competitors.

The establishing of the price depends upon the adopted strategy, the representation of this positioning can be made on a value-price matrix as it results from figure 4.3.

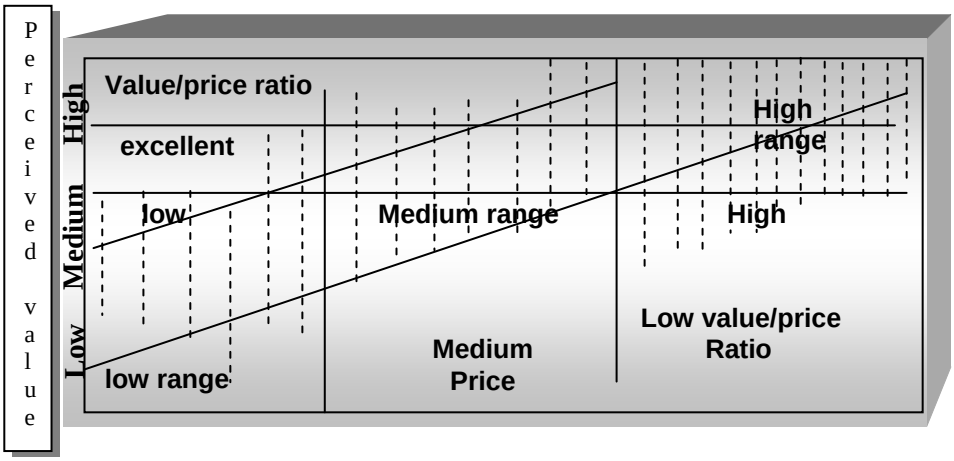


Figure no. 4.3 Price positioning matrix

In the checkered area which corresponds to a coherent positioning of the price, the price and the performances of the product (the perceived value) being of comparable levels, in the economical reality generally we can notice that this principle of coherence is respected, the prices ranging within this area.

The companies new to the market or the companies that want to increase their market share chose frequently a positioning in the upper right corner, which corresponds to a medium or medium to high price for a relatively high value, this positioning allowing them to quickly gain new customers (this strategy is frequently adopted by the Japanese or South-Korean companies in order to enter on the EU and U.S.A markets, but it is essential to determine if the company can maintain this positioning on the long term.

The reversed strategy is the one of the "quick fire", which objective is to obtain the highest profit and consists in establishing a high price for a medium or a reduced value, fact that would allow the obtaining of substantial profits until the moment in which the customers renounce in buying the specific product, perceived as having an unsatisfactory value, in generally this product will be put off the market (this strategy was very often used in our market after the year 1990, when the market was "overwhelmed" with a series o products, with a high price but with a low quality).

In order for the price strategy to be a success on the long term, even from the research-development phase the value/price ratio must be clearly defined, taking into account the possibility that a product with a high perceived value not being able to be introduced on the market at a competitive price. This is the case of the Nestlé Company when they launched the Café Noir soluble coffee, presented in a very luxurious black box, but had a fabrication cost so high that the product was launched at a prohibitive price, so after a short time interval it was pulled off the market and subsequently proposed with a simpler packaging. Assigning a higher value to the product, fact that leads to a very high price, has also the risk that this product to overcome the exigency of the customers, the superior performances not being able to justify the price difference. In the year 1997, the Nintendo Company, producer of gaming consoles and one of the market leaders suing a wrong positioning of the value/price ratio launched the 64 bits gaming console at the price of 300€, while the 32 bits PlayStation, made by Sony, was on the market at the price of 230€. Three months after the launch date, Nintendo had to line up the price with the PlayStation, because the superior performances of the 64 bits technology have been considered insignificant by the customers (they were still buying the 32 bits PlayStation) and they did not justify a price difference of 70€.

These examples that were presented emphasize the importance of understanding the perceived value and additional costs even from the research-development phase, aspects easily to approach with the help of the target-costs and target-values method, which allows the defining the limit of the production costs and establishing the target price in order to avoid the product launching errors.

In figure 4.4. it is schematically presented the procedure for determining the target price of a product on the basis of the value and target costs method.

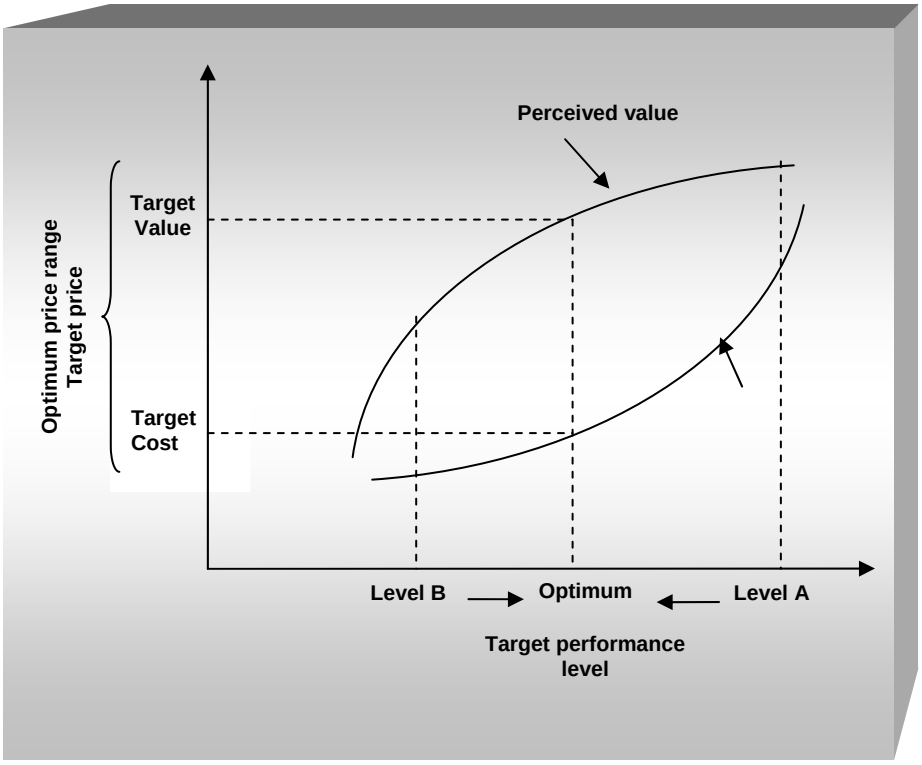


Figure no. 4.4 Cost, target value method

The character of the customer perceived value curve (their willingness to pay), according to the level of performance of the provided product or service shows that this one does not increase proportionally with the performance level, the increase being smaller as the performance level increases. In exchange the cost curve has an increasing slope, fact which shows that the cost increases more rapidly than the performance. **It results that it is not necessary to develop a product with the highest possible performance level. It is more important to establish the target value and the target cost for which the difference between the two curves is the highest, the level of the target performance representing the level for which the perceived value is exploited best and the price change area is highest.**

Integrating the reactions of the customers when elaborating a price strategy, another important aspect that must be taken into account is the one that on the most markets in the world, the buyer does not accept the catalogue price proposed by the seller and he seeks to negotiate the

price. Taking into account these aspects it is necessary to establish on what level the direct sales agents have a certain authority to change the price and which is the negotiation range.

In the current practice the following situations exist:

- The direct salesmen have a large autonomy in order to establish the price (there are even situations in which the decision is theirs exclusively);
- The direct salesmen have a limited autonomy to negotiate the price and granting of discounts (according to the hierarchical level they have);
- The direct salesmen have no authority regarding the price (all the price changes made upon the catalogue price must be approached at the highest level);

In the first two cases, especially when we are talking about price discounts, these must not directly influence the overall result of the company, imposing a very rigorously negotiation area.

More than this, conflicts of interests can also occur at different hierarchical levels. In most cases, the variable part of the salesmen salaries is established according to the volume of the sales made (turnover), they have the interest to maximize the turnover and consequently have the interest to use price discounts, aspect which can negatively affect the obtained shares and the profit.

Theoretically it is very easy to overcome this divergence conditioning the variable part of the salary not by the volume of the sales but of the obtained share, but practically this system is less desired by the top management because it introduces an enormous risk, respectively the one of unveiling the shares theat the products have and, consequently an increased pressure upon the prices perceived as being too high.

4.3. The reactions of the competitors and the price strategies

By integrating the aspects connected with the reactions of the competition, the price strategies become more complex and require a more precise volume of information regarding the reactions of the competition to the price change or to a certain level of the practiced price.

These reactions differ according to the decrease or the increase of the price, they depend upon a series of objective economical factors connected with the economical situation (normal situation, economic growth, recession), the size of the company and its economical power, but also to a series of subjective factors connected with the psychology of the people who decide (the rivalries between the managers of the competing companies can lead to decisions taken contrary to the common sense, irrational decisions).

All the activity fields and all the markets can represent the scene of a "price war", but the studies made have emphasized the fact that the production under-capability and the simplicity of the product are, by far, the most frequent causes to unleash a "price war".

Besides these two main causes we can also highlight other causes with objective nature (with an economical justification) or subjective nature (purely psychological), and these are the following:

- **High price-elasticity: reducing the price, a competitor can hope to gain a competition advantage on the short term;**
- **Different production costs: the competitors that have lower production costs and subsequently a larger share per unit can be tempted to use this larger share to apply an aggressive price strategy;**
- **Very ambitious objectives: the companies which have a very high market share increase objective do not have real competition advantages and frequently use the "price weapon" in order to reach these objectives;**
- **Aggressive personality: (for example, the aggressiveness of the American airlines company managers has played an important role in the "price war" at the beginning of the 90's).**

The main task of the management is the one to understand the conditions in which a "price war" can start, but also to identify the means they can use to reach the desired objectives taking into account the competition. For this purpose it is necessary to correctly anticipate the effects of the different price strategies adopted and applied by the company upon the volume of the sales, market shares, costs and final results of the competitors.

The more powerful the reactions of the competitors to the price decisions the more it is necessary that the company uses precise information and trustful estimations of the reactions of the competitors. Taking into account the difficulty to estimate these reactions it is recommended to consult marketing specialists, the managers of the involved departments and experts within the company to remove the subjective nature aspects and on the other side to discover the multitude of possible scenarios.

In a general manner, **the information and transparency level when modifying the price influences the level of the reactions from the competitors**. If it is desired to avoid a powerful reaction of the competition, it must be possible to mask the price reduction, this thing can be made in a selective and differentiate manner according to the product, distribution network, etc. On contrary, if we want to send a price signal towards the competition, in order to encourage the competition to

follow, a price increase, for example, this aspect must make the object of a prior efficient communication.

In order to conceptualize and understand from the theoretical point of view the complex interaction between the competitors within the price establishing mechanism different game theory models can prove to be useful, the most usual one being “the prisoner dilemma”.

4.3.1. The prisoner dilemma

Certain game theory models allow us to understand why on certain markets the prices and the profits rise regularly, without being the case of a monopoly presence on the market while other markets are “price war” theaters heavily affecting all the competitors.

“The prisoner dilemma” explains a certain situation and refers to two inmates criminals which are separately interrogated which were informed of the following rules connected with their testimonies:

- **If one of the two prisoners confesses, even if the other one denies, he is freed and his accomplice will receive a hard sentence in prison;**
- **If both prisoners confess then both of them will receive a easy sentence in prison;**
- **If none of prisoners confesses, the two prisoners will have to pay a fine and they are released from prison.**

Although the best solution would be that both inmates do not admit their guilt, each one of the two is willing to admit, being tempted to minimize their punishment, as it results from figure 4.5.

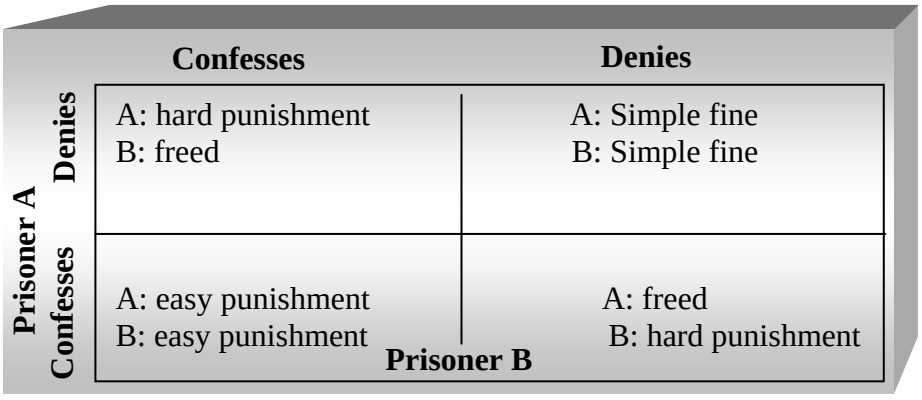


Figure no. 4.5 The prisoner dilemma

Effectively, the prisoner A judges in the following manner:

- **If the prisoner B confesses, I have the interest to confess;**
- **If the prisoner B denies, I also have the interest to confess.**

Consequently, the prisoner A confesses, and prisoner B following the same judgment will also confess, and both of them are convicted to

an easy punishment, even if both of them could be free paying a simple fine.

Applied to a competition market, "the prisoner dilemma" suggests the fact that two companies which are in competition with each other do not have the interest to engage in a price war, but have the interest to maintain the market price.

Let's assume that two companies A and B which are in competition with each other have the same price level and each company obtains a profit of 100 m.u. fig.4.6.

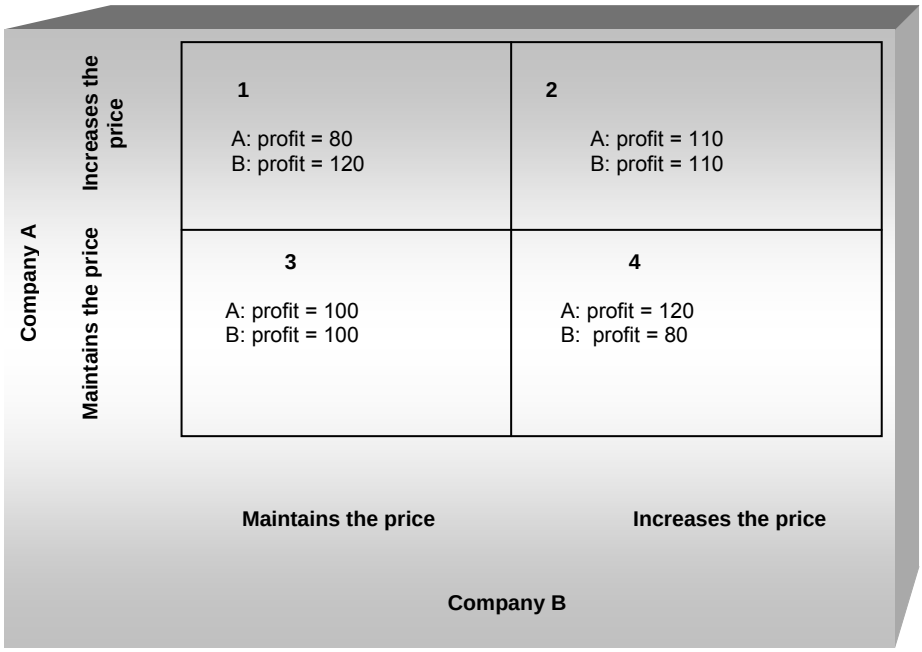


Figure no. 4.6 The prisoner dilemma applied for two companies in the case of price increase

If company A increases the price and company B maintains the price (case 1) we are in the following situation: the company A will lose customers in favor of company B, and its profit will be reduced for example at the level of 80 m.u. while the profit of company B will increase to 120 m.u. corresponding to the newly gained customers. If company B also increases the price (case 2) the two competitors will distribute the extra profit of 20 m.u. Taking into account that none of the companies is sure that the other one will not prefer to maintain the market price in the case of a price increase, the interest to maintain the market price will exist (case 3) and avoid the risk involved by a price increase (it is very

difficult to estimate if the case 2, which theoretically has an advantage for both parties, can be put into practice).

For a reversed strategy for price reduction, the options are presented in figure 4.7

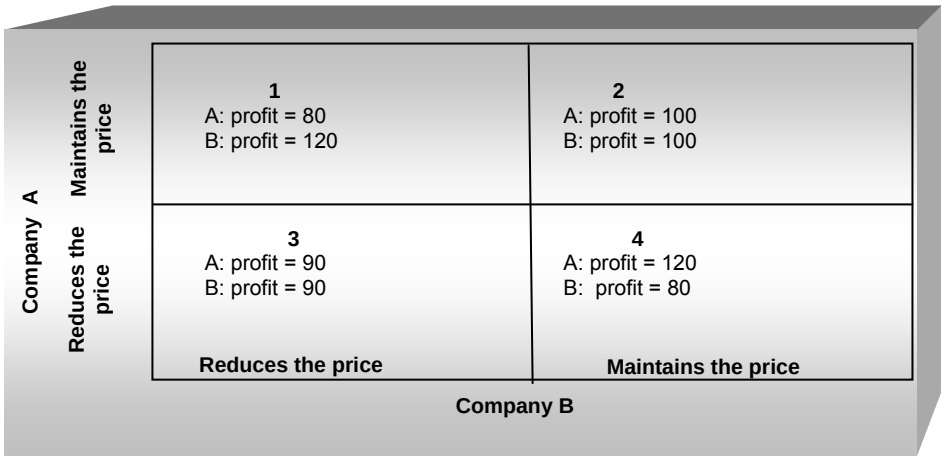


Figure no. 4.7 The prisoner dilemma applied for two companies in the case of price reduction

If the company A reduces the price and company B does not react (case 4), company B will lose customers, sale volume and is profit will be reduced in the favor of company A (a reversed situation can happen in case 1).

Logically, company B, will not accept the situation created by company A and will also reduce the price, positioning in case 3, the company B being in a less advantaged situation compared to case 2, but in a more favorable situation than case 4. The subsequent evolution depends upon the attitude of company A and its strategic orientation. If it will take into account only the reactions of the customers, without taking into account the reactions of competitor B, the company A will reduce again the price, coming back to case 4. The reaction of B will place again the two companies in case 3, the two companies engaging in a descendent price spiral very dangerous for both companies (it can be noticed that in case 3 none of the companies will benefit). **This thing applied to a powerful competition market, "the prisoner dilemma" suggests that two companies in competition with each other do not have the interest to reduce the price for increasing the market share, taking into account the risk of engaging in a price war out of which none of the companies will win.**

4.4. Price sizing methods

The essential problem in elaborating a price strategy is finding "reference price" level which could constitute a pertinent start point for the final price decision, respectively the price for which the product or the service will be filed in the price catalogue and finally sold on the market or the price of the finalizing the economical transaction.

We must make the specification that applying a price strategy is a sequential process, the problems which appear in the different phases of this process determine the existence of some differences between the reference price and the price paid by the customer (for example certain discounts can exist and they can be offered to the customers according to the volume of the sales, etc.).

Essential is the rigorous definition of the level of the reference price, which can constitute the starting point for the further analysis of the strategic step and finally, for putting into practice of a liable price strategy.

As it has been previously shown there is no exact method to establish a price that will ensure the durable success on the market in a competition environment, but for determining the level of the "reference price" many methods can be used, methods that take into account the factors which influence the level of the price and these are the following:

1. **The method to establish the price on the basis of the profit and total costs;**
2. **The method to establish the price on the basis of share and variable costs;**
3. **The method to establish the price taking into account the use of the production capacity;**
4. **The method to establish the price taking into account the insurance of recovering the invested money resources;**
5. **The method to establish the price on the basis of the prices of the competition;**
6. **The method to establish the price on the basis of maximizing the profit.**

4.4.1. The method to establish the price on the basis of the profit and total costs

This method represents the most widely spread approach and consists in determining the price starting from the total fabrication costs and sale costs and adding a profit share, the purpose of this method is to ensure the recovering of the expenses connected to the fabrication and the sale of the products.

The level of the profit is established according to the experience and the personal appreciation of the persons who decide, each activity

sector having certain practices and habits followed by the sum of actors. An American journal resumes this state of facts using the following statement: “the products must be sold 2 and a half times more expensive than the production costs” and, referring to the public food sectors, it concluded “in a restaurant the accomplished share represents three times the direct costs for food, four times the costs for beer and six times the costs for alcohol”.

Generally, this method for determining the price is widely spread in the distribution sector, here is all about a negotiation activity and not a transformation (production) activity, in practice **the success of this method can be explained by the following**:

- **Its principle is extremely simple and allows the calculation of the price according to some fixed parameters;**
- **It is based upon a structure of objective costs and gives the impression of a certainty and a better handling of an uncertainty of the market, than the calculation based upon the willing to pay of the customers;**
- **A price level on the basis of the costs is easily to be defended and justified to the general manager or the financial department within the company, as well as towards the business partners;**
- **Taking into account the competition impact of the price this method can allow silent understandings between different competitors (a price cartel), especially when this calculation method is widely spread within the sector and the costs are approximately at the same level;**
- **In the situations in which there are no competitors and consequently neither a market price (it is the case especially of the public market) this method is often used, being considered to be a fair and transparent method.**

But, from the theoretical point of view, the calculation of the price on the basis of the total costs cannot be acceptable. Let’s take into account the following example:

We assume that for the fabrication and the selling of a product the following costs were recorded:

- Unit variable costs 1.500 u.v.;
- Fixed costs 5.000.000 u.v./year;
- Production volume 10.000 pcs./year;
- Fixed costs/piece 500 u.v.;
- Unit total cost 2.000 u.v.;
- Profit (15%) 300 u.v.;
- Sale price 2.300 u.v..

If this price level of 2.300 u.v./piece is below the price of the competition, the volume of the sales will increase, in the detriment of the competitors. Assuming that the sales will grow with 20%, establishing the price in the same manner, it will result the following:

- Unit variable costs 1.500 u.v.;

- Fixed costs/piece 417 u.v.;
- Unit total cost 1.917 u.v.;
- Profit (15%) 288 u.v.;
- Sale price 2.205 u.v.

It results a price reduction, although there is an increase in the demand!

Backwards, the reactions of the competitors that will appear for sure and generally the intensification of the competition can determine in the following time interval a reduction of the sale volume, assumed to be around 15%.

In this situation we will have:

- Unit variable costs 1.500 u.v.;
- Fixed costs/piece 588 u.v.;
- Unit total cost 2.088 u.v.;
- Profit (15%) 313 u.v.;
- Sale price 2.401 u.v.

The idea of increasing the price in order to compensate for the decrease in the sale volume has no logic, the recorded situation requiring an inverse measure.

No matter how exact is the presented arithmetical calculation it cannot be considered rational from the theoretical point of view, because it ignores the influence of the request and of the competition upon the price and consequently the conclusions drawn from this arithmetical calculations being exactly reversed.

4.4.2. The method to establish the price on the basis of share and variable costs

If the method previously presented was based upon the dimensioning of the price taking into account only the endogen factor which influences the level of the price, respectively the production costs, the method of establishing the price on the basis share and variable costs proposes a dimensioning of the price which takes into account other factors, respectively the customers, their willingness to pay. **This method has as an objective the full recovery of the variable costs for the fabrication and the sale of the product and obtaining a share (destined to cover the fixed costs and to obtain a profit).**

The dominant concept of the method is that the profit can be obtained out of the whole production and sale activity for a certain time interval and not out of each product unit fabricated and sold.

Taking into account this aspect, removing the product from the manufacturing process, the reduction or the increase of the production of a product (order) must be the result of a thorough economical analysis (even a product (order)) with a reduced share, but unprofitably takes up a part of the fixed costs, and its removal from the manufacturing process would affect the profitability of other products (orders) even making them unprofitable, as well as the overall profitability of the company.

Essential within this method is the correct estimation of the share that the company can obtain, in the conditions of a competitive price level, starting from the willingness to pay of the customers. The size of this share will differ according to the geographical area of the market, market segments, used distribution network, distribution method, etc. Also, even within the same market segment the share can differ from one customer to another, taking into account a series of elements (for example, the quantity requested by a customer can influence the share obtained by the seller, respectively an increased share for small quantities and vice-versa).

Taking into account the relative shares that can be obtained, the sale price (P_v) can be calculated on the basis of the formula:

$$\mathbf{P_v} = \frac{C_v}{1-\frac{M_r}{100}} \textbf{ , in which:}$$

- C_v = variable costs;
- M_r = relative share.

The knowledge of the relative shares that can be obtained on different market segments, customers, etc. (the relative share is the percentage ration between the absolute share and price) offers the company also the possibility to make a hierarchy and even a selection of the orders in order to maximize the profit.

Also, if the data the shares that can be obtained are known and also the reaction of the market to the modification of the price, the managers can rationally modify the price in order to ensure a more favorable situation regarding the profit obtained.

Let's take the following example:

We assume that for a product with a price of 5000 u.v./piece, the sale volume is of 10.000 pieces, and the estimated price elasticity is –2. If the management of the company trusts that this elasticity they can try a price modification strategy, having the following implications (table 1):

Table no. 1

Situation	Unit sale price (u.v./pcs.)	Unit variable expenses (u.v.)	Unit share (u.v.)	Sale volume (pcs.)	Turnover (mil. u.v.)	Total share (mil. u.v.)
Competition	5000	1500	1500	10000	50	15
S_1 – 10% price increase	5500	3500	2000	8000	44	16
S_2 – 10% price decrease	4500	3500	1000	12000	54	12

Considering a level of the fixed costs of 10 million u.v. it will result a profit of 5 million u.v., 6 million u.v. and 2 million u.v. respectively.

It is normal that out of the two strategies the first one is preferable, the profit being superior to the profit of the other situations, but also in the case in which the profit was equal in the situations S_1 and S_2 still the first strategy would be preferable because it implies smaller amounts of money to fabricate and sale the products.

For the management of the business company it is important to see and to value the moment in which the company can practice superior prices compared to the actual price. This aspect offers a larger elasticity for the activity of the company and usually involves smaller risks for a reaction in the same way from the competition.

4.4.3. The method to establish the price taking into account the use of the production capacity

Taking into account the fact that the price strategy is based upon the general strategy of the company, applying a price strategy must allow the reaching of different objectives mentioned in the general strategy. One of these objectives can be the rational usage of the production capabilities, and using the applied price strategy a certain sizing of the sale volume is aimed so that the company obtains the most convenient share per machine-hour.

The reasoning of this strategy starts from the fact that usually within the manufacturing industry, the fabrication processes become more and more sophisticated, being characterized by an increased level of automation, in reality the company sells not the product but the work time of these highly sophisticated and expensive production equipments and the value of which must be recovered by the sale of the products.

Within a company the range of the fabricated products, respectively the orders, require in a different manner the production capability, the necessary of machine-hours (as an indicator of the production capability

usage) for the specific order and implicitly to accomplish the share of that specific order can represent an essential element in the contracting and selecting decisions of the order and in the substantiating of the price decision.

Example: Let's assume that for the planned time interval the company received three request offers systematically presented in table 2.

Table no. 2

No.	Indicator	M.U.	Order A	Order B	Order C
1.	The price of the order	u.v.	200.000	200.000	300.000
2.	Total variable expenses	u.v.	120.00	120.000	150.000
3.	Total share	u.v.	80.000	80.000	150.000
4.	Relative share	%	40	40	50
5.	Necessary machine-hours	ore	200	160	400
6.	Share per machine-hour	u.v.	400	500	375

By analyzing the three orders, it can be noticed that the first two orders, although they are equal as share ration that can be obtained (both absolutely and relatively), they do not have the same temptation, taking into account the different request of the production capability of the company, the necessary machine-hour of order A is larger and consequently the smaller share per machine-hour making it less tempting.

Comparing order C with the other orders, if we take into account only the obtained share, it is better, both the absolute share and the relative share, being superior to the other orders, but the larger requirement of the production capacity of order C (the necessary machine-hour of order C is twice as large than the one of the order A and two and a half times larger than the one of the order B) making this order to be the least tempting order of all.

In the situations in which the level of the orders received by the company exceeds the available production capacity, the company could make a selection of the orders and will negotiate a certain price level that will allow the best use of the production capacity, respectively the possibility to obtain the best machine-hour shares.

The calculation of the price for the order (P_c) will be made according to the formula:

$P_c = N_h \times M_{af} + C_{vt}$, in which

- N_h = the necessary machine-hour;

- M_{af} = the most favorable machine-hour share (desired by the company);
- C_{vt} = total variable costs.

Coming back to the given example, the prices for the orders A and C will be:

P_c (A) = 200 x 500 + 120.000 = 220.000 u.v.

P_c (C) = 400 x 500 + 150.000 = 350.000 u.v.

4.4.4. The method to establish the price taking into account the insurance of recovering the invested money resources

As it has been shown the elaboration of a price strategy must take into account the objectives of the company, usually the fundamental objective of any economy company being the maximization of the profit. As we know the profit is an element out of which depends the recovering of the investment which makes possible the fabrication of the product/service offered on the market. **Any entrepreneur in the moment when he negotiates the price of the provided product/service inevitably thinks about recovering the capital invested in the business that made possible the fabrication of the product/service, the price being not only the expression of a certain value incorporated in the product/service, but also the will recover.**

In the situations in which a company launches on the market a new product/ service or when there is no strong competition on the market, which imposes a market price, it is justified to determine a price level that must take into account mainly to ensure a desired recovery rate of the invested capital.

This reasoning is even more justified if we take into account the risk that an investor assumes when he opens up a business. If the investment is made mainly in machines, equipments and constructions (generally in fixed assets) than the assumed risk is much larger compared with the situation in which the money investments are made in raw materials (generally working capital). The rotation of the funds immobilized in raw materials is larger and can be stopped even after the first cycle; also their volume can be easily adjusted according to the different variations of the sales. The production equipments generally cost much more, cannot be easily adjusted for the different variations of the sales and cannot be easily given back to the economic circuit if the entrepreneur does not want to use them anymore (very often holding such specialized fixed assets make up a real barrier to exit the specific market).

This different type of risk which an entrepreneur assumes is the reason for which he justifies a larger gain per value unit invested in production capacities than the one invested in raw materials.

The sharing of the investment between the production capacities, and respectively in raw materials reflects in the structure of the production costs for obtained products/services.

Let's take the following example, an easy one:

The company BETA S.A. has invested in a new business a capital of 8.000.000 u.v. which it desires to recover in 4 years. Consequently the profit plan of the company will be:

- Invested capital: 8.000.000 u.v.;
- Desired recovery rate (4 years) 25%;
- Planned annual profit 2.000.000 u.v.;
- Fixed costs 1.500.000 u.v.;
- Total share 3.500.000 u.v.

After making the new investment we obtain two products that have the following cost structure:

Cost structure	Product A	Product B
Raw materials	400 u.v.	200 u.v.
Processing cost	140 u.v.	340 u.v.
Unit variable costs	540 u.v.	540 u.v.
Share (relative 40%)	360 u.v.	360 u.v.
Unit price	900 u.v.	900 u.v.

The resulting price of 900 u.v. is the same for both products but does not reflect the extra risk that the company assumed investing in product B, which comparatively to the product A (the processing cost of the product B is 2.4 times larger).

In order to "include" in the proposed price this risk and the willing to recover the invested capital it is necessary to determine two normative, the raw materials cost normative and the processing cost normative.

In order to determine these normative we start from the profit plan of the company, a result of the unfolded activity:

- Turnover: 8.750.000 u.v.;
- Raw materials costs: 2.900.000 u.v.;
- Processing costs: 2.350.000 u.v.;
- Total variable costs: 5.250.000 u.v.;
- Total share: 3.500.000 u.v.;
- Fixed costs: 1.500.000 u.v.;
- Annual profit: 2.000.000 u.v.

The normative for the annual costs with raw materials (N_{mp}) can be calculated according to the formula:

$$\mathbf{N_{mp} = 1 + \frac{R_r}{N_r \cdot 100}} \quad \textbf{, in which:}$$

R_r = desired percentage rate for recovering the invested capital;

N_r = the number of rotations of the capital invested in raw materials (calculated on the basis of the duration of the production and sale cycle)

Considering that N_r = 6 (the duration of the production and sale cycle being of 2 months) it results that:

$$\mathbf{N_{mp} = 1 +} \frac{25}{6 \cdot 100} = 1{,}06$$

The part of the turnover destined to recover the annual raw material expenses (C_{ma}) will be:

C_{ma} = 2.900.000 x 1,06 = 3.074.000 u.v.

The normative for the processing costs (N_p) are determined according to the formula:

$$\mathbf{N_p =} \frac{CA - C_{ma}}{C_p} \quad \textbf{, in which}$$

- CA = turnover;
- C_p = processing costs.

It results:

$$N_p = \frac{8.750.000 - 3.074.000}{2.350.000} = 2{,}415$$

The part from the turnover destined to recover the annual processing costs (C_{pa}) will be:

C_{pa} = 2.350.000 x 2,415 = 5.676.000 u.v.

Observation:

CA = C_{ma} + C_{pa}

8.750.000 = 3.074.000 + 5.676.000

Taking into account the different type of risk assumed by the entrepreneur and the desire to recover the invested capital in a certain time interval, the price of the two products will be: (table 3)

Table no. 3

	Cost (u.v.)	Normative	Price (u.v.)
Product A	400	1,06	424
- Raw materials cost	140	2,415	338
- Processing cost			762
- Unit price	200	1,06	212
Product B	340	2,415	821
- Raw materials cost			1033
- Processing cost			
- Unit price			

It results that at a desired recovery rate of the invested capital of 25%, although the unit variable costs are the same, the price of the products will not be the same enymore, respectively 900 u.v./piece, but

much larger in the case of the product B, compared to product A, due to the high risk assumed by investing in product B.

4.4.5. The method to establish the price on the basis of the prices of the competition

This method is commonly used and consists from establishing the price starting from the price of the competition, this one being adjusted according to personal appreciations, the company that takes the decision having the possibility to place the price above, below or at the same level as the competition.

There are very frequent the situations in which one of the companies, having the position of market leader, establishes a “guide price”, which constitutes a reference level for all the companies within this sector. For example, the marketing manager of an Asian automotive company declares: “on the west European market we set the price between 5 and 10 % below the price of Volkswagen, according to the model”, while the manager of a French company that makes luxury products describes his price strategy in this manner: “we represent a luxury brand and we have a small market share. We will always want to be at least two times more expensive than the market leader”.

The prices of the competition are the fundamental parameters that must be taken into consideration when elaborating the price strategy, but the company does not effectively have any possibility to know if its price differences, determined on the basis of the experience and the subjective appreciation of the manager correspond to the difference of value perceived by the customers. Only after exactly determining the relative values of the respective products a correct reasoning is possible regarding the price differences that must be applied within the price strategy.

More than this, although different competing products on the market are very similar, the fabrication and the sale costs can be totally different from one company to another. Consequently, a price variation practiced by company A, in order to reach a level of “optimum price” (which would allow the company to maximize its profit) will have no justification for another company (its effect could be totally different) whose cost structure is different from the structure of company A (the effects of the price modification are influenced by the structure of the costs).

The lining up of the price to the price of the competition can present certain advantages, respectively the avoiding of some reactions of the competition and a stability of the prices on the market, but “the blind trust” in the market leaders competitors and positioning a comparable strategy represents very often a naivety and can be proved to be totally unproductive for the company.

4.4.6. The method to establish the price on the basis of maximizing the profit

If the previously presented methods to establish the price have taken into account different factors which determine a certain price level taken separately or in combination, in the following paragraphs we would like to present a new approach that simultaneously takes into account the three factors that determine the level of the price, respectively the production costs, the demands of the customers and the prices of the competition. This approach, generally less mastered mainly consists in examining in detail of the demand curve in connection with the price.

In order to understand this approach we will start from the example of the home appliance presented in the first paragraph. On the basis of the estimations of the experts it was established the demand curve in comparison with the price, presented in figure 4.8.

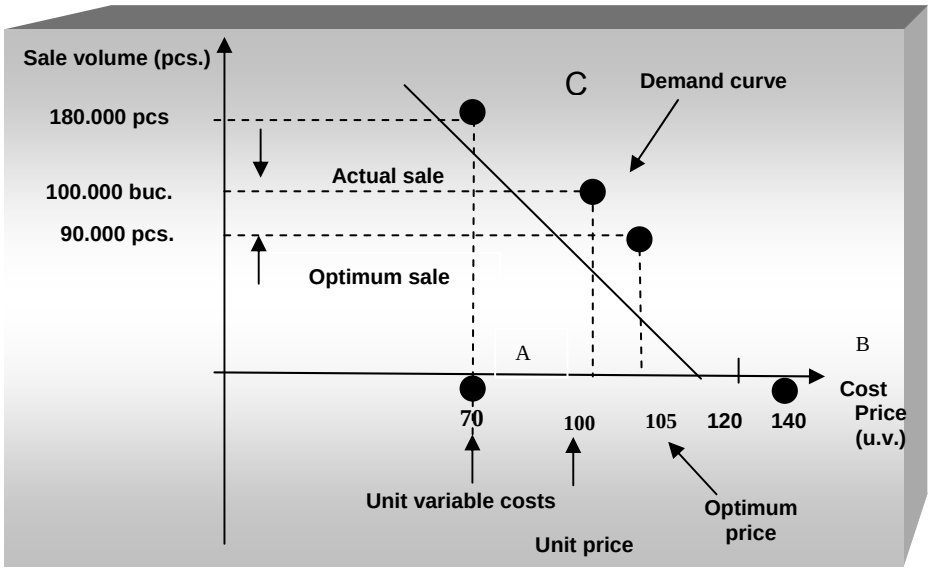


Figure no. 4.8 Determining the optimum price

At a level of the variable costs of 70 u.v. the possible price interval is between 70 u.v. and 140 u.v., the volume of the sales varying between 180.000 pieces (when the unit share tends towards zero) and zero (when the sale price tends towards 140 u.v./piece). The problem that appears is the one to find an optimum compromise between the volume of the sales and the share. For a certain volume of the sales, according to the demand curve, the total share (which is equal to the price difference between the price and the unit variable costs multiplied with the volume of the sales) can be practically represented by a rectangle inscribed in the ABC triangle (figure 10). Maximizing the share is about finding the rectangle with the maximum surface that can be inscribed in the right

triangle ABC. A simple mathematical calculation shows that the maximum surface can be obtained for a price of 105 u.v./piece, the volume of the sales is of 90.000 pieces/year and the following situation can be noticed:

- Sale volume: 90.000 pieces/year;
- Sale price: 105 u.v./piece;
- Unit variable costs: 70 u.v./piece;
- Turnover: 9.450.000 u.v.;
- Total variable costs: 6.300.000 u.v.;
- Total share: 3.150.000 u.v.;
    - Fixed costs: 2.000.000 u.v.;
    - Profit: 1.150.000 u.v.;
- Profit rate: 12,7%

It results that an optimum price level allows a profit growth of 15% although it is registered a reduction in the sale volume of 10%.

The presented method emphasizes the following important aspects:

1. **There is always a price level which maximizes the profit of the company;**
2. **The effects of modifying the price in the opposite manner to the one that can be noticed from its positioning towards the optimum price can be catastrophic for the company.**

In this way if the actual price is already below the optimum price, a strategy to reduce the price will lead to a worsening of the situation of the company.

Using the example given above, a price reduction strategy of the home appliance with 10%, respectively to 90 u.v./piece, although it will lead to an increase in the volume of the sales to 130.000 pieces, would determine a decrease the profit with 400.000 u.v. (the profit obtained by the company will be of 600.000 u.v.). This is the situation that happened in the case of the American airlines transportation at the beginning of the 90's, when numerous price wars have determined the considerable reduction of the price, despite the fact that these prices were already below the optimum price, the American airline companies registering considerable losses.

Also a reversed strategy, respectively to increase the price, in the conditions in which the price is already above the optimum price will lead to the same result. It is the case of the western car manufacturing that in the 80's have increased the prices despite the fact that these prices were already high compared to the value perceived by the customers.

3. **A too high price is as bad as a reduced price** (using the given example a price of 120 u.v./piece is even worse than a price of 90 u.v./piece, the volume of the sales being of 50.000 pieces and the profit would be smaller with a difference of 100.000 u.v. ;

In the presented method the fixed expenses were not taken into account. This are subtracted from the total share and the difference

represents the obtained profit, and cannot be graphically represented with a line parallel with the abscise and with the ordered equal to the level of the fixed costs without influencing the optimum price. Also, it is presumed that the variations in the volume of the sales are reasonable and do not require an increase in the production capability and consequently does not mean an increase of the fixed expenses.

4.5. Price strategies on the basis of the experience phenomenon

4.5.1. The experience curve notion and its strategic implications

The experience phenomenon is a very general phenomenon, it can be applied in the same way to individuals, to the production links, to the company in its whole and is based on the following observation: when a new product enters the manufacturing stage, a phenomenon of apprenticeship or familiarization is manifested. As the practical experience grows the manufacturing time is reduced and the production costs diminish. The experience percentage corresponds to the percentage of cost reduction in the manufacturing process in the situation of a cumulated double production.

Numerous studies made by the specialists from the B.C.G. have emphasized that this “apprenticeship” (experience) percentage is generally between 15 and 40%, the most frequent values being between 20 to 25%.

Graphically, the determination of the experience percentage can be obtained by drawing the “experience curve” on the abscise it is taken into account (in logarithmic coordinates) the cumulated production of the considered segment, in the longest possible time interval and on the ordinate (in linear coordinates) it is taken into account the production cost in constant method (taking into account the monetary inflation).

Very often, the curve that results is a straight line and the slope of it will indicate the percentage of the cost reduction (or the learning process) according to the cumulated production as seen in figure 4.9.

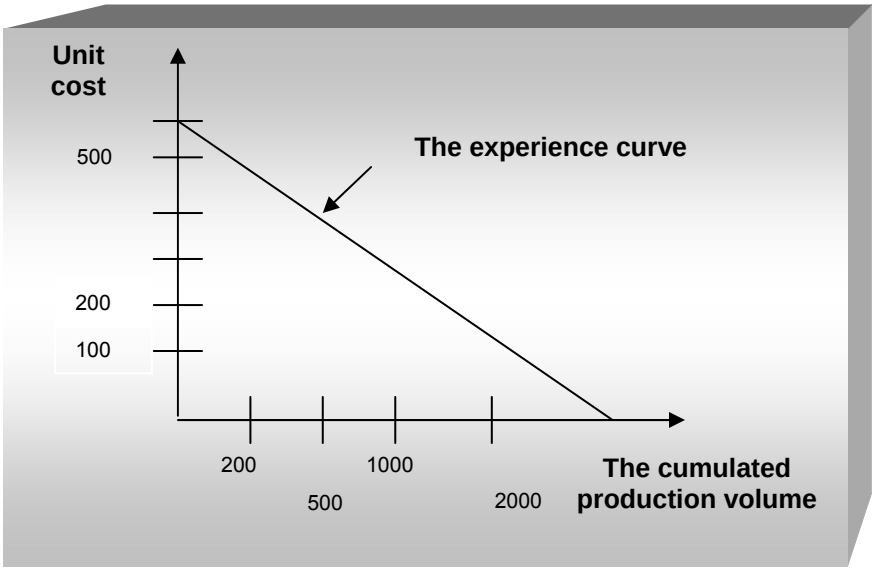


Figure no. 4.9 The experience curve

We mention that this decrease of the production cost per unit is not done only as an effect of the learning process which sits at the basis of the experience curve but it is also due to the cumulated action of factors like: technical capability, production and work specialization, the effect of the scale phenomenon (reducing the fixed costs per product unit), etc. All these factors, by their cumulated action ensure the manifesting of the experience phenomenon.

The analysis of the experience curve allows the drawing up of some important strategic implications; one with a great importance is that a company in competition with other companies on a defined strategic activity field has a better advantage if it is well placed on the experience curve.

For example in figure 4.10 it is presented the experience curve for the manufacturing of the electrical shavers.

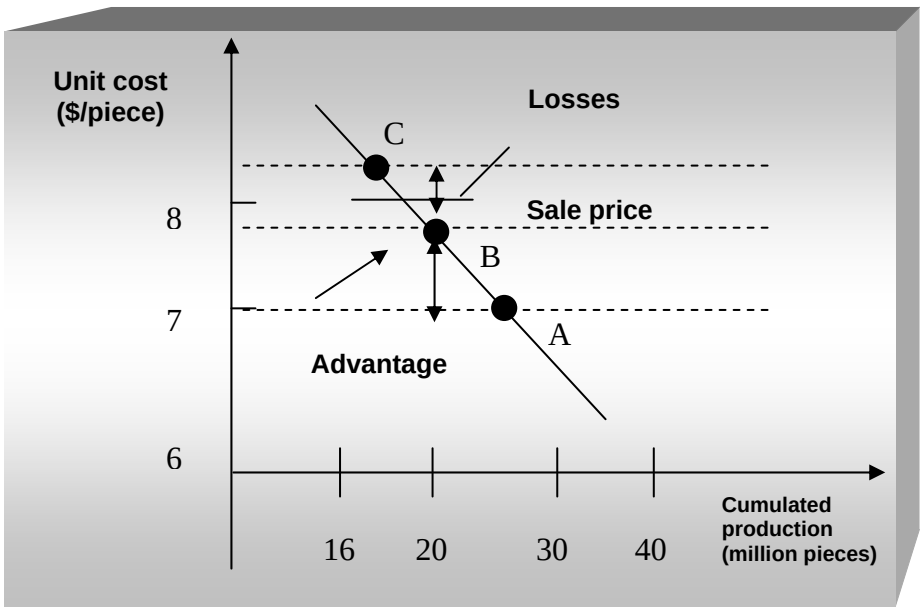


Figure no. 4.10 The experience and the competition position (Source Boston Consulting Group)

It can be noticed that company “A” being better placed on the experience curve obtains a substantial strategic advantage in the conditions of a more reduced production cost than the companies “B” and “C”, which having smaller production volumes cannot benefit in the same manner by the effect of the experience phenomenon having higher production costs. Actually, taking into account the sale price on the market, it can be noticed that the company “C” has losses, and its situation to remain in the sector is uncertain, the company “B” has a medium position it can try to improve its situation by increasing the production volume, gaining in this way experience.

It results that a company will be always interested (especially in the case of new products) to buy the most important market share, fact that it would allow the accumulation of experience and confers a cost advantage upon its competitors. In order for the company to reach this objective it will have to initially practice a sale price that must anticipate the decrease of the production price, a certain time interval will register loses but it will obtain a faster penetration of the market, a more powerful experience accumulation, removing the potential competitors that want to enter the market. Subsequently, after acquiring a powerful experience, it will be difficult to be caught up and it will enough to conserve the obtained advantage practicing a price reduction policy that will correspond to the reduction of the production price according to the chart from figure 4.11.

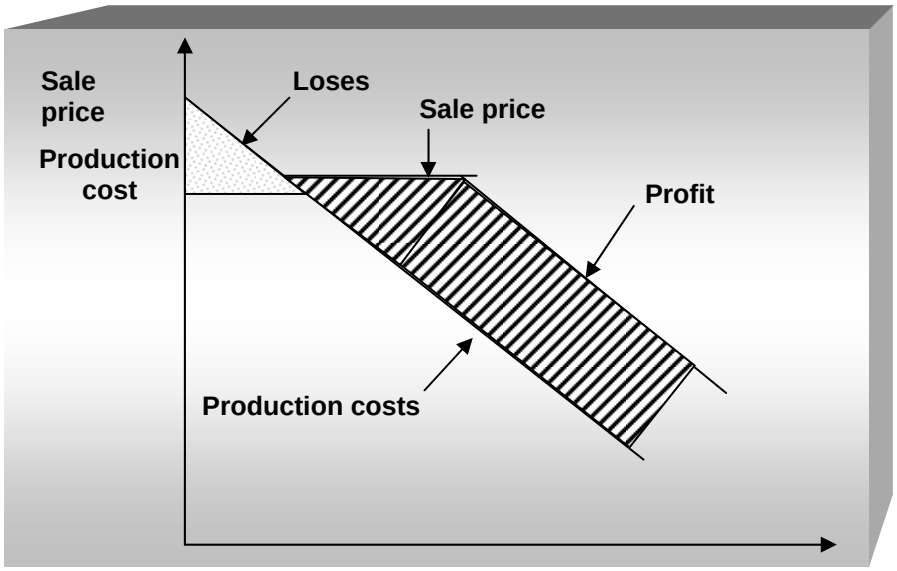


Figure no. 4.11 The evolution of the sale and production price for a company that adopts the strategy based upon the experience curve.

4.5.2. The experience phenomenon and the price strategies

Taking into account the experience phenomenon there can be formulated five types of strategies starting from the competition position of the company and the intensity of the competition in the specific activity field:

1. **The dumping strategy;**
2. **The domination strategy;**
3. **The umbrella strategy;**
4. **The catch-up strategy;**
5. **The abandon strategy.**

1. The dumping strategy

In order to impose a new product on the market and for a rapid growth of the sale volume, benefiting in this manner from the experience phenomenon the company can accept in a first phase to register some loses.

A low enough launching price competitive from all points of view with the existing products will determine a very rapid increase of the sales and accumulating an important experience in a very short time.

In figure 4.12 this price strategy is presented.

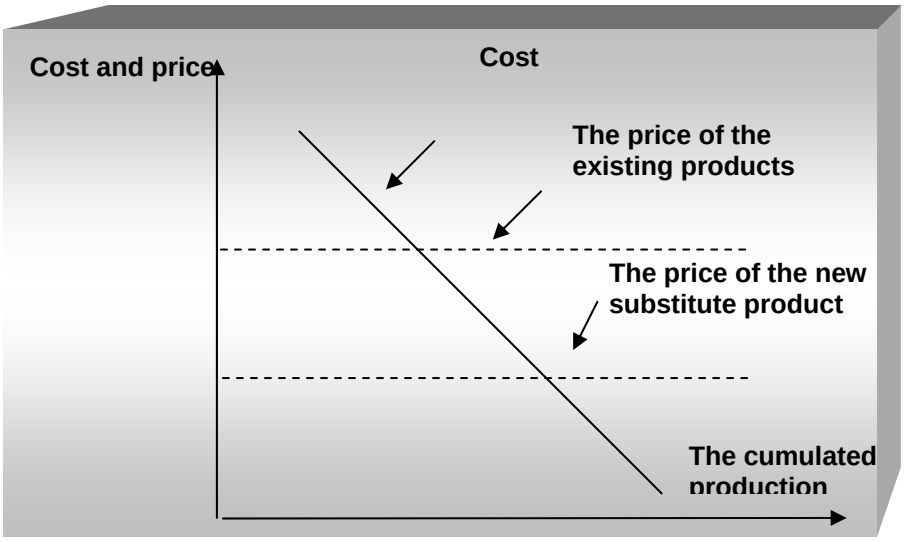


Figure no. 4.12 The dumping strategy

2. The domination strategy

This strategy that can be followed only by a dominant company in the sector consists in reducing the sale price in the same time with the cost reduction. The company that follows such a strategy will take the offensive position within the sector and will impose the market price at the level of all competitors. By adopting such a strategy the entry in the sector of new companies is very difficult and in the same time it allows the elimination of the weakest competitors. Such a strategy was adopted along many years by Texas Instruments in the field of electronic components and it is still practiced by companies like Sony and Matsushita in the field of electronic products.

In figure 4.13. it is presented the domination strategy.

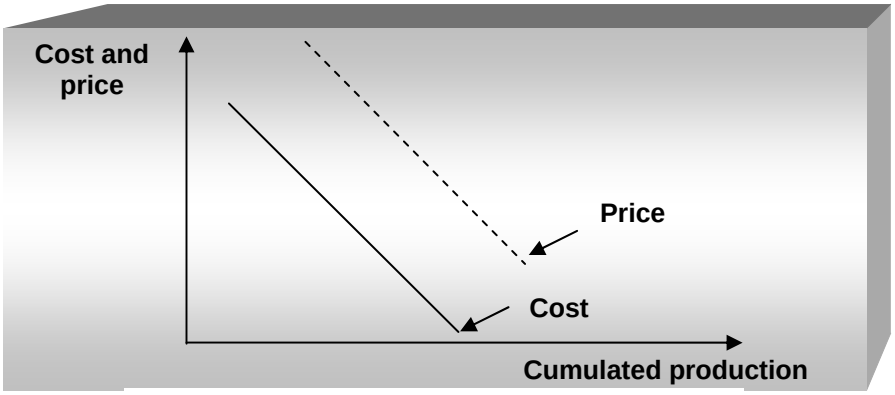


Figure no. 4.13 The domination strategy.

3. The umbrella strategy

In comparison with the previous strategy, **this price strategy implies maintaining the initial price for a certain time interval which will allow the company to obtain higher profits, than the reduction of the price, making up what the specialty literature calls "price umbrella"**, according to figure 4.14.

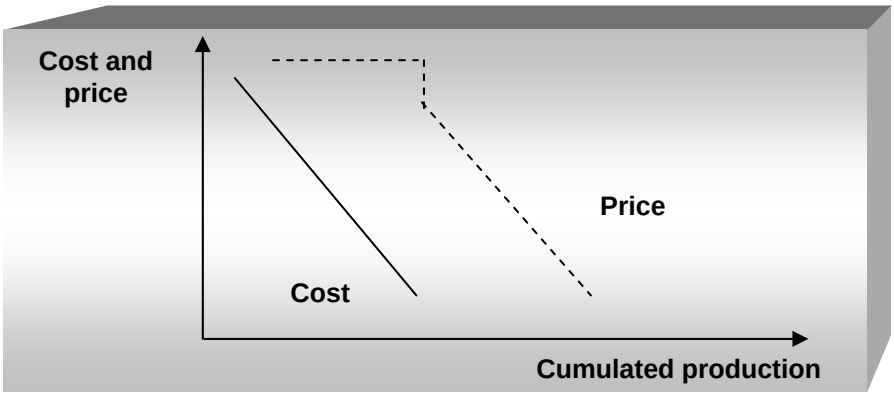


Figure no. 4.14 The "price umbrella" strategy

This price strategy allows the company a quick profitability, a quick recovery of the initial investments but this cannot be applied in the cases of powerful competition strategic market segments in which there is a "price war" going on. The arrival of new competitors drawn by the increased profitability of the sector or the offensive of other companies in order to increase their market share will determine a future adjustment of the prices to the production costs, as it can be seen in figure 4.14.

4. The catch-up strategy

A certain strategy allows a company in an unfavorable position within the competition to increase its market share and to catch up the market leader. In order to gain a market share the company will have to practice for a certain time frame an inferior price level compared to the competition and often inferior to the production costs, as it results from figure 4.15.

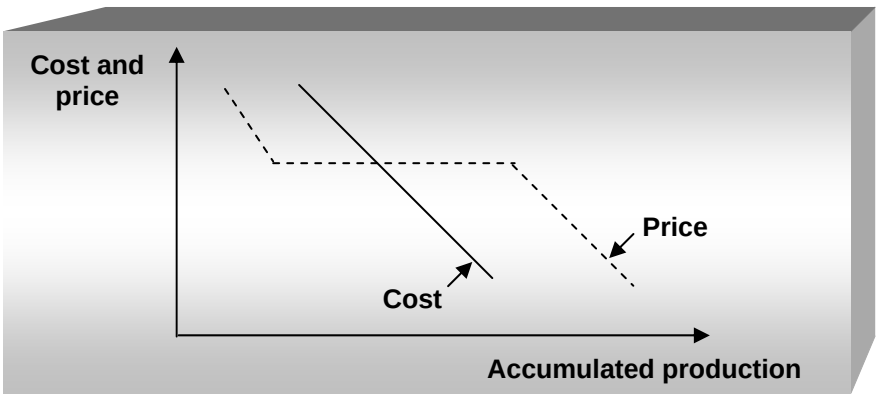


Figure no. 4.15 The catch-up strategy

The company Renault-Véhicules Industries, at the beginning of the 1980's in the willing of increasing the market share adopted this strategy (a strategy that can be translated into serious losses for the company) managing to improve its penetration on the European markets.

5. The abandon strategy

This strategy is embraced by the companies that notice the fact that they cannot hold a favorable position in the competition so they decide to progressively withdraw from the market, with the condition to obtain maximum possible profits according to figure 4.16.

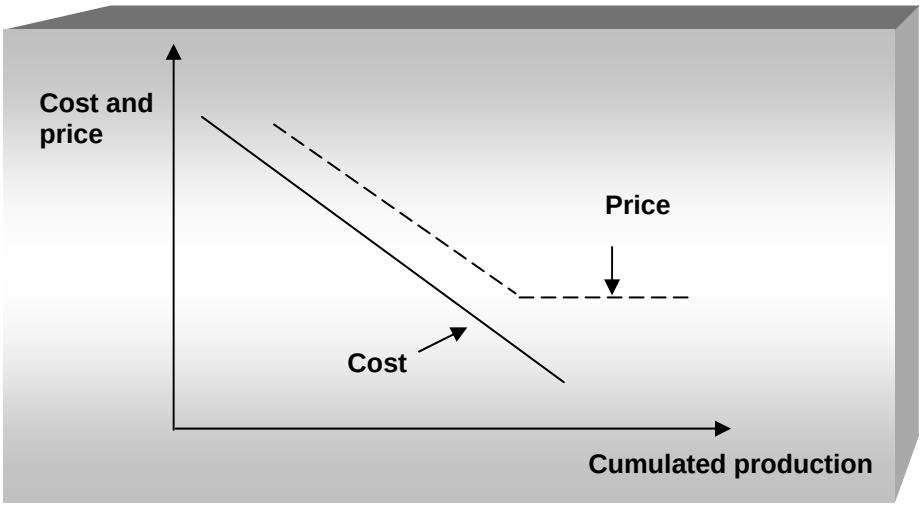


Figure no. 4.16 The abandon strategy

These strategies depend upon the position of each company (dominant or dominated) and the life cycle of the activity field. A classical evolution of the price strategies according to the life cycle of the activity (product) is represented in figure 4.17.

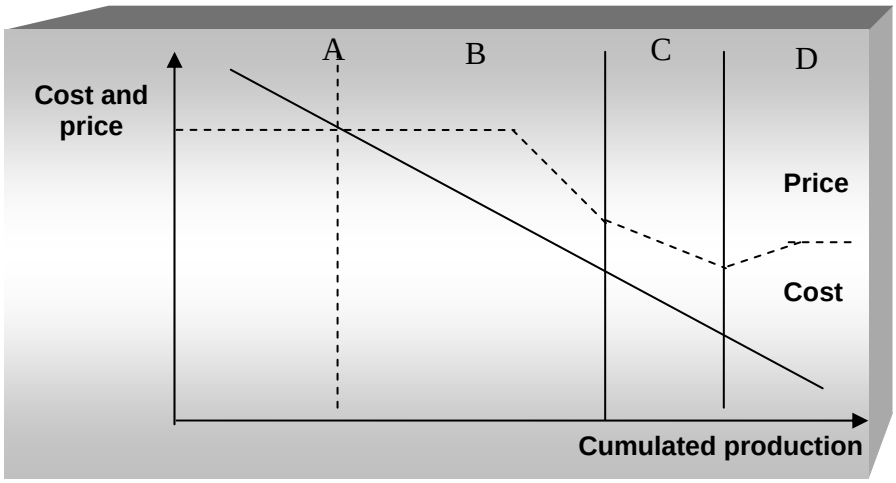


Figure no. 4.17 Determining the price and the life cycle stages

In the start phase (A), the company must enforce its product in comparison to the other products existing on the market using a low price policy registering loses. In the growth phase (B) the company will maintain constant the sale price, in the conditions of cost reductions, obtaining profits that would compensate the losses from the previous phase. The entry on the market of new competitors or the willing of the company to maintain its supremacy will determine a significant reduction of the price. In the maturity phase (C) we can notice a stability of the competition, the evolution of the price follows the trend of the evolution of the production cost and in the decline phase (D), using an abandon strategy to seek to obtain a maximum possible level of profit.

4.6. The segmenting of the market and the price strategy

The previously presented steps had the goal to determine a unique optimum price taking into account the different internal aspects of the company, the reactions of the customers and competitors without integrating in the price strategy elaboration the differences between the customers.

The reality is very complex; the customers are very heterogeneous regarding their needs, buying behaviors, perception reading the product, the willing to pay, etc. Taking into account this aspect on the market the products are varied in order to satisfy any type of need, distributed using

different distribution networks, we come against customers with hybrid buying behaviors, willing to pay very high prices for some products while other products are bought at the lowest possible price.

This reality encountered on the market can represent an important opportunity for a company with differentiated products and services with differentiated prices in order to maximize the final outcome, although the basic need for which the product responds is the same. In this manner a train ticket on the Bucharest-Sinaia route costs between 60.000 and 250.000 lei, according to the type of train (personal, accelerated, rapid, intercity) and class, but the basic service (the travel from Bucharest to Sinaia) remains the same, but the quickness, the comfort and the services offered are not identical, all these elements justifying the differences in the perceived value and price.

In table 4 there are presented in a general manner the price differences in certain activity fields.

Table 4

Activity field	Price variation	Differentiating elements
Railroads transports	300%	Category of transport, class
Airline transports	100%	Class, prices, restrictions
Hotels, tourism	500%	Category, season, location
Consumer products	50-500%	Distribution network, quantity
Industrial products	300-500%	Quantity, conditions
Phone companies	500%	Operator, timetable, subscription type

We mention that there are a lot of situations in which this powerful differentiation of the price is not connected to the sold product or service. In this way the price for a can of Pepsi, for example, varies from simple to the type of product and even more according to the distribution network, although the product is the same from 18.000 lei in a supermarket to 60.000 lei, in the airport. With all this significant variation the products are sold because the prices are in accordance with the willing to pay of the customers.

Referring to the same can of Pepsi, in the airport, a person before embarking does not have the time and the possibility to compare the price and consequently is willing to pay a higher price, in exchange, that person when he will make the usual shopping, he will buy the same product from the location where it finds the smallest price.

A fine and methodic segmentation of the market represents the fundamental basis for elaborating a pertinent price strategy. In the last couple of years there has been a great progress in this field, especially by extending the marketing manner “one-to-one”, the final goal

being the one to propose an offer and a price adapted to the needs of each individual customer (personalized offers and prices). The internet and auction sales will strongly support in the future this tendency.

4.6.1. The impact of differentiating the price upon the potential outcome

The outcome that can be obtained by differentiating the price is very simple to visualize. In figure 4.18 it is generally presented the demand-price curve.

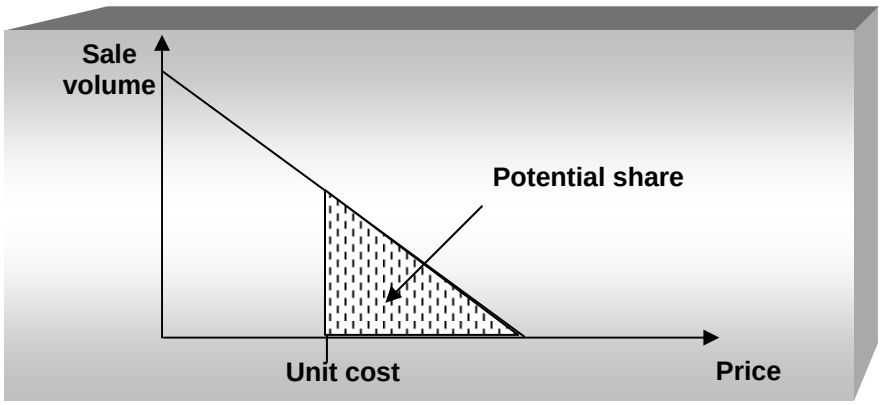


Figure no. 4.18 The demand-price curve

The problem that rises is the one to determine what parts from the potential share can be obtained with unique or differentiated price strategies.

As it has been shown in chapter 4.4 a unique optimum price level can be determined which will maximize the profit of a company, but that unique price, although optimized does not allow obtaining the best outcome, as it also results from figure 4.19.

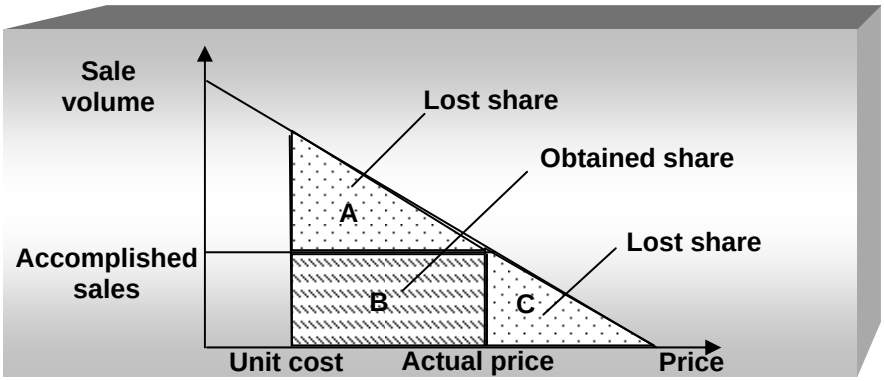


Figure no.4.19 Unique price strategy

The surfaces of the triangles A and C represent the lost shares, the triangle A is the consequence of the fact that certain customers are willing to pay a higher price than the unique price, and the triangle C represents the contrary, respectively the share lost taking into account that for certain customers the practiced price is superior to the perceived value and consequently they will not buy the product.

A differentiated price strategy will allow the gaining of some parts of the shares lost in the case of the unique price. In reality it is very difficult to exploit the whole potential share, this fact would require that the prices must be totally personalized, aspect that requires a perfect knowledge of the willing to pay of each customer.

In order to emphasize the effects of a differentiated price strategy upon the profit of the company we will consider the following example:

The potential market of a transportation company which has routes between two cities is of 400 travelers/day and the willing to pay of these persons is between 1 and 400 m.u. Taking into account the fact that in the road transportation the level of the variable costs is insignificant, we will neglect these costs (by stating that this fact does not influence the reasoning of the price differentiation impact upon the potential outcome) and as a consequence it results an optimum price of 200 m.u. and the number of travelers will be 200, obtaining a total share of 40.000 m.u. (figure 4.20).

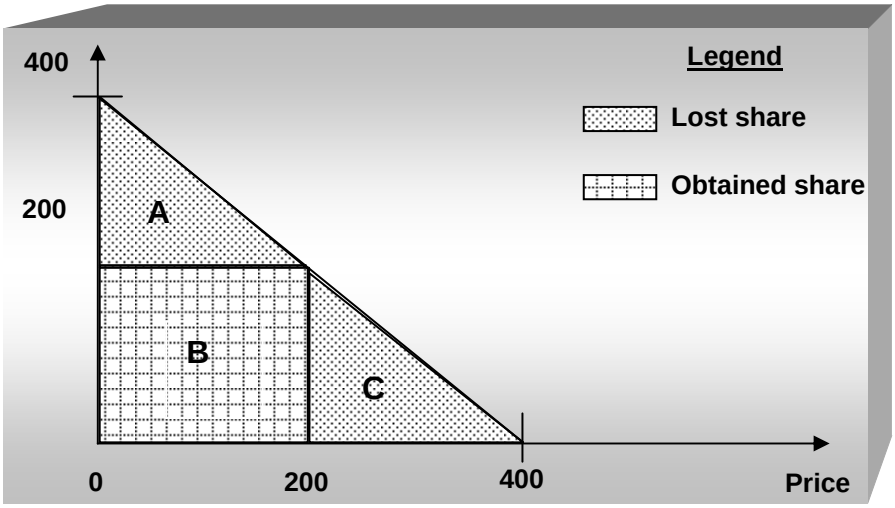


Figure no. 4.20 Unique price strategy

The surfaces A and C represent the lost potential shares, in the triangle A we can find the travelers that are willing to pay more than 200 m.u., the company does not take advantage of this willingness to pay, and in the triangle C we can find the passengers that are not willing to

pay 200 m.u., but that would accept a smaller price, the price of 200 m.u. impeding any possibility to buy.

Applying a differentiated price strategy by setting up two different types of transportation the optimum prices will be of 133 m.u. and 266 m.u. respectively, each transport will have 133 passengers and the total obtained share will be of 53.067 m.u., which represents an increase with 32,66% (figure 4.21).

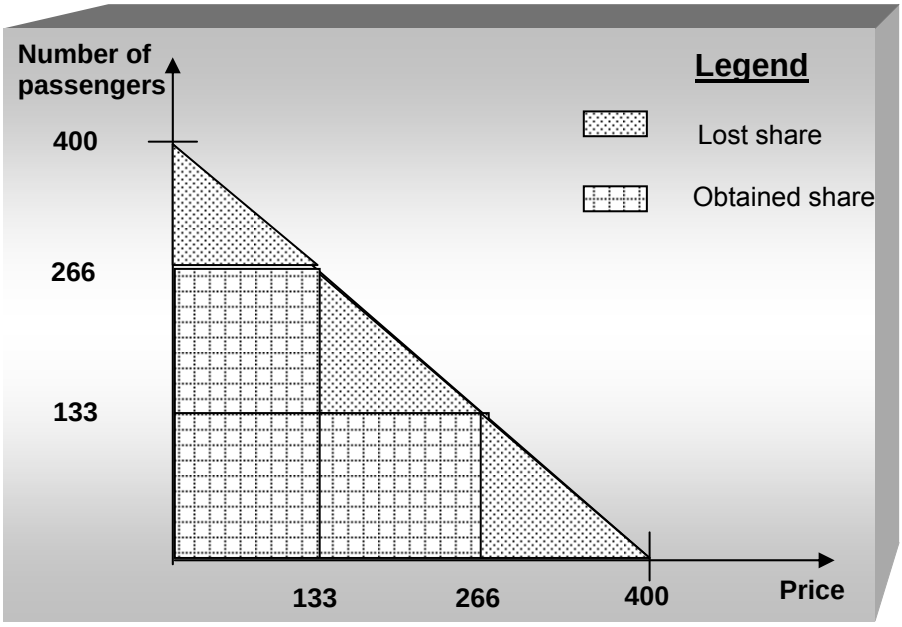


Figure no.4.21 Differentiated price strategy

Deepening the segmentation, by creating three types of transports the optimum prices are of 100 m.u., 200 m.u., and 300 m.u. respectively, the number of passengers being in this situation of 100 passengers per transport and the total obtained share is of 60.000 m.u., respectively 50% larger than the one from the first situation (figure 4.22).

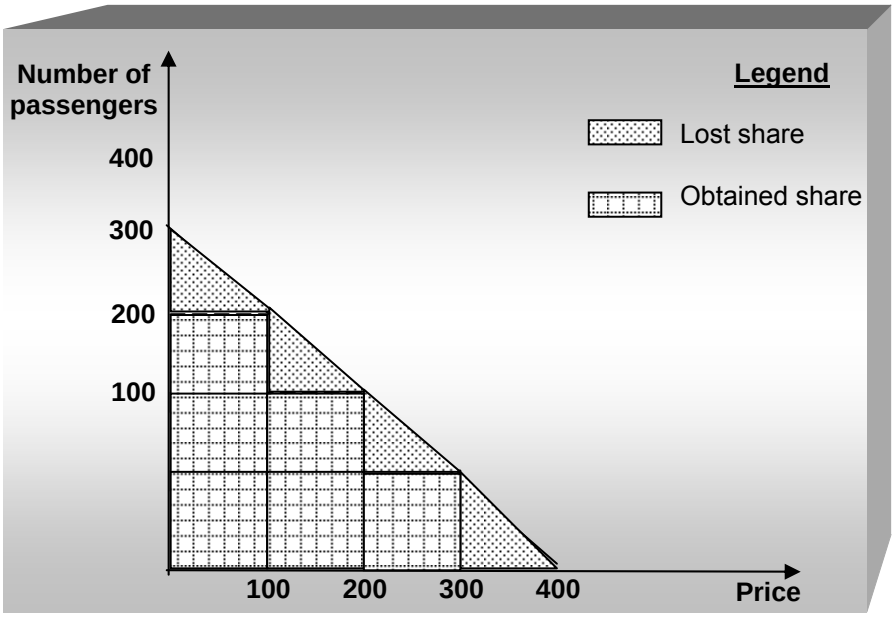


Figure no. 4.22 Differentiated price strategy

It can be noticed that 50% from the total share is obtained from the "more exigent" customers that represent only 33% from the total number of passengers.

This differentiated price strategy is a general rule in the transportation industry, in reality if we refer to the types of classes from the air-travel or railroad travel industry, these do not have the same size and the fact that the largest share of the result comes from the customers that pay a higher price can be considered a general rule. A study of the American airline companies shows that 6% of the passengers contribute with 37% of the turnover.

These simple theoretical examples emphasize very important aspects of the price differentiation, and these are:

- **The potential gains using a differentiated price strategy are considerable;**
- **It is more important to differentiate "above" than "below", the outcomes being bigger**. For example, in a paid parking area there could always be reserved a few
  places for customers that are in a hurry, which are willing to pay a larger parking tax;
- **From the previously presented example it can be noticed that in all the cases the average price is the same**, respectively 200 m.u., in exchange the number of passengers is

different from one case to another (200 passengers in the first case, 266 passengers in the situation in which we have two transports and 300 passengers in the case of three types of transports). The conclusion that can be drawn is that a differentiated price strategy is not about modifying the average price but is about targeting more effectively different customers or customer group.

- **In practice a differentiated price strategy will not have the desired outcome unless a rigorous and efficient segment definition is possible**. For example, in the airline transportation it is very possible that numerous customers will not buy as it has been predicted business class tickets if the difference between the two classes is not significant and consequently the situation could become worse than the one in the case of the unique price strategy.

4.6.2. Price differentiating criteria

A basic typology for price differentiation was elaborated by A.C.Pigou, according to which we distinguish:

a. **Ist degree price differentiation;**
b. **IInd degree price differentiation;**
c. **IIIrd degree price differentiation.**

a. Ist degree price differentiation. In this case the supplier knows the maximum price that can be accepted by each individual customer; the willing to pay of each customer is totally emphasized, being a situation in which we have perfectly personalized prices.

A typical example is the one of a hunter that based upon its knowledge correctly estimates the willing to pay of its customers proposing to each one an adequate price. The Ist degree price differentiation corresponds effectively to a individual price negotiation situation. This type of differentiation implies a good estimation of the level of the base (reference) price and no matter if it is about a minimal, maximal or medium price; its size will always represent the starting point of the negotiation. But for the success of a price strategy of this type ("one-to-one") the perfect estimation of the willing to pay of the customers is decisive and the negotiation abilities have also a major role in applying this strategy.

b. IInd degree price differentiation.

In this case the supplier proposes different offers leaving the client the liberty to choose one. The different plane or train classes, the different car versions of the same maker, etc. make up classical examples of this type of differentiation.

We can talk about a "self-segmentation" of the customers because they fit into the chosen segment. The exact knowledge of the segments and the customer's reactions towards other segments is

decisive. Estimating the risc that a customer will choose an offer at a lower price than the initial one is very important and consequently the delimitation of the segments must be made very carefully.

c. IIIrd degree price differentiation.

In the case of this type of differentiation, the delimitation is simpler because the segmentation is based upon some noticeable criterions, the clients lining up to some specified criterions have access to a defined product-price offer. A change of the segment as is the case of the type II differentiation is not possible and creates high opportunity costs.

The socio-demographic criterions, professional criterions, belonging to an organization (club, fidelity program, etc) or geographical criterions can constitute classical examples of the same type of differentiation.

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* *

In the sale management we can see different types of price differentiation according to more pragmatic criterions, which correspond to the requests to really apply a differentiated price strategy.

The most important real price differentiation criterions are: the customer, the time, the geographical area, the volume of the sales, the product itself and the distribution network.

1. Client related price differentiation

The price differentiation can have as a basis the specific elements of each customer. For example, in the car insurance industry the elements like age, sex, experience in driving a vehicle, the history of the crash events, type of car, age of the car, profession of the driver, the level of education, etc can enter in the calculation formula for the annual insurance rates paid by the insured person.

2. Time related price differentiation

The price can vary according to the time of the day, the day within the week, the season or the phase from the life cycle of the product. In the current practice we can see numerous examples of time related price differentiation.

Thus, the phone operators, substantially differentiate the price for the phone calls during the day and ones during the night, for the ones from the working week from the ones in the weekend, the cinemas differentiate the price according to the hour of the movie and the day of the week, in the tourism business the prices are highly differentiated according to the season. The airline companies differentiate the price according to the day of the flight. Also, the promotional campaigns and price strategies are in accordance with the life cycle of the product or other forms of time related price differentiation.

3. Geographical areas related price differentiation

The geographical area related price differentiation is widely spread. If we refer to consumer goods the prices of the same products

differ, many times substantially, if we are talking about the capital of the country, a large city, a small town or a village from a certain area of the country. Even within the same city if we refer to the capital of the country or a large city, the prices differ according to the location of the selling units.

4. Sale volume related price differentiation

In general, the most commonly known price differentiation is the discount given in accordance with the quantity bought, the larger the quantity, the smaller the price.

There are also situations in which this ration is reversed, the price rises with the volume of the sales, the goal in this case is to reduce a high consumption in the specific time interval (for example electricity prices, parking prices in some airports, parking prices, etc).

5. Product related price differentiation

In this case the differences at the level of the product determine the price differences. These come for example from the technical performance, esthetic differences, brand differences, etc.

The price difference of a novel usual edition compared to a luxury edition (cardboard or leather covers, superior quality paper) is a particular example of this type of differentiation, although the content of the novel is the same (for example Britannica Encyclopedia, usual edition has the price of 999 £, and the luxury edition has the price of 4000 £).

In this type of price strategy, the differences in the value perceived by the customer have to be large enough in order to convince the customers to buy the most expensive types. The offers at high prices are usually based upon the fact that the perceived value of the standard product is not satisfactory for all the customers, fact that will allow the producer to obtain a superior price for an improved version.

6. Distribution network related price differentiation

As it was previously highlighted it can be noticed that for many products the prices are highly differentiated according to the used distribution network, although the product is the same. This strategy is very efficient and relies on the reasoning that in reality the distribution networks aim distinct customer groups. We must mention that are situations in which certain products belonging to certain prestigious brands are distributed only in specialized stores, in exchange the products of some common brands are distributed in general stores.

There are very often the situations in which a producer sells the same type of product under different brands, distributed using different networks (for example the Osram Company sells light fixtures under the brands Osram and Healux using different distribution networks).

The sale units within the companies, the distribution networks, the direct sales using distributors, the electronic commerce are networks in which the price plays a very important role. There are very common the situations in which the result potentially connected with the price differentiation are mainly determined by a judicious distribution of the product and not by other differentiation elements.

The reality emphasizes that the odds of obtaining an extra result connected to the differentiation of the price are larger when the contact with the customer is more direct.

*
* *

The differentiation of the price is connected to the segmentation of the market. **The success of a price differentiation strategy involves the following aspects**:

a. **The pertinence of the buying behavior criterions**. The segmentation of the market must rely upon pertinent criterions like the will to pay of the customers, price-elasticity, etc.;
b. **Perceptibility**. The segmentation criterions must be perceivable. In general, the pertinent criterions mentioned before, for example the will to pay of the customers, are difficult to emphasize, while the criterions like age, profession, size of the company, activity sector, etc., although less pertinent for differentiating the price are easily to be noticed.

Consequently for the success of a differentiated price strategy the solution consists in using a combination of noticeable criterions and buying behavior criterions.

c. **Accessibility**. The identification and the definition of different market segments are the conditions required for a price differentiated strategy, but are not enough. The capacity to unfold them rigorously and to exploit them separately is essential in a price differentiated strategy.

In a general manner, it can be shown that the distinct accessibility (or non-transparent and a rigorous delimitation between segments) is more important that the fact that the prices are differentiated.

d. **The temporary stability**. With the exception of the situations in which the time related differentiation or the price elasticity are desired, the segments must have certain stability in time. The introduction of a new product with a high price, the “attack” of a segment with low prices, the repositioning of the price for a product on a certain market segment are some examples for long term actions and consequently they must not refer to market segments where there is the risk for modifying them on the short term or even their disappearance on the short term.

Although the price, as it has been previously shown, can be a marketing instrument that can be modified very quick, with immediate effects, the objectives of a price differentiated strategy must be thought on the long term.

Chapter No. 5

THE DISTRIBUTION POLICY

The development of market opportunities and the effective completion of the activities of the companies producing goods and services are subject to the arrival of goods to the consumers and final users, by the satisfaction of the needs for which they were designed.

The results of the economic organization specifically integrate in a certain type of market offer –it offers products and or services offer, manufacturers offer or satisfaction offer, offer of goods / new services or traditional products / services offer etc.- after the organization's resources and economic characteristics and after the characteristics and manner to satisfy the needs of consumers for which are destined these results.

In the space and time that separate the conclusion of production from the entry of goods/services in consumption, there are unfolded a range of operations and economic processes whose efficient orientation/ trend make the object of the third component of the marketing mix – *the distribution policy*.

5.1.The marketing channels

One of the essential functions of the distribution is the achievement of acts of sale, through which, once with the effective movement of the goods, it takes place the change of ownership upon them, respectively the successive transfer of the ownership right from the producer to the consumer. It is about a route or itinerary in the economic circuit of the goods, also called the distribution channel.

Over two decades ago, the term “distribution channel” started to be replaced by the term “marketing channel”[19]. Essentially, the marketing channel is defined as an assembly of independent organizations, implied in the process of insurance of the product’s availability for consumption or use[20]. This terminological change is not made by accident, since it has the aim to highlight the role of the participants network to the distribution process, to create value for the consumer or user by generating utilities of form, possession, time and place. In addition, the role of the marketing channel does not limit to the satisfaction of the demand by delivering goods and services, but it also implies the stimulation of the demand through the promotional actions of the network members.

[19] Lusch, R.F., Erase distribution channel from your vocabulary and add marketing channels, în *Marketing News*, July 27, 1979, p. 12.
[20] Stern, L.W., El-Ansary, A.I., *op. cit., p. 5.*

After the product was obtained as a result of a specific production process, the next stage, component of the marketing activity, consists in determining the methods and routes that are going to be used so that the product should arrive to the final user or consumer. In this context, it is considered that "a channel ends and another one begins, when the goods are modified through certain processing"[21].

Each marketing channel, delimited in this way, is a component of a distribution channels system with the determinate characteristics by the components of the national or international environment in which it functions. The internal structure of the system is marked by competition, more distribution channels are disputing at the same time the distribution of the same product. Connecting a distribution channel system to the features of the external environment of the company determines not only the degree of development of the system, but also certain peculiarities or specific features of the distribution process, such as are the following: the spreading, the cost, the utilities, the facilities etc.

In all the cases, a marketing channel includes the producer and the consumer or user. The two form the extreme points – entry and exit – of a distribution channel, made up of a chain of links through which the goods pass successively. In the position of these intermediary links there are specialized companies in distribution activities. Within the commercial sector, the product undergoes a series of processes and stages in which it changes successively the place, the owner, the "status" and, a few times, even its material appearance.

5.2.The participants to the distribution process

The marketing channels are composed of operators with different activity profiles, who contribute in a different measure to the physical movement of the goods and the unfolding or running all the other flows associated to it. Depending upon the role accomplished in the marketing channels and the flows in which they are present, the participants to the distribution process can be classified in the following major categories[22]: primary participants, bidders of functional services, support service providers.

a. ***The primary participants***. In this category there are companies that own, in general, the property upon the goods that they distribute and assume, consequently, a substantial risk in the process of adding value, within the distribution. The producers and the wholesale dealers and retailer intermediaries are considered to be primary participants. The structure of this category is extremely varied. For example, among the wholesale dealers, there are the operators with complete functions, as well as the operators with limited functions – wholesale dealers of the "cash &carry" type, shelf jobbers or workers,

[21] Maynard, H.B., *The management of the economic activity,* vol. IV, Technical Publishing House, Bucharest, 1971, p. 152.
[22] Bowersox, D.J., Cooper, M.B., *Strategic Marketing Channel Management,* McGraw Hill Book Company, 1992.

distributors from the trucks or wagon, agents, cosignatories, commissioners, brokers, auction houses etc. Also, among the retailers there are included operators of independent shops and/or chains of shops of the hyper type and supermarkets, department stores, of proximity, discount or specialized etc. To these operators there are added as retailers the forms of commercial correspondence, the companies of telesales and the retailer companies that commercialize products on Web. The name of primary participants reflect the main role that the producers, wholesale dealers and retailers accomplish in offering the basic services from the field of goods distribution, in the transfer of the ownership right in the marketing channel and risk assumption.

b. *The bidders of functional services*. Apart from the primary participants, in the marketing channels also unfold their activity the operators who have the role to facilitate the distribution. This category includes bidders of functional services, who ensure utilities of time, space and form, who support the primary participants in the operating of their marketing strategies.

At an international level or worldwide, the number of bidders of functional services registered an increasing tendency. Their presence in the marketing channels is justified by the added value in the distribution process of the goods, a significant value from the point of view of the potential customers from the target market. The range of functional services that these participants offer includes the following operations:

- *The transport* – the movement of goods between the primary participants of the marketing channel, by appealing to road means, but also to the railway, transport means on water and air transport , including through pipelines and which correspond to the peculiarities of the mentioned product categories;
- *The storage* – by putting at the disposal of the primary participants of some storage areas for goods for determined time intervals; the shipment of products that come from different members of the marketing channel; offering some storage areas "to key", adapted to the demands of the major customers that refer to distribution ;
- *The assemblage* – that consists in defining the final shape of the product that is going to be offered to the final customers, through operations such as: the grouped packaging or assemblage of certain products and their preparation for promotion actions at the points of sale, combining the products' components depending upon the customers' demands, labelling etc., starting from the idea of reducing the risks concerning the anticipation of the demand, for the primary participants.
- *The taking over and fulfilling the orders* – services requested by some primary participants for certain categories of customers who place valuable orders and of low frequency, whose direct accomplishment by the primary participant is not efficient;

- *The sorting*– in order to create a range of products with an adapted structure to the specific demands of a certain customer, operation that includes, for example, the reunion of the goods that come from more producers, in order to send a single lot/ batch, with mixed structure, of a hyper-store;
- *Merchandising services*– that refer to the arranging of goods in the sales space of the shops, the distribution of special equipments of exposing goods to the points of sale, creating special promotional packets from a certain product, for a certain retailer etc.

c. *The support service providers*. Having, at their turn, the roles to facilitate the whole distribution process, the support service suppliers are neither involved in the effective sale- purchase of the products, nor in the logistics of the goods. Nevertheless, their participation is essential to accomplish the interflow of goods or commodity movements.

Most of the support service suppliers or providers offer only a certain type of service. The list of the main support services comprises:

- *Financial and insurance services* – offered by commercial banks, investment banks, brokers, financial companies, insurance companies;
- *Communication services* – are necessary for the information exchange between the participants to the distribution process, services whose importance increases in the conditions of the exchange data promotion (Electronic Data Interchange);
- *Marketing and consulting research services* – solicited by the members of the distribution channels in the process of planning and developing their own strategies, in order to obtain information regarding the possible action options, their advantages and limits etc.;
- *Promotion services* – in the efforts to accomplish an integrated marketing communication, the participants to the distribution process use the assistance offered by the specialized agencies for choosing the most adequate promotion means, communication media, promotional messages etc.

The classification of the participants to the distribution process in primary participants, bidders of functional services, support service providers must not be regarded in a rigid manner.

There are numerous situations in which a certain company offers in various combinations, functional and support services at the same time. This integrated solution is the result of the adaptation concerns to the specific demands and expectations, of the client companies from the marketing channel.

5.3.The dimensions of the marketing channel

Being different from one category of goods to another, the marketing channel is customized by three dimensions: length, width and depth.

a. ***The length of the channel*** refers to the number of intermediary levels that the goods travel from the producer to the final consumer (user). This dimension is determined by the number of links and not by the links and not by the distance in space made by the goods. In this way, a product that goes from the producer directly to its final receiver travels the shortest distribution channel, Even if the two are separated by thousands of kilometres, while a product, in whose itinerary there are more companies from the same locality with the final receiver, undergoes a long distribution channel.

Depending upon this dimension, the channels can be *direct*, when the goods are delivered by the producer directly to the consumer (user) or with *intermediaries***.** The latter mat be, in their turn, *short* or *long*, depending upon the number of intermediaries. Usually, the channels, through which the goods of productive use are delivered ,are either direct or short, and for the consumer goods are often long or very long.

b. ***The width of the channel*** is determined by the number of units through which the distribution of a product is ensured within each phase (sequence) of the distribution route. In the case of consumer goods, the distribution channel has an incomparably greater width than in the case of productive use goods. This dimension is not the same along the channel, but it is bigger in the inferior part (downstream). For instance, the sale of household goods to consumers is made through thousands of points of sale.

c. ***The depth of the channel*** reflects the measure of the distributor's approach to effective consumption points. To certain products– goods of productive use, articles of consumption of a rare demand – the distribution has a highly increased degree of territorial concentration, so that the "exit" points of these products from the circulation sphere are to be found sometimes at considerable distances of the effective consumption places (use). To the consumer goods, the distribution channel is much deeper, these being brought nearby the consumer's domicile. The deepest channel refers to the distribution forms that involve bringing the goods exactly at the consumer's domicile (trade mail, sales with the help of the commercial houses, the direct sale for which it goes to the potential consumer's or buyer's domicile etc.)

Each category of goods/services has the specific distribution channel or channels. Sometimes, the same product can be found in channels of different dimensions. The distribution network from an economy will include, therefore, a large number of channels, of a large diversity. For each company, choosing some channels of adequate dimensions in relation to the target market features is a very important marketing decision and a condition of the success.

5.4.Types of channels

Normally, the types of channels are going to be in good measure different depending upon not only the category of goods and/ or services, but also upon the market – internal or external – where their distribution is made.

A. The distribution on the internal market. At the level of the national market, the distribution reflects the structures and the level of economical development, as well as the demographic, natural features etc. of each country. In Romania, the physiognomy of the distribution reflects, in the current period, the characteristic traits and features of the transition towards a market economy. We can talk about a gradual organization of a distribution system, for whose functioning there are more obvious demands and methods, structures and forms that are specific to the market economy. The increase of the importance of the distribution in our country, in the 1990's, is reflected, on the one hand, in the increase of the involvement degree of a greater number of manufacturing companies in the activities of distribution of their own products and, on the other hand, in the development of the commercial sector.

Once with the increase of the number of companies from the wholesale trade and retail trade, it is noticed the appearance of some new types of operators – with complete or limited functions – who add up to the traditional types. However, some of the operators present in the marketing channels have determined only the increase of the number of levels of the channels, without contributing with a significant added value from the consumer's/user's perspective and leading to the final price increase final of the products. The interposition on the route of the goods of a great number of intermediaries with limited functions, in the wholesale sequence, was facilitated, at the beginning of the '90s, by the poor offer in the case of certain categories of products.

As a result of the mutations that took place in the Romanian economy, the manner of ongoing the flows of goods from the producer to the consumer is the resultant of the strategic options of the features at the distribution process. Gradually, the structure of the distribution systems will be modified depending upon the customer's needs and expectations, fact which will lead to the exclusion of those companies and levels of the marketing channels that have no contribution to the increase of the efficiency and distribution and do not add any significant value for the customers.

The main types of distribution channels, used within the internal market are the following:

a. Producer-consumer. This type of channel is specific, first of all, to the distribution of services, taking into account their features – intangibility, inseparability of the producer and , consequently , the impossibility of their movement into space – the sales act being often accomplished simultaneously with their production and consumption. The distribution without intermediaries intervenes to a great extent in the

case of the productive use goods (equipments, machineries, raw materials in wagon amounts etc.). It is also met in the case of consumer goods, such as some long usage products of a great value or/and great volume, such as furniture or cars – delivered directly from the producer to the consumer. The direct channel that includes the producer's shop is often a favourite channel by the buyer due to the larger range of products that belong to the same producer and to the prices relatively smaller comparatively with the indirect channels. It is the case of the food (for example: bread and bakery, dairy products etc.), but also the non-food products (refrigeration products, clothing, shoes etc.). The direct channel is also used in the case of certain products that can be distributed or delivered with the help of the Internet, without any intermediaries, for instance products like: software, computer games, financial-banking services and consulting services.

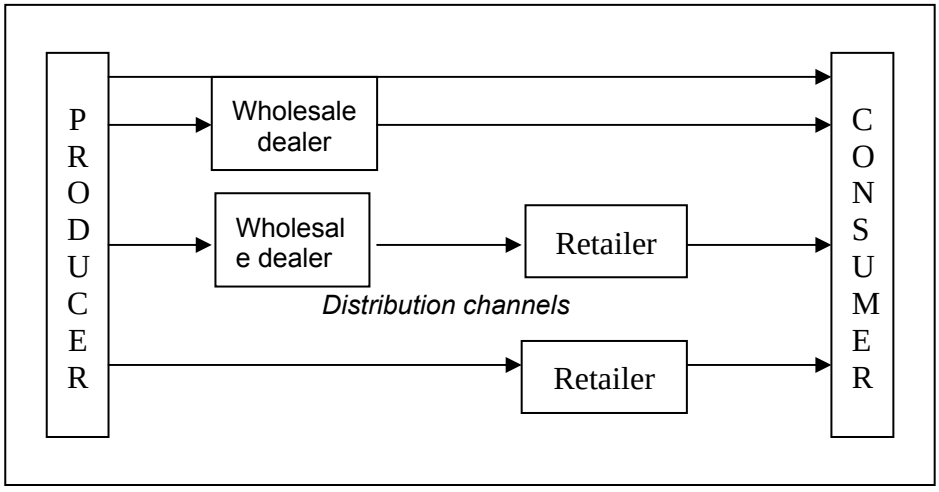
***b. Producer – intermediary – consumer*.** The type of channel with a single intermediate is called short channel and is specific both to the industrial goods and to the consumer goods, but in a varying degree or extent. In the first case, the products undergo or pass through intermediary links that cumulate the wholesaler and retailer functions for the distribution of some production means from the field of industrial production, of the services, constructions, agriculture etc .in the case of the consumption goods, we are talking about the products that the retailers purchase directly from the producer.

Within the type of channel with a single intermediate we can also meet the type in which the goods pass through two operational units (warehouse and shop), belonging to the same intermediate. This type of short channel is used to a greater extent by the retail companies which have a relatively large depositing area that can also integrate functions of the wholesale trade.

***c. Producer – intermediary – intermediary – consumer*.** Being composed of two successive intermediary links, this type of channel is considered to be a long channel. It is specific to the consumer goods market in the positions of intermediate figuring a wholesale dealer and a retail dealer. The long circuit is imposed to the goods of complex assortment, the ones with seasonal demand, as well as to the products that imply the execution of some preliminary operations of the putting up for sale (assembly, pre-assembly, labelling etc.). In certain cases, the wholesale intermediate expands its functions by integrating some retail activities (retail selling directly from the warehouses), situation in which the channel becomes a short indirect channel.

In addition to the three types of marketing channels presented, the goods offered by the internal producers reach to the level of the target market through other channels that include more intermediary levels. For example, it is met the type of channel with three levels between the producer and the consumer, the respective levels can be represented by an agent, a wholesale dealer and retail dealer, respectively by a large wholesale dealer, a less significant wholesale dealer and a retail dealer.

In our commercial practice, although the necessity of the wholesale link, in the goods circulation, is no longer questioned, its direct intervention in the physical movement of the goods is limited to those product categories to which such an intervention is not only inevitable, but more efficient than a direct circulation of the goods from the producer to the commercial wholesale link. In this context, the sizing of the flow of goods that pass through the wholesale link is not determined by the wholesale dealer's interests, but by the ones of the producers and retailers, and seeking or calling the wholesale dealers is made only for the situations in which both the producer and the retail dealer reach the conclusion that this is the most efficient distribution form.



Distribution channels

The distribution on the internal market is not limited to the goods offered by the Romanian producers; has as an object also the products from imports. The product flows originating from other countries are unfolding on the Romanian market and in most of the cases using different intermediary levels until it reaches the final consumer/user (with the exception of the direct distribution cases from the producer to the final consumer). All the operators which contribute to the distribution of a certain important product represent only the sequence on the Romanian market of an international distribution channel, which has as a main participant the producer from the external market. In the sequence of the international marketing channel present on the Romanian market, the following businesses can be involved, for example an importer, a wholesale trader with complete functions, a retailer and the consumer, which leads to a number of three intermediary levels on this market, which are added to the ones from the external route of the goods.

B. The international distribution. The economic, socio-cultural, political and legislation particularities of each external market along with the specific structures of the wholesale and retail distribution systems on

these markets determine a high degree of complexity of the decisions regarding the choosing of the international distribution channels, comparative with the distribution of the products on the original market. The typology of the salesmen that intervene in the distribution channels specific to the goods which make the object of export-import operations is highly varied. Although these channels have certain particularities they are not totally different from the ones that ensure the circulation of the goods on the internal markets. Basically, with the exception of the cases in which the transactions are made directly between the exporter producer and the consumer (user), or only by mediating some international intermediaries, in the other cases, from the structure of the channels for exported (imported) goods take part within different combinations and sequences of the channels that serve the internal circulation of the goods. The diversity of these channels derive from the fact that the producer and the consumer (user) being situated in different countries, the distribution networks will contain intermediate levels situated either in the exporting country or in the importing country or in both countries. The particularities of the transactions, on the one hand, the characteristics and the tendencies of the distribution network from different countries on the other hand explain the multitude of options under which the network of the distribution channels can be depicted.

Examined from simple to complex, according to the number of intermediate levels, the distribution channels for the goods that make the object of the external distribution can be defined as follows:

a. Channels without intermediaries. These channels are the "producer – consumer" type. The exterior commerce operations that are taking place without intermediaries – also known as direct import (export) – are specific to the installations, equipments and certain raw materials.

***b. Short channels*.** These are characterised by the presence of a sole intermediary between the producer and the consumer. In this group there are also included many types of actual channels, according to the nature and the headquarters of the intermediary. Thus, the intermediary can be an exporter or an importer. In the last case, in the position of importer a company specialised in exterior commerce operations or an interior commerce company (for example, a big retail trade company), which is supplied directly from the supplier abroad.

***c. Long channels*.** These are specific especially to the distribution of consumer goods, and have two or more intermediaries. From the combination of the links that can intervene successively in the movement of the goods – the exporter, importer, wholesale trader and retailer – it will result many types of distribution channels. The presence of a large number of intermediaries leads to an increase of the distribution cost and to a reduction of the share that returns to the producer from the final price paid by the consumer.

In the international marketing, gaining access to the marketing channels that the economic organisation considers to be the most adequate compared to the particularities of the target markets has a decisive role in penetrating these markets and often represents a

problem difficult to solve. The channels from the external markets are sometimes “closed”[5], the newcomers do not have the possibility to convince the members of the respective channels to distribute their products, despite some favourable economic and market conditions. Among the manners in which we can obtain the access to the international marketing channels, in certain situations, the following can be said:

- The contractual distribution arrangements using the sale force of some companies that offer noncompeting products and that address to the same segment of customers targeted by the company that wants to penetrate on a certain external and hard to get market;
- The mixed companies created with a local company, having as the main objective the distribution on the taken into account market;
- The sale of products under the brand of a production or distribution company that has a favourable image and a significant share on the external target market;
- Setting up an own distribution system on the targeted market;
- The buying of a company that has access to the distribution channels on the external market.

The option for certain types of international distribution channels and access possibility will depend from the strategic objectives and resources of the company, as well as from the situation of the market they intend to penetrate. Some access types imply high stakes, considerable financial resources and a high degree of involvement of the company on a long term, as it is the case of creating an own distribution system. In exchange, other ways are preferred by the companies that do not have the necessary resources and accept a low degree of control upon the distribution of the products and the loosing of the own image, as it is the situation of selling under the brand of an external market distributor.

Chapter No. 6

THE COMMUNICATION POLICY

In the system of relations with the socio-economic environment, the market, the marketing efforts of the modern economic organization cannot be limited to the production and distribution of goods and services; they also involve a complex and permanent communication with the external environment, with the market, which requires careful information for the potential consumers and for the intermediaries, specific actions of influencing the purchasing and consumption behaviour, to support the sales process. All these activities, with objectives and highly variable means of action form *the promotional policy* – an important component or part of the marketing policy of the modern economic organization.

6.1.The communication system of the modern economic organization and the promotional activity.

Taking into consideration the contemporary economy, the continuous increase and diversification of goods and services designed to meet the spiritual and material needs of the society, the economic growth of the international trade exchanges and in the context of the globalization of economy and markets, the problems of communication with the internal consumers (users) or with the external partners are becoming more and more difficult, and require much more important, much more varied mutual awareness efforts and mutual information.

Moreover, the internal consumer and the external customer, in the absence of a modern and effective system of communication or of information, find it hard to find out on their own what products and services are offered on the market, where, when and in what conditions they can get them, to what extent they meet the exigencies, preferences or their different lifestyles. The adopted solution by the modern companies in order to meet these requirements is by establishing a system to ensure a constant communication between the producers and the tradesmen, on the one hand, and the consumers (users), on the other hand.

However, it is not about isolated actions; the concept of "communication" reflects just the preoccupations to diminish the nature or character sometimes divergent, sometimes contradictory of the messages issued by the companies to merge or blend them in a coherent system that is able to ensure a joint action, having a precise target – the all market agents (consumers, users, intermediaries etc.).

The communication system of the modern economic organization implies the utilization, on the one hand, of certain various forms of information and stimulation of the consumers, designed to present the company, its products and services, but also to cause a series of favourable changes in the mentality and habits regarding their consumption; on the other hand, it involves the establishment of an effective communication with its own employees, shareholders and its suppliers, with the financial environment and those of the public power, etc. It can, therefore, be noticed the fact that the plurality of the operating economic environment in which the economic organization determines the coordinates and its partners for the system of communication, within which it will carry or unfold the promotional activity.

The success of such an approach is subject to the compliance of certain requirements of each used source of communication, that is: to be *strong*[1] enough in order to be able to determine a relationship of authority over the targeted public, to be *attractive,* so that it could be identified from the multitude sources of communication, to be *credible*, in the sense that in order to be accepted, the messages that are put in circulation to meet and correspond to the value's system of the recipient.

The communication system comprises the following components: *transmitter* – also called a source of communication, respectively the one that transmits the message; *the encoding* – that corresponds to the mechanism which "translates" the ideas of the message into symbols, signs or pictures; *the message* - all the symbols (signs) sent to the transmitter; *the media* – it comprises the vehicles (supports) through which the message arrives at its destination; *the decoding* – it consists in the meaning assigned to the message by the receiver; *the receiver* – also named audience or recipient, respectively the one who receives the message; *the feedback* - the part of the response that the receiver retransmits to the transmitter; *the disruptive element (the noise)* - anything that may cause a distortion between the received message.

6.2. The structure of the promotional activity

The promotional activity meets, in the current time interval, a great variety in terms of content, role, form of achievement, etc. Hence it appears the difficulty of their rigorous classification, fact which led to the utilization - in the specialty literature – of some different schemes of grouping and delimitation.

There are retained, with a higher frequency, as essential criteria for delimitation, the nature and their role in the communicational system of the economic organization; depending upon these criteria, the promotional activities may be structured as it follows: a) the advertising/publicity b) the sales promotion; c) public relationships d) the utilization of trademarks; e) the promotional events, f) the sales forces. In their turn, each of these components benefits from the processes, techniques and specific means of action.

By forming together the content of a unitary promotional policy, these components are distinguished by the particular or specific way in which they participate to the achievement of the strategic objectives of the economic organization. Thus, *the advertising* is a qualitative variable, of psychological nature, with a long-term action, ant that is generally difficult to quantitatively measure regarding the economic effects that it generates.

Conversely, *the sales promotion* is a quantitative variable and with a short-term action; as a whole, all in all, the techniques included in this group bring immediate material economic benefits to the consumer, that can easily be measured quantitatively, and it gives the possibility to the company to exercise a strict control on their unfolded activities.

The *public relations* group a series of techniques with a range of action and effects on a long-term psychological plan, also difficult to measure in economic terms. The *utilization of marks* circumscribes all the distinctive items that have the role to individualize a product, a range of products, a company etc., in relation to the ones of the competitors, in order to attract and to stabilize the consumers' loyalty, to create consumer habits, to ensure the product 's quality and to certify the reputation/ notoriety and prestige of the company; it is characterized by a long-term action and on a psychological plan, but also by the possibility to control the achieved results. The *promotional events*, a qualitative and also a quantitative variable, involves the utilization, for determined periods of time, the full range of techniques and promotional activities, having immediate economic effect as well as on the long term. The *sales forces* meet a series of techniques, generally heterogeneous ones - prospecting, demonstration, argumentation, negotiation, conclusion of contracts, etc. – targeting designed quantitative objectives, expressed in business figures, therefore easy to determine, such as being connected to the formation of the company's image.

Irrespective of the nature of the promotional activities, the homogeneity or the heterogeneity of the techniques involved, by their action in time, the involved economic effects etc., the modern economic organization must always consider their complementary nature; an active and efficient market policy implies their utilization not apart or separated, but incorporated in a cohesive promotional and operational policy, capable to contribute to the achievement of its strategic objectives.

At the same time, the efficiency of the utilization of the promotional variables within the activities on market depends, in a significant extent, on the way in which they are integrated into the general policy of the company's marketing, as well as on the manner in which the coordination of promotional activities with the other components of the marketing mix are achieved.

6.3.Advertising or Publicity

The advertising or publicity, an important variable of the promotional policy of the modern economic organization, represents one of the most widely used resources/means in the market activities – some specialists even consider it the nerve of the communication policy of the economic organization[23]. It constitutes one of the resources/means through which the company involves itself and relates to the trend of the market, embracing a variety or wide range of techniques, appropriate to more disciplines (psychology, sociology, graphics etc.).

A. The forms of advertising or publicity. Once with the development of the economic activity, with the development of market relations and in the conditions of the increasing competition between the market agents and the products offered by them, the concrete forms of achieving and making advertising or publicity have multiplied and diversified These can be grouped according to a series of criteria validated by the practice of advertising, namely:

Depending upon the object, the advertising or publicity can be for a product (service), of a brand and an institutional one.

The advertising or publicity of a product (service) represents the most familiar and most frequently used in the advertising practice; essentially, it has as main aim to stimulate the consumer demand for the products (services) referred to. In practice, it can be distinguished some of its particular forms: a) *The advertising as information*, which has as aim the stimulation of the potential demand by informing the public about the appearance and presence on the market of a new product or service; b) *The conditional advertising*[24], having as the main objective the stimulation of the demand for the product, service, brand, and focuses on their presentation conditions that can facilitate their identification in the offer production or mass; this kind of advertising or publicity is used during the growth and maturity period from the life cycle of the products, as well as in the situations in which there are similar, substitutable or competitive products on the market; c) *The comparative advertising or publicity*, a relatively recent form, used in order to compare in a direct manner certain products or services being in competition on a certain market; although in some countries this form of publicity is forbidden by the law, it is being used, in a subtle way, frequently enough by a lot of companies on certain external markets; d) *The reminder advertising or publicity*, used in order to strengthen the effect of certain previous advertising actions, respectively, keeping the interest for a product, a service, a company etc. among the consumers, even during the periods of maturity from their life cycle.

The brand advertising, focused on emphasising the brand under which the product (service) is offered to the market, imposed itself in the

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[23] Piquet, S., *La publicité, nerf de la communication*, Les Éditions d'Organisation, Paris, 1983.

[24] The conditioning designates the marketable product unit that, by its content, form, package, labeling or inscriptions, becomes identifiable in the offer production or mass.

conditions of the continuous multiplication of brands under which the companies present their products.

The institutional advertising has as the main objective the establishment of a favourable attitude among the public and of attachment towards the company and its offer. As in the case of the advertising focused on the product, the institutional advertising can be of information, conditional and reminder.

Taking into account the geographical area of spreading the message, the advertising can be local, regional, national and international. The *local* advertising is usually made by the companies and retail commercial units, the ones that are service providers etc, which have a local outlet market. The *regional* advertising is done by manufacturing companies as well as by commercial ones with market activity circumscribed to the geographic area of a region. The *national* advertising is mainly supported by the production companies and commercial firms or service providing ones that act at a national level; we must emphasize that the advertising at a national level of the manufacturing companies seeks to create for their own products and services, without taking into consideration the place where they are going to be bought, while the commercial firms focus on the sales/outlet unit advertising. As far as the *international advertising or publicity* is concerned, unfolded in different forms, it is widely used by the exporting manufacturing firms, by the foreign trade companies and by the different intermediate agents who act in the international trade.

Taking into consideration the market nature, the advertising of the manufacturing companies, commercial or service providers - public or private – can be differentiated depending on whether it is addressed to the final consumer, industrial users or to the different types of intermediaries.

By the type of broadcasted message, the advertising can be of a *factual* nature – putting emphasis on highlighting the obvious characteristics of the product (service) and of an *emotional* nature – aiming to exploit some emotional traits and resorts of the individual, in order to stimulate the demand by using slogans such as: "the best brand in the world ","the preferred/ favourite product in ... "etc..

By the intended effect, the advertising can be assigned to either a *direct* action, with an immediate effect or a *delayed* action, with effects that are going to produce in time.

By the sponsor, the advertising is differentiated depending on the financing agent, who may be the manufacturer, the agent (in cooperation) and other economic agents.

Depending upon the influence exerted on the demand, the advertising may be assigned either to *influencing the primary demand* at the level of the product level, by stimulating the consumption of a certain product, in general, either to *influencing the selective demand*, thus contributing to the shift of the demand curve for a particular brand.

B. Techniques and advertising or publicity means. The advertisement that is going to be broadcasted is expressed in extremely

various forms, depending on the type of product or service, on the psychology of the beneficiaries, etc; he is the "fruit" of certain creative activities, as well as of imagination, etc., which provides an effective combination of a number of psychological sociological, economic factors and elements , etc..

We must notice that the progress registered in the fields of psychology and sociology have allowed the establishment of a more clear link between the public relations and the different lifestyles of the consumers, and on this basis, there were defined various types of advertising messages, frequently and successfully used by the modern economic organizations .

By characterising differently the advertising approach of the market agents, these types of messages are customized both through the exploitation of certain psychological spheres of great depth of the intended recipients, as well as by the extreme variety of techniques used.

The differences can easily be decoded even from the brief overview of the main types of messages, respectively[25]: functional messages – characterized by a trenchant tone, highlighting the performances of the product and its price; relation messages – conceived in such a way that the consumer is given or provided testimonials and scenes from his own daily life, through which to explain and justify the choice of a product or service; messages of emphasising the brand – that underlines the "moral" and "social" authority of the company and at the same time it certifies its notoriety; messages of social implication – that suggest and incite the consumer to follow a certain social model and to integrate in a community based on certain social archetypes and, possibly, even on certain myths; messages of contemplation– that propose the contemplation of an object (product, service) presented as being perfect, sacred and put out of reality, having no reference to a context of its practical use; narcissistic messages – in which the consumer is presented in the manner in which he would like it to be, as a life standard and originality; fantastic messages – that suggest that the product (service) has the capacity to offer an escape from reality, in a consumption environment with maximum satisfactions and pleasures; mythical messages – that propose to the consumer fabulous fulfilments , of a mystic nature.

The typology of the messages used in the advertisement practice worldwide is, however, much more varied, by demonstrating , on the one hand, the power of imagination of the founders of advertising messages, and on the other hand, the plurality of criteria that can be invoked in the process of developing their content and form.

The major media of transmitting the advertising messages include, in order, the press, the radio, the television, the cinema, the external and direct advertising, to which it is added the one done by printings (catalogues, leaflets, booklets, brochures, diaries and

[25] Sicard, Cl., *Practique de la stratégie d'entreprise*, Éditions Hommes et Tehniques, Paris, 1987, p. 222.

calendars), used for the consumer goods as well as the ones of industrial use, and in the field of service providing.

The press – both the daily one as well as the periodical one – represents nowadays the main "media" to transmit the advertising messages, and when it is used correctly it has an excellent efficiency and performance .The reasons that preponderate in the decision of choosing the press as advertising "media" are connected, usually, by its basic characteristics – different ones from one publication to another-, among which we might mention: the territorial distribution, the time pf appearance or publication, the socio-professional categories of the readers the circulation, the selling price of the space, the quality of the print, etc.

The daily press remains the most used advertising "media" in most of the world's countries, due to the advantages that it offers, such as: flexibility (the advertisements can differ from one area to another, from one country to another), the prestige of which a certain daily newspaper can enjoy, the wide area of broadcasting, the possibility to master and manage the exposure of advertisings. However, we must also mention certain disadvantages of the daily press as advertising "media", such as the following: the very short life period as well as the printing reproduction of the messages sometimes of a poor quality of the messages.

The periodical press offers, it its turn, numerous and various possibilities to convey the advertising messages due to its diversity and variety. Since it addresses to some well-defined segments by the readers, it ensures the socio- professional selectivity of the transmitted message and a generally increased receptivity of the aimed recipient. To all these, it is added a usually high quality of the colours use and reproduction, that allow a better emphasizing of the messages.

The advertising actions from the press (daily or periodical) it mainly achieved under the form of the advertisement itself, based upon a simple statement, on the urge and on the repetition effect on the reader.

The components of the advertisement are: the illustration, text and slogan. The illustration has the role of increasing the effect of the advertisement by capturing the attention and through the informative suggestive elements of the message that it contains. The text, as element of the advertisement, can be designed or conceived in different forms: informative text, text through which it is created a certain feeling and attachment towards the product (service), towards a certain company or brand, a touristic destination etc., text for the editorial advertising. Nowadays, thanks to the information excess given through the advertising and in the absence of the real type for their reception has led to the establishment of new reports between the information transmitted through text and illustration; in this respect, it has emerged the tendency of using the images, especially in the advertising actions, , considering that these ensure a much more rapid and efficient communication and reception of the advertising messages. The advertising slogan (an essential component of the text) is a short formula, easy to remember

and capable to draw the attention; on average, it is composed of 4-8 words, including, usually, the brand of the product (service) or of the company.

The efficiency of an advertisement depends upon the size of the advertisement, by its location in the page and also on the frequency of appearance. The size of the advertisement must be considered in relation with the publication size in which it is going to appear and not as an absolute size. The location in the page has the purpose to fix each element of the text and of the illustration. Finally, in order to be remembered by the readers of the publication in which it appears, an advertisement must have an appearance frequency correlated with the periodicity of the respective support (publication). In the same time, we must take into consideration the fact that the efficiency of an advertisement increases with the appearance frequency, but only until a certain point, after which the increase of the frequency is not economically justified.

The radio, as a result of its utilization by a lot of people, constitutes another advertisement "media" that covers rapidly and regularly the most part of the public. Among the offered advantages, there can be mentioned: the selectivity (the differentiation by categories of listeners, depending upon the hour of transmission or broadcast and the run programme), the moderate costs, flexibility and mobility; the use of the radio as advertisement "media" , however presents the disadvantage that the message cannot be present in another way, but only sonorously, the listeners having only a partial image and only for the moment or temporary one of the subject message.

The television represents the advertisement support that got the most rapid expansion in our days, also being one of the most recent advertising "media". It ensures an unique combination of the sound, image and movement – combination that cannot be achieved by other supports. The impression of contact with the receiver of the message, the satisfying flexibility, the possibility of a repeated broadcasting at prime time hours, are among the main advantages of the advertising made through television. Its limits refer to the generally low selectivity of the receivers of the messages, as well as the relatively high costs of broadcasting and making the advertising programmes.

The cinema has a special place, but a modest one, among the advertising means. The cinema is a part of a specialized category of advertising supports, relatively expensive, that cannot identify well its "subjects" upon which it acts. The advertising messages are broadcasted through two categories of films: the commercial documentary film, which lasts up to 30 minutes, and the advertising film itself, which lasts up to 5 minutes, to which there are added the advertisements or commercials which last a few seconds. Although the costs of making and broadcasting these films are relatively high, the use of a support must not be neglected since, more frequently, the advertising companies have a double use – cinema and television.

The external advertising includes the utilization, for advertising aims, of the posters, billboards and of the luminous signs. These supports have the advantage of communicating simple and concise ideas, meant to stimulate the sales for a brand or company and are being considered as efficient in urban areas with an intense pedestrian or vehicle traffic/ circulation specific to the malls, the areas of great tourist interest etc. Their main disadvantage lies in the brevity of the message transmitted and broadcasted to the public.

The most important form of external advertising is achieved through printed advertisements, usually included in the category of advertising supports through printings. The printed advertisements, as main advertising support, address to the general public, therefore without having a selectivity power upon it. In the advertising practice there are used different types of printed advertisements, differentiated depending upon: *the manner of presentation* (normal printed advertisements, transparent printed advertisements, pre-printed printed advertisements – on which the text is partially printed, having blank spaces for subsequent fill-ins); *the exposure place* (in special places, in showcases etc.); *the exposure duration* (temporary printed advertisements and duration ones).

In the category of advertising supports *through printings* there are included, also, the publishing of catalogues, brochures, booklets, agendas and catalogues.

The catalogue constitutes an advertising support, of variable dimensions, with a general or special content, used as a presentation tool of the activity of an economic organization, company, of a big commercial unit, areas or touristic resorts etc. By its essential characteristics, the catalogue appears in three variants: prospecting, working and prestige. The prospecting catalogue accomplishes the role of showcase, of offer put at the disposal of the economic agents, of the consumers (in the case of the trade mail) or the intermediaries. The working catalogue is characterized by a plus of strictly commercial description of the products and services offered for sale, of their quality etc., the usefulness of this type of catalogue being evident in the actions of contract of goods supply, of price negotiation, of employment a material base in the case of tourism, in the international commerce etc. Finally, the prestige catalogue is a highly luxurious advertising edition, destined to draw the attention and to suggest the prestige and company's position that edited it; in this catalogue, widely used worldwide or at an international level, is distributed to a chosen clientele or customers, intermediaries and the opinion leaders in order to maintain the activity of PR (public relations). It makes reference to the highest quality products and services, to unique, exclusive and the most expensive ones that are supplied by the company (manufacturing or commercial). The offer of such a catalogue can be related to certain special events from the activity of a company or in outstanding occasions favoured by the evolution of the market relations.

The leaflet, booklet and brochure represent some other advertising supports included in the advertising area achieved through printings and widely used in the promotional activities of the modern

company. These supports, not only that broaden the promotional-informational content of the transmitted advertising message, but through the specific elements of the advertisement – illustration , text and slogan – rendered with specific and original printing means , have the aim to stimulate the readers' interest for a full reading, to incite him to the act of buying.

Agendas and calendars, as advertising means, have, in most of the cases, the significance of an advertising gift; the exceptional ways of these supports are extremely varied, and their offering is related to certain events.

The direct advertising implies the communication action having as objective the information and attracting the potential customer towards a product or a selling place, using as a communication support the sending of a personal letter, the transmission to the potential customers' headquarters or address of some leaflets or prospectus, by establishing a telephone contact, by delivering leaflets in the selling places etc. Also, the direct advertising is characterized by the fact that the transmitted message is particularized to the specific of each potential customer or to a restricted category of customers. It is used especially in the relations between the manufacturing companies, between them and the commercial companies, in the trade mail and in the international one. The direct contact with the potential customers and the treatment of each case as a particular one, transforms this communication manner in an important and offensive promotional tool or instrument.

In the system of promotional communication it is also the *free advertising*, materialized in any other shape of novelty or originality with a commercial significance regarding a product, a service, an economic organization or commercial unit or service provider one etc., but unpaid by the respective agent. For example, making an interview by the press, radio, television with some decisional factors of the company or including certain elements with a commercial informational nature within certain press articles solicited directly to the economic agents or signed by specialists who have no connection to it, although nu they do not engage these units from a financial point of view, they can be important promotional means. Furthermore, numerous opinions highlight that this kind of advertising is better accepted by most categories of economic agents and consumers, because they create the impression of authority and impartiality of the presented information; in this way, it also acquires and gains a highly promotional value.

6.4.The sales promotion.

In the literature of specialty, the sales promotion means, mostly, the use of stimulation means and techniques, boost and increase of the sales of goods and services that have as object the offer of the companies. In certain cases, the promotion techniques can also serve the purpose of completing the advertising actions, thus contributing to the strengthening and completion of the image and prestige of the company

within its socio-economical environment, within the market. Essentially, the sales promotion meets a range of techniques whose purpose is to "improve" the offer by adding an extra and supplementary value at the level of the product, the price and distribution, on a limited time interval, by taking into consideration the commercial objectives of the company, having the purpose of gaining a temporary advantage over the competition[26].

Irrespective of the nature of the means and techniques used, the actions of sales promotion must answer to some precise objectives, organically integrated in the promotional policy. The practice shows that there can be established simultaneously more objectives, that must be, however, supported by specific means and techniques in part. In most of the cases, they aim at increasing the distribution on certain markets, during certain time intervals, in situations of facilities addressed directly to the potential buyers. From this aim there are exempted the situations in which, as it was showed, the companies that orient or guide their actions towards the promotional actions in the direction of completing the ones of advertising.

The promotion techniques used in practice is considerable, having varied objectives and targeting distinct categories of market agents.

Out of all these, there are some that detach through the frequency with which they are stimulated.

Thus:

The reduction in prices (tariffs or rates) has an undoubtedly promotional effect. It can be considered in different situations: as a means of elimination of the purchasing retention of certain categories of consumers, for whom the price is considered as being too high; the significant decrease and even the bargain sales of the products that are slow or difficult to sale or merchantable; maintaining the sales to a normal efficiency level during the time intervals when it is noticed a reflux of the demand (for example, rate cutting for the touristic services in the extra-season); the inventories liquidation at the products that are going to be replaced with some new ones; the counteraction of the actions of the competition; using opportunities offered by certain market circumstances.

The decision of reduction in prices and tariffs or rates has, in most cases, a sure psychological effect cert, being considered as an of goodwill from the part of the bidder and as a proof that he holds a strong position in the market, that offers him the possibility to handle in a flexible way its policy within the prices field. This possibility of handling must be, however, used in a witty way, in order not to affect or even compromise the image and prestige of the company among the customers through possible associations with bankruptcy situations.

The grouped sales represent all the promotional techniques that have the aim to sell simultaneously or gradually two or more products at a price that is overall lower than the one resulted from the summing up of

[26] Balaure, V., Popescu, I.C., Şerbănică, D., *op. cit.*, p. 64.

the individual prices; in the case of tourism, for instance, it takes the form of some complete service packages, offered at an inferior or lower price of the real price, by seeking each service apart. In many cases, the technique of offering some service and products packages can be correlated with the actions of reducing the prices and tariffs. This possibility or manner offers a series of advantages both to the producer as well as to the consumer; the first sells, within a range of products and services, the ones that are less requested, while the consumer, having such an offer, allows him saving some money.

The promotional contests constitute an offensive way of popularization of the offer of certain manufacturing economic organizations or commercial companies (present in the capacity of sponsors), by creating around them an atmosphere of interest among the public, which should support the sales process. Usually, within the contests there are implied potential customers, especially for the products or services with a repetitive cycle of life, having the purpose that they should know the clear clarification of the different characteristics of the products, of the ways of purchasing and their consumption (utilization) .In some cases, the contests are designed to involve the participation of the specialists (the sellers, merchandisers , showcase sellers, professionals from the services sector etc.) with the purpose of stimulating the interest of these professional categories in the unfolding of a performing activity, at the level of the market exigencies.

Taking into consideration their content and way of organization, the contests can have as objectives: the increase of consumption, the mitigation of the sales seasonality, launching new models of product, the stimulation of the distributors, the counteraction of the promotional actions of the competitors who organize contests, identifying new addresses for direct advertising, the discovery of specific arguments that can be used in the promotion actions etc.

The advertising at the sales place (A.S.P.) includes all the signalling techniques, within the commercial units, in order to attract, guide and direct the customer's interest towards a particular department, product or offer, by using both the auditory means (sound), in order to bring back in the memory of potential customers a brand, a product, an utility, as well as to announce a special (trial) offer.

Their effect must complete the advertising one, which, as it was shown, does act very slowly and on a long term. WE must add the need of advertising at the sales place in the conditions of practising certain trading forms (like self-service) within which the seller does not interfere in the dialogue with the buyers, the techniques of A.S.P. are going to complete him in the operations of informing and persuading in order to purchase a product. In the end, it can be mentioned the necessity of A.S.P. in special situations, such as the prevention of forming or liquidation of seasonal inventories, the forcing of the sales of old products that are going to be replaced on sale with some other new ones, as in the conditions brought about by certain events or manifestations– scientific, cultural, sportive etc.. In such situations, the actions of A.S.P. constitute,

most times, the main way at the disposal of the company to increase the sales volume.

By using a series of distinct techniques, the advertising actions at the sales place follow to transform the buying motivation in an effective buying act , to “animate” and to “personalize” the commercial units (that provide services), to revitalize these contact points of the bidder with the potential consumer.

The merchandising includes a bunch of techniques used in the commercialization process, with a promotional role widely accepted[27], which refers to the presentation in the best conditions (material and psychological) of the products and services offered to the market. One must notice that the appearance and expansion of the merchandising, as a distinct promotion tool, is explained by the changes that appeared in the selling methods and in the structure of the distribution device (among all these, the self- service has a significant role).

The merchandising techniques concern, essentially:

a) The optimum ways of locating the products into the sales space, on their material supports;

b) Putting special emphasis on the visual factor in the sales and

c) Supporting the products among each other in the sales process.

These three principles, consecrated, in practise, by the merchandising techniques, do not show the same level of interest from the part of the producer and the distributor. Thus, whereas the producer is interested by only the first two, the distributor is searching to put an emphasis, equally, on all the three of them, by offering a wide range of products, in order to ensure a high efficiency of the overall activity.

If the merchandising techniques are used mainly in the retail trade network, we must not ignore the effects that they might have in the case of some exhibition events (fairs, exhibitions or internal and international salons), within which the combined tender (exposure) of the products belonging to many companies (especially manufacturing ones) may generate the increase of the volume of economic contracts, to facilitate the launching of new products.

It is worth highlighting the fact that the diversity of these techniques and their permanent nature in the practice of the economic agents have generated the appearance of a distinct profession – the one of “merchandiser” – whose role is , essentially , to promote the sales, by finding the best locations for the products, by improving their presentation, by animating the process and sales network through the initiation and execution of some practical demonstrations regarding the use of products etc.

The promotional gifts, used as a sales means or advertising matter, regard the facilities (favours) that the seller (producer, merchant etc.) understands to give to the seller, by offering gifts, objects or services

[27] Masson, J.E.,Wellhoff, A., *Le Merchandising*, Dunod, Paris, 1977.

– included in the sale price of a product under the form of some modest amounts -, within certain contests, games or lotteries.

Differentiated by the modalities of distribution and donation, they may be offered in precisely determined time intervals (for example, during certain holidays) or can register in the current sales strategy of a company. In most of the cases, they seek to draw the attention upon a product (old or new), a trade or company and to gain the public sympathy and adherence to them, to maintain and keep the consumer's loyalty for the company's offer.

With a wide range of forms for sales promotion, the companies - acting on different markets, in specific circumstances and in special competition conditions – they must assess in advance the results of applying the different techniques.

Thus, they must take into consideration the fact that some techniques are simply unusable or worthless at a large scale by their very nature, while others may prove to be inadequate to the targeted economic objectives. However, it can be appreciated that the use of the sales promotion techniques is an important part of the promotional activity, of the market activity of the companies and express their efforts to attract and stimulate the interest of the potential consumers. Obviously, the structuring, manner, timing and duration of their use are exclusively of the composition of the company, and the efficiency of their use depends on the skills and mastery with which they are implemented.

6.5.The public relations (PR).

The public relations (PR) - is relatively new as a separate activity, carried out by companies, institutions, public bodies etc. from the countries with a developed economy – it involves from the part of the economic organization the development of direct contracts, made consistently and systematically with different categories of public, with influential people from the administration of other companies in the country or abroad, with the media, with the representatives of the public power , the opinion leaders etc., in order to obtain their support in the effort to maintain and develop its interests.

As a distinct field of activity of the economic agents, the public relations are among the most modern means/tools of the communication policy in the contemporary society, satisfying and meeting at the same time genuine promotional attributes.

Among the promotional means/tools, widely used by the modern companies, there are in the present the events participation with an exhibition nature and the sponsorship.

The participation at the events with an exhibition nature is achieved by organizing pavilions with their own stalls at fairs, exhibitions and shows/salons (local, regional, national or international), organizing some travelling exhibitions, appearances at "technical days" etc..

The international practice shows that in this area, too, appeared new concepts, there were tested and defined forms and modalities of

participation of a wide range, there were highlighted numerous reasons of the "actors" of the exhibition approach, there are studied more rigorously the impact and the economic performances achieved by the participating companies, there were outlined distinct professions etc.

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