

## **PRICE CHANGES: PRACTICES OF THE COMPANIES OPERATING IN BULGARIA**

**Tatyana Netseva-Porcheva<sup>1</sup>**

Received: 02.06.2019, Accepted: 20.06.2019

---

### ***Abstract***

*The aim of this article is to present the practices of the companies operating in Bulgaria in terms of making price changes. The article considers the reasons that make companies change prices. It also discusses the possible consequences of these changes and presents the results from an empirical study on the changes of company prices over time. The method used for data collection is an online survey carried out with 200 CEOs/marketing directors/managers of companies operating in Bulgaria for the period July – August 2017. It has been established that the most common reason for an increase in the usual price (by price list) of company products is the increase in the price of a basic raw material, whereas the most common reason for a reduction of the usual price is an unfavorable market situation. Almost half of the sample companies have programmes for loyal customers with special price offers and the most common price tactic among the companies operating in Bulgaria is the use of price reductions/discounts in different forms.*

**Keywords:** *price changes, price increases, price reductions*

**JEL Codes:** *M39, D49*

---

### **1. Introduction**

Pricing is a chain of interdependent and logically reasonable actions subject to timely monitoring and control allowing systemic adjustment of price structure and level. In general and with minor modifications to different authors, the stages of the pricing process include: setting price goals, considering the impact of pricing factors, choice of a price strategy, choice of an approach and method of pricing and changing prices over time ((Kotler & Armstrong, 2018, p. 344), (Hinterhuber, 2004, p. 768), (Klasova, 2001, p. 205), etc.). Of all stages of the pricing process, the last one, changing prices over time, is the least discussed in scientific literature. It is also the object of this article.

---

<sup>1</sup>Assoc. Prof., PhD, University of National and World Economy, Bulgaria, email: tnetseva@gmail.com

The reasons to change the price of a company product are various but in most cases the major ones are:

- a change in the corporate business strategy aimed at taking a new strategic position (a change in the company position on the value map, serving new consumer segments, starting the production of a sophisticated version of a company product, etc.);
- company adaptation to a new situation in the external environment (a new level of the market price, inflation, etc.).

If the initial position of a company on the value map is stable, then a price change is unnecessary. If the market situation is changing, keeping the company position requires changes either in the price or in the company product. If all competitors change their prices and the company does not, it consciously changes its own positioning without a price change. The companies that have adopted this pricing behaviour want to position themselves in consumers' minds as companies maintaining price stability. As a rule, in all other cases price changes are necessary (Gladkih, 2013, p. 403). When a decision for a change in price is made, two additional pricing decisions should be made: first, about the vector direction for price change (price rise or reduction); second, about the frequency of price change.

## **2. Research methodology**

The aim of the study is to present the practices of the companies operating in Bulgaria in terms of price changes. The research tasks are: to find out how often the companies operating in Bulgaria make price changes; to examine the tendency of the vector direction for a change in the usual price of company products; to find the reasons for a change in usual prices; to find out whether the companies intend to make price changes within next year and to see what the most common form of tactical price changes is.

Five working hypotheses are defined:

X1: Most of the companies operating in Bulgaria change the price of their main product once a year.

X2: For most companies the vector direction for a change is towards increase.

X3: An increase in the price of the basic raw material is the most common reason for an increase in the usual price of company products.

X4: The unfavorable market situation is the most common reason for a reduction of the usual price of company products.

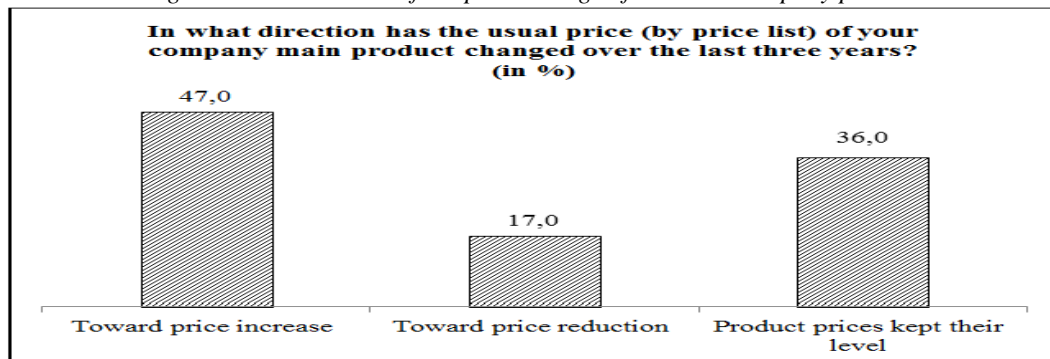
X5: The price tactics that companies use most frequently are temporary reductions in different forms.

## **3. Empirical results and discussion**

### *Vector direction for price change*

When asked about the direction of the change in the usual price (by price list) of their main company product over the last three years, 47,0% of the respondents answered that there has been a direction toward increase, 17,0% – toward reduction, 36,0% – that product prices have kept their level (Figure no. 1).

Figure no. 1. Direction of the price change of the main company product



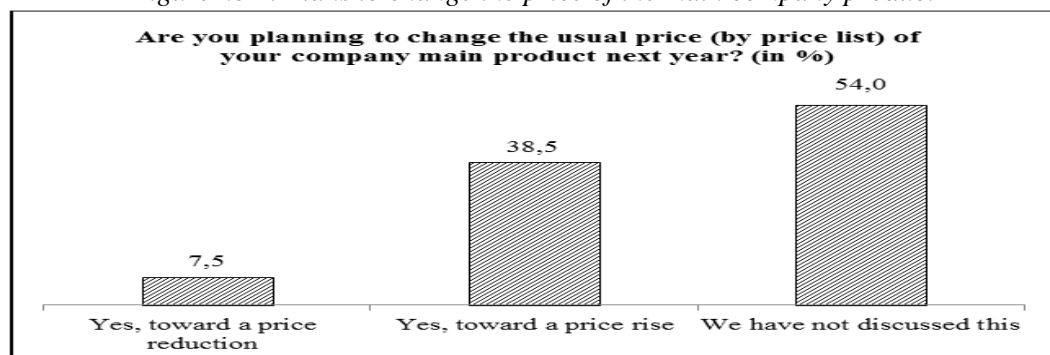
Source: Empirical survey from 2017.

Note: The main company product is the product from which the company realized the biggest sales revenue in the last calendar year.

The data analysis shows that 64,0% of the companies from the sample have changed the usual price of their company products over the last three years. The most of the companies have taken action to position themselves in a higher price range – 47,0%, and only 17,0% – in a lower price range. This shows that the companies operating in Bulgaria follow the global trend of price growth that has been observed over the recent years. 36,0% of the companies from the sample have positioned themselves as companies maintaining price stability.

An intention to increase the usual price of the main company product next year was expressed by 38,5% of the companies, to reduce it – by 7,5% and 54,0% of the companies have not discussed this issue (Figure no. 2).

Figure no 2. Plans to change the price of the main company product



Source: Empirical survey from 2017.

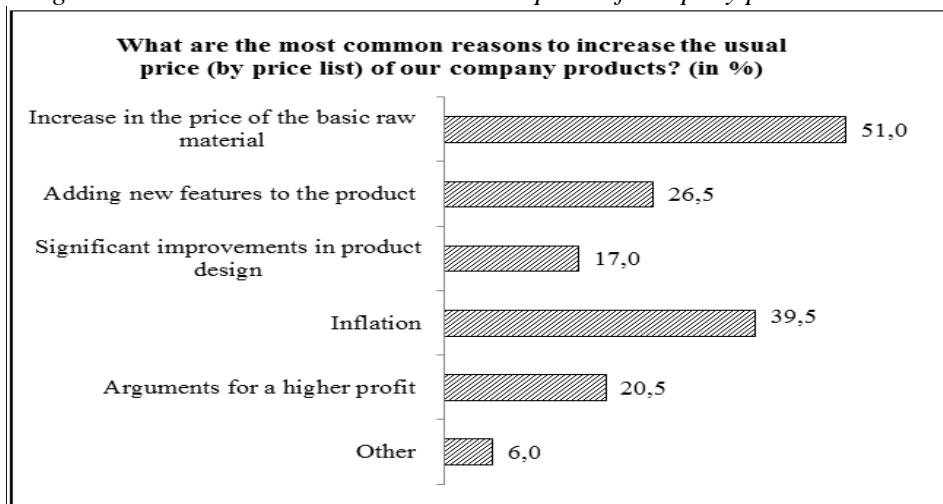
The data shows that generally in the future the vector direction for the change of the usual price of the products of the companies willing to make price changes is toward

increase. More than a half of the companies (54,0%) have not discussed the issue of price changes and if they decide to make any, it will be due to a necessity of adaptation to changes, not because of a change in the company business strategy.

The aims of the study require the examination of the reasons for price changes as well as of their nature.

According to the respondents, the most common reasons for increase in the usual price of company products are: the rise in the price of the main raw material – 51,0% of the companies, inflation – 39,5%, adding new features to the product – 26,5%, arguments for a higher profit – 20,5%, etc. (Figure no. 3).

Figure no 3. Reasons to increase the usual price of company products



Source: Empirical survey from 2017.

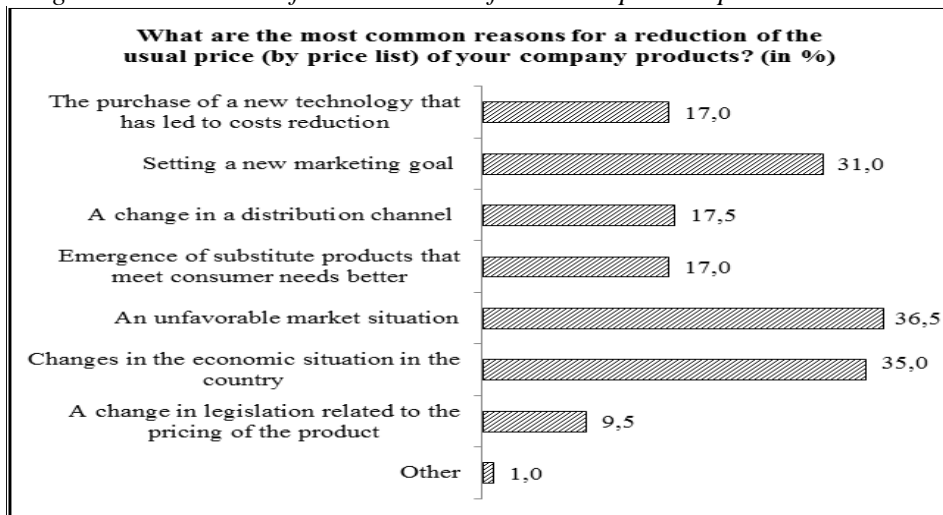
Note: The total amount of the answer percentage is more than 100% because the respondents chose more than one answer.

Three of the reasons for increase in company prices are the result of proactive decisions: arguments for a higher profit, adding new features to the product and significant improvements in product design. The other reasons are due to changes in the economic situation such as increase in the price of the basic raw material, inflation, etc.

Winker (1983) suggests the following rules for price rise: prices should be increased when competitors do it and the actions taken should be timely, not delayed; the increase should not be too big, but should stick to the general price level; the price rise should not be brought about too often; a price rise should be compensated in the most obvious way with additional benefits that the consumer receives against the higher price; important customers should have privileges (e.g. the possibility to buy the product at its current price); price growth should be explained and reasoned to consumers.

Three of the reasons for a reduction of the usual price of company products are related to proactive corporate decisions: a new marketing goal has been set – for 31,0% of the companies, a change in a distribution channel – 17,5% and the purchase of a new technology that has led to costs decrease – 17,0%. The other reasons are due to external factors that the companies had to take into account: an unfavorable market situation – for 36,5% of the companies, changes in the economic situation in the country – 35,0%, a change in the legislation related to the pricing of the product – 9,5%, emergence of substitute products that meet consumer needs better – 17,0% and 1,0% – other (Figure no. 4).

Figure no. 4. Reasons for a reduction of the usual product price



Source: Empirical survey from 2017.

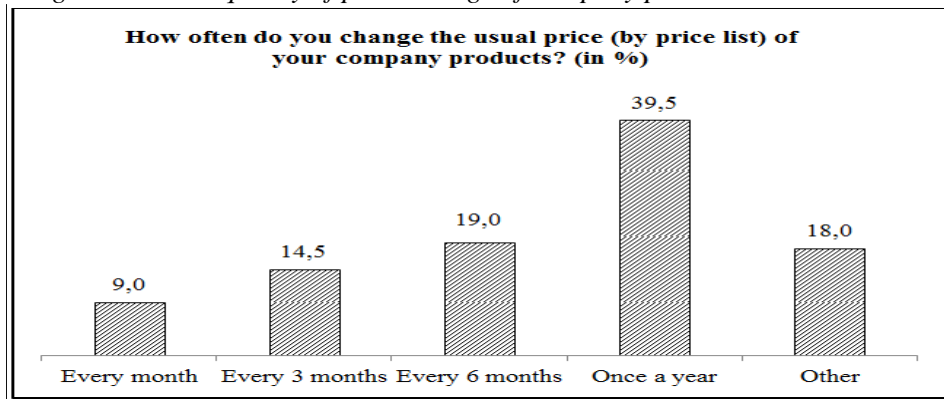
Note: The total amount of the answer percentage is more than 100% because the respondents chose more than one answer.

#### Frequency of price changes

Regardless of the perception of the initial price level, the consumer may perceive its change as fair or unfair, great or small, significant or insignificant. A change in the price level may not lead to dramatic consequences in terms of consumer behaviour but frequent price changes do not go unnoticed by consumers (4).

When asked „How often do you change the usual price (by price list) of your company products?“, 39,5% of the respondents answered they did it once a year, 19,0% – every 6 months, 14,5% – every 3 months, 9,0% – every month (Figure no. 5).

Figure no 5. Frequency of price change of company products



Source: Empirical survey from 2017.

It should be taken into account that the practice of constant price changes may be perceived by consumers as negative. They may perceive them as a company desire to profit from the changes at all costs. The changes may lead to the loss of consumer confidence and to make it more difficult for consumers to plan their purchases. Increasing the prices for long-term customers can be interpreted as disrespect for them. The price function as a quality indicator, brand value and sustainable positioning do not match well with constant changes in usual prices (Gladkih, 2013, p. 413-414).

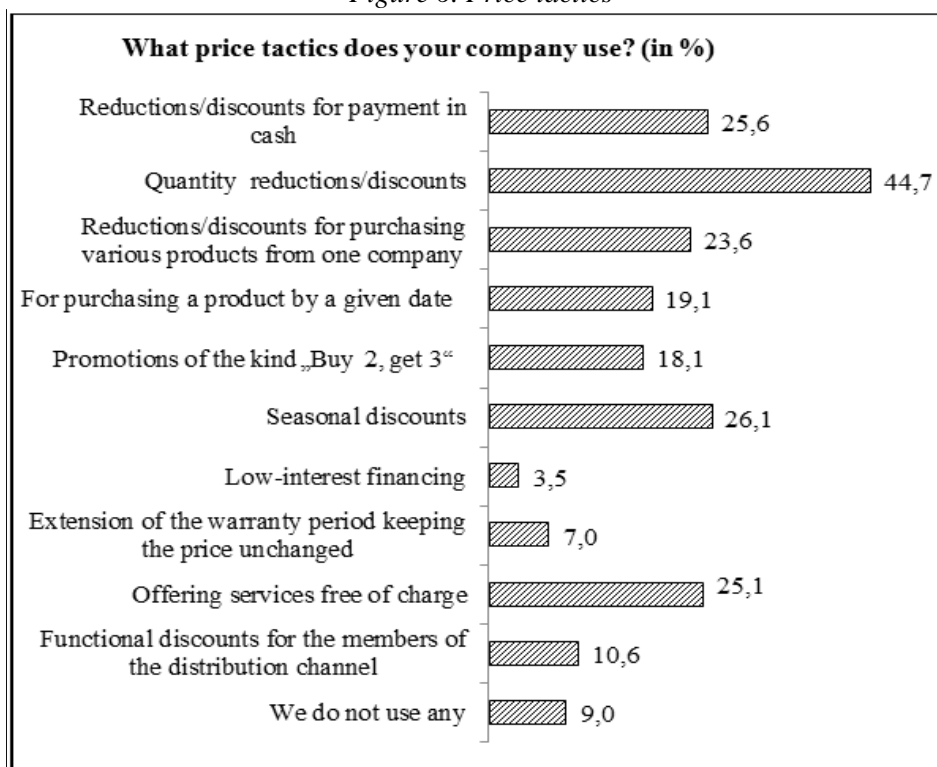
Instead of making frequent price changes, companies have been using customer loyalty programmes over the last years. Loyalty programmes are mostly price-oriented (Atanasov, 2013, p. 232). Sometimes in response to their loyalty and depending on its degree, customers receive special discounts that are not offered to others (Marinov, 2011, p. 96) or gifts (Obreshkova, 2004, p. 96). Customer loyalty programmes are used by 46,2% of the companies that participated in the survey. This shows that the management of nearly half of the companies in the sample has realized that loyal customers bring higher profit to the company, that their efforts are worth it (including price efforts) and must be focused on retaining and attracting such customers in the future (Bratkov, 2019, p. 70).

Tactical price changes are related to short-time actions (Kostova-Pickett, 2017, p. 95). After the end of these actions, the price reaches the level it had before the beginning of the action. In pricing practice companies predominantly use the tactic of cutting prices (generally called price promotions). Promotions are a significant factor in attracting consumers (Galabova, 2017, p. 145). Most often they are in the form of reductions/discounts when buying a product by a given date, reductions/discounts for payment in cash, seasonal discounts, etc. The prerequisites for price promotions are: increasing consumer price sensitivity, increasing retailers' power and decreasing advertising effectiveness (Kostadinova, 2017, pp. 392-393).

The tactic of low prices allows: the increase of income from price sensitive markets, improved capacity use, reduction of storage costs, temporary prevention of entry of new competitors, short-term market advantage over a major rival (Tanushev, 2011, p. 90), etc.

The data analysis of the answers to the question “What price tactics does your company use?” shows that over the last years price tactics have been used widely in the practices of the companies operating in Bulgaria (only 9,0% of the companies in the survey indicated that they do not use price tactics). Reductions/discounts in different forms are the most popular ones (for purchasing a certain quantity (quantity discounts) – 44,7%, for payment in cash – 25,6%, for purchasing various products from one company – 23,6%, for purchasing by a given date – 19,1% and seasonal discounts – 26,1%). Other price tactics include: offering services free of charge – 25,1%, functional discounts for the members of the distribution channel – 10,6%, extension of the warranty period keeping the price unchanged – 7,0%, low-interest financing – 3,5% (Figure no. 6).

Figure 6. Price tactics



Source: Empirical survey from 2017.

Note: The total amount of the answer percentage is more than 100% because the respondents chose more than one answer.

When making price changes of tactical nature, some possible negative consequences should be taken into account: increased consumer price sensitivity, encouragement of behaviour stereotypes, related to constant demand or anticipation of lower prices; creating a consumer desire for shopping at sales; an association with a lower quality of the product; consumer confusion and lack of understanding in terms of the actual product value; loss of brand image, etc. Price reduction, even temporary, is a bad habit leading to addiction which is difficult to overcome (Kostova-Pickett&Kostova, 2018, p. 5).

#### **4. Conclusion**

This article presents the results from a scientific study on the change in prices of the companies operating in Bulgaria over time. The results show that 64,0% of the surveyed companies have changed the price level (by price list) of their main company products over the last three years and most often – in 39,5% of the cases a price adjustment was made once a year. For 47,0% of the companies the changes in the usual price were toward increase. The most common reason for increase in the usual price is the increase in the price of the basic raw material, whereas the most common reason for decrease in the usual price is the unfavorable market situation. The most common price tactics used by the companies operating in Bulgaria are price reductions/discounts in different forms.

What is it that companies should not forget when making price changes? First, before making price changes, companies should take into account the response of consumers and competitors to this change. Second, the implementation of the price rise strategy always meets greater consumer resistance. Third, once decreased, a price can hardly be raised again.

**Acknowledgments:** The results presented in this article are part of a scientific study called „Profiling of the companies operating in Bulgaria in terms of pricing strategies“ and financed by the Research and Development Fund of UNWE, agreement № R&D ScR-16/2017.

#### **REFERENCES**

##### **Books:**

- Bratkov, M. (2019). *Pricing management in small business*. Plovdiv. Arena Print.  
[Братков, М. (2019). *Управление на ценообразуването в малкия бизнес*. Пловдив. Арена Принт].
- Galabova, I. (2017). *Consumer choice in retail trade*. Sofia. UNWE Publishing Complex.  
[Гълъбова, В. (2017). *Потребителски избор в търговията на дребно*. София. ИК-УНСС].



- Gladkih, I. (2013). *Company pricing strategy: oriented towards the consumer*. Higher School of Management SPbGU. [Гладких, И. (2013). *Ценовая стратегия компании: ориентация на потребител*. Высшая школа менеджмента СПбГУ].
- Klasova, S. (2001). *Prices: theory and practice*. Sofia. Siela. [Класова, С. (2001). *Цените – теория и практика*. София. Сиела].
- Kostova-Pickett, D. and Kostova, I. (2018). *Confident pricing*. RIK “Iskra M-I”. [Костова-Пикет, Д. и Костова, И. (2018). *Ценообразуване с увереност*. РИК „Искра М-И“].
- Kotler, P. and Armstrong, G. (2018). *Principles of marketing*. 17ed. Global edition. Pearson.
- Obreshkova, N. (2004). *Marketing in the Arts*. Blagoevgrad. „Neofit Rilski“ Publishing Complex. [Обрешкова, Н. (2004). *Маркетинг в изкуствата*. Благоевград. УИ „Неофит Рилски“].
- Tanushev, H. (2011). *Methods of competition analysis*. In book: Jeleu, S., Mladenova, G. et al. *Marketing*. Sofia. UNWE Publishing Complex, pp. 68-92. [Танушев, Хр. (2011). *Методи за анализ на конкуренцията*. В книгата: Желев, С., Младенова, Г. и кол. *Маркетинг*. София. ИК-УНСС. стр. 68-92].
- Winkler, J. (1983). *Pricing for results*. London. Butterworth-Heinemann.

#### **Journal articles:**

- Hinterhuber, A. (2004). Towards value-based pricing – an integrative framework for decision making. *Industrial Marketing Management*, Vol. 33, pp. 765–778.
- Marinov, K. (2011). About the profit from loyal customers. *Economic alternatives*, Issue 5, UNWE, pp. 95-106. [Маринов, К. (2011). За печалбата от лоялните клиенти, Икономически алтернативи, бр. 5, УНСС, стр. 95-106].
- Kostova-Pickett, D. (2017). Make small steps to remove from value-based payments to value-based pricing. *Economics and Management*, Vol: XIII, Issue: 2, pp. 90-104. [Костова-Пикет, Д. и Костова, И. (2018). Направете малки стъпки, за да преминете от разходи-плюс до ценообразуване, основано на стойността. *Икономика и управление*, XIII, бр. 2., стр. 90-104.]

#### **Conference papers:**

- Atanasov, B. (2013). Consumer loyalty – a factor for trade company development, *Innovative scientific tools in management*, vol. 2 (7), p. 222-232. [Атанасов, Б. (2013). *Потребителската лоялност – фактор за развитие на търговската фирма*, *Авангардни научни инструменти в управлението*, том 2 (7), стр. 222-232].
- Kostadinova, E. (2017). *Price promotions – a short-term solution or a long-term problem?*. Conference proceedings from the international scientific conference “Marketing- experience and perspectives”. Varna. Science and Economy, p. 390-

396. [Костадинова, Е. (2017). *Ценовите промоции – краткосрочно решение или дългосрочен проблем?* Сборник доклади от Международна научна конференция „Маркетингът опит и перспективи“. Варна. Наука и икономика, стр. 390–396].