



PRICING

FINDING THE PROPER PRICE FOR A PRODUCT OR ARTICLE IS OF CRUCIAL IMPORTANCE, AS WELL TO THE SELLER AS TO THE BUYER.

BUT THE PROCESS TAKES PLACE IN THE MARKET, AN INHERENTLY CHAOTIC ENVIRONMENT.

I FURTHER HAVE THE SUSPICION THAT IT IS IN MANY CASES MORE SHAPED BY EMOTION THAN THOUGHT!



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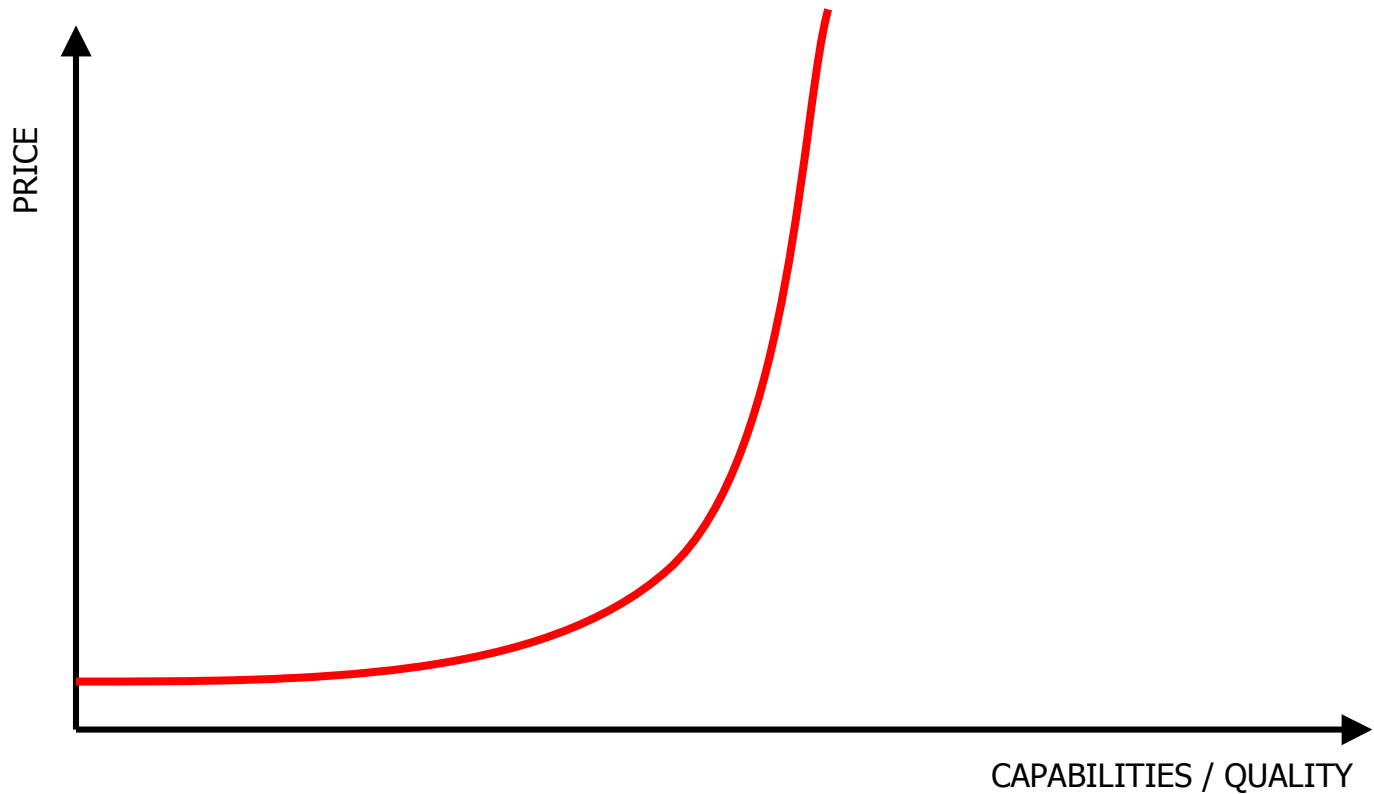
BUT THERE ARE SOME LAWS:

- **THERE IS A RELATIONSHIP BETWEEN THE QUALITY AND CAPABILITIES OF A PRODUCT, AND THE PRICE A CUSTOMER IS WILLING TO PAY.**
- **BUT THIS RELATIONSHIP IS SERIOUSLY BIASED BY MYTH.**
- **MYTH OFTEN SURVIVES REALITY BY MANY YEARS.**
- **PRICE HAS NOTHING TO DO WITH COST! COST IS OUR PROBLEM, AND PRICE IS WHAT THE MARKET IS WILLING TO PAY FOR OUR PRODUCT.**
- **THE LESS FAVORABLE PROPERTIES OF HOMO SAPIENS, FOR INSTANCE VANITY, PLAY A BIGGER ROLE THAN WE WANT TO ADMIT.**



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LET'S LOOK AT THE RELATIONSHIP BETWEEN PRICE AND CAPABILITIES.





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IT DOES NOT MATTER WHETHER WE TALK ABOUT AUTOMOBILES, JEWELRY, CAMERAS OR SUITS. IT ALWAYS LOOKS THE SAME.

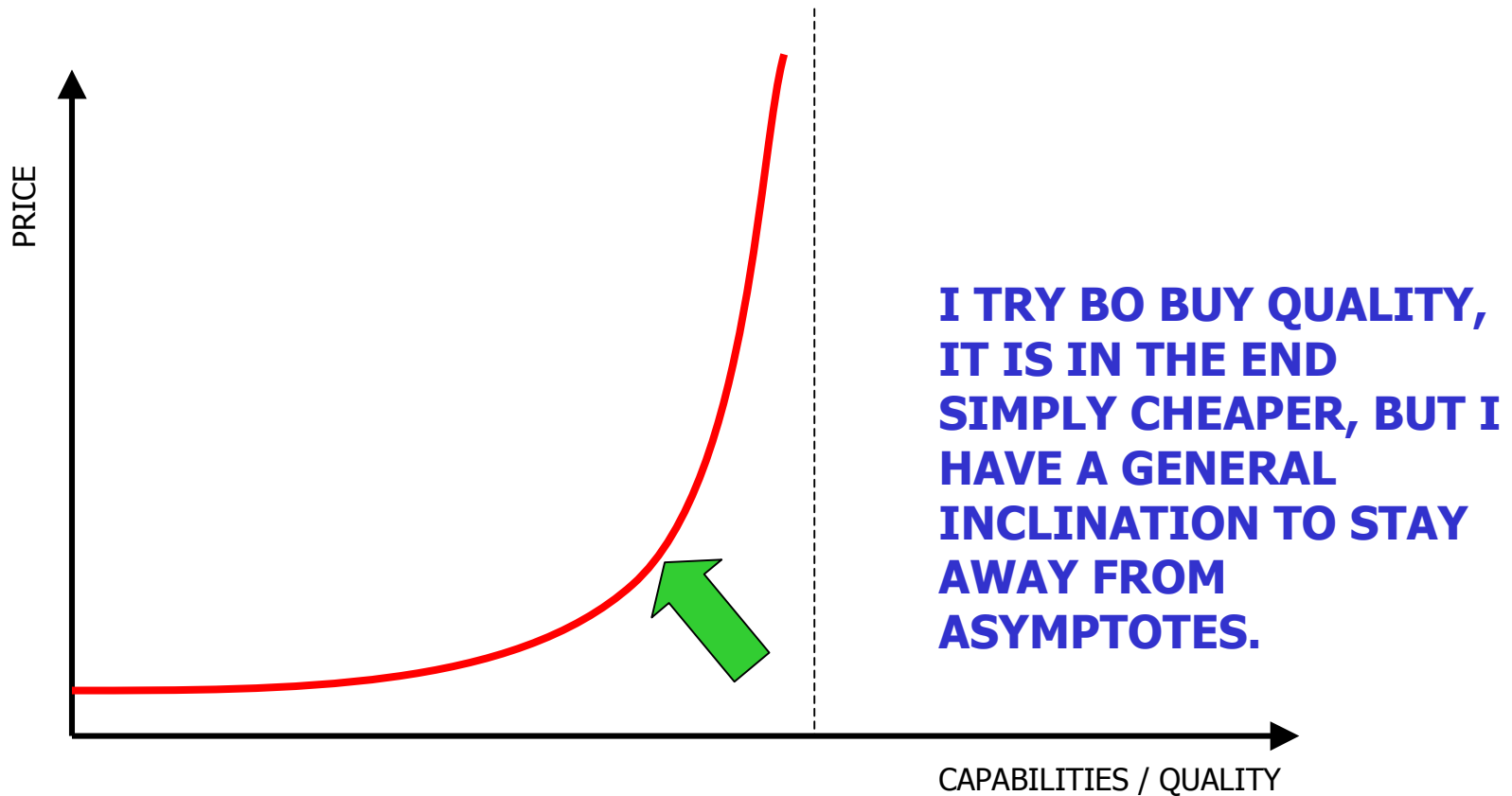
AND THERE IS AN ASYMPTOTE!

DIFFERENT PEOPLE WILL HAVE A DIFFERENT TENDENCY TO POSITION THEIR BUYING AND SELLING DECISIONS ON THAT CURVE.

BUT IT IS A SAFE ASSUMPTION THAT ALL THOSE MILLIONS OF TENDENCIES WILL BE MORE OR LESS NORMALLY DISTRIBUTED.

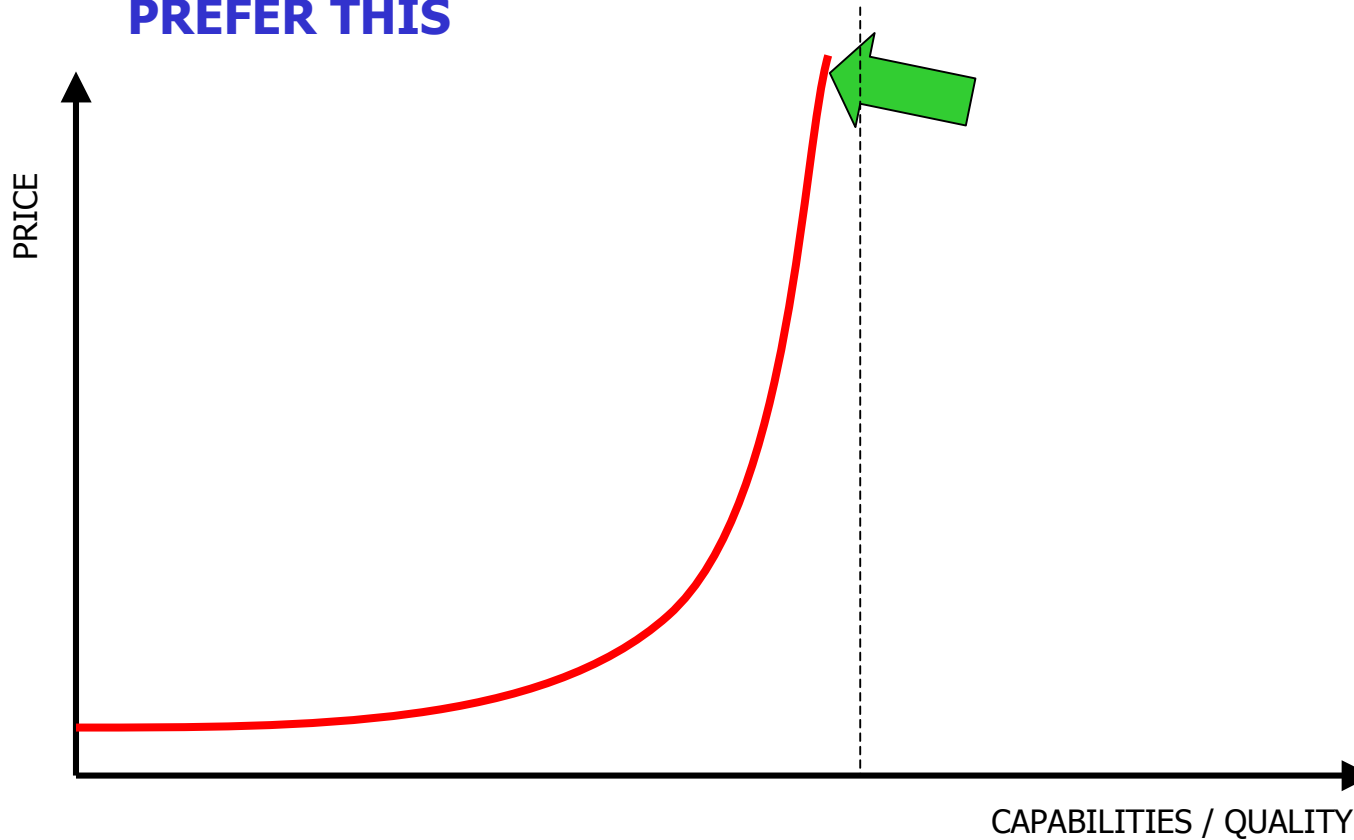
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I, FOR INSTANCE, WILL TRY TO BUY HERE:



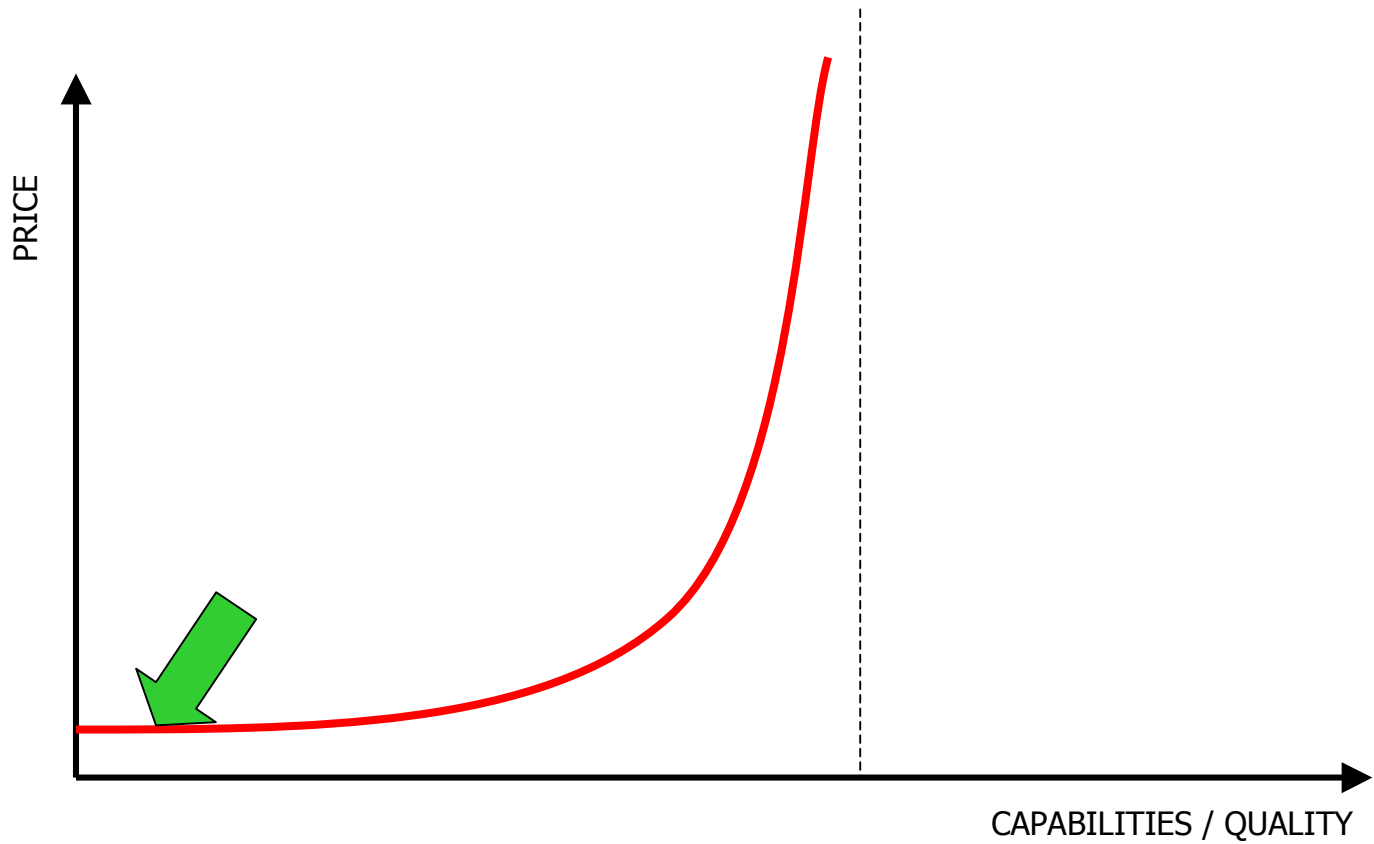
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BUT OTHER PEOPLE, FOR INSTANCE THE SUPER RICH, MAY PREFER THIS



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AND SOMEBODY ELSE MAY GO HERE.





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IF QUALITY AND CAPABILITY COULD BE DESCRIBED QUANTITATIVELY, AND MAYBE MATHEMATICIANS COULD HELP US WITH THAT, WE WOULD STILL HAVE SUFFICIENT PROBLEMS LEFT.

BUT FOR THE TIME BEING THAT IS IMPOSSIBLE, AND SUPPLIERS EXPLOIT THAT ROYALLY.

THEY USE THE FACTOR "MYTH"! THEY OFTEN SPEND MORE MONEY AND EFFORT ON THE BUILDING AND MAINTENANCE OF THEIR IMAGE THAT ON THE OBJECTIVE QUALITIES OF THEIR PRODUCT.

THIS IS PARTLY DONE BY "ASSOCIATION". THEY ASSOCIATE THEIR PRODUCT WITH BEAUTY, YOUTH, HEALTH, FUN...



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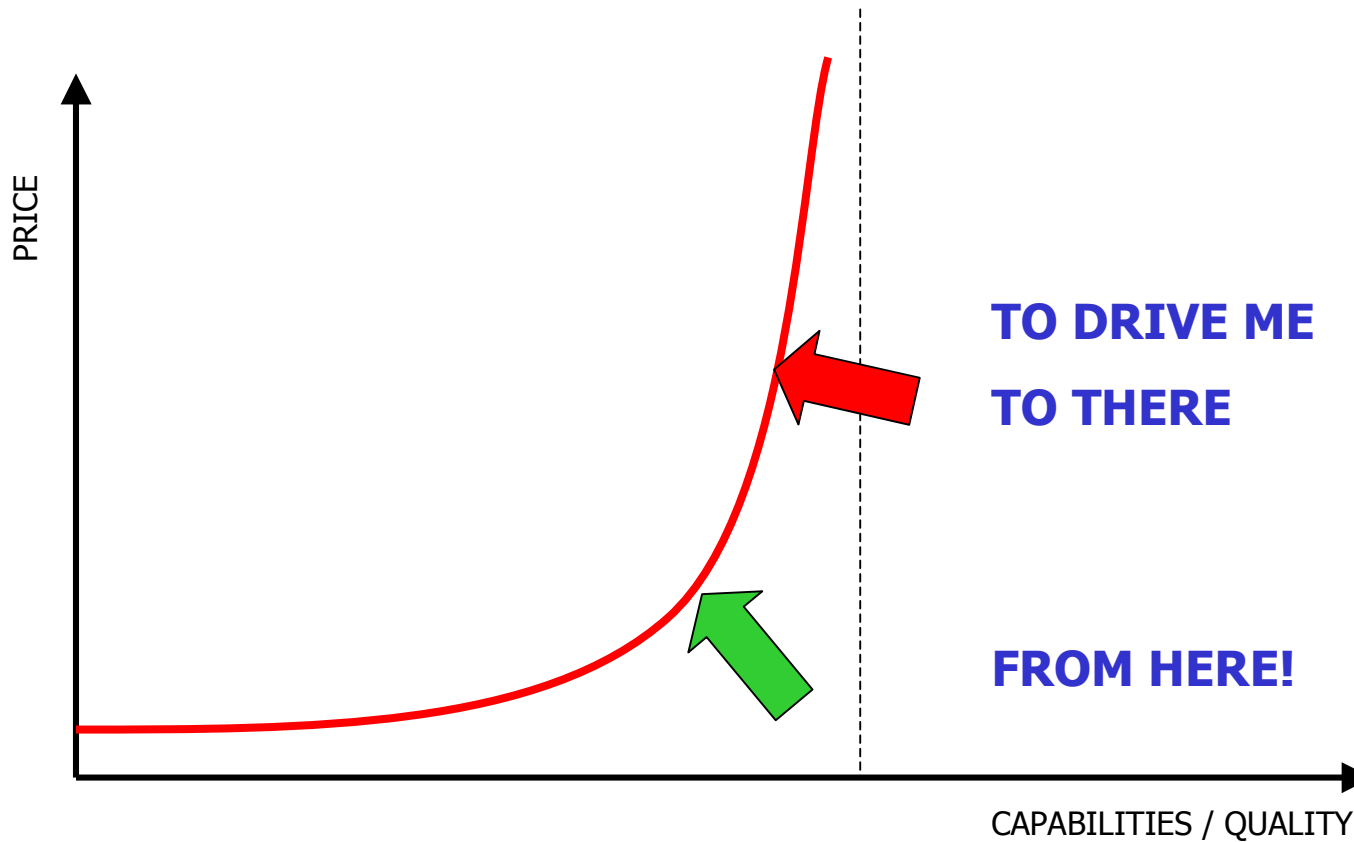
THEY EVEN TELL US THAT MUNDANE THINGS LIKE A CAR OR A WASHING MACHINE HAVE A "PERSONALITY"!

AND NOBODY LAUGHS!!!

ONE OF THE MOST DESPICABLE PEOPLE I EVER MET PRETENDED THAT BMW DESIGNED THEIR HEADLIGHTS TO RESEMBLE THE EYES OF A PREDATOR. HE MIGHT HAVE BEEN RIGHT! THE MAN HAD A SIXTH SENSE FOR SUCH THINGS.

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ALL THIS HAS OF COURSE ONLY ONE PURPOSE





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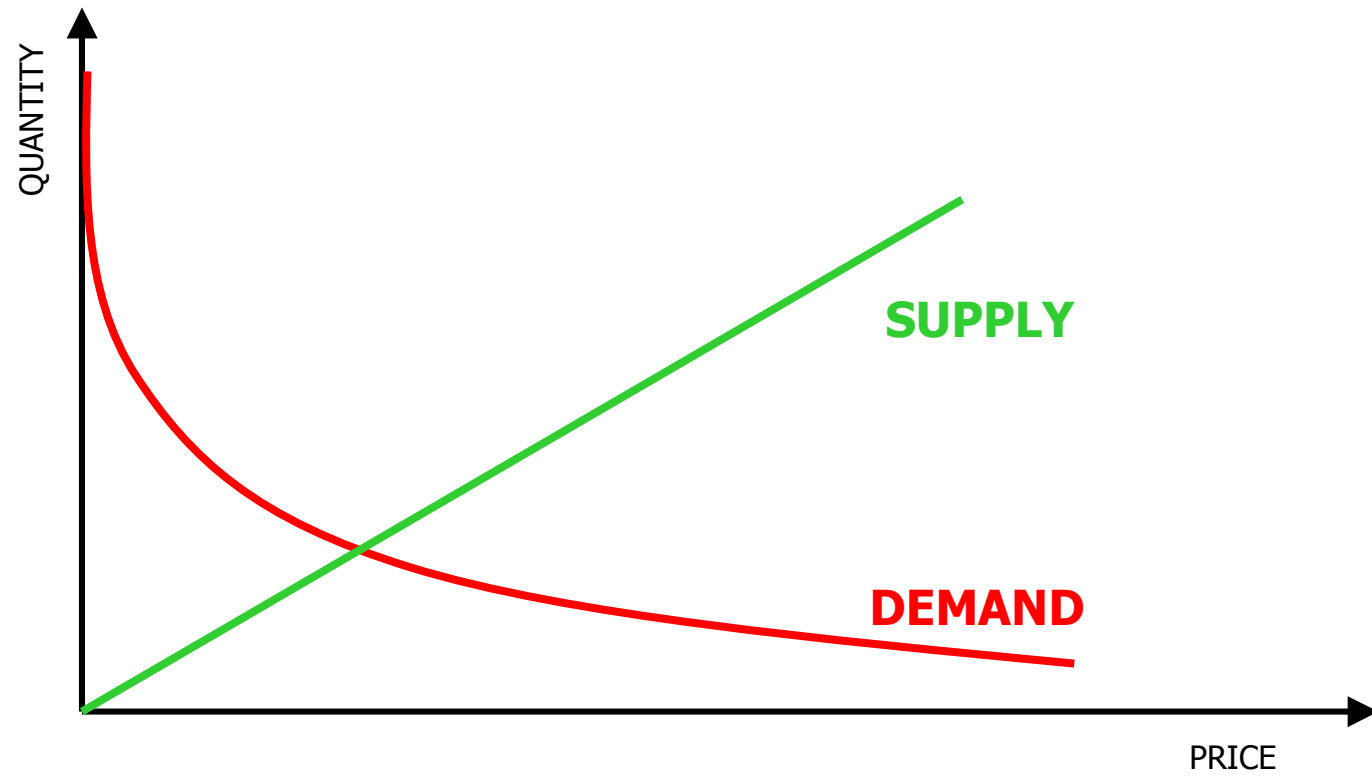
IT COULD BE DIFFICULT ENOUGH TO DESCRIBE THIS PHENOMENON QUANTITATIVELY.

BUT THEN, WE WOULD STILL HAVE A PROBLEM.

THERE IS THIS VERY ANNOYING INSTITUTION IN THE MARKET: COMPETITORS!

EVERY MICRO-ECONOMIC HANDBOOK SHOWS THE FOLLOWING GRAPH.

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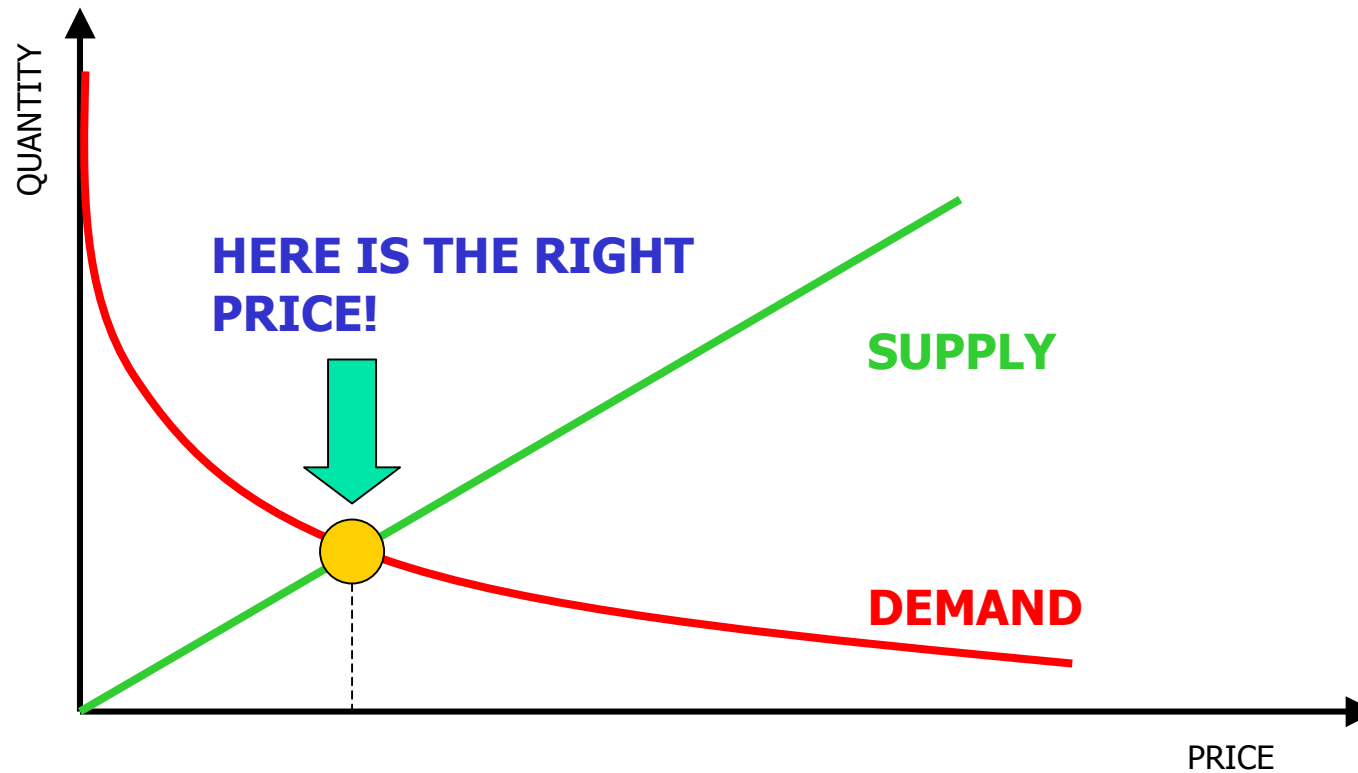
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IT IS REALLY OBVIOUS:

- **THE LOWER THE PRICE, THE HIGHER THE DEMAND. BUT! THIS IS NOT ASYMPTOTIC! EVEN IF THEY OFFER ME A TV SET FOR FREE, I AM NOT GOING TO PUT 10 OF THEM IN MY HOUSE!**
- **I BELIEVE THAT WE HAVE NO CLUE ABOUT THE REAL NATURE OF THE DEMAND CURVE.**
- **AND THE LINEAR SUPPLY – PRICE RELATIONSHIP THAT THE HANDBOOKS SHOW IS ALSO EXTREMELY SUSPECT!**

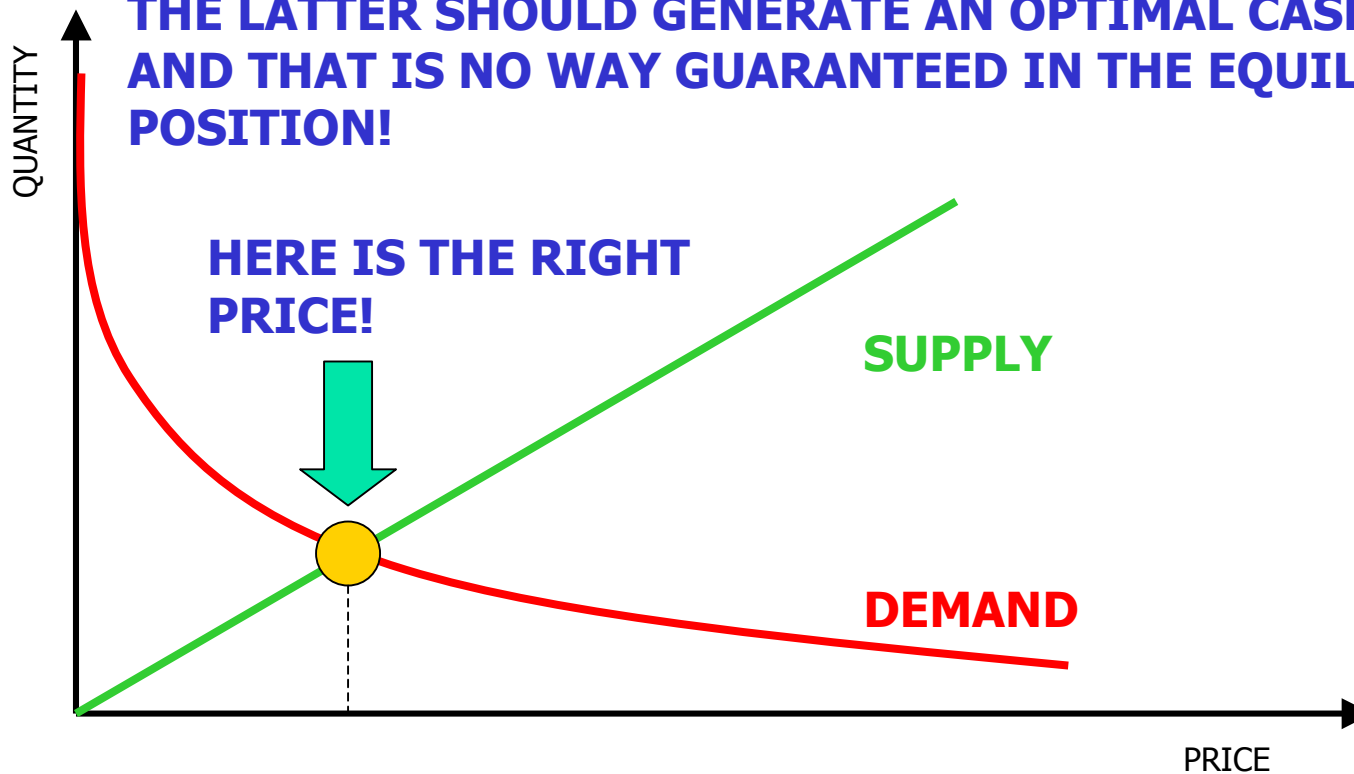
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BUT THE THEORY STATES VERY CLEARLY:



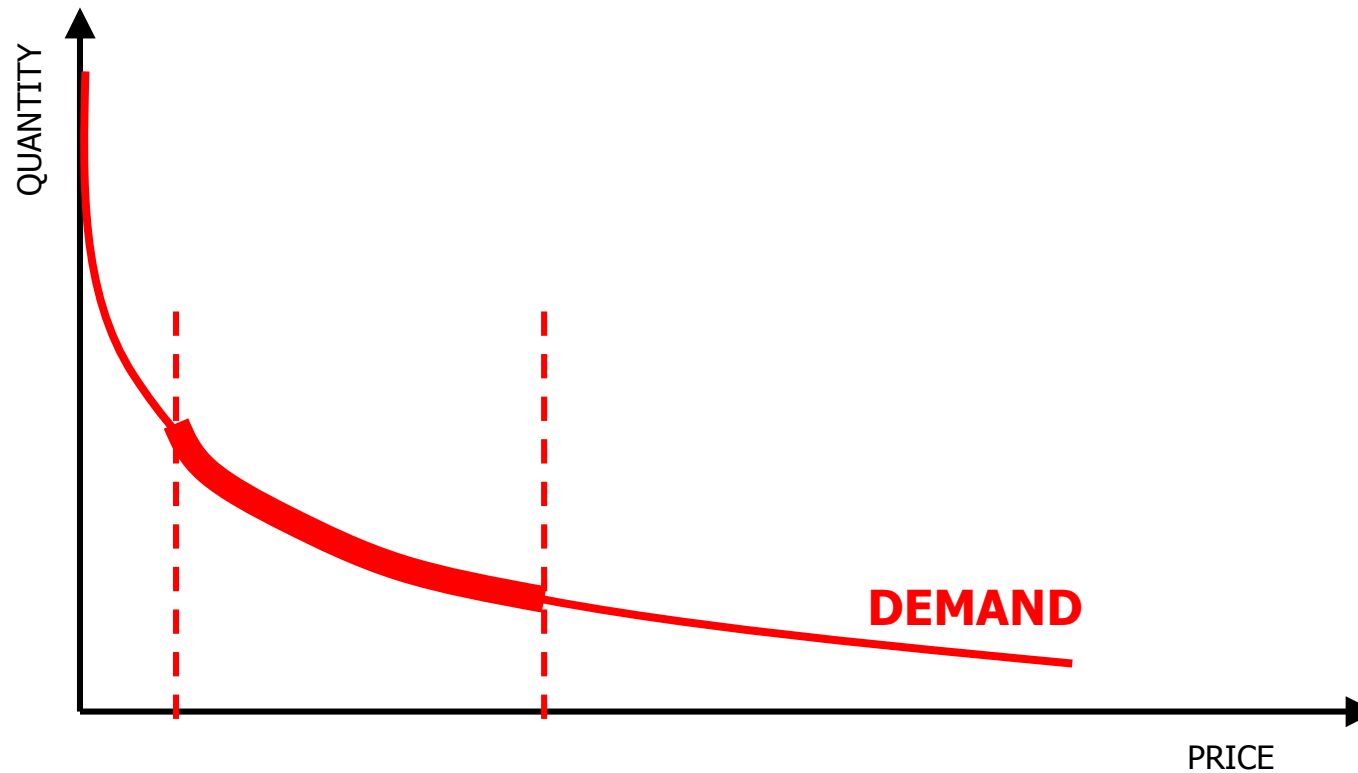
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THIS MAY INDEED REPRESENT THE MARKET EQUILIBRIUM, BUT IS IT *THE RIGHT PRICE* FOR AN INDIVIDUAL SUPPLIER? THE LATTER SHOULD GENERATE AN OPTIMAL CASH FLOW, AND THAT IS NO WAY GUARANTEED IN THE EQUILIBRIUM POSITION!



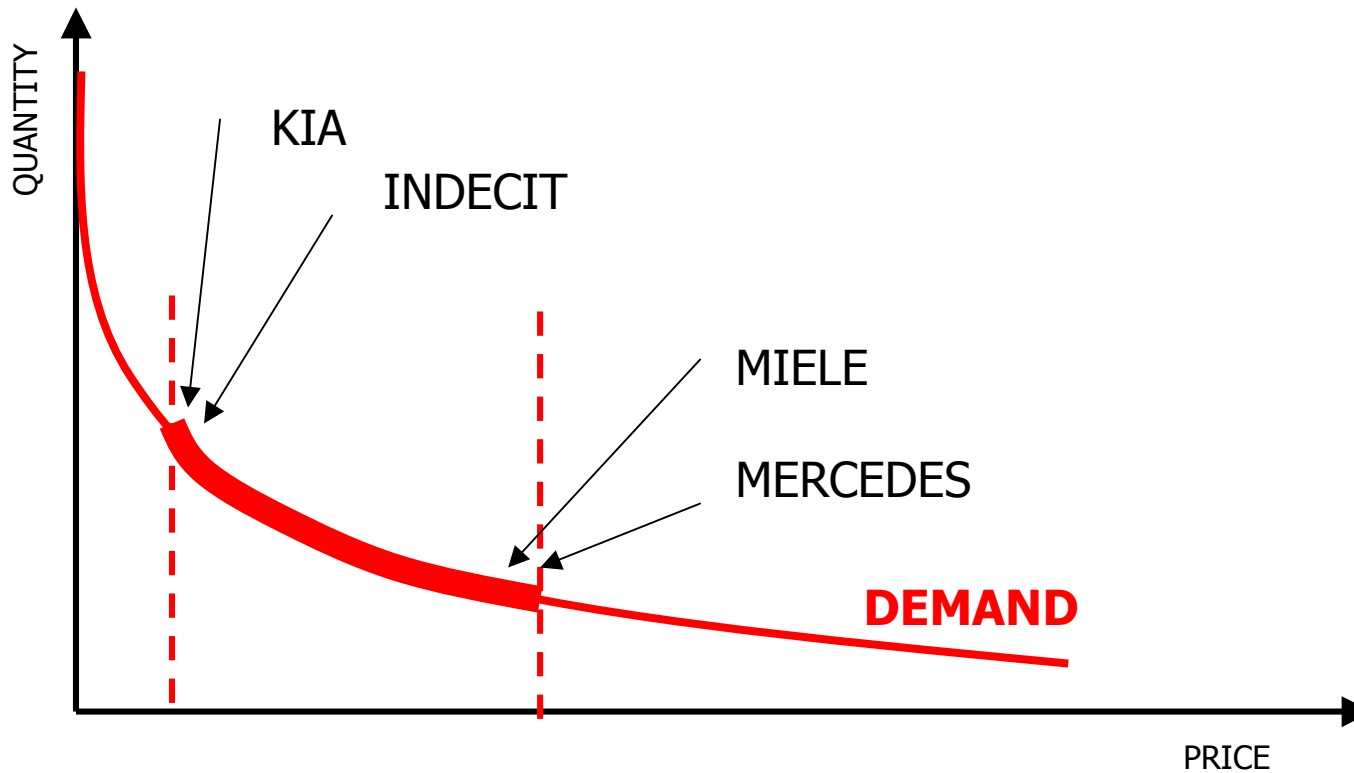
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PRACTICALLY, WE SEE *PRICE SPANS*! SUPPLIERS OCCUPY A CERTAIN TERRITORY.



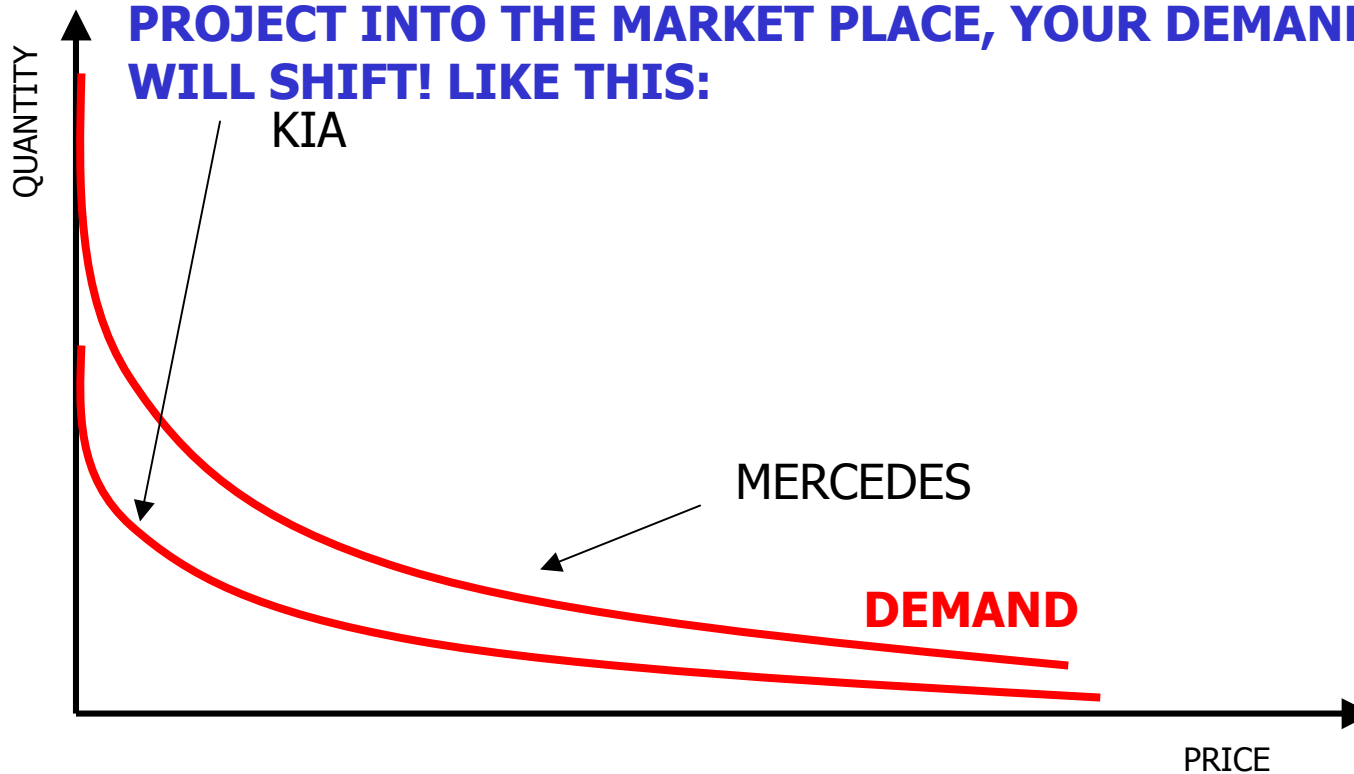
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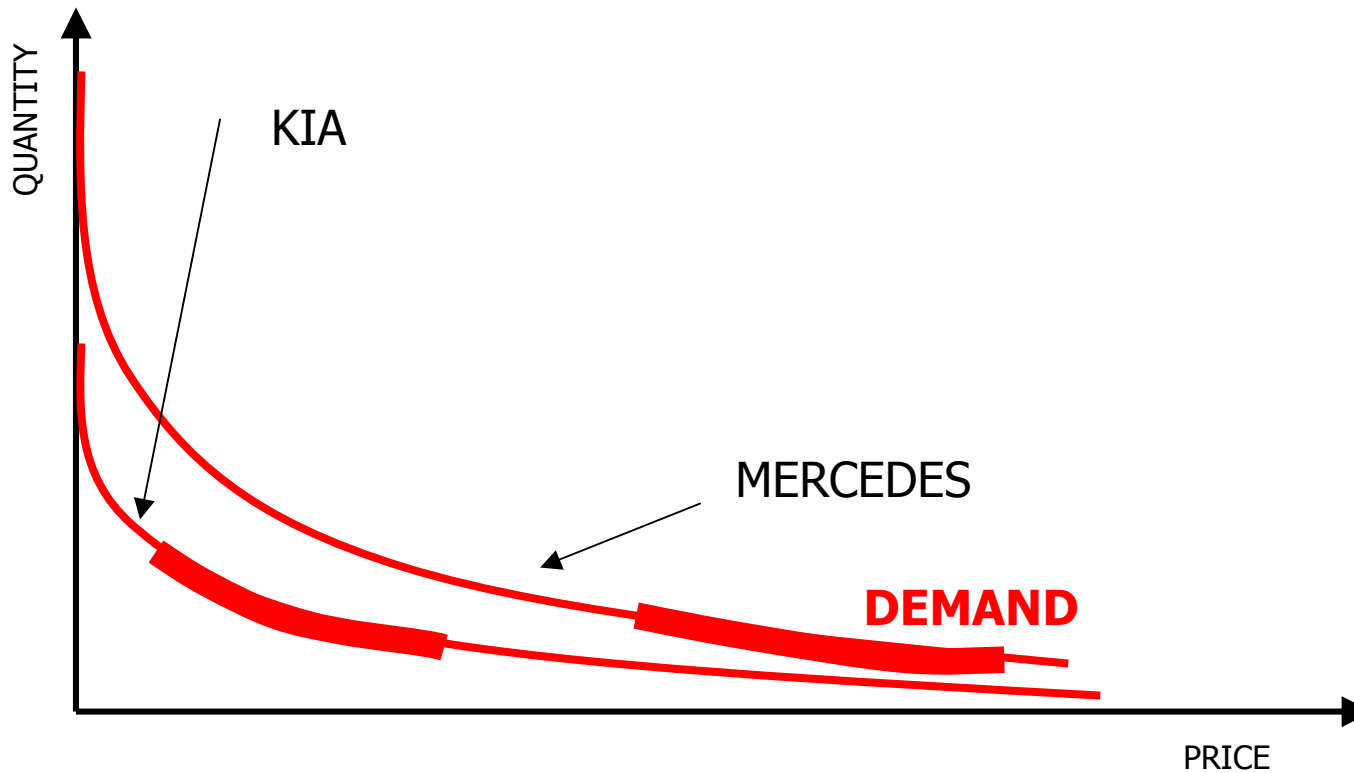
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**BUT THIS IS AGAIN AN OVER- SIMPLIFICATION!
DEPENDING ON YOUR REPUTATION, ON THE IMAGE YOU
PROJECT INTO THE MARKET PLACE, YOUR DEMAND CURVE
WILL SHIFT! LIKE THIS:**



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SUPPLIERS WILL POSITION THEIR PRODUCT ASSORTMENT ON THEIR INDIVIDUAL DEMAND CURVE.





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THIS IS AN INTERESTING GAME!

- **OF COURSE WE ALL WANT TO MOVE RIGHT.**
- **BUT HOW FAR CAN I MOVE TO THE RIGHT WITHOUT SEEING A COLLAPSE IN DEMAND?**
- **THIS LARGELY DEPENDS ON THE IMAGE YOU PROJECT INTO THE MARKET PLACE. PRODUCT POSITIONING IS IMPORTANT.**
- **THIS MAY HAVE VERY LITTLE TO DO WITH TODAY'S PERFORMANCE. THERE ARE *HUGE* TIME CONSTANTS IN THE SYSTEM.**
- **ALL THIS IS MANAGED PARTLY ON THE BASIS OF MARKET DATA, BUT LARGELY QUALITATIVELY, BY INSTINCT.**
- **THE SYSTEM COULD CERTAINLY MASSIVELY BENEFIT FROM SOME SERIOUS MODELING.**



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AN EXAMPLE:

- **IN THE 1970'S THE AMERICAN PUBLIC BELIEVED THAT THE USA PRODUCED GOOD CARS.**
- **THIS WAS ABSOLUTELY FALSE! IF YOU SHUT A DOOR A BIT TOO HARD, THE HANDLE FELL OFF. IT HAPPENED TO ME. IT WAS PURE SCRAP. BUT THE IMAGE WAS DIFFERENT.**
- **IN THE 1990'S, THE AMERICANS *MADE* GOOD CARS.**
- **I KNOW THIS, I DROVE THEM FOR MANY YEARS. BUT THE PUBLIC DID NOT BELIEVE IT. THEY STILL THOUGHT THE GERMANS AND JAPANESE WERE BETTER!**
- **WE STILL ASSOCIATE MERCEDES WITH QUALITY AND RELIABILITY, EVEN 10 YEARS AFTER THE FIRST ANNOYING ELECTRICAL AND ELECTRONIC PROBLEMS THAT WOULD *NEVER* HAPPEN TO KIA OR DAEWO SHOWED UP!**



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I AM NOT SAYING THAT ALL THIS IS WRONG AND SHOULD BE CORRECTED.

HOW COULD I? WE ARE SEEING PROPERTIES OF HUMAN SOCIETY HERE!

BUT I AM SAYING THAT ALL THIS INFLUENCES OUR DECISIONS, AND THUS ALSO THE PRICE WE ARE WILLING TO PAY.

IT IS OBVIOUS THAT THE SUPPLIERS ARE AWARE OF THIS HANDLE THAT THEY CAN USE TO MANIPULATE THE SYSTEM.

ALL THIS WILL MAKE SERIOUS MODELING NOT SIMPLER!



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BUT THERE ARE SIMPLER OPTIONS!

- **I RUN A RATHER SUBSTANTIAL ROMANIAN ENTERPRISE.**
- **I TRY TO OFFER ADDED VALUE TO MY CUSTOMERS.**
- **BY UNDERSTANDING THE ECONOMICS OF MY CUSTOMERS OPERATION, I CAN CALCULATE THAT ADDED VALUE.**
- **I CAN THEN POSITION THE PRICE SO THAT WE SHARE THAT ADDED VALUE FAIRLY.**
- **ONLY THE WORD "FAIR" ALREADY SUGGESTS THAT THIS IS A NAÏVE APPROACH, POORLY ALIGNED WITH THE CONTEMPORARY CYNICISM.**
- **BUT IT WORKS!!!**



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OF COURSE I HAVE INDUSTRIAL CUSTOMERS.

**BUT I AM CONVINCED THAT, WITH A BIT OF IMAGINATION,
THIS METHOD CAN BE APPLIED TO CONSUMER GOODS.
AND MAYBE, SUPPORTED A BIT BY THE PROPER
COMMUNICATION METHODS, THE TRUTH MAY PREVAIL!**

***MAYBE, IN THE END, THE NAÏVE
APPROACH IS THE ONLY ONE THAT
WILL WORK!***

BUT JUST "MAYBE"!