

# Impact of economic recession on retail pricing policy and consumer in Slovak republic

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Grant: 1/0876/10

Název grantu: VEGA

Oborové zaměření: Ekonomie

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**Abstract** Pricing and its increasing or decreasing is currently confronted not only by, the state of the economy, but also by internet trade expansion. Information flow through internet networks presents opportunities of cutting costs, speed up production or supply of goods and services. At the same time it increases uncertainty rate and risk, which consumers and producers have to face. Price and pricing policy becomes part and parcel of everyday sales management, retail chains and networks around the world. Aim of this contribution is to describe the nature of price and pricing strategies, as well as highlight the development of retail sales and consumer prices in time of economic recession and their impact on the Slovak consumers at the present time.

**Key words** Pricing policy, consumer, price, retail, economic recession

## 1. PRICING POLICY AND PRICING STRATEGIES AS THE DOMINANT PARTS OF THE RETAIL MARKETING MIX

Slovak but also foreign market is characterized by retail chains and networks expansion globally. The entry of new retail chains is primarily associated with a view to extend the range and volume of activities undertaking by them or to gain more market share. Retail chain or network establishing on the market is also closely related to the formulation and implementation of their pricing policy, which includes not only pricing, but also follow-up adjustment under the influence of changing environmental conditions in which they operate (Kretter, 2006). Slovak consumers are primarily deciding on the basis of price. Evidence of this is that almost no shops exist, which offer food in better quality. Therefore all retail chains focus to offer the cheapest goods to customer. Price is very often used as an effective marketing tool if the purchasing power of customer is low (Rózsa, 2009).

This contribution describes the essence and importance of price and pricing strategies, which form an integral part of the price as one of the marketing mix tools. The aim of the contribution is to point through a comparison on radical changes in the consumer prices turn and retail sales during the economic recession and in the Slovak republic at the present. The contribution is based on domestic and

foreign literature as well as available secondary data obtained from the Statistical office of Slovak republic and other websites.

### 1.1 The nature and importance of detail pricing policy and pricing strategies

Pricing policy should be based on business objectives of enterprise. The view of the enterprise economic objectives is internal and external. Internal view has to take into account sales adaptation of production conditions, effort of full production capacity utilization, full employment and full implementation of the optimal cost situation in the enterprise. Pricing policy is understood as a set of the state or enterprise measures in the field of prices. It is a part of state economic policy or enterprise business (Oláh et al., 2009). Currently, there are still many companies, which do not proceed with the best pricing. The most common mistakes are: pricing is very cost oriented, price adjustments are not sufficiently responsive and do not reflect the changes on the market, prices are determined regardless to other marketing mix parts and are not sufficiently differentiated with respect to different products and market segments (Kotler, Armstrong, 2004). Price is the most important attribute that a product must have, if we want to create a product from it as one of the primary market stabilizers. In fact, it is not only about the amount price of individual product, but also its linkage to other prices for other company products (Jedlička, 2003).

Companies frequently set the price again when launching a new product on the market or already launched product to a new distribution channel, or when they receive an offer from a new customer. According to Kotler, Keller (2007) companies have to review many factors when developing a pricing policy. Pricing usually includes six factors:

1. setting of pricing policy target and determining demand,
2. cost estimating,
3. analysis of costs, prices and supply competition,
4. selection of pricing methods and selection of the final price.

According to Jedlička (2003) **price strategy** presents a long term plans and decisions that top management applies in the company's economic management on the market and there exists their close links to the hierarchy of other corporate objectives. **Pricing strategy** determines the basic concept in marketing for company's pricing

decisions. It can be summarized as a summary of policies, procedures and rules, which company take into account and uses in the formation of a pricing policy to achieve these long-term strategic business goals (Bartáková et al., 2007). Currently companies have to face to the constant competitors' price changes. The strategy often depends on whether company produces homogenous or heterogeneous products. The companies can achieve the leading role on the market especially in the way of providing lower prices than their competitors (Kotler et al., 2009). If a company launches new products on the market, it may apply the following pricing strategy:

1. Strategy of high introductory prices,
2. Strategy of premium and diffusion prices.

An enterprise needs to know sufficiently large data base for creating a successful pricing strategy. It would be impossible to carry out pricing without it, as it requires constantly changing market environment. Weight and importance of individual data are different for each company and they are focusing on their particular needs and given situation in the enterprise and on the market. When a specific strategy is creating, it is mostly related with the following data (Rajňák et al., 2007):

1. The scope of range of products and services produced by company,
2. The scope and nature of consumer demand,
3. Production and sales costs,
4. The expected market trends and the competition influences,
5. Core business objectives.

Choice of pricing strategy may also have a political background, especially the state products or the products where the state has a controlling stake of its shares. In this case, the state primarily wants to maintain employment at all cost, even by setting of price level, which will achieve a lower rate of profit.

## 1.2 Process analysis of retail sales and consumer prices in Slovakia

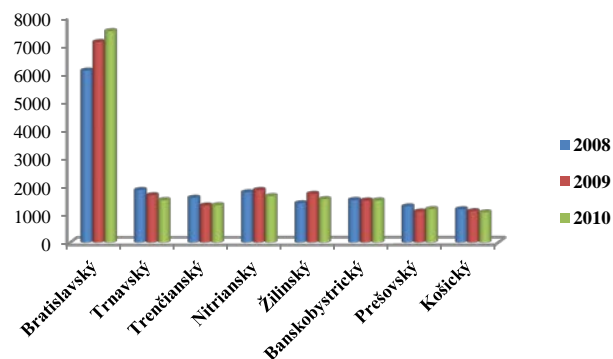
The global economic crisis has significantly affected a decline of the dynamics in economic growth due to the high openness of the economy. During 2009, the impact of the economic crisis fully reflected in all areas of the real economy. A collapse in the world trade led to a decline in demand for products and services and the uncertainty caused by the financial market crisis stalled economic processes determining the supply (Kárász, 2009). This development has resulted in a worldwide recession in many countries including the Slovak republic and has caused several serious macroeconomic imbalances. Table 1 and Figure 1 show the development of retail sales in Slovakia during 2008 – 2010.

**Table 1:** Revenues for own performances and goods in retail trade in the regions of Slovakia 2008 – 2010

REGION, SR	2008		2009		2010	
	mil. Eur b.c.	share in SR in %	mil. Eur b.c.	share in SR in %	mil. Eur b.c.	share in SR in %
Bratislava	6102,0	36,4	7 117,4	40,8	7 504,0	43,3
Trnava	1870,0	11,2	1 684,3	9,7	1 510,1	8,7
Trenčín	1594,5	9,5	1 319,0	7,6	1 326,1	7,7
Nitra	1789,2	10,7	1 871,4	10,7	1 651,7	9,6
Žilina	1399,6	8,4	1 733,1	9,9	1 544,7	8,9
Banská Bystrica	1515,8	9,1	1 497,1	8,6	1 497,8	8,7
Prešov	1288,7	7,7	1 103,7	6,3	1 190,0	6,9
Košice	1183,9	7,0	1 115,2	6,4	1 069,7	6,2

Source: processed by the Statistical Office SR

**Figure 1:** Revenues for own performances and goods in retail trade in the regions of Slovakia 2008 – 2010



Source: processed by the Statistical Office SR

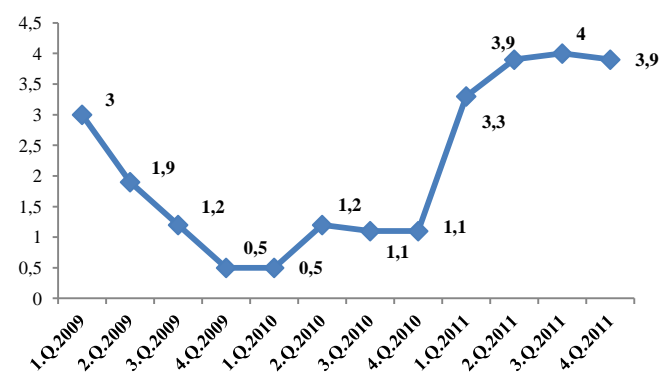
It also started to talk about global economic crisis in Slovak republic in 2008 and in the second half we really experienced it. Graphically we can see it on the retail trade turnover results in the Slovak regions, which are clearly elaborated in Table 1 and Figure 1. Impact of the crisis caused, that retail sales in some Slovak regions have been lower in 2009 compared to 2010. For example, the difference in the Bratislava region was about 386,6 mil. Eur, the Trenčín region about 7,1 mil. Eur and the Prešov region showed lower retail sales about 86,3 mil. Eur in 2010 compared to 2009. The other regions within Slovakia have not experienced the crisis so much in the sales, as evidenced by the results. Based on available published results, we can conclude, that there was a slight decline in retail sales of the food segment by -0,1% (at constant prices) in September. The food segment appeared to be relatively stable. Even short fluctuations confirm that is less sensitive to consumer sentiment and a decline in effective demand. Revenues and effective demand and costs of consumers increased slightly by 0,1% (at constant prices) in non-food segment in September. They still remain close to crisis minimums – 23% – 24% below pre-crisis in 2008.

**Table 2:** Development of consumer price indices for the period 2009 – 2011

	2009				2010				2011			
	1.Q.	2.Q.	3.Q.	4.Q.	1.Q.	2.Q.	3.Q.	4.Q.	1.Q.	2.Q.	3.Q.	4.Q.
Consumer price indices for quarters	3	1,9	1,2	0,5	0,5	1,2	1,1	1,1	3,3	3,9	4	3,9

Source: processed by the Statistical Office SR

**Figure 2:** Development of consumer price indices for the period 2009 - 2011



Source: processed by the Statistical Office SR

According to the elaborated results we can note from Table 2 and Figure 2 that in 4th Q.2010 were consumer prices increased by 1,3% compared to the same period in 2009. Consumer price index interannually increased at the end of 4<sup>th</sup> Q.2010 in households of employees by 1,3% and in households of pensioners by 1,4%. Consumer price index increased on average in 2010 by 1% in households of employees and by 0,9% in households of pensioners compared to 2009. Consumer prices raised by 3,7% on average for nine months in 2011 compared to the same period in 2010. Consumer price index interannually increased in September 2011 by 4,1% in households of employees and by 4,6% in households of pensioners and in 4<sup>th</sup> Q. 2011 fell from 4% to 3,9%.

Existing companies face to a hard and rapidly changing price environment. The recent economic downturn brought many companies under the "price pressure." Undercutting is not always the best answer, because the unnecessary reduction could lead to loss of profits and to the dangerous price wars. This may indicate to customers that the price is more important than brand. Companies must consider the range of internal and external factors when pricing, while the chosen price allows them to provide the greatest competitive advantage on the selected target markets. At present, the price decisions are restricted by law and ethical factors (Kotler et al., 2007; Foust, 2003). Pricing should be made for the benefit to the company. Prices are an integral part of marketing strategies and the key to achieving a profit. Based on the presented facts we can say, that the global economic crisis has affected the development of the Slovak retail sales, which of course reflected in prices and pricing policies. In recent years, we equaled Europe not only in an assortment, quality, but also in services.

## Zdroje

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