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## **PRICING COMPETENCES AS A TOOL FOR COMPETITIVENESS INCREASE OF LATVIAN COMPANIES IN GLOBAL MARKET**

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**Abstract.** In the global market with increasing of competition are facing all companies. And companies need to be able to use more and more actively different competitiveness increasing tools. Price and pricing are tools that entrepreneurs could use for strengthening their position and their competitiveness. In our previous studies, we have determined that: (1) price in the opinion of entrepreneurs, experts as well as various researchers is a significant competitiveness enhancing factor; (2) insufficient attention is paid to pricing in Latvian enterprises that does not allow using it comprehensively for ensuring competitiveness; (3) the changing and complex business environment, poor knowledge of pricing as well as unscrupulous pricing practices are main significant problems mentioned. The aim of this study is to evaluate the pricing competencies development opportunities for Latvian companies as a tool for competitiveness increase in global market. The following tasks were set to achieve the aims: to characterize the specifics of doing business in the global market; to describe pricing as an essential factor of increasing of competitiveness; to evaluate pricing competences of Latvian companies. Research methodology used in the research: logically constructive approach – to make judgments and results analysis; social research methods – panel discussion– to obtain primary information and to carry out its verification. As a result, the problems concerning pricing competences and the solution of increasing of those competences for Latvian companies can be evaluated.

**Keywords:** pricing, competences, competitiveness, Latvian companies.

**JEL Classification:** M16, M21, M31

### **1. Introduction**

As a result of globalization, business environment have changed and therefore, the entrepreneurs must adjust, work and be a competitor in the global market. In different researches, such as, Masteikiene & Venckuviene, Verjjela & Schmida, Jankalova, Chi & Hung, Ensari & Karabay, Savrul et al, the effect of globalization on the bussiness environment and market is evaluated. Important characteristics that are mentioned are:

- unpredictable consumer behaviour and increase of their power (Masteikiene & Venckuviene, 2015; Chi & Hung, 2011; Savrul et al., 2014 );

- increasing role of the innovations, technology development and rapidly progressing internationalization of the market (Jankalova, 2012; Ensari & Karabay, 2014; Chi & Hung, 2011);
- the short life expectancy of the products and mutability of the business environment that forces to seek new effective solutions and complex approach to maintain the ability to compete in the market. (Masteikiene & Venckuviene, 2015; Verjjela & Schmida, 2015; Jankalova, 2012; (Ensari & Karabay, 2014; Savrul et al., 2014);

In an era of globalizing economies many markets become increasingly international and competitive. Globalization creates new structures and new relationships, with the result that business decisions and actions in one part of the world have significant consequences in other places. However the business environment has been changing in a drastic way with the emergence of globalization (Savrul et al., 2014). In previous researches (Bruksle & Gode, Dolan, Simon, Liozu & Hinterhuber, Ruskin-Brown, Ingenbleek ) a conformation for the importance of price making in the creation of the competitiveness of the business, that is increasing due to the globalization is achieved.

Pricing is a key element in firm profitability, pricing capabilities play an increasing role for companies. (Liozu & Hinterhuber, 2013). Product have “gone global” and pricing is implemented by different nations’ situations; pricing practice have become more complex as terms and conditions have proliferated; and price customization opportunities are being pursued worldwide. (Dolan, Simon, 1996). Price has a major influence on the health of the organization’s income, pricing policy is critical to the survival and success of any business. (Ruskin-Brown, 2008)

Although price-setting is one of the most important management functions, it is still insufficiently understood and also one of the least-controlled functions in many companies. At the same time, price-setting is a very sensitive tool available to managers for influencing the profit. Price-setting contains a huge potential, implementation of which can ensure the increase in the company's operational efficiency and gaining the competitive advantage. (Bruksle & Gode, 2012, A).

In the company, price making is a difficult, but significant and important process. Prices made accordingly to a particular economic situation is going to give price - privileges to the company that occurs in a significantly in a situation of strained competition; by gaining the price privileges, the company increases its ability to compete, directly because of a wisely made price (Bruksle & Gode, 2012, B). Discussions are being held of price making being a valuable knowledge that must be developed. However, managers have been often noticed distancing themselves from active price making (Ingenbleek, 2014, Kienzler, 2017, Adesi et al., 2018, Dolan, Simon, Ruskin-Brown, Indounas, 2009, Gilmore & David Carson, 1996).

Price is the reward for the application of specialized knowledge and skills, pricing is an operant resource, or competence, (Ingenbleek, 2014). We continually heard that pricing is a big headache – and one that getting worse by the day as markets globalize. Many firms have given up, others have a different attitude, proactively using price as a key tool to achieve their business and financial aims. These “power pricer” have discovered the highly leveraged effect of price and built the capacity to practice pricing in a way which transforms the bottom line (Dolan, Simon, 1996). An awful lot people in management will steer away from pricing decisions and financial management accounts out of a fear that they will not be able to handle the calculations involved (Ruskin-Brown, 2008)

The significant role of the leaders in the process of price and decision making and the strategic effect of those decisions on the company's ability to compete is being marked. (Piercy et.al., 2010, Gilmore& David Carson, 1996, Kienzler, 2017, Prasad, 1997). It is very important that business executives recognize pricing decisions as a strategic responsibility with long-term implications, executives should give explicit attention to moving from tactical pricing to strategic pricing decisions (Piercy et.al, 2010).

It is indicated that one (Lusch and Vargo, 2008), has to be innovative in the price making process. Price making scope and ability to actively practice price making affects the achievements of the company and ensures the privileges in competing in the market (Liozu &Hinterhuber, 2013, Lusch and Vargo, 2008) Also Latvian businessmen acknowledge the price making as a tool promoting the company's ability to compete. However, this tool is not used actively enough and it is believed that lack of knowledge and scope in price making process is a reason for that.

According to entrepreneurs only some factors mentioned ensure the competitiveness of the enterprise and products and price is underlined as one of the primary factors (Bruksle&Zvirgzdiņa, 2017). With increasing competition in Latvian business environment, such competitiveness promoting tool as price making is not used often enough. It is necessary to improve knowledge in privileges of applying this complicated tool and managing it. (Bruksle&Gode, 2012, B). Latvian entrepreneurs carry out price-setting mostly by themselves. Usually it is done by the owner – the manager of the company. Price-setting in the companies is organized in a relatively simple way, without paying much attention to it. (Bruksle&Gode, 2012). Latvian entrepreneurs have highlighted: poor knowledge of pricing and chaotic pricing setting with lack of in depth research; poor use of pricing as a competitive advantage in Latvia due to lack of information, experience and the belief in ability to implement something new; attempts of entrepreneurs to conquer markets with unfounded low prices that distort the market; poor research of markets and prices (Bruksle& Gode, 2014).

We would also like to mention that both- the experts and the businessmen themselves mark the significant role of the knowledge in promoting the competitiveness. However, there is not enough discussion held in Latvian business environment about the price making process. The according experts' opinion only experience and knowledge as well as a healthy business environment would enable us to resolve the problems concerning competitive pricing. (Bruksle&Zvirgzdiņa, 2017). In the perception of a businessman, the business environment competitiveness promoting factors are- people, their knowledge, scope and skills (Bruksle at. al., 2016). In Latvian business environment there is insufficient discussion on pricing practice and the question is very topical, therefore the interest in the issue should be stimulated, there should be active discussions in business conferences, professional editions, and social media. (Bruksle& Gode, 2014)

Concluding this chapter, we want to mention the research of McCaskey & Brady about the possibilities to gain knowledge in price making in universities in USA, where it was found that the specialized study courses that would develop the price making skills are offered by a slightly small amount of accredited schools. The AACSB's list of accredited schools in the USA numbered 443. The data for the study were obtained from the online versions( 363 (81.9 percent) of the accredited schools),the marketing offerings of each qualifying school were examined to determine the existence of a course devoted specifically to pricing or including pricing as a significant component, but only 33 schools (9.1 percent) list a course in their

online catalogue that demonstrates a significant emphasis in pricing, and only 14 schools (3.9 percent) offer a course dedicated solely to the topic of pricing ((McCaskey, Brady, 2007). In the continuing chapter we are going to address the research of price making process in Businesses in Latvia.

## 2. Methods

In the research were used following methods: the monographic method - gathering information about the pricing competences, also based on the literature review, determining the role of pricing competences in the company as the competitiveness tool in global market; analytical method: analysing the research issues, main aspects of the pricing in global market; social research method - panel discussion methods that enable acquiring a clear view of the situation in Latvia. To gather information about pricing competences in Latvian enterprises two panel discussion was organised. In the first panel discussion was attended by 10 entrepreneurs with long-term business experience in the Latvian market. The questions raised during the panel discussion were designed to ascertain the entrepreneurs' vision of pricing competences in Latvia companies, and possible solutions that would enable the develop the pricing competences. Second panel discussion was organized to get 10 experts' vision of the pricing competences in Latvian companies and to find out the possibilities for improving it. Specialists from various fields were invited to participate as experts: members of the Latvian Association for Quality, the member of the Association of Accountants, the board of the Direct Marketing Association, member the board of the Latvian Economist Association, member of the Business Efficiency Association, business management consultants.

In the panel discussions the answers were searched for to the following questions:

- Whether enough special attention is paid to the price making process, acknowledging its role in creating company's competitiveness;
- Where do businessmen gain knowledge in price making;
- Whether the price making requires specific knowledge;
- Whether the businessmen feel the need to improve the price making;
- What would improve the price making skills;
- How highly are the possibilities to gain education in price making elements rated in Latvia;
- In what kind of educational events would businessmen be interested to take part in?

## 3. Results

By collecting the results of the panel discussion, we can conclude, that:

- Entrepreneurs admit that a special attention in the company is given to the pricing and that the price significantly affects the competitiveness of the company. However, there are areas, where price is not the most important tool whilst the quality and speed of the service are more important. Moreover, they also that sensible price borders are very important and that the price is used as a tool in selecting the potential client;
- The knowledge about the pricing is gained from the course in universities, as well as through experience, from reading written works, discussing in forums and conferences and from listening to the opinion of the cooperation partners.;

- Evaluated as a significant knowledge there is: knowledge about the particular market and its important players; price politics of the intermediates; all the factors until the consumer that make up the price. It is mentioned that significant is an understanding about the product, its components, the demand of the product, the basics of the pricing and the understanding of the written and unwritten rules regarding the pricing. Additionally, analytic and critical thinking is important as well;
- The development and improvement of the price making skills is a continuous process - knowledge always has to be enriched. However, part of the businessmen admitted that they don't feel the need to improve their skills;
- To improve the pricing skills, the stories of experiences of experts are needed, as well as the research of the literature, market and actions of the competitors. Moreover, experience and experiments are necessary;
- Entrepreneurs believe that are possibilities for one to be educated in pricing process in Latvia, those possibilities just must be looked for. However, the experience of the lecturers is very important;
- Entrepreneurs admit that the event of exchange of the experience is the one educational event they would be interested to take part in. Although, it could be possible to take part in different events such as lectures and methodical seminars as well.

The opinions of the experts were gained during the second panel discussion and after collecting the results, we can say that according to the experts:

- Majority of the entrepreneurs pay too little attention to the pricing by using primitive and generally known methods. Additional to that, in many cases businessmen are following the existing price of the market and do not calculate the cost price themselves, moreover, they do not create a stable price to maintain their regular customers. Only the big businesses can financially afford to have a marketing specialist that could create and carry out a pricing policy in the company. The small business owner often does not use all the privileges of the pricing system. Further and increased knowledge and skills in these areas are necessary for the business owners.
- The knowledge and skills of Latvian businessmen in pricing are average and gained during actual experiences, however that is not always sufficient enough.
- Pricing requires certain knowledge of strategic planning, financial management, process management, and marketing, as well as, specific knowledge of pricing strategies to create a model of tactics and be able to identify the differences in pricing processes between pricing of the product and service. Moreover, the bigger the business the higher the knowledge in price making methods should be;
- Business owners must improve their pricing skills. It could be done by cooperating with educational institutions more, as well as adopting the best examples from the big companies (associations of the industry etc.) and by distributing the information about pricing methods with the help of associations. Part of the business owners could be satisfied with few consultations where the information is based upon calculations of price making and creation of the discount. New business owners that don't have education in sphere of economics would need mentors/ consultants. Educating the workers is possible through courses and seminars;
- In Latvia there are possibilities to educate yourself in price making. There are accessible materials about pricing methods, however, business owners have a lack of

understanding about these areas. Pricing is looked at in different university courses, but there is no information about specific courses that are directly about the pricing methodology;

- The experts admit that all the educational events and institutions may be effective, however the methodical seminars of price making should be especially highlighted. They also suggest creating an online program or different main calculation templates, that could be adjusted to an environment of a business and basic calculations could be done.

## 4. Conclusion

We would like to note that in the global market price making skills are very important and special attention towards the price making as a strategic decision should be paid, which would increase the ability to compete in the market. A differing opinion from the experts and businessmen about the price making skills is observed. However, they all agree that these skills are important in securing the competitiveness of a company, as well as they agree that the development and improvement of these skills is a continuous process. It is said that, educational opportunities in Latvia are satisfying and the great significance is in the exchange of the experience itself. As well as a partial approval is gained for the previous lesson (Bruksle & Gode, 2014), that - there should be promoted the development of entrepreneur knowledge and skills regarding pricing solutions as the lack of knowledge unfortunately is acknowledged as being a significant problem in the optimum pricing practice in Latvia. It is necessary to continue researching the educational possibilities in price making elements in Latvia.

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