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SciVerse ScienceDirect
Procedia - Social and Behavioral Sciences 62 (2012) 408 – 412
Procedia
Social and Behavioral Sciences

WC-BEM 2012

The analysis of the critical dependence point of price decision in relation with the market factors

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Abstract

Starting from the economic effects of investments in green energy, the authors search to answer of the questions: What is the global energy balance determined by the investments in renewable energy? What are the economic, social and environmental effects? The answer to these questions is based on a case study which includes 10 investment projects in wind and solar energy, made in Romania. The research method is based on cost - benefit analysis and comparative analysis of the situation on the European energy market. The conclusions results show that the specific investment for green energy production is generally higher than the specific investment for conventional energy production. This lead to a low economic profitability. However, the low economic profitability is offset by environmental benefits, in the sense that they are not polluants and they have positive effects on sustainable development.

Keywords: wind power, investment, return, sustainable development;

1. Introduction

The work includes analysis of the price decision of 20 companies with different sizes. Pricing decision is the result of the influence of key factors such as: size, market share, competitive position, competitive context and overall economic.

The conclusions of the study show that in small enterprises, the price decision is a decision in relation to the independence square, are free to choose any rational price for selling products (these enterprises are small enough so as not to influence the market, and also not to be influenced by market). For large enterprises, price is the key decision on position-based performance and condition of the general economy (the market is the decision-making factor in fixing the price).

The line that separates the degree of size according to independent enterprise decision was called critical dependence of the decision makers in relation to market price. The critical dependence point of the decision is defined in terms of enterprise size, measured by turnover indicator.

2. Methodology and Material

From the methodological point of view, the paper uses field study based on questionnaires which involves direct interaction with the enterprise. The method used for obtaining information was the survey. It has been subject to a number of 20 enterprises.

1877-0428 © 2012 Published by Elsevier Ltd. Selection and/or peer review under responsibility of Prof. Dr. Hüseyin Arasli
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The variables (V) that have been analysed are:
- Size of the activity performed, measured by turnover indicator;
- Type of product-anonymous-volume, specialized, brand;
- Maturity of enterprise;
- Competitive position;
- Making the decision on price;

The appropriate sampling unit to the select the target group of the investigation was the enterprise. The respondent must meet the following criteria: to be the main share holder and have dominance in decision making. The sample was chosen respecting the principle of representativeness to the community studied total.

3. Results and Discussions

3.1. V1 - Which is the size of the enterprise?

The size of the enterprise was considered according to turnover. Turnover express all intakes recorded by an enterprise in a calendar year (turnover, formed on the market and shall be expressing power to sell to the enterprise).

- under 200,000 EURO -12.6% of respondents;
- 200,001- 400,000 EURO – 28.9% of respondents;
- 400,000 – 600,001 EURO - 33.6% of respondents;

More than 600,000 EURO -24,9% of respondents.

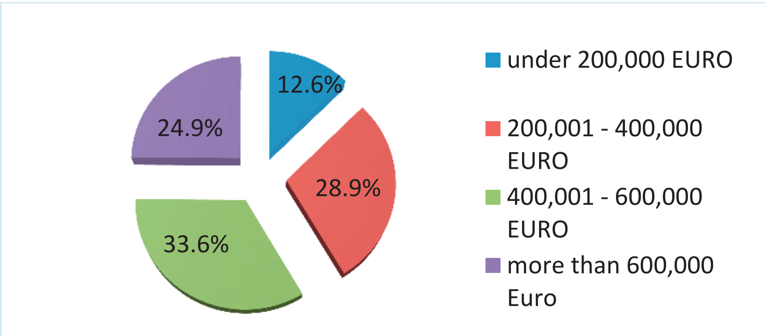

Figure 1. The segment size of enterprise

The segment size with largest share is the 400,001 - 600,000 EURO - segment which coincid with mid-sized firms that have reached maturity in the market. Lowest weight corresponds to small firms in training or increasing – 7.8%.

3.2. V2 - Whichis the type of product?

Thype of product within the portfolio of the sample enterprises was defined in relation to policies for sale. So, in the total sample, 42.3% have in portfolio anonymous products with policy-based strategies for sale volume, 38% of firms are specialized in product-oriented policies for sale based on differentiation strategies, and 18.7% are enterprise-oriented policies for sale based on brand strategies.

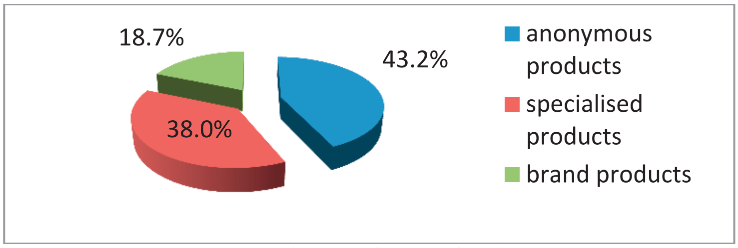

Figure 2. The type of products

In the case of "VOLUME" products it is manifested the effect of experience. It is the only category where the market and profitability are rigorous and the strategies related to domination by a competitive cost advantage. Though the yield is low for all competitors and pricing strategies fondation is finding "niches" with localized volume effects.

In the case of "SPECIALIZED" products, the differentiation strategies open the path to profitability and competitiveness. Differentiation factors are multiples and depend on the ability of enterprises to adapt to the changing realities of the market.In the case of products of the brand, price is a decision based on the "black box" of the consumer (e.g., fame, power, comparison, etc). Correlating V1 with V2 we appreciate that there it is not a direct relationship between the amount of verified statistically and by product type.

3.3. V3 - Which is the enterprise maturity?

In this work by the maturity of enterprise it`s understanding the ability of this to take advantage of the cost and benefit of the price. Those two advantages are generally given by the company and the type of experience. In general, these low cost markets in stagnation and price advantage is based on growing markets.

Attribute is accomplished by 34% of the total sample and the difference of 52% are " growing enterprises” and 12% are „decline enterprises".

V3 correlates with V1 in the sense that firms have large degrees of size are placed in the "mature enterprises” – 36% and "growing enterprises” – 64%.

3.4. V4. Which is the competitive position?

The main characteristics of competitive positions have been classified according to the dominant model ADL:

Dominant position: the enterprise is able to control her competitors behavior and has a vast strategic freedom in choosing options independently of its competitors;

Powerful position: the enterprise is capable to put into force the strategic option and without jeopardizing the long-term position;

Favorable position: the enterprise has exploitable advantages to conduct her strategies and has very good chances to be able to maintain its position in the long term;

Low position: the enterprise has performing satisfactory enough to justify a continuation of activity and has average chances of maintaining her position in the long term;

Peripheral position when the enterprise:

-currently has unsatisfactory performance, but it has possibilities for improving his position;

-can have the characteristics of a better position, but presents a major deficiency;

-can survive, in the short term.

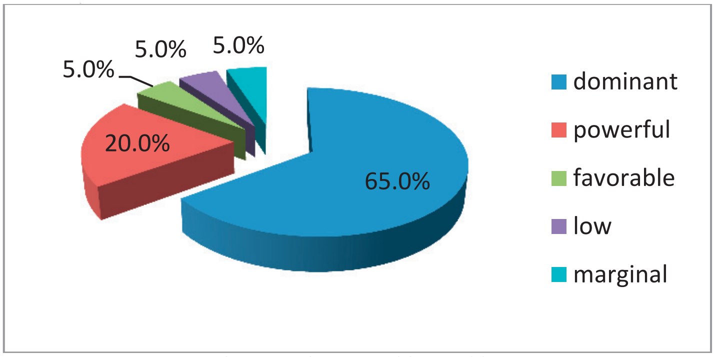

Figure 3. The competitive position

Favorable position is owned by 65% of respondents. Another significant proportion of enterprises with strong position-20%. The other 3 positions are equal competitive deal (5% of the sample).

Correlating V4 with V3 we appreciate that in a start-up or activity in growing massive investments are needed and only a strong or dominant position will allow their self-financing. A weak or peripheral cause a shortage of liquidity and a greater risk and low return. Our mature and dwindling few needs, while a strong or dominant by a low risk. Conversely, reduced profitability in low position or peripheral, imply a reduction in the possibility of their self-financing and an increase of risk.

3.5. V5. What are the strategies in the background of decision price?

The answer to this question correlates to the size of the enterprise. So, small firms which have a turnover of less than 400,000 Euro responded in a proportion of over 85% that in the supporting strategy of their decision, the market (average price, competition, etc.) does not constitute an important factor. It is important for these companies, the production and the main source of growth of production is the profit peripheral to ensure self-financing and technology development. In contrast to companies that register a turnover of more than 400,000 Euros (over 95%) appreciate the strategy underlying the decision price is a function of the market (competitors, price, etc). It is important for these companies turnover and increasing market shares and the main source of growth in turnover and market share is dropping the price of the sale.

Result that the decision price is a function of the size of the enterprise, such as:

a) for small enterprises, the price is an independent decision in relation to the market, they are free to choose any rational price for selling products (these enterprises are small enough so as not to influence the market, i.e. will not to be influenced by market and for them it is important growthtechnology and innovation). If these companies cannot influence market then any market does not affect revenues. The effect if you want to increase sales will increase production volume. In this case the turnover is directly proportional to production sold, i.e. the total turnover is constantly and ascending influenced by the medium turnover and the turnover peripheral. Medium turnover is equal to the sale price. Sale price is established independent of the enterprise, given the fact that we can sell at any price that we cannot influence market nor it on us. So, the average turnover remains constant as an average market price. The marginal turnover is constant and equal to the average market price no matter if sales are increasing or decreasing.

b) for large enterprises, price is the key decision on competitive position and condition of the general economy (market decision-making factor in determining the price and the important factor is the increase in turnover and market share). When firms have a volume of activity that influence market economic philosophy based on the idea that an increase in turnover has as its main source of price drops. In effect, in the case of these enterprises, turnover increases inversely proportional to growth and achieve maximum sale when marginal turnover is equal to zero. Average turnover drops as sales grow and is equal to the sale price. Sale price drops as sales grow and achieve a minimum incopresibil when the company decides to produce more san.

The line that separates the enterprise size in function of independence decision was called the critical point of dependence on the price decision relative to the market factors. The decision critical point of dependence is defined in terms of enterprise size indicator, measured by turnover. The study reveals that "the critical point of the price decision in relation to the market factors " is 400,000 euros.

Conclusions:

1. The interest of the enterprise in terms of business management is a result of size:

-in small enterprises the result is measured through growth, innovation and technologies;

-in large enterprises, the result is measured by increasing turnover and market share.

2. The maximization of the outcome has as foundation two philosophies:

a) in small enterprises it pursues maximizing the profit margin;

b) in large enterprises it pursues to maximize the turnover.

3. In small enterprises, the turnover is an important indicator of a result when they become large enough so that influences the market. In this time of economic change behavior and philosophy is to large firms.

4. The line that separates the smaller enterprise depending on independence decision was called "decision critical point of dependence in price compared with market factors".

5. The study achieved "critical point dependent on price decision in relation to market factors is 400,000 euros.

6. "The critical point dependent on price decision in relation to the factors the market" is not only a tool for analysis, it cannot bring answers all questions they involve developing laying priced products. It aims to greatly concentrate on strategic reflection in a rigorous, data-based performance analysis and allowing a choice selective in allocating resources.

7. The rationality presented in this paper allows the orientation of the dialogue between the company management frameworks for aspects of the philosophy of the business.

Acknowledgements

This work was supported by the project "Post-Doctoral Studies in Economics: training program for elite researchers - SPODE" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/89/1.5/S/61755.)".

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