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## Pricing tactics – dealing with everyday price pressure

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### *Abstract*

This article brings together in one place as many pricing tactics that we can use when managing our market prices. In any exchange of value, there is tension related to the question of who is the more profitable deal. Both sides will do what is necessary to make sure that they do not complete the game without success. That is why it is important that sellers who interact directly with customers are tactically competent and lead the negotiations to a “win-win” situation. Tactically, sales people should not only be aware of the dangers of discounts, for example by saying that a 10% discount can melt a company's net profit if it is not offset by larger volumes purchased by the customer in exchange for a given one. discount; how big the discount is, that's the question. In this article we not only discuss but also offer three ways to deal with such situations. This article presents the following issues: General discount policy and practice; Pricing in a declining market; Pricing during the different stages of the product life cycle; Pricing of a new product in a totally new product life cycle; Barriers against breakage during the various stages of the product's life. This article discusses the basic rules of “difficult times”, which are around the need to present gross profit and deal with it by outsourcing business processes as part of the company's business model. This enables the business to turn part of the fixed costs into variables and so the process of change will change the nature of the midpoint of our business. This article also addresses the issue of the dangers of marginal pricing – which are many besides the constant issue of not reaching the half-point during the financial year and thus putting the business at risk. This discussion also examines the rules of marginal pricing. Towards the end of this article, various considerations were also considered in order to respond to the invitation to tender. During the discussion, methods for estimating the probabilities of winning a tender against known and researched opponents were briefly discussed. The options for the presentation of the company both through the documents and through a presentation are considered. How the relevant documents should be changed or corrected. The article also contains tricks and paradigms for increasing the price of our products, how best to do it for major markets. This discussion also contains ways to increase the price, which increase is not obvious. Some of the mentioned methods are not suitable for all types of business, but when they are available to us, they will make a difference.

**Key words:** pricing tactics, pricing of a new product, product life cycle.

### *Introduction*

This article brings together in one place as many pricing tactics that we can use when managing our market prices. In any exchange of value, there is tension related to the question of who is the more profitable deal. Both sides will do what is necessary to make sure that they do not complete the game without success. That is why it is important that sellers who interact directly with customers are tactically competent and lead the negotiations to a "win-win" situation. Tactically, sales people should not only be aware of the dangers of discounts, for example by saying that a 10% discount can melt a company's net profit if it is not offset by larger volumes purchased by the customer in exchange for a given one. discount; how big the discount is, that's the question. In this article we not only discuss but also offer three ways to deal with such situations. This article presents the following issues:

- General discount policy and practice;

- Pricing in a declining market;
- Pricing during the different stages of the product life cycle;
- Pricing of a new product in a totally new product life cycle;
- Barriers against breakage during the various stages of the product's life.

### ***Material and methods***

This article discusses the basic rules of “difficult times”, which are around the need to present gross profit and deal with it by outsourcing business processes as part of the company's business model. This enables the business to turn part of the fixed costs into variables and so the process of change will change the nature of the midpoint of our business. This article also addresses the issue of the dangers of marginal pricing – which are many besides the constant issue of not reaching the half-point during the financial year and thus putting the business at risk. This discussion also examines the rules of marginal pricing. Towards the end of this article, various considerations were also considered in order to respond to the invitation to tender. During the discussion, methods for estimating the probabilities of winning a tender against known and researched opponents were briefly discussed. The options for the presentation of the company both through the documents and through a presentation are considered. How the relevant documents should be changed or corrected. The article also contains tricks and paradigms for increasing the price of our products, how best to do it for major markets. This discussion also contains ways to increase the price, which increase is not obvious. Some of the mentioned methods are not suitable for all types of business, but when they are available to us, they will make a difference.

### ***Results and Discussion***

#### **The dangers of discounts**

The good work we have achieved so far – market research; identifying the customers we want to connect with; choosing and advertising a pricing strategy for them can very often be in vain due to lack of discipline and / or lack of understanding on the part of those who are in direct contact with customers. This last link in the chain, even over the phone, in retail or the like, is often one of the least well-supplied, trained and informed on how to implement the pricing policies we want. In addition, these sellers are most often motivated (if motivated at all) by bonuses that reward the size of their sales, not their value (and almost never the benefit or profitability of the transaction). This is a vital sales management issue.

In order to fully and profitably implement pricing strategies and policies in practice, sales directors and their managers must inform, train and motivate employees who form this critical unit in the price chain. Their teams need to know:

- the dangers of poor reduction practices;
- how to make discounts best if necessary!

So, what should be the rules for reductions that, if adopted, will help reduce the erosion of profits?

#### **1. Do not post discounts**

We mean that you do not print them or provide them in any form through which they fall into the hands of your customers, and hence into your competitors! If this happens, they will be used against you. Customers will demand or accept the discounts they decide, not the ones you think they deserve.

#### **2. Individual negotiation of discounts**

You need to negotiate discounts so that different customers receive different discounts, depending on your goals and an assessment of how much money is “on the table”.

#### **3. Change deadlines often**

The purpose here is to understand that it may be difficult for one customer to emulate the conditions under which another customer has received a discount. Customers speak, especially in the organization's public procurement. There is no advantage here in the secret and profit from working with other buyers.

#### **4. Set a deadline for each transaction**

Your costs change over time, more often up than down. For this reason, you cannot afford to comply with transactions that have been left dormant for several years. Therefore, do not accept old prices, make new offers when possible.

**5. Re-negotiation of each expired transaction**

**6. Never allow discounts to be incorporated into your price list / structure**

**7. If you have any doubts – set high prices and offer big discounts**

The amount of discounts received is sometimes seen as a symbol of masculinity by some buyers. So, use this weak spot.

**8. Keep the flexibility of the situation to yourself as long as possible**

Do not rush to agree. Do not give in to the temptation to make a deal at the first sign of business. Show interest – YES but! before you say “yes” to the customer, first find out how much money it is. Go through all the possible options with the client, “feel the waters” and see how eager he / she is to make a deal; see what the real chances are that they will back off.

**PRICING IN A FALLING MARKET**

**1. The low price will not compensate for product defects or poor service**

If your product has to challenge the falling market with higher and modern products, the lower price will not be accepted by other buyers as a good deal – it will only confirm the suspicion that your product is of poor quality.

**2. In business to business and business to consumers, the low price only works if it is passed on to the end user**

In business to business, the end buyer may be part of the price chain and the product may run out before the end product reaches the consumer. Good examples would be machine oil, foil, transport and logistics, sales training and management consulting (up to all links in the chain). In a consumer-to-consumer business, it is the consumer who drives the price chain. However, in order to have an incentive to work, it must reach the end buyer through an intermediary or consumer. Then they will “pull” the product through the price chain. Without this pull, any incentive, including price reductions, will fail to improve sales. The most common reason for the failure of such an incentive is that it ends up not where it can do best, but in the pockets of various intermediaries standing between you and the expected recipient – the client or consumer (Simon, H., 1979, 476-80).

**3. Complete pipes will be cleaned**

Instead of “pushing” the product down the price chain (i.e. the pipeline) through incentives of one kind or another, which, as we have said, are more likely to end up in the back pockets of intermediaries who do not do much to influence “flow”, it is much more cost-effective to allow the natural forces of the markets to do their job. As long as the market is not in the declining stages of the programmable logic controller, the pipeline will be cleaned up by its own breach, at its own time. Keep in mind that resellers have the greatest incentive to help the flow because their money is tied to your product. In general, a large amount of unused money does not bring a return!

**4. Low prices will not lead to a rise in falling programmable logic controller**

The product life cycle shifts from saturation to decline because customers discover and then migrate to products, goods, or services that better meet their needs.

**KEY ISSUE**

“What will be the long-term consequences of the price changes we are making now?”

With a falling market, there are seven things we should never do. They are (Kostova, I., 2012, pp. 106-128):

**1. No: we confuse rumors with reality.** It’s amazing how many times customers have tried to start a price war between their suppliers – historically this is the main reason for their escape.

**2. No: we confuse the decrease in sales with the decrease in market share.** Markets can be suppressed for a number of reasons, such as: a reduction in the strength of consumer spending as a result of:

- the decline of the common economy.

- tax increases or increased prices for utilities.
- loss of consumer confidence, leading to increased savings.

**3. No: we blame prices for the drop-in sales.** This can be the beginning of the declining stage in the product life cycle, etc.

**4. No: we focus on some prices, excluding others.** Whether we like it or not, consumers can see our product range in the form of a price lining. If we change the price of one item in the range and do not change the others, we will create confusion in the mind of the buyer, and perhaps we will devalue the entire range, not just the product whose price we change.

**5. No: we are waiting for the crisis to resolve itself.** On the one hand, do not panic, but on the other hand, make decisions without undue delay. The person in charge of pricing must take decisive action to maintain the initiative and avoid being caught and victimized.

**6. No: we reduce prices before necessary.** Price reductions are often a one-way street. No talent is needed, it can be done very easily. The skill comes with returning the price back. So, think before you act.

**7. No: you believe you are offering the best price for all time.** Markets are dynamic, lively and breathable. Yesterday's prices, like yesterday's products, will soon outlive their usefulness. Turning to the price landscape, over time, the prices of most products will tend to move to the left, i.e. decline through natural forces. While at the same time the value moves up in a similar way. So, despite all of the above, if your analysis shows that this is what is happening with your products and their markets, then go with the flow.

**The basic rules in difficult times are:**

- **Save your gross profit, your commercial life depends on it.** To do this, you need to manage your expenses. All the evidence shows that, especially in difficult times, companies that maintain their gross profit are more likely to survive in the West than those that do not. So, think about how to turn as much of your fixed costs as possible into variable costs through strategies like hiring other companies to handle your business.

- **Focus carefully on your customers and get as close to them as possible (i.e. strengthen relationships).** This imperative is mainly for business to business and significant bills. Too few organizations really get close to their key customers. Very often the contacts do not go beyond the customer's supply department. Difficult times mean that we must be in closer contact with the so-called "Dominant coalition" in decision-making.

- **Provide better value than your competitors (in customer perception).** It is important to know what makes your customers buy from you compared to the competition. These values must be considered to cost more than those offered by the competition, which means that the processes of identification, implementation and communication must be constant.

- **Use price as a dynamic element of the mix.** For the standard marketing mix, it is the meaning of the existence of the other four elements. Their goal is to drive a better price in the market. It also has a dynamic impact on the efficiency of the other four elements. Price has the greatest impact on customer perception of quality and can also act as a valve to influence demand. In many cases, the higher the price, the lower the demand, and vice versa.

- **Remember that it is possible to sell too much for too little, you need to be careful about re-entering.** In addition to the last part of the above, i.e. the price as a demand valve, in some cases with the reduction of the price the requested quantities cross the whole cost curve and from that moment the product is sold at a loss. There are situations in which no volume can compensate for the desired discount.

- **Follow the rules for using marginal pricing, which follows:**

**Never do:**

- **If it sets a precedent for the long term.** It's amazing how often a special deal made for your client because of your good heart to help him get out of a predicament can come back to haunt you over and over again. If you have any doubts that this may happen, it is better not to make the discount, or do it through a credit notice.

• **If you cannot stop the news from spreading.** As we have already discussed, customers communicate with each other – it is in their interest to do so. Therefore, you need to choose carefully with whom you make deals.

• **If it commits you to additional capital costs.** If you not only take the risk of not covering your overheads by the end of the financial year, but also incur additional capital costs, such as transport costs or the purchase of new equipment. Don't do it.

• **If he uses valuable resources that are needed elsewhere.** As in the previous case, why incur two expenses when you already have one.

• **If it costs cash flow by granting a loan.**

Marginal price and credit!

• **If it undermines the credibility of you or your people in the market.** It may be good that in some parts of the market your people are not given such discounts. And yet they get the job done – if the claim that your company is a soft touch spreads to their customers - they will be under a lot of pressure to give the same deals as the weakest members of the team. If they do, it will devalue your entire market.

So, in light of the above, you can prevent much of this from happening if you make sure you NEVER delegate marginal pricing prudence – keep it as your own privilege (Russo, J., 1977, 193-201).

However, if you are going to sell a product through marginal pricing, what practical rules will you have to follow?

**If you MUST make a deal, then:**

• **Dump the product away from your normal market.**

So, you can try to stop the news from spreading.

• **Maintain competition in your favor.** If for some reason you are going to use marginal pricing, make it work twice for you – not only to turn your product into money (even with a small margin), but also to cause inconvenience to your competitors, where it will hurt them the most. If you are unable to do this without being identified by your competitors as the main actor, do not start a price war!

• **Clear excess goods / capacity.** As for the above, the liquidation of the money associated with the commodity does not even arouse interest.

• **Cash.** As already mentioned, such prices should at least bring us cash flow.

• **Stick to a “disposable” base.**

• **Make sure that only one person has the right to make decisions.**

In a small company or a division of a large one, if you have a responsibility for profit: this person is YOU and only you.

And even then, DO IT ONLY AFTER YOU HAVE REACHED THE RETURN OF THE INITIAL INVESTMENT IN FULL AMOUNT, NOT BEFORE!!

**Pricing of new products**

There are two types of new products:

1. New products in existing markets – which you have entered or where you are not the first trader.
2. New products in completely new markets, where you are the creator of the market.

**NEW PRODUCTS ON EXISTING MARKETS**

• **Establishing the perceived price of competing products (benchmarking basis)** (Jdiu, Hirshleifer., David Hireheifer, 1997).

- You need to know what you're up against.

- What is the price value positions? (Use the price / value tool).

• **Make a full competitive analysis of existing market players**

- Who is the market leader and why?

- Where is the main volume of business?

- Where is most of the competition?

- Are there gaps in the market where you will be able to enter and not disturb any of the local players?

- (You can disturb them later when you have established your basis from which you can attack their business, but not in the initial days when you are vulnerable.

• **Use your price list as a communication channel to your market** (eg a pricing line). And remember, the price list sets expectations, but then there should be no resemblance to reality.

• **Use promotional pricing to trigger a trial.** The key skill is to use a strategy in which after the end of the promotion the prices return to the desired level. Anyone can reduce the price, but a qualified practitioner is required to return the prices afterwards.

• **Once established, use penetrating pricing to gain market share.**

• **Use product enhancements to recover what you lost profitability.**

**Pricing of new products on new markets** (Nagle, T. E. and E. H. Hogan, 2006)

### **1. Research the value systems of your potential customers.**

What is the value for them? What current or potential product ratios / characteristics / advantages / benefits, etc. will they respond to? Remember that there are three different types of innovation. The closer the innovation gets to the dynamic volatile look, the harder it will be for the selected customers to accept it, by definition they have no criteria. In this way, the person responsible for pricing will have to use a reference to the price / value matrix.

### **2. Look for the value of comparable products (goods / services) OR the value or penalty of not owning the product.**

What did the people in your chosen group use before your “product” became available? This will give you a head start. Then look at the additional benefits, some functional (speed, ease of use, etc.), some psychological (status, fashion, etc.), and put them on the price / value matrix.

### **3. Identifying potential participants and conducting their full competitive analysis.**

If your product entry is successful, you can expect your competitors to try to move into your new market, study it carefully, understand your counterattack, and be ready to attack.

### **4. Set a high initial price (whipping the cream).**

The Sony cream picking model is a strategy of choice, unless your company has complete control over its shareholders. In this case, barrier pricing is preferable.

This first strategy is designed to:

- reimburse development costs, including initial marketing at the time of placing on the market;
- establish the optimal price position;
- Identify the likely desired volumes so that the amount of desired production flexibility can be decided and financed without additional production costs or a large part of the market remains unsatisfied, and therefore remains open to your competitors.

### **5. Reduce the price before your competitors enter the market to defend your position.**

Here we must have a very good industrial market intelligence operation.

### **6. Price test.**

For many reasons, it is not always possible to enter different markets with different prices right away. Very often we are in world markets and such behavior invites the so-called. “Gray imports” from markets with low prices to markets with higher ones. But if you can distinguish the price during market testing, different parts of different price positions will provide very valuable information on how your market will behave if it is fully launched.

### **7. Stay unattached until you understand the market.**

As we will see below, in new markets with completely new products, especially when there is either dynamic or dynamically volatile innovation, commitment only confuses everything. There is a danger that we do not know exactly what the customer is buying.

### **The programmable logic controller and anti-refraction**

• **Entry / growth** = breaking the supply of individual parts. At the beginning of the product life cycle, tied products are considered by customers as having confusing and low value. In addition, these additional costs will put you at a competitive disadvantage.

• **Maturity** = include even more commitment to add value (e.g. computer with software / hardware). The seller must always be willing to give a quantity discount. This adds value at a price lower than he / she would normally pay.

Tie when you need to increase sales.

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**Auction pricing** (Rockney, G. Walters, 1991)

**Tendering strategies**

If your company does not need the order, it is good to set a high price, but not too high to be invited again. The price should be high enough so that if you win the auction, you can afford to leave some part of your current job in the background.

However, if you want to order now, if possible, focus on:

**Get involved in creating a specification**

The perfect strategy in auctions is to get involved in creating a specification long before the auction, if your market business culture allows it.

This means that theoretically your sales and marketing functions should be very innovative. They should always strive to connect with current and future customers to such an extent that they are perceived by them as a means. The trick here is to help customers create bidding specifications in such a way as to convince them that it facilitates the capacity and capacity of your company while at the same time putting your competitors at a disadvantage.

**Look around for benefits**

To be profitable in the long run, each auction must be based on value, not the lowest price. Some of the simple ways to achieve this are (Engelson, Morris., 1995, p. 222):

- **Mutual trade.** This can rarely be achieved with national or local government services, but it is a tactic that is very often possible with other businesses.

- **Use local people.**

- **Look for an area outside the specification.** You need to know your own business better than your customers, although nowadays customers are becoming more receptive by themselves.

Whether you choose 1, 2 or 3, a combination of two, or all of these situations, your auction and everything you do before you choose should sell the added value as hard as possible.

**Predicting the probable offer of the opponent**

In some markets, where the amount of all bids submitted is published, it is possible to set up a system for forecasting them. In this way, companies in this market can track the behavior of their competitors in the past and use it to calculate the probability of any possible price they may take in a given situation.

For each trading situation, we cannot know for sure what the competitors' costs were, however, we must know for sure what our costs were at that time and for this offer.

Therefore, considering that our competitors use the same cost techniques or close to them, we can create a historical archive to help us predict the probability of profit (or loss) against a competitor at a given price.

**And for the desperate**

There is another trick that companies can use when competing for the offer. It can be said very honestly that it is only for the desperate, but it is amazing how many companies are willing to take advantage of this practice, even though they are not desperate.

The main thread of this tactic is to use the weaknesses of customers against them. This is often the case with governments, but not only. On the one hand, they are obliged to accept the lowest bid, and on the other hand, they lack technical expertise and / or experience in technology to ensure that all bases are covered by their specification. In situations like these, the unscrupulous can gain a lot.

The practice is to go through the specifications provided in the invitation to tender, examining each part very carefully. This is to identify all areas that have the potential to cause problems in completing the work ordered. When all these areas are identified, then the offer is created and applies only to those parts of the work that need to be done, which are clearly and unambiguously stated in the invitation to participate and nothing more.

The offer will generally be about 40% to 50% lower than the cost of doing the work – this almost guarantees that the company making the offer will win the contract. As part of the offer, and as a condition of the proposed contract, comes a menu that determines the cost of any work that is in addition to the original specification. All the extra money will make up for the initial price cut, and

then contribute significantly to the end result.

### **Presenting your offer**

The quality of the physical presentation of the document is crucial. This is usually the first impression that the jury will get from your performance.

Make your offer in the most ideal way

Use the following checklist:

- **High quality folder and well-presented proposal.** First of all, make sure that you know your audience and that the physical performance is commensurate with the client's culture (business, corporate and ethnicity, etc.) and behavioral type. Make sure the final document is of high quality. Paper, weight, color and coating, font, text layout, use of white space, use of color and graphics, and more. So, everything will talk about you when you are not there to talk about yourself. Make sure the documents say what you want.

- **Send the offer earlier than you promised.**

- **Describe the customer's problem.** Make it clear and concise and in your own words – not in the client's words. The aim here is to demonstrate an understanding of the situation the client is facing and, if appropriate, the danger of doing nothing about the problem.

- **Show the goals of your proposal.** Be very clear about your thoughts here, from these goals you will be judged! To do this, make them as clever as possible.

- **Show your proposal.** This section should be your interpretation of what you think is the best approach to the situation the client is facing. If you see several, outline the two or three most attractive ones that the customer may not have thought of. This is a must if the client is a “leader” – by definition he will be the one to make the decision, so give him a few possible approaches – all of which must be appropriate and leave him to make his own decisions.

- **Demonstrate the benefits of the proposed approach(s).** The aim here is to demonstrate how your proposal will affect the client's needs in a way that is beneficial from the client's point of view (other than the price / value of the project).

- **Show a cost-versus-savings analysis.** It must be assumed that the price will be of great importance. The customer would not normally look for offers if price was not a factor.

- **Show your unique qualities.** Emphasize and sell your competitive differential advantage. The goal here is to demonstrate your ability to handle this project (or whatever). A brief analysis of your relevant experience, as well as your teams, qualifications and, if appropriate, a list of your clients.

Note: If you do not have a competitive differential then you have no reason to look for anything else, you will just have to sell at a price lower than the competition (Often this is at the expense of quality and / or end result).

- **Only then, show the specification, price and conditions.** A major obstacle in creating an offer document that you will not have a chance to attend in person, at least at the beginning of the evaluation process, is that customers can turn to the “financial pages” without even reading the pages there.

- **Summarize.** The summaries are in vain if they are at the end of the proposed document. The summary must be clear and concise throughout the proposal (excluding prices).

- **PRESENT YOUR PRICE (if you have the opportunity to do so).**

Sometimes we manage to present the document with the offer / price, personally to those who make decisions by presenting, sometimes even before they have seen it (a situation that will be very encouraging).

Here are the seven clear elements of the list (what should and should not be done) when presenting the price.

### **THE SEVEN GUIDELINES FOR THE PRICE REPRESENTATIVE**

#### **KEEP YOUR PRICE UNTIL THE END**

If there's a golden rule, it's it. You need to build a platform on which you can justify your price before naming it.

**DO NOT INCLUDE THE PRICE IN THE DOCUMENT DISTRIBUTED AT THE BEGINNING OF SUCH A PRESENTATION!**

At the meeting, bring these pages separately and resist the client's calls to pass them on until you have made your offer and been able to show the table the added value you offer.

### **MAKE THEM OFFER FIRST**

Try never to be the first person to start bidding. Let others start, then you have a starting point from which you can work. After all, if you start with a price lower than the one the client would pay, then that is where the negotiations will start. If your price is considered too high, then this is the point where they should start.

Instead of trying to raise the price, they should now try to lower the price – and you will have the initiative (unless they have the freedom and incentive to give up).

### **Get them to do the work**

We need to keep the initiative and it will be best if the other party does all or most of the work. Make concessions only in exchange for something on the other side that deserves it. You may need to target them, look for things that are of little value or cost to them, but are of relatively high value to you, and if necessary, offer this in exchange.

### **Squeeze the price between the benefits (increase the benefits – reduce the price)**

Price is never absolute, it is evaluated in the context of what you can get for that money elsewhere, compared to what you have to offer against them at some point in time.

### **SHOW THE CLIENT THE POTENTIAL BAD**

### **CONSEQUENCES IF NOT BUY**

### **PRICE RISE PARADIGMS** (Kostova, I., 2012, pp. 106-128)

• **Raise the price when everyone else does.** When prices rise from the main body of your competition, you need to move in the same direction, whether necessary or not.

So, whether you need it or not, whether you have planned it or not, when the herd is moving increasing the price, you do the same.

• **Not so much at once.** Prices can be raised with small increases, from time to time something like “creeping inflation”.

- Lift yourself in advance.
- Do not do the above, too often.
- Reduce something at the same time.
- Look at key / large accounts.

## **Conclusions**

The tactics are in two parts:

- Notify your counterparty of the planned price increase in advance.
- Phase in the rise of prices for a certain period – using the following approach:

For all orders after a certain date for the increase, the invoices will be with the new price (which must be firm and non-negotiable).

With the use of a clearly attached credit notice, the likelihood of any ambiguity must be significantly reduced.

- Be firm.
- Provide sound and accurate explanations.

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