DETERMINING FACTORS IN SETTING THE RIGHT PRICE FOR SMALL PRODUCERS OF MOUNTAIN PRODUCTS

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Abstract

Price is a multidimensional concept which, through its economic and psychological attributes, becomes for the small producers of mountain products, a microeconomic tool that must be used effectively in their decisions to enter and remain on the market. The price is the most transparent part of the activity of small producers of mountain products and most of the time, it plays a decisive role in their survival on the market. Given that in many cases, for the buyer, price is a determining factor in the choice of a product, the small producer of mountain products must analyze very well all the factors influencing the price in order to create a "win-win" situation – for the producer, establishing the correct level ensured the continuation of the activity and for the buyer, it is ensured the fulfillment of the requirements related to the high quality energy-nutritive and sanogenic value, based on the tendency of buyers to associate a high-priced product with a higher quality.

Keywords: mountain product, small producers, price, mountain area, short chain, ethics in marketing

INTRODUCTION

Today's reality confronts us with a situation that is as widespread as it is painful: a supply of food products of questionable quality, whose label makes us to think more of the chemical industry than the food industry (Hieke &Taylor, 2012). For this reason the correct information of consumers about the area of origin of the product attesting to certain quality characteristics (the mention "mountain product") has the purpose to protect sustainable production practices and also cultural associations with the defined geographical area (Becker, 2009; Bentivoglio et al., 2019) as well as promoting the local component of food products (Watts et al, 2005).

Increasing consumer awareness of the fact that we are what we consume has opened the way to return to our origins, to the mountain village path and to the aroma of simple but so tasty dishes, based on the ingredients found in every mountain household: meat, milk, cream, butter, eggs, wild mushrooms, berries, spices, herbs. This ancient food, today we find it under the name of mountain product. The valorisation of mountain food products (Giorgi & Losavio, 2010) represents a challenge primarily for the producer (Bojnec et al., 2019) in terms of valorization at cost-covering prices and obtaining attractive benefits (Rey, 2020; pg.21), but also for buyers, offering them primarily the satisfaction of purchasing products with additional with additional qualitative energy-nutritional and sanogenic value (Gruia et al.,2017; pg.111), but also emotional benefits (supporting mountain communities as well as preserving mountain gastronomic heritage).

The practice of agriculture in the mountain area is limited by the difficult climatic conditions found at high altitudes, by the low fertility of the soil, which has determined the considerable reduction of the vegetation period and productivity. Also, the steep slopes that do not allow the use of mechanized equipment and require considerable human labor resources, generate a significant increase in the costs of land exploitation (excerpt from the Mountain Law No. 197/2018) resulting in an increase in the production cost of a product mountain food compared to a similar conventional product. For this reason, the role of the "mountain product" quality scheme created at European level is to communicate the message to the buyer regarding the added value of food products obtained in the mountain area (Gorlier, 2012; Bentivoglio et al., 2019, Rey, 2021) considering the specificities of the mountain area. All these arguments support the higher prices of mountain products compared to similar products obtained conventionally, prices that are absolutely necessary without which we could not talk about the profitability of economic activities in the mountain area, representing at the same time a motivating factor for the establishment of the young population in this area, thus counteracting the phenomenon that has reached a worrying level – that of the massive depopulation of mountain areas (Mihalache & Croitoru, 2011).

The price is one of the essential factors of the purchase decision, reflecting the value of a product that incorporates the raw materials used to make the product, the work done, but also the utility of the respective product (Mîrza, 2013). Starting from the principles of the objective theory of value (Moșteanu, 2001), utility represents the degree of satisfaction felt by the consumer, taking into account the characteristics of the product as well as the quantity needed to cover the need. Together with the other three P's of the marketing mix (product, promotion, placement/distribution), today the price has passed the limit of purely economic significance, becoming a much more complex indicator because when forming it, it is good to also take into account the psychological and social components of the target market (Balaure, 2003).

The increase in the demand for mountain products can also attract less pleasant aspects, related to the speculation of the positive image of the buyer related to the mountain product and the practice by the producer of excessively high prices not taking into account that such a practice will bring him benefits only in the short term, and in the long term his activity will be endangered (Crăciun, 2003). The producer must be aware that operating on ethical principles is directly related to profitability both in the short and long term, because consumers form positive attitudes towards the product, but also towards the producers, and these attitudes have a beneficial effect on the volume of transactions (Grigoras, 2012).

METHODOLOGY

The general objective of the scientific approach is to study the knowledge of small producers of mountain products regarding the factors they took into account to establish the price level of the mountain product. In the context written in the introductory part of the scientific approach, through this paper we proposed to achieve the following objectives:

- researching the knowledge of small producers of mountain products regarding the factors they took into account for setting the price of the mountain product;
- listing the determined factors that must be taken into account when setting the price of the mountain product;
- conceptualization of knowledge;

In order to achieve the objectives, we used as sources of information scientific articles published in national and international databases and specialized books belonging to nationally and internationally recognized authors. Based on the analysis of the specialized literature, we conceptualized the essential factors that must be taken into account, detailing the importance of each one.

RESULTS AND DISCUSSION

In setting the price level of the mountain product, the small producer must take into account the degree to which the consumer perceives the price as right (Vrânceanu, 2007). The term „right" is used because both under- and overpricing of mountain products can have negative consequences on the long-term development of the small producer's activity. Even before doing his calculations, the small entrepreneur has to answer four questions, because a correctly established price is fundamental for recording profit (Secrieru, 1999).

- who are the potential customers – this translates into marketing by analysing the target market (how old they are, what their income is, what their level of education is, where they live, etc);
- what is the selling price charged by other manufacturers for a similar product?
- how is the product positioned in the market? (in the case of mountain products we are talking about niche products).
- how can it be differentiated from the competition?

Essential for this field of activity is the principle of the fairness of the transaction (Schlegelmilch, 1998), which analyzes the extent to which the costs, respectively the benefits obtained from the transaction, are satisfactory for the two parties. Moreover, the economic growth of the activities of small producers in the mountain area is strongly linked to a solid relationship, based on trust between producers and consumers due to the immediate traceability of the products (Cantiani et al, 2016).

The commercialization of mountain products made by the small producer is mostly done through the system of short chains (involving as few intermediaries as possible). In addition to the right price that the small producer receives, the short chain contributes to the valorisation of the local mountain potential, to the improvement of the image of certain mountain areas, ensuring a certain degree of food sovereignty (Kneafsey et al, 2013).

When setting the price of the product he makes, the small producer must take into account, in addition to the biological-natural limiting factors, certain specific aspects.

The starting point for setting the price is the calculation of the profitability threshold (this is a particularly necessary indicator, but not sufficient, due to the specificity of the mountain product). The break-even point is also known as the critical point or the break-even point, highlighting a level of production (expressed both in value units and in physical units) at which the producer has neither profit nor loss, as a result the operating profit is zero (Tcaci et al., 2018).

In specialized literature, the volume of production corresponding to the profitability threshold (Q_V) is calculated according to the formula:

$$Q_V = \frac{CF}{Pp - CV_p}$$

where: CF – total fixed costs of manufacturing the product;
P_p – the sales price per unit product;
CV_p – variable costs per unit product;

According to this formula, Q_V expresses the total volume of mountain products sold, where the revenue exactly covered the production costs. At this level the small producer neither makes a profit nor incurs a loss.

Very important for the calculation of the profitability threshold is the identification and division by the small producer of the production costs into variable costs and fixed costs. Variable costs have high flexibility because they adapt very easily to the level of production (in the sense that raw materials are purchased as needed). The differentiation between fixed and variable is made for each small producer separately because a type of cost that for one producer can be variable, for another producer can have a fixed character. From this point of view, the salary of the employees represents the most relevant example. There are producers who decide to pay their employees according to the number of hours worked per day (hourly rate) because the specifics of the activity require this (in general, it is determined by seasonal production). In this case the cost is variable. There are producers who decide to remunerate their employees by establishing a fixed monthly level regardless of the volume of production, in this case we are talking about setting salaries to fixed costs. This type of remuneration causes higher costs for the employer, but it has an important role in motivating and retaining the workforce.

In addition to the correct identification and classification of fixed and variable costs, a detail that manufacturers must pay attention to is the fact that the same cost can have both a fixed and a variable component. An edifying example of this case is the purchase of an internet or mobile phone subscription, where the rate is fixed up to a certain level, after which it increases proportionally to the volume of calls.

Fixed costs are unchanged, regardless of how much or how little the small producer of mountain products produces, in other words, they are those costs that remain at the same level over a certain period of time, regardless of the level of production. These costs include: insurance, rent (where applicable), interest on loans (where applicable), advertising expenses, property taxes, depreciation, etc. As the volume of production increases, the fixed cost per product unit decreases.

Variable costs are those costs that evolve proportionally to the volume of production and include: electricity, salary costs per hourly rate, commissions, inventory expenses, correspondence, etc.

Another important indicator that small producers should take into account is the unitary contribution margin, a useful indicator that helps entrepreneurs understand their costs and operational profitability (Bâtcă-Dumitru et al, 2019).

The unitary contribution margin is the segment of the income obtained from the sale of a mountain product that exceeds the variable cost necessary to produce that product. This excess segment is what is available to cover fixed costs, and when these fixed costs have been covered it can contribute to the firm's profit. Unitary contribution margin is also an accounting term that helps entrepreneurs track the profitability of their products.

In specialized literature, the unitary contribution margin is calculated according to the formula:

$$MC_u = P_u - CV_u$$

where: MC_u – unitary contribution margin;
P_p – the selling price per product unit;
CV_u – variable costs per product unit.

For example, if the price of a jar of raspberry jam is 25 Ron (5,15 $; 1$ = 4,85 Ron) and the variable costs of raw materials, labor (with an hourly rate) and overhead for that jar were 15 Ron (3,09 $), then the unit contribution margin is 10 Ron (2,06 $). This tells us that each jar of jam that the producer produces and sells contributes 10 Ron (2,06 $) to cover fixed costs and generate profit.

Moreover, the unitary contribution margin can quickly be used to determine the number of units that the small mountain product manufacturer must sell to reach a target operating profit. To obtain this result, is used the formula for determining the break-even point, but with the addition of the income that the producer aims to obtain.

$$Qn = \frac{CF + Vn}{MCu}$$

where: Q_n – the number of units sold required to achieve the target operating profit;
CF – total fixed costs of manufacturing the product;
V_n – target income (proposed);
MC_u – contribution margin.

The total contribution margin is also a useful indicator. If the total margin is higher than the unit's fixed expenses, the unit is making a profit, and if it is lower than the fixed expenses, the unit is making a loss.

$$MC = MC_u \times N_{uv}$$

Where: MC_u – unitary contribution margin;
N_{uv} – number of units sold.

After identifying the total contribution margin, the unit's operating profit can be determined.

$$P_{op} = MC - CF$$

where: P_{op} – operational profit;
MC – total contribution margin;
CF – total fixed costs.

It is very important for the small producer of mountain product to highlight the aspects that give value to the product (Smed & Andersen, 2012). People don't just buy the product itself but solutions to problems they face or ways to satisfy certain needs. From this point of view, the manufacturer must design the product through the eyes of the buyer (Ohvril, 2019) and ensure that all the benefits (nutritional, health, psychological) offered by the product have been fully realised by the buyer.

Product = Product itself + services + psychological satisfaction

Due to its (physico-chemical) characteristics and stored energy value, the mountain product has the ability to transform the most valuable natural elements – earth, water, air – into final products with a high level of quality. When the consumer understands the benefits of consuming mountain products – essential products for health and the basis for safeguarding the environment, mainly in the mountain area (Cantiani et al, 2016), only then they become competitive on the market.

Filip Kotler (Kotler, 1997) made an analysis of the need-necessity-demand chain and came to the conclusion that necessity represents the need dressed in a specific form that corresponds to the cultural level and personality of each individual. The need supported by the purchasing power of the population represents the demand. From this point of view, demand is nothing but necessity that can be satisfied. In the common way, the price is set by negotiation between the producer and the consumer, but in the case of mountain products, the value that the consumer attributes to the product matters (Deac et al, 2015), and this value is set correctly when the buyer understands the quality attributes that accompany the mountain product (Marescotti et al, 2021). That is why the price is also defined as a financial expression of the value assigned by the buyer in the exchange process: money-product (Hill & Sullivan, 1998).

Another factor that the small manufacturer of mountain products must take into account is that they operate with niche products. In general, the value associated with the price of a good or service is based on both tangible components (product quality) and intangible components (it's about the *feel-good factor* for niche products). Starting from the two characteristics of mountain products, authenticity and territoriality, the small producer must emphasize the factors of location and tradition, factors that underlie the nostalgic authenticity (Holbrook, 1993) generated by the consumption of mountain products. The taste buds have a memory of their own (Petridou, 2001), and the consumption of mountain products takes us back to childhood, to the taste of food as it was at grandma's.

Moreover, mountain products can be included in the category of Veblen goods, goods for which an increase in prices will cause people to buy even more, the reason for this behavior being the demonstration of a special status – the *feel good factor* (Bagwell & Bernheim, 1996) as well as belonging to a certain social group made up of consumers with a certain psychological profile: socially responsible consumers (Starr, 2010), attentive to food (Wägeli et al, 2016), oriented towards products with high quality value (Corazzin et al, 2019), environmentally friendly (Zuliani et al, 2018) and distributed through short channels (Lamine, 2005; Vittersø et al, 2019).

Last but not least, a particularly important aspect that the small producer must take into account is avoiding the use of the psychological price (the psychological price is the 5.99 price instead of 6). We perceive prices ending in "9" as significantly lower because we process information from left to right, and in this case, prices start with a number lower than the whole price (Schindler & Wiman, 1989). We face the risk of the sensation transfer phenomenon (Spence, 2012), namely the attribute associated with the (low) price is unconsciously transferred to the product (we perceive it as having poor quality). Another reason why it is advisable to use round prices is that these prices are easier to process, and the buyer simply feels them to be fair.

CONCLUSIONS:

The correct establishment of the selling price for the mountain product is the first step in the success of the economic initiative of the small producer, because a correct price level, taking into account both economic components and psychological factors, can lead to increased sales, while an incorrect price may lead to the termination of the activity.

Even if there is no single formula that can ensure the correct price calculation in the case of mountain products, taking into account some determining factors ensures the producer more chances that his product will become the final choice of the consumer.

In the first phase, the value of the product is understood differently by the consumer compared to the producer. It represents a ratio between benefits and costs, and these are subjective assessments for the customer, because each consumer is unique. The success, however, lies in the method of communication adopted by the manufacturer regarding the benefits obtained by the buyer as a result of the consumption of the respective product, but also of the effort made to obtain that good. The more effective the communication is, the more likely it is that the value of the mountain product will be correctly assessed by the customer.

In addition to science, correct pricing is also an art, and this art consists in finding the equilibrium point of the balance between the receipts that allow the small producer to enter and maintain the market and the evaluation of the product by the consumer.

AUTHOR(S) CONTRIBUTION

Conceptualization,, A.M.; Data curation, A.M. și Ș.D.C.; Investigation, A.M. și Ș.D.C. Methodology A.M.; Supervision, A.M.; Validation A.M., Ș.D.C; Visualization, A.M.; Roles/Writing – original draft, A.M.; Writing – review & editing, A.M.

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The authors declare no conflict of interest.

INSTITUTIONAL REVIEW BOARD STATEMENT

Not applicable.

INFORMED CONSENT STATEMENT

Not applicable.

DATA AVAILABILITY

The data supporting the results of this study are available within the article [and/or] its supplementary materials.

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