A Strategic Approach to Tax Increases and Dynamic Competitive Positioning: the Reactions of Romanian Firms to Value Added Tax Hike

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Abstract— Taxation has rarely been an issue in the marketing and strategic literature. However, we argue that tax modifications can have a significant impact on the competitive positioning of firms. These firms should have in consequence a strategic approach to their reactions to such external events. From a theoretical perspective, the most significant reaction to an increase in an indirect tax calculated as a percentage of the final price should come from the competitors positioned both at the lowest and at the highest price-to-quality segments of the market. Taking into consideration the pricing reaction of Romanian firms to the 1st of July 2010 increase in Value Added Tax (the biggest V.A.T. hike in Europe), we qualify their reaction as weak. It was not strategic and it was most probably based on the comfort that such an event would not change their competitive positioning. The most affected market segment by such a tax hike, the luxury segment, seems to purely and simply ignore the potential consequences. Price-sensitive distributors who did react have however used "tax deductions" techniques as a seasonal adjustment to demand.

Keywords— competitive positioning, indirect taxation, pricing strategy, VAT increase

I. Introduction

It is rather obvious that end-consumers are ultimately concerned by the final pricing of the products they acquire.

For them, the price they will pay is what really counts from demand side perspective of the market.

In the case of the auto industry, for example, the end-consumer is interested in the final cash price he has to pay in order to get the product he is interested in. There are widespread practices by distributors to "underprice" their offerings by different techniques such as they quote prices:
- with no taxes, such as Value Added Tax (V.A.T.);
- offered for minimal configurations;
- including rebates on trade-ins of scrapped (or more than a number of years old) cars.

In a certain sense, the "listing price" is sometimes posted in order to attract the potential client and convince him to take the decision of buying. After this decision seems to be taken, such a consumer will be easier to convince to make the final decision and pay an additional difference in order to get the "real" product that will leave the showroom of the dealer.

This is the particular case of the taxes that are levied against particular transactions. These are usually the so-called indirect taxes. Consumers that are not interested in the structure and level of taxes are only those who are tax-exempted or allowed to deduct their paid taxes for the acquisition of the product. Except however these few instances – which normally are the exemption rather than the rule – the vast majority of them are sensitive to the impact of taxation on the final price. In a logical consequence, any tax modification should know a similar importance for them.

From this perspective, it seems that any pricing policy at corporate level should pay due attention to taxation on each particular product or national market as long as the final price that reaches the end-consumer (the after-tax price) is the sum of the producer price (before-tax price) plus taxes. The difference between the two prices is called a tax wedge. Different system of taxation on certain markets may purely and simply change the relative final prices – as compared to those of the competitors – that reach this consumer. That is a significant factor in the market positioning of any firm and its competitors.

We argue that firms should adopt a strategic approach to their reactions to a tax modification. A competitor that has a passive or no reaction to such events will be confronted with a situation when its strategy towards market positioning could be significantly altered by exogenous factors. The success is not planned but experienced with no awareness related to the source of it.

II. Business Strategy and Regulation

Fundamentally, what is important for the success of a company is the value it offers to its customers. While firms can ignore other elements of the external environment on the short run, a strategic approach fundamentally consists in how such a firm positions itself relative to the market participants and, in a broader sense, to its entire external environment. "*Strategy is conditional upon environmental events including actions of* *other agents ... strategy is anticipatory ... the actions are contingent on information to be received about the likely futures events of the environment*" [1].

Firms operating in any industry cannot ignore external factors – external to its relationship with its customers – as this factors play a critical role in the buyer' decisions: "*Strategy is defined as the way in which a corporation endeavors to differentiate itself positively from its competitors, using its relative corporate strengths to better satisfy consumers*" [2].

For example, firms, even those who are the most efficient, cannot ignore market prices as the essence of entrepreneurship consists in taking production decisions which are triggered by a real or perceived "disequilibrium" in the relative structure of prices of inputs and outputs. A firm without a strategic approach cannot really identify the sources of its competitive advantage – and its success – on the long term. "*Strategy is an act of aligning a company and its environment. The environment, as well as the firm's own capabilities, are subject to change. Thus, the task of strategy is to maintain a dynamic, not a static balance*" [3]. Porter notices that "*a theory that aims at explaining success over 50 years will focus on very different variables, almost inevitably more internal ones, than a theory that address success over one or two decades. This is because industry and competitive conditions are likely to be wholly different over a half a century, placing greater emphasis on a firm's ability to transform itself*" [3].

The long term approach to success by a firm does not mean that their strategic decisions are only those which target this long term. Any tactical and business decision, if taken in the logic of the long term perspective, is, in fact, consonant with the strategic approach. Strategy integrates the tactical and operational decisions of the firm towards changes in the external environment, structuring them as coherent answers in the general framework of the long term objectives of the firm.

The strategic model of Ohmae includes three central elements in its approach: the corporation, the customers and the competitors (the so-called "C3"). He apparently ignores government regulation on the assumption that such an element is included in a broad interpretation of the element of "competitors".

But government regulation in general has a critical impact on all the elements that define a market, starting with entry barriers (trade policy, monopoly licenses, so on), industrial policy (subsidies, credit policy), technological standards or consumer protection. Arguably, the structure of a particular industry is fundamentally a result of government regulation by its impact on resource allocation and incentive creation for competitors.

A. Taxation and competition

Taxation, as a fundamental mechanism of government intervention, plays also a critical role in the structure and operation of any industry. The European Union, through its competition policy, has qualified taxation as a relevant factor in the competitive process [4]. The formulation of the concept of "fiscal aid" or "fiscal subsidies" is the result of such an awareness that a particular fiscal treatment of an activity or industry may put individual competitors or even entire industries at a competitive advantage as relative to other competitors and industries. Taxation may, ultimately, affect the market or even the entire national economy structure.

We argue that, while there is an intentional component from the part of government action in the definition of the fiscal aid, taxation can also impact the competitive structure of markets through non-intentional effects on the market positioning of firms. While the concept of fiscal aid applied mainly to the impact of differentiation in direct taxation [4], we argue that the most consistent impact of indirect taxation is on competitive positioning.

II. CORPORATE PRICING POLICY AND TAXES

A. Marketing theory and taxes

Marketing manuals seem to start in the vast majority of cases from the implicit assumption that taxation is indiscriminately falling on consumers. Taxes seem to be considered by marketing academics as largely irrelevant and, in consequence, ignored in the strategic process of pricing at the level of companies. It is no surprise that in marketing practice also, such an issue raise no awareness.

Economics demonstrates however that taxation is not neutral in the sense that the structure and level of taxes have a different impact on end-consumers' decision to buy. Starting from the way they are calculated, it is argued that taxes have a different incidence on certain categories of goods differentiated by their pricing. In consequence, any modification in taxation – and especially indirect taxation – should be taken into account as a significant event in the competitive strategy of any company.

Obviously, pricing is a critical component of the market positioning of the firms. In consequence, the analysis of the tax modifications on pricing should be recognized as a major component of the competitive strategy of any firm, especially in those markets where taxation is heavy.

B. Incidence of indirect taxation

It must be noted from the start that there is a critical difference between direct taxation (e.g. personal or corporate income tax and so on) and indirect taxation (e.g. VAT, sales taxes and so on). While the impact of the first category of taxes on particular goods or services is difficult to quantify as they are levied against global income of taxpayers, the impact of the second category of taxes is immediate and apparently easier to analyze.

From the perspective of direct taxation, analysts argue that, ultimately, every product a consumer buys competes with every other product in the value scale and in the budget of that particular consumer. It is not, in consequence, an easy task to objectively „define" a market. From such an interpretation, a car can compete with a motorcycle as they claim a portion of the budget of the consumer and, for some of the consumers, they offer the same utility. However, the business literature has largely defined „markets" according to a technological, besides the utility substitutability, dimension.

Indirect taxes are levied against a particular category of transactions with certain goods and services and their impact on pricing and, consequently, buyers' decision, seems to be more relevant.

Mainstream literature on taxation frequently argues that indirect taxes fall, at the bottom-end, on final consumers. On a superficial analysis, the producer passes over any indirect tax that he is obliged to pay to its final client. Several economists have pointed however that producers are also sharing this burden [5].

While such considerations reveal the difficulty that a firm has sometimes in the process of competitive positioning, the sharing of the burden of indirect taxation should be accepted as a fact stated by economics. Such a conclusion comes from the simple wisdom that any increase in the final price of a product leads to a reduction in the demand for that product (assuming a normal elasticity function of the demand) which leads to lower sales for the industry. Sometimes, the borders of that market can be blurred and companies can face competitors from other industries, which till that moment seemed to be "far away".

Anyway, the reduction in sales at the industry-level remains and it can have a different impact on producers in that industry. In an industry confronted with reduced aggregate sales, a particular competitor can experience one of the possible scenarios:

I. its sales remain at the same level or even increase (in dollar terms), which suggests that the decrease of industry sales is born by other competitors;

II. its sales decrease at the pace of the industry so the competitive structure of the industry, considered from a market share perspective, may remain broadly the same (competitors are proportionately affected by the reduction in aggregate sales);

III. its sales decrease at a rate higher than the industry so that particular competitor loses in competitive positioning.

Meanwhile, in an industry confronted with reduced aggregate sales, it can be argued that the intensity of competition among producers is increased. They all battle for the fidelity of less numerous consumers or of consumers with less money to spend. Those competitors who succeed in keeping their end-consumers will be the least affected by such reduced sales.

A firm which is confronted with lower sales may react in principle in two ways: through a pricing strategy or through a non-pricing strategy. In the first case, the firm may reduce the price of the product. In the second case, it may maintain the price but start to radically change its positioning on the market, that is, to change its marketing mix. But, ultimately, such a change is reflected in costs and, at the bottom end, in the prices.

C. Impact of indirect taxation on competitive positioning: a strategic-game approach

The immediate impact of an increase in indirect taxation will lead, *ceteris paribus*, to a reduction of aggregate sales at the industry level. In consequence, from a pricing perspective, firms could normally react on short term mainly in two ways:

A. compensate the tax increase (that is, a very probable reduction in sales) through price-matching or some other strategy of reduction in price;

B. no reaction: the competitors ignore the tax modification assuming that this is neutral or focus on what seem to be a non-pricing strategy.

Of course, the choice depends also on the amplitude of the tax modification as small changes will normally attract few reactions. This is not, however, comfortable from a theoretical point of view as there is no objective yardstick for qualifying what is "small" or "significant". For, example, from the perspective of antitrust authorities, the test of "Small but Significant and Not-Transitory Increase in Price" (SSNIP test) where a 5% increase in price by a hypothetical monopolist or a cartel can make the difference between a market and its related markets [6]. From this perspective, "*relevant product market is the smallest set of products for which a hypothetical monopolist would find it profitable to increase the price by 5%*" [7].

In fact, taking into account the effects of the tax increase on the industry, a particular competitor faces what could be qualified as "a prisoner dilemma". Its reaction is dependent and influences the reactions of other producers. We took into consideration the simple situation of an industry with two producers.

Table 1.

\ Producer A Producer B \	„Compensate" tax increase	No reaction
„Compensate" tax increase	Scenario A: ***soft landing***	Scenario C: ***turbulence***
No reaction	Scenario C: ***turbulence***	Scenario B: ***hard landing***

Source: the authors;

Each of these possible scenarios has its own challenges for that particular producer:

Scenario A, "soft landing": if all the producers in a particular industry decide to compensate the tax increase by a form of before-tax price reduction, the competitive outcome could be, we speculate, the least dramatic from the perspective of the entire industry. We can call this scenario a "soft-landing" as the factors that would affect the competitive positioning of the process in the industry should not be endogenous (the prices remain for all producers "the same") but exogenous (like the modification of the available aggregate income of the end consumers). All the products and services in the purchasing basket of the end-consumers start to compete one with the other as the market borders can be blurred. The core challenge to this approach, which could be called the "cooperative" scenario in the prisoners' dilemma, is the public policy reaction. A similar and industry-wide reaction to the tax modification could be interpreted as a cartel or tacit collusion by the anti-trust authorities and, in consequence, be investigated.

Scenario B, "hard landing": the lack of any reaction from the part of the producers in the industry can be called the "hard-landing" scenario. The probability that producers would be equally impacted by the reduction of the aggregate sales of the industry, while it cannot be ruled out (which leads to scenario A without the "collusion" element) is not very high. Producers in a particular industry are in a process of dynamic positioning and there are always differences in consumers' fidelity ("elasticity" in economics language), price/quality offering and so on. The impact of the tax increase would be significant on the after-tax prices and lead to a significant repositioning on the market in question. Some of the competitors could face the "hard-landing" scenario from a competitive perspective.

Scenario C, "turbulence": taking into account the potential blocking from the part of competition authorities of scenario A (which should lead to the least dramatic effects on the industry) but also a lack of awareness of the potential industry-wide effects of some competitors, this scenario should be the most probable one. In this case, some producers will react to the tax increase by a form of before-tax price reduction at the producer level. Such a scenario should be more dramatic for some competitors than scenario B as they are not only prepared to face the reaction of consumers but also of their competitors.

III. "HARD LANDING" SCENARIO: THE CASE OF ROMANIAN TOBACCO EXCISE IN 2006

The impact of the way taxes are calculated as well as of modification of taxes on the competitive positioning is a poorly analyzed issue in marketing. However, there is a very significant interest from the part of economics literature dealing with taxation and competition.

Maybe one of the most popular issues in this regard is the impact of excise taxes on prices and social welfare, especially in tobacco and alcohol markets. These are some of the most heavily taxed products in the world. The literature in this field differentiates between the impact of a *per unit* (or specific) tax and an *ad valorem* tax. The first is a lump-sum tax levied per unit of the product, such as a 30 Euros per ton. The second is a percentage of value of the unit of product, such as 10% of the final price.

The general conclusion is that, on the one hand, specific taxes are regressive and, on the other hand, that *ad valorem* taxes are progressive. A specific tax has a "regressive" effect because it represents a higher percentage of the final value of lower priced products. The *ad valorem* tax has a so-called "progressive effect" as it has a more significant dollar value for higher priced products [8].

Of course, from a simple mathematic point, the same percentage (a "flat" tax), as it is applied to a larger income (or price, in our case) leads always to a larger tax expressed in dollars. A "real" progressive tax is when a higher income / price is more heavily taxed (as percentage). However, the idea of a "progressive effect" comes from the theoretical challenge of how should the tax be calculated. For a person who considers that taxes should be "lump-sum", a flat tax has a seemingly "progressive effect" [9].

Besides this argument, other aspects are recalled by the literature: "*Cigarettes taxes have been found to be regressive for 2 reasons: First, such taxes are found to be regressive because the rich save and invest a larger share of their income than the poor, and so the poor spend a larger share of their income on consumption … Second, since the prevalence of smoking is among the poor, cigarettes are in fact disproportionately consumed by the poor*" [10].

In the particular case of Romanian tobacco market, the 2006 introduction of the minimum excise duty (expressed per unit but calculated as a percentage of the most popular sold cigarette) as a consequence of the Romanian integration in the European Union had the impact of the elimination of the lower priced brands (like the local Romanian Tobacco brands or other Eastern European brands such as Bulgarian Tobacco) and a significant reduction in the price spread.

The spread is the difference between the highest price and the lowest price of prices as percentage of the lowest price for the entire industry. The above-mentioned fiscal measure favored, it can be argued, the brands positioned on the middle to top price/quality segment as it narrowed the price difference from the cheap brands [11].

Higher priced brands benefited from the introduction of a large per unit excise as they succeeded, in the past, in creating a luxury image. As lower priced brands know less fidelity from the part of their consumers, the narrowing of the price spread determined two significant effects:

A. a significant number of consumers entirely gave up consumption as a result of the increase in the lowest priced products.

B. a significant number of other customers more easily migrated towards luxury brands, which were closely priced in dollar terms.

The relative size of the spread is the image of the liquidity of the market as well as that of a competition. *Ceteris paribus*, markets with higher spreads are less liquid and less competitive. The impact of the introduction of the minimum excise duties in the case of Romanian tobacco market was dramatic. In the case of the lowest priced product, excise represented more than 90% of the final price.

Such a method of calculation for the excise duties amounted to a minimum price for tobacco. For example, if product A is priced at 10 monetary units (per 100 cigarettes) and product B is priced at 30 m.u., a lump-sum tax of 90 m.u. per 100 cigarettes would lead to a price of 100 for product A and 120 for product B. While one of the clear effects would be a significant number of consumers entirely giving up consumption, the former difference between "cheap" and "luxury" segments was blurred. In the new market conditions, the advantage would be for the luxury brands which previously invested heavily in brand recognition and fidelity of consumers.

"Cheap" brands were denied their core advantage known on the "old" market. Cost leadership may usually amount to an option for generic products and the brand equity is close to zero. The price spread is significantly reduced from 200% to 20%. In consequence, consumer "migration" seems to be easier and on the Romanian market, the most popular cigarettes category moved significantly upwards.

The case demonstrated the significant impact of indirect taxation on competitive positioning and the need of corporate pricing policy to take it into account. While there are no other cases of such a dramatic tax impact on industry (maybe fuels but branding plays a less significant function because of the generic character of the product), the impact of taxation is real and significant. It will have a deep impact on the producers positioned at low pricing as they loose their entire competitive advantage.

IV. *AN INCREASE IN AD VALOREM INDIRECT TAXES: "TURBULENCE" FOR ROMANIAN FIRMS BECAUSE OF VAT INCREASE*

The case of an increase in an indirect tax calculated *ad valorem* is markedly different than the above-mentioned case. Increases in such a tax should normally lead to two significant effects:

I. a number of consumers give up consumption as a result of the increase in the lowest priced products. However, without the effect of "minimum price" as in the case of per unit taxes, the impact seems to be more modest as there is no "minimum price effect".

II. it amplifies the spread of prices among different quality segments so there would be two categories of producers that should be mostly affected: the producers positioned at high pricing segments and the producers positioned at low pricing segments with highly price-sensitive consumers.

As an author put it, "*ad valorem taxation has a distinctive multiplier effect, since part of any increase in the consumer price goes to the government as tax revenue, in order to increase its net price by $1 a firm must increase the price charged to the consumer by more than $1*" [12].

The case of VAT increase has the above-mentioned "progressive" effect in that, as in the case of any percentage tax, it will have a multiplying effect on price. As the spread of prices will be significantly augmented, the VAT increase will fall in the high pricing segments. Producers who are positioned there should normally react by taking over at least a part of the additional burden of taxation.

A. The reaction of Romanian firms to VAT increase

The decision of Romanian authorities to increase the VAT from 19% to 24% starting with 1st of July 2010 is one of the largest VAT hikes in Europe. Romania became a member of the group of European countries, together with Denmark, Sweden, Hungary, with the highest rate of VAT [13].

Despite this qualification, the vast majority of Romanian firms have ignored the VAT increase as they didn't have a significant reaction to such an indirect tax modification.

The most probable cause of such a situation may lie in the firms' opinion that such a tax hike remains however low from a competitive positioning perspective (5% of the final price). But this is not a confortable assumption and denies competitive positioning theory.

Obviously, the present analysis cannot explore the long term impact of the fiscal changes on the process of strategy formulation and implementation at the level of firms neither the impact on market shares and competitive positioning. It can only analyze the short term reactions to such events [14] in the advertising of these firms. But, in a certain sense, the front conclusion would be that the vast majority of Romanian companies do not have a strategic approach to pricing [15]. With few exceptions, even those which did have a reaction used pricing measures for a smoothing of the seasonal demand variations [16].

B. Romanian experience: value segments

Among the producers that did react to such a tax increase, the bulk of them opted for two approaches which we call: A. "my word is my bond" and B. "hit and run"

A. "*my word is my bond*" is the reaction adopted by some firms that have maintained the "old prices" constant based in the sense that they have assumed a par reduction of 5% (usually through a discount of 4-5%) of their pre-tax price. They used mainly the argument that their former pricing catalogue was a firm offer to the consumers so they observe the terms of an "implicit" contract.

Such an argument seems however to be a transitory reaction and fundamentally lacks legal consistence. Ultimately, the level of taxes is not a contractual obligation so any Court of Justice would waive the liability of the sellers.

It highlights however the "respect" of the firms towards its clients. Such pricing tactics are somehow novel in the Romanian marketing practice as they suggest an approach similar with the more popular price-matching strategy [17] from a competitive point of view ("if you find a cheaper product, we will pay the difference").

Obviously, in this case, the decision was not triggered by competitors but by public regulations. Meanwhile, firms employing such a tactic made an implicit appeal both to notions of "price fairness" but also to "reference prices" [18]. Firms that did react revealed that they made appeal to the concept of "unfairness" of any price-increase or tax increase from the perspective of consumers. Meanwhile, any change in price may affect the planning of expenses by any such consumer so his reference prices – how he planned to allocate expenses at “original” prices – may change.

This was the case of the Swedish transnational IKEA (for its entire catalogue) and German retailers Metro Cash and Cary (for its promotion catalogue) and BILLA (a subsidiary of REWE Group, for a significant number of the marketed products) [19]. The Romanian biggest IT&C distributor, EMAG, has also announced that its prices will remain the same during the first month after tax modification.

Meanwhile, in the motor vehicle distribution, the local distributors of three brands – FIAT, Honda and Peugeot [20] – have opted for the maintenance of the “old prices” for the same period of one or two months. The challenge in this sector is that, because of the time lag between the ordering of a product and the physical delivery of it, clients who contracted a car before the tax increase (some of them even paid the entire price) faced after the tax the necessity to pay the 5% difference because the invoice – issued in the moment of actual delivery – had to include the VAT of the day of issuing. Customers facing this situation perceived it to be an “unfair”.

B. “*hit and run*”: some firms have used the situation in a tactical way to tie the tax modification to a marketing hit. They also used the reduction in pre-tax price on a transitory basis as it was offered only on short term (usually 1 month) with no promise for further pricing repositioning. This is the case of the same EMAG in the IT&C field as well of a local distributor of Italian FIAT in the motor vehicle distribution (only for some models like Linea).

For example, EMAG has offered any client that purchased a product in the two months following the tax increase the option to get a voucher for the 5% increase. The voucher could be used in the following six months in order to buy other products (with a certain minimum order). The campaign was branded “EMAG gives you back 5%” and generated “viral” answers in the blogosphere, where clients reacted positively [21].

What can be however noticed is that the quasi-totality of firms which chose to react to VAT increase came from budget / value segments or from distributors targeting narrow profit margins. These are obviously the most sensitive competitors to after-tax price increases.

This fact leads to the conclusion that that strong competition on margins determines a higher innovation adoption by such firms even in marketing activities [22]. They all realized that even a 5% increase in the final price may have a significant impact on the costumers’ decision to buy [23]. The narrow margin firms are more agile in their competitive positioning and they react faster to external events impacting their pricing.

C. (Lack of) Reaction in the luxury segments

The luxury segment has traditionally raised some serious puzzles for the marketing literature. Recognized as a particular segment by economists even from the classical period [24], the specific approach to marketing of luxury products has often been counterintuitive from the logic of mass marketing. This has been associated with mass production and industrial revolution.

The luxury segment has known a secular trend towards diversification, democratization and internationalization [25]. Fundamentally, the marketing of luxury brands is based on a “one-to-one” approach, where the marketer directly interacts with the client. This core approach that is defining the segment was considered to consist in the following characteristics:

- “prices must not be set too low;
- personal service and confidentiality are at a premium;
- marketers worry about the over-commercialization of their brands;
- customers are rejected if it is feared that they might bring the product into disrepute” [26].

Marketers of luxury products promote the idea that these products are not offered to anyone but to “*connaisseurs*”, to customers who know “more” of the product than the average costumer in the other market segments. Sometimes, the objective of the marketing activity is that of “demarketing”, blocking traditional marketing techniques in order to gain the trust of the customer.

The contemporary financial crisis had also a significant impact even on luxury segment. Producers in this category have started to change their marketing approach, exploring strategies and tactics that traditionally have been avoided [27]. They are more sensitive to pricing.

In the case of VAT increase in Romania, what is absolutely intriguing consists in the lack of coherent reaction from the part of the upper segments of markets according to the price/quality criterion [28]. Direct competitors of the above-mentioned firms seemed to ignore the event. Among the few firms that did react, we can recall the local distributor of the luxury brand Ferrari, who reacted in the logic of “my word is my bond” and the attempt to reward customers’ fidelity [29].

D. Understanding luxury brands reaction

Why is the reaction among the “luxury brands” so weak? The core argument seems to lie in the trap laid by their own marketing strategy, especially in what regards pricing.

Luxury producers have usually attempted to avoid a “price war” which is perceived as self-destructive for the entire industry as well as for each particular brand image. Customers from this segment are considered not to have “normal elasticity functions” in what regards their demand. Marketers make broader appeal to their social status and avoid a purely utilitarian approach.

Companies in this segment focus instead on other strategies like brand promotion and client fidelity. They are typically betting on their ability to attract clients from competitors and compensate in this way the possible decrease in their own demand. This seems to be however exactly the scenario of “win-lose” of the prisoner-dilemma.

It is obvious however that, on the aggregate, the luxury brands sales should decrease and that means that the intensity of competition will rise in the segment. Ignoring pricing in the luxury markets, despite its tradition, should be reevaluated by the companies positioned there.

The luxury segment obeys also the principle of economics. While marketers attempt to create "irrational" fidelity of customers towards their brand, they ultimately cannot ignore the teaching of economics. And pricing is among the core elements in consumer behavior.

Such a conclusion is somehow in opposition with widespread beliefs in the marketing practice as well as business journalism where media outlets seem to promote the idea that the luxury segment is so special that it does not follow the general economics approach [30], [31], [32]. The "macho" attitude of luxury brands is at the moment of reevaluation.

CONCLUSION

The increase in Value Added Tax in a large number of European countries could become a starting point in the process of reevaluation of the link between taxation and pricing strategies of firms. From a broader perspective, the competitive positioning of firms should be taken into consideration. The working hypothesis of present-day marketing manuals – namely taxes are neutral from a strategic approach – seems to be too simplistic.

The Romanian experience confirms the fact that competitors are not fully aware of the consequences of such regulatory measures. We speculate that they lack a strategic approach in their process of competitive positioning. The existing reactions of firms to the 1st of July increase in VAT in Romania were exploratory and intuitive, which sometimes contradicts the theory of marketing [33].

The Romanian experience in the 2006 increase in excise duties on tobacco products confirms that tax modification can have a dramatic impact on the structure of markets. The value competitors purely and simply disappeared form the market.

In the case of the 2010 VAT increase, the most striking aspect is the lack of a significant reaction from the part of luxury brands' producers or distributors – arguably the most affected - which could be caused by their own marketing strategy. We expect a significant repositioning in the following period into these market segments as a consequence of a hard landing scenario in the segment.

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