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Market Mechanisms and Methods of Price Formation in the System of Goods and Services Marketing

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Abstract

In the conditions of the market economy, the value of the price is very large, and determines the structure and volume of production, the movement of material flows, the distribution of the mass of goods, and, finally, the standard of living of the society. The success of a commercial enterprise is a scientifically based pricing strategy; determined by components such as sound pricing tactics and sound pricing methodology. Pricing and pricing policy for an enterprise is the second most important element of marketing activity after the product.

Keywords*: Mechanisms*, Methods of Price, Services Marketing.

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Therefore, the management of any enterprise that wants to develop production activities in the most effective, long-term way should focus on developing a pricing strategy. Because any wrong or ill-thought-out step will immediately affect the sales dynamics and decrease the level of profitability. Decision-making in the area of prices creates the need to take into account the factors of the cost of many goods, its cost estimates and the direct and indirect influence of the government on the price policy. The company's pricing policy is used by it to achieve a number of goals.

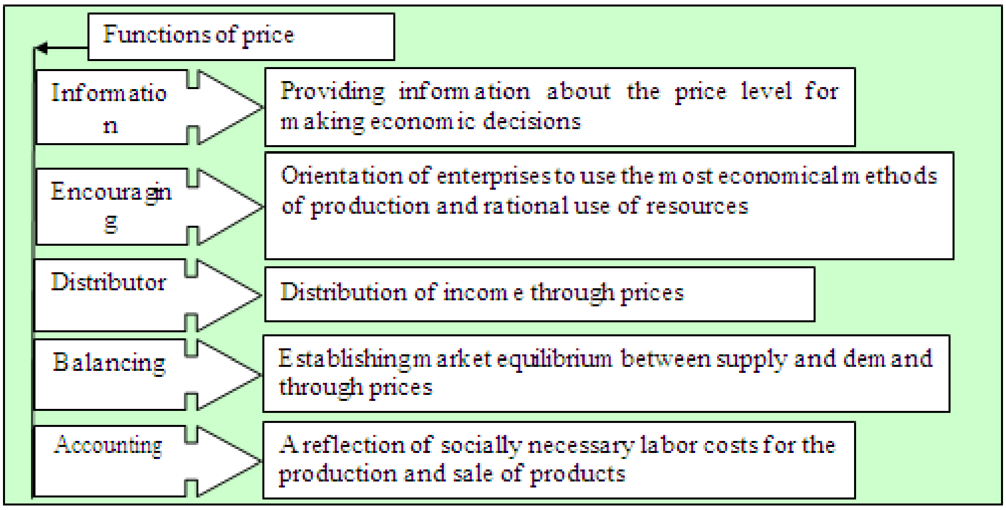
The enterprise's price policy, in turn, serves as the basis for the development of its price strategy, that is, a set of practical factors and methods that are appropriate to follow when setting market prices for specific types of products produced by the enterprise. The active policy of the enterprise in the field of price determination is the prices that can ensure the sale of products; the volume of these products that can be sold at the specified prices; production volumes of products required for these sales volumes; average costs corresponding to these production volumes; consists of setting prices for products produced by the enterprise, taking into account such factors as the profitability of the product to the costs and assets of the enterprise, which can be achieved according to the selected prices and the achieved production volumes.

An active price policy can be recognized as successful if it allows to restore or improve the position of the enterprise in the competitive market of the product (domestic or foreign) and increase the net profit of the enterprise. Speaking of price, what is price? - it is desirable to find an answer to the question, to have a broader understanding of its content and tasks.

Price is the monetary expression of the value of the product and is the only element of the marketing mix that generates profit for the enterprise. Unlike other elements of the marketing mix, it is one of the most flexible and easily changeable elements. The most commonly used price definitions include:

1. price is the sum of the manufacturer's costs and management skills;
2. price - the amount of money paid for a certain product, evaluating the level of its usefulness and advantages.

The economic nature of the price makes it possible to distinguish a number of its functions.



Separation of functions based on the economic nature of the price

Price is interpreted differently in different places and environments, especially for housing - rent, tuition fees, interest on loans, electricity tariffs are reflected in the concepts. Also, the price determines the results of commercial activity, the competitiveness of products and enterprises, and the behavior of buyers.

Price belongs to the category of marketing driving factors, so there are many ways to determine it, with the help of which the price is adjusted to environmental, affordability and demand factors. All prices operating in the economy are interconnected and form a system consisting of separate blocks and elements. This system consists of individual price blocks that are interrelated, such as wholesale prices, transport and communication tariffs, etc.

Price blocks, in turn, are made up of smaller blocks or sub-blocks. Thus, the block of wholesale prices is divided into two sub-blocks - wholesale prices of the enterprise and wholesale (sale) prices of the industry. The transport and communication tariff block consists of several small railway transport tariffs, sea transport tariffs, road transport tariffs and other blocks. Of course, all the blocks are connected to each other. The interdependence of prices included in the unified system, firstly, all prices are formed on a single methodological basis - based on the laws of value, demand and supply, and secondly, the interdependence between all enterprises and industries whose economic activity is served by prices is determined by an important condition.

The correlation of prices in a single system does not exclude the independent movement of prices for individual price blocks and specific goods within these blocks. As components of the market economy, it is necessary to emphasize the close connection between the price system and the economic environment, which includes the production of goods, various forms of ownership, competition, etc. All prices are divided into several types according to a number of economic principles.

Types of prices according to economic basis

Depending on the sectors of the

a) wholesale prices;
b) purchase prices;
c) prices of construction and assembly works and services;
d) cargo and passenger transportation tariffs;
e) retail prices;
f) tariffs of paid services provided to the population;
g) prices serving foreign trade turnover;
h) allowances in the field of circulation, discounts, surcharges.

Prices are subject to coverage

a) prices that are the same throughout the country (uniform prices can be set only for the main types of products and services;
b) regional prices (regional, local) - regional prices can be wholesale, purchase, retail.

Types of prices according to economic basis

If we comment on the information presented in the picture, wholesale prices are the prices at which the products of enterprises, firms and organizations are sold and purchased accordingly.

As mentioned above, wholesale prices are divided into two subtypes: enterprise wholesale prices and industrial wholesale (sale) prices. The wholesale prices of the enterprise represent the prices of the products produced by the producers to consumers - to other enterprises and organizations, as well as to sales and wholesale trade organizations.

When selling their products, companies must cover production and sales costs and make a normal profit. Based on the wholesale prices of the enterprise, the analysis and calculations of the cost indicators of the works are carried out. Thus, the wholesale price of the enterprise is directed to and closely related to production, and the change in the wholesale price of the enterprise is a transfer price. It is used in commercial transactions between units of the same enterprise and can be used in relation to finished goods, semi-finished goods, raw materials and services, including management fees and interest on loans.

Transfer pricing has become widespread in recent years as intra-firm trade has become an important element of international trade. Transfer pricing can have a significant impact on a company's competitiveness in the market. Thus, by reducing the prices of raw materials and materials supplied by subsidiaries, the competitiveness of this enterprise can be significantly increased.

Sometimes reduced prices are used to reduce customs duties, but this is against antitrust laws. Wholesale prices of the industry are the prices that enterprises and consumer organizations pay for products. These prices are used in many areas of the economy. If the wholesale price of the enterprise is more inclined to production, then the wholesale price of the industry will be closely related to the wholesale trade.

The change in the wholesale price of the industry is the price of exchange goods or exchange transactions. It is formed on the basis of prices or discounts stipulated in the exchange contract, depending on the exchange quotation and the quality of the goods, the distance from the place of delivery.

Purchase prices are the wholesale prices at which the company's products are sold by branches and subsidiaries. In practice, purchase prices for enterprises are converted into average prices of real sales, taking into account the prices and quantities of products sold through various sales channels (supply organizations, market, etc.).

Prices of construction and assembly works and services. These works and services are assessed at two types of prices:

estimated price - the maximum amount of costs for the construction of each individual object;

list price - the average estimated cost of the final product unit of a typical construction project;

Retail prices are the prices at which goods are sold to residents, businesses and organizations in the retail network, and the change in the retail price is the auction price. Auction (Auction) price - the price of a product sold at an auction. It can differ significantly (several times higher or lower) from the market price, and it largely depends on the skill of the person conducting the auction.

If we pay attention to the fact that prices are also classified according to the sphere of influence, the prices that are the same throughout the country (energy, electricity, rent, etc.) are regulated by government agencies.

Regional, local prices are set by producers, regional authorities and administrative bodies. These

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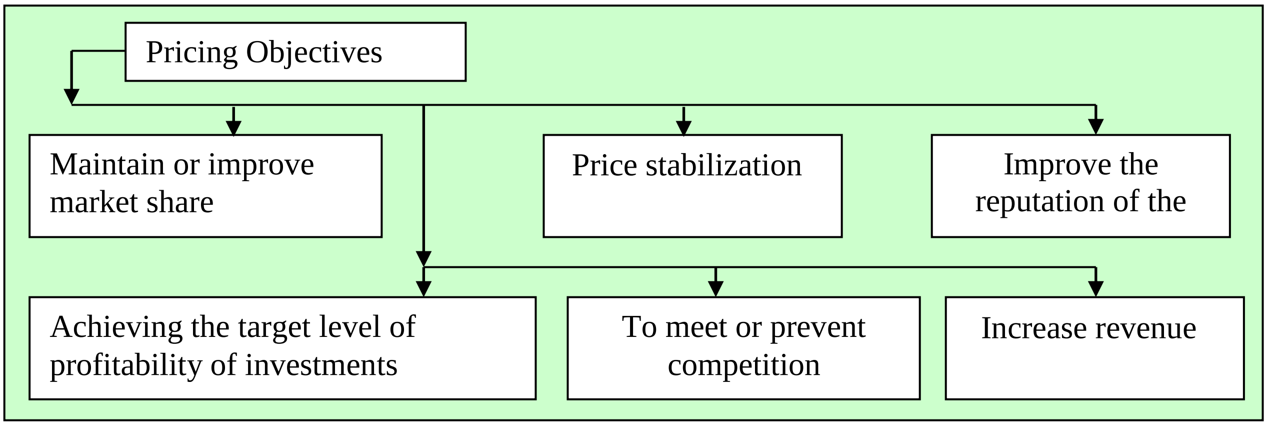
prices are driven by production in the region, the abundance of housing and communal services provided to the population, and the cost of sales.

The term "price" should not be confused with the term "pricing". Pricing is the art of converting into quantitative terms the value of a unit of product or service to customers over a period of time.

Prof. According to KC Kite, "pricing is a management function that includes setting pricing objectives, determining price regulatory factors, determining their relevance and importance, determining product value in monetary terms, and formulating pricing policies and strategies, implementing them, and making them the best control to achieve results.

A company should be aware that a company's pricing strategy and tactics send strong signals about the company's philosophies and beliefs. It is worth noting that prices are not an end in themselves, but a means to achieve the company's marketing goals. Therefore, the enterprise's pricing strategy should be developed to achieve specific goals. Like other operational objectives, pricing objectives are derived from the overall objectives of the enterprise. The main task of any enterprise is to ensure continuity of production and continuous development.

It can be understood from the above opinion that the goals of pricing should be clearly defined, because with prices without goals, the enterprise cannot achieve the intended result. In practice, very few companies clearly define their pricing objectives. Specific pricing objectives may differ for each business at different times. This is why many businesses have multiple pricing objectives.



The main objectives of pricing defined by different companies

To explain the main pricing objectives in the figure, in an expanding market, market share is a better indicator of a company's success than target profitability. When the market has growth potential, if the market share of the enterprise with the target profitability level is decreasing, it means that the production of this enterprise is fading. Therefore, it is more desirable for companies to maintain or improve their market share in growing markets. This indicator determines the market share of the company's sales compared to the sales of its competitors.

The goal of price stabilization is adopted in industries with several enterprises. In an oligopolistic situation where one firm is very large and the others are small, the large firm acts as the price leader and the other firms follow. All businesses try to avoid price competition.

In avoiding price fluctuations, they can forgo maximum profits during periods of low supply or crisis. It should be noted that this objective applies to products that are not affected by price competition or are nationally advertised. Price stability helps in planned and regular production in the long run. However, this pricing target may cause further rigidity.

Another purpose of setting prices is to increase the reputation of the society or the enterprise, for these purposes, the enterprise can sell a high-quality product at a high price, and at the same time, it gives the opportunity to offer a new product at a low price to appeal to ordinary buyers. Of course, in this case, the price policy should correspond to the established reputation of the enterprise.

Firms with the objective of achieving a target rate of return on investment design their pricing strategy in such a way as to generate the desired return on total investment (ROI). The target rate of return on investment is the ratio of net profit to investment or used capital. This objective often results in pricing relative to costs, and the price of a product or service is determined by adding the expected profit margin to the costs of production and distribution. Also, to determine the price, the enterprise estimates the amount of total profit necessary to obtain the expected level of profitability. Total profit divided by average sales volume gives the profit margin per unit.

Businesses that use target profitability pricing have a number of opportunities. Including:

first, it provides investors with a reasonable return on their investment;

secondly, it avoids the deterioration of the enterprise's performance or various public criticisms;

thirdly, the level of profitability helps to evaluate and compare the performance of different products of the enterprise;

fourth, it allows to evaluate the improvement of the limitation measure and the new product type. The target rate of return varies from company to company depending on the cost of capital and actual market conditions in the industry.

In a highly competitive environment, a firm may seek to meet or avoid competition. It can set prices very low (even below cost) to eliminate competitors or prevent new firms from entering the market. Some firms follow this practice when introducing a new product. This goal is not very popular and cannot be accepted permanently. In the long run, a firm cannot survive if it continues to charge less than the cost of a product or service.

In the face of strong competition, a company can try to meet or avoid competition. It can fix prices by keeping prices very low (even below the target price) to eliminate competitors or prevent new firms from entering the market. Some companies follow this practice when introducing a new product. This goal is not very alternative and cannot be accepted permanently. In the long term, if the company continues to charge less than the price of the product or service, it will face a crisis.

Traditionally, profit maximization is considered to be the objective of pricing. Classical economic theory suggests that prices should be equal to marginal cost, profit-maximizing marginal revenue. Even today, some enterprises are not very aware of social obligations and seek to maximize profits. But in recent years, there has been a change in business philosophy, and profit maximization is not considered a rational business behavior.

The effectiveness of marketing activities is determined by the correct implementation of product sales and the increase in sales volume. At this point, how the customer perceives the product's

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value determines the maximum price customers will pay. This is sometimes described as the "market bearer price". Perceived value is created by established reputation, marketing messages, packaging and sales environment. A clear and important component of perceived value is the comparison of customers and prospects between the enterprise and its competitors.

It is worth noting that between the price set by the enterprise for the product and the "market bear" price, the correct price for the enterprise's product or service, that is, the price that allows to obtain a fair profit and seems fair to customers, can be matched. Therefore, after understanding the costs of the enterprise and the maximum price, it is possible to make a clear decision about how to price the product or service.

However, although costs are important in determining product prices, a business should not limit itself to value-based pricing. Value-based pricing forces you to think about your business from the customer's perspective. If the customer does not perceive the value to be worth paying for the product at a price that provides a fair profit, the business needs to rethink its pricing plan.

The following stages of the pricing process in the enterprise are distinguished

determining the base price, ie. prices without discounts, margins, transport, insurance, service components;

price determination taking into account the above components, discounts, margins.

The following basic costing methods are used, which can be used separately or in various combinations with each other:

1. Full cost method or additional cost method (Full prices, target prices, cost prices). To the total amount of costs (fixed and variable), add a certain amount corresponding to the level of profitability. If the cost of production is taken as the basis, then the additional costs should cover the costs of sales and ensure the profit. In any case, the additional charge includes indirect taxes and customs charges that will be passed on to the buyer. It is used in enterprises with clearly defined product differentiation when calculating the prices of traditional goods, as well as when setting prices for completely new goods without a price precedent. This method is the most effective in calculating the prices of goods with reduced competitiveness.
2. Production cost method. The total cost of purchased raw materials, materials, and semi-finished products is increased by the percentage corresponding to the company's contribution to the increase in the value of the goods. This method is not used for long-term pricing decisions; does not replace, but complements the full costing method. It is used in specific conditions and situations of decision-making:

   on increasing the mass of profit by increasing the volume of production;

   on rejecting or continuing the competition;

   on changing the assortment policy in determining the most and least profitable products;

   for one-time (individual, non-mass) orders.
3. The method of limited costs (Direct Costsing Sytsem) assumes the increase of variable costs for a unit of production to a percentage that covers costs and ensures a sufficient level of profitability. Wider price options are provided: full coverage of fixed costs and profit maximization.

4. The Return on Investment Pricing method means that the project should provide profitability not lower than the cost of borrowed funds. The amount of interest on the loan is added to the total costs for the product unit. The only method that takes into account the payment of financial resources necessary for the production and sale of goods. It is suitable for enterprises with a wide range of products, each of which has variable costs. Matches traditionally produced goods with established market prices and new products. It is successfully used when making a decision on the production volume of a new product for the enterprise.
5. Marketing evaluation methods (pricing based on market consideration). The company is trying to determine the price at which the buyer is carrying specific goods. Prices are aimed not at meeting the company's need for financial resources to cover costs, but at increasing the competitiveness of the product.

In addition to the above, enterprises can use their pricing policy to fully utilize production capacity, market research, diversification, etc. can develop to achieve their goals. Because price is usually one of the factors most responsible for improving or maintaining market share, it is a sensitive indicator of customer and sales acceptance.

In short, an enterprise should not treat the price of its product as just another element of the marketing mix that generates revenue and profit. When deciding on a pricing policy, a company should think about how it wants to be perceived by customers, and then determine which pricing policy will help create this perception in the minds of customers. Because one of the main categories of economic theory and one of the most important concepts of marketing is the price, and for the economist it is the result of the interaction of supply and demand. For an accountant - costs are excess profits, for a seller - a means of competition, for a buyer - an indicator of product value.

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