

PRICING METHOD: THE MAIN METHODS AND MECHANISMS OF PRICE FORMATION AND CALCULATION, EXAMPLES, CHARACTERISTICS

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Abstract: in a free market, it is very important to correctly determine the value of a product or service, which in most cases is not regulated at the legislative level. The efficiency of trade and, as a result, the economic feasibility of the enterprise directly depends on this parameter.

Keywords: Competition, selling, stability, manufacturing plastic products.

Competition in this area occurs both between product manufacturers and sellers. The commercial results of the company's activities depend on the correct calculations. This article will briefly review and name the main methods of pricing (price formation), what they include, what they depend on, modern classification, their features, the purpose of forming a price offer, examples, advantages and disadvantages. Information is also provided on when it is appropriate to apply a specific strategy and what result can be achieved for the commercial activities of the company using it. At the end, the differences in tactics when selling different types of products are described.

The essence and concept

First of all, it is worth understanding the essence of the issue in order to better understand it in the future. This will help you better concentrate on the subject of study. So, let's get acquainted with the specifics of the main issue.

All the methods of calculating the price indicated in this material are necessary in order to correctly set the cost of a product or service. Their goal is to take over a market segment, make the product competitive, calculate sales volumes, and calculate the amount of profit it can bring. The profitability of the company and the stability of its work depend on this.

There are a number of factors that have a direct impact on the price list. This is the target audience, the number of players in the market, and the level of taxation.

Process tasks

The pricing system sets itself several main goals that make calculation very important for commercial activities. First of all, it covers the costs of manufacturing and selling products and ensuring the level of profit. It should be sufficient for the efficient functioning of production.

In addition, it is important to take into account the interchangeability of goods and services on the market when calculating prices. There is also a need to solve social problems and problems related to environmental protection.

Stages

Pricing mechanisms are being formed gradually:

First of all, it is necessary to establish the main objectives of the event. They were discussed in the previous paragraph. It is important to understand what tasks need to be completed to ensure the viability of a particular enterprise. For example, when manufacturing plastic products, environmental issues must be taken into account. And for a law firm, this problem will not be relevant.

The next point is to calculate the demand for a product or service. Without determining this indicator, it is impossible to form an optimal parameter. In addition, it is necessary to calculate possible changes in interest in the product, taking into account external and internal factors.

After that, marketers analyze the future costs associated with manufacturing and sales. They can be constant and variable. The size of the former does not grow with the increase in production. The sum of these two indicators forms the gross cost. They represent the minimum mark.

Also, when choosing any of the main methods of pricing goods from the system, it is important to calculate the cost of the products of competing companies and consumer demand for it. Data on its characteristics and distinctive features will also be useful. The more information the company's employees have, the more opportunities there are. Using these parameters, the company's place in the market and its share in it are calculated. You can analyze them in different ways. For example, using specialized online monitoring services.

The last stage of the process described here is the choice of a pricing method. There are several options for determining the cost. You can calculate the minimum, maximum, and optimal levels.

There are many ways to make this calculation. Details about each of them can be found in the paragraphs of the article. The features, advantages and disadvantages will be discussed below. In addition, each of them is appropriate to apply in specific situations.

Who sets the price in the market

To answer this question, it is necessary to determine the type of economy in which trade takes place. In conditions of pure competition, the value of goods and services is formed by the seller based on the parameters of other players. Thus, a single market indicator is formed. The company cannot sell a product above it, because buyers will choose another manufacturer. It is not profitable to implement the following, from a commercial point of view.

However, the manufacturer does not always set the conditions. In some cases, the price of products is determined by the government. For example, in conditions of a state monopoly. The parameter depends on the cost of manufacturing and sales.

What are the pricing methods and how does the process work?

The modern field of marketing offers a large number of ways to determine the optimal level of value of a product or service. Each of them has a different effect on the buyer and benefits the company. Some of them are classified as "traditional" due to the fact that they have passed the test of time and have proven themselves well. Other techniques are currently considered alternative and are used less frequently. Each of them must be applied responsibly and in suitable conditions. Most enterprises combine several strategies to achieve maximum results.

Traditional

The main classical methods of setting prices (pricing) include the following: costly, parametric and those that act taking into account the consumer effect. For more information about each of them, see this paragraph of the article. The essence, advantages and weaknesses are described here.

Cost orientation

This is the first category of strategies. They help to calculate the factors that may affect the cost of manufacturing and selling a product in the future. Both external and internal conditions are taken into account. It is important to take them all into account and analyze them correctly.

The first one, which belongs to the type described, is the full cost method. It consists in summing up all the actual costs of production and sales, and then laying them as the basis for prices. With this strategy, the total cost of the product is calculated and profit is added to it. This is how the final figure is obtained. The pricing formula used in this case is as follows: $C = \text{And full} + (\text{And full} * R \text{ prod} / \text{And full})$, where C is the price, And full is the sum of all expenses, and R prod is the level of profitability.

The advantages of this option are that modern technologies allow you to accurately calculate the necessary costs. It also ensures the stability of the market value. The main drawback is the inability to take into account all the changes in the production process. Accordingly, the amount of expenses may be inaccurate. In addition, supply and demand are not taken into account.

Another way of pricing in marketing is the standard cost method. It differs from the previous one in that it allows you to calculate the optimal level taking into account possible deviations. Thus, it becomes possible to factor-by-factor analyze the actual costs based on the reasons that led to them. The advantage of the strategy is that its use allows you to constantly monitor profits and actual expenses that arise. It is also acceptable to use it to calculate the actions necessary to reduce them.

In certain cases, a pricing (pricing) technique based on direct costs is used, so it is important to understand what it should take into account. Its essence lies in the fact that variable costs are determined first, and only after that the necessary profit is added. At the same time, the constants are not scattered for each product individually, but are compensated from the total amount of sales and expenses depending on production volumes. The main advantage of this technique is that the company can determine the most profitable types of goods and services for itself and focus on them. This way shows good results in conditions of high market saturation and high industry competition.

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Methods of price setting (pricing) based on market conditions and costs

Several basic strategies fall into this category. They are based on conducting an in-depth analysis of the popularity of a particular product and the size of the existing offer.

The first is a demand—driven method. When using it, it is necessary to take into account the factors affecting this parameter. The advantages include flexibility, incentives to reduce the level of costs. The main disadvantage is the high probability of making a mistake, since there are no standards for increasing or decreasing the cost.

Another method of calculating prices is following the leader. It consists in focusing on a company that occupies a significant market share when determining these parameters. All changes in the policy of this seller are automatically duplicated. The strategy works only when selling identical products, when cost analysis is difficult or impossible. To implement it, it is necessary to constantly monitor the competitor company and have a lot of information about its activities.

In some situations, the tender pricing method is used in trade. It is also called "sealed envelopes". It is concluded in cases where several contractors are fighting to conclude a contract. For example, in the public procurement sector. The essence of the strategy is to ensure that the final value of the product is lower than that of others. Due to the limited possibility of application, it cannot be considered as one of the main ones.

Parametric methods

This category is based on the calculation of the costs that arise during the production of one unit of goods. The first way out of this group of pricing methods is to take into account unit cost. With its help, one feature is determined, on which the final numerical value in the price list depends. It is limited and cannot be used in the manufacture of high-tech products, in which many characteristics play a role.

An alternative is regression analysis. This way is to determine the dependence of the value of a product on several basic parameters using equations. It is more accurate than the previous one.

Product orientation

This category of basic price calculation methods is based on the analysis of manufactured goods.

"Costs plus"

This principle allows you to calculate the marginal income, as well as the maximum costs. When used, all costs incurred in the production process are summed up.

Manufacturing cost method

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It is used in the decision-making process to increase profits due to the level of production or to change the assortment of goods. Its essence is to calculate the total cost and sum it with a percentage that corresponds to the company's contribution to increasing the level of final product value.

Margin costs

The essence of the pricing method is to analyze the difference between cost (margin) and market value. After that, the expediency of the enterprise as a whole or the release of a specific product is determined.

Return on investment

The point is to establish such a cost of products that can provide benefits. Its level should be such as to cover the amount of borrowed funds. In this case, the amount of interest on loan obligations is added to the cost. It is widely used by large companies.

Marketing estimates

The principle of such a regulatory pricing method is to analyze the market and the pricing policy of competing players. The ultimate goal is to find the optimal value that can provide the maximum result.

Alternative paths

There are a number of strategies that are considered non-standard because they have not been studied enough. However, they are effective and widely used by different companies.

Innovations

This path implies the search for new ways that will allow the company to solve emerging problems. In this way, you can stand out from other companies, thereby attracting customers. For example, adding a new product property.

The method of competitive advantage

This way of determining the price of a product is to use the strengths of the company. The purpose of this path is to increase interest in their products and, as a result, increase their value.

Sales of additional products

By selling secondary goods or services, you can increase the popularity of the main position. For example, a company manufacturing shaving machines launches the production of foam and replaceable nozzles. This becomes the main source of income, and razors are sold cheaper than cost. The PlayStation Corporation receives most of its profits from the sale of games, not the gadgets themselves.

The method of determining the price of a product is the "Assignment of the initial cost"

. Its principle is to determine the price list, the level of which will be between the cost and the parameters of competitors. This increases the volume of sales.

"Falling leader"

This pricing method is the choice of a product from a group that will potentially be the most popular with consumers. At the same time, their cost will be low. The profit will be achieved through the sale of analogues and additional products.

Sequential approximation

This principle is effective for companies with a wide range of products. In this case, a position is selected, the cost of which is defined as "cost + 2.5%". And the price list for other products is gradually increasing.

Deploying rows

This path is useful for corporations that are constantly working on expanding the catalog. It consists in adding categories of goods that will be in high demand.

Rejection of unprofitable clients

This method of calculating the price of products is implemented by identifying categories of buyers, cooperation with whom will be unprofitable. It is caused by the fact that some consumers cause more losses to the company than they bring in profits.

Psychological methods

There are a number of strategies in which the seller acts directly on the customer, encouraging him to make a purchase.

"Magic price tags"

This technique has long been a classic and is used in almost all stores. Marketers set the price not at 5000 rubles, but 4999. At the same time, the buyer pays attention to the number "4", which he associates with a lower cost.

Comprehensive offers

This pricing mechanism involves combining several products. For example, business lunches in restaurants. At the same time, the purchase will be cheaper than all the components separately.

Comparison

This method consists in introducing an expensive and not very necessary product into the assortment. In this way, the client compares them, and his interest is shown in the main position.

"Hot" sales

Such offers include the opportunity to make urgent and profitable purchases. According to this scheme, sea tours are often implemented.

Gifts

This strategy is designed to increase the value of the product by offering the customer a "free" service. For example, many stores include shipping in the price of the product. At the same time, the buyer pays more.

How to choose a pricing method and what it consists of

The multitude of available paths can confuse a novice entrepreneur. To use the most effective method, you need to take into account a large number of factors. These include the type of products produced, the saturation of the market segment, as well as the behavior of competitors. Most often, the ability to determine a strategy comes with experience. In the early stages, the manufacturer or seller can make many mistakes. To reduce their number, it is necessary to carefully study the theoretical part.

There are few cases in which one of the principles can be limited. Most often it is necessary to use a combined pricing method. In other words, several paths at once or alternately.

Features of determining the cost of services

There are some differences in methods in this area of business. They are due to the fact that the price forms are different:

Per Unit (theater or cinema tickets).

Aggregate — the amount for all types of work that includes service (construction, repair of equipment).

Comprehensive — a set of complementary positions (paid treatment, sea tour).

Subscription — permission for unlimited use for a certain period (gym pass).

The availability of different packages of services on the market in terms of content and complexity determines the specifics of tariff formation.

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