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# PRICE FORMATION IN MARKETING: A TOOL FOR PRICE FORMATION AND CHANGE

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**ANNOTATION**

Price and price formation is one of the key elements of a market economy. Price is a complex economic category. It intersects almost all the main problems of economic and social development. Primarily, this applies to the development and sale of goods, the formation of their value, the creation, distribution and use of gross domestic product (GDP) and national income. A pricing strategy is a long-term decision about the basic principle of price formation, the probability level, direction, speed, and periodicity of price changes in accordance with the company's market goals.

Keywords: goods, price, strategy, customer, "Entrance fee" strategy, The “get the cream” strategy, Average market prices strategy, initial price, target market, competition, demand.

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As you know, when you buy a product or service in the market, the price determines how much you have to pay for it. Price is the monetary value of a commodity. Price is one of the important pillars of a market economy.

Price formation is influenced by the following factors: value, competition, demand, supply and demand. Costs play an important role in pricing. It is the common basis of any price. Because no product or service can be created without cost. The role and influence of supply and demand in the formation of prices is incomparable. So, if demand increases, the price increases, if demand decreases, the price falls. Conversely, when supply increases, prices fall, and when prices fall, prices rise.

There are two basic theories of price.

According to the proponents of the first theory, the price of a commodity represents its value.

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Proponents of the second theory believe that the buyer is willing to pay for a product that has a certain usefulness. Hence, price is a monetary expression of the value of a commodity.
Price performs the following functions:
1. Market equilibrium. In this case, the price balances the supply and demand in the market by influencing the volume and composition.
2. The calculation serves as a measure. Expenses incurred, profits and losses incurred, and the volume of work performed are all calculated on the basis of certain prices.
3. Acts as an economic regulator. A change in price reflects the state of the market, which depends on the ratio of supply and demand.
4. It is a means of competition. The most important type of competition is the struggle through price. Firms change prices to beat their competitors and squeeze them out of the market. Price is a competitive tool because it is a very important economic tool. Firms have a policy of changing prices to take over the market and squeeze out competitors.
5. Performs the function of social protection. Price serves to protect certain categories of the population or the population from value. In this case, subsidized prices (reduced at the expense of the budget) do the same.
Competitive environment plays an important role in price formation. When competition is determined by price, it affects the market. The more competition there is, the lower the price. If competition is limited, prices will rise. The government's economic policy also plays an important role in shaping prices. State price policy means measures to liberalize prices and bring national market prices closer to world market prices in the transition to a market economy.
You can hear the ideas about the “importance of a strategic approach” and “the importance of strategic decision-making” applied to every area of human activity ... Being a strategist may seem more important than tactics ... Of course, strategic mistakes in terms of the consequences of tactical mistakes it is impossible to compare with. But when it comes to a well-defined strategy, the issue of a tactical program becomes a crucial one. Of course, there is also a dilemma about the level of responsibility of managers who make marketing decisions on prices.
A pricing strategy is a long-term decision about the basic principle of price formation, the probability level, direction, speed, and periodicity of price changes in accordance with the company's market goals. The pricing strategy, as a rule, defines the principles of pricing of new as well as "old" goods when a company enters new markets or changes in price conditions. The importance of choosing a pricing strategy is reflected in its direct impact on product placement. Price placement is determined by the capabilities and needs of the target market. Its essence is that using any level of price (price segment) an opinion is formed about the level of exclusivity or quality of the model.
Price strategies today are absolutely diverse in terms of content in terms of the important criteria chosen by experts for company policy.
Let's look at each strategy group in order. This means that when a company launches a new product or tries to enter a new market segment with a classic product for the company, it has at its disposal a group

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of strategies to form the initial level of the product, which is the strategy of "entry price", "get the cream". strategy includes the "average market price" strategy.

**"Entrance fee" strategy**

| | | |
|---|---|---|
| **The essence of the strategy** | | significantly reduce the cost of goods |
| **Purpose** | | capture the mass market |
| **Terms of use** | **Client** | mass, low or average income, price effective, low elasticity of demand for quality |
| | **Goods** | widely used, recognized, no substitutes (conditions that allow further price increases) |
| | **Company** | existing production capacity, able to meet increased demand (due to low prices), a strong firm with the ability and experience to solve the problem of price increase |
| **Advantages of the strategy** | | reducing the attractiveness of the market to competitors by allowing the enterprise to have time stability in the market |
| **Disadvantages of the strategy** | | there is a serious problem of further price increases while maintaining the market size occupied |

**The "get the cream" strategy**

| | | |
|---|---|---|
| **The essence of the strategy** | | short-term price increase |
| **Purpose** | | increase profits |
| **Terms of use** | **Client** | non-price target market segment; innovators or experts who want to own a new or fashionable product |
| | **Goods** | a brand new or high demand that has no basis for comparison, a product with elastic demand, a patented product, a product with high and constantly increasing quality and a short shelf life (in order to limit production from competitors) |
| | **Company** | conducts a campaign to promote sales with a popular and high-quality image or unrecognized and when using the product; has competitors who are able to replicate the life cycle of the product, which makes it difficult to recoup the cost; provided that the production process is undeveloped and that demand and risks are difficult to assess, costs may exceed expected levels |
| **Advantages of the strategy** | | if the market has "accepted" the product at a high price and the product has good prospects: if it is easier to reduce than to increase the price, it will cover marketing costs in the short term and free up capital |
| **Disadvantages of the strategy** | | the high price attracts competitors without giving the firm time to consolidate its position in the market |

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**Average market prices strategy**

| | | |
|---|---|---|
| **The essence of the strategy** | | launch new products at an average price |
| **Purpose** | | use the existing case |
| **Terms of use** | **Client** | a middle-income, price-driven target market segment |
| | **Goods** | standardized, widely used with a normal life cycle |
| | **Company** | average network production capacity |
| **Advantages of the strategy** | | relatively calm competitive situation |
| **Disadvantages of the strategy** | | difficult identification of the goods |

Hence, the initial price level was chosen. If each company operated in a different vacuum, it would be possible to stop it. But the market reality is different. Companies can act in a way that senses the influence of different forces and regulates their activity (e.g., the behavior of their customers and competitors) to the best of their ability, and sometimes to them (i.e., companies in their activities inflation, threat, demographic situation). , will not be able to influence the level of income of its target segment).

In addition, the stages of the product life cycle change, and each stage, as you know, requires a certain additional "edge" of the previously defined marketing actions.

It was speculated that the company had launched a brand new unique brand to the market. The product will be sold at a high price in the market until competitors find and master the technology of its production. But when similar products appear on the market, it is necessary to change the previously established pricing strategy. After some time, the company, which produces unique products, decides to expand its range. In this case, he will have to adapt his pricing policy to the changing rules of the game. After a while, the company notices a decrease in demand for its products, which means that the price needs to change again.

The company is able to set different prices that are appropriate and inappropriate for the quality of the product, with a strong influence on the placement of the product, with the ability to properly assess the quality of the product (obviously, taking into account consumer perception). In this way, the relative price level strategy becomes more relevant.

A strategic approach to price changes and level formation ensures long-term profitability from the sale of goods. But a single price level requires a change depending on certain conditions (local market conditions, the consumer's willingness to pay extra or the desire to save a little).

Tactical price formation is a short-term measure that stimulates demand in terms of market conditions, service capabilities, and the characteristics of customer behavior, which does not contradict the chosen pricing strategy.

The set of methods for changing prices can be classified into several categories. So, taking into account the economic dependence, there are different tactics of discount, sale of goods on credit, surcharge, "harmful price for ancillary goods", "variable prices". The criterion of perception by the consumer of the "price-quality" ratio allows to distinguish between tactical pricing methods as a tactic of "price gradation" and unreasonable increase in price on quality.

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