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PRODUCT QUALITY AND ITS INFLUENCE ON THE PRICE

The main problem. Manufacturers of products, businesses, financial institutions, governments constantly feel the need to obtain reliable price information both in the short and in the long run. The reason for this is the constant fluctuations of the price in the market, a large number of factors that affect market prices, significant uncertainty of these factors, the lack of explicit analytical relations between the parameters and characteristics in pricing. This determines the complexity of problems associated with the prediction of product prices.

Analysis of recent research and publications. The problem of the impact of product quality on its price is the object of many scientific studies. Various aspects of the problem were studied by such scholars as V.V. Gerasimenko, KO Buzhymska, V.L. Korinev, F. Kotler, E. Krykavskyy, A.E. Kuzmin, S.V. Mocherny, M. Porter, B.S. Serebrennikov, V.A. Tochilin, R.A. Fathudynov and others.

Statement of the problem. The aim of study is analysis of problems arising in the process of assessing the impact of product quality on pricing in today's integration process and economic transformation.

The main material of the study. Product quality depends on a large number of factors. These factors operate both individually and in relation to each other, as in certain stages of the product lifecycle and across multiple. But all factors can be grouped into 4 groups: technical, organizational, economic and subjective.

The technical factors include: design, scheme of serial communication of elements reservation system, circuit solutions, manufacturing technology, facilities maintenance, technical level of framework design, construction, operation and so on.

Proper assessment of the role of technical factors contribute to the solution of many scientific and engineering problems in the design, manufacture and operation of products. It is important to know the composition and the real possibility of use as each factor separately, and their combination. The use of progressive technological processes, a high level of mechanization and automation, perfection of methods and means of control and product testing contribute to the stability of the manufacturing process, which ensures constant quality characteristics. Improperly chosen technology and its violation in the production degrade quality. Finally, raising of the technical level of design and engineering organizations can deeply and thoroughly carry out experimental verification of the results of research and engineering solutions, which in turn influences the improvement of product quality.

The organizational factors include: the division of labor, specialization, forms of organization of production processes, timing of production, forms and methods of control, order of presentation and delivery of products, forms and methods of transportation, storage, operation (use), maintenance, repair, etc.

These factors, unfortunately, are not given as much attention as technical ones. This is why, often well designed and manufactured products due to poor organization of production, transportation, maintenance and repair prematurely lose their quality.

The economic factors include: price, cost, shape and level of wages, spending on maintenance and repair, the rate of increase of labor productivity and so on. Economic factors are especially important in the transition to a market economy, they both inherent control and analytical and stimulating properties. The first group includes those that can measure the cost of labor, equipment , materials and software to achieve certain level of quality products. Effects of stimulus factors leads both to improvement of quality and to reduce it.

The most motivating factors are price and wage. Properly organized pricing stimulate quality improvement. The price must cover all costs on measures to improve the quality and ensure the necessary level of profitability. However, products with a higher price must be of superior quality.

The level, relations and changes in commodity prices depend on many factors that differ in origin, extent, impact and time of action, dependence on the company and others. Some of them operate only in the areas of production , marketing, merchandising, consumer advertising or simultaneously in several areas , some factors are now subject to regulation, others depend on it, some are short, others - for a long time . Consider the most important factors that influence the price level.

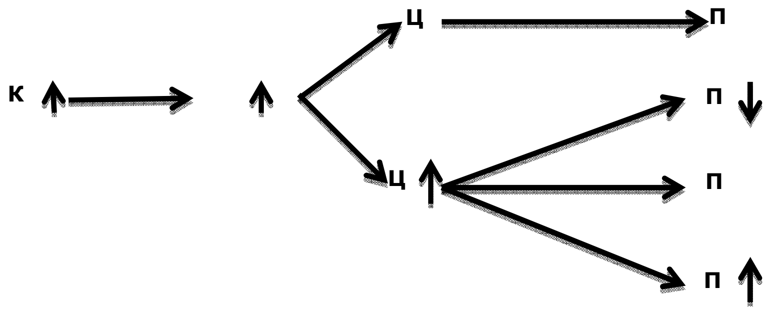
Production costs is one of the most important factors. The specific dependence of prices on production costs will be different in different types of markets: in a monopolistic market high spending causes high (monopoly) price, in a competitive environment impact of production costs on the price decreases, but increases the value of reducing costs for a profit.

Production costs may vary as a result of higher prices for raw materials, components products, energy, tariffs for railway transportation, wages, advertising costs, etc.

These changes businesses can react in different ways: put the raise of production costs to the consumer, that is, to increase the price of goods (work , services) that is characteristic of monopoly , partially offset the additional costs of higher prices or keep prices at the same level , but getting lower profits, or seek ways to reduce costs.

Quality of products (works , services) significantly affects the price level. Improving of the quality of products (under the product is meant the product manufacture or human activities designed to meet any needs through exchange) and the production of a new kind help businesses keep old or conquer new markets and keep the same level or raise prices, to increase profits. Typically, higher quality goods are accompanied by the additional costs associated with the improvement of production, using of new materials, improving quality of packaging and so on.

Relationship between quality of the goods (K), its cost (C) and price (P) is illustrated in Fig 1.



(- boost, decrease)

Figure . 1 Interaction of product quality , cost and price

(- Increase - decrease) [2, p. 79]

Depending on the objectives of producers improvement of the quality of the goods either do not affect the value of the resulting profit or result in its increase or decrease.

Increasing the price of the goods due to the increase of its quality must be acceptable to the consumer, or a product will not have demand.

For the manufacturer the higher costs of production and marketing will be economically justified only if the cost index is less than or equal to the price index,

$$\frac{C_2}{C_1} \leq \frac{Ц_2}{Ц_1}, \qquad \text{Formula 1}$$

For the consumer price increase should be accompanied by increased consumer cost of goods and price index should be less than or equal to the quality index as:

$$\frac{Ц_2}{Ц_1} \leq \frac{K_2}{K_1}, \qquad \text{Formula 2}$$

In market conditions improvement of the quality of goods is a factor completely dependent on producers. Its work in this direction may be different: the development of innovation policy, upgrading, update the range and development of new types of goods, certification and production of competitive goods, obtaining loans and investments, including foreign, market research, cooperation with scientific organizations , training engineering support for new technology and so on.

It is also worth saying that the price is influenced by many factors. In general, they can be divided into two groups: internal, depending on the firm and external, that are independent of the company and that you should consider when planning a strategy for their activities. The work of the company must adapt to the impact of these factors, the analysis and consideration of which is important.

The external factors include: consumer demand, supply manufacturers, population income, consumer behavior , the impact of state policies on pricing, price advertising, financial system, currency, monetary system , participants of channels of goods, competition, increased costs independent of enterprise reasons inflation, etc.

Demand - is the need of the population in any product service or other benefit, which is supported by cash. The relationship between demand and price is expressed in the law of demand: with a decrease of price the demand for the product increases

This dependence is due to several factors:

• a low cost product can get more consumers than the higher price ;

• at low prices consumers prefer cheaper goods;

• If the price of the product is too high, the consumer can opt out of it and choose its replacement

• In a market economy, the law of marginal utility of goods, hence the choice of consumer products under the price.

Total demand consists of individual demand of separate subjects that operate in the market, while subjects may be both legal entities and citizens of the country. At the request of individual subjects is influenced by various factors, including social. On essential commodities tend to demand does not depend on the price, you can change only if the substitute products, or changes an object of consumption. In some cases, this policy affects the demand with that the purpose of expansion of the consumer sets lower prices for some products or product groups, including the poor or those in need of social protection.

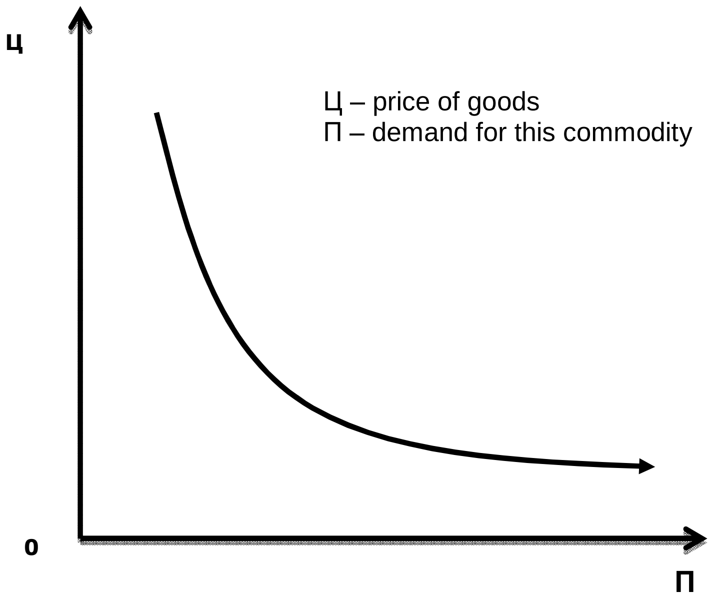


Figure. 2 Graph of demand and prices

[8, p. 45]

Effects of total factor demand at a price is determined by a system of mutually reinforcing factors, which include :

1) demand that the consumer can provide a product;

2) the level of household savings, ie the level of unmet or temporarily unmet demand , which in the future will be satisfied ;

3) the total amount of goods that the consumer can buy at that price level, which is formed, and its level of income;

4) consumer properties of products, their quality characteristics , purpose and able to meet the specific needs of consumers;

5) the availability of substitutes in the goods , their quantity and variety ;

6) substitutability of goods of a particular company by products of other manufacturers and alternative product satisfaction of customer needs ;

7) comparing the commodity market with alternative goods or market of additional products and components;

8) prices of substitutes ;

9) promotional activities of the company and product promotions on the market;

10) possibility to take a personal loan and the interest rate on it;

11) changes in demographics (size and structure of consumers);

12) the degree of consumer awareness of the company and the product of substitutes ;

13) market situation and trends of change ;

14) description of the product by the original consumer (whether long-term daily consumption) and the availability of durable goods consumption in the population;

15) the degree monopoly market.

Also, can act non-price factors of demand. In particular, emphasis is placed on specific product features, high consistent quality , fashion, product features , etc. . In this case, the curve is above the demand curve (normal). But the company has a risk of lower demand for their goods if the consumer believes that the properties do not meet its requirements.

The great importance to the impact of demand for goods has its elasticity. In general, flexibility - is the size of price changes under the influence of changes in any factor. This figure shows the percentage of change of consumer demand to changes in prices of a fixed size. The elasticity of demand (En) is given by:

$$E_n = \frac{\Delta П}{П} : \frac{\Delta Ц}{Ц}, \qquad \text{Formula 3}$$

where П - consumer demand ;

Ц - price of the product;

Δ - change in indicators of demand and prices for the period.

Demand elasticity can be of three types:

• demand is elastic (coefficient of elasticity is greater than one) . With this factor , even a small change in price causes a relatively large change in demand. This mainly concerns goods of precious metals, delicious products, fashion goods , etc. , that is not everyday consumer goods ;

• demand is inelastic (elasticity coefficient is less than one) . Factors affecting the demand can vary significantly , but demand will remain constant or change in minor amounts. This applies above all essential commodities, utilities , travel in public transport , etc.;

• unitary or single , demand (elasticity coefficient equal to one). This means that any change will demand adequate change in price in the same proportion. As an example, collectible products, customer needs which are spontaneous.

Considering the impact of demand on price must be stated that, depending on the elasticity of demand substitutability product can be cross . Its essence is that the change in demand for one commodity price changes on the other. If the goods are complementary , then the demand for the direct (ie , an increase in the price of coffee increases the price of its devices for grinding, which may reduce the demand for these products) . If the goods are interchangeable , the effect is the opposite direction (eg, increase the price of meat products leads to an increase in demand for its substitutes , ie fish products , vegetables and in some cases reduce their prices).

Findings from this study. The criteria for selecting the recommended proposals allow for objective position to approach the process of its formation in marketing activity. This particular pricing decision in setting a price should be formed as a single integrated system , taking into account the existing correlation of prices of goods and quality price ratio enterprise and competitors' prices and other characteristics of activities. This enables the company depending on the market situation set prices for products because of possible consequences of each alternative pricing decisions.

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Drabanich A.V., Nemyrovskyi V.D. PRODUCT QUALITY AND ITS INFLUENCE ON THE PRICE

Purpose. The study aims to study the impact of product quality performance at its price in today's integration process and economic transformation.

Methodology of research. The methodological basis of research served as a general philosophical principles and methods of learning, such as: methods of deduction and induction, historic and logical method to disclose the concept of quality and price, methods of analysis of statistical and economic information and graphic-analytical analysis of trends in the study of the impact of product quality on its price, analysis and synthesis in justifying offers for better pricing.

Findings. In the work formed the selection criteria for price are available that allow for objective position to approach the process of pricing in the marketing of the company. It was also proved that a particular solution in setting a price should be formed as a single integrated system, taking into account the existing correlation of prices of goods and quality, price ratio of enterprise and competitors' prices and other characteristics of activities.

Originality. This study substantiates the performance impact of quality on price and allow for objective position to approach the process of its formation in marketing activity.

Practical value. The results will enable the company in accordance with market conditions set the price for the products, taking into account the possible consequences of each option pricing decisions.

Key words: price, pricing, competitive, integrated quality assessment, technical specifications of products.