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The development of the construction company's pricing policy

Olha Seleznova

Odesa State Academy of Civil Engineering and Architecture,

4 Didrihsona str., Odesa, 65029, Ukraine

e-mail: olya-v@ukr.net

Ph.D., Assoc. Prof., Department of Marketing, Faculty of Economics and Management in Construction



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Abstract: The article reveals the process of a pricing policy's formation and development of the construction company in order to intensify the competitiveness of the construction industry's managing subjects. The author has used monographic, abstractly logical scientific method, and also methods of analysis, synthesis, and system analysis. Scientific novelty is the algorithm of pricing policy's formation of the construction company, which, unlike other approaches, takes into account specific features of a subordinate organization, and bases on modern scientific elaborations in the context of marketing trends. In this work the methodical approach is developed for establishing and improving of the pricing policy of a construction's managing entity, which includes phases: the definition of the pricing policy's goal, an inquiry for a construction project, a customer's pricing policy, an estimate of outlays on the construction, the analysis of competitors' costs, a choice of the price strategy, a choice of the method of the price formation, the definition of pricing characteristics, a coordination of undertaking, an establishing of a contract's price, a development of the pricing behavior and a system of prices' modification, a formation of the factual price for the construction project, an analysis of the pricing policy's efficiency. In further developments it is recommended to disclose the specifics of a prices' establishment on construction goods of various construction's subindustries.

Keywords: pricing policy, construction company, management of marketing, marketing activities, construction.



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1. Introduction. The setting of a problem

The construction companies' pricing policy is rather an important compound element of the marketing complex and the process of the management of marketing activities. In modern changeable conditions of forming consumers demand as profitable proportion of price and quality of a product as possible, including on the construction market. For a qualitative satisfaction of consumers' needs and obtaining of competitive advantages managing entities of the construction industry should pay attention to the development of the pricing policy as a compound element of building of mutually beneficial relationships with clients. This problem emphasizes the actuality of this research.

2. The analysis of the last exploration and published works

The pricing policy in different sectors of the economy is paid attention by the world scientists and researchers: G. L. Bagiev, V. M. Tarasevich, H. Ann [1]; L. V. Balabanova [2]; O. F. Osnach, V. P. Pylypchuk, L. P. Kovalenko [3]; Philip Kotler, [4]; Karl Heil [5], Smriti Chand [6], Heidi Cohen [7]. However, the pricing policy's development of the construction industry is ignored by scientists and becomes an important task of an applied scientific research.

3. The setting of a task

The purpose of this work is the pricing policy's development of construction companies that will help to improve the competitiveness of managing entities in construction.

The presentation of the main exploration's material. The success of the pricing policy of the construction company depends not only on the results of its activities, government standards and standards of the price formation [8], modern marketing trends [9], but also on the whole strategy of market's functioning, partners' behavior—suppliers, brokers, clients and so on. The price for the construction company is a factor that directly affects the profit and the success of the projects' realization.

The construction's pricing policy is a compound part of the marketing activities which includes the selection of the price formation's method, the development of a sales' system, pricing market's strategies and provides a profitable, paying functioning of the managing entity [10].

The construction company chooses independently a scheme of the pricing policy's developing on the basis of its goals and tasks of the managing entity's elaboration, the organizational structure and the management methods, permanent traditions in the company, the level of production costs and other internal factors, and also the status and the development of the company's environment, that is external factors.

During the developing of the pricing policy such questions are usually discussed:

- in what cases this or that pricing policy should be used in the company;
- when and how there should be responded to the competitors market policy by means of the price;
- with what measures of the pricing policy an introduction of the new product's proposal on the market should be accompanied by;
- according to what proposals of the assortment available a change of the price would be possible;
- how to allocate specific changes of the price during the time;
- with what price events an sales' efficiency could be strengthened;
- how to take into account in the pricing policy the internal and external limitations available of the construction activities and so on.

The process of the pricing policy's developing and realization of the construction company could be presented schematically – see pic.1 [designed by the author].

At the initial stage of the pricing policy's developing, the construction company needs to decide what economic goals it tends to achieve by means of the building of the specific object. Usually, three main goals of the pricing policy are distinguished: the sales providing, the profit maximization, the market retention.

The pricing policy's goals, which are given, are long-term, calculated on a relatively long period of time. Except the long-term ones, the construction company can set short-term goals of the pricing policy. Usually, they are included the next ones:

- the stabilization of the market situation;
- the reduction of the influence of pricing changes on the demand;
- the conservation of the existing leadership in prices;
- the limitation of the potential competition;
- the increase of the company's image or product's one;
- the sales promotion of such products, which have weak positions on the construction market and etc.

The studies of regularities of the formation of the demand on a produced product are an important stage in the pricing policy's developing of the construction company. The regularities of the demand are analyzed by using the demand's curves and proposals, and also by the coefficient of the elasticity by price.

The prices, which are calculated with the sales efficiency, can be considered as a price's upper bound. For evaluation of consumers' sensitivity to the prices, other methods are also used, they let determine psychological, aesthetical and other customers' advantages that affect the demand's formation on this or that product.

The client's pricing policy of the construction company also has its influence on the pricing policy's formation of a contractor. The choice of the managing entity's pricing strategy of the construction depends on it, because each market segment requires an individual approach to the providing of the necessary product according to the appropriate proportion of the price and the quality.

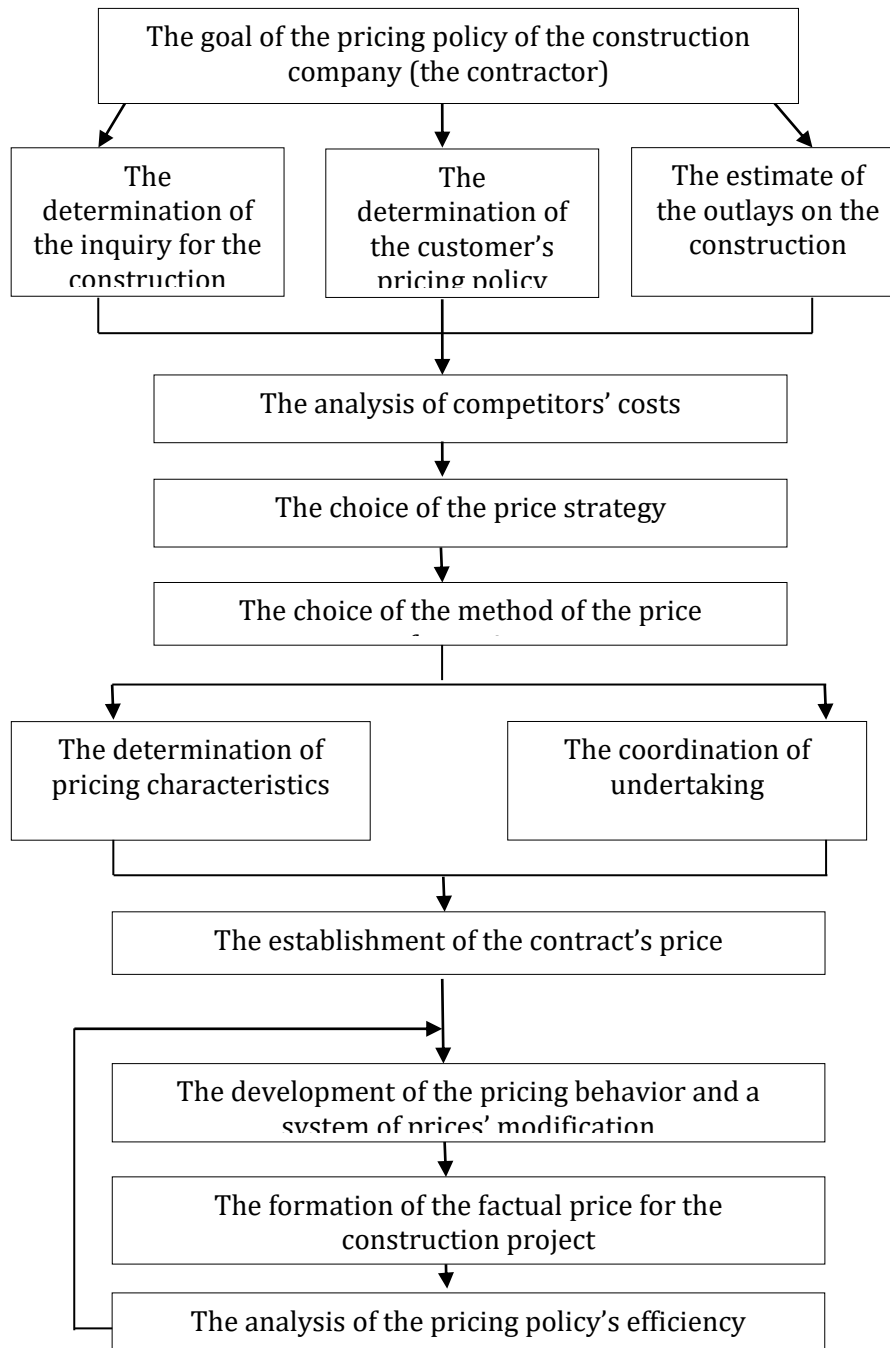


Figure 1. The algorithm of the pricing policy's formation of the construction company

For the formation of the reasonable pricing policy the construction company has to analyze the level and the structure of expenses, estimate average expenses per unit of the production, compare them with a throughput and existing prices on the market. If there are several working competitive companies on the market, it'll be necessary to compare the company's expenses with the main competitors' expenses. The company's

expenses form the lower bound of the price. They determine company's possibilities in the sphere of the change in the price in a competitive fight.

The difference between the upper bound of the price, that is due to the demand capable of paying, and the lower bound, which is formed by expenses, could be classified as a price range, that can be chosen for the formation of the construction production on the market. A specific price is set on this or that object, which is built by the company, in this space.

While analyzing competitors, their price proposals, while interviewing clients, the construction company should objectively estimate its positions on the market and on this basis correct the pricing policy.

The construction company develops the price strategy according to the product's peculiarities, the possibilities of price's changes and conditions of the manufacturing (expenses), the situation on the market, the proportion of the demand and the proposal.

The price strategies are a justified choice among several options of the price (or a list of the prices) that are directed on the achievement of the maximum profit for the company on the market within the planned period [11]. The price strategies can be divided into 3 groups:

- The strategies of the differential formation of the price.
- The strategies of the competitive formation of the price.
- The strategies of the assortment formation of the price [12].

The construction company can choose a passive price strategy, following "the leader" or the main manufacturers' masses on the market, or try to realize an active price strategy that appreciates, first of all, its own interests. The choice of the price strategy, besides, depends mostly on the characteristics of the construction object that is proposed by the company to the market.

A neutral price strategy presumes that the price's determination on a new production is accomplished on the basis of the factual expenses of its manufacturing including an average rate of the profit on the market or in the field.

The choice of the strategy is chosen by the company's leadership depending on the whole number of factors: a speed of the implementation of a new object on the market; the share of market's sales, which is controlled by the company; the object's characteristics; the period of a payback of the capital investments; the state of the market; the position of the ménage in a building field (financial position, connections with other contact audiences and etc.).

The choice of the method of the formation of the price is accomplished when the construction company has determined a regularity of the demand's formation on the product, a total situation in the field, the competitors' price and expenses, the proper price strategy. The price should totally compensate the manufacturing's expenses, the distribution and the sales of the construction object, and also provide obtaining of the particular rate of the profit.

The most popular the methods of the price of the formation of the construction companies are: "medium expenses plus profit"; providing the absence of the loss and the specific profit; an establishment of the price with an appreciable value of the product; an establishment of the price on the level of the current price; the method of "the sealed envelope"; an establishment of the price on the basis of the closed bargains. Each of these methods has its peculiarities, advantages and restrictions, which have to be kept in mind while developing of the price.

Having chosen the method of the formation of the price, the construction company can go to the determination of the price options, the coordination of undertaking and the establishment of the contract's price.

The contracts of the construction undertaking provide not only a payment of the contractor's services, but also a compensation of its expenses that are realized while holding of the building works. For a customer, from the point of view of the correctness of inclusion to the tax base's calculation of the charge on the profit expenses, it's important not only to register the contracts of the construction undertaking according to the standards of the civil law but also accept correctly and execute officially the steps of works, and also compensate the number of expenses.

The price according to the contract of the construction undertaking can be determined as a steady or an approximate one. A steady price is understood as a price which is mentioned in the contract's text. An approximate price in some cases is quoted in the contract with an instruction of the highest border of the amount.

There are two ways of the installation of the price and the payment of the reward to the contractor by the client: the price includes both the compensation of the contract's expenses and his reward at once; in other case a fixed price is registered in the contract, that is the contract's reward, and it is pointed out that the compensation of the expenses is conducted separately on the basis of the documents which are brought by the contractor and the statement which is signed by sides.

Before finishing the work the client and the contractor can't know what specific expenses will be on each phase of building and remedial works. That's why the most popular way is the formation of the construction estimate of "floating" costs and the further (only after signing the statement of the reception-handover) approval of the final price of works.

So, the most optimal way is a progressive surrender-reception of works and a progressive payment of works with the installation of the price on the whole period of the construction works' execution according to the contract of the construction undertaking with a possible change (correction) of the price on the basis of additional agreements.

In case of the joint implementation of such objects as, for example, residential many-storey houses by the client and the contractor, the construction company develops the further price behavior on the market with a system of price modifications that corresponds to the market environment.

The company usually develops a system of price modifications depending on different market conditions. This price system takes into the account the features of qualitative characteristics of the product, the modifications of the product and differences of the assortment, and also the external factors of the realization, such as: geographic differences of expenses and the demand, the demand's intensity on separate market segments, seasonality and etc. Different types of price modification are used: the system of discounts and allowances, the price discrimination, the stage reduction of the price according to the proposed production's assortment and so on. The price modification is possible only in ranges of upper and lower boundaries of the installed price.

The analysis of its efficiency ends the cycle of the formation of the pricing policy. Usually, it is based on the volume of the realization of the structural elements of the construction object, the accordance with the planned level of this indicator which is related to that expenses' covering and profits' receiving. When a necessity of sales' increasing is appeared, a view of the price modification and the behavior of the construction company on the market is accomplished which is reflected in accordance on the factual price of the object.

4. The conclusions and the prospects of the next explorations in this direction

Thus, in conclusion, we can say that the development of the pricing policy affects the efficiency of the marketing activities of the construction company, and as a result – on its profitable functioning on the market.

The algorithm of the formation of the pricing policy of the construction company includes the following stages: the goal of the pricing policy, the determination of the inquiry for the construction object, the determination of the customer's pricing policy, the estimate of the outlays on the construction, the analysis of competitors' costs, the choice of the price strategy, the choice of the method of the price formation, the determination of pricing characteristics, the coordination of undertaking, the establishment of the contract's price, the development of the pricing behavior and a system of prices' modification, the formation of the factual price for the construction project, the analysis of the pricing policy's efficiency.

In the further developments it is reasonable for the detailed disclosure of the specificity of the price formation on the construction products of the construction subindustries to be presented.

Author details (in Ukrainian)

Розвиток цінової політики будівельних підприємств

Ольга Селезньова

Одеська державна академія будівництва та архітектури,

вул Дідріхсона, 4, Одеса, Україна

e-mail: olya-v@ukr.net

к.е.н., доц., кафедра маркетингу, факультет економіки та управління в будівництві

Анотація. У статті розкрито процес формування та розвитку цінової політики будівельного підприємства з метою посилення конкурентоспроможності господарюючих суб'єктів будівельної галузі. Автором використано монографічний, абстрактно-логічний науковий метод, а також методи аналізу, синтезу, системного аналізу. Науковою новизною виступає алгоритм побудови цінової політики будівельного підприємства, що, на відміну від інших підходів, враховує специфіку функцій підрядної організації та базується на сучасних наукових напрацюваннях у контексті маркетингових тенденцій. У роботі розроблено методичний підхід до встановлення та удосконалення політики ціноутворення суб'єкту господарювання будівництва, що включає у себе етапи: визначення мети цінової політики, попиту на будівельний об'єкт, цінової політики замовника, оцінка видатків на будівництво, аналіз цін конкурентів, вибір цінової стратегії, вибір методу ціноутворення, визначення цінових параметрів, узгодження підряду, встановлення ціни контракту, розробка цінової поведінки та системи модифікації цін, формування фактичної ціни на будівельний об'єкт, аналіз ефективності цінової політики. У подальших розробках доцільним має бути докладніше розкриття специфіки встановлення цін на будівельні товари різних підгалузей будівництва.

Ключові слова: цінова політика, будівельне підприємство, управління маркетингом, маркетингова діяльність, будівництво.

Author details (in Russian)**Развитие ценовой политики строительных предприятий**

Ольга Селезнева

Одесская государственная академия строительства и архитектуры,
ул. Дидрихсона, 4, Одесса, Украина

e-mail: olya-v@ukr.net

к.э.н., доц., кафедра маркетинга, факультет экономики и управления в строительстве

Аннотация. В статье раскрыт процесс формирования и развития ценовой политики строительного предприятия с целью усиления конкурентоспособности хозяйствующих субъектов строительной отрасли. Автором использованы монографический, абстрактно-логический научный метод, а также методы анализа, синтеза, системного анализа. Научной новизной выступает алгоритм построения ценовой политики строительного предприятия, что, в отличие от других подходов, учитывает специфику функций подрядной организации и базируется на современных научных наработках в контексте маркетинговых тенденций. Автором разработан методический подход к установлению и совершенствованию политики ценообразования субъекта хозяйствования строительства, который включает в себя этапы: определение цели ценовой политики, спроса на строительный объект, ценовой политики заказчика, оценку расходов на строительство, анализ цен конкурентов, выбор ценовой стратегии, выбор метода ценообразования, определения ценовых параметров, согласование подряда, установление цены контракта, разработку ценового поведения и системы модификации цен, формирования фактической цены на строительный объект, анализ эффективности ценовой политики. В дальнейших разработках целесообразным должно быть подробное раскрытие специфики установления цен на строительные товары различных ветвей строительной отрасли.

Ключевые слова: ценовая политика, строительное предприятие, управление маркетингом, маркетинговая деятельность, строительство.

Appendix A. Supplementary material

Supplementary data associated with this article can be found, in the online version, at <http://dx.doi.org/10.14254/2223-3822.2016.14-1.13>

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