Int. j. adv. multidisc. res. stud. 2024; 4(2):373-376

Received: 28-01-2024
Accepted: 08-03-2024

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Discussing how Businesses Set Prices and Accept Prices in the Market

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Abstract
Cost information is important information that helps managers set prices and make product structure decisions. How managers use cost information in making these decisions depends on whether the business is large or small in the manufacturing industry. If businesses have a large market share and exercise leadership in the industry, businesses can determine the prices for their products. These businesses are price setters. If prices are set by one or more large enterprises at the head of an industry, then a small enterprise must bear the prices set by the large enterprises in the industry. In such a situation, small businesses are price takers and the business chooses to structure its products according to predetermined market prices for its products.

Keywords: Cost, Valuation, Price Maker, Price Taker

1. Introduction
Globalization along with increasingly fierce competition in the market economy requires Vietnamese businesses to transform their market-oriented business models to increase competitiveness in an increasingly automated market. Therefore, business decisions of enterprises become increasingly complex because they are influenced not only by factors inside the enterprise but also by factors outside the enterprise. One of the most difficult decisions a business can make is determining the selling price of its products and services. This is one of the key decisions affecting the competitive strategy of a business. However, businesses rarely understand pricing decisions. This is because pricing decisions are often complex in nature. Therefore, gaining an understanding of pricing decisions can help businesses make better strategic decisions. Most businesses use cost-based product pricing methods, specifically cost-plus pricing, while the level of application of product pricing methods is based on competition and need-based are few. Because businesses have difficulty identifying customer needs and businesses believe that cost-based pricing can cover costs while offering competitive prices to satisfy current customer needs and attract new customers. Therefore, determining the selling price of products and services based on cost is one of the important and popular methods today. Furthermore, cost-based pricing is based on the notion that cost is the starting point for pricing. The selling price of a business's products and services must first cover costs to then form a profit. Although prices are determined based on costs, the degree of dependence on costs is different between businesses that set prices and businesses that accept prices in the market.

Realize the importance of using cost information from management accounting in pricing products in businesses, this article aims to learn about cost-based pricing methods and how the pricing methods applied in price-receiving businesses and price-setting businesses will differ.

2. Literature Review
All for-profit organizations and many non-profit organizations set prices for their products and services. Since ancient times, prices have often been determined by buyers and sellers through mutual negotiation. Price as a deciding factor in buyer's choice. At the same time, it is also the most important factor determining the company's market share and profitability. Since ancient and medieval times, people have studied economic issues, including the issue of prices. From the perspective of classical economic theory, prices are mentioned from three angles: Natural prices, artificial prices and political prices. Natural prices are the value of goods, artificial prices are the market prices of goods, artificial prices change depending on natural prices and the relationship between supply and demand of goods in the market. In the theory of value - labor, D. Ricardo clearly distinguishes two properties of goods: Use value and exchange value and clearly points out that use value is a necessary condition for exchange value, but is not its measure. Marx's (1818 - 1883) theory of "Theory of Value and Price" gave the

definition of price: "Price is the monetary expression of the value of goods". The price here is the price of goods, the price that is recognized by society. The value of goods is social value, measured by the social labor time necessary to produce goods, not the individual value of each producer. The neoclassical school believes that price is just a relationship between the price of goods and money when exchanged, so sellers and buyers agree with each other. Buyers set prices according to the product's limited benefits, sellers set prices according to production costs. Sellers identify with supply; buyers identify with demand in the market. In general, microeconomic theory refers to the basic economic structure in product pricing. In the free market, the interaction of supply and demand determines the price of a good expressed through the equilibrium price. The equilibrium price is the price at which the amount of product buyers want to buy is equal to the amount of product sellers want to sell. When supply and demand change, the equilibrium price and equilibrium quantity also change.

Thus, most economic theory is devoted to introducing the economic structure of enterprise product pricing. This is the basic principle for researching and developing valuation perspectives in other scientific disciplines. According to this principle, prices are determined by the market, but the market only plays a role in determining prices when businesses have put their product prices on the market. The market decides prices, but the price decisions of business administrators are the premise for the market's price decisions.

Price from a marketing perspective

Price was first mentioned in the term “Marketing Mix” by Neil Borden (1953), and was widely popularized after the article “The Concept of Marketing Mix” appeared in 1954. From this concept, E. Jerome Mc Carthy proposed the 4P classification in 1960, price is the amount customers pay for the product. Price is very important because it will determine the company's profits and subsequently its survival. Price adjustments have a profound impact on marketing strategies, and depending on the price elasticity of the product, it will often affect demand as well as sales. Marketers should set a price that compensates for other elements of the marketing mix. When setting a price, marketers must be aware of the customer's perceived product value. The three basic pricing strategies are: Market skimming pricing, market penetration pricing, and neutral pricing. “Reference value” (where the consumer refers to the prices of competing products) and “Differential value” (the consumer's view of the attributes of this product compared to the attributes of other products other) must be taken into account.

According to Philip Kotler (2012) [4], price is an extremely important factor and a special challenge in a competitive market even though non-price factors have increased in the modern marketing process. When determining the price for a product, the company must follow 6 steps. Firstly, the company carefully determines its marketing goals, such as ensuring survival, maximizing immediate profits, maximizing current income, maximizing consumption... Second, the company determines the demand curve that shows the number of products that the market will definitely buy in a certain period at different prices. Third, the company estimates how its costs will change with different levels of output and with different levels of production experience. Fourth, the company surveys competitors' prices as a basis for determining its price position. Fifth, the company chooses one of the following pricing methods: Pricing based on price premium, pricing based on target profit, pricing based on perceived value, pricing based on value, pricing based on price level and priced on a private auction basis. Sixth, the company chooses its final price, presents it in a way that has the strongest psychological effect, coordinates it with elements of the marketing mix, and checks whether it is consistent with the company's pricing policy.

Price from a management accounting perspective

According to Garrison (1976) [3], deciding on product and service pricing is considered the most important decision that managers must make. Because the pricing decision is not just a marketing decision or a financial decision, it is a decision that affects all activities in the business. The price charged for a product determines the number of customers who will buy that product and also affects the business's income stream. If income is not enough to cover costs, even if costs are strictly controlled and managers are creative in performing work, it will still have a very negative impact on the survival of the business. According to the author, cost is the main factor in pricing. From there, the author offers methods for determining prices in the following cases: Mass-produced products; new product; and special pricing decisions.

Anthony A. Atkinson, Robert S. Kaplan, Ella Mae Matsumura, S. Mark Young in the book Management Accommodation, 5/E (2007) take the view that managers use cost information to help in decision making. Price. This pricing depends on the size of the organization. If the scale is large, the enterprise can influence the price formation; if the scale is small, the enterprise applies the price of the manufacturing industry as predetermined and to cope, the enterprise can adjust the production structure. Thus, there are two types of valuation: Short-term valuation and long-term valuation. Short-term prices are on a cost-plus basis and depend on the availability of operational resource capacity or interest in variable cost information. If prices are long-term, businesses need to pay attention to the nominal costs of all operating resources used in the production and consumption of products. And the cost of interest in this decision is full cost information.

In addition to market pricing, transfer pricing is also mentioned in the perspective of management accounting. According to authors Anthony and Govindarajan (2001) [1], 79% of companies transfer goods and services between member units. Transfer price is the price of goods and services transferred between member units in a group. According to these authors, transfer pricing is designed to achieve the following goals: Providing necessary information for each business unit to develop an optimal plan for balancing its costs and income; the transfer price unifies the operational objectives between the corporation and its member units; helps measure the performance of responsibility centers. The mutual use of products and services between member units in a corporation or group is mentioned more in the modern management accounting perspective. Garrison, Noreen, Brewer (2007) studied transfer pricing in detail in Manageria Accounting. Managers pay a lot of attention to transfer prices because it affects the results in the income statements of the departments they manage. The authors mention three methods for determining transfer prices: Transfer prices based on negotiation; transfer price at full cost or variable cost; and transfer price according to market price. Drury (2013) [2] states that 'no single transfer price is capable of serving all objectives perfectly'. But in all cases, when determining the price, it is always based on the basic principle: The transfer price must also be equal to the marginal cost of the product or service plus the opportunity cost of the transfer. In addition, the author discusses in detail five main methods of transfer pricing: Based on market prices; marginal cost transfer price; and negotiated transfer price; full cost transfer price and transfer cost plus. Transfer prices are not only studied in companies within one country but also in multinational companies. Sahay (2003) [8] believes that the transfer pricing issue becomes more complicated when a company has many divisions or subsidiaries operating in different countries with different tax rates, import tax obligations, and currencies. And foreign exchange restrictions. In multinational corporations, there is an incentive to reduce the overall income tax burden by minimizing profits in higher tax countries and maximizing profits where tax rates are lower. Choosing an appropriate transfer pricing policy can help in minimizing a company's tax burden, foreign exchange risks and can lead to better competitive positions and government relationships.

3. Price Decision at Businesses

Short-term decisions – Price takers

These are production decisions by a firm with a very small market share in an industry, with little influence on the overall supply and demand of that industry or on the prices of the products. These businesses apply industry prices to their products and then decide how many products the business should produce and sell. If these small businesses charge a higher price for their products, they may lose customers to competing businesses, unless the business can differentiate its products from the competition with similar products on the market. On the contrary, if these small businesses seek to increase market share for their products by offering prices lower than those of the industry, they may risk retaliation from competitors and especially especially harmful to small businesses with few resources.

Therefore, for small businesses - price takers, in deciding how much to produce and sell products to bring the highest efficiency to the business, administrators need to pay attention to what costs related to short-term pricing decisions. Do all total costs or only short-term variable costs need to be considered? And in the short term, managers may have little flexibility to change the capacity of some of the enterprise's resources. For general production costs: Factory rental costs, workshop management, maintenance and depreciation of machinery will not change when the number of products produced changes because the factory is operating at capacity, so These costs are fixed costs. The contribution margin of each type of garment product is determined by revenue minus variable costs. If the company's capacity is not limited, the company can produce garments to satisfy the maximum demand for these products. However, because capacity is limited, the company needs to decide how to best deploy this limited resource. Fundamentals are used to make short-term product mix decisions where price is not affected by quantity sold. With predetermined prices, the only short-term decision the producer faces is how much of each product to produce. The unit contribution margin of the constrained resource is the machine hour in this example, which is the criterion used to decide which product is most profitable to produce.

Short-term decisions – Price setters

In business, many potential customers require suppliers to bid on a price for an order before they decide which supplier to order from. Examining the relationship between costs and prices bid by a supplier for orders without a long-term relationship with the customer. Managers use cost information to assist them in setting prices and in product structure decisions. These decisions also depend on whether the business is a large or small organization in the manufacturing industry. If the business is a large organization, it can influence price formation. If the enterprise is a small organization, the enterprise can apply the price of the manufacturing industry as predetermined and these enterprises can only adjust their product structure.

Short-term prices are on a cost-plus basis dependent on the availability of operational resource capacity. Short-term product structure decisions also require short-run variable cost-plus. If capacity is limited in the short run, managers can use the margin per unit of limited capacity as a criterion for ranking products in the production plan. The nature of the cost information needed for pricing and product structure decisions therefore depends on the time frame considered. Whether you are a price setter or a price taker, variable cost information is more useful for short-term decisions.

4. Conclusion

In the short term, price-setting businesses are businesses with market power, so these businesses often apply the cost-plus method to set product prices. These are businesses that set prices in the market, so they are not affected by market prices. When deciding product prices in the short term, businesses only need to pay attention to variable costs and increased fixed costs. market. Thanks to the ability to set prices in the market, administrators often adjust selling prices through discount policies to release inventory and optimize machinery and equipment capacity instead of applying it rigidly a fixed price based on full cost… In addition, demand for some products fluctuates seasonally, so businesses need to adjust selling prices accordingly. When a business adjusts the price of an existing product on the market, the business needs to pay attention to: The price of input materials, the full cost of producing the product, the business's goal in adjusting the price... Price-taking businesses are usually small-scale, have insignificant market share, and do not have a competitive advantage in the market. So the important goal of these businesses is to increase profits and ensure viability. Therefore, in the short term, businesses always try to find special orders and determine the most effective product structure for consumption.

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