

Serzhanov, Vitaliy<sup>1</sup>

Molnar, Oleksandr<sup>2</sup>

Golubka, Alexandra<sup>3</sup>

## THE SALE SYSTEM AND ITS USE IN UKRAINE

### Abstract:

One of the important tools for selling products is holding shares that stimulate the sales of certain groups of goods. Conducting promotional actions during the crisis period has acquired special significance for both producers and retailers. In the conditions of reduction of real incomes the population searches for ways of economy and more often tries to purchase items with discounts or on special offers. For the consumer, promo becomes a way to reduce the costs of everyday goods, and for suppliers - to increase sales. The article presents the results of research in the field of developing and implementing a policy of discounts.

Discount is a key tool to stimulate sales, allowing you to take into account not only the interests of those to whom it is directly provided but also the impact of this step on the entire structure of the relationship in marketing.

### Keywords:

sales, discount, product, price

### Author's data:

<sup>1</sup> Vitaliy Serzhanov Ph.D. in Economics, Associate Professor, Dean of the Faculty of Economics, Uzhhorod National University, vitaliy.serzhanov@uzhnu.edu.ua

<sup>2</sup> Oleksandr Molnar, Ph.D. in Economics, Associate Professor, Head of Department of economic theory, Uzhhorod National University, kaf-et@uzhnu.edu.ua

<sup>3</sup> Alexandra, Golubka, Ph.D. in Economics, Associate Professor, Uzhhorod National University, olexandra.golubka@uzhnu.edu.ua

## Introduction

In the face of increasing market competition in Ukraine, it is very important for the company to ensure the stability of revenue receipt, which is possible provided there is a constant demand for manufactured and sold products.

Consequently, the most important task of the company is to retain and expand the range of consumers of manufactured products, which is largely determined by the practice of pricing that the organization conducts in order to consolidate the old and attract new customers. In this regard, the relevance of the research topic is determined by the need to master such tools of effective pricing policy, as price discounts.

The purpose of the article is to research the improvement of the pricing mechanism through the application of price discounts, the study of their types, the identification of positive and negative aspects of discounting, the analysis of the effect of discounts on consumer psychology.

According to analytical reports from Nielsen Promo Pressure the share of sales of all product categories through promotions in Ukrainian retail chains has reached 27%, and 8 out of 10 promo actions that take place in Ukrainian retail chains are discounts. For product categories, the average discount is 20%, in non-food categories the average discount remains 23%. But, as noted in the study, Ukraine has not yet reached the level of saturation, which is observed in Eastern Europe, where through promo-shares from 50 to 60% of sales are passed, with the average discount close to 30% [1].

Therefore, the study of the issue of discounts, their types, and applications in marketing is relevant today

## The sale system

The prices published in the price lists are of a reference nature and quite often significantly differ from the prices actually paid by the buyer due to the wide application of the discount system.

A component of the selling price of products is the price discount. Discount is a condition of the contract, determining the amount of reduction in the base price of the product specified in the contract.

Price discounts are voluntary and not mandatory, they can be provided not only by the manufacturer but also by the trade organization in a particular case.

The amount of discounts depends on the nature of the transaction, the terms of delivery and payment, the relationship with buyers and the market at the time of the transaction. Currently, about 20 different types of discounts are used in international trade practice.

By its commercial nature, the discount can be one of two types:

1) Planned discount, which is formed due to the total amount of overheads.

This kind of discounts can be attributed to the organization by the manufacturer of advertising of their products with a list of trading firms that sell this product. Thus, the manufacturer effectively saves the means of dealers to advertise their trade names, which in economic nature is equivalent to providing them with an additional discount;

2) Tactical discount, the economical source of which is profit, and the common task is to create additional incentives for the buyer to make a purchase.

In marketing practice, various types of tactical discounts are used.

Quantitative discounts, including non-cumulative discounts (for each separate trade transaction with the buyer) and cumulative discounts (for all purchases made within a certain time). An example of a typical condition: 1000 UAH for 1 pc. when buying a unit of goods, 900 UAH for 1 pc. when buying more than 10 pcs. Discounts should not exceed the amount of cost savings of the enterprise in connection with the sale of large quantities of goods. Similar discounts are formed at the expense of expenses for sales, the maintenance of stocks and transportation of the goods. Also, these discounts are an incentive to make purchases from one seller, not several. Often, these discounts are used in case of underloading of the company's production capacities, that is, it needs to increase its turnover, and this cannot be achieved by intensifying trade efforts, improving the product, or other activities.

Progressive discount is a quantity discount or a series discount given to the buyer on condition of purchasing previously allocated and increased in quantity product. Manufacturers are interested in serial orders since the production of the same type of product reduces production costs.

Cash discount - a discount for paying bills in cash or for a specific period. A typical condition looks like this: 2/10 net 30. This means that payment must be made within 30 days. If the buyer pays over the period of 10 days, the price can be reduced by 2%.

Discount for an order, the cost of which exceeds a certain amount.

Export discount, which may be provided by the seller to foreign buyers in excess of those discounts that are valid for buyers of the domestic market. Their goal is to increase the competitiveness of a particular product on the foreign market.

Negative discount - a surcharge to the cost of a small order.

Functional discount - discount on novelty products for the intermediary's performance of certain functions, for example, mediation of promotional activities.

The discount for increasing sales - a measure of lowering standard sales prices, which is guaranteed to resellers if they take new products for sale, the promotion of which on the market requires higher advertising costs.

Trade discount - payment to intermediaries for the realization of trading operations. The more obligations the intermediary takes on the sale, the higher the discount.

Seasonal discount - discounts for seasonal goods, which are purchased not in season. Such discounts help maintain a more or less stable level of production throughout the year.

Final discount - discount for the last batch (unit) of the product. Companies temporarily assign prices to their products below the price-list, and sometimes below the cost of production in order to reduce inventories and attract customers, while they can also purchase goods at a normal price.

Discount on demand of an important customer - a discount for consumers who play an important role in the company's activities.

Segment discount - its essence boils down to the fact that a discount is levied on a certain circle of persons or a social group. It can be students, pensioners, representatives of some organizations and institutions. Thus, the division here is based on status and social role.

Temporary discount - provided at a certain time interval. This can be the time of day, the time of year, holidays, etc. For example, some supermarket chain provides a 10% discount to pensioners on weekdays from 9 to 14 hours.

Credit discount - discount on the new product in case of returning the old (used) product of the same type. Discount for the return of the previously purchased product from this company (discount "trade-in") in the amount of 25-30% of the list price is given to the buyer when returning the product (of this company) purchased earlier. Such discounts are applied when selling cars, electrical equipment, rolling stock and other goods. The most well-known practice of the trade-in is the program of exchanging the old car for a new one with surcharge.

Club discounts. In the world, there are many national and international discount clubs that provide their members with "club price discounts" for services and goods. The members of such clubs can be individuals and legal entities, as well as associate members.

National and international clubs issue and sell the license to manufacturers and stores, which undertake to provide price discounts to members of the club. Especially common are discounts for transportation, car rental, hotel and restaurant services, insurance. For members of the club, there are entire chains of shops selling with discounts of industrial and other products. Presenting a member's card when buying, the customer receives a discount on the price from 10 to 50% or more.

Discounts subjected to intercultural communications. In the Arab countries of some Balkan countries and individual Transcaucasian republics in the course of trade negotiations, it is considered a matter of honor to achieve a greater discount on the offer price. And although this circumstance is associated with a complex of oriental mentality, many importers do not sign a contract that does not contain a position about discounts exceeding in general 20-30% of the proposed price. Since this fact is known in the

trading environment, some companies consider it necessary to artificially raise the prices for the expected interest in advance, and in the future to submit it to a discount specified in the contract.

The discount system proceeds from the principle that discounts are usually not summed. That is, the buyer cannot simultaneously use two discounts. In conditions when the buyer has the right to two or more discounts, he uses the one of the greatest value. The exception is, as noted above, export discounts.

Hidden discount - a ridiculous kind of discounts. For example, a person goes to buy a washing machine and, having already chosen her model and going to pay for it, finds out that a discount on it, say, 5%. And besides, the person who bought a washing machine gets a heater as a present, which smells awfully like an engine oil when turned on. To understand the nature of such discounts, as well as the motives of marketers is extremely difficult.

Inconsistent discounts. This discount is primarily unreasoned. By providing them, merchants, usually, do not have any concept or plan, and consumers do not know exactly whether they will receive a discount or not.

It is quite natural that each of the above types of discounts can be supplemented or overlapped by another type of discounts. So, segment discounts can be temporary and hidden discounts may be inconsistent.

Addition to the price - the price that is set depending on the special requirements of the buyer when performing a special, individual order, for the increased quality of the product, the provision of additional services, payment by installments, and so on.

The method of surcharges is a common method of pricing, according to which a surcharge is added to

the price of a certain product, which corresponds to additional costs and the prestige of the unique product (product) received. The increase in prices must necessarily be accompanied by explanatory work among potential consumers through means of marketing communication, primarily through advertising. Otherwise, the company risks losing part of its market.

## The use of discounts

What is the reason for the popularity of discounts? The reason for the popularity of discounts in Ukraine lies in the psychology of consumer behavior of Ukrainians and their mentality. Buying any goods at a discount, the buyer very often understands that 5-15% discount is already included in the cost of the purchased, but he still chooses to purchase an item in that particular store where he is promised a discount. All this leads to a large-scale psychological degradation of consumers when the thirst for cheapness makes people buy something not because it is needed, but because the buyer is offered a discount or a gift.

From the point of view of marketing, it is important to understand that a discount is something secondary, it is not a primary goal. The discount is only intended to supplement, rather than replace, the integrated concept of marketing tools, stimulating sales. Meanwhile, there is a reverse process - discounts and discount games tend to replace all other options for promotion.

What is sold at a discount? Obsolete collections of clothes and shoes, which should be replaced by the new model range, perhaps some second-rate products (as an option: beaten apples and pears, half-rotten apricots). But if we look at advertising,

we will see that 80% of the advertised is based on the offer of discounts.

The theory of the USP "unique sales proposition" was developed by the American Rosser Reeves more than half a century ago [2].

According to this theory, advertising must necessarily contain a proposal addressed to the consumer. Moreover, the proposal should be not only interesting for a potential buyer, but also unique, that is, such as does not exist in the advertising of competitors. And most importantly, it should carry a sufficiently strong charge of commercial and emotional reasoning, so that the consumer is inspired by the idea of acquiring the advertised product as a profitable transaction for himself.

Discounts like UTS are not always a good idea, because almost everyone uses this form of uniqueness. Discounts are the most primitive form of personified commodity positioning in the market. It comes to the fact that the category of discounts is placed in the name of trademark, for example, the chain of stores "Копійочка" (Penny), "Територія мінімальних цін" (Minimal prices territory), "Аптека низьких цін" (Low Price Pharmacy), etc.

Contrary to the law of supply and demand, predicting that a decline in the market price of a commodity leads to an increase in demand for it, in practice, price reduction is extremely rare, even if it is economically justified. First, the fall in prices casts doubt on the fairness of market exchange. If today everything has become cheaper, then were we deceived yesterday? Secondly, price movement down inevitably requires guarantees of product quality stability, which is not easy to provide. Thirdly, the price reduction can change the consumers' views about the average level of reference prices, and it will be impossible to return to higher rates. As a

consequence, in many markets, the principle of price reduction is revealed

But you cannot refuse discounts. They should most definitely be used. Where is it possible to be mistaken?

It often happens that the seller reduces his profit by offering discounts without first calculating their economic efficiency. And it is sometimes easier and more cost-effectively to resort to other methods.

The most effective in practice is not one or two discounts for a particular product, but a whole system of discounts, simple and understandable to both company employees and customers. Discounts, burdened by additional conditions, should not lead employees and buyers into the jungle of these conditions. The application of the discount system stipulates a bright, accessible and understandable advertising campaign from bright stands at the entrance and inside the store to ads and commercials in the media.

If you provide them too often (or make discounts too large), buyers will become more price sensitive. They will wait for the next discount. The buyer's sensitivity to the price level acquires a special form in the conditions of the developed market when many different brands of goods are offered to meet the same demand (this situation can be observed in the Ukrainian markets of alcoholic products and toothpaste). None of the buyers, even the most meticulous, in these conditions usually do not create their own database of all analog products and their prices. Instead, they create some general idea of the acceptable level of prices for the product of certain kind, that is, a kind of average market price of indifference. Frequent discounts can reduce this approximate (referential) price of the buyer, forcing him to make fewer purchases (since your price will seem too high). In such a situation, a reduction in

the frequency and magnitude of the discount may work.

Any change in the market price requires justification; otherwise, the meaning of what happened cannot be interpreted in favor of the seller. Price control is a very precise process, the success of which depends on how social communication between the seller and the buyer will be built. Pointing out the reason for introducing a discount, it is necessary to emphasize the features of the new price and its temporary nature. And if the price is not standard, buyers, certainly, will not take it into account when formulating its estimated price (average price of indifference).

Discounts are a lure for consumers. And the reason for this is not only the prospect of saving money. Obtaining discounts improves the overall satisfaction of the buyer with the purchase and himself. Someone ascribes a discount to their communicative abilities and someone - as a confirmation of their own luck [3]. The discount from the initial price positively influences the buyer's intentions, even if in absolute terms the saved amount is small. Thus, during the experiment, the subjects spent more effort in order to get a discount of 33%, than 40%, although in both cases it was a question of winning five dollars [4].

Willingness to pursue special promotions is not universal. It depends on how the price signals are interpreted, for example, buyers for whom a high price labels products of better quality or buyers prone to a demonstrative prestigious consumption [3]. For them, the usefulness of the product is determined not only by its characteristics but also by the level of the price that is paid for it. Price remains an indicator of prestige, but the request for this function varies depending on how socially visible is the purchase. H. Leibenstein, introducing



into his models the "Veblen effect" (abnormal market behavior where consumers purchase the higher-priced goods whereas similar low-priced (but not identical) substitutes are available. It is caused either by the belief that higher price means higher quality, or by the desire for conspicuous consumption (to be seen as buying an expensive, prestige item [5]), suggests distinguishing two types of price: the real price, expressed in money, and the demonstrative price, that is the one that, as it seems to others, is paid by this buyer (conspicuous price) [6].

The system of discounting allows taking into account two opposite needs, providing the opportunity to buy very expensive things cheaper. The establishment of large discounts can lead to the formation of a distorted view of the original price, which appears unfairly inflated. Thus, the use of large discounts threatens the price reputation of the goods, carries the risk of eroding the social meanings assigned to it. A company offering discounts wants to maximize their estimated size so that the buyer reacts to the offer. Researchers propose to follow the "Rule 100": show a discount in percentage, when the price is less than \$ 100 and in absolute values, when the price is more than \$ 100. For example, if the price of the goods is \$ 50, which discount seems more profitable: 20% or 10 dollars? Both discounts have the same monetary value, however, the discount in percentage terms has an advantage and it seems more attractive [7; 8].

Since buyers perceive the exact numbers as clearly calculated and associate them with a smaller value, it is recommended that high prices be expressed with an exact value. And since the company is interested in maximizing the discount amount, it is recommended to use a rounded value. The buyer should be able to easily estimate this value. The

researchers came to this conclusion, citing the fact that people believe that the difference between 5.57 and 3.56 is less than the difference between 5.00 and 3.00, although, in fact, it is practically the same (2.01 and 2.00, respectively) [7; 8].

The time of the sales is also of great importance. Discounts are best provided at the end of the month when the target consumers have not yet received a salary and the opportunity to save is more attractive. And after paying wages, when it's not so painful to part with money, it is advisable to apply other sales promotion tools, for example, free samples, gifts, lotteries, etc.

A very interesting method is used by many supermarkets to attract new customers and retain permanent ones. Indicator products are selected - milk, bread, cereals, which are most often purchased by each person, and the price is reduced noticeably for these products. At the same time for other goods of the same category, having a more visually applying packaging or a long shelf life, as well as for goods purchased for gifts or pleasure, prices may be overstated. Goods with reduced prices should be popular, few (no more than three to five of each category), and highly-demanded.

It is necessary to emphasize the difference between the approximate and actual prices. The aim is to maximize the apparent difference between the new price and the higher indicative price, thus visually denote the difference between them (for example, using a different font color). Buyers will perceive such a visual difference as a more significant numerical difference. Small print is even more effective in comparison with an approximate price written in a larger font [7;9].

This effect can be created not only by changing the color and size of the font but also by increasing the distance between the prices. At the same time, the

numerical difference will seem even more significant [7;10].

When deciding what discounts to apply, it is good to remember the principle of subtraction, according to which it is easier for the buyer to determine the amount and depth of the discount when the old (large) price is to the left and the new one is to the right.

When the selling price is on the right of the initial price, according to the principle of subtraction, consumers more easily calculate the depth of the discount. If the depth of the discount is relatively high (30%), consumers determine the depth of the discount close to the actual value and positively evaluate it. When the selling price is to the left of the initial price, it is more difficult for consumers to make calculations, which prevents them from appreciating the discount positively. As a result, many of them focus only on the promotional price of the sale; estimate the depth of the discount in the range of 10-12%. When the discount depth is low (10%) and the selling price is reflected to the right of the initial price, more consumers will calculate the depth of the discount, find that the discount depth is small (10%), which will not prompt the customer to buy the product. When sale price appears to the left of the initial price, a smaller number of consumers will calculate the depth of the discount and most likely will focus only on the selling price and will assume that the discount is approximately 10-12%. Thus, regardless of whether the selling prices are located on the right or on the left, the estimate of the discount depth will be approximately 10-12% (that is, low), and this is likely not to interest the buyer. The psychology of people is devised in such a way that the first significant sum for them is 15%. Most people will pay attention to the sale only if the amount of the change exceeds

15%, be it salary raise, a discount in the store or a gasoline price rise. Therefore, discounts of 5% and even 10% will not draw noticeable attention to the product. Conversely, if the product is liked, the buyer will buy it without a discount [11].

As a result, if the company offers a discount that is considered to be too low (which may cause buyer's displeasure) or too high (which can cause suspicion of low quality of the goods), it is recommended to complicate the possibility of calculating the discount and place the sale price on the left of the old price. If the company offers profitable discounts, you should simplify the calculation option and place the selling price on the right.

## Conclusion

As a result of the research, we draw the following conclusions:

1. The main motive for making purchases on promo-shares is the desire to save money. The interest of Ukrainians in special offers and discounts began to grow actively during the crisis period. Against the background of a decline in real incomes, the population is looking for ways to save, and promo becomes one of the ways to reduce the cost of buying goods. Discounts, appointed under certain circumstances and on special terms, have established themselves as a legitimate way to reduce market prices.
2. Temporary reduction of the price of the goods has both advantages and disadvantages. The main disadvantages of this type of incentive are:
  - the impossibility of the formation of adherence of buyers, as they pay more attention to price cuts (special offers) than to the products themselves;
  - the decrease in profitability and additional expenses for the advertising campaign;



- possible creation of product "deficit" (shortage);
- deterioration of the product's and the manufacturer's image.

The main advantages may be:

- rapid growth in sales and an increase in the average check;
- the attraction of the new audience and increase of the loyalty of old customers;
- activation of turnover and release of warehouse space;
- time limitation in accordance with the tasks assigned.

3. All things considered, the discounting tool should be handled with caution. Studies show that, for example, discounts to regular customers raise doubts about the fairness of what is happening to those who are not [3; 4]. Decrease in the price for a certain group of consumers for not entirely understandable reasons has a negative impact on the perception of the product average level market value and on judgments about the fairness of discounts as such. Despite all the calculations of economic efficiency, it is possible to get in the end not what is expected, if the nuances of human psychology are not taken into account.

## References

[1] Nielsen. Частка промо-продажів зростає, Available from:

<http://www.nielsen.com/ua/uk/insights/news/2016/promo-sales-for-web.html>

Accessed: 2018-04-20

[2] Принципи рекламної кампанії за Россером Рівзом, Available from:

<http://perfekt-pr.com/pryntsy-py-reklamnoji-kampaniji-za-rosserom-rivzom/> Accessed: 2018-04-

17

[3] Бердышева, Е. (2014). Что мы знаем о восприятии цены потребителями? Исследования в социологии и маркетинге. Журнал «Экономическая социология», 15 (3), 119-149.

[4] Peter R. Darke & Darren W. Dahl (2003). Fairness and Discounts: The Subjective Value of a Bargain. *Journal of Consumer Psychology*, 13(3), 328-338.

[5] Veblen Effect. Marketing dictionary, Available from:

<https://www.monash.edu/business/marketing/marketing-dictionary/v/veblen-effect>

Accessed: 2018-04-10

[6] Leibenstein, H. (1950). Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand. *The Quarterly Journal of Economics*. 64 (2), 183-207.

[7] Nick Kolenda .The psychology of pricing. Grab free marketing articles Available from: [www.nickkolenda.com](http://www.nickkolenda.com) Accessed: 2018-04-10

[8] Berger, J. (2013). *Contagious: Why Things Catch On*. Simon & Schuster, ISBN 978-1-4516-8657-9; ISBN 978-1-4516-8659-3 (ebook), New York, NY 10020

[9] Biswas, A.; Bhowmick, S.; Guha, A. & Grewal, D. (2013). Consumer Evaluations of Sale Prices: Role of the Subtraction Principle. *Journal of Marketing*, Vol. 77 (July 2013), 49 -66.

[10] Keith S. Coulter & Robin A. Coulter (2005). Size Does Matter: The Effects of Magnitude Representation Congruency on Price Perceptions and Purchase Likelihood *Journal of Consumer Psychology*, 15(1), 64-76.

[11] Keith S. Coultera & Patricia A. Norberg. (2009). The effects of physical distance between regular and sale prices on numerical difference perceptions *Journal of Consumer Psychology*. 19(2), 144-157.