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IMPLEMENTING LEAN PRINCIPLES INTO PRICE POLICY OF THE COMPANY

The article deals with researching the essence of lean principles and substantiating of expediency their implementation during forming price policy of the company, defining areas of improving corporate management system in order to form lean production as well.

Keywords: *price policy, consumer needs, demand, costs, lean production, business processes, value, wasteful losses, continuous improvement.*

The effectiveness of the company essentially depends on economically reasonable pricing decisions. Prices act for the company as means of demand intensification, effective tool in the competition and mechanism of combining economic interests of producers and consumers as well. By forming own price policy, the company influences on whole sales process, defines marginal revenue and contributes to achievement its goals (survival, maximize growth rate, increase sales, stabilize or expand market share). Final financial performance, company's profitability, structure of production and distribution of finished products, image and competitiveness of manufacturer, degree of customer loyalty to the brand depends on quality of price policy of the company.

Price policy foresees support optimal price level and management their changes according to market fluctuations. Price policy should be involved to overall marketing policy of the company, as final prices are influenced by not only operational costs but changing consumer needs and their buying motives, possible actions of competitors in pricing too.

Nowadays, economic crisis supported by political instability in our country has worsened welfare potential consumers and changed their level of consumption, cost structure and consumer preferences. Consumers aspire to saving, but the ratio of "price-quality" remains for most of them an important factor during purchasing goods. Reducing purchasing power of consumers has a negative influence over profitability of companies, limits their financial capacity to maintain an acceptable price level and compensates for incurred expenses in production. Such situation requires modernization of pricing system and searching innovative ways of price policy formation that allow to reduce the cost of products with the lowest cost to themselves and set prices, focusing on the real value of goods for consumers. Such situation requires modernization of pricing system and searching innovative ways of price policy formation that allow to reduce the cost of products with the lowest cost to themselves and set prices, focusing on the real value of goods for consumers.

One of the ways to form an effective price policy of the company in a competitive market is to implement the concept of lean production. Lean ideas have been first approved at a Japanese company Toyota; however, they have spread far beyond the production process for today [1, p. 10]. There are very successful application of lean principles in the field of administrative services, construction, transport, communications, health care and education etc.

The ideology of lean concept consists in increasing the value of a particular product by focus company's efforts on meeting their consumer needs [1, p. 31]. This can be achieved by means of optimizing business processes of the company, targeted improving resource efficiency, reducing costs and continuous improving the production. Lean production acts efficiently as a tool of improving profitability and competitiveness, which can reduce costs by slight gradual upgrades in performing production operations, without making significant innovation transformations.

Active application of concept allows to set direct dependence between company owners' welfare and efficiently organized technological process at all stages of production. Such approach strengthens the level of company's adaptation to specific market conditions, increases reaction rate in response to the consumer requests, and it also provides a sound profit even in times of changing market conditions, including the fall in demand. Using internal resources for eliminating wasteful losses will allow the company to create a perfect production system which capable to deliver the goods for customers within the shortest time after receiving an order without accumulation intermediate residues in industrial stocks [2]. Reducing operating cycle will affect the structure of current assets, which let free up funds for production purposes and reduce company's need in an additional raising capital.

From the perspective of consumer, benefits from the application of lean principles are manifested in getting the specific product defined quality and quantity at the right time. In this case, the price clearly indicates to consumer while buying the qualitative characteristics of the product and its advantages over similar products of competitors.

There are two basic concepts in the philosophy of lean production:

- 1) the flow of creating specific product's value for the consumer;
- 2) losses in production.

Following the principle of consumer preferences in price forming is the main idea of lean production [1, p. 16]. When a company knows exactly what is necessary for own consumers, it can identify which processes are focused on providing value to them and which are not. It is impossible to force consumers buying what is offered to them and pay extra costs for production instead of company; otherwise it will start to look for alternative goods at competitors. The correct approach is to search needs that will satisfy both sides – producers and consumers. Therefore, companies which succeeded in implementing lean concept into their production such as Apple, Google, Microsoft, General Electric,

Nestle SA, Procter & Gamble, Samsung Electronics, at the beginning spent considerable resources for demand research. And only after a detailed market analysis they carried out finding ways to meet their customers' needs and creating production capabilities to minimize cost of the product [3, p. 77].

As products prices of the company are dictated by market and buyers in particular, management objects of the company can only be the cost of production and sales profit. Setting prices is limited in this case by amount of costs that consumer is ready to make in order to purchase a proposed product. Profit does not become the main purpose of the company, though it is undisputed basis of existence of any company. The most important task for the company is to meet customer needs and to maintain available, reasonable according to quality and competitive price level. In this approach, manufacturers are forced to reduce their own production costs and increase the efficiency of available resources in order to obtain a desired profit.

Lean production is also based on determining the necessary actions in the chain of production and eliminating wasteful costs. Lean methodology describes seven main types of wasteful losses which consume company's resources, but do not create value for the final consumer. They consist of excessive losses which related to overproduction, transportation, expectations for processing, inventory, defects, excessive processing and movement. In order to optimize company work and detect losses it is necessary to possess detailed information about all actions from receipt the order until deliver products to customer. Using a process approach allows to reveal stages that do not create value or perform overlapping functions and to improve these processes by minimizing (if it is possible, even eliminating them) downtime between operations, expectations and other losses. If production and technological processes require complex and constructive revision, information, marketing, logistics processes sometimes possible to reorganize quickly and without significant financial costs [3, p.78].

Accordingly to principles of lean production, company can reduce internal losses, release people and premises for the implementation of other processes, decrease energy usage, minimize time between order and shipment. Creating lean company requires a radical overhaul of all production structure and internal environment, formation of corresponding mentality of its employees. In order to implementation of such changes it must be provided personal interest of company's leadership and understanding from workers.

The modern practice of corporate management has developed two basic models of construction lean system: Japanese (Toyota Production System (TPS) and Western (Lean Production). The Japanese system provides involvement of all staff to improving production organization, and later on production process. This model requires high priority efforts in work with company's staff, clarify the principles and benefits of lean production, but eventually gives stable positive results and opportunity to implement large-scale transformation projects. The Western approach is aimed at getting quick results and carried out "from top to bottom". Implementation

lean system is made by management team which regulates creation of value flow, makes decisions on production organization and labor [4, p. 485-486].

Organization of effective teamwork is based on maintaining lean principles by each co-worker and involving them into this process. All employees must use their knowledge and skills in its activities and take the initiative to improve standards of performance of particular operations. If the employee suggestions are constructive and technically feasible for implementation, it receives appropriate financial encouragement in amount of per cent from cost savings or introduction of appropriate values. Unfortunately many businesses associate teamwork only with organizing corporate party, adopting corporate charter or carrying out joint discussion of current problems [2]. While the lean system demands upgrading cultural management of the company, the most important value of which is workers, their innovative thinking and creative approach to solving problems. It is necessary to introduce a constant motivation of employees and maintain a corporate culture that will promote active involving the staff in company's activity and development.

Lean principles are fairly simple and do not require significant capital investments for improving production processes. Lean production works mostly effectively in crisis conditions, when the decrease in business activity of the company is caused by a reduction in the purchasing power of consumers. Optimization of business processes based on using internal resources of reducing cost of manufacturing allows company to maintain an optimal price level, keeping the quality and availability for consumers. Despite the obvious benefits, implementation lean production into price policy of the company is very time-consuming process which requires an advised corporate policy, ensuring effective communication and formation of organizational relationships between employees. It can be done by transition of the company from current situational planning to strategic change management.

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