Lesson No. 5.

Topic of the lesson: Types of demand. Types of consumers

Main issues to be discussed at the seminar:

1. Demand. Demand function. Suggestion function.
2. Types of demand.
3. Positioning of goods.
4. Study of the elasticity of demand for individual items of the pharmacy assortment
5. Demand. law of demand.
6. Elasticity of demand.
7. Demand elasticity coefficient.
8. Factors of elasticity of demand.
9. Factors of demand inelasticity.

The categories of *supply* and *demand* underlie the market mechanism. *The demand function* in the market mechanism is decisive, because it is it that forces production to produce goods necessary for the population, improve their quality and range. Demand, in turn, depends on the needs of people: as needs change, demand also changes, which, in fact, is the monetary expression of needs.

However, not every need can have a monetary value and be satisfied by the market. Nevertheless, the most important vital needs of people for food, clothing, shoes, household services, and, of course, medicines, as the history of developed market economies shows, are best satisfied through the market thanks to demand.

The function of supply is, in general terms, to link production with consumption, the sale of goods with their purchase. Reacting to emerging demand, production begins to increase the output of goods, improve their quality and reduce the costs of their production, and thereby increase the total volume of supply on the market.

The study of demand is associated with establishing the actual consumption of medicines , identifying patterns of demand, taking into account the dynamics and a whole range of factors influencing their consumption. Therefore, the main goal of studying the situation in the sale of medicines is to establish to what extent the specific state of their sales corresponds to demand, how these indicators will change in the near future and what measures need to be taken to achieve trouble-free supply of the population and medical institutions with various medicines and medical products, and how all this affects the financial and economic performance of pharmacies.

When studying demand, a distinction is made between realized (satisfied), unsatisfied and emerging demand.

Realized demand is the actual sale of medicines with sufficient and constant availability in the pharmacy network.

Unmet demand is the demand for medicines that are supplied to the pharmacy chain in insufficient quantities or unevenly.

The time of year (seasonal goods) has a significant impact on demand for individual product groups. Groups of medicines for which demand is increasing (by season):

- in autumn and winter - antipyretics and painkillers (51%), psychotropic drugs and vitamins (5% each);
- in spring - vitamins and antiallergic drugs (36% each), psychotropic drugs (12%);
- in summer - dressings, antiseptics (24%), gastrointestinal, antimicrobial drugs (24%).

Types of demand in a pharmacy

Negative demand. The market is in a state of negative demand if the majority of it does not like the product and even agrees to certain costs just to avoid it. People have a negative demand for vaccinations, dental procedures, and gall bladder surgeries. There is a negative demand among employers to hire former prisoners and alcoholics. Marketing's job is to analyze why the market dislikes a product and whether a marketing program can change the market's negative attitude by redesigning the product, lowering prices, and increasing incentives.

Lack of demand . Target consumers may be uninterested or indifferent to the product. Thus, farmers may not be interested in a new agricultural technique, or college students may not be interested in learning a second foreign language. The task of marketing is to find ways to link the inherent benefits of a product with the natural needs and interests of a person.

Hidden demand. Many consumers may have strong desires that cannot be satisfied by the products and services available in the market. There is a large latent demand for harmless cigarettes, safe and environmentally friendly residential communities and more fuel-efficient cars. The task of marketing is to estimate the size of the potential market and create effective products and services that can satisfy demand.

Falling demand. Sooner or later, any enterprise will face a drop in demand for one or more of its products. Library attendance is declining, and the number of people wishing to enroll in private colleges is falling. The market participant must analyze the reasons for the decline in market conditions and determine whether sales can be stimulated again by finding new target markets, changing product characteristics or establishing more effective communication. Marketing's challenge is to reverse the trend of falling demand by creatively rethinking the approach to product offering.

Irregular demand. For many businesses, sales fluctuate on a seasonal, daily and even hourly basis, which causes problems of underloading and overloading. Most public transport is not loaded during the daytime lull and cannot cope with traffic during rush hour. On weekdays the museums have few visitors, but on weekends the halls are crowded. The task of marketing is to find ways to smooth out fluctuations in the distribution of demand over time using flexible prices, incentives and other incentive techniques.

Insufficient demand. Full demand is said to exist when an organization is satisfied with its trade turnover. The task of marketing is to maintain the existing level of demand, despite changing consumer preferences and increasing competition. The organization must strictly take care of the quality of goods and services, constantly measure the level of consumer satisfaction in order to judge the correctness of its actions.

Excessive demand . A number of organizations have higher levels of demand than they are able or willing to meet. The task of marketing, referred to in this case as “demarketing,” is to find ways to temporarily or permanently reduce demand. General demarketing seeks to curb excessive demand by resorting to measures such as raising prices, weakening incentive efforts, and reducing service. With selective demarketing, they strive to reduce the level of demand in those parts of the market that are less profitable or require fewer services. The goal of demarketing is not to eliminate demand, but only to reduce its level.

Irrational demand. Countering the demand for unhealthy products requires dedicated efforts. Campaigns are being carried out against the distribution of cigarettes, alcoholic beverages, drugs, and firearms. The task of marketing is to convince lovers of something to give up their habits by disseminating frightening information. sharply raising prices and limiting product availability.

One way to satisfy consumer needs may be *product positioning* . This is a system for determining the place of certain types of pharmaceutical products in a number of similar products circulating on the market, including the determination of the characteristics of the goods, the characteristic features that distinguish them from similar competing products .

The purpose of product positioning is to help the buyer distinguish a given product from a wide range of similar products on some basis and give preference to it when purchasing.

Positioning is based on:

- determining the advantages or characteristics of the product (by price, appearance, and other parameters),

- determining the specific needs of the consumer,
- special use of the product, i.e. determining the availability of a product in accordance with its release form (tablets / ampoules / syrups),
- targeting a specific group or category of consumers.

Product positioning can be used when any new drugs, medical products, hygiene products and other products go on sale in pharmacies.

A new product that has any features of quality, use, or with new advantages should be given special attention by pharmacists , who in turn will "present" the product to the buyer.

Study of elasticity of demand for individual items of the pharmacy assortment

Assessing the elasticity of demand for consumption of individual items in the pharmaceutical assortment is of great importance for inventory management.

All items in the pharmacy assortment can be divided into 4 groups according to the elasticity of demand:

Group I (with sales variation of no more than 20%) includes names that enjoy high stability.

Group II (with a sales variation of 50%) includes names that enjoy average stability.

Group III (with sales variation from 50 to 100%) includes names with low stability.

Group IV (with a variation of more than 100%) includes items with very low stability, with unpredictable demand (this means that the drug can be sold but with equal probability may not be sold within 3-4 weeks).

There is a certain correlation between the speed of implementation and the elasticity of demand. Thus, drugs with a high sales speed have a more stable demand, and the deviation in the number of packages sold rarely goes beyond 20%. Obviously, the high stability of demand depends on the preferences of doctors, pharmaceutical specialists, consumers, the "advancement" and popularity of the drug

Demand is the need of buyers for a particular product, expressed in money, a solvent need, demand is the desire to buy a product, supported by the financial capabilities of the consumer.

Demand in the pharmaceutical market is the quantity of medicines and other pharmaceutical products, pharmaceutical services that consumers (intermediate and final) are willing and able to purchase over a certain period at a certain price. Demand can be measured quantitatively using **quantity demanded** . The amount of demand for pharmaceutical products is influenced by price and non-price determinants of demand.

Law of demand - the lower the price of a product or service, the more quantity will be purchased and vice versa. This is an inverse relationship between price and quantity of goods purchased. Demand characterizes buyer behavior.

The law of demand describes the interaction between the quantity of a good that consumers want to buy and the price of this good: other things being equal, there is an inverse relationship between the price of a good and the quantity demanded, i.e. a decrease in price leads to an increase in demand, and vice versa.

The expression of the law of demand can be presented in different forms: algebraic, graphical and tabular.

Elasticity is a measure of the sensitivity of one variable to a change in another, or a number that shows the percentage change in one variable that results from a change in another variable.

Price elasticity of demand shows by what percentage the quantity demanded will change if the price changes by 1%. The price elasticity of demand is influenced by the following factors:

✓ The presence of competing goods or substitute goods (the more there are, the greater the opportunity to find a replacement for the more expensive product, that is, the higher the elasticity);

✓ A change in the price level that is invisible to the buyer;

✓ Conservatism of buyers in tastes;

✓ Time factor (the more time the consumer has to choose a product and think about it, the higher the elasticity);

✓ The share of the product in consumer expenses (the greater the share of the price of the product in consumer expenses, the higher the elasticity).

The elasticity of demand is affected by shelf life and production features. Perfect elasticity of demand is characteristic of goods in a perfect market, where no one can influence its price, therefore, it remains unchanged. For the vast majority of goods, the relationship between price and demand is inverse, that is, the coefficient is negative. It is usually customary to omit the minus and evaluate it modulo. However, there are cases when the elasticity of demand is positive - for example, this is typical for Giffen goods.

Products with elastic demand by price:

Luxury items (jewelry, delicacies)

Products whose cost is significant for the family budget (furniture, household appliances)

Easily replaceable goods (meat, fruits)

Products with inelastic demand by price:

Essential items (medicines, shoes, electricity)

Products whose cost is insignificant for the family budget (pencils, toothbrushes)

Hard-to-replace goods (bread, light bulbs, gasoline)

The elasticity coefficient shows the degree of quantitative change in one factor (for example, the volume of demand or supply) when another (price, income or costs) changes by 1%.

There are several types of price elasticity of demand depending on the value of the elasticity coefficient.

$E > 1$ - elastic demand (for luxury goods); the quantity demanded changes by a greater percentage than the price (goods that do not play an important role for the consumer, goods that have a substitute).

$E < 1$ - inelastic demand (for basic necessities); when the quantity demanded changes by a smaller percentage than the price (everyday goods, the product has no substitute).

$E = 1$ - demand with unit elasticity (depends on individual choice); a change in price causes an absolutely proportional change in the quantity demanded. $Ed = 1$ – unit elasticity of demand; in this case, a change in price by 1% will lead to a change in demand by 1%.

$E = 0$ - completely inelastic demand (salt, medicines); quantity demanded does not change when price changes (essential goods).

$E \to \infty$ - perfectly elastic demand (in a perfect market, the quantity demanded is not limited when the price falls below a certain level).

Types of elasticity

There are price elasticity of demand, income elasticity of demand, and cross price elasticity of 2 goods.

Factors of demand elasticity

Among the main factors determining the price elasticity of demand are the following:

✓ availability and accessibility of substitute products on the market (if there are no good substitutes for a product, then the risk of a decrease in demand due to the appearance of its analogues is minimal);

✓ time factor (market demand tends to be more elastic in the long run and less elastic in the short run);

- ✓ the share of spending on a product in the consumer budget (the higher the level of spending on a product relative to the consumer's income, the more sensitive the demand for price changes will be);
- ✓ the degree of market saturation with the product in question (if the market is saturated with some product, for example, refrigerators, then it is unlikely that manufacturers will be able to significantly stimulate their sales by lowering prices, and vice versa, if the market is unsaturated, then lowering prices can cause a significant increase in demand);
- ✓ variety of possibilities for using a given product (the more different areas of use a product has, the more elastic the demand for it. This is due to the fact that an increase in price reduces the area of economically justified use of a given product. On the contrary, a decrease in price expands the scope of its economically justified use. This explains the fact that the demand for universal equipment is, as a rule, more elastic than the demand for specialized equipment);
- ✓ the importance of the product for the consumer (if the product is necessary in everyday life (toothpaste, soap, hairdresser services), then the demand for it will be inelastic to price changes. Products that are not so important for the consumer and the purchase of which can be postponed are characterized by greater elasticity).

Factors of demand inelasticity

The sensitivity of different consumer groups to the price of the same product may differ significantly.

The consumer will be price insensitive under the following conditions:

- ✓ The consumer attaches great importance to the characteristics of the product (demand is price inelastic if "failure" or "deceived expectations" lead to significant losses or inconveniences. To avoid such a situation, a person is forced to overpay for the quality of the product and purchase those models that perform well recommended);
- ✓ The consumer wants a custom-made product and is willing to pay for it (if the buyer wants a product made to suit his individual needs, he often becomes tied to the manufacturer and is willing to pay a higher price as a fee for the hassle. Later, the manufacturer can increase the price of its services without much risk of losing a buyer)
- ✓ The consumer has significant savings from using a specific product or service (if the product or service saves time or money, then the demand for such a product is inelastic)
- ✓ The price of the product is small compared to the consumer's budget (if the price of the product is low, the buyer does not bother going shopping and carefully comparing products)
- ✓ The consumer is poorly informed and makes poor purchases.