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TRANSFER PRICING IN INTERNAL MARKETING

In the period of qualitative changes in the economic system the main requirement for companies seeking to resist competitive pressure and improve their position on the market is to become flexible in the use of new technologies. The result of the evolution of transnational companies (TNCs) is the growing importance of internal markets for the global economy. All of the large quantities of goods, services and factors of production move within TNCs. The question now arises about the study the forms of management of internal markets, among which the most important is internal marketing. That is why it is advantageous for company to organize efficiently the system of internal marketing.

The term internal marketing appears to have been first used by Berry et al. in his article [1]. There are a number of competing definitions all claiming to address internal marketing. According to the main five elements (employee motivation and satisfaction; customer orientation and customer satisfaction; inter-functional coordination and integration; marketing-like approach to the above; implementation of specific corporate or functional strategies) the following definition is proposed: internal marketing is a planned effort using a marketing-like approach directed at motivating employees, for implementing and integrating organizational strategies towards customer orientation [1] (Fig. 1). In this case internal customer orientation complements the traditional customer orientation, so the motivation of the employees increases.

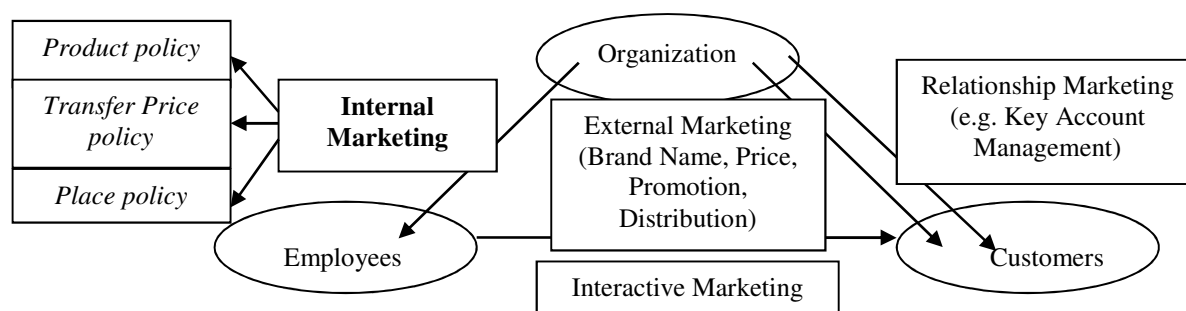


Fig. 1 The internal marketing in the marketing system

The internal marketing-mix consists of the following elements: product policy, (transfer) price policy and place policy. The peculiarity of internal markets is unimportance of promotion policy, so for internal corporate markets Alchyan criteria is valid, which restricts competition (Fig. 1). Transfer pricing policy is one of the most advanced elements of the internal marketing mix [3]. Still some researchers refer transfer pricing to financial management, and others - to the marketing mix [2].

Transfer prices (according to OECD) are the prices at which an enterprise transfers physical goods and intangible property or provides services to associated enterprises [4]. In regard of internal marketing transfer prices are the cost of the transfer of goods in the internal market [3]. The functions of transfer pricing are the following [5]:

- counting: evaluation of services, assets and liabilities between related parties for financial reporting;
- income distribution;
- planning and decision making: evaluation of decentralized department work for supporting company plan;
- management and control: coordination of decisions of decentralized departments.

Transnational company has complete freedom to decide who will control the establishment of transfer prices, for example company management, the selling units, and the buying unit. The determination of who should set the transfer price, and the method to be used, depends in part on the needs of the company and internal information.

Transfer pricing has been viewed by many primarily as a mean for controlling divisional performances and coordinating cash and income flows from foreign subsidiaries. However, there is strong evidence that transfer pricing can be used on marketing decisions. Transfer pricing has great potential for helping marketing managers achieve strategic objectives in changing international environments.

References:

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