

ECONOMIC ESSENCE OF TIME IN COMMODITY MARKET

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***Annotation.** The article studies time factor in the sphere of commodity circulation, the impact of goods traffic acceleration on social and economic efficiency of commercial activities in wholesale and retail trade. The change of norm-setting methods by reference to suppliers instead of commodity groups is proposed to improve commodity supplies management techniques.*

***Keywords:** time; commodity supplies; goods traffic; trade; suppliers; norm-setting; control; supply contract.*

Time as a category became widespread in philosophical and historical aspects. It is thought of as a succession of events and conditions of substance and as a method of measuring, monitoring or recurring processes of the same duration.

With the development of commodity-money relations time increasingly obtains economic character. It is especially evident in commercial activity, which is defined as a set of operations on purchase and sale of goods and services performed by the subjects of the market aimed at satisfying needs and gaining profit. Demand is determined by needs that change over time. Development of society predetermines the emergence of new needs and transformation of existing ones. Under the influence of scientific and technological progress as well as fashion the range of products is constantly updated. Time determines the stages of commodities' life cycle, which are subdivided into periods: the launch of goods into the market, increase of demand for them, market saturation, decline of demand and commodities' withdrawal from the market. In the initial period, as a rule, the goods are sold without profit due to the small volume of sales and high advertising costs. In the following periods the efficiency goes up to a maximum level and then decreases due to low sales volumes, distribution of funds on commodity stock mark-down and recycling of goods. Consequently, time directly affects the efficiency of commercial activities.

Time characterizes such concepts as "new products", "fast (slow) realization of goods", "old stock" and "non-sellers". Time has impact on customer appeal of the products. Many of them have limited realization period. The increase of this period results in the loss of their quality, and the part of them is recycled. Stock loss is one of the items of selling expenses which influences the operating efficiency of commodity circulation entities.

Time increase of goods which are in circulation enhances storage costs and, consequently, provided stable selling price, reduces entrepreneurs' profits, and if a

decision is made to mark-down goods, in most cases it causes negative profit. In order to accelerate time of realization of goods and to increase the numbers of sales outlets different kinds of promotion activities involving various advertising devices are carried out. They are accompanied by additional costs.

Effectiveness of business is completely dependent on promptness in decision-making to meet consumer demand. Purchases of goods in larger quantities than needed, leads to overstocking, increased costs, connected with their realization, and reduces profits. And if the goods are purchased in fewer quantities than needed, the subject of commercial activities will fall short of profit due to the stock out. Therefore it is very important to optimize supply and demand in trade over time. Every business decision is connected with the past, during its fulfillment it may be adjusted (corrected) and it serves as a basis for future decision-making. The shorter this period is, the more appropriate this process will be. Studies of commercial activities over time allow drawing out trends in demand development and its peculiarities in order to use them for its forecasting and planning.

Life sustenance of a person, continuous satisfaction of his needs are carried out through stock availability in all fields of activity. To ensure smooth work, a wide range of products and to meet customers' demand the best way in retail chains, warehouses should possess definite commodity stocks. Karl Marx distinguished commodity capital, namely '... such a state of commodity capital when it forms a merchandise inventory, representing it's unnecessary and compelled presence on the market'. When considering the process of improving sales a special attention is paid to accelerating the process of transformation of commodity stock into cash, which encourages the speed-up of reproductive performance.

In the sphere of commodity-money circulation there is widely used phrase "Time is money". The character of Ilf and Petrov's novel, Ostap Bender used to say an aphorism: "Time that we have is money that we do not have". Indeed, money becomes a time estimation equivalent. It is clearly manifested in such spheres as work paid by an hour, in credit, rental and leasing arrangements, in punitive penalties (fines), etc. Time is a progressive factor in the economic development of a society, in capital strengthening of successfully operating businesses. Even retail individuals' deposits in banking sector gain additional money, depending on the duration of their existence. From year to year time factor increases its impact on business results, especially in the sphere of commodity circulation, where money interacts through goods. Neither commodities nor money is characterized by consistency. They are characterized by active movement. It entails the increase of economic development rate, the growth of surplus product, and the increase of invested capital efficiency. The faster the turnover is over time, the higher the profit per rubble of working capital will be. The more commodity stocks a business possesses, the less efficiently it uses its resources.

All stocks generated in trade, according to intended use of goods, are subdivided into current realization goods, stocks of seasonal storage and ahead of time delivered goods. Inventories of current storage make up the bulk of all stocks of a trading company. This particular category of commodity stock ensures trouble proof and continuous activity of commercial enterprises. It is possible to express an

opinion that commodity stock management in commercial activities means primarily management of current storage resources. Commodity stock created at trade enterprises is evaluated in monetary terms, by quantity of goods in actual measurement, and by its size during turnover days. They are in constant movement and renewal. The final stage of their movement is consumption, i.e. achievement of any commercial activity objective.

State of goods characterizes the efficiency of trade enterprise management. The larger commodity stock the enterprise possesses, the less efficiently it uses its resources. In this case a saying “Store is no sore” is inappropriate. Of course it is a sore: it diverts money for a long period of time, requires capital investments in warehousing, increases the cost of goods storage, their depreciation upon the sell-by date expiry, because of the loss of ready-for-sale condition and going out of fashion etc. The conclusion of Russian merchants seems fairer: “Good merchandise is running, not lying”. Accelerated movement of goods increases the volume of sales and a number of cash assets turnovers. And each turnover brings capital gains.

Introduction of a market economy fundamentally changes focus on time of goods’ circulation. In this respect, the information given by L.I.Kochurova and T.A.Podbolotskoy is of some interest “... the developed European countries overproduce goods at average for the period of 16 days, the Japanese economy – 12 days, the United States – 25 days. Russia, with all its poverty, overproduces goods most of all – for the period of more than 100 - 120 days. In recent past it overproduced commodities for 150 days. According to the most conservative estimates, the Russian economy has stocks in the retail trade – for 25-32 days, in wholesale trade – for 8-12 days and in production – for more than 80 days” [7]. These facts suggest that our society experiences significant expenses on maintenance of excessive amount of goods in the chain of their movement from producers to consumers. Russia will always have a slow turnover of goods due to the territorial dispersion of producers and consumers. However, the changes taking place in the economy of the country will have an increasing influence on the acceleration of goods turnover owing to drawing production closer to places of consumption, development and improvement of transport links, organization of brand-name trade and network structures, development of e-commerce, improvement of competitive environment, where the time advance factor is the major condition of success.

To gain large profits commercial businesses are obliged to accelerate the process of product monetization. Thus, expensive goods are transported by double-quick means of transport, despite higher costs. These expenditures are justified, since money gained after accelerated realization of goods, will provide a greater increase of money than the increased delivery costs. As far as time factor in commercial activities is concerned, observations of German scientist and traveler Adam Oleary made in the middle of the XVII century seem to be interesting. “I was amazed of seeing that Moscow merchants sold arsheen of woolen cloth at the price of 3.5 ecu, which they bought from the British seller at the price of 4 ecu. But I was told that it was very profitable for them because by buying English cloth on credit and selling it for cash, although cheaper, they invested money in other projects, that would not only cover the losses incurred from the sale of cloth, but would also provide substantial

profits". [1] Figuratively speaking, money can be classified as "live" - used in turnover and "sick" - temporarily withdrawn from circulation. The latter includes monetary embodiment of commodity weights in circulation. Accelerated transformation of product into money is the main objective of any commercial activity.

Volume of commodity stock is formed not only by current consumption, but also by seasonality of production and delivery. For example, potatoes in Russia are produced at the end of summer season, and are consumed during the year. New Year tree decorations are purchased for the New Year holidays and are produced continuously throughout the year. Therefore, depending on the needs, the goods are stored indoors under appropriate conditions and come into realization as the need arises. The vast majority of goods is constantly produced and consumed getting through distribution channels.

Primarily they are formed in places of production before making up consignment stocks for dispatch and delivery in accordance with product orders from trade organizations.

Perishable goods and daily goods of first priority are transported into retail outlets, which are geographically accessible for transport, and they are placed directly to sales outlets. Their sales turnover is accelerated, because it is provided without warehouse storage on direct supply basis. Warehousing is a requirement for the majority of goods. Manufacturing facilities accumulate large stores of goods to deliver them in freight wagons and large-tonnage containers to geographically remote customers, who are usually represented by wholesale commercial agents.

Their existence arises, firstly, from economic benefits derived from the difference in transportation costs between small and large consignment stocks, and secondly, from the necessity of transformation of the production range of goods into the trade one. At warehouses of wholesale businesses the range of products of many manufacturers is concentrated which entitles retailers to select the variety of products in small lots and for short periods of realization, i.e., ensures consistency in provision of goods.

There is no need in accumulation of commodity stock in warehouses of retail businesses if the product distribution process is well organized. In the Western European market retail businesses do not have warehouses. All products are placed on the trading floor, and their turnover in supermarkets accounts for one day. Thus, the predominant part of commodity stock is concentrated in the warehouses of wholesale enterprises, in contrast to the Russian practice, where every retailer has warehouses, where a large part of commodity stocks in circulation is located. Even in the projects of new retail outlets construction the presence of storage space is planned which does not correspond to the functional purpose of these objects. They are destined to sell goods to customers and all commodities have to be placed on the trading floor, and promptly replenished from the wholesale warehouses when sold.

In the market economy the result of circulation of commodities is estimated by profit. Its size is proportional to commodity turnover. Therefore, in modern practice of commercial activities the condition "merchandise is seeking a buyer" is

introduced. Not vice versa, as it was before. All kinds of stimulants are employed to attract buyers' attention to the product in order to exchange it for money.

Acceleration of goods monetization is the main task of commercial activity, and the rate of merchandise turnover is the main criterion for its fulfillment. The state of business in trade organizations can be estimated by merchandise turnover.

Effectiveness of existing stocks turnover is proposed to estimate in accordance with the following specific parameters which are not mentioned in textbooks and rarely used in scientific studies:

- Earning capacity of commodity stocks is determined by two parameters: ratio of profit to average commodity stocks during the analyzed period and ratio of profit to commodity turnover which is estimated by times.

- Cost intensity of commodity stocks is calculated by dividing the sum of circulation costs by the average value of commodity stocks.

- Commodity stock intensity reflects the role of commodity stocks in achieved turnover and is calculated by ratio of average commodity stock to its turnover.

Application of each parameter for evaluation of commodity resources use efficiency is essential because it characterizes the qualitative performance of commercial businesses. The first indicator reflects the return on funds invested in commodity stocks, the second parameter presents circulation expenses connected with their storage, and the third indicator shows the importance of commodity stocks in obtaining trade turnover. All these are important in assessment of trade business activity.

Turnover of goods should be considered as a factor that generates business profit. In this direction it is especially necessary to emphasize that acceleration of goods' turnover results in improvement of commercial activities as a whole. This is confirmed by the fact that in analysis of activities of trade businesses, this indicator is always taken into account, it is analyzed and planned. Commodity turnover index is used as a basic one in norm-setting of commodity stocks.

The existing method of commodity stock norm-setting requires standards validation of commodity stock maximum level for each commodity group, which is directly dependent on expenditures on their storage, assortment building, slotting and consumption. All these constituent elements affect the process of commodities' sale to a different extent; therefore, their structure should be taken into consideration. The complexity of retail business management process is connected with a wide range of goods and, hence, with creation of information base for each commodity group in reliance on special software products for commodity stock management, which commercial businesses do not possess yet. Therefore, in contrast to existing methods, the norm-setting of commodity stocks is proposed to be carried out on the basis of relevant commodities sources and commodity stock records from suppliers, because they are involved in the process of assortment building which provides retail trade turnover. The suppliers are definitely interested in formation of desired range of products which are in demand in a certain period of time.

Frequency of commodity delivery agreed upon with each supplier and a size of delivered consignment stock are laid in the standard foundation. Economic

justification of delivered consignment stock is directly dependent on one-day turnover of the retailer and the time between the commodities supplies. The required size of a commodity stock of each specific group should ensure its uninterrupted realization till the arrival of the next consignment stock. These parameters are included into the contract of sale with suppliers and define a standard of commodity stock for each supplier. The advantages of such an approach lie in the fact that the foundation of commodity stock norm-setting doesn't include a range of goods with its thousands of variations, as it is recommended by modern methods, but it relies on sources of commodity suppliers which are of fewer amounts. There are on the average about 200 of commodity suppliers, which implies prompt management of commodity stock formation process from each supplier.

Clause of a contract of sale of no small importance includes not only delivery terms and periods but also lot sizes from a goods range perspective. Setting of valid norms of commodity stocks, which are fixed in contracts of sale in terms of suppliers, will provide rational frequency of delivery and will result in increase of commercial activity efficiency, particularly, in reduction of financial resources requirement and in acceleration of commodity stock turnover.

One more condition of commodity stock formation is the importance of delivery variability. Delivery variability has to ensure such a state of commodity stock, which meets the demand of population for goods and provides the best possible invested working capital turnover.

Acceleration of commodity turnover with the help of the proposed method commodity norm-setting requires responsibility of tradesmen in conclusion of a sale contract. While negotiating on terms of frequency of commodity delivery they should insist on maximum reduction of time between supplies. Clause "property liability" should call for "painful" punitive sanctions for violation of delivery time in order for suppliers to observe the fulfillment of terms of contract. Not a single violation of terms should escape punishment.

Proposed methods of commodity stock management are of differentiated character and allow analyzing, controlling and evaluating the significance of each supplier in commodity stock formation of a definite merchandise group which results in sound and qualified decision-making. Effectiveness of the proposed planning method is reflected in the introduced index "effectiveness of one cash assets turnover invested in commodity stock, which is estimated as a ratio of profit, gained in a definite period of time to commodity turnover in day's terms". [5].

Effectiveness of commercial activity among subjects of commercial circulation goes up to a maximum level of commodity stock acceleration, provided their regular supply and availability in all stock keeping units for consumers.

Thus, time in commodity circulation is the most essential factor in formation of commercial activity effectiveness, providing well-timed satisfaction of consumer needs in different commodities, preserving their quality, reducing circulation costs and working capital, increasing the effectiveness of all subjects of commodity market activities.

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