

# Research on the Pricing of Chinese Domestic Service Products

Wenxiu Wei\*, Xiaoyan Xiong

*Ginling College, Nanjing Normal University, Nanjing, China*

**Abstract:** *In June 2019, the State Council proposed 36 specific policies on promoting the quality and expansion of the domestic service industry. The development of the domestic service industry towards specialization, formalization and branding depends on the scientific and standardized pricing of products in the industry, but the quality of the domestic service products is difficult to coordinate the development of prices, which is a problem that plagues society. By combing the research results of the domestic service industry and pricing field, this article analyzes the development status of the domestic service industry, analyzes the influencing factors of the price of domestic service products, and puts forward relevant countermeasures and suggestions on the fair pricing mechanism of domestic service products, which will help accelerate the process of the domestic service industry modernization.*

**Keywords:** *Domestic Service, Product Pricing, Influencing Factors*

## 1. Introduction

The "Several Opinions on Promoting the Reform of the Price Mechanism" issued by the State Council in October 2015 pointed out that the price mechanism is the core of the market mechanism, and that the market determines the price is the key to the market's decisive role in the allocation of resources. In 2019, the General Office of the State Council issued the "Opinions on Promoting the Quality and Expansion of the Domestic Service Industry", which also clearly stated that the domestic service industry must be actively promoted to develop towards specialization, formalization and branding.

The difference between service products and tangible products is that the former has the characteristics of intangibility, perishability, heterogeneity, inseparability of production and consumption, unstable demand, variable service input and output are difficult to measure. For service-oriented companies, the price of service products not only means the cost that customers need to compensate, but also conveys corporate image, service quality, service brand and other information to consumers. Reasonable service product pricing can reflect customer needs and improve the profitability of the company. However, at this stage, Chinese domestic service market presents a small and scattered pattern. The mismatch between low-quality services and high-quality life has formed a structural imbalance of supply and demand, and the mismatch of effective supply and demand in various regions has led to regional imbalances, which makes the price of domestic service products inflated. At the same time, the current domestic service market environment is chaotic and unfair, lacking complete laws and regulations and uniform domestic service product quality standards. Simultaneously, housekeeping enterprises have a low management level, and the professionalism of practitioners is uneven, resulting in the true value and the supply and demand situation of domestic service market have been concealed, so that the industry has not yet formed a scale effect and brand effect, which has greatly disrupted the process of establishing a fair pricing mechanism in the market. Therefore, the development of domestic service industry towards specialization, formalization and branding depends on the scientific and standardized pricing of products in the industry. However, the quality and price of domestic service products are difficult to develop in harmony. The problem of pricing chaos that plagues society urgently needs to be paid attention to. This article will analyze the development status of the domestic service industry by combing the relevant research in the domestic service industry and pricing field, analyze the factors affecting the pricing of service products, and propose the formation path of a fair pricing mechanism for domestic service products.

## 2. Related Literature Research

The domestic service industry is a people's livelihood industry that serves families and make some family affairs socialized, professionalized and marketized. The main domestic service products include professional elderly care, pregnant and lying-in women's care, infant and child care, and care for the sick and disabled, family catering production, family cleaning, family education, family leisure and entertainment etc. The operation of the product is mainly undertaken by social professional agencies and professional domestic service personnel. Professional agencies include domestic service companies, community service agencies and non-profit organizations. Domestic service products are based on individual labor skills and service quality, and there are few existing studies focusing on the price formation mechanism.

For the research on the domestic service industry, domestic scholar Sa Zhihong et al. (2020) analyzed the sample data of domestic workers in Beijing and Jinan from gender perspective, and pointed out that domestic workers are mainly rural migrant workers and urban laid-off female workers. The working conditions, social security and social value of caring for service personnel are still at a low level<sup>[1]</sup>. From the perspective of human capital, Huang Weihai and Liu Menglu (2016) analyzed the influencing factors of human capital formation by taking domestic workers from urban migrant workers as their research objects<sup>[2]</sup>. From the perspective of the entire domestic market structure, Wang Xiruo et al. (2019) discussed the optimal structure and highest efficiency of the domestic market under the condition of complete and incomplete information<sup>[3]</sup>. At the same time, foreign scholar Devetter and François-Xavier (2016) pointed out that in order to stimulate demand and create jobs, many Western countries have formulated a variety of policies for the outsourcing of household services, and through qualitative and quantitative analysis of the factors affecting the demand for domestic services, It is concluded that the consumer market for housekeeping services lacks democracy and equality<sup>[4]</sup>. Kristin K. Kucsma and Kenneth T. Betz (2018) believe that domestic services are non-market activities provided within the family, but the market value of domestic services needs to be determined in a reasonable way, and pointed out that it is necessary to increase the average wage rate to produce a corresponding alternative market hourly wages, thereby more accurately assessing family services<sup>[5]</sup>. Ekta Bhatnagar and Dheeraj Nim (2019) used a five-point Likert scale to analyze the relationship between domestic services and consumer satisfaction<sup>[6]</sup>.

Although the domestic service industry is developing rapidly, Fu Tieshan and Chen Fang (2018) point out that there are chaos in chinese domestic service market, such as high prices, inconsistent quality and price, arbitrary charging and pricing, large differences in charging standards<sup>[7]</sup>. The research on the pricing of tourism products and audit services of the same type is relatively mature. Tan Chunqiao et al. (2019) built a Stackelberg model that considers fairness concern behaviors for the tourism O2O model to study tourism product pricing and service strategies, and conclude that the maximization of fairness concerns is both sides optimal strategy<sup>[8]</sup>. Yang Xue and Zhang Junmin (2016) use empirical analysis on the data of listed companies from 2007 to 2014, and verify that the audit market concentration has a significant impact on audit pricing through the intermediate variable of audit quality<sup>[9]</sup>.

Through the analysis of existing literature, it can be seen that domestic scholars' research in the field of domestic services mainly focuses on human resources, gender and other perspectives. Research on the pricing of domestic service products is still in its infancy, and most of them only analyze the surface chaotic Prices of the domestic service market. Therefore, based on the research of domestic and foreign scholars, this article analyzes the relevant factors that affect the pricing of domestic service products, and provides reasonable suggestions for the pricing of domestic service products.

## 3. The development Status of Chinese Domestic Service Industry and the Factors Affecting Pricing

### 3.1 The Development Status of Chinese Domestic Service Industry

(1) The market scale of domestic service industry is growing fast

The number of domestic service companies and outlets in our country is about 700,000. According to statistics released by the Ministry of Commerce and the National Development and Reform Commission, the average annual compound growth rate of domestic service industry from 2015 to 2017 was 25.9%. As shown in Figure 1, the market scale of the industry exceeded 690 billion in 2019.

It is estimated that the market size of domestic services will reach 878.2 billion in 2020. The rapid expansion of domestic service market is inseparable from the stimulus of comprehensive factors such as the improvement of residents' income level, the enhancement of spending power and the implementation of the comprehensive two-child policy. The increase in people's demand for domestic services has led to an increase in domestic demand.

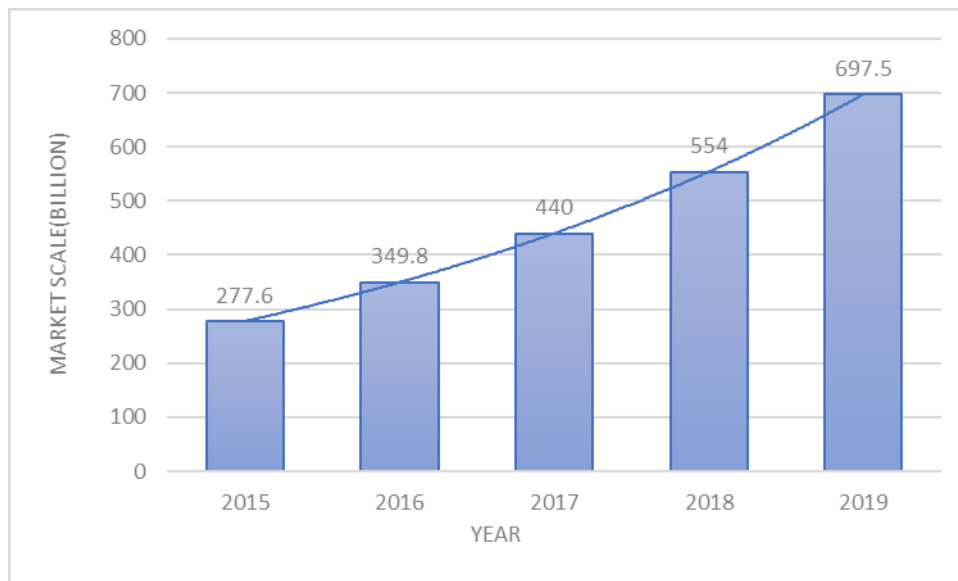


Fig 1. Chinese Domestic service Industry Market Scale

#### (2) Unbalanced supply and demand structure of domestic service industry

Chinese domestic service industry started late, and the market is still immature. It is similar to a perfectly competitive market. The shortage of professional staff and the continuous expansion of market demand have led to the contradiction that market demand exceeds supply. According to statistics, the number of domestic service practitioners exceeded 30 million in 2018, but there is still a demand gap of 17 million practitioners in the domestic service industry. Due to people's pursuit of high-quality life, their requirements for the quality of service products are getting higher and higher, and high-quality certified practitioners in the domestic service market are scarce, thus forming a structural imbalance between supply and demand.

#### (3) Business model and industrial chain transformation of domestic service industry

The traditional business model of domestic service industry is chain operation, forming an industrial chain of "housekeeping service employees-housekeeping service companies-household consumers". However, with the rise of the "Internet +" trend, the "Internet + housekeeping service industry" model has attracted a large influx of capital, and many start-ups of the housekeeping O2O model have appeared in the market. The traditional domestic service industry chain has also changed accordingly. Under the "employee system" model, the upstream of the industry chain is the housekeeping service product supplier, the midstream is the housekeeping service company, and the downstream is home consumer users.

### 3.2 Factors Influencing the Pricing of Domestic Service Products

The pricing of service products is the core step for service-oriented companies to make profits. The price of service products is affected by market supply and demand, brand value, market positioning, service quality, service cost and other factors. Only clarify the influencing factors of product prices can domestic service companies choose an appropriate pricing strategy to achieve a win-win situation for enterprises and consumers.

#### (1) Market supply and demand

The elasticity of demand and supply of domestic service products is the primary basis for enterprises to make reasonable pricing, and they are also important external factors that affect profitability. Product demand elasticity is expressed as the degree of sensitivity of product demand to price in a certain period of time, and product supply elasticity is expressed as the degree of response to

changes in price by product supply. When the supply of products provided by the domestic service market exceeds demand, the price of domestic service products will gradually decrease with the continuous increase in the number of products supplied; and the product supply of the domestic service company cannot meet the market demand, then the price of domestic service products will gradually rise with the expansion of market demand.

#### (2) Brand value

Brand can be regarded as an intangible asset that brings premium and value-added to the company. Brand value is the cash flow or added value brought to the company by customers choosing differentiated brands based on their self-cognition. It is the core competitive advantage of the company. The brand value of domestic service companies helps to visualize products and widen the gap with other competing products, facilitate consumers to identify and distinguish, and gain customer trust; at the same time, higher brand value can give companies a certain price monopoly advantage and occupy larger market share, enhance corporate brand influence. Therefore, the brand value of domestic service companies reflects the company's scale, hardware level, management level, etc., which directly or indirectly affects the pricing level of domestic service companies.

#### (3) Market positioning

By analyzing the market position of competing products, companies can improve their products based on some of the product features that customers value, so that they can establish a distinctive image in the market. Market positioning includes product positioning, enterprise positioning, competitive positioning and consumer positioning. The pricing strategy of an enterprise will be affected by the content of different market positioning. Domestic service products are divided into multiple categories such as maternal and child care, cleaning, and elderly care. Therefore, different types of domestic service products need to formulate corresponding price strategies according to the age level, consumption level, and consumer psychology of consumer groups.

#### (4) Service quality

The business goal and service tenet of domestic service companies is customer first, which means customer satisfaction, and it is directly linked to service quality. Service product quality is different from tangible product quality in terms of its constituent elements, evaluation basis, and evaluation criteria. Consumers' perception of service quality not only depends on the service result, but also involves the service process. Therefore, the service quality of domestic enterprises, including technical quality, functional quality, image quality, and real moments, will directly or indirectly affect the evaluation results of consumers on product pricing. The product pricing strategy of domestic service enterprises should be consistent with the quality level of services provided. In other words, only by improving service quality can domestic service companies enjoy the right to speak in market pricing and enhance their core competitiveness.

#### (5) Service cost

According to Marx's labor value theory, the value of service products includes the old value transferred and the new value created during the production and implementation of the service. For service-oriented enterprises, service cost refers to all material and living labor consumption that should be included in the business process<sup>[10]</sup>. The cost of domestic service companies in the business process generally includes the depreciation of purchased fixed assets, service staff salaries, management expenses, etc. Service cost comprehensively reflects the service achievement and management level of domestic service enterprises, and is also an important product pricing basis.

### **4. The formation path of fair pricing mechanism of domestic service products**

#### ***4.1 Formulate Reasonable Price Strategies***

Domestic service companies need to comprehensively consider the market environment, competitors, business scale, cost and other factors to formulate price strategies, and cannot blindly try to capture market share through low-price strategies, which is not good for the long-term development of the company. Companies adopting flexible pricing strategies not only provide consumers with more humane and diversified consumption plans, but also help companies respond to changes in the market environment and competitors quickly, and their pricing strategies are more flexible.

#### **4.2 Build Benchmark Enterprises**

Domestic service agencies must establish a long-term brand vision, formulate a scientific and standardized brand strategy plan, and promote brand building to the height of corporate business strategy. Benchmarking companies need to use brand influence to guide the market to reasonably regulate pricing, use high-quality domestic service products to enhance the core competitiveness of benchmarking companies, and let the pricing of domestic service products reflect the true value level. At the same time, government agencies must also issue relevant policies to vigorously support benchmarking enterprises, attract social capital to invest in the domestic service industry, and assist benchmarking enterprises to standardize market fair pricing mechanisms.

#### **4.3 Speed up the Construction of Informatization**

The penetration rate of the Internet and e-commerce is getting higher and higher. The "Internet + housekeeping service" model provides more convenient channels and more opportunities for the development of the domestic service industry. Government departments should assist domestic service companies in accelerating the construction of industry informatization, establishing a talent information database, and building an informatization platform, which will help the industry reduce the impact of information asymmetry in the process of building a fair pricing mechanism, and informatization transactions are conducive to enterprise resource sharing, reducing transaction costs, and improving transaction efficiency.

#### **4.4 Improve the Credit Evaluation System**

Enterprises need to work with government departments to improve the credit evaluation system of the domestic service industry, conduct continuous tracking of the information in the talent database, include individuals and institutions in the credit evaluation system, and regularly assess the credit ratings of individuals and institutions. For long-term credit evaluations that do not meet the standards Individuals and enterprises conduct investigations, and implement punishment and rectification in accordance with the reward and punishment mechanism. At the same time, for individuals or companies that disrupt the fair pricing of the industry, encourage the establishment of industry internal supervision and external public reporting mechanisms to ensure the standardized development of the domestic service industry.

### **5. Conclusions**

The domestic service industry is not only a sunrise industry in China, but also an important livelihood project. Factors such as the modernization of life, the miniaturization of families, the aging of the population, and the full release of second-children have made many families have the ability and conditions to accept domestic service products, and there is huge room for the future development of the domestic service market. However, in the stage of high-quality economic development, the domestic service industry is also facing the pressure of transformation and upgrading, and needs to develop towards specialization, formalization and branding. Let the government, enterprises and the public jointly improve the industry's pricing system to promote the quality and expansion of the domestic service industry, embrace the era of digital economy, and realize the modernization of domestic enterprises.

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