International pricing

Impact of pricing

Pricing is especially important in international marketing strategy decisions, due to its effect on product positioning, market segmentation, demand management, and market share dynamics.

PRICING POLICY

- Pricing of the product is one of the most important functions to do as a marketer.

INTERNATIONAL PRICING OBJECTIVES

- Dynamic Pricing
  - Dynamic pricing is when a company uses price to obtain a specific objective, e.g., gaining a certain market share or achieving a certain profitability level.
  - The more control over final selling price, the better the company is able to achieve its marketing goals.
- Static Pricing
  - Static pricing is when the company focuses on primarily on profit.
  - It usually occurs when the company only exports surplus inventory, places a low priority on exporting, or views export sales as passive contributions to its sales volume.

FACTORS INFLUENCING INT. PRICING

EXTERNAL ENVIRONMENT

- **Market-related factors**
  - **Nature of demand/target audience characteristics**
  - **Government regulations**
  - **(e.g., duties)**
  - **Exchange rate stability**
- **Industry-related factors**
  - **Competition intensity**
  - **Nature of competition**

Production plant locations
Distribution system used
Economic climate
Currency fluctuations and exchange rates

INTERNAL ENVIRONMENT

- **Marketing Mix**
  - **Product (e.g., old/new; standardized/differentiated**
  - **Distribution system (e.g., length)**
  - **Promotion needs (e.g., sales efforts)**
- **Company characteristics**
  - **Extent of internationalization**
  - **Countries exported to**
- **Management attitudes**
  - **Importance of exports**
  - **Overall price position of firm**

International price escalation

Costs of Exporting

- Price escalation is when there is a disproportionate difference in prices between the exporting and importing country.

- Sources of price escalation:

  Taxes:purchase taxes、excise taxes、value added taxes

  Tariffs:ad valorem、specific、compound tariff

  Administrative Costs

  Inflation

  Exchange Rate Fluctuations

  Varying Currency Values

  Middlemen and Transportation Cost

- 4 major ways to lower price escalation:
  - Lowering cost of goods
  - Lowering tariffs
  - Lowering distribution costs
  - Shipping unassembled products

PRICE PROTECTIONISM:
Adds to final price paid by consumer
7% ($600b) of
European Union GDP

Parallel Imports (grey market)

- If pricing decisions are not well thought out, a marketer could have trouble with parallel imports.
- … "parallel imports develop when importers but products from distributors in one country and sell them in another to distributors who are not part of the manufacturer's regular distribution channel…" (Cateora).
- Parallel imports can damage trademarks in the long-run, because the products being imported may have slightly different characteristics tailored to a specific market.
- The increasing use of the internet has caused parallel imports to increase.

SOURES OF PARALLEL IMPORTS:

- Variations in the value of currencies
- Restrictions brought about by import quotas and high tariffs
- Large price differentials between country markets
- When transportation costs between countries for shipping the product are less than the price differentials

EXCLUSIVE DISTRIBUTION???

(when only certain MIDDLEMAN can sell your product)

International pricing practices

Higher Home Market Prices

Justified by:

- Lower labor or raw material cost in the international market
- Strong local competition in the international market
- Lower buying power of host-country consumers
- Goal: increase market share via penetration pricing

Lower Home Market Prices

Justified by:

- No cost advantages to producing overseas
- Few or no challenges from international competition
- Limited market potential
- International buyers can afford higher prices

Local Pricing

Prices set to meet purchase power of consumers and to account for differences in distribution systems, market position, and taxes

Standardized Pricing

Uniform price worldwide

Approaches to International Pricing

- There are multiple approaches for pricing the product in an international market – generally same as in home market:
  - **Full Cost Pricing** (The marketer sells the product for the total cost of the product. This pricing method is used when variable costs own a relatively large share of the total costs.)
  - **Variable Cost Pricing** (The marketer sets price at the incremental cost of bringing the product to market and does not incorporate fixed costs as part of the price. Usually this pricing method is used when a company has large fixed costs or views it sales overseas as net profit producing. A marketer must be cautious when using this strategy because some countries may view it as dumping.

Approaches to International Pricing Cont.

- **Penetration pricing** (The marketer sets her prices low to stimulate market growth and/or capture market share. In a competitive setting for the product, penetration pricing may be used to acquire and hold market share. Even with low competition, the tradeoff in low price may more than compensate for the stimulated demand for the product.)

- **Skimming** (The marketer sets the price of product high to capture the customers that are relatively insensitive to prices.)

  This pricing scheme is used when:

  – Supply of the good may be low for the foreign market
  – The product is viewed by the consumer as new and innovative
  – The population is segmented into rich and poor, and the cost is prohibitive to reaching the poorer consumers.

Dumping

- Dumping is when the prices of products imported are lower than their costs of production plus transaction costs.
- Another definition of dumping is when you sell a product in a foreign country below the cost of the same good in that country.
    - World Trade Organization has set up penalties for dumping thru:
        - Countervailing duties
        - Minimum Access Volume (MAV)(restricts volume that can a country can import)
- Dumping is illegal in many countries.

Countertrade as a Pricing Tool

Countertrade is when a company sells a product in another country and receives some form of compensation other than strictly money.

- There are four distinct transactions in countertrading, which include:

1. **Barter:** is the direct exchange of goods between two parties in a transaction
2. **Compensation deals:** is the payment in goods and in cash
3. **Counter-purchase or off-set trade:** the seller agrees to sell a product at a set price to a buyer and receives payment in cash and may also buy goods from the buyer for the total monetary amount involved in the first contract or for a set percentage of that amount, which will be marketed by the seller in its home market
4. **Buy-back:** This type of agreement is made the seller agrees to accept as partial payment a certain portion of the output that are produced from the plant or machinery that are sold to the buyer

Transfer Pricing Strategy

Prices of goods transferred from a company's operations or sales units in one country to its units elsewhere, which refers to intracompany pricing or transfer pricing, may be adjusted to enhance the ultimate profit of the company as a whole

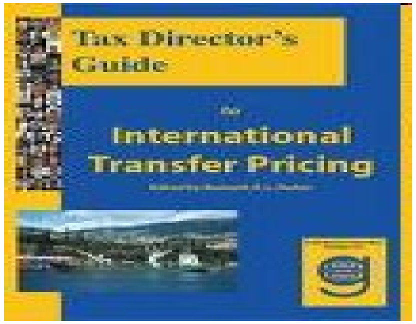
= Intra-company transfer of pricing

Pricing of goods, services, and intangible property bought and sold by operating units or divisions of a company doing business with an affiliate in another jurisdiction.

Four arrangements for pricing goods for intracompany transfer are as follows:

1. Sales at the local manufacturing cost plus a standard markup
2. Sales at the cost of the most efficient producer in the company plus a standard markup
3. Sales at negotiated prices
4. Arm's-length sales using the same prices as quoted to independent customers

Benefits of Transfer Pricing:



- **Lowering duty costs by shipping goods into high-tariff countries at minimal transfer prices so that duty base and duty are low.**
- **Reducing income taxes in high-tax countries by overpricing goods transferred to units in such countries; profits are eliminated and shifted to low-tax countries. Such profit shifting may also be used for "dressing up" financial statements by increasing reported profits in countries where borrowing and other financing are undertaken.**
- **Facilitating dividend repatriation when dividend repatriation is curtailed by government policy. Invisible income may be taken out in the form of high prices for products or components shipped to units in that country.**

Administered Pricing

- An attempt to establish prices for an entire market
- Administered Pricing may be arranged through:
- **-** *the cooperation of competitors or international agreement*
  - Agreements
  - Arrangements
  - Combines
  - Conspiracies
  - Communities of profit
  - Profit pools
  - Price leadership
  - Customary pricing
  - Cartels
    - OPEC
    - Shipping Industry
    - Diamond cartel – controlled by DeBeers
- *- national state or local government - g*overnment influenced pricing Establishing margins
- Setting prices and floors or ceilings
- Restricting price changes
- Granting subsidies
- Acting as a purchasing monopsony or selling monopoly
- Permitting or encouraging businesses to collude in setting manipulative prices

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Export Strategies Under Varying Currency Conditions

When Domestic Currency is WEAK...	When Domestic Currency is STRONG...
Stress, price benefits	Engage in nonprice competition by improving quality, delivery, and after-sale service
Expand product line and add more costly features	Improve productivity and engage in vigorous cost reduction
Shift sourcing and manufacturing to domestic market	Shift sourcing and manufacturing overseas
Exploit export opportunities in all markets	Give priority to exports to relatively strong-currency countries
Conduct conventional cash-for-goods trade	Deal in countertrade with weak-currency countries
Use full-costing approach, but use marginal-cost pricing to penetrate new/competitive markets	Trim profit margins and use marginal-cost pricing

SOURCE: S. Tamur Cavusgil, "Unraveling the Mystique of Export Pricing," *Business Horizons,* May-June 1988, figure 2, p. 58.

Export Strategies Under Varying Currency Conditions

When Domestic Currency is WEAK...	When Domestic Currency is STRONG...
Speed repatriation of foreign-earned income and collections	Keep the foreign-earned income in host country, slow collections
Minimize expenditures in local, host country currency	Maximize expenditures in local, host country currency
Buy needed services (advertising, insurance, transportation, etc.) in domestic market	Buy needed services abroad and pay for them in local currencies
Minimize local borrowing	Borrow money needed for expansion in local market
Bill foreign customers in domestic currency	Bill foreign customers in their own currency

SOURCE: S. Tamur Cavusgil, "Unraveling the Mystique of Export Pricing," *Business Horizons,* May-June 1988, figure 2, p. 58.

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