

Pricing Decisions

*Global Marketing
Chapter 11*

How to Set Price



- ❑ The global manager must develop systems and policies that address
 - ❑ Price floor: minimum price
 - ❑ Price ceiling: maximum price
 - ❑ Optimum prices: function of demand
- ❑ Must be consistent with global opportunities and constraints

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Market Price Strategy

- ❑ May make or break your profitability

May not be able to use the same strategy Internationally as Domestically

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Basic Pricing Concepts

- ❑ Law of One Price would prevail in a truly global market
- ❑ International trade helps keep prices low and low prices keep inflation in check
- ❑ Global markets exist for certain products—integrated circuits, crude oil
- ❑ National markets reflect costs, regulation, demand, competition—beer

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Global Pricing Objectives and Strategies

- ❑ Managers must determine the objectives for the pricing objectives
 - ❑ Unit sales
 - ❑ Market share
 - ❑ Return on investment
- ❑ They must then develop strategies to achieve those objectives
 - ❑ Penetration pricing
 - ❑ Market skimming

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Market Skimming and Financial Objectives

- ❑ Market skimming
 - ❑ Charging a premium price
 - ❑ May occur at the introduction stage of product life cycle
- ❑ Regain investment in R&D and product development faster



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Penetration Pricing and Non-financial Objectives



1979 Sony Walkman

- Penetration pricing
 - Charging a low price in order to penetrate market quickly
 - Appropriate to saturate market prior to imitation by competitors
 - Goal is to gain majority market share

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Companion Products



X-Box Game System and Sports Game



- Products whose sale is dependent upon the sale of primary product
 - Video games are dependent upon the sale of the game console
- *"If you make money on the blades, you can give away the razors."*

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The Target-Costing Process

- Determine the segment(s) to be targeted
- Compute overall target costs
- Allocate target costs to product's various functions
- Obey the cardinal rule

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Target Costing—Eight Questions

1. Does the price reflect the product's quality?
2. Is the price competitive given local market conditions?
3. Should the firm pursue market penetration, market skimming, or some other pricing objective?
4. What type of discount (trade, cash, quantity) and allowance (advertising, trade-off) should the firm offer its international customers?
5. Should prices differ with market segment?
6. What pricing options are available if the firm's costs increase or decrease? Is demand in the international market elastic or inelastic?
7. Are the firm's prices likely to be viewed by the host-country government as reasonable or exploitative?
8. Do the foreign country's dumping laws pose a problem?

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Target Costing

- Cost-based pricing is based on an analysis of internal and external cost
- Firms using western cost accounting principles use the full absorption cost method
 - Per-unit product costs are the sum of all past or current direct and indirect manufacturing and overhead costs

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Target Costing

- Rigid cost-plus pricing means that companies set prices without regard to the eight foundational pricing considerations
- Flexible cost-plus pricing ensures that prices are competitive in the context of the particular market environment

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Terms of the Sale

- ❑ Obtain export license if required
- ❑ Obtain currency permit
- ❑ Pack goods for export
- ❑ Transport goods to place of departure
- ❑ Prepare a land bill of lading
- ❑ Complete necessary customs export papers
- ❑ Prepare customs or consular invoices
- ❑ Arrange for ocean freight and preparation
- ❑ Obtain marine insurance and certificate of the policy

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Terms of the Sale

There are 13 Incoterms set by the ICC

Incoterms

- ❑ Ex-works—seller places goods at the disposal of the buyer at the time specified in the contract; buyer takes delivery at the premises of the seller and bears all risks and expenses from that point on.
- ❑ Delivery duty paid—seller agrees to deliver the goods to the buyer at the place he or she names in the country of import with all costs, including duties, paid.

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Incoterms

- ❑ FAS (free alongside ship) named port of destination—seller places goods alongside the vessel or other mode of transport and pays all charges up to that point
- ❑ FOB (free on board)—seller's responsibility does not end until goods have actually been placed aboard ship
- ❑ CIF (cost, insurance, freight) named port of destination—risk of loss or damage of goods is transferred to buyer once goods have passed the ship's rail
- ❑ CFR (cost and freight)—seller is not responsible at any point outside of factory

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Environmental Influences on Pricing Decisions

- ❑ Currency fluctuations
- ❑ Inflationary environment
- ❑ Government controls, subsidies, regulations
- ❑ Competitive behavior
- ❑ Sourcing

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U.S. Dollar versus Japanese Yen



January 2000
\$1 = ¥101

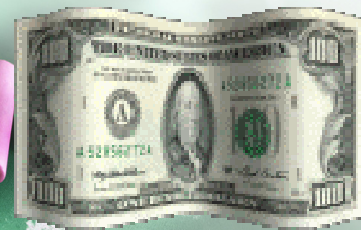
January 2002
\$1 = ¥130

October 2008
\$1 = ¥93

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Currency Fluctuations



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Pricing challenges



- ❑ Currency exchange fluctuations affect customer purchasing power
- ❑ Use of a strong currency for pricing doesn't eliminate the problem

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Foreign exchange Pressures

IMPORTS

EXPORTS

Stimulates

- Inflation controlled
- Some capital outflow
- Home assets expensive
- Lower costs of production

DETERS

- Foreign products replace domestic exports
- Balance of Payments deficit
- Underutilized domestic capability
- Domestic prices higher than international prices

DETERS

- Home assets cheap
- Stimulates inflations
- Domestic costs of production rise
- Some capital inflow

Stimulates

- Balance of payments surplus
- Domestic products replace foreign products
- Full capacity: export led boom
- Accumulation of wealth
- Sales rise for import competing companies

Journal of Teaching in International Business, Vol. 6, 1995
Joseph B. Anderson, Joseph B. Anderson

Inflationary Environment

- ❑ Defined as a persistent upward change in price levels
 - ❑ Can be caused by an increase in the money supply
 - ❑ Can be caused by currency devaluation
- ❑ Essential requirement for pricing is the maintenance of operating margins
- ❑ Hyperinflation is a term used when extremely rapid increases in costs occur.

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Government Controls, Subsidies, and Regulations

- ❑ The types of policies and regulations that affect pricing decisions are
 - ❑ Dumping legislation
 - ❑ Resale price maintenance legislation
 - ❑ Price ceilings
 - ❑ General reviews of price levels

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Competitive Behavior

- ❑ If competitors do not adjust their prices in response to rising costs, it is difficult to adjust your pricing to maintain operating margins.
- ❑ If competitors are manufacturing or sourcing in a lower-cost country, it may be necessary to cut prices to stay competitive.

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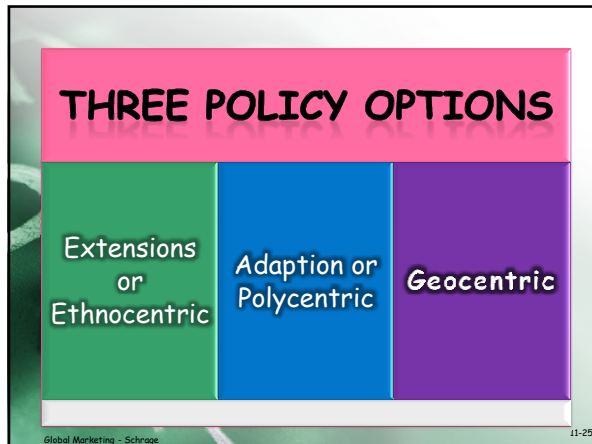
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Using Sourcing as a Strategic Pricing Tool

- ❑ Marketers of domestically manufactured finished products may move to offshore sourcing of certain components to keep costs down and prices competitive.
- ❑ China is "the world's workshop."
- ❑ Rationalize the distribution system—Toys R Us bypasses traditional intermediaries in Japan to operate U.S.-style warehouse stores.

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Extension or Ethnocentric

- Per-unit price of an item is the same no matter where in the world the buyer is located
- Importer must absorb freight and import duties
- Fails to respond to each national market

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Adaptation or Polycentric

- Permits affiliate managers or independent distributors to establish price as they feel is most desirable in their circumstances
- Sensitive to market conditions but creates potential for gray marketing

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Geocentric

- Intermediate course of action
- Recognizes that several factors are relevant to pricing decision
 - Local costs
 - Income levels
 - Competition
 - Local marketing strategy

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Gray Market Goods

- Trademarked products are exported from one country to another where they are sold by unauthorized persons or organizations.
- Occurs when product is in short supply, when producers use skimming strategies in some markets, and when goods are subject to substantial markups

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Gray Market Issues

- Dilution of exclusivity
- Free riding
- Damage to channel relationships
- Undermining segmented pricing schemes
- Reputation and legal liability

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Dumping

- ❑ Sale of an imported product at a price lower than that normally charged in a domestic market or country of origin
- ❑ Occurs when imports sold in the U.S. market are priced at either levels that represent less than the cost of production plus an 8% profit margin or at levels below those prevailing in the producing countries
- ❑ To prove, both price discrimination and injury must be shown

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Price Fixing

- ❑ Representatives of two or more companies secretly set similar prices for their products
 - ❑ Illegal act because it is anticompetitive
- ❑ Horizontal price fixing occurs when competitors within an industry that make and market the same product conspire to keep prices high
- ❑ Vertical price fixing occurs when a manufacturer conspires with wholesalers/retailers to ensure certain retail prices are maintained

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Transfer 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
- ❑ Intra-corporate exchanges
 - ❑ Cost-based transfer pricing
 - ❑ Market-based transfer pricing
 - ❑ Negotiated transfer pricing

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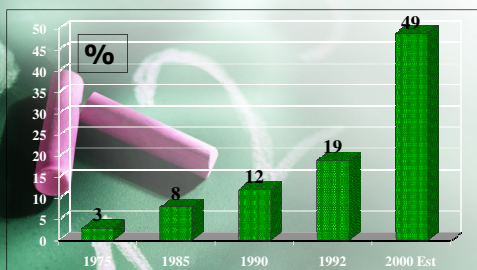
Countertrade

- ❑ Countertrade occurs when payment is made in some form other than money
- ❑ Options
 - ❑ Barter
 - ❑ Counter-purchase or parallel trading
 - ❑ Offset
 - ❑ Compensation trading or buyback
 - ❑ Switch trading

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Countertrade as a Share of World Trade Value



Why Countertrade?

- ❑ Helps countries that don't have sufficient foreign currency reserves.
- ❑ However:
 - ❑ How do you determine value?
 - ❑ Difficulties in disposition of goods.
 - ❑ Costs of engagement.

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Boeing






Values

- Leadership
- Integrity
- Quality
- Customer satisfaction
- People working together
- A diverse and involved team
- Good corporate citizenship
- Enhancing shareholder value

Core Competencies

- Detailed Customer knowledge and focus
- Large-scale systems integration
- Lean enterprise

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Industrial Participation (IP) Programs




- 145 countries
- Reciprocal Business
- Offset
- Countertrade

Direct IP

- Co-production
- Design/development
- Support

Indirect IP

- Work Packages
- Export Development
- Technology Transfer
- Education & Training

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Why IP Programs?



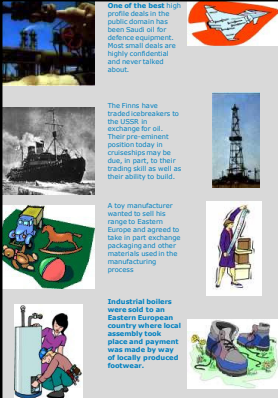
- Boeing involved
 - Due to economical and political pressures forcing lower defense budgets
 - IP may be the key discriminator in winning contracts
 - Some countries now demand IP as a condition of purchase
- Customers demand-
 - To gain political and popular support for expenditures
 - Improve industrial capacity & self-sufficiency
 - Establish the ability to evolve, maintain, & modernize

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Barter



- The least complex and oldest form of bilateral, non-monetary counter-trade
- A direct exchange of goods or services between two parties



One of the best high-profile deals in the public domain has been South Africa's defence equipment. Most small deals are highly confidential and never talked about.

The Firms have traded icebreakers to the USSR in exchange for oil. Their pre-war position today in countries may be due, in part, to their trading skill as well as their ability to build.

A toy manufacturer wanted to sell his range to Eastern Europe and agreed to take in part exchange packaging and other materials used in the manufacturing process.

Industrial boilers were sold to an Eastern European country where local assembly took place and payment was made by way of locally produced footwear.

Bartertrade,UK
www.bartertrade.co.uk

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