

International Pricing

Chapter 1

The online lecture is yet to start.

Roadmap

- Introduction
- Factors Influencing Pricing Decisions
- International Pricing Strategies
- Implications of Internet
- Terms of sale/payment
- Seminar work presentation: Tuvshinbat Tsogtbaatar
- Country presentation: Yelyzaveta Strelbytska

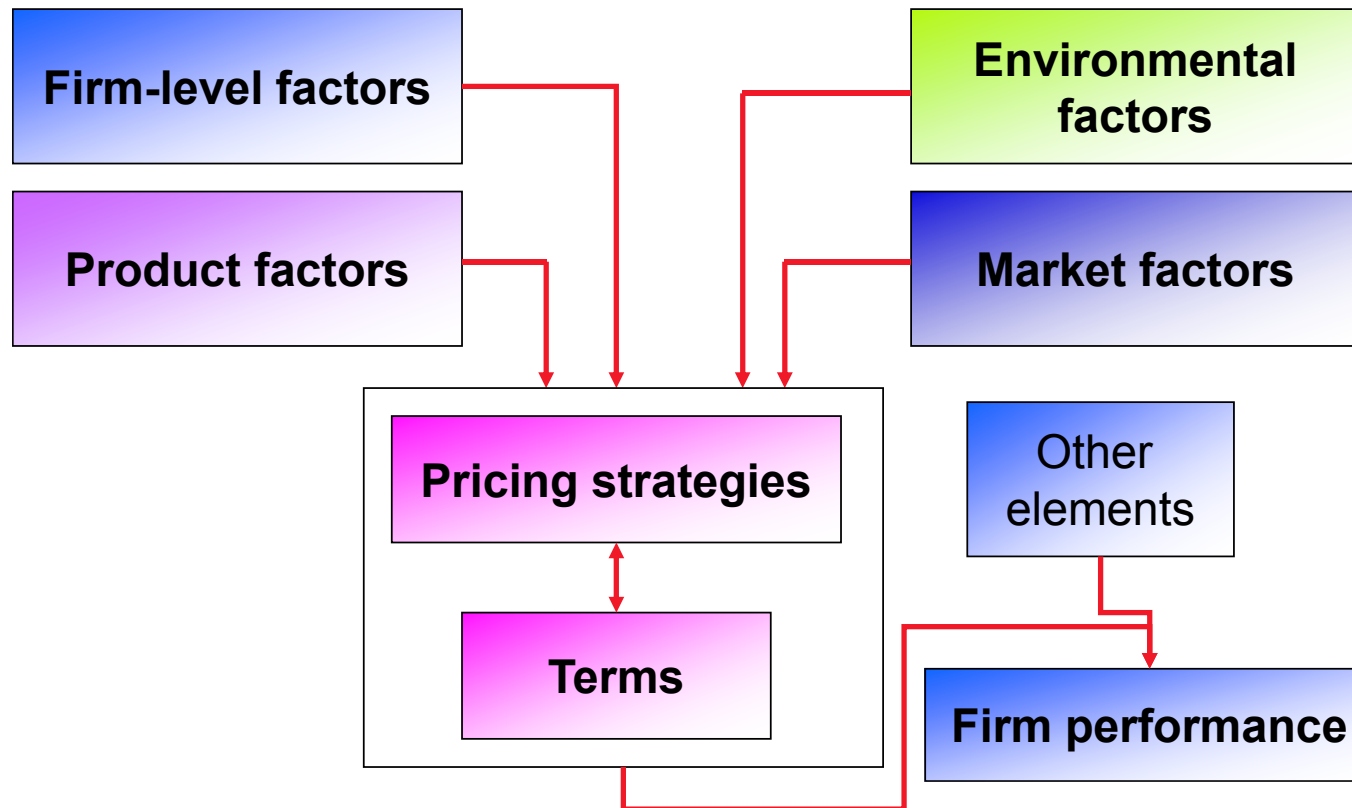
Goals of the Lecture

- Explain how internal and external variables influence international pricing decisions
- Explain why and how prices escalate in export selling
- Discuss the strategic options in determining the price level for a new product
- Explain the necessary sales volume increase as a consequence of a price decrease
- Explain what is meant by experience curve pricing.
- Explore the special roles and problems of transfer pricing in global marketing
- Identify and explain the different terms of sale/payment

Introduction

- The most important element of 4P
- Only area of global marketing mix where policy can be changed rapidly without large direct cost implications
- Decisions in global markets are affected by complexity of influential factors
- The only element of 4P that generate revenue (not costs)
- Different approach for domestic vs international environment
- Specifics for SMEs and LC
- Process of setting up the initial price
- Process of changing the established price
- Resources needed for research purposes

Factors Influencing Pricing Decisions



Factors Influencing Pricing Decisions

Firm-level factors

- Corporate and marketing objectives
- Competitive strategy
- Firm positioning
- Product development
- Production location
- Market entry modes

Product factors

- Stage in PLC
- Place in product line
- Most important product features
- Product positioning
- Product cost structure
- **Price escalation**

Factors Influencing Pricing Decisions

Environmental factors

- Government influences and constraints
- Inflation
- Currency fluctuations
- Business cycle stage

Market factors

- Customers' perceptions
- Customers' ability to pay
- Nature of competition
- Competitors' objectives, strategies, strengths and weaknesses
- Grey market appeal

Factors Influencing Pricing Decisions

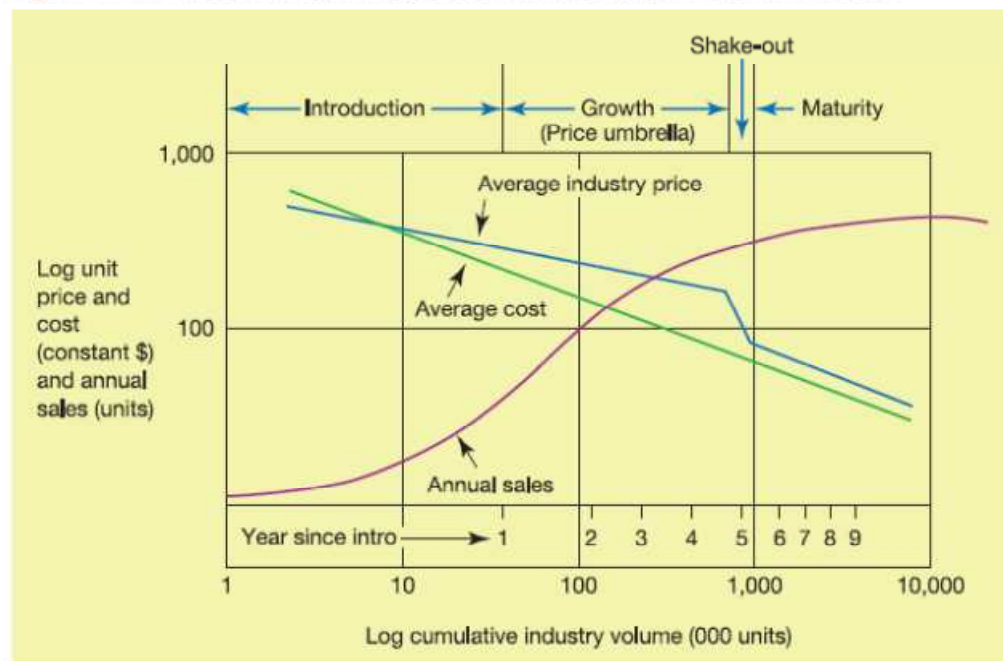
- **Price escalation** - All cost factors in the distribution channel add up and lead to price escalation. The longer the distribution channel, the higher the final price.
- **Countering** price escalation:
 - Rationalizing the distribution process
 - Lowering the export price from the factory
 - Establishing local production of the product
 - Pressurizing channel members to accept lower profit margins
- Factors influencing **sensitivity to price** (distinctive product, perceived quality of product, substitutes, difficulties comparing, product can not be stored, costs are shared with others, product is bundled with other products/services)

International Pricing Strategies

- **Skimming** means strategy of high price is charged to ‘skim the cream’ from the top end of the market, with the objective of achieving the highest possible contribution in a short time
- Problems: small market share, lot of resources needed, grey marketing is likely
- **Market pricing.** The final customer price is based on competitive prices
- **Penetration pricing** implies price strategy that involves charging a low price with the objective of achieving the highest possible sales
- Motives for penetration: intensive competition, lower income levels, export is marginal activity
- Price changes

International Pricing Strategies

Figure 11.12 Product life cycle stages and the industry price experience curve



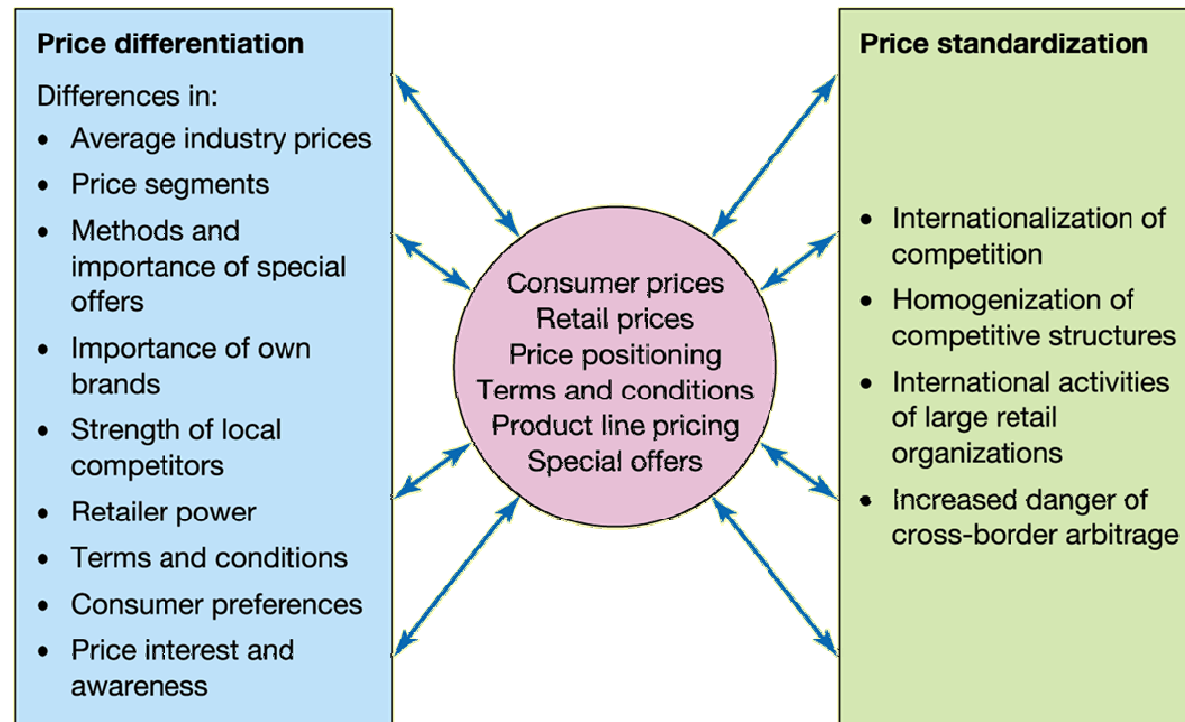
Source: Czepiel, 1992, *Competitive Marketing Strategy*, pub. Prentice-Hall, p. 167.

- **Experience curve pricing.** Combination of the experience curve (lowering costs per unit with accumulated production) with typical market price development within an industry
- Follows the PLC/IPLC logic

International Pricing Strategies

- **Product line pricing** implies different prices for various items in the product line to indicate economy version, standard version or top-of-the range version of the product line (buy in-follow on)
- **Product-service bundle pricing**. Bundling product and services together in a system-solution product
- Price standardization vs price differentiation (localization)
- **Global Price Contract (GPC)**
- International pricing taxonomy
 - Preparedness for internationalization
 - Industry globalism
- Prototype 1/2/3/4

International Pricing Strategies



International Pricing Strategies

Figure 11.14 A taxonomy of international pricing practices



Source: Adapted from Solberg et al., 2006, p. 31. In the original article Solberg has used the concept 'Globality' instead of 'Globalism'.

International Pricing Strategies

- **Prototype 1 - Local price follower:** Limited resources and leverage, Dependent on local export intermediary Cost-oriented, standard prices Unexposed to global forces
- **Prototype 2 – Global price follower:** Newcomers to global markets, Market-oriented, standard prices, Global competition but local differences
- **Prototype 3 – Multilocal price setter:** Local market leaders in selected markets, Market-oriented, adapted prices, Local competition
- **Prototype 4 – Global price leader:** Global market leaders, Market and cost-oriented ‘global’ prices, Global competition but local differences

Questions?



International Pricing Strategies

- Transfer pricing
 - Transfer at cost
 - Transfer at arm's length.
 - Transfer at cost plus.
- Currency issues
 - Quote price in foreign currency of buyer's country
 - Quote price in currency of exporter's country
 - Quote price in currency of a third country
 - Quote price in currency unit (euro)

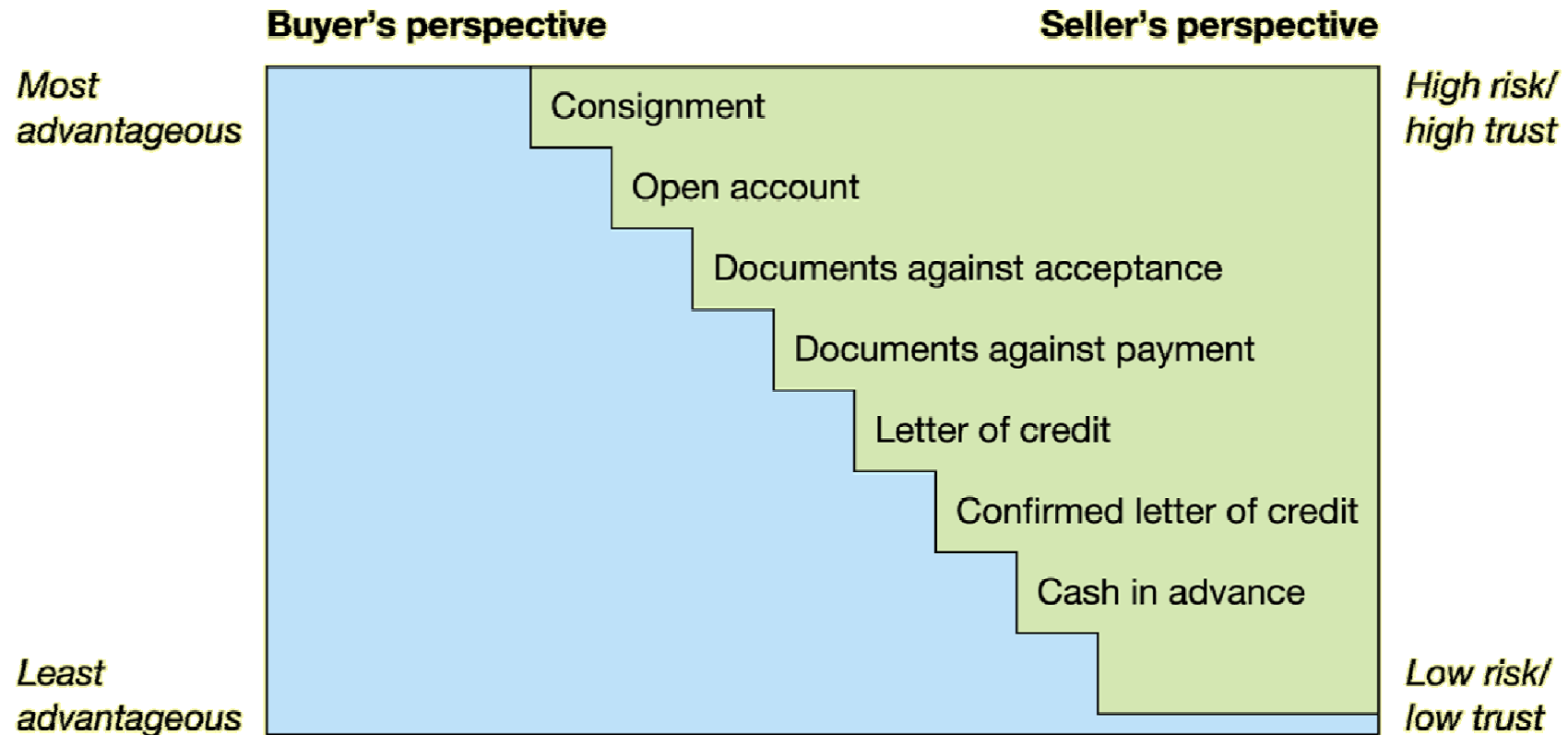
Implications of Internet

- EUR – common currency
- Single market
- Price cutting by ecommerce business
- Easy price comparison
- Greater competition
- Online consumer not as price sensitive as offline ones

Terms of sale/payment

- EXW Ex-works
- FCA Free carrier
- FAS Free alongside ship
- FOB Free on board
- CFR Cost and freight
- CIF Cost, insurance, and freight
- CPT Carriage paid to
- CIP Carriage and insurance paid to
- DAF Delivered at frontier
- DES Delivered ex-ship
- DEQ Delivered ex-quay
- DDU Delivered duty unpaid
- DDP Delivered duty paid

Terms of sale/payment



Questions?

Home-readings for Next Week

- Reading for next lecture:
 - International Promotion
 - *Hollensen – Essentials of Global Marketing. Chapter 12*
- Case Study
- Chevrolet: Helping to create a global brand via an European online (and CRM) strategy (p. 579)
- More details available in **Interactive Syllabus**.

Thank you for your attention