International Pricing & Logistics

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Session objectives
- Components of pricing
- The pricing pitfalls
- Parallel imports
- Types of distribution channels
- Distribution patterns
- Role of middleman

Importance of pricing
- Pricing represents one of the most critical and complex issues in global marketing (due to economic, financial, and mathematical implications)
- Price is the only marketing mix element that generates revenues. All other elements entail costs
- Directly associated with profit and increase in shareholder wealth
- Foreign exchange complications
- Transfer pricing

Views regarding pricing
- Active instrument of accomplishing marketing objectives?
- Static element in a business decision?

International Pricing Approach

<table>
<thead>
<tr>
<th>Full cost pricing</th>
<th>Variable cost pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Every product bares a part of the total cost</td>
<td>Underutilization of production capacity</td>
</tr>
<tr>
<td>Foreign sales is calculated</td>
<td>Foreign sales is bonus</td>
</tr>
<tr>
<td>Appropriate for co.s having high variable cost</td>
<td>Appropriate for co.s having high fixed cost</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Skimming pricing</th>
<th>Penetration pricing</th>
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<tbody>
<tr>
<td>Premium pricing</td>
<td>Low pricing</td>
</tr>
<tr>
<td>Niche marketing</td>
<td>Mass marketing</td>
</tr>
<tr>
<td>Innovative product</td>
<td>Old product</td>
</tr>
<tr>
<td>2 income segments</td>
<td>More than 2 income segments</td>
</tr>
</tbody>
</table>

Price Escalation
- Cost of Exporting
  - Taxes
  - Tariffs
  - Administrative Costs
  - Inflation
  - Exchange Rate Fluctuations
  - Varying Currency Values
**Approaches to lessening Price Escalation**

- Lower Cost of Goods
- Lower the Tariffs
- Lower the distribution cost
- Use of FTZ
- Dumping

**Export Strategies Under Varying Currency Conditions**

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

**Parallel imports**

- The basis: different prices by companies in different countries
- Parallel imports develop when importers buy products from distributors in one country and sell them in another to distributors who are not part of the manufacturer's regular distribution system
- The possibility of a parallel market occurs whenever price differences are greater than the cost of transportation between two markets
- For example, the ulcer drug Losec sells for only $18 in Spain but goes for $39 in Germany; and the heart drug Plavix costs $55 in France and sells at $79 in London
- Thus, it is possible for an intermediary to buy products in countries where it is less expensive and divert it to countries where the price is higher and make a profit
- Exclusive distribution, can create a favourable condition for parallel importing

**Effects of parallel imports**

- Long term harm to brand
- Quality problems
- Reducing parallel imports
  - Policing distribution channels
  - Getting help from the legal system

**Leasing**

- Leasing opens the door to a large segment of nominally financed foreign firms that can be sold on a lease option but might be unable to buy for cash
- Leasing helps guarantee better maintenance and service on overseas equipment
- Equipment leased and in use helps to sell other companies in that country
- Lease revenue tends to be more stable over a period of time than direct sales would be
Countertrade
- Barter
- Compensation deals
- Counterpurchase or offset trade
- Product buy-back agreement

Why countertrade?
- To preserve currency
- To improve balance of trade
- To gain access to new markets
- To upgrade manufacturing capabilities
- To maintain prices of export goods

Transfer pricing
- 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
- Transfer pricing arrangements
  - Sales at the local manufacturing cost plus a standard mark-up
  - Sales at the cost of the most efficient producer in the company plus a standard mark-up
  - Sales at negotiated prices
  - Arm's-length sales using the same prices as quoted to independent customers

Administered Pricing
- Cartels
- Government Influenced Pricing