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

Full cost pricing	Variable cost pricing
Every product bares a part of the total cost	Underutilization of production capacity
Foreign sales is calculated	Foreign sales is bonus
Appropriate for co.s having high variable cost	Appropriate for co.s having high fixed cost

Skimming pricing	Penetration pricing
Premium pricing	Low pricing
Niche marketing	Mass marketing
Innovative product	Old product
2 income segments	More than 2 income segments

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

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.

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 for $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

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Countertrade

- Barter
- Compensation deals
- Counterpurchase or offset trade
- Product buy-back agreement

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Why countertrade?

- To preserver currency
- To improve balance of trade
- To gain access to new markets
- To upgrade manufacturing capabilities
- To maintain prices of export goods

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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

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Administered Pricing

- Cartels
- Government Influenced Pricing