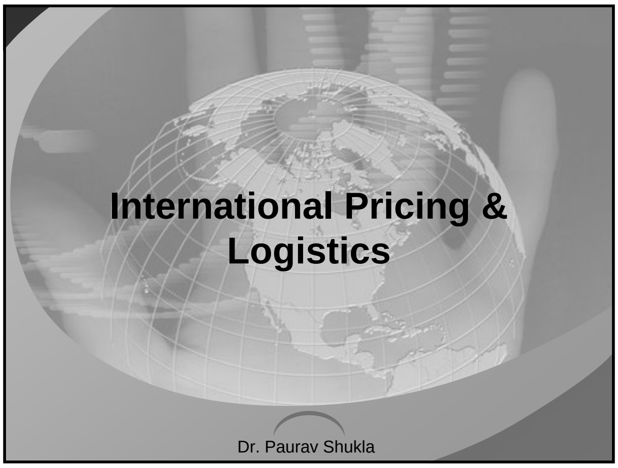

Session objectives

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

2

Views regarding pricing

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

3

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

4

Development and implementation of pricing strategy

Factors affecting pricing: Company and product Market Environmental	Confirm impact of corporate strategies on pricing policy	Selection of most appropriate pricing option	Use of tactics and procedures to set SBU prices	Dealing with international pricing problems
Analysis →	Corporate objective →	Options evaluation →	Implementation →	Price management

Lowe, R. and I. Doole (2004), Strategic Marketing Decisions in Global Markets, Lond...

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Factors affecting price

- Company and product factors
  - Corporate and marketing objectives
  - Firm and product positioning
  - Product range, life cycle, substitutes, product differentiation and unique selling propositions
  - Cost structures, manufacturing, experience effect and economies of scale
  - Marketing, product development
  - Available resources
  - Inventory
  - Shipping costs

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Factors influencing pricing

- Market factors
  - Consumers perceptions, expectations and ability to pay
  - Need for product adaptation, market servicing
  - Market structure, distribution channels discounting pressures
  - Market growth, demand elasticity
  - Need for credit
  - Competition objectives, strategies and strengths

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Factors influencing prices

- Environmental factors
  - Government influences and constraints
  - Currency fluctuations
  - Business cycle stage, level of inflation
  - Use of non-money payment and leasing

8

Considerations for setting price

- Does the price reflect the product's quality?
- Is the price competitive given local market conditions?
- Should firm pursue market penetration, market skimming, or some other pricing objective?
- What types of discounts or allowances should be offered to international customers?
- Should prices differ with market segment?
- What pricing options are available if the firm's costs increase or decrease? Is demand in the international market elastic or inelastic?
- Are the firm's prices likely to be viewed by the host-country government as reasonable or exploitative?
- Do the foreign country's dumping laws pose a problem?

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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

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Price Escalation

- Cost of Exporting
  - Taxes
  - Tariffs
  - Administrative Costs
  - Inflation
  - Exchange Rate Fluctuations
  - Varying Currency Values

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Price escalation: an example

Escalation of Costs Through Exporting	*Export price (£)*	*Domestic price (£)*
Manufacturer's FOB price	10.00	10.00
Sea freight and insurance	1.20	
Landed cost (CIF)	11.20	
Import tariff: 8 per cent on CIF value	0.90	
CIF plus tariff	12.10	
17.5 per cent VAT	2.12	1.75
Distributor purchase price	14.32	11.75
Distributor mark-up (15 per cent)	2.15	1.75
Retailer purchase price	16.47	13.50
Retail margin 40 per cent	10.98	9.00
Consumer purchase price	27.45	22.50

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Approaches to lessening Price Escalation

- Lower Cost of Goods
  - Manufacturing overseas
  - Eliminate features or product quality
- Lower the Tariffs
  - Reclassification
  - Persuading foreign country's government
  - Modification of product to fit in another class
- Lower the distribution cost
  - Eliminate or reduction of middlemen
- Use of FTZ
- Dumping

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Export Strategies Under Varying Currency Conditions

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

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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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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

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Effects of parallel imports

- Long term harm to brand
- Quality problems

- Reducing parallel imports
  - Policing distribution channels
  - Getting help from the legal system

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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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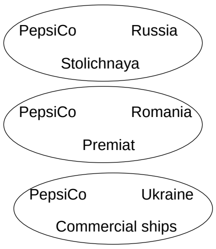
Countertrade

- Barter
  - Goods to goods
- Compensation deals
  - Goods to goods and in cash
- Counterpurchase or offset trad
  - 1st contract: Goods to cash
  - 2nd contract: Cash to investment
- Product buy-back agreement
  - Output buying by the original eqp. seller



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 intra-company 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

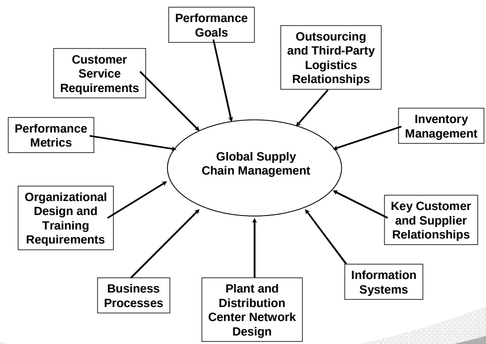
- Cartels
- Government Influenced Pricing

Basics of Distribution process

- Physical handling and the distribution of goods
- The passage of ownership
- Buying and Selling negotiation between

Producer – Middleman – Customer

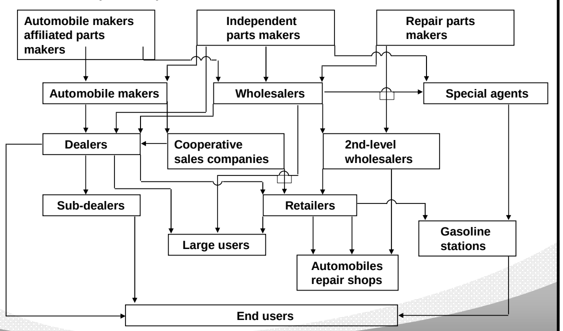
Global supply chain



Distinction Between Eastern & Western Distribution System

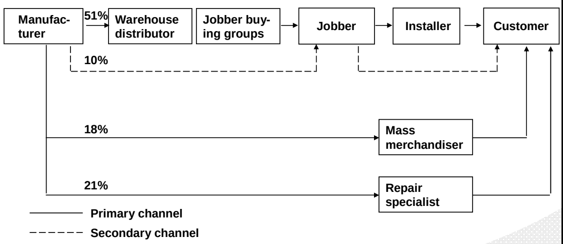
- A structure dominated by many small Middleman dealing with many small retailers
- Channel control by manufacturer
- A business philosophy shaped by a unique culture
- Laws that protect the foundation of the system – the small retailer

Comparison of Distribution Channel Between the US & Japan



SOURCE: McKinsey industry studies

Comparison of Distribution Channel Between the US & Japan



SOURCE: McKinsey industry studies

Exhibit 14.2
Retail Structure in Three Countries

Source: Euromonitor, 2003.

	Retail Outlets (000s)		
	Germany	Japan	United States
Food Stores			
Supermarkets	9.0	15.0	43.7
Hypermarkets	2.3	1.5	3.1
Discounters	15.4	1.0	29.1
Independent Grocers	34.2	62.0	9.7
Bakers	47.2	74.7	2.8
Butchers	44.3	16.4	8.0
Fishmongers	27.1	27.0	1.6
Green Grocers	16.1	27.7	3.3
Nonfood Stores			
Booksellers	25.6	37.0	12.7
Chemists	39.4	83.3	47.4
Department Stores	1.2	0.3	13.5
Electronics, computers	30.6	61.9	30.3
Home furnishings	11.7	38.7	28.2
Sporting goods	8.3	19.3	23.2
Toy shops	3.6	12.1	18.0

Large-scale Retail Store Law

Protect Small Retailer

- 500 Sq Meters (5,382 Sq. Ft.)
- Approval from MITI and Prefectural government to:
  - Build
  - Expand
  - Changing Operating Hours
  - Change Days Closed
- Local Retailers must unanimously approve plan
- Months to years for approval
  - Japanese Supermarket - 10 years
  - Toys "R" US - 3 years
- Licenses required to operate
- Full Service Store - 39 Licenses need approval

General patterns in distribution

- Middlemen Services
- Product Line Breadth
- Costs and Margins
- Channel Length
- Nonexistent Channels
- Blocked Channels
- Stocking
- Power and Competition

Retail patterns

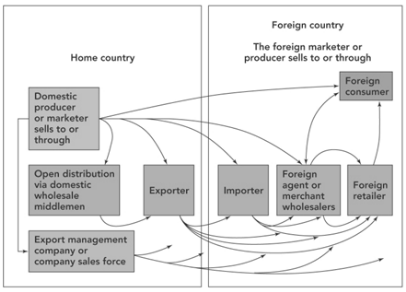
- Retail Size Patterns
- Direct Marketing
- Resistance to Change
- Alternative Middleman Choices

Exhibit 14.3
Retail Structure in Selected Countries

Source: Euromonitor, World Bank 2003.

Country	All Retailers (000)	People Served per Retailer	Internet Users (per 1000)
United States	702	395	501
Canada	112	276	434
Argentina	296	127	88
Germany	410	200	374
Poland	390	99	98
Israel	53	119	281
South Africa	93	482	71
China	21,188	61	11
Japan	1,202	106	440
Australia	93	208	371

Exhibit 14.4
International Channel-of-Distribution Alternatives



Home Country Middlemen

- Global Retailers
- Export Management Company
- Trading Companies (Foreign)
- Complementary Marketers
- Manufacturer's Export Agents
- Home Country Brokers
- Buying Offices
- Selling Groups
- Foreign Sales Corporations
- Norazi Agents
- Export Merchants
- Export Jobbers

Foreign Country Middlemen

- Manufacturer's Representatives
- Distributors
- Brokers
- Managing Agents and Compradors
- Dealers
- Import Jobbers
- Wholesalers
- Retailers

Exhibit 14.7
Characteristics of Foreign-Country Middlemen

	Agent				Merchant			
Type of Duties	Broker	Manufacturer's Representative	Managing Agent	Comprador	Distributor	Dealer	Import Jobber	Wholesaler and Retailer
Take title	No	No	No	No	Yes	Yes	Yes	Yes
Take possession	No	Seldom	Seldom	Yes	Yes	Yes	Yes	Yes
Continuing relationship	No	Often	With buyer, not seller	Yes	Yes	Yes	No	Usually not
Share of foreign output	Small	All or part for one area	n.a.	All, for one area	All, for certain countries	Assignment area	Small	Very small
Degree of control by principal	Low	Fair	None	Fair	High	High	Low	Nil
Price authority	Nil	Nil	Nil	Partial	Partial	Partial	Full	Full
Represent buyer or seller	Either	Seller	Buyer	Seller	Seller	Seller	Self	Self
Number of principals	Many	Few	Many	Few	Small	Few major	Many	Many
Arrange shipping	No	No	No	No	No	No	No	No
Type of goods	Commodity and food	Manufactured goods	All types	Manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods	Manufactured consumer goods
Breadth of line	Broad	Allied lines	Broad	Varies	Narrow to broad	Narrow	Narrow to broad	Narrow to broad
Handle competitive lines	Yes	No	Yes	No	No	No	Yes	Yes
Extent of promotion and selling effort	Nil	Fair	Nil	Fair	Fair	Good	Nil	Nil usually
Extend credit to principal	No	No	No	Sometimes	Sometimes	No	No	No
Market information	Nil	Good	Nil	Good	Fair	Good	Nil	Nil

Note: n.a. = not available.

6 C's of channel strategy

- Cost
- Capital Requirements
- Control
- Coverage
- Character
- Continuity

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Locating middleman

- Commercially published directories
- Foreign consulates
- Chamber-of-commerce groups located abroad
- Other manufacturers producing similar but noncompetitive goods
- Middlemen associations
- Business publications
- Management consultants
- Department of Commerce

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Selecting middleman

- Screening based on the following criteria:
  - Reputation
  - Creditworthiness
  - Markets served
  - Products carried
  - Number of stores
  - Store size

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Motivating middleman

- Financial rewards
- Psychological rewards
- Communications
- Company support, and
- Corporate rapport

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Exhibit 15.6 Who's Responsible for Costs under Various Terms?

Cost Items/Terms	FOB, Inland Carries at Factory	FOB Inland Carrier at Point of Shipment	FAS, Vessel or Plane at Port of Shipment	CIF, at Port of of Destination
Export packing*	Buyer	Seller	Seller	Seller
Inland freight	Buyer	Seller	Seller	Seller
Port charges	Buyer	Buyer	Seller	Seller
Forwarder's fee	Buyer	Buyer	Buyer	Seller
Consular fee	Buyer	Buyer	Buyer	Buyer†
Loading on vessel or plane	Buyer	Buyer	Buyer	Seller
Ocean freight	Buyer	Buyer	Buyer	Seller
Cargo insurance	Buyer	Buyer	Buyer	Seller
Customs duties	Buyer	Buyer	Buyer	Buyer
Ownership of goods passes	When goods on board an inland ocean carrier (truck, rail, etc.) or in hands of inland carrier	When goods unloaded by inland carrier	When goods alongside carrier, in hands of air or ocean carrier	When goods on board air or carrier at port of shipment

*Who absorbs export packing? This charge should be clearly agreed on. Charges are sometimes controversial.

†The seller has responsibility to arrange for consular invoices (and other documents requested by buyer's government). According to official definitions, the buyer pays fees, but sometimes as a matter of practice, the seller includes fees in quotations.

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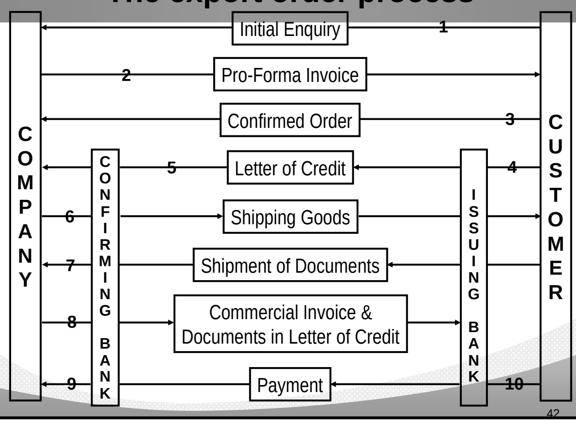
The export order process



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