Unit-5

Pricing decisions and Promotion Strategy in International Markets

Pricing Decisions in International Markets

- Price is the sum of values received fro the customer for products and services.
- We generally refers to price in terms of amount of money, but it may also include other tangible and intangible items of utility.
- Price is the only marketing mix instrument that creates revenues. All other elements entail costs.
- A company’s global pricing policy may make or break its overseas expansion efforts.

- Global pricing is one of the most critical and complex issues in international marketing.
- Pricing decisions becomes crucial for international marketing firms from developing countries primarily because of their inability to influence prices in international markets.
- Multinationals also face the challenges of how to coordinate their pricing across different countries.

Pricing Strategies

- Market Skimming
  - Charging a premium price
  - May occur at the introduction stage of product life cycle
- Penetration Pricing
  - Charging a low price in order to penetrate market quickly
  - Appropriate to saturate market prior to imitation by competitors

- Companion Products

Products whose sale is dependent upon the sale of primary product

"If you make money on the blades you can give away the razors."

Global Pricing: Three Policy Alternatives

- Extension
- Adaptation
- Geocentric

- **Extension**
- Ethnocentric
- Per-unit price of an item is the same no matter where in the world the buyer is located
- Fails to respond to each national market
- **Adaptation**
- Polycentric
- Permits affiliate managers or independent distributors to establish price as they feel is most desirable in their circumstances
- Sensitive to market conditions

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

Pricing Decisions

Pricing decisions in international markets are extremely significant for developing and least developed countries because of the following reasons:

- The lower production and technology base often results in higher cost of production.
- As the market share of developing countries is relatively lower and these countries are marginal suppliers in most product categories, they have little bargaining power to negotiate. This compels them to sell their products in international markets often below the total cost of production.

- Since the majority of products from developing and least developed countries are sold in international markets as commodities with marginal value addition, there is limited scope for realizing optimal prices.
- In view of fiercely competitive markets and complex pricing strategies adopted by multinational marketers, formulation of appropriate pricing strategies with innovation becomes a pre-condition for success in international markets.

Pricing Approaches in International Markets

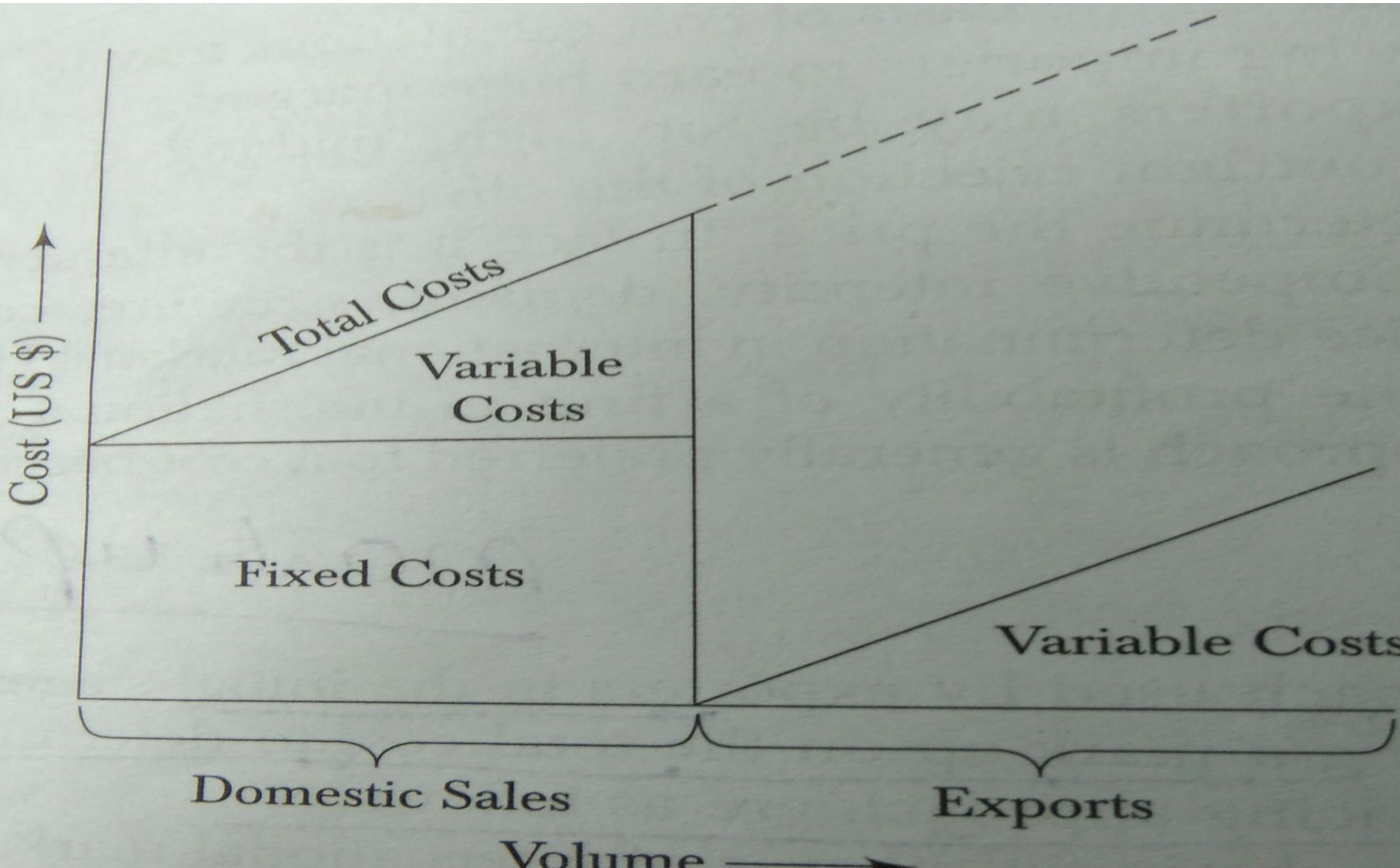
Cost-based Pricing

- Costs are widely used by firms to determine prices in international markets especially in the initial stages.
- Generally, new exporters, determine export prices on ‘ex-works’ price level and add a certain percentage of profit and other expenses depending upon the term of delivery.
- However, such cost-based pricing methods are optimum because of the following reasons:
- The price quoted by the exporter on the basis of cost calculations may be too low vis-à-vis competitors, thus allowing importers to earn huge margins
- The price quoted by the exporter may be too high, making their goods incompetitive and resulting into outright rejection of the order.

- **Full Cost Pricing:**

  It includes adding a mark up on the total cost to determine price.
- It is widely used in the initial stage of international marketing.
- It ensures fast recovery.
- It eases operations in international markets.

- **Marginal Cost Pricing:**
- Marginal cost is the cost of producing and selling one more unit. It sets the lower limit to which a firm can reduce its price without affecting its overall profitability.
- Firm realizes its fixed cost from domestic market and uses variable cost approach for international market.


Total Costs
Variable Costs
Fixed Costs
Variable Costs
Cost (US $)
Domestic Sales
Exports
Volume

- In cases where foreign markets are used to dispose of surplus production, marginal cost pricing provides an alternate market outlet.
- Products from developing countries seldom compete on the basis of brand image or unique value; marginal cost pricing is used as a tool to penetrate international market.
- In cases the firm is selling most of its output in international market, it can not use marginal cost pricing as fixed cost also has to be recovered.
- Such pricing tends to trigger a price war.
- Pricing based on marginal cost pricing may be charged as dumping in overseas markets and it liable to actions and investigation.

- Market Based Pricing:
- As developing countries are marginal suppliers of goods and services in most markets, they rarely have market share large enough to influence prices in international markets.
- Thus exporters in developing countries are generally price follower rather than price setter.
- In such market situation an assessment of prevailing prices in the international market and top down calculation is required.

Consumer price:	1,160		
VAT*	160	+	16%**
Market price minus VAT:	1,000		
Margin retailer:	250	=	25%**
Price to retailer:	750		
Margin wholesaler:	90	+	12%**
Price to wholesaler:	660		
Margin to importer	33	+	5%**
Landed-cost price:	627		
Import duties:	110	+	20%**
Other costs (storage, banking):	17**		
CIF (port of destination):	500		
Transportation costs:	130**		
Insurance costs:	6**		
FOB (port of shipment):	364		
Transportation costs factory to port:	34**		
Export price ex-works (EXW):	330		
Factory cost price:	300**		
Export profit (per unit):	30		

Note that VAT is calculated as a percentage of the price without VAT. T

Factors influencing Pricing Decisions in International Markets

- Cost
- Competition
- Irregular or unaccounted payments in export import
- Purchasing power
- Buyer’s behavior
- Foreign exchange fluctuations

Dumping

- Dumping means selling of a product below the cost of production or at a lower price in overseas markets compared to domestic market.
- Dumping is considered as unfair trade practice by WTO and Anti-dumping duties can be levied on the import of such products under Agreements on Anti-dumping Practices.
- However for taking anti-dumping measures, there should be genuine ‘material’ injury to the competing domestic industry.

- Dumping is considered a to be unfair in international markets, but it makes sound economic sense as a profit maximizing strategy.
- For dumping to occur the industry must be imperfectly competitive so that the firm acts as a price setter rather than price taker.

- Sporadic Dumping:
- The practice of occasionally selling excess goods or surplus stock in overseas markets at lower prices than the domestic price or below the cost is termed as sporadic dumping.
- In sporadic dumping, basic objective of the firm is to liquidate the excessive inventories without initiating a price war by reducing the price in the home market.
- This form of dumping is least detrimental.

- Predatory Dumping
- The basic objective of such intermittent dumping by way of predatory pricing is to force the competitors to leave the market, thus enabling the predator to raise the price in long run.
- The practice of predation is more common here the predator firm operates in numerous markets or where the potential competitors, who are the ultimate victims of predatory pricing, and their national govt. do not have sufficient information to prove occurrence of predation.
- Anti-dumping actions against such dumping are often justified.

- Persistence Dumping

- It refers to consistent tendency of a firm to sell goods at lower prices in international markets.
- Such form of dumping is most common and is highly detrimental to the competing firms.

Counter Trade

- Counter trade is a practice where price setting and trade financing are tied together in one transaction.
- In situations wherein the importer is not able to make payment in hard currencies, some other forms of counter trade take place.
- Various factors contributing to counter trade includes:
- Importing country's inability to pay in hard currency.
- Importer's country's regulations to conserve hard currency.
- Importing country's concern about BoP.
- Exploring opportunities in new markets.

Types of Counter Trade

- Barter
- Barter is the simplest and most ancient form of counter trade in which direct trade and simultaneous exchange of products of equal value take place.
- Since, products are exchanged in this system, therefore it eliminates role of money as a medium of exchange.
- Barter makes international trade transaction possible between cash constrained countries.

- PepsiCo entered one of the largest barters with Russia valued at USD 3 billion. PepsiCo had been engaged in business with Russia since 1974, shipping soft drinks syrup, bottling it as Pepsi Cola. In 1999 PepsiCo's sales amounted to USD 300 million and it became difficult for PepsiCo to take out profit from Russia. So PepsiCo entered an agreement to export Stolichnaya vodka to the United States. A new deal was also signed that included the sale or the lease of 10 Russian tanker ships.

Barter: Two Types

- Simple Barter

  In simple barter, there is no involvement of money.
- Clearing Barter
- Under the clearing arrangements, the transaction of goods and services extends over a long periods.
- Generally Governments of exporting and importing country enter into an agreement to purchase goods/services over an agreed period of time. Besides the currency of transaction, is also agreed upon.
- India and erstwhile USSR signed Rupee Payment Agreement to preserve hard currency and facilitate bilateral trade.

- Switch Trading
- Switch trading involves third party in transaction.
- In case an imported has neither goods that can be exchanged not capability of making payment in hard currency, third country is involved.

- Counter Purchase;
- It is also known as parallel barter wherein two contracts or a set of a parallel cash sales agreements take place.
- Counter purchase unlike barter, involves two separate transactions, each with its own cash value.
- Brazil has long been exporting vehicle, steel, and farm products to oil producing countries, from which it buys oil in return.

- Buy-Back (Compensation)
- While supplying capital goods or technology in international markets, firms often enter some sort of buy-back agreements wherein output of the equipment and plant is taken back.
- A large number of industrial units that buy such capital good sand machinery finds it difficult to arrange finance for such large investments.
- Therefore, buy-back arrangements not only serve as an important tool for financing their capital good investment but also assure them of a market outlet for their resultant output.
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- Offset
- Generally, in large government purchases such as public utilities or defense equipments, offset is particularly common due to the difficulty faced by the importer or importer’s government to make payment in hard currency and issues related to BoP.
- Under the offset agreement importer makes a partial payment in hard currency besides promising to source inputs from importing country and also makes investment to facilitate production of such goods.

- Both exporter and importers find counter trade a useful too in international transactions. Exporters favors it because Counter trade:
- Provides an opportunity to access the markets that do not have capability to pay in hard currency.
- Facilitate higher capacity utilization.
- Helps in finding alternate market for their goods.
- Establishes long term relationship with international buyers.
- Increase profit and market share.

- Importers favors counter trade because:
- It is an effective source of finance for their purchase.
- It facilitates conservation of forex.
- It serves as an effective instrument for industrial growth in countries with restricted forex.
- It helps them to establish long term relationship with their suppliers.

- It has a distorting effect on free market competition as considerations other than currency payments are involved.
- As only a limited number of exporting firms are willing to enter counter trade, importers often have restricted choice and generally tend to pay higher than free market price.
- Counter trades seldom improves the foreign exchange of importing countries that are generally low and medium income countries.
- Large international firms often engage in dumping the obsolete technology and plant and machinery in low and medium income countries by way of counter trade.

Transfer Pricing

- Transfer pricing refers to value attached to transfer of goods or services between related parties.
- Transfer pricing can be defined as the price paid for goods transferred from one economic unit to another, assuming that the two units involved are situated in different countries, but belong to the same multinational firm.

Terms of Payment in International Transactions

- Advance Payment
- Under this system payment is remitted by buyer in advance.
- It is the simplest and the least risky form of payment from an exporter's point of view.
- Open Account
- The exporter and importer agree upon the sales term without documentations calling for payment.
- However, the exporter prepares the invoice, and importer can take delivery of goods without making the payment first.
- Subsequently, the exporting and importing firms settle their accounts through periodic remittences.

- Consignment
- Shipment of the good is made to the overseas consignee and the title of the good retains with the exporter until it is finally sold.
- As the title of goods lies with the exporter, the funds are blocked and payment period is uncertain.
- Consignment sale involves certain additional costs such as warehousing charges, insurance, interest and commission of the agent.
- Besides, the liability and risks lie with the exporter unless the consignment is sold.

- Documentary Credit
- Banks plays a crucial role of an intermediary providing assurance to both importer and the exporter in international transaction.

Promotions in International Markets

Advertising

- Any paid form of any non-personal communication by an identified sponsor is termed as advertising.
- It can be for a product, service, an idea or organization.
- WPP Group (UK), Interpublic Group (USA), Onmicom Group (USA), Publicis Group (France), Dentsu (Japan) etc are name of some top international advertising agencies.

Top Advertising Agencies in India

- DDB Mudra
- Major clients: Volkwagenm, Castrol, Future Group).
- First campaign was for brand Vimal.
- It has done various other successful campaigns for Rashna with Tagline “I Love You Rasna”, LIC with tagline “Zindagi ke saath bhi, zindagi ke baad bhi and many more.
- Dentsu Communications Pvt Ltd
- FCB Advertising Agency
- GroupM
- Havas Worldwide
- Madison Communications
- McCann Erickson India Pvt Ltd
- Ogilvy & Mather Pvt Ltd
- Rediffusion – Y&R Pvt Ltd

Standardization V/S Adaptation

- An international marketing firm may opt for a standardized advertising strategy or may customize it depending upon the needs of various markets.
- The argument in favor of standardized advertising includes economies of scale and uniform projection of firm’s image in global market.
- The adaptation of advertising may be either due to mandatory reasons such as regulatory framework or due to competitive marketing response.

Standardization

- Using the same advertising strategy across the countries.
- Ad with no change (no change in theme, copy or illustration except for translation)

- Ads with changes in Illustration
- When ad use different models generally local models for different countries but maintain the same ad copy and theme.
- It is also considered as standardized advertising.

- The preferences and the life styles of consumers are increasingly becoming homogenous, enabling psychographic segmentation of the markets that can be targeted through a uniform message.
- The consumer behavior is increasingly getting similar in the urban centers across the word.
- International reach of media has also boosted the use of standardized advertising
- standardized advertising helps creation of uniform corporate image. Economies of scale.

- Standardized advertising is suitable where:
- The target market is segmented on the basis of psychographic profile of the customers such as life style, behavior and attitude.
- Cultural proximity among customers.
- Technology intensive or industrial goods.
- Similarity in marketing enviornment.

Adaptation

- Modification in the advertisement message, copy, or content is termed as adaptation or customization.
- Lux is mainly a shampoo in China, Taiwan and Philippines; soap in India and everything from soap to shampoo in Japan.
- Adaptation is need is international market because:

 - Difference in cultural values among the countries
 - Difficulties in language translations.

- Variations in the education level of the target group.
- Media availability
- Social attitude towards advertising.
- Regulatory framework of the target market.

Sales Promotion

- Sales promotion entails various tools used as short-term incentives to induce a purchase decision.
- Due to increased competitive intensity in the market, firms male use of sales promotion.
- Besides, buyers also expect some purchase incentives in view of competitor’s offerings.

Types

- Trade Promotion:

  These are the promotional tools aimed at the market intermediaries.
- Consumer Promotion:

  Promotion tools directed at ultimate consumers.

International Product – Promotion Strategies

- Straight Adaptation

  When need satisfied and condition of use are same.

- Product Extension-Promotion adaptation

  Where product functions and need satisfied are different but the condition of product use is same e.g. bicycles

- Product Adaptation – Promotion Extension

  Where conditions of product use are different but product performs the same functions or satisfies same needs. TV/Compuetrs, satisfies same needs but operation systems varies across nations. Different use habits of detergent design of washing machines
- Dual Extension:

  Where functions of product and need satisfied are different and also the conditions of product use are different. Clothing

		Product		
		Don’t Change Product	Adapt product	Develop new product
Promotion	Don’t Change Promotion	**Straight extension**	**Product adaptation**	**Product Invention**
	Adapt promotion	**Promotion adaptation**	**Dual adaptation**	