MK 333/326
International Marketing
Chapter 18

By Ajarn Suwalya K.
Online Session: May 6, 2021

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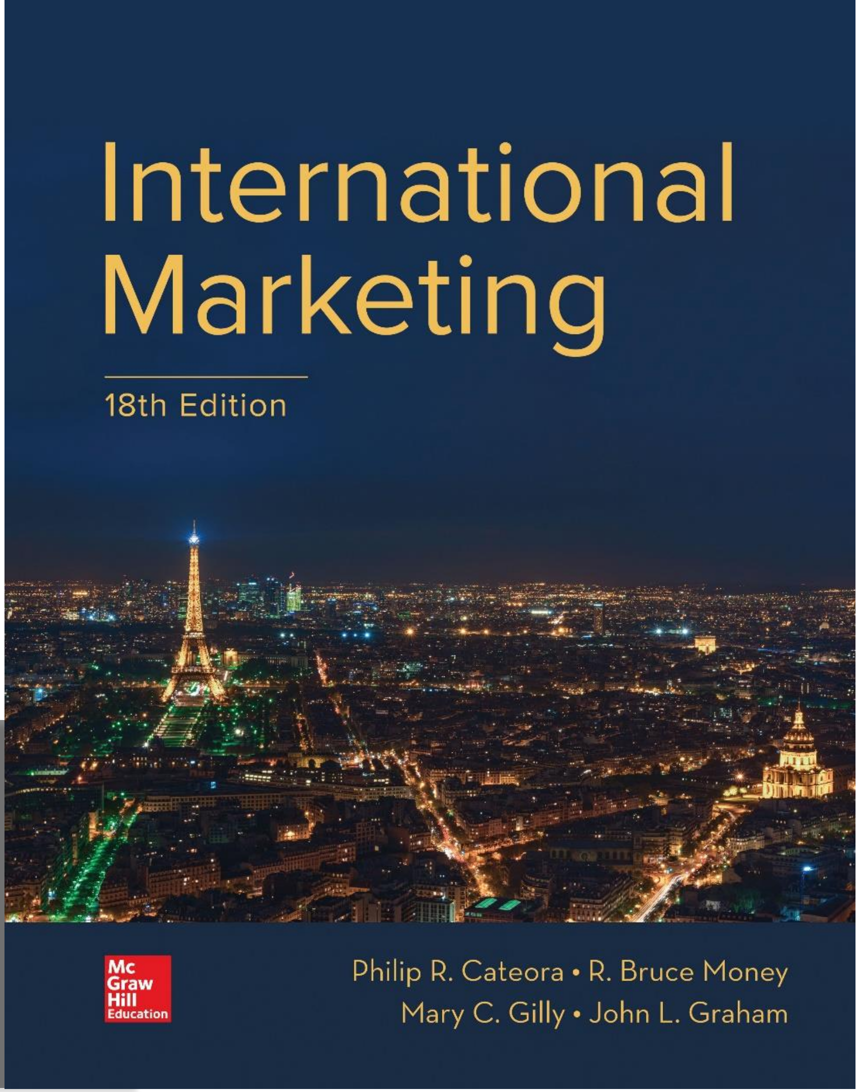


Chapter 18

Pricing for International Markets

Because learning changes everything.™

Learning Objectives

18-1 Components of pricing as competitive tools in international marketing

18-2 How to control pricing in parallel import or gray markets

18-3 Price escalation and how to minimize its effect

18-4 Countertrading and its place in international marketing practices

18-5 The mechanics of price quotations

Introduction

Variables Impacting Price

- Tariffs
- Costs
- Attitudes
- Competition
- Currency fluctuations
- Methods of price quotation
- Methods of payment

Pricing Policy

Pricing Policy 1 of 2

Pricing Objectives

- Pricing decisions
  - Active instrument to accomplish market objectives
    - Company sets prices rather than following market prices
    - Achieve objectives: target returns on profit, sales volume
  - Static business element
    - Views exports as passive contribution to sales volume, and probably only exports excess inventory
    - Places low priority on foreign business

Pricing Policy

Parallel Imports

- Firms charge different prices per country
- Parallel (gray) market
  - Product sold to developing country for discounted price
  - Product exported illegally to other countries for same price
  - Results in competition between company and own subsidiaries or branches
- Exclusive distribution
  - Company restricts which retailers can carry product

Markets

White Market

- This is the open market
- All trading takes place according to rules and regula-tions

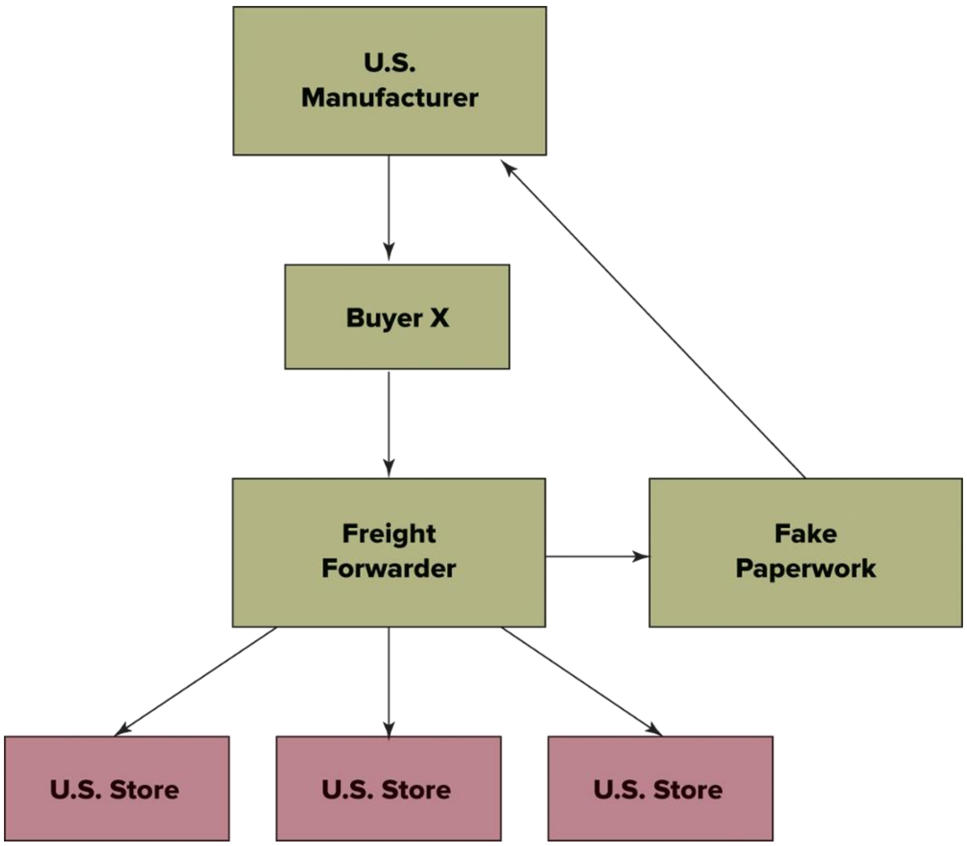
Black Market

- This is the illegal market
- Goods traded here are smuggled into the country

Gray Market

- This is the parallel market
- Deals take place in unofficial distribu-tion channels

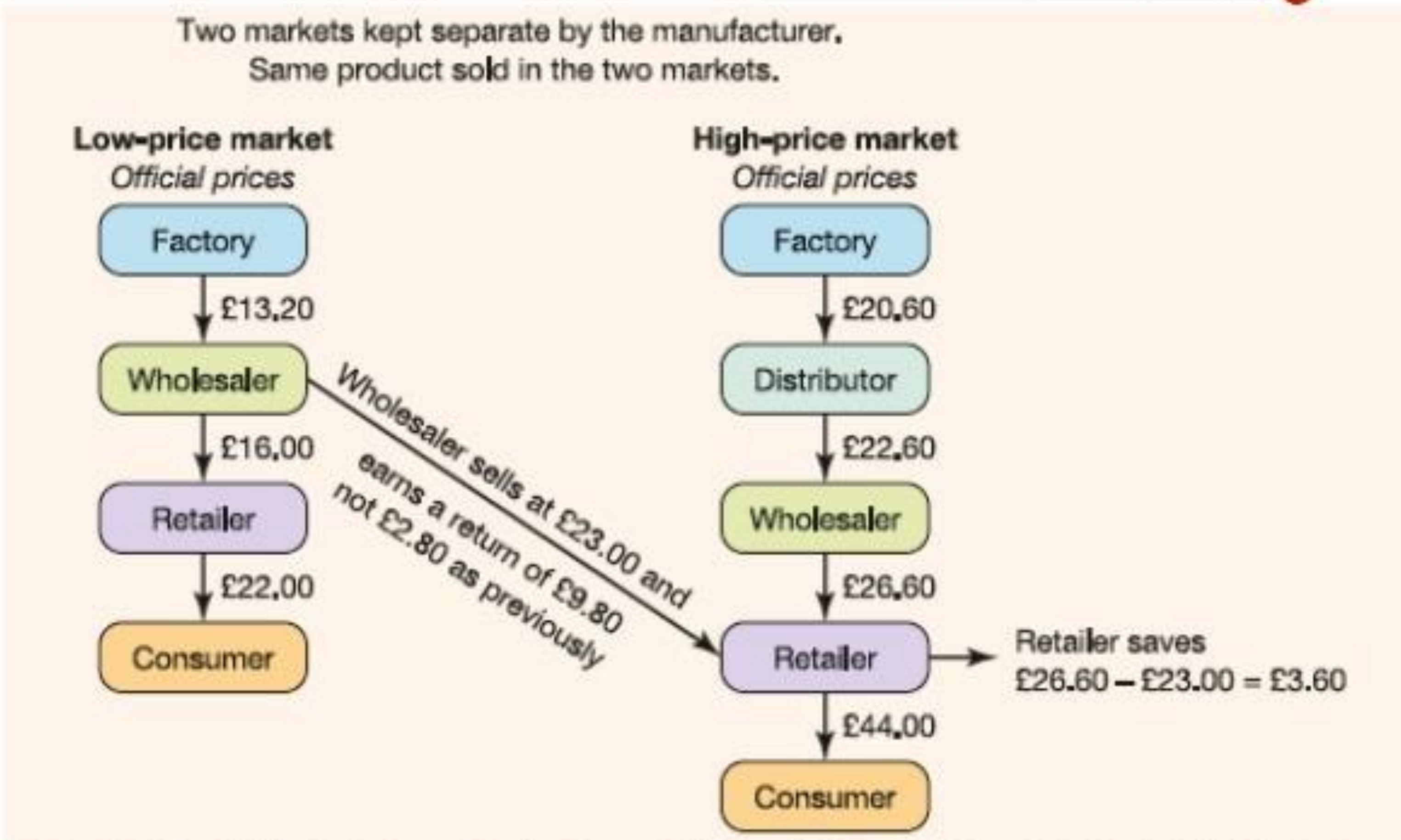
Exhibit 18.1 How Gray Market Goods End Up in U.S. Stores



1. A major manufacturer agrees to sell its products, at a price competitive for an overseas market, to “Buyer X” who promises to sell the products overseas.
2. The manufacturer ships the goods to Buyer X.
3. Buyer X has a local freight forwarder at the port take possession of the goods.
4. Instead of shipping the goods to their supposed destination, the freight forwarder (at the behest of Buyer X) sends them to smaller distributors and discount outlets in the United States.
5. The freight forwarder sends a bogus bill of lading to the manufacturer, so the company believes the goods have been sold overseas.

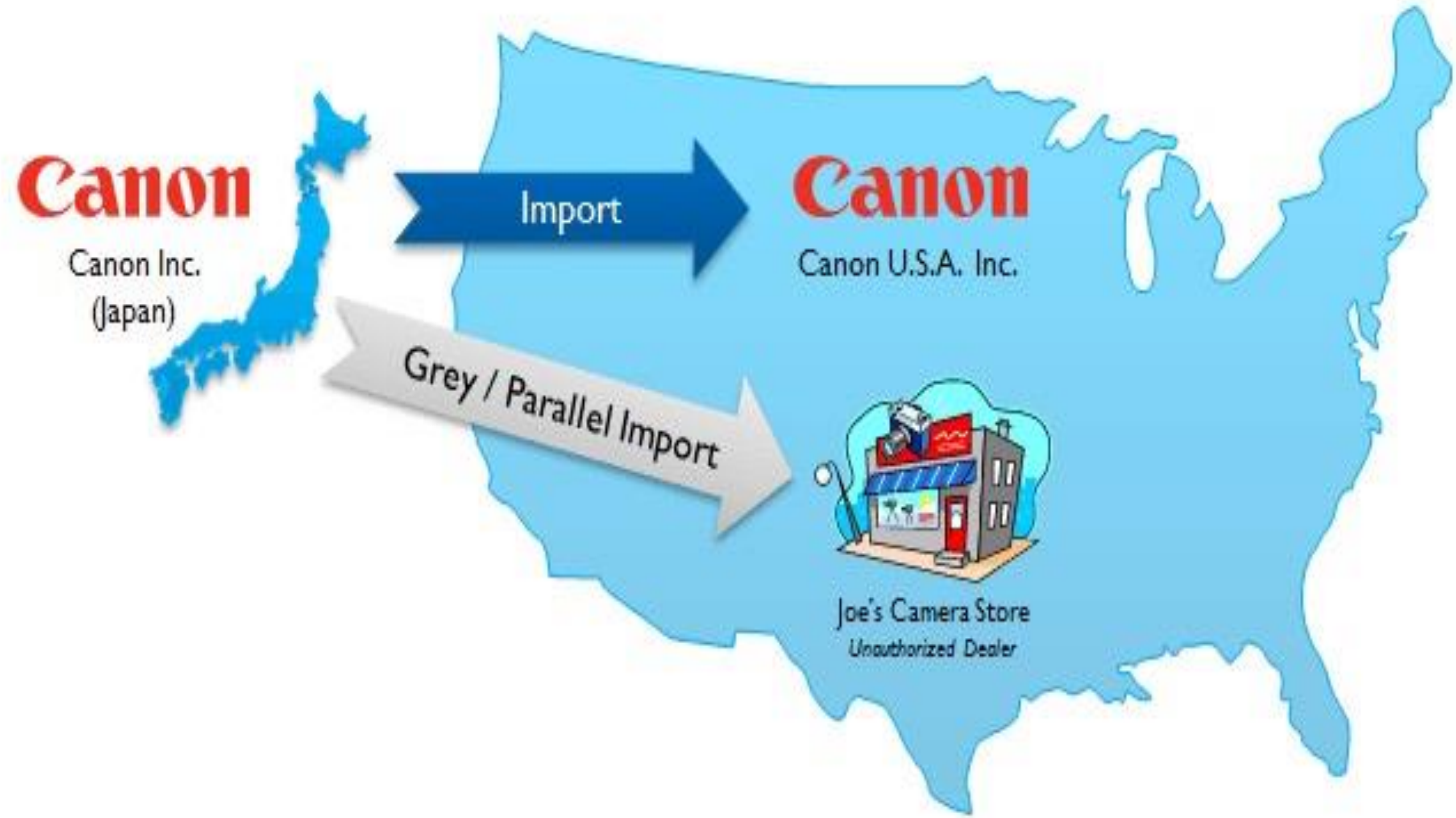
Gray Markets

Grey Marketing (Parallel Importing)



Source: Paliwoda (1993, p. 300). Reprinted with permission from Butterworth-Heinemann Publishers, a division of Reed Educational & Professional Publishing Ltd.

Gray Markets- Example



Approaches to International Pricing 1 of 2

Full-cost pricing

- No unit of similar product is different in cost from others; each must bear full share of total fixed and variable cost
- Suitable when high variable costs relative to fixed costs

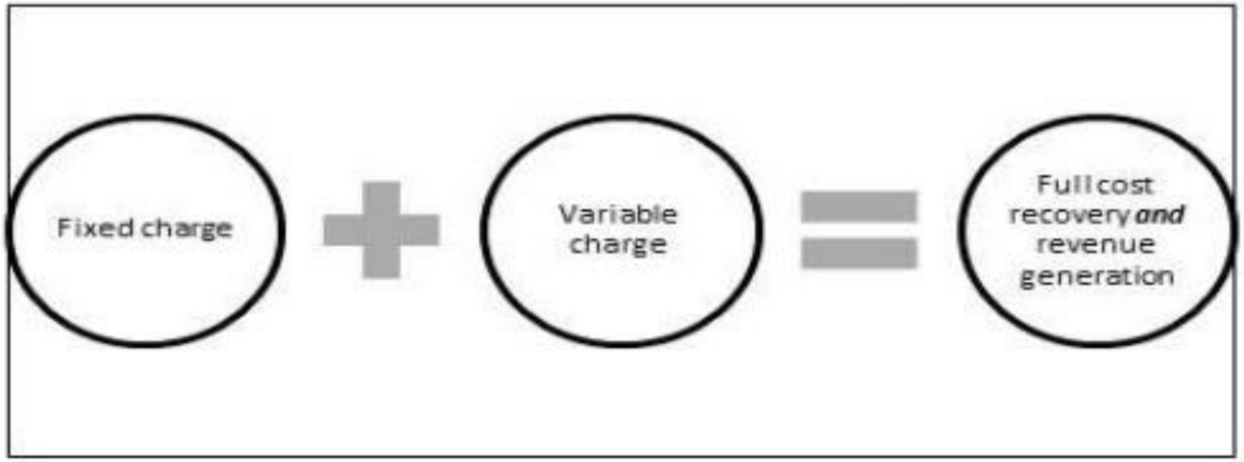
Variable-cost pricing

- Firms are concerned only with marginal or incremental cost of producing goods to be sold overseas
- Foreign sales are a bonus contribution to net profit
- Practical when fixed costs are high and there is unused production capacity

Approaches to International Pricing

1.Full cost pricing

- This method prices the services after taking into account the fixed as well as the variable costs(direct costs). The issue with this approach is that it is not market driven. The sale may be determined by the demand and the paying capacity of the market.



Grey Market Camera Gear, Is It Worth It? | Grey market lenses | Sigma Lens

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Approaches to International Pricing

Full Cost vs. Variable Cost

- **Full Cost**
  - Products made for foreign markets should be priced to cover the full cost of production and marketing
- **Variable Cost**
  - Products made for foreign markets should only be priced the additional *(variable)* cost of marketing it overseas—not the full cost

Approaches to International Pricing

Skimming pricing

- Used to reach segment of market that is price insensitive and willing to pay a premium price for product
- Used in markets with two income levels: wealthy and poor

Penetration pricing

- Deliberately offering products at low prices
- Competitive maneuver to capture market share

Walmart in China

Chinese wait to enter Beijing's first Walmart outlet. Thousands crowded the Sam's Club store on the far western edge of Beijing as the world's biggest retailer made its first foray into a major Chinese city. Walmart now has nearly 200 stores elsewhere in China; the first opened in 1996. The low-price-for-good-quality strategy of Walmart and other mass retailers such as Costco and Carrefour, the French supermarket chain, have resulted in lower retail prices in China, Japan, and other Asian countries they have entered.

Price Escalation

Costs of Exporting

- Key cause of price escalation
  - Higher cost of product in foreign market than domestic market
- Main elements
  - Shipping and packing costs
  - Insurance
  - Financing costs
  - Tariffs, taxes, and administrative costs
  - Larger middleman margins
  - Exchange rate fluctuations

Price Escalation 2 of 5

Tariffs a special form of taxation

- Serve to discriminate against all foreign goods
- Hurt domestic market if counter-tariffs implemented

Administrative fees add to overall export cost

- Obtaining export licenses, import licenses, and other documents
- Physical arrangement for transportation
- Can reach such a level that they are, in fact, import taxes

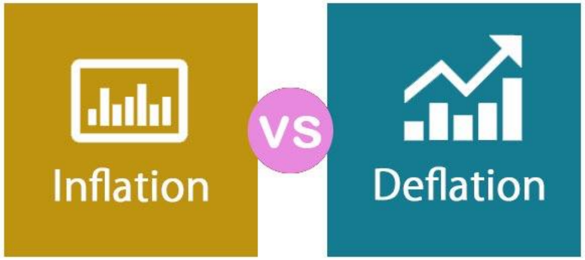
Price Escalation

Inflation

- Causes higher cost of production and replacement
- Company raises price of good for consumer
  - Ultimately excludes many consumers from market

Deflation

- General costs low in market
- All in supply chain pressured to lower costs to make sales
- Company must raise brand value to win consumer trust



Price Escalation 4 of 5

Exchange Rate Fluctuations

- World trade contracts difficult to write
  - Payment specifications challenging with changing currency
  - All major currencies are floating freely relative to one another

Varying Currency Values

- Impacts consumers' perceptions of value
- Changes cost of exporting products and impacts price

Price Escalation

Analysis: Internal and External Causes of Inflation

Internal causes of inflation

A large surge in property prices

Higher wages / labour costs

Boom in credit / money supply

Rise in business taxes e.g. VAT

External causes of inflation

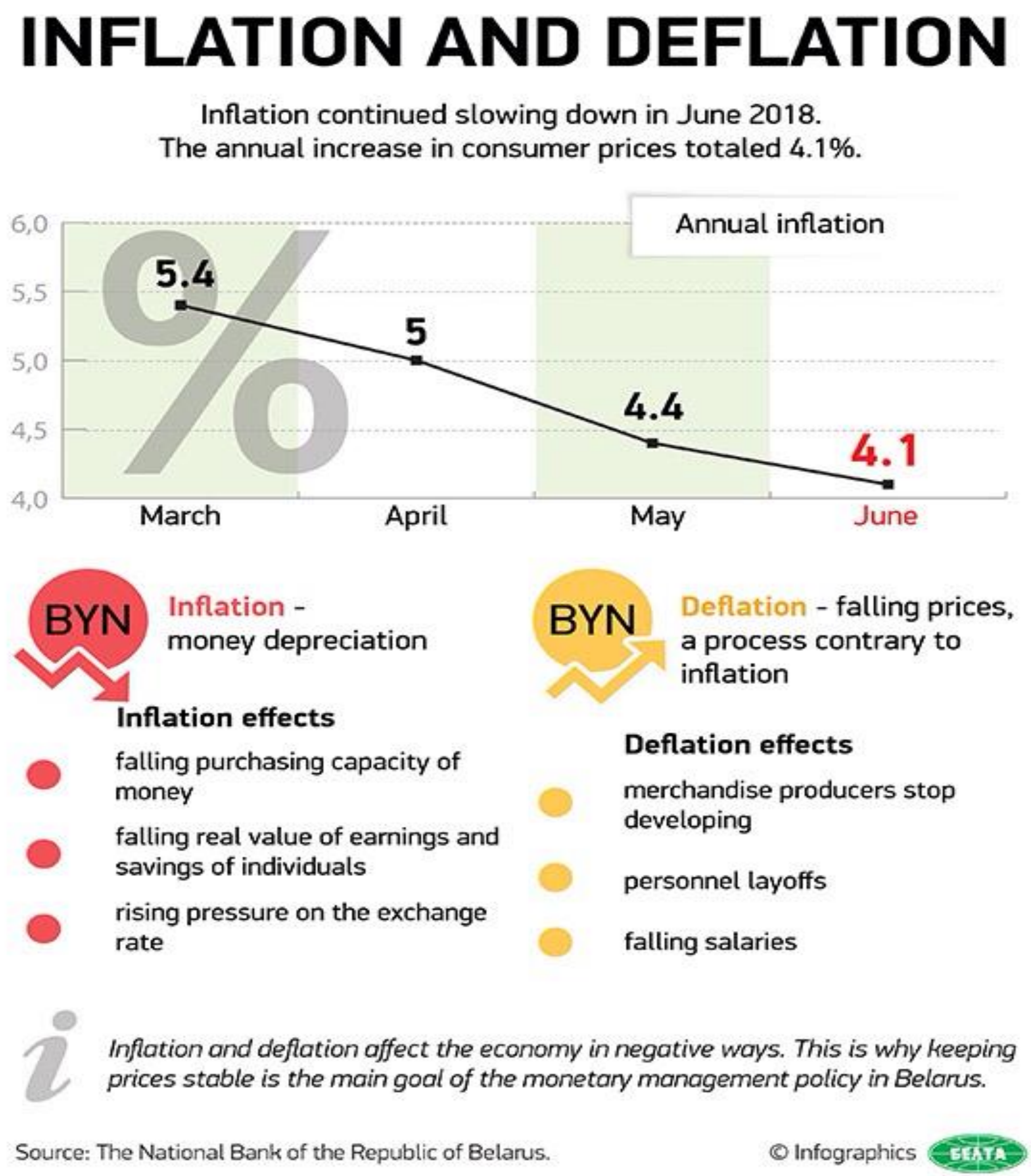
Increase in world oil / gas prices

Global inflation in commodity prices

A depreciation of the exchange rate

High inflation in other countries

Price Escalation



Varying Currency Values and Price

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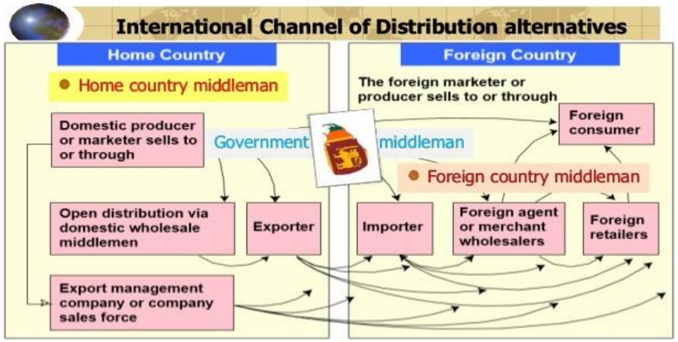
McDonald's Japan announced that it would reduce the price of hamburgers by 30 percent for a month to return to customers the profit the company made by the strong yen against U.S. dollars in importing the raw materials from abroad. McDonald's move created goodwill among its customers at a time when it is forced to lower prices to "hike" sales in an economy that is suffering a major downturn. This move is a good example of how differences in the value of currencies can be positive for a company, as in this case, or negative when the value of the dollar is much stronger than the local currency.

Price Escalation 5 of 5

Middleman and Transportation Costs

- Channel diversity impacts exporting costs
  - Varying channel length, marketing patterns, and distribution infrastructure quality
- Costs difficult to anticipate
  - No convenient source of data on middleman costs
  - International marketer must rely on experience and research

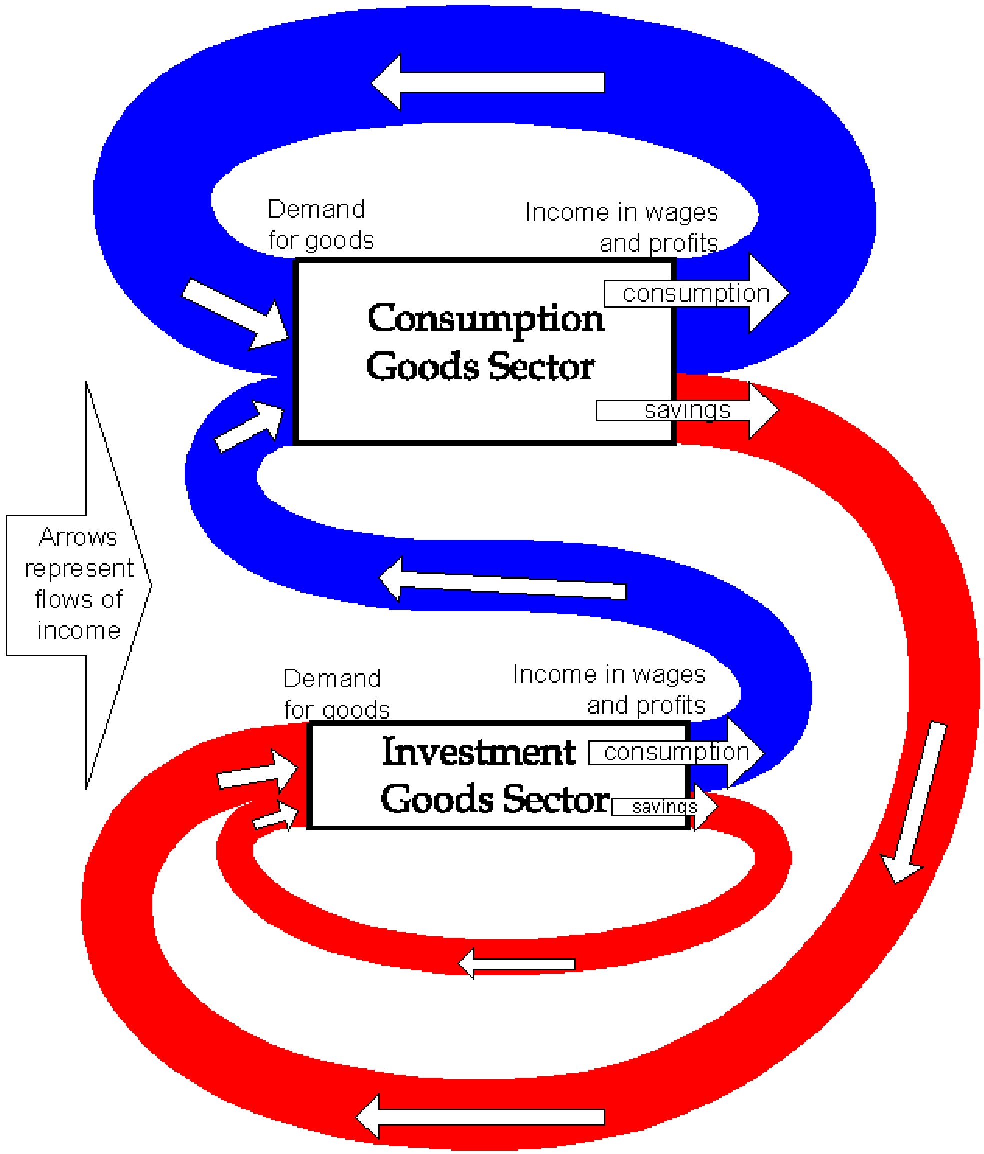


Sample Effects of Price Escalation

A Spiral Effect

- Higher prices lead to lower sales
- Less turnover for middlemen
- Middlemen insist on higher margins to defray costs
- Company must raise prices
- Confines sales to limited segment of market
    - Only wealthy customers able to buy product
    - Low-income consumers priced out of market

Sample Effects of Price Escalation



Approaches to Reducing Price Escalation 1 of 3

Lowering Cost of Goods

- Lowered cost of manufacturing impacts entire chain
  - Manufacture in third country with low labor costs
  - Eliminate costly product features

Lowering Tariffs

- Reclassify product into lower customs classification
  - Different classifications have different tariff rates
  - Product can be modified or repackaged to fit classification

Customs Classifications and Tariffs

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Hugh Jackman portraying Wolverine, an X-Men fictional character from Marvel Enterprises. A tariff classification issue arose when the company declared the imported toy characters as nonhuman toys and U.S. Customs said that they were human figure dolls—tariffs on dolls at that time were 12 percent versus 6.8 percent for toys. U.S. Customs alleged that the X-Men figures were human figures and thus should be classified as dolls, not figures featuring animals or creatures, which would mean that they could be classified as toys. Product classifications are critical when tariffs are determined.

Approaches to Reducing Price Escalation

Lowering Distribution Costs

- Shorter channels keep prices under control
  - Fewer middlemen markups; may mean lower overall taxes

Using Foreign Trade Zones

- Free trade zones
- Added charges, taxes, and tariffs can be avoided
- Final price of product not as high; more competitive

Approaches to Reducing Price Escalation

Free Trade Zones (FTZ)

- Also known as export processing zone (EPZ), also called foreign-trade zone, formerly free port
- It is an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities
- Only when the goods are moved to consumers within the country in which the zone is located do they become subject to the prevailing customs duties
- The world's first Free Trade Zone was established in Shannon, Ireland (Shannon Free Zone)
- Most FTZs located in developing countries like Brazil, Colombia, India, Indonesia, El Salvador, China, the Philippines, Malaysia, Bangladesh, etc.

Approaches to Reducing Price Escalation

Dumping

- Two approaches to dumping international shipments
  - Sold at price below cost of production
  - Sold in foreign market below price of same goods in home market
- Highly regulated pricing approach
  - WTO rules allow for imposition of a duty when goods are dumped
  - Countervailing duty or minimum access volume (MAV); restricts amount country will import of good

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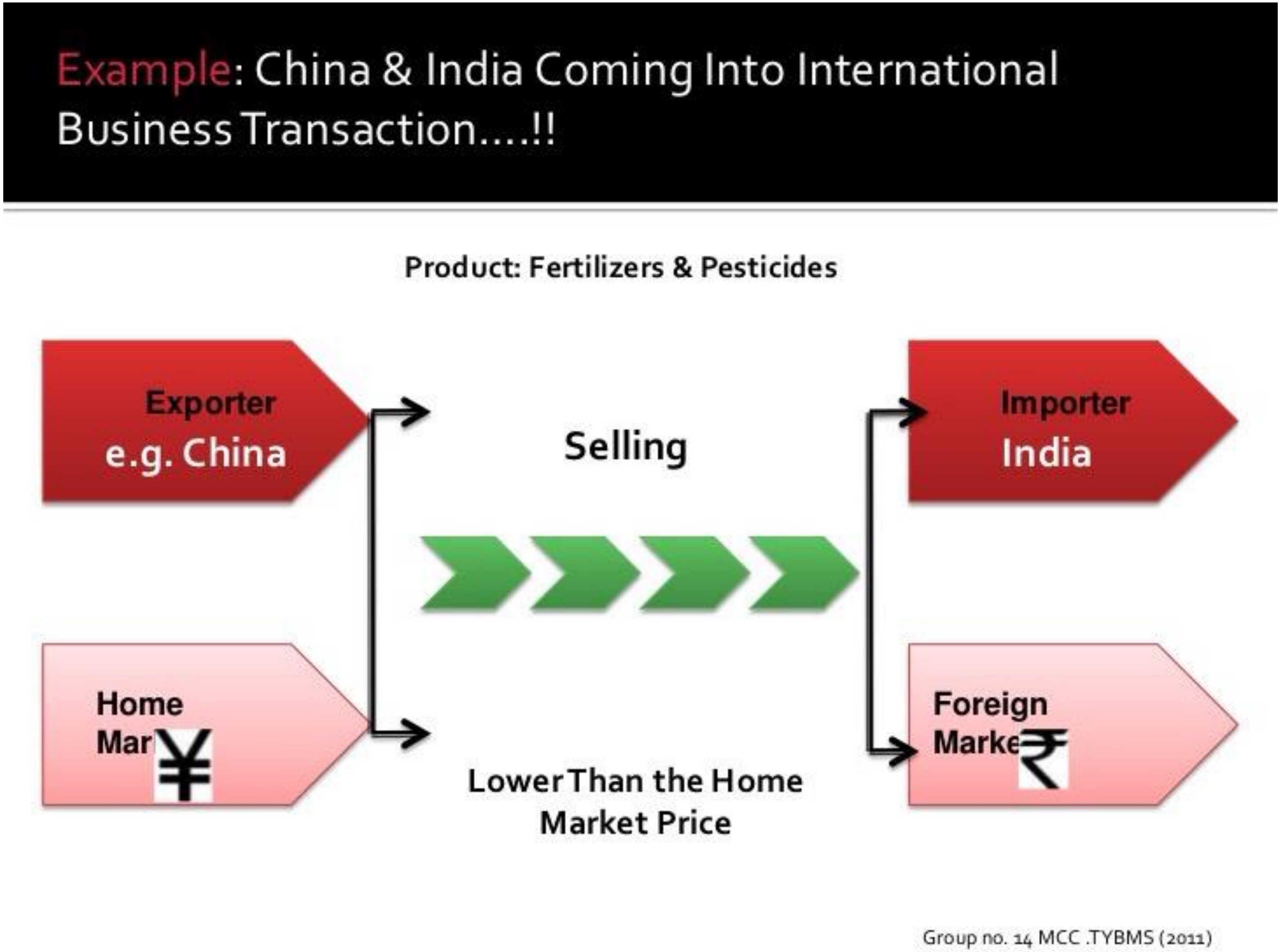
Approaches to Reducing Price Escalation



Leasing in International Markets 1 of 2

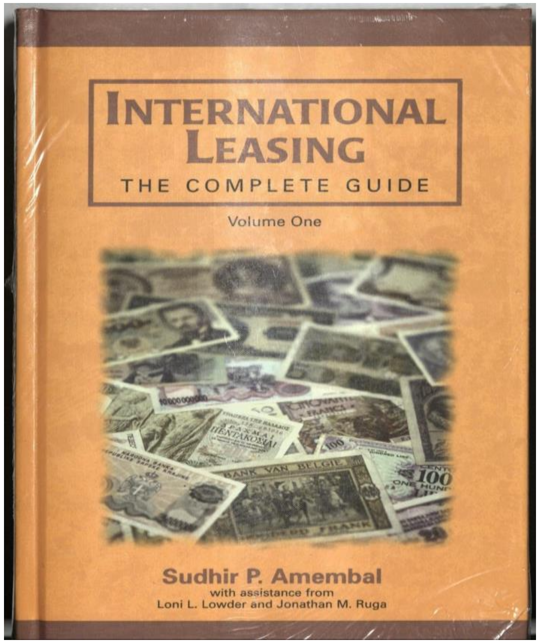
Benefits of Leasing

- Opens door to large segment of market
  - Nominally financed firms unable to buy but able to lease
- Eases risk of selling new, experimental equipment
- Better maintenance and service on overseas equipment
- Equipment leased and in use helps sell other companies in that country
- Revenue more stable over time than direct sales

Leasing in International Markets

Disadvantages of Leasing

- Inflation
  - Leasing attractive in countries prone to spiraling inflation
  - Problematic when contract includes maintenance or supply parts; can lead to heavy losses near end of contract period
- Currency devaluation
- Expropriation
- Political risks



Leasing in International Markets

International Leasing

- Where firm known as lessor leases its equipment or machines to foreign firm known as leases for a specific period of time.
- Benefits
  - Lessor
    - Revenue through leasing fees
    - Fully utilisation of equipment or machines
    - Business expansion
  - Lessee
    - Reduce financial burden
    - Less hassle and no maintenance cost
    - Easier way to access to foreign technologies and f
- Example : Mitsubishi

MITSUBISHI

Global . Progressive . Quality

Leasing in International Markets

Leasing in International Markets

The system of leasing used by industrial exporters is similar to the typical lease contracts used in the United States.
Terms of the leases usually run one to five years, with payments made monthly or annually; included in the rental fee are servicing, repairs, and spare parts.

Just as contracts for domestic and overseas leasing arrangements are similar, so are the basic motivations and shortcomings.
For example :

1. Leasing opens the door to a large segment of nominally financed foreign firm that can be sold on a lease option but might be unable to buy for cash.
2. Leasing helps guarantee better maintenance and service on overseas equipment.

Countertrade as a Pricing Tool

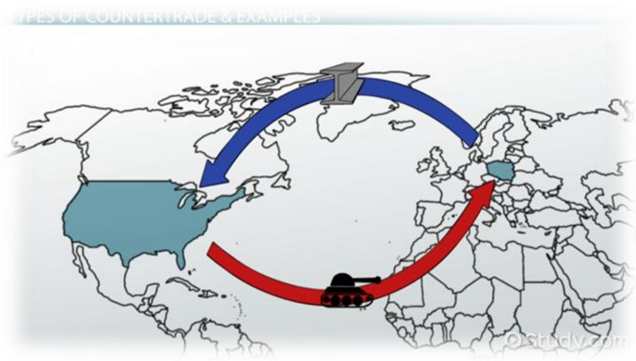
Countertrade

- A pricing tool that international marketers should employ
- Willingness to countertrade is a competitive advantage
- Also known as a barter

Countertrade as a Pricing Tool

Problems of Countertrading

- Determining the value and potential demand of good offered as payment is a challenge
- Ways to overcome challenge
  - Conduct preliminary research prior to countertrade
  - Use a barter house; they specialize in trading goods acquired through countertrading agreements



Countertrade as a Pricing Tool

Countertrade

Examples of Countertrade

• Caterpillar received caskets from Colombian customers and **wine** from Algerian customers in return for selling them earthmoving equipment.

• **Coca-Cola** received tomato paste from Turkey, oranges from Egypt, and beer from Poland, in exchange for Coke.

• Countertrade was common in the US-Soviet Union in the 1960s when its currency was nonconvertible. It was their only means of purchasing foreign goods.

• One example of countertrade was when the US-SU paid Coca-Cola in **vodka**. Poland did the same with Coca-Cola but paid in **beer**.

Source: http://www.economywatch.com/international-trade/export-import-countertrade-finance-and-strategy.html

KÖKDERE, T., TURGUT, E., FICOVA, A. (2011), Exporting and Countertrade, International business operations

Countertrade as a Pricing Tool

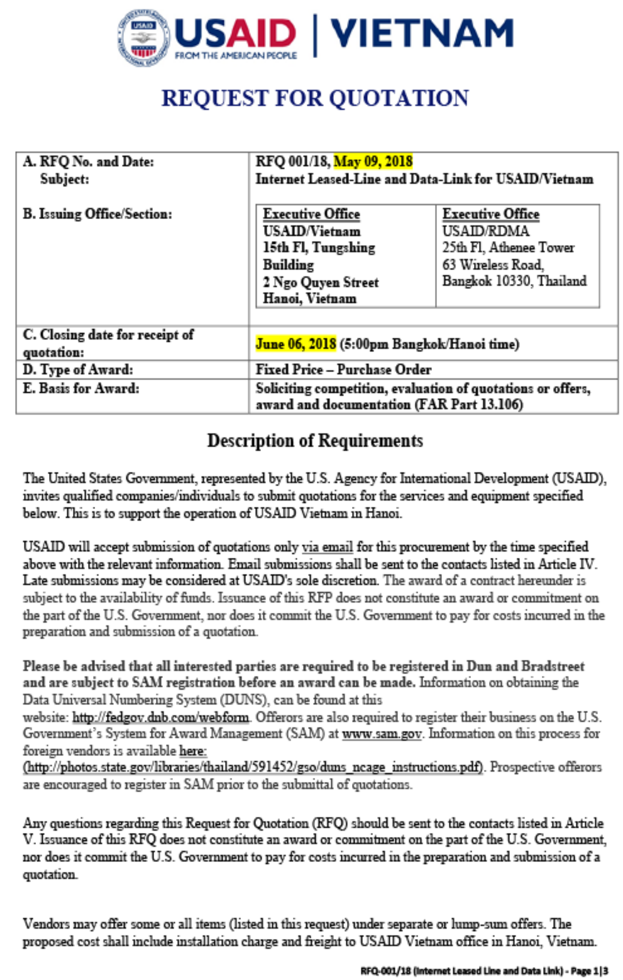
The Internet and Countertrading

- May become most important venue for countertrading
- Several barter houses have auction sites
  - Internet exchanges are expanding to include global barter
- Electronic barter economy with a universal e-dollar

Price Quotations

Necessary Components

- Clear description of who is responsible for transportation of goods, including who pays and from which point
- Specification of currency to be used, credit terms, and the type of documentation required
- Definition of quantity and quality



USAID | VIETNAM
FROM THE AMERICAN PEOPLE

REQUEST FOR QUOTATION

A. RFQ No. and Date: **Subject:**	**RFQ 001/18, May 09, 2018** **Internet Leased-Line and Data-Link for USAID/Vietnam**
B. Issuing Office/Section:	**Executive Office** **USAID/Vietnam** **15th Fl, Tungshing Building** **2 Ngo Quyen Street** **Hanoi, Vietnam** — **Executive Office** USAID/RDMA 25th Fl, Athenee Tower 63 Wireless Road, Bangkok 10330, Thailand
C. Closing date for receipt of quotation:	**June 06, 2018 (5:00pm Bangkok/Hanoi time)**
D. Type of Award:	**Fixed Price – Purchase Order**
E. Basis for Award:	**Soliciting competition, evaluation of quotations or offers, award and documentation (FAR Part 13.106)**

Description of Requirements

The United States Government, represented by the U.S. Agency for International Development (USAID), invites qualified companies/individuals to submit quotations for the services and equipment specified below. This is to support the operation of USAID Vietnam in Hanoi.

USAID will accept submission of quotations only via email for this procurement by the time specified above with the relevant information. Email submissions shall be sent to the contacts listed in Article IV. Late submissions may be considered at USAID's sole discretion. The award of a contract hereunder is subject to the availability of funds. Issuance of this RFP does not constitute an award or commitment on the part of the U.S. Government, nor does it commit the U.S. Government to pay for costs incurred in the preparation and submission of a quotation.

Please be advised that all interested parties are required to be registered in Dun and Bradstreet and are subject to SAM registration before an award can be made. Information on obtaining the Data Universal Numbering System (DUNS), can be found at this website: http://fedgov.dnb.com/webform. Offerors are also required to register their business on the U.S. Government's System for Award Management (SAM) at www.sam.gov. Information on this process for foreign vendors is available here: (http://photos.state.gov/libraries/thailand/591452/gso/duns_ncage_instructions.pdf). Prospective offerors are encouraged to register in SAM prior to the submittal of quotations.

Any questions regarding this Request for Quotation (RFQ) should be sent to the contacts listed in Article V. Issuance of this RFQ does not constitute an award or commitment on the part of the U.S. Government, nor does it commit the U.S. Government to pay for costs incurred in the preparation and submission of a quotation.

Vendors may offer some or all items (listed in this request) under separate or lump-sum offers. The proposed cost shall include installation charge and freight to USAID Vietnam office in Hanoi, Vietnam.

RFQ-001/18 (Internet Leased Line and Data Link) - Page 1|3

Administered Pricing

Administered Pricing

- An attempt to establish prices for an entire market
  - Prices may be arranged through the cooperation of competitors; national, state, or local governments; or international agreement
  - Goal is to reduce or eliminate impact of price competition
- Legality of agreements varies from country to country and from time to time

The Organization of Petroleum Exporting Countries (OPEC)

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Oil prices quadrupled in the mid-1970s because of OPEC's control of supplies. The $100+ per barrel oil you see in this picture was caused by burgeoning demand in China and around the world in 2008. Pertamina is the Indonesian national oil company. Indonesia terminated its membership in OPEC in 2009. Circa 2015, prices had dropped to below $50 per barrel because of slackening demand worldwide and new production in the United States.

Administered Pricing 2 of 2

Cartels

- Many companies producing similar products work together to control markets for goods and services they produce
- Unable to maintain market control for indefinite periods
  - Greed by cartel members weakens control
- Legality of cartels is not clearly defined; varies by country

Diamond Cartel

©Will Ragozzino/BFA/REX/Shutterstock

The De Beers company is one of the world's largest cartels, and for all practical purposes, it controls most of the world's diamonds and thus is able to maintain artificially high prices for diamonds. One of the ways in which it maintains control is illustrated by a recent agreement with Russia's diamond monopoly, in which De Beers will buy at least $550 million in rough gem diamonds from Russia, or about half of the country's annual output. By controlling supply from Russia, the second largest producer of diamonds, the South African cartel can keep prices high.