Basic Pricing Concepts

- The Global Manager must develop systems and policies that address
  - Price Floors (cost of production & selling)
  - Price Ceilings (monopoly)
  - Optimum Prices
- Must be consistent with global opportunities and constraints

Global Pricing Objectives and Strategies

- Managers must determine the goals and performance measures:
  - Unit Sales
  - Market Share
  - Return on investment
- They must then develop strategies to achieve those objectives
  - Penetration Pricing and financial objectives (when/why?)
  - Market Skimming and nonfinancial objectives (when/why?)
- Companion products (captive pricing)
  - Products whose sale is dependent upon the sale of primary product
  - Video games are dependent upon the sale of the game Console
  - "If you make money on the blades you can give away the razors."
Target Costing – 8 Issues

1. Relation to product’s quality
2. Price competitiveness in the local market conditions.
3. Market penetration vs. market skimming, or some other pricing objective?
4. Type of discount (trade, cash, quantity) and allowance (advertising, trade-off) to offer to international customers.
5. Price differentiation?
7. Host-government reaction
8. Foreign country’s dumping laws.

Target Costing

- Full absorption cost pricing – Per-unit product costs are the sum of all past or current direct and indirect manufacturing and overhead costs
- Rigid cost-plus pricing – companies set prices without regard to the eight foundational pricing considerations
- Flexible cost-plus pricing – prices are competitive in the contest of the particular market environment

Terms of the Sale

- Obtain export license if required
- Obtain currency permit
- Pack goods for export
- Transport goods to place of departure
- Prepare a land bill of lading
- Complete necessary customs export papers
- Prepare customs or consular invoices
- Arrange for ocean freight and preparation
- Obtain marine insurance and certificate of the policy
Terms of the Sale

**Incoterms** [FAS (free alongside ship); FOB (free on board); CIF (cost, insurance, freight); CFR (cost and freight)]

- **Ex-works** – seller places goods at the disposal of the buyer at the time specified in the contract; buyer takes delivery at the premises of the seller and bears all risks and expenses from that point on.
- **Delivery duty paid** – seller agrees to deliver the goods to the buyer at the place he or she names in the country of import with all costs, including duties, paid.

Five Environmental Influences on Pricing Decisions

Currency Fluctuations

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<tr>
<th>Influence</th>
<th>Strategy</th>
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<tr>
<td>2. Expand product line and add more features</td>
<td>2. Improve productivity and engage in cost reduction strategy</td>
<td>7. Maximize profits in local or local currency company</td>
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<td>3. Next to domestic market</td>
<td>3. Lower costs have country</td>
<td>8. Buy advertising, insurance, transportation, and other services in domestic currency</td>
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<tr>
<td>4. Expand market opportunities in other markets</td>
<td>4. Close priority to exports to countries with strong currencies</td>
<td>9. Sell foreign customers in the domestic currency</td>
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<td>5. Use FOB pricing approach, but employ monopolistic pricing to penetrate new or competitive markets</td>
<td>5. Take profit margins and use marginal cost pricing</td>
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<td>6. Speed up delivery of foreign-earned payments</td>
<td>7. Maximize profits in local or local currency company</td>
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<td>7. Bill foreign customers in their own currency</td>
<td>8. Buy needed services abroad and pay for them in local currency</td>
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Inflationary Environment

- **Defined as a persistent upward change in price levels**
  - Can be caused by an increase in the money supply
  - Can be caused by currency devaluation
- **Essential requirement for pricing is the maintenance of operating margins**
Government Controls, Subsidies, and Regulations

- The types of policies and regulations that affect pricing decisions are:
  - Dumping legislation
  - Resale price maintenance legislation
  - Price ceilings
  - General reviews of price levels

Competitive Behavior

- If competitors do not adjust their prices in response to rising costs it is difficult to adjust your pricing to maintain operating margins
- If competitors are manufacturing or sourcing in a lower-cost country, it may be necessary to cut prices to stay competitive

Using Sourcing as a Strategic Pricing Tool

- Marketers of domestically manufactured finished products may move to offshore sourcing of certain components to keep costs down and prices competitive
### Global Pricing: Three Policy Alternatives

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<thead>
<tr>
<th>Policy Alternative</th>
<th>Details</th>
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| **Extension:**     | - Ethnocentric  
|                    |  - Per-unit price of an item is the same no matter where in the world the buyer is located  
|                    |  - Importer must absorb freight and import duties  
|                    |  - 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 but creates potential for gray marketing  |
| **Geocentric:**    | - Intermediate course of action  
|                    |  - Recognizes that several factors are relevant to pricing decision  
|                    |  » Local costs  
|                    |  » Income levels  
|                    |  » Competition  
|                    |  » Local marketing strategy  |

### Gray Market Goods

- Trademarked products are exported from one country to another where they are sold by unauthorized persons or organizations (cigarettes)
- Parallel importing occurs when product is in short supply, when producers use skimming strategies in some markets, and when goods are subject to substantial mark-ups

### Dumping

- Sale of an imported product at a price lower than that normally charged in a domestic market or country of origin.
- Occurs when imports sold in the US market are priced at either levels that represent less than the cost of production plus an 8% profit margin or at levels below those prevailing in the producing countries
- To prove, both price discrimination and injury must be shown
Price Fixing

- Representatives of two or more companies secretly set similar prices for their products
  - Illegal act because it is anticompetitive
- Horizontal price fixing occurs when competitor within an industry that make and market the same product conspire to keep prices high
- Vertical price fixing occurs when a manufacture conspires with wholesalers/retailers to ensure certain retail prices are maintained

Transfer Pricing

- Pricing of goods, services, and intangible property bought and sold by operating units or divisions of a company doing business with an affiliate in another jurisdiction
- Intra-corporate exchanges
  - Cost-based transfer pricing
  - Market-based transfer pricing
  - Negotiated transfer pricing

Countertrade

- Countertrade occurs when payment is made in some form other than money
- Options:
  - Barter (one item for another)
  - Counter-purchase (goods-cash-good)
  - Offset (Pepsi-Rubles-Vodka)
  - Compensation (buyback) trading (plant – finished product; two agreements)
  - Switch trading (swap/triangular trading)