International Pricing Policy

Course Contents

1. Introduction to International Pricing Policy
2. International Prices and Incoterms
3. International Pricing Strategies

Objectives

The primary objective of this Learning Unit is to understand the importance of an appropriate pricing strategy when entering new export markets. We are going to examine the pricing options available to the exporter and outline the criteria to be used when establishing a pricing strategy. We will also look at the criteria defined in pricing under Incoterms 2000.

Learning Unit Summary

One of the most complicated aspects of foreign trade is pricing policy. An incorrect pricing policy can lead to total failure in international markets. First of all we should find out about prices in various international markets, this information will allow us to have some real criteria for setting our export prices. However, we will meet the familiar dilemma of global or local prices. From another point of view the price is attached to the selected Incoterms, in the more competitive markets it is habitual to deliver product to client's premises, thereby offering DDP prices. In some countries this is impossible, and it will cause us problems. One of the solutions can be if we have FOB Global prices and then we will be able to adapt them to each market according to the costs of this market.

Quick questions:

- Global prices or prices for every market?
- Prices for each geographic area?
- Would you supply your clients with a fixed price list?
- Is the product quality reflected in the price?
- Are your prices competitive?
- How is the price related to the company's objectives (in terms of market penetration, market research, long-term strategies, etc.)?
- What discount policy would you apply?
- Will you offer different prices for different market segments?
- How will variations in the company's costs/expenses be reflected in the price?
- What are the objectives of the pricing policy?
- Will you lower the prices? What are the associated risks?
- How will you implement the pricing policy?
- What factors must you have in mind?
- What currency will you quote the prices in?
- What about exchange risk? How will you manage it?
- What Incoterms will you choose to quote your prices?
- What methods of payment will you offer?

- How is segmentation reflected in the prices?
- What pricing strategies will you apply regarding segmentation?
- Will you offer the lowest price you can afford?
- How will inflation influence your pricing policy?

INTERNATIONAL PRICING AXIOMS

- The "right" price is what the customer will pay, not what you want to charge. Base prices on market factors
- Wherever possible, quote in the customer's own currency
- Protect yourself against foreign exchange risk
- Price is only relatively important, greater emphasis should be placed on non-price factors
- The price-quality relationship is important

There are many ways to price a product. Let's have a look at some of them and try to understand the best policy/strategy in various situations.

- Premium Pricing

Use a high price where there is a uniqueness about the product or service. This approach is used where a a substantial competitive advantage exists. Such high prices are charge for luxuries such as Lexus.

- Penetration Pricing

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom in order to attract new corporate clients.

- Economy Pricing

This is a no frills low price. The cost of marketing and manufacture are kept at a minimum. Supermarkets often have economy brands.

Article:

- FACTORS INFLUENCING DEGREE OF INTERNATIONAL PRICING STRATEGY STANDARDIZATION OF MULTINATIONAL CORPORATIONS: AN EMPIRICAL INVESTIGATION

Exercises

1. An Irish (*) company producing furniture varnish is thinking of an international pricing strategy. The company has an international distribution network in over 30 countries (all distributors are exclusive) and has a sales subsidiary in Russia. You are the Export Manager of the company.

- What pricing strategies will you apply for your distributors?
- Would you apply a global or local price strategy for your distributors?
- What e-pricing strategies will you apply for your distributors?

(*) Student can change to his own country.

2. You produce consumer goods and are designing a pricing policy for a destination country which has a higher inflation rate than your own country. How do you think the customer will react to the price rise?