Parallel imports and their effect on prices economics essay

Pricing is a means whereby an organization covers its all costs and makes profit. Price of a product includes all its cost of research, manufacturing and advertisements. Organisational goals and objectives are determined through market conditions. Sometimes these goals and objectives cannot be achieved. It is very important to decide the price of product according to the market conditions. In pricing brand name quality and other environmental factor also counts. We determine the price of any product to keep an eye on our profit with a scientific process. Therefore pricing is mean through which we can achieve market objectives. Pricing is mean which affect the individual status and also the function of marketing as well. We don't just give the price also accounts the need of the customers and utility of the product as well.

Pricing Approaches

The pricing theory is divided in three different approaches. These approaches determined by the market economists. Each approach has its own characteristics and tell us how to deal with the pricing.

Economist's Approach

This approach made by the economists, they describe that the demand and supply of the product keep in to equilibrium through pricing. This approach operates with the perfect competition of the market.

Accountant's Approach

This approach based on to cover all the incurred cost. The main focus of this approach is the rate of return. There is disadvantage of this approach; it ignores the demand and supply of the product.

Marketer’s Approach

This approach concentrates the competition of the market. How your product can gain competitive advantage of the market. How we can make profit through to gain competitive advantage.

Factors of Pricing

It is very easy to determine the price in the home market but it difficult to set a price in the international market. You need to do full research of market before to give a competitive price. The price which is adaptable and make profit as well. It also depend on your product what you are going to launch in the market. How much it is competitive for other companies and how would deal all these scenarios. There are some factors which need to be focused in international pricing.

Inflation

The main factors who affect the price are inflation. Inflation is thing which you can’t control in free capital economies. But there are some rules in some countries to control inflation like China. But there are many chances that the price goes up through inflation. Like the prices of oil going up day by day and every country is bound to increase the price of oil. It is hard to control the price under inflation.

Taxes, Tariffs and Administrative

The second main reasons which affect the price are taxes, tariffs and administrative costs. When any type new tax put on anything the price of

that product automatically rise or any administrative cost occur on any product cause price rise.

Cost of Production

The cost of production is also factors which affect the price. If our production cost goes up or down it will definitely affect the price of product.

Product Differentiation

Product differentiation is factor which play role to determine the price. If we are making any product which is different from other or it has any unique quality obviously, we would charge our own price compare to others. The brand image is also a way to charge a desired price. Mostly brand charge higher prices when they launch in the international market.

Exchange Rate Fluctuation

When any firm start its any country they also focus which they would charge. How their product satisfy the customers and how much they will be able in foreign currency like, Pound Sterling, Euro, US dollar etc. Every one wants its accounts in international currencies.

Competition

Competition is very big factor to determine the price. When any company starts its business globally? Its count everything the quality, reliability, durability and packaging as well to beat its competitors. After focusing these entire thing then you should charge a reasonable price.

Transportation Cost

Price automatically will be change when your transportation cost would increase. When we spend more money on transferring goods from one place to another, it would obviously increase the cost of goods and we would recover from the product.

Middle Man Cost

Middle man cost is also a factor to which affect the price. Middle man is source between firm and other dealers or consumers. If, it costs us more expensive it will definitely affect the price of the product.

Parallel Imports and their Effect on Prices

Parallel imports (PI) are the goods produced under the legal, genuinely with patents and rights circulating in one market that is home market of the product. After that, these goods has imported into second market without the permission of the owner or the original copy right holder. The owner is licence holder for their local market, is called parallel importing. Parallel importing also called gray importing. The owner has no right to sell these goods in any other country. Parallel importing normally occurs when the price of goods lower in one country and it is expensive in any other country or state. In Europe they are trying to stop parallel importing. Mostly, students and tourists bring many things from their host countries and sell to the other country. Because these are goods are not those risky and not more chances to pay custom duty on them. For example the Top Gear Magazine of UK is allow to sell in UK and the Top Gear Magazine Australia is allow to sell in Australia but few unofficial dealer in Australia also sell Top Gear Magazine

(UK version). Cigarette is also the parallel import everywhere in the world. Like most of the New Zealand Luxury dealer buy Mercedes Benz from Malaysia on cheap price New Zealand than the original Mercedes price.

To decide a price of anything is complicated and research sensitive process. It is not easy for any company to launch the price of any product and especially internationally. They launch the price after the market research of their international competitors. When parallel imports occur in any country the goods which are already in the market are expensive that is why people would like to buy the parallel import goods because they are cheap. Therefore, they would reduce the price of their goods to compete the parallel imports goods. It will cause losses to the home goods makers.

Causes of Parallel Imports

Internationally, firms launch their product according to the market survey of the product; sometimes they are relatively low from the other countries because they had considered the buying power of the people which cause parallel importing.

Parallel importing comes in to existence when the price margins are huge.

Parallel importing occurs when we restrict the supply of one product in particular market, parallel importer meet the requirements of market through parallel importing.

Parallel imports occurs when any govt add lots taxes on imports of goods. This thing make parallel importing more attractive.

Parallel importing occurs when ineffective management fails to charge the reasonable price for any product and the supply of the product.

The taxes on products are high or the VAT id high.

Currency exchange rate is a very big cause to parallel imports.

Cultural restrictions are main reason like magazines are same all over the world but they identify the culture of specific areas.

Solutions of Parallel Imports

To solve all these issues countries should make laws to stop parallel importing.

Company should make special rules and regulations to control the supply because excessive supply gives room to suppliers to sell the goods outside in other markets to gain their personal benefits.

Market should be separated on geographic basis under any law to control parallel importing.

Supply of the market should not restrict in the particular market to control parallel importing.

These are solutions through which we can control the parallel importing. By implementing all these strategies we should be able to control parallel importing.

Question No. 4

Tariff Barriers

Every country makes their own good and they want to sell their own goods in the country as much as they can sell. The main reason is behind is to promote local industry. Countries do international business as well to meet the requirement of the country. Many multination companies working world wide and many which provide their goods and services in the world wherever they needed. But in some cases no country allows people or any autonomous body to import good from somewhere else and use in the country. This is way that country protects home industry from foreign competition. Because, any country first think about the home industrial market after that any other international market.

A tool to control or regulate imports is called tariff. It is like a duty or tax to control imports. In other word you can say impose duties on goods which create problem in the trade. Tariff barriers are also called import constraints. This is mean to control the goods to be imported. Countries use this to reduce the imports as much as they can.

Types of Tariff Barriers

There are some types of tariff barriers

Specific Tariff

This is type of tariff barrier in this form a barrier a fixed percentage is levied on any import goods like we can say if any one imports a pair of shoe from

Italy he would pay $20 on each pair of shoe or anyone who imports a computer from US would pay $250 as levied charges.

Ad valorem Tariff

It is also a type of tariff. It is a Latin word which means “ according to the Value” it means that a percentage would be charge on the value. Like we can if anybody imports a car from Malaysia to New Zealand in $10, 000 he would pay 15% levied on it as an ad valorem tariff means would pay 11, 500 for a car

Compounded duties

These tariffs are imposed on the manufactured goods items. Like the import of raw material what be charge extra on particular raw material to save home country raw material.

Why Do we Use Tariff Barriers

There are some specific reason due to them we use tariff barriers. Actually, to protect them from international competition.

Protecting Consumers

The countries want to save the consumer from the usage of imported goods. The people who make these decisions think that some imported commodities are harmful for the consumers that are why they put barriers on them. Like the South Korean govt tariff on the import of beef from US. They think it is full of diseases.

Protecting Domestic Employment

Tariff is imposed to save the domestic employment. A large number of populations work in the industries. If people would start importing than people of home industry would lose their jobs.

Infant Industries

The govt of any country impose a tariff on the all imported goods to promote the home industry. Because, the in developing countries the industry is already not well than developed countries to save the home industry country impose theses tariffs on imports.

Non Tariffs Barriers

Non tariff barriers are the restriction on the imports but they are not like usual tariffs. When barriers are been set up than some further tariff. Non tariff barriers are toll to control the trade of an economy that is conduct another economy.

Types of Non Tariff Barriers

There some types of non tariff barriers

Specific Limitations on Trade

There some certain types which comes under this head.

Quota

In these types of non tariff barrier we decide a quantity of commodity. We cannot import more than a fixed quantity. That is the way how we restrict the import.

Licensing

Government issue a licence to anybody or firm to import certain thing which they need for their business. Like govt issue a licence to company to import cheese from any other country, but not to everyone to keep the market safe.

Proportion Restriction

This is also a type of restriction to bind the any company to stop the imports from other countries.

Minimum Import Price limits

There would be charge a fix price for imported goods.

Embargoes

It is also a type of non tariff barriers to control import. Like a country banned a particular country or bane the particular product. Like US banned it trade to North Korea (like ivory). Embargoes can be both imports and exports both.

Customs and administrative entry procedures

It is also a way to impose non tariff barriers. Anti dumping is way to control, that you are not dumping below the local cost to destroy the local market.

Standards

Different countries have different standard of goods. Like we can say Japan keep their goods out because it does not meet the standard. These include the packaging and labelling as well.

Voluntary Export Restraints

These barriers impose the export country not the importing country. Like Brazil export sugar to Canada on the request of Canada through VER and Canada export coal to Brazil through VER.

Local Content Requirements

In this type of non tariff barriers the govt restrict the domestic industry to make a percentage of goods in home industry. This percentage could be a value of products itself. Like you can say 20% of the goods would become from the domestically made industry.

Example of Non tariff Barriers

Non tariff barriers are those which are other than barriers, it is a type of barriers to stop certain things like Tata motor has non tariff barriers to start its market in USA. If we talk about East Africa where the cost of NTBs are imposed on Kenya to import Maize from Uganda and Tanzania is $0. 09 per ton per kilometre. The cost of non tariff barriers for the trade of beef is 0. 17 per ton per kilometre. They need to implement all these rules to run trade non tariff barriers. Even though, the road blocks are the main barriers in the trade. The traders wait long times in the queues to handle all their issues. The police men on border are unfriendly. The spent lots time to deal to the traders. The police men are indulged in bribing. Kenya has numbers of Road

blocks in their cities and boarder areas. The govt on Kenya did a lots work on improvement of roads and they improved approximately 47 roads and they still working on it. The roads are non tariff barriers in trade between countries. The traders of both beef and maize had queued up long time in front of custom offices to deal all their queries. A maize trader waited approximately 7 hours in the custom office. In Kenya both beef and maize trader wait approximately 3 hours during every trip. These are the some example of non tariff barriers.

Question No. 5

International Marketing

To penetrate in the international market is different than the local market. To enter in the market like u starting up from new business no experience not market idea and new people and community. But the companies do have a little knowledge of new market. Companies must look into the all the risks and all other elements which are required for the growth of product. Most of the companies like to have their executives' international experience in the resume.

What is Joint Venture?

If you are running a business and you want to increase to any other market and break down all the barriers to entry, there is a way to do joint venture with any other company and get into any market. Joint venture is a economic tool to capture the new market.

Joint venture is strategic alliance where two or more parties businesses together, it is the sharing of all the things like, intellectual property,

knowledge, and assets and of course profits. A joint venture is contractual and legal document. A joint venture is different from a merger and acquisition. There is no transfer of ownership in joint venture. Joint venture can be between small or bigger businesses. It depends on which basis they want to come together. Mostly company's deal in identical product jointly likes to work to penetrate the market. In some cases a big company does joint venture with a small firm to get all the knowledge of market and then start business.

Emerging Markets

Emerging markets are those countries who are reconstructing their markets are value able and offer wealth opportunities in trade, technology and foreign direct investment. According to the World Bank there are five big emerging economies are China, Russia, India, Indonesia and Brazil. Some other countries are also emerging markets like, Mexico, Argentina, South Korea and Poland. These countries transition from developing markets to emerging market. These markets are facing global market individually and in group as well. These emerging economies are coming out with their characteristics like big population, lots resources and big markets. The developing countries borrow huge loans from IMF and world bank to manage their internal problems but they don't use them properly due to instable political environment but theses emerging market reduces to borrow loans and if they borrowing their political democratic leaders using them properly.

Circumstances for joint venture in Emerging Markets

Any multinational company when goes in any emerging market the main focus on the maximum utilisation of opportunity.

Economic Growth

The growth rate is high in emerging market. The main objective of every firm is to gain maximum out of its investment. According to IMP the growth rate is double in emerging markets than developed markets. This economic growth attract the more multinational firm to go in emerging countries

Favourable Demographic

The emerging countries have younger people than the developed countries and this younger generation plays role in the economic growth. Younger generation are the people who can do anything. You can utilize them as energetic work force.

Economy's Strength

The emerging economies are becoming more strengthened day by day. The more improvement came in last 10 years. They are still on the way to progress like china is growing on the rate of 8% per year. It was growing more than that before this economic recession.

Economic Reforms

The emerging countries are making proper rule and regulation for their monetary and fiscal policies. They made special rule to deal with the debt policies. They try to control inflation and try to deal with any disrupt situation.

Emerging Markets are under owned

The big population of the world is living in emerging economies. Approximately 80% of the world population belong to emerging economies. 66% of foreign exchange reserves and 50% of gross domestic product.

Reasons for Joint Venture

Cost Sharing

The main reason is cost sharing when any company goes in to any new market. It doesn't want to bear all expenses by them self. They want to share all the cost on the with the host firm. It is good to bear the half cost to start a new business on a new place.

More Resources

In the form of joint venture you have full access on all the resources which you don't have alone because you are new in that country but you can access all the resources with the help of joint venture in any host country.

Greater Capacity

You have double capacity to work in any country with the help of joint venture because you can utilise all the capacity which you partner has to exploit the market on advance basis. It helps you out to do proper research of market.

Increase Technical Expertise

You have a chance to all the technical expertise which you have and your partner have about the domestic market. You can get benefit from all of them.

Risk Elimination

We can reduce all the risk of the market with help of joint venture. The host firm knows each and every thing about the market risks. Not only to understand all the market risks but we can eliminate them with the help of our partner.

Shared People Resources

We can get better and well educated people in emerging countries. A big number of populations are educated in emerging countries. We can utilise all these work force nice and beneficially.

Branding

Any company can do joint venture with any firm which has it brand image in the market this is very big opportunity for any firm to capture the market. The coming company is no need to putt special effort on the any marketing cost to launch any product.

Access to Technology

The access to technology is easier for you because your partner has already technological equipped to deal with the market. It is big opportunity for you to access all these technologies and get maximum benefit as much you can.

Better define Industry Boundaries

It is easy for you to define the boundaries of any industry and you can deal under your descriptive method and tool to handle all the market. It is good for any firm to have an idea about industry boundaries.

Example of Joint Venture

Maruti Udyog Limited is leading car maker in the India. Its main factory is situated in Gurgaon in Heryana and the other end the Suzuki is the famous car maker in Japan. The company did a joint venture with Suzuki Japan and made a success story in the annals of Indian automobile industry. It was the joint venture when India was emerging to the modern world. After this joint venture the company made its recorded sale in 13en months. Suzuki Maruti made very good car after utilising the Japanese technology according to the Indian environment. Its market share reached up to 70% in 1998 because of less competition and Maruti has it share in market 38% in luxury car makers.

The success of this joint venture led Suzuki to increase its share from 26% to 40% and further more they reached up to 50% of the share. Maruti was a govt firm was before after with the introduction of economic liberalisation from July 1991 the govt realised to make the growth more potential and promoting the employment for the up gradation of the industry.

Maruti was the leading car maker in India when Suzuki did joint venture. Suzuki was equipped with technology and realised that there is room in this emerging market. India has massive population and there was need to develop a better technology equipped vehicles which can meet the customer

need and also has ability satisfy the customers. As a result the process of technology was slow but successful. Recently, Magneti Merelli, Suzuki Motor Corporation and Maruti Suzuki India Limited did again a joint venture in Oct-2007 for the production of Electronic Control Unit (ECU) for diesel engine. In this agreement Magneti will contribute 51%, Suzuki 30% and Maruti 19%. The total investment is approximately euro 16 million. It is again a big joint venture in the emerging market.

Conclusion

As we seen how the companies going in the emerging economies and these emerging economies are had lots potential to support the global market. These are the countries which are attracting the whole world in sense of capital, trade and technology. The main reason is that the countries has big population and there is a big room in these countries markets to handle all these upraising problems.