Developing an international pricing strategy for international market economics e...

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Developing an international pricing strategy requires determining the optimum pricing strategy in each national market and harmonizing the prices across countries to control pricing problems and maximize profitability in foreign markets. To that end, international pricing encompasses price discrimination, strategic pricing and regulatory influences on prices.

International pricing strategy is a key component of the international marketing mix. In the context of international business, a firm's marketing mix may vary from country to country in order to accommodate local differences in culture, economic conditions, product standards, distribution channels, government regulations and so on. Such differences often require adjustments in product attributes, distribution policies, communication policies and pricing strategy.

Developing an international pricing strategy is typically an intricate task because the firm has to determine the optimum pricing strategy in each national market and then harmonize the prices across countries. The aim is both to control pricing problems and maximize profitability in foreign markets. To that end, international pricing encompasses price discrimination, strategic pricing and regulatory influences on prices.

a) Price Discrimination

Price discrimination exists when the same goods or services are priced differently in different countries. This means that consumers pay different prices for the identical products or services based on what the local market can bear. In a competitive market, prices tend to be lower than in a monopoly because there are more players in the market and try to attract

consumers to buy their products by bringing their prices down. Therefore, in competitive markets price discrimination can result in profit maximization. Moreover, in competitive markets it can make business sense to charge different prices in different countries.

For a price discrimination strategy to be profitable two conditions need to be met. First, the firm should keep the national markets detached so that developments in one market do not affect the other or the other markets. If the markets are not been kept separate, the price differential for a particular product between two countries can serve as an arbitrage tool. The firm can purchase the product in the country where the price is lower and resell in the country where the price is higher and make profit at the expense of consumers.

The second condition is an estimate of the price elasticity of each single market. Price reflects nothing more than the perceived value of each product as expressed in demand. Therefore, when developing an international pricing strategy, a firm has to be able to estimate the perceived value of its product and company performance as well as the price elasticity of its products and the optimum price.

b) Strategic Pricing

Strategic pricing typically combines the benefits and innovations set by a product with the price sensitivities of consumers to develop flexible, executable and sustainable value-based strategies. By implementing thorough customer segmentation to identify the needs of individual customers and achieve profit optimization since perceived value varies

across clusters of customers, strategic pricing exploits variances between micro-segments, to provide customers with custom-made price/benefit advantages.

Strategic pricing encompasses predatory pricing, multipoint pricing and experience curve pricing.

In particular:

– Predatory pricing

The traditional theory of predatory pricing holds that the dominant firm (predator) lowers its prices so much for a sufficient period of time to make its competitors leave the market, but also discourage other competitors from entering the market. Since the firm operates as a monopoly it is normal to assume that the firm can raise its prices in the national market to earn high profits. Yet, at the same time, the firm should be profitable in other national markets to subsidize the losses it incurs in the national market it tries to monopolize overseas.

– Multipoint pricing

Multipoint pricing occurs when two or more firms compete in two or more national markets and the pricing strategy in one market may have an impact on the rival pricing strategy in another national market. Multipoint pricing, especially if it is aggressive in a national market, may bring forth a competitive response from a rival firm that operates in another national market. For this kind of pricing strategy to work, marketing managers need

to develop a mechanism that can centrally scrutinize pricing decisions in each national market around the globe.

– Experience curve pricing

Firms around the globe aim at gaining market share and achieve global sales volume by lowering their prices. However, as the accumulated production volume increases, the unit costs decline as a result of lower fixed costs per unit, lower material costs, and better production skills. The experience curve is the milestone that makes or breaks the pricing strategy: firms that move down the experience curve may experience large losses in the beginning, but are expected not only to make considerable profits in the near future, but most importantly to have a cost advantage over less-aggressive competitors.

c) Regulatory Influences on Prices

Both price discrimination and strategic pricing may be hindered by antidumping regulations and/or competition policy.

In particular:

– Antidumping Regulations

In international trade law dumping is defined as the act of selling a product in a foreign market lower than what it costs to produce it in the national market. Firms engage in dumping either to gain market share or to eliminate surplus. By gaining market share they drive competition out of the national

market and they can raise their prices as much as they want. In this sense, dumping can be matched to predatory pricing.

Antidumping regulations can protect consumers who feel they are exploited by dumping policies by setting a floor under export prices to limit a firm's ability to implement strategic pricing.

– Competition Policy

Most countries around the globe have regulations that promote healthy competition, limit the prices a firm can charge and restrict monopolistic endeavors. These regulations are mostly used to control the prices that firms can charge and ensure that consumers will not be victims of monopolistic practices.

In conclusion, developing an international pricing strategy is both complex and time consuming because it requires careful planning, taking into consideration the particular condition of each national market and developing a mechanism that can harmonize the prices across countries. Above all, an effective international pricing strategy requires determining the optimum pricing strategy in each national market to ensure profitability in foreign markets.

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