Obstacles in international pricing

[Finance](), [Financial Analysis]()

The companies, these days, are operating globally. They are located all around the world and are busy serving the customers with new products, competitive pricing and exclusive placements in versatile ways. Setting pricing based on proper strategies is, no doubt, a difficult and hindrance-creating task. The sudden increase in liberalization, interdependence and the global competition in economies has created and boosted a dire need for MNCs to formulate effective global pricing strategies for the purpose of achieving competitive advantage.

Some of the obstacles that the companies experience in setting international pricing strategies include the following: • Market Diversity A diverse market, though, provides the customers with a variety of products and services can be a big hurdle in setting up pricing strategy. A diverse market creates more threats and barriers for the new as well as the existing entrants. The wide variety of products and services give rise to market diversity and ultimately competition increases. This tough competition lowers the prices and profitability of the products.

It also becomes easier for the consumers to switch to different alternatives in a diverse market. This shift and low prices is the obstacle in the international pricing strategies of the products. • Export Price Escalation The export price variation can prove to be a big hurdle in the pricing strategies of international pricing of the products. An industry touches the heights of competitiveness only if its prices are kept and moved in line with its market prices (IMF. Org, n. d.). However, the commodity prices take a toll when they are exported to some foreign country.

After the increase in oil prices and inflation of raw material pricing, the cost of production has already increased. The final goods and services produced are also victims of the increasing inflation. On all these factors, the cost of exporting the products, shipping, forwarding and transporting abroad takes the prices higher. In this way, the selling price of the products reach their peak and create competition and for small retailers or industries in the market. • Fluctuations in currency value The fluctuation in the value of currency refers to inflation or deflation in the economy.

When the local currency depreciates or appreciates in value, the prices of the local and imported products is also effected. An increase is the value of currency makes the products and its prices cheaper in the local as well as foreign markets. This also increases the purchasing power of the consumers to buy the goods and spend themoneyinto the economy. However, a decline in the value of money makes the goods and services expensive for the consumers. This gives rise to inflation: the cost of raw material, infrastructure and other essentials go up.

Thus, when expensive goods are exported abroad, they become way too expensive with the already- appreciated currency of other countries. • Fixed versus variable pricing Fixed price policy is a pricing and selling strategy used my most of the retailers and firms. In this case, the firms observe and look into the existing situation of the market, determine a suitable and appropriate price of the product and retain the price as fixed until or unless there is some different situation in the market. In case of a different situation arising, the firm goes through the whole process again.

The alternative, they then apply is, variable pricing system. In this pricing, there is a form of first degree pricediscrimination. The individual customers negotiate and bargain on their own will and buy the products on the prices they set. The variable pricing is used in highly differentiated market having high-value items like real estate, construction, etc. The concept of fixed and variable prices can be a hindrance in pricing system. Fixed price, though, does not affect the international pricing to a big extent.

The reason for that is, the prices are unchangeable and the firms or retailers get profits according to their own wishes and set-prices. They are the price-makers in this case. However, variable prices can be bargained upon and the firms find it difficult to meet their own targets of profit margins. They may export the product but not get the standard profits that they had set for themselves. Thus, due to the customers' power, the firms act as price-takers. This is the biggest obstacle posed to the international pricing system. • Relations with suppliers

The relationship with supplier is to be maintained just like it is to be maintained with the customers. It is very important for the firms to be on good terms with their suppliers, creditors and other stakeholders. This is vital especially in the case of international pricing and trading. The suppliers provide the firms with raw material and other supplies. When the firms find it difficult to pay, the suppliers give them an option of buying on credit. Discounts and rebates are also offered to the firms who have a creditworthy position.

This gives them assistance while in keeping proper stock of inventory when they are short of money and also in setting prices. However, any bad relations with the suppliers can result in shortage of stock and raw material. This can increase the turnover and result into higher prices. A demand-supply gap can also be created. • Gray market A Gray or Grey Market refers to the imports and exports of goods and services different legal but unofficial and unauthorized distribution channels. Unlike black market, the grey market is not illegal or violating the ethics of trading.

However, the difference is that the products in grey market are sold outside the normal distribution channels by firms and companies which have no link and relationship with the producer of the particular goods being sold. This form of marketing and selling usually takes place when the price of a particular product is considerably higher in one country than the other. Thus, the firms purchase the item where it is available at a cheaper rate and make a legal import of it to the potential customers and target market. The concept of Grey market usually becomes an obstacle in the pricing of international goods and services.

The grey market usually uses systems which are unauthentic and avoids taxes. Thus, the price system may not be fixed in such markets. The selling of grey market product internationally may result into variable prices, uncertainty of profit margins and aggressive competition. The customers may get exploited by using such systems of selling and pricing. The grey market products may be very expensive. Examples includes cameras, iPods, iPhones etc. thus, hurdles in pricing may be created due to grey markets. • Government Intervention

Government intervention is the main element when dealing with international pricing and business principles. Its main benefits are prominent when the economy faces any crises period, then the government intervention can result in positive outcomes. The corporations keep track of what the consumers want to buy and are willing to pay for. With a little of government intervention, both the elements can produce worthwhile goods and services and satisfy consumers. However, government interventional can also be an obstacle in the operations of companies in the international markets.

The pricing system may be restricted by the government. The government may put price floors and price ceilings on different products. In that case, the firms are unable to set their own prices according to their targeted profits. Moreover, the goods which have been imported through black markets, do not have fixed prices too. It might be harder for the firms to determine the prices of the unregistered products. Conclusion The pricing system is one of the major activities undertaken by firms. A firm has various options to decide as to what method to follow for their pricing.

Generally there are industry trends which a company follows that is whatever is done in the industry becomes a common norm while at time the situation during which the company is operating also determines the pricing strategy for the company. There are many obstacles and hurdles needed to be tackled when deciding to set prices on international level. References Deano Makowsky, (2010). The Importance of Price. Retrieved May 16, 2010 from < http://www. coloradorealestateagent. com/selling/packet2. html> Engage Research. (n. d).

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