# Planning international pricing decisions

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Outline and discuss the main factors a marketing firm would have to take into account when planning international pricing decisions. (50% of the available marks for this question)

# Introduction

Many organizations emphasize that price is the most independent, variable yet convenient element of marketing mix. Pricing plays a main role in the international marketing and implementing effective marketing strategies. Price is one of major part of marketing mix. This is mainly based on the fact that pricing changes appear rapid and immediate in the market. Too many managers find pricing decisions very challenging and often difficult to make. This is in conjunction due to the fact that most of the modern organizations believe and know the importance of the strategic role of pricing in international marketing.

For many small companies operating in local markets, pricing decision are based on the relatively straight forward for allocating the total estimated cost of producing, managing and marketing a product or service between the fore cast total volume of sales, and adding an appropriate profit margin. Such as fluctuation in exchange rate, acceleration inflation in certain countries and the use of alternative payment methods such as leasing, exchange and counter-trade. For these reason, it is important to know at the outset that development and implementation of pricing strategies in international market should follow the following stages.

Analyse the factors which influence international pricing, such as the cost structures, the value the product, the market structure, competitor pricing levels and a variety of environmental constraints.

Confirming what impact the corporate strategies should have on pricing policy.

Evaluating the various strategic pricing option and selection the most appropriate approach.

Implementing the strategy through the use of a variety of tactics and procedure to set the prices at small business unit level.

Managing prices and financing international transaction.

## The factors effecting international pricing include following

Corporate and marketing objectives

Insurance

Firm and product poisoning

Product range, life cycle, substitute, product differentiation

Marketing product development

Available resources

Inventory

Shipping cost

## Pricing objectives

The pricing decisions in general can analyse and viewed by two ways pricing as an achievement of marketing objectives or pricing as a fixed element in a business decision. If the previous view is followed, the company uses price to achieve a specific objective. Pricing decision should be consistent with the marketing objectives of the firm in a particular market as well as the overall policy of the company.

## Price escalation

Price escalation is defined as changes in the price of specific goods or services in a given economy over a period of time. Excess profits do exist in some international markets, but generally unequal differences in price between the exporting country and importing country. Shipping from one country to another country the cost arises specifically, the term relates to situations where ultimate price are raised by shipping costs, insurance, packing, tax. The majority of this cost arise as a direct result of moving goods across borders from one to another country and join to escalate the final price to a level significant higher than local market.

## Competition

The nature of market structure in particular is an important determinant of price. It refers to the number of competing firms, their size and relative position. In the case of an oligopoly structure, the entering firm would have little freedom to choose a price depending on the income levels, a certain market can takes only a certain level of pricing . A company can also use competitor`s prices as a landmark for poisoning its product as compare to competitors for example, if it wants to poison its product as being of higher

quality than its competitors. When a company entering in to a market and using competitive prices, a company needs to check on the cost structure of its competitor`s. Price is just one of the element of marketing mix and has thus to be matched with other element of it.

## Pricing controls

Companies doing business in foreign countries encounter a number of different types of government price setting. To control prices, government may establish margin, set prices and floor or ceiling, restrict price changes, compete in the market great subsidies or act as purchasing of monophony or selling monopoly. A company entering of entering a foreign market with a penetration strategy with a lower price

## Target Customer

Marketers have to calculate and understand a particular portion or target customer group in the market that they are entering. Knowledge of demand elasticity the price is vital, as is knowledge of how customer will react in the case of price change. But with differentiated product, market share of a company can even be improved through higher prices. Brand names and image of high quality are two of the factors that characterise differentiated product that can be sold at the quality prices.

## References

Chris Philips, Isobel Dooley and Robin Lowe, International marketing strategy, Pg 420, 421

Ghauri and Cateora, International marketing 2nd Edition, Pg 442 452

Discuss the causes of and solutions for parallel imports and their effect on price. (50% of the available marks for this question)

## Introduction

Parallel import is a non- imitation product imported from another country without the permission of the intellectual property owner. Parallel imports are often referred to as grey product, parallel imports develop when importers buy products from distribution in one country and sell them in another distribution which are not part of the manufacturer`s regular distribution system. Parallel imports are legitimately produced goods imported legally into a country without the authorization of a trademark, copyright, or patent holder. This practice is lucrative when wide margins exist between prices for the same product in different countries. For example the price of a Volkswagen car is in Germany showroom is 107. 4 and in Spain that car price is 102. 6 the same in France 103. 9 and in UK 130. 9. A variety of conditions can create the profitable opportunity for parallel imports in the market.

## Causes of Parallel imports

There are several causes of parallel imports including:

Fluctuation in currencies value

Restricted import quotas

High tariff

Price differentials

Restricted supply

The possibility of parallel imports occurs when the price differences are greater than the cost of transportation between two markets. In Europe, because of different taxes and competitive price structures, price for the same product vary between countries. The variation in the value of international currencies between countries frequently leads to condition that make parallel imports profitable.

Restriction brought about by import quotas and high tariff can lead to parallel imports and make illegal imports attractive.

## Example

India has a three-tier duty structure on computer spare parts ranging from 40 to 70 percent on imports. As a result estimates are that as much as 30 percent of India domestic computer hardware sales are accounted for by grey market.

Purposefully restricting the supply of a product in a market is another practice that causes abnormally high prices and thus makes a parallel market profitable. Such was the causes with Mercedes-Benz cars whose supply was limited in the United States. The grey market that involved in Mercedes cars was partially supplied by Americans returning to the United States with cars they could sell for double the price they had paid in Germany

## Possible Solution of parallel imports is as follow

Reduce the price differentials between market

Materially alter the product

Educate the dealer

Terminate the dealer agreement

Buy back the grey market goods

This is not strange for companies to find them self competing in one country with their own product imported from another country at lower prices. Most probably such prices differentials will cease to exist once all restrictions to trade are eliminated in the Europe union and a full fiscal union is achieved. To prevent parallel markets from developing such marketing and pricing strategies are used, companies must maintain strong control systems. These control systems are difficult to maintain and there remains the doubt that some companies are less anxious with controlling grey markets than they claim.

## Price Changes due to parallel imports

The parallel imports have a negative effect on the original product. Sometimes grey market upset prices level and result from ineffective management and lack of control, observed evidence shows that the treats of parallel imports do decrease retail prices. In itself, these price effects are not enough to justify a free organization concerning of parallel trade..

The possibility of parallel imports occurs whenever price differences are greater than the cost of transportation among two markets, and the price of product are higher in domestic than neighbour countries.

## Example

Japanese merchants have long maintained very high prices for consumer. As a result, prices for Japanese product sold in other country as lower price than they are in Japan. For example, Japanese can buy canon cameras from New York catalogue retailer and have them shipped to Japan for a price below that of the camera purchased in Japan. In addition to the higher prices for product at home, the rising value of currency makes these price differential even wide

## References

Marketing across Cultures 5th Edition Jean-Claude Usunier and Julia Anne Lee Pg 297 198

International marketing strategy by Chris Philips, Isobel Dooley and Robin Lowe chapter 11 page 436, 437)

## Question 4.

Distinguish and explain the differences between tariff and non-tariff barriers to trade. What strategic options are open to marketing firms when attempting to deal with the problems of non-tariff barriers in economically developed and industrialised countries? Choose at least one industrialised country to illustrate the points made.

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## Introduction

Tariffs have always played an important role in generating revenue for the country. In most of the under developed countries, tariffs plays an important role in developing the economic policies of the country. For political reasons,

tariffs are applied on imports, but sometimes they are also applied on exports. It is generally the easiest form of revenue generations.

When a shipment comes on the border of the country, the custom officers analyze the products and charge tax on it on the basis of the formula. Since the goods cannot enter in the country without the written authorization of the tax authorities, thus it is very easy to collect the duty.

Nowadays the free trade organizations discourage the tariffs applied on the goods. World trade organization (WTO) has played an important role in persuading the countries in reducing the tariffs imposed. But nowadays countries are more focused on the non-tariff trade barriers. These barriers are imposed on countries which do not comply with the guidelines laid down by the world trade organization.

## Tariff barriers to trade

Tariffs are the restrictions imposed by the country on the imports and exports of goods and services. Tariffs have always been used as an instrument to increase the revenue generation and also to protect the local industry from the foreign competition.

There are different types of tariffs which can be imposed by a country but the most common one are as follows.

Ad valorem: it is set on the basis of the percentage of the value of the products being imported in to the country. But sometimes it isn't that useful because if the international price of the commodity decreases, than the tariff applied on it also reduces.

Specific tariff: it is the specific amount of money that imposed on a product. Thus if the price of the product decreases than it does not affect the tariff.

Revenue tariff: this kind of tariff is imposed specifically to generate revenue for the country. E. g. if a country does not grow coffee, than the government can impose a duty on the import of coffee beans to generate revenue.

Prohibitive tariff: this kind of tariff is imposed to restrict the import of a specific product. Usually the tax imposed is so high that it is almost impossible for the companies to import or export the product.

Protective tariff: this kind of tariff is imposed to specifically protect the local industries from the foreign influence. All the governments use this option to facilitate the local industries from the foreign competition.

Environmental tariff: this kind of tariff is imposed on the imports and exports to the countries which have substandard environmental controls. These kind of tariffs are also known as eco-tariffs or green-tariff

Retaliatory tariff: this kind of tariff is based upon revenge. E. g. if United States impose a tariff on Chinese imports than the China will also impose a tariff on the imports from USA. Sometimes countries use this option to influence the tariffs imposed by other countries.

## Non-tariff trade barriers:

Non-tariff trade barriers are the types of barriers which are imposed by a country to restrict the imports but they are not like the usual tariff barriers. Some common examples of the Non-tariff barriers are anti-dumping measures and countervailing duties.

The use of non-tariff barriers have significantly increased over the past few years because of the work done by World Trade Organization (WTO) to reduce the tariff barriers imposed by different countries. Some Non-trade barriers are permitted in limited circumstances, especially when it is required to protect health, safety, sanitation or natural resources. But generally it is criticized because it violates the free trade rules set by the Worlds Trade Organization (WTO), the European Union (EU) and North American Free Trade Agreement (NAFTA).

## Examples of Non-tariff Barriers:

The most common examples of non-tariff barriers are as follows.

General/product specific quotas.

Products standards

Ban on imports

Packaging conditions

Labelling conditions

Rules of origin

Additional trade certificates like Certificate of origin, Certificate of Authencity.

## Dealing with the Non-tariff barriers:

We are living in a very competitive environment. All the companies in the world are working hard to have a competitive edge over each other. Tariff

and Non-tariff barriers play an important role in achieving the overall goal of the company in the foreign and domestic market. If a company wants to enter into a foreign market, it has to develop a strategy to enter into the market and makes profit. Governments use the Non-tariff barriers to facilitate the local industry from the foreign competition and also impose duty on their products to generate revenue.

China has been one of the fastest growing economies in the world. For the last three decade, china's economy has grown at approximately 10 percent per year. The main reason of china's success is that it has dramatically penetrated into the foreign market while protecting its local industry. Most of the western countries and independent think-tanks blame china for manipulating with its currency and use cheap labor to boom it exports. China has very strict barriers on imports. A company has to go through very strict procedure to invest into the local market.

(http://www. iie. com/publications/papers/lardy0507. pdf).

China has imposed a lot of Non-trade barriers on the imports from the foreign countries. This has played an important role in developing the local industries. The Chinese government has helped the local industry to improve its efficiency by giving them financial and tax relief. The imports from China have drastically affected the American manufacturing industries. Although the imports from China has significantly increased in US but US exports isn't catching up at the same ratio. This has caused a huge trade deficit between the US and Chinese trade. Now USA has imposed anti dumping tariff on Chinese products.

Recently the US international trade commission has ruled that the Chinese imports are hurting the American firms by selling the oil well pipes at a very low rate. Thus the Chinese steel pipe producers will face anti dumping tariffs of up to 99. 14 %. This type of tariff barrier is called protectionist barrier. This kind of move can damage the relationship between the countries. (http://www. e-to-china. com/tariff_changes/data_tariff_changes/2010/0505/78017. html).

The request for protection imports have significantly increased during the 2009. Many countries are targeting Chinese producers/exporters and trying to limit the imports from China to help their local industries to grow.

(http://www. e-to-china. com/tariff_changes/data_tariff_changes/2010/0505/78017. html)

## Conclusion:

To conclude we can say that non-tariff barriers play an important role in the revenue generation of the country. Most of the countries use tariff and Non-tariff barriers to protect their local industries and also to generate revenue. The most common type of Non-tariff trade barrier is protectionist barrier. Governments use this option to protect their local industries from the foreign competition.

Tariff has been used by countries to generate revenue but sometimes it can also be used for political gain. Some countries can use these tariffs to unfairly restrict the imports from certain countries for personal reasons. Thus World Trade Organization played an important role in persuading the member nations to reduce the tariffs.

This move has not only encouraged the trade between the countries but also helped in increasing the friendly relationship.

## Reference:

http://www. bea. org. mk/Upload/Content/Documents/Report %202007%20NON-TARIFF%20BARRIERS. pdf

http://en. wikipedia. org/wiki/Tariff

http://www. e-to-china. com/tariff_changes/data_tariff_changes/2010/0505/78017. html

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## Question 5.

Q5: under what circumstances might an international marketing firm consider using joint ventures to exploit business opportunities within a big emerging market (BEM)? Choose a particular product or service industry and a specific BEM as a vehicle for discussion.

## Introduction

International operations have become one of the most integral part of a businesses and all the organizations adopt different strategies to penetrate into the foreign market. The success of an organization depends upon how well it has understood the market situation and modified its strategy accordingly. All the foreign markets have a unique risk and opportunities. Thus the company’s main goal is to minimize the risk and explore the

opportunities to attain the overall goals and objectives of the company. Thus the most commonly used strategy to enter into a foreign market is Joint Venture.

“ A joint venture is an arrangement where two or more firms join forces for manufacturing, financial and marketing purposes and each has a share in both the equity and the management of the business”

There are many ways to approach a business opportunity in the market but Joint venture is considered to be the most appropriate and less risky. However one needs to analyze the advantages and disadvantages of joint venturing before entering into the relationship.

When a company enters into a market, they make a series of contractual relationship with the local business by either licensing or distribution agreement. The main benefit is the parent company has limited integration with the local companies. They only pay them a limited amount of money but do not share profit. However if the company wants a more dynamic relationship, than it can form equity joint venture, so that both can work together to increase the profitability of the company, and also share the profit and loss together.

## Advantages and Disadvantages of Joint Venture

There are many advantages and disadvantages of having a joint venture. On one hand, it enables a company to outsource it operations to other companies to reduce its overall cost, but it’s also very risky. The main risk is the ability and willingness of the other company to follow the guidelines and procedure laid down by the company.

## Capital requirement

## Advantage

One of the most important advantages of having a joint venture is that the financial resources can be shared. E. g. A Company may be interesting in opening a business that requires a significant amount of money. Although it might have the required labor and technical resource but it doesn't have the financial capacity to fund the project. This kind of project is a good candidate for a joint venture. To start this project, the company can look for other companies which can share the financial cost to start the project.

## Disadvantage

The most obvious disadvantage of having a joint venture is that the companies have to share their profits generated from the operations. A lot of issues can arise from this aspect because both the companies are not only sharing financial resources but they also share some technical know-how and intellectual property rights. These types of resources are difficult to value thus it can create some misunderstandings between the companies.

## Reduction of business risk

## Advantage

A joint venture allows the investor to diversify its risk. The most important way of reducing the risks faced by the investor in the market is to diversify its portfolio by investing in different markets.

Another advantage of joint venture is that when a company collaborates with a local firm than it can benefit from its local knowledge. The main risk that a

company can face in the foreign market is the little knowledge of local needs.

## Economies of scale

## Advantage

One of the most significant advantages of joint venture is achieving economies of scale for both companies. E. g. if the manufacturer gives the contract of sales and distribution to its local partner, it can focus mainly on bringing the product to its local partner. With proper planning, joint ventures can effectively reduce the cost associated with the product from the production to the end user.

## Control over Functional activities

## Advantage

In joint ventures, the companies can also have a more dynamic relationship with each other by giving direct access to each other's processes. E. g. a company can reduce its manufacturing cost by giving the production contract to the local company, but instead it can also seek a way to have some control on the manufacturing and production process of the local partner. Thus the foreign company can benefit from the local companies knowledge about the market and they can also share their business practices to strengthen their relationship.

## Sharing technology and management skills

## Advantage

In joint venture, both the companies can share their expertise to improve the overall efficiency of the business. The main advantage of having a joint

venture is that the foreign company can learn from the experience of its local partner about the local market. And the local partner can also take benefit from the foreign company to improve its technical and managerial skills. Both companies can share important information regarding their businesses to strengthen their relationship.

## Disadvantage

Although sharing technology between the businesses can be a good idea, but sometimes the practices learnt from joint ventures can be used beyond Joint venture in other business. This is the main factor that discourages the companies to form joint ventures.

## Joint venture in Big emerging market

International operations are one of the most important part of business strategies of the company. As the world has become a global village, the companies are faced with an intense competition and thus companies are continuously in search of exploring new market opportunities.

Joint ventures have become an integral part of the businesses. Most of the big brands in the industry had joint ventures in past with other companies which helped them to increase the profitability.

China is one of the largest economies in the world. Its products are exported all over the world. It has enjoyed approximately 10 percent growth rate for the 3 decades. It is one of the biggest exporters to United States. China's market is considered to be the best emerging market in the world and most of the big names have already entered into the market. These companies have effectively used the local companies and utilized their knowledge to

increase the profitability of the companies. General Motors, Toyota, Motorola, IBM etc have affectively used joint venturing to reduce their production cost and increase the profitability of the companies.

Chinese has significantly gained a huge market share in the telecom industry. Mobile phone giants like Apple, Motorola, Siemens, and Sony Ericson all operate in China. They assemble their products in China to enjoy cheap labour and manufacturing cost.

## Conclusion

To conclude we can say that joint venture is one of the most important tools used by the companies to improve the productivity and profitability. It helps the foreign companies to enter in to a foreign market with the help of the local knowledge. Thus both the companies can use utilize each other's resources to increase the productivity. In this way, the local companies can learn from the international business practices and managerial skills of the foreign company and the foreign companies benefit from the local knowledge of the local company. Although there might be some complications involved in joint venturing but if both companies work together, they can easily overcome any challenge.