INSTITUTE OF LAW, JIWAJI UNIVERSITY, GWALIOR

COURSE - B.COM. LL.B. FIVE YEAR

SEMESTER – VI

SUBJECT - INTERNATIONAL MARKETING

UNIT - 5 - TOPIC- EXPORT PRICING

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EXPORT PRICING

Price means the expression of value of utility of a commodity in terms of money. Price is the technique of determining such acceptable price at which the seller is willing to sell and the buyer is willing to buy the product.

In any export market, pricing and profitability are closely related as profit margin depends on the price fixed. Price fixed should be most reasonable. Some people consider price as value for money while others associate it with quality. An exporter must take all such perceptions into consideration while deciding the price.

Export pricing is also closely related to export promotion, since high prices go against export promotion, profit margin will be low if price is low but the demand will be more.

FACTORS DETERMINING EXPORT PRICES

INTERNAL FACTORS

1) Costs – Cost is the most important factor to be considered in the process of price determination, since cost constitutes a major part of the price. The export price should include direct cost like raw material cost and indirect cost like distribution cost.

2) Objectives of the firm – Internationally, pricing must consider costs, nature of markets and at the same time, it must be consistent with the firm's world wide objectives, such as profit maximization, market share, for example, if the objectives of a firm is to increase return on investment, then it may charge a higher price, and if the objective is to capture a large market share, then it may charge a lower price.

3) Product – The product plays an important role in fixing price. If a product is of superior quality, then a firm may either adopt premium strategy or high value strategy. In premium pricing, the firm would charge high price for high quality, and in the case of high value pricing, the firm would charge moderate price for high quality.

4) Image of the firm – The firms enjoying a good image in the market may charge a higher price, as compared to those firms which do not enjoy reputation in the market. This is because; consumers have trust and confidence in the firms enjoying name and reputation in the market.

5) Promotional Activities – Pricing is related to promotional activities. If a firm undertakes heavy advertising and sales promotion, then price planning must ensure that these promotional costs will be recovered, at least in the long term. It is often observed that highly advertised or promoted brands command high price as compared to lowly promoted brands.

6) Product life cycle – The stage of a products life cycle affects pricing. For example, when a firm introduces a product in a competitive market, then it may charge a lower price to attract the customers. During the growth stage, a firm may increase the price, especially in a low competition market.

The marketer may also consider the probable length of the product's life cycle. If the probable length of the product's life is expected to be long, then lower price may be charged, as compared to the products with shorter life span.

EXTERNAL FACTORS:

1) **Competition –** Pricing decisions also depend upon competition in the export market. It is difficult to have monopolistic conditions in the international market. In competitive market the exporters have no control over pricing decisions. Price of a product is influenced by the competitive forces of the market.
2) **Demand –** The prices in every market are directly related to the demand for products. The demand may be elastic or inelastic. Pricing depends on the degree of elasticity of demand. Highly elastic demand for a product tends to keep its price low, because a slight change in the price may cause considerable change in demand for such a product. In contrast, products having relatively inelastic demand can be quoted at comparatively higher prices.

3) Consumers- The types of consumers for whom marketing efforts are made play an important role in export pricing. A product for young people or fashion oriented goods will carry a high price. Further the composition of the consumers in terms of their income and paying capacity play an important role in export pricing.

4) Economic conditions – The economic conditions prevailing in the market must be considered while fixing prices. During the times of recession when consumers have less money to spend, the marketers may reduce the price to influence buying decision of the consumers. However, during economic boom, the marketers may change a higher price.

5) Channel of distribution – The marketer must consider the number of channel intermediaries and their expectations. The longer the chain of intermediaries would increase the price of the goods.

6) Market Opportunities - The marketer may consider the market opportunities for growth. If the market promises long term growth prospects, then the marketer may consider fixing lower prices.

BASIC DATA REQUIRED FOR EXPORT PRICING DECISIONS

The calculation of cost depends on the availability of reliable data connected with exportable products, external markets and other marketing information. The details of information required for export pricing very from product to product, market to market and firm to firm. An export firm needs the following information for pricing and costing.

1) Product cost –
a) Material
b) Labour
c) Factor overhead
d) Administrative overhead

2) Cost of Distribution –
a) Selling cost
b) Packing cost
c) Transportation cost
d) Insurance cost

3) Cost Relating to Exports
a) Product modification
b) Cost of documents
c) Export packing and marketing
d) Loading at factory
e) Transport to dock or airport
f) Handling charges and fees at port or airport.

4) Cost Estimates –
a) FOB, C & F or CIF
b) Sea freight or air freight
c) Unloading charges at destination
d) Airport handling charges or fees
e) Import duty and taxes
f) Clearing agent’s fees
g) Transport to importer’s warehouses
h) Importer’s margin
i) Wholesaler’s and retailer’s margin

5) Regulation in exporting country
a) Floor price
b) Duty drawback scheme
c) Import replenishment
d) Income Tax
e) Railway freight concession

6) Regulation in importing country
a) Import duty
b) Quota restrictions
c) Sources of supply (foreign or domestic)
d) Substitute products.
e) Complimentary products
f) Terms of payment

7) Other Relevant Data

a) Customer’s attitude towards prices and quality

b) Inventory of finished goods

c) Political restrictions on trade

d) Air or ship services

e) Business policy

f) Sales in units and rupees

g) Trade agreement –bilateral or multilateral.

Note – Other Topics Under The Export Pricing Is Same As Given In Unit - 3 Such As Pricing Strategy And Policy, Quotations Etc.

THANK YOU