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

SEMESTER – VI

SUBJECT - INTERNATIONAL MARKETING

UNIT-3 -TOPIC-PRICING DECISIONS AND PRICING POLICIES & STRATEGIES

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Pricing Decisions

The pricing decision is a critical one for most marketers, yet the amount of attention given to this key area is often much less than is given to other marketing decisions. One reason for the lack of attention is that many believe price setting is a mechanical process requiring the marketer to utilize financial tools, such as spreadsheets, to build their case for setting price levels. While financial tools are widely used to assist in setting price, marketers must consider many other factors when arriving at the price for which their product will sell. The marketing manager uses the parameters suggested by the economists for arriving at a price.

These parameters may be enumerated as under:

1. Costs
2. Demand and supply
3. Economic, legal and political conditions

1.*Costs:* Costs represent the base line for setting the price. In other words, costs represent the price floor beyond which prices cannot be dropped. As already explained costs are made up of two components, fixed costs and variable costs. Fixed costs represent the unescapable element of cost, whereas, the variable cost represent the escapable costs. The variable costs are also sometimes interpreted as marginal costs or incremental costs. Each of these components has its own significance when pricing a product but the significance is in turn dependent upon the marketing goals, and other similar variables.

2. Demand & Supply: For a marketing manager, the upper limit is demonstrated by the demand and supply conditions as they exist in the market. The demand conditions are interpreted from the market conditions and the consumer behaviour whereas; the supply conditions are interpreted by an analysis of the competition.

3. Economic, Legal and Political conditions: These represent parameters outside the market forces which influence the price structure. The Government, it has been noted, can through its policy, in fact modify the market conditions, making them lopsided. Thus, the countries where the economic policies are directed by the Government, the economic and political conditions have an important bearing on price structures. Taxes and duty drawbacks represent excellent examples for the same.

It must be pointed out that marketing efforts are directed at fulfilling the need of the identified consumers. Price is an inherent factor of need. Therefore price must reflect managerial thought, and must fit into the overall marketing strategy.

OBJECTIVES OF PRICING IN INTERNATIONAL MARKETING

The main objective of pricing in international marketing should be to meet the customer demand in a competitive situation in such a way that sales and profit are maximised. The pricing objectives may vary depending upon the stage of product life cycle and a country specific situation. However, the following other objectives of pricing are also pursued in relation to specific products and specific markets.

Penetration: A new entrant to a foreign market may quote a low price to divert demand from a regular channel of supply or to generate new demand as low price quotation may bring these about. The image disadvantage of the new comer and the nature of his product may also necessitate quoting low price.

Skimming: After an exporter has gained a strong foothold in a foreign market and has built up a good image for himself and his product, he may charge premium price, to maximise gain and can continue so long as the highest possible price does not affect adversely the market demand. The image advantage of the firm and the nature of the product, for example, vanity item may also be the reasons for quoting high price.

Holding Market Share: The objective is pursued by those companies that want to maintain their share in the market, usually in relation to single country marketing. They react to price adjustments by competition and exchange rate fluctuations. They have to take into consideration their competitive position as well as the ability and willingness of their customers to pay.

Enhancing Share: This pricing objective is allied to the preceding one with the only difference that the companies, in this context, try to out-price their competitors either by improving their cost efficiency or by quoting price based on direct costs and not on total costs.

Pricing Policies and Strategies

Pricing policies along with pricing strategies guide and provide a framework within which pricing decisions can be made with consistency and with the approval of the organization as a whole. Policies help to specify the role of pricing and its use in context of the Marketing Mix. Such frameworks are especially important in larger organizations where pricing decisions may be delegated to line managers or sales representatives. All such people need sufficient rules to maintain a consistent corporate image in front of the customers without being unduly restricted. Strategies are formed under the policy guidelines to achieve the predefined objectives. Let us discuss some of the pricing strategies that may be used for international markets.

1.Market Penetration Strategy: Under this strategy, exporters offer a very low introductory price to speed up their sales and, therefore, widening the market base. It aims at capturing the products in the market especially if the quality of the product is proved with its wide acceptance.

2. ***Probe Pricing Strategy:*** Fixing low price for its product may have an adverse effect on the image of the firm and of the product. It may raise doubts in the minds of the buyers about the quality of the product if it is lower than the price of competitors or if it is reduced subsequently. When no information is available on the extent of the competition or the likely preferences of the buyers, sufficiently higher prices may be quoted on the first few offers. No business is really expected to grow except feed back information. Hence, the prices may be adjusted accordingly.

3. Follow the Leader Pricing Strategy: In a competitive world market or where adequate market information is not available, it may be useful to follow the leader in the market comparing its product with that of the leader the exporter may then fix the price of its product. In such cases the price of the product is lower than the leader's product. However, this price has no rational or scientific base for fixing the price.

4. Skimming Pricing Strategy: Under this strategy, a very high introductory price is fixed to skim the cream of the demand at the very outset. This policy is generally introduced when there is no competition in the market. Such prices continue to be high till competitors enter the foreign market. As soon as competitors enter the market, the exporter reduces the price.

5. Differential Trade Margins Strategy: Variation in trade margins may be adopted by the exporter as the pricing strategy in foreign market. This strategy allows various types of discounts on the list price. Quantity discounts encourage procuring huge orders. It may be based on the value or on the quantity purchased or on the size of the package purchase. Special discounts may be allowed while introducing the product. These are given on all the purchases.

6. Standard Export Pricing Strategy: In some cases, exporter quotes the standard price or list price that is one price for all. But still there should be some margin for negotiations as in many markets especially in under developed countries, bargaining over prices is a part of life. In such cases, fixed prices may serve as a starting point for negotiation. Hence, it is desirable to keep a certain margin for the negotiations. This strategy is generally adopted in the export of capital goods i.e. plant & machinery.

7. Cheaper Price for Original Equipment and Higher Price for Spare Parts: In certain cases it might be useful to quote lower prices for the original equipment and charging higher prices for spares and replacement parts to be exported later as and when required. This strategy is useful where only the supplier of the original equipment can supply standard spare parts. This strategy could be used for tractors, telephone equipment, defence armaments, and railway equipment and so on.

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