INSTITUTE OF LAW, JIWAJI UNIVERSITY, GWALIOR

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

SEMESTER – VI

SUBJECT - INTERNATIONAL MARKETING

UNIT-3 -TOPIC-PRICING PROCESS AND FACTORS AFFECTING INTERNATIONAL PRICING DECISIONS

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PRICING PROCESS

Experienced global marketers view price as a major strategic variable that can help achieve business objectives. But there is no set formula for successful pricing in international marketing. Pricing decisions including price setting and price quotation in different markets involve a series of quantitative exercises in respect of the cost of the product and foreign market analysis.

Cost and sales forecast enable the exporter arrive at the floor price. The ceiling is determined by demand factors as well as competition. Between these two points, price .set according to perception, judgement, intuition and experiences of the international marketer.

STEPS INVOLVED IN EXPORT PRICING PROCEDURE

The main steps involved in export pricing procedure **are:**

1 Cost Analysis

a) **Cast** of product

b) Cost of distribution

c) Cost of marketing support.

2 Market Analysis with a view to ascertaining:

a) Market size and segment relevant to the product

b) Rice levels and price categories in respect of the product .

C) Competition

3 Determination of Price Limits within which the price is to be set according to experience and judgement of the exporter.

a) Lower limits i.e. cost limits

b) Upper limits i.e. market limits

4 Determination of Pricing Objectives in **the** light of which the price is to be set within the two limits.

5 Calculation of Price Structure

6 Rice Quotation and Terms

FACTORS AFFECTING INTERNATIONAL PRICING DECISIONS

The marketers have to take into account several factors while fixing prices globally. Some of them are as follows:

a) Production cost: The manufacturer will not sell goods below the production cost. The production cost is further divided into variable cost and total cost. Cost of production differs from country to country. Prices must cover production costs, hence, may vary from country to country. If the manufacturer's price can be lowered, the effect is felt throughout the chain.

(b) Distribution cost: Distribution cost involves costs of taking products from factory to the place of consumers. Prices depend on channel length, marketing patterns, middlemen's margins and mark-ups. The marketer also incur added expenses for warehousing and handling of small shipments, and may have to bear increased financing costs when dealing with underfinanced middlemen.

Exporting also incurs increased transportation costs when moving goods from one country to another. If the goods go over water, there are additional costs for insurance, packing, and handling not generally added to locally produced goods. Such costs add yet another burden because import tariffs in many countries are based on the landed cost that includes transportation, insurance, and shipping charges.

(c) Taxes & Tariffs: The manufacturer & exporter will add the amount of taxes & tariffs to the prices to recoup them from the consumers. If taxes & tariffs are not taken back from the customers, the profits of manufacturer & exporter would decline. A tariff, or duty, is a special form of taxation. Like other forms of taxes, a tariff may be levied for the purpose of protecting a market or for increasing government revenue. A tariff is a fee charged when goods are brought into a country from another country.

(d) Inflation: The effect of inflation on cost must be taken into account. In the countries with rapid inflation or exchange variation, the selling price must be related to the cost of goods sold and the cost of replacing the items. Marketers have to protect themselves against the inflation. When the payment is likely to be delayed for several months or is worked out on a long-term contract, inflationary factors must be figured into prices. Every exporter must try to charge inflation amount to prices.

(e) Exchange rate fluctuations: The exporters face fluctuations in exchange rate of various currencies. If the currency rate is stable, the payment would be easy and problem free but the fluctuating atmosphere makes it difficult to decide how much money and at what time would be received by exporters.

At one time, world trade contracts could be easily written and payment was specified in a relatively stable currency. The US dollar was the standard and all transactions could be related to the dollar. Now that all major currencies are floating freely relative to one another, no one is quite sure of the future value of any currency.

(f) Demand & Supply: The demand and supply are instrumental to the determination of the prices. Demand and supply conditions set the prices in a country. If the demand is more and supply is less then the company can afford to charge higher prices otherwise not. Similarly demand potential and demand elasticities both play critical roles. Price elasticity is most pronounced in low income countries, where people pay close attention to prices. If prices are high, they buy less, and if prices are low, they buy more.

(g) Competition: Competition is important factor to influence the pricing. The behaviour of competitors' puts severe constraints on the operating margins and ultimately the prices. More the number of competitors less price a company may be able to charge and vice versa.
Some price competition is indirect, meaning that price competition occurs between the product and its close substitutes. For example, many carmakers compete indirectly with public transport systems.

Non-price competition occurs in many markets. In developed countries, non-price competition takes on a promotional orientation with emphases on better advertising, improved design, and good service more than on price. In developing countries, non-price competition frequently takes the form of appeals of local pride and patriotism.

(h) Free Trade Zones: Some countries have established free trade zones (FTZs) or free ports to facilitate international trade. Price escalations resulting from the layers of taxes, duties, surcharges, freight charges, and so forth, can to some extent be controlled by utilizing FTZs. The benefits of free trade zones permit many of these added charges to be avoided, reduced, or deferred and the final price becomes competitive. One of the more important benefits of the FTZ in controlling prices is the exemption from duties on labour and overhead costs incurred in the FTZ in assessing the value of goods.

(i) Leasing: An important manufacturing and selling technique to alleviate high prices and capital shortages for capital equipment in the leasing system. The concept of equipment leasing has become increasingly important as means of selling capital equipment in overseas markets.

(k) Long range commitment: A firm may be internationalised temporarily or permanently, and this decision affects its pricing behaviour. Some enter international markets on a short-term basis because they have surpluses that can be sold or excess capacities that can be utilised by expanding into these international markets. These firms generally price low in order to sell the maximum in minimum time. Once the surplus is depleted or domestic markets recover or expand sufficiently to absorb he excess capacity, the company withdraws from international markets.

THANK YOU