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Approaches to International Pricing: Global Strategy

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ABSTRACT:

It provides a concise overview of the approaches to international pricing. It explores different pricing strategies and methods commonly used in international markets, including market-based pricing, cost-based pricing, value-based pricing, and competitive-based pricing. The chapter also examines the advantages and challenges associated with each approach, such as market dynamics, cost considerations, customer perceptions, and competitive pressures. By understanding and leveraging these approaches, businesses can develop effective pricing strategies that align with market conditions, maximize profitability, and maintain competitiveness in international markets.

KEYWORDS:

Cost-Plus Pricing, Currency Exchange Rates, Dumping, Global Pricing Strategy, Gray Market, Market Segmentation, Penetration Pricing.

I. INTRODUCTION

No business can sell items for less than what it costs to produce them, and no product can be offered at a price that is not reasonable in the market. In order for businesses to expand internationally, they must be knowledgeable about pricing and options such market segmentation from country to country or market to market, competitive pricing, and other market-oriented pricing variables [1], [2]. This kind of pricing strategy determines the product's price after taking into account both the fixed cost and the variable cost of producing the good. The fixed cost covers things like production costs, equipment costs, etc.The variable cost of the product's additional manufacturing cost In this kind of pricing, the business solely considers the variable costs associated with manufacturing the items while entirely disregarding the fixed costs. The goal of this pricing strategy is to gain market share. To gain market share in India, Chinese manufacturers use this price technique. The Indian government imposes a tariff or tax on such imports in order to support native producers. Anti-dumping duties are the name given to this kind of tax [3], [4]. The term skimming pricing refers to the process of removing the milk's cream layer. It entails setting the product's price exceedingly high at first so that only a small group of wealthy clients who want to purchase exclusivity will be able to afford its items. Customers that are willing to pay a hefty price for snob value are the target market in this instance. The company's profit is maximised by this method.

Firms like Apple offer new models at exorbitant costs in order to engage in skimming pricing. The incoming call fee at the time mobile phones were first introduced in India was Rs16/min.

Price Penetration

The businesses purposefully provide their items at cheap rates in order to gain market share. Although this price strategy has a poor profit margin, the number of sales more than makes up for it by increasing revenue. Example: Jio's 4G launch pricing in India. Similar to this, Big Bazaar employs similar pricing approach by offering well-liked products at a discount to get visitors into their shops. Another excellent example is the market share of Samsung that Xiomi and Micromax were able to take in India.

II. DISCUSSION

Price Escalations

When travelling abroad, it's common to see that items that are cheap in our own country are highly costly in another. Typically, we assume that the increased price is a result of the product's higher export costs. For instance, the price of an I Phone in India will be 40% more than in the US [5], [6].

1. Before reaching the end user, a product must first travel through the hands of an importer, a firm primarily responsible for sales and services, a territorial local distributor, and ultimately local retail stores.
2. There are significant price discrepancies between items sold globally since profit margins are set at every level and are increased by the cost of export and transportation.
3. The price continues going higher every time the goods is traded on the global market until it reaches the ultimate customer.
4. A product's ultimate cost in a foreign market may increase as a result of the accumulation of cost variables throughout the distribution channels, which is another definition of price escalation.
5. Price escalation is the term used to describe the increased expenses experienced while exporting goods from one nation to another.
6. Price escalation is the cost associated with the excessive price differential between the exporting and importing nations.

Factors that Cause Price Increases

It is the additional expense spent as a consequence of exporting goods across nations. International shipping costs, insurance, packaging, customs, extended distribution channels, higher middleman margins, specialised taxes, administrative expenses, and currency rate changes all contribute to higher final pricing. Tariffs are a unique kind of tax imposed on merchandise when it is exported. A tariff is a tax or charge imposed by one country on products or services imported from another country. These expenses translate into increased pricing, which are often passed on to the product's customer. Generally, tariffs are applied for one of four reasons:

1. To shield indigenous industry from competition from abroad.
2. To shield indigenous industries from foreign competition and to prevent them from becoming obsolete.
3. To defend domestic manufacturers against dumping by foreign businesses or governments. Dumping happens when a foreign corporation sells an item in the local market for less than what it would cost it to sell it there, or for less than what it charges there.
4. To generate income. Tariffs are a common method used by developing countries to increase income. A government-imposed oil tax, for instance, might be a means for a corporation without local oil sources to generate a consistent stream of income.

There are two types of tariffs:

1. Particular Tariff.
2. Tariff based on value.

These expenses consist of the money spent on Import and Export Licences, other export import papers, and transportation of the goods from the port of entry to the buyer's locations. Despite being relatively minor in scale, these charges contribute to the total price. Inflation is the rise in an economy's average price levels, which lowers the purchasing power of a given amount of money. To counteract this impact, businesses must adjust their pricing to account for the various inflation ratios. As a result of increasing consumer costs brought on by inflation, many customers are finally priced out of the market [7], [8]. Deflation, on the other hand, results in falling prices, which benefits consumers. For a business to succeed in a deflationary environment when consumers' purchasing power is falling, it is crucial to maintain low pricing and build brand value.

To gain the confidence of customers in a deflationary economy, it is crucial for a business to maintain low pricing and build brand value. Whether there is inflation or deflation, the exporter must put a strong focus on preventing price increases. Middleman and Transportation Costs. Increasing pricing may be essential due to longer channel length, marketing function performance, and larger margins [9], [10]. Exchange rate fluctuations and fluctuating currency values. Currency values fluctuate every day in relation to other currencies, which may necessitate raising prices. The worth of any nation's currency in the future is uncertain. More and more transactions are being expressed in terms of the national currency of the Vendor Company. Consequently, there are variations in costs across borders.

Methods for Reducing Price Growth

A significant pricing issue for multinational marketers is price escalation. How can this issue be resolved? Compared to just selling products on the domestic market, exporting entails additional processes and much more dangers. The ultimate overseas retail price will often be significantly higher than the local retail price to compensate the additional expenditures. Price escalation is the term for this phenomena. Price increases bring up two crucial issues that management must address:

1. Will our international clients be willing to purchase our goods at the inflated price?
2. Will this pricing reduce the competitiveness of our product?

If the answer is no, the exporter must determine how to handle an increase in price. There are many methods for dealing with price increases:

1. Lowering product costs
2. Reduction of tariffs.
3. Reducing the price of distribution.
4. Adjust the distribution system.
5. Remove pricey features.
6. Reduce the product's size.
7. Produce or assemble the item in a foreign country.
8. Foreign trade zone use

Bringing down the price of products. The manufacturing facility might be relocated to a less costly region to accomplish this. As an example, businesses like Samsung produce their products in Korea to take advantage of the country's low-cost labour. On the other hand, lowering a product's quality greatly lowers its cost. Even while some businesses wouldn't want to jeopardise their reputation by lowering the quality of a product, removing certain features and making the product simpler might be a wise choice to save expenses without endangering the brand. Although cutting manufacturing expenses could be advantageous to the company since the lower the product price means paying less in tariffs.

Reduced Tariff

A significant portion of price growth may be attributed to tariffs. Companies must make sure their goods are classified correctly or they can be paying the wrong percentage of tariffs. Lower rates may be attained by:

a. Reclassification: During the evaluation process, product descriptions might help the manufacturer rework their product to fall into a lower category. A product with a given specification, for example, could have a high tariff, yet adjusting a product that is comparable to it by shrinking it or changing its specs might greatly lower the tariff. Sports shoes fall under this category.

b. Convincing a Foreign Government: Another way to lower tariffs is to build a portion of the product in the nation where it will be sold. Therefore, if the product is assembled using local materials, it will be much less affordable.

Cost Reduction for Distribution

The company must examine its distribution methods with the aim of minimising all middlemen, especially in light of the fact that in the majority of nations taxes are paid each time a dealer changes. The intermediaries may be reduced or eliminated to minimise distribution costs. Designing a distribution route with fewer middlemen may also reduce distribution costs, which will result in the removal of middlemen markup or reorganisation of the distribution channel.

Cut Out Expensive Features

A number of exporters have responded to the problem of price increases by providing basic versions of their goods. Customers may buy the main product and then choose whether or not they want to pay extra for optional extras rather than having to buy the full bundle.

Scale back the product

Downsizing the product by selling a smaller version of it or a lower quantity is another method for reducing sticker shock. Only when customers are unaware of cross-border volume variances is this method preferable. In order to do this, producers could choose for a local branding approach. Produce or assemble the item in a foreign country for export. To assemble or even manufacture the full product in other markets is a more extreme alternative. Lower transportation expenses result from being nearer to the export market. Many businesses have chosen to establish assembly facilities in EU member states in order to lower import taxes on items sold inside EU markets.

Foreign Trade Zone use

Until commodities depart FTZ zones and are imported into the host nation, imported goods are kept or processed without the imposition of customs or charges.

1. Ftzs may reduce expenses.
2. Reduced fees imposed.
3. Lower labour costs in the nation importing.
4. With unassembled items, maritime shipping expenses are reduced.
5. Using regional components for the final assembly.
6. Inflation and fluctuating exchange rates are not the source of price increases.

International Market Leasing

The leasing system is a crucial sales strategy to lower capital equipment costs and capital constraints. Regular lease terms range from one to five years, with monthly or yearly payments. Servicing, repairs, and replacement parts are all included in the leasing cost. The fundamental motives and the inadequacy are the same for domestic and international leasing agreements just as they are for the contracts. For instance:

1. Leasing gives buyers access to a large group of nominally capitalized foreign companies who may otherwise be unable to purchase outright but who can be offered on a lease option.
2. Because there is less risk for the users, leasing may help with the difficulties associated with selling new, experimental technology.
3. Leasing enables better maintenance and servicing for equipment purchased abroad.
4. Equipment that is rented and in use promotes the sale of other businesses in that nation.
5. Lease income often generates more money over time than direct sales would.

Counter Trade as a Method for Pricing

Countertrade is a catch-all phrase for irregular trade-financing deals involving some kind of non-cash payment. Companies have had to depend on countertrade more and more during the last ten years. Although estimates of the full scope of countertrade vary, the general view is that it accounts for 10 to 15 percent of global trade. Every worldwide marketer must be prepared to use counter trade as a pricing strategy, and the readiness to accept a counter trade will often provide the firm a competitive edge. Just as they must be aware of social norms and regulatory obligations, marketers must also be aware of which markets are likely to call for countertrades. A marketer's competitive position will be strengthened by evaluating this countertrade element in conjunction with all other market aspects. PepsiCo and Russia entered into one of the first barter agreements because PepsiCo sought to enter the Russian market before Coca-Cola. The only option to fund Pepsi-Cola bottling facilities in such nations was for PepsiCo to be ready to take vodka from Russia and bottled wines from Romania. All signs point to this being a highly profitable agreement between Russia and Romania, and PepsiCo continues to exploit counter trade to increase the number of its bottling facilities.

In a recent deal, Pepsi Co. and Ukraine agreed to offer commercial drinks created in Ukraine valued at $1 billion over an eight-year period. Five Pepsi bottling facilities will be constructed in Ukraine using the revenues from the sale of the ships, with part of the money going back into the shipbuilding business. Due in part to PepsiCo's executive countertrade deal with Russia, which barred Coca-Cola from the Russian cola market for more than 12 years, PepsiCo now controls the cola market in Russia and all of the former Soviet Republics. The Russian economy collapsed with the dissolution of the Soviet Union, and the majority of the country's financial system was replaced by bartering. To satisfy debts, one business swapped truckloads of aspirin for chicken, which was then exchanged for timber, which was then transferred for X-ray equipment from Kazakhstan. Regional energy providers were often the parties in these agreements, and they owed money to almost everyone.

Aspects of The Black Market

As mentioned before, there are six ways that countertrade occurs.

1. In simple barter, one thing is exchanged for another without the need of money. In most cases, there is no need for a third party to complete the transaction. The whole transaction is covered by a single contract. One of the earliest varieties of countertrade, it is hardly ever employed nowadays. Deals involving subsistence economies tend to use it the most often. When a debtor is unable to make a cash payment, barter may also be included into an existing contract to collect debt via products.

2. In a clearing arrangement, each party establishes an account that is debited each time items are exchanged. Imbalances are resolved by payment in hard cash or products at the conclusion of the contract term.
3. A clearance agreement between Indonesia and Iran, for instance, stated that in return for 30,000 barrels per day of Iranian crude oil, Indonesia would provide paper, rubber, and galvanised sheets.
4. Switch Trading is a clearing arrangement variation that involves a third party. In such transactions, discounted rights to the excess credits are sold to specialised merchants. The third party then makes purchases from the deficit nation using the credits.
5. In this kind of transaction, the seller agrees to be compensated with the goods produced as a consequence of utilising the equipment. Compared to other kinds of countertrade, such agreements are much more profitable to both parties. Example: A settlement reached between Japan's Kao Corporation and Malaysia's largest palm oil refiner, PALMCO Holdings. The agreement established a $70 million joint venture to manufacture palm oil derivatives in Malaysia. 60 percent of the output that Kao might employ as raw materials to make detergents, cosmetics, and toiletries was to be paid as compensation.

   The most common kind of countertrade is counterpurchase. Two parallel contracts are put up, similar to buyback agreements. Each side commits to purchasing from the other a certain quantity of commodities for a predetermined length of time in hard money. Unlike buybacks, there is no connection between the items. Usually, the importer will provide the exporter a shopping list from which to choose. As an example, PepsiCo and three regional partners established a joint venture in Ukraine in October 1992. The collaboration was mandated under the contract to promote ships made in Ukraine. The money from the ship sales was supposed to be used to create Pizza Hut restaurants in Ukraine, develop bottling operations, and purchase soft drink equipment.
6. Counter buy features a variant called offset. The seller consents to use imports from that nation or transfer technology to the nation of the other party in order to reduce the purchase price. Defense contracts often use offset, but it's also becoming increasingly widespread in other industries.

III. CONCLUSION

In conclusion, Approaches to international pricing provide companies a range of tactics and techniques to establish prices successfully in foreign marketplaces. Businesses may create pricing strategies that suit market circumstances and maximize profitability by considering market dynamics, cost considerations, consumer perceptions, and competitive pressures. To stay competitive and modify price plans as necessary, it is crucial to continuously evaluate market developments, consumer input, and competition pricing tactics. Businesses may traverse the intricacies of foreign markets and achieve sustained development and profitability with the aid of an efficient international pricing strategy.

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