8.6 KEY WORDS

Brand: A name, term, sign, symbol, or design or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of others.

Brand Name: That part of the brand which can be vocalised – the utterable.

Family Brand: Also called Umbrella brand – Brand used in the entire family of products of a firm.

Global Brand: A brand with commonly understood set of characteristics, benefit and appeal, and used worldwide.

Guarantee: An assurance that the product can be returned if its performance is unsatisfactory.

Individual Brand: Separate brand for each one of a member of products from the same firm.

Service Mark: A trade mark registered for a service.

Trade Mark: That part of the brand that is given legal protection for exclusive use by a seller.

Warranty: An assurance that the buyer will be compensated if the product does not perform upto reasonable expectations.

8.7 ANSWERS TO CHECK YOUR PROGRESS

A 4 (i) True (ii) False (iii) False (iv) True (v) True

B 4 (i) True (ii) False (iii) False (iv) True (v) False

8.8 TERMINAL QUESTIONS

1 What do you mean by branding? Explain the importance of branding.

2 Do you think that branding is an important marketing tool. Discuss and explain the basic decisions in branding.

3 How would you formulate the branding strategies for textile products? Evaluate the advantages and disadvantages of various branding strategies.

4 Describe the functions and importance of packaging. What are the special considerations in packaging and labelling in international marketing?

5 Differentiate between warranty and guarantee. What are their role in marketing.

UNIT 9 INTERNATIONAL PRICING

Structure

9.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the objectives of pricing in International Marketing
- describe factors affecting pricing decisions
- explain major pricing methods and practices in International Marketing
- discuss pricing process and strategy
- explain the steps involved in export pricing
- illustrate the cost and price calculations for export
- discuss the concept of transfer pricing and methods
- describe the pricing angles and issues in counter-trade.

9.1 INTRODUCTION

You might have noticed when you were travelling abroad that the price of the same branded product (for instance, tooth paste, shaving cream, shampoo, soft drink etc.) varies from country to country. In some cases, the price of an imported product in a country may be less than that in the country of manufacture for the same product. You might have also come across cases of local manufacturers complaining of items being "dumped" into the country by an overseas firm. There are also cases of firms charging low prices as "initial offer" for some items, offering seasonal discounts on some products, selling expensive items on credit or arranging finance to buy products like cars etc. There are also cases of some products being priced say Rs.199 instead of Rs.200. You might have also felt that the prices of some products are very high and perhaps cannot be justified on cost of production considerations alone. What are the reasons for all these? Is there any philosophy behind these? Do firms follow a well planned strategy in regard to pricing?

In this unit, you will learn the role and objectives of pricing, factors affecting pricing decisions, pricing methods and practices related to International Marketing. You will further learn the pricing process, strategy, procedure and calculation of cost and price for export.

9.2 OBJECTIVES OF PRICING IN INTERNATIONAL MARKETING

Success in international marketing in the present circumstances depends, among other things, on right pricing of the product. But it has not to be considered independent of other elements of international marketing mix such as product, placement and promotion. An international trade contract cannot be won or lost merely on the basis of pricing. Changes in various aspects of marketing environment in target market, affecting the competitiveness of international marketer, have their direct impact on pricing. A marginal or negligible supplier to a foreign market has to follow the price ruling in the market. Only the dominant supplier may have the privilege of setting the price in a foreign market. The price in international marketing is determined by the cost of the product, competition from other suppliers and demand for the product. Normally, the cost establishes the floor, the competitive prices are presumed to set price ceiling and the demand for the product, as determined by the willingness and ability of the customers to buy the product, mostly determine the price to be charged by the supplier.

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.

9.3 FACTORS AFFECTING PRICING DECISIONS

After reviewing the objectives of pricing in international marketing, let us briefly look into the factors affecting pricing decision. The three basic factors which determine pricing decisions in international marketing are:

i) Cost of the product

ii) Competition in the foreign market

iii) Demand for the product in the foreign market.

In addition, some other specific factors, mentioned below, are to be considered in pricing for international marketing.

a) Exchange rate changes in relation to target market

b) International transportation cost – keeping in view the mode of transport used

c) International channel of distribution costs in respect of the product concerned

d) Nature of international market in terms of trade practices and marketing environment, both at micro and macro levels

e) Governing trade policies and price regulations including anti-dumping legislation

f) Varying inflation rates and interest rates in different countries

g) Global marketing requirements which may warrant charging the same price in all overseas markets.

These factors should be kept in view while formulating and adjusting prices in relation to international marketing.

9.4 PRICING METHODS AND PRACTICES IN INTERNATIONAL MARKETING

Price is an important element of marketing mix. It affects the firm's ability to stay in the market. Therefore, the price of the product must reflect the value which the consumer perceives in the product. In fact, setting the price for the product may be the key to success or failure in the market. Main methods of pricing in international marketing are: Cost-plus method, Marginal cost pricing method, Differential pricing, Probe pricing, Penetration pricing, Skimming pricing and Competitive pricing. They are briefly described below:

Cost Plus Method: This technique implies charging the total costs plus profit. Costs include all the special costs incurred in international trade such as special packing, marking, labelling according to foreign market requirements, transportation, insurance, handling, duties, taxes and levies at different stages from the place of origin in the exporting country to the destination in foreign market, depending on terms of sale. In this pricing method the exporters try to recover all costs along with the profit from overseas customers. So, it may lead to high prices for the end users. It must be realised that the market situation and the nature of competition vary from country to country, hence it may not always be possible to apply this method.

Marginal Cost Pricing: Charging full costs plus profit may not be possible in all international transactions. Hence, depending on the nature and extent of competition, less than full cost, sometimes only the variable costs or even less than that may have to be charged. In a stringent situation, exporter may charge price to cover only prime costs or just material cost-plus packing and other direct export marketing cost. This is known as Marginal Cost Pricing Method. This pricing strategy is followed to penetrate the foreign markets and maintain the market share of the firm.

Differential Pricing: This is the most common pricing practice in international marketing. As nature and extent of competition and business environment vary from country to country and also from segment to segment, differential pricing may be followed for the same product in different markets according to the principle, 'what the traffic can hear'. In fact depending on the market situation, price, along with other elements of marketing mix, is to be adapted for effective and gainful international marketing.

Probe Pricing: A new entrant to a foreign market, who may not have full knowledge of the market and the nature and strength of competition tries to probe the prospective market by quoting price approximation relating to sales volume and value. Concessions on invoice price may be offered to attract the customer. Cost plus profit and competitor's prices usually constitute the parameters of probe pricing.

Penetration Pricing: In order to penetrate into a new market lower than the ruling market price may be charged. This penetration price may yield marginal surplus over the total cost, or just cover the full cost or in some cases even the total cost may not be realised. This method is considered feasible only when more gainful prices may be possible to be realised in future.

Skimming Pricing: This type of pricing is resorted to by an exporter who has gained a strong foothold (a near monopoly position) in a foreign market and has acquired a highly competitive position with an image of a dependable supplier of quality product. With the help of a well thought-out promotion programme, emphasising the value derivable from the product, higher price may be charged to maximise gain. Vanity items or items that involve high research development expenditure for manufacturing and marketing or items that are unique to a particular company or country which cannot be easily copied by competitors are amenable to skimming pricing.

Competitive Pricing: In international marketing, a watchful and seasoned marketer always keeps track of the prices quoted by competitors. He tries to adjust and adapt his prices to remain in the market. This type of pricing is known as competitive pricing. Alternate pricing and motivating pricing are other methods of pricing in international marketing. Usually the beginners apply cost-plus method or probe pricing and follow the techniques, employed by the leading firms in the market whereas the other methods are applied by the established marketers who have a clear understanding of the market behaviour and the customers' response to price variations.

9.5 PRICING PROCESS AND STRATEGY

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. Much also depends on the relative bargaining positions of the importer and exporter. The exporter attempts to have as much information as possible about the market. The price is then set to achieve the objectives in view, such as holding or increasing the share in the market or skimming the market.

Steps Involved in Export Pricing Procedure

The main steps involved in export pricing procedure are:

1 **Cost Analysis**
   a) Cost 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) Price 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 **Price Quotation and Terms**

Check Your Progress A

1 Distinguish between penetration and skimming pricing.

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2 Enumerate five factors affecting pricing decisions in international marketing.

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3 What is competitive pricing?

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4 State whether the following statements are True or False.

i) An international trade contract cannot be won or lost merely on the basis of pricing.

ii) Any supplier may have the privilege of setting the price to a foreign market.

iii) Varying inflation rates and interest rates in different countries affect the pricing strategy of the firm.

iv) In order to penetrate into a new market, higher than the ruling market price may be charged.

v) Skimming pricing is resorted to by an export who has gained a strong foothold in a foreign market.

9.6 COST AND PRICE CALCULATIONS FOR EXPORT

You have learnt the objectives of pricing, pricing methods, strategies and steps involved in export pricing. Let us now discuss how export price is calculated.

Main Elements of Cost Leading to Price

1) Direct Cost – Material, labour, other direct charges
2) Indirect Cost + Factory overhead == Factory Cost
3) General and Administrative expenses == Total Cost
4) Distribution and Selling expenses
5) Marketing Support cost = Total Cost of Sale
6) Profit = Price to be charged

Main Elements of Price Structure for Export

1) Factory-cost of goods
2) Export Packing, marketing and labelling
3) Loading for transport from factory
4) Transport to dock or airport
5) Port/Airport handling charges and fees

6) Cost involved in documentation
7) Fees for consular invoice/Certificate of Origin
   1 to 7 == FOB Price
8) Insurance Premium and cost of policy
9) Ocean freight/Air freight charges
10) Unloading charges at destination
11) Port/Airport handling charges and fees at destination
   1 to 11 == CIF Price
12) Import duty and taxes
13) Clearing agent's fees
   1 to 13 == Landed Cost
14) Transport to importer's warehouse
15) Importer's margin and mark up
16) Whole saler's margin and mark up
17) Retailer's margin and mark up
18) Other local taxes, if any
   1 to 18 == Price to Consumer

You are supposed to consider these elements while preparing the price quotation of a product. These elements of price are illustrated below with an example of price quotation for a tractor:

Export Costing Sheet

Particulars	Cost per Tractor
Raw materials (including power)	Rs. 32,000
Components	Rs. 13,000
Direct labour	Rs. 6,000
Direct benefit to labour	Rs. 1,000
Prime Cost per Tractor	**Rs. 52,000**
Other direct Cost relating to Export	
Packing	Rs. 1,000
Inland transport	Rs. 600
Clearing expenses at port	Rs. 500
Total direct cost per tractor	**Rs. 54,100**
Fixed cost allocation per tractor	Rs. 7,000
Fixed cost ex-factory	Rs. 61,100
Less Incentives available:	
Duty drawback	Rs. 2,000
FOB Cost	Rs. 59,100
Freight from port of shipment to port of destination	Rs. 4,000
Total C&F Cost	**Rs. 63,100**
Insurance	Rs. 694
Total CIF Cost	**Rs. 63,794**

In the cost sheet, the CIF cost has been shown. This amount, together with profit, would indicate the price to be charged at the CIF point.

Working Backward Technique

In the process of determining up to what level of cost and reasonable profit can be charged as price in the target market, the following technique of working backward from the point of foreign market price may be followed;

Market Price of the Product in Target Market

   Less Retailer's margin and local taxes

Cost to the Retailer

   Less wholesaler's margin

Cost to the Wholesaler

   Less Importer's mark up

Cost to the Importer

   Less import duty and various charges connected with unloading

CIF Price

   Less Freight and Insurance charges

FOB Price

This FOB price may be compared with the cost plus pricing from the factory to the FOB point. Any excess or deficiency of the former compared to the latter would indicate the probable profit or loss on exportation. Care should be taken to take into consideration the incentives that are available against exports.

9.7 PRICE QUOTATION AND TERMS OF SALE

You have learnt the price calculation processes and techniques. Let us now look into how price quotations are made and which terms of sale are generally used in export marketing.

When a firm receives an enquiry from abroad, a quotation is prepared and sent. The quotation gives details of the product, its quality, weight and volume, its price, the place of delivery, the payment terms and the time of shipment. As the time of shipment is critical in international trade transaction, the quotation should specify whether the time of shipment is in relation to the factory or the port of export. The quotation should state explicitly that the terms are subject to change without notice. It is always desirable to specify the precise period during which a particular price or offer remains valid.

Sometimes foreign buyers request for proforma invoice to be sent along with the quotation. It is used by buyer abroad to apply for import licence and/or for arranging funds. Proforma invoice should be conspicuously marked as 'Proforma Invoice' and should include a statement certifying that proforma invoice is true and correct. It should indicate the country of origin of the product. Quotation must include the terms of sale describing the points of delivery and shift of risk from exporter to importer. Main terms of sale used in international trade transactions are Ex.Works, FAS, FOB, C&F, CIF, Ex-Dock and DDP. They have been briefly described below.

Ex-Works (Ex named Point of Origin): There are several variations of this term such as Ex-Factory, Ex-Warehouse, Ex-Plantation and Ex-Mine. According to this term, the exporter undertakes to make the goods available to the importer or his representative at specific time and place which is usually his place of business or warehouse. The importer or his representative takes delivery at the exporter's premises and bears all the risk and expenses from that point onward.

FAS – Named Point of Shipment: FAS stands for 'Free Alongside Ship'. Under this term the price includes all expenses up to delivery of goods along side the vessel or other means of transport. This term does not include the cost of loading. The exporter's legal responsibility ends after he has obtained a clear wharfage receipt.

FOB – Named Port: FOB stands for 'Free on Board'. FOB price includes the cost and expenses till the goods are placed on board the ship. The exporter's responsibility does not end until the goods have actually been placed aboard the ship and a bill of lading issued. The importer arranges for overseas transportation and bears all costs and risks from the point the goods are placed on board and pass the rails of the ship.

C&F to Named Port of Destination: C&F stands for Cost and Freight. C&F price includes the cost of transportation to the port of import. The importer pays for insurance. But the risk of loss or damage to the goods is transferred from the exporter when the goods pass the rails of the ship just like in the case of FOB term.

CIF to Named Port of Destination: CIF stands for Cost, Insurance and Freight. The term names the overseas port or any location as destination. The CIF price includes the cost of goods, insurance and all transportation charges to the point of disembarkation at destination port. The exporter's obligation ends at the same stage as under FOB, according to the interpretation given by the International Chamber of Commerce (ICC), that is when the goods are loaded aboard. The exporter pays for the insurance and the insurance company along with the carrier assumes the responsibility after the goods are loaded on board the carrier.

Ex-Dock Named Port of Destination: Ex-Dock means from the dock at the import port. This term includes variations like Ex-Quay, Ex-Pier and Ex-Ship. This price term goes one step beyond CIF term. It means that the exporter is responsible for delivering the goods off the dock at the named overseas port of destination with the landing charges and appropriate duty having been paid.

DDP – Delivered Duty Paid: This price term implies that the exporter undertakes the delivery of goods to the place named in the country of import, most likely the importer's warehouse, with all the cost met and duties paid. The exporter obtains the import licence on behalf of importer and arranges for overseas customs clearance, as well as inland transportation of goods to the final destination in the importing country.

Some other terms which may be used in the case of pricing for export are CPT (Carriage Paid to the named place of destination) which is equivalent to C&F discussed earlier, CPI (Carriage and Insurance Paid to the named place of destination) which is equivalent to CIF discussed earlier. Both are generally used in the case of shipment by modes other than water transport.

FCA – Free Carrier to a Named Place, replaces the term FOB named inland port. It is used in the case of the multi modal transport, covering container depot/station and any other mode of transport including air.

9.8 TRANSFER PRICING CONCEPT AND METHODS

Discussion on pricing in international marketing management cannot be complete without analysis of pricing in relation to inter-firm transfers between a company and its affiliate or subsidiary located in a foreign country. What is Transfer Pricing? In international marketing, different units under the same corporate body but located in different foreign countries, exchange goods and services among themselves. The pricing of such exchanges (of goods and services) is known as transfer pricing. A rational system of transfer pricing is required to ensure profitability at each level. Global companies, while determining transfer prices for supplies to subsidiaries and affiliated in foreign countries, take into account a number of factors like taxes and duties leviable in the countries concerned, their market conditions, ability of the potential customers to pay for the company's products, different profit transfer rules, conflicting objectives of joint venture partners and varying government regulations.

There are four major alternative approaches to transfer prices:

i) Transfer at cost

ii) Transfer at cost plus overhead and margin

iii) Transfer at price derived from end market prices

iv) Transfer at "arm's length price"

Details of these alternative methods are described below:

Transfer at Cost Method: This approach is based on the assumption that lower costs lead to better performance by the subsidiary/affiliate. This also helps to keep duties at the receiving end to the minimum. The companies using this method of transfer pricing do not have expectations of profit on transfer sale. Rather, the receiving unit (subsidiary or affiliate) is expected to generate profit by subsequent sale.

Transfer at Cost Plus Method: This method is applied in recognition of the principle that profit must be shown for every product or service at every stage of movement through the corporate system. But this may result in pricing that is completely unrelated to the competition or demand conditions in foreign markets. However, some companies having wide experiences and information about various foreign markets use this method quite successfully.

Market Based Transfer Pricing Method: Under this method, the price is derived from the competitive foreign market prices. It may therefore be too low for the selling subsidiary and the production cost may not be covered. It may be fruitfully used to enter a new market which may be too small to support local manufacturing. This method enables a company to establish its name or franchise in the new market without undertaking production there.

Transfer at "Arm's Length Price": In this method, the transfer price is the price that unaffiliated parties in a similar transaction agree on. The arm's length price may be usefully applied if it is viewed not as a single point price but rather a range of prices. In fact, pricing at arm's length in the case of differentiated products results not in pre-determinable specific prices but in prices that fall within a pre-determinable range. The problem with this method occurs when the products has no external buyers or is sold at different prices in different markets.

Of all the four methods, the cost plus and the market based pricing are the most popular methods used by companies in the case of inter firm transfer.

9.9 PRICING ANGLES AND ISSUES IN COUNTER-TRADE

You have learnt the pricing objectives, methods, strategy, quotation for international marketing. Let us now analyse pricing angles and issues relating to counter-trade which has proliferated on a large scale and constitutes a good proportion of world trade. Three primary reasons for spread of counter trade have been:

i) It provides a trade financing alternative to the countries having international debt and liquidity problems.

ii) It facilitates access to new markets.

iii) It fits well with the growth of bilateral trade agreements between governments.

There are six main types of Counter-trade. Pricing angles in respect of each one of them have been highlighted. Let us discuss them.

9.9.1 Main Types of Counter-trade

Barter: Barter is the simplest type of counter-trade and is one time direct and simultaneous exchange of products of equal value. Prices are considered only implicitly in such exchanges.

Counter Purchase: In counter purchase, there are two contracts or a set of parallel cash sales agreements, each paid in cash. A supplier sells a product or a facility at a set price and orders an unrelated or non-resultant product at an agreed price. The two transactions offset each other. Pricing is considered in respect of each of the two transactions.

Compensation Trade (Buy Back): In the case of compensation trade, also known as buy back arrangement, a company provides machinery, factory or technology to a firm located in another country and agrees to buy back products made from the machinery or factory or through the use of technology sold, over an agreed period of time. Normal principle of pricing is applied in both the sets of transactions.

Switch Trading: This type of counter-trade involves a triangular rather than bilateral trade agreement. When goods, all or part, from the buying country to be received in the selling country are not easily usable or salable in that country, a third party may be located in a third country and may be brought in to dispose of such merchandise. The third party pays hard currency for the merchandise at a considerable discount. The amount of discount may be decided through negotiation between the seller in the original deal and the third party.

Offset: In an 'offset' type of counter-trade, a foreign supplier is required to manufacture or assemble the product locally and/or purchase local components as an exchange for the right to sell its product locally. In effect the foreign supplier may have to manufacture at a location in the importing country that may not be optimal from economic standpoints. In all the cases of purchases and sales involved, normal pricing principles are applied.

Clearing Agreement: This is also known as "Clearing Account Barter". Usually it does not require any currency transaction. A line of credit is established in the central banks o the two countries. Trade in the form of exchange of products between the two countries on government account is then taken up as a continuing process. An agreed value or volume of trade is designed to be achieved over a specified period, usually a year. The trade agreement between the two countries' governments sets forth the products to be exchanged, ratio of exchange and the time-length of completion. Any imbalance after the end of the year is settled by credit into the next year. Issues relating to non-acceptable goods, penalty payment for defaults or demand for hard currency payments are sorted out periodically. Price angles are applied in respect of deciding the ratios of exchange amonį different product groups. Also the rate of exchange between the two countries' currencie: is decided to be operative over the given period.

9.9.2 Pricing Issues in Counter-trade

Pricing angles in different types of counter-trade have been specified above. In addition, there are some pricing issues involved in counter-trade. They are:

i) Counter-trade is alleged to increase overhead costs and ultimately the prices of the products exchanged. In selling a customer's product since extra time, personnel and expenses are involved, the sales are often at a discount. There is always a problem ı marketing unwanted merchandise since a company has to take on the added job of marketing its customer's goods, this further adds to the cost of operations.

ii) Financing becomes more complicated in the case of counter-trade. This is specially true when the sale of one product is contingent on the purchase of an unrelated product.

iii) Counter-trading is also alleged to be covert dumping. It tries to compensate any supplying partner for the nuisance of taking another product as payment. A counter-trading country frequently trades its products in a foreign country at a discount, whicl amounts to dumping.

iv) Counter-trading is also considered by some as a form of protectionism that poses threat to the world trading system, which is being developed on the principle of free multilateral trading.

Check Your Progress B

1 What is Transfer Pricing?

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2 Distinguish between counter purchase and switch trading.

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3 What do you mean by clearing agreement?

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4 State whether the following statements are True or False.

i) Quotation must include the terms of sale.

ii) The pricing of exchanges of goods among different units of the same corporate body is known as transfer pricing.

iii) Transfer at cost method of transfer price is based on the assumption that higher costs lead to better performance by the subsidiary.

iv) Counter-trade facilitates access to new markets.

v) Switch trading of counter-trade involves a bilateral trade agreement.

9.10 LET US SUM UP

The success and failure of a firm in a foreign market depends to a large extent on the suitable pricing strategy. There is no set formula to arrive at the right price in all contexts. The main factors which are to be considered in pricing are cost of the product, its demand and competition. The other factors which are to be considered in pricing specially in international marketing are exchange rate, international transportation cost, government tax policies, price controls, regulations and comparative rates of inflation in different countries. The main objective of international pricing revolve round the principle 'what the traffic can bear'. Price has to be appropriate to the market situation. Various pricing methods used in international pricing include: cost plus method, marginal cost pricing, differential pricing, probe pricing, penetration pricing, skimming pricing and competitive pricing.

The experienced global marketer views price as a major strategic variable which can be suitably adjusted to achieve the pre-specified marketing objective. The perception, experience, intuition and judgement of the firm largely influence the pricing decisions. Analysis of costs and sale forecast and detailed study of supply and demand factors as well as competition in foreign market help in evolving the appropriate pricing strategy. Much also depends on the relative bargaining positions of the seller and buyer. Calculation of export price starts with the factory cost. Different other elements of cost starting with the cost of export packing with required marketing and labelling together with the cost of carriage, handling, etc., to the point of keeping the cargo by the side of carrier or on its board for transportation to the destination are added.

In the case of exchange of goods and services among companies and their affiliates/ subsidiaries located in different countries, transfer pricing is applied. Four major approaches to transfer pricing include: (i) Transfer at Cost (ii) Transfer at Cost Plus Overhead and Margin (iii) Transfer at Price derived from end market prices, and (iv) Transfer at "Arm's Length Price". Of all the four methods the cost plus and the market based pricing are most popular.

In view of proliferation of counter-trade on a large scale in the world trading system pricing angles and issues in respect thereof warrant attention and analysis. Various forms of counter trade include: Barter, Counter Purchase, Compensation Trade, Switch Trading, Offset and Clearing Agreement. While the basic principle of counter-trading is balancing the exchange of goods and services between the purchaser and seller located in two countries, pricing plays a major role in equating the values of goods and services exchanged.

9.11 KEY WORDS

Arm's Length Pricing: This price is charged by a seller unaffiliated to the buyer and price is the only consideration for exchange. It is used as one of the techniques for transfer pricing.

Barter: It is simplest of the many types of counter-trade and is one time direct and simultaneous exchange of products of equal value.

Clearing Agreement: An agreed value or volume of trade in the form of exchange of products between the two countries is designed to be achieved over a period. Any imbalance after the end of the period is settled by credit into the succeeding period.

Compensation Trade and Buy Back Arrangement: In this type of counter-trade, a company provides machinery, factory of technology to another party and agrees to buy back products made from the machinery/factory or use of technology earlier received, for a specified period of time.

Cost Plus Pricing: It is a method of pricing which covers full cost and profit.

Counter Purchase: Under counter purchase, a supplier sells a product to a buyer and agrees to purchase, in exchange, some products from the buyer. It may involve parallel cash sales agreements between the two parties.

Counter-Trade: Counter trade is a form of trade where import of goods and services is balanced with exports of goods and services.

Differential Pricing: Under this method, different prices are charged for the same product in different markets.

Export Costing Sheet: It is prepared to show different elements of cost and expenses in respect of specified quantum of export at different points of delivery according to the terms of sale agreed to between the exporter and the importer.

Marginal Cost Pricing: It covers only part of the costs as the market situation permits, mostly only variable costs.

Offsetting: In offsetting arrangement, a foreign supplier is required to manufacture or assemble a product locally and purchase local components in exchange for the right to sell its product in the market.

Penetration Pricing: This method of pricing is followed to penetrate into a new market.

Price Quotation: It gives details of the product, its quality, weight and volume, price, terms of price, place of delivery, payment terms and likely time of shipment.

Price Terms or Terms of Sale: It describes the point of delivery and sharing of risk between an exporter and the importer.

Probe Pricing: This method of pricing is followed to probe the reaction of the customers particularly when not much of information is available about the overseas market conditions.

Proforma Invoice: The Proforma Invoice gives all those details as are given in full fledged commercial invoice such as description of goods, its quality, quantity, price per unit and total price, term of sale, time and place of shipment, payment terms, discounts, etc.

Skimming Pricing: This method of pricing is followed by an exporter in the foreign market where he has gained strong foothold to maximise his gain by charging the highest possible price.

Switch Trading: It involves a triangular rather than bilateral trade agreement. When goods, all or part, received by the initial buyer from the seller and disposed of by bringing in a third party.

Transfer Pricing: It is pricing of goods or services exchanged between a company and its foreign affiliate/subsidiary.

9.12 ANSWERS TO CHECK YOUR PROGRESS

A 4 (i) True (ii) False (iii) True (iv) False (v) True

B 4 (i) True (ii) True (iii) False (iv) True (v) False

9.13 TERMINAL QUESTIONS

1 Describe the factors to be considered in pricing for international marketing. Which factors are irrelevant for pricing in domestic market?

2 Explain the important methods of pricing in international marketing.

3 Distinguish between either penetration and skimming pricing or marginal cost pricing and differential pricing. Which pricing methods would you recommend for a beginner in export marketing?

4 Briefly describe the pricing process followed in export marketing. Enumerate the steps involved in export pricing procedure.

5 What is the main objective of adopting transfer pricing? Briefly describe the alternative methods applied in transfer pricing.

6 Explain the pricing angles in different forms of counter-trade followed in the world trading system. Briefly mention the main pricing issues raised in respect of counter-trading.

SOME USEFUL BOOKS

Francis Charunilam. *International Marketing*, Himalaya Publishing House, New Delhi.

Philip R. Cateora, *International Marketing*, McGraw-Hill, Chicago.

San Onkuisit and John J. Shaw. *International Marketing Analysis and Strategies*, Prentice Hall India, New Delhi.

Warren J. Keegan. *Global Marketing Management*, Prentice Hall India, New Delhi.

IBO-2 : INTERNATIONAL MARKETING MANAGEMENT

BLOCK	UNIT NOs.	UNIT TITLE
1		**INTRODUCTION TO INTERNATIONAL MARKETING**
	Unit-1	International Marketing: Basic Concepts
	Unit-2	International Marketing Orientation and Involvement
	Unit-3	Analysing International Marketing Environment
2		**INTERNATIONAL MARKET SELECTION AND ENTRY**
	Unit-4	International Market Segmentation
	Unit-5	Foreign Market Selection
	Unit-6	International Marketing Entry Decisions
3		**INTERNATIONAL PRODUCT AND PRICING DECISIONS**
	Unit-7	International Product Planning
	Unit-8	International Brandng, Packaging and Other Decisions
	Unit-9	International Pricing
4		**INTERNATIONAL DISTRIBUTION AND PROMOTION**
	Unit-10	International Distribution
	Unit-11	International Marketing Communication
	Unit-12	International Advertising
	Unit-13	Personal Selling, Publicity and Sales Promotion
5		**MANAGING INTERNATIONAL MARKETING OPERATIONS**
	Unit-14	**IM Planning, Organising and Control**
	Unit-15	**International Marketing of Services**
	Unit-16	**Emerging Trends and Issues in International Marketing**
6		**INTERNATIONAL MARKETING RESEARCH**
	Unit-17	Introduction to International Marketing Research
	Unit-18	Data Collection
	Unit-19	Data Analysis