



# Global Marketing

Alessandra Bucci

# Chapter 11

Setting Global Prices



# Why is Global Pricing Important?

- Price is a **key driver of consumer purchase behavior**
- Its hard to set a price which has to be **coherent with brand equity** and meanwhile **consistent across different countries**
- **Many internal** (corporate strategy and / or product cost) **and external factors** (competitors, a country's economic and legislative structure, etc.) can influence price decisions
- **Relative pricing power of intermediaries**
- It has to **satisfy the requests of big international retailers**
- The price must **reflect the value that the consumer is willing to pay** for the company's product
- On the other side, **consumers are increasingly looking for high quality - low price goods**, and companies gain a key advantage if they have the ability to build high quality inexpensively.
- Price is a **tangible value of an offer** created through product, distribution, and communication decisions.
- In **low-income countries**, price must be in line with purchasing power

# Factors Influencing Pricing Decisions

- There are several factors influencing international pricing decisions that can be categorized into **five groups**:
  1. Competitive factors
  2. Consumer and cultural factors
  3. Product factors
  4. Distribution channel factors
  5. Country factors
- Also, **company factors are important elements to consider**, especially at a strategic level. Their role will therefore be underlined when considering international pricing strategies and objectives.

# Competitive Factors

- The **structure and intensity of competition varies significantly** from country to country (international vs local companies)
- They **need to maintain competitive and favorable price** to allow market penetration.
- Some markets have **high intensity of competition** which make it hard to price products within that market.
- Companies that have been able to create **differentiation relative to competition** are the ones that are **less subjected to price pressures**.



Bike Department in a Chinese Supermarket in Shanghai

Source: © Author.

# Consumer and Cultural Factors

- Globalization has not yet resulted in convergence of consumer perception.
- Factors linked to the consumer and its culture that can influence price policies are very complex.
  - From the company's point of view, product unit price represents a clearly defined numeric value; however, from the consumer point of view, the concept of perceived price comes into play.
- It is important to analyze consumers in relation to:
  - the **perception of price**: monetary, non-monetary price and retail price ending;
  - **price and perception of quality**;
  - the **use of internet on price evaluation**.

# Perception of Price

- **Monetary price** represents the idea that a consumer has regarding a product's price (expensive vs cheap). This correlates with past experience.
- **Non-monetary price** represents the sacrifice that a consumer must face when purchasing a product (consequences/fulfillments after purchasing a product). This varies greatly between countries.
- The final price perception depends on a careful **evaluation of costs** (monetary and non-monetary) **and benefits** (linked with the purchase of a product or service).
- Consumer and cultural factors can also influence **price-ending practices**.

# Price and the perception of quality

- **Cultural factors influence the relationship between price and the perception of quality.**
- The **relation** has to be considered for **different product categories and brand strategies**. For example, for **luxury products**, characterized by factors such as uniqueness, high quality and rarity, it is frequent to find a **Veblen effect**: it occurs when the demand for a good increases as the price increases as the potential buyer imagines that a high price indicates better quality.
- For some products, the relation between price and quality is influenced by the **perception of local and global brands**.
- The consumer culture should also be considered in terms of **buying behavior distinguishing consumers of one country or region from those ones of other countries**. For example, in western markets, for many products consumers expect a good quality even if the product price is low.
- It is also important to consider that **the relation between low income consumers and affordable prices should not be generalized**.



# Internet and price evaluation

- The **use of the Internet** has definitely given a **push toward consumer rationality**.
- On a global scale, the Internet is helping shoppers throughout the world to **compare prices of similar products**.
- Examples of:
  - Google Shopping or Shopping.com
  - Tencent, the largest and most used Chinese Internet service portal.
- In more and more industries all over the world **the use of internet is expected to intensify** in the next years.
- Internet will allow not only **price comparison between brands but also between retail prices for the same brand**, allowing the consumers to compare whenever they want the price of the desired products.

# Product Factors

- **Product life cycle (PLC)**, usually prices are higher during the introduction phase of products.
- The ability to convey to consumers the **real quality of the product**, companies have to show consumers why their product's true value through attributes and leverage.
- **Product Costs**
  - Variable costs (raw materials, labor, energy, etc.)
  - Marketing expenses (marketing research, communication, etc.)
  - Finance and bank charges
  - Export-related charges (translation, labeling, country-of-origin marking, packaging adaptation, documentation, insurance, tariffs, shipping costs, etc.)

# Distribution Channel Factors

- **The company set a sell in price** (to the first intermediary), then all the intermediaries (distributors, importers, retailers, etc) involved in the export channel charge a margin, **resulting in a sell out** ( the final price paid by the final clients).
- The **length of the distribution channel** (i.e. the number of intermediaries), together with export charges such as insurance, shipping, export documentation and tariffs, can determine a relevant increase of the final export price if compared to the domestic price also known as **price escalation**. Alternatives to limit price escalation are:
  - to **reduce the length of the distribution channel**.
  - to **lower the producer's net price eliminating, for example, expensive features or shifting production of the product or of some of its components to low-cost countries**.
  - the possibility of limiting price escalation will strongly depend on the **company's power to control final prices**, also imposing lower margins on channel members of each target country.

# Export Price Escalation: an example for coffee in the retail channel

	<u>Italy</u> Domestic channel with retailer ( <i>Manufacturer margin: +70%</i> )	<u>USA</u> Foreign channel with importer and retailer ( <i>Manufacturer margin: +50%</i> )	<u>Russia</u> Foreign channel with importer, wholesaler and retailer ( <i>Manufacturer margin: +50%</i> )
<b>Manufacturer's cost</b>	5.00	5.00	5.00
<b>Manufacturer's margin (%)</b>	+70%	+50%	+50%
<b>Manufacturer's margin (\$)</b>	3.5	2.5	2.5
<b>= Manufacturer's price</b>	8.50	7.50	7.50
<b>+ Insurance, shipping cost, export documentation (2%)</b>	---	0.15	0.15
<b>= Landed Cost</b>	---	7.65	7.65
<b>+ Tariff (20%)</b>	---	1.53	1.53
<b>= Importer's Cost</b>	---	9.18	9.18
<b>+ Importer's margin (30% on cost)</b>	---	2.75	2.75
<b>= Wholesaler's cost</b>	---	---	11.93
<b>+ Wholesaler's margin (30% on cost)</b>	---	---	3.58
<b>= Retailer's cost</b>	8.50	11.93	15.51
<b>+ Retailer's margin (40% on cost)</b>	3.40	4.77	6.20
<b>= Consumer's cost (=retailer's price)</b>	<b>11.90</b>	<b>16.70</b>	<b>21.70</b>
<b>Price Escalation over Domestic</b>		<b>+40.34%</b>	<b>+82.35%</b>

Source: Compiled by author.



# Country Factors

- **Socioeconomic factors and political country characteristics** play a large role in pricing decisions within different countries.
- These factors are not controllable by the company, so it must **adapt to them** when selling its products to a specific country.
- Some companies opt for a **low price strategy**.
- Many premium brand owners adopted the strategy of introducing **second brands or product lines** to access the low-priced markets of Eastern Europe, Middle East Africa, and Asia
- The main country factors which have to be considered in pricing decisions are:
  - Currency
  - Inflation
  - Government regulations, tariffs and taxes

# Currency considerations

- Currency is used for **invoicing**
- Some markets have **set currencies** (Oil is done in US Dollars only)
- **Changes in exchange rates** alter the firm's ability to compete, therefore affecting international pricing strategies.
- **Purchasing power parity theory** states that the very same good or basket of tradable goods should sell for the same price in different countries when measured in a common currency, taking into account transaction costs as well.

# Inflation and price decisions

- The key of good business is to **manage different inflation rates in multiple countries** while maintaining a price position.
- **If inflation is high in the production country**, a company may be unable to meet production costs and **decrease their margins**.
- There are **two options when there is high inflation**:
  - Abandon market/hope for economic recovery
  - Raise prices of products and face future backlash from consumers
- **In price negotiations**, the company must also cover the risk of payment delay if the customer is located in an inflationary market, because the real price paid would be lower.

# Government regulations, tariffs and taxes

- Normal to have to deal with government intervention introduced to **maintain trade balances, develop domestic industries, and defend local employment and national security.**
- Some countries put **regulations and tariffs on products to protect local goods.**
- Government regulations are frequent **in many industries to help protect their products.**
- The government can also influence pricing positions introducing **subsidies to reduce local prices to increase domestic companies' local or global competitiveness.**
- **Tariffs and Taxes are other instruments of local protection**, used to increase the domestic price of an imported product (example of Mercedes).



Foreign Car Brands in China

Source: © Author.



# Objectives, Strategies, & Pricing Policies

- Price decisions are influenced by variables as **short- versus long-term internationalization objectives, entry modes, competitive strategies**, and **profit and cost factors**.
- The export pricing control level is **correlated with internal organizational factors**, such as:
  - the degree of centralization
  - company size and experience
  - channel dependence
  - manufacturer asset specificity
- It is important to have a **rational and consistent strategy that fits the company's goals** as it expands in foreign markets.
  - the proliferation of prices and pricing strategies across channels, geographies, and brands, can cause problems.
  - In some cases, consumer packaged goods companies are forced to deal with million price points every year.

# Strategic Alternatives to Setting International Prices

- Cost versus market-based approach
- New product pricing: skimming versus penetration pricing
- Standardization versus adaptation approach
- Centralized versus decentralized approach
- Preparedness for internationalization and industry globalization: pricing strategy prototypes

# Cost-Based Method

- Based on the equation: *cost + margin = price*
- **Full-cost pricing**: the sum of total unit costs attributed to a product plus a profit margin
- **Incremental-cost pricing**: takes into consideration production and marketing costs that the company must face when exporting. Incremental production and marketing costs plus a profit margin will determine the final price.
- **Profit-contribution pricing** depends on the demand elasticity. Profit contribution represents the difference between incremental revenues and incremental cost of exporting in a foreign target market.

# Profit Contribution Pricing: An Example of a French Company Exporting Wine in the German Market

Price (EUR/liter)	Estimated sales volume (liters)	Incremental revenue (EUR thousands)	Incremental cost (EUR thousands)	Profit contribution (EUR thousands)
8.00	0	0	0	0
7.50	220.000	1650.00	990.00	660.00
<b>6.60</b>	380.000	2508.00	1635.00	873.00
6.25	400.000	2500.00	1700.00	800.00

*Source:* Compiled by author.



# Market-Based Methods

- Must take into consideration **not only costs but also competitors' prices and how much consumers are willing to pay**
- *affordable unit price – margin = target cost.*

# New Product Pricing: skimming strategy

- The skimming strategy is based on the concept that a company can charge some consumer segments **higher prices for a product**.
- The **price is successively lowered** to reach all other segments, achieving maximum profitability from different target consumers.
- Can result in high margins, but there are **numerous risks**:
  - High prices should be justified by distinctive product features, while competitors should not be aggressive.
  - The company has to take the risk of creating a market easily conquered by other competitive products.
  - If price is lower in the domestic market, there is always the possibility of favoring parallel imports.

# New Product Pricing: Penetration Pricing

- A company sets a **low price for the new product** in order to enter a foreign market, and often tends to base its communication campaign on this same strategy.
- It allows the company to **quickly penetrate the market and obtain a significant market share**.
- This strategy is **efficient when consumers are price sensitive**, enabling the company to gain a competitive advantage against competition.

# Standardization vs Adaptation of Pricing Policies

- **Price standardization** implies the **same price positioning strategy across different markets**. Main factors to be considered are: economic and legal environment, distribution infrastructure, customer characteristics and behavior, and product life cycle stage. Price standardization is frequent when the company operates in **global sectors** and / or sells to **global retailers**.
  - **Price adaptation** occurs when a company is compelled to adopt a **different price positioning strategy**. Managing transaction pricing means determining which discounts, allowances, payment terms, bonuses, etc. can apply in different countries. Some companies opt for:
    - **one fixed discount scale based on the overall quantity ordered by the client /distributor**. The main problem is the difference between countries with high potential and countries where the market potential is still small
    - a **pay per performance approach**. With this method, whose main goal is to improve the performance of clients/distributors, the discount depends on different variables. For example, it can vary from 0 to 4 percent in relation to:
      - 0.5% - Total sales in the country /geographical area
      - 1.0% - Sales growth
      - 0.5% - Market share
      - 0.5% - Number of clients
      - 0.5% - percent of Key clients
      - 0.5% - In-store activities developed by the client/distributor
      - 0.5% - Assortment growth
- The transaction price will be different (adaptation) not only country by country but also among clients/distributors operating in different geographical areas within the same country.



# Price dumping

- Defined as **selling products in a foreign country (importing country) below the price of that product in the domestic market (exporting country)**, with the objective of obtaining relevant market shares in the foreign country.
- Can be used **to get rid of excess of inventory**, but can also cause the same result of **undermining competition**.
- However, dumping is **controlled by many laws** developed both at national (to hedge local companies against dumping) and international levels. This legislation is designed to counter unfair price competition but it can also be used as a barrier to trade (non tariff barrier).
- Since the creation of the **WTO in 1995**, anti-dumping activities have been reduced.

# Parallel Imports or gray markets

- Happens **when products, purchased in low price markets, are diverted to other markets without the authorization of the manufacturer or the brand owner**. These products are priced lower than goods sold by authorized distributors in the target market.
- The goods have been **manufactured by or for or under license from the brand owner** (they are not counterfeit goods), but they may have been **formulated or packaged for a particular geographical area where**, for example:
  - the competitive situation requires a lower price;
  - the target consumers have a limited purchasing power, which is typical of low income countries;
  - the exchange rate makes the product cheaper
  - the taxes are lower
  - the wholesalers had been able to benefit of big discounts buying higher quantities.
- If a company wants to **minimize the risk of parallel imports**, some guidelines can be followed:
  - a **standardized pricing strategy**, reducing price disparities across markets, is actually preferable. If the price differential is low, opportunities for opportunistic behaviors are less.
  - **clearly communicate that the product is different** and for this reason it fits with one market but it can be less attractive or it doesn't work for another market.
  - **after sales services** can be planned and managed in order to avoid parallel imports.

# Centralization vs decentralization

**Reasons that favor centralization** can be summarized as follows

- Increasing **globalization** requires standardized prices in different markets or there would be a risk of the development of parallel imports that are difficult to control.
- **Internationalization of competition** and **homogenization** of competitive strategies
- Price decisions are often closely related to **production volume planning, production capacity, economies of scale**. Hence, centrally directed prices facilitate the forecast of worldwide annual revenues.
- Price positioning is a relevant component of **brand image**: global positioning requires price homogeneity

**Reasons that can lead a company to prefer a decentralization** strategy:

- Local prices are a necessity **if the company has to target different price segments in different countries or if the competitive structure is different**. In some cases, especially if the company is a price follower, the company has to set local prices to react to price changes of competitive leading products.
- Decentralization is necessary when there are **significant differences in end-user characteristics (typically a lower income), in price sensitivity, and consumer preferences**.
- Flexibility in local price setting is often required when specific factors such as **added taxes, product adaptation costs, differences in transportation costs, and local economic and financial conditions** (e.g. interest rates and inflation) cause situations that induce a company to diverge from the standard corporate guidelines.
- Decentralization in price setting can also be related to **different retail power**, which forces local managers to reduce selling prices. On the other hand, **terms and conditions diverging across different countries** can also impose price decentralization.

# Pricing Strategy Prototypes

- Four general pricing prototypes:
  1. Local price follower
  2. Global price follower
  3. Multi-local price setter
  4. Global price leader

# Transfer Pricing

- It's the price set and paid for products shipped between units of the same organization (for example, from the head quarters to the subsidiaries). Different methods can be used to determine transfer price:
  - The **cost-plus pricing** method uses product costs as a base for determining final price.
  - The **market-based transfer price** is based on the market price of goods internally transferred. Hence it would be the local market price minus the margin to be obtained by the subsidiary to cover its costs.
  - The **negotiated transfer price** applies when market prices frequently change. In these cases a constant internal price becomes a necessity between subsidiaries.
  - The **arm's-length price** is based on the results of a hypothetical negotiation with an independent business partner. Main limitations are:
    - data are hard to obtain.
    - difficulties in identifying the right market price in the open market (no substitutes or the quality of similar products and services is different).
    - suppliers' cost structures can be significantly different

# Terms and Methods of Payment

- **Advance Payment**—The payment, which can be done with a bank transfer, is cleared before the goods are shipped.
- **Letters of Credit**—This method can be considered a guarantee more than a method of payment.
- **Documentary Collection**—This is a process developed to facilitate import and export operations.
- **Open Account**—This method of payment is highly risky because the goods are shipped before payment



# temporary Promotions

## CONSUMER PROMOTION NxM

The first promotion is for 'ACTIVO' products, showing a 3x2 offer on 1000 products. The second is for 'ROVAGNATI' mortadella, showing a 3x2 offer. The third is for 'Disfruttare' juice, showing a 3x2 offer. Each promotion includes a visual representation of the offer and a call to action to 'RICARICA GRATIS' (Free Recharge).

## CONSUMER PROMOTION – CUT PRICE

### Esempio Trenitalia

The advertisement features a large '-50%' discount on travel. The text reads: 'VIAGGIA A METÀ PREZZO CON TUTTA LA QUALITÀ FRECCIAROSSA'. Below this, it says 'Halloween SPECIALE 2x1 HALLOWEEN dal 30 ottobre al 5 novembre 2017'. The offer is for 'Andata e Ritorno in giornata' (One-day round trip). The background shows various Trenitalia products and services.

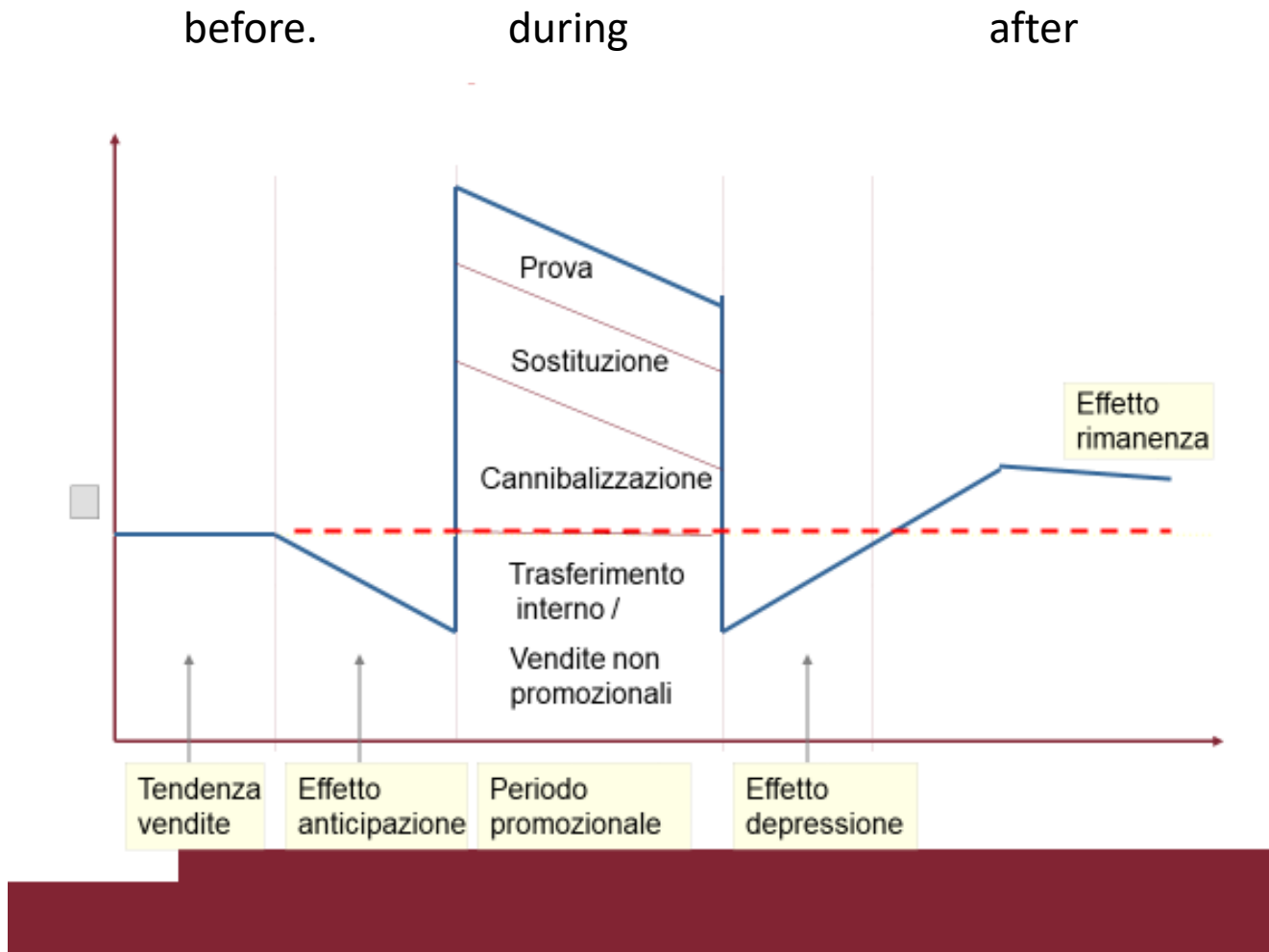
## CONSUMER PROMOTION per segmento/target

### Es. Trenitalia - Special offers for specific targets

The grid lists several targeted promotions:
 

- Over 60:** OGNI ETÀ HA I SUOI VANTAGGI. SORRIDI CON CARTAFRECCIA SENIOR. VIAGGI A METÀ PREZZO.
- Turismo:** 2X1 SABATO. IL SABATO VIAGGI IN DUE PAGANDO UN SOLO BIGLIETTO BAS.
- Business:** A/R IN GIORNATA A PARTIRE DA 69€.
- Loyalty Program:** CartaFRECCIA Special. MONETIZZATI: 11.00 -50% -14.00.
- Frequent:** PAGHI 2 E PRENDI 3! CON L'OPZIONE "CARNET AV 3€". VIAGGI 3 E PAGHI 2.
- Leisure - Weekend:** A/R WEEKEND A PARTIRE DA 69€.
- Famiglie:** OFFERTA BIMBI GRATIS PER I RAGAZZI FINO A 10 ANNI SU FRECCIE E INTENSITÀ.
- Under 26:** HAI MENO DI 26 ANNI? VIAGGI A METÀ PREZZO.

# promotion effects

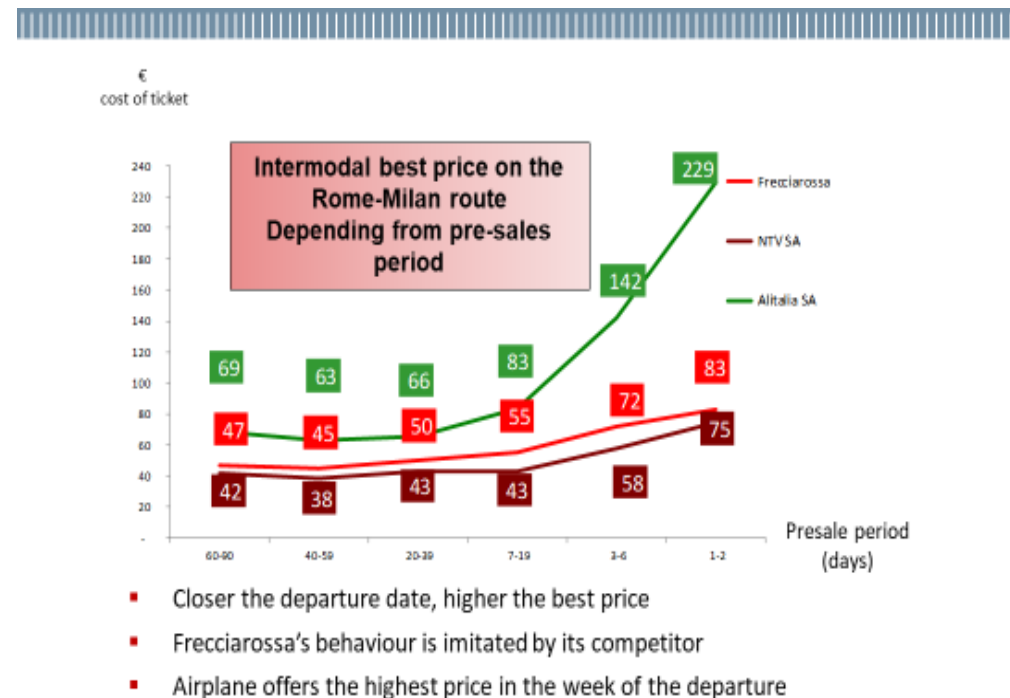
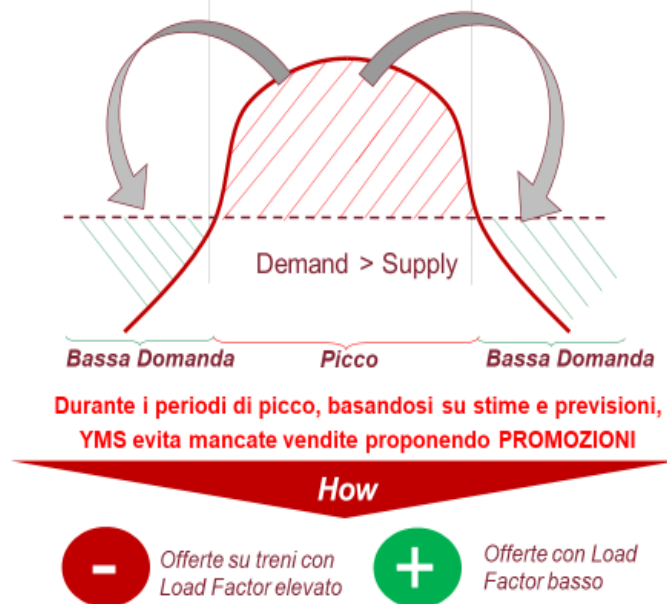


# USING BIG DATA TO MAKE PRICING DECISIONS

Big data identify any large volume of data (both structured and unstructured) that come from consumer interactions, retailers, social networks, and so forth and can be analyzed for insights to define better strategic and operative decisions (such as global pricing) that create value for the final consumers.

## revenue management

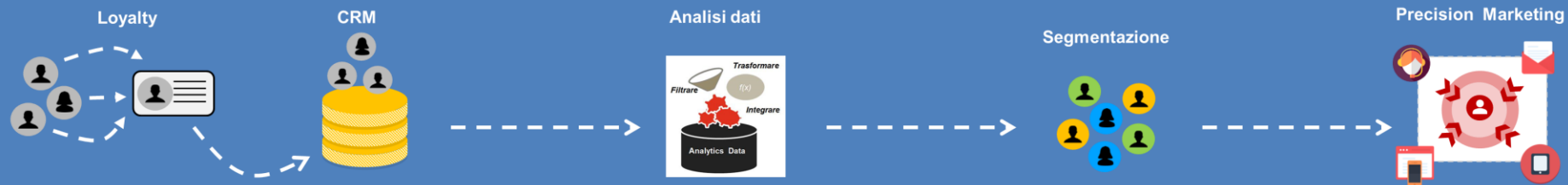
### CONSUMER PROMOTION– es. Trenitalia



# USING BIG DATA TO MAKE PRICING DECISIONS

## CRM POLICY:

USE DATA ,COLLECTED THROUGH LOYALTY PROGRAMS, TO DEFINE CLUSTERS OF CUSTOMERS WITH HOMOGUE BEHAVIOR AND MAKE TARGETED PROPOSALS AND PRICING



**PROFILAZIONE**



**CLUSTERIZZAZIONE**



**MULTICANALITÀ**

