

International Marketing



International Pricing and distribution

Overview

- **Background:**
 - Price Knowledge/Reference Price/Price-Quality Perception/Price Elasticity/Sales Promotion
- **Key element of the marketing mix**
 - Only element of the mix to earn revenue
 - Others create costs
 - Pricing signals value
 - Many prospects are price limited
- Export Pricing
- Pricing Strategy
- Price Harmonisation
- Transfer Price
- Dumping/Parallel Imports
- Incoterms

Pricing Discretion

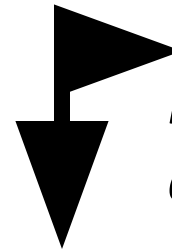
Too high a price
No sales

Customers' Perceived Value

Market / Competitor's Price

Cost to produce

Too low a price
No Profit

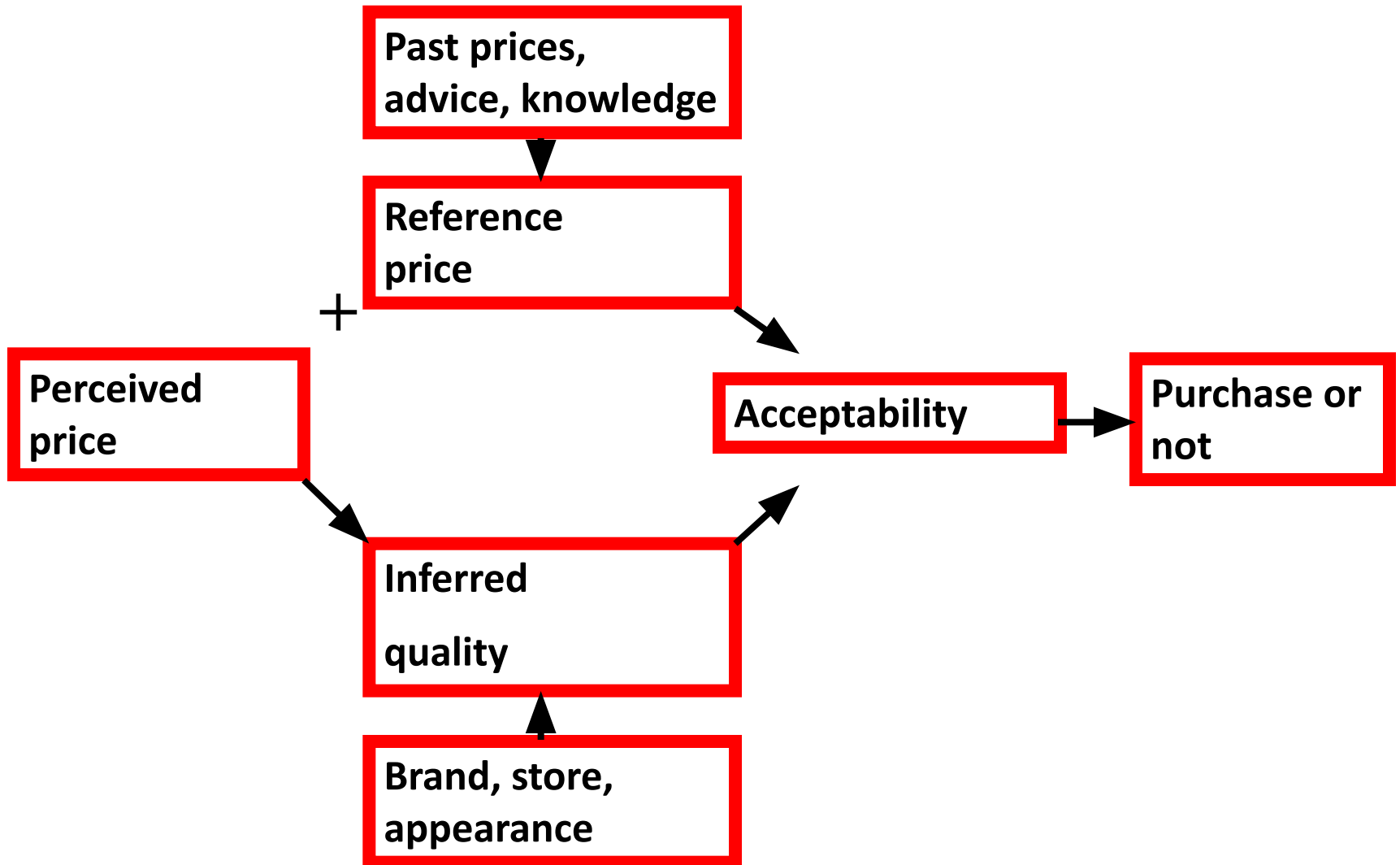


*Price can be set
anywhere in this range*

Reference Price

- Reference price – what shoppers expect to pay – seems to be based on what they have paid
 - Briesch *et al.* (1997) showed that a weighted average of past purchase prices predicts the reference price (JCR, 24, 202-214)
- Reference price may be fair price, expected price now or expected future price (Jacobson and Obermiller 1990 JCR, March, 16, 420)
- Kalyanaram and Little (1994) found a ‘region of price insensitivity’ but some products seem to be outside the range, e.g. Dualit.

Quality Perception



Price Promotions

- Special case: Price cut then back to normal
 - Usually with signalling
- Produce Up-and-Down Sales blips
 - At great cost?
- Does it gain new consumers?
- Or Erode Brand Equity

Discounts May Also Hurt the Brand Equity

- Guadagni and Little (1983), Lattin and Bucklin (1989) investigated the effect of frequent promotions over a period of months.
 - some erosion of reference price
- Mela *et al.* (1998) *IJRM*, 15, 2, 89-107 looked at promotions over 8 years for a range of products.
 - The shift from ads to promotions were associated with reduced differentiation between brands

Export Pricing - Price Escalation

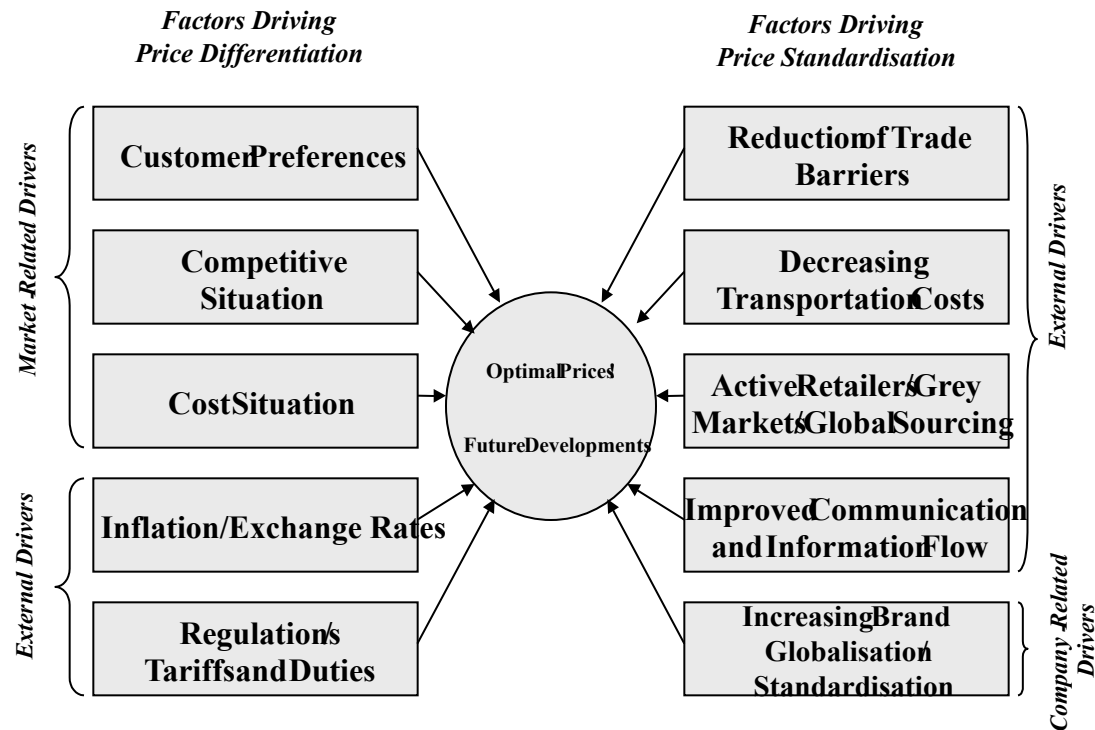
	Export	Domestic
ex factory price	£9.60	£9.60
freight & insurance	£1.08	
Landed CIF	£10.68	
duty @9% of CIF value	£0.96	
landed price	£11.64	
Distributor @ 15%	£1.75	£1.44
Cost to Retailer	£13.39	£10.04
Retailer margin @ 40%	£8.93	£6.69
Retail Price	£22.32	£16.73
	133%	100%

Should factory price for export be the same as for domestic business?

Environmental Influences on Pricing Decisions

- Currency Fluctuations
- Inflationary Environment
- Government Controls, Subsidies, and Regulations
- Competition
- Using Sourcing as a Strategic Pricing Tool

Influences on Prices Standardisation vs. Differentiation



Source: Hermann Simon and Robert J. Dolan, *Profit durch Power Pricing*, Campus, Frankfurt, 1997: p. 168.

Parallel Importing (Gray Market)

- What factors give rise to parallel importing?
- Examples of gray market activities?
- Is parallel importing a good thing or a bad thing? What are the positives and negatives?
- How can firms deal with this issue?

Avoiding parallel imports: combating gray markets

- Problem in neighbouring markets (Europe, Asia)
- Competition authorities favour cross-border price competition which legitimizes parallel imports
- Possible solutions to counter parallel imports:
 - Reduce price differentials
 - Change the product to favourably differentiate it
 - Educate weaker dealers who are prime targets for grey sellers
 - Terminate the dealer agreement (or threaten to do so)
 - Buy back the grey market goods
 - Sell products under a different name
 - Set policies to allow the authorized dealers and parallel importers to live in relative peace
 - They may target different consumer segments based on risk aversion
 - The unauthorized dealer may scale down its product, warranty and service offering

Dumping

- Imports sold at “unfair” price
 - Below home-country price (price discrimination)
 - Below “constructed value” (average cost of production)
 - Which cost?
- Why dump?
 - Predatory dumping
 - To drive competitor from the market
 - Cyclical dumping
 - deal with excess capacity e.g. Korean memory chips, EU butter mountain
 - Opportunism – short-term advantage
 - Inadvertent due to currency fluctuations

Transfer Pricing

- When a firm exports to its own subsidiary it has great freedom to set its transfer price
- Firms can use transfer prices & interest payments to direct funds
 - To country with lowest tax rate
 - To countries that have fewer exchange controls
- High transfer price
 - Keeps profit in home country where it is instantly available
 - But increases import duty
- Lower transfer price
 - Transfers value to the foreign subsidiary

International Marketing

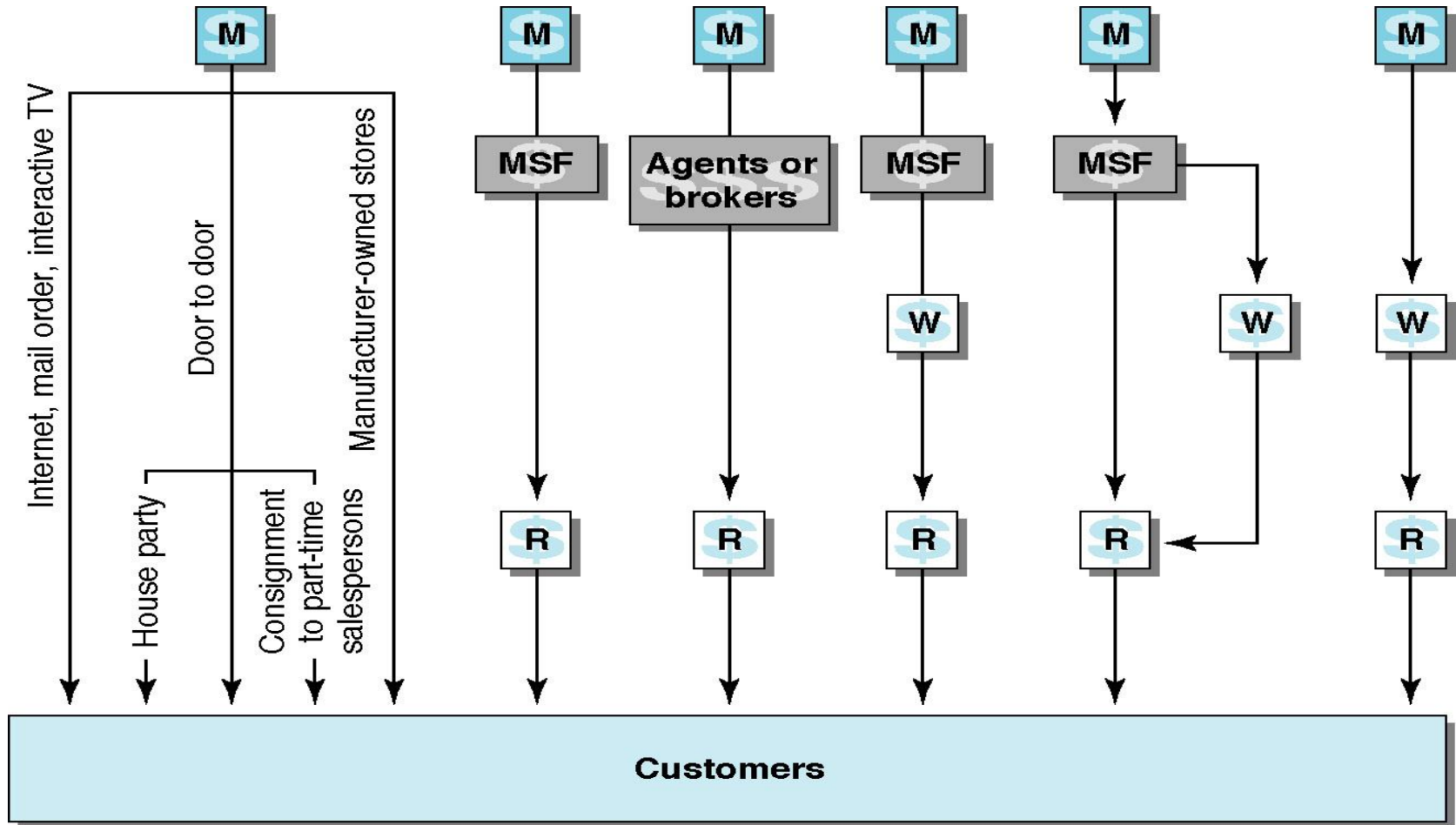


International Distribution

Overview

- **Adding value through distribution and logistics**
- **Channel design and management**
- **Key trends in retailing**

Marketing Channel Alternatives: Consumer Products



M 5 Manufacturer
W 5 Wholesaler

MSF 5 Manufacturer's sales force
R 5 Retailer

Channel Management

- Optimisation of the four flows through the several channels between a firm and its various customer segments
 - **From firm**
 - Promotional messages
 - Product
 - **From channel**
 - Payment
 - Market information

Designing Distribution Channels

- **Product**
Perishable, bulky, technical, range of products
- **Consumer**
Required service level, price sensitivity, distribution
- **Infrastructure**
Margins, regulations, logistics
- **Company Objectives**
Positioning, market share, profit
- **Company Culture**
Control, flexibility, risk
- **Competition**

Designing Distribution Channels

- **Distribution density**

- Exclusive - Selective – Intensive

- **Channel length**

- How many intermediaries?

- Keiretsu in Japan

- **Channel alignment**

- Who is channel captain?

- UK - major retailers; USA - wholesalers; Emerging markets, importers

- **Distribution logistics**

- Cost versus customer needs

Distribution Costs

Total Distribution Cost (TDC) =

Total transport cost + Warehouse cost
+ Inventory cost + Order processing
+ Packaging cost + Opportunity cost
of lost sales

It may not be cheaper by sea!

Make the trade-off using TDC approach.

Freight cost will be higher by air, but..

warehousing & inventory costs lower,

order processing, insurance & admin costs less,

less costly packaging and fewer lost sales.

Starbucks' Channels

EXHIBIT 4

Starbucks: Capital-light expansion through partnerships

