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

Price can be set anywhere in this range

Market / Competitor's Price

Cost to produce

Too low a price
No Profit

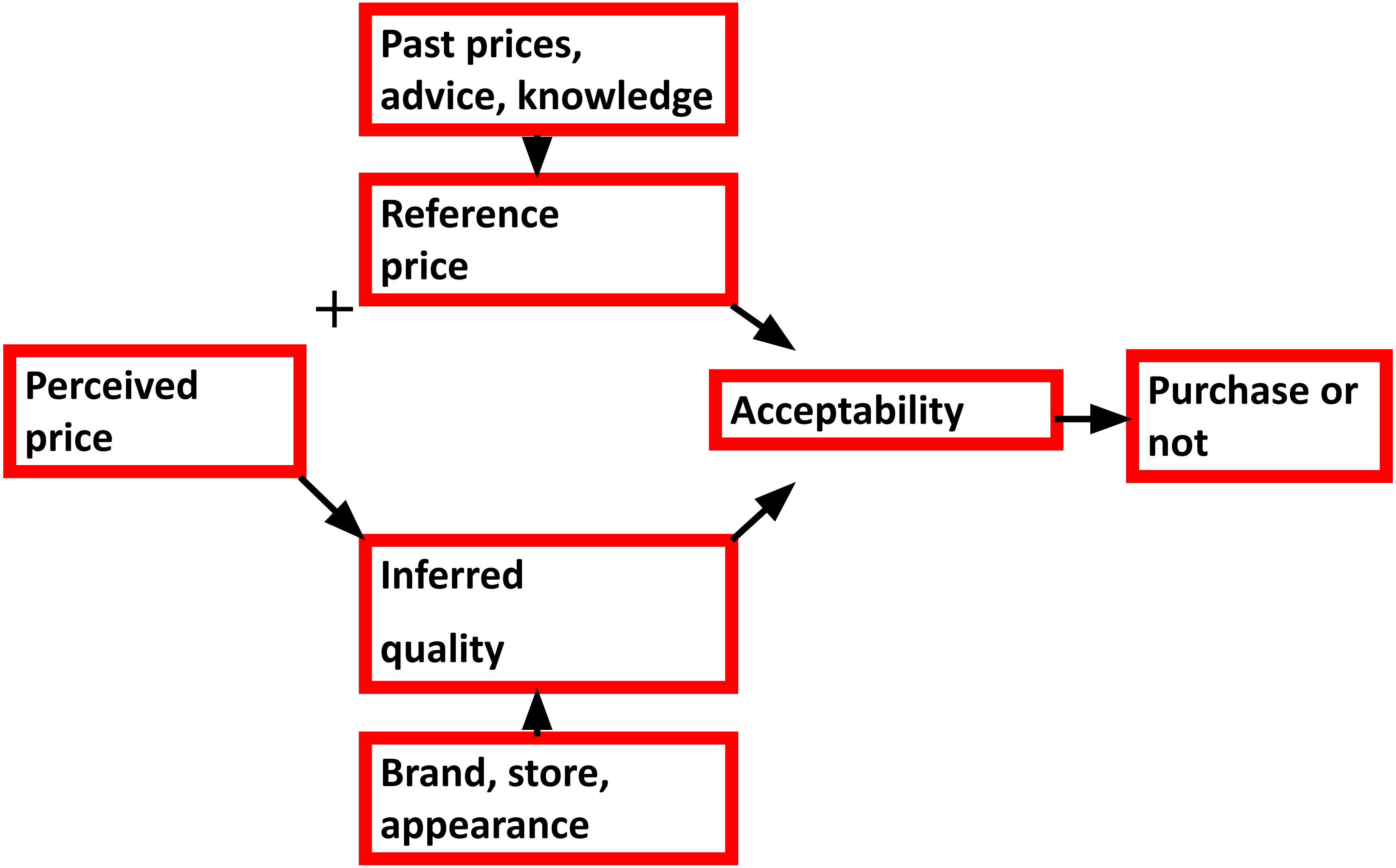
Reference Price

- 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

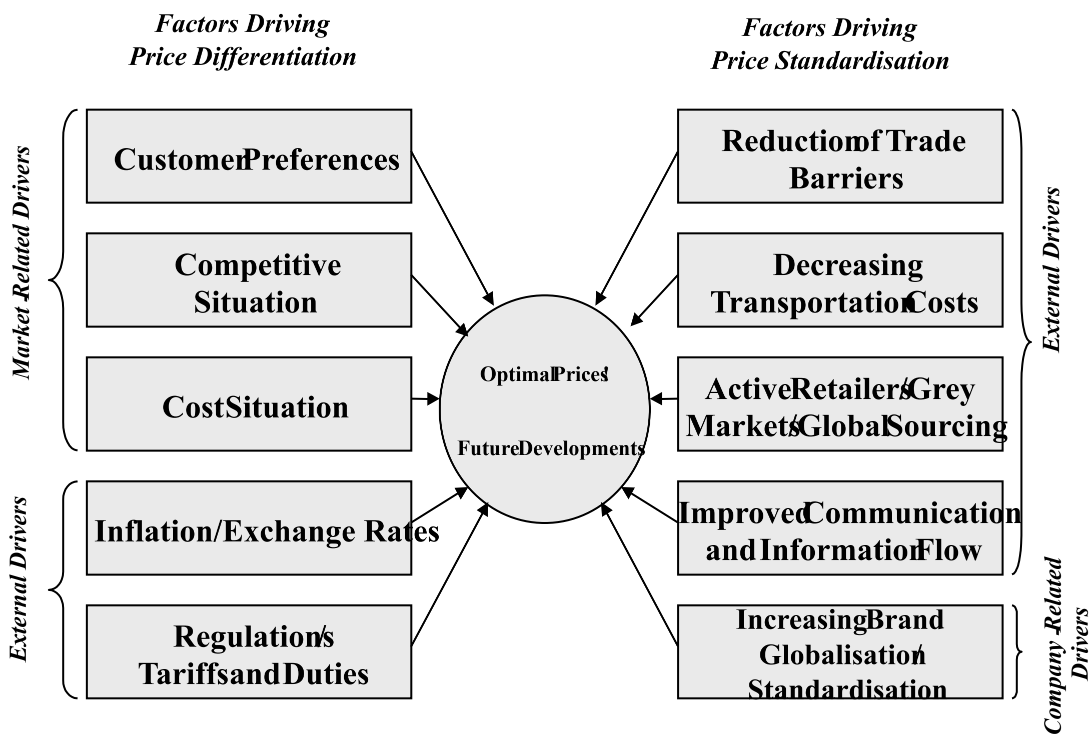
	Export	Domestic
ex factory price	**£9.60**	**£9.60**
freight & insurance	£1.08	
Landed CIF	£10.68	
duty @9% of CIF value	£0.96	
landed price	£11.64	
Distributor @ 15%	£1.75	£1.44
Cost to Retailer	£13.39	£10.04
Retailer margin @ 40%	£8.93	£6.69
Retail Price	£22.32	£16.73
	133%	100%

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

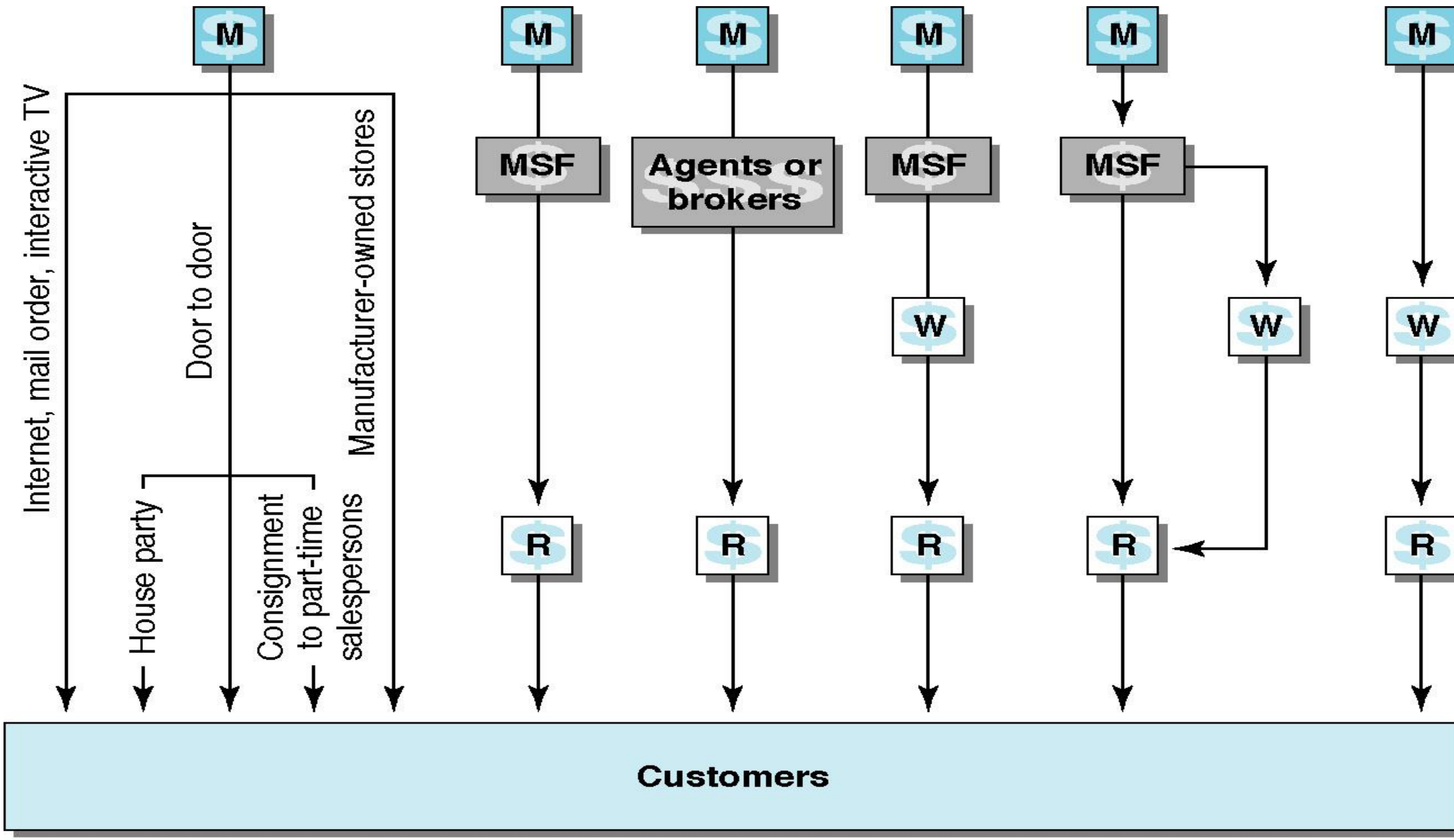
International Marketing

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

Starbucks Coffee

	Where/what	Partners
New channels (exclusive supply arrangements)	• Airlines • Airports • Bookstores • Cruise lines • Department stores • Hotels • Supermarkets	• United, Canadian • Host International • Barnes & Noble • Holland America • Nordstrom • ITT Sheraton, Westin Hotels • Kraft Foods
New markets (through licenses with retailers)	• Japan • Malaysia • Philippines • Singapore • South Korea • Taiwan • Thailand	• Sazaby (joint venture) • Berjaya Coffee (licensee) • Restaurant Brands (licensee) • Rustan Coffee (licensee) • Bonvest Holdings (licensee) • ESCO (licensee) • President Group (joint venture) • Coffee Partners (licensee)
New products	• Ice cream • Bottled Frappuccino • Coffee-enhanced dark beer • On-line catalog	• Dreyer’s • PepsiCo • Red Hook Brewery • America Online

Key success factors
- Starbucks invests very little capital in international expansion (<5% of revenue)
- Local partners bear all business risk
- Licensing allows stricter control over all operations than does franchising—e.g., parent-company consultants visit each store once a month
- Local partners contribute regulatory and cultural expertise—e.g., on product adaptations

Source: McKinsey Quarterly, 1999