PRICING PRODUCTS FOR EXPORT MARKETS

Establishing an appropriate price is one of the most crucial parts of the export marketing mix, as it is the one that generates revenue. The costs of the product itself, its promotion and its distribution all need to be included into the final price in order to make a profit. The export price can vary depending on the particular product, the type of buyer, the initial and long term value, the destination and the channel of distribution.

When you establish a price for your product in a foreign market, you need to consider the kind of pricing concept you will apply to the products. There are three basic concepts commonly used today, which are: competitive pricing, domestic price plus and marginal pricing. Some firms also use what is called a standard approach. Regardless of the method you use to establish the price of your product, it is a good idea to make sure that you will be consistent in most international markets with this price. If you need to reduce the cost for an individual market, consider offering special discounts or financial incentives to reduce the price rather than publishing a different price for each country.

After building your internal export price and gathering information on in-market pricing, you can develop a landed cost, or the price it actually costs the importer to put the goods in their facility. The challenge is to minimize export price escalation. Export price escalation is the difference between the price of your merchandise and the landed cost. The nature and size of the product, destination, mode of transportation, financing, tariff and non-tariff barriers, service provider fees, handling, documentation and other factors all effect export price escalation. Anything that adds to the product value will raise the landed cost. In most countries tariffs are applied to the cost of the goods as well as the cost of freight and insurance to get it to port. Suppliers who are good at controlling price escalation often benefit from increased sales in the long term.

Often times, per capita income is a good gauge of a market's ability to pay. Some products may create such a strong demand such as popular consumer goods, that even low per capita income will not affect their selling price. Simplifying the product to reduce its selling price may be an answer for the exporter to most lower per capita income markets. The firm must also keep in mind that currency fluctuations may alter the affordability of its goods. Thus, pricing should try to accommodate changes in the U.S. and/or foreign currency.

In summary, here are a few key points to remember when determining your product's price:

- Determine the objective in the foreign market
- Compute the actual cost of the export product
- Compute the final consumer price
- Consider modifying the product to reduce the export price
- Include "nonmarket" costs (tariffs, customs fees, etc.)
- Evaluate market demand and competition.
- Exclude cost elements that provide no benefit to the export function, such as domestic advertising

For more information on export pricing, please reference Chapter 13 of A Basic Guide to Exporting.

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