UNIT 11 INTERNATIONAL PRICING POLICY

Objectives

After going through this unit you should be able to:

- explain the factors influencing international pricing
- discuss the role of costs in international pricing
- describe the process of price setting in the international context
- explain the informational needs for international pricing
- discuss key issues and strategies in international pricing
- understand provisions regarding trade finance in India

Structure

11.1 INTRODUCTION

Pricing products or services in international marketing is not an easy decision. Price is, in part, a function of cost, and the foreign exchange rate is an important determinant of a company's cost of production. When borrowing capital to do business, the cost of that capital can be very influential in the price decision. Take for example, the export of rice. Firstly the crop has to be bought from the producers. If we assume that the system is state owned, or administered by a Board, money has to be raised. The money may be raised locally, say by the issue of bills, or on the international market. The cost of capital has to be included in the price as well as the possible effect of changes in exchange rates if the capital is raised internationally.

The marketing manager is concerned with the revenue function of the firm. An important variable of the revenue function is price (the other being quantity). Moreover, this variable possesses the capacity to influence the other variable i.e., the quantity sold. The economists refer to this relationship as price elasticity. It therefore, becomes necessary for the marketing manager to manage this variable.

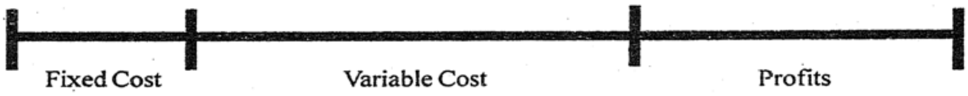
Pricing in international marketing is an extremely complex affair due to the political and economic risks involved. Yet astute handling of the elements of price can give the organisation an advantage in terms of currency gains, but this should not be the reason why organisations should get into foreign transactions.

11.2 COMPONENTS OF PRICE

The price variable is made up of two components viz costs and profit. The cost component is further subdivided as fixed and variable.

Exhibit 11.1

Components of Price



The economic theory weaves itself around these components, through demand and supply functions, to explain the process of price settings.

11.3 THE PROCESS OF PRICE SETTING

The marketing manager uses the parameters suggested by the economists for arriving at a price. These parameters may be enumerated as under:

1. Costs
2. Demand and supply
3. Economic, legal and political conditions I.

1. Costs

Costs represent the base line for setting the price. In other words, costs represent the price floor beyond which prices cannot be dropped. As already explained costs are made up of two components, fixed costs and variable costs. Fixed costs represent the un-escapable element of cost, whereas, the variable cost represent the escapable costs. The variable costs are also sometimes interpreted as marginal costs or incremental costs.

Each of these component has its own significance when pricing a product but the significance is in turn dependent upon the marketing goals, and other similar variables.

2. Demand & Supply

For a marketing manager, the upper limit is demonstrated by the demand and supply conditions as they exist in the market. The demand conditions are interpreted from the market conditions and the consumer behaviour whereas, the supply conditions are interpreted by an analysis of the competition. The prices charged by the competitors, and the attributes and quantity sold by the competitors, set the supply parameters. Thus for example, the prices being charged for garments by the Italians and the South Asians will determine broadly the range that can be charged by the apparel exporters. Again, if the international buyer is alert he will through his awareness, bargain against the subsidies being provided by the Government to the exporter, thus forcing the Indian exporter to charge as per real costs.

3. Economic, Legal and Political conditions

These represent parameters outside the market forces which influence the price structure. The Government, it has been noted, can through its policy, in fact modify the market conditions, making them lopsided. Thus, the countries where the economic policies are directed by the Government, the economic and political conditions have an important bearing on price structures. Taxes and duty drawbacks represent excellent examples for the same.

Legalities lengthen any process and complicate it and thereby influence the price structure. The more the legal constraints to be adhered to, the more the price charged from the customers, in an effort to pass the increase in costs.

The parameters explained above suggest the upper and lower limits but, the actual price lies somewhere in between. The effort of every manager is to arrive at a process that is easy and minimizes the deviation from the chosen price, in order to ensure the resultant profit. As a result of this, various methods of pricing, have come into vogue which emphasise one variable as against the other variable for example, cost plus pricing, competitive pricing. Cost plus pricing reflects an accounting thought rather than a managerial thought whereas competitive pricing reflects a supply side thought process.

It must be pointed out that marketing efforts are directed at fulfilling the need of the identified consumers. Price is an inherent factor of need. Therefore price must reflect managerial thought, and must fit into the overall marketing strategy.

A suggested process for arriving at the price would include the following steps:

- Analysis of the marketing goals
- Choosing the marketing mix
- Composing the marketing mix
- Determining the pricing policy
- Defining the pricing strategy
- Arriving at a specific price.

Of course, the chronology is not important but thought on each of the above steps would enable the marketing manager to arrive at a price which fulfils his marketing objectives within the set upper and lower limit. Thus, in brief, the marketing manager arrives at a price, within the parameters of cost, demand & supply and economic, political and legal parameters, by adopting a process that fulfils his marketing objective.

Activity-l

i) Price is an important element of marketing mix. Explain with the help of examples.

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ii) What can be the possible objectives of a marketing manager while choosing specific price?

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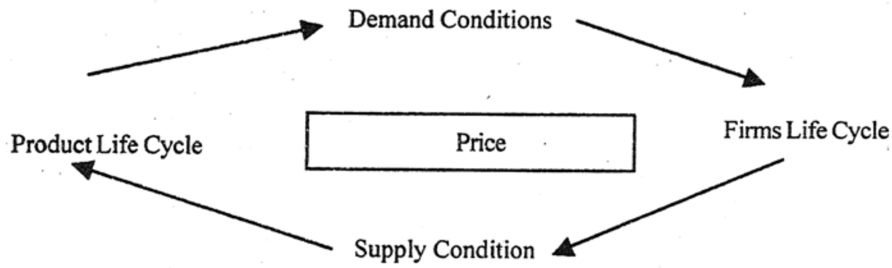
11.4 PRICING IN INTERNATIONAL MARKET

Although the parameters and the process of pricing remain the same, new dimensions are added to the pricing decision when a firm starts exploiting the international markets.

When an organisation enters a new market in the international marketing arena, it opens itself to an absolutely new set of characteristics: Thus, as each market stands out as a separate entity, this influences the parameters of pricing.

Moreover, a product's position on its life-cycle curve and the firm's position on its life-cycle curve no longer remain sacred, adding more complexities to the pricing decision.

Exhibit 11.2



Firm Life-Cycle

In international marketing operation a firm moves from the export marketing stage to international marketing to multinational marketing and finally graduating to global marketing.

At each stage the position of the firm on its life-cycle curve emphasizes the influence it will bear on the pricing decision. The influence is likely to be felt in two ways-the marketing process it adopts and the marketing goal the firm chooses.

Export Marketing

Export marketing represents an entry mode for a firm, in its infancy, in international marketing, process. At this stage the firm has neither the requisite marketing experience nor the accompanying financial clout at its disposal. As a result of these shortcomings it cultivates large and organized buyers and has little commitment to the market.

Moreover, such a firm has little or no control over the distribution and promotion functions, owing to the above shortcomings. Therefore, price becomes the only variable that remains controllable given the product. Such a firm, therefore, uses price as its unique selling proposition.

As already pointed out the second influence is on the marketing goals and through it, the process of price settings. Because the firm is committed to large buyers, it has little involvement with the market. Therefore, the goal of such firm is short-term in nature with maximum emphasis on profit element of the price. It therefore resorts to marginal pricing to seek bulk orders. As the firm gains marketing experiences the goals become long-term in nature with emphasis on market cultivation. In such cases the firm vacillate between fixed or full cost pricing vs variable pricing.

ELEMENTS OF PRICE QUOTATION

Since export marketing firms have to deal with organized buyers, the issue of making a quote arises. For making a quote three sub-elements must be considered. They are cost, currency, and the terms of delivery.

1. Costs

Cost represent an important element of quote but cost itself is composed of many sub-elements. The Exhibit 11.3 gives the major sub-elements of the cost component.

Exhibit 11.3

Elements of Cost for Export Pricing

1) Direct costs:

   a) Variable costs:

      Direct material

      Direct labour

      Variable production overheads

      Variable administrative overheads

      (e.g. salary of an export clerk)

b) Other costs directly related to exports:

Selling costs advertising support to importers abroad
Pricing Policy Packing
Commission to
Overseas agent
Export credit insurance
Local charges
Forwarding charges
Inland insurance
Port charges
Export duties, if any
Warehousing
Incidentals
Interest on funds involves/deferred credit
Cost of free parts supply
Consular fees
Pre-shipment inspection and loss on rejects

Total direct costs

Less : Export incentives allowed by the Government
Direct cost net (FO. B. export price at marginal cost)

2) 1 + Fixed costs/common costs

Production overheads
Administration overheads
Publicity and advertising (general)
Travel abroad*
After-sales services*

F.O.B. price (based on full cost)

(* To begin with, they may be treated as fixed cost. When business develops, they may be treated as variable costs.)

3) 1 + Freight+ Insurance= C.I.F. Price (based on marginal cost)

4) 2 + Freight+ Insurance= C.I.F. Price (based on full cost)

Part 1 of the cost sheet gives the lower limit for export pricing. As would be clear from the cost sheet, all costs directly related to exports are taken into account for fixing the lower limit. If some incentives are allowed by the government on the export of the product concerned, the lower limit would be further reduced by the amount of incentives.

2) Currency

The choice of currency in which the quote is made is an important decision as an unwarranted fluctuation in the exchange rate may wipe out the business profits and, at the same time if the firm is capable of exchange rate management, it can magnify its business profits through exchange speculation. If the firm does not possess the required competence for exchange management, then choosing a stable currency (e.g. Euro, U.S. Dollar) might represent the appropriate answer.

An organisation which is prepared to quote prices and invoice in the buyer's currency can obtain many advantages. In the first place it has a marketing attraction because it simplifies the whole transaction for the buyer, telling him immediately what the cost is to him, and it demonstrates the exporter's efficiency. Secondly, because most sales are made on credit terms, there is a possible extra profit available by selling the expected currency receipts on the forward exchange market.

No operation in foreign currency need present any problems as the banks are fully equipped to provide all the information and facilities required. The London foreign exchange market is the most efficient and comprehensive in the world. Any foreign currency received in payment of exports can be readily sold through the exporter's bank.

Forward market: Where credit terms have been given and goods have been sold at a price expressed in foreign currency, the risk of changes in the exchange rate can be covered by selling the expected currency forward. All that is necessary is for the exporter to inform his bank that he expects to receive a certain sum in a foreign currency on such a date and establish with the bank a "forward" contract. The bank will quote a rate at which it will buy the currency on that date. The exporter thus knows exactly how much of his own currency he will receive when the payment is made.

The forward rates are quoted in the press daily for the principal currencies, usually for one, two, three and six months. For some of the major currencies it is possible to get quotations for up to two or three years and in the case of the US dollar a period of up to eight years has been arranged. The quotations are shown at a premium or discount to the spot rate.

3) Terms of Delivery

The trade terms represent an important element of the quote. These trade terms have been explained to you in Unit 5. The quoted price changes with change in terms.

Therefore, the price quoted by an exporter will need to be adjusted according to the terms of delivery. The simplest way to understand this is to take a hypothetical example. The one quoted below concerns a shipment of cloth from Britain to Milan by sea. The basic price the exporter wished to receive was $2 a metre. The enquiry was for 3,000 metres. Hence the exporter began by wishing to receive at his works a total of $6,000. The costs at all stages of delivery to Milan were as follows:

	$
Price of the cloth, unpacked, at works	6,000
Packing costs	300
Transport to docks, by rail	450
Port dues and loading charges	60
Freight by sea to Genoa	875
Landing charges at Genoa	90
Duty payable on 3,000 metres of cloth	1,200
Transport from Genoa to Milan	150
Insurance, all risks, to Milan	100
	9225

1) If you quoted Ex Works, your price would be $6,000 because you would have no additional costs to add. But in this case, you would have to specify `Packing extra ; since export packing is seldom included in the cost. If it is included, then your price would be $6,300.

2) If you quoted F.O.R., you would probably not add anything further, unless you were some distance from the railhead.

3) If you quoted F.A.S., you would have to add the cost of taking the goods by rail to the port, so in this case your price would be $6,750.

4) If you quoted F.O.B., you would have to add the port charges, which would include any documentation. Thus your price would now be $6,810.

5) With a C.I.F. quotation, you have to include the freight to the nearest port, in this case Genoa, and the insurance. While this has been shown as $100, this was right through to Milan, so you might need to add only $80, your C.I.F. price would be $7,765.

6) Selling on a Franco Domicile basis you would have to add all landing charges at Genoa, the duty payable on the cloth, the full insurance and the freight from Genoa to Milan. Thus your final price, delivered to your customer's warehouse in Milan, would be $9,225.

   From the customer's point of view he has least to do when he buys from you on a Franco Domicile basis. He has most to do when he buys Ex-Works. Customers often prefer to buy on F.O.B. terms for three reasons:

   - They have other goods being sent to them and wish your goods to be shipped at the same time, possibly saving fright charges.
   - They can use the ships and other services of their own country, thereby saving foreign currency.
   - Their import licenses may be granted on an F.O.B. basis.

   (Example taken from Export Made Simple by Deschampsneufs, pp. 25-26)

To get an idea of the possible quote one can take the market price and start deducting major elements as shown below:

- Market Price in the Target Market

Less : Retailer's margin on the selling price

- Cost of the Retailer

Less: Wholesaler's mark-up on his cost

- Cost to the Wholesaler

Less: Importer's mark-up on his cost

- Cost to the Importer

Less: Import Duty, Freight and Insurance charges

- f.o.b. realization of the exporter.

This will give you an idea whether with the existing cost structure is it possible to make a competitive quote.

11.5 INFORMATION FOR PRICING DECISIONS

An important pre-requisite for scientific export pricing decisions is regular availability of authentic basic data relating to export products, foreign market and other relevant marketing information. The details of information requirements vary from product to product, market to-market and firm to firm.

In general, the following information is usually necessary for facilitating export pricing decision :

A. **Product Information**

1) Production cost details :
   a) Prime cost
   b) Factory overheads
   c) General Administration overheads
2) Cost of distribution
   a) Cost of packing
   b) Cost of selling
   c) Cost of transportation including insurance
   d) Distribution costs

3) Cost of marketing support-advertising, sales promotion and technical literature.

   These data may have to be obtained for the exporting countries, for competing countries and for consuming countries.

4) Nature of the product

   a) Whether a consumer or an industrial product

   b) Elasticity of demand

   c) Demand be pushed up by promotion

   d) Importance given to the price-quality mix

   e) Elasticity of supply of the product

5) International levies, taxes, etc.

6) Export incentives

7) Product guarantees

8) Installation and after-sales service requirements, and

9) Percentage incidence of rejects.

B) Market Information

1) Market Structure-high competition, little competition or low competition

2) Peculiarities of the market-developed and developing countries. Particular segments in developed countries may be interested in low price goods.

3) Ruling price in the foreign market including prices of substitutes

4) Terms of payment offered by the competitors and demanded by importers

5) Import duties, border fiscal charges and quota, restrictions.

6) Major sources of supply in the importing country-local and foreign

7) Trade preferences and/or trade agreements, if any

8) Extent of G.S.P. concessions, if any

9) Brand image, brand loyalty and consumer preferences

10) The nature of market segmentation, if any

11) Publicity-need, media and cost

12) Channels of distribution and margins allowed to various intermediaries

13) Shipping freight, insurance, packing, banking, transportation and other charges incidental to export, and

14) Documentation and invoicing requirements, health and sanitary regulations and other government regulations.

C) Information Required at the Micro Level

Some of the strategic points of information necessary for pricing decisions at the micro level cover the following aspects:

1) Production capacity of the firm-installed as well as utilised

2) Proportion of total production supplied to the home market

3) Proportion at present exported

4) Competition among domestic firms in the export field, and

5) Additional export possibilities

As regards the supplies for additional exports, the essential information required is:

1) Whether it would involve curtailment of supplies to the domestic market?

2) Whether it would lead to the utilisation of idle capacity, or

3) Whether it would require commissioning of new capacity?

11.6 SOURCES OF PRICE INFORMATION

The exporters' own files could give an idea of the prices charged in the past and as to what extent they were acceptable.

Domestic export statistics usually provide quantity and value of the commodities/ products exported. If we divide the value by quantity, we can get an idea of the export price realised by the domestic exporters. So also a look at the foreign import statistics could give an idea of the prices paid by importers for imports of various products/commodities from various countries.

Export Promotion Councils/Bureaus also provide an idea of the possible prices at which the products could be exported.

Commodity Price Bulletins issued by the United Nations, International Monetary Fund and Food and Agriculture Organisation provide an idea of the export, import and wholesale prices of the various commodities. The prices at which the commodities are traded at the various commodity exchanges are usually published. So also publications of commodity oriented organisations like International Sugar Agreement could provide an idea of the spot and auction prices. The Committee also publishes wholesale, quoted and import prices of commodities of interest to Commonwealth countries.

Catalogues published by departmental stores of the major developed countries can provide an idea of the prices charged for the various products from consumers. Of course, the exporter would have to work backwards by deducting the retail margins, wholesale margins, the import duties and the freight and insurance charges. Trade Journals very often provide price data about the products covered. Studies made by various research organisations including the International Trade Centre also contain the data about prices and the margins applicable at various distribution levels.

Reports of Trade Delegations could be another sources of price information. Participation in trade fairs and exhibitions could possibly give the best idea about the prices of the products covered by the fairs & exhibitions as also of the modifications required in the product.

In addition, there are specialised price information agencies which could also help the exporters about prices which could be obtained for the products exported by them.

Activity-2

Visit an exporter to find out the criteria he uses to make the quote.

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11.7 ISSUES IN INTERNATIONAL PRICING

In export marketing price had remained the most important variable of marketing mix. But, as the firm grows and builds upon its international marketing experience and financial clout, it changes its orientation. It no longer seeks out bulk buyers but chooses to develop markets i.e., it starts on the process of consumer orientation. Promotion becomes a tool in its hand and therefore even the distribution function comes to be influenced. All this is result of the change in marketing goals.

With the change in marketing goals the process of arriving at a specific price also undergoes a change, because the pricing objectives have to remain consistent with the other marketing objectives. Various pricing strategies adopted reflect the marketing goals of the company.

Actual pricing methods are usually cost, market, or competition oriented. However, in the international arena, other factors come into play. Let us first discuss these pricing methods :

1) **Cost plus pricing:** There are basically two types under this heading, the historical accounting cost method and the estimated future cost method. The former includes direct and indirect costs and has the disadvantage of ignoring demand and competitive position in the target market. Estimated cost approaches are based on assumptions of production volume (depending on process) which will be a principal factor determining costs. Again difficulties may lie in trying to estimate production levels. In reality, costs may be a useful starting point but should never be used as a final arbiter.

2) **Competitive pricing:** Whilst costs are important they should be looked at alongside the prices of competitive products in the target markets. Once these price levels have been established the base price, or price that the buyer will pay for the product, can be determined. This involves four steps:

   i) estimation of demand schedules

   ii) estimation of incremental and full manufacturing and marketing costs to achieve projected sales volumes

   iii) selection of price which offers the highest contribution

   iv) inclusion of other elements of the marketing mix.

   These steps are by no means easy. Costs are difficult to assess properly as are demand conditions. In products of a raw commodity nature or those traded on the international market subject to world prices, often the producer has no alternative but to take the going price - a price governed by competition, especially on the supply side.

3) **Market pricing:** In certain products one can charge "what the market can bear". If the supplier is one of a few, despite all the problems associated with price fixing, the market may be able to bear a high price. If, as in India, an export crop fails, then other suppliers can take advantage of this to charge higher prices for a similar export crop. This was the case, a few years ago, with the Sugar market.

   In other cases the product may be so unique that the company should capitalise on its rarity by charging a high price. At one time exotic produce like Malaysian starfruit and rambutans could command a high price due to their scarcity. The problem is, encouraged by the profit margins, more entrants are drawn into the market.

However, practically as marketers you may have to make use of combination of all the three pricing methods.

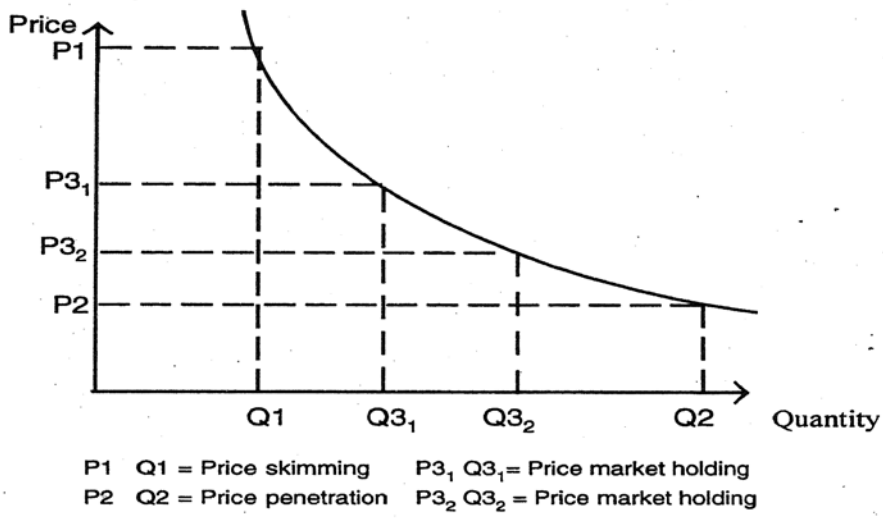
Three basic factors determine the boundaries of the pricing decision - the price floor, or minimum price, bounded by product cost, the price ceiling or maximum price, bounded by competition and the market and the optimum price, a function of demand and the cost of supplying the product. In addition, in price setting cognisance must be taken of government tax policies, resale prices, dumping problems, transportation costs, middlemen and so on.

In setting prices, it must be made clear what the objectives and policy are.

A low price (penetration) is a volume policy. A high price (skimming) is used if the product is fairly unique, development costs are high and demand is relatively inelastic. Market holding is a strategy intended to hold share. Here products are not based on straight exchange rates at current rates but on what the market can bear.

The three price strategies are illustrated in Figure 9.1.

Figure 9.1 : Pricing Policies



The assumption behind all three pricing policies is that the underlying conditions governing supply and demand apply. In reality, these do not always do so, if indeed ever.

International Pricing Policies

There are three possible international/global pricing policies - extension (ethnocentric), adaptation (polycentric) and invention (geocentric).

a) Extension The same global price. A very simple method but does not respond to market sensitivity.

b) Adaptation

Different prices in different markets. The only control is setting transfer prices within the corporate system. It prevents problems of arbitrage when the disparities in local market prices exceed the transportation and duty costs separating markets.

c) Innovation

A mix of a) and b). This takes cognisance. of any unique market factor (s) like costs, competition, income levels and local marketing strategy. In addition it recognises the fact that headquarters price coordination is necessary in dealing with international accounts and arbitrage and it systematically seeks to embrace national experience.

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 customers to pay for the company's products, different profit transfer rules, Marketing Mix conflicting objectives of joint venture partners and varying government regulations. There are four major approaches to transfer pricing:

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 methods are given 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 profits on transfer sale. Rather, the receiving unit (subsidiary or affiliate) is expected to generate profit by subsequent sale.

Transfer at Cost Plus Method : This methods 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 price. 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 predeterminable specific prices but in prices that fall within a pre-determinable range. The problem with this method occurs when the product 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.

11.8 TRADE FINANCE IN INDIA

Availability of timely and adequate credit to the export sector at competitive interest rates is crucial for export promotion. Under RBI's export credit schemes, credit facilities are provided by the commercial banks to exporters at pre-shipment and post shipment stages both in rupees as well as in foreign currency. While the export credit in rupees is available at rate of interest linked to the PLRs (Prime Lending Rates) of banks effective from May 5, 2001 with the benefit of forward premium, the export credit in foreign currency is provided at internationally competitive interest rates linked to LIBOR / EURIBOR / URILIBOR. Exporters have the choice to avail the export credit either in Rupees or in foreign currency whichever is more beneficial to them.

The interest rates applicable on rupee export credit both at pre and post shipment stages are reviewed and adjusted periodically by RBI as a part of the overall monetary policy after taking into account various factors like inflation, developments in the financial markets, exchange rate differential etc.

Effective from May 5, 2001 interest rate on export credit in rupees extended by banks are to be indicated as ceiling rates in respect of all categories, linked to respective Prime Lending

Rates (PLR) of individual banks available to their other domestic borrowers, so that interest rate charged by the banks could actually be lower than the prescribed rate. This is expected to introduce healthy competition and provide exporters a greater choice to avail of banking services in terms of interest rate, quality of service and transaction costs.

Based on the recommendation of a Bankers' Group, the following measures have been taken to simplify the process of export credit delivery (i) banks have been advised to adopt a flexible approach in cases where the export credit limits were utilised fully, in negotiating the bills drawn against LCs and consider in such cases delegating discretionary / higher sanctioning powers to branch managers to meet the credit needs of the exporters, (ii) branches are authorised to disburse a certain percentage of enhanced/adhoc limits, pending sanction by higher authorities/board/committee. (iii) waiver of submission of order/LC by submission of periodical statements of outstanding orders/LC on hand is to form part of the terms of sanction of the export credit limits and should be communicated to ECGC.

Exporters covered under the special financial package are to be extended credit at concessional rate of interest for an extended period up to 365 days at pre-shipment as well as post-shipment stages as against the maximum periods of 270 days and 180 days respectively applicable for normal export credits. Further, the rate of interest of export credit for period beyond 270 days and up to 365 days at pre-shipment stage will be the same as for normal pre-shipment credit for period beyond 180 days and upto 270 days. Similarly, post-shipment credit will be extended for periods beyond 180 days and up to 365 days at the same rate of interest as applicable for normal post-shipment credit for the period beyond 90 days and upto 180 days. The realisation of export proceeds has also been allowed upto 365 days by RBI under FEMA, 1995.

11.8 SUMMARY

In this unit an attempt has been made to illustrate how the pricing decision is taken by the managers. The parameters that determine price floor and price ceiling have been discussed. The price of a good or service is the value society places on it to obtain it. Pricing decisions on the marketing mix are compounded when marketing across international boundaries.

Prices are fixed, usually on the basis of cost, competitive or market considerations and may be pitched high or low, depending on supply/demand and intangible (image) factors. The process of price fixing is compounded by exchange rate considerations. Pre-financing in export is often essential as sellers have often to bear the costs involved before obtaining the revenue from the sale. Sources vary, including internal and external sources. However these are not as prevalent in less developed countries as in more developed ones.

The manager has open to him the choice of a specific price within these parameters. For this, a process has been briefly discussed. The issues that arise in relation to pricing decision, when a firm enters international market have also been explained.

11.10 SELF-ASSESSMENT QUESTIONS

1. What is the premise of cost plus pricing?

2 Discuss the basic factors affecting price in any market, giving suitable examples.

3. What is the effect of term of delivery on the price to be quoted by an exporter? Explain giving an example.

4. What are the main methods of export pricing? What are the dangers in attempting to set prices globally?

5. Describe the principle sources of funds available to an exporter.

6. What is transfer price? What are the methods for determining transfer prices?

11.11 FURTHER READINGS

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