TY BBA SEM- VI

EXPORT MANAGEMENT -II

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UNIT -2

- **MEANING , FACTORS, IMPORTANCE**
- **EXPORT PRICING, METHODS AND STRATEGIES**
- **INCOTERMS 2000**
- **SKIMMING AND PENETRATION STRATEGIES**

Meaning :

Export pricing represents costs that occur in an export transaction . Export pricing includes the manufacturing cost and any additions or modifications to products , special quality packaging , ingredients . formula or specification modification . control , export administration , freight , distribution and marketing

Factors Affecting Export Pricing :

1) Costs :

Costs are often a major factor in price determination and there are a number of reasons to have detailed information on costs . Costs are useful in setting a price floor . In the short - run , when a company has excess capacity , the price floor may be out - of - pocket costs , i.e. such direct costs as la , raw materials , and shipping . However , in the long - run full costs for all products must be recovered , although not necessarily full costs for each individual product . The actual cost floor , therefore , may often be somewhere between direct cost and full cost .

Costs are also helpful in estimating how rivals will react to setting a specific price , assuming that knowledge of one's own cost helps to assess the reactions of one's competitors . Costs may help in estimating a price that will keep - out or discourage new competitors from entering an industry . Internationally , however , costs are often somewhat less helpful for this purpose than in the domestic market , since they may vary over a wider range from country to country .

The basic categories of cost incurred to serve domestic and export customers are the same , e.g .. la , raw materials , component parts , selling , shipping , overheads . But their relative importance as a determinant of price may differ greatly . For example , the cost of marketing a product in a thin market thousands of miles from the production plant may be relatively high . Such items as the cost of salespeople , ocean freight , marine insurance , modified packaging . specially adapted advertising , and so forth may raise the price floor . Also , the location of foreign customers affects either the time needed to ship products or the need for maintaining local inventories , thus influencing either the cost of transportation - e.g. , relatively expensive shipments by air cargo- or the costs of carrying and financing local inventories . Special legal requirements may influence production costs : e.g. , automobile safety requirements or legislation affecting food and drugs .

2) Market Conditions (Demand) .

The nature of the market determines the upper limit for prices . The utility , or value placed on the product by purchasers sets the price ceiling . When a manager attempts to establish the value of a product in an export market , the manager in essence is attempting to establish a demand schedule for the product . Values should be measured in terms of product utility , translated into monetary terms . Thus . pricing can be viewed as a continuous process of adjusting the price of the export product to the fluctuating utility of the last prospective buyer so as to make him a customer .

When estimating a demand schedule the market can be stratified , number of customers who will buy at several levels of price ? The exporter can then select the strata of interest , which gives the last prospect an amount of utility equal to the price charged while all other buyers will have surplus utility in that they would be willing to pay a higher price Value may be determined by asking people , by some type of barter experiment , by test market pricing , by comparison to substitute products , or by statistical analysis of historical price volume relationships . which involve estimating the

The basic factors that determine how the market include demographic factors , customs and will evaluate a product in foreign markets traditions , and economic considerations , all of which are related to customer acceptance and use of a product same level as , or below

3) Competition .

While costs and demand conditions circumscribe the price floor and ceiling , competitive conditions help to determine where within the two extremes the actual price should be set . Reaction of competitors is often the crucial consideration imposing practical limitations on export pricing alternatives . Prices of competitive products (substitute products) have an impact on the sales volume attainable by an exporter . The decision is whether to price above , at the competition . Barriers that an exporter can use to provide shelter from competition include having a product distinctiveness , a brand prominence with high brand equity , and a well - established channel of distribution both between countries and within a country that can provide greater dealer strength . Obviously , the more significant the barriers , the more pricing freedom there is . Under conditions approximating pure competition , price is set in the marketplace . Price tends to be just enough above costs to keep marginal producers in business

Under conditions of monopolistic or imperfect competition , the seller has some discretion to vary the product quality , promotional efforts , and channel policies in order to adapt the price of the " total product to serve pre - selected market segments . For most branded products and even for some commodities (when the export marketer and its reputation for service dependability , and delivery are known) exporters have some range of discretion over price . There are times when an exporters in such a competitive structure ignores competitive prices .

Under conditions of oligopoly , without sufficient product differentiation to give a seller a monopoly position , the point between the cost floor and price ceiling at which products will be priced depends upon the assessment of each oligopolist of the others reactions to his decisions

4) Legal Political Influence :

The manager charged with determining prices must consider the legal and political situations as they exist and as they differ from country to country . Legal and restrict the freedom of a company to set prices strictly on the basic of economic consideration

Sometimes foreign officials use pricing guidelines as a criterion for granting foreign exchange to the buyer of foreign merchandise . In some countries , the government is concerned with the relationship between the amount paid and the social benefits of the purchase . Even though the customer may be willing to pay a high price , the government may refuse to grant adequate foreign exchange for what it considers to be Non - essential imports .

5) Company Policies and Marketing Mixa

Export pricing is influenced by past and current corporate philosophy , organisation , and managerial policies . Ideally , all long - run and short - run decisions should be recognized as interrelated and interdependent , but as a practical matter some decisions must be mode first and must serve as a basis for making subsequent decisions . For example , the company's organisational structure must be established and maintained for a period of time . During this period , other activities must be conducted within the constraints of the structure .

Pricing cannot be divorced from product considerations Management must take the customer's point of view and evaluate a product in terms of its quality and other characteristics relative to its price : Decisions on the nature of the product , package , quality , varieties or styles available and so forth influence not only the cost , but what customers are willing to pay , as well as the degree to which competitors products are considered acceptable substitutes .

Importance of Export Pricing :

Price is one of the important elements in marketing mix and this is a delicate area of export marketing . It is rightly treated as an important factor in successful export strategy .

The importance of export pricing can be summarized as follows : >

1. Consumers are extremely sensitive about quality and price of the product . If the price is not properly set , success of the firm in the international market becomes doubtful .

2. The volume of sales and market demand depends on pricing

3. Competitive capacity in foreign market depends on the price

4. It decides the success and failure of export efforts .

5. Export pricing builds goodwill in the market .

6. Export pricing helps in capturing foreign market .

7. Develops brand image and product differentiation

8. Pricing helps in penetration of market by keeping them low initially and gradually raising them .

9. Pricing not only helps in increasing profit and raising revenue , but also in enhance .. market share of the product .

10. Pricing helps by having good profitability to undertake diversification , research and development etc.

Export Pricing Methods & Strategies ;

Pricing strategy may be defined as the strategy adopted by exporters with respect to the pricing of goods while marketing them to the ultimate consumer . An exporter may charge a uniform price in different markets of the world or he may practise price discrimination taking into consideration the situations prevailing in different markets . Various pricing strategies used in the international market are :

(a) Skimming Pricing Strategy A pricing strategy in which exporter charges a very high price initially in order to recover the cost incurred on high promotional expenditure , research and development , etc. , is known as skimming pricing strategy . After exploiting the rich market , the decrease the price in order to increase his market share . exporter can gradually

(b) Penetration Pricing Strategy . A pricing strategy in which an exporter I charges a very low price initially in order to get hold of the market and drive away competitors is known as penetration pricing strategy . Sometimes , such strategy is referred to as dumping . This strategy is suitable for the items of mass consumption .

(c) Transfer Pricing Transfer pricing refers to the pricing of goods transferred from one subsidiary to another or to the parent Company . Due to this , profits of one subsidiary are transferred to another subsidiary or to the parent company . Transfer pricing decisions are affected by factors such as differences in tax and tariff rates , foreign exchange restrictions and import restrictions

d) Marginal Cost Pricing Marginal cost is the cost of producing one extra unit of a product Under this approach , an exporter simply considers variable cost or direct costs while arriving at the price to be charged in the international market and fixed costs are fully recovered domestic market . from the

(e) Market Oriented Pricing This is a very flexible method of arriving at a prices it takes into consideration the changing market conditions . The price charged may be bother when demand conditions are favourable and vice versa . This method is sometimes referred to as what the traffic will bear method . This is a very flexible and realistic method of pricing .

(f) Competitor's Pricing Under this method , pricing strategy of dominant competitors is taken into consideration while arriving at the pricing decisions . A price leader is the firm , which initiates the price trends in the market . However , if the comperor's pricing policy is faulty , the followers will also land up with wrong pricing .

INCO Terms Incoterms are a set of rules which define the responsibilities of sellers and buyers for the delivery of goods under sales contracts . They are published by the International Chamber of Commerce (ICC) and are widely used in comical transactions . Incoterms are a set of rules which define the responsibilities of sellers and yes for the delivery of goods under sales contracts . Shippers worldwide use standard de definitions (called Incoterms) to spell out who's responsible for the shipping , insurance , and tariffs on an item , they're commonly used in international contracts and are protected international Chamber of Commerce copyright . Incoterms significantly reduce misunderstandings among traders and thereby minimize trade disputes and litigation .

1 EXW - ExWorks (2000 and 2010) This term represents the seller minimum obligation , since he only has to place the goods at the disposal of the buyer . The buyer must carry out all tasks of export & import clearance . Carriage & insurance is to be arranged by the buyer .

2 FCA - Free Carrier (2000 and 2010) This term means that the seller delivers the goods , cleared for export , to the carrier nominated by the buyer at the named place . Seller pays for carriage to the named place .

3 FAS - Free Alongside Ship (2000 and 2010) This term means that the seller delivers when the goods are placed alongside the vessel at the named port of shipment . The seller is required to clear the goods for export . The buyer has to bear all costs & risks of loss or damage to the goods from that moment . This term can be used for ocean transport only .

4 FOB - Free On Board (2000 and 2010) This term means that the seller delivers when the goods pass the ship's rail at the named port of shipment . This means the buyer has to bear all costs & risks to the good seller must clear the goods for export . This term can only be used for ocean transport . If the parties do not intend to deliver the goods across the ship's rail , the ECA term should be used .

5 C & F - Cost and Freight (2000 and 2010) This term means the seller delivers when the goods pass the ship's rail in the port of shipment . Seller must pay the costs & freight necessary to bring BUT the risk of loss or damage , as well as any the goods to the named port of destination , additional costs due to events occurring after the time of delivery are transferred from seller to buyer . Seller must clear goods for export . This term can only be used for ocean transport

6 CIF Cost , Insurance , Freight (2000 and 2010) The seller delivers when the goods pass the ship's rail in the port of shipment . Seller must pay the cost & freight necessary to be goods to named port of destination . Risk of loss & damage same as CFR . Seller also has to procure marine insurance against buyer's risk of loss damage during the carriage . Seller must clear the goods for export . This term can only be used for ocean transport

7 CIP Carriage and Insurance Paid (2000 and 2010) This term is the same as CPT with the exception that the seller also has to procure insurance against the buyer's risk of loss or damage to the goods during the carriage . This terms may be used for any mode of transport

8 CPT - Carriage Paid To (2000 and 2010) This term means that the seller delivers the goods to the carrier nominated by hill the seller must in addition pay the cost of carriage necessary to bring the goods to the named destination . The buyer bears all costs occurring after the goods have been so delivered the seller must clear the goods for export . This term may be used irrespective of the mode of transport (including multimodal)

9 DAF - Delivered At Frontier (2000)

This term means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport not unloaded , cleared for export but not cleared for import , at the med point & place at the frontier - but before the customs border of the adjoining country . To be used when delivering to a land frontier .

10 DES - Delivered Ex Ship (2000) Seller delivers when goods are placed the disposal of the buyer on board the ship , not cleared for import at the named port of destination. . The seller bears all costs & risks in bringing the goods to the named port before discharging This term can only be used when the goods are to be delivered by ocean .

11 DEQ - Delivered This terms is the as DES with the exception that the seller is responsible to place the goods at the disposal of the buyer , not cleared for import , on the quay (wharf) at the named port of destination setter bears all costs & risks as in DES plus discharging the goods on the quay . This term can only be used in ocean transport .

12 DDU - Delivered Duty Unpaid (2000) This term means the seller delivers the goods to the buyer , not cleared for import , and not unloaded from arriving means of transport at the named place of destination . The seller bears all costs & risks involved in bringing the goods to the named place other than " duty " (which includes the responsibility for customs formalities & payment of those formalities , duties & taxes) for import into the country of destination . Buyer is responsible for payment of all customs & duties & taxes .

13 DDP - Delivered Duty Paid (2000 and 2010) This term represents maximum obligation to the seller . This term should not be used if the seller is unable to directly or indirectly to obtain the import license . The terms means the same as the DDU term with the exception that the seller also will bear all costs & risks of carrying out customs formalities including the payment of duties , taxes & customs fees .

14 DAT - Delivered at Terminal (named terminal at port or place of destination) (2010) Seller pays for carriage to the terminal , except for costs related to import clearance , and assumes all risks up to the point that the woods are unloaded at the terminal .

15 DAP - Delivered At Place (named place of destination) (2010) Seller pays for carriage to the named place , except for costs related to import clearance , and assumes all risks prior to the point that the goods are ready for unloading by the buyer .