

13.1: Global Pricing Summary

Summary

Pricing decisions are a critical element of the marketing mix that must reflect costs, competitive factors, and customer perceptions regarding value of the product. In a true global market, the law of one price would prevail. Pricing strategies include market skimming, market penetration, and market holding. Novice exporters frequently use cost-plus pricing. International terms of a sale such as ex-works, F.A.S., F.O.B., and C.I.F. are known as Incoterms and specify which party to a transaction is responsible for covering various costs. These and other costs lead to export price escalation, the accumulation of costs that occurs when products are shipped from one country to another.

Expectations regarding currency fluctuations, inflation, government controls, and the competitive situation must also be factored into pricing decisions. The introduction of the euro has impacted price strategies in the EU because of improved price transparency. Global companies can maintain competitive prices in world markets by shifting production sources as business conditions change. Overall, a company's pricing policies can be categorized as ethnocentric, polycentric, or geocentric.

Several additional pricing issues are related to global marketing. The issue of gray market goods arises because price variations between different countries lead to parallel imports. Dumping is another contentious issue that can result in strained relations between trading partners. Price fixing among companies is anticompetitive and illegal.

Transfer pricing is an issue because of the sheer monetary volume of intra-corporate sales and because country governments are anxious to generate as much tax revenue as possible. Various forms of countertrade play an important role in today's global environment. Barter, counter purchase, offset, compensation trading, and switch trading are the main countertrade options.

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