

## 13.3: Introduction to Global Pricing

### Learning Objectives

After reading this section, students should be able to ...

1. define pricing
2. apply the basics of pricing to global pricing decisions
3. appreciate the global marketer's view of price

Price is the value of a product offering that can be created through the different marketing mix elements, such as through product, distribution and communication decisions. Therefore, global pricing decisions are related to other marketing mix variables.

At its basic level, pricing is the process of determining what a company will receive in exchange for its products. As one of the four “Ps” in the marketing mix, pricing is the only revenue generating element. Several factors affect the global pricing of a product, e.g., manufacturing cost, market place, competition, market condition, and quality of product, distribution channels, country factors and company factors (Alon and Jaffe 2013). According to Clarke and Wilson (2009), international pricing decisions also need to take account of tariffs, quotas, local taxes, subsidies, grants, currency exchange, rates, local purchasing power, local business and consumer characteristics. Figure 12.1 shows the drivers of international pricing.

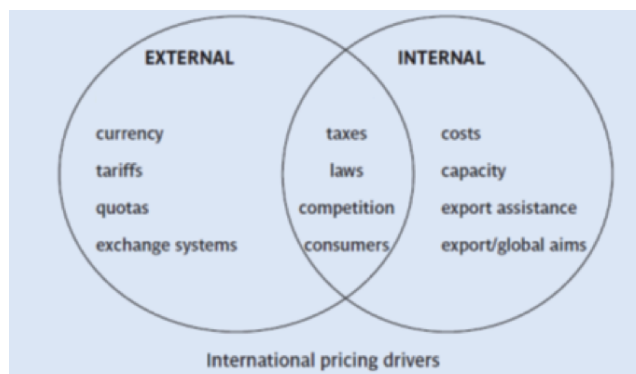


Figure 13.3.1: (Clarke and Wilson (2009))

Prices can be used both to set values and provide signals in international markets (Eden and Rodriguez 2004). From a customer's point of view, value is the sole justification for price. Many times customers lack an understanding of the cost of materials and other costs that go into the making of a product. But those customers can understand what that product does for them in the way of providing value. It is on this basis that customers make decisions about the purchase of a product.

Effective pricing meets the needs of consumers and facilitates the exchange process. It requires that marketers understand that not all buyers want to pay the same price for products, just as they do not all want the same product, the same distribution outlets, or the same promotional messages. Therefore, in order to effectively price products, markets must distinguish among various market segments. The key to effective pricing is the same as the key to effective product, distribution, and promotion strategies. Marketers must understand buyers and price their products according to buyer needs if exchanges are to occur. However, one cannot overlook the fact that the price must be sufficient to support the plans of the organization, including satisfying stockholders. Price charged remains the primary source of revenue for most businesses.

Although making the global pricing decision is usually a marketing decision, making it correctly requires an understanding of both the customer and society's view of price as well. In some respects, price setting is the most important decision made by a business. A price set too low may result in a deficiency in revenues and the demise of the business. A price set too high may result in poor response from customers and, unsurprisingly, the demise of the business. The consequences of a poor pricing decision, therefore, can be dire. We begin our discussion of pricing by considering the perspective of the customer.

### The customer's view of price

A customer can be either the ultimate user of the finished product or a business that purchases components of the finished product. It is the customer that seeks to satisfy a need or set of needs through the purchase of a particular product or set of products. Consequently, the customer uses several criteria to determine how much they are willing to expend in order to satisfy these needs.

Ideally, the customer would like to pay as little as possible to satisfy these needs. Therefore, for the business to increase value (i.e. create the competitive advantage), it can either increase the perceived benefits or reduce the perceived costs. Both of these elements should be considered elements of price. To a certain extent, perceived benefits are the mirror image of perceived costs. For example, paying a premium price (e.g. USD 650 for a piece of Lalique crystal) is compensated for by having this exquisite work of art displayed in one's home. Other possible perceived benefits directly related to the price-value equation are status, convenience, the deal, brand, quality, choice, and so forth. Many of these benefits tend to overlap. Thus, providing value-added elements to the product has become a popular strategic alternative. Computer manufacturers now compete on value-added components such as free delivery setup, training, a 24-hour help line, trade-in, and upgrades.

#### ✓ Student Example

A great example of this concept is Sherwin-Williams. Our contractor segment (residential painters) wants the best product to use on their projects, yet they want to pay as little as possible. There are cases when they will use higher quality products if their customers want the best finish possible, however, once more everything comes down to cost. When the sales representative sets prices for individual contractors, they are not always the lowest. Whether a contractor purchases a low-grade, mid-grade, or high-grade product, we (store employees) try to add value to their purchase by providing exceptional services. This can range from many things such as carrying all of their paint out to their vehicles and loading it for them while having a small conversation; to reminding them about future sales; providing quick delivery services; and accepting orders by phone; or simply providing free-coffee all day. Expressing our appreciation by having cook-outs every few months also helps the contractors feel more at home with us, which is great because it helps build loyalty to our brand which is one of the main reasons why we have over 70% of the total paint and coatings market share in the world.

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Perceived costs include the actual dollar amount printed on the product, plus a host of additional factors. As noted, these perceived costs are the mirror-opposite of the benefits. When finding a gas station that is selling its highest grade for USD 0.06 less per gallon, the customer must consider the 16 mile (25.75 kilometer) drive to get there, the long line, the fact that the middle grade is not available, and heavy traffic. Therefore, inconvenience, limited choice, and poor service are possible perceived costs. Other common perceived costs include risk of making a mistake, related costs, lost opportunity, and unexpected consequences, to name but a few. A new cruise traveler discovers he or she really does not enjoy that venue for several reasons—e.g. he or she is given a bill for incidentals when she leaves the ship, has used up her vacation time and money, and receives unwanted materials from this company for years to come. In the end, viewing price from the customer's perspective pays off in many ways. Most notably, it helps define value—the most important basis for creating a competitive advantage.

### Price from a societal perspective

Price, at least in dollars and cents, has been the historical view of value. Derived from a bartering system (exchanging goods of equal value), the monetary system of each society provides a more convenient way to purchase goods and accumulate wealth. Price has also become a variable society employs to control its economic health. Price can be inclusive or exclusive. In many countries, such as Russia, China, and South Africa, high prices for products such as food, health care, housing, and automobiles, means that most of the population is excluded from purchase. In contrast, countries such as Denmark, Germany, and Great Britain charge little for health care and consequently make it available to all.

### The Global marketer's view of price

Price is important to global marketing, because it represents marketers' assessment of the value customers see in the product or service and are willing to pay for a product or service. A number of factors have changed the way marketers undertake the pricing of their products and services.

- Local competition puts pressure on the global firms' pricing strategies. Many local-made products are high in quality and compete in global markets on the basis of lower price for good value.
- Local competitors often try to gain market share by reducing their prices. The price reduction is intended to increase demand from customers who are judged to be sensitive to changes in price.

- New products are far more prevalent today than in the past. Pricing a new product can represent a challenge, as there is often no historical basis for pricing new products. If a new product is priced incorrectly, the marketplace will react unfavorably and the “wrong” price can do long-term damage to a product’s chances for marketplace success.
- Technology has led to existing products having shorter marketplace lives. New products are introduced to the market more frequently, reducing the “shelf life” of existing products. As a result, marketers face pressures to price products to recover costs more quickly. Prices must be set for early successes including fast sales growth, quick market penetration, and fast recovery of research and development costs.

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