Exploring the Strategic Decision to Standardise or Adapt Export Prices

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Introduction

"The price charged for one's product is of paramount importance in global strategy implementation. The "one price for all" is therefore a myth, as the different customers, markets, channels of distribution and exchange rates organisations encounter make price variation policies unavoidable in international marketing"

This paper discusses the strategic decision to standardise or adapt export prices. It argues that standardisation is not a myth and that companies must make a choice between standardising or adapting export prices. The various drivers will also determine to what extent they will adapt prices, based on their situation.

The paper first discusses the importance of pricing, and then discusses the factors affecting the export pricing decision. The drivers, advantages and disadvantages of standardisation and adaptation are discussed. The methods used to determine export prices are examined and the role of financial information in the export pricing decision is explored.

Importance of Pricing

Pricing, whether focused locally or internationally, is one of the most critical and complex issues facing companies (Kotabe & Helsen, 2004; Myers, 1997).

Buttery & Richter (2002) argue that price is the only element of the marketing mix that creates revenue. Pricing also affects a company's profitability (Theodosiou & Katsikeas, 2001) and can deliver competitive advantage in export markets (Raymond, Tanner & Kim, 2001; Marsh, 2000).

Pricing can also affect a product's export market positioning (Theodosiou & Katsikeas, 2001) and can also influence the positioning of competitors (Brassington & Pettitt, 2000).

Factors Influencing the Export Pricing Decision

Companies' export pricing decisions are influenced by company, market and product factors. These factors are discussed in detail in Appendices 1 & 2.

Company factors are focused internally and include costs and alignment with a company's goals.

External market factors include foreign consumers' willingness to pay, the level of demand, intensity of competition, local government regulations, the type and length of distribution channel, and economic conditions in export markets.

Product factors include product differentiation or positioning, and the stage of the Product Life Cycle (PLC).

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Strategic Approaches to Export Pricing

The strategic approaches to export pricing are standardising prices and adapting prices for different markets.

Standardisation

Standardisation in export pricing refers to the adoption of a single price for a product across home and international markets.

Drivers of Standardisation

Price standardisation is driven by a number of factors.

As the use of the Internet and other communication *technology* increases, pricing across international markets will become more transparent. As customers become more aware of pricing levels in international markets, it will become more difficult for companies to "establish and maintain price differences across markets" (Stottinger, 2001, p41). For example, Amazon.com may experience problems maintaining differential pricing between its UK and US websites as customers compare prices on-line.

Increasing globalisation and the development of a global marketplace or global segments consisting of consumers with similar wants and tastes are driving price standardisation (Theodosiou & Katsikeas, 2001).

Trade liberalisation will reduce price variation as differences between markets are reduced (Stottinger, 2001). The introduction of a common currency in the European Union will also promote export price standardisation.

The choice of *distribution channel* influences the export pricing decision. Standardisation is more likely when a company uses its own sales force in export markets (Stottinger, 2001) as it has greater control over sales costs and margins (Myers, Cavusgil & Diamantopoulos, 2002).

Similarities between home and export markets in terms of "the legal and regulatory environment, economic conditions and stage of the product life cycle" (Theodosiou & Katsikeas, 2001, p1) will drive standardisation in export pricing.

Companies with a high level of *market power* in global markets are more able to standardise pricing, as they have no need to adjust their prices to suit local conditions (Stottinger, 2001).

Some companies may select standardised pricing to *avoid anti-dumping laws* in international markets (Albaum, Strandskov & Duerr, 1998).

Advantages of Standardisation

There are a number of advantages that might arise from a standardised export pricing strategy.

Some academics argue that *increased market share* in international markets can be "gained through aggressive low pricing supported by standardisation" (Levitt, 1983 cited in Marsh, 2000, p201) because of the advantages arising from economies of scale.

Standardised pricing may provide companies with an *ability to introduce new products* into international markets more quickly (Samiee & Roth, 1992; Walters & Toyne, 1989 cited in

Theodosiou & Katsikeas, 2001) as time consuming analysis on customers, markets and competitors is not required to set prices.

It might also promote a *consistent brand image* across markets (Harvey, 1983 cited in Theodosiou & Katsikeas 2001) as pricing influences competitive positioning. Many companies seek tight control over pricing of their global brands (Cavusgil, 1996), such as Louis Vuitton who have attempted to standardise prices to create a consistent brand image globally.

The opportunity for distributors to parallel import and create a *grey market* for a company's products is **reduced** when pricing is standardised (Kotabe & Helsen, 2004) because of the company's ability to reduce large cross-country price gaps.

Standardised pricing also allows a company to more easily *coordinate and control* its international operations (Douglas & Craig, 1986 cited in Theodosiou & Katsikeas, 2001).

Disadvantages of Standardisation

Standardised pricing also has a number of disadvantages.

Standardised pricing does not allow companies to adjust export prices to take advantage of the different *"profit potential between markets"* (Stottinger, 2001, p50) that is driven by variation in customers' willingness to pay and their patterns of demand.

It also prevents companies from *matching competitors' prices* in individual markets (Stottinger, 2001; Marsh, 2000), which may affect revenue and profits.

Standardised pricing *fails to take consumer behaviour differences* and perceptions about what represents value for money into account (Marsh, 2000).

Standardised pricing also prevents companies from reacting to **exchange rate and interest rate movements** in different markets (Milani & Rivera, 2004).

Adaptation

Adaptation in export pricing refers to differentiated pricing across markets after taking the company, market and product factors into account.

Drivers of Adaptation

Many factors drive the decision to use adaptation in export pricing.

When companies have *different goals* for different markets (for example, market penetration in one market and increasing profit in another) these will drive the use of price adaptation (Kotabe & Helsen, 2004).

Different economic conditions across markets will also drive adaptation. The stage of economic development in a market will affect customer perceptions about the importance of a product (Theodosiou & Katsikeas, 2001). Other economic factors, such as exchange rate fluctuations or differences in inflation will also drive price adaptation.

Cross-cultural research has found significant *differences in customer needs* and wants, and in customer purchasing behaviour between countries (Diamantopouios, Schiegelmilch & Du Preez,

1995 cited in Theodosiou & Katsikeas, 2001). These will drive companies to differentiate their marketing strategies between markets, including price.

The *competitive situation differs* from country to country in terms of the number and power of competitors. These differences will drive pricing adaptation (Tzokas, Hart, Argouslidis, & Saren, 2000).

A company may face *different stages of the PLC* across markets for the same product. This will affect its pricing decisions as it might face low competition in export markets at the introductory stage, but increasing competition at the mature stage.

Companies may also want to *position a product differently in* different countries (Marsh, 2000). For example, Heineken beer is positioned in the home market as an averaged priced beer. However, in international markets, Heineken is positioned as a high quality beer and a premium price is charged (Marsh, 2000).

Companies face *different marketing and distribution costs* in different countries, or between the home and the export markets (Myers, Cavusgil, & Diamantopoulos, 2002). These cost differentials are likely to drive price adaptation.

Local government regulations may drive adaptation in pricing for export markets because of their effect on manufacturing costs. These regulations might include modifications to meet local safety laws (Kotabe & Helsen, 2004).

Advantages of Adaptation

Companies that use adaptation in export pricing are more likely to understand foreign market conditions because they have analysed competitor pricing and foreign customer needs when setting export prices. This will assist the company to identify and *respond quickly to changes in export market conditions* with appropriate price changes (Theodosiou & Katsikeas, 2001).

Price adaptation may also make it *easier to penetrate a foreign market*, with companies able to set a low price to enter a new market (Kotabe & Helsen, 2004).

By adapting export prices, companies will be able to *maximize profit potential* between markets (Stottinger, 2001), because they can exploit differences in customers' willingness to pay. Companies would usually charge relatively low prices in highly price-sensitive countries and high prices in price-insensitive markets. (Kotabe & Helsen, 2004). For example, Sony BMG prices a "Good Charlotte" CD in Indonesia lower than the same CD in the USA (see Appendix 3).

While companies that applied a standardised export pricing method showed better performance in the short term, in the long term companies that adapted their pricing across export markets demonstrated *better performance* (Samli & Jacobs, 1994).

Price adaptation may also *improve morale and motivation* of local managers because they feel increased responsibility (Theodosiou & Katsikeas, 2001).

Disadvantages of Adaptation

Increased transparency in pricing due to technological changes might mean that **customers feel** *"alienated"* (Diller & Bukhari, 1994 cited in Stottinger, 2001, p12) when they realise that they are paying a higher price than customers in other markets.

Price adaptation might also result in a **grey market** for a company's products (Kotabe & Helsen, 2004).

In addition, companies will need to spend **considerable resources** analysing customers, markets and competitors in order to set different prices in export markets (Myers, 1997).

Strategic Choice

The literature around the strategic choice between standardisation and adaptation in export pricing implies that the company's decision is an "either / or" choice between absolute price standardisation or completely differentiated pricing. Jain (1989 cited in Theodosiou & Katsikeas, 2001) argues that the choice is part of a continuum and companies determine to what extent they wish to standardise or adapt their marketing strategies, including price, depending on the particular drivers in each situation.

Methods for Determining Export Prices

Companies can use a number of methods to determine export prices. This section discusses two pricing decisions – whether to centralise or decentralise the pricing decision, and the choice between cost based and market based pricing.

The decision to centralise or decentralise the export pricing decision is based on similar factors to the decision to adapt or standardise export prices. Centralisation occurs when market conditions are relatively stable, competition is low and the distribution channel is relatively short. In contrast, when market conditions are changing rapidly, competition is intense and there are a large number of intermediaries between head office and the consumer, companies are more likely to decentralise the export pricing decision (Myers et al, 2002).

Cost based pricing methods such as cost-plus, marginal-cost and target-cost pricing (Appendix 4) use costs as the basis for determining export prices. Market based methods take into account market factors such as the level of competition and consumer preferences (Myers et al, 2002). Myers et al (2002) argue that companies are more likely to use cost based pricing when market conditions are stable and competition is relatively low, and market based pricing when competitive intensity is high and the market is experiencing high levels of volatility. In addition, it is likely that companies with low understanding of their export markets and no local staff will use cost based pricing methods because of a lack of information. Again, these factors partly reflect those that determine the pricing strategy.

Role of Financial Information in Export Pricing

Financial information plays an important role in the export pricing decision.
The information that firms mainly consider in their pricing decision are manufacturing costs for export products and international expenses for marketing and distribution (Stottinger, 2001).

As a result, companies that wish to reflect their costs and expenses in the export price require an accounting system that provides accurate and reliable information (Buttery & Richter, 2002).

Information on international sales expenses are essential because they often raise prices to a degree that a product is no longer competitive in export markets (Myers, 1997).

While an accurate evaluation of expenses is critical they are not the only factor to consider (Diamantopoulos & Mathews, 1995 cited in Myers, 1997). Managers must also obtain financial and

non-financial information on customers, demand and competition when setting prices in export markets.

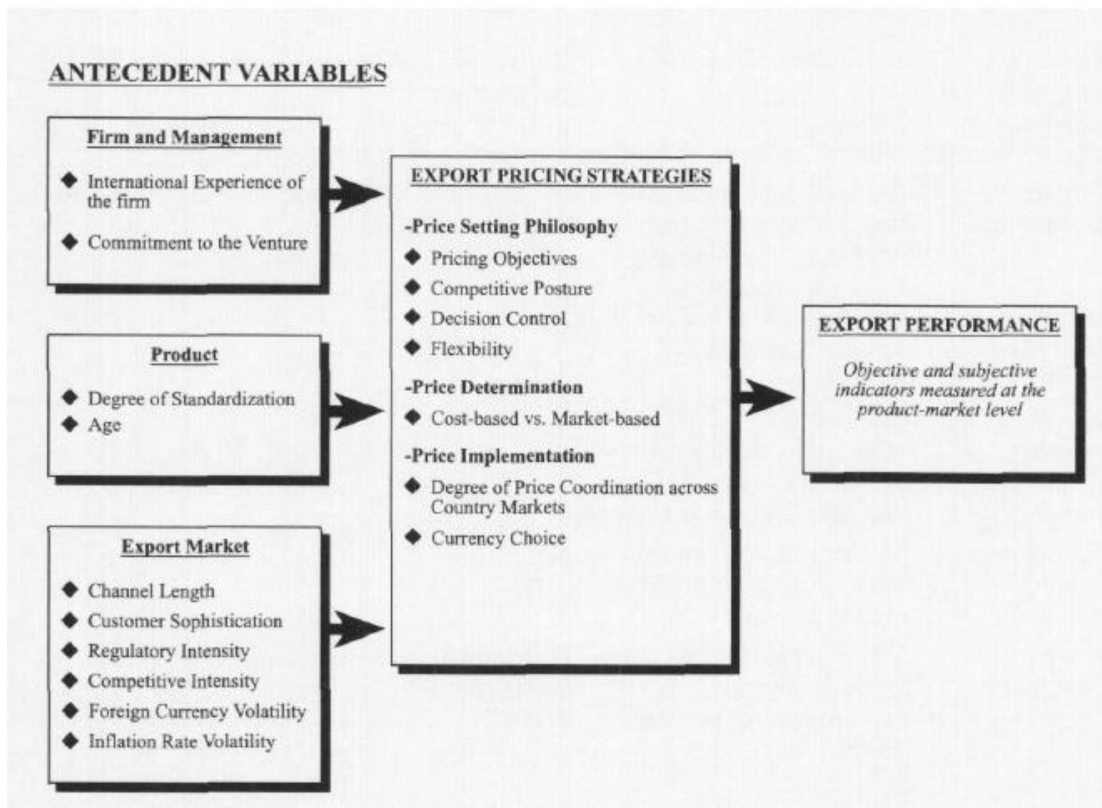
Conclusion

This analysis demonstrates that there are advantages and disadvantages arising from the strategic decision to standardise or adapt export prices, and that the drivers for standardisation indicate that it is not a myth. There is no answer from the literature as to whether one strategic decision is better or more dominant than another, and ultimately the choice is dependent on the particular mix of company, market and product factors. It is important to consider the extent of adaptation, with the company determining to what extent they wish to adapt pricing, depending on the mix of drivers in each situation.

Many of these same factors that help determine the strategic pricing decision also influence the export pricing methodology used by companies. And these decisions will in turn, determine the financial information needed to set export prices.

Appendix 1: A Framework for Export Pricing Decisions

Myers, Cavusgil and Diamantopoulos (2002) provide a conceptual framework for export pricing decisions that takes into account the company, market and product factors affecting the export pricing strategy adopted, as well as the methods used to set export prices.



Source: Myers, Cavusgil and Diamantopoulos (2002)

Appendix 2: Factors Affecting the Export Pricing Decision

Companies' export pricing decisions are influenced by company, market and product factors. These are discussed in detail below.

A2.1 Company factors

Company factors are focused on internal goals and cost related factors.

Company goals

A company's export pricing strategy must align with its goals for each market. These goals might include return on investment, maximising current profit or revenue, market share maintenance, market penetration, price similarity with competitors or price stability across markets (Kotabe & Helsen, 2004; Tzokas, Hart, Argouslidis, & Saren, 2000). Each company's goals will vary across markets and change according to conditions both within and outside the company's environment.

Cost-related factors

In making the pricing decision, costs set the floor price because the company wants to set at least a price that covers all costs needed to make and sell its products (Kotabe & Helsen, 2004). For exported products, costs include manufacturing, marketing and distribution expenses. These costs are made up of variable and fixed costs. There are differences in export pricing methods due to the way costs are treated (Cavusgil, 1988 cited in Kotabe & Helsen, 2004). A cost-plus pricing approach adds international expenses (such as insurance, freight, packing and custom duties) and a mark-up to the domestic manufacturing costs, whereas a dynamic incremental pricing approach adds only variable costs generated by the exporting efforts because the domestic fixed costs have to be borne anyhow, regardless of whether or not the product is exported (Cavusgil, 1988 cited in Kotabe & Helsen, 2004).

A2.2 Market factors

Export pricing is also influenced by external market factors.

End foreign customers

Consumers' willingness to pay for a product sets a ceiling price that is determined by their buying power, tastes, habits and the price of substitutes (Kotabe & Helsen, 2004). Buying power is a key consideration in export pricing decisions because consumers in low-income countries are more price-sensitive than those in high-income countries. In a developed country, a product may be considered essential, but in a developing country, it may be regarded as a luxury (Hill & Still, 1984 cited in Theodosiou & Katsikeas, 2001). In addition, consumer demand may vary from country to country and is likely to change over time.

Foreign competition

While costs set a price floor, competitors' pricing might help the company to establish the level at which prices are set (Buttery & Richter, 2002). The competitive situation may differ from country to country in terms of number of competitors, the power of competitors and the threat of substitutes (Tzokas et al, 2000).

Local government regulations

Local government policies, which differ from country to country, may have a direct and indirect impact on the export pricing decision (Kotabe & Helsen, 2004; Buttery & Richter, 2002; Theodosiou & Katsikeas, 2001). Direct factors include sales tax rates, tariffs, price controls and antidumping

legislation. In addition, local governments may impose price controls on some products to protect local manufacturers from unfair competition from imports. Indirect factors include product modifications to comply with different technical specifications, and government standards.

Distribution channels

Variations in trade margins and channel length will result in cost differences (Myers, Cavusgil, & Diamantopoulos, 2002). This may result in large cross-country price gaps opening up opportunities for parallel importing (grey market) from low-price countries to high-price countries by unauthorised distributors (Kotabe & Helsen, 2004).

Economic factors

High inflation rates in the export market compared with the home market will raise the export price and reduce the purchasing power of buyers (Myers et al, 2002).

The relationship between the export market currency and the home currency of the export company can affect the foreign customers' ability to afford imported products (Myers et al, 2002). When the company's home currency is weak, its export price might be lower than competitors' (from other markets) or local producers'. On the other hand, the company might lose customers to competitors if its currency is strong, which may raise its export price compared with competitors'.

A2.3 Product factors

The product itself also drives pricing decisions.

Product differentiation or uniqueness

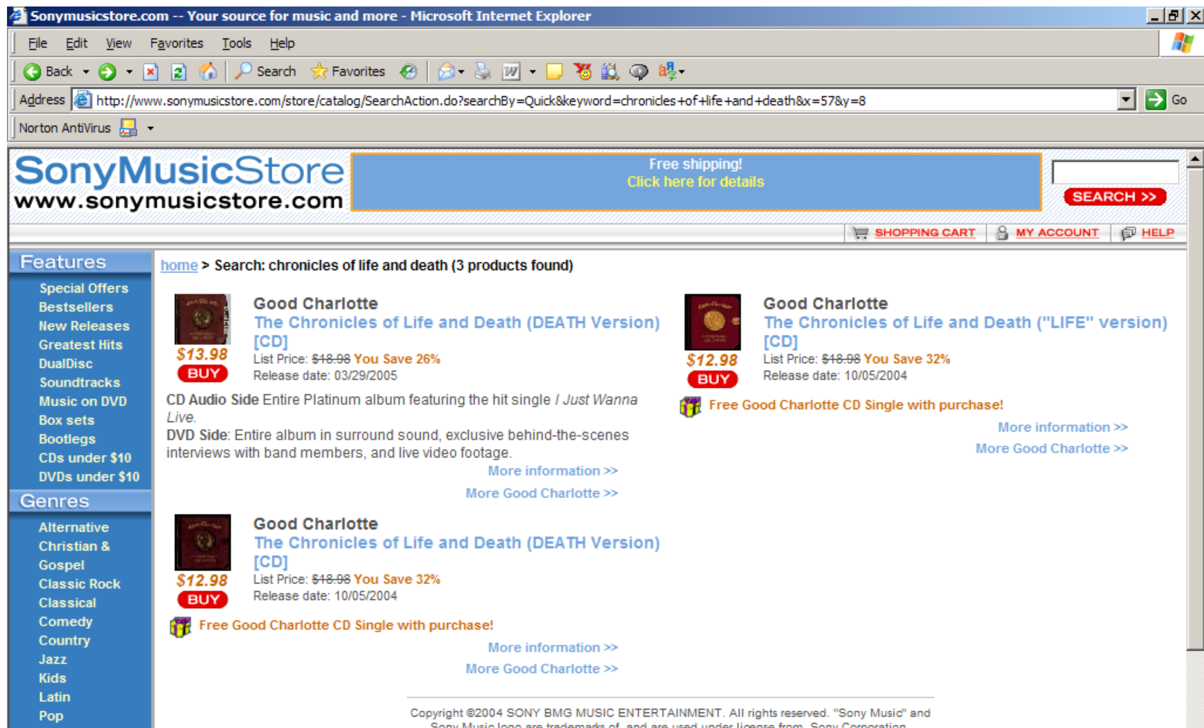
A company can use price as a competitive tool depending on whether it seeks competitive advantage by charging a low or uniform price to customers for standardised products, or charging a premium price for differentiated products across markets (Myers et al, 2002). It is important to note that being competitive does not mean that a product must be priced at or below the market. When the product is superior, unique or has a prestigious image in export markets, a company can charge a price above the market or above the price in the home country (Onkvisit & Shaw, 2004).

Product-life-cycle (PLC)

The different stages of the PLC may result in companies adopting pricing strategies that are suitable for each stage. For example, products may face low competition at the introductory stage, but increasing competition in the mature stage.

Appendix 3: SONY BMG – Pricing Adaptation Method

Price of "Good Charlotte CD on Sonymusicstore.com (website base in USA)
US$ 13.98.



Source: www.sonymusicstore.com, accessed on May 24th 2005

Price of "Good Charlotte" CD on DiscTarra Indonesia (the most famous recording album retail shop in Indonesia):
US$ 7.60 (Exchange Rate; 1US$ = Rp 9,375)

Source: www.disctarra.com, accessed on May 24th 2005

Appendix 4: Cost Based Pricing Methods

Companies choose between using cost based export pricing methods or market based methods.

Cost-based pricing methods calculate price on the basis of firms' costs (Tzokas et al, 2000):

1. Cost-plus method
   This method considers the full cost of a product (i.e. fixed and variable) and adds a profit mark-up, either fixed or flexible. This is a popular method of determining export prices, because it is simple and the safe because it covers all costs.
2. Marginal costing method
   This method considers only variable costs in determining price. This method tends to be used by firms whose fixed costs make up a large proportion of their total operating costs. The rationale behind this method is that fixed costs are incurred regardless of whether firms sell their product in an export market or not.
3. Target costing method
   Target-cost pricing considers the full cost of a product and adds a predetermined target rate of return on capital employed.

Market-based export pricing methods determine price by considering market factors (Tzokas et al, 2000):

1. Competitive method
   Companies set export prices based on competitors' prices in specific export markets, rather than the company's costs
2. Perceived value method
   This method sets the final price by investigating customers' reactions to different price levels. This is a trial and error method.
3. Value pricing method
   When using this method, companies charge a fairly low price for a high quality product aimed at reducing the perceived sacrifice of the customer.

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