Pricing Methods

Once you've selected a pricing strategy, the next step is to choose one of the following pricing methods:

Domestic Costs Plus Mark-up: This method is popular and quite simple. Start with the domestic price, eliminate non-applicable costs such as promotion and add costs associated with exporting such as transportation and insurance. The risk associated with this method is that it is easy to underestimate the costs involved in exporting. As well, it does not take into consideration the competitive conditions of the target market.

Full Cost Pricing: This method takes into account the fixed as well as the relevant variable costs. It allows recovery of total costs to which a profit margin is added to set the final price. The drawback is that it assumes fixed costs arbitrarily and does not consider competitive factors in the market.

Marginal Pricing: This pricing method is practised when a manufacturer has a well-established domestic market that can defray all fixed costs. In such situations, only materials, labour and overhead costs of the portion produced for export are calculated in the product cost. Under this formula, any price, above the variable costs incurred for the production and marketing of the export portion, contributes to net profit. This method is used for new market penetration with the idea that once market share has been achieved and marginal competition is eliminated, the price can be increased slowly to generate more profit over time.

For exporting to make sense, companies must be able to charge a price that yields an acceptable profit. To set a realistic price, the following factors should be considered:

- domestic costs
- costs associated with exporting (product modification, packaging, shipping, insurance, tariffs)
- impact of exchange rates and foreign taxes
- market demand
- competitors' pricing strategies
- desired profit margin
- preferred pricing formula

Pricing strategies and methods should be combined with an examination of current prices in the target market for comparable, competing or substitute products or services. This will determine what the market will bear and what kinds of margins can be expected.

It should be noted that Canadian exporters benefit from the fact that, unlike the old manufacturers' sales tax, the federal Goods and Services Tax (GST) does not apply to exports, and the GST paid on raw materials and components is refunded to companies selling goods abroad.

SETTING YOUR PRICE

Now, you should establish a product or service price that gives you an acceptable profit margin and that is competitive.

Export Quotations

Export price quotations are typically more detailed than those for domestic sales. In preparing the quotation, you should describe the