EXPORT PRICING

We have set out below a number of pricing strategies, which you can use, depending on your exporting goals.

Flexible pricing. Your firm may use flexible pricing to achieve return on export investment or market shares within a certain time frame. Flexible pricing simply means offering the same product to different customers at varying prices. The price may depend on the customer's bargaining ability, which is largely dependent on competition. Use caution in adopting this policy because customers who pay a higher price could be alienated if they find out what others have paid.

Static pricing. This means offering the same price to all customers. This pricing strategy is simple, convenient and creates customer good will. A rigid one-price policy, however, can be easily matched or undercut by the competition.

Penetration strategy. The penetration strategy involves offering a low price (not below cost) to capture a large share of the market. This strategy is based on the premise that the larger the market, the greater the economies of scale and the more profits that will accrue over time. Once the market share is achieved, however, and the marginal competitors forced out, the price can slowly be increased. The Japanese frequently use this strategy.

Skimming price. This strategy is normally associated with a new product when there is no competition. It attempts to maximize profits on a new product until the inevitable competition appears. Skimming is also used by firms to determine the demand for their product; high prices can always be reduced if the projected sale target is not being achieved. The drawback is that the higher the pricing, the more enticing it is for the competition.

Pricing Methods

1. Domestic Costs Plus Markup

This technique is popular and quite simple. It involves starting with your domestic price, eliminating non-applicable domestic costs, such as promotion, and adding costs associated with exporting, for example: transportation, export packing, insurance, storage, etc. The cost plus method, while simple, has the following major drawbacks: costs are frequently underestimated because they are based on those of past years and may have changed; this method also ignores the competitive conditions of the market place.

2. Full Cost Pricing

This takes into consideration fixed, plus relevant variable costs in price setting. It allows recovery of total costs to which a profit margin is added to set the final price. The drawback to this method is that it assumes fixed costs arbitrarily and does not consider competitive factors in the market place.

3. Marginal Pricing

This pricing technique is frequently referred to as the "German or Japanese method." Marginal pricing is practised when a manufacturer has a well-established domestic market which can defray the fixed costs. In such situations, only the materials and labour 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 portion exported, contributes to net profit. This pricing strategy is used for new market penetration with the idea that once the market share has been achieved and marginal competition is knocked out of the market, the price can be increased slowly to generate more profit over time.

HOW TO ASSESS PRICE COMPETITIVENESS

After having assembled all available information on market demand, competitor prices and price trends, you should establish a product price which preserves an acceptable profit margin and is competitive. To determine