Export Pricing Methods

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In the era of Global Market Economy and fierce competition, importance of accurate costing of product need not be over - emphasized. In accurate costing can lead to either losing of orders or losing of profits. Export pricing is most important tool for promoting sales and contesting international competition. Exporter has to face domestic producers in the export market, producers in other competing supplying countries and domestic producer's in one owns country. Costs, Demand and Competition are the three important factors that determine price. The price for export should be as realistic as possible. The exporter has to exclude cost for domestic production which are not applicable for export and add those elements of costs which are relevant to export product. Exporter has to compete with manufacturers formal over the world. Hence, his price has to be realistic considering all export benefits and price in foreign market.

Following are few examples of such factors :

- Range of product offered
- Prompt deliveries and continuity in supplies
- Product differentiation and brand image
- Frequency of purchases
- Presumed relationship between quality and price
- Credit offered

Pricing Vs Costing :

- There is a lot of confusion between the price and the cost. Many consider these synonymous. A few points to give you a mental pictures of these points are as under
- Price is what we offer to the customer. Cost is the price that we pay / incur for the product.
- Price includes our profit margin. Cost only gives the expenses we have incurred.
- Costing is the Cost Accountant's privilege. Pricing is the Marketing man's privilege.

Export Price :

- Once the Ex- works / purchase price has been decided the additional expenses that have to be added are as under :
- Loading charges from work to truck/ rail/ air etc.
- Freight charges to port of shipment
- Clearing and forwarding charges
- Dock charges / wharf age/ terminal handling charges etc.
- Freight charges to the destination port
- Insurance charges
- Insurance (both to port of shipment and destination)
- Commission
- Interest charges
- Guarantee/Warrantee costs

In order to withstand international competition, the Government offers certain exemptions and incentives / benefits. These are additional realizations which tend to reduce the cost of your product. the following are few of them :

- There is no sales tax applicable on the final product
- There is no excise applicable on the final product
- Duty free import of raw materials, components and consumables is permitted under the advance licensing scheme.
- Income tax benefit under 80HHC
- Special import license
- Credit of duty under the duty Entitlement Pass Book Scheme
- Any other special subsidy announced by the government

Special Factors for Exporting Pricing :

There are many unique factors relating to goods to be sold abroad. These factors influence their determination in comparison to those having bearing on pricing for domestic products. These factors may be delivery schedules, terms of payments, motivation of pricing, size of order etc.

Factors that increase price of Export Products :

- Special packing, marking and labeling
- Additional supervision and effort for Export product
- Export Transaction cost
- Cost of Export Procedure
- Marketing cost
- Additional Insurance cost

Factors that reduce price of Export Products :

Export Assistance and Facilities

- Refund or exemption from excise duty
- Lower price due to Imported components and spares
- Import of raw materials at International price
- Benefit of economy of scale
- Cheaper Export credit

Ascertaining Exact Benefits from Export Assistance Schemes :

In order to ascertain the exact benefits that can be derived from export assistance schemes it is necessary first to locate the exact clarification or SI. Number of the product under these schemes. The problem is exacerbated for products carrying specific brand names, as the brand rate may differ from the all industry rate. This occurs for example, under the duty drawback credit scheme, which provides relief on the customs and excise duties paid on raw materials and components used in export production. The exporter should be aware of two types of drawback rates :

1. All industry rates : These are published in the form of a government notification every year and are normally valid for one year.

2. Brand rates : These are fixed at the exporters or the manufacturer request.

➢INTRODUCTION:

PRICE:

Price means the expression of value of utility of a commodity in terms of money.

PRICING:

Pricing is the technique of determining such acceptable price at which the seller is willing to sell and the buyer is willing to buy the product.

EXPORT PRICING:

Export pricing is also closely related to export promotion, So Export pricing is determining such acceptable export price.

FACTORS DETERMINING EXPORT PRICES:

1. INTERNAL FACTORS:

a. Cost

b. Objectives of the firm

C. Product

d. Image of the firm

e. Promotional Activities

f. Product life cycle

2. EXTERNAL FACTORS:

a. Competition

b. Demand

c. Consumers-

e. Economic conditions

f. Channel of distribution

g. Market Opportunities

BASIC DATA REQUIRED FOR EXPORT PRICING DECISIONS:

1. Product cost:

a) Material

b) Labor

c) Factor overhead

d) Administrative overhead

2. Cost of Distribution:

a) Selling cost

b) Packing cost

c) Transportation cost

d) Insurance cost

BASIC DATA REQUIRED FOR EXPORT PRICING DECISIONS:

3. Cost Relating to Exports:

a) Product modification
b) Cost of documents
c) Export packing and marketing
d) Loading at factory
e) Transport to dock or airport
f) Handling charges and fees at port or airport.

4. Cost Estimates:

a) FOB, C & F or CIF
b) Sea freight or air freight
c) Unloading charges at destination
d) Airport handling charges or fees
e) Import duty and taxes

BASIC DATA REQUIRED FOR EXPORT PRICING DECISIONS:

4. Cost Estimates:

f) Clearing agent’s fees

g) Transport to importer’s warehouses

h) Importer’s margin

i) Wholesaler’s and retailer’s margin

5. Regulation in exporting country:

a) Floor price

b) Duty drawback scheme

c) Import replenishment

d) Income Tax

e) Railway freight concession

BASIC DATA REQUIRED FOR EXPORT PRICING DECISIONS:

6) Regulation in importing country:

a) Import duty
b) Quota restrictions
c) Sources of supply (foreign or domestic)
d) Substitute products.
e) Complimentary products
f) Terms of payment

7) Other Relevant Data:

a) Customer's attitude towards prices and quality
b) Inventory of finished goods
c) Political restrictions on trade
d) Air or ship services
e) Business policy
f) Sales in units and rupees
g) Trade agreement –bilateral or multilateral

EXPORT PRICING STRATEGIES :

1. Skimming pricing strategy:

A high premium price is charged when a product is launched in the market . Other two types i.e.

a) Rapid skimming pricing:

When high prices are charged, and the product is promoted with heavy promotional expenditure.

b) Slow skimming pricing:

Where high prices are charged, and there is limited promotional effort to promote the product.

Skimming pricing strategy advantages & disadvantages:

1. Advantage:

a. Higher Profits
b. Developmental Expenses
c. demand Assessment
d. Suitability
e. No Blocking of Funds
f. Feasible for Short Term
g. Prestige Status
h. Reflection of High Quality

2. Disadvantage:

a. Slower Turnover
b. Growing Competition
c. Customer Dissatisfaction
d. Uncertainty of High Profit in the Long Run
e. Not Useful for Products of Daily Use

EXPORT PRICING STRATEGIES :

2. Penetration pricing strategy:

A strategy of charging low prices in the early stages of product introduction in the market.

a) Rapid Penetration pricing strategy:

Where low prices are charged, and the product is promoted with heavy promotional expenditure.

b) Slow Penetration pricing strategy0:

Where low price is charged, and there is limited promotional expenditure to promote the product.

Penetration pricing strategy advantages & disadvantages:

Advantage:

1. Quick Sales
2. Brand Loyalty
3. Economies of Large Scale
4. Less Competition
5. Brand Leadership
6. Long Term Strategy
7. Suitability
8. No Blocking of Funds

Disadvantage:

1. Development expenses
2. Consumers Doubts
3. Disadvantageous in Long Run
4. Prestige Status
5. Blocking of Funds
6. Price Resistance
7. Problem of Obsolescence

EXPORT PRICING STRATEGIES:

Other pricing strategies

3) Probe pricing strategy
4) Follow the Leader Pricing Strategy
5) Differential Trade margins pricing strategy
6) Standard export pricing strategy
7) Differential pricing strategy
8) Market pricing strategy
9) Transfer pricing strategy
10) Trial Pricing
11. Flexible- Price Strategy

BREAK EVEN ANALYSIS:

Meaning:

Break even technique is concerned with finding out that level or point at which the sales will break-even (no profit or no loss).

FORMULA TO CALCULATE B.E.P.

Where,
SP = Selling Price
VC = Variable Cost
FC = Fixed Cost
C = Contribution (i.e. profit)

FORMULA

BEP-FC/ SP-VC OR FC/C

EXPORT PRICING QUOTATIONS:

MEANING:

Quotation is an offer or proposal made by an exporter in reply to the enquiry from an importer.

TYPES OF QUOTATIONS:

1. FOB (Free On Board):

Quotation Under FOB quotation, the seller quotes a price which includes all expenses incurred till the goods are actually loaded on board the ship.

2. C&F Quotation (Cost and Freight):

The price quoted includes total cost of goods, packing, carriage, loading charges and the payment of freight up to the part of destination.

2. CIF (Cost Insurance and Freight)

Quotation CIF means cost, insurance and freight. It includes FOB price plus freight plus marine insurance up to the part of destination

Example of Pricing of Ginger

Ginger is an annual crop. The prices fluctuate from harvesting season to harvesting season. The price of dried ginger also depends on the price of fresh ginger. In addition, the different product varieties and origins have different prices.

Global market prices for ginger are strongly influenced by the largest producer of both fresh and dried ginger: China. While Chinese ginger is – on average – the cheapest ginger available on the global market, traders often prefer more expensive, high-quality ginger from suppliers in Peru and Brazil. They also buy from these countries because of quality differentiation and/or risk mitigation.

The price of ginger that consumers buy in the supermarket consists of:

- Raw materials: 5-15%.
- Processing: 5-15%
- Transport costs: 2-5%
- Import and processing in Europe: 15-30%
- Retail margin: 30-60%

Here are a few examples of dried ginger available across Europe:

- Dried ginger, as a snack, 1kg for GBP 16.5 (up 1 GBP from 2019 to 2020 and up another 0.5GBP from 2020 to 2021).
- Dried ginger pieces packaged in various quantities, UK. Price varies from €30 to €40 per kg.
- Ground ginger, Germany, prices vary from €20-60 per kg depending on the packaging size.

The margins you can obtain as an exporter may differ. These are influenced by factors such as:

- Country of origin
- Current and expected future harvest situation
- Quality of the raw material
- Level of processing
- Level of demand
- Trends in prices

Margins and profits can be higher for you as an exporter if you are able to add value locally. For example, by further processing or certification, you can create a competitive edge and benefit more.

- Tips:
- •	See the websites of Spices Board India, Nedspice and International Trade Centre: Market Price Information for up to date information on national and international prices for ginger.
- •	Establish long-lasting relationships with your buyers. Buyers are willing to pay higher prices to suppliers that are able to help secure supply and comply with delivery times as well as food safety requirements. They will also be more willing to invest in your partnership.

What are the prices for turmeric on the European market?

- The prices of turmeric vary greatly between regions. A buyer of turmeric from India indicates that the market price for turmeric powder has increased to FOB (Free on Board) USD 2.00 to 2.50/kg in 2022. Whereas in other regions, the FOB prices of turmeric powder can reach USD 3-4/kg. Prices for turmeric from India fluctuated in 2020. Pharmaceutical grade turmeric capsules are priced at (FOB) USD 60-100 per kilogramme. The development of turmeric prices will depend on weather conditions and market demand for turmeric.
- Interviews with European buyers and importers of turmeric suggest that the market price of turmeric has increased since the global COVID-19 pandemic because of the disruption it has caused to supply chains. Especially in terms of increased transportation costs and delays in receiving orders. For example, an importer of turmeric from Thailand commented: “we have experienced higher transportation costs”. Disruption to supply chains is expected to continue because of lockdown and quarantine measures introduced during the COVID-19 pandemic.
- Figure 10: Estimated price breakdown of turmeric in the European market5%5%10%10%15%15%20%20%50%50%Raw material Processing ShipmentImport and processing Retail Source: Ecovia Intelligence

- Tips:
- •   Factor in the implications of COVID-19, particularly increased delivery costs, in your price calculations. If you fail to do so, you could end up with financial loses.
- •   Monitor the price development of turmeric from India. If you cannot compete with prices from India, make sure the quality of your turmeric is high. This is how you can set yourself apart from your competitors.
- •   Consult Spices Board India for information about the worldwide spices market, including up-to-date price information.
- •   Certification schemes can enable you to charge a premium for your turmeric. Ensure you can justify your price with relevant certifications.

What are the prices for cumin seeds?

Margins for each actor in the cumin seed supply chain are imprecise because they depend on many factors. Most cumin seeds are sold as an ingredient and price margins related to retail prices are not the best way of gaining market insights. Cumin seed prices show frequent fluctuations mostly depending on the production volumes in the main producing countries, primarily India.

Retail prices in European supermarkets vary per brand and type of cumin seeds. The price per kilo of whole cumin seeds sold under established European brands in common retail packs of 30 g to 50 g is usually €40/kg – €50/kg. The price of ground cumin is usually in the range of €50/kg – €60/kg, although there is no general rule. The prices of larger packs of 100 g to 300 g in bags, sold in ethnic shops, are significantly lower. In some ethnic shops, the price per kilo is one-fifth of the price in mainstream supermarkets. Commonly, prices of packs of glass containers are higher compared to packs of plastic containers and bags.

The price breakdown below is a very rough indication, and it only demonstrates margins throughout the retail segment, which is only part of the market. Supply to the industry and foodservice segment has a different structure and the final price is lower, as it does not include retail margins. Many factors contribute to the price, like quality, variety, origin, sterilisation costs, food safety certification costs, taxes, sales, and network margins.

Cumin seed retail price breakdown
Source: Autentika Global, based on industry sources.

Steps in the export process	Type of price	Example, margin addition and price breakdown (€/kg)	Share of the retail price
Raw material price, whole farmers quality	Farmers gate price	1.7	3.4%
Transport to factory, cleaning (including product loss for EU estimated at 10%), processing, quality control, packing and export of whole cumin seeds	FOB origin price	2.5	5%
Storing, finance, insurance, handling and shipping	CIF price	3	6%
Processing, cleaning, sterilisation, grinding (product loss in these steps is estimated at 5%), quality control and retail packing 35-40g.	Final production price	6	12%
Selling retail packed product to retailers	Wholesale price	10	20%
Retail sales of the final packed product (mostly between 35 - 40g in supermarkets)	Retail price	50	100%

What are the prices for mangoes on the European market?

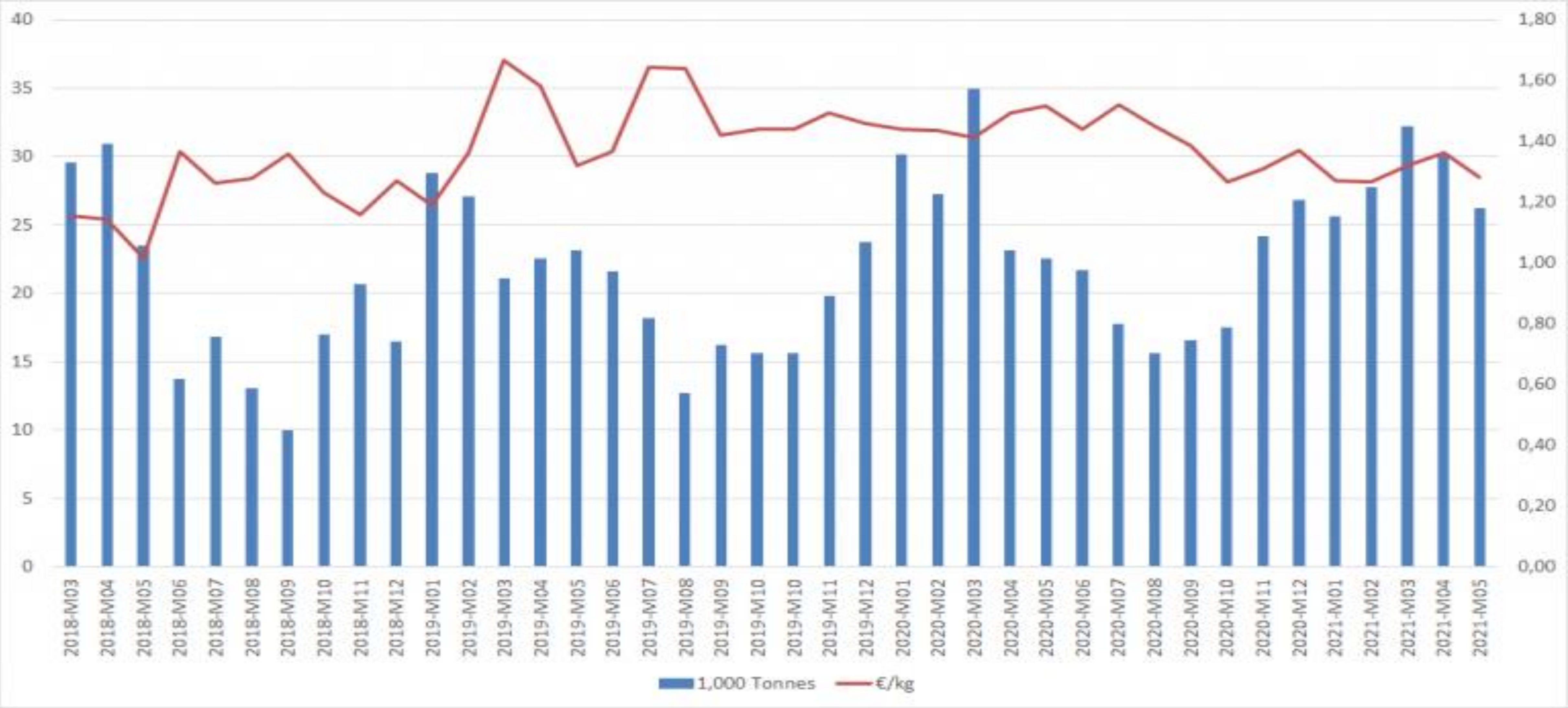
Price development

For mangoes, December is generally a good month with relatively good prices because people tend to spend more on food. January can be a difficult month to get good prices, because that is when Peru and Brazil are in the market with high volumes at the same time. In January and February, there is a hectic flow of Peruvian mangoes on the market. In July and August, there is sometimes a second dip in prices. In August, Brazil starts to increase its supply, while demand in Europe is low due to competition from local summer fruit. In the end, every year is different and supply remains very unpredictable.

Since 2015, the average prices for mangoes seem to have decreased, but this is not necessarily a trend that will continue. Fluctuations in supply and quality affect prices and are difficult to predict at this moment.

The year 2019 was an off-year for Spain, which led to good prices in the European summer until the larger volumes of Brazil and Peru came onto the market. The price level dropped in the winter of 2019/20 due to a large volume of small-sized mangoes. At the start of 2020, supply was still strong and there was no price peak in March and April like last year. Due to increasing costs of the COVID-19 measures and logistics, the price level maintained itself (see Figure 6). In continuation of the 2020/2021 season, the supply has been limited, but so has been the demand in many countries. Therefore price peaks were avoided.

Example of import price development per calendar month in the Netherlands in 1,000 tonnes and euro/kg



Prices per channel

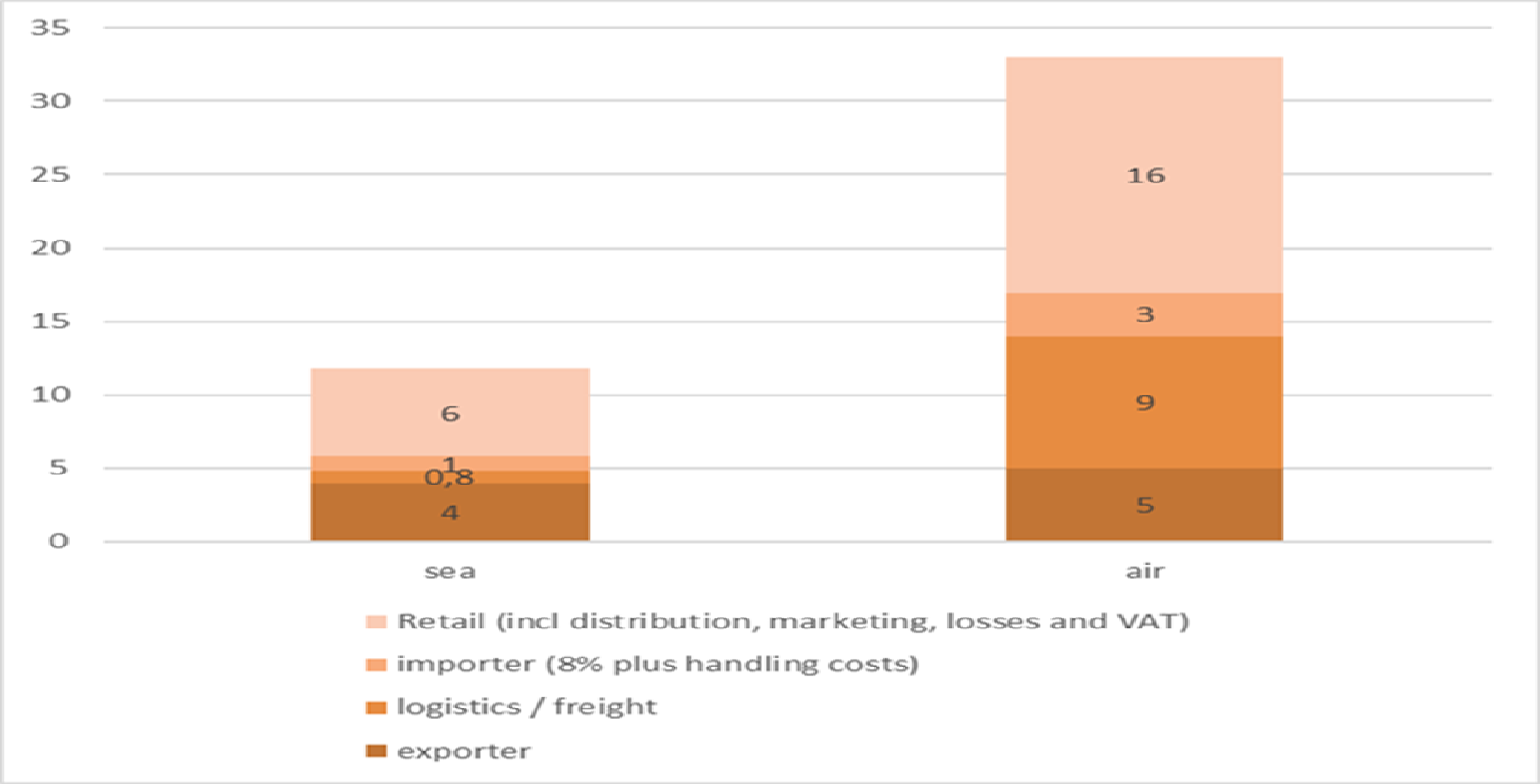
The market for mangoes can be unstable with fluctuating availability and prices. European prices (selling prices by importers) for sea-freighted mangoes generally range between €3 and €8 (see Table 3), or more or less expensive than that in exceptional markets. Availability has a relatively big influence on mango prices. The biggest impact on mango prices are temporary shortfalls and oversupply from various supply countries being in the market at the same time.

The wholesale prices for tree-ripened, airfreighted mangoes is much higher. These are approximately three times the normal value, mainly due to the extra transport costs. Importers and retailers mostly benefit from these higher prices, although the risk of losing overripe fruit is also higher. The prices for airfreighted mangoes increased significantly due to the soaring transport prices and lack of flights during the COVID-19 lockdowns. These prices are expected to remain high as long as logistical costs do not go down.

Importers generally maintain a profit margin of at least 8% over the sale price. For niche varieties these margins can be considerably higher, corresponding to the smaller volumes and the higher risks involved.

In retail, mangoes usually sell for between €1.50 and €2. Fresh cut mango is available in European supermarkets for approximately €2 euros up to 200g or €10–€12 euros per kilo. Airfreighted whole mango sells for a little under €5 per piece.

Indicative price breakdown for sea and airfreighted mangoes, in euros per 4 kg box



Importer spot prices in euros per 4kg box

	high
2014	9
2015	8
2016	7
2017	7
2018	9

What are the prices for fresh chilli peppers?

The prices for chilli peppers vary a lot, according to availability, variety and origin. In general, the more niche the chilli pepper, the higher the price. Temporary shortfalls in supply or demand can have a major impact on prices.

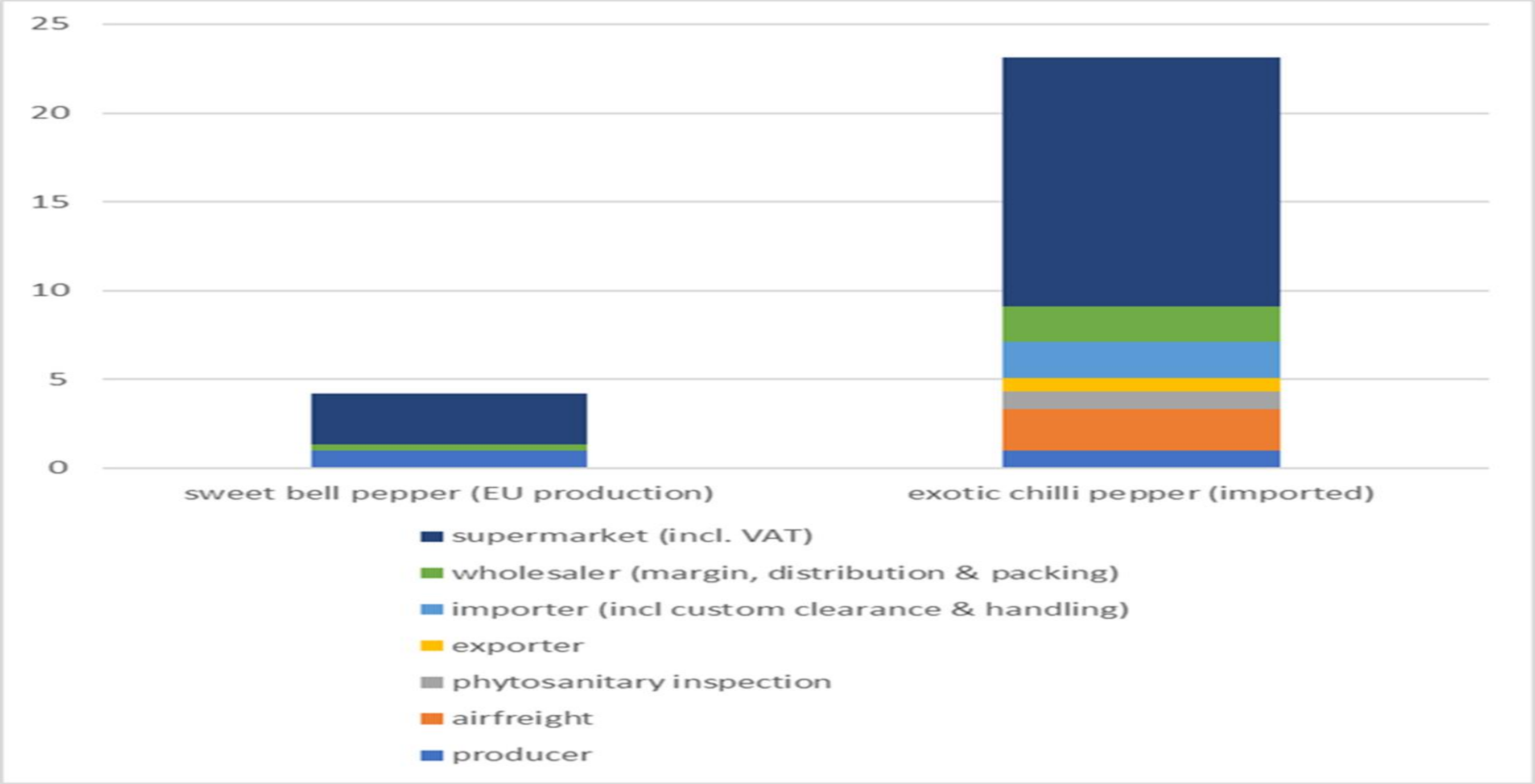
Chilli peppers can give a good return. But only fresh and clean chilli peppers have a market value. There are also specific factors that can easily increase the price for imported chilli peppers. For example, airfreight costs are usually around 2 to 2.5 euros per kilo, and much higher in recent times due to the COVID-19 pandemic. Physical inspections at the destination country in Europe can be as high as several hundred euros (for example in the Netherlands).

The margin of importers is usually 8% over the selling price plus handling costs. Because exotic chilli peppers are sold in minor volumes, importers often have a double role as wholesaler. Therefore, costs and margins are generally higher than for other regular vegetables.

The wholesale price for a Cayenne or Jalapeño pepper from Spain can be between 2.5 and 4 euros per kilo, while a Bird’s eye chilli or Habanero from Eastern Africa can be between 6 and 10 euros per kilo. There is also a big difference between a bulk product such as a sweet bell pepper and a much more exotic Bird’s eye chilli pepper.

Consumer prices in Europe are generally between €0.20 and €0.80 per pepper (or €10–30 per kilo), but it depends heavily on the specific variety and retail outlet. Locally produced and common peppers may be sold for well below €10 per kilo. The price of a rare variety can be as much as €75 per kilo, such as the extremely hot, British grown ‘Armageddon’ chilli pepper introduced by Tesco in 2019.

Example of indicative price breakdown, in euro per kilo



Pricing Considerations

As you develop your export pricing strategy, these considerations will help determine the best price for your product overseas:

- What type of market positioning (i.e., customer perception) does your company want to convey from its pricing structure?
- Does the export price reflect your product's quality?
- Is the price competitive?
- What type of discount (e.g., trade, cash, quantity) and allowances (e.g., advertising, trade-offs) should your company offer its foreign customers?
- Should prices differ by market segment?
- What should your company do about product-line pricing?
- What pricing options are available if your company's costs increase or decrease?
- Is the demand in the foreign market elastic or inelastic?
- Is the foreign government going to view your prices as reasonable or exploitative?
- Do the foreign country's antidumping laws pose a problem?

Key Elements of Pricing Analysis

Foreign Market Objectives

An important aspect of your company's pricing analysis is the determination of market objectives. For example, is your company attempting to penetrate a new market, seeking long-term market growth, or looking for an outlet for surplus production or outmoded products? Marketing and pricing objectives may be generalized or tailored to particular foreign markets. For example, marketing objectives for sales to a developing nation, where per capita income may be one-tenth of that in the United States, necessarily differ from marketing objectives for sales to Europe or Japan.

Costs

The actual cost of producing a product and bringing it to market is key to determining if exporting is financially viable.

- Cost-plus method is when the exporter starts with the domestic manufacturing cost and adds administration, research and development, overhead, freight forwarding, distributor margins, customs charges, and profit. However, the effect of this pricing approach may be that the export price escalates into an uncompetitive range once exporting costs have been included.

Marginal cost pricing is a more competitive method of pricing a product for market entry. This method considers the direct out-of-pocket expenses of producing and selling products for export as a floor beneath which prices cannot be set without incurring a loss. For example, additional costs may occur because of product modification for the export market.

- Costs may decrease, however, if the export products are stripped-down versions or made without increasing the fixed costs of domestic production.
- Other costs should be assessed for domestic and export products according to how much benefit each product receives from such expenditures, and may include:
- Fees for market research and credit checks
- Business travel expenses
- International postage and telephone rates
- Translation costs
- Commissions, training charges, and other costs associated with foreign representatives
- Consultant and freight forwarder fees
- Product modification and special packaging costs

After the actual cost of the export product has been calculated, you should formulate an approximate consumer price for the foreign market.

Market Demand

For most consumer goods, per capita income is a good gauge of a market's ability to pay. Some products (for example, popular U.S. fashion labels) create such a strong demand that even low per capita income will not affect their selling price. Simplifying the product to reduce its selling price may be an answer for your company in markets with low per capita income. Your company must also keep in mind that currency fluctuations may alter the affordability of its goods.

Competition

In the domestic market, U.S. companies carefully evaluate their competitors' pricing policies. You will also need to evaluate competitor's prices in each potential export market. If there are many competitors within the foreign market, you may have to match the market price or even underprice the product or service for the sake of establishing a market share. If the product or service is new to a particular foreign market, however, it may actually be possible to set a higher price than is feasible in the domestic market

Pricing Summary

It's important to remember several key points when determining your product's price:

- Determine the objective in the foreign market.
- Compute the actual cost of the export product.
- Compute the final consumer price.
- Evaluate market demand and competition.
- Consider modifying the product to reduce the export price.
- Include "non-market" costs, such as tariffs and customs fees.
- Exclude cost elements that provide no benefit to the export function, such as domestic advertising.

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