
Offer

Export Pricing Strategy
Pricing your product, giving complete and accurate quotations, choosing the terms of the sale, and selecting the payment method are critical elements to make a profit on an export sale.

Pricing Strategy

Pricing can be the most challenging due to different market forces and pricing structures around the world. What determines a successful export pricing strategy? The key elements include assessing your company's foreign market objectives, product-related costs, market demand, and competition. Other factors to consider are transportation, taxes and duties, sales commissions, insurance, and financing.

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Pricing U.S. Products for Export

As in the domestic market, the price at which a product or service is sold directly determines your company's revenues. Your firm's market research should include an evaluation of all variables that may affect the price range for your product or service. If your company's price is too high, the product or service will not sell. If the price is too low, export activities may not be sufficiently profitable or may actually create a net loss.? ?

- Traditional components for determining proper pricing are costs, market demand, and competition. Each component must be compared with your company's objective in entering the foreign market. An analysis of each component from an export perspective may result in export prices that are different from domestic prices.?
- There are additional costs that are typically borne by the importer. These include tariffs, customs fees, currency fluctuation, transaction costs (including shipping), and value-added taxes (VATs). These costs can add substantially to the final price paid by the importer, sometimes resulting in a total that is more than double the price charged in the United States. U.S. products often compete better on quality, reputation, and service than they do on price—but buyers consider the whole package.

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.

Learn More

- Find the latest country-specific pricing information in the Country Commercial Guides by viewing the "Selling U.S. Products and Services" chapters.