PRICING FOR EXPORT

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PREPARED FOR THE EXPORT PROMOTION BUREAU
OF THE GOVERNMENT OF PAKISTAN
AND THE INTERNATIONAL TRADE CENTRE, UNCTAD/GATT, GENEVA
BY ROBERT HARTLEY

Foreword

This book is one of a series produced by the International Trade Centre, UNCTAD/GATT, Geneva, in collaboration with the Export Promotion Bureau, Pakistan and funded by the United Nations Development Programme. Its aim is to assist the export activities of the Pakistani business community; to make them more profitable and better able to withstand the forces of an increasingly competitive international economy.

All the texts in the series have been prepared by experts in the relevant field in collaboration with a team of authors and consultants from Pakistan and elsewhere. Allama Iqbal Open University, Islamabad, has provided helpful support and advice without which the project could not have proceeded. The book is also to be used for their diploma course on Export Management.

The main contributor to this book was Robert Hartley of Cleveland State University, Cleveland, Ohio, USA.

Contents

1 Prelude

This book deals with one component of exporting, that of pricing your product. This is a vital component, but all the components are interrelated. As I have stressed in my other book, *Export Channel Management*, a deficiency in any one component can jeopardise your success in exporting. For example, if the quality of your product is erratic - that is, sometimes good but other times not very good - this will affect the willingness of agents and distributors to handle the product, will probably force you to sell it at the lowest possible price, and will likely result in foreign buyers shunning it for more dependable products from other producers.

The various components of exporting are depicted in Figure 1. From this you can see how pricing fits in with other important exporting activities.

In this book I want to give you some practical guidance in setting your prices - and you need to remember that the ideal price must have these twin objectives:

- Enable you to have a reasonable profit.
- Be satisfactory from the customer's viewpoint.

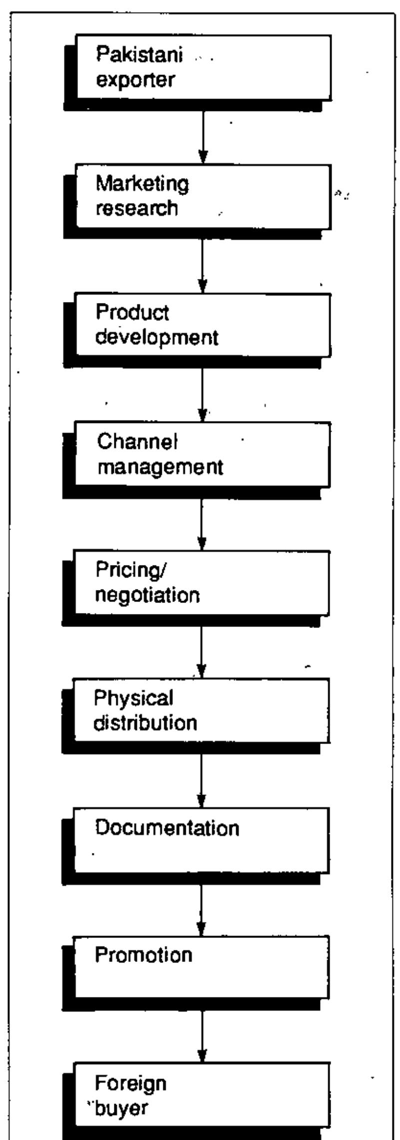


Figure 1 Components of exporting

1.1 A reasonable profit

We need to talk further about what is a 'reasonable' profit. Naturally you will want to maximise your profits - i.e. get as much as possible. But you will want to recognise that this maximising can be for the *short term* or the *long term.* And the two are often not compatible. Consider these two examples:

1 Short-term profit maximisation
Hameed was able to introduce his furnishing fabrics successfully in the Jordanian market through the good efforts of his personal friend who was the newly-appointed trade attaché in the Embassy of Pakistan. His friend personally visited local shops and showed them samples of Hameed's furnishing fabrics, drapery, and other fabrics. As a result of this personal intervention by an embassy official, who was personable and respected, orders poured in. However, in his concern for maximising his profits, Hameed began letting goods slip through that did not fully match the samples shown by his friend. Within six months, orders dried up.

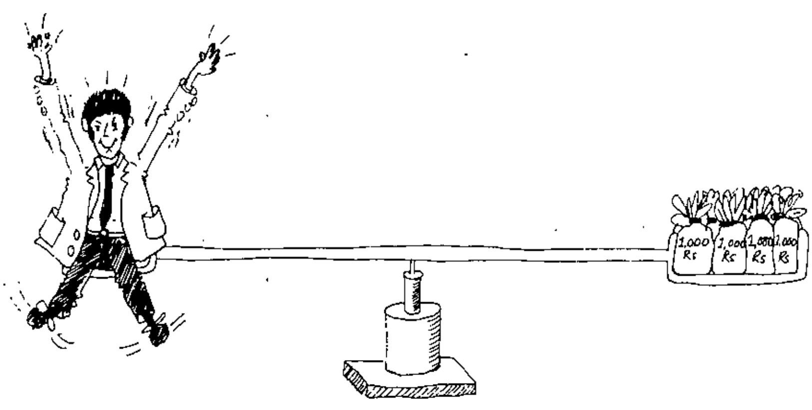
2 Long-term profit maximisation
Kamran Fabrics, in order to escape the severe price competition in its industry, embarked on a long-term strategy to improve the quality of its hand-made home textiles. It took considerable time and cost to develop the dyeing facilities and the workmanship to do so. Furthermore, the firm's management realised the importance of undeviating standards so that the level of quality would be consistent. Kamran was willing to sacrifice short-term profits in the quest to achieve better quality. Eventually the higher prices it was able to charge enabled it to achieve much better profits than otherwise could have been attained. The firm had succeeded in maximising its long-term profits.

1.2 Customer satisfaction

You can also see the importance of customer satisfaction from the two examples above. In the first case, you can imagine the customer dissatisfaction when the goods actually delivered by Hameed did not always fully match the quality of the samples. But in the second case, the careful building up of capability to produce better quality textiles, and a strict adherence to standards, made customers eager to do business with Kamran. They knew they would get good and consistent quality, and were willing to pay more for this assurance.

So, both objectives (a reasonable profit *and* customer satisfaction) must be realised. In no way can you successfully price with only your own profit goals in mind. You must consider your customer's satisfaction with the price as well.

To achieve the first objective, you need to know your production costs and profit margins at different production levels. Regarding this, I strongly recommend you read or review another book in this series, that by Dennis Gage, *Costing for Export*, which deals with the cost-account aspects that you need to be familiar with to truly know your production costs.



The second objective requires some additional analysis and investigation, and goes considerably beyond production cost considerations. We will discuss this latter objective in considerable detail in this book. But before we delve deeper into pricing for export markets, I would like to give you an idea to think about.

ACTIVITY 1
In producing for the domestic market only, there is often limited competition. But when you expand to export markets, you are going to encounter highly competitive and more complex situations. What should this mean to you?

Take a few minutes to consider any implications of this, and whether you are managerially and physically prepared to enter a more competitive environment. Please tick (✓) your readiness for exporting in the spaces below. This is important, so please answer honestly. And if you tick any No's, you need to reflect and write down what it would take to achieve a state of readiness.

Readiness factors	*Yes*	*No*	*If 'No', what do I need to prepare*
Sufficient volume of production to meet greater demand			
Consistent quality			
Dependable delivery			
Competitive prices (based on present knowledge)			
More demanding customers			
New and complex regulations and procedures			

Now let me give you my thoughts about the possible ramifications of entering a more competitive market:

1 The market, and other factors beyond your control, may dictate prices - not your costs.

For example, many competitors, perhaps from a number of other countries of the world, may mean that your prices will have to be at least as attractive; otherwise, customers will simply bypass you. And if you are a new and unknown Pakistani firm, your prices may even have to be below those of your competitors who are well established in the market. Hence, you are not likely to be able to influence prices - unless you have a distinctively different and more attractive product than all the other competitors on the scene. (We will discuss later in this book how you may eventually seek to have a more attractive product, as Kamran Fabrics was able to have.)

2 If you cannot influence prices, and your present cost structure will not permit a reasonable profit, then you may have these options:

(a) Give up the idea of exporting for now.
(b) Accept lower per unit profits in the expectation that high sales volume will give you satisfactory total profits.
(c) Try to reduce your costs.

This third option usually requires that your productivity be improved, that you achieve the same or greater output from a smaller input of resources. For example, perhaps less costly raw materials, or a better supplier could be found. Maybe the product design could be simplified and better manufacturing methods used. Or perhaps better training and supervision could improve workers' output.

You, of course, have to be the judge of what is feasible and what is not, whether your costs and efficiency can be improved, or need to be improved. Most of all, you should know *what is a competitive price*, and *how to find this out*. I will help you with these need-to-know items later in this book.

I certainly am not trying to discourage you from exporting. While it may sound difficult, thousands of small exporters from all countries of the world have mastered it and prospered far more than they could have if they had stayed with marketing only in their own country. Throughout this book and the others in this series, we will be giving you sound advice for mastering this intriguing extension of your business.

2 *Introduction to pricing*

We can consider the factors affecting a product's price as resembling a tripod, in which the price rests on three legs or foundations: costs, demand, and competition. Figure 2 depicts this. Later in Section 8, after we have taken a rather close look at these factors, we will tie them all together and look at the step-by-step process of setting a specific price for a particular customer.

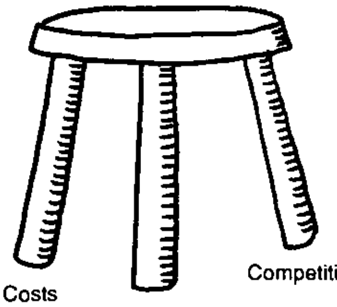


Figure 2 The pricing tripod

We can further differentiate these factors affecting price as those that are *controllable* - that is, those you can do something about, i.e. you can influence or affect them - and those that are *uncontrollable* or independent. These latter, as we just discussed in the 'Prelude' section, you cannot control or influence, but must *accept* and *adapt to* if you are to export successfully.

2.1 *Controllable pricing factors (costs)*

These are your costs. But these costs will be more than simply your production costs. You are going to incur some additional costs if you export. They are of two kinds:

1 **Selling and distribution costs.** These will be incurred as you seek to make contacts with overseas importers, and develop your channel of distribution. Costs will also be incurred in proceeding through the necessary import and export regulations and documentation. Offsetting these, however, will be governmental tax rebates and concessions designed to encourage you to export.

2 **Marketing support costs.** Some export markets will demand advertising and sales promotion support to create initial sales and repeat orders. Perhaps a colourful brochure will be needed. You will want to try to recover these in your prices; otherwise your profitability will be impaired.

2.2 *Independent or uncontrollable pricing factors (demand and competition)*

You will hardly be able to manipulate or change these influences on prices. Rather, you might have to adjust your costs so as to be profitable yet competitive within these dictates. The major uncontrollable factor is - *prevailing price levels in the target market.* With small and medium-size exporters from developing countries, the ability to dictate or even influence the price is probably impossible (although we will explore this possibility later in this book). Therefore, you must adapt to the price prevailing in your target market. However, you need to recognise that the prevailing price is affected by the two primary influences, which are depicted in Figure 2:

1 Demand in the market-place. Customer tastes can be fickle, and changes can occur in interest and demand from season to season. Changes occur suddenly because of new products or new fashions. As demand rises and falls, so do prices.

For example, in the U.S. market, the colour 'rose' may be popular for women's apparel one season, and not at all another season; wide belts may similarly be popular, only to become out of fashion, being replaced with narrow belts or no belts for dresses and coats. A certain toy may face the heights of popularity only to have demand plummet. Or a tennis racquet may be in big demand, only to find another material or somewhat different shape wanted, perhaps because of the successful use by a tennis champion.

2 Competition. Competition is a major factor in most foreign markets, and you will have to be willing to adapt your prices so as to be perceived by importers as completely competitive. At least this is so until the time when you are able to develop a distinctive product in great demand that will enable you to disregard most competitors, or are able to use quality improvements as a tactic to move into a different market.

So, the need usually exists in exporting markets to align your prices with those of competitors. It is important for you to realise that, even if you think your product is better than competing products, unless the market - and your agents and distributors - firmly believe this also, you had better be prepared to match competitive prices!

The following boxed text specifically describes the pricing environment in a particular market for a particular product category.

Box 1 The pricing environment for hand-knotted carpets in the Italian market

Importers/wholesalers dominate the Italian market with 95% of hand-knotted carpets being distributed through them. These importers will often have agents in the producing countries who select and check carpets on the importer's behalf and ensure that he receives the types of qualities he requires. The following criteria are used:

- number of knots per square metre
- quality of the wool
- colour and pattern of the carpet
- price.

These importers make large-scale purchases of carpets, often storing them in duty-free markets such as Switzerland, and import them into Italy as needed. These large European importers can offer their customers extremely attractive prices, especially when they have made a major purchase of carpets from a specific country. Some of these importers may even be the only or exclusive source of carpets from certain producers' areas.

So if you as a Pakistani manufacturer are attempting to enter this market, you must be prepared to furnish large quantities of goods at low prices, but at consistent and reasonable quality. Your control over prices will be minimal.

Source Let me call your attention to a series of monographs and short market surveys for particular countries and industries, one of which was a source for this material. These market surveys are prepared by the International Trade Centre (ITC) and are available for consultation at the Export Information and Advisory Centre of Pakistan's Export Promotion Bureau. These provide general information on the country, as well as specifics regarding trade channels and importers, and the competitive demands of the market.

Here are a few examples of the subjects covered:

- The market for precious and semi-precious stones in the United Kingdom.
- Handbags, travel goods and small leather goods in Canada.
- The market for dates in the United Kingdom, France, and Italy.
- Jewellery in Belgium.
- The market for leather garments in France.

For thought and discussion

The power and demands of a large buyer, as we have just seen, can be awesome - especially when this large buyer provides your only reasonable access to a particular market. You should consider whether such a situation is acceptable to you. I would like you to think about this option and to consider what the advantages (if any) might be from your viewpoint. Also, you may want to consider what other options you might have.
Jot down a few notes now, while the topic is fresh in your mind.
Note: At the end of this book I will share my thoughts with you on doing business with a large buyer.

2.3 Pricing policies

In general, you have two policies to consider in your pricing decisions:

- Cost-oriented pricing.
- Market-oriented pricing.

I will briefly describe each, along with their practical relevance for you, the exporter.
Later we will examine both of the policies in considerably more detail.

Cost-oriented pricing

This is an easy approach to pricing. You simply add a percentage onto direct costs to cover overheads and other expenses and yield a desired profit. The accuracy of the actual determination of costs will depend on how sophisticated you are with your cost accounting and other measures of cost. Unfortunately, you may not be able to use this approach to pricing as much as you would like since market conditions may be more influential than costs.

Market-oriented pricing

We usually think of market-oriented pricing as being concerned with (1) consideration of demand, and/or (2) consideration of competition.

In *demand-oriented pricing*, a firm attempts to maximise the profitable business by matching selling prices to the demand of the foreign buyers. Let us note that this demand is dependent on such factors as:

- the number of potential customers
- their tastes, habits, and attitudes relating to the product
- the existence of competing products.

The consequences, then, for the seller are that high prices can be charged where there are a large number of potential customers who are likely to be interested in the product, and where competition is not a major factor, perhaps because the product is unique in some way from anything competing. Conversely, a low price will probably have to be charged when customer interest is low and/or competition is keen. Or, as we saw in Box 1, when a powerful buyer is in a position to dictate pricing terms. *Yet, costs may be the same in all these situations.*

Competition-oriented pricing, on the other hand, assigns the principal factor in the pricing decision to the behaviour of competitors, with your costs and even your estimate of demand all being subordinated. Three circumstances lead to - and even necessitate - this complete dependence on competition:

(1) Where only a few large firms dominate the industry - sometimes called 'going rate pricing'.
(2) Where all suppliers in the market are very small, with similar products.
(3) Where producers compete for contracts on the basis of tenders - sometimes known as 'sealed bid pricing'.

The first situation usually prevails with raw materials, forest products, fibres, and some foods. One or more firms will lead - price leaders - in setting prices, and the rest of the industry will follow. In this situation there may be no price competition.

The second situation is more relevant to most Pakistani exporters. Where there is little difference or uniqueness among producers, cut-throat price competition is likely to prevail.

In the third situation, which often characterises sales to governmental and institutional bodies, there is price competition. It affects the bid price, as each firm tries to estimate the bid of competitors. Often the lowest bid will be accepted by the customer. If costs are not carefully worked out, the 'winner' could lose money on the transaction.

2.4 Summary

Thus far, I have tried to lay the foundation for the important material to come. Specifically, I have discussed the general characteristics of the ideal price - it needs to be satisfactory both from your viewpoint and from your customer's. I gave you my thoughts about the possible ramifications of entering a foreign market, which usually means a more competitive market than you may be used to. The various influences and factors affecting price setting were identified, and we briefly discussed the two contrasting pricing policies.

In the next section we will examine in more detail the role of costs - one of the major factors affecting price setting, but by no means the sole factor.

2.5 Self-assessment questions

Now I urge you to do this short exercise to see if you have grasped the major points I have tried to make in the preceding material. If you are unsure about any answers, you can easily look them up.

(a) What are the characteristics of the ideal price?

(b) What are the three 'legs of the tripod' or factors which affect pricing?

(c) What do we mean by controllable and uncontrollable pricing factors, and what should these mean to you?

(d) In demand-oriented pricing, what factors affect demand?

(e) In competition-oriented pricing, what is the real role of competition?

Answers. On this occasion I am going to give you the answers to this group of self-assessment questions. You can double-check your own answers against these. Although you will not be given the answers to the other self-assessment questions, you can quickly check your answers by looking back at the preceding pages of that section. And I urge you to do this to be sure that you have grasped this important material.

(a) Characteristics of the ideal price: (1) it should enable you to have a reasonable profit. (2) It should be satisfactory from the customer's viewpoint.

(b) The three 'legs of the tripod' or factors that should affect pricing are your costs, demand, and competition.

(c) The controllable pricing factors are your costs. These include considerably more than strictly your costs of production; you must also include any selling and distribution costs as well as any marketing support costs, such as advertising and sales promotion to create initial sales and repeat orders. You will want to try to recover these in your prices so your profitability is not impaired.

You will hardly be able to influence the uncontrollable factors as you can the controllable factors. Rather, you might have to adjust your costs recognising the need to be both competitive and profitable. The major uncontrollable factor is the prevailing price levels in the target market.

(d) Factors affecting demand are: the number of potential customers; their tastes, habits, and attitudes relating to the product; the existence of competing products.

(e) The real role of competition in competition-oriented pricing is to subordinate your costs and even your estimate of demand. The behaviour of competitors then is the principle factor in the pricing decision. This situation is most prevalent (1) when only a few large firms dominate the industry; (2) when there are many small firms with similar products; or (3) when producers compete for contracts on the basis of tenders.

3 The role of costs

Costs must always be considered in price setting. But you may not be able to make them the dominant factor. The key role of costs is this: *costs should set the **basis** of the price, that is, be the **minimum** that can be charged.*

Thus, normally you would not want to set a price so low that your costs were not covered. This would mean that you would be losing money on every unit sold.

However, let me suggest that there could be some circumstances in which you might temporarily want to price below your costs. For example, you might want to enter a market or increase your share of an existing market, and a very low price might enable you to do this. While you would not want to be unprofitable for long, still you may feel reasonably confident that as you gain more experience with manufacturing this product you will become more efficient and be able to reduce your costs sufficiently to be profitable. Also, larger volume may enable you to achieve some production economies and hence lower unit costs.

The costs relevant to export market pricing include everything necessary to get the product to the ultimate buyer. And this can make the total cost structure higher than distributing only in Pakistan. However, as we noted earlier, offsetting the additional costs are rebates and tax concessions offered by the Pakistan government as inducements for exporting. These may enable you to price even below domestic prices and still make a profit. Next, we will discuss two categories of costs: production costs and marketing costs.

3.1 Production costs

The book in this series, *Costing for Exporting*, by Dennis Gage, treats the cost-accounting aspects of production in great detail. Please review it if you are somewhat unsure of production costing. I will discuss briefly here the common types of costs and their relevance for price setting:

Total fixed costs (TFC) are costs that ordinarily do not change over time, no matter what quantity is produced. Examples are executive salaries, plant and equipment depreciation, and property taxes.

Total variable costs (TVC) are costs that fluctuate, depending on the quantity of output produced. Examples include raw materials, fuel, workers' wages, and packaging.

Total costs (TC) are the sum of total fixed costs and total variable costs. Thus:

$$TC = TFC + TVC$$

Average costs (AC) are the total costs divided by the quantity of output. Thus:

$$AC = \frac{TC}{Q}$$

For example, if your total production costs are Rs 160,000 and the quantity produced is 12,000, then

$$AC = \frac{160{,}000}{12{,}000} = \text{Rs } 13.33$$

Then we come to one final category of costs. This tends to be more confusing, although it really should not be.

Marginal cost (MC) is the cost of producing one more unit than the most recent unit produced. It is the *extra* cost of making just one more unit. To say it another way, marginal cost is the difference between the total cost of producing the last unit of the product and the total cost associated with producing one more unit.

For example, you may have determined in the above situation that to produce 12,001 units would only add Rs 9.89 to your total costs, because of production economies. Thus, your marginal cost would be lower than your average cost of Rs 13.33.

Dennis Gage notes that total costs (or average costs to get the per unit cost) should set the basis of the price if there is only one market. But if prices in the existing market are able to absorb all overhead costs, then marginal costs can set the basis for business in a new market. But, of course, you would hope that the demand aspects would permit a higher price.

ACTIVITY 2

Now I invite you to reflect and jot down how you evaluate your knowledge of your true production costs.

Do you have a cost accounting system that enables you to have a valid allocation of production costs to your various products?

If not, what would it take to develop such a system?

If you don't presently have a good cost accounting system, I certainly urge you to establish one. While you will, hopefully, be pricing well above your costs, still you need to know what the 'floor' or basis is in your pricing negotiations.

3.2 Marketing costs

You must also cover any distribution and marketing costs in your foreign market price. These may not be too much of a problem if you are dealing with foreign distributors who will take on the task of promoting your product and contacting foreign customers. But if you are going to deal directly with foreign buyers, you may need to do some advertising and other promotional efforts, you may need to personally contact potential buyers, and so on.

Even if you are not going to be in personal contact with foreign buyers, exporting will probably still entail some additional costs over your domestic ones. For example, packaging. This may need to be greatly improved, made more sturdy to prevent damage, and perhaps placed in different size containers than you normally use. And don't forget quality control. To meet rigorous quality standards demanded by many overseas markets, you may have to check more carefully the goods destined for overseas markets. You may have some additional costs in adapting your product for foreign usage, perhaps involving different sizes and models. And don't forget the possibility of higher financing costs; for example, you may have to wait a longer period before getting your money.

You will need to identify any extra costs involved in your exporting efforts and add these to your overhead calculations. From these you should subtract the probable savings from governmental concessionary inducements.

3.3 The relationship of costs to pricing

I think it is so important that I would like to repeat it: important as costs are, and as necessary as it is that you have a good recording and compilation of your costs, this is *not* the major factor in pricing.

The other legs of the tripod really have greater importance than costs, that is, if you are to price so as to successfully tap the demand in a foreign market. Costs may set the basis of the price - but unless demand exists above this basis, you probably should forget about it for now. And let us not disregard the intrusive influence of competition - and in foreign markets this can include firms from many countries of the world. If you cannot meet the quality and price of your competition, you are hardly likely to succeed.

I realise I am painting a pessimistic picture so far in this section. I don't want to discourage you. I only want you to know what you are up against, so that you can assess these factors of cost, demand, and competition in your pricing decisions.

3.4 You do not always have to be the lowest priced producer

Let me close this section by suggesting an intriguing challenge you ought to consider, if not when you first get into exporting, then somewhat later after you have gained familiarity and confidence with it. Do not always think you have to be the producer with the lowest prices. Much greater profits can be obtained from higher prices. But, of course, you have to have a better product - of higher quality and more attractive to customers - to ask for and get higher prices. But it can be done: remember the Kamran Fabrics example at the beginning of this book.

Please excuse me if I come back several more times to this theme of seeking higher prices through better products. I think it is so very important in the pursuit of maximising *long-term* profits in exporting. And permit me to offer this idea:

Good quality does not happen by accident; it is the result of intelligent and unrelenting effort.

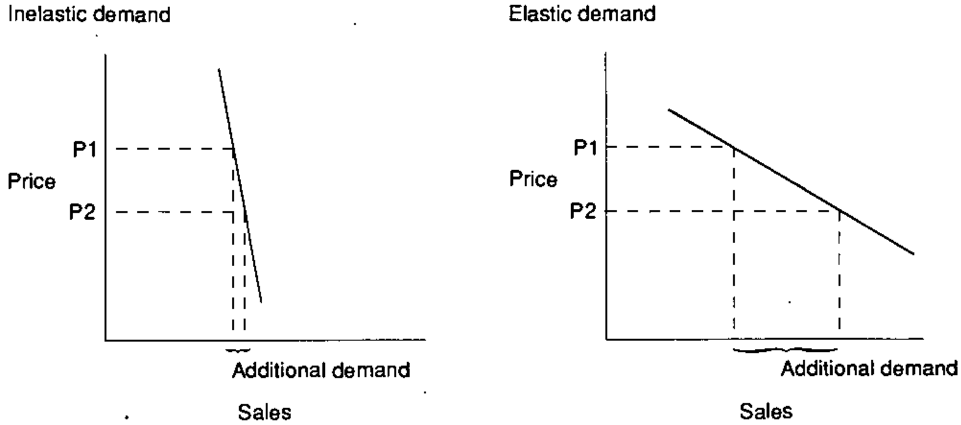
4 The role of demand

4.1 Price elasticity and its effect on your pricing

I am going to become a little theoretical here, but later we will come back to the practical utilisation of these concepts.

The economists have long talked about the *price elasticity of demand.* This describes the sensitivity of customers to changes in prices. If a small change in price substantially affects unit sales, the price elasticity of demand is high.

Figure 3 depicts the concept of inelasticity and elasticity of demand as the economists view it. In the inelastic situation, the demand is rather oblivious to price. Consequently, a lower or a higher price will not substantially affect demand for the product. The temptation in such a situation is to charge a higher price. However, the possibility of competitive entry because of the very attractive profit per unit in this situation may temper the decision to charge a higher price. The more horizontal the demand curve becomes, an elastic situation, the more demand is affected by price. With such a situation facing a firm, a lower or a higher price will have a major impact on demand. Provided that production capability is sufficient, a firm will usually opt for lower prices and the highest sales volume.



If the price is dropped from P1 to P2, note the substantial difference in the two models in the additional demand generated.

Figure 3 Models of demand elasticity.

Table 1 Examples of demand elasticities and their effects on total revenues

Price	*Quantity sold*	*Total revenue*
Elastic demand - shoes		
Rs 138.40	8,000	Rs 1,107,200
86.50	40,000	3,460,000
51.90	120,000	6,228,000
Inelastic demand - high quality oriental rugs		
Rs 173,000	300	Rs 51,900,000
138,400	320	44,288,000
86,500	340	29,410,000

Table 1 shows the effects on total revenues of different prices for an item with an elastic demand curve, and an item with a relatively inelastic demand curve. Total revenue from the shoes having an elastic demand curve will be substantially higher with a lower price, even though the price and the profit per unit is reduced. For a fine quality oriental rug facing a relatively inelastic demand curve, greater revenue is realised by charging the higher price because total quantity sold will not be that much lower than if offered at a lower price. Thus, we can make these generalisations:

For a product with an elastic demand, lowering the price can greatly affect total revenue because more will be sold.

For a product with an inelastic demand, more revenue is achieved with a higher selling price since total demand will not be much reduced from that at a lower price.

But up to now we have not considered profitability and competition. It may be that the shoe manufacturer pricing at Rs 51.90 would not even cover his costs. And for the manufacturer with inelastic demand, profits will be enhanced with the higher price, but competition might also be attracted to such a profitable endeavour.

A major factor affecting elasticity or inelasticity is the possibility of *substitutes*. If other products can be readily bought or substituted for the particular product, then price tends to be very elastic. And this situation certainly describes most markets for shoes - a great variety of styles and materials are readily available. Not so with the fine quality oriental rug - there are few substitutes, and maybe none whatsoever for a particular pattern and colour combination. Let us also recognise that in some markets there may be more substitutes than in others. For example, with rugs in India, many substitutes will normally be encountered because of the domestic producers; in the U.S. and Western European markets there will not be so many, and demand will be great.

4.2 Cautions regarding price-demand elasticity

However viable the concept of price-demand elasticity may be in theory, we need to recognise that in practice it is often difficult to determine specifically enough to be practical. Furthermore, the sensitivity of customers to price seems to vary in unpredictable ways. Some customers place a higher value on convenience, service and quality than on small price savings. Therefore, the concept of price elasticity seldom can be used to predict *accurately* the effect of a proposed price change on sales volume. without some experimentation, such as testing different prices in different markets to get an idea of the effect on sales.

On the other hand, you should know that the more distinctive or unique you can make your product - that is, the more you can differentiate it from competitors so that it cannot readily be substituted - the more *inelasticity* you are likely to encounter, and the less sensitive customers will be to prices. We will talk further about this in Section 5.

ACTIVITY 3

1 How close are substitutes for your product(s) in different markets?

If you do not know, does your agent or other intermediary? Perhaps you should ask them and ask for specific explanations for their judgements.

2 How would you test the price elasticity model with respect to your product? Would it be practical for your firm to test this? Why or why not?

Note: At the end of this book (page 48) I will share my thoughts with you on determining the price elasticity of your product.

4.3 The nature of the distribution and its effect on your pricing

Another aspect of demand needs to be considered. It may or may not affect you, but you should be aware of and prepared to cope with the situation, should it arise. This concerns the *power of the big buyer.* We first discussed this in Section 2, Introduction to Pricing, and gave an example of the power of big buyers in controlling the Italian market for hand-knotted carpets, to the extent that 95% of all such carpets were distributed through a few importers/wholesalers. So the small exporter has little control of prices under such circumstances.

Or you may be selling directly to governmental bodies, or large manufacturers, or large retailers. In general, the larger the customer, the more pressure he will exert in demanding special procedures and concessions. This will probably involve a larger profit margin for the customer - which means a lower margin for you. It may involve special packaging, perhaps some promotional funds or materials, or maybe a guaranteed sales arrangement in which you will take back any unsold or unused products.

5 The role of competition

Despite your efforts to achieve some degree of product uniqueness or differentiation, you still may not be able to charge much more than close competitors are charging. Consequently, there is an upper limit to the price you or any firm can charge. We can call this a *range* rather than a specific point because unless you are in the situation where the products of the entire industry are basically the same, you do not have to meet competitive prices precisely. You have a range of discretion, depending on the degree and attractiveness of the differentiation perceived by customers. And this links directly to the substitution concept I discussed in the previous section. The less the likelihood of direct substitution, the greater is your range of discretion.

You will need to determine what indeed is a competitive price. We will talk about this later in the next section, 'Research for Pricing Decisions'. But for now, let us examine the *role* of competition in price setting:

In a purely competitive market, all producers would sell at identical prices.

But this assumes that all the products are homogenous, that there are no differences, real or imagined, among them. And this situation rarely exists. Even though the various competitive products are similar, they are usually not identical. Your approach may be to attempt to be the lowest priced competitor in such markets as tennis racquets, shoes, belts, and other products where there is little product uniqueness or differentiation, and where close substitutes are readily available. In other situations, however, just the fact that your product is made in Pakistan and your nearest competitive products are made elsewhere, gives some measure of uniqueness. So we may conclude that, usually, a firm must take note of competitors' prices; but it has some freedom to sell above or below these prices, i.e. a range of discretion.

Thus, it is important to know your competition - the quality and features of their products, any special services offered, how strongly entrenched they are in the market you wish to enter, as well as their prices. Then you can better determine what price it will probably take to gain entry into that particular market, and to interest dealers and buyers.

Let me express the competitive impact on prices visually in the following matrix.

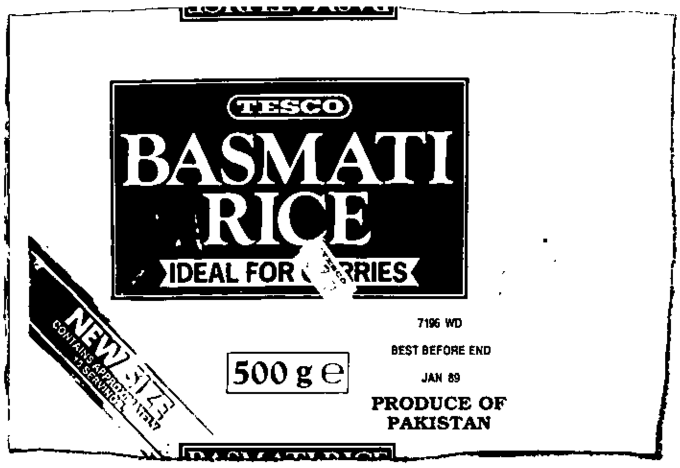
		Products and services of other firms	
		Similar to yours	Not as good as yours
Competitive situation (available substitutes for your product)	Many	1 You have no pricing discretion	2 You have some pricing discretion
	Few	3 You have a little discretion	4 You have great discretion

In this matrix, then, we are considering how much pricing freedom or discretion you will have. In cell 1, with many competitors and little difference in products, you have virtually no discretion. This improves a little in cell 3 if you have only a few competitors, but again with all products rather alike. But how the situation improves in cells 2 and 4: the more attractively distinctive or unique you can make your product(s) and services relative to competitors, the more discretion you will have in price setting. And this usually means the higher prices you will be able to charge relative to competition.

5.1 Coping with products which have no uniqueness

In some circumstances, you just are not going to be able to achieve any uniqueness or differentiation of your product. If your product is a raw material or a commodity such as agricultural products, you are going to have very little, if any, flexibility in setting prices. The world-wide supply and demand situation will dictate the prices.

But we ought to note that sometimes a commodity product, because of special growing conditions, may achieve a uniqueness or differentiation almost approaching a monopoly situation. And there is such an example in Pakistan. Basmati rice can only be grown in India and Pakistan, and because of its recognised superior quality, can command higher prices than ordinary rice.



5.2 Target or retrograde pricing

Target (sometimes called retrograde or demand-backward) pricing is not an uncommon technique in export marketing. It takes into consideration both demand and competitive influences, and works backwards to determine what plant price is needed to achieve a target price that will be reasonably acceptable and competitive in the export market. For this pricing technique to be effective, you (or your agent) must know well the demand and competitive structure. Let me give you an example of such target pricing.

We will assume that you want to enter the U.S. market. Information sources from the U.S. (perhaps from your agents or other intermediaries, or perhaps through some queries with retailers) suggest that a selling price to consumers of 50 (in U.S. dollars) should result in considerable demand for your product. What production costs would you need to hit this target price?

(Note: in the calculation below, we will figure initially in U.S. dollars, and then convert this to rupees at the May 1987 exchange rate of 17.30 rupees per 1 U.S. dollar.)

Target price in U.S. market	$50
Less 40% retail margin on selling price	20
Retailer cost	30
Less 15% importer/distributor mark up on his cost	3.92
Distributor cost	26.08
Less 9% duty on c.i.f. orders	2.15
Landed or c.i.f. value	23.93
Less ocean freight and insurance and other fees	3.20
Required f.o.b. plant price to achieve target price (in dollars)	20.73
Rupees (17.30 x $20.73)	Rs 359

Obviously, the Rs 359 price is the result of assumptions about channels, margins, tax and duty rates, as well as the costs of freight and insurance. Freight forwarders, distributors, and other service organisations are information sources for such an analysis.

Alright so far? Now let us look at several scenarios or possibilities that might come from such an analysis.

Scenario #1. The Rs 359 f.o.b. plant price compares favourably with your plant price for domestic sales. In this case, you are in a good pricing position for exporting.

But more often, the number of intermediaries involved and the taxes and other costs of exporting will result in the following:

Scenario #2. The Rs 359 f.o.b. plant price is less than the f.o.b. price on domestic sales. Now what do you do?

ACTIVITY 4

I invite you to pause here and consider what you might do given Scenario #2 above. Then we will discuss your answer.

1 Should you forget about exporting?

2 Can you still consider exporting, and if so, what possible options do you have?

Think about this a bit, and jot your ideas down.

I wonder what your answers were. The obvious answer is to forget about exporting - it just is not as profitable as the domestic market, so why lose money or have a miniscule profit?

Let me suggest that this is a wise decision *only if* you have good opportunity for profitable growth in your Pakistani market. If you don't have, then let's consider what options may still face you in your quest to export:

1 If you have excess production capacity over your domestic market needs, then you might consider pricing close to the marginal cost, so that you are covering variable costs and making a small contribution to fixed costs.

2 You can try to shorten the distribution channel, by selling direct to large retailers or wholesalers. Each step in the channel adds to the final price. However, if you try this option, your marketing costs will probably be increased since you will have to seek out these purchasers rather than leaving this to an agent or other intermediary.

3 The last ordinary option is one that we briefly mentioned at the beginning of this book. And depending on the efficiency of your operation it may be the most feasible. If you can somehow reduce your production costs, then at a Rs 359 f.o.b. factory price you can make a reasonable profit.

- You may be able to do this by improving certain aspects of your operation so that they are more efficient. Or,
- You may modify or simplify the product so that you can make it at a lower cost and be more competitive. All kinds of possibilities exist here, and you certainly know best what might be most practical. It might be more of a stripped-down model, smaller sizes, perhaps a less expensive packaging. Let me warn, however, that if you take this route to lowering your production costs, be careful that you do not so cheapen the quality of the product that it is no longer competitive or attractive to the export market.

Now I am going to offer you another option for Scenario #2. It may not seem reasonable to you - and it may not be - but at least you ought to investigate before rejecting. And you might be surprised and rewarded.

4 You can increase your costs. The objective here would be to improve your quality so that you can price higher, and in the process improve longer-term profits. And again, I refer you to the Kamran Fabrics example near the beginning of this book.

5.3 Summary

These last three sections dealt with the three legs of the tripod that should affect your pricing.

Costs should set the floor under the price, that is, the *minimum* that can be charged. I reviewed with you the different types of costs that must be considered, and these include not only production costs, but also marketing costs.

Demand is a major factor in final price determination since it should influence how *high* a price you can charge. We discussed the concept of price-demand elasticity and the practical aspects of this, as well as how the type of distribution can influence things.

The last leg of the tripod is competition, and it must be considered along with demand for how *high* a price you can charge. We stressed a key consideration regarding competition:

The more attractively distinctive or unique you can make your product(s) and services relative to competition, the more discretion you will have in price setting.

To attain such distinctiveness may require some real ingenuity on your part, but it is sometimes surprisingly possible to do so if you know your competitive offerings quite well. Of course, if yours is a raw material or commodity, such as many mining and agricultural products, you will most likely have to price at the market price as determined by supply and demand.

Finally, I explained target or retrograde pricing in which you, the manufacturer, grapple with a market price that will be competitive and create a reasonable demand, and adjust your costs so as to achieve such a price profitably. I offered you certain options in coping with a well-defined target final-buyer price, as well as the possibility of increasing this through better quality.

5.4 *Self-assessment questions*

Again I urge you to do this brief review to ascertain whether you fully understand the important material we have just covered. Please look up in Sections 3 to 5 the answers to any questions you are not completely sure about. I will not discuss them further here.

(a) What is the role of costs in pricing?

(b) Identify these different costs:

- total fixed costs
- total costs
- marginal cost.

Which would be the ultimate floor for your price? Why?

(c) Are marketing costs likely to be lower or higher in exporting? Why?

(d) If demand will increase considerably with a lower price, how should this influence your strategy?

(e) In which situation would you be more likely to charge the higher price:

- elastic demand
- inelastic demand.

Why?

(f) Under what circumstances are you likely to have more discretion in pricing?

(g) If a target pricing analysis reveals that your present cost structure will not permit the desired price, what alternatives might you consider?

6 Research for pricing decisions

When you move beyond your own cost considerations for the home market and have to cope with the important demand and competitive factors in other markets, as well as the additional costs involved because of bureaucratic requirements in documentation etc., then you need information.

6.1 Types of information needed

In particular, you need feedback from the foreign market you wish to enter, on topics such as:

- What is going on in that market for products such as yours?

To really have a good answer to this question, you need answers to the more specific questions which I have presented as a checklist below for you to assess your market know-how:

Tick (✓) if you know:

- Who are the final buyers of your type of product? For example, are they well-to-do consumers? Very price-conscious consumers? Certain types of industrial firms? And so on.

- Where do they primarily buy this type of product? For example, in department stores? In discount stores? (See my other book in this series, *Export Channel Management*, for a full discussion of the different types of retailers in Western economies.) Through particular kinds of wholesalers or distributors?

- What is the range of prices for this type of product?

- What are the particular features of competing products?

- How well satisfied are dealers with these products?

- Is demand increasing, holding steady, or decreasing?

- Are there particular changes or modifications that dealers think would make the product more attractive?

- How sensitive are customers to price? In other words, is price the most important consideration in marketing?

How many items did you tick? Did you tick any? I would expect that you ticked few, if any, of these questions. Don't be alarmed. This exercise simply suggests that you need marketing information to help you in setting your price. Where can you get this information? Before we look at sources, let me suggest several other types of information that you also need:

- What is likely to be the trade acceptance of your product at a price that will permit you a reasonable profit?
- How well does your product compare with competing products in features, quality, and price:
- What procedures and documentation are necessary to do business in the foreign market?

This final question we will discuss near the end of this book, and several other books in this series treat these technicalities in considerable detail. So let us look at sources of information for the first three informational needs.

6.2 Sources of information

In my other book in this series, *Export Channel Management*, in Sections 3.3 and 4.2, I list a number of specific sources of information for market conditions, etc. Another book in this series by Tamer Cavusgil, *Export Marketing Research: Organisation, Conduct and Analysis*, also provides specific information sources and marketing research possibilities. Major sources of information on market conditions are:

The Export Promotion Bureau
Chambers of commerce and industry
Trade directories
Technical journals
Shipping agents
Trade associations

Regarding the trade acceptance of your product, initially you can discuss this with a few export agents in Pakistan who deal with similar products to yours. They should give you some sense of how your product compares with competing products. But I recommend that you make your own evaluation of competing products and how they compare with yours.

To do so, you need to get your hands on such products, either through the help of a prospective intermediary, or better still, by a direct market visit and purchase.

Certainly a visit to the country to which you are considering exporting would be well worth while. This would give you a chance to talk with prospective buyers and observe at first hand the marketing of products similar to yours. Many prospective exporters find the benefits of such overseas trips to be well worth the cost. Or you may elect to visit one or more appropriate trade fairs, again to observe, to make personal contacts, and to either obtain or be able to examine closely competing products.

I recommend that you obtain as many different competing products as you can, and subject them to a rigorous - and honest - evaluation.

6.3 Evaluating competing products

At this point, I am going to ask you to complete the following checklist for a thorough study of competing products. (I am assuming that you have acquired such products; if you have not yet, these are the major aspects you should consider when you do examine or acquire such products.)

This analytical checklist is a simple but effective tool, and it will enable you to make a systematic and thorough evaluation and permit you to tabulate the strengths and weaknesses of your product compared to competing ones.

First, I am going to show you an example of one evaluation. Then I will give you another checklist for your use.

Checklist for studying a competing product (completed sample form)

Product *Belts* Country of manufacturer *India*

Price to consumers *$8.00* Price to the trade *approx $4.00*

(For each attribute better than yours, put a -1 in the column.
For each attribute not as good as yours, put a +1 in the column.)

	Better than yours	*About the same*	*Not as good*
Product:			
Durability		—	+1
Appearance			+1
Colours available	-1		
Variety of models, types, sizes, shapes	-1		
Services offered by the manufacturer (if any)		—	
Packaging and presentation:			
Attractiveness of the package	-1		
Information conveyed on it		—	
Usefulness for shipping, handling, display		—	
Any other relevant factors			
	-3		+2
NET TOTAL OF PLUSES AND MINUSES			-1

Note that in this example, the competitive deficiencies should be rather easily corrected by adding more colours and styles.

ACTIVITY 5
Checklist for studying a competing product (for you to fill in)

Product ____________________ Country of manufacturer ____________________

Price to consumers ____________________ Price to the trade ____________________

(For each attribute better than yours, put a -1 in the column.
For each attribute not as good as yours, put a +1 in the column.)

	Better than yours	*About the same*	*Not as good*
Product:			
Durability			
Appearance			
Colours available			
Variety of models, types, sizes, shapes			
Services offered by the manufacturer (if any)			
Packaging and presentation:			
Attractiveness of the package			
Information conveyed on it			
Usefulness for shipping, handling, display			
Any other relevant factors	________		________
			________
NET TOTAL OF PLUSES AND MINUSES			

When your product shows a net total of -1 to -3, you will probably need to price below the competitor *unless* you can improve your deficiencies. If your total is more than -3, you will need to price substantially lower, or else have a major effort to improve your product and presentation.

If you judge your product to be in the '+' category compared to the competition, you can probably consider asking a higher price. But be objective in your evaluation. Don't be so biased that you can see no good in competing products compared to yours. You may even want some outsiders - perhaps several agents, merchants, or consumers - to make an evaluation.

The ultimate information that you seek is how acceptable your price and product is with final consumers or end-users. You should be prepared to supply initial small sample orders from the overseas intermediaries and retail buyers, as they test your product on a small scale, before considering bigger reorders.

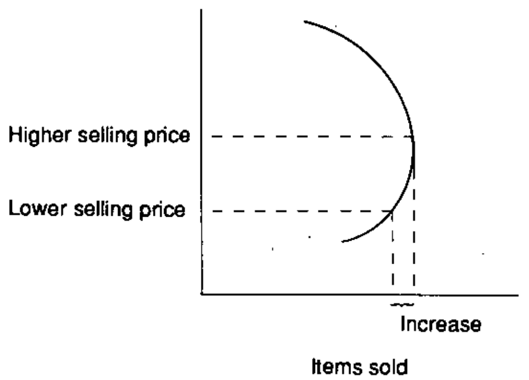
7 How much pricing power do you have?

The checklist in the last section may give you a fairly good idea of how your product compares with competing products, and whether you will be virtually forced to sell below the market, or whether you might be in the enviable position of being able to price above the market. But also note that any factors in which you rate as a minus (-) may well be within your means to improve, as in the example of the belt manufacturer.

Now I want to present several theoretical concepts for your consideration. They may or may not be applicable to your firm at this time. But if not now, maybe eventually they can be considered as attractive options for your export marketing strategy.

7.1 The psychological role of prices

Customers tend to judge quality by price. Some customers prefer the status that higher prices extend, especially products with technical features such as scientific instruments, and merchandise such as perfume and goods that in one way or another are kept on display such as certain artwork, carpets, and other home furnishings. Figure 4 illustrates the demand curve for items susceptible to what we call *prestige pricing*. The bowed demand curve indicates that there will be fewer units sold at the lower selling prices than if prices are raised. Eventually, of course, demand will taper off as prices are raised to an exorbitant amount.



Here, a higher price will result in more items sold than the lower price.

Figure 4 Demand curve of items susceptible to prestige pricing

Not all price-quality relationships involve prestige seeking by the buyer. With today's complex products and hidden ingredients, customers have difficulty assessing the quality of products. Some fear that at a low price, quality must suffer. Consequently, it is not surprising that price is the most common indicator of quality. But if a product promoted as high quality, with a price to match, turns out to be shoddy, or of poor workmanship, or made of inferior materials upon closer inspection or purchase, such a producer may find it impossible to recover the lost confidence of middlemen and final customers.

So, what can this idea of prestige pricing mean for you? Nothing, unless you are able to promote successfully an image of quality for your brand. Then if you don't disappoint buyers by turning out goods of lower or erratic quality, you just might be able to experiment with prestige pricing. Branding is important here, since you would want your product to be readily recognised. And you may seek to sell only to the more exclusive outlets such as the more reputable department and speciality stores who would help convey the image of status.

7.2 *More discussion of product differentiation*

As we have noted before, a firm that can come up with a unique product or service that has some appeal to potential customers has made a major step towards marketing success. Marketers call such distinctiveness a differential advantage or, as we have called it earlier, product differentiation. A *differential advantage* is a competitive advantage that a firm develops through uniqueness in some aspect of its operation. There is a major implication in this as far as price setting is concerned. And it bears repeating:

The more attractive-to-the-market uniqueness you can develop, the more discretion you have in setting prices.

And this, as we noted earlier in this book, means that you will probably be able to command higher prices, as Kamran Fabrics has been able to do through its higher and consistent-quality products.

But, sadly, this desirable uniqueness is not so easy to achieve. Other firms are seeking it also. Can you find an attractive uniqueness? Only when you know the market and your competition very well are you in a position to seek and hopefully achieve such product differentiation, again as Kamran was able to do. But if all Kamran's competitors were offering a similar high and consistent quality of textiles, then Kamran would have no unique or differential advantage. I would say that this quest will be your never-ending challenge: to be different in a positive sense.

You have to recognise, however, that if you are able to achieve a competitive advantage, perhaps because of some attractive innovation, you may not be able to keep it. Competitors will constantly be trying to imitate you - to dislodge your competitive advantage. And the higher your prices are above the prevailing market price, the more incentive competitors will have to try to dislodge you. This situation we can term the danger of a skimming price.

7.3 *The danger of a skimming price*

A skimming price is a high price that is usually placed on a desirable new product that is relatively innovative or different from anything else presently on the market. But a skimming price is often very vulnerable. The fact that the high price is yielding a very good profit margin makes it very attractive for competition to enter this market and try to capture a good share of such profits. Where the price is very high, it motivates customers to seek substitutes. An example of this is desi cotton, the short staple cotton used in quilts and mattresses - the skimming strategy almost destroyed this market. And OPEC and the oil industry in seeking very high oil prices and profits encouraged massive efforts to find additional petroleum resources as well as alternative energy sources, so that prices plummeted.

It is not worth charging such a high price unless you are reasonably sure that your particular product cannot be easily imitated, or that customers are not likely to be so dissatisfied that they will seek substitutes, or the *barriers to entry* are so great that few firms would attempt it. Such barriers as great technical or artistic skills or a sizeable investment required to enter the market usually do not guarantee protection from competition, but they make it more difficult.

7.4 The lowest priced competitor - again

Now let me suggest to you again, as I did in Section 3, that *you do not have to be the lowest priced competitor* in export markets. While you may be a low-cost producer, this may not always be the best thing to do. We have discussed the psychological role of prices and the powerful influence of attractive product differentiation. In general, I think this is the route you should seek to maximise your profitability in exporting: provide a good quality product at an attractive price, and move away from the cut-throat competition of trying to be the lowest priced competitor.

How possible is this? You need to know your marketing environment well. (Refer back to the research section for more specifics on knowing your marketing environment.) This is the key. Plus some imaginative thinking. But you can do it.

7.5 Summary

In these latest sections we considered the use of research information for making price decisions, and how you can obtain such market feedback. In particular, you need to have some idea of market conditions for products such as yours, how acceptable your product is likely to be at a reasonable price, and how well it compares with competing products.

I introduced you to the question of how much pricing power you might have, and described the intriguing possibility of prestige pricing, where a higher price may actually increase demand if you have a quality product and a recognisable brand.

We again talked about the desirability of developing some measure of uniqueness for your products - and I think this is so imortant, I just have to keep talking about it. I again urged you to shun, if at all possible, the strategy of being the lowest priced competitor, and having constantly to cope with cut-throat competition to the destruction of your profits. And I again used the example of the successful upgrading of quality and prices by a Pakistani firm, Kamran fabrics.

7.6 Self-assessment questions

AKC Tanneries of Pakistan is a small manufacturer of quality finished leather. For the last five years exports to Western markets have increased steadily until now they comprise 80% of all production. Of late, competition has been increasing, and management is concerned that their market position may be in jeopardy. If asked the following questions, how would you advise them?

1 How can we obtain information about competing products?

2 Should we cut our prices, since they are somewhat above the rest of the market?

3 How can we determine whether our trade acceptance is lessening?

4 Should we consider prestige pricing?

As usual, you will find information to answer these questions in the preceding few sections. To answer most of these questions, a firm needs to research its marketing environment and carefully evaluate competing products. To answer question 2 about cutting prices because of increasing competition, this also requires a careful evaluation of competing products: do they match the firm's quality, but at a lower price? If so, they will probably have to cut prices. But if the competing products are of inferior quality, even though they sell at a lower price, I would not advise the firm to decrease its own prices *unless* demand really seems to be waning for better quality and higher priced goods. In a situation with increasing competition and diminishing marketing position, I would not recommend prestige pricing; it is better used when there is more uniqueness and no close competitors.

8 *Procedure for setting prices*

Up to now we have looked at the factors that you should consider in price setting. Now it is time to draw this material together, to see how all these factors fit in the decision process involved in determining a specific price.

8.1 Steps in pricing

Normally you will want to go through these specific steps and answer these specific questions:

1 Objectives

What are my pricing objectives?

- Short-run profit maximisation?

(Do I want to make all I can now, and be less concerned about the future?)

OR

- Long-run profit maximisation?

(Would I be better off perhaps to sacrifice some short-term profits and in so doing have a better chance of building up my markets and thwarting competition?)

2 Costs

What are my average costs per unit?
What are my marginal costs per unit?
What are likely to be my marketing and other costs associated with exporting?
What reduction in costs am I likely to realise through governmental rebates and other concessions for exporting?

3 Market demand

How sensitive is demand to price for my products?
Am I going to be dealing with large customers who will be quite dictatorial, or smaller customers who will allow me more latitude in price setting?

4 Competition

What price must I meet in order to be competitive in the market, given my present or planned level of quality and uniqueness?
How strong do competitors appear to be?
How much pricing power do I have now?

5 Range of discretion

How unique or differentiated is my product now, or how differentiated can I make it?
Do I have to be the lowest price competitor to gain market entry?

6 Specific price quotes

We will discuss the factors bearing on these in the remaining part of the book.

So far, we have discussed in some detail the first five steps. Again, remember that costs should set the basis of a price, below which you cannot go and reap a profit, while the market provides the upper limits or ceiling. You will generally set your prices somewhere between these two limits.

Now let us consider another situation, and this may be relevant to you, either now or in the not-too-distant future:

Scenario : You have a variety of products available for exporting. How might this affect your pricing strategy in a positive way? This brings us to the idea of product-line pricing.

8.2 Product-line pricing strategy

Product-line pricing considers the relationship of the various products in your line. For example, how should different sizes be priced? For clothing, it is customary to offer the various sizes at the same price, but the smallest size is certainly less costly to make than a large size that requires much more material. Here, custom and the fact that there is no difference in utility among the various sizes have led to a single selling price. But turn to different size containers for the same product, and we see substantial price differences. There are three different approaches to product-line pricing:

1 Relate prices to differences in costs
2 Set prices in proportion to differences in sizes
3 Set prices so as to maximise profitability of the entire line.

While the first two approaches make sense logically and are geared to relative equality in the unit-profit percentage for each size or quality category, they do not consider the elasticity of demand for the various sizes as well as the need for competitive pricing. When relative profit margins of individual items in the line are allowed to vary, several strategies can be employed. Sometimes the smallest size will be priced very low so as to attract customers to try the product. Consumers in the Western economies have long been conditioned to expect the greatest price savings to be made when the larger size is purchased, such as with toothpaste and laundry detergent. Sometimes they are deceived in this expectation.

Where different products in the line reflect quality differences, a common pricing policy is to price the lowest-quality item very competitively so as to combat or ward off competition. Sometimes it may be necessary to price certain items below total costs in order to round out the line, to improve its overall attractiveness, or to satisfy the needs of certain customers. The highest unit profits are often charged on the highest-quality items, the 'top of the line', this being a type of prestige pricing. The assumption here is that the customer who can afford the most expensive product is not particularly price conscious and is willing to pay something extra for the prestige of owning the best. An inelastic demand curve is therefore thought to apply to these high-quality items, so that, within a relevant range, a difference in price will not appreciably affect demand.

A Pakistani carpet maker has shown an effective use of this latter product-line pricing strategy. Messrs Khan have been exporting carpets to Europe for many years. They have been able to ward off competitors by pricing their medium-size carpets below their average costs, and this has given them a strong position in the market. Despite a lack of profitability with these carpets they more than make up for it by charging very high prices and achieving good profits on their small size, high quality carpets - European customers continue to buy these as prestige items.

8.3 *Pricing adjustments*

Your original prices should not be considered permanent and unchanging. They reflect your (and perhaps your agents' and distributors') best estimate. But you, and they, may be wrong. Rather than abandoning a market or not capturing the full profit potential possible, you may need to adjust your prices. For example, the following situations may warrant your consideration of short-term price adjustments:

Situation	*Consider*
Demand increasing	Raising your prices
Total supply decreasing	Raising your prices
Demand lessening	Lowering your prices
Supply increasing	Lowering your prices
Competitor lowering prices	Lowering your prices
New competitor entering market	Lowering your prices
Want to stimulate demand to get cost savings from greater production	Lowering your prices
Want to use particular product as 'leader' to encourage sales of related products	Lowering your prices
Have a heavy inventory of unsold goods and want to clear out old stocks	Lowering your prices

You should recognise that the environment for pricing is *dynamic*. It is changing. And your prices may need to reflect this. At the same time you should be concerned with your long-term profitability. You do not want to jeopardise this. Accordingly, you must beware of short-term pricing practices that might drive away customers or encourage competitors - and this suggests some caution in raising prices or in not lowering them as efficiency improves. I cannot give you any hard and fast rules about this, only some cautions.

Dennis Gage, in his book *Costing for Export*, presents a table to show the effect on profit of changes in sales and price. Here is a simplified version of this.

Table 2 Hypothetical example of effect on profits of changes in sales and prices

Selling price per unit	*Number of units sold*	*Total sales*	*Variable cost (Rs 7 per unit)*	*Fixed costs*	*Profit or loss*
Rs 20	20,000	Rs 400,000	Rs 140,000	Rs 300,000	Rs 40,000 loss
16	60,000	960,000	420,000	300,000	240,000 profit
14	80,000	1,120,000	560,000	300,000	260,000 profit
10	120,000	1,200,000	840,000	350,000	10,000 profit
8	140,000	1,120,000	980,000	350.000	210,000 loss

You can see from this that sales volume increases do not always result in the best profit, or even any profit. For example, in the table the most profitable sales volume is 80,000 units; increasing sales to 120,000 units by lowering the price drastically reduces total profit; and a price geared to a still higher volume actually results in a loss. The explanation for this is that while lowering the price may steadily increase demand, given that there are no production economies with larger volume, eventually the reduction in prices is not sufficiently compensated for by the increase in sales volume. Also note that while fixed costs will remain the same for certain increases in sales volume, eventually they will rise too as more manpower and resources are needed to handle the increased sales.

9 Price quotations

With the general range of acceptable prices delineated, taking into account the appropriate costs, market demand and competitive factors, and any product-line strategies, the task then remains to establish the specific price to be quoted or accepted within the range.

9.1 Currency of quotation

A first question at this point concerns the currency to be used for the price quotation. This will usually be in the currency of the foreign importer, thus allowing the foreign buyer more easily to compare the offers of various foreign and domestic suppliers. Both parties to the transaction - you and the foreign importer - may need to worry about the foreign exchange risk. For example, in exporting to the U.S., with the transaction to be paid in dollars, you would get a fewer number of rupees for a given dollar amount if the dollar depreciated in value relative to the rupee by the time the transaction was paid for.

Since most major currencies have been floating since 1973, exchange rate changes are a daily occurrence. You can adapt to this situation and lessen the risks of foreign exchange losses by:

- having renegotiation clauses in long-term contracts
- reviewing price lists more frequently and making any needed adjustments because of exchange rate changes
- making sales on a 'spot price' basis, using the exchange on day of order
- quoting in rupees.

I suggest you consult your banker and other specialists when you are first getting started regarding the complexities of foreign exchange. Another book in this series, *Getting Paid*, also discusses this important topic in much more detail.

9.2 Export terms

The terms of delivery should be clearly spelled out as they can be crucial to making a profit. Table 3 lists the more common terms used in export price quotations.

Price quotations and your sales contract spell out the legal responsibilities of each party. When agreement is reached by the exporter and importer on terms of delivery, these are legally binding as to:

- Which costs are to be paid by the exporter, and which by the importer.
- Which documents the exporter will obtain, and at whose expense.
- When the title of the goods and the responsibility for them passes from the exporter to the importer.
- Where and when the goods are to be delivered.

Table 3 Export price quotations (...terms)

1 ex (point of origin)
 - ex works, ex mine, ex warehouse, and so on

2 f.o.b. (free on board)
 - f.o.b. (named inland carrier)
 - f.o.b. freight allowed to (named point of exportation)
 - f.o.b. vessel (named port of shipment)
 - f.o.b. (named inland point in country of importation)

3 f.a.s. (free along side)
 - f.a.s. vessel (named port of shipment)

4 CFR (cost and freight). This used to be known as C & F.
 - CFR (named point of destination)

5 c.i.f. (cost, insurance, freight)
 - c.i.f. (named point of destination), ex. c.i.f. London

You will favour a quote that gives you the least liability and responsibility: this would be ex works. Here your responsibility and liability would end when your goods are put on a carrier at your plant. But buyers will bargain hard for a c.i.f. (cost, insurance, and freight to port of discharge) price, which means their responsibilities begin only when the goods are in their own country.

You will probably have to accept c.i.f. terms unless you are in a strong bargaining position, which you are not likely to be until you become well established in a market with a sought-after product. Since most trading is on these c.i.f. terms, this enables importers better to compare the prices of competing suppliers.

In this section I have tried to give you a feel for the rather complex subject of export terms. They will involve different costs to you, the exporter, and should be taken into account in your pricing. You will need to know much more about all the standard terms and the responsibilities and costs for the exporter, and such information is provided in the books in this series, *Getting Paid*, and *Legal Aspects of Foreign Trade.*

9.3 Export credit and payment methods

This is another rather complex topic, the details of which are beyond the scope of this book, but are fully covered in the two books mentioned above. You need to know about export credit as it relates to pricing. While banks and credit institutions can provide information on the technical details, I want to discuss more the marketing implications. You will want to maximise both sales and profits, and this means that some compromise must be made between the payment methods you would most like to have, and those that are most attractive to the importer.

The common payment methods in their order of increasing attractiveness to both you and the importer, your customer, are:

Most desirable to you ↑	Cash in advance
	Letter of credit
	Time or sight drafts (bills of exchange)
↓ Most desirable to importer	Open account
	Consignment

Cash in advance. While you would prefer cash in advance of shipment, you are probably never going to achieve this in selling to the Western economies. If political conditions are very unstable in the country you are exporting to, then the competitive environment may make this possible because of the high risks. If you are producing goods to the importer's specifications, you may want to negotiate for some pre-payment if you are in a good bargaining position.

Letters of credit and drafts. Letters of credit and drafts are the most common type of export financing. A *draft* is drawn by the exporter on the importer, who makes it into a trade acceptance by writing 'accepted' on it, and signing it, whereby it becomes a legal obligation. The *letter of credit* is similar, except that it is drawn on a bank and becomes a bank acceptance rather than a trade acceptance, thus providing the exporter with more assurance of payment. A credit extension can be provided, as with time drafts drawn for periods ranging from 30 to 180 days after sight or after date. Please note: time drafts over 90 days require permission from the State Bank of Pakistan (contact the Export Promotion Bureau for details).

Open account. Open account terms involve less paper work and give more flexibility. While the terms of the sale are agreed on by buyer and seller, no documents are used to specify clearly the payment obligations. So, the legal recourse of the exporter in case of default is not as satisfactory as under letters of credit and drafts. Usually an exporter will try to limit open account sales to those foreign customers with whom he has had a long and favourable relationship.

Consignment. Consignment sales are usually the last resort of an exporter trying to enter a foreign market. In this arrangement, you the exporter, retain title until the importer sells the goods, and your compensation will not be received by you until the goods are sold. Here you can see that the financial burden and the risks for you will be the greatest. And legal recourse is more difficult to obtain also. But to induce reluctant importers to try the goods, it sometimes is necessary to consider a consignment arrangement. In such a case, I would urge you to resort to this only if necessary to 'test' the market. If the trial shipment proves to be a success, you should then be able to negotiate for more favourable terms for subsequent shipments.

Sometimes consignment can enable you to charge higher prices, while still being very attractive to buyers. For example, Pakistani firms have been marketing perishable foods for developing countries through a consignment arrangement. While many of the goods are not sold before they become unsaleable due to spoilage, the high prices charged permit very satisfactory profits for Pakistani exporters.

9.4 The effect of payment methods on your pricing

The different payment methods may affect your pricing. Ideally, the ones that involve more risk to you (that is, risk of non-payment) should permit your charging somewhat higher prices. The more attractive terms to customers may even give you an advantage, if your competitors are more restrictive. You should certainly consider payment terms in the important negotiation process that is described next. But much depends on how well established you are in the market. If you are an unknown supplier in a market with many competitors, you may not be able to negotiate terms and prices as favourable as you would like.

Again, I have only briefly treated here this rather technical and complex subject. I urge you to study the other two books that I mentioned at the beginning of this section: *Getting Paid*, and *Legal Aspects of Foreign Trade.*

ACTIVITY 6
Now I would like you to take a few minutes to consider what types of customers you would and would not grant liberal payment terms to. Jot down your comments under the following headings:

Characteristics of present customers to whom you would be willing to grant liberal payment terms:

Characteristics of present customers to whom you would *not* grant liberal payment terms:

How transferable are these insights to foreign customers, do you think?

My comments: I wonder if one of the characteristics you listed for refusing to grant liberal payment terms is : 'don't know them', 'have not had enough dealings with them'. This will certainly characterise your foreign markets when you first seek to enter them. But terms of payment are part of the overall pricing strategy. You may want to consider the possibility of charging somewhat higher prices, perhaps differentiating yourself from competing firms, and accept somewhat higher risks by granting more liberal payment terms.

10 Negotiation

Once you have stimulated importer interest in your product, you must now apply your negotiation skills. You and your customer need to reach agreement on the price and the other terms of sale. Now we are ready for the final stage in the pricing process, that of actually coming up with a specific price. You will want to get the order without so many concessions that profitability will be damaged or lost.

Although price is the most frequently considered topic for negotiation, it is not the only one. Some other topics for negotiation are export terms and payment methods, as well as time of contract completion, quality of goods, promotional support, and title. The negotiation procedure is as follows:

The transaction usually involves the presentation of proposals by one party and evaluation of these by the other party, followed by concessions and counterproposals, and finally agreement.

Not all of your transactions will involve negotiation. You need to recognise that in certain situations you have no power or influencing potential. For example, if you are trying to enter a new market in which potential buyers are skeptical and competitors are powerful and entrenched, you will have to accept - or reject - the demands of the powerful importer. You may even have to accept the least desirable of all payment terms - to you, consignment.

10.1 Factors favouring negotiation

While the new and unknown exporter may have little negotiating power against large potential customers, certain conditions present negotiating opportunities which even a relatively new exporter may be in position to make use of. You may be able to negotiate when:

- Many factors of the transaction bear not only on price, but also on quality and service.
- Business risks involved cannot be accurately determined in advance.
- A long time is required to produce the items purchased.
- You possess an attractiveness to the buyer that is at least comparable with alternative suppliers.

These situations involve either more risk for the exporter - such as a lengthy production time does - or else a great power position and more dimensions of the transaction than merely price. In such situations as these you may be able to negotiate better prices and terms.

10.2 Formulating a negotiating strategy

Assuming that you are in a negotiating position - that is, that you bring certain strengths to the transaction, perhaps in product features, quality, price, delivery, service, continuity of supply, or whatever - then you should think about your negotiating strategy. You want to obtain the most advantageous prices and terms, but you also want to have a satisfied customer.

At this point, let me warn you. You must avoid seeing your customer as an opponent. You should not cultivate a feeling of winning or losing; not if you want to have a satisfied customer and a long relationship with him. Rather, you are seeking an agreement satisfactory to both parties, where each stands to gain, and neither loses face.

In most such negotiating sessions, until you are well established and your products are in great demand, you will be at a disadvantage compared to your customer. But both of you stand to gain from a continuity of relationship - and this means mutual satisfaction.

Several things can be done to conclude the negotiation successfully for both parties. They are*:

1 Separate the people from the problem. Negotiation should not be a test of wills; rather it should be a joint problem-solving activity.

2 Focus on interests, not positions. Reconciling interests works better because for every interest there usually exist several possibilities that could satisfy that interest. For example, the customer may want the security of a reliable source of supply, while the producer wants the predictability of a steady flow of orders. These interests should be reconcilable.

3 Invent options for mutual gain. Looking for options that offer mutual gain facilitates the desirable condition of looking at the issue side-by-side, rather than in a face-to-face confrontation.

4 Insist on objective criteria. By discussing objective criteria instead of stubbornly held positions, neither party is yielding to the other; both are yielding to a fair solution. Such objective criteria may be market value, competitive prices, replacement costs, a wholesale price index, etc.

For more details of negotiating, please refer to the book in this series by Robert Moran, *The Cultural Dimensions of International Business Negotiations: A Guide for Pakistani Negotiators.*

Now let us look at an example of a negotiating situation. Be prepared to be critical and to suggest how the situation might have been better handled.

Box 2 Scenario of a negotiation

Participants: Jamal is a small Pakistani producer. Ed Hawkins is the representative of a large importer serving the U.S. market.

Ed smiles as he offers Jamal a cup of tea. 'I'm glad you could stop in again, Jamal. Did you get to see much of New York this week?'
Jamal nods. 'Yes, but I must be getting back to my country. That is why I hope we can conclude things today.'
Ed stirs his coffee. 'Well, last Monday we gave you our best offer - Rs 17 for a 100,000 unit order.'
'I can't make a profit on that price!'
Ed shrugs. 'We have other suppliers who think they can.'
Jamal protests, 'There's no other producer in Pakistan who can make the quantity you want, provide the delivery assurance, and come close to the Rs 20 we need to charge.'
'Pakistan isn't our only supplying country. But ...' Ed studies Jamal. 'In the interest of getting this matter settled - so you can get back home - let's split the difference. But you must give us open account terms.'
Jamal gesticulates wildly. 'But I have never done business with you before! I can't accept that risk, and especially at a price that I can't even make a profit on.'
'Well ...' Ed spreads his hands, 'take it or leave it.'

* Adapted from Roger Fisher and William Ury. *Getting to Yes: Negotiation Agreement Without Giving In* (Boston: Houghton Mifflin, 1981), p.57.

Analyse this conversation:

1 Could Jamal have handled this situation better, and if so, how?

2 What would you have done?

3 Should Jamal accept this offer? What other information, if any, would you like to have before deciding whether or not to accept?

Note: I will give you my commentary at the end of the book regarding this situation, and we can see whether we agree.

11 Non-price considerations

Price is not everything, although it may be the most important factor in initially gaining entry to an export market. Later, if you are successful, certain other considerations can become more important, as long as your prices are not unreasonably out of line.

11.1 Advantages of non-price competition

Using price as a competitive tool has a great limitation from the seller's viewpoint. Competitors may retaliate, and a price war will ensue. Not only may no seller benefit from such a situation, but prices may even settle permanently at a lower level.

By developing attractive product features and improving quality and dependability, it may be possible to increase sales without cutting the price, as shown in Figure 5. Looking more closely at this figure, if a manufacturer of a particular brand of tennis racquets wished to sell 50,000 racquets, one way to reduce the selling price from Rs 36 to Rs 29, according to the curved line DD.

On the other hand, by additional expenditures for a promotional programme to point out the attractive product features, the manufacturer may succeed in shifting the demand to the right, to D'D', and thereby either sell 50,000 at the original contemplated price of Rs 36, or he could sell 70,000 racquets at the Rs 29 price.

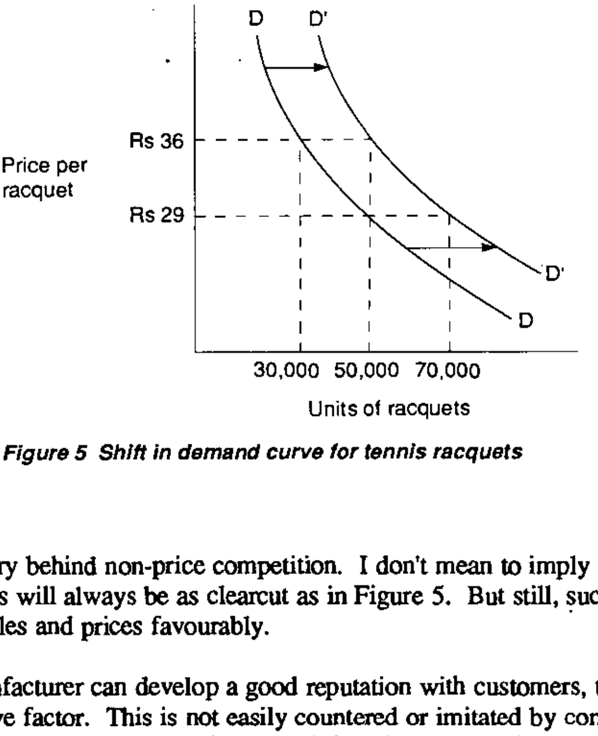


Figure 5 Shift in demand curve for tennis racquets

This is the theory behind non-price competition. I don't mean to imply that the results of non-price efforts will always be as clearcut as in Figure 5. But still, successful efforts should affect sales and prices favourably.

If you the manufacturer can develop a good reputation with customers, this is another non-price competitive factor. This is not easily countered or imitated by competitors, as is a price cut. A reputation is more lasting. But it is only slowly gained, by such things as dependable delivery and assured quality. This is something for you to strive for And again, the Kamran Fabrics example at the beginning of this book shows how a Pakistani firm can delvelop its non-price strengths, command a higher price than competing firms, and establish itself solidly in the market-place.

11.2 Rating yourself on non-price strengths and weaknesses

At this time, I urge you to rate yourself according to the same criteria that major Western retailers often use in evaluating suppliers. The ratings involve mostly non-price factors that can determine whether, after an initial trial order, any supplier, foreign or domestic, would be judged acceptable for further business dealings. I urge you to rate yourself on this scale, both as to your probable performance now, as well as what specifically it would take to improve any deficiencies.

ACTIVITY 7 How customers might rate you compared to your competitors

Give yourself a '+1' for each factor you *honestly* think you should be rated above average; a '0' for each you believe is average; and a '-1' for any factor you believe might be below average. Be honest with yourself. Jot down *why* you rated yourself as you did.

Then write down what specifically it would take to change the situation for the better - if possible, by eliminating all the below average ratings and perhaps converting some of the average ones to above average. You should also put down a time frame, e.g. how long it would take to achieve the desired performance goals.

I am first going to give you the form completed by another firm, and then a blank form for your own use. At the end of this important exercise, I will make some comments.

Sample form

Factors	*Rating*	*Why*
Non-price factors:		
Average delivery time	-1	Have had some problems in meeting deadlines.
Proportion of goods damaged in shipment	-1	May need better shipping containers.
Proportion of defective goods and customer complaints	-1	Some are still slipping through.
Co-operation on sales, adjustments, special orders, etc.	0	Will be competitive.
Promotional support	0	We will match competition.
Quality consistent with samples	-1	Have had some complaints.
Exclusivity (not offering the same goods to competing customers)	+1	We are willing to give this.
Price factors:		
Price of goods relative to quality	0	We think we are competitive.

Areas for improvement	*What will it take - and how long*
Average delivery time	Will work on this through better training, supervision, and planning. Will correct within six months.
Damaged goods	Are working on developing better shipping containers and packing materials. Maybe three months.
Defective goods	Must improve our supervision, training, and quality control inspection - maybe six months.
Quality consistent with samples	Will work on this through closer inspections. Should correct at once.

For you to fill out

Factors	*Rating*	*Why*
Non-price factors:		
Average delivery time		
Proportion of goods damaged in shipment		
Proportion of defective goods and customer complaints		
Co-operation on sales, adjustments, special orders, etc.		
Promotional support		
Quality consistent with samples		
Exclusivity (not offering the same goods to competing customers)		
Price factors:		
Price of goods relative to quality		

Areas for improvement	*What will it take - and how long*

My comments on the above activity

First, I think it is worth pointing out to you here the many more non-price than price factors that a retailer judges important. Most retailers are satisfied with a price that is in reasonable relationship to the quality.

Looking at the sample form which I included for illustration, I would hope that you yourself would be much more specific in stating what it would take to correct any areas needing improvement. You need to be very specific here, if you are indeed going to correct any weakness or deficiency. In fact I will even generalise that the more specific you can be in formulating an improvement plan, the greater the likelihood of achieving success.

Now I would like to discuss why the retailer deems these various factors so important:

The importance of prompt delivery according to the terms of the order and the expectations of the customer cannot be overstressed. The retail buyer depends on this merchandise being available to offer to his customers, often during a rather short selling season. If the goods are not received on time, this means lost sales for the retailer. Such lost sales become all the more abhorrent when the retailer recognises that a different supplier would probably have shipped the goods as expected.

Proportion of damaged goods, number of customer complaints and percentage of markdowns generally relate to the level of quality of your goods. And this is usually the second most common complaint that retailers have. If your quality of production is erratic, then you had better get it improved, perhaps with closer and more frequent inspections, which means better quality control. With retailers evaluating this aspect of your performance, you will hardly remain a source of supply for long if you fall down here.

Big customers expect their suppliers to be co-operative in handling special orders, in taking back defective goods, in providing goods for special selling efforts, etc. While some of the demands by big customers may cause inconvenience, may cause special handling, and may even affect immediate profits, you have to remember how important these customers are to you, and how much potential business they may represent.

Retailers from time to time like to obtain promotional support from their suppliers. Often this is in conjunction with major sales that the retailer is planning. It may be necessary for you to provide some advertising allowances and some display help if you are to be regarded as a valued vendor. Usually such promotional assistance will result in greater sales for your product, so that both you and the retailer directly benefit.

If you have a rather attractive and unique product, customers may seek to have the exclusive right to sell your goods in their particular geographical area. In this case, you will have to settle for more limited distribution, but presumably can expect greater customer support from those who carry.

Shrewd buyers are in close contact with sources of supply and competitive offerings. If your prices are out of line relative to competitors, you will soon hear about it. Unless you can match or improve on competitive prices for comparable quality, you may have lost a market - *unless* your non-price advantages are superior to those of competitors. And as we have noted a number of times, if your products are sufficiently unique, you will have more discretion in pricing. On the other hand, if your quality rates poorly compared to your prices, then you are in jeopardy.

11.3 Summary

In deciding on a particular price or quotation, these six steps are usually involved:

1 Setting pricing objectives
2 Analysing costs
3 Determining market demand
4 Evaluating competition
5 Determining a range of acceptable prices
6 Establishing a specific price quotation

Since we discussed the first five steps earlier in this book, these last sections emphasised the final step which involves export terms, currency to be used, export credit and payment methods, as well as the intriguing and ever challenging art of negotiation.

We examined product-line pricing strategy for when you have a variety of products and product lines - perhaps of different sizes, different quality levels, etc. - to offer for exporting. And we considered when it might be advisable to making pricing adjustments.

Finally, we took another look at non-price considerations. I urge you to consider these carefully since they can have a strong impact on your price setting and continuity of business dealings.

11.4 Self-assessment questions

Again, please take time to answer these questions. Since some involve listing several factors or conditions, please look up those you are uncertain about - this can be important to you.

1 What are the different approaches to product-line pricing? Which approach is preferable?

2 How can the risks of foreign exchange losses be lessened?

3 Which export price quotation would be most desirable from your viewpoint? Which would your customers most prefer?

4 What are the common payment methods? Which would you least prefer?

5 What are consignment sales? When might you consider these?

6 What are the conditions that may enable you successfully to negotiate with a large and powerful customer - that is, what factors favour negotiation?

7 Why did we strongly suggest the avoidance of an adversarial relationship in negotiating?

8 What is the significance of 'shifting the demand curve to the right' as shown in Figure 5?

12 Comments on selected activity exercises

Now I invite you to refer back to certain of the activities and to the answers and ideas you may have jotted down. After having completed this book, perhaps your ideas have changed or been clarified. I do not have all the answers to these questions. You are the best judge, knowing your business and its capabilities as you do.

ACTIVITY 1 (page 7)

Here I asked you to do a little self-analysis as to your readiness to export. I asked you to consider whether you are ready both physically and psychologically for the complexities of exporting. I hope you answered yes. Even if you are not completely sure about this, I hope you feel a readiness to try it out - and, hopefully, have more self-confidence after reading this book than you may have had at the beginning.

Box 1 Pricing environment for carpets in Italy (page 10)

This box presented a specific example of a particular Western market, Italy, and of the complete dominance of a few large importers. I asked you to consider the acceptability of dealing with such large buyers, who can deny you access to the entire market unless you meet their terms and demands. While such importers may have awesome power, still they need good and reliable suppliers, such as you can be. They may impose strict demands on dependable delivery, quality and low competitive prices, but they can provide you with tremendous potential if you are willing and able to meet their standards. You should not shy away from doing business with big and powerful buyers. At the same time, however, you will have to operate at a high level of efficiency if you are to satisfy them and expect a continuity of business.

ACTIVITY 3 (page 19)

This concerned how you might attempt to determine the elasticity of demand for your product. You may have some idea of demand at different prices in your domestic market, but this may not be applicable to a foreign market. Your agent or other intermediaries may have some thoughts here, although they may not necessarily be right. Price elasticity is difficult to test except by offering different prices and seeing what the reaction might be. Still, this might be worth trying if you have a fairly unique product that conceivably might command a higher price than you have been getting. You could try offering it at a higher, 'prestige' price in one market, and seeing what the results might be.

Box 2 Negotiation scenario (page 41)

This concerned the dialogue between Jamal, the exporter, and Ed, the importer.

Could Jamal have handled this situation better, and if so, how? Did you answer yes, and make some suggestions for improving it? I agree that this situation could have been handled much better. First of all, Jamal put himself in a vulnerable position by expressing his need to leave New York City and get back to Pakistan the next day. This suggested that he was getting desperate to close the deal and, therefore, would easily yield to a strong negotiator, and would probably not seek out possible alternative deals.

He allowed himself to be put in a defensive position, and did not strongly stress the particular strengths that he brought to the bargaining table, namely that of a large Pakistani supplier who could offer sufficient quantity and assured delivery, and presumably, be a reputable supplier over the long term.

While splitting the difference is a common bargaining ploy, it often favours one party more than the other - usually the party who first suggests it. As a bargaining tactic, it does not have to be accepted.

I am curious to know how you would handle such a situation as this. I hope you would stress your strengths as a reputable supplier, and seek a mutuality of satisfactions.

Before advising Jamal to accept or reject this offer, we would need some specific cost information. How far is the Rs 18.50 from his 'cost floor'? Wouldn't you also like to know what other customers might be interested in his products, and whether any of these have been contacted?

13 Finally

As you work yourself through the intricacies of this book - and the others in this series - it may all seem extremely complicated and difficult to master. Please don't be put off. We are all trying to give you tools to do a good job of profitable exporting. You will have to put something into this - since you will be dealing with a highly competitive and fairly complex situation. But it can be so worthwhile.

Let me encourage you to be receptive towards making some changes in your way of doing business, and even in your philosophy regarding customers and negotiation. In particular, you should seek a lasting relationship that is satisfactory both to you and your customers.

A challenge - but one that you can master, and in so doing, reap significant rewards.
Good luck!