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SHETRADES MENA GUIDEBOOK TRAINING MATERIALS

HOW TO EXPORT GUIDE:

PRICING FOR EXPORT

This exporting guide has been produced by SheTrades MENA hosted by the Dubai Department of Economy and Tourism

PRICING FOR EXPORT

The importance of export pricing

A common mistake that exporters tend to make is that they convert their domestic price into the foreign currency. It is important to remember that foreign products compete with domestically produced goods and therefore price is an important consideration. This is more so the case where consumers are price sensitive. Even though consumers may be willing to pay a premium for quality products, it may not be as large as the home country. Therefore, the importance of accurate export pricing cannot be over-emphasized as any error in this area can lead to either losing foreign orders or the possibility of making losses. Moreover, export pricing can be an important tool for promoting sales and competing in the international arena.

Methods of export pricing

The important factors that determine the foreign price of a good or service are cost, demand and competition. In the case of cost, one needs to ensure that all costs including those incurred in the foreign country are incorporated in the final price. At the same time the exporter needs to be aware that his product or service is competing with other products and services from all over the world. Therefore, the price has to be realistic while ensuring that the exporter receives an adequate return for conducting business in a foreign location. There is no fixed simple formula for successful export pricing. It differs from exporter to exporter depending upon the good or service in question and the level of customer loyalty that it can attract. Some of the factors that increase customer loyalty and hence allow the exporter to charge a higher price include the following:

- Range of products offered
- Prompt deliveries and continuity in supplies
- After-sales service
- Product differentiation
- Frequency of purchases
- Presumed relationships between quality and price
- Intangible value of the product such as brand image
- Credit offered
- Preference or prejudice for products originating from a particular source
- Aggressive marketing and sales promotion
- Prompt acceptance and settlements of claims
- Cost of research & development

Factors that Increase Price of Export Products

- Special packing, marking and labeling.
- Additional Supervision and Effort for Export Product.
- Export Transportation Cost
- Cost of Export Procedures
- Marketing Cost
- Insurance Cost.
- Currency exchange rate movement
- Customs Clearance & Local taxes in targeted country
- Storage & Distribution cost in Targeted Country

Factors that Reduce Price of Export Product

- Export Assistance or some form of government assistance e.g. export subsidy
- Refund or exemption from excise duty
- Cash or advance payments
- Benefits from economies of scale
- Effective Operation Management
- Effective Logistic Management

Common methods of pricing are as follows:

- Cost plus approach
  Under this method the exporter calculates the total cost of producing a good or service including transport, insurance, custom duties etc., if required under the contract, and then adds a percentage as the profit on the sale. The additional component (i.e. the profit) depends on the particular market and product. In most cases a new exporter can use the general profit rates of competitors as a starting point. The problem with this method is that it can lead to an uncompetitive market price especially in a highly congested sector.

- Marginal pricing
  Under marginal or differential pricing, the exporter is only concerned with the additional cost of producing the good or service. This method of pricing arrives at the direct cost of producing the good or service and the fixed costs are apportioned to the total volume of output. The key advantage of this method of pricing is that it leads to a more competitive export price especially for new entrants.

- Predatory Pricing
  This method of pricing is where the exporter sells the product or service at such a low price with a view to drive out competitors or create barriers of entry so that new entrants cannot come into the market without making a loss.

- Competition Based Pricing
  This is where the new entrant uses the price charged by competitors to base its own price. This method assumes that there is little if any difference between the exporter products and those of its competitors.

- Penetration Pricing
  This is a variant of predatory pricing where the price is set a low level in order to obtain a foothold in the foreign market. Unlike the predatory pricing method this technique does not seek to eliminate competitors but simply penetrate the foreign market.

- Psychological Pricing
  This method of pricing seeks to exploit the positive aspects of human nature in order to set a price. For example, a price of 0.99 is psychologically better than 1.00 because the consumer perceives it in a more positive manner than the latter one. Similarly, a higher price may in some markets imply that the product is of a better quality.

- Dynamic Pricing
  This method is largely employed in internet based markets whereby the prices changes many times and hour depending on the level of consumer interest and the available supply.

- Price Discrimination
  This is where the market is separated into a number of smaller segments and each one is charged a different price based on their willingness to pay.

International Buyer Behaviour

Price is a critical factor, but does not by itself tilt the buying decision. Some buyers may make a trade-off between quality and price. Pricing strategy should also take into account the specific market segment. Once the product and price are right, the buyer looks at the exporter's ability to perform well. Realistic delivery schedules and having confidence in meeting them will go a long way in securing export orders. The guaranteed quality of a product, its conformity with specific international standards, and proper packaging, labelling, and markings, can be a major selling factor. High quality also affects after-sales service. Normally, customers have in mind a combination. Some of the important aspects that affect buyer behaviour are listed below:

Product Related

- Quality and guarantees.
- Technical specifications.
- Design and drawings.
- Patent and proprietary considerations.
- Environmental aspects.
- Packaging, labelling and marking.

Price-related

- Price.
- Escalation clause, if any.
- Terms of payment.

Performance-related

- Delivery schedules.
- Continuity of supplies.
- Transportation arrangements.
- Spares and after-sales service.
- Warranties.
- Confidentiality.

Promotion variables

- Advertising
- Sales promotion
- Personal selling
- Publicity

Place variables

- Channels of distribution
- Outlet location
- Sales regions or territories
- Delivery and logistics

The aspects to take account in export pricing

As we have seen from the discussion above that export pricing is not an easy exercise and all too often exporters fall into the obvious traps which tend to be the following:

- Not carrying out adequate research in order to determine the acceptable market price
- Not taking into account additional cost components such as transport
- Not fully understanding the trading terminology/conventions such as incoterms
- No aware of the product standards in the foreign country
- Not complying with the product packaging and labeling requirements of the foreign country
- Not taking into account costs of export document e.g. quality certification, legalization etc.
- Not including financing costs e.g. insurance, bank charges etc.
- Not taking into account customs delays in the port of discharge
- Vague contracts where the foreign buyer can impose various clauses such as after sales support, warranties etc.
- Not taking into account the cost of the distribution channel in the targeted country.

General points in export pricing

Although, an exporter may be aware of the traps listed above and include them in the export price, where applicable, there are also other aspects that drive up the cost of the product. Some of the points that an exporter needs to be aware are as follows:

- Increase in Fixed costs
  The most important of these is that while an export order may be good news for a company, it can substantially alter the fixed costs. This is especially important where an exporter uses marginal pricing and any increase in fixed costs needs to be included into the export price.

- Customs delays
  A common problem in many foreign markets is customs delays which if not adequately dealt with in the sales contract may lead to additional demurrage and logistics charges.

- Export documentation
  If the consignment is not accompanied with the appropriate documentation such as Certificate of Origin, Commercial invoice, Bill of Lading etc. may lead to a rejection of the product at the point of entry resulting in mediation or product return costs.

- Currency Hedging
  If the goods are priced in a foreign currency then it is important to carry out some form of currency hedging. The key advantage of currency hedging is that it allows the exporter to determine the exchange rate at the time of signing the sales contract. However, currency hedging involves additional cost which the exporter may need to bear.

- Documentary Credit / Letters of Credit
  It is important to note that letters of credit is payment based on documents not on the actual goods. Therefore, the wording used on the letter of credit needs to be precise and be aligned to the sales contract. Any mistake on the letter of credit may hinder the payment from being made on time.

- Local terminology
  Even if the exporter and importer share the same language its use in the local environment may lead to misunderstanding between the two parties. This is especially important in the case of various terminologies such as performance bond or warranty.

International Commercial Terms

The most important transport or shipping terms are the Incoterms (International Commercial Terms) which were designed in 1936 so as to avoid any confusion in the use of shipping terms while assigning roles for the buyer and exporter. In the case of exports it is normal for the customer to stipulate the term in the enquiry as “the best price, CIF Jeddah, for the following goods …”. Where the customer does not state the term the exporter can decide which one to use. It is usually the case that an exporter may have a preference for a particular term based on its level of resources, cost advantages etc. and hence will quote as “ExW” or “FOB” and the foreign customer may simply accept the terms as stated. However, it is unwise for an exporter to offer the easiest term based on its own circumstances if they are not suitable for the customer. More often than not the exporter and foreign buyer will negotiate the terms especially if it is new relationship. Also, with the same customer different terms may be used depending on the good in question the urgency of the order. For example the usual term may be FOB, but an urgent consignment will be shipped as FCA.

The chart below illustrates the 13 incoterms along with the responsibilities of the buyer and seller.

	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAF	DES	DEQ	DDU	**DDP**
SERVICES	Ex Works	Free Carrier	Free Alongside Ship	Free Onboard Vessel	Cost & Freight	Cost Insurance & Freight	Carriage Paid To	Carriage Insurance Paid To	Delivered At Frontier	Delivered Ex Ship	Delivered Ex Quay Duty Unpaid	Delivered Duty Unpaid	**Delivered Duty Paid**
Warehouse Storage	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter
Warehouse Labour	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter
Export Packing	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter
Loading Charges	Importer	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter
Inland Freight	Importer	Importer/ Exporter*	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter
Terminal Charges	Importer	Importer	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter
Forwarder's Fees	Importer	Importer	Importer	Importer	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter
Loading On Vessel	Importer	Importer	Importer	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter
Ocean/Air Freight	Importer	Importer	Importer	Importer	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter	Exporter
Charges On Arrival At Destination	Importer	Importer	Importer	Importer	Importer	Importer	Exporter	Exporter	Importer	Importer	Exporter	Exporter	Exporter
Duty, Taxes & Customs Clearance	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Exporter
Delivery To Destination	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Importer	Exporter	Exporter

Source: Incoterm, 2000 International Chambers of Commerce

* There are actually two FCA terms: FCA Seller's Premises where the seller is responsible *only* for loading the goods and *not* responsible for inland freight; and FCA Named Place (International Carrier) where the seller *is* responsible for inland freight.

Pricing matrices

Below are examples of pricing matrices using the cost plus method of export pricing

EXW Ex Works	**AED**
Wholesale / Cost of production (excluding any sales tax)	1,000
EXW (name of place)	**1,000**

FOB Free on Board	**AED**
EXW price plus	1,000
+ Transport to carrier	150
+ Customs clearance	100
+ Additional packing/labour for transport	200
+ Freight Forwarder's Commission	150
FOB (Named Place)	**1,600**

CFR Cost and Freight or CPT Carriage Paid To	**AED**
FOB Price plus	1,600
+ sea/air freight charges to port/airport	200
+ Sea/air document fees	25
+ Adjustment costs charged by freight company e.g. fuel surcharge	25
+ Transport contingency charges at 5%	12.5
CFR or CPT (Named Place)	1,862.50

CIF Cost, Insurance, Freight	**AED**
CFR or CPT price plus	1,862.50
+ Insurance premium	137.50
	2,000

DDP delivery Duty paid	**AED**
CIF plus	2,000
+ Import duty/tax (e.g. 5%)	100
Customs clearance fee	25
Sales tax (e.g. charged at 10% of CIF+Import duty price)	21
Delivery charge from port to customer	14
DDP(named Place)	2,160

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