DEVELOPING AN INTERNATIONAL PRICING STRATEGY

DISCLAIMER

Globig Expansion Plans and Strategies have been prepared by Globig and are intended to provide an overview of the most important steps to take when expanding into a new global market. We recommend that you seek professional advice and counsel and do not consider the information contained in Globig Expansion Plans and Strategies to be a substitute.

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Welcome! The Globig team looks forward to working with you on your global growth. We know that international expansion can feel daunting. That's why we created Globig Expansion Plans. Our goal is to make your path easier, quicker, and more affordable as you enter new markets.

This International Pricing Strategy is just one of the many plans and strategies available for free from Globig. If you would like to learn more about Globig's resources, join Globig's Resource Hub for free.

Here are several things you should know before you get started using this Pricing Strategy. Throughout this and other Globig Expansion Plans and Strategies, you will find a number of icons indicating alerts and actions for you to consider. Here's a quick summary - you'll find some of these in this particular Strategy.

When you see this icon, you'll know we are directing you to additional relevant information in Globig's extensive Knowledge Base, with resources and information on global expansion.

☐ This symbol indicates a step that you can take to move your plan forward. You can also skip steps if they don't apply to your business or you have already done them.

TIP These are Globig tips to ease your journey.

! This is a Globig alert to important information.

Globig has gathered together resources to save you time and point you in the right direction.

HELP! Sometimes you need extra help. Globig is here to provide assistance.

There are times when you know what kind of help you need, but you don't know who to turn to. In the Globig Marketplace, you'll find a number of vetted service providers. We've already screened them through our in-depth vetting process so you don't have to.

This symbol indicates that there is more helpful information in another Plan or Strategy - and we'll tell you which. You can find your Expansion Plans and Strategies on your Globig Dashboard.

Happy Price Planning! Good luck and let us know how we can be of additional service at any time throughout your journey.

When taking your products and services into new international markets, it's likely that your prices will change to meet the market. There are many factors that will go into developing your plan for pricing and with this International Pricing Strategy and the Globig Pricing Calculator, we will help you create your own.

Follow these steps to develop your own pricing strategy for the next country you enter.

☐ Step 1: Consider your existing pricing strategy in your home country or where you currently conduct business.

- What factors have you included in that strategy? Consider such items as margin requirements, Cost of Goods Sold (COGS), desire to be positioned as a premium product or a lower-cost alternative, etc. A list of items is provided below under Step 6. Be sure to add any others that are specific to your company or your industry.
- Which of those factors are most-important to you?
- Where might you make some concessions if you had to? For example, are you willing to give up some margin, if required?

☐ Step 2: Identify any new factors that may change your existing pricing strategy as you begin to conduct international business.

- Will you incur additional costs that will impact your COGS, such as transportation costs, taxes, duties, etc?
- Will you need to bring in additional parties (such as resellers, distributors, third-party logistics providers, etc)?
- What are the expected costs or margin requirements for those additional parties? Will they vary by party? How will they impact your margin requirements and/or expectations?
- Do you need to adjust your retail price to fit the local marketplace? Are you entering multiple markets where the price will be different in every one?

- What rules and regulations apply to pricing in the new markets that you are entering? For instance, in the United States companies can set a Minimum Advertised Price (MAP) that retailers must adhere to. This ensures a uniform price in that market. However, in many international markets, MAP pricing is forbidden and a seller cannot control the price that a reseller chooses. In those instances, many companies will set a higher price to maintain brand value, but then allow resellers to earn rebates and incentives through their performance, development of market development funds (MDF), etc. That way, there is effectively some variation in price, but it complies with local regulations.

Model price options that include margins for additional parties with our Pricing Calculator.

☐ Step 3: Conduct a currency review.

- If you are transacting in another currency, you could be impacted by currency fluctuations. In fact, they could significantly impact your profitability.
- Understand the currency exchange implications. Is the currency of the new country volatile against your standard currency? Who will take the risk of currency fluctuations? Will you need a strategy to mitigate that risk?

Currency fluctuations, unfamiliar banking structures, and compliance differences can expose your company to unnecessary risks - but there are ways to mitigate them. Listen to Globig's Global Payments & Currency Risk podcast to learn how you can control these risks.

Services are available to help you control and mitigate currency risk. We recommend that you consult with or engage a partner to assist you in this effort.

☐ Step 4: Consider other factors that will impact your price and margins.

- What are the sales tax rates in the country or region of the country where you will be conducting business?
- How are comparable products or services priced?
- How price-sensitive are consumers in different regions?
- What are the margin expectations for retailers? Are they different from the retailers in your existing markets? For example, retailers in a small, closed market such as the United Arab Emirates (UAE) often demand a very high level of margin, full return rights for unsold products, and extensive marketing support from their manufacturers. In larger markets that have more available retailers, those concessions are not required, but they have become an expected cost of doing business in that particular geography.
- Do you need to have a single price across new markets or do you need flexibility by country, region, etc? The internet makes pricing visible across geographies and this can often introduce confusion and uncertainty. How will that impact your business and how will you mitigate or prepare for its impact?

TIP

If you are a US exporter, you may be able to reduce your tax liability through the use of the Interest-Charge Domestic International Sales Corporation (IC-DISC) export tax incentive. To qualify for the IC-DISC benefit:

1. Export property must be manufactured in the U.S.
2. Export property must be sold for direct use outside the U.S.
3. Less than 50 percent of the export property's sales price is attributable to imported materials.

Speak with your international tax and accounting firm for more information.

☐ Step 5: Select a method for calculating your international pricing.

- **Exportation price**: the price is set in the home country for the international market. The pricing is first based on a variety of factors listed in Step 3 above. Then, local adjustment of the pricing may be calculated by including any additional factors (see the list in Step 6, below).
- **Transfer price**: prices are first set up in the home market and the goods are sold to international subsidiaries. Those subsidiaries then set their own margin on the original price, taking into account local margin requirements.
- **Standardization versus adaptation**: will you choose to standardize the international prices by setting the same price for all countries or will you decide to adjust your prices to local conditions? How will you track the effect of a single price on your profitability?

TIP

Transfer pricing is a vital topic to understand and apply correctly, as transfer pricing policies can have a direct effect on your global tax rate. Multinational businesses set their own intercompany pricing, but there are tax regulations that must be complied with when determining the appropriate pricing. A proactive transfer pricing policy can help businesses minimize compliance risk and potentially reduce their global tax rate. We strongly recommend engaging a Transfer Pricing expert.

To learn more about international transfer pricing, listen to Globig's podcast on the subject, International Transfer Pricing 101- An Overview Of Important International Tax Documentation Requirements.

☐ Step 6: Select your International Commercial Terms ("Incoterms").

- If you are shipping tangible products, determine the shipping terms that you will negotiate between your company and your customers.
- Incoterms are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC). They are widely used in international commercial transactions or procurement processes.

- Incoterms communicate which party will assume the risk, and costs, for different elements of the shipping process. It is vital to have calculated those costs into your pricing and also to have them mutually agreed-upon in your formal agreements with your customers.

The current version of Incoterms is summarized as follows:

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Incoterms 2010	EXW	FCA	FAS	FOB	CPT	CFR	CIF	CIP	DAT	DAP	DDP
Export customs declaration	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Carriage to port of export	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Unloading of truck in port of export	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on vessel/airplane in port of export	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Carriage (Sea/Air) to port of import	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Buyer/ Seller	Buyer/ Seller	Buyer/ Seller
Unloading in port of import	Buyer	Buyer	Buyer	Buyer	Seller	Buyer/ Seller	Buyer/ Seller	Seller	Seller	Seller	Seller
Loading on truck in port of import	Buyer	Buyer	Buyer	Buyer	Buyer/ Seller	Buyer	Buyer	Buyer/ Seller	Buyer	Seller	Seller
Carriage to place of destination	Buyer	Buyer	Buyer	Buyer	Seller	Buyer	Buyer	Seller	Buyer	Seller	Seller
Import customs clearance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Import duties and taxes	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller

Although there is a wide gradient within Incoterm pricing, as shown in the table, the four most commonly-used pricing structures are:

- **Ex Works (EXW)** describes an agreement in which the seller makes the goods ready for pickup at his or her own place of business. All other transportation costs and risks are assumed by the buyer. In this model, the seller assumes the lowest level of risk and costs, since the buyer picks up shipments from the seller and bears the costs associated with transporting them to their final destination.
- **Free on Board (FOB)** is specific to sea shipments and basically means that the cost of delivering the goods to the nearest port is included in the purchase price, but the buyer is responsible for the shipping from there and all other fees associated with getting the goods to the final country/address.
- **Cost, Insurance and Freight (CIF)** In this model, the price also includes sea freight charges and insurance to deliver the goods to the customer's nearest port. But only to the port – from that point onwards, the customer bears any additional costs.
- **Delivered Duty Paid (DDP)** In this scenario, the Seller delivers the goods to an agreed-upon location in the buyer's country, and pays all costs up to that point, including import duties and taxes. The only additional cost to the buyer is the cost of unloading the shipment. Clearly, these are the conditions most appealing to buyers, since they have the minimal obligation and risk. No risk or responsibility is transferred to the buyer until delivery of the goods at the named place of destination.

Under DDP terms, the seller must clear the goods through customs in the buyer's country, including both paying the duties and taxes, and obtaining the necessary authorizations and registrations from the authorities in that country. Unless the rules and regulations in the buyer's country are very well-understood, DDP terms can be a very big risk both in terms of delays and in unforeseen extra costs, and should be used with caution. Often, an in-country agent can assist with this, but that is an additional cost that needs to be considered. If you are shipping to less-developed countries, which have poor international communication and slow-moving bureaucracies, this may be a necessity.

☐ Investigate what Incoterms are most-used in your industry and chosen geography, so that you can anticipate what your new customers will expect.

TIP

You can also use the different levels of shipping terms for negotiation. For example, perhaps you will commit to bear more of the costs if your customer commits to an immediate purchase of a certain amount or if they generate a certain amount of repeat business over time.

☐ Step 7: Calculate your pricing.

Now you are ready to begin to put together your specific pricing.

- Calculate the "landed cost" of your product. Landed cost is the total price of a product once it has arrived at a buyer's door. There are several useful online calculators for that:
  - Santander Trade - Landed Cost Calculator
  - Alpha International Trade - Landed Cost Calculator
- Be sure to consider and include the following:
  - Shipping costs
  - Brokerage costs
  - Storage costs
  - Third-party logistics (3PL) fees
  - Purchasing agent commissions
  - Duties
  - Regulatory fees
  - Insurance
  - Currency conversion
  - Market Development Funds (MDF)
- Performance rebates tied to Key Performance Indicators (KPI's)
- Discounts for initial load-in orders
- Marketing costs
- Return rights
- Miscellaneous charges, such as relabelling, stickering, etc.

Developing a well thought-out pricing strategy is essential for any successful international expansion. Be sure to review all local requirements and any extenuating factors that will impact your price and then factor each of those elements into your pricing. Because it is vital to "get it right the first time", we recommend that, after designing your pricing strategy, you test it from a variety of different viewpoints and angles, both internally and externally. When you review your pricing strategy with other key groups such as your Finance and Supply Chain teams, you'll be more likely to ensure that all needs have been met.

HELP!

Do you need assistance putting together your pricing strategy? Globig is here to help. Contact us at research@globig.co for more information and specialized support.

Would you like to learn more about the many resources Globig has to offer? Join Globig for free and gain access to all of the resources, tools, and vetted service providers to help you get started on your successful global expansion.