



# International Pricing and Promotion

Session 5



# Agenda

- Basics of pricing
- Determinants of pricing
  - Demand factors: Market response to price
  - Supply factors: Interfirm strategic interactions
- The role of exchange rates and hedging
- The role of transfer prices and countertrade
- Global pricing coordination
- International promotion

# Basics of Pricing

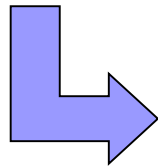
- The price is usually set internationally based on the so-called cost-plus formula

Price = All costs + Extra markup (demand-side, supply-side factors)

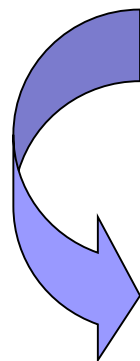
# Basics of Pricing (II)

- The price is usually set internationally based on the so-called cost-plus formula

Price = All costs + Extra markup (demand-side, supply-side factors)



- Manufacturing costs + administrative costs + R&D costs + selling costs + transport costs + customs duties + ... (Full-Cost Pricing Method)



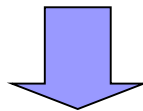
OR only the *incremental cost* of bringing the product to market, excluding fixed costs (Variable-Cost Pricing)

- Only direct costs (no overhead)
- Anticipated experience curves
  - Anticipated EOS by increasing production to new markets
  - Results in lower prices in the new markets
  - Correction after some time

# Basics of Pricing (III)

- The price is usually set internationally based on the so-called cost-plus formula

Price = All costs + Extra markup (demand-side, supply-side factors)

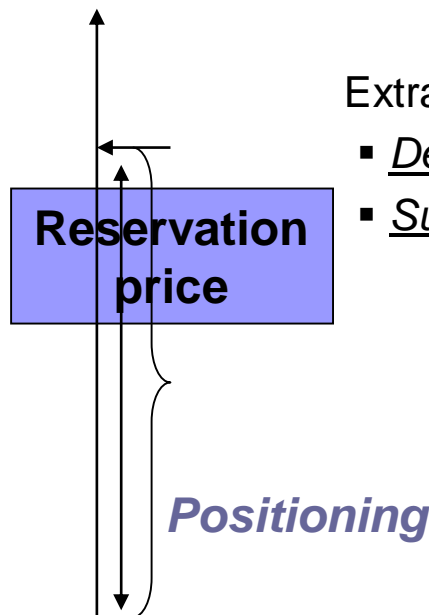


Extra markup based on:

- Demand-side factors: basically price elasticity
- Supply-side factors:

The competition sets the reservation price (maximum price for selling)  
Importance of defining the differential advantage and targeted positioning via market research (price premium, perceived value pricing)

See next slide...



# Determinants of International Pricing

- Within-market response to price:
  - Price sensitivity, or consumers' reactions to price changes may vary across markets.
- Interfirm strategic interactions within the market:
  - Companies interact on the local markets.
- Interfirm strategic interactions across markets:
  - Companies interact on several markets at the same time.

# Market Response to Price

- Price sensitivity or elasticity

Percentage change in sales (units) when price changes by 1%:

$$\beta_{ij} = \frac{\Delta Sales_{ij} / Sales_{ij}}{\Delta Price_{ij} / Price_{ij}}$$

$i$  = brand / product  
 $j$  = market / country  
 $\Delta$  = variation / change

- Demand-side factor

- Customers' reactions determine part of the pricing strategy

# Market Response to Price (II)

- $|\beta| < 1$  : the demand is **inelastic**
  - The % change in sales is smaller than % change in price.
- $|\beta| > 1$  : the demand is **elastic**
  - The % change in sales is greater than % change in price.
- $|\beta| = 1$  : the demand is **unit elastic**
  - The % change in sales is equal to % change in price.
- $|\beta| \rightarrow \infty$  : the demand is **perfectly elastic**
  - Any increase in the price, no matter how small, will cause demand for the good to drop to zero.
  - A ten-dollar banknote is an example of a perfectly elastic good; nobody would pay \$10.01, yet everyone will pay \$9.99 for it.
- $\beta = 0$  : the demand is **perfectly inelastic**
  - Changes in the price do not affect sales.
  - An example of a perfectly inelastic good is a human heart for someone who needs a transplant; nobody would buy more than the exact amount of hearts demanded, no matter how low the price is.



# Market Response to Price (III)

- Elasticity to brand  $i$ 's price in country  $j$ ,  $\beta_{ij}$ , can be estimated as follows:

$$\log(\text{Sales}_{ijt}) = \alpha_{ij} + \beta_{ij} \log(\text{Price}_{ijt}) + \varepsilon_{ijt}$$

- Price sensitivity as determinant of pricing strategies:
  - The higher the elasticity, the more aggressive the pricing strategy
  - The idea is to segment the markets based on customers' reactions to price
    - Offer lower price to price-sensitive customers
    - Offer higher priced customized/premium goods to less price-sensitive customers

# In practice...

GfK

GfK Significant



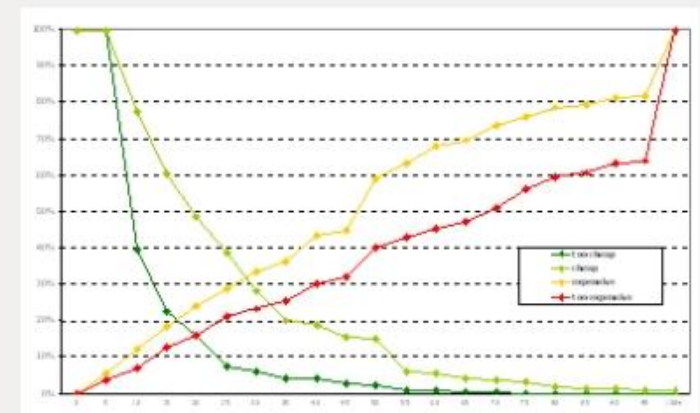
Company | Sectors | GfKCall@Home |

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## Price Sensitivity Meter

The Price Sensitivity Meter

- indicates views of reasonable / acceptable prices
  - 'expensive' and 'cheap'
  - prohibitively 'expensive' and prohibitively 'cheap'
  - indicates optimum price and normal price (indifference price)
- range of acceptable prices (**price corridor**)
- indicates elasticity
- if "assumed" price is motivator (good value), facilitator (reasonably priced), barrier (too expensive), or suspect (too cheap) : by comparing the assumed price with the normal price, the corridor, the optimum price,...



# Segmenting Based on Price Elasticity

## ■ Aim:

- ☐ Extract higher prices from customers who are willing to pay more to have the service tailored to meet their needs (Kraus, 2000)
- ☐ Customization of the service offering
- ☐ Horizontal segmentation

## ■ Question:

- ☐ How do service attributes explain differences in willingness to pay?

**(Bolton and Myers, 2003)**

# Segmenting Based on Price Elasticity

- Sources of variability in price elasticity
  - Product or service type (e.g. food vs. cigarettes)
  - Product or service quality
    - Responsiveness (adequate and prompt)
    - Reliability (accurate and constant)
    - Assurance and empathy (conveying trust, confidence, caring, available)
  - Level of (product or) service support (e.g. luxury)
  - Consumer characteristics (horizontal segmentation)
  - Country characteristics (vertical segmentation)
  - Retailer promotional activities

**(Bolton and Myers, 2003)**

# Average Price Elasticity per Country

## ■ Service Industry

**Average Price Elasticities by Country: Low-Support Offerings**

	Asia Pacific			Europe		North America	
Variable	Japan	Korea	Singapore	Germany	United Kingdom	Canada	United States
Price elasticity	-.02 (.48)	.67 (.98)	-.01 (.49)	-.30 (1.46)	-.20 (.85)	-.03 (.14)	.02 (.37)

**Average Price Elasticities by Country: High-Support Offerings**

	Asia Pacific			Europe		North America	
Variable	Japan	Korea	Singapore	Germany	United Kingdom	Canada	United States
Elasticity	.12 (.56)	.12 (.80)	-.03 (.54)	-.76 (2.52)	-1.04 (2.69)		.00 (.43)

# Culture and Quality Signals

## ■ Dawar & Parker (1994) on consumer electronics

- Branding
- Pricing
- Physical appearance
- Retailer reputation

**Signals of quality**

*Are these signals universals?*

- *Existence*
- *Relative importance across cultures*
- *Absolute importance across cultures*

# Existence, Ranking and Absolute Importance of Quality Signals

**TABLE 2**  
**Means and Standard Deviations of Signal Use by Clusters Using Three Clustering Methods<sup>a</sup>**

	Trade Area					Hofstede's Culture Clusters						Retail Development		
	North America (N=88)	EEC (N=431)	Non-EEC (Europe) (N=51)	Non-Aligned (N=70)	F P<	Latin (N=202)	Germanic (N=85)	Anglo (N=238)	Nordic (N=62)	Other (N=53)	F P<	Low (N=253)	High (N=330)	F P<
<b>Brand</b>	5.72 (.13)	5.49 (.06)	5.73 (.17)	5.51 (.14)	1.29 .28	5.41 (.08)	5.55 (.13)	5.61 (.08)	5.58 (.15)	5.72 (.16)	1.20 .31	5.45 (.13)	5.58 (.10)	1.75 0.19
<b>Price</b>	4.37 (.15)	4.32 (.07)	4.57 (.21)	4.53 (.18)	.72 .54	4.30 (.10)	4.11 (.16)	4.38 (.09)	4.56 (.19)	4.77 (.20)	2.01 .09	4.25 (.16)	4.52 (.13)	4.59 0.33
<b>Physical appearance</b>	4.06 (.17)	4.00 (.08)	4.57 (.22)	3.83 (.19)	2.45 .07	4.00 (.11)	4.09 (.17)	3.93 (.10)	4.52 (.20)	3.96 (.22)	1.78 0.13	4.05 (.17)	3.98 (.14)	0.23 0.64
<b>Retailer reputation</b>	3.73 (.18)	3.30 (.08)	3.39 (.23)	3.60 (.20)	1.97 .12	3.27 (.12)	3.11 (.18)	3.59 (.11)	3.24 (.21)	3.66 (.23)	2.17 0.07	3.25 (.18)	3.49 (.15)	3.11 .08
<b>Across signals by clusters</b>	F P<				152 .001						268 .001			217 .001

<sup>a</sup>All values are means on 7-point scales. Numbers in parentheses are standard deviations.

(Dawar and Parker 1994)

# Interfirm Strategic Interactions

- Supply side determinant of the pricing strategies
- Within-market interactions
  - Competitive reactions (w.r.t. price) on a local market
  - Cooperative strategy: competitors “agree” on price and maintain relatively higher prices.
  - Competitive or aggressive strategy: firms react aggressively to a price decrease made by a competitor
- ⇒ The higher external pressure to lower prices, the greater the incentive for cooperative behavior
- ⇒ Usually more aggressive in home markets and cooperative in host markets



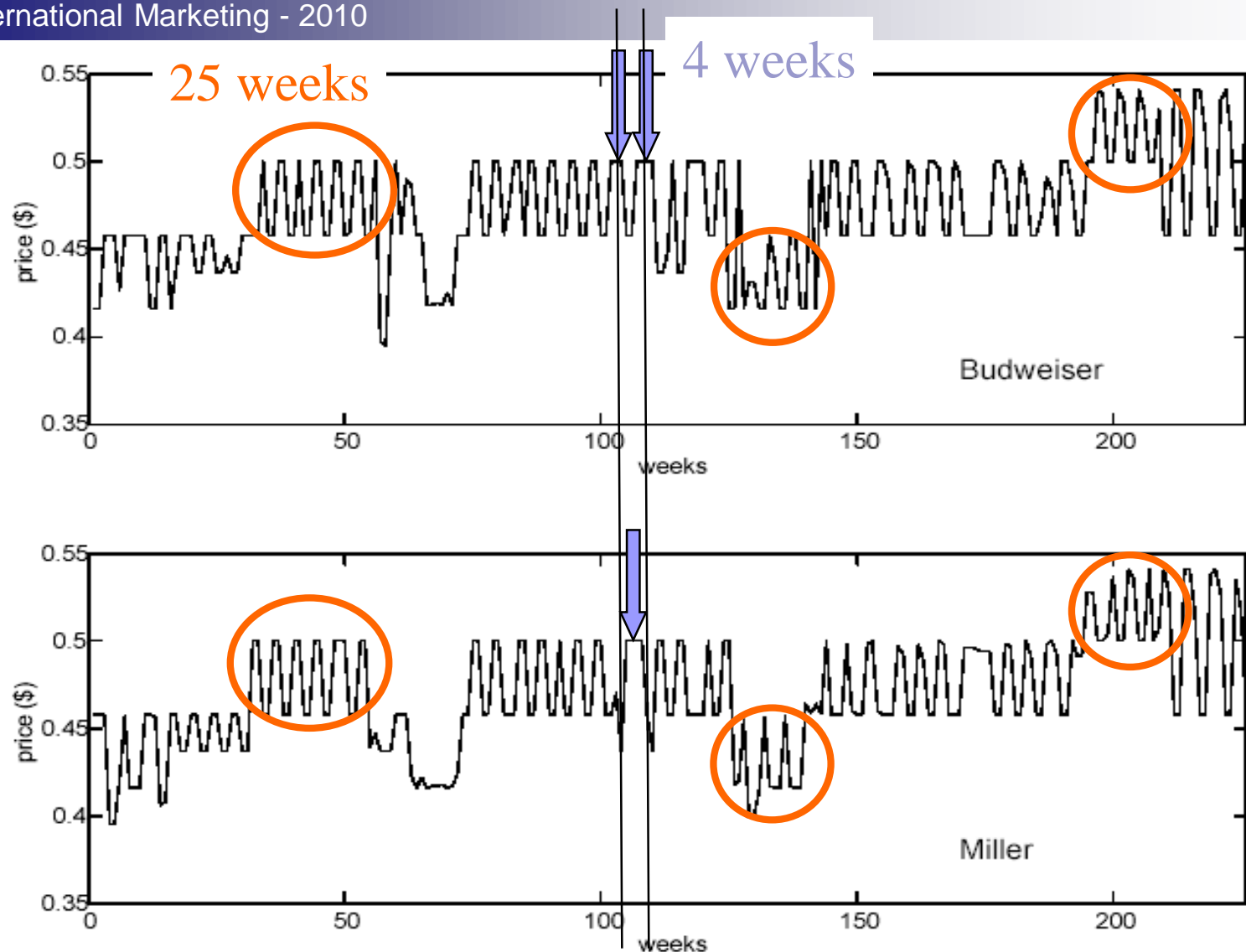


Figure 1: SKU Prices for Budweiser and Miller 12 Oz. cans across 225 weeks

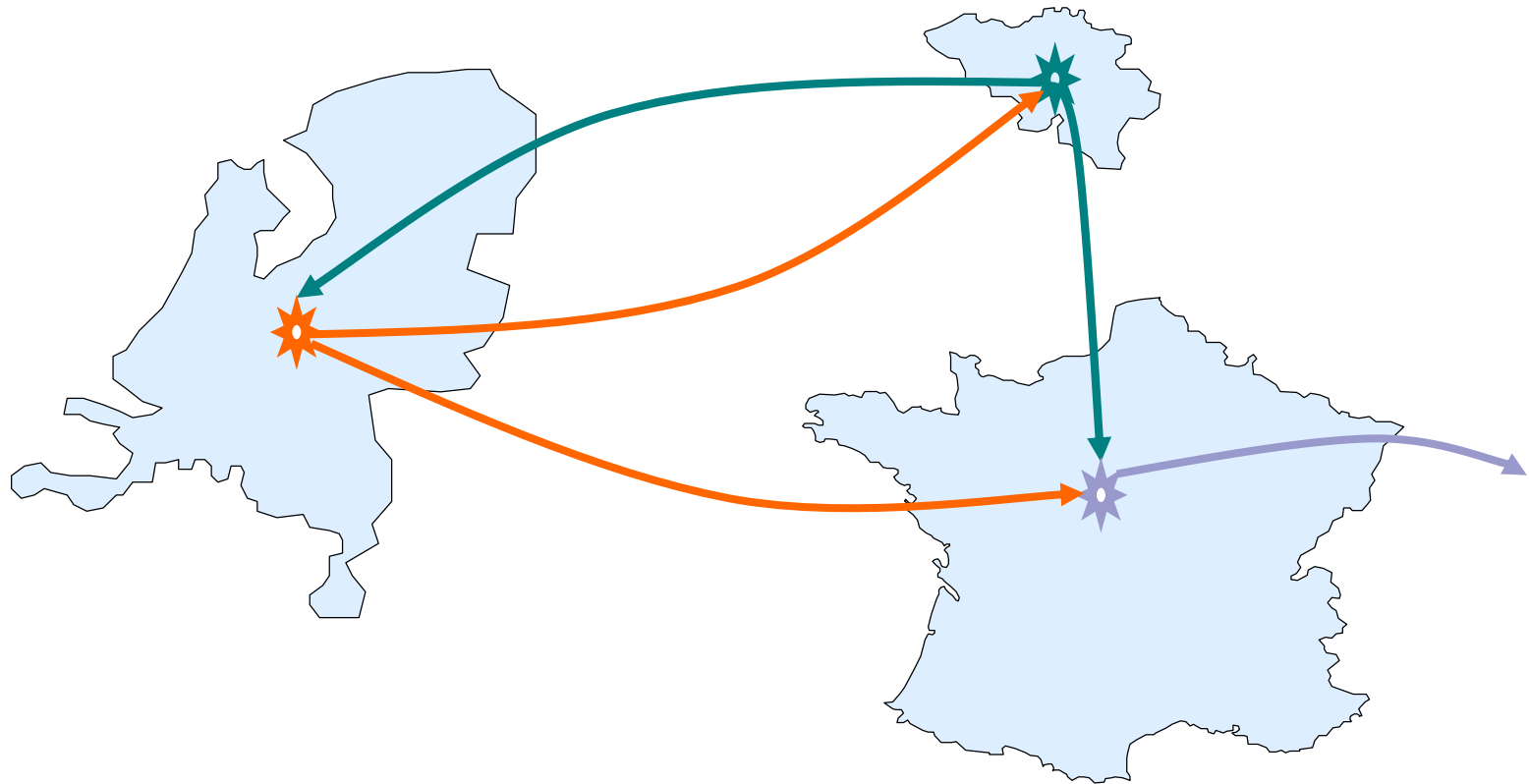
# Interfirm Strategic Interactions (II)

## ■ Across-market interactions

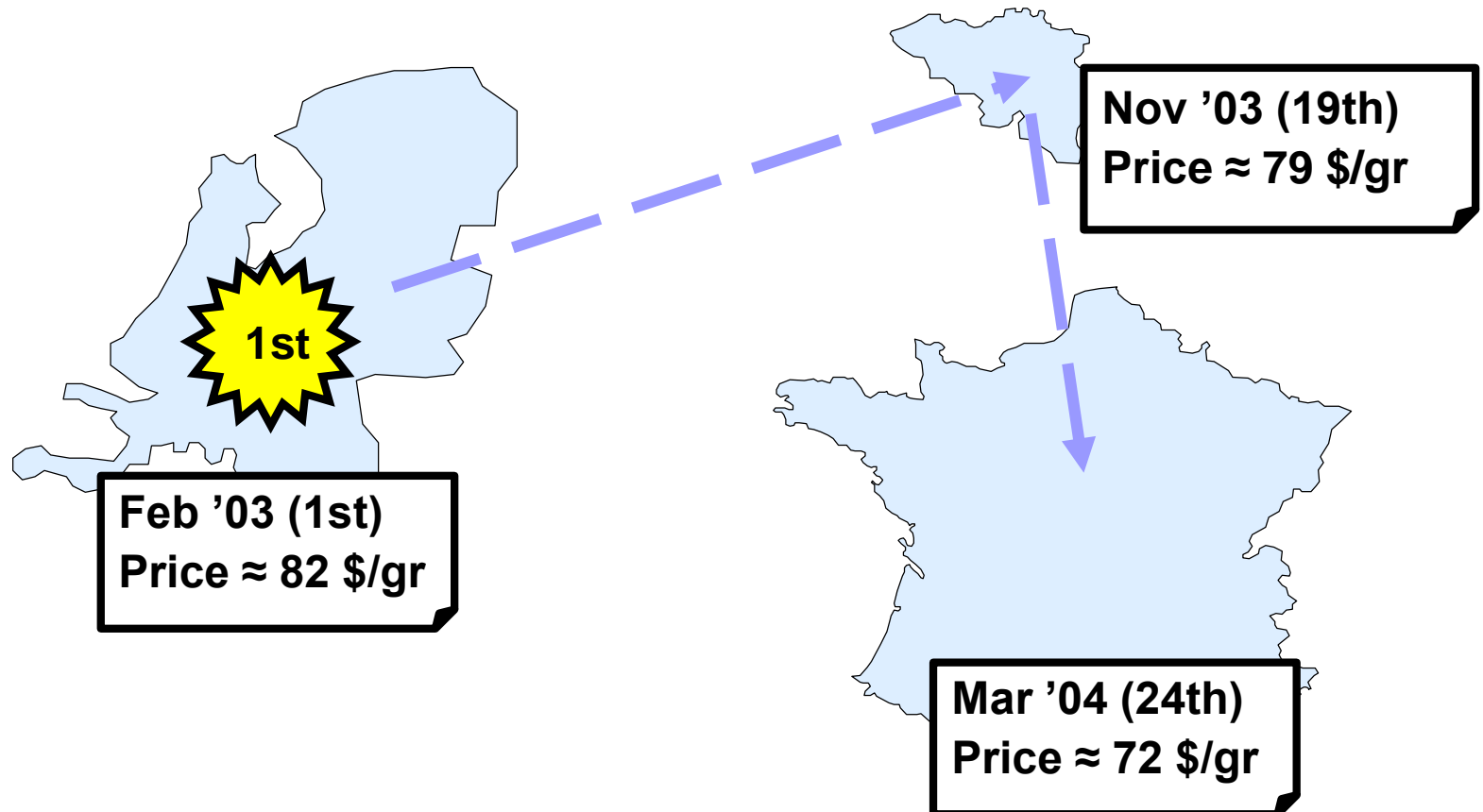
- Administration of the pricing function at the firm level
    - Do global and local managers set prices jointly?
  - Order of entry of brands into markets
    - Cross-country reference pricing, e.g. EU drug industry
  - Threat of aggressive or competitive pricing in one market on reprisal on another market
    - Usually from larger to smaller markets
- ⇒ Competing on multiple markets tend to soften competitive and results in more cooperative behavior.

# International Ties

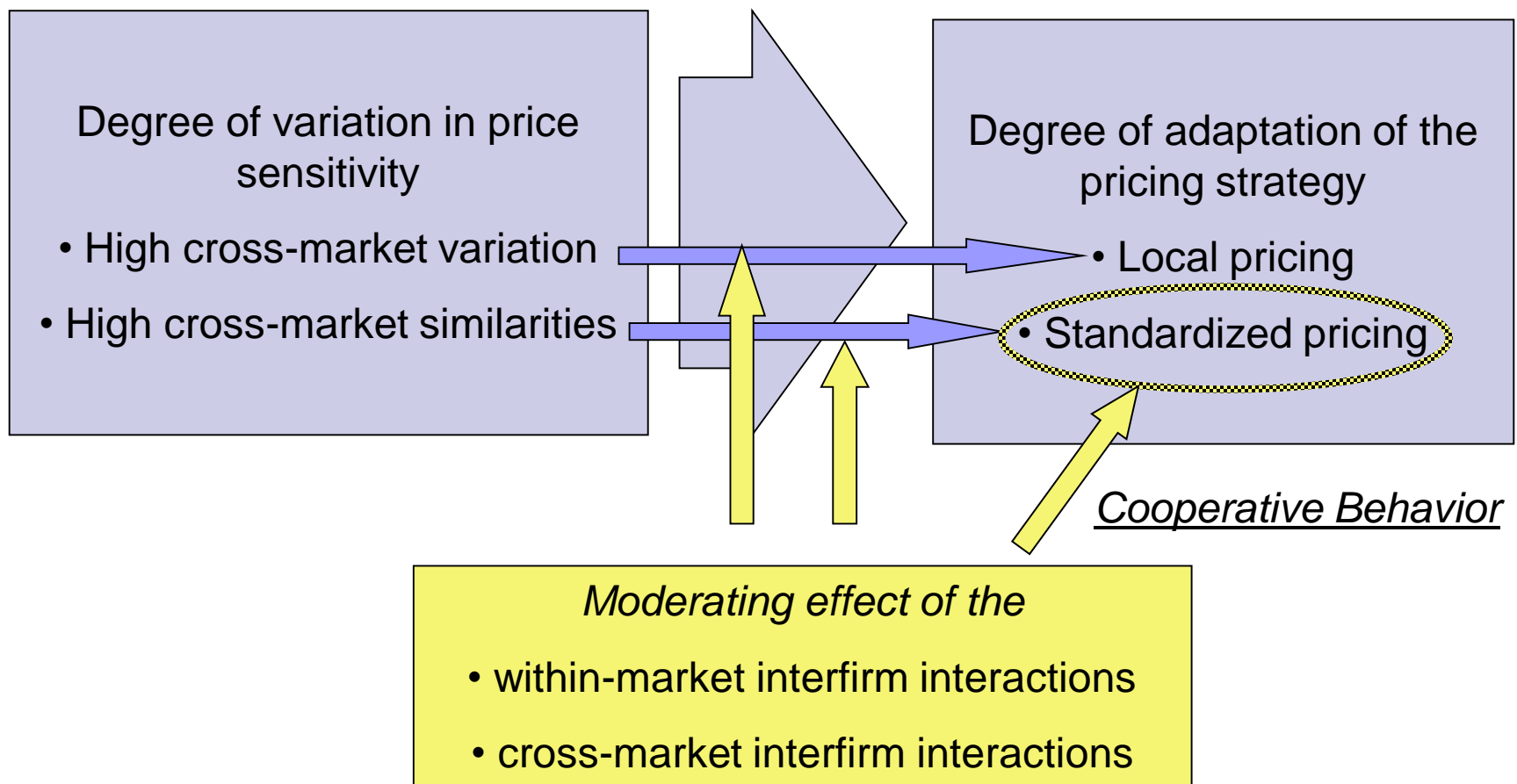
## *Cross-national reference pricing*



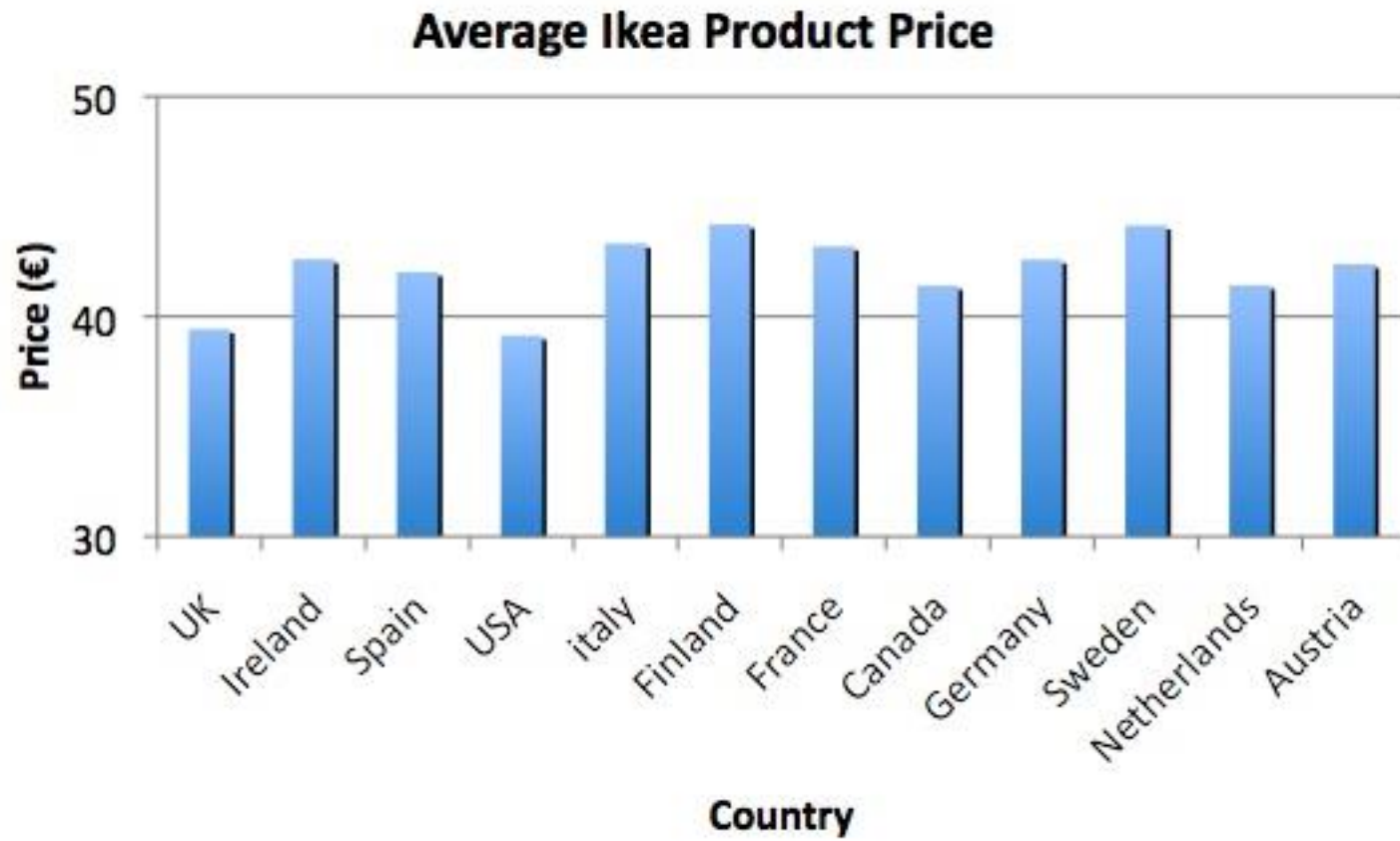
# Crestor's case



# Determinants of Pricing Strategies



# International Pricing Strategy: Ikea



# Price Corridors

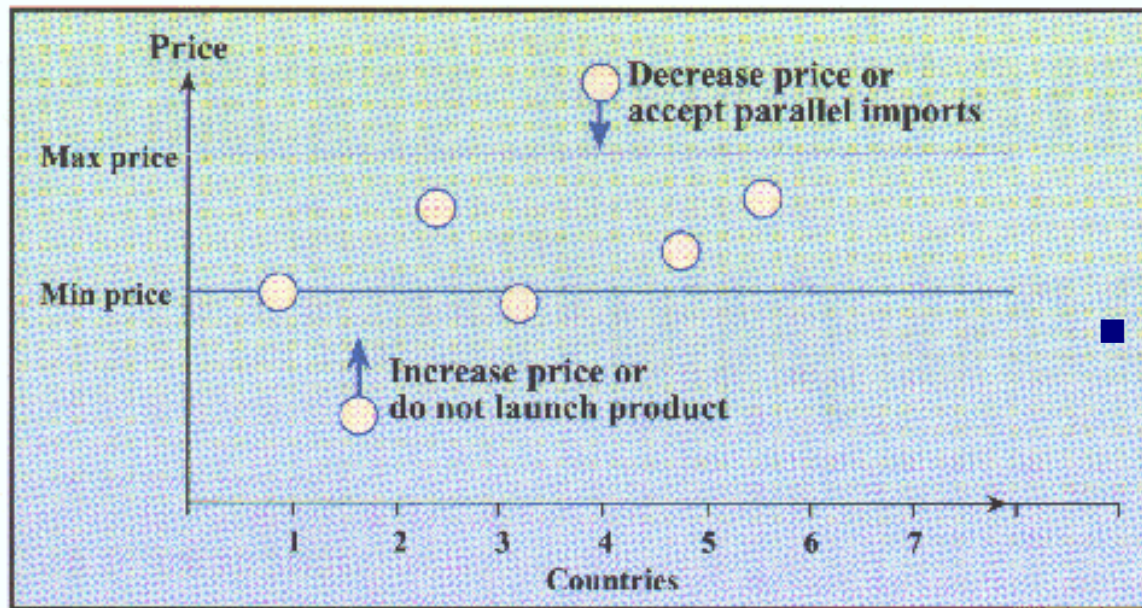


Figure 2: A price corridor which sets minimum and maximum prices across countries offers a solution to the problems of price differentiation.

## ■ Compromise between

- maintaining price differentials (which can reach more than 100%) and
- charging a uniform price across all countries.

## ■ The solution: price corridor

- (see Figure 2).
- The difference between minimum and a maximum price reach max. 20%-25% without triggering major problems.



# Importance of Price in Intl. Positioning

- Local vs. international image
- Burberry Boys in UK
- Luxury good elsewhere

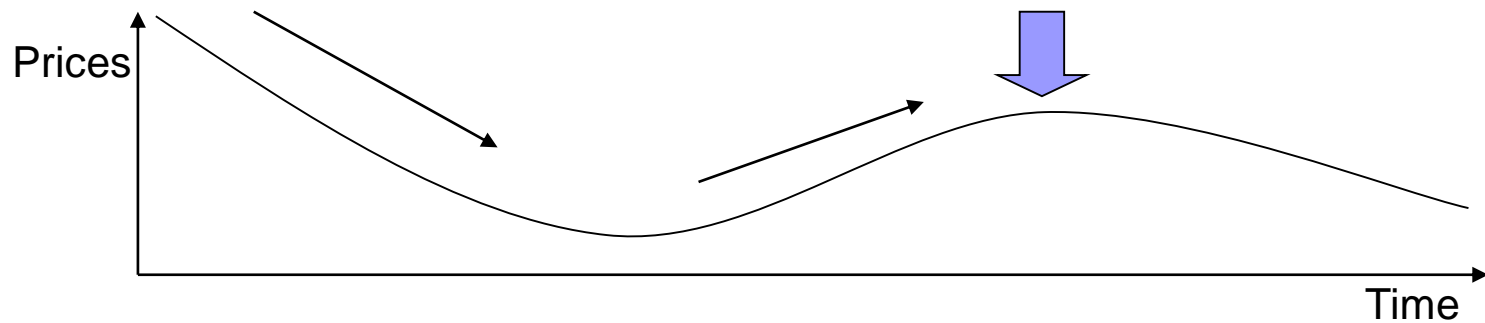
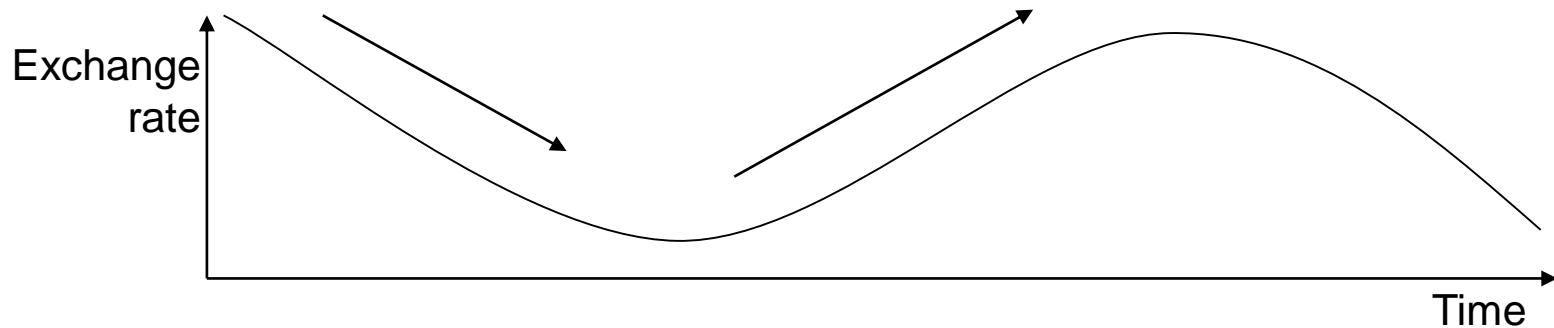




# The Role of Exchange Rates

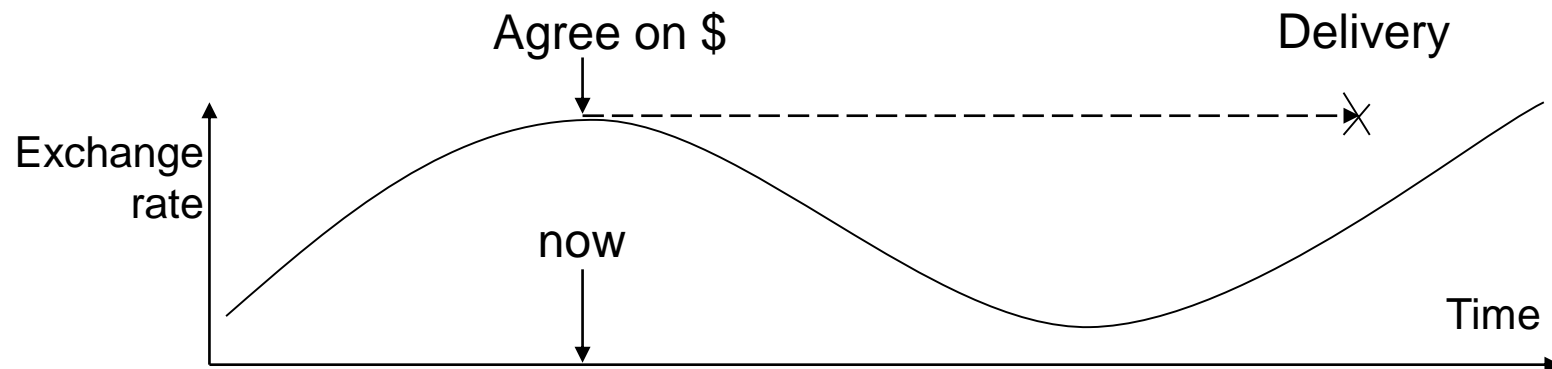
- Affect firm (short-term) revenues and decisions
- In theory, without managerial decisions:
  - Depreciation = currency ↓ → prices *gradually* ↓ → competitiveness ↑ → export ↑
  - Appreciation = currency ↑ → prices *gradually* ↑ → competitiveness ↓ → export ↓
- In practice, asymmetry induced by managerial decisions:
  - Depreciation → ability to lower prices abroad and  
increased competitiveness for the exporter
  - Appreciation → However, prices are kept constant  
→ profits ↓ but unchanged competitiveness → not sustainable in the LR  
OR foreign investments in countries with depreciated currencies  
(permanent)
- Prices changes are not immediate.

# The Role of Exchange Rates



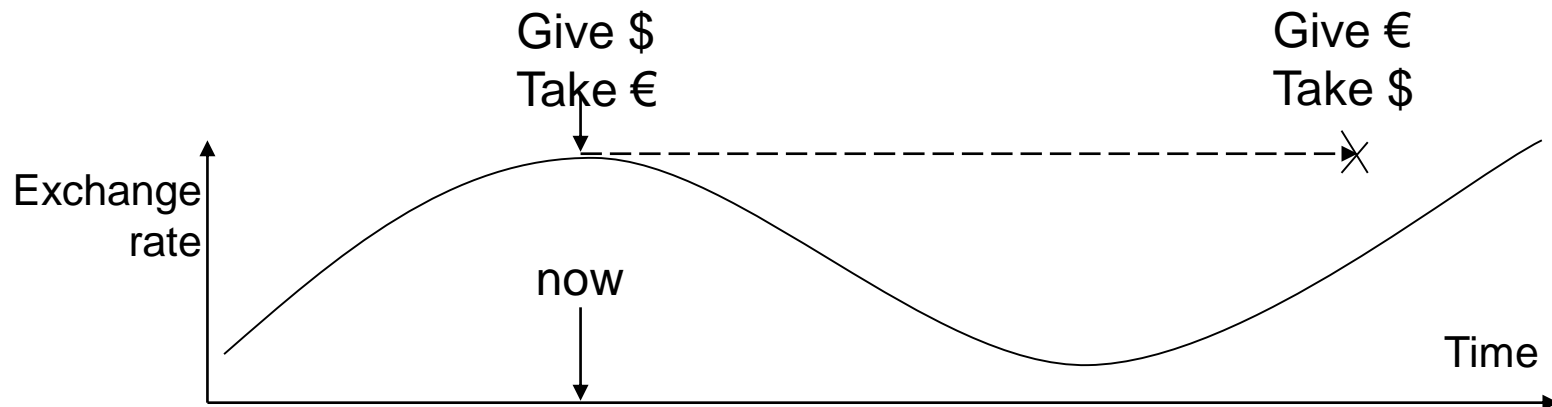
# The Role of Hedging

- Insurance against short-term losses due to currency fluctuations
- Forward contracts
  - Sale or purchase of a specified amount of a foreign currency at a fixed exchange rate for delivery on a future date



# The Role of Hedging

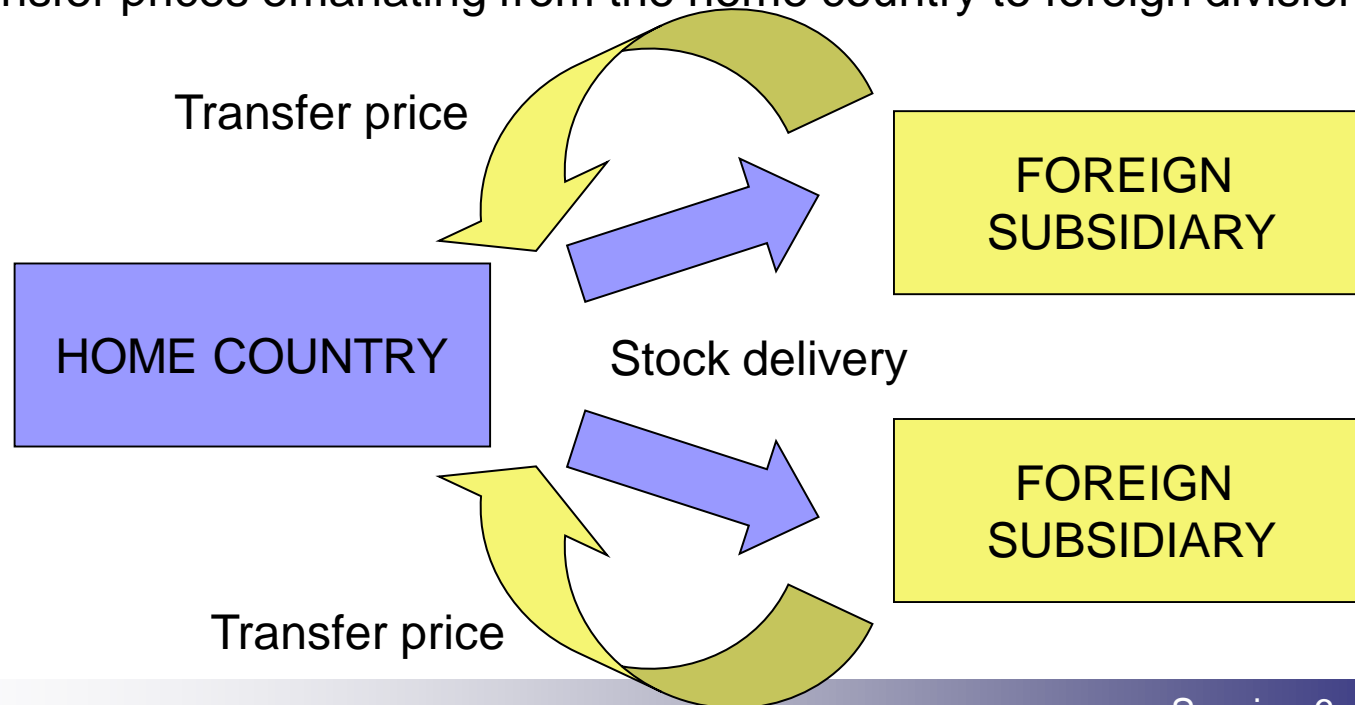
- Insurance against short-term losses due to currency fluctuations
- Forward contracts
- Currency swaps
  - Exchange of a currency for another for a fixed period of time



- Prices of goods are usually quoted in the hard currency, often in US \$

# The Role of Transfer Pricing

- Price paid for the goods shipped from headquarters to subsidiaries, including duties and fees.
- Internal arrangements, also for profits shifting (e.g. profit repatriation), for tax shifting, to support the competitiveness of a subsidiary, ...
- E.g. :Higher income tax rates in the parent's home country will lead to lower transfer prices emanating from the home country to foreign divisions)



# Global Pricing Coordination

- Increasingly important with the globalization
  - Greater awareness to foreign prices
  - Greater access to other markets: e.g. buy online, consumer tourism (e.g. London shopping)
- 3 approaches:
  - Polycentric: subsidiaries decide on their own prices
  - Geocentric: standardized basis + local markup depending on the local context (usually by trading blocks)
  - Ethnocentric: totally standardized price (for standardized products)

# International Sales Promotion

## ■ Sales promotions

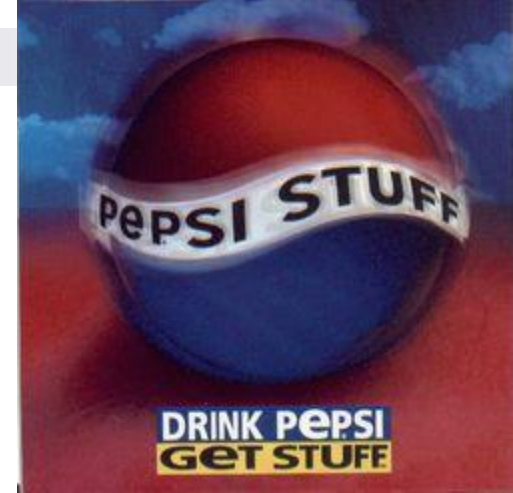
- Non-personal promotional efforts that are designed to have an immediate or short-run impact on sales.
- Include:
  - coupons (free-standing insert, on-shelf couponing, checkout dispensers, on-line couponing),
  - discounts (cents-off deal), temporary price deal (happy hour),
  - price-pack deal (25% extra),
  - point of purchase displays,
  - rebates (barcodes),
  - contests, sweepstakes,
  - free samples,
  - loyalty rewards program,
  - gifts and incentive items, free travel...
  - trade promotions: trade discounts, cooperative advertising, sales support...

# International Promotion Strategies

- Usually difficult to standardize, because dependent on:
  - Local regulations
  - Local attitude towards coupons or gifts
    - Remember the example in Session 3 on 50%-off Sale Promotion in Europe
  - Local differences in price consciousness and price elasticity
  - Local distribution infrastructure
  - Local product availability in stores
- But some global opportunities exist...



# Pepsi Stuff: A Global Promotional Campaign



- ❖ *Global integrated campaign launched by PepsiCo, first in North America and then around the world, in the 1990s and continuing into the 2000s featuring merchandise that could be purchased with Pepsi Points.*
- ❖ *There were two ways to acquire Pepsi Points:*
  - ❖ *Collect Points from specially marked Pepsi packages and fountain cups.*
  - ❖ *Purchase supplemental Points on the Pepsi Points redemption order form, for 10 cents per Point.*
- ❖ *Pepsi Stuff continued to run throughout North America and was eventually expanded to include other drinks, and into many international markets. In response to the campaign, The Coca-Cola Company accelerated and extended its discount pricing programs.*
- ❖ *Pepsi Stuff was one of the first major consumer promotions to feature a dedicated interactive Web site. Celebrities like Cindy Crawford and Britney Spears appeared in TV, print, outdoor, in-store, Internet, and catalog advertising promoting Pepsi Stuff. Some were even featured on cans. PepsiCo produced over 200 million catalogs each year, billions of Pepsi points, and PepsiCo's line of top-quality free merchandise.*
- ❖ *In 2006, a decade after Pepsi Stuff first launched nationwide, The Coca-Cola Company introduced a very similar program in which consumers collect points printed on packages titled, "My Coke Rewards."*

**The New York Times**

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## THE MEDIA BUSINESS; 'Pepsi Stuff' Campaign Set

Published: March 27, 1996

The Pepsi-Cola Company announced yesterday that it would introduce "Pepsi Stuff," which it called the largest promotional campaign in the company's history.

By buying Pepsi merchandise, customers will be able to accumulate "points" to buy products like T-shirts, hats, denim and leather jackets, bags and mountain bikes. The total value of the merchandise is \$125 million, the company said.

Pepsi, a unit of Pepsico, is following the promotional techniques of companies like Philip Morris with its "Marlboro Gear" campaign.

The promotion, which is to begin tomorrow, was supposed to be announced today but was disclosed prematurely on a public-relations news service yesterday.

Industry executives have estimated that Pepsi will spend as much as \$200 million on the campaign.

ABOUT PEPSI STUFF   CATALOGUE   PRINT ORDER FORM   TRACK MY ORDER   FUN STUFF   PARTNERS   HELP / FAQ

PEPSI CD Holder  
MORE DETAILS  
VIEW FULL LIST

PEPSI STUFF CATALOGUE

POINT LEVEL

0-65 POINTS  
66-110 POINTS  
111-300 POINTS  
301-2500 POINTS

60 POINTS  
65 POINTS  
65 POINTS  
55 POINTS


LARGE VIEW  
LARGE VIEW  
LARGE VIEW  
LARGE VIEW

View Full List

SONY Sony Music Canada Reebok



ABOUT PEPSI STUFF   CATALOGUE   PRINT ORDER FORM   TRACK MY ORDER   **FUN STUFF**   PARTNERS   HELP / FAQ



**Beyoncé**

**PEPSI STUFF**  
DRINK IT GET IT

**FUN STUFF**

**Music STUFF**

Listen to tracks from Our Lady Peace, Kazzner, Beyoncé, B2K, Solange and other guest artists! Remember you need to **register** first!

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**Media STUFF**


Download the PEPSI STUFF screen saver.


**Video STUFF**

Watch the PEPSI STUFF video plus see Sony Music Artist videos.

If PEPSI STUFF wasn't great enough already, here's a whole section dedicated to FUN!

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**register >>**

**4** get reward

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Sports Music Entertainment Electronics Gaming Family Travel Fashion / Beauty Coke

FEATURED CATEGORIES Star Studded American Idol Widgets

**1,718,239** rewards given to date

Walk the **RED CARPET**  
No acceptance speech required.

*Thanks for drinking.*

**Enter Now!** **Browse Rewards** **Register Now!**

Search  **Go >>**










*Thanks for drinking.*

*Thanks for drinking.*

Walk The **RED CARPET**  
**Enter Now!**

**MY COKE REWARDS HAS A SWEEPSTAKES** ★  
for everyone and every taste!  
**enter now**

REWARDS CATEGORIES

sports 	music 	entertainment 	electronics 	gaming 	Star Studded 
family 	travel 	fashion beauty 	coke 	American Idol 	

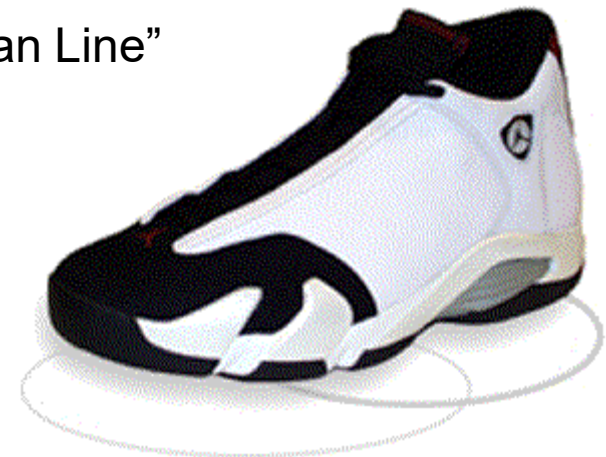


# Sales Promotion via Sponsorships

- Increasingly global via global media, like TV channels
- E.g. World Cup Final, Formula One races (Marlboro), Olympic Games.
- Global celebrities (e.g. Michael Jordan for Nike) vs. Local endorsers

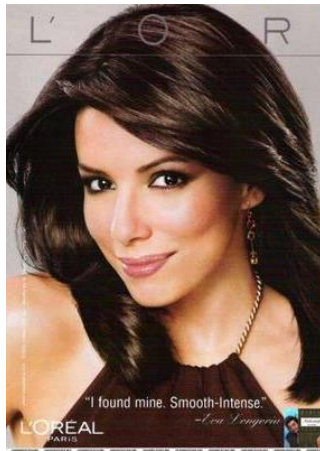


“Air Jordan Line”



# Sales Promotion via Endorsers

Eva Longoria



Virginie Ledoyen



Laetitia Casta



Beyoncé

Gong Li



Aishwarya Rai