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The Price in International Marketing

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Abstract: *The price established on the international market under the influence of specific external factors is called the international price. Unlike all the other components of the international marketing mix that, in order to be insured, require consumptions of material and human resources (spending), this is the only one that, to be fixed, does not imply such consumption, serving to transforming the value of goods into revenue. At the same time, through its variation, it triggers the fastest external market reactions in terms of demand, supply, competition, etc., thus directly affecting the profitability of international business. On the external market, it meets in the most varied forms, namely: theoretical, real or possible prices; unique or differentiated; variable (free), fixed (administered) or semi-variable (limit); negotiated (information, listing, catalogue, bid, contract, billing, determinable, sliding or compensation, stock, auction or leasing, current or comparable, etc.)*
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Introduction

Being the monetary expression of the value or utility of goods, the price in international marketing (as well as the general one) can be met in a wide variety of other terms such as: tariff (price of services), tax (the price of acquisition a right - to export, for example), rent (price alienation of the use of property), commission (special price brokerage services, consulting, etc.), interest (price of credit) tax (price privilege to earn money), fee, contribution, bribe etc. [12, p. 733]. Of these, the price and fare are used most frequently.

Like the domestic price, the international price is very close to the most important economic and marketing variables, namely: the usefulness of goods; production costs; demand and supply on the foreign market; competition on the foreign market; the image of the product quality (and of the product in general); economic balance; business profitability, etc. Basically, there is no economic variable that is not influenced (directly or indirectly) by price levels [8, pp. 78-79].

1. Content Elements

The price can take at least three different forms, namely: theoretical price, real price and possible price.

a) The amount of the theoretical price is between the minimum limit of zero monetary units (in the case of free goods) and a maximum limit - over which the commodity becomes non-negociable.
b) The real price is the market price that reflects the balance between global demand and supply, being accepted by both the seller and the buyer, which is actually the sale-purchase act. Here, we specify that the zero price proposed by the seller to buyers who would require a quantity of cargo above a certain Q limit (i.e. for the Q + 1 unit), respectively for the part of the offer that is referred to as 'free', it is not real but fictional. The buyer does not get that extra cargo unit for free, but based on the amount paid for the other Q units - whose real price is hidden (being included in the real price paid for them).
c) The possible price is the one at which the seller and the buyer would accept the transaction, but only under certain conditions. Compared to the other two types of prices, it has some features [1]:

- is very rich in information, giving the manufacturer data on the terms of the offer;
- it is not unique, ranging around the equilibrium price based on the economic strength of the company (in search of a price as high as possible) and the buyer (which aims at a price as low

as possible);
• has a double determination - the "possible" area being a result of meeting demand with the supply of goods both at national level;
• it has a dynamic character, its dynamism reflecting the ability to fall between different margins when market conditions change;
• has a varied character - its diversity is due to the existence of several intervals of magnitude within which the possible prices fluctuate;
• it is (sometimes) regulated - it is imposed by the legislative context specific to an external market and a given period etc.

Even if their liberalization is considered to be one of the main ways of self-regulation of the economy, regulating prices in any competitive market environment is a desideratum aimed at removing the extremely negative effects of inflation, discouraging unfair competition, preventing or liquidating the black market etc.

For each foreign market, this is achieved by:
- the obligation to publicize prices and sales conditions, thereby ensuring their supervision and preventing unfair discrimination and competition;
- imposing some (minimum or maximum) limits on the prices of products (especially those that are of strategic importance to the country that sets them), thus protecting either consumers or their producers;
- the fixing of certain VAT rates (through which the importing country secures a large part of the budget revenues), as well as the levels of import - export taxes, customs duties, commercial additions etc.;
- limiting profit margins - to mitigate the uncontrolled price increase trend;
- banning competition (monopoly, oligopoly etc.);
- banning doping rates etc.

In this regard, the US example can be invoked, where a series of legislative acts having an impact on price formation have been adopted (since the 19th and 20th centuries), such as the Sherman Antitrust Act (1890), the Clayton Act (1914) Celler - Kefauver Act (1950) etc.[3]

At international level, there are also some features of the pricing mechanism. Thus, the prices of raw products (raw materials, oil etc.) show a great sensitivity especially to the action of the shortage factors, while the prices of the manufactured products tend to increase firstly under the influence of the continuous process of improvement and renewal (remaining somewhat constant when demand falls - due to the high level at which costs are maintained).

Although some economists (even the most well-known - such as JK Galbraith) [5, 23-32] consider that in the very rich countries price is no longer an element of interest to buyers, market studies have shown the opposite, for example, that the US has the most price-sensitive consumers - something the Japanese have explained through the very fierce competition between brands, or the competition between two (or more) offers of the same brand. Knowing this sensitivity, many US stores (relying on demand law when practicing low prices) promise to pay any price difference in cases where consumers can buy them elsewhere at lower prices (a practice also taken over in Romania by ALTEX stores).

2. Types

By leaving behind the theoretical, real and possible prices, a wide variety of other prices are practiced on the foreign market [17].

Thus, in relation to the geographical area in which they are used, foreign markets are practiced:
- Unique prices - valid for all markets;
- Differentiated prices, with different levels from one country to another (depending on the specific national factors of substantiation).

Depending on how they react to the variation of the determinants, prices can be: (free) variables; fixed (administered); semi-variable (limit).

Techniques or forms of sales organization used on the foreign market allow the identification of other types of prices, such as:
• the negotiated prices (of transactions), which have the highest share in foreign transactions, belonging to this category [18]:
- the information, list or catalogue price - which provides preliminary information to the importer (the external buyer), the negotiations involved may lead to significant discounts accepted by the seller;
- the bid price, which is communicated to external customers in any way (offer letter, pro forma invoice or otherwise - mail, telex, fax, etc.), which contains a reservation that the seller takes for negotiations;
- the basic price, i.e. the price based on a certain cost or a certain quality of the basic product, which serves to establish, by correlation, the prices of all the derived products;
- the contract price, which is specified in the contract following its negotiation, which is a basic element of the export - import contract;
- the invoicing price (the price quoted in the invoice), which should in principle be equal to the contractual price but which, when the delivered product does not meet the agreed upon contracting standards, may be lower than that;
- the determinative price which is used in the case of complex machinery and installations to which there are frequent changes in the market environment between the time of signing the contract and that of the delivery, which is why it will be determined (at the time of delivery) agreed items (such as: the price of the sub-assemblies, the price of certain raw materials or materials, the cost of the licenses etc.);
- the sliding (mobile) price based on some contractual clauses that allow it to be determined in the future, taking into account the market price of the product either on a given date or in a given period (such as the average price of the month which precedes delivery of the product);
- the compensation price, which is used only in the case of offset or barter transactions (export vs. import) where both the prices of the exported and imported goods (expressed in the same currency) are to be negotiated at the level of the on the international market;
• *Exchange rates (quotations),* which are published at short intervals (daily even) in special lists, starting from the existing ratio between demand and supply of goods (petroleum, tobacco, cereals etc.).)
• *Auction prices,* applied only to certain categories of goods (usually the only ones);
• *prices of leasing operations,* etc.

The way in which (so-called contractual terms) is taken into account so-called price risks leads us to other types of prices, such as:
• the escalated price (similar to the one determined), which was particularly encountered in the case of long-term contracts, successive sales contracts and production co-operation - in order to ensure a balance between the price of the finished product entered in the contract and the price of the used production, inflation rate and interest rate -, whose size is based on a relationship such as:

$$p_t = p_0(a + bi_{pm} + ci_s)(1 + i_{if}),$$

where: p_0, p_t - the price of the product at the time of conclusion of the contract or at any other time ***t;***
a - a parameter that expresses the share of costs that remain constant throughout the duration considered (in the price p_0 of the product); ***b, c*** parameters expressing the share of costs with the material factors ***m*** (raw materials, materials, energy, etc.), respectively with the salaries in the price p_0; i_{pm}, i_s;
- the index of the increase of the prices of the material production factors, respectively of the salaries during the considered period;

• *the rectified price,* which is similar to the escalated price, being used to prevent the risks of rising inflation and interest rates, calculated as follows:

$$p_t = p_0(1 + i_{if} + i_d)\,,$$

where: i_{if}, i_d - inflation index, i.e. interest rates between the time of the contract and the delivery date;
• the indexed price, which is a synthesis of the other determinable prices as a reflection of the relationship:

$$p_{e_t} = p_{e_0} i_{p_e}\,,$$

where: p_e - price of a standard product used as reference (base) at the conclusion of the contract i_{p_e} - the price increase index of the standard product over time(*0, t*);
• the consolidated price, which, once stipulated in credit-based delivery contracts (repayable in products), remains final only if the importer commits to purchase a given quantity of goods.

Taking into account their differentiation, foreign markets meet:
• prices differentiated according to the delivery conditions (or even the place of sale);
• differentiated prices by categories of consumers;
• prices tailored to the product image;
• adapted prices at the time of purchase (at the seasons, on the weekday or at the time of the day);
• differentiated prices by countries and geographic areas etc.

For example, Kodak practices higher prices for films it sells in Japan than other countries (such as South Korea). Also, in the EU, price differences between the markets of the component countries are around 20%, but there are products with far greater differences (30% for yogurt, 115% for chocolate and 155% for beers) [2].

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3. Fundamental Factors

Overall, according to the objectives pursued through the pricing policies (ensuring cost-effectiveness or investment, entering new foreign markets, maintaining or increasing market share, imitating, counteracting or discouraging competition etc.), internationally oriented firms it bases its prices in specific ways.

As with domestic markets, external market prices are determined by two categories of factors: internal and external.

3.1 Internal Factors

This category includes production costs, profit and marketing objectives of the firm.

a) For any manufacturing firm, the most important cost factor for a freight oriented towards an external market is its ***production cost***, representing its minimum objective limit (under which the business enters the bankruptcy area).

With regard to goods destined for foreign markets, there are several categories of costs: production, transport, marketing, opportunity etc.

Production costs, as a rule, are different from domestic production to export. Thus, when the company produces goods outside the country, the cost of resources (raw materials, energy, wages, etc.) may vary widely from one country to another, which is why choosing them can lead to higher or lower costs - with direct price implications.

The cost of transporting goods to certain external markets, given the greater distances from the internal market, is increasingly concerned by international marketing specialists. Their impact on prices is lower in the case of expensive, high-complex products incorporating cutting-edge technologies, and more important for raw materials and agricultural products.

The cost of distributing products has a different impact on prices, depending on the complexity of external distribution systems, the length of channels, the magnitude of external promotions, etc. In their level there reflects all tariffs, taxes (for obtaining export licenses, customs etc.), as well as commercial additions to the chain of intermediaries that enable the distribution.

In a general sense, the cost of production covers all the types of costs referred to. In international marketing, as in general economic theory, the definition of cost is based on the *opportunity cost* (also called the *cost of lost opportunity*), which reflects the value of the goods that are sacrificed (when it is renounced) when a good is produced or consumed being different from the so-called manufacturer's *accounting cost* (which also reflects elements that are not necessarily relevant to determining actual sacrifices) [6]. When we refer to the latter, we are tempted to consider, first of all, what comes into the production function of the asset considered (raw materials, labour consumption, machine depreciation etc.), that is, monetary imputations - the costs of the goods produced by the sum of these values.

Although such an approach is not incorrect, it does not explain why the inputs have those values. The explanation is given by the opportunity cost, which is the reflection of the respective values (of the resources) under the conditions of *their most rational use*, respectively the value of the chances lost through their use in the production of the respective commodity (and not others).

Economic theory has demonstrated that there is no direct link between cost and price, but one that is mediated by the supply-demand ratio. Reflecting, first of all, the balance between global demand and supply, prices do not always cover all the costs (production, sales and marketing) - demand oscillations around the supply, often making the same costs different prices.

b) In addition to costs, different forms of profit are essential structural components of prices. Unlike costs, which are a priori elements of pricing (dimensioned before prices behave in their entirety), profit is a resultant element of production, exchange and consumption processes, its size deriving from the size of prices.

The profit assessment is the core of the decision-making operations with regard to the price evaluated by the bidder. The direct link between profit and prices makes their sizing simultaneously - by taking into account the action of the same principal influence factors.

The link between the (normal) cost and the price of the product (p) and the one (taken together) and the *maximum profit* is the *marginal cost (C ').* It translates into the golden rule of maximizing profits:

an entrepreneur obtains (from his business) the maximum profit if he produces the commodity (which he also offers on the foreign market) ***at a marginal cost equal to the market price*** on which it is sold - that is, if (p = C ').

The concept of *normal profit* (also called *fair, equitable* or *medium*) is used in price theory in the sense of a benchmark, the size of which is set before the design and manufacture of the commodity in which price is to be included, reflecting the marketing environment and the conditions (natural, technical, organizational and qualification) dominance (averages) in which production and distribution is achieved. Its assessment can be done in various ways (based on *the average interest rate, the average level of investment efficiency, the balance between supply and demand, the normal rate of return* etc.) [9, 82-91].

Even if the fact that external prices are based on costs and profit is indispensable, it needs to be complemented with a number of elements pertaining to the marketing optics of each firm.

3.2. The Company's Marketing Goals

Among the company's international marketing objectives (which must be taken into account in product price fundamentals on foreign markets) include: survival, maximizing current profits, maximizing market share, dominating the market through product quality, preventing competition, maintaining fidelity, and distributor support etc. [15, 734-743].

1. The objective of *supervision* is particularly important when: competition on the external market is threatening; production capacities are far exceeded; customer tastes and wishes are continually and rapidly changing; demand is in alarming decline, etc. The most affordable way for the firm to do is to reduce prices even at the risk of short-term profit. It should not be forgotten that survival in this way is the ultimate goal the company can offer.

2. On the other hand, *maximizing profits* is the most ambitious objective of a firm - which, as mentioned above, can only be achieved if it is able to scale its external supply to the level at which the *marginal cost tends to equalize the price market*.

As a rule, however, prices are not based on the company's orientation to the maximum profit, but to a *normal* one or generally to a positive one (anyone).

3. The dominance of the foreign market through product quality is another marketing objective (as demanding as maximizing profits), and its assumption is that large prices are accepted, only by high-quality customers who want high-quality goods for which quality is more important than the price (and not accepted by international competition, which is incapable of producing goods at the same level of quality).

4. Maximizing the firm's penetration rate on the foreign market is possible, among other things, by *penetrating prices* (in times when penetration is the prime concern of the business), which must be low enough to quickly attract consumers from any new foreign market. Of course, this goal can only become a priority for a firm if the foreign market has a clear sensitivity to price changes, as well as poor price competition.

5. For a growing company, *maximizing its market share* may be the priority objective, more important than maximizing profits, its attainment being possible by practicing low (relative) promotional prices, capable of encouraging external demand and ensure maximization of sales volume.

6. *Ensuring the loyalty and support of distributors* (but also of other intermediaries) on the foreign market is another objective achievable also by practicing *low-priced production prices* that give them the opportunity to collect incentive commodities or additions.
Since the implications of prices on the operating mechanism of the companies and the market are very complex, there is practically no marketing objective that is not taken into account in the substantiation of the price decisions.

3.3 Factors Outside the Firm

In this category we will include two categories of factors: 1) those who act outside the company, both at national and external level; 2) those who act exclusively outside the country.

1. In the first category are the external factors considered by the general marketing: the utility of the goods, the demand-offer ratio, the customers' incomes, the consumer behaviour, the competition etc. [9, 95-107].

a) *The usefulness of goods* is a factor at the border between internal factors (this being provided by the producer through product characteristics) and external (that is felt and appreciated by consumers). When proposing a price level, the marketing specialist of the firm will necessarily have to take account of the fact that a particular customer (whether in the country or outside) is willing to pay a high price on the merchandise when it offers him high satisfaction, and a lower price, otherwise. Therefore, in order to attract the external clientele to its product, *the amount of money claimed by the bidding firm must bring it (the customer) more satisfaction than the one that it would be able to obtain by spending on another commodity.*

b) The demand-offer ratio and income level. It is well-known that, including on the foreign market, as the amount demanded from a commodity increases, the price claimed by a firm may be (within certain limits) rising (and vice versa), and when the offer increases, the price will have to be diminished , and the fact that, under the simultaneous action of both factor (demand-offer ratio), a price may increase (without the sales volume decreasing), otherwise (if this ratio is sub-unitary and possibly decreasing), he must be shrunk.

Influences of this type are valid when prices are freely fixed on the market. The existence of monopolies (or other forms of imperfect competition) can lead to prices somewhat independent of this ratio, with a higher degree of stiffness.

Even though consumer incomes can also be treated as a distinct element of price fundamentals, they can only be correlated with prices rather than demand and supply-demand ratio respectively. Therefore, the demand-offer-income-price correlation should be at the forefront when studying the cost drivers of firms.

c) Companies that base their prices on *consumer behaviour* make use of the principle of comparison - given that both the exporter and the importer compare their own product and its price with the products and the prices of the competition. Being a very complex factor, behaviour exerts influence on prices accepted by external buyers through: the buying motivation they are aware of; the criteria for choosing the products (and their price place); how to share roles between those involved in the purchase decision, etc. That is the reason why behavioural factors can prove so powerful that they cancel the influences of everyone else on prices.

d) Competition between firms operating on the same foreign market forces them to base their decisions on price levels in a certain interdependence, as the consequences of any action taken by any of them in this field may be felt, stronger or weaker, by all others - price being the only element of international mix marketing that cannot be protected from competition. Being visible and imitable at any time, the prices charged by competing firms must be one of the main elements of substantiation of their own price by the market-oriented marketer - a price that expresses the *competitive position of the product* to which it is attached.

Pricing based on external competition puts the focus on the *comparability of its own products with those of competition*, a problem that faces certain *difficulties* because:

a) the exporting firm needs to know who it is to compare and identify the leader, that is, the competing firm with the highest relative market share (in the absence of which, it will follow the practices of the other competitors);

b) regardless of how prices are expressed (in different currencies or in a single currency), there are large differences between product specifications - rarely meeting identical products at competing firms in different countries (even if the goods have the same functions);

c) As a result of changes (taking place over time) in terms of the technical-quality level of the product, the problem of comparability over time of competing products (with the same purpose) must be solved.

Despite all the difficulties, there are ways to determine the external price levels based on product comparison. For example, in the case of *simple products,* with no sensitive differences in the technical and functional parameters, the export price shall be established in relation to the *unitary average price of the competition,* using the simple *proportionality method*, and in the case of complex products where there are visible differences between the parameters technical and functional aspects of competing products, the export price is determined on the basis of weighting factors (correction coefficients), using the multiple proportionality method.

The *simple proportionality method* assumes that the export price of the own product (p) is established using the relation:

$$p = \frac{\sum_{i=1}^{n} p_i k_i}{n}, \qquad k_i = \frac{p_{ai}}{p_a}$$

where: p_i- the price of the similar product on the external market by the competitor *i;* k_i weighted coefficient calculated as a ratio between the size of the main distinguishing parameter of the simple product of the competitor *i* (p_{ai}) and the same parameter level for the product itself (p_a); *n* – the number of firms competing with the same product on the foreign market considered.

The multiple proportionality method proposes for the calculation of the export price of the company's product *(p)* a similar relationship:

$$p = \frac{\sum_{i=1}^{n} p_i k_i}{n}$$

the difference from the previous method consisting in the calculation of the coefficient, because:

$$k_i = \frac{\sum_{j=1}^{m} k_{ij} k_{im_j}}{m}, \qquad k_{ij} = \frac{p_{a_{ij}}}{p_a},$$

where: k_{ij} - coefficient expressing the ratio between the level of the parameter j of the product corresponding to the competing firm *i* ($p_{a_{ij}}$) and its level at our exporting company (p_a)*; m* - the number of main parameters taken into account when sizing the product price *p;* k_{im_j} - the coefficient of importance assigned to the parameter *j.*

It is sometimes possible for some export marketing expenditure to be required in order to reach the final export price.

d) Distribution methods. In the case of direct external distribution, any price level is directly observed by consumers, whose reaction can be immediately known. If the exporting firm opts for *indirect distribution*, a key role in pricing the prices will be attributed to the reaction of *intermediaries*, who are in fact the first buyers. At the same time, the intermediaries, taking into account the purchase prices at which they buy the goods, base their own prices. Reported to them, the *retail prices* at which they sell their goods may be: proportional, progressive, digressive, insensitive or inversely proportional, or contrary to changes in producer prices (rising when purchase prices decrease and vice versa - only possible when commercial addition rates or commissions are large enough to allow for that).

It follows that the effects targeted by the exporters when fixing their prices depend decisively on intermediaries, and they may support or annihilate them.

When a company is targeting an external market with a wide variety of products, it can opt for *differentiation by price changes* - starting from the apparent differences in their production costs. By doing so, they aim to attach to each product a subjective *price tag* with the role of attracting different customer segments, among those sensitive either at very high prices (such as those dominated by the inclination to snobbery) or the very low. Such a practice may have different implications from one foreign market to another (it will be successful in the price-sensitive country and will fail in the country where this is ignored, products selling more or less at the same price).

The *second category of external factors*, which mainly influence the prices of the exported products, are [5]:

- *tariffs and customs duties,* representing a kind of tax perceived ad valorem on exported (but also imported) products in order to protect national economies, leading to price increases (by their inevitable inclusion);
- *trade barriers* in the form of: allowances (limitations imposed on the quantities of goods of a certain kind that can be imported or exported); export and import licenses (rights granted nominally to each firm carrying out import or export operations for each good separately); boycotts (absolute restrictions on imports, exports or any form of trade with another country); standards (quality, packaging, labelling, etc.); differential exchange rates, etc. - all of which increase prices;
- *government regulations* in foreign-market countries that directly target prices and control them;
- *free zones and areas* in certain countries where storage, assembly or processing of imported products are allowed, without the payment of tariffs or the application of import regulations;
- *dumping,* consisting of selling products on the external markets where it is practiced, to so-called dumped prices much lower than those in the exporting country (even below the cost of production), aiming either to counteract external competition or to obtain other advantages - this practice being sanctioned by anti-dumping legislation as soon as it is identified and proven. Being (when proven) an illegal practice, in order not to be sanctioned, many companies try to hide it (which is also illegal);
- *inflation rate,* which not only changes frequently over time, but is also very different from one country to another (which can lead to large fluctuations in external market prices, lower purchasing power of customers, delays in payment of products, etc.);
- *fluctuations in foreign exchange rates,* which may cause price fluctuations for external customers, etc.

Faced with this latter factor, firms operating on foreign markets are required to identify the best protection solutions in front of them - especially when fluctuations are not clearly anticipated enough to take account of them when contracting term, when firms, in order not to lose their clientele, have to make significant price cuts (which generate income losses). If fluctuations are favourable, firms can benefit from winnings (as happened for example in Hewlett-Packard, which earned half a million dollars - in one year - exclusively from these fluctuations), and if they are (such as Nestle, who lost $ 1 million in six months for the same reason).

One of the protection solutions would be to share foreign exchange risks between the exporter and the importer (by express contractual clauses), and another could involve signing into one of the following clauses (called currency risk), such as:

• Inflation rate, which not only changes frequently over time, but is also very different from one country to another (which can lead to large fluctuations in external market prices, lower purchasing power of customers, delays in payment of products, etc.);

• fluctuations in foreign exchange rates, which may cause price fluctuations for external customers etc.

Conclusions

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• *the simple currency exchange* clause linking the currency provided in the contract to a very stable rate (dollar, euro, Swiss franc, etc.);

• *the currency basket clause*, according to which the contract currency relates not to one but to a number of other currencies;

• *the multiple currency clause,* whereby the currency in the contract is selected from several specified currencies;

• *the unpredictability clause*, which allows (any of the disadvantaged parties) to renegotiate the contract while an unpredictable event has occurred in the meantime.

Given the multitude of implications it has on the company's international business, the prices it practices should be carefully funded.

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