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Strategies Regarding Prices within the International Marketing

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Abstract: *Companies doing international business can adopt different types of marketing strategies on prices. Depending on the lifecycle of the company's products, there are strategies for new products (high price strategy, "sinking" or "take-out", low priced or fast penetration strategy, moderate price strategy, price strategy stratification strategy, unparalleled price strategy, standard price strategy) and strategies for existing products (strategy of survival, strategy with different price levels, product price strategy, price strategy of global products, captive price strategy, pricing strategy based on incentives and bonuses; price strategy for optional products, differentiated pricing strategy).*
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Introduction

The best-known ***price strategies*** for launching new products on the market are: high price strategy, low price strategy, moderate price strategy, stratification price strategy, odd pricing strategy and standard price strategy.

1. Pricing Strategies for New Products

1.1. The High Price Strategy

The high price strategy (d'écrémage) is to fix high prices when demand on the foreign market is high, clearly outpacing the supply (what happens during the peak season and then when competition is weak). Based on this, the company can substantially increase its profits, mainly on account of the difference between price and unit cost or (to a much lesser extent) on the volume of sales.

The high price strategy (d'écrémage) is based on the observation that, at the beginning of a product's life, consumer demand is less elastic than prices and some consumer ignorance, which cannot be compared with other products (competition being either non-existent or very aggressive). In addition, it relies on the snobbish of a good part of the potential consumers, the possibility of segmenting the market according to the purchasing power of the customers and the one of its downstream exploitation (starting with the segments of the richest clients to the others), on the idea that a price is easier to lower than to increase, that it is easier to justify a high price at the beginning of a product's life than later.

Essentially, in order for this strategy to be successful on the market, the product must be unique and highly desirable for a sufficient number of external consumers, and competition must be incapable of reacting (within a reasonable time) to it. Outside this deadline, competition will appear (as surely), being attracted by the very high profits already made by the firm that has practiced.

1.2. The Low Pricing Strategy (Rapid Penetration)

The low pricing strategy (rapid penetration) is based on the effect of the demand law, namely on low prices, being recommended only when:

- The production costs of the company are lower than the external competition;
- Profit growth is based only on sales growth;
- External demand is very elastic in relation to price;
- It is difficult to prove or maintain the superiority of the product;
- Competition has to overcome few barriers to entry into the targeted foreign market –

or it cannot easily respond to products with similar prices etc.

Also called a *promotional price strategy,* it requires a sufficiently low starting price to rapidly conquer a part of the foreign market and to achieve a sufficiently high profit on sales - being only applicable in the short term. The main objective of this strategy is as simple as it can: get the maximum profit in a *minimum time.* However, from the desire to conquer the market as quickly as possible, the company that relies on this may even accept negative profits (losses) in the initial phase of its application (when the new product is sold at lower prices than costs). If low prices are found to be dumped, they can trigger negative (but justified) reactions from governments governing foreign markets.

There are several variants below which this strategy can be presented, such as:

- *Enlargement strategy*, based on a very low price, able to ensure the rapid expansion of the market;
- *Priority strategy,* which involves setting the lowest price close to the critical threshold (or even below cost), with priority being to counteract competition;
- *The strategy of canceling competition,* which, in addition to the previous one, even relies on the complete elimination of competition.

Both high-priced and low-priced strategies are recommended when the new product is protected by patents or licenses on foreign markets.

1.3. The Moderate Price Strategy

The moderate price strategy undoubtedly reflects a very cautious way of action on the part of the exporting company, assuming a price to be established at an average level (where other products are sold, having the same destination on the external market concerned). In other words, this is a market price determined by the external competitive environment, not provocative, ensuring the company, on the one hand, a satisfactory profit, and on the other hand, consolidation, at least in the medium term, of the position its external market. Often, this strategy (which can be called *caution)* is also a reactive one - the firm that practices it has no choice but to accept the international average price.

1.4. The Stratification Price Strategy

The stratification price strategy is nothing more than a mixture of other strategies, consisting in *stratification of customers* according to the price level that they are willing to accept and in setting different prices for each category of external buyers. The highest price will target the clients with sufficient incomes, who want the new product the most (just before bringing it on the market), and the lowest price will be for the buyers who want it, but they have the most modest incomes. Between the two levels a certain number of intermediate levels is set, switching from one higher to the next lower is usually made after the previous price is about to cancel the demand of the corresponding segment of customers on the external market concerned - with the new lower price attracting the next segment.

Such a strategy is able to provide (at least) three important things for the exporting firm:

a) *Limiting demand* in the initial phase of launching the new product, when the company's external offer is also limited;
b) *Obtaining the maximum* possible profit from each segment of buyers - without the risk of losing customers;
c) *The progressive expansion* of the market share.

The strategy is particularly successful in the case of new products (well protected by patents and patents) that incorporate cutting-edge technologies and can provide tangible benefits to external customers.

1.5. The Odd Pricing Strategy and the Standard Pricing Strategy

The odd pricing strategy implies the use of odd-numbered prices to suggest to external customers that demand is almost inelastic with respect to them. It is usually used for consumer goods (agro-food but not only) banal, but strictly necessary.

The standard pricing strategy implies the use of a single price on all the external markets targeted by the firm (considering that there are no differences between them) and is recommended for new standardized products - especially if they incorporate high technology. When these are subject to mass production, the standard price level (based on relatively small fixed unit costs) may be among the lowest, but to ensure (in addition to maximizing consumer acceptance) a reasonable profit margin - including for countries imposing high tariffs or other trade barriers.

2. Pricing Strategies for Existing Products on the Market

A. Depending **on the price level we choose**, we distinguish: the survival strategy; two-pronged price strategy; product price strategy.

- ***The survival strategy*** referred to is considered when products already on the foreign market are in decline (due to aging, due to tightening competition or even diminishing customer purchasing power). In order to prevent their removal from the market, the exporting firm may opt (following a thorough analysis) for lower prices but immediately above the profitability threshold.
- In the case of oscillating external demand products, firms with limited production capacities may use the strategy ***with different price levels*** (also called stratification prices) based on high prices in peak demand periods (which clearly exceeds the possible offer), respectively at low prices during the minimum demand periods. This is what international hotel chains, airlines, seasonal fruit and vegetable producers do. The main advantages of this strategy are that it:
    - allows *large profits* to be gained from each segment of consumers;
    - supports the *limitation of demand* when it tends to become surplus, thus giving the firm the respite to expand its production capacities;
    - by going from the highest price levels, it allows them to be reduced not only when switching from one segment (had to) to another (less had), but whenever the conditions of the foreign market (and in first the competition) impose it. Such a strategy is particularly appropriate in cases where demand shows certain rigidity in changing prices.
- ***The product price strategy involves setting*** different profit margins (low margins at high costs and high margins at low costs) for products brought on the foreign market at different unit costs, in such a way that all line items are sold (approximately) at the same price (convenient for most buyers - be they very demanding or relatively modest in terms of revenue). It is recommended for companies that aim to maximize profit not on each product but on the whole line.

B. *Starting from the distribution,* companies can use at least three specific price strategies: the price of global products, the price of optional products and the price of captive products [1, 102-106].

The Global Product Price Strategy is recommended for packaged exporters of packaged products or services that contain either more of the same type of beer or soft drinks or different products (furniture and bed linen) or material goods and services (type of transport - accommodation - table) etc. For external buyers, such packages are preferred only if the price per package is less than the sum of the prices of the component products.

1) When the company is structuring its offer in two distinct parts (one containing the basic product and the other one or more products of its choice), it can orient itself towards the strategy of the price of optional products benefiting from the advantages of the previous one, the overall price of some components (thus making it more attractive to the buyer).

2) Companies offering complex offers have a captive price strategy, which (as well as the previous strategy) consists in dividing the price of the global product into two components: an attractive price for the main supply component (for tractors, for example) and a compensation price for other components (for sowing, hoeing, etc.) - making the first product the most aggressive advertising.

3) In order to benefit from the support of certain categories of external buyers (those who paid in advance or immediately after delivery, bought a larger volume of goods, made off-season purchases, etc.), firms can adopt a price strategy based on incentives and bonuses, such as:
   - Rebate for cash payments, which stimulates prompt payment (within a minimum time specified in the contract);
   - Functional or trade-in rebate, which is granted (in the form of a reduction to the list price) to those members of the distribution channel who pay in advance for the goods received (to cover their expenses and obtain a profit);
   - The quantity rebate that stimulates large volume purchases, which may be cumulative (increasing with the increase in the quantity purchased) or non-cumulative (granting each individual purchase / purchase act);
   - Out-of-season rebate, which is granted to speed up the purchase of goods (such as those with demand or seasonal offer) before the need arises and which ensures the transfer of stocks from sellers to buyers;
   - Promotional bonuses granted to intermediaries taking over and part of the effort to promote products outside the country;
   - Low-interest credit sales, which are an alternative to lowering prices, which can be granted to customers even by the vendor (which is very much agreed by buyers who should use more expensive bank credits);
   - The illustrious price cuts, which consist in artificially setting a high price, subsequently selling the product at a considerably lower price, this practice being often considered illegal (which is why the US Federal Trade Commission oversees illegal competition practices);
   - Guarantees and free service (or reduced rates) etc.

4) Differentiated pricing strategy aims at adapting price levels to very different product marketing conditions. Its application is concretized in:
   - Prices specific to certain categories of consumers (rich or poor, pupils and students, retirees, chronic illnesses, etc.), which are also called discriminatory prices;
   - Different prices depending on the sales period (season or off season, weekend or rest of the week, winter or summer, etc.);
   - Differentiated prices by product types (even if they do not correspond to cost levels or obviously different quality characteristics), based mostly on their differences in image;
   - Differentiated prices based on geographic criteria, based on delivery distances and different transport costs (i.e. different conditions - free of charge supplier's warehouse, freight forwarding station, etc.), where transport costs are totally or partially excluded , consumer price patterns specific to certain geographical areas (continents, countries or regions), etc.

Such prices are only appropriate if certain conditions are met (the market can be clearly segmented according to the same differentiation criteria, buyers of low-priced products will not be able to resell at normal prices etc.). [1, 113]

3. Competitive Strategies

These may concern the company's defense against competition, the imitation of competition or the attack of competing firms [1, 110-112]. Taking into account what competing firms have already (or intend to take) in the foreign markets targeted by their own firm, the latter can adopt two major categories of strategies: defense and attack.

3.1. Defense Strategy by Price

This is the defense strategy itself, the imitation strategy and the counterattack strategy.

a) The defense strategy itself by the price can be at the hands of any company, embodying the following forms:
   - defense by price of the position already acquired by the firm on an external market, which implies taking all measures (technical, organizational, promotional, commercial, etc.) in order to be able to produce at lower costs than competitors (or at least at costs comparable to its), being thus prepared for any attack by competitors;
   - defense through the price of the outpost, which forces the company to prepare some pawns in time to put it in front of the defense in the form of more performing and attractive products at lower prices, to discourage the attempts of competitors price reduction;
   - preventive price protection requires rigorous substantiation of massive price reduction programs, providing (more or less discreetly) the willingness to leave competitors with information about their intention to operate in order to intimidate them (which can sometimes result in adverse effects very difficult to counteract);
   - strategic replication, which is a strategy recommended to companies that, in the face of price reductions by competitors, can only cope with withdrawing from some markets (giving up primarily to the poorer or harder to satisfy customers) and reinforcing its position on others (focusing on possible measures to reduce the prices of products distributed on them). Obviously, companies can also operate with multiple versions of defense strategies simultaneously.

b) The strategy of imitation implies a response with the same coin to the competitors' price attack, consisting in the rapid readjustment of their own prices to the level of those used by them. It must be founded in time by very serious, technical and managerial measures, capable of allowing price reductions at any time. The method of determining the price used in this case is that of the market price. Most of the time, imitation is a defense reaction, annihilation of competitors, which is why it could be treated as a variant, alongside the other, of the defensive strategy.

c) The counter-attack strategy is considered to be the most effective strategy, which only very powerful firms can adopt in response to the offensive strategies of competitors, with measures to reduce prices more pronounced than those initiated by attackers. The effects of attack and counter-attack strategies are unpredictable, and they can cause real price wars, with devastating consequences for all combatants.

Being a reaction to the competitors' pricing measures, as well as the imitation strategy, the counter-defense can also be seen as a variant of defense (knowing that the best defense is the attack). Probably this is why many marketing specialists consider it a defensive strategy.

3.2. Attack Strategies

Attack by price is to prepare conditions (through cost-cutting measures) and to operate, on their own initiative, price reductions below their acceptable level. The attack may target the leader, competitors of the same waist or weaker competitors, presented in the following variants:

a) *Frontal attack*, recommended when the company initiating it has certain comparative advantages in terms of cost and quality, which allow it to reduce the price to levels not practicable by other firms (first of all the most powerful competitors);
b) *Flank attacks* encountered when competitors are very strong, consisting either in the geographic isolation of the market segment where they are weaker (where the product will be priced at low prices) or in the isolation of the weakest segment (correspondingly neglected needs) and more eager for low prices;
c) *The attack on neutral areas*, which is not on the markets where the products are placed by the most powerful competitors but on the others (which the price cuts cannot be seized - or not interested in);

d) *Guerrilla attack*, recommended for small firms, consisting in operating short-term price reductions in scattered points, accompanied by rapid change of positions (which take place before competing firms can react).

When none of the pricing strategies listed in this paragraph prove useful, the only remaining solution for the firm is abandonment (product or market).

Conclusions

Large price differentials between countries may lead to some negative phenomena (such as the black market or parallel imports) that take place outside the normal international trade channels under the control of the manufacturers, the legal distributors or the state bodies to combat illegal competition.

The existence of the black market, which some expensive goods sell at prices much lower than those practiced by lawful distributors, leads to the loss of their initial customer base. However, the practices of some producers who, relying on the black market, will increase their production in such a way that, with some of it, it will feed this market. Parallel imports are those in which distributors in the country where high prices are made for certain goods are bought not from the producers in that country, but from distributors in the country where the prices are lower, reselling them in the producing country. For example, some European wholesalers buy low-priced pharmaceutical products from Spain, Portugal or Romania, and then resell them to the UK or Germany at much higher prices - which causes millions of millions of euros a year of loss-making. Also, fluctuations in the dollar against the euro have encouraged imports of Duracell batteries not from their American producer, but from Belgium, where local subsidiaries of this company produce and sell them cheaper. The same is true for Kodak, which is doing higher prices for films distributed in Japan than those sold in other Asian countries - which has led many retailers to buy these South Korean products and resell them Japan at a price of about 25% higher. The main way of limiting parallel imports is the very visible differentiation of products.

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