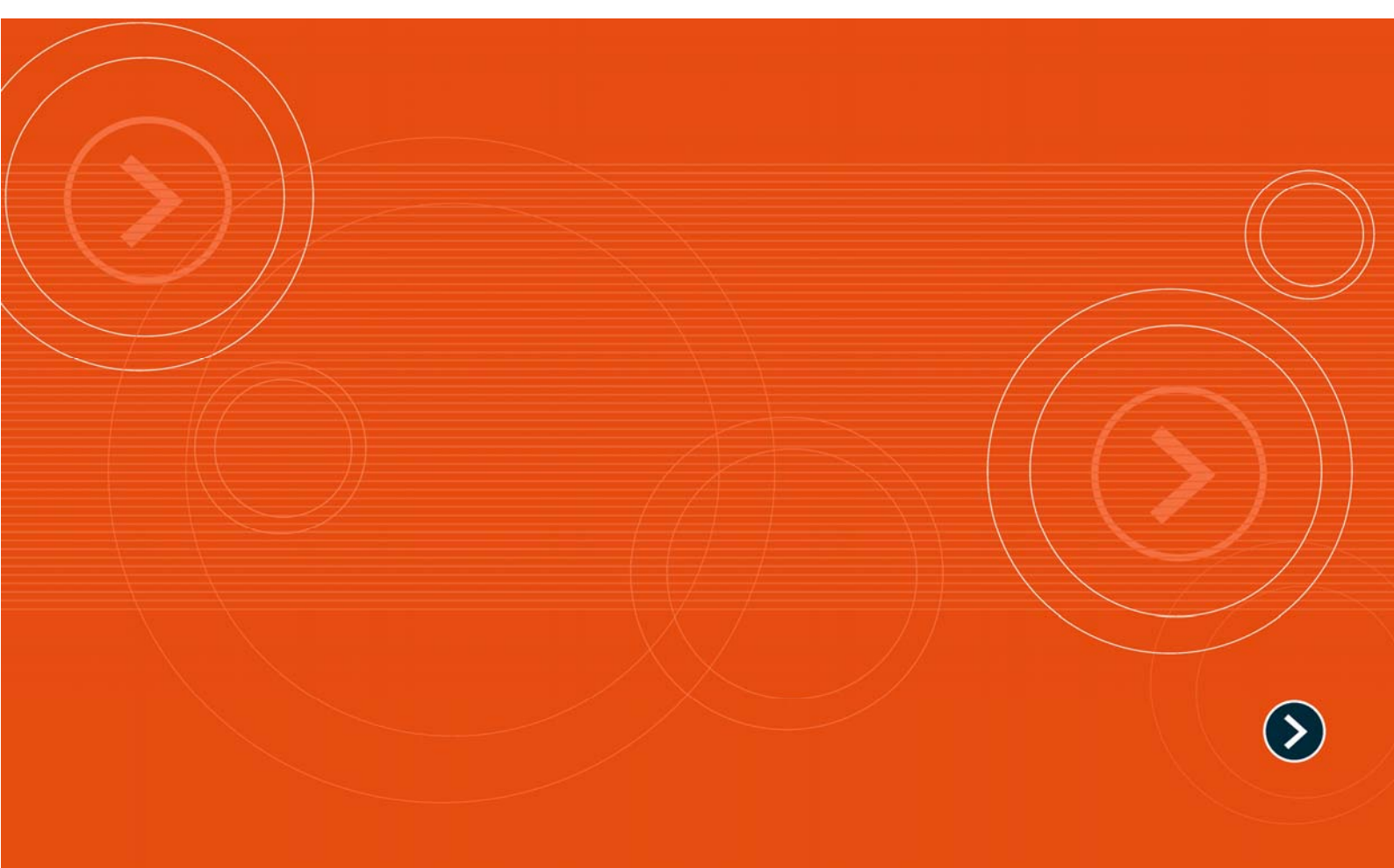




Australian Government
Austrade

Getting Your Export Pricing Right





Getting Your Export Pricing Right

Aim

The aim of this module is to establish the appropriate pricing for your product or service.

Objectives

- Understand the need for getting your pricing right before approaching your chosen export market
- Understand the key elements that influence your export pricing
- Learn how to calculate export pricing based on two different pricing calculation models

Learning Outcomes

At the completion of this module you will:

- know how to calculate pricing for your product or service in your chosen market
- understand and be able to use Incoterms
- understand the steps in the practical checklist
be able to work through the different pricing worksheets to calculate your export pricing.

Topics to be Covered

Export costing

Methods for determining your prices

- Cost-plus pricing
- Demand-based pricing

Additional pricing issues

- Discounts
- Exchange rate
- Credit terms
- Further issues
- Price changes

Pricing for service – some considerations

Terminology – what are Incoterms? Not here??

Practical checklist for export pricing – not here?

Worksheet 1: Cost-plus pricing calculation

Worksheet 2: Demand-based pricing calculation

Worksheet 3: Pricing plan



Getting Your Export Pricing Right

Overview

All companies must decide the price at which they are willing to sell their goods or services. At the same time all buyers, whether they are buyers for an organisation or consumers, must decide the price they are willing to pay for those goods and services.

Price decisions are vitally important to the overall success of an organisation, whether they are selling domestically or internationally.

The right price will help determine whether or not your product or service will be of interest to the market. More importantly, it will determine whether or not you can sell into that market profitably.

It is important to realise that price setting does not happen in a vacuum and several variables (promotions, freight handling etc.) must be taken in to account.

Many of the factors influencing your export price will be different from those affecting your domestic price. Your domestic price should, therefore, not be your base.

Although price is important as a competitive tool, it is essential to compete primarily on non-price variables. Most competitors can easily match or beat a price cut. Buyers are often looking for more than the lowest price. They are interested in convenience, quality or good service and are prepared to pay for it.

Having your pricing determined is an essential prerequisite before approaching your export market. Every contact you meet will want to know your prices.

In setting out your pricing, you must employ internationally-accepted terminology – i.e. Incoterms.

Successful, long-term exporters tend not to sell on price alone. Fluctuations in exchange rates, shipping costs etc can quickly change your costs. Therefore, pricing must be only one of a number of elements that establish your competitive advantage in the export market.

Regularly review your prices to ensure you are making informed decisions. Setting a price at the incorrect level can have drastic impacts on your business and erode profitability quickly.

Speak with your financial adviser or discuss the details in this module with your Austrade export adviser.



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TIPS

Remember to consider the export-specific factors in your costings

Freight forwarding costs and documentation must be factored in to your pricing

Foreign labelling requirements are an important component

Your export price should reflect the company's long-term goal in the market

Export Costing

Before you can determine prices, you must first understand the total cost of exporting your product or service.

Export market development can involve a range of costs that do not apply to domestic sales. These may include:

- market research
- travel
- international communications
- production of export literature (including translation)
- freight forwarding and other logistics charges
- export packing
- product modifications
- packaging
- labelling
- compliance with foreign standards
- insurance for goods in transit
- credit checking
- export documentation
- export financing charges
- training an overseas distributor's staff.



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TIPS

Don't depend on only one method for calculating your prices

Cost-plus works up from your production costs

Don't overlook any factors that contribute to your costs

Consider overhead costs in the export pricing

Methods for determining your prices

There are two main methods you can use in setting your prices: cost-plus and demand-based, also known as top down or reverse pricing.

To find the optimum price for your product or service, you should consider using a combination of both approaches

Cost-plus pricing

Cost-plus pricing involves taking the total cost, including all the extra costs involved in getting your product to the customer and adding an agreed margin.

It is a relatively low-risk approach, provided all relevant costs and a fair distribution of overheads are included.

Inexperienced exporters will often set prices on this basis, allowing the distributor to benefit from additional profits gained in the export marketplace.

The major limitation of the cost-plus approach is that it may overestimate or underestimate what the market will bear, potentially resulting in either reduced sales or lost profits.

When working on a cost-plus strategy, you should pay particular attention to the following questions:

- Does the ex-factory price include all the direct export marketing and set up costs? Are these all to be absorbed in the first year or spread over several years?
- What contribution to overheads does the ex-factory price include? For example, will assuming export sales significantly increase be reflected in lower overhead charges?

When reviewing manufacturing costs, keep in mind:

- the reduction of overheads per unit due to increased throughput from export sales
- whether any local costs are inadvertently included (for example advertising, freight, distribution and promotion).

Worksheet 1 at the end of this document provides a format for calculating your price using a cost-plus approach.



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TIPS

Demand-based pricing works back from prevailing market prices

A competitive market assessment of prices may be required

Research industry discounts and promotions as they affect pricing

Understand the relationship between pricing levels, sales volume and profitability

A commission is required to be paid to an in-market agent for sales

Demand-based pricing

The process of demand-based, top-down or reverse pricing covers all costs associated with exporting – from the planning stage right through to when your customer or end-user pays, including the mark-ups your distributors make.

It is based on determining what your product or service is worth to the customer or end consumer and then working back to determine whether it is profitable or not.

Your starting price can be found by assessing competitive products or services in your export market and adjusting for quality and other relevant factors.

Matching market prices also means matching the competition on other service issues, including discounts, advertising, give-aways etc. The regular price of goods and services can be lowered by the use of discounts. The key to working out demand-based pricing is strong market research.

If you are not dealing in commodities and are trying to get the best possible price from the market, you need a good understanding of how much your sales volume would be reduced as your price is increased.

Higher prices for products or services can be often be justified by special features and effective promotions.

If you have appointed an agent, care has to be taken to find the right balance between offering sufficient incentive to establish the product or service, without foregoing too much of the margin.

One challenge faced by exporters is how to find out what price the market or, more likely, the importer will pay for the product.



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TIPS

Minimum order volumes may affect your pricing

Think about what discounts will need to be offered

Common discounts used are quantity discounts, seasonal or promotional discounts

The price may not change with discounts but you may be asked to pay some costs

Try to limit the effect on your prices of exchange rate movements

Movements in the Australian dollar affect the affordability of Australian goods and services

Demand-based pricing continued

You will need to consider minimum order volumes – at what point is it more cost efficient to send a container load or a full air pallet. Quantity orders can encourage buyers to purchase in larger volumes as they reduce freight and servicing.

Worksheet 2 at the end of this document provides a format for calculating your export costs, starting with your finished cost

Additional pricing issues

Discounts

You should consider offering the following possible discounts.

- Quantity discounts for bulk orders, particularly for FCL (full container load) orders compared with the significantly more expensive LCL (less than full container load)
- Cash discounts for prompt payment
- Promotional discounts to cover advertising and promotional activities. You may be asked to absorb some of these costs
- Trade discounts for wholesale mark-ups, where your representative is selling through wholesalers as well as direct to retailers.

Exchange rates

Prices can be affected by movements in the exchange rate even if quoted in Australian dollars. Foreign prices are a function of foreign currency exchanges.

Quoting 'free on board' or 'cost plus insurance and freight' in Australian dollars will avoid this problem, but it passes the risk on to your customer, who may not be prepared to take it on. Discuss exchange rate issues with your bank or financial adviser.



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TIPS

Expect to be asked to offer credit terms

Check with your bank's international section about how to secure payment for exports

Remember that offering credit terms has an impact on your cash flow

Make sure you can justify any price changes

Advise price changes to your customer as soon as possible

Credit terms

You may be asked to offer credit terms. The demand for the product, your price and how badly you need to do the business will all affect what terms you offer. You may find that you need to match your competitors on credit terms. An open account, with an agreed payment period, is increasingly required by buyers.

Offering credit terms has the opposite effect on pricing to cash discounts for prompt payments. Extending credit terms will have a real cost impact on your company as cash flow is critical to business.

You should estimate the cost of the time it takes to receive payment at the end of the credit period and build this cost into your price.

Price changes

You will need to advise the agent or end user when and why prices change. A sufficient lead time may be necessary for the buyer to pass the price change on to their customers.

There are many reasons why prices may change. These include:

- currency fluctuations
- increases in the costs of production (for example raw materials)
- inflationary increases – it may be appropriate to tie



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TIPS

Try to allow for all the other issues that will impact on your pricing

Understand that pricing decisions have an impact on volume and profitability

Your overall market position and your competition has an impact on price setting

Further issues

There are additional costs associated with export markets, including freight, insurance, handling, breakage, duties, financing, service and travel.

Allow for negotiations with distributors and customers, including credit terms and some bargaining on prices.

Before setting your prices consider calculating both demand-based and cost-plus prices using the reverse pricing method. This will allow you to assess the potential range of profit margins and avoid loss.

Consider your cash flow needs, capacity utilisation and changing product mix. Your competitive analysis and ability to supply should dictate how you will price your product or service just as you do in Australia.

You can try to build a large market share by offering quality at a low price or, at the other extreme, to build a premium brand image and sell a low volume at a high price. However, you risk getting locked in for the long term.



Getting Your Export Pricing Right

TIPS

You can use the same concepts for pricing services

Pricing for service – some considerations

The price concepts and methods for tangible goods mentioned in this module are also applicable to services. However, we need to discuss three concepts with regards to services on negotiated prices, discounts and premium pricing.

Negotiated prices

Many service providers are willing to negotiate price if a customer considers the price too high. This may open communication for a negotiated price. Negotiated prices are common for services that overseas companies purchase, for example artistic or creative services or training packages.

Discounts policies

Seasonal discounts, volume discounts or early purchase discounts are popular with service providers due to the perishable nature of services. Early purchase discounts can apply for things like hotel rooms, sports or theatre tickets.

Premium pricing

The quality of a service is difficult to assess and price can be used an indicator of quality. Therefore, if premium pricing is used by the service provider, all tangible elements of the service (for example, promotional materials and presentation) must reflect this premium image or price.



Getting Your Export Pricing Right

EXPORT PRICING GUIDE the Cost-Plus method

*All terms must be followed by a named place
eg CIF Tokyo, FOB Sydney*

EXW	EX WORKS	\$
+	Wholesale price (not including GST or delivery)	
EXW (Named Place)		\$ -

FOB	FREE ON BOARD	\$
	EXW Price +	
+	Transport to carrier eg wharf, airport	
+	Customs clearance (ECN)	
+	Additional packing/labour for transport	
+	Agent's commissions (eg 10%)	
FOB (Named Place)		\$ -

CFR	COST AND FREIGHT	\$
	or	
CPT	CARRAIGE PAID TO	
	FOB Price +	
+	Sea freight / air freight charges to wharf/airport	
+	Sea / air document fees eg Airway Bill, B/L	
+	BAF (Bunker adjustment factor)*	
+	Transport contingency#	
CFR or CPT (Named Place)		\$ -

CIF	COST, INSURANCE, FREIGHT	\$
	CFR or CPT price +	
+	Marine Insurance Premium	
CIF (Named Place)		\$ -

DDP	DELIVERY DUTY PAID	\$
	CIF +	
+	Import duty/tax (calculated as % of CIF price)	
+	Customs clearance fees	
+	Delivery charge from airport to customer	
DDP (Named Place)		\$ -

* may be charged by shipping / airfreight company
suggested 5% of transport costs



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Worksheet 2

Demand-based pricing calculation

EXPORT PRICING GUIDE
the Demand Based method
(also known as *Top-Down or Reverse costing*)

*All terms must be followed by a named place
eg CIF Tokyo, FOB Sydney*

Note that this example is for a retail product

Similar Product at a Retail Store (foreign currency)	
Deduct: VAT / GST / Sales tax (if included in Retail price) Consumer price excluding VAT/ GST/ Sales tax	
Deduct: Retail Margin Price to Retailer	
Deduct: Importer / Distributor Margin Deduct: Customs Clearance fees Deduct: Import duty (based on a % of the CIF price) Deduct: Inland freight from port/airport to Importer's warehouse CIF (Named Place) in foreign currency	
Convert to A\$ CIF (Named Place) in A\$	
Deduct: Freight (air or sea freight) Deduct: Insurance Charges FOB (Named Place)	
Deduct: Freight to Airport/Wharf Deduct: Export Documentation fees eg Customs clearance Add: Duty Drawback (Import Duty paid on components)	
Ex Works Price in A\$	



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Worksheet 3

Pricing plan

1 Objectives of pricing strategy

2 Pricing

Cost Information

Product or service	Cost based on reverse pricing
1.	1.
2.	2.
3.	3.

Major competitor's price

Best competitor for each product or service	Selling price (specify currency)
1.	1.
2.	2.
3.	3.

3 Export price

Based on an analysis of how your product compares with your major competitors and considering all other relevant factors, your export prices will be:

Product	Price (\$)	Selling price (specify currency)
1.	1.	1.
2.	2.	2.
3.	3.	3.



Getting Your Export Pricing Right

Worksheet 3 continued

4 Policy

Policy concerning price increases (timing, exchange rate variations (local currency), how much notification will be given, CPI etc.)

5 Policy concerning discounts

Quantity	
Promotional	
Payments	
Trade	

6 Credit terms – conditions of sale

Quantity and a description of the goods	
Price and the relevant currency	
Basis for the quote (eg. EXW = ex works; FOB = free on board etc)	
Point of delivery attached to the price	
Terms of payment	
Timing of delivery	