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# Pricing Strategies of Multinationals for Global Markets – Considerations and Initiatives:

## Pricing Strategies for Global Markets

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### ABSTRACT

Multinationals require analyzing a number of pricing considerations while competing in globally. Firms require setting different and appropriate prices of their products for each of the markets they operate in. The price of a product is an important criterion while formulating strategies for global markets as it determines to a large extent whether a product will get sold or not. Companies contend with a number of issues in pricing for global markets like geographical pricing, price escalation, transfer prices, dumping charges, pricing for emerging markets, and pricing for individuals at the bottom of the pyramid. There are several legal and ethical aspects in pricing for global markets. These include deceptive or illegal prices – deceptive reference pricing, loss leader pricing, and the bait and switch approach towards pricing; predatory pricing; price discrimination; and price fixing. Each of the issues is discussed in detail. The article focuses on how multinationals should handle and overcome them, establish their businesses in global markets, and generate substantial revenues and profits.

### KEYWORDS

Counterfeiting, Deceptive Pricing, Dumping, Emerging Markets, Geographical Pricing, Gray Market, Price Escalation, Transfer Prices

### 1. INTRODUCTION

Businesses in different countries of the world have converged in recent years. The whole world has become a global village (Taylor, 2010). In this changed economy, countries should recognize and understand that the world is multi-cultural. The requirements and preferences of different customers in different countries of the world will be different. For this reason, product of one country may not be suitable for another country and may require adaptation to be accepted by customers in another country (Berzon, 2011). Because of these differences, it is risky to compete in global markets. At the same time, global markets offer higher opportunities. Consequently, companies selling their products and services in global markets require to internationalize their operations (Sheth, 2011).

Global markets have specific characteristics which will be different and requirements which cannot be satisfied uniformly by regional markets (Valenzuela, Mellers, & Stebel, 2009). Products meant for one market require at least some degree of adaptation before being introduced in global markets (Cayla & Peňalova, 2012). For example, Coca-Cola is sweeter or less carbonated in certain countries. Also, the same bottle of Coca-Cola may have different prices in different markets. Companies should analyze their products based on different aspects before launching them in other markets. The aspects

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may include distribution, communication, and pricing of the products. This initiative is important to make sure that the brand remains relevant in all the markets. Multinationals require considering a number of issues in pricing their products. Pricing is important because it is one of the deciding factors for consumers before purchasing a product (Kumar & Steenkamp, 2013). The paper focuses on various considerations in pricing strategy of products before entering global markets.

Companies adopt different pricing strategies and tactics for their products and services. Unscrupulous firms find ample opportunity for engaging in pricing practices that can hurt consumers (Hamilton & Chernov, 2013). There are several legal and ethical implications connected to the pricing strategies and tactics adopted by companies. Prices tend to fluctuate naturally and respond to varying marketing conditions (Lindsey-Mullikin & Petty, 2011). Firms rarely attempt to control the market in terms of product quality or advertising. Instead, many companies often engage in pricing practices that can unfairly reduce competition or harm consumers directly through fraud and deception. A number of laws and regulations have been formulated both at the federal and at the state levels to prevent unfair pricing practices (Hamilton & Srivastava, 2008). However, many of the laws and regulations are poorly enforced while others are difficult to prove (Lohr, 2012). The paper focuses on various legal and ethical aspects in pricing of offerings especially when marketers enter global markets.

## 2. PRICING CONSIDERATIONS FOR PRODUCTS IN GLOBAL MARKETS

Multinational firms which have presence in global markets should be aware of and should have proper strategies for geographical pricing, price escalation, transfer prices, dumping charges, pricing for emerging markets, and pricing for individuals at the bottom of the pyramid. Two issues in pricing which particularly important include pricing problems of gray markets and counterfeits (Antia, Bergen, Dutta, & Fisher, 2006).

### 2.1. Geographical Pricing

Companies do not set the same price for a specific product in all the markets in which they operate globally. They set prices such that the prices indicate the variations in geographical demand and costs. In geographical pricing, companies decide how to set prices to different customers in different geographical markets and countries (Agarwala, 1991). A company should also decide whether prices should vary based on geographical distances and whether higher prices should be charged to customers in distant markets to cover higher distribution costs. On the contrary, companies may also decide to charge lower prices while going to global markets in order to expand their businesses (Rowe, 1989). In global markets, companies also need to account for exchange rates and the strengths of different currencies in different countries. Prices of products in a market will also be determined by the purchasing power of individuals in that market (Agarwala, 1991).

Another major consideration is how to get paid. Sometimes, buyers do not have hard currencies to make immediate payment (Rowe, 1989). Buyers practice countertrade in such cases where they offer other items in payment. Many U.S. companies accept this form of payment when they trade with companies which are from less-developed countries. Countertrade may account for 15 percent to 20 percent of world trade and may take several forms (Agarwala, 1991).

#### *2.1.1. Barter*

The buyer and the seller exchange goods between themselves with no money or third party involved.

#### *2.1.2. Compensation Deal*

In compensation deal, some percentage of the payment is done in cash and the rest is done in the form of products. For instance, a British aircraft manufacturer sold planes to Brazil for 70 percent cash and the rest in coffee.

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