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How Smart Pricing and Positioning Can
Maximize Profits in Overseas Markets

by Mark Chodnowsky

How do you price internationally? Do you use different prices for different countries? Should your product be positioned differently in different countries? What criteria should your pricing and positioning decisions be based on?

These were among the questions confronting a U.S. firm about to acquire a European instrument manufacturing plant from a large European conglomerate. And these are questions for all companies exploring international expansion to consider -- since pricing and positioning have such a critical impact on profits.

In addition, the U.S. client planned to continue to distribute the instruments through the conglomerate's network of international distributors and sales offices. Therefore, an appropriate transfer price between the client's newly acquired factory and the conglomerate's sales network had to be negotiated.

> *"Product pricing and positioning in international markets must be analyzed and executed with great care"*

Analyzing the Market

Historically, the conglomerate's pricing had been haphazard, at best. Local distributors and sales offices made the final pricing decisions for their individual markets and the manufacturer was losing money in several countries as a result.

Preliminary research showed that selling prices for the instruments varied widely -- up to 100% from one country to another even after accounting for exchange rate fluctuations. Local market examination indicated that the competitive environment was considerably different from one country to the next, that product attributes and performance features were valued differently, and that distributor policies (e.g. warranties, commercial terms, service contracts, etc.) differed considerably making it difficult to compare "all in" prices.

Product Positioning

Much of the discrepancy in pricing from one country to the next was the result of major differences in positioning the product and in the package of goods and services being offered.

In the U.S., U.K., and Spain, because the instrument manufacturer did not have a true low-end model in its line, local distributors had priced the manufacturer's least expensive instrument into the low price-high volume segment. Not surprisingly, this created considerable demand, much like a Lincoln priced like a Tauras would, but unacceptably low margins.

In Canada and Germany, one of the manufacturer's instruments had become overpriced and obsolete. The instrument came with an integral personal computer, while most competitors' instruments relied on external PCs. This enabled competitors to take advantage of substantial price declines and performance improvements as the PC market rapidly evolved, putting the manufacturer at a serious disadvantage.

Bundling after sales service and extended warranties into the instrument price worked well in most European countries where bundling was highly valued. In North America, however, buyers were much more price sensitive and put much less emphasis on service and support.

Benefits

The detailed evaluation of the pricing and positioning of the products throughout Europe allowed our client to adjust the value of the acquisition and to negotiate a more favorable transfer price.

In the longer term the assessment helped define a positioning strategy in each country and established guidelines for developing the next generation of products.

As more and more executives have come to realize, often through painful experiences, product pricing and positioning in international markets much be analyzed and executed with great care. Failing to do so risks eroding profit margins, forfeiting sales, or both; and may enable a competitor to gain a dominant position in one country that can be leveraged into other geographic regions.

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