

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

Pricing Strategies for Global Markets

Pratap Chandra Mandal, Indian Institute of Management, Shillong, India

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 & Peñalova, 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

DOI: 10.4018/IJBSA.2020010102

This article, originally published under IGI Global's copyright on January 1, 2020 will proceed with publication as an Open Access article starting on February 1, 2021 in the gold Open Access journal, International Journal of Business Strategy and Automation (converted to gold Open Access January 1, 2021), and will be distributed under the terms of the Creative Commons Attribution License (<http://creativecommons.org/licenses/by/4.0/>) which permits unrestricted use, distribution, and production in any medium, provided the author of the original work and original publication source are properly credited.

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.

2.1.3. Buyback Arrangement

The seller may sell a plant, equipment, or technology to a company in another country. The seller then agrees to accept as partial payment products manufactured by the buyer with the supplied equipment. For example, a U.S. chemical company constructed a plant for an Indian company. The U.S. company accepted a portion of the payment in cash and the rest in the form of chemicals manufactured at the plant.

2.1.4. Offset

The buyer pays the full amount in cash for overseas sales. At the same time, the seller agrees to make a substantial amount of investment in that country within a stipulated time period. In the Gorbachev regime, PepsiCo sold its cola syrup to the government of Soviet Union for rubles. PepsiCo agreed to buy Russian vodka at a specified rate and sell it to the United States (Ramirez, 1990).

2.2. Price Escalation

A brand of the same product may be priced differently in two or more different markets. A Gucci handbag may sell for \$120 in Italy and \$240 in the United States (Bolton, Keh, & Alba, 2010). The reasons for setting different prices in different markets are many. For example, Gucci must add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. Companies will transfer all the costs incurred finally to the customers. Price escalation results from these added costs and currency-fluctuation risk. A manufacturer may be forced to charge a price two to five times as high for one market compared to another to earn the same profit (Bolton et al., 2010).

A company has different options to set different prices in different countries:

1. **Setting a uniform price everywhere:** A company may set the same price for the same product in all the markets it operates. Based on this pricing strategy, it would earn quite different profit rates in different countries (Bolton et al., 2010). Another issue will be that consumers in poor countries will perceive the prices to be too high. Consumers in rich countries will perceive to buy the products at cheap rates (Bolton et al., 2010);
2. **Setting the price based on market price in each country:** A company can set the price based on the market price in each country or based on what customers in different countries could afford to pay. However, this strategy ignores differences in the actual costs from country to country (Bolton et al., 2010). Also, intermediaries will always want to sell products in those countries where prices are higher. In extreme cases, intermediaries may ship products from countries with low prices to countries with high prices and then sell the products. This will help intermediaries to earn profits (Bolton et al., 2010);
3. **Setting the price based on the cost incurred in each country:** Companies may set a standard markup of its costs incurred in every market. However, this strategy will result in charging higher prices in those markets where the costs incurred are higher. Customers in different markets will perceive prices differently. This might also result in pricing the product out of those markets where its costs are high (Bolton et al., 2010).

Selling products online might be a solution for companies to eliminate challenges in pricing. Pricing becomes transparent and price differentiation between countries decline (Bolton et al., 2010). For example, the costs incurred in delivering a lecture in a classroom may be different in the United States, Germany, and India. However, if the same lecture is delivered online, the pricing may be similar everywhere (Bolton et al., 2010).

Global challenges in prices force companies to take aggressive steps towards pricing. Sometimes, countries have overcapacity, cheap currencies, and the need to export aggressively (Graham, Mintu, & Rogers, 1994). To overcome these challenges, companies in such countries may lower their prices

and devalue their currencies. Also, demand of product is sluggish in such countries. Consequently, customers are not willing to pay higher prices (Graham et al., 1994).

Multinational companies handle the situations in different ways. For example, Swedish home furnishing agent, IKEA competed successfully in China's challenging pricing market (Pierson, 2009). When IKEA opened its first store in Beijing way back in 2002, local stores in China were selling copies of product designs of IKEA at much lower prices than that charged by IKEA (Fong, 2006). IKEA was aware that Chinese customers are frugal. To attract Chinese customers, IKEA reduced the prices of its products drastically. Western brands which sell in Chinese markets set prices in China higher than that in other markets. Products such as makeup and running shoes are priced 20 percent to 30 percent higher. This was done to cover China's high import taxes and also to give their products added cachet (Fong, 2006). To overcome the problems, IKEA started manufacturing the products meant for Chinese markets in China itself. IKEA stocked its Chinese stores with Chinese-made products. This strategy allowed IKEA to reduce logistics and distribution costs. This also meant that IKEA could reduce its prices as low as 70 percent below their level outside China (Pierson, 2009). Western-style showrooms of IKEA provide model bedrooms, family rooms, and dining rooms. IKEA also provides suggestions to customers about their furnishing. Chinese customers are impressed with the personal care and human touch shown by IKEA. This also helped IKEA to increase its market share in China from practically zero in 1995 to about 70 percent in 2012. Young couples in China are attracted by IKEA's stylish and functional modern styles. Several Chinese companies provide tough competition to IKEA. However, IKEA maintains its dominance in China with sizable stores in a number of locations (Pierson, 2009).

2.3. Dumping and Transfer Prices

Transfer prices are those prices which are charged by one unit of a company to another unit of the same company for shipping products to its foreign subsidiaries. If a subsidiary is charged too high a price, a company may end up paying higher tariff duties. Companies may choose to lower income taxes in the foreign country. Companies will be accused of dumping when they charge their subsidiaries too low a price. A company may charge below its cost or may charge a price lower than it charges at home. Companies adopt such a strategy to enter into a foreign market and capture it within a short period of time. Rules and regulations have been formulated and enforced by governments of many countries to restrict companies from practicing dumping (Wingfield, 2012). Governments encourage companies to report cases of dumping by other companies. Governments also require companies to charge the arm's-length price which is the price charged by other companies for the same or a similar product. Such initiatives result in curbing malpractices and encouraging healthy competition.

Dumping is handled strictly by the U.S. Department of Commerce. Dumping tariff is imposed on a company if evidence of dumping is found against it and the guilt is proven (Wingfield, 2012). At the same time, the U.S. government also supports clean-energy products. The U.S. government decided to set anti-dumping duties of 44.99 percent to 47.59 percent in wind towers manufactured in China and Vietnam and sent to the United States (Wingfield, 2012).

2.4. Gray Markets and Preventive Measures

Multinational companies have to deal with the issue of gray markets when they venture to global markets. Distributors divert branded products from authorized distribution channels either in-country to across international borders (Antia et al., 2006). Distributors procure products in excess of what they can sell in the home country. The excess amount is exported to countries where the prices of such products are higher. Price differences in the two markets allow distributors to have higher profits (Myers & Griffith, 1999).

Authentic distributors face problems due to gray markets. Legitimate distributors are forced to invest in products which are less productive. Distributors make selective distribution channels more intense to reduce the number of gray market possibilities (Antia et al., 2006). Relationships among

distributors are affected due to gray markets. Gray markets dilute the manufacturer's brand equity. Integrity of distribution channels is also threatened. Distributors are unable to resist the temptation of higher revenues and profits. They even sell damaged and defective products to consumers. Such products may cause harm and even pose threats to consumers. The products may be relabeled, obsolete, without warranty or support, or just counterfeit (Weaver, Whalen, & Faucon, 2012). The scope of gray markets operating increases when customers are urgent need of products and when the prices of products are high. For this reason, prescription drugs are often the target of gray markets. U.S. government regulations are strict with respect to gray markets in the healthcare industry. Fake vials of Riche Holding AG's cancer drug Avastin were shipped to U.S. doctors from abroad. The regulations monitor and keep a close watch on such incidents (Weaver et al., 2012).

Multinationals take actions to prevent gray markets. They monitor their distributors. They charge higher prices from lower-cost distributors. They also change product characteristics or service warranties for some countries (Antia et al., 2006). In critical situations, legal steps are taken against companies which are involved in gray markets. 3Com successfully sued several companies in Canada for using written and oral misrepresentations to get deep discounts on 3Com networking equipment. The money involved was of the order of \$10 million. The equipment which was worth millions of dollars, was sold to a U.S. educational software company and sent to China and Australia. The product ended up landing in the United States after changing hands of a number of distributors (Blanchard, 2007).

Research studies and experts suggest a number of options to prevent gray market activities (Antia et al., 2006; Myers & Griffith, 1999). It is possible to prevent gray market activities when huge penalties were imposed, manufacturers were able to detect violations, or mete out punishments in a timely fashion, or both (Antia et al., 2006).

2.5. Counterfeit Products and Remedial Actions

Multinational companies expand their production and manufacturing facilities in foreign markets. They also develop and build a robust supply chain network to expand their businesses (Ricks & Leiber, 2012). Expansion into global markets increases the chances of corruption, fraud, and degradation of quality. Several companies have started doing businesses based on counterfeit products. Sophisticated overseas factories of such companies can replicate almost everything. Counterfeits put established brands at threat because chances are very high that a counterfeit version of a brand exists somewhere in the world (Grow, Tschang, Edwards, & Burnsed, 2008).

Counterfeiting creates a negative impact and bad name for legal businesses. Counterfeiting results in a loss of more than a trillion dollars a year. U.S. Customs and Border Protection seized \$1.26 billion worth of goods in 2012. Companies from countries like China (81 percent) and Hong Kong (12 percent) were mainly involved in counterfeiting. Companies produced counterfeits mainly for products which included apparel and accessories, followed by electronics, optical media, handbags and wallets, watches, and jewelry (Hargreaves, 2012).

It is difficult to distinguish between authentic and counterfeit products. Also, sometimes customers are forced to go for counterfeits. At the Summer Olympics in London in 2012, the Egyptian Olympic team was forced to buy fake Nike gear from a Chinese distributor. Egypt was plagued with economic crisis at that time which forced the team to encourage counterfeit products (White, 2012). Nike investigated and verified the authenticity of the claims. After thorough investigation, Nike donated all the necessary training and village wear to the team (White, 2012).

Luxury brands are hit hard by counterfeits. Prices of luxury brands are higher and not many individuals can afford to buy them even when they desire to do so. Customers go for counterfeits in such cases. The profits and businesses of luxury brands such as LVMH Moët Hennessey Louis Vuitton, Tiffany, and Hermès are affected because of fake brands (Burnsed, 2008). Defective counterfeit products can cause harm to users and may sometimes be life-threatening. Mobile phones with counterfeit batteries, counterfeit airline parts, and fake brake pads made of compressed grass

trimmings pose safety risks to consumers (Grow et al., 2008). Companies produce counterfeit products in pharmaceuticals. Fake teething powder in Nigeria, toxic cough syrup in Panama, and tainted baby formula in China have all caused deaths of children in recent years (Burnsed, 2008). It is easier and more profitable to do business with counterfeits in pharmaceuticals because individuals are in urgent need of medicines and are ready to procure them at any cost.

Any product is at threat because all products can be replicated and counterfeits can be introduced. Microsoft estimates that four-fifths of Windows OS software in China is pirated (McIntyre, 2012). One anti-counterfeit consultant observed, “If you can make it, they can fake it.” companies producing counterfeits take help of advanced technology to replicate authentic products. A new security system is at threat of being copied within a few months of introduction in the market (Shine, 2007).

Information is available uniformly to everyone because of the internet. After surveying thousands of items, LVMH estimated that 90 percent of Louis Vuitton and Christian Dior pieces listed on eBay were fakes. LVMH decided to take legal actions against counterfeits (Kong, 2007). Companies dealing with authentic products take strict actions to fight against counterfeits. For example, manufacturers detect frauds online with web-crawling software. Software also provide warnings about violations and their consequences. Such detection can take place without human intervention. Based on the findings of web-crawling software, Acushnet, maker of Titleist golf clubs and balls, shut down 75 auctions of knockoff gear in one day with the single click of a mouse (Kong, 2007).

Companies also apply web-crawling technology in searching counterfeit storefronts and sales by detecting domain names. The technology helps in searching for domain names which are similar to the domain names already taken by legitimate brands. It also keeps track of unauthorized websites which use brand trademarks and logos of legitimate brands on their homepages. It detects counterfeits by searching for keywords like, discount, cheap, factory variants, and authentic. It also searches for colors which are not the usual colors for authentic brands and for prices which are too low (Kong, 2007).

2.6. Pricing for Emerging Markets

Prices in global markets will be more than domestic prices for comparable products. For example, the price of an Apple iPad 3 which is \$499 in the United States may sell for \$624 in the United Kingdom (Madden, 2011). Apple has to increase its prices due to a number of reasons. Cost of transportation, tariffs, wholesaler margin, importer margin, and retailer margin require to be added to its factory price. Because of all these costs, the price of a product needs to be set at two to five times the price in the home country to generate the same amount of profit (Madden, 2011).

Emerging markets demand special attention and considerations from multinationals. Consumers in emerging markets are poor and their purchasing power is lower than that of consumers in developed markets. However, companies require capturing the markets in emerging economies and generating profits. Towards fulfilling this objective, companies develop simpler, smaller, and cheaper versions of their products with less features that can be sold at lower prices. Some companies introduce new brands exclusively for emerging markets. Such brands are cheaper and affordable and not sold in developed markets. For example, Levi launched the Denizen brand for teens and young adults of developing markets in China, Brazil, and India (Drafta, 2011). Consumers in such markets cannot afford to buy Levi’s branded jeans at their original prices. The name “Denizen” combines the first four letters of *denim* with *zen*. *Zen* is a word with Japanese and Chinese roots that means “mediative style” or “escape from the hustle and bustle of everyday life” (Drafta, 2011).

Price is one of the most important factors which determines the success of multinationals in emerging markets. So, companies should finalize prices for emerging markets after a lot of considerations. Entering such developing markets means that the target market consists of the exploding middle class in developing countries like Russia, China, Brazil, and India. Economically, these countries have high growth rates and are growing at double digits annually (Karamchandani, Kubzansky, & Lalwani, 2011). However, the global recession has weakened the economy and slowed down the growth in many countries. Companies are shifting their focus to include a new target

segment called “bottom of the pyramid”. It comprises of the world’s poorest customers who constitute a majority of the population in developing countries (Prahalad, 2012). Consumers in such markets are extremely sensitive about prices. It is an untapped market with huge potential. Consequently, multinationals are targeting this segment.

Unilever has developed a unique pricing strategy for developing countries (Karamchandani et al., 2011). Previously, companies from developed markets used to sell the products meant for developed markets to the developing countries. New labels were pasted on the products and were sold at premium prices to a few premium customers in the developing countries. Unilever was one of the first companies which realized that by selling products with new labels pasted on them, companies are losing out on the majority of the population in developing countries (Karamchandani et al., 2011). Unilever is a renowned company whose brands include Lipton, Vaseline, and Dove. It realized that it was unable to target the vast majority of Indian customers. Majority of the population was not able to afford to pay the high prices of the brands (Prahalad, 2012). Unilever understood the requirements of Indian customers. It shrunk its packaging and set low prices that even the world’s poorest consumers could afford. It developed packages for single usage of products like shampoo, laundry detergent, and other products. Unilever generated profits by selling the brands in bulk for just few Indian rupees a pack. By adopting the strategy, Unilever generated more than 50 percent of its revenues from emerging countries (Prahalad, 2012).

Multinationals recognize that it is tougher to sell products profitable to the bottom of the pyramid. It requires a lot of introspection. Companies will not succeed in the long run only by repackaging or stripping down existing products and selling them at lower prices (Karamchandani et al., 2011). Individuals at the bottom of the pyramid have their own preferences and aspirations. They also want to receive maximum value from products. Now-a-days, companies focus on innovation to develop products that are attractive for their low prices and also for providing value to bottom-of-the-pyramid customers (Prahalad, 2012).

3. LEGAL AND ETHICAL ASPECTS IN PRICING

There are various legal and ethical aspects in pricing of offerings for global markets. Some of them are highlighted below.

3.1. Deceptive or Illegal Price Advertising

It is illegal and unethical for marketers to lie in advertising. However, a certain amount of “puffery” is allowed in advertising (Xu & Wyer, 2010). Marketers should keep in mind that price advertisements should never deceive consumers to the point of causing harm. For example, if a local car dealer advertiser advertises itself as offering the “best deals in town”, then perhaps the communication will be considered as puffery. In contrast, if a brand claims “the lowest prices, guaranteed”, then the claim is specific. If the claim is not true, it can be considered deceptive.

3.1.1. Deceptive Reference Pricing

Reference prices create reference points for the buyer against which to compare the selling price. The advertisement is informative if the reference price is authentic. The advertisement is considered deceptive if the reference price has been inflated or is just plain fictitious. The product may also cause harm to consumers (Lindsey-Mullikin & Petty, 2011). It is however, difficult to decide when a reference price is authentic and when it is not. It is difficult to set standards for reference prices. If an advertisement specifies a “regular price”, just what qualifies as regular? How many units of a product should be sold at a store for the price to be authentic? Also, stores may try to sell the product at the reference price. However, consumers may not be willing to buy at the reference price. In such cases, it is difficult to label the price as reference price (Lohr, 2012). In general, if a seller is going to label a price as a regular price, the Better Business Bureau suggests that at least 50 percent of the sales have occurred at that price (Lohr, 2012).

3.1.2. Loss Leader Pricing

In leader pricing, price of a product is set above the store's cost. Leader price is a legitimate attempt to build store traffic by pricing a regularly purchased item aggressively (Lindsey-Mullikin & Petty, 2011). In loss leader pricing, the price is set below the store's cost. Grocery and discount stores offer "buy one, get one free". Unless the markup for the item is 100 percent of the cost, the sales do not generate enough revenue from the sales of one unit to cover the store's cost for both units. This also means that the total for both the items is below cost. The manufacturer bears the cost of the promotion to generate volume. In some markets, this form of pricing is illegal (Lindsey-Mullikin & Petty, 2011).

3.1.3. Bait and Switch Approach

In bait and switch approach, sellers advertise items for a very low price without the intent to really sell any (Bertini & Wathieu, 2008). this approach is considered deceptive because the store lures customers in with a very low price on an item (the bait), only to aggressively pressure customers into purchasing a higher-priced model (the switch) by disparaging the low-priced item, comparing it unfavorably with the higher-priced model, or professing an inadequate supply of the lower-priced item (Bertini & Wathieu, 2008). It is difficult to enforce laws against bait-and-switch practices. This is because, salespeople always try to get customers to trade up to a higher-priced model without necessarily deliberately baiting them. It is difficult to prove with certainty whether a price is deceptive or not because it depends on the intent of the seller (Hamilton & Srivastava, 2008).

3.2. Predatory Pricing

Competition is tough and to sustain it, companies sometimes set a very low price for one or some of its products to drive the competitors out of business. This is called predatory pricing (Lindsey-Mullikin & Petty, 2011). Predatory pricing is illegal under both the Sherman Antitrust Act and the Federal Trade Commission Act. Predatory pricing creates a barrier for free trade and results in unfair competition. It also tends to promote oligopoly where a concentrated market is formed with a few dominant firms (Lohr, 2012).

It is difficult to prove whether pricing is predatory or not. First, the intent of the seller needs to be proved. It needs to be proved conclusively that the concerned firm intends to drive out the competition or prevent competitors from entering the market (Lohr, 2012). Secondly, it is equally difficult to prove that the firm charged prices lower than its average cost.

The issue of predatory pricing is gaining in importance because of Google's dominance in the search engine market (Lindsey-Mullikin & Petty, 2011). Companies advertising with Google bid for specific keywords. The companies which win the bids have their products featured first in the paid search results section on the search engine. Again, Google penalizes companies for advertisements of poor quality and charges them more. This tactic ensures that users are more likely to find high-quality results from their searches (Miller, 2013). Google has kept the logic used to define quality, confidential. Experts and critics allege that Google manipulates the paid search results in such a way that it undermines competitors' offerings while promoting its own. Critics argue that the claims may be true. In 2012, the Federal Trade Commission (FTC) found enough evidence for search results manipulation. FTC recommended the government to sue Google. In 2013, a European Commission came to similar conclusions (Miller, 2013). The unresolved question remains: because of Google's dominance in the search engine market, with its resulting ability to control prices, would its practice of charging more for its "quality handicap" be predatory? (Lohr, 2012).

3.3. Price Discrimination

Companies follow many forms of price discrimination. However, only some of them are considered illegal under the Clayton Act and the Robinson-Patman Act (Reinhardt, 2010). Firms are said to be following price discrimination when they sell the same product to different resellers (wholesalers,

distributors, or retailers) at different prices. Larger firms receive lower prices (Garrett, Burtis, & Howell, 2008).

Customers are offered quantity discounts based on the quantity they purchase. This form of price discrimination is considered legitimate based on the assumption that it costs less to sell and service 1000 units to one customer than 100 units to 10 customers (Reinhardt, 2010). Firms should however, ensure that quantity discounts are available to all customers. Quantity discounts should not be structured in such a way that they favor one or a few buyers over others (Reinhardt, 2010).

The Robinson-Patman Act is not applicable for sales to end-users. For example, consumers receive discounts on food and movie tickets, which is perfectly acceptable under federal law (Reinhardt, 2010). Firms like eBay which are involved in online auctions also practice a legal form of price discrimination because sellers are selling the same item to different buyers at different prices. Firms from health care industry offer a “sliding scale” based on income to deal ethically with the rising costs. In such offers, lower-income patients receive discounts or even free medical care, especially for children (Reinhardt, 2010).

3.4. Price Fixing

Price fixing is the process of controlling prices by colluding with other firms (Garrett et al., 2008). Price fixing might be either horizontal or vertical. Horizontal price fixing is considered illegal under the Sherman Antitrust Act. It becomes difficult to ascertain whether vertical price fixing should be considered illegal or not (Labaton, 2007).

Horizontal price fixing occurs when companies that produce and sell competing products or services collude, or work together, to control prices, effectively taking price out of the decision process for consumers (Labaton, 2007). The process tends to reduce competition and is illegal. Six South African airlines were accused of colluding with the intention of raising the fares of flight tickets within the country during the World Cup (Business Wire, 2010). Tobacco companies have also been accused of colluding and fixing the prices of cigarettes worldwide. Competing firms should not be allowed to discuss about prices or terms and conditions of sale with competitors. If firms want to know competitors' prices, they should do so with the help of competitors' advertisements, their websites, or their stores (Business Wire, 2010).

Vertical price fixing occurs when firms at different levels of the same marketing channel (e.g. manufacturers and retailers) agree to control the prices at which consumers buy their products. Manufacturers also encourage retailers to sell their products at a specific price to consumers. This price is called manufacturer's suggested retail price (MSRP). MSRP is set to reduce retail price competition among retailers, encourage retailers to provide complimentary services, and support the manufacturer's merchandise (Bawden, 2011). MSRP is enforced by withholding benefits such as cooperative advertising or refusing to deliver merchandise to noncomplying retailers. The Supreme Court mandates that retailers are required to sell merchandise at MSRP on a case-by-case basis. Retailers should not be forced to sell at MSRP and should depend on individual circumstances (Bawden, 2011).

Some reputed candy producers have engaged in both horizontal price fixing and vertical price fixing as claimed by Canada's Competition Bureau. Canada's official Competition Bureau claims that rivals Mars (maker of candies like M&M's and Snickers, and the Dove line of chocolates) and Nestlé (which produces Butterfinger and Crunch candies, among others) have collaborated with different wholesalers to increase and fix the prices of their chocolates.

Apart from the firms themselves, the executives in charge of Nestlé Canada, Mars Canada, and a wholesale distributor, ITWAL have been named individually in the prosecution. The three firms have denied and have vowed to fight the charges (Garrett et al., 2008).

Hershey's Canadian arm was initially accused in the conspiracy. However, it cooperated with the authorities and this helped Hershey to avoid direct prosecution (Labaton, 2007). Hershey admits engaging in price fixing. However, it claims that the events happened under previous management and

all the ethical issues have been solved. John Pacman, Canada's Interim Commissioner of Competition was confident and noted: "Price-fixing is a serious criminal offence and today's charges demonstrate that the Competition Bureau's resolve to stop cartel activity in Canada" (Garrett et al., 2008).

Pricing practices and decisions involve a number of ethical considerations. Firms should fix their pricing decisions and strategies based on thorough analysis. They should balance their goal of inducing customers, through price, to find value and the need to deal honestly and fairly with those customers. Buyers can be influenced by a variety of pricing methods. Firms should decide which of the methods work best for the seller, the buyer, and the community.

4. DISCUSSIONS

A number of hurdles exists for companies while going for global markets. These include shifting barriers, unstable governments, foreign exchange problems, and technological pricing. Nevertheless, companies enter global markets because they need to internationalize their operations. Companies require to adapt their marketing programs at various levels. Firms require adapting their prices as per the specific market so that consumers find the prices affordable. At the same time, firms should also be able to generate sufficient revenues and profits for themselves. Companies may have to set prices based on geographical locations. Firms may encounter price escalation, transfer prices, dumping, gray markets, and discounted counterfeit products. Firms also require developing and implementing specific pricing strategies for emerging markets and for targeting consumers at the bottom of the pyramid.

Firms operating in international markets require adapting prices based on other specific considerations. A uniform price cannot be set by firms for all the global markets in which they operate. Pricing of products should reflect variations in geographical demands and costs involved. Different prices are set for different markets based on the costs incurred in each market. Firms require handling transfer prices carefully and aim to encourage healthy competition by avoiding dumping. Sometimes, governments and other regulatory bodies may have to intervene to curb unethical practices like dumping. Creation of gray markets should not also be encouraged. Firms require initiating strict actions against counterfeit products. Prices should be set differently for emerging and developing markets where purchasing power of individuals is lesser than that of individuals in developed markets. Special considerations in pricing should also be done for a majority of the population in emerging and developing markets who form bottom of the pyramid.

Marketers apply a number of strategies and tactics for setting or changing a price. Companies sometimes get into trouble while setting prices. Some common legal issues pertain to advertising deceptive prices. Sometimes, firms compare a reduced price with a regular or reference price. Before doing that, firms must have actually sold the product or service at the regular price. Another form of deceptive price advertising is bait and switch. Sellers advertise items for a very low price without any intent to really sell at that price. Collusion among firms to fix and regulate prices is always illegal. Deceptive or illegal pricing is an important ethical issue which requires consideration. Deceptive pricing may include deceptive reference pricing, loss leader pricing, and bait and switch approach towards pricing were discussed. Some of the other legal and ethical aspects in pricing for global markets include predatory pricing, price discrimination, and price escalation. All the above issues were discussed in details.

5. CONCLUSION

The paper discussed the various issues which companies operating in global markets should be aware of and should consider while taking strategic decisions related to pricing. The paper reviewed a number of issues in pricing for global markets like geographical pricing, price escalation, transfer prices, dumping, gray markets, counterfeit products, pricing for emerging markets and for individuals

at the bottom of the pyramid. Different legal and ethical aspects related to pricing of products in global markets were discussed.

The contribution of the paper lies in the fact that an in-depth discussion of the various aspects of pricing for global markets was done. The paper also focused on the legal and ethical aspects in pricing of products for global markets. The discussions have both theoretical and managerial implications. Based on the discussions, academicians may understand the different pricing considerations for doing business in global markets and their legal and ethical aspects. They might also suggest improved pricing strategies which will bring maximum returns for companies while keeping the customers satisfied. The discussions will sensitize managers about the practical issues related to pricing in global markets and their legal and ethical implications and how to handle them. Managers will also realize that setting and controlling prices for global markets require analyzing a number of practical considerations simultaneously. The analysis will help companies in adopting suitable strategies to win through them and establish their companies in global markets. Efforts were made to include the relevant and latest literature related to pricing in global markets. However, the economic and business environment is dynamic and competitive and firms operating in global markets are facing challenges regularly. Researchers and practicing managers require keeping themselves updated about the latest trends, developments, and pricing challenges in global markets to suggest effective pricing strategies for multinationals to deal with the competition.

REFERENCES

- Agarwala, P. N. (1991). *Countertrade: A Global Perspective*. New Delhi: Vikas.
- Antia, K. D., Bergen, M. E., Dutta, S., & Fisher, R. J. (2006). How Does Enforcement Deter Gray Market Incidence? *Journal of Marketing*, 70(1), 92–106. doi:10.1509/jmkg.2006.70.1.92
- Bawden, T. (2011, December 13). Bloody Node for OFT in Row over Tobacco Price-Fixing. *The Independent*.
- Bertini, M., & Wathieu, L. (2008). Research Note: Attention Arousal through Price Partitioning. *Marketing Science*, 27(2), 236–246. doi:10.1287/mksc.1070.0295
- Berzon, A. (2011, June 6). Starwood CEO Moves to China to Grow Brand. *Wall Street Journal*.
- Blanchard, D. (2007, May 1). Just in Time—How to Fix a Leaky Supply Chain. *Industry Week*.
- Bolton, L. E., Keh, H. T., & Alba, J. W. (2010). How Do Price Fairness Perceptions Differ Across Culture? *JMR, Journal of Marketing Research*, 47(3), 564–576. doi:10.1509/jmkr.47.3.564
- Burnsed, B. (2008, October 8). The Most Counterfeited Products. *BusinessWeek*.
- Business Wire. (2010, February 1). South African Airlines to be Investigated for Alleged World Cup Price-Fixing, Report DialAFlight.
- Cayla, J., & Peñaloza, L. (2012). Mapping the Play of Organizational Identity in Foreign Market Adaptation. *Journal of Marketing*, 76(6), 38–54. doi:10.1509/jm.10.0015
- Drafta, C. (2011, May 16). Levi Strauss Targets Asia with Denizen. *EverythingPR*.
- Fong, M. (2006, March 3). IKEA Hits Home in China: The Swedish Design Giant, Unlike Other Retailers, Slashes Prices for the Chinese. *Wall Street Journal*.
- Garrett, D. M., Burtis, M., & Howell, V. (2008). Economics of Antitrust: An Economic Analysis of Resale Price Maintenance. *Global Competition Review*. Retrieved from <http://www.GlobalCompetitionReview.com>
- Graham, J. L., Mintu, A. T., & Rogers, W. (1994). Explorations of Negotiations Behaviors in Ten Foreign Cultures Using a Model Developed in the United States. *Management Science*, 40(1), 72–95. doi:10.1287/mnsc.40.1.72
- Grow, B., Tschang, C., Edwards, C., & Burnsed, B. (2008, October 8). Dangerous Fakes. *BusinessWeek*.
- Hamilton, R., & Chernev, A. (2013). Low Prices Are Just the Beginning: Price Image in Retail Management. *Journal of Marketing*, 77(6), 1–20. doi:10.1509/jm.08.0204
- Hamilton, R. W., & Srivastava, J. (2008). When 2+2 is Not the Same as 1+3: Variations in Price Sensitivity across Components of Partitioned Prices. *JMR, Journal of Marketing Research*, 45(4), 450–461. doi:10.1509/jmkr.45.4.450
- Hargreaves, S. (2012). Counterfeit Goods Becoming More Dangerous. Retrieved from www.money.cnn.com
- Karamchandani, A., Kubzansky, M., & Lalwani, N. (2011). Is the Bottom of the Pyramid Really for You? *Harvard Business Review*, 89(3), 107–111.
- Kong, D. (2007). Smart Tech Fights Fakes. *Business*, 2(0), 30.
- Kumar, N., & Steenkamp, J. E. M. (2013). *Brand Breakout: How Emerging Market Brands Will Go Global*. New York: Palgrave Macmillan. doi:10.1057/9781137276629
- Labaton, S. (2007, June 29). Century-Old Ban Lifted on Minimum Retail Pricing. *New York Times*.
- Lindsey-Mullikin, J., & Petty, R. D. (2011). Marketing Tactics Discouraging Price Search: Deception and Competition. *Journal of Marketing*, 64(1), 67–73.
- Lohr, S. (2012, October 12). Drafting Antitrust Case, FTC Raises Pressure on Google. *New York Times*.
- Madden, N. (2011, January 17). In China, Multinationals Forgo Adaptation for New-Brand Creation. *Advertising Age*.

- McIntyre, D. A. (2012, January 3). The Most Popular American Companies in China. *Wall Street Journal*. Retrieved from www.247wallst.com
- Miller, C. C. (2013, April 14). Europeans Reach Deal with Google on Searches. *New York Times*.
- Myers, M. B., & Griffith, D. A. (1999). Strategies for Combating Gray Market Activity. *Business Horizons*, 42(6), 2–8. doi:10.1016/S0007-6813(99)80032-9
- Pierson, D. (2009, August 25). Beijing Loves IKEA—But Not for Shopping. *Los Angeles Times*.
- Prahalad, C. K. (2012). Bottom of the Pyramid as a Source of Breakthrough Innovations. *Journal of Product Innovation Management*, 29(1), 6–12. doi:10.1111/j.1540-5885.2011.00874.x
- Ramirez, A. (1990, April 9). Pepsi Will Be Bartered for Ships and Vodka in Deal with Soviets. *New York Times*.
- Reinhardt, U. E. (2010, January 8). Ending Hospital Price Discrimination against the Uninsured. *New York Times*.
- Rocks, D., & Leiber, N. (2012, June 25). Made in China? Not Worth the Trouble. *Bloomberg Businessweek*.
- Rowe, M. (1989). *Countertrade*. London: Euromoney Books.
- Sheth, J. N. (2011). Impact of Emerging Markets on Marketing: Rethinking Existing Perspectives and Practices. *Journal of Marketing*, 75(4), 166–182. doi:10.1509/jmkg.75.4.166
- Shine, E. (2007, June 4). Faking Out the Fakers. *BusinessWeek*.
- Taylor, A. (2010, January 18). Hyundai Smokes the Competition. *Fortune*.
- Valenzuela, A., Mellers, B., & Stebel, J. (2009). Pleasurable Surprises: A Cross-Cultural Study of Consumer Responses to Unexpected Incentives. *The Journal of Consumer Research*, 36(5), 792–805. doi:10.1086/605592
- Weaver, C., Whalen, J., & Faucon, B. (2012, March 7). Drug Distributor Is Tied to Imports of Fake Avastin. *Wall Street Journal*.
- White, M. C. (2012, August 3). Nike Donating Outfits to Egyptian Team, Replacing Counterfeit Gear. NBC News. Retrieved from www.nbcnews.com
- Wingfield, B. (2012, December 19). U.S. Boosts Import Duties on Chinese Wind-Energy Firms. Bloomberg. Retrieved from www.bloomberg.com
- Xu, A. J., & Wyer, R. S. Jr. (2010). Puffery in Advertisements: The Effects of Media Context, Communication Norms and Consumer Knowledge. *The Journal of Consumer Research*, 37(2), 329–343. doi:10.1086/651204

Pratap Chandra Mandal is an Assistant Professor (Marketing) in Indian Institute of Management, Shillong, India. He has completed graduate degree from the reputed Indian Institute of Technology, Kharagpur (IIT Kharagpur), India (Bachelor of Technology in Mechanical Engineering), post-graduate degree from Vinod Gupta School of Management, IIT Kharagpur master's in business administration), PhD (Marketing) from Vinod Gupta School of Management, IIT Kharagpur. His research concerns customer relationship management, customer satisfaction, services marketing, marketing intelligence, and qualitative methods in management. He is the editor-in-chief of two international journals and is on the editorial board of journals like Journal of Global Marketing. Pratap has won several prestigious scholarships and awards throughout his academic career.