Chapter 18

GLOBAL PRICING AND DISTRIBUTION STRATEGIES

18-1 International Pricing Activities

18-2 Global Distribution Activities

18-3 Moving Goods Around the World
Toys “R” Us in Japan

In 1984, after becoming the largest U.S. toy seller, Toys “R” Us started its international expansion into Canada, Europe, Hong Kong, and Singapore. The company was then attracted by the over $6 billion annual toy sales market in Japan. However, Toys “R” Us faced several barriers when entering the world’s second-largest toy market.

Japan’s Large-Scale Retail Store Law attempted to protect smaller businesses. For any store larger than 5,382 square feet (approximately 500 square meters), owners had to obtain approval from government agencies to build the facility. This process could take as long as ten years. Pressure from U.S. trade representatives and price-conscious Japanese consumers reduced the time needed for Toys “R” Us to gain approval for a store. The first Toys “R” Us store in Japan was 44,000 square feet and stocked nearly 15,000 products.

Toys “R” Us buys items in large quantities, which allows the company to sell at discounted prices. Instead of buying through wholesalers, Toys “R” Us attempts to deal directly with manufacturers. In the beginning, many toy producers hesitated to participate since they did not want to upset their long-term relationships with wholesalers and retailers.

For Toys “R” Us stores to gain acceptance among business people and consumers in Japan, McDonald’s Company of Japan purchased 20 percent of the Toys “R” Us stores in that country. Both enterprises have similar target markets—families with children—resulting in many cooperative selling efforts.

Today, even though Toys “R” Us has over 500 stores outside the United States in 29 countries, the company faces strong competition. Wal-Mart and other discount retailers have expanded their market share of the retail toy market. Online selling by eToys.com and others has also put competitive pressure on Toys “R” Us.

Think Critically

1. What factors may have affected the decision of Toys “R” Us to first expand into Canada, Europe, Hong Kong, and Singapore?
2. How did the Large-Scale Retail Store Law in Japan protect small stores?
3. Go to the web site of Toys “R” Us to obtain additional information about the company’s international operations and online selling activities.
As a part of its marketing plan, every business must decide what amount to charge and how to get goods and services to customers. Factors such as export costs, values of foreign currencies, and the availability of transportation systems influence pricing and distribution for international marketing.

Price is the monetary value of a good or service. Everything has a price. Interest is the price paid on loans. Fare is the price paid for airline transportation. Fees are the prices paid for medical and legal services. The three main factors that influence the price a company charges for goods and services are costs, consumer demand, and competition, as shown in Figure 18-1.

**Figure 18-1** Costs, consumer demand, and competition are the main factors that influence the price of goods and services.
COSTS
A company cannot sell an item for less than it costs the company to make or for the company to buy. Production and other operating costs must be covered by the price of an item. Besides incurring ordinary business expenses, organizations involved in international marketing will incur other costs, such as the following.

1. The cost of modifying a product to meet cultural or legal restrictions
2. Tariffs and other taxes that must be paid when selling to customers in another country
3. Fees to acquire export or import licenses
4. Expenses for the preparation of export documents
5. Changes in the exchange rate for a nation’s currency
6. Transportation costs due to selling to buyers at a greater distance

CONSUMER DEMAND
When prices are high, consumers tend to buy less of an item than when prices are low. The basics of demand operate in all buying situations. Lower incomes, higher prices, and needs for other items result in reduced demand for a good or service. The economic conditions, cultural preferences, and legal restrictions in a foreign market also are likely to affect potential demand and the price that is charged.

COMPETITION
If many companies are selling an identical or similar product, consumers have more choices than if only one company or a few companies were selling the item. Competition tends to keep prices lower. For example, if many stores in Bogota are selling similar products, consumers will purchase at the store with the lowest price. This competition will force companies to offer special prices or promotions to attract customers. When a company starts marketing their goods and services in another country, it faces competition from domestic companies in that country and from other exporting companies around the world.

CheckPoint
What factors affect consumer demand?
International marketing managers use a variety of methods to determine appropriate prices. Markup pricing, new product pricing, psychological pricing, and discount pricing can be effective price determination methods.

**MARKUP PRICING**
Many prices are based on the cost that the store paid for an item plus an amount to cover the expenses and add profit. **Markup** is an amount added to the cost of a product to determine the selling price. The markup includes operating costs and a profit on the item.

Markups are commonly stated in percentages. For example, a company may use a 40 percent markup on its products. For an item that costs $50, this would result in a $70 selling price. To determine the selling price, multiply the cost by the markup percentage; then add this result to the cost.

<table>
<thead>
<tr>
<th>Markup</th>
<th>Percentage</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20</td>
<td>0.40</td>
<td>$50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Selling Price</th>
<th>Cost + Markup</th>
</tr>
</thead>
<tbody>
<tr>
<td>$70</td>
<td>$20</td>
</tr>
</tbody>
</table>

Competition affects markup, like many other marketing decisions. Products in competitive markets with constant demand, such as food products, tend to have low markups. In contrast, products with inconsistent demand—such as high-fashion clothing items and jewelry—will usually have higher markups to cover the carrying costs of these items.

**NEW PRODUCT PRICING**
When a company decides to sell a new product, managers face the problem of deciding what price to charge. The pricing strategy used for a new product is affected by the product image desired, the amount of competition, and sales goals. Three commonly used methods for pricing new products are competitive pricing, skim pricing, and penetration pricing.

**Competitive Pricing**
If the new product has competition already on the market, a company may decide to sell its new product at a comparable price. Certain products and services always seem to be priced about the same at all selling locations. Gasoline, pizza, and basic groceries tend to have competitive prices in a given geographic area. Any price differences can usually be attributed to special services or special product features.

**Skim Pricing**
When a new product is introduced, managers may decide to charge as much as possible. This approach, called **skim pricing**, sets a relatively high introductory price. Skim pricing attempts to attract buyers who are not concerned with price while also quickly covering the research and development costs of the new product. This approach was used when video recorders and personal computers were first introduced.

With skim pricing, a company faces two potential problems. First, the high price may quickly attract competitors to the market. Second, the company faces the risk of setting the price too high and selling very few items.
Penetration Pricing  In contrast to skim pricing, penetration pricing is the setting of a relatively low introductory price for a new product. This approach attempts to gain strong acceptance in the market. This low-pricing strategy can help a company take sales from competitors as the law of demand suggests people will buy more at lower prices than at higher prices. Penetration pricing can be effective when competing against established companies in other countries and when selling in nations with low economic development.

Psychological Pricing  In an attempt to persuade consumers to purchase a product or service, companies may use pricing to create an image. For example, certain prices can communicate that an item for sale is a bargain. Or another item may be priced to portray an image of high quality. Common psychological pricing approaches include promotional pricing, odd-even pricing, prestige pricing, and price lining.

Promotional Pricing  Advertised specials are a common marketing activity, especially in supermarkets and discount stores. Special-event low prices may be offered as “back-to-school” or “end-of-the-season” sales. A loss leader, which is a very low-priced item used to attract customers to a store, is used with the hope that shoppers will make other purchases while shopping for low-priced items. In a grocery store, milk is generally a loss leader.

Odd-Even Pricing  Have you ever noticed that many items are priced at 59¢, $1.79, $8.95, and $79.99? Over the years, U.S. companies have found that prices ending in 5 or 9 (odd numbers) present a bargain image. A price ending in an even number or rounded to the nearest dollar amount, such as $175 or $49.50, generally gives an impression of quality. Bargain-oriented restaurants will price meals at $6.95 and $8.99, while quality-conscious restaurants may use $17.50 and $22. This strategy may vary by country. For example, in Japan, the numbers 4 and 9 are considered unlucky.
Prestige Pricing  Extensive research has revealed that people believe a higher priced item is better quality than the exact same item at a lower price. French manufacturers such as Yves Saint Laurent, Limoges, and Christofle set prices to project an image of status, influence, and power.

Price Lining  To make shopping easier for customers and salesclerks, a store may offer all merchandise in a category at the same price. All suits offered by a store may be sold at $150, $225, and $300. Music CDs may be sold for $8.99, $11.99, and $14.99. Each price category includes a variety of items from which customers in that can choose.

Discount Pricing  Price reductions are one of the most common actions taken by companies to attract and keep customers. Four common types of discounts are seasonal, cash, quantity, and trade.

Seasonal Discounts  At various times of the year, companies may reduce prices to sell the remaining items in stock. Seasonal discounts in the United States include price reductions of summer clothing in August and reductions on Christmas cards and decorations the day after Christmas. In Santiago, Chile, during late July and August, the end-of-winter sales feature discounts on coats and other heavy clothing.

Cash Discounts  Companies may reduce the price charged for items to encourage customers to pay their bills quickly. For example, customers may be offered a 2 percent discount if their bill is paid within ten days. If a customer decides not to take advantage of the discount, the full invoice amount is due within 30 days. This discount is expressed as 2/10, net/30.

Quantity Discounts  To encourage customers to purchase more of an item, businesses may offer a quantity discount. For example, a garden shop may sell bags of potting soil using the following pricing schedule.

<table>
<thead>
<tr>
<th>Bags</th>
<th>Price per Bag</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 4</td>
<td>$2.79</td>
</tr>
<tr>
<td>5 to 9</td>
<td>$2.39</td>
</tr>
<tr>
<td>10 or more</td>
<td>$2.09</td>
</tr>
</tbody>
</table>

Trade Discounts  Manufacturers commonly sell to distributors and stores based on a percentage of the list price, also called the suggested retail price. An electronics producer, for example, may sell televisions to stores at a 50 percent trade discount. In other words, a television that sells to consumers for $450 would cost stores $225.

CheckPoint
Why are cash discounts offered?
Managers setting prices for domestic markets are aware of competitors’ prices, consumer demand, and currency values. However, when businesses are setting prices for trade across borders, the process is not as easy, and information may not be readily available.

The recession in the United States in the early 1980s had little effect on demand for Mercedes-Benz automobiles. However, the economic downturn in 1991 was a different story for the German auto manufacturer. Because of a weak dollar (compared with the deutsche mark) and a newly imposed U.S. luxury tax, sales of Mercedes dropped 24 percent in the United States.

Fluctuations in exchange rates for currencies can result in receiving less money than expected. One way to minimize the effect of fluctuating currency rates is to set prices high enough to cover these changes. Countertrade, which is the direct exchange of products or services between companies in different countries, can also minimize this risk.

Sometimes a company may intentionally set prices extremely low for foreign trade. Dumping is the practice of selling exported products at a lower price than what is asked in the company’s home country. While this can benefit consumers, others will suffer. The lower price drives out competition, causing workers to lose jobs.

Businesses often pressure governments to prevent dumping. Countries may adopt antidumping laws or antidumping tariffs. These trade barriers prohibit importers from selling products at artificially low prices.

DUMPING
For twenty years, Smith Corona Corporation charged Brother Industries, Limited, of Japan with dumping. Brother was accused of hurting U.S. competitors by unfairly selling portable word processors at exceptionally low prices in the United States. Although Smith Corona obtained several legal rulings in its favor from the International Trade Commission, the practice continued.

More recently, fish producers in Maine protested that Chile was driving down the market price of salmon by selling at below-production cost. This action was believed to be an unfair trade practice. In contrast, several supermarket chains and restaurants believed the salmon was beneficial to their companies and consumers. The supporters of the Chilean fish industry contended that the lower-cost boneless salmon fillet was the result of investments in new processing equipment. They argued that this was a different product than was being produced by U.S. fishing companies.

While dumping may benefit consumers and the country selling the low-cost product, others are harmed. The country receiving the products can find that the lower price drives out competition, causing workers to lose jobs. Prices might become inflated once competition is driven out of the market.

Think Critically
1. Use the three guidelines for ethical analysis to examine the above situation. Are the fish producers in Chile acting ethically?
2. What actions might be appropriate for a country that is victimized by dumping?

A Question of Ethics

How can losses from currency fluctuations be minimized?
REVIEW GLOBAL BUSINESS TERMS
Define each of the following terms.
1. markup
2. skim pricing
3. penetration pricing
4. loss leader
5. dumping

REVIEW GLOBAL BUSINESS CONCEPTS
6. What are the three main factors that affect the price of a product?
7. What does a markup include beyond the cost of manufacturing or buying the product to be sold?
8. What are the advantages and disadvantages of dumping?

SOLVE GLOBAL BUSINESS PROBLEMS
For each of the following situations, calculate the requested markup, discount, cost, or price.
9. A Japanese clothing store marks up its prices 70 percent. What would be the selling price for a jacket that cost the store 8,000 yen?
10. A British company offers a 3 percent discount on a £600 purchase paid within 10 days. What is the amount of the purchase if the customer pays within 10 days?
11. A Brazilian store sells blank videocassettes for 6.3BRL each if less than five are purchased or 5.8BRL each if five or more are purchased. What would be the cost of six tapes?
12. A Mexican appliance manufacturer sells to retailers with a trade discount of 35 percent. If a washing machine has a list price of Mex$900 (pesos), what would be the cost of the item to a store?

THINK CRITICALLY
13. Assume a can of vegetables sells for $1. Estimate the amount for each of the following business costs: (a) product ingredients, (b) processing, (c) package and label, (d) advertising, (e) warehouse storage, (f) transportation, and (g) store profit.
14. Do antidumping laws promote or deter free trade?

MAKE CONNECTIONS
15. TECHNOLOGY Compare prices for products sold in local stores and through online shopping web sites. Do the items cost more or less online? How do shipping charges, taxes, and delivery time affect online shopping?
16. MATHEMATICS Collect advertisements with examples of odd and even prices used at different stores. What types of retailers use this pricing method most often?
GLOBAL DISTRIBUTION ACTIVITIES

GOALS

- Contrast direct and indirect channels of distribution.
- Describe the activities of agents, wholesalers, and retailers.
- Explain the role played by global intermediaries.

DISTRIBUTION CHANNELS

For a product to be useful, it must be transported from the producer to the user. A distribution channel is the path taken by a good or service to get from the producer to the final user.

When would a company sell directly to the user of a product, and when would a business use wholesalers and retailers? How products are distributed is influenced by the type of product and consumers involved. For example, a small company that wants to distribute its products in many stores probably will use a distribution channel with many retailers. Figure 18-2 on the next page shows the common distribution channels used.

In a direct distribution channel, producers sell goods or services directly to the final user. Some examples of direct distribution (Channel A) include farmers selling produce at a roadside stand, sales representatives for a cosmetic company calling on consumers in their homes, and publishing companies selling their books through a web site.

More common than direct distribution is the use of agents, wholesalers, and retailers. An indirect distribution channel occurs when goods or services are sold with the use of one or more intermediaries between the producer and the consumer. Channel B is a common distribution method for automobiles and other motor vehicles. Channel C is used to distribute packaged food products and other items sold in supermarkets and discount stores.
Finally, Channel D may be used for foreign trade in which an import-export agent is involved.

**CheckPoint**

What is the difference between a direct distribution channel and an indirect distribution channel?

**DISTRIBUTION CHANNEL MEMBERS**

Several parties are usually involved when selling goods across borders. An **intermediary** is any person or organization in the distribution channel that moves goods and services from the producer to the consumer. The most common intermediaries are agents, wholesalers, and retailers.

**AGENTS**

An **agent**, also referred to as a **broker**, brings together buyers and sellers but does not take ownership of the products. International agents serve export companies by being knowledgeable about global markets and international trade barriers.

**WHOLESALERS**

A **wholesaler** is a business that buys large quantities of an item and resells them to a retailer. Wholesalers do not usually sell directly to final users of a product. Wholesalers have five main functions: providing information, processing orders, storing and transporting, financing and taking possession, and
promoting. These functions are further described in Figure 18-3.

The film, equipment, and photographic supplies made by Kodak are available in almost every country. The company’s headquarters in Rochester, New York, maintains close contact with sellers to determine demand for its products throughout the world. Factories are kept informed of needed inventory so sufficient merchandise is produced. Kodak’s Distribution Division coordinates these efforts to ensure that distribution centers have the product when it is needed.

Many people believe that eliminating wholesalers would reduce marketing costs. While wholesalers may be eliminated, the duties performed cannot be eliminated. Transporting, storing, and ordering must still be done. Either the manufacturer or the retailer must perform these duties, which would probably be less efficient than leaving the functions with wholesalers who specialize in those tasks.

**RETAILERS**

A retailer is a store or another business that sells directly to the final user. Each day hundreds of millions of shoppers make purchases from retailing businesses. In Cairo, Egypt, many people buy needed goods at an open market, while in Paris, most people make their purchases at small shops or large retail stores. Retailers attempt to serve customers in five main ways. These ways include product selection, convenience, product quality, sales staff assistance, and special services. These functions are further described in Figure 18-4.

**SERVICES PROVIDED BY RETAILERS**

- **PRODUCT SELECTION:** Variety of sizes, styles, and brands
- **CONVENIENCE:** Location, hours of operation, parking availability, and ease of making purchases
- **PRODUCT QUALITY:** Product excellence and reputation
- **SALES STAFF ASSISTANCE:** Information about product features, uses, and store policies
- **SPECIAL SERVICES:** Delivery, ease of exchanging or returning items, and special sales

**FUNCTIONS OF WHOLESALERS**

- **PROVIDING INFORMATION:** Communicating between manufacturers and retailers
- **PROCESSING ORDERS:** Providing needed products for retailers to sell
- **STORING AND TRANSPORTATION:** Maintaining warehouses and shipping capabilities
- **FINANCING AND TAKING POSSESSION:** Accepting ownership of finished goods and extending credit to customers
- **PROMOTING:** Advertising and selling to retailers and helping retailers promote to their consumers

**Figure 18-3** Wholesalers perform important functions that assist with international marketing activities.

**Figure 18-4** Retailers provide a variety of services to attract customers.
Retailers in the United States may be viewed in six major categories, which are convenience stores, general merchandise stores, specialty stores, direct sellers, online retailers, and automatic vending.

**Convenience Stores** A family needs milk and bread, or a student needs a report cover for school. These buying situations may result in consumers shopping at the stores closest to their homes. Convenience stores are usually located near the homes of potential customers or have gas stations. Easy parking, easy-to-find items, and fast service are common among convenience stores.

**General Merchandise Retailers** Some retailers offer a larger variety of product types and offer more service than convenience stores. General merchandise retailers include supermarkets, department stores, discount stores, warehouse club stores, and outlet stores.

In recent years, several major retailing companies have created superstores, also called *hypermarkets*. These giant one-stop-shopping facilities offer a wide variety of grocery items and department-store merchandise. While the typical supermarket has about 40,000 to 50,000 square feet, superstores may have 200,000 square feet or more. The first hypermarket was started in France in 1963. Today these superstores are likely to include a bakery, a restaurant, a pharmacy, and banking facilities.

**COKE VS. PEPSI AT THE BERLIN WALL**

When the Berlin Wall fell in 1989, many businesses were ready to enter the previously closed East German market. Pepsi presented dramatic television commercials celebrating the end of the cold war. While Pepsi sales grew, the company continued to ship products from existing bottling plants in western European locations.

Coca-Cola used a different distribution strategy. Coca-Cola invested $400 million to buy five bottling plants, 13 distribution centers, 370 trucks, 900 cars and vans, 170 fork-lifts, and 20,000 vending machines. This commitment to distribution in eastern Europe by Coca-Cola resulted in the company’s outselling Pepsi in the German market by the early 1990s.

**Think Critically**

1. How do the costs and risks differ for the distribution strategies used by Coca-Cola and Pepsi?
2. Go to the web sites of Coca-Cola and Pepsi to obtain information about the international operations of these companies. Write a brief description of your findings.
Specialty Stores  Shoes, furniture, clothing, sporting goods, computer software, and baked goods are commonly sold in stores that specialize in a limited product line. Specialty stores offer a variety of styles and brands of an item along with knowledgeable sales personnel.

In recent years, very large specialty stores have grown in market power. These specialty superstores offer low prices and a very extensive product line. Examples of these retailers include OfficeMax, Home Depot, Best Buy, and PETsMART.

Direct Sellers  Mail order, telephone contacts, door-to-door marketing, and e-mail messages are called direct selling. This retailing method involves direct contact between the seller and the buyer. Personal care products, home appliances, books, and financial services are commonly sold through in-home parties, sales demonstrations, and seminars.

Direct selling varies in success from country to country. In cultures where personal contacts are important when doing business, direct selling thrives. In other societies, direct selling may have limited success.

Online Retailers  The Internet is changing the way people shop. A person can view products, prices, and other information from hundreds of retailers without leaving home. While mail order and television home-shopping channels paved the way for this process, the World Wide Web takes electronic retailing to new levels.

Online retailers include both existing companies including Wal-Mart, OfficeMax, and The Gap, as well as Web-only sellers such as eBay and amazon.com.

Product demonstrations, customized products, and other features make online buying very popular. While consumers continue to have concerns about online shopping, improved security systems and privacy regulations are reducing those anxieties. Online retailing is expected to have strong growth for many years.

Automatic Vending  Vending machines have been used for years for the purchase of soft drinks, snacks, and newspapers. Recent technology has expanded vending machine use to sell books, videos, computer time, clothing, and cooked-to-order foods. Automatic teller machines (ATMs), a type of vending machine, provide a variety of financial services, including depositing money, obtaining foreign currency, purchasing train or airline tickets, and selecting investments.

WORK AS A GROUP  Prepare a list of retailers in your community. Explain how these businesses are involved in the global economy.
Chapter 18  GLOBAL PRICING AND DISTRIBUTION STRATEGIES

**INTERNATIONAL RETAILING ACTIVITIES**

Fast-food and snack-food companies that sell pizza, hamburgers, fried chicken, yogurt, and ice cream take to the road in many countries. Vehicles converted into minirestaurants allow companies to serve customers at temporary locations. Popular locations for these rolling restaurants are sporting events, amusement parks, community fairs, concerts, and zoos. Banks and other financial institutions also use a similar distribution approach with *ATMobiles* (portable cash machines).

Sidewalk merchants and street vendors in Mexico City are being joined by U.S. discount stores. After the Mexican government reduced import restrictions, Sam’s Club, a division of Wal-Mart, opened in a vacant factory and started to sell clothing, appliances, personal care products, and packaged and frozen foods in that country. Mexican consumers were attracted to the quality, spare parts, service, and warranties offered by these retailers. Wal-Mart has also entered the European market with stores in Britain, Germany, France, and several other countries.

**FLEXIBLE SCHEDULING—BRAZILIAN STYLE**

Scheduling delays of 15 to 45 minutes are common throughout Latin America. There, punctuality may actually be disruptive because others aren’t necessarily ready to meet. To work around the problem, Brazilian businesspersons try to schedule appointments in their own offices so they can work while waiting for others to arrive. Sometimes they take additional work with them to another person’s office, where they work while they wait for that person to return to the office. Appointments for meals and drinks also typically begin in offices, where waiting time can be put to good use.

**Think Critically**

1. Why might a U.S. businessperson plan to arrive slightly late for a meeting with a Brazilian businessperson?
2. How does the Brazilian system of scheduling appointments promote personal productivity?

**Checkpoint**

How do agents, wholesalers, and retailers differ?
GLOBAL INTERMEDIARIES

The distribution channels used for international trade are often different from those used for domestic trade. Common international intermediaries include export management companies, export trading companies, freight forwarders, and customs brokers.

**Export Management Company**
An *export management company* (EMC) provides complete distribution services for businesses that desire to sell in foreign markets. EMCs make it easier to sell in other countries since they have immediate access to established buyers. Most EMCs are small firms that specialize in specific products or in a certain foreign market. EMCs provide exporters with reliable global distribution channels.

**Export Trading Company**
An *export trading company* (ETC) is a full-service global distribution intermediary. An ETC buys and sells products, conducts market research, and distributes goods abroad. An export trading company may also be involved in banking, financing, and production activities. Japanese trading companies, called *sogo shoshas*, have been in operation since the late 1800s. Today these companies handle more than half of Japan’s imports and exports.

**Freight Forwarder**
A *freight forwarder* ships goods to customers in other countries. Like a travel agent for cargo, these companies get an exporter’s merchandise to the required destination. Often a freight forwarder will accumulate several small export shipments and combine them into one larger shipment in order to get lower freight rates.

**Customs Broker**
A *customs broker*, also called a *custom house broker*, is an intermediary that specializes in moving goods through the customs process. This process involves inspection of imported products and payment of duties. Customs brokers are licensed in countries in which they work and must know the import rules and fees.

**Checkpoint**
What services are provided by a freight forwarder?
Chapter 18  GLOBAL PRICING AND DISTRIBUTION STRATEGIES

REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. distribution channel
2. direct distribution channel
3. indirect distribution channel
4. intermediary
5. agent
6. wholesaler
7. retailer
8. export management company (EMC)
9. export trading company (ETC)
10. freight forwarder
11. customs broker

REVIEW GLOBAL BUSINESS CONCEPTS

12. What are three common intermediaries in the distribution channel?
13. What are examples of direct selling?
14. What services does an export trading company provide?

SOLVE GLOBAL BUSINESS PROBLEMS

For each of the following international business situations, tell which global intermediary (export management company, export trading company, freight forwarder, or customs broker) would be involved.

15. A clothing company needs assistance with import rules and fees.
16. A company must have 17,000 shirts transported to Africa.
17. A manufacturer of lights for home use wants to use the services of a distributor with established buyers in Southeast Asia.
18. A packaged food business needs a global distribution intermediary to research, package, and ship its products to Central America.

THINK CRITICALLY

19. Some businesspeople believe that eliminating agents and wholesalers reduces their operating expenses. Discuss the opportunity costs associated with eliminating intermediaries.
20. As an importer of clothing, would you rather have your products sold by a general merchandise retailer or a specialty store? Why?

MAKE CONNECTIONS

21. TECHNOLOGY  Select an item not commonly sold online. Sketch or describe a web site that might be used to sell this good or service.
22. STATISTICS  List the names of all retailers you and your family have used in the past 30 days and the number of visits. Categorize the retailers by type, such as convenience store, online retailer, or automatic vending. Create a frequency chart of the results.
PREPARING FOR SHIPPING

As exports are prepared for international distribution, goods must be packed and labeled, and various documents may be required.

PACKING AND LABELING

When an item is prepared for international shipping, it should be packed to meet the following criteria.

- avoid breakage
- maintain the lowest possible weight and volume
- provide moisture-proof surroundings
- minimize theft

Shipments going by land or sea require strong containers. In contrast, air shipments do not require such heavy packing. Shippers recommend that exporters avoid mention of brand names or contents on the package. This reduces the potential for theft.

The shipping label for exported goods should include

(a) name and address of the shipper
(b) country of origin
(c) container’s weight
(d) size of the container
(e) number of packages per container
(f) destination
(g) labels for hazardous material
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GLOBAL PRICING AND DISTRIBUTION STRATEGIES

UNIVERSAL PACKING SYMBOLS

Universally recognized symbols are commonly used on containers to inform package handlers of warnings and contents, as shown in Figure 18-5.

DOCUMENTATION

Various export forms are normally required when shipping merchandise to other countries. These documents include the bill of lading, certificate of origin, export declaration, destination control statement, and insurance certificate.

Bill of Lading A bill of lading is a contract between the exporter and the transporter. This form describes the weight, number, and value of goods along with the names and addresses of the seller and buyer. A bill of lading serves as a receipt for the exported items.

Certificate of Origin A certificate of origin documents the country in which the goods being shipped were produced. This document may be required to determine the amount of any import tax.
**Export Declaration** An export declaration is required by the U.S. Department of Commerce for shipments with a value of more than $500. This form lists the same information that is on the bill of lading along with the name of the carrier and the exporting vessel.

**Destination Control Statement** A destination control statement verifies the country to which goods are being shipped. This document notifies the carrier and all other handlers that the shipment may only go to certain destinations.

**Insurance Certificate** An insurance certificate explains the amount of insurance coverage for fire, theft, water, or other damage that may happen to goods in shipment. This certificate also lists the names of the insurance company and the exporter.

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**CheckPoint**

What is the purpose of a certificate of origin?

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**TRANSPORTATION IN THE GLOBAL MARKET**

A critical ingredient of distribution is the shipping and delivery of a product. For a package of Wrigley’s Doublemint gum to get to customers in some areas of China, several transportation modes may be required. These could include a trip by truck or train, a rusting freighter, a tricycle cart, or a bicycle.

Physical distribution refers to the process of transporting, storing, and handling goods in transit between the producer and consumer. As shown in Figure 18-6, the physical movement of goods sold in the global economy is usually done in one of five ways.

**Motor Carrier** The trucking industry is a vital distribution link in almost every country. Motor carriers can quickly and consistently deliver large and small shipments to just about anywhere. Trucks are commonly used for shipping food products, clothing, furniture, lumber, plastic products, and machinery.

NAFTA has created some difficulties for trucking companies transporting goods between Canada, Mexico, and the United States. Some Canadian trucks that were not loaded properly resulted in accidents and injuries on U.S. highways. U.S. trucking companies have faced long delays at the Mexican border.

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**NETBookmark**

Although it is called the Silk Road, this desert trading route in Asia was used to transport many other things, from gold and ivory to exotic animals, plants, glass, and religion. Access intlbizxtra.swlearning.com and click on the link for Chapter 18. Read the article and make a graphic organizer that charts all the ways that the Silk Road influenced trade and other aspects of society.

intlbizxtra.swlearning.com
when the smaller, older highways could not handle the many vehicles wanting to enter the country.

**Railroad** Within the United States and many other countries, railroads continue to be a major transportation mode. The products most commonly shipped by rail are automobiles, grain, chemicals, coal, lumber, iron, and steel.

To add flexibility to rail shipping services, truck trailers and containers are transported on flat cars across country. Once near the destination, motor carriers make the local deliveries. These *piggyback* operations combine the long-haul capability of railroads with the door-to-door delivery of trucking.

**Waterway** Inland water carriers, such as barges, can efficiently transport bulky commodities. Oceangoing ships are slower than other transportation modes. However, they are very cost effective for shipping items overseas. These container-carrying vessels allow exporters to transport items such as coal, steel, lumber, grain, oil, and sand.
Containerization is the process of packing cargo in large standardized containers for efficient shipping and handling. Before this process, cargo was handled manually using crates, pallets, and forklifts. Damage to cargo and delays were common. Containerization is used when shipping from major deepwater ports, such as those in Elizabeth, New Jersey, and Oakland, California. Other new containerization developments have also made it possible to transport fresh fruits and vegetables in refrigerated compartments from Chile to Japan.

**Pipeline** More than 200,000 miles of pipelines are in operation in the United States alone. Pipelines provide a dependable, low-cost method for transporting natural gas and oil products. The limitation of this transportation method is speed. Liquids travel at a speed of only three or four miles per hour. In addition, few products can be transported by this method, and international pipelines can only be used when a geographic link exists between two countries.

**Air Carrier** The use of air transportation for international business activities continues to expand. As global demand for products increases, companies use the quick service offered by air carriers. Items commonly shipped by air include high-priced specialty products, specialized equipment parts, and perishable items (such as fresh flowers).

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**AVON IN THE AMAZON**

In the Amazon region of Brazil, Avon sells its cosmetics with the use of company representatives who travel by canoe or in an animal-powered cart. In Brazil, about 400,000 beauty consultants sell Avon products. That number is twice the size of the country’s army.

Avon uses direct selling when doing business in more than 130 countries. However with the low-income consumers in the Amazon region, adaptation of marketing is necessary. Payments, for example, may be unusual. Instead of money, a chicken or homemade flour may be exchanged for cologne, lipstick, and other beauty items.

This marketing career can provide an economic opportunity for people in the region. One representative in the Amazon region, a retired teacher, used to make about $110 a month at her previous job. Today she makes about seven to eight times as much selling lipstick and other Avon products to female Indian consumers.

Orders for cosmetics are processed through a computer system at regional offices around Brazil. The products are then shipped as far as 2,500 miles from Avon’s production facilities in Sao Paulo, Brazil, to customers in the Amazon region.

**Think Critically**

1. What factors influenced Avon to adapt its distribution strategy in Brazil?
2. Go the Avon web site to obtain additional information about the company’s product line and distribution methods. Write a paragraph about your findings.
Intermodal Movements  Companies frequently use more than one mode of transportation when shipping to other countries. *Intermodal movements* refer to the transfer of freight involving various modes of transportation. Containers used today can easily be transferred from a ship or plane to a train or truck.

**HISTORY: THE PANAMA CANAL**

The Panama Canal shortens water travel between the Atlantic and Pacific Oceans by 7,000 miles (11,270 kilometers). This 51.2-mile waterway connects the Caribbean Sea with the Pacific Ocean at the Isthmus of Panama, the neck of land connecting North and South America.

The idea of a canal connecting the Atlantic and Pacific Oceans was first considered in the sixteenth century. In 1534, Charles V of Spain ordered a survey for a possible canal route across Panama. A French company finally started the project in 1881. However, work ceased after eight years due to the treacherous terrain and diseases such as malaria and yellow fever. Nearly 20,000 workers died during the attempted construction. After Panama gained its independence from Colombia in 1903, work started again on the canal. Construction was completed in 1914 at a cost of $336 million.

Six pairs of locks raise or lower a ship to the next water level along the length of the Panama Canal. The trip takes between seven and eight hours with more than 12,000 ships traveling through the canal each year. In 1999, the possession of the Panama Canal was transferred from the United States to Panama after 85 years.

**Think Critically**

1. What are the international trade benefits of the Panama Canal?
2. Conduct an Internet search for information about the current activities of the Panama Canal. Write a description of your findings.

**Checkpoint**

What activities are involved with physical distribution?
18-3 MOVING GOODS AROUND THE WORLD

REVIEW GLOBAL BUSINESS CONCEPTS

1. What documents are commonly required when shipping goods to other countries?
2. What are the five main transportation systems used for shipping goods?
3. When would a business use intermodal movements?

SOLVE GLOBAL BUSINESS PROBLEMS

Suggest an appropriate transportation method for the following international marketing situations.

4. A company in Argentina is shipping oil to other countries in South America.
5. A British company is shipping machines for use in factories in various African countries.
6. A company in Hawaii is shipping fresh flowers to Japan and California.
7. A mining company is shipping iron ore to steel factories within the same country.

THINK CRITICALLY

8. How might shipping labels be improved to assist businesses and to contribute to the safety of workers?
9. What actions could be taken to make border crossings of shipped goods more efficient?
10. Describe how a company would balance the tradeoff between cost and speed when selecting a shipping method.

MAKE CONNECTIONS

11. COMMUNICATIONS Prepare a map display that shows the trade route that would be used for transporting various products from one region of the world to another.
12. SCIENCE Research containerization and pipeline methods to determine how these transportation modes have improved international distribution.
13. GEOGRAPHY Describe how intermodal transportation could solve distribution problems created by the terrain and geographic conditions in a country.
14. LAW Why would a country have laws to prevent the shipping of various types of products into that nation?
15. TECHNOLOGY Use the Internet to locate online resources for transporting goods around the world.
16. TECHNOLOGY Use the Internet to find examples of some of the documentation needed to ship products around the world.
17. TECHNOLOGY Visit the web sites of three different companies that transport products internationally.
Chapter 18 ASSESSMENT

CHAPTER SUMMARY

18-1 INTERNATIONAL PRICING ACTIVITIES

A Businesses need to consider costs, consumer demand, and competition when setting prices for international markets.

B The common pricing methods used by businesses include markup pricing; new product pricing, which includes competitive pricing, skim pricing, and penetration pricing; psychological pricing; and discount pricing.

C Pricing factors that are unique to global markets include changing currency values and unfair actions, such as dumping.

18-2 GLOBAL DISTRIBUTION ACTIVITIES

A Direct channels of distribution involve selling goods or services directly to the final user. Indirect channels of distribution involve the use of intermediaries: agents, wholesalers, and retailers.

B Agents, wholesalers, and retailers are distribution channel members who provide services to move goods and services from the producer to the consumer.

C Global intermediaries include export management companies, export trading companies, freight forwarders, and customs brokers.

18-3 MOVING GOODS AROUND THE WORLD

A Shipping requirements for international distribution require proper packaging and labeling along with necessary documents. These may include a bill of lading, certificate of origin, export declaration, destination control statement, and insurance certificate.

B The main transportation modes available to international distributors are motor carrier, railroad, waterway, pipeline, and air carrier.

GLOBAL REFOCUS

Read the Global Focus at the beginning of this chapter, and answer the following questions.

1. Do you think the entrance of Toys “R” Us into the Japanese market served the best interests of Japanese consumers and workers?

2. How do you think increased competition and online selling will affect prices for toys in Japan?
REVIEW GLOBAL BUSINESS TERMS

Match the terms listed with the definitions.

1. When goods or services are distributed with the use of one or more intermediaries between the producer and the consumer.
2. Setting a relatively low introductory price for a new product.
3. A very low-priced item used to attract customers to a store.
4. A full-service global distribution intermediary.
5. An amount added to the cost of a product to determine the selling price.
6. The path taken by a good or service to get from the producer to the final user.
7. A business that buys large quantities of an item and resells them to a retailer.
8. A company that provides complete distribution services for businesses that desire to sell in foreign markets.
9. Setting a relatively high introductory price for a new product.
10. A person or an organization in the distribution channel that moves goods and services from the producer to the consumer.
11. A business that ships goods to customers in other countries.
12. When goods or services are sold directly from the producer to the final user of the item.
13. The practice of selling exported products at a lower price than that asked in the company’s home country.
14. An intermediary that specializes in moving goods through the customs process.
15. A store or another business that sells directly to the final user.
16. An intermediary that brings together buyers and sellers but does not take ownership of the products.

MAKE GLOBAL BUSINESS DECISIONS

17. Companies involved in international marketing usually encounter higher operating costs than do domestic marketers. What benefits are associated with global marketing?
18. What types of products have a high percentage markup?
19. Give examples of discounts used by stores to attract customers.
20. How can dumping have a negative effect on a nation’s economy?
21. Explain how wholesaling serves the needs of consumers throughout the world.
22. Describe how different types of retailers in your community attract different types of customers.
23. How might the success of retailers in different countries be affected by cultural, economic, and political factors?

GLOBAL CONNECTIONS

24. GEOGRAPHY Research the economic importance of various crucial waterways—Panama Canal, Suez Canal, Strait of Gibraltar, Strait of Hormuz, and Strait of Malacca.
25. COMMUNICATIONS Prepare a list of common goods, and ask people of various ages for their best guess at the price of each item. Which consumers are most knowledgeable about prices?
26. TECHNOLOGY Conduct library and Internet research about online retailing. What types of electronic shopping systems and cyberstores are expected to increase in popularity over the next few years?
27. CULTURAL STUDIES Talk to someone who has visited or lived in another country. Obtain information about the types of stores and informal retailing (street vendors, pushcarts, open-air markets) that exist in that country.
28. VISUAL ARTS Prepare a bulletin board, a poster, or another visual display showing how various products are shipped within and between countries.
29. MATHEMATICS Estimate the markup of various food products, articles of clothing, and other items. Talk with a retail store manager or employee to obtain information about (a) the wholesale cost of the products they sell and (b) the operating expenses that influence the final selling price.
30. CAREER PLANNING If you were the manager of a distribution center that shipped products to over 50 different countries, what types of workers would you need to hire? What skills would you need to have to be a global distribution manager?
CREATING AN INTERNATIONAL PRICING AND DISTRIBUTION PLAN

Create a pricing and distribution strategy for the business idea you have used in previous chapters, or select another business idea. Use the country you have previously researched, or select a different country. Using library and Internet research, obtain information for the following topics.

1. How do operating costs and competition affect the prices charged by the company? Prepare a list of the company’s production costs and other expenses.

2. List the factors that affect the demand for the company’s goods and services in different countries.

3. Describe the distribution channel that might be used to get the company’s goods or services to consumers.

4. Describe the types of retail stores used to sell the company’s goods or services.

5. Describe the types of shipping methods that would be used by the company to get its products to foreign markets.

Prepare a written summary or present a short oral report (two or three minutes) of your findings.