

# Pricing strategy remains crucial to export performance

Mills Soko

**N**EW research from the University of Cape Town's (UCT's) Graduate School of Business has shown that export performance is enhanced by a clear export pricing strategy. The research, conducted by Corni Myburgh while participating in the school's MBA programme last year, investigated the export pricing strategies of 22 successful small and medium-sized enterprises (SMEs).

The research found export performance depends on management's response to the interplay of internal and external forces that affect pricing decisions.

Of all the marketing mix variables, pricing is one of the most complex in any organisation's international marketing strategy. It is worth noting that price is the only element of the marketing mix that is revenue-generating while the others are cost-generating. It should therefore be used as an active instrument of strategy in marketing decision-making.

Despite its direct impact on an organisation's performance and profitability in the market, though, pricing remains the competitive tool used least effectively.

The study focused on four manufacturing sectors: food, beverages and ingredients; clothing and textiles; industrial equipment; and automotive components and accessories.

The companies surveyed were all well established in their respective industries, with annual turnovers ranging from less than R5m to more than R200m. Most were active in at least five different countries and all had a strong export orientation.

The research shows firstly that those companies that are clear about their pricing principles, and about the way prices are determined and implemented in various markets, are the most successful. Rather than establishing pricing policies reactively, from the research it is clear that a proactive pricing approach is required to achieve export success.

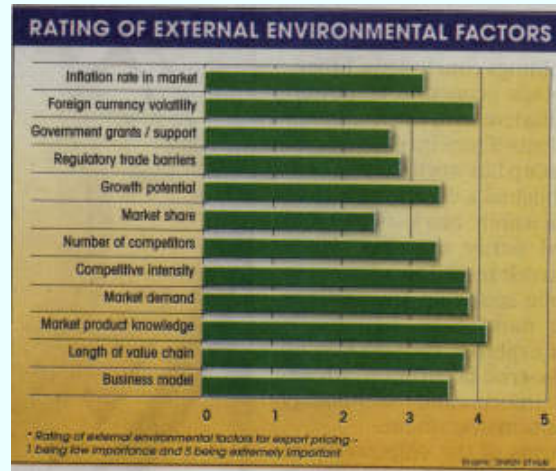
There is an argument that exporters from emerging markets have difficulties in setting prices, specifically in estimating fixed and variable costs and adjusting them for external factors such as exchange-rate fluctuations. The GSB research disproves this as the SMEs interviewed had a very clear understanding of how they went about setting their pricing and which variables they had to take into consideration.

As opposed to using purely a cost-based pricing method, the research indicates that a combination of cost-based (mark-ups based on costs) and market-based (customer and/or competition orientated) pricing methods are important for setting correct pricing levels. This highlights the importance of having sound market knowledge and understanding the positioning of the product in terms of the value offering.

The research also pinpoints the factors that affect SME export pricing strategy and how these affect the overall export performance of a firm. It shows that one of the most important internal factors for export pricing strategy and performance is management's export commitment.

High commitment allows a firm to go after export market opportunities aggressively and to pursue effective export market strategies that can improve the company's export performance.

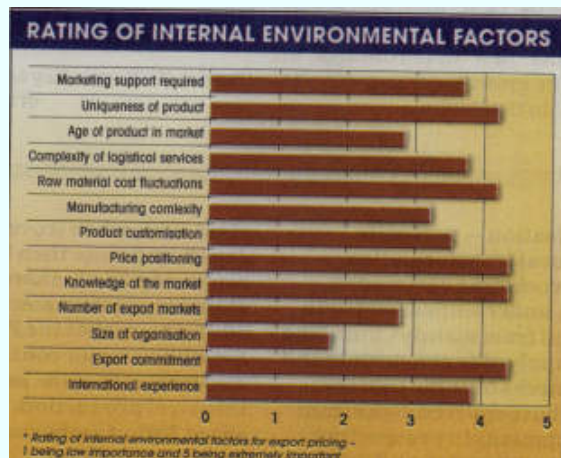
The most important factor that hinders export growth is the lack of an innovative and international mindset. Success in the export arena, therefore, starts with the right



mindset. This includes being fully committed to the export venture; being very clear as to the price positioning and value offering of its products; and gaining sound knowledge of the markets where it wants to compete.

In addition, the product offering is another internal factor that shapes the export pricing strategy. Exporters must understand clearly the value proposition that their products offer and to realise that a competitive advantage can be gained by offering product uniqueness.

External factors also affect the export pricing strategy, but from the research it is clear



that these influences are far less important. Supporting the need to understand the value proposition and to have sound market knowledge, the study highlights customer knowledge or sophistication.

In the growing global marketplace, buyers are far more aware of their options and demanding of their specific requirements. More sophisticated consumers will often accept high search costs in an effort to locate the best price and they also understand cost-structures of particular products and thus have a reference for "fair price". To compete successfully in these markets, the study shows, South African SMEs must ensure that their products not only comply with international standards but also exceed the expectations of potential buyers.

Another factor that the research identifies is exchange-rate volatility. The research supports the case for monitoring rates and their effects on pricing continually. For South African manufacturing SMEs the impact of raw material costs is also a significant environmental factor that must be monitored.

SMEs have an ever-increasing role to play in SA's social and economic development. Yet few are taking advantage of the growth opportunities offered by international trade, partly as a result of the difficulty in developing an export marketing strategy.

To sustain a strong economic growth rate and maintain its current status as a leading emerging-market economy it is important for SA to have a solid export base. Not only do exports contribute significantly to national economic output, they also ensure that the country has a sound balance of payments.

It is evident from the research that South African manufacturing SMEs can, with the right export pricing strategy, compete successfully in the global market and gain from the growth opportunities that it offers.

■ Dr Mills Soko is a senior lecturer at the UCT Graduate School of Business and supervised Myburgh's research.

