

PRICING FOR EXPORT

GET YOUR PRICING RIGHT FOR INTERNATIONAL MARKETS

KEY TOPICS

Choosing your pricing strategy

Calculating your prices

Top tips for export pricing

Exchange rates and foreign currency

Where to go for help

Useful tools



**EXPORT
ESSENTIALS
GUIDES**

There's no room for guesswork on export pricing - too high and you'll lose potential customers; too low and you'll lose money on every sale. Get it right by choosing the right pricing strategy for the market, taking all your costs into account, and keeping on top of exchange rate risk.

Choosing your pricing strategy

Your pricing strategy depends on what you're selling, the value export customers see in your product or service, and the competition you're facing in-market. This might mean you need to use different strategies in different markets, or to change your approach to pricing as your business evolves.

Here are just a few common pricing strategies. Use these as a starting point for your pricing plans - then make sure you get expert advice to pick the right approach for your business and market.

Cost plus pricing

Cost plus pricing simply means adding up all your costs, from the factory to the export customer, and then adding a mark-up percentage (your profit margin) to get your final price.

This covers your costs on every sale, but you might miss out on additional sales if your mark-up is too high, or leave money on the table if it's too low.

Competitive pricing

Competitive pricing involves setting a price that is similar to, or less than, what your rivals are charging, to help you attract customers.

This approach works well if your cost structure lets you charge low prices and still make a healthy profit - but if your

competitors find a way to undercut you, you might end up giving away profit margins just to stay in business. It's often very hard to compete successfully on price when exporting from New Zealand.

Value-based pricing

This means setting a price based on the value your customers see in your product or service - rather than just the cost of providing it. If you know what customers are willing to pay, and can set a price on that basis, you'll get more profit per sale without sacrificing sales volume.

Value-based pricing works best when you're selling products or services that are based on emotion, meet the needs of a niche market, or deliver something that customers can't do without - or all three.

Premium pricing

Premium pricing takes value-based pricing a step further, by charging a high price that actually encourages customers to see your product or service as top-quality and exclusive. This is a common approach for luxury and prestige consumer brands.

This strategy works best for unique products or services that don't have any substitutes, or where you've got a very strong brand that consumers are willing to pay more for.

If you can maintain premium pricing when exporting, you'll see much more profit from your sales, which gives you more margin

to cover cost increases or exchange rate movement (helping you maintain a consistent price). You'll also be able to reduce pricing to reward loyal clients without damaging your overall profit.

Calculating your prices

There are two common methods for pricing physical products: cost plus, and top down.

- **Cost plus** - start with your factory price, then add on each cost involved in packaging, documentation, freight, and so on, until the product reaches the end customer.
- **Top down** - start with the price that you want to charge your end customer (based on your research in the market), then subtract costs backwards from the customer until you reach your factory price.

Use our online pricing template to help:

 nzte.govt.nz/tools-and-templates/pricing-your-products-and-services-for-export

Do both calculations all the way through separately, then compare the results. This helps you spot all of the costs and barriers that need to be part of your pricing, and identify any costs you need to manage or reduce so that you can charge an acceptable price and still turn a profit.

Top tips for export pricing

Set a price that reflects your brand and reputation. If you're unknown in the market, you might not be able to charge the same as established competitors.

Make sure you know all of your costs.

This includes everything you need to pay to service your export customers, including logistics, compliance and travel to the market.

Discounts are a cost. Build them into your price calculations, and make sure you know your profit margins and break-even points before agreeing to a discount – or you might end up making sales that lose you money.

Be consistent across sales channels. If you're selling online into your export market, make sure you're not undercutting your existing retailers or in-market partners on price.

Make sure you understand Incoterms™ if you're selling physical products. These international terms of trade determine who pays for what when products are sold – which means you need to know their effect on your costs when you quote for export sales.

INCOTERMS

Learn more about Incoterms and how they work on NZTE's website:

 nzte.govt.nz/tools-and-templates/logistics-requirements



DON'T SELL YOURSELF TOO CHEAP

Remember that you may need to change from one strategy to another over time – so be careful about where you start off in the market. Competitive pricing can give your brand or company a 'budget' or 'value for money' reputation, and it can be hard to switch to higher-margin pricing models later on.



WHY USE BOTH METHODS?

If you only use cost plus, you might end up with a price that's too high for the customer. Only using top down can result in a low price that loses you money. Using both lets you balance the results out to calculate the best possible price, and one that is still going to appeal to your customer.

Exchange rates and foreign currency

When you're quoting prices internationally, you'll need to deal with foreign currencies and exchange rate risk. Get advice from your bank or financial advisor, and make sure that you understand exactly what is involved.

Exchange rate risk happens when you give a price to an overseas customer in a foreign currency and it loses value against the New Zealand dollar before you get paid – which means you'll get fewer New Zealand dollars than you were expecting. This can add up to big losses.

You can avoid exchange rate risk by pricing in New Zealand dollars, but this passes all of the risk over to your customer, who might not want to take it on.

Forward exchange contracts

You can reduce some of your exchange rate risk using forward exchange contracts (also called currency hedging). These benefit both you and your buyer, although you'll carry some extra cost.

Forward exchange contracts lock in an agreed foreign exchange rate with your bank on a set date in the future. On that day, you can hand over the foreign currency your buyer has paid, and get an agreed amount of New Zealand dollars from your bank in return – whether or not the daily exchange rate has changed since you set the contract.

The contract guarantees that you will always get the expected New Zealand dollar amount in return for your buyer's foreign exchange payment. You won't get an unexpected windfall if the New Zealand dollar gains value – but you won't lose money if the dollar drops, either.

The one big risk with forward exchange contracts is if the buyer doesn't pay you on time. If that happens, you won't have the foreign currency to close out the contract, and you'll have to renegotiate the exchange rate. Talk to your bank and trusted financial advisors about your best options.



What next?

Sorting out export pricing is easier when you break down the job and tackle it one piece at a time. Take some time to think about your pricing strategy, work out your costs, and make sure you leave room for a healthy profit in your final prices.

Get help from your bank and trusted financial advisors, and tap into your networks to find other people who know your target markets and can guide you on what works and what doesn't.

Where to go for help

Regional Business Partners

The Regional Business Partner Network (RBP) has specialist growth advisors available to provide you with advice, information and connections to support your business.

 regionalbusinesspartners.co.nz

New Zealand Export Credit Office (NZECO)

NZECO provides financial guarantee products to help New Zealand exporters grow internationally. They can help exporters to secure export sales, access trade finance and manage payment risks. NZECO is part of the New Zealand Treasury, and its guarantees and policies are backed by the New Zealand Government via the Minister of Finance.

 nzeco.govt.nz



Useful tools

We've created pricing templates using Cost Plus and Top Down methods, to help you apply these concepts to your export business - find them online here:

 nzte.govt.nz/tools-and-templates/pricing-your-products-and-services-for-export

You'll also find other useful tools and templates including an Export Plan template to download at

 nzte.govt.nz/tools-and-templates

Get a fuller picture of exporting with our other Export Essentials Guides, available for download at

 nzte.govt.nz/export-assistance/export-essentials-guides

The New Zealand Story is a free toolkit that provides a simple set of brand values, images, videos and presentations that can help you define your value proposition and promote your business offshore.

 nzstory.govt.nz



About NZTE

Export Essentials resources are brought to you by New Zealand Trade and Enterprise (NZTE), New Zealand's international business development agency. We exist for one purpose: to grow businesses internationally, bigger, better and faster, for the good of New Zealand.

We're here to help you get the right focus and information at the right time in your exporting journey, whether you need practical help to get started, a deep partnership to develop a fully global business, or anywhere in between.

Find out more at nzte.govt.nz/about or get in touch with us: nzte.govt.nz/contact-us

Go further with Export Essentials Workshops

Wherever you want to take your business next, it's good to know you're on the right track. NZTE's Export Essentials Workshops put you in full control of your export plans, using lessons learnt by New Zealand businesses in markets around the world.

Find out more and register for upcoming workshops at nzte.govt.nz/essentials

