PRICE STRATEGIES AS A DETERMINANT OF PERFORMANCE ON ROMANIAN COMPANIES IN EXPORT MARKETS

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Abstract

Pricing strategy is considered to be one of the more critical components of the marketing mix (Product, Place, Price and Promotion) and is focused on generating revenue and ultimately profit for the company. The current research study aims to analyze what pricing strategies Romanian exporting companies use in order to strife for better results. As the study focuses on exporting companies, not only setting one or more pricing strategy is important, but also how do these companies adapt their strategies to different industries and different geographical markets.

The applied methodology sustains, that the results are rooted on a case study within the preferred pricing strategies of the analyzed companies. The information towards the research was gathered throughout in-depth interviews with the managers in charge of this process, document analysis and observations. The systematic approach of identifying the most adequate price strategies is opening the path for factors taking in account when adaptation process begins and also for analyzing the impact of pricing adaptation. This can lead to measure the data for export performance and what influence did it had on a company's turnover.

By analyzing the export data provided, a comparison can be made, taking into consideration price strategies used, price adaptation processes, level of impact on different geographical markets, the market response to exported products and terms and conditions necessary for conducting international trade.

Keywords: Price Strategies, Pricing Adaptation, Export Performance, Price Adaptation Impact, International Trade

JEL Classification System: M10- General; L1-Market Structure, Firm Strategy and Market Performance; L11-Production, Pricing and Market Structure.

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1. Introduction

According to marketing theory, price is a component of the 5P's (Product, Positioning, Place, Promotion and Price) that contributes to the marketing mix in order to capture new customers' attention, motivate them to purchase a product or service.

For international markets, pricing is one of the most important elements of the marketing mix. It can generate revenues and determines a company's survival according to Yaprak(2001). Pricing, as part of the marketing mix, is essential and has always been one of the most difficult decisions in marketing because of heightened competition according to Myers (1997), gray market activities stated by Assmus and Wiese(1995), counter-trade requirements affirmed by Cavusgil and Sikora (1988), regional trading blocks stated by Weekly(1992), emergency of intra-market segments according to Dana (1998), and volatile exchange rates affirmed by Knetter(1994).

Olson et al. (2005); Vorhies and Morgan (2003); White et al. (2004) stated that general marketing literature posits that the effective implementation of planned marketing strategy is key to linking marketing efforts with firm performance. Further, in practice, implementing planned marketing strategy is widely seen as a problematic managerial task that consumes substantial time and effort resources but often ends in failure according to Thorpe and Morgan (2007). These problems may be even greater for managers dealing with international markets. For example, operating in export markets involves dealing with geographical distance along with psychic and absence regarding the export market culture, business practices, channel structure, communications infrastructure, legal system, etc. affirmed by Bello and Gilliland (1997).

Many firms follow the Porter's business strategies in an export market to compare with their rivals but Lee and Griffith (2004) and Aulakh, (2000) noted that in today's competitive market, focusing only on the decrease of manufacturing costs may not any more cause the company's success in export- driven economies. Furthermore, Eusebio, et al., (2007) emphasized that price is no more a dominant strategy for companies in the market.

Moreover, the market share occupied by a company, the income it receives, and its profits are determined by implementing a flexible, changing and suitable market conditions strategy of export pricing. This also assists to increase the capability of a company to compete successfully on the international market.

According to Sousa and Bradley (2009) the understanding of an export pricing strategy is vital because it may have a powerful and immediate effect on a company's performance. In 2001, Raymond et al. stated that adequate pricing strategies are critical managerial decisions for success in foreign markets. Establishing prices for international markets is not an easy task. Decisions with regards to product, price, and distribution for international markets are unique to each country according to Jain (1989) and differ from those in the domestic market stated by Diller and Bukhari (1994). In 1989, Walters argues that when a firm sets an export price, the situation becomes more complicated than in the case of domestic price setting. This is because the export price of a good (or service) must try to take into consideration the relevant domestic environmental factors which must be evaluated and adapted to the international context with additional factors.

Smith's (1995) concept of "managerial pricing orientation" is a solid starting point for decrypting pricing behavior. The managerial pricing orientation is defined as" the pattern of policies, activities, and behaviors that companies engage in with regard to information gathering and processing, objectives, decision rules related to setting or changing price.

Tan and Sousa (2011) stated that a recent and comprehensive review of the export pricing literature shows that the majority of the studies focus on the adaptation/standardization of export prices and on the comparison between local and foreign prices, giving little emphasis to exporters' pricing practices. Tan and Sousa (2011) contend that the literature's current approaches to export pricing fall short of providing exporters guidance on how to implement effective pricing strategies. The first reason is the conflicting results regarding the relationship between price competitiveness and export performance. Second, there is an absence of studies that certifies the actual content of export pricing policies. Researchers are unclear about the nature of the export prices they investigate, which illustrates the problem. It is difficult to determine whether the export price under investigation is the cross-border price (the transfer price between the exporter and its foreign distributor) or the local prices that are offered to foreign consumers. According to Cavusgil (1996) this issue is of particular importance in an export arrangement, as foreign suppliers rarely control local prices.

1.1 Research problem

Price is the strategic marketing variable that has the most direct impact on a firm's sales revenue. According to Marsh (1988), pricing is a very important element in the marketing mix for it is the only one, which produces revenue. However, the studies that have been conducted in the field of pricing within the marketing discipline are very few.

Hoffman, Turley and Kelley (2002) noted that price remains one of the least researched areas of marketing.

On the other hand, a large number of researches on measurement export performance had been undertaken according to Zon and Stan (1998) and Sousa (2004). Despite this aspect, there is no generally acceptable measurement affirmed Madsen (1987). This is partly because previous studies suffered from serious conceptual, methodological and practical limitations.

According to Sousa (2004) these numerous performance measures are classified into two categories: objective (economic) and subjective (non-economic) measures. The objective measures include export intensity affirmed White, Griffith and Ryans (1998); export sales volume and export market share noted Thirkell and Dau (1998); export profitability according to Styles and Ambler (2000). On the other hand, the subjective measures include overall export performance stated Thirkell and Dan (1998); contribution of exporting to growth; customer satisfaction and meeting expectations according to Sousa (2004).

Shifting attention to export performance factors, a series of studies have identified that export performance determinants suffered the same fate as performance measures. This is because there are several factors that were identified and investigated in literature as determinants according to Dominques and Sequeira (1993), Lages (2000).

Rosenbloom, Larsen and Mehta (1997) noted that one important export performance factor that has been extensively investigated is price adaptation. It has been established that there was a relationship between product adaptation and export performance according to Christensen, da Rocha and Gertner (1987). In their study, however, Cavusgil and Zou (1994) argued that export performance was influenced by the degree of product adaptation.

However, contrary to popular belief, price adaptation has a negative effect on the export performance of a company according to Sousa and Lengler (2009). Buzzell (1968), Dawar and Parker (1994) stated that a possible explanation for this unpredicted relationship is that price is usually associated with the consistency of a product's image across markets as well as a signal of quality to the same extent across markets. As a consequence, the adaptation of the price strategy could worsen the desired brand image across countries, and consequently have a negative effect on its performance.

Narrowing the problem to the core problem of the thesis, Romanian firms that activate in external markets need to value this strategic marketing variable which is price in order to perform beyond borders.

One possible research problem can be price as a determinant for export performance. However many more factors of pricing will be taken into consideration such as the above mentioned price adaptation being one of the most important determinant.

The thesis will focus on factors of pricing strategies that contribute to the performance of Romanian export companies.

1.2 Research Objectives

As for the research objectives of the study, these must have a strong correlation with the research problem. For a connection between price strategies and performance of an export company, several objectives can be derived such as:

1. To identify the pricing strategies utilized by Romanian export companies.
2. To examine the relationship between pricing strategies and external markets.
3. To examine the relationship between different pricing strategy across exporter companies.

1.3 Research Questions

In order to refine the statement of the specific component of the problem raised, the research questions are developed as a guideline to achieve the objectives of this study.

Such research questions are:

Q1: What is the relationship between pricing strategies and export performance?

Q2: What are the most used price strategies across Romanian export companies?

Q3: What are the differences between pricing strategies across industries in the Romanian export market?

1.4 Significance/Justification of the study

Over the years, the export markets are in a continuous movement, making the companies which activate in this area more competitive and more aware. Successes of these companies are closely related with performance. Doulgui (2010) noted that one way to measure performance is by gaining revenue over the competition and the most crucial factor is price setting.

Pricing decisions can hardly be made without effective cooperation among different departments within the company. To make an effective and efficient price decision for a product a close collaboration between among people with different managerial experience and background is required.

According to Lamb, Hair, & McDaniel (2000) setting a good, researched price will have an undisputed impact on profitability. The impact of even small increases in price on profitability by far exceeds the impact of other levers of operational manage-lessons: The traditional advice of marketing literature is to set prices low at the introduction stage of new products if the objective is to gain market share rapidly.

The purpose of this study is to see what type of relationship is between pricing strategies and performance over borders. How well they connect in order for a company to achieve success.

A theoretical and practical approach will be done in order to determine what price strategies are more encountered among Romanian export companies. In the case study, two or more firms will be analyzed from a price setting and adaptation point of view and what tactics have been used for achieving success and recognition.

Another interesting problem might be the differences between export strategies across Romanian market. Analyzing what industries have the edge and understand what pricing structures have been used. By doing this, taking into consideration what Romanian companies have foreign investors is important. This aspect can determine how much is the Romanian management involved in the decision making process and what percentage regarding price setting in export markets are formulated in Romania.

2. Literature review

2.1. Concept of International Marketing

2.1.1 Definition, concepts and scope of international marketing

According to Cateora(2011) ,international marketing is the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation for a profit. Comparing the definitions of international marketing with domestic marketing the only real difference is that marketing activities take place in more than one country. This apparently minor difference accounts for the complexity and diversity found in international marketing operations. Marketing concepts, processes and principles are to a great extent universally applicable, and the persons in charge of marketing tasks are the same whether doing business in Europe or South America. The goal of a business is to make a profit by promoting, pricing and distributing products for which there is a market.

According to the American Marketing Association (AMA)(1985), "International Marketing is the multi-national process of planning and executing the conception, prices, promotion and distribution of ideal goods and services to create exchanges that satisfy the individual and organizational objectives."

On the other hand multinational marketing is a complex form of international marketing that engages an organization in marketing operations in many countries.

Global marketing refers to marketing activities coordinated and integrated across multiple markets.

2.1.2 International expansion

In order to integrate and coordinate marketing activities in several markets, Doug and Craig (1989) developed some phases for international expansion. They were among the first researchers to consider international expansion beyond the stage of initial entry. The phases progress through initial entry, local market expansion and global rationalization.

Phase 1: *initial entry*. During the first phase, management selects the countries and the entry methods for expansion. Entry methods could range from establishing wholly owned subsidiaries to the use of mergers and acquisitions, joint ventures, strategic alliances.

Phase 2: *local market expansion*. In phase 2, the company extends its activities within each selected country. The marketing strategy and marketing mix are adapted to meet each country's demands. As expansion widens, there may be co-operation across countries in developing international brands, promotion and distribution strategies.

Phase 3: *global rationalization*. In time, global expansion leads to the integration of operations and increased marketing between countries. Rationalization and co-ordination of the marketing mix and supply chain are encouraged to achieve a balance between the firm's product portfolio and growth.

A firm`s overseas involvement may fall into one of several categories:

1- Domestic: Operate exclusively within a single country.

2- Regional exporter: Operate within a geographically defined region that crosses national boundaries. Markets served are economically and culturally homogenous. If activity occurs outside the home region, it is opportunistic.

3- Exporter: Run operations from a central office in the home region, exporting finished goods to a variety of countries; a little bit marketing, sales and distribution outside the home region.

4- International: Regional operations are somewhat autonomous, but key decisions are made and coordinated from the central office in the home region. Manufacturing and assembly, marketing and sales are decentralized beyond the home region. Both finished goods and intermediate products are exported outside the home region.

5- International to global: Run independent and mainly self-sufficient subsidiaries in a range of countries. While some key functions (R&D, sourcing, financing) are decentralized, the home region is still the primary base for many functions.

6- Global: Highly decentralized organization operating across a broad range of countries. No geographic area (including the home region) is assumed a priori to be the primary base for any functional area. Each function including R&D, sourcing, manufacturing, marketing and sales is performed in the location(s) around the world most suitable for that function.

2.1.3 Why and how companies go global?

Companies go international for a variety of reasons but the typical goal is company growth or expansion. When a company hires international employees or searches for new markets abroad, international strategy can help diversify and expand a business.

Global organizations are defined as organizations that operate as if the entire world were a single entity, and are integrated so that their activities capture linkages among countries according to Adler (2006).

Such organizations emphasize global operations over national or multinational operations. They use global sourcing of human resources, capital, technology, facilities, resources and raw materials. They deem cultural sensitivity to employees, customers and patterns as critical to the success of the organization affirmed by Adler (2006). Globalization of an organization has occurred when the organization developed a global corporate culture, strategy, structure, and communications process; Marquardt and Engel (1993).

The globalization of companies has spawned on by the growing similarity of what customers in different countries demand. Customers are demanding quality and a reasonable price on a worldwide scale.

Benefits of a global strategy, according Yip, are (a) cost reductions, (b) improved quality, (c) enhanced customer preference, and (d) increased competitive leverage. He concluded that factors such as organization structure, management processes, people and culture affect how well a global strategy can be implemented.

Global companies are able to ‘synergise’ the strengths of different cultures. This cultural skill leads to multiple perspectives, the development of a wider range of options and approaches, the heightening of creativity and problem solving skills and increased flexibility in addressing culturally distinct clients and partners.

According to Marquardt and Snyder (1997), globalizing is much more difficult than becoming international or multinational. Organizations have difficulty in attempting to change their corporate culture in a quick manner, especially those that are already successful locally. In many cases, these attempts at going global fail.

Global startup, according to Hordes at al., would take into consideration the following:

-instant critical mass; basically, it's the ability to cover the globe with a web of technology and human resources practices that provide a seamless execution of product; service and information dissemination.

- leverage capability and development of knowledgeable workers; it's the ability to generate relevant new knowledge, moving it to a point of need and apply it.

- global coordination; it's the ability of sharing information, aligning efforts and allocating information responsibilities among scattered locations; Hordes, et al.(1995).

The entry mode a company decides to adopt can impact their results. There are four mechanisms for a firm to expand:

-licensing

-joint venture

-direct investment

-exporting

Licensing

According to Czinkota and Ronkainen(1998) stated that in essence, licensing allows a company in the target country to use the property of the licensor. Such property usually is intangible, such as trademarks, patents and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possibly for technical assistance.

Because little investment is required from behalf of the licensor, licensing has the potential to provide a very large Return on Investment (ROI). However, because the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost.

Joint ventures

There are five common objectives in a joint venture: market entry, risk/reward sharing, and technology sharing and joint product development that must be in conformity with the government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.

Such relationships often are favorable when:

-the partners' strategic goals converge while their competitive goals diverge;

-the partners' size, market power, and resources are small compared to the industry leaders;

-partners' are able to learn from one another while limiting access to their own property skills.

Direct investment

Foreign direct investment (FDI) is the direct ownership of facilities in the target country. It involves the transfer of resources including capital, technology and personnel. Direct foreign investment may be made through the acquisition of an existing entity or the establishment of a new enterprise.

Direct ownership provides a high degree of control of the operations and the ability to better know the consumers and the competitiveness of the environment. However, it requires a high level of resources and a high degree of commitment.

Exporting

The modality that will be analyzed further in depth is exporting.

Exporting is the marketing and direct sale of domestically –produced goods in another country. Exporting is a traditional and well-established method of reaching foreign markets. Since exporting does not require that the goods should be produced in the target country, no investment in foreign production facilities is necessary. Most of the costs associated with exporting take the form of marketing expenses.

Exporting commonly requires coordination among four players:

- Exporter
- Importer
- Transport provider
- Government

	Conditions favoring this mode	Advantages	Disadvantages
Exporting	-Limited sales potential in target country; little product adaptation required -High target country production costs -Liberal import policies -High political risk	-Minimize risk of investment -Speed of entry -Maximizes scale; uses existing facilities	-Trade barriers and tariffs add to costs -Transport costs -Limits access to local information -Company viewed as an outsider

Table 1: Conditions, advantages and disadvantages for exporting

2.1.4 Marketing strategies for export

Based by the findings of Hofer & Schendel (1978), there is no universally accepted definition for business strategies. One definition has it that business strategies are management's scope and resource commitments to achieve long-run success. This affirmation can be too broad for guiding empirical investigation. Another attempt says that strategy is concerned with the product-market selection according to Cooper & Kleinschmidt (1985). "Product-market strategy" is a term used to characterize all the decisions an organization makes towards its target markets and the products it offers to those markets.

The literature shows a lack of agreement about what constitutes global marketing strategy. In the current literature, three major perspectives of global marketing strategy are the standardization perspective, stated by Laroche, Kirpalani, Pons, and Zhou (2001); Szymanski et al. (1993), the configuration–coordination perspective said by Roth (1992) and the integration perspective; Birkinshaw, Morrison, and Hulland (1995). According to Fritz and Dees, (2009) ; Jain (1989).

The standardization perspective views a firm as pursuing a global marketing strategy if its marketing programs across different countries are standardized, particularly with regard to its product offering, promotional mix, price, and channel structure

The configuration and coordination perspective of global marketing strategy focuses on configuration and coordination of a firm's value-chain activities affirmed by Craig and Douglas (2000); Roth, Schweiger, and Morrison (1991); Zou and Cavusgil (1996). Therefore, in the integration perspective the major essence of global marketing strategy is to integrate the firm's competitive moves across the major markets in the world; Birkinshaw et al. (1995; Ghoshal (1987).

Researchers like Schike, Reimann, and Thomas (2009); Zou and Cavusgil (2002) argue that global marketing strategy plays a critical role in determining a firm's performance in the global market. However, some inconsistent findings in prior studies are explainable by researchers' focus on different dimensions of global marketing strategy and their adoption of various measurement schemes.

Also, the value of international experience for global marketing exists in the marketing literature. Qian and Delios (2008) stress international experience as a driver in a firm's global expansion. The most experienced international firms are likely to seek global rationalization of their marketing operations, whereas firms with less experience are unlikely to do so stated by Douglas and Craig (1992). According to Sambharya (1996) experienced international firms are more likely to identify strategic markets to enter, respond to changing global market environment, and take advantage of the different comparative advantages of various countries.

A firm's physical resources are important antecedents of performance because it places primary emphasis on the intangible skills and resources of the firm according to Barney (1991) and Porter (1996), such as organization culture and international experience.

Douglas and Craig (1989) stated that experience in international operations enables firms to select better export markets, formulate suitable marketing strategy, and effectively implement the chosen strategy.

General marketing literature states that the effective implementation of planned marketing strategy is the key to linking marketing efforts with firm performance in conformity with Olson et al. (2005); Vorhies and Morgan (2003). Further, in practice, implementing planned marketing strategy is widely seen as a problematic managerial task that consumes substantial time and resources and often ends in failure affirmed by Noble and Mokwa (1999); Sashittal and Jassawalla (2001); Thorpe and Morgan (2007). The problems mentioned above are even bigger for managers coping with international markets according to Freedman (2003); Piercy

(1998). Sousa and Bradley (2006) affirmed that operating in export markets involves dealing with geographical distance along with psychic and familiarity disparities in terms of export market culture, business practices, channel structure, communications infrastructure, legal system, etc. All these factors make the effective execution of a planned export marketing strategy more difficult and risky for the managers involved. The lack of understanding of the nature, impact, and drivers of the effective implementation of firms' planned export marketing strategy constitutes an important gap in international competitiveness knowledge.

Morgan, Katsikeas, Vorhies (2011), offer a new concept and an operationalization of export marketing strategy based on two aspects:

- Internal implementation effectiveness, the firm's ability to use its available resources and skills to translate its intended export marketing strategy decisions into realized export marketing actions.
- External implementation effectiveness, the extent to which the target export market responds to realized marketing actions and resource deployment in the way envisaged by export marketing strategy decision makers.

The marketing strategy literature suggests that the effective implementation of planned marketing strategy is a key driver of firm performance according to Olson et al. (2005); White et al. (2004). However, the literature on implementation in marketing has adopted a number of different perspectives. Noble and Mokwa (1999); Rosier et al. (2010) stated that one stream adopts an individual-level perspective and focuses on factors affecting managers' commitment to strategic marketing decisions.

A second stream adopts a marketing program–level perspective and focuses on factors affecting the link between marketing program planning and execution and performance outcomes according to Bonoma (1985) and Conant and White (1999). A third perspective adopts a "strategic fit" approach and examines the extent to which alignment between planned strategy content and supporting organizational structures and cultures explains variance in firm performance; Olson et al. (2005); Vorhies and Morgan (2003); Yarbrough et al. (2011).

A fourth stream adopts a combined formulation-implementation perspective and examines how planning process design and capabilities affect planning performance outcomes affirmed by Menon et al. (1999) and White et al. (2004).

Meanwhile, the strategic management literature on implementation offers a different but complementary viewpoint. Specifically, this literature posits that implementation of strategic decisions concerns not only the completeness of adoption or adherence to intended strategy content according to Covin and Slevin (1998); Hughes et al. (2010); Noda and Bower (1996) but also the marketplace responses realized compared to strategy makers' beliefs and intentions, stated by Miller (1997) and Nutt (1996).

In line with this perspective, Morgan, Katsiteas and Vorhies (2011) states that the effectiveness of export marketing strategy implementation may be viewed in terms of two fundamental dimensions. In compliance with Cespedes (1991), firstly, they labeled internal implementation effectiveness which relates to the firm's ability to use its available resources to translate its intended export marketing strategy decisions into realized export marketing actions—in other words, the extent to which the firm's tactical export marketing program actions and the resources deployed to enact them are aligned with the firm's planned export marketing strategy decisions, affirmation based on Quelch's (1992) findings.

The second dimension, external implementation effectiveness, refers to the extent to which the firm's realized export marketing actions and resource deployments are received by the export marketplace in ways that were envisaged by export strategy decision makers. Marketing strategy decision makers generally formulate a set of beliefs concerning existing and likely future customer requirements, channel needs, competitor strategies, etc., and consider expected marketplace responses to the firm's alternative marketing strategy action choices according to Frankwick et al. (1994). In a domestic market context, decision makers often either misread market conditions or fail to anticipate marketplace changes correctly; Sterling (2003). In an exporting context, current export market conditions and correctly predicting potential changes that are likely to be an even more difficult task according to Morgan et al. (2004).

2.2 Adaptation/standardization in international markets

Continued globalization of the world's economies and intensified worldwide competition has stimulated an ever-increasing number of firms to internationalize. By far the most popular way for firms to engage with international markets is exporting pursuant to Leonidou and Katsikeas (2010), which now accounts for more than 25% of world gross domestic product in accordance with the sayings of the World Bank (2008). Thus, any comprehensive answer to the increasingly important question of what drives firms' international competitiveness has to encompass the factors that affect firms' ability to compete in export markets according to Cavusgil and Zou (1994) and Katsikeas et al. (2000). With this in mind, researchers have been exploring the drivers and performance outcomes of export marketing strategy for nearly 40 years affirmed to Lages et al. (2008) ; Leonidou et al. (2004).

Moreover, two mostly used international strategies are to develop global products or to create products that are specifically adapted for the markets served. The tremendous opportunity provided by international markets creates a high level of interest in the extent and under what conditions products should be standardized or be adapted for foreign markets according to Viswanathan & Dickson (2007). Product adaptation represents an important alternative to product standardization and it has been shown to positively influence performance; Calatone, Cavusgil, Schmidt,& Shin (2004).

The key element for a company to achieve success in international markets is its adaptation across the elements of the marketing mix.

2.2.1 Product adaptation:

This represents the extent to which the physical product differs across national boundaries, stated by Cavusgil, Shaoming &Naidu (1993). Product adaptation can strengthen competitive positions and Hill & Still (1984) stated that companies respond to segments that demand unique treatment; Simmonds (1985). Satisfying customer needs with broad product lines and tailored product offerings requires careful consideration of local market differences such as physical environment, the stage of economic development, cultural characteristics, the stage of the product lifecycle, competition, distribution systems, advertising which was affirmed by Buzzell (1968) and Kotabe (1998).

Changes in products across international markets usually fall into two groups: mandatory changes and optional changes; Hill & Still (1984). Mandatory changes involve legal, economic, climatic, and other uncontrollable matters. Optional changes include adaptation that improves the company's position in the marketplace such as competition, consumer preferences, and local distribution systems. Competitive advantage is gained in industries where home demand gives companies a clearer or earlier picture of emerging buyer needs and where demanding buyers' pressure companies to innovate faster and achieve more sophisticated competitive advantage than foreign rivals affirmed Porter (1990). Lower levels of product adaptation can result when a product is exported simultaneously to multiple export markets and where return on investment and economies of scale in production and marketing are the main focus according to Cavusgil, Shaoming &Naidu (1993) and Jain (1989).

2.2.2 Pricing adaptation:

When a product with the same brand name is sold in different countries, it can be difficult and sometimes impossible to sell them at different prices. According to Levitt (1983) this indicates that price is probably the marketing mix element that is most difficult to standardize because of the firm's long-term need to recover full costs. While mandatory adaptation may be needed to comply with local marketplace realities such as government regulations and legislation, international pricing strategy customization should involve a thorough analysis of these and other differences between home and host markets confirmed by Hill & Still in 1984. Success in international markets and revenue maximization can be achieved through pricing adaptation including premium pricing when market conditions are favorable (i.e., demand is strong and competition is weak) or competitive pricing when market conditions are unfavorable (i.e., demand is weak and competition is intense). Firms can also use uniform pricing across markets as a defensive measure against gray market imports and unauthorized intermediaries that are out of their control according to Cavusgil & Zao (1994) and Theodosiou & Katsikeas (2001).

According to Sousa, Lengler, Martinez-Lopez(2013) the degree of price adaptation is sometimes positively related to the export performance of the firm. This hypothesis implies that export performance will always increase with greater degrees of price adaptation. Tan and Sousa(2011) showed that in a recent review of the literature, the results regarding the impact of price adaptation/standardization on export performance to be inconsistent and often contradictory. A possible explanation is that the relationship between adaptation and export performance is nonlinear affirmed Özsomer and Simonin (2004). A similar view is also advanced by Dow (2006) who suggests that the conflicting empirical findings in the literature may be due to the fact that the relationship between adaptation and export performance is an inverted U shape rather than linear. Dow (2006) stated that, there appears to be an optimum point of marketing strategy adaptation in order to maximize firms' export performance. If firms deviate from this optimum amount of adaptation, the performance will decline. Researchers have proposed that neither complete standardization nor complete adaptation of the marketing program is conceivable according to Cavusgil, Zou, and Naidu (1993). The challenge facing international managers is to decide to what degree they should adapt the marketing-mix elements according to Theodosiou and Katsikeas (2001).

Managers, however, may miss the optimal point between adaptation/standardization because they are making decisions in uncertain environments where there is imperfect information. In international contexts, where uncertainty is present, even small adaptations will involve transaction costs.

In international contexts, where uncertainty is present, even small adaptations will involve transaction costs. The uncertainty and transaction costs perceived by managers in international markets may compel them to adopt non-optimal adaption choices. According to Simon (1957) the behavioral theory of decision-making and the concept of bounded rationality provide further evidence that managers can make decisions that are not optimal. According to this theory, because of the complexity of the problems that managers' encounter in international markets and the cognitive limitations that constrain the amount of information a person can process, managers tend to rely on a subset of features to make their decisions without capturing the market's entire complexity stated by Shoham (1999). Additionally, when working in a foreign market with substantial uncertainty and imperfect information, there are trade-offs that cannot be easily quantified, making the optimal point difficult to be achieved affirmation done by Dow (2006). Thus, overadaptation and underadaptation of marketing strategy are possible results of the decision-making process in international markets.

According to Diamantopoulos, Schlegelmilch, and Du Preez (1995) international managers who do not adapt or who underadapt the pricing strategy could expect a detrimental impact on their firms' performance as customer characteristics and preferences are not met.

According to Raymond, Tanner Jr, and Kim (2001) pricing decisions are of paramount importance to the success of the firm in foreign markets. Myers, Cavusgil, and Diamantopoulos (2002) affirmed that in todays' business environment managers need to be careful when setting prices for export markets due to an increasingly competitive global environment, complex government regulations, and gray market considerations.

Theodosiou and Katsikeas (2001) stated that understanding the impact of pricing decisions, particularly the degree of price adaptation that may be required, is vital because of the direct effect that decisions have on the firms' revenue and profit levels. Sousa and Bradley (2009) affirmed that despite its critical importance in explaining the export performance of the firm, price is the most neglected variable when compared with the other elements of the marketing mix. Sousa and Bradley (2008) believe that more research is needed on the relationship between price adaptation and export performance. This is even more relevant because the pattern of findings in the literature regarding the impact of price adaptation on export performance is mixed and often contradictory. The lack of consistency in findings might be attributed to a lack of precision when specifying the form of the relationship between price adaptation and export performance. Özsomer and Simonin (2004) believe that although price adaptation and export performance is assumed to have a linear relationship in the literature, a nonlinear relationship may exist between the degree of standardization of marketing programs and export performance, and that this needs to be taken into account when examining the link between price adaptation and export performance.

According to Theodosiou and Leonidou (2003) research of price adaptation tends to fall into five regions:

(1) the adoption of a skimming or penetration strategy, depending on the size of the market, consumer characteristics, and competitors' actions;

(2) wholesale prices/margins, resulting from differences in the role of wholesalers in the distribution trade of a foreign country;

(3) retail price/margins as a result of variations in the size, type, and services provided by retail outlets in the foreign market;

(4) end-user prices/margins, usually affected by demand conditions such as differences in customer numbers, purchasing power, and economic conditions;

(5) sales/payment terms, which may vary depending on the firm's entry mode, degree of involvement and response to competitors in overseas markets.

Sousa and Bradley (2009), Theodosiou and Katsikeas (2001) compared pricing with the other elements of the marketing mix, and despite the necessity for more research on pricing decisions, price adaptation has received the least attention in the literature. Nonetheless, pricing decisions are of vital importance to a firm's success because of their direct effect on revenue. In addition, a recent review of the literature indicates that the results regarding the impact of price adaptation on export performance have been inconsistent and often contradictory according to Sousa, Martinez-Lopez, and Coelho (2008).

According to Myers(1997) and Stottinger(2001), exporting pricing is among the crucial decisions managers confront. Not a large number of guidelines for effective export pricing exist noted Clark et all (1999), Samli and Jacobs (1993). Samiee (1987) and Cavusgil (1996) stated that scholars have neglected pricing research despite acknowledging its importance and pricing decisions are, therefore, often left to intuition and prior experience. There are multiple reasons for neglecting this issue. Myers and Cavusgil (1996) concluded that one explanation may be related to the complex nature of the pricing issue, as well as the reluctance of managers to discuss their pricing strategies. Another reason may be attributed to the lack of export theories suitable for fostering research, thereby hampering its development according to Clark et al. (1999). Additionally, some researchers, for examples Myers (1997) argue that the neglect may encourage managers to inappropriately use domestic prices as a basis for establishing international prices.

Myers and Cavusgil (1996) stated that in the existing literature on pricing, this element of the marketing mix can be divided into four research streams:

(1) the micro-economic literature on pricing

(2) buyers' perceptions and reactions to pricing

(3) intra-corporate pricing

(4) company practice in international pricing and its impact in export performance

The work of Cavusgil and his colleagues, Nevin (1981), Myers (1996) has repeatedly suggested that the fourth stream of literature is a particularly neglected area of research and a problem area for international managers. According to Baalbaki and Malhotra (1993), pricing is perhaps the marketing mix element most ignored by international business researchers. According to Myers and Cavusgil (1996), the existing lack of research on international pricing strategies can be attributed to the complexity of pricing issues and also the widespread reluctance of managers to discuss their pricing strategies. Nevertheless, researchers need to be aware that managers involved in international operations regard pricing strategy as one of their main concerns according to Samiee (1987).

Pricing adaptation may be necessary to transition products from markets where information saturation is high to markets where consumerism is just beginning. Pricing is also used as a means to accommodate economic recession cycles affirmed Hill (1980). Product pricing is frequently related to supply and demand factors outside of specific markets, including costs according to Cavusgil & Zou (1994). International marketers can attempt to control costs through selective use of supply sources whose cost basis can vary due to differences in production costs, tariffs, and transportation charges states according to Yavas, Verhage, & Green (1992).

2.2.3 Place adaptation:

A number of adaptations may be required to make distribution, inventory and transportation active elements of the place-marketing mix.

Rapid expansion into new markets can increase distribution costs substantially as a result of increased transportation distance and low-level sales over a large territory according to Ayal & Ziff (1979). Efficient distribution can be achieved in different ways depending on the product and specific channels.

It is possible that diversification with respect to countries and concentration with respect to segments can enhance distribution system efficiency stated by Ayal & Ziff (1979).

It has been reported that there is less strategy differentiation in the area of distribution than in other areas such as product or promotion affirmed by Kacker (1972) and although distribution methods remain related to firm performance. According to Chung (2003). Numerous additional aspects of distribution may require adaptation for different global markets. These include methods of inventory management, promotion, credit, the availability and affordability of distribution channel alternatives, product types, sales volumes, and service requirements according to Cavusgil & Zao (1994); Fry (1996); Shoham, Brencic, Virant, & Ruvio (2008); Theodosiou & Katsikeas, (2001).

2.2.4 Promotion adaptation:

Adaptation may be necessary not only for products but also for marketing and communication programs affirmed by Ayal & Ziff (1979). Promotion content is largely culturally driven according to Karande, Almurshidee, & Al- Olayan (2006), making its adaptation often necessary in international markets. Promotion adaptation including adaptation of product positioning, brand names, packaging messages, and sales promotions can be prompted by competitive pressures in export markets; Cavusgil & Zou (1994). Aspects of advertising and promotion, including the nature of customers' consumption process and language and market segments, also play a role in the extent to which adaptation are needed, stated by Powers & Loyka (2007).

Differences in the availability, suitability, and cost of advertising media complicate international product promotion. A primary difference in this regard is the absence of commercials in local television and radio stations in several countries and restrictions on television and radio advertising in others affirmed by Roostal (1963). Market conditions indicate a strategy of adaptation of both product and communication when difference exists in environmental conditions of use and in the function that a product serves according to Keegan (1969). It should also be remembered that product adaptation can be minimized when branding, positioning, and promotion are used in concert to assist with applicable reflection of local conditions, making the adaptation of the product itself less necessary noted Hill & Still, (1984).

In a paper published by Powers and Loyka (2010), they developed hypothesis in which they address the different levels of adaptation across the marketing mix. Hypothetically, price has the greatest level of adaptation based on the need to modify pricing policies due to local regulations and competitive environment according to Sorenson & Weichman (1975). Moreover price can be made in a relative easy manner and it does not create scale diseconomies as do adaptation of other elements of the marketing mix based on an article by Quelch & Hoff (1986).

According to Ayal & Ziff (1979), the second greatest adaptation is hypothesized to occur in distribution as it must be adapted to accommodate the type of product sold in individual country markets as well as the many ways in which distribution can occur in foreign markets.

Due to the increasing uniformity in advertising, the third greatest adaptation is promotion. Promotion adaptation can be viewed as a last line of defense before products are subdued to changes. The importance of scale economies, standardized brand names, and the increasing popularity of global products result in product to be hypothesized to have the lowest level of adaptation of the marketing mix elements.

The literature review from the same Powers and Loyka (2010), suggests that there may be two categories of adaptation. Both price and distribution adaptation are hypothesized to be greater than those for promotion and price. Distribution adaptation may be more difficult to implement, the many possible dimensions of it, as well as the necessity to undertake it, make it logical to assume that this portion of the marketing mix will have relatively large levels of adaptation. Lower levels of adaptation are hypothesized to exist for promotional
and product marketing mix elements, given the growing convergence of global advertising messages and acceptance of global products, and the need for standardization to maximize efficiencies and economies of scale.

Boudreau et al affirmed in 1998 that the second hypothesis they developed have to do with the difference between price/distribution and promotion/product adaptation. Adaptation of products for different worldwide segments also influences the other nonproduct elements of the marketing mix. Quelch and Hoff (1986) reported that when the same products are sold in different countries, it can be difficult and sometimes impossible to sell them at different prices. Therefore is normal to assume that changes in any of the marketing mix elements may affect all others to a limited extent.

In their last hypothesis Powers and Loyka (2010) stated that „the extent of adaptation by individual marketing mix element is positively correlated to other marketing mix adaptation."

According to Boter & Holmquist (1996), Samiee & Roth (1992), Sorenson & Weichman (1975) the variables that influence the adaptation of the marketing mix can be divided into three categories: market factors, industry factors and company factors.

Market factors are market-specific factors in relation with marketing mix adaptation. Market factors include cultural differences, consumer preferences, consumer purchasing habits, level of competition affirmed Kotabe (1998).

In what concerns that industry factors, these factors represent the degree of change in a specific industry and it includes market turbulence according to Porter (1986) and Uscategui (1998).

According to Ayal & Ziff (1979) and Jain (1989). Company factors represents the interdependence between company headquarters and affiliate/subunits and among them.

2.3 Pricing in global markets

2.3.1 Definition of pricing

The only marketing mix variable that can generate revenues is price. Pricing is not a single concept, but a multidimensional one with different meanings and implications from the manufacturer, the middleman and the end-customer.

Kotler and Armstrong (2011) affirmed that in international marketing, pricing decisions are a complex matter. A company must pursue and adopt different price strategies in various markets. Regardless the strategy followed, price has to reflect the right value to its customers and potential customers.

When it comes to pricing in international marketing, certain variables must be taken into consideration such as environmental factors. These environmental factors can be classified:

- Customers
- Competition
- Economic trend
- Government laws and policies

<u>Customers</u>

When it comes to customers, three important aspects must be kept in mind such as: buyers' perception as the product offers value, how many buyers there are, and how sensitive they are to changes in price. In addition to gathering data on the size of markets, companies must try to determine how price sensitive customers are. Equally important is how much buyers are willing to pay for the offering. Figuring out how consumers will respond to prices involves judgment as well as research.

Price elasticity, or people's sensitivity to price changes, affects the demand for products. Elasticity refers to the amount of stretch or change.

Price elasticity = percentage change in quantity demanded ÷ percentage change in price

According to Hoffman et all (2002) when consumers are very sensitive to the price change of a product—that is, they buy more of it at low prices and less of it at high prices—the demand for it is price elastic. People are more likely to buy products/goods when their prices drop and less likely to buy them when their prices rise. By contrast, when the demand for a product stays relatively the same and buyers are not sensitive to changes in its price, the demand is price inelastic. Demand for essential products such as many basic food and first-aid products is not as affected by price changes as demand for many nonessential goods. The number of competing products and substitutes available affects the elasticity of demand. Whether a person considers a product a necessity or a luxury and the percentage of a person's budget allocated to different products and services also affect price elasticity. Service providers, such as utility companies usually active in markets in which they have a monopoly (only one provider), facing more inelastic demand since no substitutes are available.

Competition

How competitors price and sell their products will have a tremendous effect on a firm's pricing decisions. Companies want to establish and maintain loyal customers; they will often match their competitors' prices. Similarly, if one company offers you free shipping, you might discover other companies will, too. With so many products sold online, consumers can compare the prices of many merchants before making a purchase decision noted Hult, Cravens, and Sheth (2001)

Companies that activate in the same industry, they form an oligopoly market. An oligopoly market is a market dominated by a small number of providers. Each provider (firm) is aware of the actions of the other providers (competitors) and the actions of one provider influence the others. Providers operate under imperfect competition, that is to say a market where at least one of the following conditions does not hold:

-Numerous providers.

-Perfect information: all providers and customers know the prices set by all providers.

-Freedom of entry and exit: a provider can enter or exit the system at any time and freely.

-Homogeneous output, which means that there is no product differentiation or, in other words, items are perfect substitutes.

-All providers have equal access to technologies and resources.

Economic trend

Economic factors such as taxation rate, labor cost, inflation rate, and currency exchange rate, government's fiscal and monetary policy will definitely influence the adopted product pricing strategy either positively or negatively.

Qian and Delios (2008) stated that pricing strategies are complex in the best of times, but a struggling economy makes pricing even more difficult. The balancing act of moving merchandise while still making a profit is difficult for many businesses, particularly smaller companies struggling to survive. It is easy for salespeople, particularly in poor economic times, to become caught in the trap of underselling merchandise in order to make the sale. However, this pattern will lower the profit margin and does little to actually help the company in the long-term.

Government laws and policies

According to Fritz and Dees (2009) pricing decisions are affected by federal and state regulations. Regulations are designed to protect consumers, promote competition, and encourage ethical and fair behavior by businesses. For example, the Robinson-Patman Act limits a seller's ability to charge different customers different prices for the same products. The intent of the act is to protect small businesses from larger businesses that try to extract special discounts and deals for themselves in order to eliminate their competitors. However, cost differences, market conditions, and competitive pricing by other suppliers can justify price differences in some situations. In other words, the practice isn't illegal under all circumstances.

Price fixing, which occurs when firms get together and agree to charge the same prices, is illegal. Usually, price fixing involves setting high prices so consumers must pay a high price regardless of where they purchase a good or service. When a company is charged with price fixing, it is usually ordered to take some type of action to reach a settlement with buyers.

2.3.2 Role of pricing in international marketing

Pricing strategy is of great importance because it affects both revenue and buyer behaviour. The whole pricing environment is therefore considered, first from the point of view of the company and its strategies and then from the aspect of the consumer. However, it must not be forgotten that there are other, external influences on pricing - not just from firm's competitors but also from government and legislation.

Once these factors have been taken into account, various pricing strategies are reviewed and some attention is given to how best to implement those strategies; how pricing levels can be adjusted and how such tactics do affect buyer behaviour and company revenue.

The multidimensional character of price should be taken into account for the pricing of products and services. Pricing involves the determination (and adjustment) of a price structure and price levels, as well as decisions on short-term price changes. A more effective, goal-oriented approach to pricing is needed that explicitly takes into account the role of price as a marketing mix instrument and as a profit generator.

Economics has tried to understand pricing and pricing strategies, while reliable models for pricing remain elusive according to Hoffman et al. (2002). Marketing theory has established models, which include pricing, recognizing similarities and differences in objectives, methods and procedures between industries (Gordon et al., 1980) and between product/service lines.

There are currently two primary marketing paradigms, the marketing mix (Borden, 1964) and relationship marketing (Berry, 1983). The marketing mix was developed in mass market consumer goods, utilizing the so-called 4Ps of product, place, promotion and price (McCarthy, 1964) and subsequent variants. This producer-oriented approach aggregates consumers into segments that are then supplied products using the mix of ingredients from the 4Ps. The objective is to maximize sales, hence profit.

Marketing theory of price and pricing strategies have not always been articulated in empirical research (Rao, 1984). The mass market origins of MM have militated against price-based research as prices are fixed at an aggregate level, individual exchanges being irrelevant.

2.3.3 Pricing strategies in global markets/export strategies

As trans-national trade numbers continue to rise, understanding the determinants of export success becomes increasingly important to the international business manager.

Studies on export and international pricing include examinations of full cost vs. cost-plus strategies

(Hunt 1969, Lecraw 1984), trade barriers and pricing procedures (Johansson and Erickson 1985), currency choice strategies (Piercy 1981), and pricing decision locations (Abratt and Pitt 1985).

There are many pricing objectives that lead to different strategies and businesses have to develop and apply the best strategy in various situations. Some of the ways of pricing a product are: premium and penetration pricing, price skimming, economy and psychological pricing, product and optional product pricing, captive and product bundle pricing, promotional, geographical and value pricing. However, the situation is further complicated when it comes to pricing for international and global markets.

Setting prices for international markets is not an easy task. Decisions with regards to product, price, and distribution for international markets are unique to each country (Jain, 1989) and differ from those in the domestic market (Diller and Bukhari, 1994) Furthermore, other factors such as: the rate of return, market stabilization, demand and competition-led pricing, market penetration, early cash recovery, prevention of competitive entry, company and product factors, market and environmental factors, as well as economic, political, social and cultural factors, have to be considered in the decision making process.

Firms go and sell international for “pull” factors, based on the attractiveness of a potential foreign market, as well as for “push” factors, which make firm’s domestic market appear less attractive. The following are some of the factors that push firms to sell abroad: Sometimes companies develop product for international and export markets only.

Domestic market may be too small and exporting maybe a viable option to exploit economies of scale; the nature of the business or product requires firms to operate internationally or in foreign markets (airlines); companies seek foreign expansion in order to minimize and spread the risk, and reduce its dependence on one geographical market; because of saturation of domestic market, companies seek foreign markets and usually product life cycle reaches its maturity stages in the domestic market, while being at earlier stages of the life cycle in less developed markets.

2.3.4 Pricing models in global markets

Pricing has a huge impact on profitability. Pricing strategies vary considerably across industries, countries and customers. Nevertheless, researchers generally concur that pricing strategies can be categorized into three groups:

1. cost-based pricing;

2. competition-based pricing; and

3. customer value-based pricing.

A cost-plus pricing strategy is one where prices are determined by calculating all of the fixed, variable, direct and indirect costs associated with producing products. These costs are then converted to per unit price and a mark-up or profit is added on to arrive at the customer's price. This mark-up can be a predetermined percentage in the case of the pursuit of a target return or a varying percentage in the case of profit maximization objective. This is the most widely used pricing strategy (Seymour 1989; Morris 1990; Rogers 1990; Diamantopoulos 1991).

Cost –plus pricing requires adding up all costs required to get the product to destination, plus shipping and ancillary charges, and a profit percentage. It is relatively easy to arrive at a quote, assuming that accounting costs are available.

When it comes to setting pricing on export products, companies have three basic options (Cavusgil 1988):

- Rigid cost-plus pricing
- Flexible cost-plus pricing
- Dynamic incremental pricing
- Competition-based pricing

Rigid cost-plus pricing

Rigid cost-plus pricing is a formula that ensures margins but also can push the final price so high that the company might become uncompetitive in some markets. By adding international customer costs a foreign list price is set. Thus, the final price to the foreign customer includes administrative and R&D overhead costs, transportation, insurance, packaging, marketing, customs cost and others. Rigid cost-plus pricing is a static element of the marketing mix, since it cannot be changed to any significant extent.

Flexible cost-plus pricing

Flexible cost-plus pricing is a strategy that sets prices the same way as the rigid system but allows price variations is certain circumstances. A good example is discounts applied to the final price depending on the customers' options, size of the order or taking into consideration the local competition.

However, being also a static element of the marketing mix, the primary objective is to maintain profit margins.

Dynamic incremental pricing

The method of dynamic incremental pricing assumes that fixed costs are fulfilled regardless of the sales performance of a company. This tactic empowers the company to sell its exports at a very competitive price with a large chance of enlarging its market share.

This method is especially effective in the tech industry. It can be used for launching innovative products.

Dynamic incremental pricing also implies skimming when it coincides with a dominant market share position.

Competition-based pricing

Competition Based Pricing is a viable option for many businesses, particularly those where there is limited differentiation between products.

2.4 Export strategy and export performance

2.4.1) How export performance is determined

According to Cavusgil, Nevil (1981) and Diamantopoulos, Ingles (1988) the fundamental importance of export performance has led to research centered on the determinants of a firm's tendency to export. Cavusgil and Nevin (1981) identified several determinants of export behavior, including differential firm advantages such as the possession of a unique product, managerial aspirations for business goals which can include the overall goals for growth, profits, and market development, level of commitment to export marketing, and management's expectations of the effects of exporting on business goals such as managerial perceptions of the potential for growth in foreign markets.

Rose and Shoham (2000) stated that recent examinations have focused more directly on export performance, rather than a firm's willingness to export. According to Holzmuller and Stottinger (1996) export performance have been linked with the following factors:

-a dynamic organizational culture

-top management’s priority for international business

-commitment to exporting

-willingness to take risks

-perceptions of potential export-based growth

-profit opportunities

Moreover, proactive decisions making, risk taking and an ability to identify and respond to environmental opportunities also influence export performance according to Evangelista (1994).

In 2001, a study done by Leonidou, Katsikeas, Samiee affirmed that the intensification of competition on a global scale has led to an increasing number of firms seeking opportunities in international markets to achieve their objectives, as well as to safeguard their market position and survival. Exporting has traditionally been the most popular mode of international market entry, favored especially by small and medium-sized firms. In its most basic form, exporting requires minimal financial, human, and other resource commitments, involves low investment and financial risks, and allows for greater structural and strategic flexibility in the market (Young et al., 1989). However, to achieve success in export markets is not an easy task, due largely to the multiple, diverse, and idiosyncratic nature of foreign environments (Samiee and Walters, 1990; Czinkota and Ronkainen, 1998).

According to Miesenbock (1988); Ford and Leonidou (1991) a large number of empirical studies had been conducted in order to identify the factors responsible for the success of exporting. The researches have targeted five major categories of variables influencing export performance:

1) Managerial- personal, experiential, attitudinal, behavioral, and allied traits of the exporting firm’s decision-makers.

2) Organizational- elements related to the characteristics, operations, resources and objectives of the exporting organization

3) Environmental- factors shaping the task and macro-environments within which exporters operate in both domestic and international markets

4) Targeting- the identification, selection and segmentation of international markets

5) Marketing mix variables- the company's export product, pricing, distribution and promotion strategy.

The first group contains variables relating to organizational, managerial and environmental factors and their purpose is to serve as antecedent forces which are indirectly affecting export performance.

The second group includes variables pertaining to the firm's export marketing strategy such as targeting and marketing mix programs that have a direct connection to the export performance.

The third group consists of economic and non-economic measures of firm's export performance.

Kamath et all (1987), Axinn (1994) stated that in the absence of a mid-level theory in exporting, the model presented below in Figure 3.1 is suggesting a preliminary attempt to move in this direction. Leonidou, Katsikeas, Samiee(2002) affirmed that in order to test its validity, it's mandatory to to review, synthesize, and assess relevant empirical research. Such an undertaking is important at this stage for three reasons. First, most studies represent isolated and uncoordinated attempts aimed to investigate and test only certain dimensions of the overall model. Second, investigation efforts took place at different points in time, in varying geographic contexts and industrial settings, with a possible exogenous effect on the resulting findings. Third, research designs were diverse, sometimes employing inconsistent terminologies, definitions, and operability of variables. The same authors noted that these research findings are fragmented causing confusion and misunderstanding with regard to those variables that significantly affect export performance.

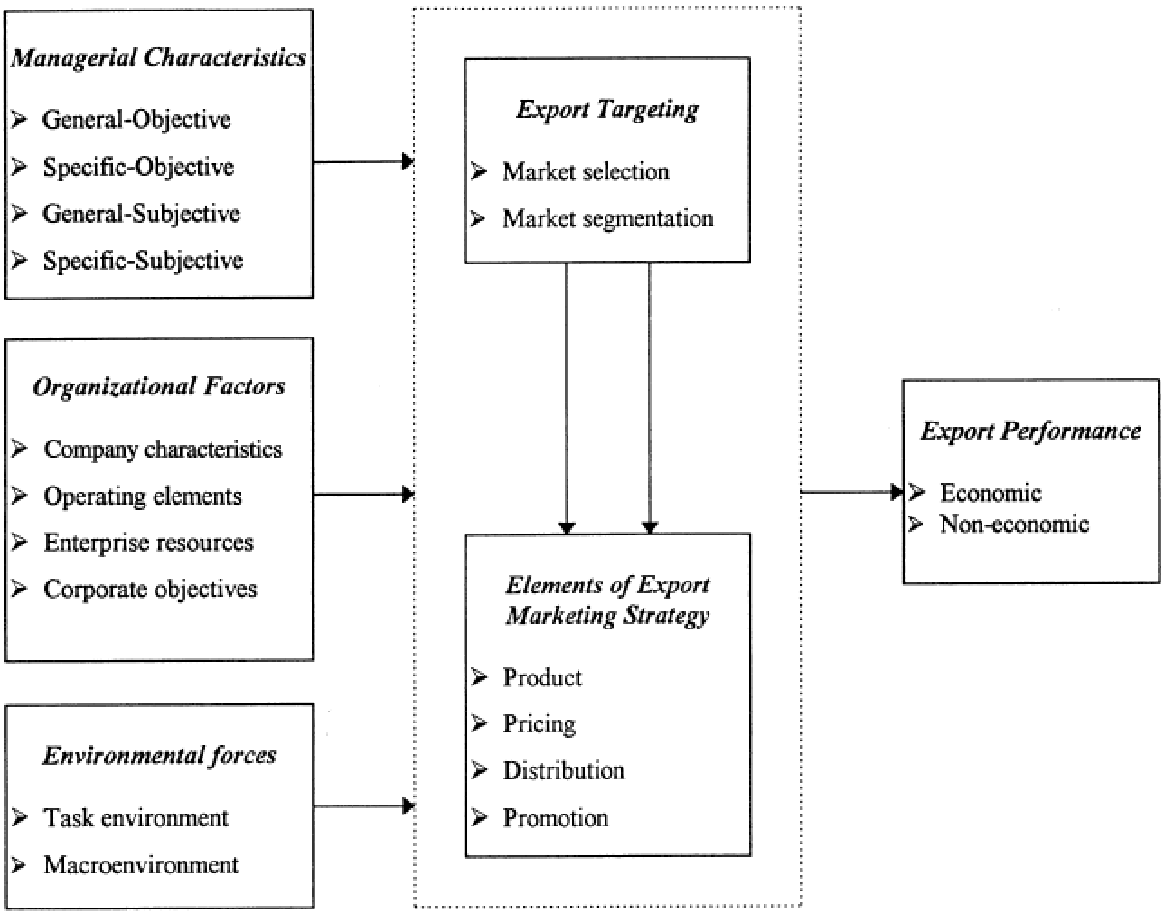

Figure 1: A synthesis of export performance models formulated by Leonidou, Katsikeas, Samiee(2002).

The relationships of these groups of variables with export performance have been conceptualized in several studies done by Gemunden (1991); Holzmuller and Kasper (1991); Axinn (1994); Cavusgil and Zou (1994); da Rocha and Christensen (1994).

The link between export marketing strategy and export performance has not yet been clearly established. Examination of such a link is critical, however, as it can inform and direct corporate policy in three important ways (Leonidou, Katsikeas, 2001):

(a) scarce company resources can be directed to those marketing strategy elements known to enhance export performance;

(b) marketing strategies can be tailored to those performance dimensions most conducive to the fulfillment of export objectives;

(c) marketing strategies can be adjusted according to important context-specific factors.

2.4.2 Linkage between export strategies and export performance

According to Dhanaraj and Beamish (2003) in developing the export strategy and export performance, they must be analyzed as two separate entities.

Gemunden (1991) stated that most of the export models use export intensity as a performance measure which is relevant at the macro-level when one is interested in maximizing a country's export. Regarding the firm level, export profitability is more of a concern than export intensity. However, at the firm level, export intensity may not be the critical performance indicator. A high intensity indicates that exports are high relative to domestic sales. This may not turn necessarily into higher profits or better image for the company. Earlier studies on the correlation of export intensity with profitability are inconclusive according to Gemunden (1991).

Export intensity is an outcome of the export strategy of the firm, and quite often questions arise such as: "How much to export?" and "What markets to export to?"

Lee and Yang (1990), Cooper and Kleinschimdt (1985), Ayal and Zif (1979) affirmed that the exporting literature has dealt with the market expansion strategy using export diversity, impact of geographical diversity on export profitability according to Piercy (1981). Delios and Beamish (1999); McDougall and Oviatt (1996); Ayal and Zif (1979) realized that the empirical findings in the international business literature emphasize that there is a positive correlation between the degree of internationalization of the firm and its performance. Export intensity, as well as export diversity, is reflective of the extent of internationalization of the firm and, more rightly, is indicative of the degree of internationalization (DOI) according to Sullivan (1994). Hence, export strategy could be better captured by using the construct DOI. Performance can be measured at the firm level using a composite measure of profitability, growth, and market share.

3. Methodology

In this chapter, the methodological type of research on the current thesis is justified and contextualized. All steps to be performed on the present study are disclosed and a deeper approach is taken. Furthermore, the main purpose of this study is brought up to light, so that an extended view on some partial objectives of the formulated research. From the research question, and considering some common structural characteristics price adaptation in export markets, different propositions are developed. The criteria that led to the choice of the processes studied are disclosed, in order to justify such options when the processes are presented. Finally, the principles behind the usage of some specific strategies of pricing adaptations are highlighted.

3.1 Case study goals

-identify criteria to select the most appropriate strategy to be analyzed

-how these pricing strategies are set

-what marketing concepts are used to determine the best exporting pricing strategies

-measure the impact of these pricing strategies on export performance

-to analyze the desired pricing adaptation strategies for foreign markets

-analyze the impact of the selected pricing adaptation strategies

-measure improvements of the used pricing and adaptation strategies

3.2 Case study approach

The methodology developed consists on the usage of a case study approach, as, in accordance with the research questions prior formulated. This study intends to analyze the impact of pricing adaptation in export markets for Romanian companies and how pricing strategies affects a company's performance. Ultimately, the form of the research question tends to suit a situation of research through case study according to Yin (2003). The option for a case study methodology, according to Yin (2003), also fits the fact that the observation is performed in an internal services system of a specific utilities company, limiting scientific generalization. Moreover, Yin (1989) elaborates on the concept of "analytic generalization". For the author, such concept describes the usage – as a template – of previously developed theory, working as a comparison point for the empirical data obtained in the case study. In respect with this concept, hereafter, a study on internal strategy improvement will be developed, sustained upon the usage of a previously recognized theoretical background, namely the usage of the pricing adaptation approach.

3.3 Case study characterization

The present study is developed under an exploratory approach, for the sole fact that it identifies and applies strategy pricing tools as well as pricing adaptation methods. Throughout this process strategy pricing tools and pricing adaptation methods are taken into consideration as well as their degree of aplicability.

3.4 Case study desgin

According to Yin (1989), the study in hand can be classified as followed:

- multiple case,since it's considered the application of pricing strategies of three different situations in three different companies.
- embedded, given the observation and analysis of three processes, thus involving more than one unit of of analysis.

3.5 Data collection

The data for these case studies will be obtained by document analysis given by the companies in hand and in-depth interviews with managers in charge of pricing in export markets. Moreover, the responses from the managers in questions are to be analyzed and contextualized according the thesis structure.

Main research purpose: analyze if the concepts of pricing adaptation and pricing settings in export markets are in close correlation with that company's export performance and on what level does adaptation of prices influences export performance.

4. Romanian export market-analysis

As a European Union member state, Romania adopted the EU Common Trade Policy and accepted the European Commission as a collective entity for international trade-related matters.

EU and Romania are original members of the WTO(World Trade Organization) keeping the same engagement for a well-structured trading system and trade liberalization worldwide.

In line with the EU customs legislation, Romania does not apply taxes or duties on exports.

Romania takes great steps in improving the public services for export promotion activities and programmes. The Romanian law stipulates that the exporters may use seven instruments for export development with budgetary allocations, according with the European laws and free competitive law, like: taking part in international fairs and exhibitions, trade missions, market research and studies, promotion and general advertisement, Foreign Trade Portal, export promotion activities through the Economic and Commercial Trade Representation Offices, other promotion activities with international exhibitions and fairs organized in Romania.

In order to insure a high rate of innovation and export orientation for SME, the Ministry of Economy, Commerce and Business Environment is taking into consideration the following measures:

- Supporting and promoting strategic export on foreign markets, promoting value-added goods and services and providing specialised assistance to increase the number of companies that can accesses export promotion instruments.

- Increased number of Romanian export companies receiving financial support through export promotion schemes by introducing new means for selection of participating firms, giving priority to companies able to export new innovative services under its own brand.

International Trade in 2011:

- export of goods: EUR 45,017 million (+28.5% and +20.5% y-o-y growth rate 2009-2011).

- export structure (percentage breakdown): vehicles and transport equipment (41.2%); other manufactured goods (33.4%); raw materials (7.2%); food, beverages and tobacco (6.4%); chemicals (6.3%); fuel and lubricants (5.5%).

- Top 10 export markets: Germany (18.8%), Italy (12.9%), France (7.5%), Turkey (6.1%), Hungary (5.6%), Bulgaria (3.6%), Great Britain (3.2%), Netherlands (3.1%), Spain (2.5%) and Poland (2.4%).

Company name	**Sector of activity**	**Turnover(2012)(bn.EUR.)**
Dacia Automobiles	car industry	2.859
Renault Industries Romania	car industry	930mil.
Rompetrol	oil industry	2.7
OMV Petrom	oil industry	4.37
Arcelormittal Galati	siderurgy industy	1.1
Honeywell Tech.	industrial	N/A
Petrotel Lukoil	oil industry	1.56
Flextronics	electrical equip.	N/A
Continental Automotive	car parts	524mil.

Table 2: Biggest Romanian exporters by turnover in 2012

4.1 Evolution and the structure of the Romanian export market based on groups of products

The total value of Romania's international export in the first 4 months of 2013 was 33.019,9 mil. Euro, registering an increase of 3.6% compared with the same timeline for 2012. The value of the overall exports have known an increase of 7.2% reaching a figure of 15.666,8 mil Euro and the imports have known a growth up to 17.353,1 mil euro(+ 0.6%).

In this conditions, the trade deficit declined with 36,2 % from -2.642,6 mil. Euro (30^{th} of April 2012) to -1.686,3 mil. Euro (30^{th} April 2013).

The total trade inside the European Union of Romania was increased with 5,7%, up to 24.433,1 mil. Euro. Out of this number, the exports represented 11.080,6 mil. Euro recording a growth of 6.2%. On the other hand, the imports from the European Union increased with 5.3%, reaching 13.352,5 mil. Euro.

The negative commercial balance in which Romania is engaged with its partners from the EU had known an increase of 0.8% in the first 4 months of 2013. In the same period, in 2012, the trade balance was -2.253,1 mil. Euro compared with -2.271,9 mil euro in 2013.

The total trade outside the European Union reached a number of 8.586,8 mil. Euro with a percentage of 1.8 less in the first 4 months of 2013, compared with the same time span from 2012. The exports represented 4.586,2 mil. euro (+9.8%) and the imports 4.000,6 mil. Euro (-12.4%).

The export analysis for commodity groups emphasizes the fact that the main export groups recorded a growth of delivery for international markets taking into consideration the total export share. This influenced the amplitude of the ascending trend of exports for the first 4 months of 2013.

The main commodity groups for exports can be ranked by the absolute growth of deliverance registered in 2013:

- Car manufacturing products (including electrical products)

  +723,8 mil. euro (+11,7%);

- Wood products, paper products (including furniture)

  +202,8 mil. euro (+17,2%);

- Chemical products

  +192,6 mil. euro (+12,4%);

- Food products

  +96,9 mil. euro (+8,2%);

- Textile and leather products

  +82,1 mil. euro (+4,9%);

- Articles of stone, plaster, cement, glass and ceramics

  +8,0 mil. euro (+9,4%);

Reductions in exports were registered in the following categories:

- Mineral products

    -235,3 mil. euro (-25,4%);

- Common metals and derivatives

    -22,4 mil. euro (-1,3%).

4.2 Geographical orientation

In the first 4 months of 2013, the top 10 countries in which Romania conducted exports were:

Countries	Share percentage
Germany	19,7
Italy	11,8
France	6,9
Turkey	5,6
Hungary	4,9
United Kingdom	4,3
Bulgaria	3,8
Russia	2,9
Netherlands	2,6
Poland	2,4

Table 3: Countries where exports are conducted

The cumulated share of the above mentioned countries make up to 65% of Romania's total export.

The trade balance recorded for the top 10 commercial partners regarding exports and also imports in the first 4 months of 2013 was the following:

- Ascending commercial deficit with :

    -Hungary (-681,9 mil. Euro)

-China (-477 mil. Euro)

-Netherlands (-240,5 mil. Euro)

-Russia (-186,5 mil. Euro)

-Italy (-79,2 mil. Euro)

- Decreasing commercial deficit with:

-Poland (-403,1 mil. Euro)

-Austria (-397,4 mil. Euro)

-Germany (-173,6 mil. Euro)

-France (-55,8 mil. Euro)

- Ascending commercial surplus with:

-Turkey (+274,8 mil. Euro)

-United Kingdom (+249 mil. Euro)

- Decreasing commercial surplus with:

-Bulgaria (+138,7 mil. Euro)

Important contributions for partially compensating the trade balance deficit were made with the following countries:

Country	**Amount (mil. Euro)**
Algeria	+154,8
Morocco	+129,5
Ukraine	+101,7
Moldova	+95,3
Serbia	+95,2
Norway	+93,3
Georgia	+85,4
Lebanon	+78,4
Togo	+78,4

Saudi Arabia	+72,7

Table 4: Amount per country balancing the trade balance deficit

4.3 Strategy perspectives

A perspective is the right approach for export development from all angles relevant to the Romanian society. Below are 4 strategy perspectives interconnected for achieving the desired strategic vision.

a. *Development perspective*: Monitoring the activity contributing to exports, sustainable and durable development for the entire society.

b. *Sectorial competition perspective*: relevant especially for the business community in the activity sector.

c. *Client perspective*: important and relevant for the specific needs of different types of exporting clients (current, aspiring or potential).

d. *Institutional perspective*: relevant for consolidating institutional capacities for developing exports.

-Strategy design and managing approach

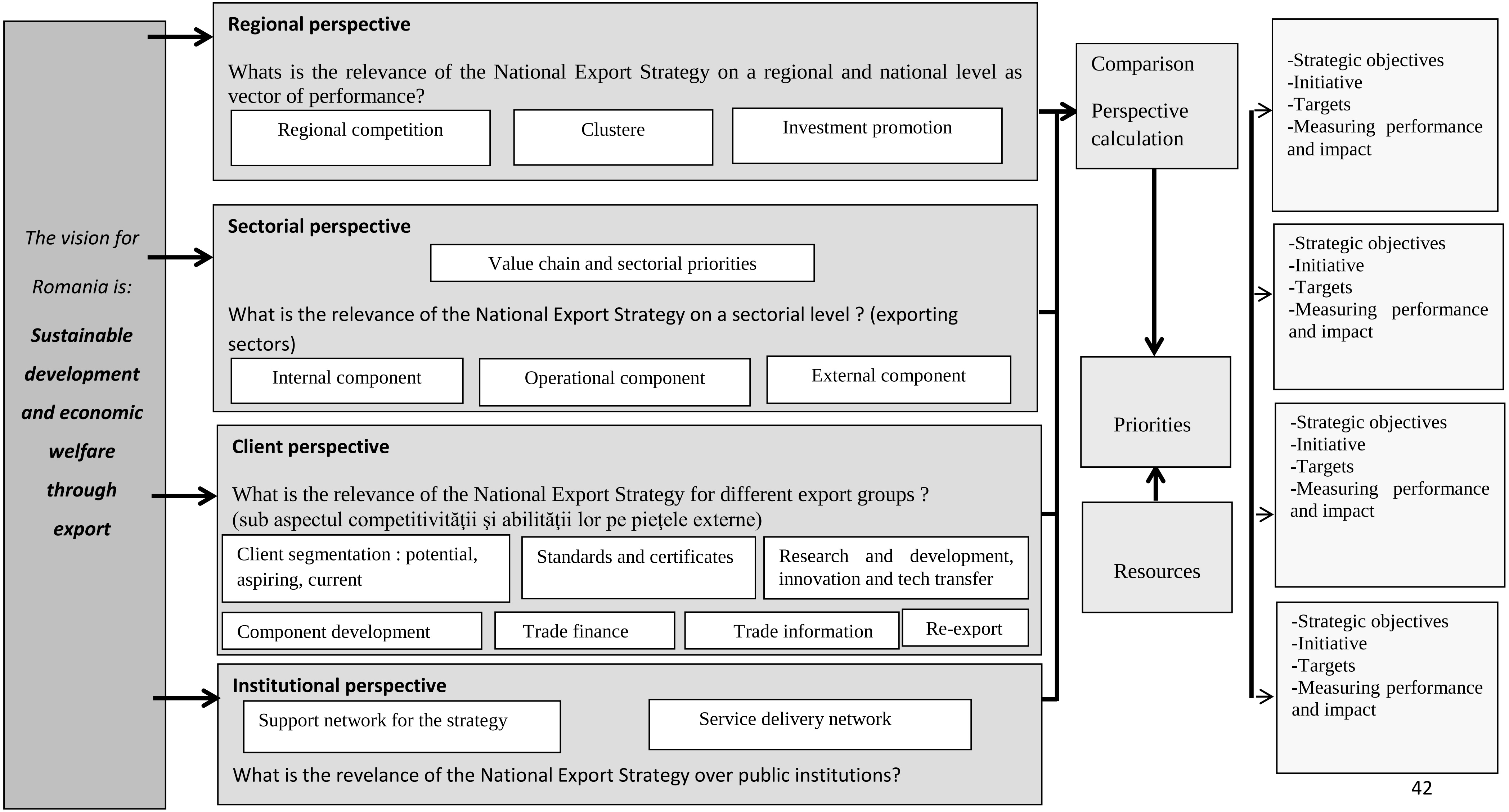

Figure 2: Strategy approach

4.4 A forecast of strategies

<u>Strategy 1- Regional development of exports</u>

The actions implemented will contribute to the regional development have the following possible results:

- The implementation of projects and programs for rural development orientated towards export (rural tourism, organic agriculture, IT&C, furniture, textiles).
- Programs for stimulating the creation of business alliances, including collective marketing associations on a local level. These are part of the sectors with the potential of high multiplication like agricultural products and food processing.
- Encouraging the creation of alliances between producers.
- Supporting and reinforcing the key hiring sectors
- Implementing a policy and a competitive framework which can lead to foreign investment.
- Using the natural resources in a sustainable manner, preventing pollution and reducing emissions which can have a negative impact on the environment, coming from industrial activities.
- Facilitating and stimulating the exporters to respect the local environment standards.

<u>Strategy 2- Economic clusters by regions</u>

The economic performance of the clusters in Romania was analyzed comprised in an elaborate study in 2012 done by the Association of Clusters on the most 15 active clusters. These clusters had a turnover in 2012 of 250 mil. Euro from which export represented 200 mil. Euro. The average number of employees per cluster is 5000, inside 17 enterprises. These clusters contributed with 9% of the total exports and the sector with the highest performance was the textile industry. In this situation, the companies inside a cluster contributed up to 12% of the sectors total exports. (Cosnita, 2012)

Indicator	Value	Average
Turnover	15.006 mil.Euro	1.000 mil.Euro
No. of companies	255	17
Export	3345 mil.Euro	223 mil.Euro
Employees	77295	5153

Table 5: Economic performance of clusters

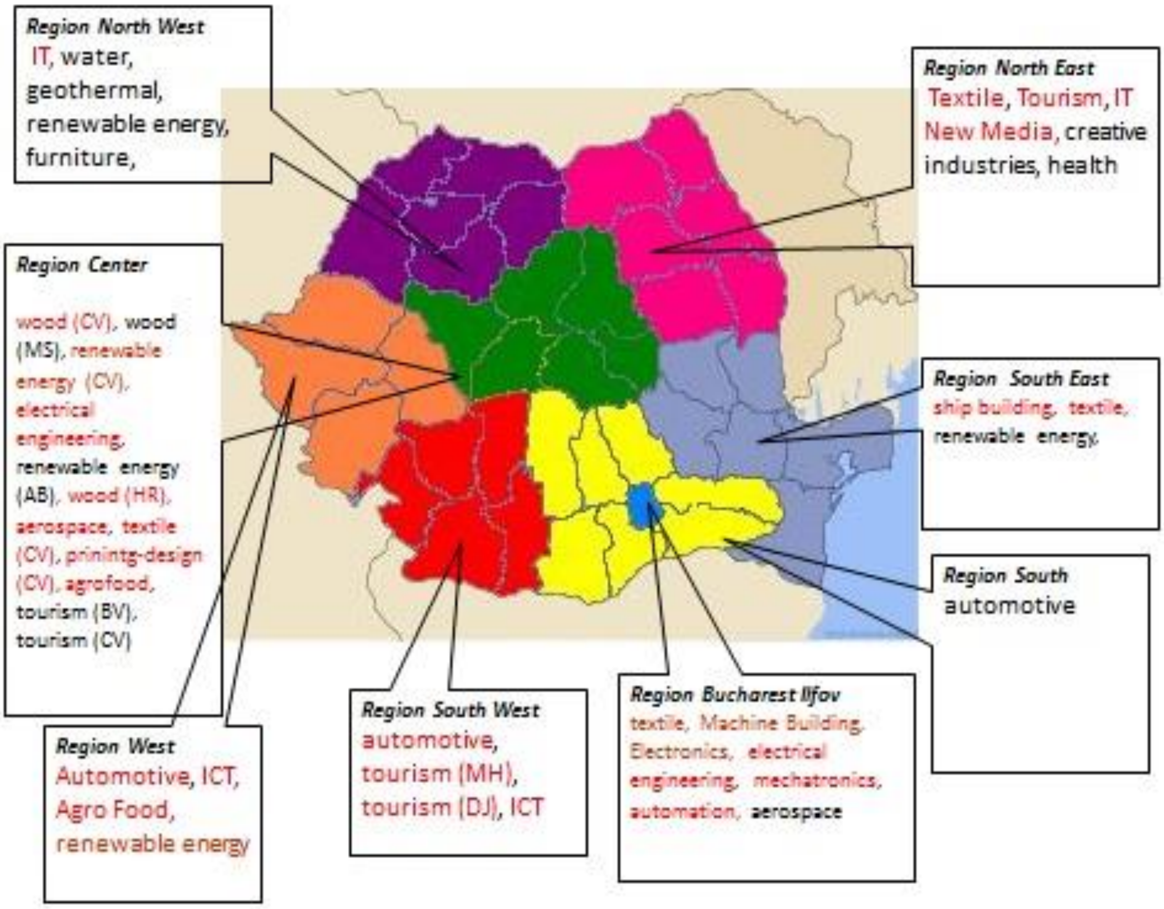

Figure 3: Romania divided by clusters

- Clusters offer a huge potential of specialized strategy implementation through ensuring and mobilizing the necessary resources.

- Know-how, network and dynamism of these clusters represent the right ingredients, which are available on a local level. This allows regions which creates more value to reach levels of excellence within the global economy.
- Clusters can be utilized in different stages. It can be used in the design phase, in the strategy implementation phase. In the design stage, clusters can be used to identify the strong points of the industry for a particular region. It can also contribute to establish strategic priorities and correct decision making.

5. Case Study

5.1 A presentation of SC Oltchim SA

Oltchim SA Rm.Valcea is one of the largest chemical companies in Romania and in Southeastern Europe,with a total of 4250 employees in 2010. In 2014, the total number of employees decreased to 2300 employees.

The plant is located in an adjacent area of Ramnicu Valcea rich in resources: salt, oil, coal, limestone and water, also is linked by underground pipes of ethylene and propylene with Arpechim Pitesti,thus becoming one of Oltchim branches.

The company was founded in 1966 and is owned by the Romanian state and from February 18 1997 a package of shares is listed on the Bucharest Stock Exchange under the symbol OLT. In May 2007, Oltchim became a full member of the European Council of Vinyl Manufacturers PVC manufacturing becoming the first company from Eastern Europe who receives this distinction. From June 2009,Oltchim ownership consists of: Ministry of Economy (54.8% share), German company PCC SE (12.15%) and other shareholders with 33.03%.

The turnover for 2009 was 253 mil.€ and in 2008 the revenues were 529 mil.€.

Since 1966 Oltchim has provided chemical products. Their products, either PVC (Polyvinyl Chloride), Caustic Soda, Propylene Oxide, Propylene Glycol and Polyether Polyols, Chlorosodics or construction materials, are highly appreciated in more than 80 countries, becoming a reliable company for 300 partners, a family of over 5000 members.

They have engaged in the competition race and they have succeeded to keep its position. This was possible because they have accomplished the reduction in production cost, power and feedstock consumptions; because they have been offering high performance products according to its customer's requirements; because it have great respect for the environment and therefore fighting to reduce the pollution.

Oltchim SA has 5 divisions: Chlor Alkali Division; Petrochemical Division; Chemical Division I ; Chemical Division II; Tehnical Divison.

OLTCHIM in Figures

Over 80 countries have been appreciating their products and at least 300 companies have become partners. OLTCHIM is worldwide present: Europe, Middle East, Asia-Pacific, Africa, North and South America, knowing that more than 3/4 of its production is exported.

OLTCHIM - Sales Structure 2009

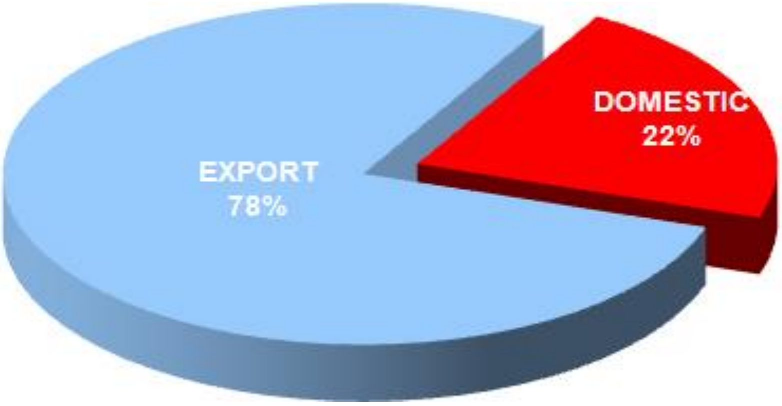

Figure 4: Sales Structure

Products and Sales

- 22% of the total sales represents domestic market sales
- The unique PVC, Polyether Polyols, Plasticizers (Dioctylphthalate) producer
- 37.5% represents PVC share in total sales 2009
- 28.7% represents Propylene Oxide and Polyether Polyols (intermediates for polyurethanes) share in total sales 2009
- 14.4% represents chlorosodics share in total sales 2009

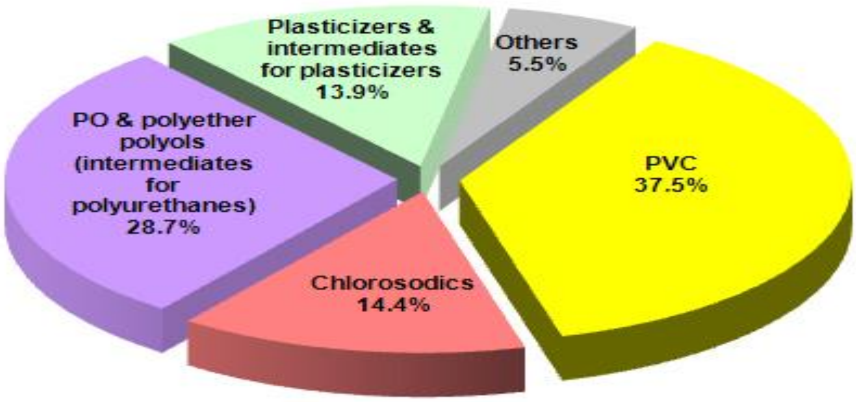

Figure 5: Products and Sales

Because the product range is wide 78% of the products are exported and only 22% are for internal usage. The structure of exports by geographical area are the following: 39.6% Central and Eastern Europe , 33.8% Western Europe, 23% Middle East(including Turkey), 2% Africa, 0.6% Central America , 0.3% North America and 0.6% Asia.

5.1.1 In-depth interview

Q1) What type of export does Oltchim practice?

In general, Oltchim's direct export mount up to approximate 40% and indirect export are done through traders and makes up the remaining 60%. The export of products is done with the help of annual framework agreement with the clients or the export is done by participating in tenders. The delivery of products is honored monthly through orders. Selling prices and quantities are negotiated. Selling prices for external markets are monthly negotiated between Oltchim and their clients, because prices for chemical products are permanently modified depending on ICIS indices.

Q2) Why indirect export have a bigger share?

Indirect export is more advantageous in the following situations:

-when the distributor takes charge of financing the final client;

-when the distributor assume the risk of default;

-when the distributor assume the risk of the exporting market/country;

-when the distributor uses its own structure to deliver large quantities to small final consumers;

This selling strategy influences directly the pricing strategy, because higher prices can be obtained and later can be negotiated with a sole intermediary for multiple markets, the channel distribution costs being lower.

Q3) When is direct export practiced?

When the final client is solvent, the market is secure and the risk of non-payment is absent and the payment is made in advance or in the short term.

Q4) What is your biggest export market?

In the present situation, almost 80% of Oltchim's total sales are addressed to outside markets (EU, Middle East, Asia, Africa).
We can say that the European Union is our biggest export market. The EU holds about 38% of our total exports. Also, the Middle East (including Turkey) is an important market, with about 20% of the total exports.

Q5) Which is your biggest competitor? Internal and external?

The competition for the company is defined by the group of products manufactured and sold. The first big product is caustic soda. For this type of products the following competitors are:

On a global level: Dow Chemical, Ineos Chlor, Solvay SA, Akzo Nobel, Bayer AG, Arkema, SolVin, Vinnolit,Ercros, BASF, PCC Rokita.
In Central and Easter Europe: In this region, Oltchim is the biggest producer. However, other companies are producing caustic soda, but having inferior quality. Such companies are: Borsodchme, Anwil SA, Spolana.

The next big type of product is polyether polyols. On a global scale the main competition can be clasiffied as following: Dow, Lanxess, Repsol, Shell, BASF. Regarding the Central and Central European market, the main competitor is PCC-Rokita.

Q6) How did your exports performed over the last 3-4 years?

The export market has performed relatively well over the last 3 years. Into consideration is taken the biggest exporting regions, namely: EU countries, non-EU countries and the Middle East including Turkey.

Regions/Year	**2009**	**2010**	**2011**	**2012**
EU countries	40	36	35	31
Non-EU countries	8	8	11	10
Middle East+Turkey	17	24	23	25

Table 6: Export performance (million euros)

The real causes of sales volume variation and product prices are determined by supply and demand economic mechanisms which are conducted according to the specification of geographic markets and the market for each product in particular.

Q7) How much do the exports represent from the company's total production?

The export represented in 2011 almost 75% of the total production. The total production had registered a decline, thus the exports also registering a downfall.

<u>Q8) Did the economic financial crisis affect Olchim's exports?</u>

It certainly did. The quantities delivered and turnover are fluctuating due to the changes in demand for chemical products in international markets. As a consequence, the financial turmoil affected different industries (constructions, detergents, aluminum, cellulose and paper). Another consequence was the modification in Oltchim's production structure for assuring the company with raw materials at competitive prices.

These fluctuations in demand of products had led to redesigning the company's pricing strategies. Export prices were reduced following a decline of demand on external markets, but the company didn't allowed the prices to drop below the level of costs or ICIS indices for not selling in a loss.

<u>Q9)What are the main exporting areas? Inside and outside the EU?</u>

Oltchim signed annual framework agreements with each client depending of the dimension of the market. Oltchim is operating its activity depending on the competitors and prices obtained on the targeted market.

Oltchim penetrated different market places occupied by traditional producers of similar chemical products. Such competitors are: Bayer, BASF, Dow Chemicals, Huntsman, Borsod Chem.

60% of external clients of Oltchim have over 10 years of collaboration with the company. Part of these clients created new products by demanding them. Companies such as: Huntsman, Shell, Dow Chemicals, Saitec, Betapol, Impe Italy, Eurofoam, Aramis have led overtime to economic synergies impossible to reach in any other conditions.

Collaboration relations had surpassed the client-supplier barrier. In the period 2009-2012, the majority of clients and traders had showed solidarity regarding the difficult situation Oltchim had faced. They have provided financial solutions for supporting the on-going activity through:

-financing in advance (Tricon, Aktas, MFCC etc.)

-factoring (Eurofoam-all factories)

-shorting payment terms (Betapol, Broggini etc.)

- processing raw materials (Polchem,Aktas, IPP Serbia etc.)

Example of important traders for Oltchim in international markets:

-Helm Germany;

-MFC Commodities Austria;

-Chemimpex Turkey;

-Polchem Lichenstein;

-Tricon Energy USA;

-BSG USA;

-AKTAS Turkey.

The main exporting areas inside the EU are Bulgaria, Hungary and Germany. Regarding the areas outside the EU, Turkey and Serbia are the biggest ones.

<u>Q10) What are the factors that contribute to the formation of your export prices?</u>

We can affirm that that the main factors that contribute to the formation of the export price are:

-The production cost of the facilities which manufacture products for exports. These costs are continuously modified.

- The characteristics of the export market are taken into consideration. Factors such as competitive intensity, market demand, and channel length, level of prices in the markets, customer sophistication, medium and long term forecast, logistic costs, history of collaboration, socio-economic and political conditions, importance of the marketplace, growth forecast of the market and the negotiating power of suppliers make this characteristic group.

Selling decisions for export of Oltchim products are done through contracts with direct clients and traders. Clients activating in markets with big volumes of sales have priority. The clients demonstrate a continuous level of loyalty.

A constant and considerable volume of sales related with an export price that can cover all expenses and the rate of profitability established by the company's management must be included. This aspect will lead to an expected performance for Oltchim.

The selling strategy and implicit the strategy price of Oltchim is following the optimization of clients risks as well as market risks and optimizing the financial cash flows.

Oltchim has clients based in countries/markets with a high degree of risk and due to this fact insurance companies refuses to cover the risk of non-payment. Such clients are based in Africa and the Commonwealth of Independent States.

The method for paying a product is a factor that is taken into consideration for setting strategy prices. For example: In Turkey, clients pay at 120 days after the delivery of the merchandise, but there are cases in which the payment is done at 180 days or even 360 days. In the case when the payment has an extended term, the price will be higher.

Another element that can influence the delivery price is the delivery conditions (FCA, FOB) depending on the client preferences. Here the effort optimization of distribution has to be mentioned.

- Product characteristics include the degree of uniqueness of the product, the nature of a product, conditions and patterns of product use, product familiarity of foreign customers, and qualitative parameters of the product.
- Management characteristics which include an importance of exporting to the overall company strategy, overall price position of the firm, commitment to the venture.

Setting export prices is done by the management of the company based on an careful analysis of exporting markets, international indices, available fund commodity and the level of production for the following month. These prices, but also external contracts are monthly approved by the Administrative Council of Oltchim.

Q11) Can prices fluctuate?

Yes, prices can fluctuate. The main reason why they are not fixed is because of the raw material prices and also utilities pricing.
Another element can be the ICIS indices. ICIS is the world's largest petrochemical market information provider. The aim of the company is to give other companies activating in the

global commodities markets a competitive advantage by delivering trusted pricing data, high-value news, analysis and independent consulting, enabling our customers to make better-informed trading and planning decisions. It's good to mention, that no manufacturer from the chemical industry selling and no buyer purchases solely based on ICIS indices or similar indices. These are merely guidelines for each particular case. ICIS indices are separate for each geographical market and don't take in account discounts accorded for each client due to payment and delivery terms.

Q12) What is the process of establishing the export price?

The process of establishing export prices is complex and has a lot of ramifications. The factors that are taken into consideration when setting prices are the following:

-undertaking a price analysis of the target market
-determine the internal costs of the product for export
-pricing approach
-determine export strategies for different markets
-export promotion
-export distribution

Oltchim produces and sells large quantities of products. These products are addressed to two big categories of clients:

-large consumers

-small consumers

Even in the large consumers category the entire quantity of a product cannot be taken. The cause is because consumers don't have the necessary production quantities or due to safety reasons and mitigation of own risks of procurement. The consumers prefer to buy raw materials from multiple producers.

For the small consumers' category, the sell is done through multiple distributors. The distributors take the tasks of distribution, but also the risk of non-payment. The respective distributors pay to Oltchim the delivered products, independent from the problems that small consumers might have.

Moreover, these distributors are able to accord Oltchim payment warranties, warranties that small consumers don’t or can’t make them.

Q13) What are the core factors when the company is beginning to adapt their prices in different export markets?

Like any company trying to export a product to another country or region, internal and external factors contribute to pricing adaptation.

The market in which Oltchim is exporting depends of the foreign market characteristics. Oltchim being in the chemical and petro-chemical field, the factors underlying the adaptation are not many. We can say that, the demand of a product is one of the most important aspects and second, the quantity a foreign company requested to import.

Nevertheless, the exporting countries road network is important and how far from the border is that company and how the laws of exporting are affecting the transaction if the importing company is outside of the EU.

Q14) How the adaptation of prices affect the export performance of the company?

Adaptations of prices are not affecting Oltchim export performance in a big manner.

The factors mentioned in the previous questions are crucial to a good export strategy that ultimately affects in a positive or negative way the performance.

In recent years, Oltchim has focused more on the Central-Eastern Europe region when it comes to exporting. Countries that Oltchim exported to are: Bulgaria, Hungary, Serbia, Turkey, Republic of Moldova, Ukraine, Czech-Republic, Germany.

Prices differ from market to market (one price for Europe, another price for the Middle East including Turkey) and a standard price cannot be applied. In order for products to be marketable on different marketplaces, the company must adapt selling prices to practiced prices on those respective markets.

The countries mentioned above from the European Union, have little export regulations, making the export process more straightforward, thus export performance is not affected.

On the other hand, the countries outside the EU: Serbia, Turkey, Republic of Moldova, Ukraine, the laws of foreign affairs can affect in different ways Oltchim's export performance. It depends on what category of products, does the exported product fits. Also, if the quantity exported is bigger, the bigger the custom taxes.

Q15) How does the local competitors in abroad markets influences the company's export performance?

On external markets until 2012, Oltchim reigned over the distribution channels in many countries, standing tall against renowned competitors on a global level such as:

-Bulgaria: 80% of PVC consumption, plasticizers, liquid and flakes caustic soda were provided by Oltchim;

-Serbia and ex-Yugoslav countries: for polyols, caustic soda, PVC, HCI, Oltchim was the main supplier, despite having fierce competition from Borsodchem(Hungary).

- Poland: PCC Rokita produce polyols, the biggest producers of polyurethane foam (VitaFoam, Eurofoam, BSG, Orion), Oltchim provided the majority of polyether polyols for processes.

-For HCI, Oltchim had supremacy in the countries situated in Northern Africa and Latin America, although they had competition in Brazil from PCC Rokita and Chinese producers.

In 3 years' time, Oltchim became the no.2 supplier of HCI flakes in Brazil (after China), surpassing PCC Rokita regarding quality despite de fact that Oltchim practiced higher delivery prices

In the case of Oltchim, competitors don't greatly affect the performance of export. Oltchim being a fairly old company in the chemical and petrochemical industry and doing export for a pretty long time, the new or established local competitors can't affect Oltchim's export performance in a great manner. Oltchim is a benchmark company at least in the Central and Eastern part of Europe. In this region, companies doing business with Oltchim know what the company is capable of, they trust their products, thus is hard for any other company to compete against them.

So as a conclusion, Oltchim is a company of tradition and very few companies can put them in trouble when it comes to exports.

Below is a market analysis for OCTANOL marketed by Oltchim in 2012:

Company	Destination	Quantity	FCA Price
		(tons)	(EUR/ton)
Helm AG Germany	Turkey	2000	920
Chemimpex BVI	KTM Turkey	500	920
Chemimpex BVI	KTM Turkey	500	935
MFC Commodities GMBH	Serbia	69	980
Jenstar LTD	Greece	48	980
Vynil Compounds	England	184	900
Mediterranean Gibraltar	Egypt	1000	980
Contilinks LTD	Bulgaria	69	990
Aegean First Company	Greece	60	1000

Table 7: Oltchim's OCTANOL market in 2012

This product is exported in large quantities in Turkey, in the West and South-West of Europe and also in Russia.

Analyzing the Turkish market, the following conclusions can be made:

-the demand is big, the Turkish market having big potential

-prices are lower than in Europe

-for framework contracts, a price is negotiated which comprise production cost plus the profit rate plus transportation costs plus custom taxes plus rate of inflation at the currency exchange rate.

-for spot contracts price negotiation is done for each delivery.

Framework contracts are signed usually for 1 year

- 2^{nd} tier quality materials are accepted, thus making the price smaller
- Method is transportation: by land and by sea
- Incoterms used: FCA and FOB
- Price quotes fluctuate depending on oil price quotes
- For gaining new clients on the Turkish market, Oltchim lowered its prices more than it was supposed to when the Turkish Government imposed anti-dumping taxes, thus forcing Oltchim to rethink its pricing strategies

Another important market is the Western Europe market, with the following characteristics:

-high demand, but lower than the Turkish marketplace

-higher prices than in Turkey

-accepts only 1^{st} tier quality products, making the product prices higher (Germany, England, France, Austria, Italy)

-demands shorter delivery terms

-strictly abiding to contractual terms; if terms are not respected the result is paying penalties

-incoterms used: FCA (in general) and FOB

-import taxes are supported by the client

-in this market, competitors are numerous, providing good quality, having also a large production capacity and small costs. In this case, exports are done through traders and less by exporting directly

-framework contracts are signed on extended periods of time and sport contract (8-10%) on shorter periods of time

-payment modalities used:

-at terms in 30-60 days

-upfront payment

-pre-financing

-at destination

The Russian market has the following aspects:

-good negotiated prices, close to those in Europe

-difficult transportation by land due to large distances

- railroad transportation is difficult due to the gauge distance between the railways, a transshipment may be necessary

- troublesome collaboration with clients

-high potential market moving continuously.

5.1.2 Document Analysis

The documents I was allowed to analyze when it comes to exports were the following:

2.1) ICIS reports from 2011 and 2012 regarding Caustic Soda

2.2) Export financial statement and audit reports for 2011.

2.3) A typical contractual agreement for a country in the EU.

2.4) Specific incoterms

2.5) Catalogue of products

2.1) ICIS is the world's largest petrochemical market information provider, and has fast-growing energy and fertilizer divisions. Their aim is to give companies in global commodities markets a competitive advantage by delivering trusted pricing data, high-value news, analysis and independent consulting, enabling customers to make better-informed trading and planning decisions. ICIS have over 30 years’ experience of providing pricing information, news, analysis and consultancy to buyers, sellers and analysts.

With an unrivalled global network, respected methodologies and distinguished industry experts, they help their customers to navigate fluctuating markets. By giving their customers fast access to upstream and downstream data, they can help you to make informed and confident business decisions. ICIS can help companies to answer questions which are crucial to the success of their business.

What is happening in markets currently?

Prices - globally trusted price reporting for 180 commodities markets

News - stories from around the globe from our network of highly specialised & respected reporters

Why is it happening?

Analysis of industry drivers and trends giving insight to support commercial decisions and longer-term strategic planning

Supply and demand - get a view of supply and demand data balances in order to support your strategic planning.

In Annexes, an ICIS report for Caustic Soda in the Europe and US Gulf region can be found

2.2) These are typical financial reports which contain: total income, total expenditures, loans, exporting region and all related indices to an exporting activity.

Unfortunately, I didn't manage to get a financial report, but I've managed to get an activity audit report for 2011.

2.3) An import-export contract contains the following aspects:

1. The parties implicated

2. The contract

3. Merchandise quantity

4. Merchandise quality

5. Packaging, labeling and the company's seal of approval and general terms and conditions

6. Price and payment methods

7. Delivery conditions

8. Obligations of both parties

A sample of such a contract can be found in the annex part.

2.4) Specific incoterms for Oltchim:

FCA- Free Carrier (named place of delivery)

DDU- Delivered Duty Unpaid (named place of destination)

DAP- Delivered at Place (named place of destination)

2.5) Catalogue of products

5.2. A presentation of SC Griro SA

Griro was established in 1897, becoming the most important workshop of the Romanian National Railways for manufacturing and repairing of locomotives and railway cars.

Since 1961, the company has changed its line of business, being authorized to design and manufacture process equipment and during the years its facilities and capability have been proven and qualified for these activities by many clients and inspection organizations.

Today, Griro is a private shareholding company, with a paid capital of 33,420,338 RON and around 500 employees (as of November 2013), w ith an annual available capacity of 5,000 tons of process equipment.

History of Griro (important milestone):

- 1897- Foundation of the “Central Railways Shops”, repairing steam engines and wagons.
- 1972- Pressure Vessels designing and manufacturing according to ASME code.
- 1986- The company was authorized by ASME to design and manufacture pressure vessels including “U” and “U2” stamping.

- 1990- “Intrepinderea de Utilaj Chimic GRIVITA ROSIE” became a share holding company under the name GRIRO.

- 2000- GRIRO obtained the “Safety Quality License” to export Stationary Pressure Vessels in P.R. of China.

- 2005- GRIRO became a private company.

  -5 years investment program in new generation technology equipment (i.e welding, rolling, NDE).

- 2010- Turnkey projects became operational (i.e. water treatment, renewable energy).

Main products and services offered by Griro:

· Towers, Reactors, Separators, Drums;
· Solid and Overlayed High Wall Reactors and Pressure Vessels;
· Tank Containers (IMO 1, IMO 5);
· Heat Exchangers incl. Carbamate Condenser & Waste Heat Boilers
· Evaporators, Condensers and Preaheaters for Water Desalination Units;
· Air Coolers (GRIRO Fin Tubes);
· LP,IP & HP Preheaters, Condensers and Steam Drums for Power Plants;
· Granulators, Dryers, Autoclaves for Chemical Plants;
· Debarkers and Filters for Pulp Industry;
· Thick Wall Shell Rings and Dished Heads;
· Mechanical Design and on site NDE and Technical Assistance.

GRIRO manufactures Process Equipment in following material grades: carbon, low alloy, stainless steel, titanium, cladded materials including monel, incoloy, inconel as well as nickel alloys.

Main clients of GRIRO are major contractors for:

· Oil Refineries Plants and Petrochemical Industry;

· Gas Processing Plants (LNG and LPG);

· Fertilizers plants

· Sea Water Desalination Units;

· Power Stations;

· Pulp and Paper Industry.

Company's facilities, consist of several office buildings workshop and warehouses with an overall area of 116,360 sq.m. from witch 71,011 sq.m. are covered space.
GRIRO is an integrated manufacturer with all the production facilities needed for process equipment manufacturing and inspection. I.e : cutting, bending, welding, machining, heat treatment, nondestructive examinations, mechanical tests, hydraulic, pneumatic and leak tests, blasting, painting, packing as well as transportation of goods.

5.2.1 In-depth interview

Q1)What is your biggest export market?

Here at Griro, the export plays a major role in our business. In the present situation, the exports presents 78.33% of the entire business and only 21.67% is addressed to the internal market. Our biggest export market is the European Union quantifing a total of almost 70% of the total exports. The remaining 8.33% is splitted between Middle East, Africa,Asia and North America. The Middle East represents 5.7% from the total non-EU exports.

Q2) Which is your biggest competitor? Internal and external?

Griro is setting its competitors based on product quality and delivery. After the latest audit reports,perfomed by KPMG Griro have 4*(stars) services,in accordance with their internal standard requirements. Here we include: manufactured products, delivery terms, quality of services, delivery options ,product quality etc. Thus our competitors in the European market based on this standard are:

Balcke Durr-Austria. According to our standards, they have a 5*(stars) quality services and products.
Belleli Energy-Italy -(5 stars). They claim to have the biggest facilities for turbo reactors.
Walter Tosso-Italy- (4 stars).Well know manufacturer in Italy and abroad
Mangiarotti-Italy-(4 stars).Well know manufacturerer in Italy and abroad

De Plaatijzerindustrie B.V- The Netherlands-(4stars)
TANKBOUW ROOTSELAAR Group-The Netherlands- (4 stars)
Duro Felguera-Spain- (4 stars)

The Middle East:

Ramsis Engineering Co. W.L.L- Bahrain- (5 stars). They have the capability to produce a large range and great sizes of process and petrochemical equipment, up to 700 tones/item. Production capacity: 550 tones/month, summarizing medium to large size of equipment

Asia:

Formosa Heavy Industry Corporation-Taiwan- (5 stars). Turnover: over 355.000.000 USD.

Cimtas Celik Imalat-Turkey-(4 stars). Very good on Process Equipment.

Mitshubishi Heavy Industry- Japan-(5 stars). Biggest presure vessels manufacturer.

Hitachi Zosen- Japan-(5 stars). Competitor with MHI on the japanese market and abroad

Doosan Heavy Industries & Construction-South Korea-(5 stars).

North America:

Consorcio Industrial, S.A. de C.V.- Mexico- (5 stars).

Babcock & Wilcox Company subsidiary of McDermott International- USA- (5 stars).

Struthers Industries INC. – TEI STRUTHERS SERVICES-USA- (5 stars).

General Welding Works – USA-(5 stars).

Eaton Metal Production-USA-(5 stars).

On the internal market, very few companies can rise to the standards of Griro. We can mention: IMUT S.A. , MECANPETROL S.A.

<u>Q3) How did your exports performed over the last 3-4 years?</u>

Over the last 4 years, exports have been fluctuant,as a consequnce of the global and financial crisis .From the beginning Griro's exports had been connected with the Energy and Petrochemical field of activity, which is a specialized market.The exports depended on these markets performance. If the markets were on the rise, Griro's exports were too and vice-versa. Griro is exporting based on particular demand, making custom projects based on the requirements of the client. This limited area of export market , where Griro products can be exported,required a very competitive export policy ,in terms of technical and commercial details , to make Griro attractive for clients.

The Energy market: rose with 18-20% from last year.

The Petrochemical market: stagnant, only increased with 3-4% from last year.

Q3) <u>Griro being, mainly in the pressure vessels exports, what is the worldwide buying strategy trend regarding this piece of equipment?</u>

The correction in upstream commodities markets, which began in May 2012 and gave way to a general softness in pricing pressures over the second half of the year, has not been reflected in pressure vessel prices. While demand remains supportive of higher prices, the input pricing landscape does not. Advantageous buying opportunities had presented themselves through the first half of 2013. The weakness in commodity markets that began in the middle part of 2012 is just now starting to pass downstream. The buying advantage will shift away from manufacturers over the near term. The recommendation is to seize the opportunity when it does.

	2013(Q1)	**2013(Q4)**	**Change in conditions**
Prices	Lower	Slightly higher	No change
Demand	Stronger	Stronger	No change
Supply	Slowly tightening	Slowly tightening	No change

Table 8: Pressure vessels market (suply, deman, price)

<u>Q4) What was the forecast for the demand and supply in the past years for pressure vessels?</u>

The supply outlook continued to tighten, but if new orders do not pick up, this tightness didn't persised for long as unfilled orders continue to be worned down. Capacity continued to be brought online, breaking a streak of nearly three years of declining capacity.

Capacity utilization rates have been trending upward since the start of 2012, but remain steady just shy of the 85% prerecession levels. Shipments have begun to slow, mirroring the demand outlook in which unfilled orders remain elevated, but new orders are not keeping pace.

The demand outlook is slightly downbeat as the pessimism surrounding the slower growth profile in the global economy has emerged. While unfilled orders of fabricated metal products have remained elevated (currently 8% higher than this point last year), new orders have slowed and were just 2.9% higher. New orders of fabricated metal products began the year 11.6% higher than where they started 2013, but have softened through the third quarter.

<u>Q5) What the price forcecast and cost structure for this type of equipment?</u>

Below are tables that show the evolution of the prices from 2007 onwards and a piechart regarding the cost structure:

Pressure Vessels Price Forecast Drivers (Percent change)								
	2007	***2008***	***2009***	***2010***	***2011***	***2012F***	***2013F***	***2014F***
Pressure Vessel Prices	8.7	7.4	-1.3	1.0	2.3	7.1	3.1	1.2
Forecast Drivers								
Cold Rolled Steel Sheets and Strip Costs	17.3	-8.6	-28.2	36.3	19.1	-6.5	-3.7	0.4
Carbon Plate Costs	-5.1	40.2	-40.4	4.3	52.7	-11.3	-11.9	12.0
Spot Price Merchant Bar Carbon Steel Costs	13.7	41.5	-16.1	2.5	11.8	-4.1	-14.5	7.0
Real Prive Investment, Industrial Facilities	18.2	24.8	4.6	-27.6	0.4	14.1	-1.1	16.5

Figure 6: Pressure vessels price forecast

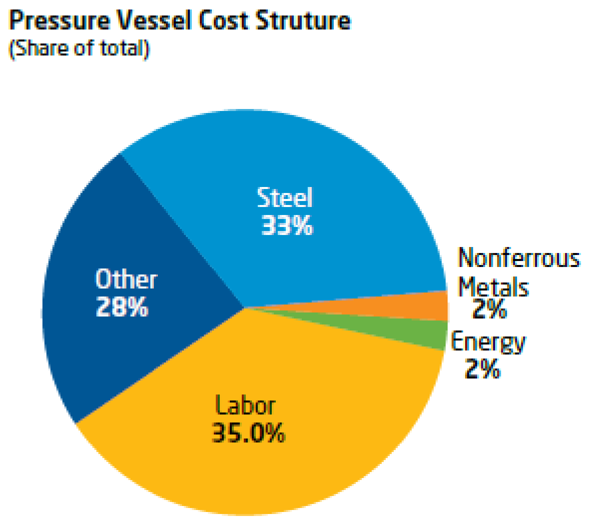

Figure 7: Pressure vessel cost structure

<u>Q6) Being a fluctuate market, what risks are present in pressure vessel market?</u>

Throughout the years, the risk regarding the pressure vessel market was the end-market demand and the PPI (Producer Price Index). The PPI and the end-market demand are in close correlation. This end-market demand is composed of two big categories:

-Basic Chemicals Manufacturing, which mounts up to 45% of the total share

-Petroleum and Coal Product Manufacturing, having the remaining of 55% of the total share

Price risk is defined by historical price volatility.

Other elements that can forecast risks:

-Average Annual Escalation (2002 to present) is 6.8%

-Average Annual Range (2003 to present) is between -1.2% to 13.8%

-There is a low risk that prices could escalate at a slower rate that the market forecast

Below is a price evolution chart from 2004:

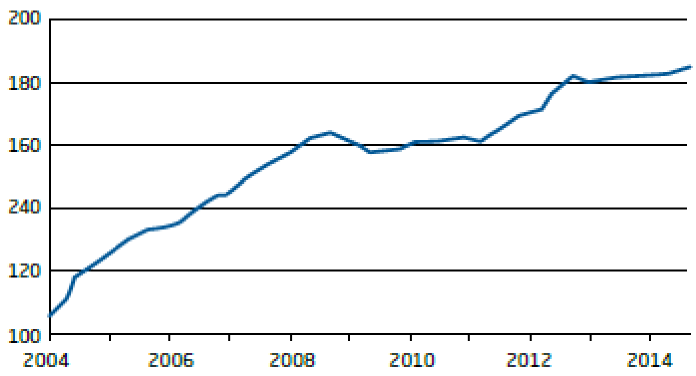

Figure 8: Price evolution of pressure vessels

Q7) How much do the exports represent from the company's total production?

The exports represented almost 62% from the total production. The total production had maintain a steady line over the past 4 years, despite economic and financial difficulties.

Q8) What are the main exporting regions? Inside and outside of the EU?

The main exporting regions inside the EU are: Germany, Austria, Finland, Italy and the BENELUX area.

The main exporting regions outside the EU are: India, Middle East, Canada.

Q9) Being a demand-based business, what are the pricing strategies?

Griro does not set on one particular pricing strategy. We use a combination of pricing strategies based on the resources, in terms of man-hours and materials, needed for completing a project, customer customization of the products, countries import rules, competitors already present on the market, setting delivery terms, payment terms, maintenance and services after selling products, warranty of products.

The pricing strategies that Griro uses are:

- Value-based pricing when the buyer's perception of value is key.

    -value-added pricing

    -pricing power

- Cost-based pricing when setting prices are represented on the cost of production, network distribution and selling the product.

Q10) Based on the strategies mentioned above, how is the adaptation process influenced?

If we take into consideration the pricing strategies, we practice the adaptation process which varies from a product or project to another, making the company very versatile.

For example: If Griro is receiving an ITB (Invitation to Bid), from a company in France for producing and delivery of 2 pressure vessels, a market research is done. From this research, we can see where Griro is positioned on the market, set-up the right strategy to have a successful bid and fulfill the order .If there aren't any local competitors producing the pressure vessels according to clients specifications, Griro can use value-based pricing. Also evaluation of customer operations and interviews with customer personnel will be done.

Griro is not using on a regular basis this pricing strategy, because on the long-term in can be harmful in the business-to-business environment and can result in losing clientele. But if Griro is the only one, manufacturing the demanded products, it can use value-based pricing in order to maximize its profit margin.

However in competitive markets, good-value pricing is normally used. Every company in that market is striving to offer the right combination of quality and good services at a fair price. In such a market, winning tenders is the key. Everybody wants to win the most profitable project. If Griro wins an auction, pricing adaptation is crucial. If the pricing strategy adopted is not right, the company requiring the products can easily shift their attention to another company that produces the same products at a better price. So, in order to gain a good status in a market, a company must practice fair prices and services, thus good-value pricing. However, if Griro wants to practice higher prices, value-added pricing can be invoked only if it can justified based on service quality and feature customization, thus building pricing power.

Throughout the years, based on export experience, and knowledge in the specialized market of energy and petrochemical industry equipment, Griro has built a good reputation. It does achieve a solid versatility in terms of products and pricing adaptation, who can meet various of clients requirements, for these unique products. Griro strived always to deliver the products and services to high quality standards and to make the clients to come back with new orders.

Q11) What are Griro's biggest obstacles regarding the strategies used?

Like any adopted pricing strategies, setbacks are present.

The biggest setback is when a customer is constantly requiring new technical features for a product, after the Purchase Order has been placed. This can be time consuming, from an engineering point of view, procurement of material to a possible delay in executing the project, depending on the complexity required. Implementing such changes, can not only be time consuming, but also can rise the production costs, costs with specialized personnel and ultimately postpone other projects which Griro has its manufacturing portfolio .

Usually, small adjustments to a project can be done, when a Concession Request or an Adjustment Order will be issued, subject to changes and commercial definition from the contract, only if they can be in due time and don't consume many resources. These changes will require an additional cost which will be set-up and agreed with the client. If a particular customer requires medium to big changes from the initial project, in a range of 50% a cancellation of the project can be an option. A cancellation of the project is not the best option, because it could hit Griro's reputation, but if the analysis will show that the required changes are too big, too complex and is setting back other projects or contracts, this will be a last resort option.

Q12) What is the difference between pricing adaptation in the EU and outside of the EU?

The differences between pricing adaptation inside and outside the EU are subtle. Working in a demand-based environment, no pricing discrimination is done whether the client is from the EU or outside the EU. The only differences, regarding the clients outside the EU are the import-export regulations stipulated in a contract, laws and transportation terms and method of delivery.

When exporting beyond European Union's borders, a cost-based strategy can be applicable. If a customer is asking for products with little or no additional features at all, the cost of producing that project is viable. Also, distribution cost is important depending on the distance of transportation. Moreover, the grade of risk for each importing country is analyzed. All necessary measures must be taken in order for a smooth delivery process.

5.2.2 Document analysis

2.1) Product portfolio

2.2) R&D portfolio

2.3) Quality system

2.4) Export financial statements

2.1) Regarding product range, they gave me a list with all their products and technical specifications for each one of them. Unfortunately, I wasn't allowed to attach such a document to the annex due to company policy. The main products are: pressure vessels, tanks, reactors, steam/water heat exchangers, columns with trays, LP/HP heaters, air coolers, scrubbers, separators, air coolers, evaporators, absorbers, and dryers

2.2) Research and Development Division in cooperation with the Engineering, Production and Sales Divisions, is carrying out different technical procedures for new generation application studies on materials structures and welding know-how.

Griro's capabilities are endowed with modern laboratory equipment to perform tests and analysis of high complexity. GRIRO continues to develop technologies for application in the next generation with special attempts to identify future techniques and corresponding equipment for:

- material research and new welding procedures;

- competitive products in compliance with the environmental protection requirements.

2.3) Griro's quality management system developed on a firm management policy meets various codes and regulations and continuous control on raw materials and fabrication phases.

The quality system is conducted by separated quality manual for ISO, ASME and China regulations for design, fabrication, installation and repairing activities. This build client's confidence in the company`s capability to produce and deliver high quality process equipment.

GRIRO's Quality System has the full capability to perform mechanical, chemical and NDE tests and is endowed with high – technology and testing equipment as:

- Nuclear Metal Analyser Instrument

- WAS Analyser Instrument type PMI MASTER PLUS

- UV PRO for chemical analysis

- ALPHA SERIES 2000 for PMI

- Leak testing equipment

2.4) These are typical financial reports which contain: total income, total expenditures, loans, tender financials, exporting region and all related indices to an exporting activity.

5.2.3 Observations: tender procedure for delivering a product.

The commercial department had received an ITB (Invitation To Bid) to take part in a bidding process for manufacturing of pressure vessels.

The invitation had attached technical specifications as data sheets, norms/standards to comply with, for the required pressure vessels. Also, a list of commercial and financial data that specifies conditions in participating in this bid was attached.

The requirements cover technical and commercial/financial area:

-price quotation for the product demanded

-delivery time for pressure vessels

- delivery terms ,to be in accordance with Incoterms 2010

- payment method

-method of transportation

-warranty for the executed product

-maintenance and services after delivery of products

- two years spare parts required

The process of issuing the technical and commercial bid, was a tough one ,which involved the engineering and design team, commercial and financial team, who worked together to finalize it. All teams studied carefully, all details and requirements; to be sure that final bid will be in line with.

During the process several internal meetings have been held, at technical team level on one side and at commercial team level on other side. The aims of these meetings were to clarify all details and to confirm that bid requirements were fully understood by teams and will comply with.

Finally, when Griro's offer was ready, as a draft, and before the final issue, a final meeting involving Tenders Manager and Commercial Manager who concluded and set-up all commercial details.

After that, the final revision was issued, split in two sections: Technical offer in one separate file (envelope) and Commercial offer in another separate file (envelope).

The beneficiary company was a well-known company in the Middle East. The client operates in a dynamic and growing area where the development and new investments are expected to increase in the coming years.

The client analyzes the offers, from a technical and commercial point of view, having their own criteria for evaluation and scores each bidder, and finalizes the short bidders list. When the short bidder list is ready, the final direct discussion/ negotiations and finally the contract will be awarded to one of them. The winner bidder will sign the contract and start the work.

The offer was delivered to the client, within the deadline date mentioned in the ITB documentation.

5.3 Comparison between Oltchim and Griro

Both companies, Oltchim and Griro are companies with a long tradition on the Romanian export scene.

On one side, Oltchim manufactures and distributes chemical and petrochemical products. They have a wide range of products, a large production capacity and most of their products are given to the export markets. Almost 80% of their sales come from exports and the remaining 20% are sold internally.

On the other hand, Griro manufactures and distributes heavy equipment, such as pressure vessels, reactors, air compressors and many more, mainly for the oil & gas and petrochemical industry. Griro's exports have almost the same volume as Oltchim, reaching 79% of their sales.

In terms of pricing strategies, both companies are taking into account various aspects when adapting their price. The first one is to determine whether the targeted market has optimal conditions of trade, second, if that respective market presents a degree of risk. Another important factor is the potential client's tradition and professionalism.

Oltchim and Griro, both are using the help of intermediaries for multiple export markets. In case an intermediary has the leverage of distributing products to two or more markets, a long term contract will be signed in order to accelerate the exposure on the targeted markets.

A difference between Griro and Oltchim is that Griro can use various customization offers, thus practicing a higher price that competitors on a market. This is viable, only if the client demands something unique, that only a certain company can fulfill and if that client is willing to pay a premium price.

Related to the "International expansion" section, both Oltchim and Griro went through the 3 big phases:

-initial entry: meaning selecting the countries and entry methods

-local market expansion: the marketing strategy selected needs to be adapted to each country's demand

-global rationalization: global expansion leads to the integration of operations and increased marketing between countries.

In terms of overseas involvement, Oltchim and Griro are categorized as "exporters". They run operations from their central office in the home region and exports goods to a variety of countries.

Being exporters, these 2 companies also encounter advantages and disadvantages such as:

-Advantages: reducing the risk of investment and maximizing scale using existing facilities

-Disadvantages: trade barriers, transportation costs and limited access to local information about the market.

Correlated with "marketing strategies for export", Griro operating in foreign markets is dealing with geographical distance, market culture and legal systems. All of these are best put in practice when Griro is exporting pressure vessels to the Middle East. In this situation, physical distance is a large obstacle when trying to find the best logistics solution. Also, in general the Arab world culture is restrictive by its nature and the same rule is applied for laws and regulations.

Regarding "Pricing models in global markets", 4 types of options can be identified:

- Rigid cost-plus pricing used by Griro
- Flexible cost-plus pricing
- Dynamic incremental pricing

used by Oltchim

- Competition-based pricing

The reason why Griro uses rigid cost-plus pricing is because they can charge the client for feature customization. But not only unique features makes up for the whole price, but also R&D costs, transportation, insurance and packaging. One down side of using this pricing model is the possibility of becoming uncompetitive in some markets.

On the other hand, Oltchim is mostly using flexible and dynamic cost-plus pricing. Oltchim is using flexible cost plus pricing because it allow price variations. Variations consist in discounts applied depending on the customers' size of the order. A concluded example is signing long-term contract (minimum 1 year) with an intermediary who has access to more than 2 markets. When such a contract is signed and the client asks for a large quantity of one product, a discount is usually applied. Even though a discount is applied, Oltchim must maintain its profit margin.

Regarding dynamic incremental pricing, Oltchim use it to enlarge its market share in a region. It also enhances the company to sell its exports at a competitive price. For example, Oltchim is activating in the Central-Eastern Europe region, mostly Bulgaria, Serbia and Czech Republic. Most exporting companies in this area strive to get the most market share. In a competitive environment such as this one, product quality and logistics are vital. Throughout the years, Oltchim had proven that their products and services are of good quality, thus many clients in the Central-Eastern Europe area rely on Oltchim.

6. Project conclusion

As a conclusion of the entire project, pricing and adaptation strategies were identified and analyzed for exporting in international marketing. Price is the only variable from the marketing mix that can generate revenue, making it the most important.

None of the pricing approaches are an ideal pricing method that simultaneously meets the criteria of cost structure, profit margin, competition, elasticity of demand, and supply and demand. Due to the difficulty and complexity of pricing in the real business world, setting and managing prices is one of the most important elements of a marketing manager's duty affirmed Campbell in 1999.

The companies analyzed in the case study can also realize the importance of adapting the price for a specialized product to the foreign market set by someone with knowledge about the particular market. This is important since customer demands differ between different markets in different countries. Therefore, it is important for the companies to have someone with thorough knowledge about the particular market to set the price since the final users often has precise product requirements.

Pricing adaptation is one of the most important highlight of the project. Many scholars have considered pricing adaptation in export markets a very sensitive subject not fully understood, due to its versatility and many ramifications.

Pricing adaptation can be successful when market conditions are favorable, thus exercising a premium pricing strategy. When market conditions are less favorable, meaning when demand is low and competition is intense, competitive pricing strategy is chosen.

Pricing adaptation has at its base pricing decisions which are vital for a company's success in foreign markets. In today's business environment managers need to be careful when setting prices for export markets due to an ever increasingly competition, ambiguous government regulations and terms and degree of market risks.

The companies which were analyzed in the case study, like any other exporting organization, have to carefully consider how they will adapt their prices in the targeted market, countries export regulations, competition, logistics, in order to gain market share in a foreign market.

Oltchim, having tradition and product quality by its side, can penetrate a new market more easily with the help of intermediaries. Oltchim's pricing adaptation process is guided by the competition's prices in a market and ICIS pricing for petrochemical products. Premium prices can be practiced by Oltchim under very special conditions, one being the lack of a specific product provider in the region. As it can be seen in the case study, the Turkish government imposed a maximum price cap for sole providers of a product, giving importers a slight advance when negotiating prices and other adjacent costs.

On the other hand, Griro has the customization option as a unique feature. They can practice premium prices in market were they're customization features are not found and prices regulated by the competition in markets where demand is low.

As a final general conclusion, pricing adaptation in export markets is not fully comprehended by managers who are implementing an exporting strategy, thus problems appear when setting prices. Every potential market has its own conditions, certain competition regulations, terms imposed by governments for doing business in their country.

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Annexes

ICIS Reports- Oltchim

ICIS pricing

20th January 2012

Caustic Soda (Europe)

Editor: Abache Abreu, abache.abreu@icis.com

CAUSTIC SODA - LIQUID SPOT PRICES						
LIQUID:						
Click for Price History			**Price Range**		**Four weeks ago**	**US CTS/LB**
FOB NWE	USD/DMT	n/c	**425-445**	n/c	440-460	19.28-20.18
FOB MED	USD/DMT	n/c	**475-515**	n/c	475-515	21.55-23.36

NOTE: for full details on the criteria ICIS pricing uses in making these price assessments visit www.icispricing.com and click on "methodology".

Tightness limits spot transactions

The European caustic soda market remains balanced to tight, with little product available for spot transactions or exports.

Spot prices are steady at the above-published ranges, unchanged from last week.

However, there is the possibility of some downward price pressure in the Mediterranean, as imports into Turkey from the Middle East could eventually balance out the market.

Initial Q1 contract negotiations up by €30/dmt

Initial northwest European caustic soda contract prices for the first quarter of 2012 have settled with an average increase of €30/dmt on market tightness.

Despite hike announcements of €50-60/dmt at the end of December/beginning of January, producers have had to accept smaller increases, as softening demand in the key downstream markets for aluminium and pulp and paper has balanced out the caustic soda market and given buyers stronger bargaining power in price negotiations.

The market was saturated and not willing to accept increases as large as those announced by some players, a producer conceded.

A wider range of €20-40/dmt was heard, as the extent of increases has depended on the region and each individual customer.

Those contracts closer to €500/dmt are likely to see increases of €20/tonne, a producer said.

Some large buyers have succeeded in fixing their first-quarter contracts with a smaller increase of €20/dmt from the previous quarter.

Also, increases have been more or less successful depending on the region. According to a producer, it has been easier to implement increases in northern France and the Benelux (Belgium, the Netherlands, Luxembourg) region.

More resistance has been found in Germany, which is the biggest European market for caustic soda, with more players involved and greater competition.

In the Mediterranean, current tight market conditions could lead to stronger increases, players said, but negotiations are still ongoing and are not expected to settle until the end of the month.

Overall, initial settlements have fallen short of the €50-70/dmt hikes announced by producers such Dow Chemical, INEOS ChlorVinyls, Arkema, Vinnolit and Bayer, but greater than what buyers were hoping for.

The market remains fairly tight, as availability continues to be dictated by low chlorine offtake, which at the same time depends on polyvinyl chloride (PVC) operating rates, which remain at 70-80% across the European market.

Shipping enquiries

5,000-7,000 tonnes caustic soda solution Runcorn / Aughinish 23-26 January

17,000 tonnes caustic soda solution Bandar Imam Khomeini / Med options 5-10 February

6,500 tonnes caustic soda lye Dahej / Visakhapatnam 7-10 February

6,000 tonnes caustic soda solution Taixing / Bangkok 1-10 February

PVC Paragraph

Despite "better-than-expected" demand, contract price negotiations are pointing to increases, which fall far short of the hikes announced by some producers at the beginning of the month.

The largest increases heard in the market were €25/tonne from December. Other producers have only implemented increases of €10-20/tonne. Buyers have only confirmed increases of up to €15/tonne.

This has become a money-losing industry since the destocking cycle started at the beginning of the second half of 2011, a producer said.

Manufacturers need to recover from a negative territory by at least passing the full cost of ethylene and energy, it added.

Negotiations continue, as trading activity had a late start this month because of the Christmas holiday season.

($1 = €0.77)

This week on ICIS www.icis.com
18/01/2012 17:12 Initial northwest Europe caustic soda Q1 contracts up €30/dmt

18/01/2012 12:00 Caustic soda makers bet on 2012: High demand, import checks keep prices firm enough for cheery margins, despite rise in input cost
16/01/2012 17:37 France's Arkema lifts force majeure on caustic soda supplies

CAUSTIC SODA - SOLID **SPOT PRICES**						
SOLID:						
Click for Price History			**Price Range**		**Four weeks ago**	**US CTS/LB**
FOB NWE	USD/TONNE	n/c	**470-500**	n/c	470-500	21.32-22.68
FOB MED	USD/TONNE	n/c	**440-470**	n/c	440-470	19.96-21.32
EASTERN EUROPE	USD/TONNE	n/c	**440-500**	n/c	440-500	19.96-22.68
FLAKE:						
FOB NWE	USD/TONNE	n/c	**470-520**	n/c	470-520	21.32-23.59
FOB MED	USD/TONNE	n/c	**450-490**	n/c	450-490	20.41-22.23
PEARL:						
FOB NWE	USD/TONNE	n/c	**490-520**	n/c	490-520	22.23-23.59

Price history | Related reports | Full report list | Price Alert | Plant performance data

Currency conversion (real time) | Glossary | Methodology | Latest product news | Find a supplier

ICIS website: www.icis.com

ICIS pricing

20th January 2012

Caustic Soda (US Gulf)

Editor Ken Fountain ken.fountain@icis.com

CAUSTIC SODA - LIQUID SPOT PRICES						
LIQUID:						
Click for Price History			**Price Range**		**Four weeks ago**	**US CTS/LB**
EXPORT FOB USG	USD/DMT	n/c	**445-470**	n/c	445-470	20.18-21.32
BARGE FOB USG	USD/DST	n/c	**450-470**	n/c	450-470	22.50-23.50

CONTRACT PRICES					
LIQUID:					
Click for Price History			**Price Range**		**US CTS/LB**
FOB JAN	USD/DST	n/c	**470-540**	n/c	23.50-27.00

NOTE: for full details on the criteria ICIS pricing uses in making these price assessments visit www.icispricing.com and click on "methodology".

US caustic soda prices remain steady

US caustic soda prices remained steady for the week that ended 20 January as activity was said by market players to be extremely slow.

A large producer said that supply-demand factors remain fairly balanced, but are perhaps at a "tipping point" in which a sudden change, such as a plant disruption, could affect that balance.

The same producer said that while there has been discussion of a drop in demand from the alumina sector, one of the downtstream markets for caustic soda, there is little indication of demand destruction from other sectors like pulp and paper.

One large consumer said that there had been reports that some producers were having trouble selling barges of material. The same consumer said that price increase announcements made by producers in late 2011 had met strong resistance from buyers, and had all but stalled.

The price for chlorine, the feedstock for caustic soda, is adjusted downward to that which has prevailed in the market for some weeks.

In economic news, the US Commerce Department said on Thursday that new home construction fell by 4.1% in December from November. The department attributed most of the decline to a sharp drop in multifamily units while the core single-family sector rose by 4.4%.

The department said the number of housing starts in December were at a seasonably adjusted annual rate of 657,000, down by 4.1% from the November figure of 685,000. Still, the December rate shows a 25% improvement above the December 2010 figure of 526,000 units.

However, the National Association of Realtors reported on Friday that US sales of existing homes rose by 5% in December from November, showing what the trade association said was an early sign of recovery.

Housing is a key downstream consumer sector for the chemicals industry. The American Chemistry Council estimates that each new home built represents about $15,000 (€11,550) worth of chemicals and derivatives used in the structure or in production of component materials.

($1 = €0.77)

This week on ICIS (www.icis.com):
20/1/12 US existing home sales jump 5% in Dec, seen as sign of recovery
19/1/12 US gasoline consumption falls to more than a 10-year low
19/1/12 US weekly chemical railcar traffic rises 1.8% year on year
19/1/12 US home construction falls in Dec, but single-family shows gains
18/1/12 Economic trends favour US chemical sector in 2012 - economists

CHLORINE US CONTRACT PRICES					
Click for Price History			**Price Range**		**US CTS/LB**
FOB Q 4	USD/ST	-50	**275-310**	-45	13.75-15.50

ICIS pricing accepts no liability for commercial decisions based on the content of this report.

ICIS pricing

17th February 2012

Caustic Soda (Europe)

Editor: Abache Abreu, abache.abreu@icis.com

CAUSTIC SODA - LIQUID SPOT PRICES						
LIQUID:						
Click for Price History			**Price Range**		**Four weeks ago**	**US CTS/LB**
FOB NWE	USD/DMT	n/c	**400-420**	-10	425-445	18.14-19.05
FOB MED	USD/DMT	n/c	**440-450**	n/c	475-515	19.96-20.41

Q2 price announcement: up €40/dmt

Dow Chemical is targeting an increase of €40/dry metric tonne in second-quarter caustic soda contract prices.

According to the source, solid demand in northwest Europe, limited availability because of low output of co-product chlorine and production outages at several manufacturing sites are behind the increase.

No other contract price announcements have been made in the European market, although several producers have described market conditions as balanced and stable.
Buyers, on the other hand, seem reluctant to accept such increases because caustic soda availability has improved on softening demand from several downstream markets and recent increases in chlorine consumption.
Further lengthening could be possible in March and April, when chlorine offtake increases in line with the start of the downstream PVC and construction season, buyers said.

NWE spot prices down $10/dmt

Prices have decreased by $10/dmt on the high end in Northwest Europe as fresh deals to the US East Coast were heard at $400-420/dmt FOB NWE.

European producers need to compensate for higher freight rates for transatlantic shipments with lower FOB NWE prices in order to be competitive in the US market, a supplier said.

The export market will continue to be a good alternative for northwest European producers trying to balance out longer fundamentals in the domestic market, the supplier added.

EuroChlor figures

Average European daily chlorine production in January increased by 10% from December 2011, while inventories of co-product caustic soda increased by 4.7% in the same period, industry body Euro Chlor said on Friday.

Average daily production of chlorine for the region comprising the EU27, Norway and Switzerland, stood at 27,116 tonnes in January, up from 24,644 tonnes in December 2011. Caustic soda stocks in January were at 244,121 tonnes, up from 233,072 tonnes in December.

Euro Chlor's year-on-year figures showed that average daily chlorine production was 2.3% lower than in January 2011, while caustic soda stocks were 27,547 tonnes below the January 2011 level of 271,668 tonnes.
Chlorine capacity utilisation in January stood at 78.7%, up from 71.3% in the previous month, but down from 80.4% in January 2011. This has been the first increase in capacity utilisation in Europe since June 2011, when operating rates were at 83.0%.

Production outages

Perstorp plans to restart its chlor-alkali and toluene di-isocyanate (TDI) operations at its Pont-de-Claix site in France by the end of the week, following a recent strike-related shutdown.

A force majeure declaration, which came into effect in early February for both TDI and chloralkali products at the site, is expected to remain in place until the end of the month, with a strict allocation likely to be implemented in March.

On 4 February, Perstorp was forced to stop production at its chlor-alkali unit because of the strike and this affected its downstream TDI facility. This resulted in force majeure declarations for both products.

Elsewhere, INEOS ChlorVinyls has shut down its chlorine plant at Wilhelmshaven in northern Germany following the accidental release of chlorine gas last week. There is no further update.

Shipping

Shipping fixtures:

4,000 tonnes caustic soda solution Fos / Aveiro + Santander ppt €100,000

10,000 tonnes caustic soda solution ARA / US Atlantic coast 10-20 February $37/tonne

7,000 tonnes caustic soda solution ARA / US Atlantic coast 1-5 March $39/tonne

5,000 tonnes caustic soda solution Freeport / Santos early February $80/tonne

Shipping enquiries:

6,000 tonnes caustic soda lye Tianjin / Visakhapatnam end March

6,000 tonnes caustic soda solution Huangdao / Pasir Gudang or Port Klang early March

PVC tightens on supply constraints

Supply constraints at several polyvinyl chloride (PVC) manufacturing sites have resulted in lower inventories in the European market.

SolVin has now restarted PVC production at its facilities in Tavaux, France, and Jemeppe in Belgium after cold weather led to a force majeure declaration on 6 February. However, it will take a few days for deliveries to return to normal.

Arkema also declared force majeure on PVC production at its facility in Berre, southern France, because of the weather. There was no update by the time of writing.

Producers in the European PVC market are targeting increases for February contracts of €70-80/tonne FD in the Mediterranean, €80-100/tonne FD in northwest Europe, and of £70-80/tonne FD in the UK to offset higher feedstock ethylene values.

Buyers are pushing for smaller increases, although they remain concerned about low inventories and supply constraints in the market.

($1 = €0.76)

CAUSTIC SODA - SOLID SPOT PRICES						
SOLID:						
Click for Price History			**Price Range**		**Four weeks ago**	**US CTS/LB**
FOB NWE	USD/TONNE	n/c	**470-500**	n/c	470-500	21.32-22.68
FOB MED	USD/TONNE	n/c	**440-470**	n/c	440-470	19.96-21.32
EASTERN EUROPE	USD/TONNE	n/c	**440-500**	n/c	440-500	19.96-22.68
FLAKE:						
FOB NWE	USD/TONNE	n/c	**470-520**	n/c	470-520	21.32-23.59
FOB MED	USD/TONNE	n/c	**450-490**	n/c	450-490	20.41-22.23
PEARL:						
FOB NWE	USD/TONNE	n/c	**490-520**	n/c	490-520	22.23-23.59

ICIS pricing

17th February 2012

Caustic Soda (US Gulf)

Editor Ken Fountain ken.fountain@icis.com

CAUSTIC SODA - LIQUID SPOT PRICES						
LIQUID:						
Click for Price History			**Price Range**		**Four weeks ago**	**US CTS/LB**
EXPORT FOB USG	USD/DMT	n/c	**440-460**	-5	445-470	19.96-20.87
BARGE FOB USG	USD/DST	n/c	**445-460**	-5	450-470	22.25-23.00

CONTRACT PRICES					
LIQUID:					
Click for Price History			**Price Range**		**US CTS/LB**
FOB JAN	USD/DST	n/c	**470-540**	n/c	23.50-27.00

NOTE: for full details on the criteria ICIS pricing uses in making these price assessments visit www.icispricing.com and click on "methodology".

Subscriber's Note: ICIS is considering adding a quarterly caustic soda contract assessment. Please send all inquires to Ken Fountain, ken.fountain@icis.com .

US caustic soda prices stay flat

US caustic soda spot prices are assessed slightly lower for the week that ended on 17 February, with conflicting information about demand from different market sources.

A caustic soda producer announced a $45/dry metric tonne (dmt) price increase to be implemented as contracts allow, but buyer response was slow in surfacing. The hike is expected to extend to all US Gulf export offers, the caustic soda market said.

While buyers from the alumina sector noted a decline in demand because of high inventories, low prices for aluminium and some capacity reductions, other caustic-consuming sectors such as paper/pulp and detergents are performing well, according to industry participants.

Demand for caustic co-product chlorine and its derivative polyvinyl chloride (PVC) is expected to rise gradually in 2012 on seasonality and a slow recovery of the US economy.

However, improved PVC business in January and February is considered temporary, a caustic soda producer said, caused by restocking of thin year-end inventories and not by long-term structural industry dynamics. As a result, demand growth for PVC should moderate into the late first quarter and second quarter, placing boundaries on caustic soda production, the source said.

One large consumer said it had heard of spot offers of $380 and lower in the last couple of weeks. However, those were not considered representative of the wider market.

Other buyers said the price increase announcement could be an attempt to keep prices from eroding further.

In production news, US chlor-alkali production was 86% of capacity in January, up from 81% in December, a US trade group said on Friday.

US chlor-alkali output in January was 996,402 tons (903,035.89 tonnes) of chlorine and 1,028,797 tons of caustic soda, the Chorine Institute said.

In economic news, the US Commerce Department said on Thursday that US new home construction rose by 1.5% in January from December. However, the gain was made only in rental apartment units, with the core single-family building sector falling by 1%, the department said.

The number of housing starts in January was at a seasonably adjusted annual pace of 699,000, an improvement from December's upwardly revised rate of 689,000 units (originally estimated at 657,000.)

($1 = €0.76)

This week on ICIS (www.icis.com)
17/2/2012 Shintech proposes 3 cent/lb increase for US PVC for March
16/2/2012 US Georgia Gulf planning Q2 turnaround at Louisiana plant
16/2/2012 US Georgia Gulf poised for homebuilding rebound - execs
16/2/2012 US home building rises 1.5% in Jan, but one-family units fall 1%
16/2/2012 US Huntsman Q4 net income more than triples to $105m

CHLORINE **US CONTRACT PRICES**					
Click for Price History			**Price Range**		**US CTS/LB**
FOB Q 1	USD/ST	n/c	**275-310**	n/c	13.75-15.50

ICIS is proud to announce the launch of the Asia Sulphuric Acid report. The new report covers price assessments for FOB China, CFR Southeast Asia and CFR India. Request a free sample>>