

# The Impact of Global Political Environment on the Pricing Strategies in United States of America

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### **ABSTRACT**

*The purpose of the study was to examine the impact and the extent to which global Political Environment affects a company's pricing decisions, a study based on Da-Wood Trading in the United States of America. Data for this study was collected through observation during a three month internship at the company, and questionnaires were later administered to respondents. Personal interview was also used to gather data from one respondent. The findings were then presented in form of tables and graphs. The data collected indicates that there are globalization factors that play a role in determining prices for services offered. Exposure to crime comes out as the most prominent global political facto. However, like tariffs and currency fluctuations are seen to not have a significant impact on pricing decisions. The factors that are considered and highlighted in this study therefore are seen to vary in degree of importance and in how they influence pricing decisions.*

**Key Words:** Global Political Environment, Pricing Strategies, United States of America

### **1.0 INTRODUCTION**

In today's hypercompetitive global marketplace, a company's pricing policy can make or break the bottom line. Few managers, even those specializing in marketing, think strategically about pricing. There are situations where the pricing decisions are made in reaction to a pricing problem, or to exploit an opportunity. On one hand the decisions may focus purely on price or immediate profitability, without considering how the reactions of customers or competitors may affect the picture (Holden & Nagle, 2006).

The ultimate objective of every business manager, no matter what the function or management designation, should be to aim for overall business success (Engelson, 2000). And, for all the advantages that businesses pursue, there is one powerful advantage that is accessible to virtually every business, but actually pursued by too few-and ultimately by even fewer. That advantage is price advantage (Baker & Marn, 2010). Creating and sustaining the price advantage ensures pricing excellence which generates superior returns to shareholders and enables a company to invest in sustaining its advantages in other areas. In many markets, increased competition and falling marketplace prices have forced many companies to reduce costs (Lalwani & Mangan, 2008). Hence, the overall goal of logistics is to achieve a targeted level of customer service at the lowest possible cost (Bowersox, Closs & Cooper, 2002).

Da-Wood Trading is a company in the state of Georgia in the United States, in the freight and logistics services industry. Da-Wood Trading's main activity is providing packing and crating services of cars for export using ocean transport. To facilitate this, Da-Wood Trading carries out hauling of cars from various auctions, minor parts assembly to cars before shipping, trade document preparation, and warehousing for cars before freight. Da-Wood Trading's income therefore is generated from ocean freight charges, hauling fees, loading fees and labor charges for part repairs.

## **2.0 LITERATURE REVIEW**

The impact of global political environment on pricing decisions

The political systems of the countries being served or being considered by an international marketer are an important part of the firm's macro environment. The prevailing political interests and the major political objectives of the governing forces determine the policies of the government (Muhlbacher, Leihs, & Dahringer, 2006).

### **2.1 Tariffs**

At one time or another almost every country's government has engaged in some form of price control. In countries with highly inflationary economies it is common to find price controls on food and beverage products. Some countries, such as Ghana, control the manufacturer's profit margin, which has the effect of controlling the price charged to the final consumer (Muhlbacher, Leihs, & Dahringer, 2006). The US Congress has also passed antidumping laws to ensure its companies do not charge lower prices for a product in foreign countries than in the firm's home market (Gitman & McDaniel, 2000).

Tariffs have traditionally been used as barriers to international trade. They either protect domestic industries by raising prices to non-competitive levels or compensate for subsidies by governments to their exporters (Muhlbacher, Leihs & Dahringer, 2006). Even as countries continue to open their markets to foreign trade, regulations still exist that determine how much foreign trade take place. International trade is carried out by both businesses and governments-as long as no one puts up trade barriers. Tariff barriers used by different governments to regulate international trade affect pricing of products. Protective tariffs imposed by different governments make imports less attractive to buyers than domestic products, since prices charged by foreign firms are higher (Gitman & McDaniel, 2000). High prices in turn reduce a customer's purchasing power. These regulations are costly in terms of having to ship goods to

a different country that is not the final destination. For instance, two countries from the same regional trade agreement in Africa imposing different tax rates on US steel. Different taxes will translate into differences in prices of steel, and, therefore, in costs for companies in those member states that utilize such steel. The companies paying more for steel will charge higher prices, and since customers are interested in lower prices, only companies with lower prices will have an opportunity to sell its steel (Duina, 2006). Also, a uniform pricing strategy becomes very difficult to achieve whenever different taxes, trade margins, and custom duties are involved (Gillespie, Jeannet, & Hennessey, 2010).

## **2.2 Non Tariff Barriers**

Governments can also use other tools besides tools tariffs to regulate foreign trade. These include import quotas, embargos, subsidies, and custom regulations. While import quotas limit the quantity of a certain good that can be imported, embargoes impose a total ban on imports or exports of a product (Gitman & McDaniel, 2000). Import prohibitions put in place for non-economic reasons are found virtually in every country and increasing faster in developed countries. They are commonly applied to trade of certain used goods, such as automobiles, auto parts, clothing and machinery (Love & Lattimore, 2009). Case in point, Iran does not allow import of cars from the US, so these have to be shipped to a different destination and then the customer makes arrangements as to how the good will reach Iran. In Yemen cars from the US are not allowed in whole, but when the cars are cut into parts then they can be imported into the country. The costs of having to repackage the goods to meet the specific requirements imposed by a country affect the price charged for the final product. The Kenyan port does not allow any containers other than 45 inch high to be offloaded in Mombasa. Subsidies, on the other hand, are more subtle; a government offers makers of certain products financial support, often on a volume basis. The result is tantamount to lowering production costs: thus, less efficient domestic producers (producers with higher cost structures) can afford to set their prices lower than foreign competitors, as if they enjoyed lower costs (Duina, 2006).

In addition to this, a country may make it hard for foreign products to enter its market by establishing custom regulations that are different from generally accepted standards (Gitman & McDaniel, 2000). Countries like Brazil and Bulgaria employ a variety of customs-related non-tariff barriers including onerous and burdensome documentation requirements and inconsistent interpretations of the law. This, coupled with slow processing of shipments and corruption drive costs of exporting to such countries to an all time high (Thompson, 2005).

## **2.3 Disasters**

With their manifold causes and consequences, disasters illustrate the many aspects of the processes of globalization (Turner & Khondker, 2010). Contemporary disasters like the war in Pakistan has led to ocean traffic being diverted into Dubai ports, and war-risk insurance surcharge on ships docking in war torn countries drives freight costs to an all time high (Dhawan, 2003). In highly volatile regions also, security fees are imposed to act as insurance against potential loss of business. This was recently seen after the politics in Libya adversely affected some of the customers whose shipment was delayed and bad debts incurred by the logistics service providers.

Also, creeping disasters like food shortage and famine which usually accompany natural disasters affect a population's purchasing power (Gillespie, Jeannet, & Hennessey, 2010).

Furthermore, man-made disasters like port congestion affect prices of products. Even as countries open up their markets in response to heavy demand, port and infrastructure improvements have been lagging in some countries, and these result in higher freight rates because ship capacity is tied up by port congestion (Lorange, 2009). Transportation managers must prepare for these demand driven capacity and congestion issues through strong alliances with major transportation service providers, contracts that provide long term capacity, and creative use of alternative ports and routes (Coyle, Novack, Gibson & Bardi, 2010). For instance, the port congestion in Angola has caused ocean carriers to use Namibia as the port of offloading, which affects the prices charged to transport the goods to the final customer.

#### **2.4 Global regulations and standards**

As a result of shipping's inherently international nature, regulations concerning the industry are developed at a global level. It is vital that companies worldwide be subject to uniform regulations such as construction standards, navigation rules, and crew competence. In the shipping industry, the principal regulator is the International maritime Organization which is the UN agency responsible for the safety of life at sea and the protection of the environment (Bennett, 2009). In different countries this increases the costs of supplying the products. As the goods to be imported are packaged and loaded in containers to be transported via the ocean, safety standards require that goods, and especially cars, be cushioned against damages using timber. In some countries however, the required standard is that the timber used for this purpose be treated in the country of origin, to reduce the chances of any insects and especially termites entering the country. This causes the logistics services company to incur extra costs that it would not have incurred when transporting cars to a different country. As a result, the prices charged to customers are higher (Taylor & Thomas, 2005).

Another important aspect of international standards revolves around trade regulation bodies like the WTO and the Uruguay Round, aimed at lowering trade barriers and opening markets (Gitman & McDaniel, 2000). Today, all WTO must fully comply with all agreements under the Uruguay Round. The WTO also recently issued a first ever agreement on rules of origin, requiring that the rules be transparent, that they be applied in a consistent and an impartial manner, that they be based on a positive rather than a negative standard, and that they will not distort, disrupt, or restrict trade. This came after the French government returned a shipment of US- made Honda cars, arguing that the cars were in fact Japanese and therefore fell under the Japanese import quota, which had already been exceeded. The US government also recently suspected that many garments imported from Hong Kong were in fact manufactured in Mainland China but had their origin concealed to distort the quota regime. The US demanded that it be allowed to post inspectors at the Mainland-Hong Kong border, something the Hong Kong authorities and China saw as a threat to their sovereignty (Shenkar & Luo, 2008). The WTO also imposes an antidumping agreement on all its members, which provides that a product may not be introduced into another country at a price lower than its normal value or cost (Andersen, 2009). Such antidumping provisions were set in place to particularly combat predatory pricing (Aturupane, 2000).

## **2.5 Exposure to crime**

Globalization and international trade has meant also that crime in one region is an issue to be dealt with in other parts also. Ship hijackings are on the rise and pirates are more brazen with the prospects of huge ransom payoffs (Coyle, Novack, Gibson & Bardi, 2010). The Gulf of Aden, off the coast of Somalia, has seen the largest share of piracy attacks in recent years, and the problem seems to be growing. The Gulf of Aden is one of the most important trading routes of the world, and ship owners are victim to piracy not only because of the ransom that they have to pay but also because of the increased cost of shipping. The increased incidence of piracy has led to increased insurance premiums for shipping vessels plying these waters (UN, 2010). In addition, security fees are levied for ocean carriers in these waters, and this in turn leads to high shipping costs.

Furthermore, global terrorism threatens vital state interests, and only vigilant national secret services can restrain it (Lane, 2006). With continuing exposure to terrorism, companies have to pay more to insure and provide security for overseas staff and property (Carbaugh, 2008). These costs affect the prices a company can charge for its products.

Transportation managers must therefore leverage security technology by choosing transportation routes, ports, and service providers wisely, and disguise their freight to minimize exposure to terrorism, hijacking, tampering, and theft (Coyle, Novack, Gibson & Bardi, 2010).

## **2.0 METHODOLOGY**

### **3.1 Research Design**

The research design used in this study was case study. This method of research design was deemed appropriate because the study was a single case based on Da-Wood Trading, and the main purpose was to understand a real-life phenomenon in depth (Yin, 2009). In this case the research was carried out to establish the impact of globalization on pricing decisions made in Da-Wood Trading.

### **3.2 Population and Sampling Design**

The population from which data was collected included the managers directly involved in the review of performance and planning and implementation of new strategies. The company directors also formed a part of the population due to their involvement in the policy making processes in the company. The final say on whether or not to implement a new pricing strategy is the directors', hence the choice to involve them in the study. The total number of managers was four and the directors were two.

#### **3.2.1 Sampling Frame**

With regards to this study, the sampling frame was the list of all employees and directors in Da-Wood Trading, obtained from the payroll department. The list showed each manager's position in the company. The two directors of the company were also classified as managers in the payroll list; hence only one list was obtained.

The small size of the population did not necessitate sampling. As such, all the managers and both directors in Da-Wood Trading participated in data collection. The managers involved in

this research study were the operations manager, dispatch manager, documentation manager, and finance manager.

### **3.2.2 Sampling Technique**

This research project involved collecting data from all the decision makers in the company, and since they were considered as the population, the sampling technique applied in this study was census sampling. With regards to this study data was collected from all the managers and both directors of Da-Wood Trading, who constituted the whole population involved in the decision making process in the company. This technique was chosen because the size of the population is small and therefore allowed for collection of data from all members and not just a portion. Involved were the managers and supervisors directly involved with pricing decisions and performance review, and the directors, who were involved with policy making in the organization. The census method was advantageous in this case in that the data collected was accurate and a true reflection of the actual situation on the ground in Da-Wood Trading.

### **3.3 Data Analysis**

Analysis of data collected in this study was done using Excel, and involved the use of frequencies tables, charts and graphs that described the data and highlighted the trends displayed by the data collected. Measures of central tendency like mean, median, mode, proportion and percentages were also used to analyze the data.

## **4.0 FINDINGS**

### **4.1 The impact of global political environment on pricing decisions**

From the data collected 100 percent of the respondents agreed that global political factors affect how they price products in Da-Wood Trading.

#### **4.1.1 Tariffs**

All the respondents strongly disagreed with the facts that the US federal law regulates the prices charges to customers, and that import duties levied by countries to which goods are exported increase the prices charged at Da-Wood Trading. This is illustrated in Table 1 below.

**Table 1 Impact of tariffs on pricing**

<b>Variable</b>	<b>Frequency (n=2)</b>	<b>Mean = <math>\sum n/n</math></b>	<b>Mode</b>
US Federal law	0	0	None
Import duties in foreign countries	0		
<b>Total (<math>\Sigma</math>)</b>	<b>0</b>		

#### **4.1.2 Non-tariff barriers**

On non-tariff barriers, 2 respondents strongly agreed that in countries where there are restrictions on what goods can be imported, modifications are done on the goods and customers charged extra for the goods. The remaining 3 respondents agreed to this fact. On customs requirements on container size, while 2 respondents agreed that such requirements make them charge the customer a higher price, one respondent disagreed while one more strongly disagreed. With regards to customs documentation, 4 respondents strongly agreed that such requirements increase the prices that would have otherwise been charged to the customers, while one respondent simply agreed to this. Table 2 below illustrates the ratings of these variables information further.



**Table 2 Non Tariff barriers and pricing**

Variable	Frequency (n=3)	Mean = $\sum n/n$	Mode
Country restrictions	22	20	Customs Documentation
Customs requirements	7		
Customs documentation	31		
<b>Total</b>	<b>60</b>		

#### **4.1.3 Disasters**

With regards to disasters, 3 respondents strongly agreed that there are extra charges levied as surcharge which are passed to the customer when quoting prices, while 2 respondents agreed to this fact. No respondent disagreed. All the respondents also agreed that there are instances when goods have to be diverted to a different port of discharge before the final destination. However only 2 respondents strongly agreed that the use of a different route leads to a higher price than what would otherwise have been charged had the goods gone directly to the destination. The remaining 3 respondents agreed to this fact. Also, 3 respondents disagreed with the fact that lower prices are charged for customers in regions where there is famine and food shortage while 2 respondents strongly disagreed. With regards to port congestion, only one respondent strongly agreed that customers experiencing port congestion are charge higher prices when traffic is diverted to different neighboring countries, and the remaining 4 respondents agreed to this fact. This information is illustrated in table 3 below.

**Table 3 Impact on disasters and pricing**

Variable	Frequency (n=4)	Mean = $\sum n/n$	Mode
War surcharge	27	18	War Surcharge
Diversion of cargo to a different port	23		
Famine and food shortage regions	3		
Port congestion	19		
<b>Total</b>	<b>72</b>		

#### **4.1.4 International standards**

When it came to disasters, all the 5 respondents strongly agreed that in countries where there are specific safety standards for timber and loading, higher prices are charged to customers. In addition, 3 respondents disagreed with the fact that the WTO rules to regulate price determine how much customers are charged, while 2 respondents strongly disagreed. Table 4 below illustrates the ranking of these responses.

**Table 4 International standards and pricing**

Variable	Frequency (n=2)	Mean = $\sum n/n$	Mode
Country specific safety standards	35	19	Country specific standards
WTO rules and price regulations	3		

**Total** **38**

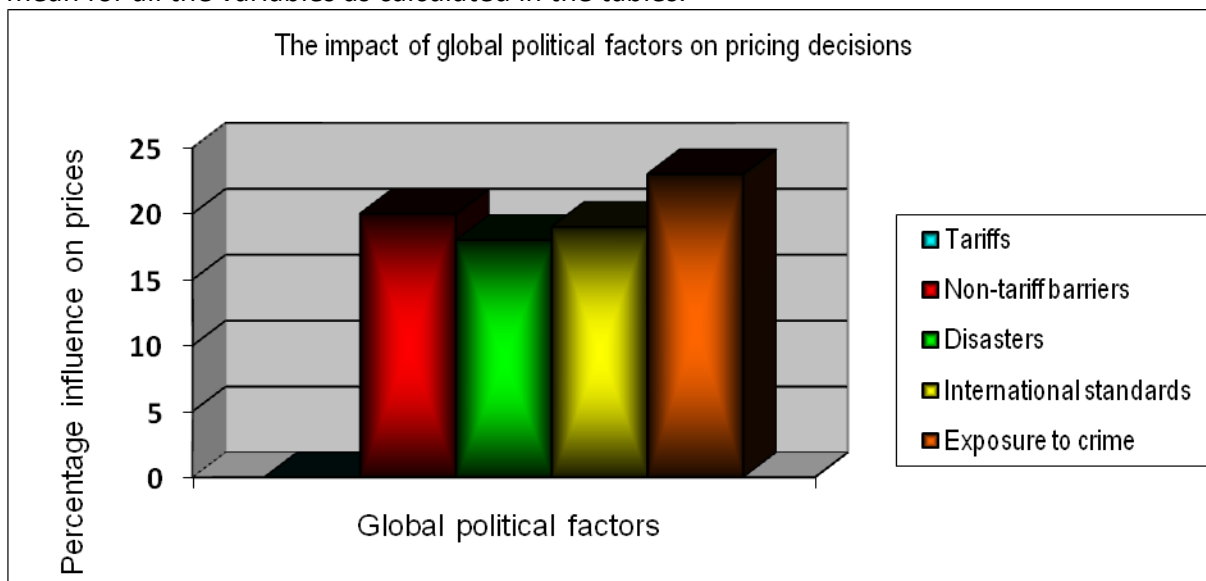
**4.1.5 Exposure to crime**

All the respondents agreed that there exist customers in regions affected by piracy. As to whether piracy costs like security fees and insurance lead to higher prices for the services offered to customers, 3 respondents strongly agreed while 2 respondents agreed. One respondent further strongly agreed that terrorism awareness and related costs lead to increase in product prices while the remaining 4 respondents simply agreed. Table 5 illustrates this information.

**Table 5 Exposure to crime and pricing**

Variable	Frequency (n=2)	Mean = $\sum n/n$	Mode
Piracy security fees and insurance	27	23	Piracy related costs
Terrorism related costs	19		
<b>Total</b>	<b>46</b>		

The various global political factors discussed above are illustrated in the chart below using the mean for all the variables as calculated in the tables.



**4.2 Discussion of findings**

The findings indicate that exposure to crime has the greatest impact on Da-Wood Trading’s pricing decisions. Compared to the other political factors, the weighted average of exposure to crime is 23, the largest in the section. This implies that of all the global political factor variables, piracy security fees and insurance charges mostly influence the prices charged for services rendered to customers in piracy affected regions. This is in line with the fact that ship hijackings are on the rise and pirates are more brazen with the prospects of huge ransom payoffs (Coyle et al, 2010). The Gulf of Aden, off the coast of Somalia, has seen the largest chare of piracy



attacks in recent years, and the problem seems to be growing. The Gulf of Aden is one of the most important trading routes of the world, and ship owners are victim to piracy not only because of the ransom that they have to pay but also because of the increased cost of shipping. According to a UN report, the increased incidence of piracy has led to increased insurance premiums for shipping vessels plying these waters (UN, 2010). In addition, security fees are levied for ocean carriers in these waters, and this in turn leads to high shipping costs.

The second most significant political factor is seen to be non-tariff barriers, the variables of which had an average rating of 20. This indicates that customs documentation and country-specific restrictions are expenses that Da-Wood Trading passes on to the customer when billing for services rendered. The costs of having to repackage the goods to meet the specific requirements imposed by a country therefore affect the final price of the product (Duina, 2006). In addition to this, a country may make it hard for foreign products to enter its market by establishing custom regulations that are different from generally accepted standards (Gitman & McDaniel, 2000). Some countries employ a variety of customs-related non-tariff barriers including onerous and burdensome documentation requirements and inconsistent interpretations of the law. This, coupled with slow processing of shipments and corruption drive costs of exporting to such countries to an all time high (Thompson, 2005).

Further, international standards and disasters also play a role in the prices charged by Da-Wood Trading, in terms of war surcharge, diversion of cargo to different destinations and port congestion. Dhawan (2003) noted that contemporary disasters like the war in Pakistan has led to ocean traffic being diverted into Dubai ports, and war-risk insurance surcharge on ships docking in war torn countries drives freight costs to an all time high. Furthermore, Lorange (2009) pointed out that man-made disaster like port congestion affect prices of products. Even as countries open up their markets in response to heavy demand, port and infrastructure improvements have been lagging in some countries, and these result in higher freight rates because ship capacity is tied up by port congestion.

From the data collected, the US federal laws and import duties imposed by foreign countries do not have any impact on Da-Wood Trading's pricing decisions. This implies that the freight and logistics sector which Da-Wood Trading falls under is not covered by the US anti-dumping laws. This is because the industry is made up of companies that act as mediators, or facilitators of foreign trade, and as such, are not involved in the actual trade of goods. This also explains why import duties do not affect the prices charged by Da-Wood Trading.

## **5.0 CONCLUSION AND RECOMMENDATIONS**

### **5.1 Conclusion**

In this study it has been established that global political factors impact Da-Wood Trading's pricing decisions in terms of costs related to criminal activities, specifically piracy. The Gulf of Aden remains a main route for almost all the shipping lines that transports cargo for Da-Wood Trading, and the related insurance costs increase the prices charged to customers. Non-tariff barriers, especially customs regulations and documentations also increase the prices charged to customers by Da-Wood Trading. In addition, standards set by countries that require modification of goods before shipping lead to increase in final prices charged to customers.

Lastly, costs incurred due to disasters like wars and port congestion also result in higher price tags for Da-Wood Trading's products. We can therefore conclude that global political factors have a negative impact on pricing decisions made by Da-Wood Trading.

### **5.2 Recommendations**

From the findings of this study it emerged that global political factors lead to an increase of internal costs which in turn lead to a higher price charged to customers. For a company operating beyond national borders like Da-Wood Trading, these factors cannot be ignored because they are beyond the control of the company. To remedy the situation, the company should consider less costly routes of sending cargo. From the country analysis it was evident that Da-Wood does no trading with South America yet is it the closest continent. This can be an avenue of expanding its customer base. In doing this Da-Wood Trading can also gain access to countries with less strenuous customs regulations and documentations

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