This article is an excerpt of the book "**Financial, Administrative and Trade Management in China: A crash course for executives for a successful and compliant business operation**", available e.g. on Amazon Kindle, Google Play and Apple Books.

8.3.Pricing of Services and Products

Services and products that are being sold to other companies within a group are relevant to transfer pricing policies which are described in another chapter. Selling goods or services to third parties is a different problem to tackle and brings different challenges.
Approaches that sound totally reasonable in theory can bring sudden challenges and problems that you did not anticipate if you did not follow a "what-if" approach of defining sales prices. Also, principles of pricing that you are might be used to in the international context might suddenly prove wrong when selling in China.

Cost plus vs. market minus

Foreign companies often choose to serve a niche market, offering specialized services or products which can set themselves apart e.g. by:

- Brand
- Quality
- Service
- Functions

Chinese brands often chose to serve the mass market and therefore have a much higher chance of using economies of scale.
As a result, Chinese companies often use a cost plus model, meaning they calculate their production cost and a reasonable gross margin as pricing model to sell into the market while foreign companies tend to first analyze a price level that might be achievable in the local market, therefore reaching a higher gross margin.
Even while a foreign owned company might be in competition to local companies with technically comparable products, it might serve completely different market segments with a very different pricing structure.

Give your sales partners enough room to breathe

When defining the pricing structure in your sales channels your partners should have enough maneuvering room. You depend on their survival, happiness and well-being if you do not sell to the consumer directly. While maximizing profits is one of the key-functions within a company, enabling the partners to grow together with you can bring long-term benefits which outweigh short-term profits.
It might be much more beneficial to allow your partners to grow with you than reducing their profits to a bare minimum.

Prices including VAT

For most of the transactions within China it is expected that the prices include VAT. While in western country in business prices are shown as net price plus VAT, e.g. 1,000 EUR + VAT, in China the prices are shown as including VAT, e.g. 1,160 RMB incl. VAT.
IT systems supporting your business might be not set up for this though, leading to possible issues with rounding differences between what your price list is expressing and the price that the system calculates. If your systems do not support this issue, this will lead to additional manual effort to ensure an alignment of internal system handling of orders and the published price list.

Be careful with discounting

Since most of the international businesses are operating in a higher price market segment, giving discounts might seriously harm your pricing structure, especially if your sales partners get used to regular discounts at certain dates. They might just stop ordering until discounts they got used to are in place.
If your discounts are not for a certain time but are based on the amount they order, you might get a serious boost of orders after you allow discounts but you can expect a lower order volume after a high amount of goods was sold with a high discount. Several customers might even combine their purchasing power to reach high discount levels or a single customer might order a high volume of products for a very high discount, reselling the products then in your own sales channels for a cheaper price than your undiscounted price.
A way to combine discounts during common shopping dates like Single´s day while limiting the impact could be a limit on the number of sold discounted items.

Controlling prices in your channels violates antitrust regulations

If you are a company which sells products to resellers, it is totally legal to describe "recommended prices" for the resale. Controlling the prices by limiting your resellers for what minimum price the goods have to be resold violates antitrust regulations though.

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Control your overflow and beware of price arbitration

Overflow can happen if you have certain sales areas with a price differentiation in place, either nationally or internationally, and your products from one geographical area start to show up in other geographical areas they are not supposed to be sold to.
While from a company perspective it might be favorable to adjust the sales prices to a level which is an achievable market prize while maximizing profits ("market minus"), opportunistic sales channels could use the lower prices in an area to buy the goods in this area and sell them in another area.
This especially poses a problem you are selling homogenous goods in different countries or regions.
The two main ways of resolving this problem are:

- Selling specific products for specific areas
- Contractual regulation of the sales partner to specific areas

While both ways in theory work, they both require control and punishments for sales partners who violate the rules which might be hard to control in reality.

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