

# Pricing Goods and Services: A Sometimes Complicated Task

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Through an international network of pricing agents, Mercer gathers pricing information for 180 goods and services in more than 300 cities. This data helps your employer determine equitable cost-of-living adjustments for expatriates. Regional research managers provide broader coverage for special, unscheduled surveys or unusual circumstances. Compiling this information is not always easy when faced with unstable economies, political coups, communication difficulties, and other surprising challenges.

## What Happens When the Economy Is Unstable?

The survey completed by pricing agents is a comprehensive listing of goods and services, including items as diverse as dishwashing liquid, haircuts, paperback books, throat lozenges, rice, and oil changes. On-site agents conduct these surveys every six months, with exceptions to that schedule for extreme economic conditions. For example, locations experiencing high inflation or significant currency devaluation are surveyed every 3 or 4 months—or more—depending on the rate of change. In all situations, particularly when the economy is volatile, pricing agents keep headquarters staff abreast of local conditions. Wherever available, agents forward copies of pertinent articles or analyses about the local economy to enhance the resources used for evaluating the situation.

Some locations, however, experience high inflation or currency devaluation related to more than simple economic conditions. Political

turmoil can create highly unstable economies that no longer offer a reliable perspective on what toothpaste, for example, might really cost. In such places, pricing agents wait about 30 days before gathering data, during which time they monitor the situation. If signs of stability become evident, the agent conducts a pricing, and repeats the survey in two or three months' time. If the scene remains unstable, the survey is put on hold and the economy closely watched.

Political trouble creates other dilemmas for pricing staff. In cities where conditions change from unstable to outright dangerous, embassies often advise companies to evacuate their employees to a safer location. In such circumstances, any data collected might very well be worthless because of the high level of uncertainty. In other situations, the data might not be collected at all because the pricing agent has been sent home. Consequently, pricing surveys are put on hold.

## What Happens If Data Gathering Is Delayed?

Late survey results pose another set of difficulties in gathering data. The delay might be the result of communication failure with the pricing agent for any number of reasons:

- Remote and inaccessible locations
- Faulty regional infrastructure and communication systems
- Political trouble
- Slow (perhaps, nonexistent) mail
- Transfer of the pricing agent on short notice

If the agent does not respond to repeated attempts at communication, a headquarters staff member or the regional research manager will go to the location to either conduct the survey or hire and train a new agent. In addition to replacing agents at current locations, it is also necessary to hire an agent when a new site is added to the list of priced locations. Setting up a new location requires an initial purchasing pattern survey to determine the outlets that expatriates typically use. Once the groundwork has been established, pricing surveys can begin on a regular schedule.

## What Happens If the Data Is Questionable?

For those locations that are priced on a regular basis, in-house staff can pinpoint peculiarities in the costs of goods and services. They investigate questionable responses by following-up with the agent, asking for confirmation, and requesting a further survey, as needed. This clarification is especially important in situations where the problematic item is a high-priced good or service. In such a case, the item might have a significant impact on the overall weighting and eventual calculation of the relationship between home-country and assignment-location prices. Ultimately, the effect will filter down to the expatriate's actual cost-of-living adjustment.

Further examination of survey data adds time before the information is released. Another situation that might prompt a delay in obtaining results involves a special pricing request. For example, a company may need a

## Where Can I Buy Shoes?

In some locations, the availability of goods and services that an expatriate family would use on a routine basis may be a sporadic nuisance or a hardship. Expatriates in the following cities, as evidenced by Mercer's *Location Evaluation Reports*, experience difficulties in obtaining certain goods and services.

**Dhaka, Bangladesh.** Not much merchandise is high quality, and availability can be disrupted by general strikes and floods that affect agricultural production and hamper deliveries. Irregularities in electricity make anything requiring refrigeration suspect. Dhaka has some supermarkets and outlets that stock imported foods. Outdoor markets sell fresh produce, but language may present a problem; sanitary precautions are essential with anything fresh. Religious proscriptions limit availability of pork products and alcohol. Although a few warehouses sell a limited selection of alcohol, purchases require a pass that is difficult to obtain. Western-style clothing and shoes are limited and often poor quality. Household goods (towels, sheets) are poor quality, and the selection limited. The choice of foreign-language books is also poor, while CDs and DVDs are counterfeit. Services are not high quality.

**Harare, Zimbabwe.** Most staples are now available, as well as some imported products. For some residents, the shift to a dollar- and rand-based economy has helped, though for much of the local population many basic goods remain out of reach. While overall availability has improved, problems remain. Shoppers may need to visit more than one outlet to find what they need. Items requiring refrigeration may be suspect because of power outages, although supermarkets have generators. Some local merchandise is not always high quality, and local stores do not usually carry suitable clothes and shoes. Replacement car parts may be scarce.

**Lagos, Nigeria.** Although most items can be found, availability is sporadic and quality can be a serious concern. Infrastructure has an impact; frequent fuel shortages translate into delayed deliveries and food spoilage, and

power outages mean refrigerated or frozen foods can spoil. Flour and baking supplies may be contaminated with insects. Sometimes the government bans certain imports to support local producers, whose products are generally lower quality. Counterfeit goods can be a problem at lower-end stores. Fresh fruits and vegetables, often purchased outdoors, are generally high quality, but availability may vary. Very little Western-style clothing is available (especially for women). Household items (towels, sheets) are of poor quality. Electronic goods, susceptible to damage from power fluctuations, tend not to last very long. Basic services do not meet expatriate standards. Car repair is a particular problem; potholes take a toll on vehicles, and repair facilities are limited and spare parts hard to find.

**Lahore, Pakistan.** Availability is inconsistent; many stores are not well stocked and rely on shipments from Karachi, and brands are often unfamiliar. Because of religious proscriptions, pork products are not sold, and alcohol is only available (outside the black market) with a permit in a specially authorized outlet. Fresh fish is abundant only in winter; fresh ocean fish is flown in from Karachi. Local milk may not be high quality. Some fresh fruits and vegetables may be unavailable, available only in season, or unsuitable, while canned alternatives are limited. Caution is necessary when buying local food due to poor sanitation and no refrigeration. Shops offer very little ready-made Western-style women's clothing, and locally made men's wear is not high quality. English-language books are available, but most CDs and DVDs are counterfeit.

**Malabo, Equatorial Guinea.** Overall availability is extremely limited. Very little is produced locally; most of what is available comes from Spain or Cameroon. There is not much variety, and quality is often a problem. Many staples (sugar, flour, milk) are frequently in short supply. Supermarkets sell imported frozen meat and seafood; availability of fresh fruit and vegetables from Cameroon is sporadic. Stores stock canned alternatives. Local markets sell fresh fish and produce, which

is seasonal; prices vary by supply and condition. The selection of dairy products is small; all milk, like most dairy products, is long-life. Supermarkets stock some household goods, but quality can be a problem and brands unfamiliar. Personal-care items (contact lens solution, cosmetics) can be difficult if not impossible to find. Appliances and linens are frequently unavailable, and it is rare to find books in a language other than Spanish, or CDs or sports equipment. Very little clothing and shoes are available, and much of what can be found is of poor quality. Car parts are scarce, and service problematic. Other services (dry cleaners, hair salons) are hard to come by.

**Nouakchott, Mauritania.** Availability can be erratic and local quality problematic. Most imports come from France. Beef and lamb are available, as well as seafood (mostly frozen), along with fresh and canned fruits and vegetables. Fresh milk is not pasteurized, and imported flour may be infested. Anything requiring refrigeration may be subject to spoilage due to fluctuations in electricity. Because of religious proscriptions, pork products can be difficult to find, and alcohol not sold in local shops. The selection of certain household appliances and supplies is limited and of poor quality. The choice of personal-care items is also small. Not many foreign-language books are available; any that can be found are usually in French. CDs are difficult to come by. Car maintenance can be problematic, and spare parts hard to find locally.

**Tehran, Iran.** Selection is limited, with many brands unfamiliar. The choice of imports is small and their availability erratic. Shoppers can find fresh fruit and vegetables, and canned alternatives, but pork products and alcohol are not sold because of religious proscriptions. Prepared foods are hard to find. Shopping centers offer a decent choice of household goods and appliances. Local clothing is often poor quality and there aren't many imports. The selection of personal-care items is also small, and brands may be unfamiliar. Items like foreign-language books and CDs generally are not available. Most services do not meet international standards. Local car parts are poor quality

survey conducted two months ahead of schedule or, perhaps, more frequently than twice a year. If an agent is not available in that particular location and the regional research manager is covering other requests, the pricing may take a little longer. This point is especially true in remote locations. Consider the transportation challenge when the nearest airport is days away and the only solution is to hire a private driver or take a railway system that travels in a circuitous route.

### What Happens If Goods and Services Are Unavailable for Pricing?

As illustrated in Chart 1, on page 5, “Where Can I Buy Shoes?”, goods and services are not always available in every location all the time,

or may become unavailable on a temporary or permanent basis (particularly in less-developed countries). Pricing data must meet the following criteria:

- The items are demonstrably those priced in the previous survey, although brands may change.
- The movement of individual prices is reasonable when compared against one another.
- The quality of both goods and outlets is consistent. If the pricing agent introduces a new brand, a decision is made whether to accept the new brand if its price is consistent with the other sample items or reject the item if its price is significantly different.

### Pricing Data Is Fundamental

The information gathered by pricing agents around the world—whether in remote or easily accessible locations—sets the groundwork for decisions about expatriate cost-of-living adjustments. Without these surveys, employers cannot compare home-country and assignment-location prices and, thus, cannot create equitable and reasonable expatriate pay packages.

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