

Transfer Pricing Contract between a Global Brand Seller and its Offshore Manufacturer considering Local Brand Introduction in the Offshore Market under Green Tax

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Abstract: This paper formulates a contract between a global brand seller based in a developed country and its offshore manufacturer based in a developing country where the offshore manufacturer also makes and sells a local brand in the market of the developing country. The local brand is a perfect substitute of the global brand and is cheaper in the offshore market of the developing country. Hence, the offshore manufacturer is actually got involved in a price war with the global brand seller in the market of the developing country. In this competition scenario, both the firms must cooperate with each other to find the optimal transfer price of the global brand that to be charged by the offshore manufacturer for making and shipping the products. The competitive retail prices of both the global and the local brands also to be found for the offshore market of the developing country, in a way that both the firms be in a win-win situation to get maximum profits possible. This papers employs bilevel programming models to solve the Stackelberg game between the two firms, one being the price leader, and the other being the follower, to find the optimal transfer price, the optimal retail prices of the global brand in both the markets of developed and developing countries and the optimal retail price of the competitive local brand in the developing country. The green taxes applicable to both the countries have been considered along with the export-import duties and shipping cost for transporting the product from the offshore manufacturer to the global brand seller.

Keywords: *Offshore manufacturing, Green tax, Local brand introduction, Price competition, Price differentiation, Bilevel programming.*