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International Marketing

Chapter 15

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Chapter 15

International Marketing Channels

International Marketing

18th Edition



**Mc
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Hill**
Education

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Learning Objectives 1 of 2

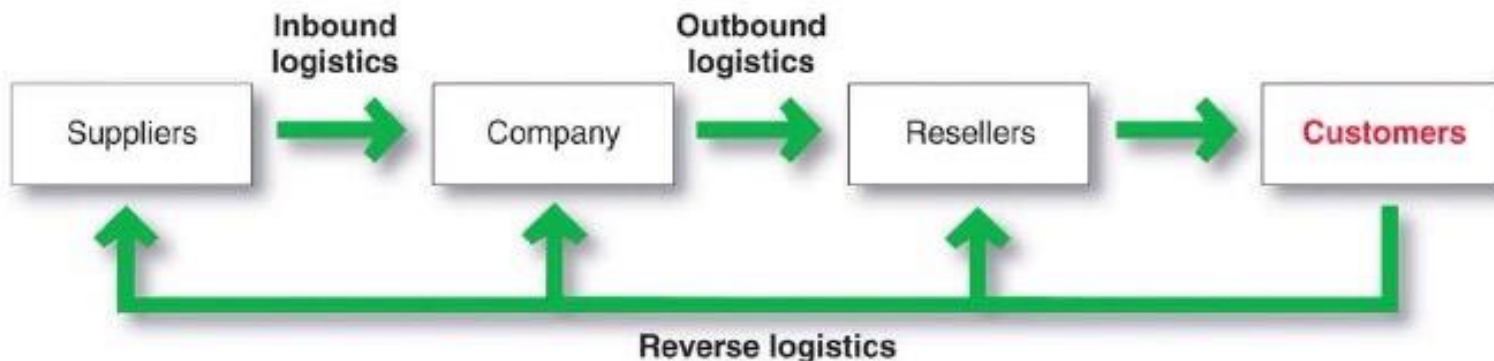
- 15-1 The variety of distribution channels and how they affect cost and efficiency in marketing
- 15-2 The Japanese distribution structure and what it means to Japanese customers and to competing importers of goods
- 15-3 How distribution patterns affect the various aspects of international marketing
- 15-4 The functions, advantages, and disadvantages of various kinds of middlemen

Learning Objectives 2 of 2

- 15-5 The importance of selecting and maintaining middlemen
- 15-6 The growing importance of e-commerce as a distribution alternative
- 15-7 The interdependence of physical distribution activities

Marketing Logistics and Supply Chain Management

Nature and Importance of Marketing Logistics





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Channel-of-Distribution Structures 1 of 5

The Distribution Process

- Physical handling and distribution of goods
- Passage of ownership or title
- Buying and selling negotiations; between producer and middlemen, middlemen and customers

Distribution Structure

- Marketer must select channel of distribution
 - Activities of middlemen reflect existing competition, characteristics, tradition, and economic development



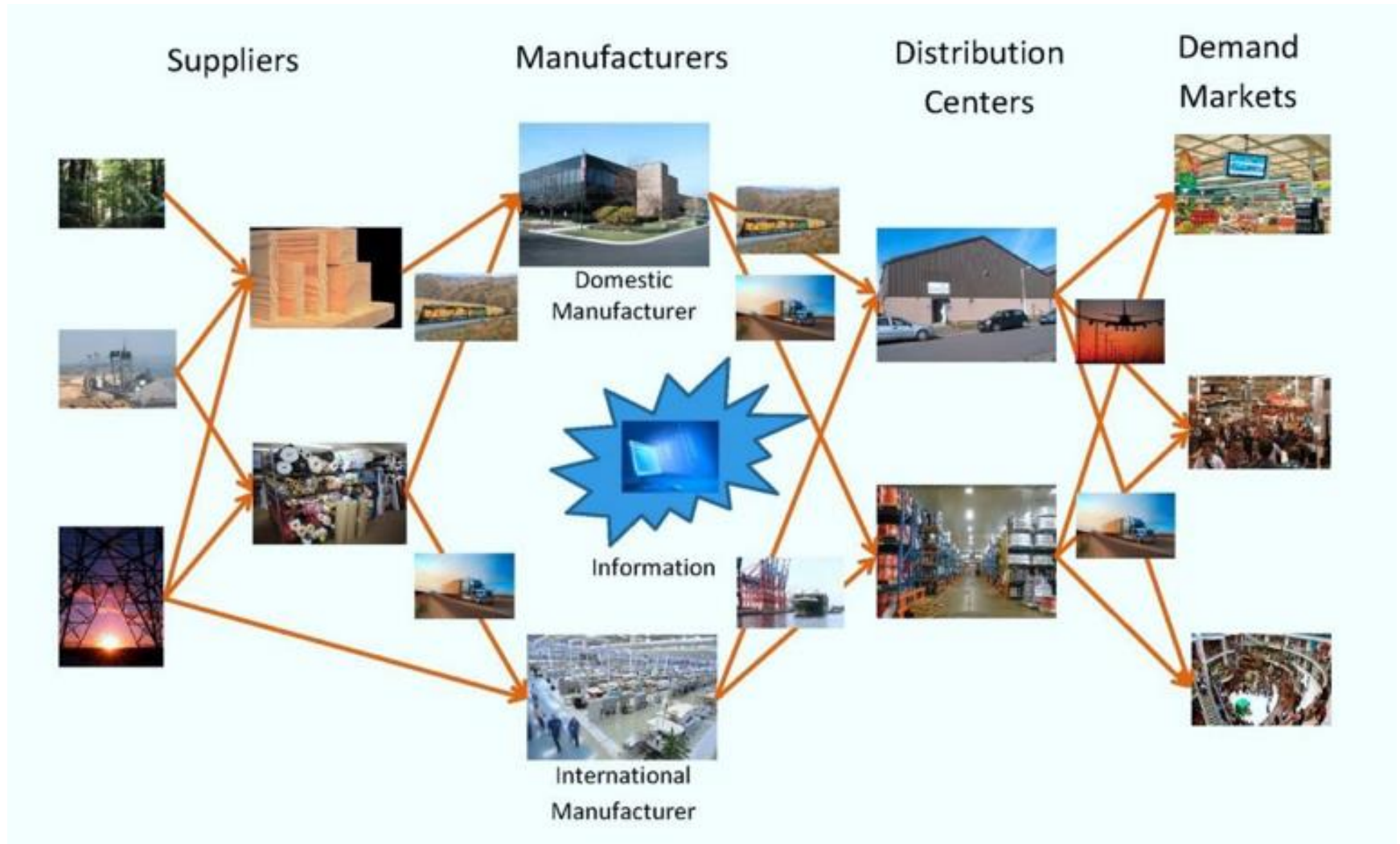
Channel-of-Distribution Structures 2 of 5

Import-Oriented Distribution Structure

- Importer controls fixed supply of goods
 - Limited supply sold at high price to small group of customers
 - Demand for products exceeds supply
 - Market penetration and mass distribution not necessary
- Importer/wholesaler performs most marketing functions
 - Not a chain of intermediaries like in mass-marketing system
 - Leads to underdeveloped, nonexistent marketing infrastructure



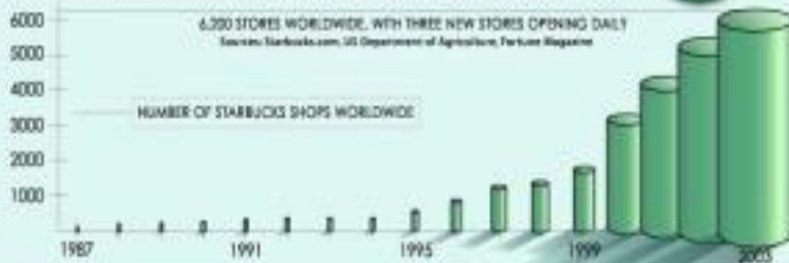
Channel Management





THE MAGIC BEAN SHOP

A single cup of Starbucks coffee can depend upon as many as 19 different countries. Between the coffee beans, the milk, the sugar, and the paper cup, Starbucks coffee is a global hub that connects some of the poorest countries in the world with some of the wealthiest.

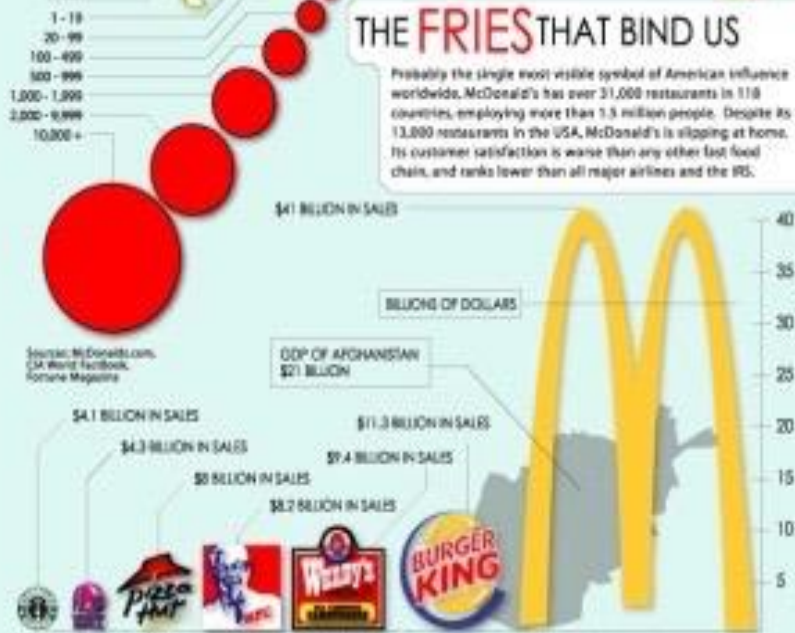


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THE FRIES THAT BIND US

Probably the single most visible symbol of American influence worldwide, McDonald's has over 31,000 restaurants in 118 countries, employing more than 1.5 million people. Despite its 13,000 restaurants in the USA, McDonald's is slipping at home. Its customer satisfaction is worse than any other fast food chain, and ranks lower than all major airlines and the IRS.



Marketing and Distribution in China



© John Graham

They're in China, but they aren't Peking ducks. The birds are for sale in Guangzhou's Qingping Free Market, the first farmers' market to be opened in China after the Cultural Revolution in 1979. This market was the place where free enterprise found its rebirth. Every kind of food is for sale here—from ducks to dogs, from scorpions to dried lizards on sticks.

Channel-of-Distribution Structures 3 of 5

Japanese Distribution Structure

- Distinguishing features
 1. High density of middlemen
 2. Channel control by manufacturers
 3. Business philosophy shaped by unique culture
 4. Laws that protect the foundation of the system—the small retailer



Channel-of-Distribution Structures 4 of 5

Japanese Distribution Structure continued



- Daitenho—the Large-Scale Retail Store Law
 - Large stores must seek permission to operate or expand
 - Protects small retailers from competition
 - Lack of competition leads to highest cost of goods in world
- Japanese system changing
 - U.S. government's Structural Impediments Initiative, deregulation, Walmart causing some changes
 - Ultimately, local merchants must demand quality products and competitive and fair prices

Channel-of-Distribution Structures 5 of 5

Trends: From Traditional to Modern Channel Structures

- Countries with traditional structures changing
 - Global economic and political changes altering structures
 - New forms, alliances, and processes to increase efficiency
 - The Internet a large component in modern channel structures
- Shift in structure leads to more innovation
 - Importers, retailers more involved in new product development
 - Invention of new middleman systems
 - Company experimentation to maintain competitive edge

Modernization of System in Russia



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Now that Russians can own their homes, they're spending fast in home improvement stores like this one in St. Petersburg. In English it would be called "Super Home."

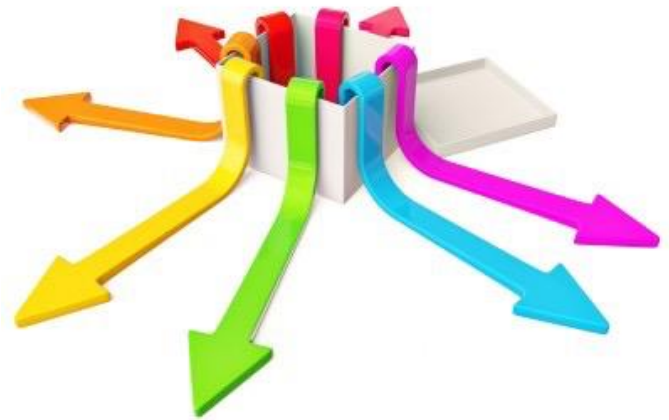
Distribution Patterns 1 of 2

“Traditional” system will not change overnight

- Nearly all international firms forced by structure of market to use some middlemen in distribution arrangement

Variety of distribution patterns

- Foreign channels different from domestic channels
 - Differences in retail patterns



Distribution Patterns 2 of 2

Retail Patterns

- Size patterns
 - Retailer to consumer ratio varies dramatically by market
 - High concentration of retailers, more competition for marketer
- Direct selling
 - Often used in markets with underdeveloped distribution systems
- Resistance to change
 - Innovation seen as threat to domestic business
 - Consumer demand for high-quality, low-cost products prevails

International Competition: Resistance and Acceptance



© John Graham



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PEMEX (Petróleos Mexicanos), the Mexican national oil company, will not let foreign firms distribute there. However, in Malaysia, a Mobil station sits right across the boulevard from a government-owned PETRONAS (Petroleum Nasional) station.

Alternative Middleman Choices 1 of 11

Channel Selection

- Range of options for marketers
 - Assume entire redistribution activity
 - Depend on intermediaries for distribution
- Should be given considerable thought
 - Difficult to change once initiated
 - Impacts future growth of the market share



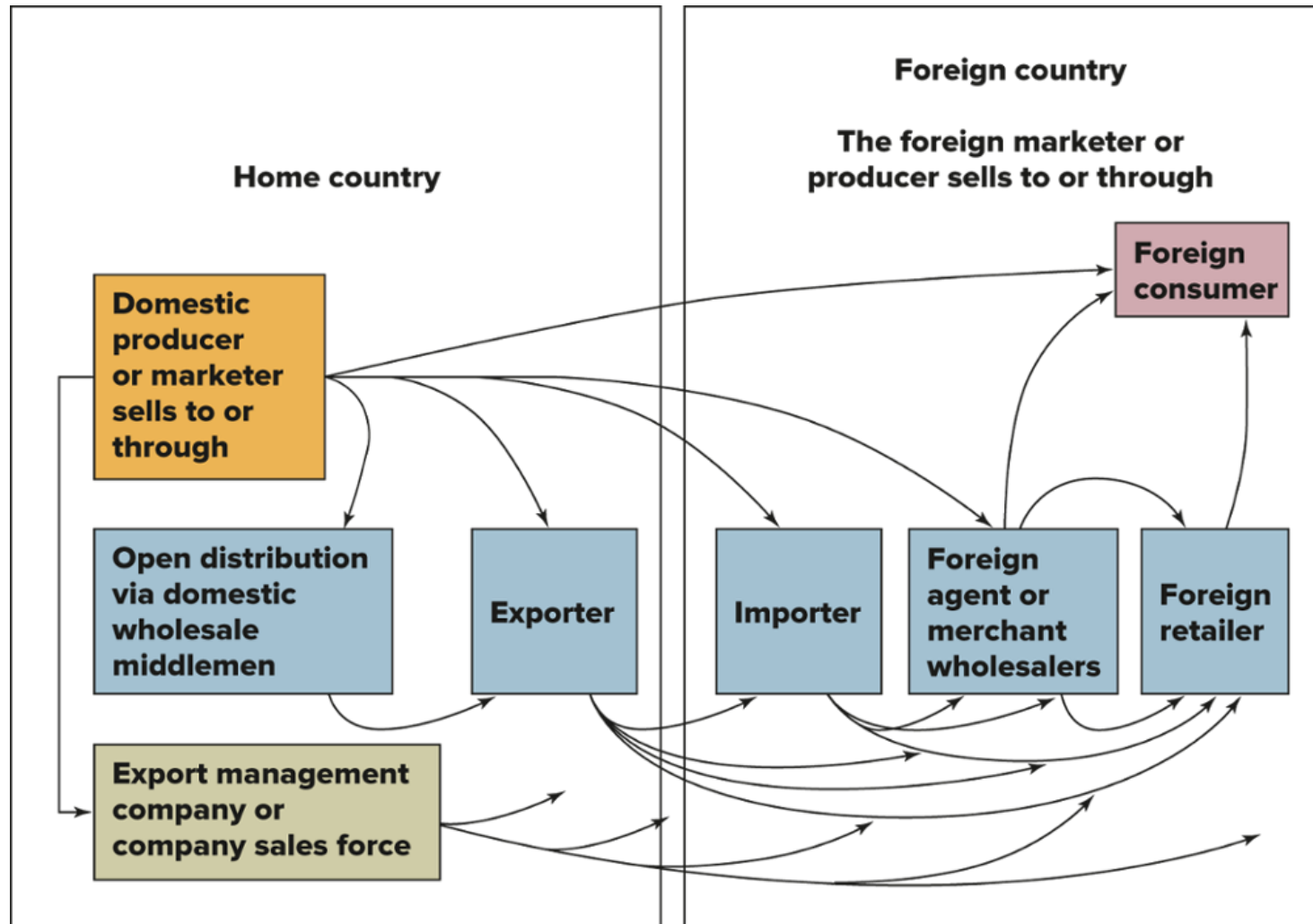
Alternative Middleman Choices 2 of 11

Channel Process

- Includes all activities from manufacturer to consumer
- Seller must exert influence over two sets of channels
 1. Channels in the home country
 2. Channel in the foreign-market country
- Ideally, company will control or be involved in process through various channel members to final consumer
- Selection of middlemen a high priority



Exhibit 15.3 International Channel-of-Distribution Alternatives



[Jump to long description.](#)

Alternative Middleman Choices 3 of 11

External Middlemen

- Agent middlemen
 - Do not take title to the merchandise
 - Manufacturer assumes all trading risk but can establish policy guidelines and prices
- Merchant middlemen
 - Take title to merchandise: assume all trading risks
 - Primary concern is profit; don't always have manufacturer's best interests in mind



Alternative Middleman Choices 4 of 11

Home-Country Middlemen

- Provide marketing services from a domestic base
- Foreign-market distribution relegated to others
 - Good for companies with small international sales volume, little international experience, or who want to sell abroad with minimal financial and management commitment
 - Trade-off is limited control over entire distribution process
- Many types of domestic middlemen



Alternative Middleman Choices 5 of 11

Home-Country Middlemen continued

- Manufacturers' retail stores
- Global retailers
- Export management companies (EMCs)
 - Low cost, independent marketing department
 - Direct responsibility to firm; close working relationship



Global Retailing



Target, while a strong competitor for Walmart in the United States, has had trouble keeping up abroad. Its biggest international adventure into Canada, circa 2015, has not performed well. If you are driving around Australia, you might see the brand and logo on more than 300 stores down under, such as the one in Mareeba, Victoria. The American company had granted rights to the trademark, but it is otherwise unrelated to the Australian stores.

Alternative Middleman Choices 6 of 11

Home-Country Middlemen continued

- Trading companies
 - Accumulate, transport, and distribute goods from many countries
 - Important intermediaries through history; broad distribution channels make them best means for intensive coverage of market
- Export trading companies (ETCs)
 - ETC Act allows producers of similar products to form ETCs
 - Joint export ventures more efficient for producers and suppliers



Alternative Middleman Choices 7 of 11

Home-Country Middlemen continued

- Complementary marketers
 - Take on noncompetitive but complementary products, distributes them for another firm hoping to broaden product line
 - Commonly called 'piggybacking'
 - Boosts profit for both carrier and piggybacker
- Manufacturer's export agent (MEA)
 - Agent middleman or firm providing selling services
 - Short-term relationship with producer, operates on straight commission basis



Alternative Middleman Choices 8 of 11

Home-Country Middlemen continued

- Webb-Pomerene export associations (WPEAs)
 - Major form of group exporting
 - Unique benefits
 1. Reduction of export costs
 2. Demand expansion through promotion
 3. Trade barrier reduction
 4. Improvement of trade terms through bilateral bargaining



Alternative Middleman Choices 9 of 11

Home-Country Middlemen continued

- Foreign sales corporation (FSC)
 - Set up in foreign country or U.S. possession
 - Manufacturers and export groups can form FSCs
 - Can act as own principal, buying and selling for its own account, or a commissioned agent
 - Can obtain corporate tax exemption or portion of earnings from sale or lease of export property



Alternative Middleman Choices 10 of 11

Foreign-Country Middlemen

- Variety of agent and merchant middlemen in most countries similar to that in U.S.
- Moves manufacturer closer to the foreign market
 - Involvement with problems of language, distribution, communications, and financing
 - Shorter distribution channels
- Manufacturers' representatives and foreign producers



Alternative Middleman Choices 11 of 11

Government-Affiliated Middlemen

- Marketers must deal with governments in every country
 - Products, services, commodities for government's own use always procured through government purchasing offices at federal, regional, and local levels
- Seen to be less efficient than other middlemen
 - Walmart planned for and delivered better aid than FEMA during the 2005 Hurricane Katrina disaster



Factors Affecting Choice of Channels 1 of 6

Points to address prior to selection process

1. Identify specific target markets within and across countries
2. Specify marketing goals in terms of volume, market share, and profit margin requirements
3. Specify financial and personnel commitments to the development of international distribution
4. Identify control, length of channels, terms of sale, and channel ownership



Factors Affecting Choice of Channels 2 of 6

Six Cs of Channel Strategy

1. Cost
2. Capital requirements
3. Control
4. Coverage
5. Character
6. Continuity



Factors Affecting Choice of Channels 3 of 6

Cost

- Two kinds of channel cost
 1. Capital or investment cost of developing the channel
 2. Continuing cost of maintaining the channel
- Cost of middlemen includes many things
 - Transporting and storing goods, breaking bulk, providing credit, local advertising, sales representation, negotiations
- Inefficient middlemen can be eliminated to reduce cost



Cost of Tuna



© John Graham

Recall that the Japanese are the world-champion fish consumers at more than 32 kg per person per year. World prices for fish are set at the Tsukiji fish market in Tokyo. A big fresh bluefin tuna caught in the Atlantic, iced and shipped by air to Tokyo, can bring as much as \$1.76 million at auction (the previous record price was only \$396,000) and then be shipped by air to Boston for hungry sushi consumers. Perhaps the market is “too efficient,” as the world now faces a shortage of such tuna, and at least for some, Americans are paying too much for fish these days.

Factors Affecting Choice of Channels 4 of 6

Capital Requirements

- Financial ramifications of distribution policies
 - Maximum investment needed without middlemen
 - Middlemen may lessen capital investment, but initial inventories on consignment, loans, floor plans, or other arrangements usually need to be provided

Control

- Longer channels reduce manufacturer's control
 - Price, volume, promotion, and types of outlets



Factors Affecting Choice of Channels 5 of 6

Coverage

- Full-market coverage major goal
 - May require changes in distribution per country through time

Character

- Selected channel must coincide with character of company and markets in which it is doing business
 - Perishability or bulk of product, complexity of sales, sales service required, value of product



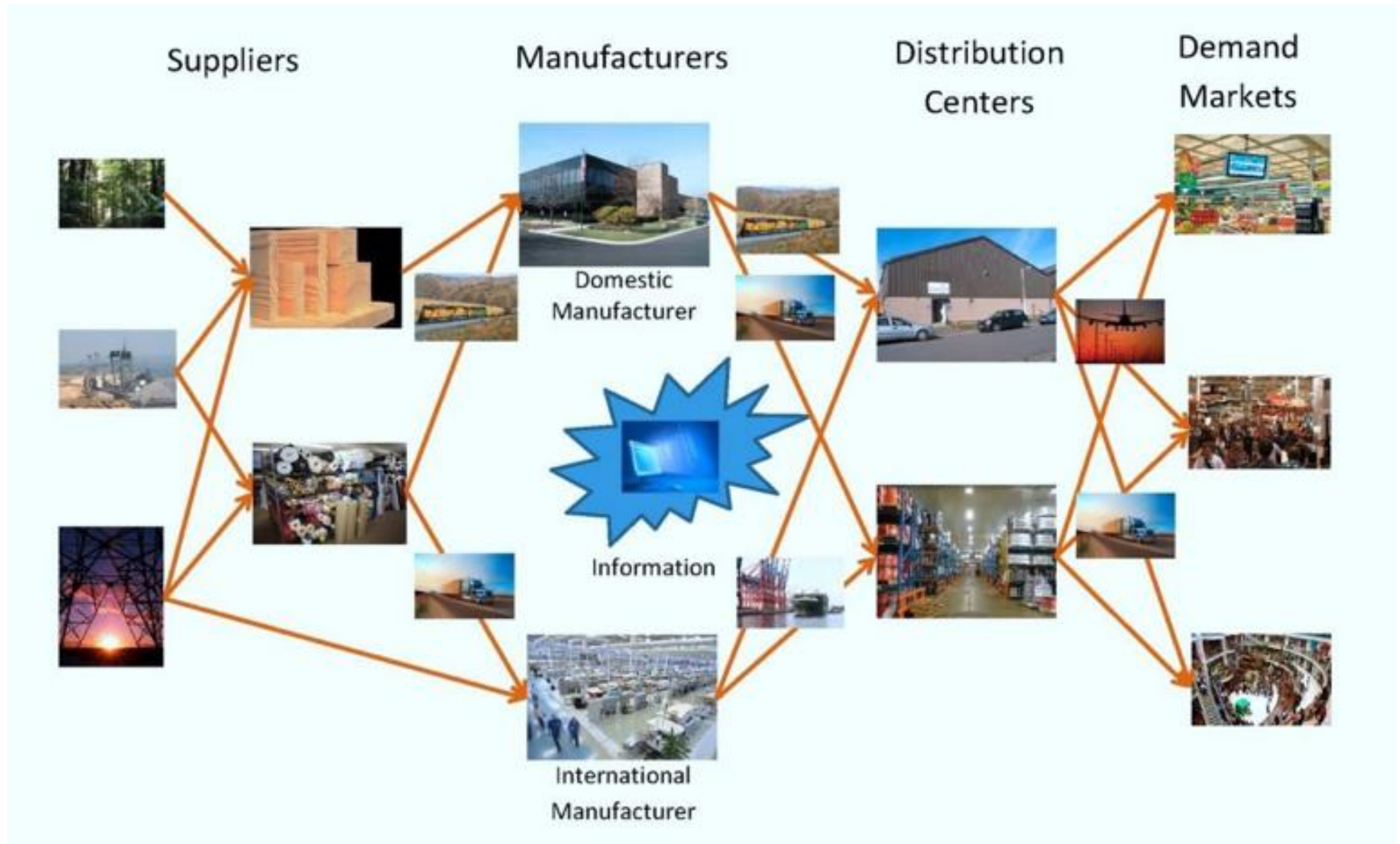
Factors Affecting Choice of Channels 6 of 6

Continuity

- Channels often pose longevity problems
 - Distribution may be lost in area where an individual retires or moves on from business
 - Most middlemen have little loyalty to vendors
 - Distributors and dealers probably most loyal, but brand loyalty still must be built downstream through the channel



Channel Management



Channel Management 1 of 5

Locating Middlemen

- Begin with study of market
- Determine criteria for evaluating middlemen
- Main subject areas for criteria
 1. Productivity or volume
 2. Financial strength
 3. Managerial stability
 4. Capability



Channel Management 2 of 5

Selecting Middlemen

- Screening process should include:
 - Exploratory letter or e-mail sent to prospective middleman in native language with product info and distributor requirements
 - Follow-up with best respondents for more specific info
 - Check of credit and references from other clients of prospect
 - Personal check of the most promising firms
- Agreement
 - Initial contract for selected middlemen to sign is recommended
 - Spells out responsibilities; annual sales minimum established



Channel Management 3 of 5

Motivating Middlemen

- Clear correlation between sales volume and motivation
- Categories of motivational techniques
 1. Financial rewards
 2. Psychological rewards
 3. Communications
 4. Company support
 5. Corporate rapport



Channel Management 4 of 5

Controlling Middlemen

- Control over system and middlemen important
 - Especially with long international distribution channels
- Standards of performance should include:
 - Sales volume objective, inventory turnover ratio, number of accounts per area, growth objective, price stability object, quality of publicity
- Useful tactics for management
 - Specifically contracted behavior
 - Good social relations



Channel Management 5 of 5

Terminating Middlemen

- Situations in which termination is necessary:
 - Middlemen not performing up to standards
 - Restructure of distribution needed to reflect changing market
- Competent legal advice needed when entering contracts
 - Middlemen often have legal protections in other countries
- Should be avoided by thoroughly screening prospects
 - Poor choices can adversely affect future business in countries



The Internet 1 of 2

E-commerce

- Important distribution method for multinationals
 - Marketing and sales of B2B and B2C products and services
 - Services ideally suited for international sales via the Internet
- Online B2B enhances performance
 - Reduces procurement costs; easier to find cheapest supplier
 - Allows for better supply-chain management
 - Makes tighter inventory control possible



The Internet 2 of 2

Main factors to consider

- Culture
- Adaptation (especially of language)
- Local contact information
- Payment
- Delivery
- Promotion



Logistics

Logistics Management

- Total systems approach to managing distribution process
 - Moving good from point of origin to point of use or consumption
- Physical distribution system
 - More than just physical movement of goods
 - Location of plants and warehousing (storage), transportation mode, inventory quantities, packaging
 - All aspects interdependent in terms of cost and efficiency
 - Goal to find optimum system cost still consistent with customer service objectives of firm



Trade Infrastructure



Trade infrastructure is crucial for international competitiveness and cooperation. There is a lot going on in this picture of the Port of Oakland, California. You can see the three apparently full, foreign-owned container ships sitting low in the water—the many empty containers onboard will be heading east to Asian ports and then will return full. The Matson ship moving down the Oakland Estuary is heading to Hawaii with containers and private automobiles onboard. Matson, as a U.S. domestic line founded in 1882, has only one competitor on the Hawaii/mainland route, so it survives with relatively light cargoes—again notice it is high in the water.

Appendix of Image Long Descriptions

Appendix 1 Exhibit 15.3 International Channel-of-Distribution Alternatives

The most direct channel of distribution is the domestic producer or marketer selling directly to the foreign consumer.

The domestic producer or marketer can also sell directly to or through the following domestic and foreign intermediaries:

Domestic: wholesale middlemen, export management company or company salesforce, exporter

Foreign: importer, agent or merchant wholesaler, retailer.

Each intermediary can pass the product to the next in the distribution chain, while some can bypass intermediaries and sell directly to the consumer.