

International Marketing Channels

Chapter 15

McGraw-Hill Irwin

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Learning Objectives

- LO1 The variety of distribution channels and how they affect cost and efficiency in marketing
- LO2 The Japanese distribution structure and what it means to Japanese customers and to competing importers of goods
- LO3 How distribution patterns affect the various aspects of international marketing
- LO4 The functions, advantages, and disadvantages of various kinds of middlemen
- LO5 The importance of selecting and maintaining middlemen
- LO6 The growing importance of e-commerce as a distribution alternative
- LO7 The interdependence of physical distribution activities

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Channel-of-Distribution Structures

- The distribution process
 - physical handling and distribution of goods,
 - the passage of ownership (title), and
 - the buying and selling negotiations between producers and middlemen and between middlemen and customers
- Channel structures range from those with little developed marketing infrastructure such as those found in many emerging markets to the highly complex, multi-layered system found in Japan

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International Distribution Systems

- Import-Oriented Distribution Structure
- Tight distribution structures: Japan
- Trends: From Traditional to Modern Channel Structures

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Import-Oriented Distribution Structures

- In an *import-oriented or traditional distribution structure*, an importer controls a fixed supply of goods
- The marketing system develops around the philosophy of selling a limited supply of goods at high prices to a small number of affluent customers
- In the resulting seller's market, market penetration and mass distribution are not necessary because demand exceeds supply, and in most cases

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Import-Oriented Distribution Structures

- The customer seeks the supply from a limited number of middlemen and this affects the development of intermediaries and their functions.
- Distribution systems are local rather than national in scope
- The relationship between the importer and any middleman in the marketplace is considerably different from a mass-marketing system, the importer performs all the functions

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Japanese Distribution Structure

- Distribution in Japan has long been considered the most effective non-tariff barrier to the Japanese market. The Japanese distribution structure is different enough from its U.S. or European counterparts
- It has four distinguishing features:
 1. A structure dominated by many small middlemen dealing with many small retailers—high density of middlemen
 2. Channel control by manufacturers
 3. A business philosophy shaped by a unique culture and
 4. Laws that protect the foundation of the system—the small retailer

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Exhibit 15.1
 Percentage of Sales per Type of Retailer (and Average Annual Growth 2006–2011)
 Source: Euromonitor International, 2012.

Type of Retailer	Germany	Japan	United States
Stores			
Grocery stores	44.3 (2.3)	42.9 (-1.9)	34.3 (3.2)
Apparel, shoes	7.6 (0.4)	6.7 (-3.3)	6.2 (-0.4)
Electronics, appliances	5.0 (2.4)	7.6 (-0.2)	4.2 (3.4)
Health, beauty	15.6 (2.8)	12.4 (4.5)	9.6 (5.2)
Home, garden	11.3 (2.0)	3.8 (-6.3)	12.0 (-1.4)
Leisure, personal goods	6.0 (0.6)	5.7 (-2.1)	6.6 (1.7)
Mixed	2.3 (-9.5)	16.2 (-3.4)	16.7 (1.7)
Non-Store			
Direct selling	0.8 (-1.8)	1.9 (-4.0)	0.9 (-1.5)
Home shopping	2.8 (-3.7)	2.9 (0.3)	3.9 (-0.7)
Internet	3.8 (16.7)	3.8 (11.7)	4.0 (12.2)
Vending machines	0.5 (-13.6)	2.9 (-5.4)	0.5 (0.6)

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Japanese Distribution Structure

This is changing slowly due to MITI and the SII.

- Specialty stores
- Supermarkets
- Discounters
- Convenience stores (Konbini)

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Channel Control in Japanese Distribution Systems

Control is maintained through the following elements:

- **Inventory financing** with credits extending for several months.
- **Cumulative rebates**
- **Merchandise returns** that are allowed to the manufacturer.
- **Promotional support** to intermediaries in the form of displays, advertising layouts, and management education programs

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Trends: From Traditional to Modern Channel Structures

- Traditional channel structures still appear in many places
- But such channel structures also are giving way to new forms, new alliances, and new processes
- Direct marketing, door-to-door selling, hypermarkets, discount houses, shopping malls, catalog selling, the Internet, and other distribution methods are being introduced in an attempt to provide efficient distribution channels
- Importers and retailers also are becoming more involved in new product development

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Distribution Patterns

- The "traditional" system will not change overnight
- Nearly all international firms are forced by the structure of the market to use at least some middlemen in the distribution arrangement
- Because the structural arrangements of foreign and domestic distribution seem alike, does not mean that foreign channels are similar to domestic channels
- The differences in retail patterns is an example of the variety of distribution patterns that exist at all levels

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Retail Patterns

- Retailing shows even greater diversity in its structure than does wholesaling
- Size Patterns
 - Large dominant retailers can be sold to directly, but there is no adequate way to reach small retailers who, in the aggregate, handle a great volume of sales
 - Underdeveloped countries present similar problems
 - The rate of change appears to be directly related to the stage and speed of economic development

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Retail Patterns

- Direct Selling
 - Sometimes called direct marketing, selling directly to the consumer through mail, by telephone, or door-to-door is often the approach in markets with insufficient or underdeveloped distribution systems
 - The approach works well in the most affluent markets too
- Resistance to Change
 - Efforts to improve the efficiency of the distribution system, new types of middlemen, and other attempts to change traditional ways are typically viewed as threatening and are thus resisted

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Exhibit 15.2
Retail Structure in Selected Countries

Source: Eurostat/Intercontinental, 2009; World Bank, 2012.

Country	All Retailers (000)	People Served per Retailer	Internet Users (percentage)
United States	921	333	75
Canada	161	208	73
Argentina	429	94	26
Germany	300	270	75
Russia	470	303	25
Israel	48	154	46
South Africa	117	417	8
China	4,817	278	16
Japan	849	149	74
Australia	84	256	70

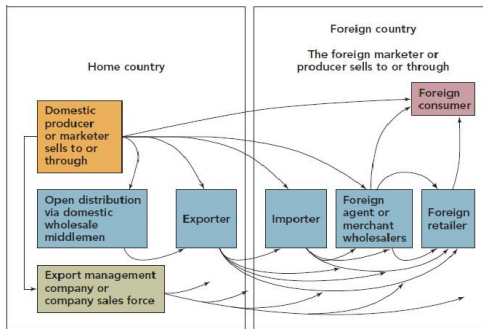
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Alternative Middlemen Choices

- A marketer's options range from assuming the entire distribution activity (by establishing its own subsidiaries and marketing directly to the end user) to depending on intermediaries for distribution of the product
- Channel selection must be given considerable thought, because once initiated, is difficult to change, and if it proves inappropriate, future growth of market share may be impacted
- The channel process includes all activities, beginning with the manufacturer and ending with the final consumer

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Exhibit 15.3
International Channel-of-Distribution Alternatives



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Home-Country Middlemen

Home-country middlemen, or **domestic middlemen**, provide marketing services from a domestic base and find foreign markets for products for local manufacturers

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Frequently Used Types of Domestic Intermediaries

- Manufacturers' Retail Stores
- Global Retailers
- Export Management Companies
- Trading Companies
- U.S. Export Trading Companies
- Complementary Marketers
- Manufacturer's Export Agent
- Home-Country Brokers
- Buying Offices
- Selling Groups
- Webb-Pomerene Export Associations
- Foreign Sales Corporation
- Export Merchants
- Export Jobbers

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Foreign Country Middlemen

- The variety of agent and merchant middlemen in most countries is similar to that in the United States
- International marketers seeking greater control over the distribution process may elect to deal directly with middlemen in the foreign market
- They gain the advantage of shorter channels and deal with middlemen in constant contact with the market
- Using foreign-country middlemen moves the manufacturer closer to the market and involves the company more closely with problems of language, physical distribution, communications, and financing
- Foreign middlemen may be agents or merchants, they may be associated with the parent company to varying degrees, or they may be hired temporarily for special purposes

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Foreign-Country Middlemen

- Some of the more important foreign-country middlemen, who find markets for foreign manufacturers include:
 - Manufacturer's Representatives
 - Distributors
 - Foreign-Country Brokers
 - Managing Agents and Compradors
 - Dealers
 - Import Jobbers, Wholesalers, and Retailers

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Government-Affiliated Middlemen

- Marketers must deal with governments in every country of the world
- Products, services, and commodities for the government’s own use are always procured through government purchasing offices at federal, regional, and local levels
- In many countries such as the Netherlands, the Government purchases from a lot of suppliers, and a large percentage of the suppliers may be located in other countries

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Factors Affecting Channel Choice

- The selection process involves the following:
 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

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Six C’s of Channel Strategy

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

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Channel Management

- Many companies have been stopped in their efforts to develop international markets by their inability to construct a satisfactory system of channels.
- Construction of the middleman network includes seeking out potential middlemen, selecting those who fit the company's requirements, and establishing working relationships with them
- The closer the company wants to get to the consumer in its channel contact, the larger the sales force required

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Channel Management

- Locating Middlemen
- Selecting Middlemen
- Motivating Middlemen
- Terminating Middlemen
- Controlling Middlemen

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Selecting Middlemen

1. Screening based on the following criteria:
 - a) reputation
 - b) creditworthiness
 - c) markets served
 - d) products carried
 - e) number of stores
 - f) store size
2. The Agreement that details terms of the contract and the functions to be performed on behalf of the foreign manufacturer

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The Internet

- E-commerce is used to market business-to-business services, consumer services, and consumer and industrial products via the World Wide Web
- The Internet is an important distribution method for multinational companies
- When using the internet for distribution purposes, the following factors should be considered:
 - Culture
 - Adaptation (especially of language)
 - Local contact information
 - Payment form
 - Delivery
 - Promotion



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Logistics

- *Logistics management* is a total systems approach to the management of the distribution process that includes all activities involved in physically moving raw material, in-process inventory, and finished goods inventory from the point of origin to the point of use or consumption.
- A *physical distribution system* involves more than the physical movement of goods. It includes the location of plants and warehousing (storage), transportation mode, inventory quantities, and packing.
- The concept of physical distribution takes into account the interdependence of the costs of each activity; a decision involving one activity affects the cost and efficiency of one or all others.

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