**Chapter Seven**

**Distribution Strategies in International Context**

**7.1 Marketing logistics (or physical distribution)**

To some managers, marketing logistics means only trucks and warehouses. But modern logistics is much more than this. **Marketing logistics**—also called **physical distribution**— involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet customer requirements at a profit. In short, it involves getting the right product to the right customer in the right place at the right time.

When a company is primarily an exporter from a single country to a single market, the typical approach to the physical movement of goods is the selection of a dependable mode of transportation that ensures safe arrival of the goods within a reasonable time for a reasonable carrier cost. As a company becomes global, such a solution to the movement of products could prove costly and highly inefficient for seller and buyer. As some global marketers say, the hardest part is not making the sale but getting the correct quantity of the product to customers in the required time frame at a cost that leaves enough margins for a profit.

At some point in the growth and expansion of an international firm, costs other than transportation are such that an optimal cost solution to the physical movement of goods cannot be achieved without thinking of the physical distribution process as an integrated system. When an international marketer begins producing and selling in more than one country and becomes a global marketer, it is time to consider the concept of *logistics management,* 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. In fact, because of their interdependence, the sum of each of the different activity costs entails an infinite number of “total costs.” (*Total cost* of the system is defined as the sum of the costs of all these activities).

The concept behind physical distribution is the achievement of the optimum (lowest) system cost, consistent with customer service objectives of the firm. If the activities in the physical distribution system are viewed separately, without consideration of their interdependence, the final cost of distribution may be higher than the lowest possible cost (optimum cost), and the quality of service may be adversely affected. Additional variables and costs that are interdependent and must be included in the total physical distribution decision heighten the distribution problems confronting the international marketer. As the international firm broadens the scope of its operations, the additional variables and costs become more crucial in their effect on the efficiency of the distribution system.

**7.2 Distribution Strategies**

In every country and in every market, urban or rural, rich or poor, all consumer and industrial products eventually go through a distribution process. The distribution process includes the physical handling and distribution of goods, the passage of ownership (title), and- most important from the standpoint of marketing strategy-the buying and selling negotiations between producers and middleman and between middleman and customers.

Each country market has a distribution structure through which goods pass from producer to user. Within this structure are a variety of middleman hose customary functions, activities, and services reflect existing competition, market characteristics, tradition, and economic development. In short, the behavior of channel members is the result of the interactions between the cultural environment and marketing process.

This chapter deals with the patterns of distribution that confront international marketers in the world market place, alternative middleman choices both in their home country and forcing countries, and the factors affecting choice of channels of distribution.

* **Distribution Patterns**

International marketers need a general awareness of the patterns of distribution that confront them in world marketplaces. Nearly every international trading firm is forced by the structure of the market to use at least some middlemen in the distribution arrangement. However, the pattern to structure may differ from market to market. Thus, understanding the various kinds of distribution patterns may assist international marketers to make an appropriate choice.

* **Middlemen Services:** The service attitudes of people in trade vary sharply at both retail and wholesale levels from country to country. In Egypt, for example, the primary purpose of the simple trading system is to handle the physical distribution of available goods. On the other hand, when margins are low and there is a continuing battle for customer preference, both wholesalers and retailers try to offer extra services to make their goods attractive to consumers. When middlemen are disinterested in promoting or selling individual items of merchandise, the manufacturer must provide adequate inducement to the middlemen or undertake much of the promotion and selling effort.
* **Line Breadth**: Every nation has a distinct pattern relative to the breadth of line carried by wholesalers and retailers. The distribution system of some countries seems to be characterized by middleman who carry or can get everything; in others, every middleman seems to be a specialist dealing only in extremely narrow lines. Government regulations in some countries limit the breadth of line that can be carried by middleman and licensing requirements to handle certain merchandise are not uncommon.
* **Cost and Margins**: Cost levels and middleman margins vary widely from country to country, depending on the level of competition, services offered, efficiencies or inefficiencies of scale, and geographic and turnover factors related to market size, purchasing power, tradition, and other basic determinants. In India, competition in large cities is so intense that costs are low and margins thin; but in rural areas, the lack of capital has permitted the few traders with capital to gain monopolies with consequent high prices and wide margins.
* **Channel Length:** Some correlation may be found between the stage of economic development and the length of marketing channels. In every country channels are likely to be shorter for industrial goods and for high-priced consumer goods than for low-priced products. In general, there is an inverse relationship between channel length and the size of the purchase. Combination wholesaler-retailers or semi-wholesalers exist in many countries, adding one or two links to the length of the distribution chain.
* **Nonexistent Channels:** one of the things companies discover about international channel of distribution patterns that in many countries adequate marketer coverage through a simple channel of distribution is nearly impossible. In many instances, appropriate channels do not exist; in others, parts of channel system are available but other parts are not.
* **Blocked Channels**: International marketers may be blocked from using the channel of their choice. Blockage can result from competitors’ already-established lines in the various channels and trade associations or cartels having closed certain channels. Associations of middleman sometimes restrict the number of distribution alternatives available to a producer.
* **Stocking:** The high cost of credit, danger of loss through inflation, lack of capital, and other concerns cause foreign middleman in many countries to limit inventories. This often results in out-of-stock conditions and sales lost to competitors. Physical distribution lags intensify their problem so that in many cases the manufacturer must provide local warehousing or extend long credit to encourage middlemen to carry large inventories.
* **Power and competition:** Distribution power tends to concentrate in countries where a few large wholesalers distribute to a mass of small middleman. Large wholesaler generally finances middlemen downstream. The strong allegiance they command from their customers enables them to effectively block existing channels and force an outsider to rely on less effective and more costly distribution.
* **Alternative Middleman Choices**

A marketer’s options range from assuming the entire distribution activity (by establishing its own subsidiaries and marketing directly to end user) to depending on intermediaries for distribution of the product. Channel selection must be given considerable thought since one initiated it is difficult to change, and if it proves inappropriate, future growth of market share may be affected.

The channel process includes all activities beginning with the manufacturer and ending with the final consumer. This means the seller must exert influence over two sets of channels, one in the home country and one in the foreign-market country. In the home country, the seller must have an organization (generally the international marketing division of a company) to deal with channel members needed to move goods between countries. In the foreign market, the seller must supervise the channels that supply the product to the end user. Ideally, the company wants to control or be involved in the process directly through the various channel members to the final user. To do less may result in unsatisfactory distribution and the failure of marketing objectives. In practice, however, such involvement throughout the channel process is not always practical or cost effective. Consequently, selection of channel members and effective controls are high priorities in establishing the distribution process.

Once the marketer has clarified company objectives and policies, the next step is the selection of specific intermediaries needed to develop a channel. External middleman are differentiated on whether or not they take title to the goods- agent middleman represent the principle rather than themselves, and merchant middleman take title to the goods and buy and sell on their own account. The distinction between agent and merchant middleman is important because a manufacturer’s control of the distribution process is affected by who has title to the goods in the channel.

Agent middleman work on commission and arrange for sales in the foreign country but do not take title to the merchandise. By using agents, the manufacturer assumes trading risk but maintains the right to establish policy guidelines and prices and to require its agents to provide sales records and customer information.

Merchant middlemen actually take title to manufacturers’ goods and assume the trading risks, so they tend to be less controllable than agent middleman. Merchant middlemen provide a variety of import and export wholesaling functions involved in purchasing for their own account and selling in other countries. Because merchant middlemen primarily are concerned with sales and profit margins on their merchandise, they are frequently criticized for not representing the best interests of a manufacturer. Unless they have a franchise or a strong and profitable brand, merchant middlemen seek goods from any source and are likely to have low risk and elimination of all merchandise handling outside the home country.

Middlemen are not clear-cut, precise, easily defined entities. It is exceptional to find a firm that represents one of the pure types identified here. Thus, intimate knowledge of middlemen functions is especially important in international activity because misleading titles can fool a marketer unable to look beyond mere names.

Only by analyzing middlemen functions in detailed simplicity can the nature of the channel be determined. Two alternatives are presented: first, middlemen physically located in the manufacturer’s home country; and second, middlemen located in foreign countries.

**Home- country Middlemen**

Home country middlemen, or domestic middlemen, located in the producing firm’s country provide marketing services from a domestic base. By selecting domestic middlemen as intermediaries in the distribution processes, companies transfer foreign-market distribution to others. Domestic middlemen offer many advantages for companies with small international sales volume, those inexperienced with foreign markets, those not wanting to become immediately involved with the complexities of international marketing, and those wanting to sell abroad with minimum financial and management commitment. A major trade-off for using home-country middlemen is limited control over the entire process. Domestic middlemen are most likely to be used when the marketer is uncertain and/or desires to minimize financial and management investment. A brief discussion of the more frequently used domestic middleman follows.

**Trading Companies:** Trading companies have a long history as important intermediaries in the development of trade between nations. Trading companies accumulate, and distribute goods from countries. Large, established trading companies generally are located in developed countries; they sell manufactured goods to developing countries and buy raw materials and unprocessed goods from developing countries.

**Complementary Marketers:** Companies with marketing facilities or contacts in different countries with excess marketing capacity or a desire for a broader product line sometimes like on additional lines for international distribution; although the generic name for such activities is complementary marketing, it is commonly called piggybacking. It accepts products that are noncompetitive but complementary and that add to the basic distribution strength of the company itself.

**Manufacturer’s Export Agent**: The manufacturer’s export agent (MEA) is an individual agent middleman or an agent middleman firm providing a selling service for manufacturers. The MEA does not serve as the producer’s export department but has a short-term relationship, covers only one or two markets, and operates on a straight commission basis.

**Home Country Brokers**: The term broker is an applicable for a variety of middlemen performing low-cost agent services. The term is typically applied to import-export brokers who provide the intermediary function of bringing buyers and sellers together and who do not have a continuing relationship with their clients. Most brokers specialize in one or more commodities for which they maintain contact with major producers and purchasers throughout the world.

**Export Merchants**: Export merchants are essentially domestic merchants operating in foreign markets. As such, they operate much like the domestic wholesaler. Specifically, they purchase goods from a large number of manufacturers, ship them to foreign countries, and take full responsibility for their marketing. Sometimes they utilize their own organizations, but, more commonly, they sell through middlemen. They may carry competing lines, have full control over prices, and maintain little loyalty to suppliers, although they continue to handle products as long as they are profitable.

**Foreign-Country Middlemen**

An international marketer 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. As with all middlemen, particularly those working at a distance, effectiveness is directly dependent on the selection of middlemen and on the degree of control the manufacturer can and/or will exert.

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 temporarily hired for special purposes. Some of the more important foreign-country middlemen are manufacturer’s representatives and foreign distributors.

**Manufacturer’s Representatives**: Manufacturer’s representatives are agent middlemen who take responsibility for a producer’s goods in a city, regional market area, entire country, or several adjacent countries. When responsible for an entire country, the middleman is often called a sole agent.

Foreign manufacturer’s representatives have a variety of titles, including sales agent, resident sales agent, exclusive agent, commission agent, and indent agent. They take no credit, exchange, or market risk but deal strictly as field sales representatives. Manufacturers who wish the type of control and intensive market coverage their own sales force would afford, but who cannot field one, may find the manufacturer’s representative a satisfactory choice.

**Distributors:** A foreign distributor is a merchant middleman. This intermediary often has exclusive sales rights in a specific country and works in close cooperation with the manufacturer. The distributor has a relatively high degree of dependence on the supplier companies, and arrangements are likely to be on a long-run, continuous basis. Working through distributors permits the manufacturer a reasonable degree of control over prices, promotional effort inventories, servicing, and other distribution functions. If a line is profitable for distributors, they can be depended on to handle it a manner closely approximating the desires of the manufacturer.

**Foreign-Country Brokers:** Like the export broker discussed in an earlier section, foreign-country brokers are agents who deal largely in commodities and food products.

The foreign brokers are typically part of small brokerage firms operating in one country or in a few contiguous countries. Their strength is in having good continuing relationship with customers and providing speedy market coverage at a low cost.

**Dealers:** Generally speaking anyone who has a continuing relationship with a supplier in buying and selling goods is considered a dealer. More specifically, dealers are middlemen selling industrial goods or durable consumer goods direct to customers; they are the last step in the channel of distribution. Dealers have continuing, close working relationships with their suppliers and exclusive selling rights for their producer’s products within a given geographic area.

Some of the best examples of dealer operations are found in the farm equipment, earth-moving, and automotive industries.

**Factors Affecting Choice of Channels**

The international marketer needs a clear understanding of market characteristics and must have established operating policies before beginning the selection of channel middlemen. The following points should be addressed prior to the selection process.

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

Once these points are established, selecting among alternative middlemen choices to forge the channel can begin. Marketers must get their goods into the hands of consumers and must choose between handling all distribution and turning part or all of it over to various middlemen. Distribution channels vary depending on target market size, competition, and available distribution intermediaries.

Key elements in distribution decision include:

* functions performed by middlemen (and the effectiveness with which is performed),
* cost of their services,
* their availability, and
* Extent of control which the manufacturer can exert over middlemen activities.

Although the overall marketing strategy of the firm must embody the company’s profit goals. These goals can be characterized as the sic Cs of channel strategy: cost, capital, control, coverage, character, and continuity.

In forging the overall channel-of-distribution strategy, each of the six Cs must be considered in building an economical, effective distribution organization within the long-range channel policies of the company.

**Cost:** There are two kinds of channel cost: (1) the capital or investment cost of developing the channel and (2) the continuing cost of maintaining it. The latter can be in the form of direct expenditure for the maintenance of the company’s selling force or in the form of margins, markup, or commissions of various middlemen handling the goods. Marketing cost (a substantial part of which is channel cost) must be considered as the entire difference between the factory price of the goods and the price the customer ultimately pays for the merchandise. The cost of middlemen include transporting and storing the goods, breaking bulk, providing credit, and local advertising, sales representation, and negotiations.

**Control:** The more involved a company is with the distribution, the more control it exerts. A company’s own sales force affords the most control but often at a cost that is not practical. Each type of channel arrangement provides a different level of control and, as channels grow longer, the ability to control price, volume, promotion, and type of outlets diminishes. If a company cannot sell directly to the end user or final retailer, an important selection criterion of middlemen should be the amount of control the marketer can maintain.

**Coverage:** Another major goal if full-market coverage to (1) gain the optimum volume of sales obtainable in each market, (2) secure a reasonable market share, and (3) attain satisfactory market penetration. Coverage may be assessed on geographic and/or market segments. Adequate market coverage may require changes in distribution systems from country to country or time to time. Coverage is difficult to develop both in highly developed areas and in sparse markets- the former because of heavy competition and the latter because of inadequate channels.

**Character:** The channel-of-distribution system selected must fit the character of the company and the markets in which it is doing business. Some obvious product requirements, often the first considered, relate to perishability or bulk of the product, complexity of sale, sales service required, and value of the product.

**Continuity:** Channels of distribution often pose longevity problems. Most agent middlemen firms tend to the small institutions. When one individual retires or moves out of a line of business, the company may find it has lost its distribution in that area. Wholesalers and especially retailers are not noted for their continuity in business either. Most middlemen have little loyalty to their vendors. They handle brands in good times when the line is making money, but quickly reject such products within a season or a year if they fail to produce during that period. Distributors and dealers are probably the most loyal middlemen, but even with them, manufacturers must attempt to build brand loyalty downstream in a channel in case middlemen shift allegiance to other companies or other in.