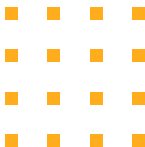





International Marketing

BMA6100-20

Distribution Decisions in International Markets



Summary of the previous lecture

- We have now discussed all forms of market entry mode :
Export, Intermediate and Hierarchical.
- We also discussed terms of doing business and pricing
- Country Manager simulation is also over (I hope you liked it !)



What is in this lecture?

- Explore the determinants of channel decisions.
- Describe the main channel design strategies.
- Explain the criteria to assess foreign distributors.

The step after market entry

- So far, we have focused on market entry modes, the justification and research.
- After choosing our strategy to get products into foreign markets, the next thing to think about is distribution channels.
- It means thinking about how to distribute products in order to reach the final consumers.

Key facts in international distribution

Distribution channels account for 15-40 percent of the retail price. That is the price that the end consumer will pay.

Key challenges and opportunities

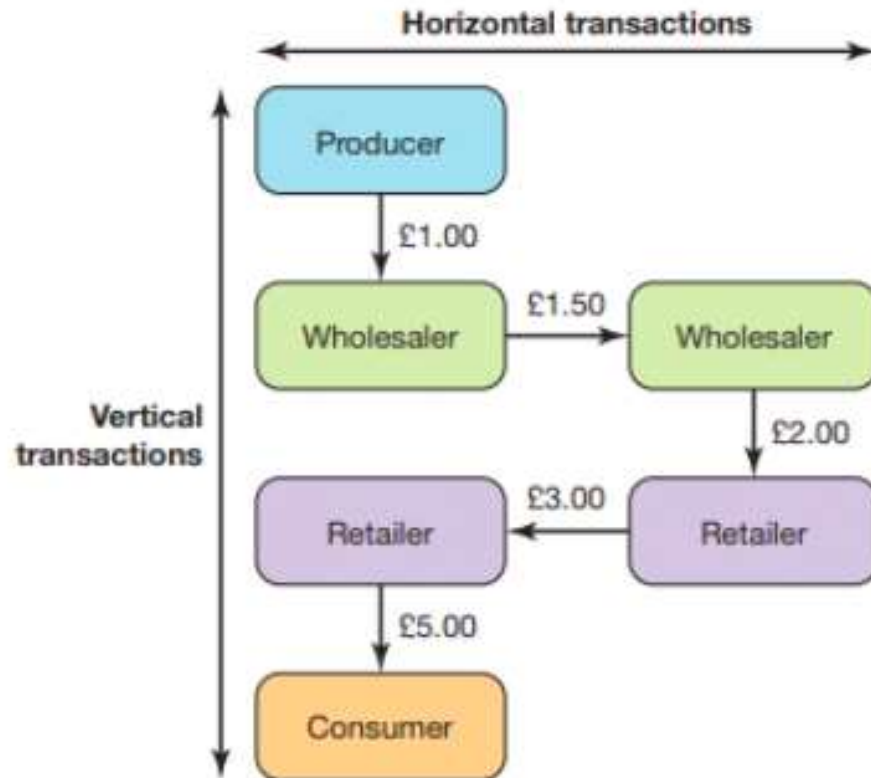
Technological developments : it accelerates channel evolution.

Data Networks: It is nowadays easier to bypass traditional channels, and buy directly from the manufacturers.

Once the distribution structure is established, it is difficult to change it

Figure 16.2 A hypothetical channel sequence in the Japanese consumer market

Source: Lewison (1996, p. 271).



Key channel decisions

- How the channel should be structured.
- How distribution should be managed and controlled.
- How logistics should be managed?

External
(Section 16.2)

Customer characteristics

Nature of product

Nature of demand (location)

Competition

Legal regulations/local business practices

Internal

Major decisions	Subdecisions
Decisions concerning structure of the channel (Section 16.3)	<ul style="list-style-type: none">• Types of intermediary (alternative distribution channels)• Coverage (intensive, selective or exclusive)• Length (number of levels)• Control resources (degree of integration)• Degree of integration
Managing and controlling distribution channels (Section 16.4)	<ul style="list-style-type: none">• Screening and selecting intermediaries• Contracting (distributor agreement)• Motivating• Controlling• Termination
Managing logistics (Section 16.5)	Physical movement of goods through the channel systems <ul style="list-style-type: none">• Order handling• Transportation• Inventory• Storage/warehousing

External determinants in channel design

- Consumer characteristics
- Nature of products
- Nature of demand/location
- Competition
- Legal considerations

Consumer characteristics

Key consumer characteristics in channel design:

Size

Geographic distribution

Shopping habits

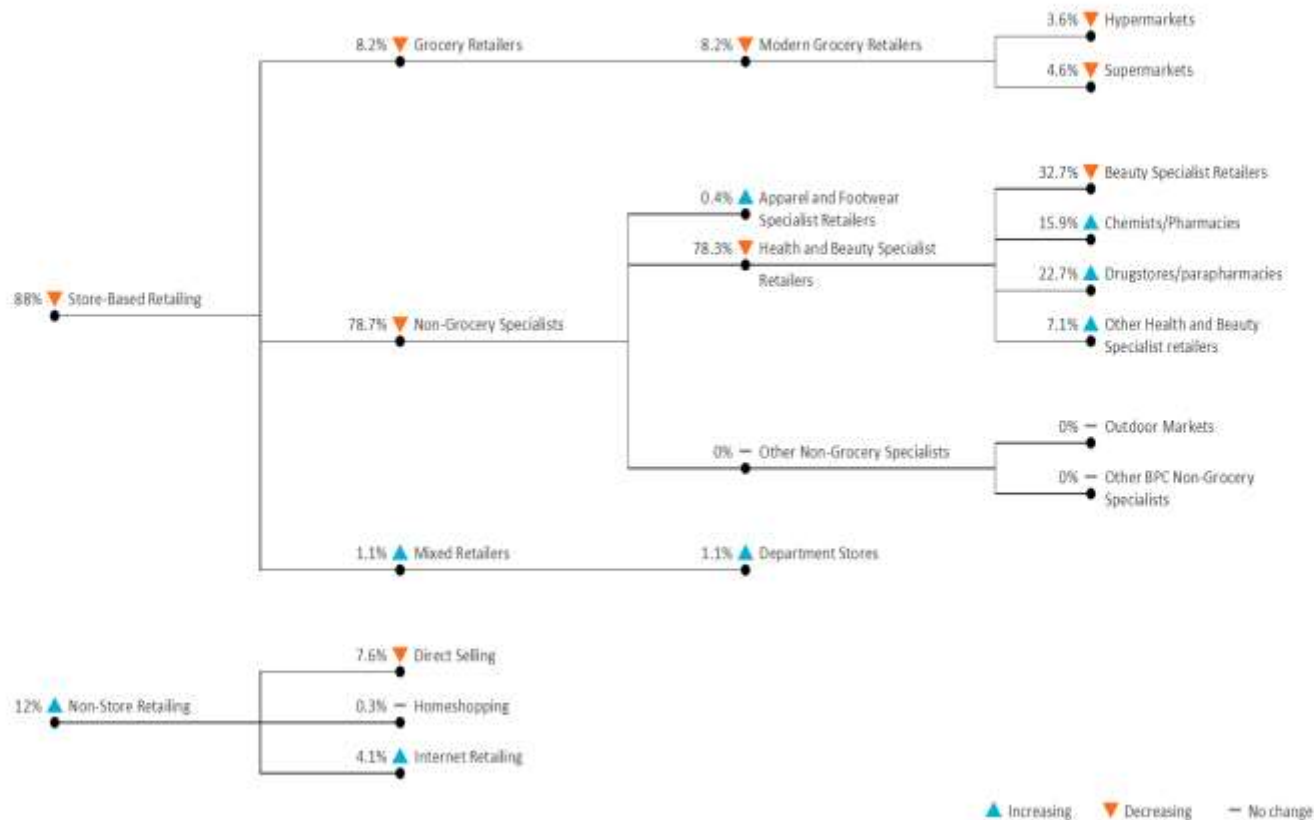
Outlet preference

Any other factors

Every country is different. Doing research before entering the market reduce the risks.

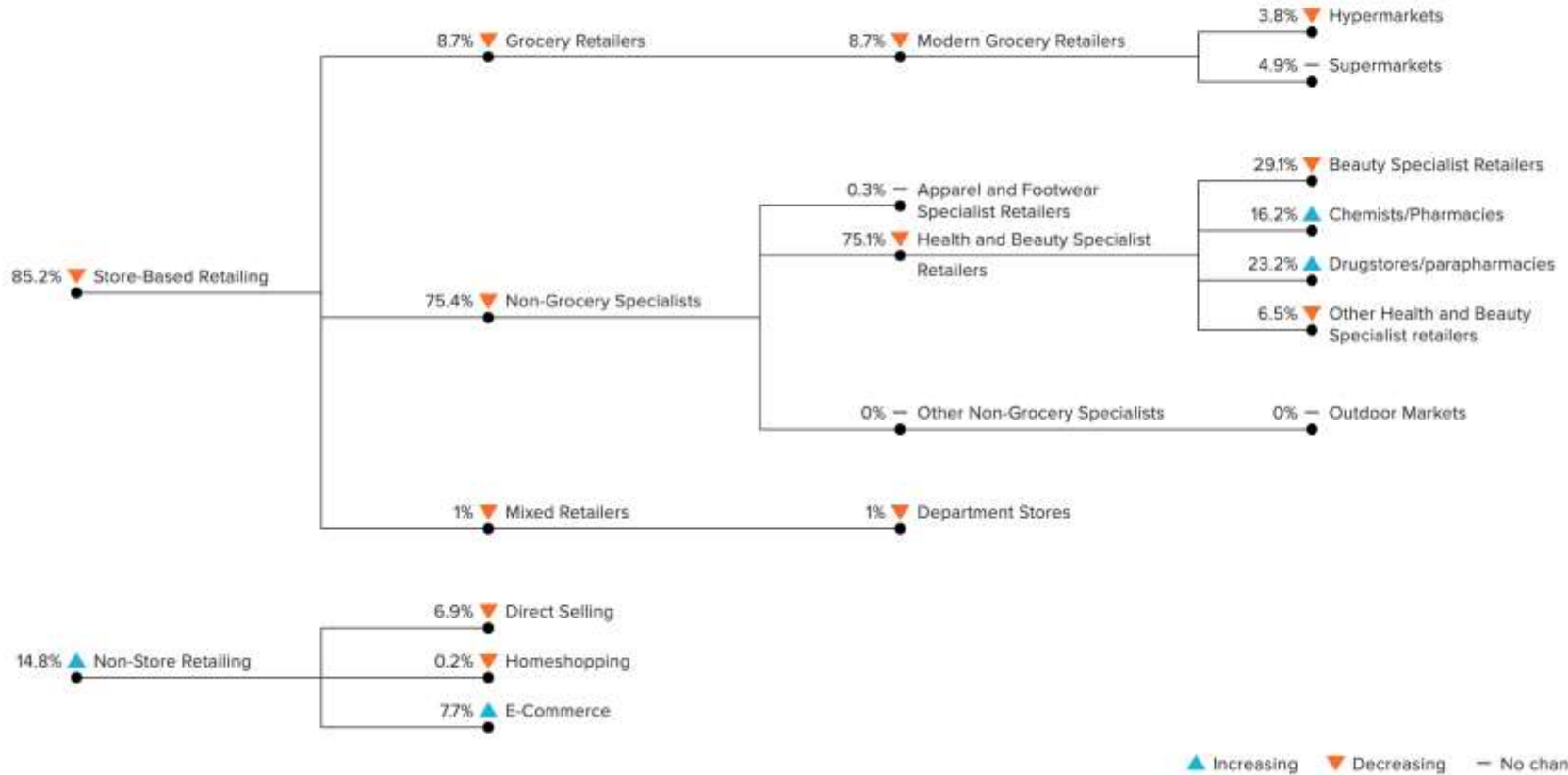
Channel Distribution for Colour Cosmetics in Italy

Retail Value RSP 2018 and Percentage Point Growth (2013-2018)



Channel Distribution for Colour Cosmetics

Retail Value RSP 2020 and Percentage Point Growth 2015-2020



Channel Distribution for Colour Cosmetics in China

Retail Value RSP 2018 and Percentage Point Growth (2013-2018)

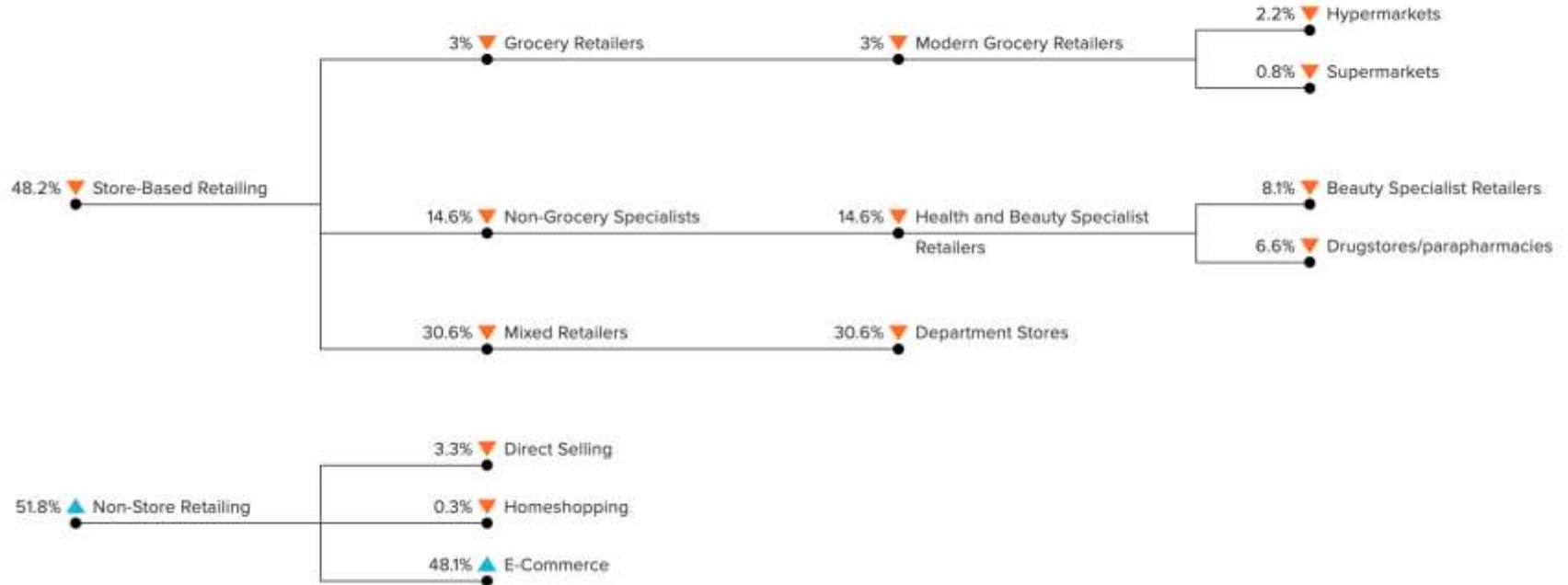


▲ Increasing ▼ Decreasing — No change

Channel Distribution for Colour Cosmetics

Retail Value RSP 2020 and Percentage Point Growth 2015-2020

2015-2020



▲ Increasing ▼ Decreasing — No change

Nature of product

Do you agree to the following statements?

- Low priced, high turnover convenience products: The preference is intensive distribution network
- Consumer products channel is normally longer than industrial products.
- Luxury products are better to have short length but wide distribution.

Nature of demand/location

- Consumer's income
- GDP of the country
- Development of transportation infrastructure

Competition

- What channel does our competition use?
- Should we use a totally different distribution channel?

Legal factors: Selling alcohol in Sweden & Finland



- In Sweden and Finland, an international marketer should distribute beverages stronger than 3.5% by volume through state-monopoly owned outlets.
- The same system also exists in Japan for tobacco imports where there is 20% charge for distributing foreign tobacco by state owned monopoly distributors.

Channel Design

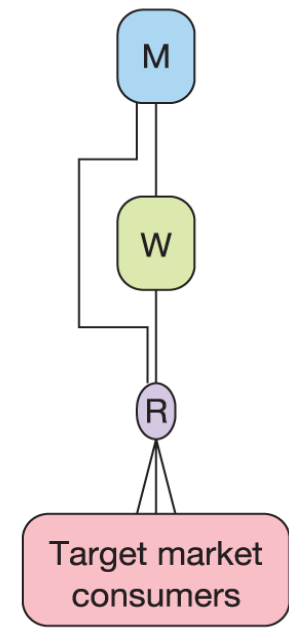
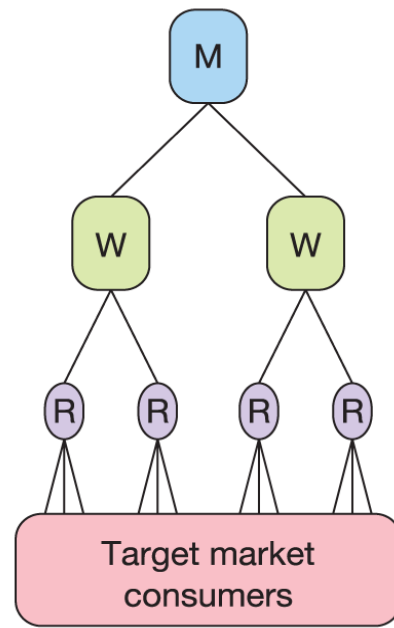
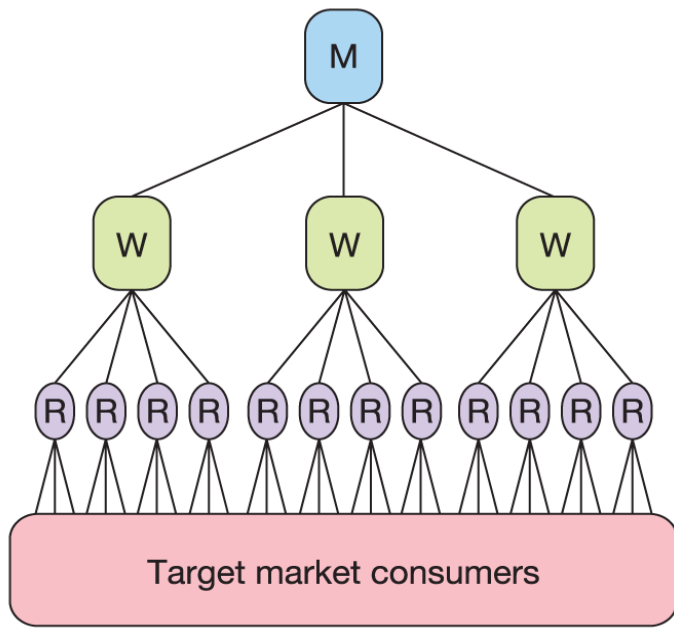
- The length and the width of the channels employed.
- Length: Number of levels/ intermediaries.
- Width: Number of institutions at each level

Intensive distribution

Selective distribution

Exclusive distribution

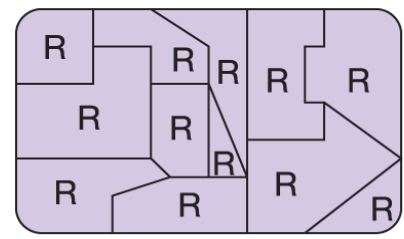
Channel width



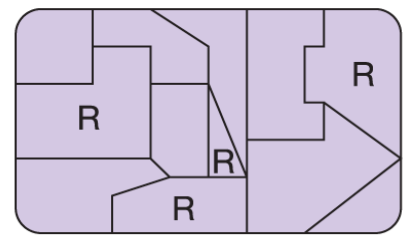
M = Manufacturer
W = Wholesaler
R = Retailer

Market coverage

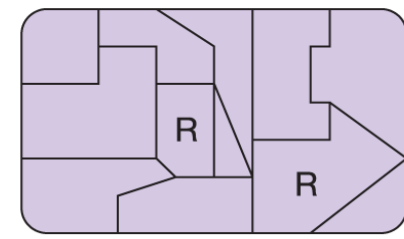
Intensive coverage



Selective coverage



Exclusive coverage



Three strategies for market coverage

- **Intensive distribution:** Distributing the products through the largest number of different types of intermediary and the largest number of individual intermediaries of each type.
- **Selective distribution:** Choosing a number of intermediaries for each area to be penetrated.
- **Exclusive distribution:** Choosing only one intermediary in a market.

Functions performed by intermediaries

EXHIBIT 13.3

Examples of function performance in the channel system for the Japanese cosmetics industry

<i>Manufacturer</i>	<i>Channel Member</i>	
	<i>Intermediary</i>	<i>Retail</i>
Production	Order taking	Selling
Advertising	Inventory maintenance	Organizing consumers
National sales promotion	Space control at the retail level	In-store promotion
Dealer aids	Product assortment	
Education of dealers	Dispatching of sales support personnel	
Financing	Area marketing	
	Financing	

Source: Michael R. Czinkota, "Distribution of Consumer Products in Japan: An Overview," in *International Marketing Strategy: Environmental Assessment and Entry Strategies*, Michael R. Czinkota and Ilkka A. Ronkainen, eds. (Ft. Worth, TX: The Dryden Press, 1994), 293–307.

		Channel width		
		<i>Intensive distribution</i>	↔	<i>Selective distribution</i>
Factor	<i>Product type</i>	Convenience products	↔	Speciality products
	<i>Product life cycle stage</i>	Mature products	↔	New products
	<i>Product price</i>	Low-price products	↔	High-price products
	<i>Brand loyalty</i>	Brand-preferred products	↔	Brand-insisted products
	<i>Purchase frequency</i>	Frequently purchased products	↔	Infrequently purchased products
	<i>Product uniqueness</i>	Common products	↔	Distinctive products
	<i>Selling requirement</i>	Self-service products	↔	Personal-selling products
	<i>Technical complexity</i>	Non-technical products	↔	Technical products
	<i>Service requirements</i>	Limited-service products	↔	Extensive-service products

Overall qualifications/selection criteria

```
graph TD; A[Overall qualifications/selection criteria] --> B[Financial and company strengths]; A --> C[Product factors]; A --> D[Marketing skills]; A --> E[Commitment]; A --> F[Facilitating factors];
```

Financial and company strengths

- Financial soundness
- Ability to finance initial sales and subsequent growth
- Ability to raise additional funding
- Ability to provide adequate promotion and advertising funds
- Product and market expertise
- Ability to maintain inventory
- Quality of management team
- Reputation among current and past customers
- Ability to formulate and implement two- to three-year marketing plans

Product factors

- Quality and sophistication of product lines
- Product complementarity (synergy or conflict?)
- Familiarity with the product
- Technical know-how at staff level
- Condition of physical facilities
- Patent security

Marketing skills

- Marketing management expertise and sophistication
- Ability to provide adequate geographic coverage of the market
- Experience with target customers
- Customer service
- On-time deliveries
- Sales force
- Market share
- Participation in trade fairs
- Member of trade associations

Commitment

- Willingness to invest in sales training
- Commitment to achieving minimum sales targets
- Positive attitude towards the manufacturer's product programme
- Undivided attention to product
- Willing to commit advertising resources
- Willing to drop competing product lines
- Volatility of product mix
- Percentage of business accounted for by a single supplier
- Willing to keep sufficient inventory

Facilitating factors

- Connections with influential people (network)
- Working experience/relationships with other manufacturers (exporters)
- Track record with past suppliers
- Knowledge of the particular business
- Government relations
- Proficiency in English

Criteria (no ranking implied)	Weight	Distributor 1		Distributor 2		Distributor 3	
		Rating	Score	Rating	Score	Rating	Score
<i>Financial and company strengths</i>							
Financial soundness	4	5	20	4	16	3	12
Ability to finance initial sales and subsequent growth	3	4	12	4	12	3	9
<i>Product factors</i>							
Quality and sophistication of product lines	3	5	15	4	12	3	9
Product complementarity (synergy or conflict?)	3	3	9	4	12	2	6
<i>Marketing skills</i>							
Marketing management expertise and sophistication	5	4	20	3	15	2	10
Ability to provide adequate geographic coverage of the market	4	5	20	4	16	3	12
<i>Commitment</i>							
Willingness to invest in sales training	4	3	12	3	12	3	12
Commitment to achieving minimum sales targets	3	4	12	3	9	3	9
<i>Facilitating factors</i>							
Connections with influential people (network)	3	5	15	4	12	4	12
Working experience/relationships with other manufacturers (exporters)	2	4	8	3	6	3	6
Score			143		122		97

Scales:

Rating

5 Outstanding

4 Above average

3 Average

2 Below average

1 Unsatisfactory

Weighting

5 Critical success factor

4 Prerequisite success factor

3 Important success factor

2 Of some importance

1 Standard