

CHAPTER 13

Distribution decisions

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- understand why relationships occur between manufacturer and distributor
- explore the determinants of channel decisions
- discuss the key points in putting together and managing marketing channels
- discuss the factors influencing channel width (intensive, selective or exclusive coverage)
- explain what is meant by integration of the marketing channel
- discuss the role of retailing in modern marketing

13.1 INTRODUCTION

A trading or distribution relationship is a relationship between a buyer and a seller who resells the goods and services. Trading relationships have been important since humans began to trade.

Access to international markets is a key decision area facing firms in the twenty-first century. After the firm has chosen a strategy to get its products into foreign markets, the next challenge is the distribution of products within national markets. The first part of this chapter concerns the structure and management of foreign distribution. The second part of the chapter is concerned with the management of logistics.

A *distribution channel* is a set of organisations that make a product or service available for purchase by consumers or businesses. The distribution channel serves to connect a manufacturer, or a service provider, with consumers or users. In simple terms, a distribution channel is a pipeline or pathway to the market (Morelli, 2006).

Distribution channels are needed because producers are separated from prospective customers.

A distribution channel consists of at least a producer and a customer. Most channels, however, use one or more intermediaries to help move products to the customer.

Intermediaries are independently owned organisations that act as links to move products between producers and the end user. The primary categories are brokers, wholesalers and distributors, and retailers. Agents do not purchase the goods they handle but instead negotiate the sale for the client. A familiar example is estate agents, who negotiate the sale of property for their customers. Companies have more control over the activities of brokers, including the final price to the customer, because brokers do not own the goods they sell. *Wholesalers* (also referred to as distributors) take title to products and resell them to retail, industrial, commercial, institutional, professional or agricultural firms, as well as to other wholesalers.

Most distribution channels flow from the manufacturer to the end user, but goods sometimes move in the opposite direction. A *reverse channel* flows from the end user to the wholesaler and/or the manufacturer. An example is recycling of bottles and cans.

Recycling services have become increasingly important, given the growth of waste materials and the high costs associated with their disposal. Volunteer groups have been important in the recycling process, particularly in the collection and transport of waste to recycling plants. But the problem of disposing waste materials is growing so fast that more commercial solutions must be found despite the fact that many cities are mandating that consumers sort their waste to facilitate pick-up and disposal. Some specialists have become more involved, including manufacturer-owned redemption centres and independent recycling centres, but on the whole current channels are not entirely satisfactory, and more cost-efficient ones are needed.

According to Bucklin *et al.* (1996), distribution channels typically account for 15–40 per cent of the retail price of goods and services in an industry.

Over the next few years, the challenges and opportunities for channel management will multiply, as technological developments accelerate channel evolution. Data networks are increasingly enabling end users to bypass traditional channels and deal directly with manufacturers and service providers.

Electronic data interchange (EDI) is now used for the exchange of orders and invoices between suppliers and their customers. By monitoring stock online, customers are also able to order directly from suppliers on a **just-in-time (JIT)** basis, and thereby to avoid holding stock altogether or to minimise the time it is held.

At the same time, new channels are continuing to emerge in one industry after another, opening up opportunities for companies to cut costs or improve their effectiveness in reaching specific market segments. Catalogue retailing, telephone ordering, cable TV shopping and Internet ordering are all becoming increasingly important to consumer goods manufacturers. Despite the scale and importance of these opportunities, however, few companies manage to take full advantage of them.

Electronic data interchange (EDI)

Electronic links between suppliers and retailers allowing purchase orders, packing lists, delivery.

Just-in-time (JIT)

Aims to minimise stocks by organising a supply system which provides materials and components as they are required.

13.2 THE BASIC FUNCTIONS OF CHANNEL PARTICIPANTS

Channel member

A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

The most common function of a marketing **channel member** is to resell the product into a market that could not be reached as efficiently or effectively by the original seller. Intermediaries have already established goodwill with their customers, and those customers trust the intermediary's buying judgements. Retailers often have multiple selling outlets that are both in prime geographical locations and have the right image. This gives the manufacturer both physical and psychological market positioning.

Figure 13.1 shows how the number of **transactions** (contact lines) between three manufacturers and three customers (using one intermediary) is reduced.

Intermediaries play a major role in bringing the product or service to the end user at the right time by transporting and storing it.

Many intermediaries also cooperate with the manufacturer to provide customer training, education and after-sales maintenance and repair services.

Sometimes merchants do take risks with, for example, seasonal products and are caught with stock at the end of a season that has to be sold at a loss or carried over to the next year.

Transaction

A trade of values between two parties.

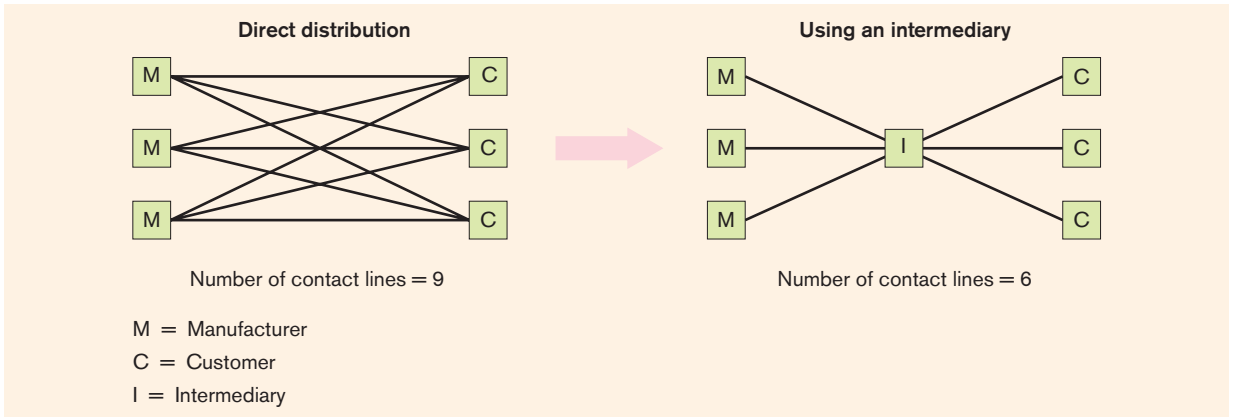


Figure 13.1 How an intermediary increases distribution efficiency

However, the risk-taking and financing activities of channel intermediaries have been greatly reduced over the last hundred years. Nowadays, many new products are sold to retailers on consignment (retailers pay for what they sell and return the rest) or are purchased with buy-back deals in the contract. Some retailers are even demanding up-front cash payments to compensate for the cost and the risk of placing a new product on their shelves. With established products, the credit allowances given to the wholesaler or retailer are such that a high-turnover product is often sold by the retailer before the wholesaler or retailer pays the manufacturer for the product.

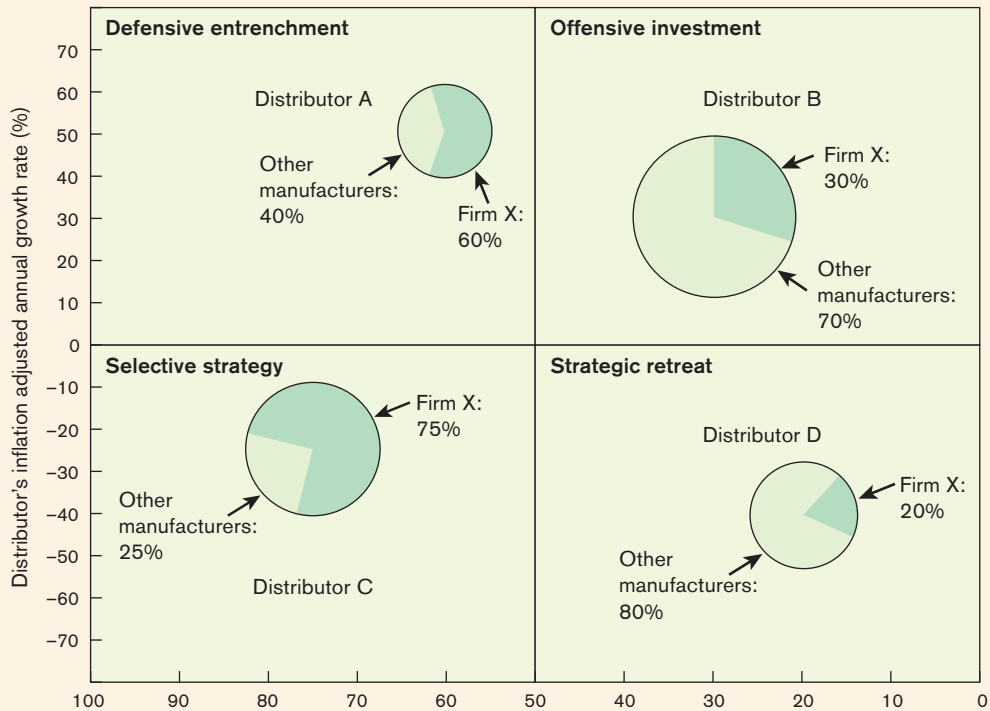
Channel members are able to provide valuable customer feedback, but often the manufacturer also provides information down the channel to retailers that creates interest and support for its product. Hence, market research and information flows both ways with findings and data often being interpreted in different ways by the various parties.

13.3 DISTRIBUTOR PORTFOLIO ANALYSIS

A distributor analysis can be undertaken by reviewing the information on a distributor’s growth rate and the firm’s percentage of the distributor’s total sales. Using Table 13.1 as an input, Figure 13.2 is an example of a manufacturing firm, X, which, within an SBU, has four distributors each serving a different segment. The strategic recommendations in Figure 13.2 are only based on the variables included in the distributor portfolio (Table 13.1). Before making final recommendations, Firm X should also include its dependence on each distributor, e.g. by calculating how its total sales are distributed among its four distributors.

Table 13.1 A manufacturer’s distributor portfolio analysis

Segment	Mainly served by	Percentage of Firm X in distributor’s total purchases	Distributor annual growth rate within the segment
Segment A	Distributor A	60%	50%
Segment B	Distributor B	30%	30%
Segment C	Distributor C	75%	–25%
Segment D	Distributor D	20%	–40%



Penetration per cent: Firm X's share of distributor's product-line sales – the area of each circle is proportional to the value of the distributor's total purchase, from Firm X and others

Figure 13.2

A manufacturer's distributor portfolio analysis

Source: Adapted from Dickson, P. R. (1982), Distributor portfolio analysis and channel dependence matrix, *Journal of Marketing*, 47 (Summer): 35–44. Reproduced with permission from the American Marketing Association.

13.4 DEVELOPING AND MANAGING RELATIONSHIPS BETWEEN MANUFACTURER AND DISTRIBUTOR

A relationship occurs when there is a fit between the marketing strategies and implementation skills of the manufacturer and distributor in the process of adding customer value. Customer value is created by what each party brings to the relationship and how they work together to add additional customer services and marketing campaigns.

In addition to trading relationships and processes that raise the perceived quality of the product and supporting services, a unique trading relationship advantage can come from both the manufacturer and distributor working together to reduce the costs of doing business. If the cost-reduction drives and efforts of both parties are synchronised and if this synchronisation between the manufacturer and distributor is better than any other trading relationship that manufacturers or distributors are in, then the trading relationship will have a unique competitive cost advantage towards customers.

It is always important to remember that the competitive advantage of a manufacturer–distributor relationship is managed by people at the manufacturer and the distributor.

Historically, the way firms viewed personal relationships depended on their size. Among small firms, relationships mainly existed among owners. Larger firms operated under the sales representative/purchasing agent model. This model assumes that a firm's trading relationship is funnelled primarily through single agents: the personal relationship between the selling firm's salesperson (agent) and the buying firm's purchasing manager (agent). Other agency relationships were expected to develop among engineers working on supply-chain

Agent

A marketing intermediary who does not take title to the products but develops a marketing strategy and establishes contacts abroad.

engineering specifications. But the salesperson acted as a gatekeeper to the buying organisation.

The modern RM approach to the supply chain argues that this funnelling is unnecessarily restrictive. It proposes that trading relationships in the supply chain should be among cross-functional teams.

The new RM approach emphasises that at the heart of the trading relationship is the set of relationship processes, such as decision making and learning, that integrate the operational and implementation processes between the two firms.

The reality of an important trading relationship is that it is held together by relationship processes and personal relationships among agents at several levels. At the strategic level, quality relationship processes have to enable senior management to initiate, agree on and invest in creating a unique competitive position for the relationship. In addition, if senior managers get on well together, it makes a big difference in obtaining subordinates' cooperation in managing operations. The development of such inter-firm personal relationships is particularly valuable in very competitive markets when trading relationships are stressed and have to adapt creatively to new competitive realities. Such personal relationships nurture the personal trust and commitment that enables the relationship to survive market crises through creative, cooperative improvisation.

What is personal trust and commitment? Personal trust is when what the individual representatives say is their bond, and they are prepared to help each other to solve problems. Commitment is commitment to the goal of developing and nurturing the competitiveness of the relationship, compared to other competitive trading relationships. Mutual trust and commitment are determined by a history of shared values, open communication, both parties giving more to the relationship than to alternative relationships, and, particularly, not taking advantage of (or exploiting) the trust. The long-term return from the relationship is perceived to be higher than the return from nurturing other relationships. The driver of this long-term return is relationship process innovation: innovations in reducing process costs, increasing process speed, and increasing process output. Personal relationship goodwill and trust are needed when conflict arises and when attempts are initiated to improve systems and processes.

New information technology helps strengthen long-term relationships between manufacturers and distributors.

Integrated channel information systems (channel intranets) enable a manufacturer to assess the performance of distributors, the profitability of doing business with them, and the success of promotional programmes and new, more efficient operating processes. Not being a part of such an information system may become a real barrier to entering some markets. On the other hand, being part of the system may also limit the managerial options of the participant by limiting the company's ability to switch to alternative distribution options.

We will now look at a systematic approach to the major decisions in distribution by discussing the main variables influencing the distribution channel decision.

13.5 EXTERNAL AND INTERNAL DETERMINANTS OF CHANNEL DECISIONS

Customer characteristics

The customer, or final consumer, is the keystone in any channel design. Thus the size, geographic distribution, shopping habits, outlet preferences and usage patterns of customer groups must be taken into account when making distribution decisions.

Consumer product channels tend to be longer than industrial product channels because the number of customers is greater, the customers are more geographically dispersed, and

they buy in smaller quantities. Shopping habits, outlet preferences and usage patterns vary considerably from country to country and are strongly influenced by sociocultural factors.

Nature of the product

Convenience product

A relatively inexpensive, regularly purchased consumer product bought without much thought and with a minimum of shopping effort.

Product characteristics play a key role in determining distribution strategy. For low-priced, high-turnover **convenience products**, the requirement is an intensive distribution network. On the other hand, it is not necessary or even desirable for a prestigious product to have wide distribution. In this situation a manufacturer can shorten and narrow its distribution channel. Consumers are likely to do some comparison shopping and will actively seek information about all brands under consideration. In such cases limited product exposure is not an impediment to market success.

Transportation and warehousing costs of the product are also critical issues in the distribution and sale of industrial goods such as bulk chemicals, metals and cement. Direct selling, servicing and repair, and spare parts warehousing dominate the distribution of such industrial products as computers, machinery and aircraft. The product's durability, ease of adulteration, amount and type of customer service required, unit costs and special handling requirements (such as cold storage) are also significant factors.

Nature of demand/location

The perceptions that the target customers hold about particular products can force modification of distribution channels. Product perceptions are influenced by the customer's income and product experience, the product's end use, its life cycle position and the country's stage of economic development.

The geography of a country and the development of its transportation infrastructure can also affect the channel decision.

Competition

The channels used by competing products and close substitutes are important because channel arrangements that seek to serve the same market often compete with one another. Consumers generally expect to find particular products in particular outlets (e.g. speciality stores), or they have become accustomed to buying particular products from particular sources. In addition, local and global competitors may have agreements with the major wholesalers in a foreign country that effectively create barriers and exclude the company from key channels.

Sometimes the alternative is to use a distribution approach totally different from that of the competition and hope to develop a competitive advantage.

Legal regulations/local business practices

A country may have specific laws that rule out the use of particular channels or intermediaries. For example, until recently all alcoholic beverages in Sweden and Finland had to be distributed through state-owned outlets. Other countries prohibit the use of door-to-door selling. Channel coverage can also be affected by law. In general, exclusive representation may be viewed as a restraint of trade, especially if the product has a dominant market position. EU antitrust authorities have increased their scrutiny of exclusive sales agreements. The Treaty of Rome prohibits distribution agreements (e.g. grants of exclusivity) that affect trade or restrict competition.

Furthermore, local business practices can interfere with efficiency and productivity and may force a manufacturer to employ a channel of distribution that is longer and wider than

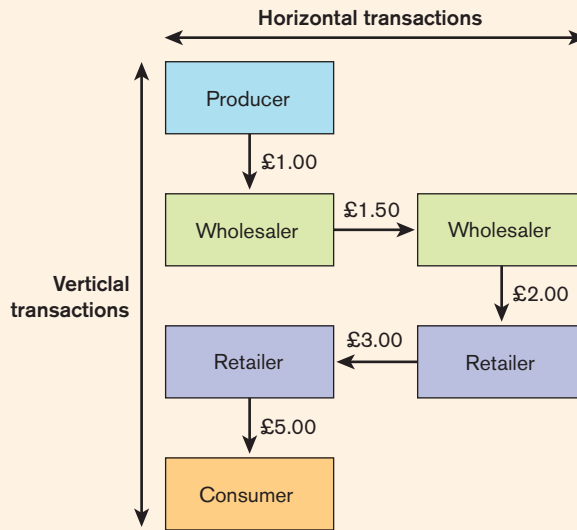


Figure 13.3

A hypothetical channel sequence in the Japanese consumer market

Source: Adapted from Pirog, S. F. and Lancioni, R. (1997) US–Japan distribution channel cost structures: is there a significant difference? *International Journal of Physical Distribution and Logistics Management*, 27(1): 57. Copyright © 1997 Emerald Group Publishing Ltd. All rights reserved. Reproduced with permission through Rightslink.

Market coverage

Coverage can relate to geographical areas or number of retail outlets. Three approaches are available: intensive, selective or exclusive coverage.

desired. Because of Japan's multitiered distribution system, which relies on numerous layers of intermediaries, foreign companies have long considered the complex Japanese distribution system as the most effective non-tariff barrier to the Japanese market.

Figure 13.3 shows how the complex Japanese distribution system escalates prices by a factor of 5 through both vertical transactions and horizontal transactions (e.g. from one wholesaler to another wholesaler).

Let us now return to the major decisions concerning the structure of the distribution channel.

13.6 THE STRUCTURE OF THE CHANNEL

Market coverage

The amount of **market coverage** that a channel member provides is important. Coverage is a flexible term. It can refer to geographical areas of a country (such as cities and major towns) or the number of retail outlets (as a percentage of all retail outlets). Regardless of the market coverage measure(s) used the company has to create a distribution network (dealers, distributors and retailers) to meet its coverage goals.

As shown in Figure 13.4, three different approaches are available:

- **Intensive coverage:** this calls for distributing the product through the largest number of different types of intermediary and the largest number of individual intermediaries of each type.
- **Selective coverage:** this entails choosing a number of intermediaries for each area to be penetrated.
- **Exclusive coverage:** this involves choosing only one intermediary in a market.

Channel coverage (width) can be identified along a continuum ranging from wide channels (intensive distribution) to narrow channels (exclusive distribution). Figure 13.5 illustrates some factors favouring **intensive**, **selective** and **exclusive distribution**.

Intensive distribution

Stocking the product in as many outlets as possible.

Selective distribution

The use of a limited number of outlets in a geographical area to sell products of a supplier.

Exclusive distribution

An extreme form of selective distribution where only one wholesaler, retailer or industrial distributor is used in a geographical area to sell products of a supplier.

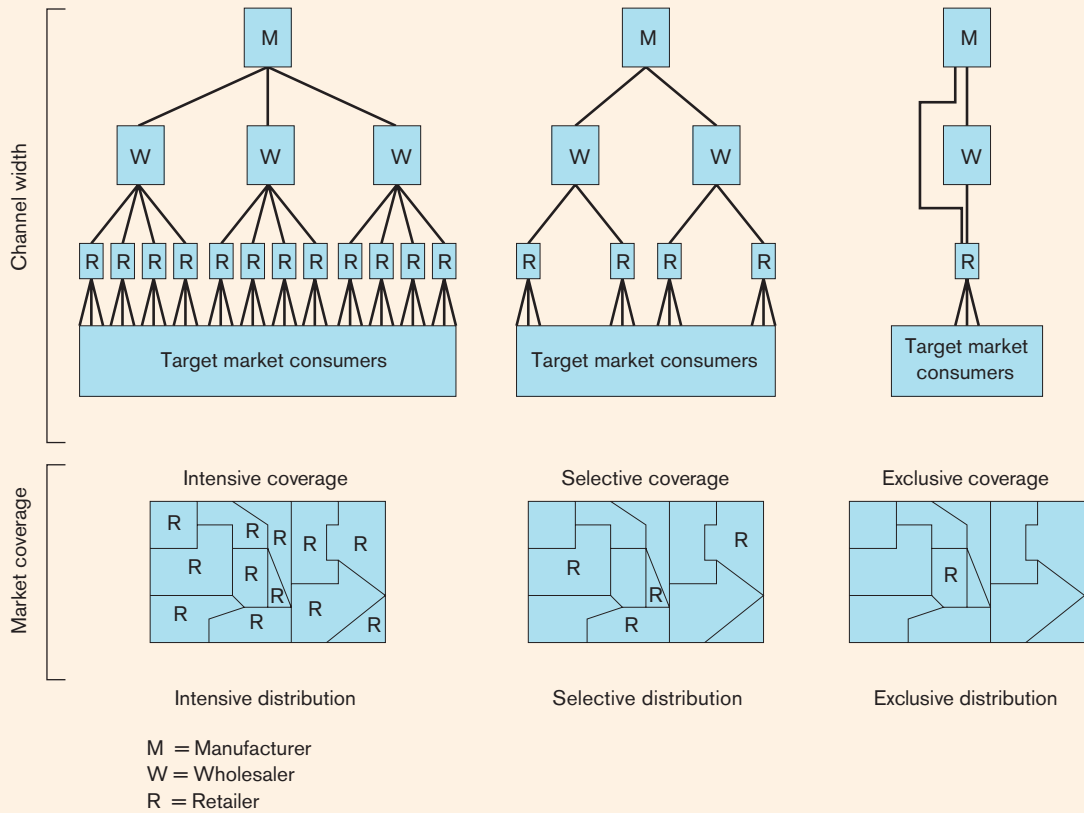


Figure 13.4

Three strategies for market coverage

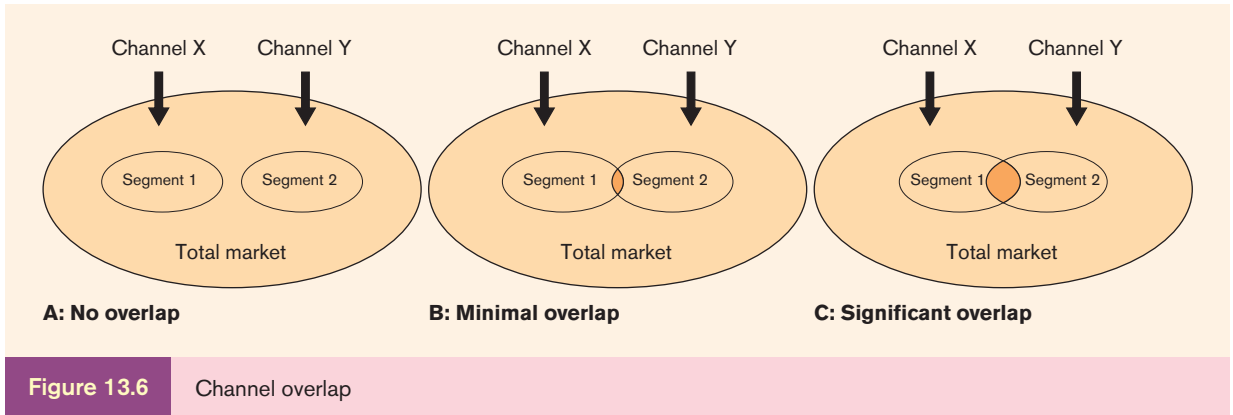
Source: From Lewison, D. M. (1996) *Marketing Management: An overview*. South-Western College Publishing, a division of Thomson Learning. Reproduced with permission from Dale M. Lewison.

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

Figure 13.5

Factors influencing channel width

Source: From Lewison, D. M. (1996) *Marketing Management: An overview*. South-Western College Publishing, a division of Thomson Learning. Reproduced with permission from Dale M. Lewison.



When analysing a channel's market coverage it is relevant to distinguish between market coverage of current and of new channels. To ensure the best possible market coverage, it is essential to have a view of what customer segment the current channel structure covers. This is necessary in order to identify any overlap between the channels' coverage of the identified segments (Figure 13.6).

In situation A, there is no overlap at all. Channels X and Y each work with their unique market segments, and there is no subject of conflict. On the other hand, the problem is that the entire market is not covered, which means lost earnings and the possibility of competitors moving into the open areas and then maybe even encroaching on the areas covered as well.

In situation B, the scenario is close to optimal. The market coverage is complete and the overlap small with only minimal potential conflicts. In practice, the situation is seldom this simple. Often some of the channels will be more appropriate than others depending on the characteristics of the product and the strength of the intermediaries.

Finally, competitors can influence the market coverage. For example, in the consumer goods industry, leading brand name suppliers usually want to be represented by the same sales channel as other leading brand names. This ultimately results in excess coverage between the sales channels.

In situation C, both markets are covered, but there is significant overlap. This may result in conflict between the sales channels, and it is likely that the situation will not be the best possible based on the fundamental goal of creating profit. However, the situation may be tolerable, if this surplus supply acts as a shield against new competitors.

Channel length

Channel length
Number of levels (middlemen) in the distribution channel.

Channel length is determined by the number of levels or different types of intermediary. Longer channels, those with several intermediaries, tend to be associated with convenience goods and mass distribution. As seen in Figure 13.3, Japan has longer channels for convenience goods because of the historical development of its system. One implication is that prices increase considerably for the final consumer (price escalation: see section 12.3).

Control/cost

The 'control' of one member in the vertical distribution channel means its ability to influence the decisions and actions of other channel members. Channel control is of critical concern to international marketers wanting to establish international brands and a consistent image of quality and service worldwide.

The company must decide how much control it wants to have over how each of its products is marketed. The answer is partly determined by the strategic role assigned to each

market. It is also a function of the types of channel member available, the regulations and rules governing distribution activity in each foreign market, and to some extent the roles traditionally assigned to channel members.

Normally a high degree of control is provided by the use of the firm's own salesforce in international markets. The use of intermediaries will automatically lead to loss of some control over the marketing of the firm's products.

An intermediary typically performs certain functions:

- carrying of inventory
- demand generation, or selling
- physical distribution
- after-sales service
- extending credit to customers.

In getting its products to end-user markets a manufacturer must either assume all of these functions or shift some or all of them to intermediaries. As the old saying goes, 'You can eliminate the intermediary, but not the functions of the intermediary.'

In most marketing situations there is a trade-off between a producer's ability to control important channel functions and the financial resources required to exercise that control. The more intermediaries involved in getting a supplier's product to user customers, the less control the supplier can generally exercise over the flow of its product through the channel and the way it is presented to customers. On the other hand, reducing the length and breadth of the distribution channel usually requires that the supplier perform more functions itself. In turn this requires the supplier to allocate more financial resources to activities such as warehousing, shipping, credit, field selling or field service.

In summary, the decision to use an intermediary or to distribute via a company-owned salesforce requires a major trade-off between the desire to control global marketing efforts and the desire to minimise resource commitment costs.

Degree of integration

Control can also be exercised through integration. Channel integration is the process of incorporating all channel members into one channel system and uniting them under one leadership and one set of goals. There are two different types of integration:

- 1 vertical integration: seeking control of channel members at different levels of the channel;
- 2 **horizontal integration**: seeking control of channel members at the same level of the channel (i.e. competitors).

Integration is achieved either through acquisitions (ownership) or through tight cooperative relationships. Getting channel members to work together for their own mutual benefit can be a difficult task. However, today cooperative relationships are essential for efficient and effective channel operation.

Figure 13.7 shows an example of vertical integration.

The starting point in Figure 13.7 is the conventional marketing channels, where the channel composition consists of isolated and autonomous participating channel members. Channel coordination is here achieved through arm's-length bargaining. At this point, the vertical integration can take two forms – forward and backward:

- The manufacturer can make forward integration when it seeks control of businesses of the wholesale and retail levels of the channel.
- The retailer can make backward integration, seeking control of businesses at wholesale and manufacturer levels of the channel.
- The wholesaler has two possibilities: both forward and backward integration.

Horizontal integration

Seeking control of channel members at the same level of the channel, e.g. the manufacturer's acquisition of the competitor.

Vertical marketing system

A network of vertically aligned establishments that are managed professionally as a centrally administered distribution system.

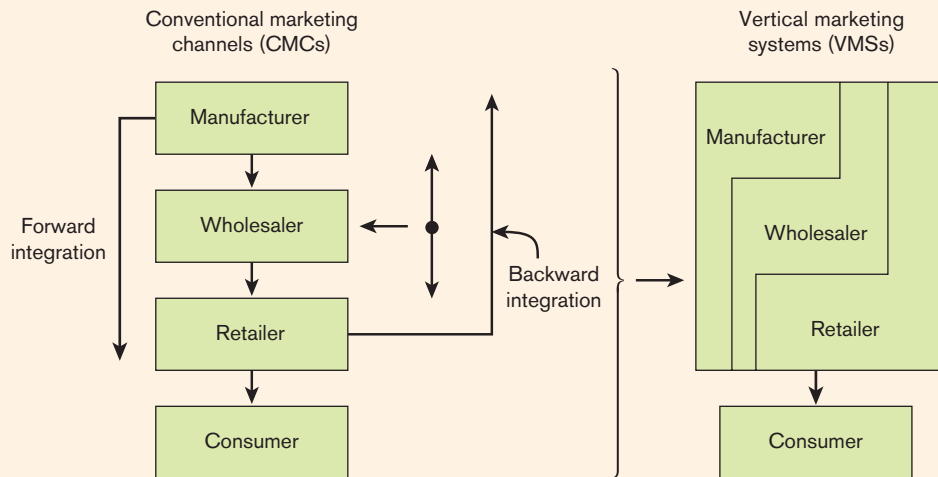


Figure 13.7

Vertical integration

Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach*, 2nd edn, Financial Times-Prentice Hall, Harlow, p. 489. Reproduced with permission.

The result of these manoeuvres is the **vertical marketing system** (Figure 13.7). Here the channel composition consists of integrated participating members, where channel stability is high due to assured member loyalty and long-term commitments.

13.7 MULTIPLE DISTRIBUTION CHANNEL STRATEGY

Multiple channel strategy

A product/service is available to the market through two (dual distribution) or more channels of distribution. Multiple channels may include the Internet, sales force, distributors, call centres, retail stores and direct mail.

A **multiple channel strategy** is employed when a firm makes a product available to the market through two or more channels of distribution. Multiple channels include the Internet, salesforce, call centres, retail stores and direct mail.

This strategy has been a very popular channel design during the last decade (Valos, 2008). The increasing popularity of this strategy results from the potential advantages provided: extended market coverage and increased sales volume; lower absolute or relative costs; better accommodation of customers' evolving needs; and more and better information. This strategy, however, can also produce potentially disruptive problems: consumer confusion; conflicts with intermediaries and/or internal distribution units; increased costs; loss of distinctiveness; and, eventually, an increased organisational complexity.

A special case of 'multiple channel marketing' is often referred to as 'dual marketing' where the same product is sold to both the consumer and the business market at the same time

Different customers with different buying behaviours will seek channels that best serve their needs. With a multiple channel design it is also possible for marketers to match low-cost channels such as the Internet to the low-value customers, and to allocate more expensive channels, such as salesforce, to high-value customers.

In a hybrid multiple distribution channel, the marketing functions are often shared by the producer and the channel intermediaries. The former usually handles promotion and customer-generation activities, whereas the intermediary may be in charge of sales and distribution.

In Figure 13.8 both the supplier and its channel partners divide up the execution of the channel functions. The supplier performs some functions such as brochures and advertising material, while its channel partners deliver local sales negotiation, physical distribution and order fulfilment. Other channel members might specialise in functions such as after-sales service. The members work together with certain members specialising in certain functions.

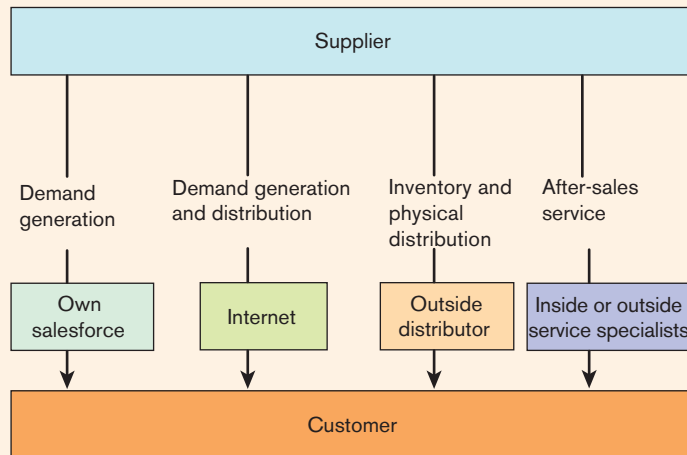


Figure 13.8 Multiple channel strategy

13.8 MANAGING AND CONTROLLING DISTRIBUTION CHANNELS

In the beginning of a market entry, partnerships with local distributors make good sense: distributors know the distinctive characteristics of their market, and most customers prefer to do business with local partners. Arnold (2000) proposes the following guidelines to the international marketer (manufacturer) in order to anticipate and correct potential problems with international distributors:

- *Select distributors – do not let them select you:* typically, manufacturers are approached by potential distributors at international fairs and exhibitions, but the most eager potential distributors are often the wrong people to partner with.
- *Look for distributors capable of developing markets, rather than those with a few obvious contacts:* this means sometimes bypassing the most obvious choice – the distributor that has the right customers and can generate quick sales – in favour of a partner with a greater willingness to make long-term investments and an acceptance of an open relationship.
- *Treat the local distributors as long-term partners, not temporary market-entry vehicles:* many companies actively signal to distributors that their intentions are only for the short term, drawing up contracts that allow them to buy back distribution rights after a few years. Under such a short-term agreement the problem is that the local distributor does not have much incentive to invest in the necessary long-term marketing development.
- *Support market entry by committing money, managers and proven marketing ideas:* many manufacturers are reluctant to commit resources at the early stages of a market entry. However, to retain strategic control, the international marketer must commit adequate corporate resources. This is especially true during market entry, when companies are least certain about their prospect in new countries.
- *From the start, maintain control over marketing strategy:* an independent distributor should be allowed to adapt the manufacturer's strategy to local conditions. However, only companies providing solid leadership for marketing will be in a position to exploit the full potential of a global marketing network.
- *Make sure distributors provide you with detailed market and financial performance data:* most distributors regard data such as customer identification and local price levels as key sources of power in the relationship with the manufacturer. But the manufacturer's ability

to exploit its competitive advantages in the international market depends heavily on the quality of information it obtains from the market. Therefore, a contract with the distributor must include the exchange of such information, e.g. detailed market and financial performance data.

- *Build links among national distributors at the earliest opportunity:* the links may take form of creating an independent national distributor council or a regional corporate office. The transfer of ideas within local markets can improve performance and result in greater consistency in the execution of international marketing strategies because links to other national distributor networks could be established. This could lead to a cross-national transfer of efficient marketing tools.

Once the basic design of the channel has been determined the international marketer must begin to fill it with the best available candidates, and must secure their cooperation.

Screening and selecting intermediaries

Figure 13.9 shows the most important criteria (qualifications) for selecting foreign distributors, grouped in five categories.

After listing all important criteria, some of these must then be chosen for a more specific evaluation, where the potential candidates are compared and contrasted against determining criteria.

The example in Table 13.2 uses the first two criteria in each of Figure 13.9's five categories for screening potential channel members, in total ten criteria. The specific criteria to be used

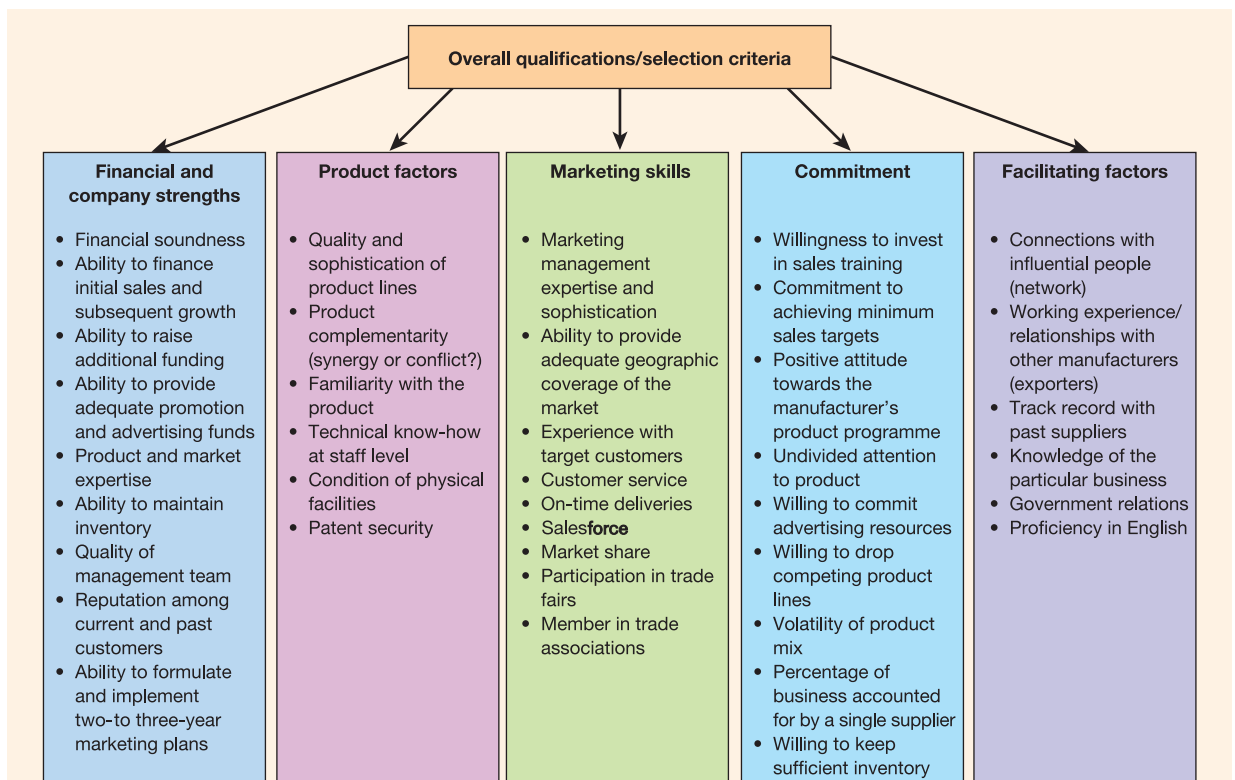


Figure 13.9

Criteria for evaluating foreign distributors

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Table 13.2 An example of distributor evaluation by the use of selection criteria from Figure 13.9

Criteria (no ranking implied)	Weight	Distributor 1		Distributor 2		Distributor 3	
		Rating	Score	Rating	Score	Rating	Score
Financial and company strengths:							
Financial soundness	4	5	20	4	16	3	12
Ability to finance initial sales and subsequent growth	3	4	12	4	12	3	9
Product factors:							
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
Marketing skills:							
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
Commitment:							
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
Facilitating factors:							
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

depend on the nature of a firm's business and its distribution objectives in given markets. The list of criteria should correspond closely to the marketer's own determinants of success – all the things that are important to beating the competition.

The hypothetical manufacturer (a consumer packaged goods company) used in Table 13.2 considered the distributor's marketing management expertise and financial soundness to be of greatest importance. These indicators will show whether the distributor is making money and is able to perform some of the necessary marketing functions such as extension of credit to customers and risk absorption. Financial reports are not always complete or reliable, or may lend themselves to differences of interpretation, pointing to the need for a third-party opinion. In order to make the weighting and grading in Table 13.2, the manufacturer must have had some personal interviews with the management of each potential distributor. In the example of Table 13.2, Distributor 1 would be selected by the manufacturer.

Alternatively, an industrial goods company may consider the distributor's product compatibility, technical know-how, technical facilities and service support of high importance, and the distributor's infrastructure, client performance and attitude towards its products of low importance. Quite often global marketers find that the most desirable distributors in a given market are already handling competitive products and are therefore unavailable.

A high-tech consumer goods company, on the other hand, may favour financial soundness, marketing management expertise, reputation, technical know-how, technical facilities, service support and government relations. In some countries religious or ethnic differences might make an agent suitable for one part of the market coverage but unsuitable for another. This can result in more channel members being required in order to give adequate market coverage.

Contracting (distributor agreements)

When the international marketer has found a suitable intermediary a foreign sales agreement is drawn up. Before final contractual arrangements are made it is wise to make personal visits to the prospective channel member. The agreement itself can be relatively simple but, given the numerous differences in the market environments, certain elements are essential. These are listed in Figure 13.10.

The long-term commitments involved in distribution channels can become particularly difficult if the contract between the company and the channel member is not carefully drafted. It is normal to prescribe a time limit and a minimum sales level to be achieved, in

- Names and addresses of both parties.
- Date when the agreement goes into effect.
- Duration of the agreement.
- Provisions for extending or terminating the agreement.
- Description of sales territory.
- Establishment of discount and/or commission schedules and determination of when and how paid.
- Provisions for revising the commission or discount schedules.
- Establishment of a policy governing resale prices.
- Maintenance of appropriate service facilities.
- Restrictions to prohibit the manufacture and sale of similar and competitive products.
- Designation of responsibility for patent and trade mark negotiations and/or pricing.
- The assignability or non-assignability of the agreement and any limiting factors.
- Designation of the country and state (if applicable) of contract jurisdiction in the case of dispute.

Figure 13.10

Items to include in an agreement with a foreign intermediary (distributor)

Source: From Jain, S. (1996) *International Marketing Management*, 5th ed., South-Western College Publishing, Cincinnati, OH. Reproduced with permission from Subhash C. Jain.

addition to the particular responsibilities of each party. If this is not carried out satisfactorily the company may be stuck with a weak performer that either cannot be removed or is very costly to buy out from the contract.

Contract duration is important, especially when an agreement is signed with a new distributor. In general, distribution agreements should be for a specified, relatively short period (one or two years). The initial contract with a new distributor should stipulate a trial period of either three or six months, possibly with minimum purchase requirements. Duration is also dependent on the local laws and their stipulations on distributor agreements.

Geographic boundaries for the distributor should be determined with care, especially by smaller firms. Future expansion of the product market might be complicated if a distributor claims rights to certain territories. The marketer should retain the right to distribute products independently, reserving the right to certain customers.

The *payment section* of the contract should stipulate the methods of payment as well as how the distributor or agent is to draw compensation. Distributors derive compensation from various discounts, such as the functional discount, whereas agents earn a specific commission percentage of net sales (typically 10–20 per cent). Given the volatility of currency markets the agreement should also state the currency to be used.

Product and conditions of sale need to be agreed on. The products or product lines included should be stipulated, as well as the functions and responsibilities of the intermediary in terms of carrying the goods in inventory, providing service in conjunction with them, and promoting them. Conditions of sale determine which party is to be responsible for some of the expenses (e.g. marketing expenses) involved, which will in turn have an effect on the price to the distributor. These conditions include credit and shipment terms.

Means of communication between the parties must be stipulated in the agreement if a marketer–distributor relationship is to succeed. The marketer should have access to all information concerning the marketing of its products in the distributor's territory, including past records, present situation assessments and marketing research.

Motivating

Geographic and cultural distance make the process of motivating channel members difficult. Motivating is also difficult because intermediaries are not owned by the company. Since intermediaries are independent firms they will seek to achieve their own objectives, which will not always match the objective of the manufacturer. The international marketer may offer both monetary and psychological rewards. Intermediaries will be strongly influenced by the earnings potential of the product. If the trade margin is poor and sales are difficult to achieve intermediaries will lose interest in the product. They will concentrate upon products with a more rewarding response to selling efforts, since they make their sales and profits from their own assortment of products and services from different companies.

It is important to keep in regular contact with agents and distributors. A consistent flow of all relevant types of communication will stimulate interest and sales performance. The international marketer may place one person in charge of distributor-related communications and put into effect an exchange of personnel so that both organisations gain further insight into the workings of the other.

Controlling

Control problems are reduced substantially if intermediaries are selected carefully. However, control should be sought through the common development of written performance objectives. These performance objectives might include some of the following: sales turnover per year, market share growth rate, introduction of new products, price charged and marketing communications support. Control should be exercised through periodic personal meetings.

Evaluation of performance has to be done against the changing environment. In some situations economic recession or fierce competition activity prevents the possibility of objectives being met. However, if poor performance is established, the contract between the company and the channel member will have to be reconsidered and perhaps terminated.

Termination

Typical reasons for the termination of a channel relationship are as follows:

- The international marketer has established a sales subsidiary in the country.
- The international marketer is unsatisfied with the performance of the intermediary.

Open communication is always needed to make the transition smooth. For example, the intermediary can be compensated for investments made, and major customers can be visited jointly to assure them that service will be uninterrupted.

Termination conditions are among the most important considerations in the distribution agreement. The causes of termination vary and the penalties for the international marketer may be substantial. It is especially important to find out what local laws say about termination and to check what type of experience other firms have had in the particular country.

In some countries terminating an ineffective intermediary can be time consuming and expensive. In the European Union one year's average commissions are typical for termination without justification. A notice of termination has to be given three to six months in advance. If the cause for termination is the manufacturer's establishment of a local sales subsidiary, then the international marketer may consider engaging good employees from the intermediary as, for example, managers in the new sales subsidiary. This can prevent a loss of product know-how that has been created at the intermediary's firm. The international marketer could also consider an acquisition of this firm if the intermediary is willing to sell.

13.9 IMPLICATIONS OF THE INTERNET FOR DISTRIBUTION DECISIONS

Disintermediation

The elimination of a layer of intermediaries from a marketing channel or the displacement of traditional resellers by radically new types of intermediaries.

Channel conflict

Disagreement among marketing channel members on goals and roles – who should do what and for what rewards. A significant threat arising from the introduction of an Internet channel is that, while disintermediation gives the opportunity for a company to sell direct and increase the profitability of products, it also threatens distribution arrangements with existing partners.

The Internet has the power to change drastically the balance of power among consumers, retailers, distributors, manufacturers and service providers. Some participants in the distribution chain may experience an increase in their power and profitability. Others will experience the reverse; some may even find that they have been bypassed and have lost their market share.

Physical distributors and dealers of goods and services that are more conveniently ordered and/or delivered online are indeed subject to increasing pressure from e-commerce. This **disintermediation** process, with increasing direct sales through the Internet, leads manufacturers to compete with their resellers, which may also result in **channel conflict**.

The reality is that the Internet may eliminate the traditional 'physical' distributors, but in the transformation process of the value chain new types of intermediaries may appear. So the disintermediation process has come to be balanced by a reintermediation force – the evolution of new intermediaries tailor-made for the online world (Figure 13.11).

The transformation of any industry structure in the Internet economy is likely to go through the intermediation–disintermediation–reintermediation (IDR) cycle. The IDR cycle will occur because new technologies are forcing change in the relationships among buyers, suppliers and middlemen. Intermediation occurs when a firm begins as a middleman between two industry players (e.g. buyer–supplier, buyer–established intermediary or established intermediary–supplier). Disintermediation occurs when an established middleman is pushed out of the value chain. Reintermediation occurs when a once disintermediated player is able to re-establish itself as an intermediary.

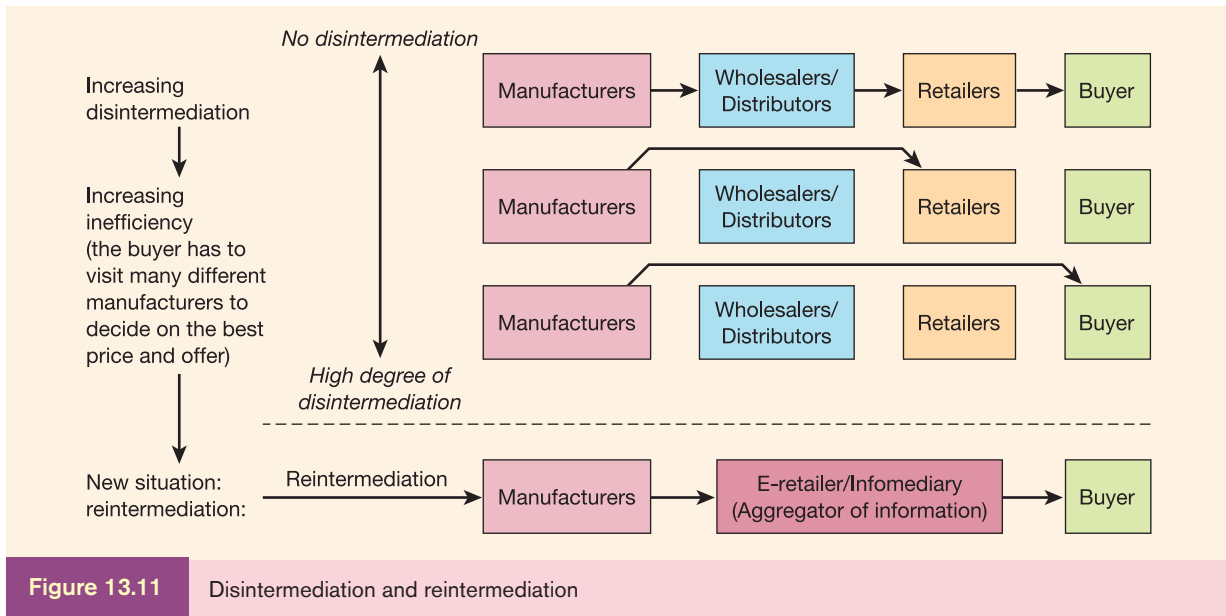


Figure 13.11 Disintermediation and reintermediation

Distinction between e-marketing and m-marketing

A key distinction between e-marketing and m-marketing (mobile marketing) lies in the different enabling technologies. Most notably, the facilitative mode for traditional e-marketing, the PC, is a relatively large and cumbersome device that is probably deskbound and equipped with a Web browser through standard connectivity. Even when configured as a laptop it is not easy to move.

M-marketing is faced with the challenge of developing capabilities in a much more diverse technical context, albeit within the single framework of mobility. Mobile devices currently vary in terms of the network to which they are connected – the ‘European’ standard or the North American standard.

Rapidly emerging innovations will deliver the possibility of smart phones able to use product bar codes to access product-related information and phones able to act as e-wallets, as either a prepaid card for small purchases or a fully functioning credit/debit card unit.

Benefits of m-marketing

The introduction of m-marketing should bring a series of benefits to consumers, merchants and telecommunication companies. As with all technologies, many benefits will arise in the future that are not yet even imagined. Some benefits that are apparent now, however, include the following.

For consumers

- *Comparison shopping:* Consumers can access on demand, at the point of purchase, the best prices in the marketplace. This can be done now without mobility, with services such as pricescan.com.
- *Bridge the gap between bricks and clicks:* Services permitting users to examine merchandise in a store and still shop electronically for the best price.
- *Opt-in searches:* Customers may receive alerts from merchants when products they are looking for become available.
- *Travel:* Ability to change and monitor scheduled travel any time, any place.

For merchants

- *Impulse buying*: Consumers may buy discounted products from a Web page promotion or a mobile alert, increasing their willingness to buy as they are near or even inside the store, and thus increasing merchants' sales.
- *Drive traffic*: Companies will guide their customers to where it is easier to carry out the transaction, to either online or offline stores, due to the time-sensitive, location-based and personalised characteristics of the mobile device.
- *Education of consumers*: Companies will send information to customers about product benefits or new products.
- *Perishable products*: This is especially important for products that do not retain their value when unused, such as service-based products. For example, the use of an aeroplane seat that, when unused, generates no revenue and is lost value. This will enable companies to better manage inventory.
- *Drive efficiency*: Companies will save time with their clients. Because information is readily available on the mobile device they will not have to talk about the benefits of the different products or about prices.
- *Target market*: Companies will be better able to target their products and promotions to those in a given geographic area at a specific time.

For telecommunication companies the advantages are primarily more airtime used by the consumers and higher fees charged to content providers for each m-commerce transaction.

M-marketing requires direct marketers to rethink their strategies to tap into already existing communities such as sports fans, surfers, music fans and time-context communities such as spectators at sports events and festivals, and location-sensitive communities such as gallery visitors and small shoppers, and develop ways to get them to opt in to m-marketing.

Applications must be responsive to location, customer needs and device capabilities. For example, time- and location-sensitive applications, such as travel reservations, cinema tickets and banking, will be excellent vehicles for young, busy and urban people.

Finally, as highlighted, mobile marketing enables distribution of information to the consumer at the most effective time, place and in the right context. This suggests that m-marketing, via mobile devices, will cement further the interactive marketing relationship.

13.10 RETAILING

In the continuing integration of the world economy, internationalisation not only concerns advertising, banking and manufacturing industries, it also affects the retailing business. The trend in all industrialised countries is towards larger units and more self-service. The number of retail outlets is dwindling, but the average size is increasing.

However, retailing still shows great differences between countries, reflecting different histories, geography, culture and economic development (Doherty, 2007).

Trade marketing

For too long manufacturers have viewed vertical marketing channels as closed systems, operating as separate, static entities. The most important factors creating long-term, integrated strategic plans and fostering productive channel relationships were largely ignored. Fortunately, a new philosophy about channel management has emerged, but to understand its potential we must first understand how power has developed at the retailer level.

Power in channel relationships can be defined as the ability of a channel member to control the marketing decision variables of any other member in a channel at a different level of

distribution. A classic example of this is the amount of power wielded by retailers against the food and grocery manufacturers. As the balance of power has shifted, more merchandise is controlled by fewer and fewer retailers (Strategic Direction, 2009).

There is a worldwide tendency towards concentration in retailing. A consequence of this development is that there has been a worldwide shift from manufacturer to retailer dominance. Power has become concentrated in the hands of fewer and fewer retailers, and the manufacturers have been left with little choice but to accede to their demands. This often results in manufacturing the retailers' own brands (private labels) (Sorensen, 2008).

Therefore, we can see that traditional channel management, with its characteristics of power struggles, conflict and loose relationships, is no longer beneficial. New ideas are emerging to help channel relationships become more cooperative. This is what is known as **trade marketing**. Trade marketing is when the manufacturer (supplier) markets directly to the trade (retailers) to create a better fit between product and outlet. The objective is to create joint marketing and strategic plans for mutual profitability.

For the manufacturer (supplier), it means creating twin marketing strategies: one to the consumer and another to the trade (retailers). However, as Figure 13.12 shows, potential channel conflicts exist because of differences in the objectives of the channel members.

Despite potential channel conflicts, what both parties share, but often forget, is their common goal of consumer satisfaction. If the desired result is to create joint marketing plans, a prerequisite must be an improved understanding of the other's perspective and objectives.

Trade marketing
Marketing to the retail trade.

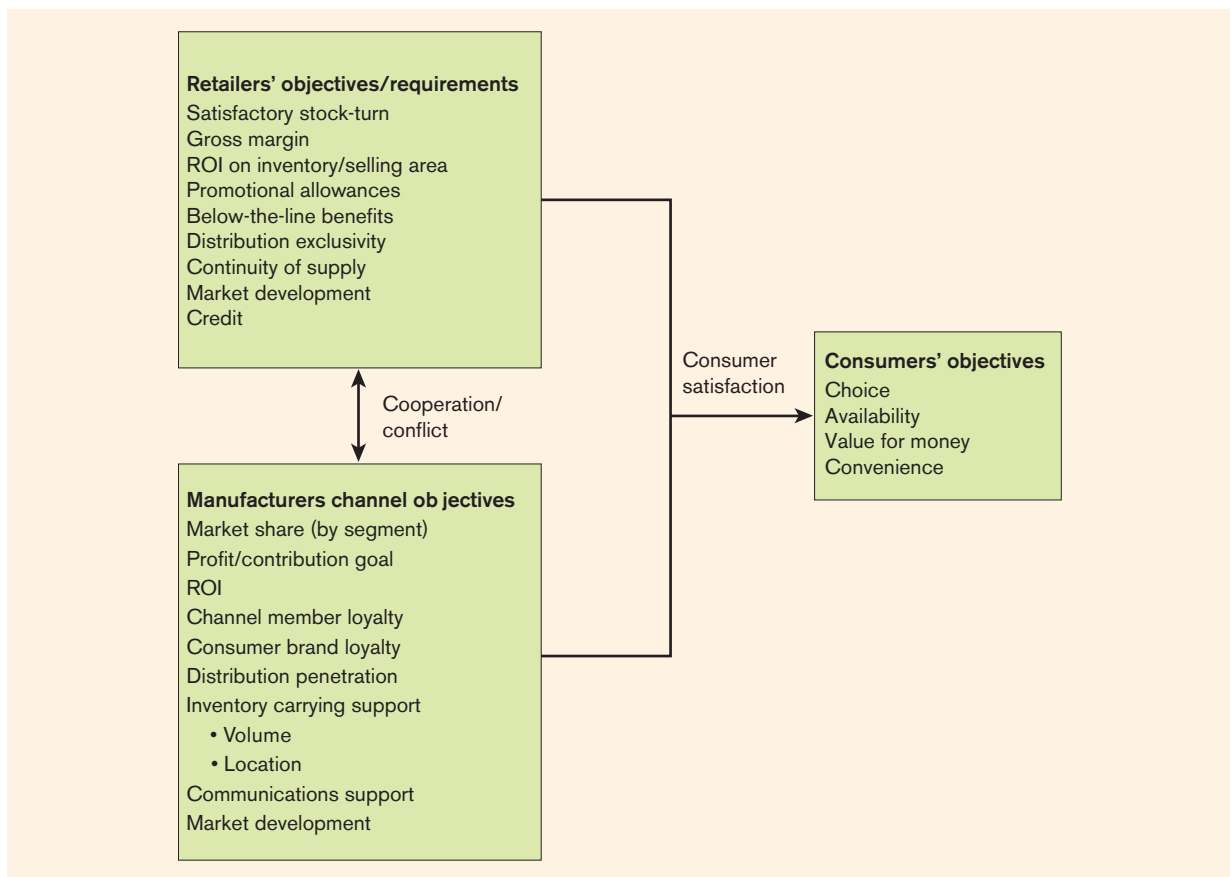


Figure 13.12

Channel relationships and the concept of trade marketing

Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach*, 2nd ed., Financial Times-Prentice Hall, Harlow, p. 507. Reproduced with permission.

Retailers are looking for potential sales, profitability, exclusivity in promotions and volume (Chakravarthy and Lorange, 2007). They are currently in the enviable position of being able to choose brands which fulfil those aims.

A private label manufacturer has to create different packages for different retailers. By carefully designing individual packages, the manufacturer gains a better chance of striking up a relationship with the best-matched retailer.

Manufacturers can offer retailers a total support package by stressing their own strengths. These include marketing knowledge and experience, market position, proven new product success, media support and exposure, and a high return on investment in shelf space.

If a joint strategy is going to be successful, manufacturers and retailers must work together at every level, perhaps by matching counterparts in each organisation. As a consequence of the increasing importance of the individual customer, the concept of the key account (key customer) was introduced. Key accounts are often large retail chains with a large turnover (in total as well as of the supplier's products), which are able to decide quantity and price on behalf of different outlets.

Segmentation of customers is therefore no longer based only on size and geographic position, but also on customers' (retailers') structure of decision making. This results in a gradual restructuring of sales from a geographic division to a customer division. This reorganisation is made visible by employing key account managers (managers responsible for customers).

ECR (efficient consumer response) in retailing

Twenty years ago, consumer goods manufacturers managed the distribution channel with advertising campaigns that pulled new products through the channel and with trade promotions used by a salesforce that pushed the product down the channel. Such a push/pull strategy often does not work today, and the reason has to do with not only faster and more accurate ordering processes and cycles, but also faster and more reliable quick-response delivery processes that now use tracking information to move bar-coded products down the distribution channel. The combination of these new computer-driven order and delivery processes is called efficient consumer response.

Efficient consumer response (ECR) programmes are designed to improve the efficiency of replenishing, delivering and stocking inventory while promoting customer value. Enhanced cooperation among channel members in order to eliminate activities that do not add value is a primary goal.

In the past, the presence of many slow-moving finished goods held in inventory by wholesalers and retailers helped manufacturers 'own' distribution channels because channel members had to move these mountains of manufacturers' goods to make a living. Now distribution channels carry small inventories of particular manufacturers' products, making the wholesalers and retailers less dependent on manufacturers. Conversely, with so little stock in distribution channels, what income manufacturers make next week almost literally depends on what they sell today. As a result, a problem with a major distribution channel has immediate effects on manufacturing and cash flow. A manufacturer has a short time to negotiate, to react and at worst to switch some of its business to another distribution channel.

13.11 MYSTERY SHOPPING IN RETAILING

Mystery shopping is a process for measuring service quality, with feedback, that is understandable to the front-line people in retailing. It is a form of participant observation, using researchers to act as customers or potential customers to monitor the quality of processes and procedures used in the delivery of a service. The need for specific performance information stems from the increasing emphasis being placed on service performance by service

managers. While service standards are invariably set by head office staff and senior management, the task of delivering these standards falls to individual customer-facing personnel. Variations in service performance can have a major impact on customer satisfaction.

The stages in the mystery shopping process are now highlighted (Erstad, 1998; Wilson, 1998).

Step 1: The objectives

Know what you want to get out of the shopping programme. The objectives should be related to having satisfied customers as well as satisfied employees. Mystery shopping is meant to reinforce positive behaviour and modify improper behaviour, but not to punish.

Step 2: The evaluation form

Use employees to define and set the measurable standards to be met. Find out what customers value and incorporate these into the evaluation form.

Step 3: The mystery shopper

Select, inform and train the mystery shopper in line with the company's objectives. The shopper must match a customer profile that is appropriate for the scenario that is being enacted.

Step 4: Conducting the shop visit

Produce an unbiased, mainly objective evaluation (but include a limited amount of subjective information) of the shop.

Step 5: The analysis

Identify gaps in the service delivery and determine their origin. The information obtained from the shopping visit is matched to the pre-established objectives and standards to determine outstanding performance as well as any gaps that might exist. Identifying the reasons for the gaps is the challenge of management and employees participating in the programme.

Step 6: The action needed

Develop a reward and incentive scheme related to employee performance in mystery shopping programmes. Provide coaching to further develop employees' technical and behavioural skills. Work on the service delivery system if gaps exist because of poor design. Repeat the mystery shopper visit.

The results of individual shopping visits should not go to senior management, but to the people directly involved, including the front-line employees. Data have to be communicated positively and in a way that is relevant to those involved. Coaching is the key to dealing with service delivery problems arising from lack of training.

In general, mystery shopping tends to lead to improvements in quality of service. However, in the longer term, the novelty of being 'shopped' can wear off, leaving personnel complacent about their service and lacking motivation to take steps to improve it further. To overcome this, standards need to be constantly updated and staff need to see the ultimate consequences and rewards of mystery shopping.

13.12 SUMMARY

In this chapter we have examined the management of international distribution channels and logistics. From the discussion it is evident that the marketer has a broad range of alternatives for selecting and developing an economical, efficient and high-volume international distribution channel.

In many instances, the channel structure is affected by external factors and it may vary from country to country. Physical distribution (external logistics) concerns the flow of goods from the manufacturer to the customer. This is one area where cost savings through efficiency are feasible, provided the decision is made systematically. The changing nature of retailing influences distribution planning. During the last decade, the balance of power (between manufacturers and retailers) has shifted in favour of the retailers. The manufacturer often has no other choice than to cooperate with large and increasingly concentrated retailers in terms of the 'trade marketing' concept.

Mystery shopping is getting a customer's view of the retail business and is widely recognised as a valuable marketing and customer service tool. Mystery shoppers visit the business, posing as an average customer. They evaluate what they find based on criteria established by the company.

CASE STUDY 13.1

Lindt & Sprüngli

The Swiss premium chocolate maker is considering an international chocolate café chain

The beginnings of Lindt & Sprüngli (in the following sometimes abbreviated to Lindt) were in 1845, when father and son for the first time manufactured solid chocolate in their small confectionery Sprüngli & Son, at that time yet a partnership. Quickly growing, it was transformed into a joint stock company in 1898 and one year later the company acquired the Bern production facilities of Rodolphe Lindt with all the manufacturing secrets and trademark rights to the then already famous brand. At the same time, the company's name was changed to Chocoladefabriken Lindt & Sprüngli AG, which in 1994 has become the parent company's name. Since then, the enterprise has grown steadily, transforming itself into a multinational group through progressive integration of licensees and strategic acquisitions.



Lindt dark chocolate

Source: Courtesy of Lindt & Sprüngli International AG

Lindt & Sprüngli today

With six production sites in Europe, two in the USA and distribution and sales companies on four continents, Chocoladefabriken Lindt & Sprüngli AG is recognised as a leader in the market for premium quality chocolate, offering a large selection of products in more than 80 countries around the world. During the nearly 160 years of Lindt & Sprüngli's existence, it has become known as one of the most innovative and creative companies making premium chocolate. Lindt's strong focus on chocolate confectionery leaves it exposed to potential downturns in demand.

In 2008 Lindt & Sprüngli achieved total net sales of CHF2,937 million (€1,938 million), of which net income was CHF261 million (€172 million). By the end of 2008 the total number of employees in the Lindt & Sprüngli group was around 8,000. Overall Lindt & Sprüngli has a strong financial base – Lindt has developed a robust, debt-free financial base, placing it in a strong position to expand through future acquisition.

Lindt has established a wide-ranging international presence, ranking in the top 10 confectionery manufacturers in the three developed regional markets, Western Europe, North America and Australasia, as well as registering significant sales in every emerging region. Lindt & Sprüngli has production and sales subsidiaries in the following countries: Switzerland, Germany, Austria, France, Italy and the United States. Furthermore, Lindt & Sprüngli has sales subsidiaries in these countries: the UK, Spain, Czech Republic, Poland, Canada, Australia, Mexico, Sweden and Hong Kong.

Lindt is a major player in premium chocolate, which is driving chocolate confectionery growth around the world. Publicity surrounding studies claiming health benefits resulting from dark chocolate consumption is generating increased demand for dark chocolate and creating potential for Lindt to extend its dark chocolate offer. However, the company's premium focus means that it is sensitive to the negative impact of deteriorating macro-economic conditions on consumer spending power.

The international chocolate markets

In 2007 the global chocolate confectionery market was worth US \$50 billion (€37 billion). Europe accounted for 45 per cent, the United States for 31 per cent, Asia-Pacific for 18 per cent and the rest of the world accounted for 6 per cent.

The global market for chocolate confectionery is more consolidated in the Western regions, while the Asia-Pacific market, which is rapidly catching up with the West, is more fragmented. Product innovation and stable customer tastes have kept the market secure and mature in the West, while production is only just increasing in Asia-Pacific. The sheer size of the Asia-Pacific market shows great prospects for the industry if it continues to expand. Tastes in chocolate vary from region to region. Milk chocolate is the most popular choice in the US, the UK and Japan, while most of Europe prefers plain chocolate, and white chocolate is particularly popular in some parts of Asia. The most successful competitors in each region are those whose products most satisfy the regional tastes.

Within the European market there is a clear north/south divide when it comes to chocolate consumption, reflecting among other things the difference in average temperatures in the two halves of the continent.

The top four countries in the rankings are all in the north. The British are the biggest consumers of chocolate in Europe, munching their way through more than 10 kg each every year. The Netherlands takes fourth place, with per capita consumption of 5 kg, while the main southern European countries covered by the report (Italy and Spain) are well down the list – Italians eat just 2.5 kg of chocolate each year while Spaniards consume just 1.7 kg.

Perhaps reflecting the fact that it straddles both the north and the south of the continent, France comes between these two groups with consumption of 4.9 kg per person.

While most Europeans eat chocolate on a regular basis, their tastes differ greatly, and not just in terms of the cocoa content.

For example, the most popular type of chocolate confectionery in the UK is countlines such as Kit Kat,

Snickers or Crunchie, which account for 45 per cent of total volume sales, followed by moulded bars (solid chocolate bars, blocks or tablets shaped by pouring melted chocolate into moulds, with or without added ingredients such as fruit and/or nuts) at 22 per cent and boxed chocolate at 13 per cent.

German consumers prefer moulded bars, while the French prefer chocolate that offers simplicity and purity of taste, without additional flavours and with little sugar. Italian tastes are geared towards the more indulgent and sophisticated end of the market.

In Spain, chocolate manufacturers are trying to follow the rest of the confectionery market and increase their market share by introducing low-fat products, Datamonitor claims. But this strategy has not been particularly successful and some companies are now focusing on the high-quality, premium-price boxed chocolate sector of the market.

Generally, the Western European sales of chocolate confectionery have been affected by a rising sense of health consciousness, having a particular impact on the chocolate segment.

The focus for growth is consequently shifting towards Eastern and Central Europe. Russia is the largest in volume terms—it's a big market with very low prices. Low prices in Russia and across the East are serving to boost volume sales rates, especially as average incomes are rising, although there are still questions over the solidity of economic growth and reconstruction in some countries, including Russia.

Lindt & Sprüngli's international markets

Lindt's core regional market is Western Europe, which accounted for 73 per cent of the company's packaged food sales in 2008.

The company's second largest regional market, North America, which accounted for 22 per cent of Lindt's packaged food sales in 2008, is expected to register the second slowest growth in chocolate confectionery over the next years.

Lindt is expanding its presence in emerging regions such as Asia-Pacific and Eastern Europe: 2007 saw the company achieve strong growth in China and Hong Kong driven by the successful launch of dark Excellence and the increasing popularity of Lindor balls as a gift for the Chinese New Year. The development of modern retail formats played an important part in driving company growth in markets such as Poland and India. In Poland, for example, Lindt's market presence was boosted by consolidation in the retail trade and the increasing importance of the major multinational retail chains.

Lindt faces significant challenges in its core Western European markets, as an increasingly sophisticated private label category competes in terms of quality as well as price and the expansion of upper-mass products sees mass-market manufacturers seek to tap into the premium trend. In Germany, the increasing competition from private label has been driven by the development of hard discounters' offers in an upmarket direction. Lidl, for example, launched 'Fairglobe' chocolate, a private label Fair Trade line in 2006. Moreover, the discounter format is expanding aggressively in Western Europe, a process which is bolstering the strength of private label throughout the region.

The encroachment of private label and the upper-mass segment on the territory of premium brands is increasing the pressure on Lindt's efforts to differentiate its offer through product innovation and marketing. In response, the company has focused strongly on the development of new products tapping into emergent demand trends. Lindt has responded to consumers' growing willingness to experiment with new flavours with the introduction of products such as Creation 70 per cent tablets combining dark chocolate with exotic fillings such as fig and caramel, and cherry and chilli, for example.

Competitive situation

Overall, the regional market shares of Lindt & Sprüngli in chocolate confectionery can be seen in Table 13.3.

The competition in chocolate confectionery is intense. The leading multinational players with their main brands and market shares (in different markets) are illustrated in Table 13.4.

The global market is generally difficult for new players to penetrate, as it is dominated by a series of major international players with a long and established history of success in the chocolate market. These players include Nestlé, Mars, Ferrero and Kraft Foods, which have all experienced strong sales throughout the West. So far, Nestlé is the only one of these companies which has managed to achieve significant success in Asia-Pacific, but it still lacks a leading position in the region's market. The leading players in the US and the UK – Hershey

and Cadbury – have not expanded their businesses beyond their home markets, in spite of their success on the domestic level.

In the United States and Canada, Hershey Co (with brands like Reese's and Hershey's Milk Chocolate) is a market leader in chocolate confectionery, but is mainly a North American player. In 1988 Hershey purchased the Cadbury US operations, and since then Hershey holds the licence to manufacture and sell Cadbury chocolate products in the USA. This is the reason why Cadbury has no market shares in the United States (see Table 13.4), though Cadbury chocolates are being sold there.

The growth of the Asia-Pacific market offers great prospects for the competitive landscape, as it will allow an increase in international trade as Western companies attempt to break into the market and capitalise on regional tastes. If the Western industry leaders acquire successful positions in the Asia-Pacific market, further consolidation is likely to occur as they acquire the smaller domestic players in Asia-Pacific.

Lindt & Sprüngli distribution

In the mature Western European market, Lindt is also exploring new distribution channels with changing consumer lifestyles and demand trends. Impulse channels such as forecourt retailing and kiosks are a particular target, as consumers' busy lifestyles drive demand for indulgent on-the-go snacks. This has included the development of products tailored specifically to the requirements of such channels, with smaller servings of brands. For example, the company has introduced smaller, 35 g Excellence tablets tailored to the convenience-oriented demand of impulse channels, designed for on-the-go consumption. In addition, Lindt is expanding its Internet activity, with the Ghirardelli Chocolate Company subsidiary nearly doubling sales via its Internet platform in 2007.

Lindt is also expanding its distribution while seeking to maintain a focus on its premium image. Thus, while Lindt products are available in a number of mass retail channels, the company has also utilised branded outlets

Table 13.3

Lindt & Sprüngli AG: world and regional shares in packaged food by sector, 2008

% retail value rsp	Western Europe	Eastern Europe	North America	Latin America	Asia	Aus	Africa/Middle East	Total world
Chocolate confectionery	3.8%	0.2%	1.8%	0.7%	0.2%	1.3%	0.4%	2.0%

Sources: Adapted from Euromonitor International (www.euromonitor.com) and own estimates.

Table 13.4 The competitive situation in the main international market and worldwide (2008)

Manufacturer	Main brands	United Kingdom (%)	Germany (%)	France (%)	United States (%)	Total world (%)
Mars (US)	Mars, Snickers, M&Ms, Bounty, Twix, Dove, Milky Way	23	12	6	32	7
Nestlé (CH)	Quality Street, Milky Bar, After Eight, Smarties, Rolo	18	6	13	5	15
Cadbury (UK)	Cadbury's Dairy Milk, Cadbury's Roses, Cadbury's Crème Egg	29	–	3	– (Sold under a Hersey licence)	8
Kraft Foods (USA)	Terry's, Toblerone, Milka	5	12	10	1	8
Ferrero (Italy)	Kinder, Duplo, Hanuta, Mon Chéri, Ferrero Rocher	2	19	16	1	7
Hershey (USA)	Reese's, KitKat (under licence from Nestlé), Hershey's Kisses	–	–	–	34	8
Ritter GmbH (Germany)	Ritter Sport, Quadrigo	–	7	1	–	1
Lindt & Sprüngli (CH)	Lindt, Lindor, Les Pyrénéens, Excellence, Champs Elyssées, Créations 70%, Fioretto, Swiss Tradition	1	8	11	2	2
Private labels	–	7	12	10	2	10
Others	–	15	24	30	24	30
Total		100	100	100	100	100

Sources: Adapted from Euromonitor International (www.euromonitor.com); Datamonitor (www.datamonitor.com); and own estimates.

as flagships for brand development. In the US, for example, the company's 100 Lindt boutiques, which demonstrate the expertise of its maîtres chocolatiers, made a significant contribution to the development of Lindt's premium image. Similarly, Lindt Chocolate Cafés are proving popular and enhancing the company's image in the Australian market, where a new outlet was added to the network in 2007.

Duty free/travel retail plays an important part in Lindt's distribution strategy, with the company benefiting from a strong presence in airport shops. During 2007, the company strengthened its presence in the channel with the introduction of new recipes such as Lindor Cocoa 60 per cent, while Lindt Swiss Premium Napolitains also proved popular around the world.

Lindt & Sprüngli is closing down own boutiques in the US market

Lindt & Sprüngli is now to close nearly two-thirds of its retail boutiques in the US as people switch from its fancy chocolates to cheaper brands.

Lindt's gloomy forecast contrasts with more upbeat outlooks by mass-market chocolate manufacturers such as Nestlé and Cadbury, both of which have reported rising sales for mainstream brands such as Cadbury Dairy Milk and KitKat in 2009.

To save money, in 2009 Lindt & Sprüngli is shutting down 50 of its 80 US retail boutiques, concentrating on boutiques in shopping malls. It first started exporting chocolate to the US in 1987 and began opening its own stores in 1994 to raise awareness of its brand.

Lindt no longer feel the need for the boutiques because most of its US sales are now made through well-known retailers such as Wal-Mart, Costco, Target and Walgreens, and because shoppers are unwilling to pay the higher prices charged at its own stores.

Lindt plans to keep its own stores in upmarket downtown locations, as well as in outlet malls, where consumers can shop at discount stores.

Green & Blacks, the organic chocolate brand owned by Cadbury, has also suffered sales declines in 2009, with the group reporting flat sales growth last year in the UK after previously having recorded annual sales growth of as much as 30 per cent.



One of the new Lindt chocolate cafés in Sydney, Australia
Source: Lindt & Sprüngli International AG

Lindt Chocolat Cafés as a new distribution channel

Lindt has been inspired by the new successful coffee café chains, such as Starbucks. Therefore, in 2004 Lindt opened three chocolate cafés in Sydney, Australia. A fourth store opened in Miranda Westfield, in Sydney's Sutherland Shire in November 2008. A fifth store was established in Melbourne, Australia, in January 2009. There is also planning in the earliest of stages for the first United States chocolate café in Wrentham, MA.

The café is famous for its rich hot chocolates which are available in dark or milk. They also sell crafted chocolates, cakes and ice cream.

QUESTIONS

- 1 Please discuss Lindt's strategic distribution alternatives in order to gain further market shares in the world confectionery market
- 2 Lindt is now considering further international expansion of the chocolate cafés and turning them into a separate business unit as a café chain within the Lindt Group. Please discuss the pros and cons for such an international chocolate café chain (Lindt Chocolate Cafés).
- 3 Which markets would you consider the most attractive for Lindt Chocolate Cafés?
- 4 Explain the business model that should be used for such a chocolate chain.

SOURCES

Datamonitor (www.datamonitor.com); Euromonitor International (www.euromonitor.com); The Lindt and Sprüngli Group (www.lindt.com); and various public sources.



Lindt's Fifth Avenue store, New York
Source: Lindt & Sprüngli International AG

QUESTIONS FOR DISCUSSION

- 1 Discuss current distribution trends in world markets.
- 2 What are the factors that affect the length, width and number of marketing channels?
- 3 In attempting to optimise marketing channel performance, which of the following should a marketer emphasise: training, motivation or compensation? Why?
- 4 When would it be feasible and advisable for a company to centralise the coordination of its foreign market distribution systems? When would decentralisation be more appropriate?
- 5 What is the idea behind 'mystery shopping' in retailing?
- 6 Why is physical distribution important to the success of global marketing?
- 7 Discuss the reasons why many exporters make extensive use of the services of freight forwarders.
- 8 Discuss the implications for the international marketer of the trend towards cross-border retailing.
- 9 Many markets have relatively large numbers of small retailers. How does this constrain the international marketer?
- 10 What services would the manufacturer like to receive from the retailer?

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