Chapter 15

International Marketing Channels

CHAPTER OUTLINE

Global Perspective: Central Perk in Beijing

Channel-of-Distribution Structures

- Import-Oriented Distribution Structure
- Japanese Distribution Structure
- Trends: From Traditional to Modern Channel Structures

Distribution Patterns

- Retail Patterns

Alternative Middleman Choices

- Home-Country Middlemen
- Foreign-Country Middlemen
- Government-Affiliated Middlemen

Factors Affecting Choice of Channels

- Cost
- Capital Requirements
- Control
- Coverage
- Character
- Continuity

Channel Management

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

The Internet

Logistics

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 15:

LO1 The variety of distribution channels and how they affect cost and efficiency in marketing

LO2 The Japanese distribution structure and what it means to Japanese customers and to competing importers of goods

LO3 How distribution patterns affect the various aspects of international marketing

LO4 The functions, advantages, and disadvantages of various kinds of middlemen

LO5 The importance of selecting and maintaining middlemen

LO6 The growing importance of e-commerce as a distribution alternative

LO7 The interdependence of physical distribution activities

Global Perspective

CENTRAL PERK IN BEIJING

All 4Ps of marketing—product, price, promotion, and place—are important for retailers, particularly the last. No one has made more profit by creating a "third place" for consumers than Starbucks. As on the TV show *Friends*, friends have a sofa to sit on, talk, and, the retailer hopes, consume. But it doesn't always work out to the retailer's advantage in Beijing:

One first-time Starbucks visitor reported, "The thing I like most is the comfortable sofa, and I think when I first saw the Starbucks I entered it and sat in the sofa. But, the servant came and told me if you don't consume coffee you can't be here. So I left because at the time I think for students like me, the price of coffee was a little bit high."

Another customer reported not knowing the rules of the game: "I remember when I first went to Starbucks I wanted an ice coffee…. But, after finishing the coffee the sugar stayed in the bottom of the cup. I don't know because there are many kinds of sugar.… I don't know what kind of sugar is right for me, for my coffee. So I want in the future … some service and lessons about what kind of sugar is added to what kind of coffee."

IKEA in Beijing has a larger store and a larger problem of this sort:

> With no plans one Saturday, Zhang Xin told his wife, son, and mother to wear something smart and hop into the family sedan. He could have taken them to the Forbidden City or the Great Wall, but he decided on another popular destination—IKEA.

Riding an escalator past a man lying on a display bed with a book opened on his belly, the clan sauntered into the crush of visitors squeezing onto the showroom path, bumping elbows and nicking ankles with their yellow shopping trolleys. Zhang said the family needed a respite from the smog and a reliable lunch. "We just came here for fun," said the 34-year-old office manager. "I suppose we could have gone somewhere else, but it wouldn't have been a complete experience."

Welcome to IKEA Beijing, where the atmosphere is more theme park than store. When the Swedish furniture giant first opened here in 1999, it hoped locals would embrace its European brand of minimalism. A decade later, Beijingers have done just that. Perhaps too much.

Every weekend, thousands of looky-loos pour into the massive showroom to use the displays. Some hop into bed, slide under the covers and sneak a nap; others bring cameras and pose with the decor. Families while away the afternoon in the store for no other reason than to enjoy the air conditioning. Visitors can't seem to resist novelties most Americans take for granted, such as free soda refills and ample seating. They also like the laid-back staffers who don't mind when a child jumps on a couch.

Purchasing anything at *Yi Jia*, as the store is called here, can seem like an afterthought. "It's the only big store in Beijing where a security guard doesn't stop you from taking a picture," said Jing Bo, 30, who was looking for promising backdrops for a photograph of his girlfriend.

The store's success can be traced, in part, to how grounded it is in the capital's zeitgeist. At a time when home ownership is more within reach and incomes are rising, IKEA offers affordable, modern furniture to an emerging middle class clamoring to be *bai ling*, or white collar. It doesn't hurt either that the understated style is a satisfying departure from, say, the faux French imperial designs favored by the older nouveaux riches and gaudy hotels.

"Our values are changing," said Lizzy Hou, a university graduate who moved to Beijing in May from neighboring Hebei province for a teaching job. "We want to be modern. I think IKEA stands for a kind of lifestyle. People don't necessarily want to buy it, but they want to at least experience it."

Imagining the possibilities here is one of the reasons Bai Yalin drove an hour and a half from her apartment to spend a day at the store with her 7-year-old son and two teenage nieces. There are few other indoor spaces, she said, where she can entertain the children free on an oppressive summer afternoon. Bai mapped out a five-hour outing. First, they had hot dogs and soft ice cream cones at noon. Then they enjoyed a long rest lounging on the beds. Bai kicked off her sandals and sprawled out on a Tromso bunk bed. The 36-year-old homemaker made herself comfortable and even answered passing shoppers' questions about the quality of the mattress. "It's soft and a great buy at this price," she told a young woman, pointing to a dangling price tag. After that, Bai and her family took group pictures. By 5:00 p.m., it was time for another meal, so they headed to the cafeteria and ate braised mushrooms with rice.

Bai and her husband, a clerk at a heating company, have bought plates and cups at IKEA, but what they'd really like one day is to rid themselves of their clunky old Chinese furniture and bring on the do-it-yourself particleboard. "Today we didn't plan to buy anything, just eat and rest," Bai said.

Though frustrated, IKEA executives hope browsers like Luo will eventually turn into buyers. That's why they don't shoo anyone away for sleeping. It's the promise of China's middle class that has girded their investment here. The privately owned company operates seven stores in China, though there have been indications that profit remains elusive.

"The brand awareness is great, but the question is, how do we get people to open up their wallets and spend money?" said Linda Xu, a company spokeswoman who rolled her eyes when she came upon a trio of slumbering customers. When Walmart and the French supermarket chain Carrefour entered China in the 1990s, many flocked to the new stores just to look and touch. Now millions of Chinese shop there every day.

IKEA has the added challenge of copycats. Brazen customers are known to come in with carpenters armed with measuring tapes to make replicas. Zhang, the office manager visiting with his family, said he bought a TV table and a couch elsewhere that looked just like IKEA furniture. "Why spend so much money when you can have the same thing cheaper?" he said.

Sources: Meera Venkatraman and Teresa Nelson, "From Servicescape to Consumptionscape: A Photo-Elicitation Study of Starbucks in the New China," *Journal of International Business Studies* 39, no. 6 (2008), pp. 1010–26; David Pierson, "Beijing Loves IKEA—But Not for Shopping," *Los Angeles Times*, August 25, 2009, online. For more on this topic, see also Edwin J. Nijssen and Susan P. Douglas, "Consumer World-Mindedness, Social-Mindedness, and Store Image," *Journal of International Marketing* 16, no. 3 (2008), pp. 84–107.

Two visitors to Beijing's IKEA enjoy a nap on a display sofa.

If marketing goals are to be achieved, a product must be made accessible to the target market at an affordable price. Getting the product to the target market can be a costly process if inadequacies within the distribution structure cannot be overcome. Forging an aggressive and reliable channel of distribution may be the most critical and challenging task facing the international marketer. Moreover, some argue that meeting such challenges is a key catalyst to economic development.

Each market contains a distribution network with many channel choices whose structures are unique and, in the short run, fixed. In some markets, the distribution structure is multilayered, complex, inefficient, even strange, and often difficult for new marketers to penetrate; in others, there are few specialized middlemen except in major urban areas; and in yet others, there is a dynamic mixture of traditional and new, evolving distribution systems available on a global scale. Regardless of the predominating distribution structure, competitive advantage will reside with the marketer best able to build the most efficient channels from among the alternatives available. And as global trade continues to burgeon and physical distribution infrastructures lag, the challenges will be even greater in the 21st century.

This chapter discusses the basic points involved in making channel decisions: channel structures; distribution patterns; available alternative middlemen; factors affecting choice of channels; and locating, selecting, motivating, and terminating middlemen.

Channel-of-Distribution Structures

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

A host of policy and strategic channel selection issues confronts the international marketing manager. These issues are not in themselves very different from those encountered in domestic distribution, but the resolution of the issues differs because of different channel alternatives and market patterns.

Each country market has a **distribution structure** through which goods pass from producer to user. Within this structure are a variety of middlemen whose customary functions, activities, and services reflect existing competition, market characteristics, tradition, and economic development.

In short, the behavior of channel members is the result of the interactions between the cultural environment and the marketing process. Channel structures range from those with little developed marketing infrastructure, such as those found in many emerging markets, to the highly complex, multilayered system found in Japan.

Import-Oriented Distribution Structure

LO1

The variety of distribution channels and how they affect cost and efficiency in marketing

Traditional channels in developing countries evolved from economies with a strong dependence on imported manufactured goods. In an *import-oriented* or *traditional distribution structure,* an importer controls a fixed supply of goods, and the marketing system develops around the philosophy of selling a limited supply of goods at high prices to a small number of affluent customers. In the resulting seller's market, market penetration and mass distribution are not necessary because demand exceeds supply, and in most cases, the customer seeks the supply from a limited number of middlemen.

This configuration affects the development of intermediaries and their functions. Distribution systems are local rather than national in scope, and the relationship between the importer and any middleman in the marketplace is considerably different from that found in a mass-marketing system. The idea of a channel as a chain of intermediaries performing specific activities and each selling to a smaller unit beneath it until the chain reaches the ultimate consumer is not common in an import-oriented system.

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

Because the importer–wholesaler traditionally performs most marketing functions, independent agencies that provide advertising, marketing research, warehousing and storage, transportation, financing, and other facilitating functions found in a developed, mature marketing infrastructure are nonexistent or underdeveloped. Thus, few independent agencies to support a fully integrated distribution system develop.

Contrast this situation with the distribution philosophy of mass consumption that prevails in the United States and other industrialized nations. In these markets, one supplier does not dominate supply, supply can be increased or decreased within a given range, and profit maximization occurs at or near production capacity. Generally a buyer's market exists, and the producer strives to penetrate the market and push goods out to the consumer, resulting in a highly developed channel structure that includes a variety of intermediaries, many of which are unknown in developing markets.

As China develops economically, its market system and distribution structure are evolving as well.[1] As already discussed, economic development is uneven, and various parts of an economy may be at different stages of development. Channel structures in countries that have historically evolved from an import-oriented base will usually have vestiges of their

[1]Lutz Kaufman and Andreas Jentzsch, "Internationalization Processes: The Case of Automotive Suppliers in China," *Journal of International Marketing* 14 (2006), pp. 52–84.

beginnings reflected in a less than fully integrated system. At the other extreme is the Japanese distribution system with its multiple layers of specialized middlemen.

Japanese Distribution Structure

LO2

The Japanese distribution structure and what it means to Japanese customers and to competing importers of goods

Distribution in Japan has long been considered a most effective nontariff barrier to the Japanese market.[2] The market is becoming more open as many traditional modes of operation are eroding in the face of competition from foreign marketers and as Japanese consumers continue to focus on lower prices. But it still serves as an excellent case study for the pervasive impact culture plays on economic institutions such as national distribution systems. The Japanese distribution structure is different enough from its U.S. or European counterparts that it should be carefully studied by anyone contemplating entry. The Japanese system has four distinguishing features: (1) a structure dominated by many small middlemen dealing with many small retailers, (2) channel control by manufacturers, (3) a business philosophy shaped by a unique culture,[3] and (4) laws that protect the foundation of the system—the small retailer.

The density of middlemen, retailers, and wholesalers in the Japanese market is unparalleled in any Western industrialized country. The traditional Japanese structure serves consumers who make small, frequent purchases at small, conveniently located stores. An equal density of wholesalers supports the high density of small stores with small inventories. It is not unusual for consumer goods to go through three or four intermediaries before reaching the consumer—producer to primary, secondary, regional, and local wholesaler, and finally to retailer to consumer. Exhibit 15.1 illustrates the contrast between shorter U.S. channels (and larger stores) and the long Japanese channels.

While other countries have large numbers of small retail stores, the major difference between small stores (nine or fewer employees) in Japan and the United States is the percentage of total retail sales accounted for by small retailers. In Japan, small stores account for 59.1 percent of retail food sales; in the United States, small stores generate 35.7 percent of food sales. A disproportionate percentage of nonfood sales are made in small stores in Japan as well. Such differences are also reflected in Exhibit 15.1. Notice the Japanese emphases on "food/drink/tobacco specialists," "clothing and footwear retailers," and "other" small stores in both categories. Meanwhile, the American distribution system puts a greater emphasis on hypermarkets like Walmart and Target.

[2]For a detailed study on this subject, see Frank Alpert, Michael Kamins, Tokoaki Sakano, Naoto Onzo, and John L. Graham, "Retail Buyer Decision Making in Japan: What U.S. Sellers Need to Know," *International Business Review* 6, no. 2 (1997), pp. 91–104; Yoshinobu Sato, "Some Reasons Why Foreign Retailers Have Difficulties in Succeeding in the Japanese Market," *Journal of Global Marketing* 18, no. 1/2 (2004), pp. 21–44.

[3]Keysuk Kim and Changho Oh, "On Distributor Commitment in Marketing Channels for Industrial Products: Contrast between the United States and Japan," *Journal of International Marketing* 10, no. 1 (2002), pp. 72–97.

Exhibit 15.1
Retail Structure in Three Countries

Source: Euromonitor International, 2009.

	Retail Outlets (000s)		
	Germany	**Japan**	**United States**
Food Stores			
Supermarkets and discounters	13.7	17.0	23.5
Hypermarkets	1.7	0.006	3.8
Small grocers	37.0	92.5	179.6
Food/drink/tobacco specialists	36.2	147.5	78.8
Other grocery retailers	4.3	76.4	7.7
Nonfood Stores			
Mixed retailers	3.0	11.6	40.5
Health and beauty retailers	47.3	80.8	88.5
Clothing and footwear retailers	32.2	141.5	113.7
Home and garden specialists	23.4	48.1	151.4
Electronics and appliances	23.6	45.6	37.4
Leisure and personal goods retailers	53.8	49.3	152.8
Other non-grocery retailers	9.0	139.0	41.0

As we shall see in a subsequent section, profound changes in retailing are occurring in Japan. Although it is still accurate to describe the Japanese market as having a high density of middlemen, the number of small stores is declining as they are being replaced by larger discount and specialty stores. The number of retail stores is down more than 13 percent between 2004–2009, and the number of retail stores with a staff of four or fewer dropped more than 15 percent. These small stores serve an important role for Japanese consumers. High population density; the tradition of frequent trips to the store; an emphasis on service, freshness, and quality; and wholesalers who provide financial assistance, frequent deliveries of small lots, and other benefits combine to support the high number of small stores.

Manufacturers depend on wholesalers for a multitude of services to other members of the distribution network. Financing, physical distribution, warehousing, inventory, promotion, and payment collection are provided to other channel members by wholesalers. The system works because wholesalers and all other middlemen downstream are tied to manufacturers by a set of practices and incentives designed to ensure strong marketing support for their products and to exclude rival competitors from the channel. Wholesalers typically act as agent middlemen and extend the manufacturer's control through the channel to the retail level.

Coupled with the close economic ties and dependency created by trade customs and the long structure of Japanese distribution channels is a relationship-oriented business philosophy that emphasizes loyalty, harmony, and friendship. The value system supports long-term dealer–supplier relationships that are difficult to change as long as each party perceives economic advantage. The traditional partner, the insider, generally has the advantage.

A general lack of price competition, the provision of costly services, and other inefficiencies render the cost of Japanese consumer goods among the highest in the world. Indeed, when you just compare paychecks at current exchange rates (that is, GDP per capita), the Japanese make $38,443 compared to Americans at $46,716. However, if you take into consideration what those paychecks will buy [that is, GDP per capita at purchase price parity (PPP)], the American advantage grows as goods cost more in Japan and their purchasing power is equivalent to only $34,099.[4] Such prices create a perfect climate for discounting, which is beginning to be a major factor. The Japanese consumer contributes to the continuation of the traditional nature of the distribution system through frequent buying trips, small purchases, favoring personal service over price, and a proclivity for loyalty to brands perceived to be of high quality. Additionally, Japanese law gives the small retailer enormous advantage over the development of larger stores and competition. All these factors have supported the continued viability of small stores and the established system, though changing attitudes among many Japanese consumers are beginning to weaken the hold traditional retailing has on the market.

Competition from large retail stores had been almost totally controlled by *Daitenho*—the **Large-Scale Retail Store Law** (and its more recent incarnations). Designed to protect small retailers from large intruders into their markets, the law required that any store larger than 5,382 square feet (500 square meters) must have approval from the prefecture government to be "built, expanded, stay open later in the evening, or change the days of the month they must remain closed." All proposals for new "large" stores were first judged by the Ministry of International Trade and Industry (MITI). Then, if all local retailers *unanimously* agreed to the plan, it was swiftly approved. However, without approval at the prefecture level, the plan was returned for clarification and modification, a process that could take several years (10 years was not unheard of) for approval.

The U.S. government's Structural Impediments Initiative, deregulation, and most recently Walmart are causing changes in Japanese distribution practices. Ultimately, however, only local merchants challenging the traditional ways by giving the consumer quality products at competitive, fair prices can bring about the demise of the traditional distribution system. Specialty discounters are sprouting up everywhere, and entrepreneurs are slashing prices by buying direct and avoiding the distribution system altogether. For example,

[4]Constant 2000 international dollars; World Development Indicators, World Bank, 2008.

CROSSING BORDERS 15.1

Big-Box Cookie-Cutter Stores Don't Always Work

Walmart, JCPenney, Office Depot, and Starbucks are all going global with their successful U.S. operating strategies. However, adaptation is still important, and many have had to adapt their operating strategy to accommodate cultural and business differences. Growth strategies must be supported by three foundations: (1) The retailer must offer a competitively superior assortment of products as defined by local customers, (2) the retailer must be able to develop superior economies across the value chain that delivers the product to the local consumer, and (3) global retailers must be able to execute in the local environment.

Consider, for example, some of the problems U.S. retailers have had when building their global strategies on these three pillars.

- In fashion and clothing markets, personal taste is critical in the buying decision. Distinctions in culture, climate, and even physiology demand that products be tailored to each market. Tight skirts, blouses, and any other article that tightly hugs the female silhouette are sure sellers in southern Europe and are sure losers in the north. Dutch women bicycle to work, so tight skirts are out. French men insist that trousers be suitable for cuffs; German men cannot be bothered with cuffs. Rayon and other artificial fabrics are impossible to sell in Germany, but next door in Holland, artificial fabrics are popular because they are much cheaper.
- The best-selling children's lines in northern Europe don't have a significant following in France; the French dress their children as little adults, not as kids. One of the best sellers is a downsized version of a women's clothing line for girls.
- Operational costs vary too. Costs in the United States, where the minimum wage is $7.75 per hour, are dramatically different than in France, where the minimum wage is over $10.00, including employer social charges. As a consequence, Toys "R" Us has been forced to adapt its operating structure in France, where it uses one-third fewer employees per store than it does in the United States.
- The image of Sam Walton's English setter on packages of its private-label dog food, Ol' Roy, was replaced with a terrier after Wal-Mart's German executives explained that terriers are popular in Germany, while setters aren't familiar.
- Office Depot closed its U.S.-style cookie-cutter stores in Japan and reopened stores one-third the size of the larger ones. Customers were put off by the warehouselike atmosphere and confused by the English-language signs. The new stores have signs in Japanese and are stocked with office products more familiar to Japanese and purchased locally, such as two-ring loose-leaf binders rather than the typical three-ring binders sold in the United States.
- The world's two largest retailers have recently pulled out of unprofitable markets—Walmart left both Germany and South Korea, and Carrefour closed its operations in southern Italy.

Sources: Ernest Beck and Emily Nelson, "As Wal-Mart Invades Europe, Rivals Rush to Match Its Formula," *The Wall Street Journal*, October 6, 1999; Amy Chozick, "Foof Revives Starbucks Japan," *The Wall Street Journal Asia*, October 24, 2006, p. 19; Miguel Bustillo, "New Chief at Wal-Mart Looks abroad for Growth," *The Wall Street Journal*, February 2, 2009, online.

Kojima, a consumer electronics discounter, practices what it calls "global purchasing" and buys merchandise anywhere in the world as cheaply as possible. Kojima's tie with General Electric enables it to offer a 410-liter GE refrigerator for $640, down from the typical price of $1,925, and to reduce the 550-liter model from $3,462 to $1,585.

Trends: From Traditional to Modern Channel Structures

Today, few countries are sufficiently isolated to be unaffected by global economic and political changes. These currents of change are altering all levels of the economic fabric, including the distribution structure.[5] Traditional channel structures are giving way to new forms, new alliances, and new processes—some more slowly than others, but all are

[5] Katrijn Gielens, Linda M. van de Gucht, Jan-Benedict E. M. Steenkamp, and Marnik G. Dekimpe, "Dancing with the Giant: The Effect of Wal-Mart's Entry into the United Kingdom on the Performance of European Retailers," *Journal of Marketing Research* 45, no. 5 (2008), pp. 519–34; Michael Etgar and Dalia Rachman-Moore, "Geographical Expansion by International Retailers: A Study of Proximate Markets and Global Expansion Strategies," *Journal of Global Marketing* 23 (2010), pp. 5–15.

changing.[6] Pressures for change in a country come from within and without. Multinational marketers are seeking ways to profitably tap market segments that currently are served by costly, traditional distribution systems. In India, the familiar clutter of traditional retailers is fast giving way to the wide aisles of new local and foreign supermarkets. In the United Kingdom Tesco is moving into retail banking in its stores,[7] and Anthropologie is testing the waters there as well.[8] As Carrefour's profits dip in Europe, it is importing new concepts from its hypermarkets in Brazil, such as a reduced number of SKUs.[9] Direct marketing, door-to-door selling, hypermarkets, discount houses, shopping malls, catalog selling, the Internet, and other distribution methods are being introduced in an attempt to provide efficient distribution channels. Importers and retailers also are becoming more involved in new product development;[10] for example, the Mexican appliance and electronics giant Grupo Elektra has formed an alliance with Beijing Automobile Works Group to develop and build low-cost cars for Mexico and export markets.

Some important trends in distribution will eventually lead to greater commonality than disparity among middlemen in different countries. Walmart, for example, is expanding all over the world—from Mexico to Brazil and from Europe to Asia.[11] The only major disappointment for the American juggernaut has been its lack of scale and profits in South Korea; in 2006 the firm sold its five stores there.[12] Avon is expanding into eastern Europe; Mary Kay Cosmetics and Amway into China; and L.L. Bean and Lands' End have successfully entered the Japanese market. The effect of all these intrusions into the traditional distribution systems is change that will make discounting, self-service, supermarkets, mass merchandising, and e-commerce concepts common all over the world, elevating the competitive climate to a level not known before.

As U.S. retailers have invaded Europe, staid, nationally based retailers have been merging with former competitors and companies from other countries to form Europewide enterprises.[13] Carrefour, a French global marketer, merged with Promodes, one of its fierce French competitors, to create, in the words of its CEO, "a worldwide retail leader." The U.K. supermarket giant Sainsbury has entered an alliance with Esselunga of Italy (supermarkets), Docks de France (hypermarkets, supermarkets, and discount stores), and Belgium's Delhaize (supermarkets). The alliance provides the four companies the opportunity to pool their experience and buying power to better face growing competition and opportunity afforded by the single European market and the euro.

While European retailers see a unified Europe as an opportunity for pan-European expansion, foreign retailers are attracted by the high margins and prices. Costco, the U.S.-based warehouse retailer, saw the high gross margins that British supermarkets command (7 to 8 percent compared with 2.5 to 3 percent in the United States) as an opportunity. Costco prices will initially be 10 to 20 percent cheaper than rival local retailers.

Expansion outside the home country, as well as new types of retailing, is occurring throughout Europe. El Corte Inglés, Spain's largest department store chain, not only is

[6]Suk-Ching Ho, "Evolution versus Tradition in Marketing Systems: The Hong Kong Food Retailing Experience," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 90–99; Ellyn Byron, "P&G's Global Target: Shelves of Tiny Stores," *The Wall Street Journal*, July 16, 2007, pp. A1, A10; Bruce Einhorn and Wing-Gar Cheng, "China: Where Retail Dinosaurs Are Thriving, *Bloomberg BusinessWeek*, February 1 & 8, 2010, p. 64.

[7]Kerry Capell, "Eggs, Bread, Milk—and a Mortgage," *Bloomberg BusinessWeek*, March 1, 2010, p. 20.

[8]Michael Arndt, "Urban Outfitters' Grow-Slow Strategy," *Bloomberg BusinessWeek*, March 1, 2010, p. 56.

[9]Christina Passariello, "Carrefour Net Drops Amid Overhaul Effort," *The Wall Street* Journal, February 19, 2010, online.

[10]Goksel Yalcinkaya, Roger J. Calantone, and David A. Griffith, "An Examination of Exploration Capabilities: Implications for Product Innovation and Market Performance," *Journal of International Marketing* 15 (2007), pp. 63–93.

[11]Anand Giridharadas, "Megastores Gaze Longingly at India," *International Herald Tribune*, April 2–3, 2005, pp. 13, 15.

[12]"Wal-Mart Exits Korean Market," *Los Angeles Times*, May 23, 2006, p. C3.

[13]John Dawson, "New Cultures, New Strategies, New Formats, and New Relationships in European Retailing: Some Implications for Asia," *Journal of Global Marketing* 18, no. 1/2 (2004), pp. 73–98.

moving into Portugal and other European countries but also was one of the first retailers to offer a virtual supermarket on the Internet (www.elcorteingles.es) and to sponsor two 24-hour home shopping channels in Spain. Increasingly smaller retailers are also expanding overseas.[14] Another Spanish retailer, Mango, opened a store in New York City and, along with other European competitors, was taking advantage of low costs of operation in the United States at the time associated with the sinking dollar.[15]

One of Walmart's strengths is its internal Internet-based system, which makes its transactions with suppliers highly efficient and lowers its cost of operations. Indeed, it is buying ailing retailers around the world with the intention of "saving them" with its distribution technologies. This same type of system is available on the Internet for both business-to-business and business-to-consumer transactions. For example, General Motors, Ford Motor Company, and DaimlerChrysler have created a single online site called Covisint (www.covisint.com) for purchasing automotive parts from suppliers, which is expected to save the companies millions of dollars. A typical purchase order costs Ford $150, whereas a real-time order via Covisint will cost about $15. Sears Roebuck and Carrefour of France have created GlobalNetXchange (www.gnx.com), a retail exchange that allows retailers and their suppliers to conduct transactions online. Any company with a Web browser can access the exchange to buy, sell, trade, or auction goods and services. Described as "one of the most dramatic changes in consumer-products distribution of the decade," the exchange is expected to lower costs for both buyer and supplier. As more such exchanges evolve, one can only speculate about the impact on traditional channel middlemen.

We have already seen the impact on traditional retailing within the last few years caused by e-commerce retailers such as Amazon.com, Dell Computer, eBay, and others—all of which are expanding globally. Most brick-and-mortar retailers are experimenting with or have fully developed Web sites, some of which are merely extensions of their regular stores, allowing them to extend their reach globally. L.L. Bean, Eddie Bauer, and Lands' End are examples.

One of the most challenging aspects of Web sales is delivery of goods. One of the innovative features of the 7dream program at 7-Eleven stores in Japan is the use of convenience stores for pick-up points for Web orders. It has worked so well in Japan that Ito-Yokado Corporation, owner of 7-Eleven Japan and 72 percent of the U.S. chain, is exporting the idea to U.S. stores. In the Dallas–Fort Worth area, 250 stores have installed ATM-like machines tied into a delivery and payment system that promises to make 7-Eleven stores a

[14]Karise Hutchinson, Nicholas Alexander, Barry Quinn, and Anne Marie Doherty, "Internationalization Motives and Facilitating Factors: Qualitative Evidence from Smaller Specialists Retailers," *Journal of International Marketing* 15 (2007), pp. 96–122.

[15]J. Alex Tarquinio, "Foreign Shops Invade New York," *International Herald Tribune*, January 30, 2008, pp. 9, 10.

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

depot for e-commerce. FedEx, UPS, and other package delivery services that have been the backbone of e-commerce delivery in the United States are offering similar services for foreign customers of U.S. e-commerce companies, as well as for foreign-based ones. When goods cross borders, UPS and others offer seamless shipments, including customs and brokerage. Most of these service companies are established in Europe and Japan and are building networks in Latin America and China.

The impact of these and other trends will change traditional distribution and marketing systems. While this latest retailing revolution remains in flux, new retailing and middlemen systems will be invented, and established companies will experiment, seeking ways to maintain their competitive edge. Moreover, it is becoming more dangerous to think of competitors in terms of individual companies—in international business generally, and distribution systems particularly, a networks perspective is increasingly required. That is, firms must be understood in the context of the commercial networks of which they are a part.[16] These changes will resonate throughout the distribution chain before new concepts are established and the system stabilizes. Not since the upheaval that occurred in U.S. distribution after World War II that ultimately led to the Big-Box type of retailer has there been such potential for change in distribution systems. This time, however, such change will not be limited mostly to the United States—it will be worldwide.

Distribution Patterns

LO3

How distribution patterns affect the various aspects of international marketing

Even though patterns of distribution are in a state of change and new patterns are developing, international marketers need a general awareness of the traditional distribution base. The "traditional" system will not change overnight, and vestiges of it will remain for years to come. Nearly every international firm is forced by the structure of the market to use at least some middlemen in the distribution arrangement. It is all too easy to conclude that, because the structural arrangements of foreign and domestic distribution seem alike, foreign channels are the same as or similar to domestic channels of the same name. Only when the varied intricacies of actual distribution patterns are understood can the complexity of the distribution task be appreciated. The following description of differences in retailing should convey a sense of the variety of distribution patterns in general, including wholesalers.

[16]Mats Forsgren, Ulf Holm, and Jan Johanson, *Managing the Embedded Multinational: A Business Network View* (Northampton, MA: Edward Elgar, 2005); see also the associated book review by Charles Dhanarah, *Journal of International Business Studies* 38 (2007), pp. 1231–33.

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

Retail Patterns

Retailing shows even greater diversity in its structure than does wholesaling. In Italy and Morocco, retailing is composed largely of specialty houses that carry narrow lines, whereas in Finland, most retailers carry a more general line of merchandise. Retail size is represented at one end by Japan's giant department store Mitsukoshi, which reportedly enjoys the patronage of more than 100,000 customers every day, and at the other extreme by the market of Ibadan, Nigeria, where some 3,000 one- or two-person stalls serve not many more customers. Some manufacturers sell directly to consumers through company-owned stores such as Cartier and Disney, and some sell through a half-dozen layers of middlemen.

Size Patterns. The extremes in size in retailing are similar to those that predominate in wholesaling. Exhibit 15.2 dramatically illustrates some of the variations in size and number of retailers per person that exist in some countries. The retail structure and the problems it engenders cause real difficulties for the international marketing firm selling consumer goods. Large dominant retailers can be sold to directly, but there is no adequate way to reach small retailers who, in the aggregate, handle a great volume of sales.[17] In Italy, official figures show there are 931,000 retail stores, or one store for every 63 Italians. Of the 269,000 food stores, fewer than 10,000 can be classified as large. Thus, retailers are a critical factor in adequate distribution in Italy.

Underdeveloped countries present similar problems. Among the large supermarket chains in South Africa, there is considerable concentration. Of the country's 31,000 stores, 1,000 control 60 percent of all grocery sales, leaving the remaining 40 percent of sales to be spread among 30,000 stores. To reach the 40 percent of the market served by those 30,000 stores may be difficult. In black communities in particular, retailing is on a small scale—cigarettes are often sold singly, and the entire fruit inventory may consist of four apples in a bowl.

Retailing around the world has been in a state of active ferment for several years. The rate of change appears to be directly related to the stage and speed of economic development, and even the least developed countries are experiencing dramatic changes. Supermarkets of one variety or another are blossoming in developed and underdeveloped countries alike. Discount houses that sell everything from powdered milk and canned chili to Korean TVs and DVD players are thriving and expanding worldwide.

Direct Marketing. Selling directly to the consumer through mail, by telephone, or door-to-door is often the approach of choice in markets with insufficient or underdeveloped distribution systems. The approach, of course, also works well in the most affluent markets. Amway, operating in 42 foreign countries, has successfully expanded into Latin America and Asia with its method of direct marketing. Companies that enlist individuals to sell their products are proving to be especially popular in eastern Europe and other countries where many people are looking for ways to become entrepreneurs. In the Czech Republic, for example, Amway Corporation signed up 25,000 Czechs as distributors and sold 40,000 starter kits at $83 each in its first two weeks of business. Avon is another American company that is expanding dramatically overseas.

[17] Tomasz Lenartowicz and Sridhar Balasubramanian, "Practices and Performance of Small Retail Stores in Developing Economies," *Journal of International Marketing* 17 (2009), pp. 59–90.

Exhibit 15.2
Retail Structure in Selected Countries

Source: Euromonitor International, 2009.

Country	All Retailers (000)	People Served per Retailer	Internet Users (per 1,000)
United States	921	333	741
Canada	161	208	769
Argentina	429	94	309
Germany	300	270	785
Russia	470	303	285
Israel	48	154	306
South Africa	117	417	88
China	4,817	278	283
Japan	849	149	724
Australia	84	256	734

CROSSING BORDERS 15.2 It Depends on What "Not Satisfied" Means

Amway's policy is that dissatisfied customers can get a full refund at any time, no questions asked—even if the returned bottles are empty. This refund policy is a courtesy to customers and a testament that the company stands behind its products, and it is the same all over the world. But such capitalistic concepts are somewhat unfamiliar in China.

The best game in town for months among the rising ranks of Shanghai's entrepreneurs was an $84 investment for a box of soaps and cosmetics that they could sell as Amway distributors. Word of this no-lose proposition quickly spread, with some people repackaging the soap, selling it, and then turning in the containers for a refund. Others dispensed with selling altogether and scoured garbage bins instead, showing up at Amway's Shanghai offices with bags full of bottles to be redeemed.

One salesman got nearly $10,000 for eight sacks full of all kinds of empty Amway containers. And at least one barbershop started using Amway shampoos for free and returning each empty bottle for a full refund. In a few weeks, refunds were totaling more than $100,000 a day. "Perhaps we were too lenient," said Amway's Shanghai chief. Amway changed the policy, only to have hundreds of angry Amway distributors descend on the company's offices to complain that they were cheated out of their money. Amway had to call a press conference to explain that it wasn't changing its refund policy, simply raising the standard for what is deemed dissatisfaction. If someone returns half a bottle, fine, but for empties, Amway announced it would check records to see if the person had a pattern of return.

But the company did not anticipate the unusual sense of entitlement it had engendered in China. The satisfaction-guaranteed policy did not spell out specifically what dissatisfaction meant, something people in the Western world understood. "We thought that it would be understood here, too." The change in policy left some dissatisfied. One distributor protested, "Don't open a company if you can't afford losses." Despite these initial problems, Amway apparently is learning the market—the company doubled its sales last year in China to $2 billion. And other direct marketers are also finding similar success in China.

Sources: Craig S. Smith, "Distribution Remains the Key Problem for Market Makers," *Business China*, May 13, 1996, p. 4; "In China, Some Distributors Have Really Cleaned Up with Amway," *The Wall Street Journal*, August 4, 1997, p. B1; "Avon Forays into Healthcare Sector via Direct Sales," *SinoCast China Business Daily News*, January 14, 2008, p. 1; David Barboza, "Direct Selling Flourishes in China, Providing Jobs and Igniting Criticism," *The New York Times*, December 26, 2009, pp. B1, B5.

Direct sales through catalogs have proved to be a successful way to enter foreign markets. In Japan, it has been an important way to break the trade barrier imposed by the Japanese distribution system. For example, a U.S. mail-order company, Shop America, teamed up with 7-Eleven Japan to distribute catalogs in its 4,000 stores. Shop America sells items such as compact discs, Canon cameras, and Rolex watches for 30 to 50 percent less than Tokyo stores; a Canon Autoboy camera sells for $260 in Tokyo and $180 in the Shop America catalog.

Many catalog companies are finding they need to open telephone service centers in a country to accommodate customers who have questions or problems. Hanna Andersson (the children's clothing manufacturer), for example, received complaints that it was too difficult to get questions answered and to place orders by telephone, so it opened a service center with 24 telephone operators to assist customers who generate over $5 million in sales annually. Many catalog companies also have active Web sites that augment their catalog sales.

Resistance to Change. Efforts to improve the efficiency of the distribution system, new types of middlemen, and other attempts to change traditional ways are typically viewed as threatening and are thus resisted. A classic example is the restructuring of the film distribution business being caused by the fast changing technologies of digitization and piracy. Laws abound that protect the entrenched in their positions. In Italy, a new retail outlet must obtain a license from a municipal board composed of local tradespeople. In a two-year period, some 200 applications were made and only 10 new licenses granted. Opposition to retail innovation is everywhere, yet in the face of all the restrictions and hindrances, self-service, discount merchandising, liberal store hours, and large-scale merchandising continue to grow because they offer the consumer convenience and a broad range of quality product brands at advantageous prices. Ultimately the consumer does prevail.

Alternative Middleman Choices

LO4

The functions, advantages, and disadvantages of various kinds of middlemen

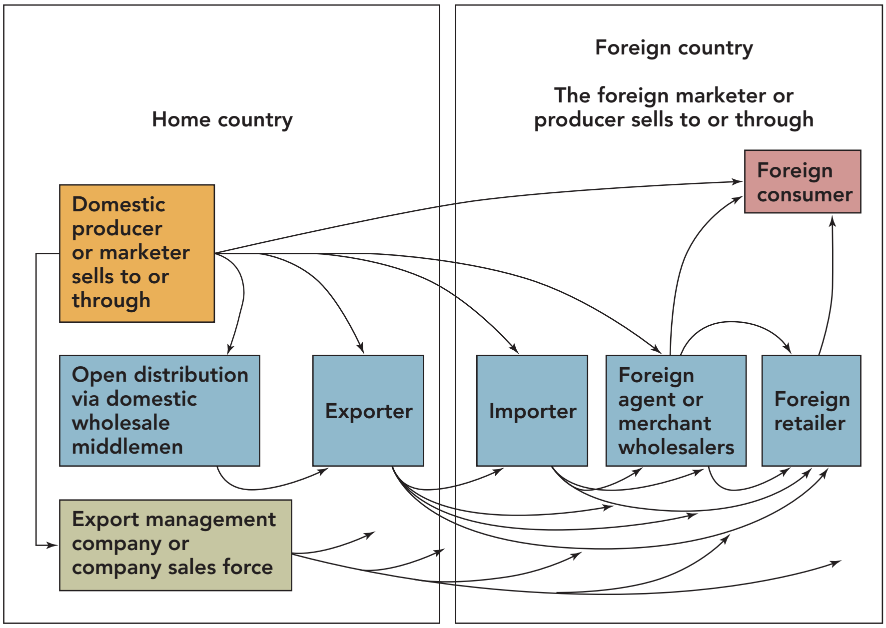
A marketer's options range from assuming the entire distribution activity (by establishing its own subsidiaries and marketing directly to the end user) to depending on intermediaries for distribution of the product. Channel selection must be given considerable thought, because once initiated, it is difficult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

The channel process includes all activities, beginning with the manufacturer and ending with the final consumer. This inclusion means the seller must exert influence over two sets of channels: one in the home country and one in the foreign-market country. Exhibit 15.3 shows some of the possible channel-of-distribution alternatives. The arrows show those to whom the producer and each of the middlemen might sell. In the home country, the seller must have an organization (generally the international marketing division of a company) to deal with channel members needed to move goods between countries. In the foreign market, the seller must supervise the channels that supply the product to the end user. Ideally, the company wants to control or be directly involved in the process through the various channel members to the final user. To do less may result in unsatisfactory distribution and the failure of marketing objectives. In practice, however, such involvement throughout the channel process is not always practical or cost effective. Consequently, selection of channel members and effective controls are high priorities in establishing the distribution process.

Once the marketer has clarified company objectives and policies, the next step is the selection of specific intermediaries needed to develop a channel. External middlemen are differentiated according to whether or not they take title to the goods: **Agent middlemen** work on commission and arrange for sales in the foreign country but do not take title to the merchandise. By using agents, the manufacturer assumes trading risk but maintains the right to establish policy guidelines and prices and to require its agents to provide sales records and customer information. **Merchant middlemen** actually take title to manufacturers' goods and assume the trading risks, so they tend to be less controllable than agent middlemen. Merchant middlemen provide a variety of import and export wholesaling functions involved in purchasing for their own account and selling in other countries. Because merchant middlemen primarily are concerned with sales and profit margins on their merchandise, they are frequently criticized for not representing the best interests of a manufacturer. Unless they have a franchise or a strong and profitable brand, merchant middlemen seek goods from any source and are likely to have low brand loyalty. Ease of contact, minimized credit risk, and elimination

Exhibit 15.3

International Channel-of-Distribution Alternatives



of all merchandise handling outside the United States are some of the advantages of using merchant middlemen.

Middlemen are not clear-cut, precise, easily defined entities. A firm that represents one of the pure types identified here is rare. Thus, intimate knowledge of middlemen functions is especially important in international activity because misleading titles can fool a marketer unable to look beyond mere names. What are the functions of a British middleman called a stockist, or one called an exporter or importer? One exporter may, in fact, be an agent middleman, whereas another is a merchant. Many, if not most, international middlemen wear several hats and can be clearly identified only in the context of their relationship with a specific firm.

Only by analyzing middlemen functions in skeletal simplicity can the nature of the channels be determined. Three alternatives are presented: first, middlemen physically located in the manufacturer's home country; next, middlemen located in foreign countries; and finally, government-affiliated middlemen.

Home-Country Middlemen

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

Remember for a moment the scene in the Pixar movie *Monsters, Inc.*—millions of doors on conveyor belts. That scene is reminiscent of the inside of the Nike's European distribution center in Laakdal, Belgium. The shoes come from a variety of Asian low-cost manufacturers and arrive at the center via Rotterdam and Antwerp and the adjacent canal. Twelve hundred people work at the heavily automated facility where 8 million pairs of shoes are sorted and then shipped to customers all over the continent via truck. Even as sales grow, the company will not need to expand the center, because the trend is for the factories to ship directly to the major European retailers, including the Nike Sport in St. Petersburg pictured in Chapter 10.

Manufacturers' Retail Stores. An important channel of distribution for a large number of manufacturers is the owned, or perhaps franchised, retail store. Disney, Benetton, and many of the classic Italian luxury goods makers take this approach.

Global Retailers. As global retailers like IKEA, Costco, Sears Roebuck, Toys "R" Us, and Walmart expand their global coverage, they are becoming major domestic middlemen for international markets. Walmart, with more than 8,000 stores in 14 foreign markets, is an attractive entry point to international markets for U.S. suppliers. Walmart offers an effective way to enter international markets with a minimum of experience. For example, Pacific Connections, a California manufacturer of handbags with $70 million in sales, ventured into overseas markets in Argentina, Brazil, Canada, and Mexico through its ties to Walmart. And as trade restrictions are eased through alliances such as NAFTA, new global retailers are being created—Gigante from Mexico is a good example of this trend.

Export Management Companies. The **export management company (EMC)** is an important middleman for firms with relatively small international volume or those unwilling to involve their own personnel in the international function. These EMCs range in size from 1 person upward to 100 and handle about 10 percent of the manufactured goods exported. An example of an EMC is a Washington, D.C.–based company that has exclusive agreements with 10 U.S. manufacturers of orthopedic equipment and markets these products on a worldwide basis.

Typically, the EMC becomes an integral part of the marketing operations of its client companies. Working under the names of the manufacturers, the EMC functions as a

Exhibit 15.4
How Does an EMC Operate?

Most export management companies offer a wide range of services and assistance, including the following:

Researching foreign markets for a client's products. Traveling overseas to determine the best method of distributing the product. Appointing distributors or commission representatives as needed in individual foreign countries, frequently within an already existing overseas network created for similar goods. Exhibiting the client's products at international trade shows, such as U.S. Department of Commerce–sponsored commercial exhibitions at trade fairs and U.S. Export Development Offices around the world.

Handling the routine details in getting the product to the foreign customer—export declarations, shipping and customs documentation, insurance, banking, and instructions for special export packing and marking.

Granting the customary finance terms to the trade abroad and ensuring payment to the manufacturer of the product.

Preparing advertising and sales literature in cooperation with the manufacturer and adapting it to overseas requirements for use in personal contacts with foreign buyers.

Corresponding in the necessary foreign languages.

Making sure that goods being shipped are suitable for local conditions and meet overseas legal and trade norms, including labeling, packaging, purity, and electrical characteristics. Advising on overseas patent and trademark protection requirements.

Source: "The Export Management Company," U.S. Department of Commerce, Washington, DC.

low-cost, independent marketing department with direct responsibility to the parent firm. The working relationship is so close that customers are often unaware they are not dealing directly with the export department of the company (see Exhibit 15.4).

The export management company may take full or partial responsibility for promotion of the goods, credit arrangements, physical handling, market research, and information on financial, patent, and licensing matters. An EMC's specialization in a given field often enables it to offer a level of service that could not be attained by the manufacturer without years of groundwork. Traditionally, the EMC works on commission, though an increasing number are buying products on their own account.

Two of the chief advantages of EMCs are minimum investment on the part of the company to get into international markets, and no commitment of company personnel or major expenditure of managerial effort. The result, in effect, is an extension of the market for the firm with negligible financial or personnel commitments.

The major disadvantage is that EMCs seldom can afford to make the kind of market investment needed to establish deep distribution for products because they must have immediate sales payout to survive. Such a situation does not offer the market advantages gained by a company that can afford to use company personnel. Carefully selected EMCs can do an excellent job, but the manufacturer must remember that the EMC is dependent on sales volume for compensation and probably will not push the manufacturer's line if it is spread too thinly, generates too small a volume from a given principal, or cannot operate profitably in the short run. In such cases, the EMC becomes an order taker and not the desired substitute for an international marketing department.

Trading Companies. Trading companies have a long and honorable history as important intermediaries in the development of trade between nations. **Trading companies** accumulate, transport, and distribute goods from many countries. In concept, the trading company has changed little in hundreds of years.

The British firm Gray MacKenzie and Company is typical of companies operating in the Middle East. It has some 70 salespeople and handles consumer products ranging from toiletries to outboard motors and Scotch whiskey. The key advantage to this type of trading company is that it covers the entire Middle East.

Large, established trading companies generally are located in developed countries; they sell manufactured goods to developing countries and buy raw materials and unprocessed goods. Japanese trading companies (*sogo shosha*) date back to the early 1700s and operate both as importers and exporters. Some 300 are engaged in foreign and domestic trade through 2,000 branch offices outside Japan and handle over $1 trillion in trading volume annually. Japanese trading companies account for 61 percent of all Japanese imports and 39 percent of all exports, or about one-fifth of Japan's entire GDP.

For companies seeking entrance into the complicated Japanese distribution system, the Japanese trading company offers one of the easiest routes to success. The omnipresent trading companies virtually control distribution through all levels of channels in Japan. Because trading companies may control many of the distributors and maintain broad distribution channels, they provide the best means for intensive coverage of the market.

U.S. Export Trading Companies. The **Export Trading Company (ETC)** Act allows producers of similar products to form export trading companies. A major goal of the ETC Act was to increase U.S. exports by encouraging more efficient export trade services to producers and suppliers to improve the availability of trade finance and to remove antitrust disincentives to export activities. By providing U.S. businesses with an opportunity to obtain antitrust preclearance for specified export activities, the ETC Act created a more favorable environment for the formation of joint export ventures. Through such joint ventures, U.S. firms can take advantage of economies of scale, spread risk, and pool their expertise. In addition, through joint selling arrangements, domestic competitors can avoid interfirm rivalry in foreign markets. Prior to the passage of the ETC Act, competing companies could not engage in joint exporting efforts without possible violation of antitrust provisions. The other important provision of the ETC Act permits bank holding companies to own ETCs.

Immediately after passage of the ETC Act, several major companies (General Electric, Sears Roebuck, Kmart, and others) announced the development of export trading companies. In most cases, these export firms did not require the protection of the ETC Act since they initially operated independently of other enterprises. They provided international sales for U.S. companies to a limited extent, but primarily they operated as trading companies for their own products. To date, many of the trading companies (particularly the bank-owned ones) established after passage of the ETC Act have closed their doors or are languishing.

Complementary Marketers. Companies with marketing facilities or contacts in different countries with excess distribution capacity or a desire for a broader product line sometimes take on additional lines for international distribution; though the formal name for such activities is **complementary marketing**, it is commonly called *piggybacking*. General Electric Company has been distributing merchandise from other suppliers for many years. It accepts products that are noncompetitive but complementary and that add to the basic distribution strength of the company itself. The classic example was Gillette distributing batteries in less developed countries, years before Gillette bought Duracell.

Most piggyback arrangements are undertaken when a firm wants to fill out its product line or keep its seasonal distribution channels functioning throughout the year. Companies may work either on an agency or merchant basis, but the greatest volume of piggyback business is handled on an ownership (merchant) purchase-and-resale arrangement. The selection process for new products for piggyback distribution determines whether (1) the product relates to the product line and contributes to it, (2) the product fits the sales and distribution channel presently employed, (3) the margin is adequate to make the undertaking worthwhile, and (4) the product will find market acceptance and profitable volume. If these requirements are met, piggybacking can be a logical way of increasing volume and profit for both the carrier and the piggybacker.

Manufacturer's Export Agent. The *manufacturer's export agent* (*MEA*) is an individual agent middleman or an agent middleman firm providing a selling service for manufacturers. Unlike the EMC, the MEA does not serve as the producer's export department but has a short-term relationship, covers only one or two markets, and operates on a straight commission basis. Another principal difference is that MEAs do business in their own names rather than in the name of the client. Within a limited scope of operation, the MEAs provide services similar to those of the EMC.

Webb-Pomerene Export Associations. *Webb-Pomerene export associations* (*WPEAs*) are another major form of group exporting. The Webb-Pomerene Act of 1918 allowed American business firms to join forces in export activities without being subject to the Sherman Antitrust Act. Thus, WPEAs cannot participate in cartels or other international agreements that would reduce competition in the United States, but they can offer four major benefits: (1) reduction of export costs, (2) demand expansion through promotion, (3) trade barrier reductions, and (4) improvement of trade terms through bilateral bargaining. Additionally, WPEAs set prices, standardize products, and arrange for disposal of surplus products. Although they account for less than 5 percent of U.S. exports, WPEAs include some of America's blue-chip companies in agricultural products, chemicals and raw materials, forest products, pulp and paper, textiles, rubber products, motion pictures, and television.

Foreign Sales Corporation. A *foreign sales corporation* (*FSC*) is a sales corporation set up in a foreign country or U.S. possession that can obtain a corporate tax exemption on a portion of the earnings generated by the sale or lease of export property. Manufacturers and export groups can form FSCs. An FSC can function as a principal, buying and selling for its own account, or a commissioned agent. It can be related to a manufacturing parent or can be an independent merchant or broker. The WTO in 2003 ruled FSCs to be in violation of international trade rules, thus starting a major trade dispute with the European Union that still simmers and occasionally sizzles.

Recall that the Japanese are the world-champion fish consumers at nearly 40 kg per person per year—see Exhibit 4.2. Consequently, just as world prices for cut flowers are set at the Aalsmeer Flower Auction in the Netherlands, world prices for fish are set at the Tsukigi fish market in Tokyo. A big fresh bluefin tuna caught in the Atlantic, iced and shipped by air to Tokyo, can bring as much as $220,000[18] at auction, and then be shipped by air back to Boston for hungry sushi consumers. Perhaps the market is "too efficient," as the world now faces a shortage of such tuna.

Foreign-Country Middlemen

The variety of agent and merchant middlemen in most countries is similar to that in the United States. International marketers seeking greater control over the distribution process may elect to deal directly with middlemen in the foreign market. They gain the advantage of shorter channels and deal with middlemen in constant contact with the market.

Using foreign-country middlemen moves the manufacturer closer to the market and involves the company more closely with problems of language, physical distribution, communications, and financing. Foreign middlemen may be agents or merchants, they may be associated with the parent company to varying degrees, or they may be hired temporarily for special purposes. Some of the more important foreign-country middlemen are manufacturer's representatives and foreign distributors.

Government-Affiliated Middlemen

Marketers must deal with governments in every country of the world. Products, services, and commodities for the government's own use are always procured through government purchasing offices at federal, regional, and local levels. In the Netherlands, the

[18]"Giant Tuna Fetches $177,000 at Japanese Auction," *Associated Press*, January 5, 2010, online.

state's purchasing office deals with more than 10,000 suppliers in 20 countries. About one-third of the products purchased by that agency are produced outside the Netherlands. Finally, regarding the efficiency of the public sector versus the private sector, an important lesson was learned during the 2005 Hurricane Katrina disaster—Walmart planned for and delivered aid better than FEMA (the U.S Federal Emergency Management Agency).

Factors Affecting Choice of Channels

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

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

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

Key elements in distribution decisions include the functions performed by middlemen (and the effectiveness with which each is performed), the cost of their services, their availability, and the extent of control that the manufacturer can exert over middlemen activities.

Although the overall marketing strategy of the firm must embody the company's profit goals in the short and long run, channel strategy itself is considered to have six specific strategic goals. These goals can be characterized as the six Cs of channel strategy: cost, capital, control, coverage, character, and continuity. In forging the overall channel-of-distribution strategy, each of the six Cs must be considered in building an economical, effective distribution organization within the long-range channel policies of the company. It should also be noted that many firms use multiple or hybrid channels of distribution because of the trade-offs associated with any one option. Indeed, both Dell selling computers at kiosks inside Japan's Jusco supermarkets and Toys "R" Us selling toys in food stores are good examples.

Cost

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

Despite the old truism that you can eliminate middlemen but you cannot eliminate their functions or cost, creative, efficient marketing does permit channel cost savings in many circumstances. Some marketers have found, in fact, that they can reduce cost by eliminating inefficient middlemen and thus shortening the channel. Mexico's largest producer of radio and television sets has built annual sales of $36 million on its ability to sell goods at a low price because it eliminated middlemen, established its own wholesalers, and kept margins low. Conversely, many firms accustomed to using their own sales forces in large-volume domestic markets have found they must lengthen channels of distribution to keep costs in line with foreign markets.

Capital Requirements

The financial ramifications of a distribution policy are often overlooked. Critical elements are capital requirement and cash-flow patterns associated with using a particular type of middleman. Maximum investment is usually required when a company establishes its own internal channels, that is, its own sales force. Use of distributors or dealers may lessen the capital investment, but manufacturers often have to provide initial inventories on consignment, loans, floor plans, or other arrangements. Coca-Cola initially invested in China with majority partners that met most of the capital requirements. However, Coca-Cola soon realized that it could not depend on its local majority partners to distribute its product aggressively in the highly competitive, market-share–driven business of carbonated beverages. To assume more control of distribution, it had to assume management control, and that meant greater capital investment from Coca-Cola. One of the highest costs of doing business in China is the capital required to maintain effective distribution.

Control

The more involved a company is with the distribution, the more control it exerts. A company's own sales force affords the most control but often at a cost that is not practical. Each type of channel arrangement provides a different level of control; as channels grow longer, the ability to control price,[19] volume, promotion, and type of outlets diminishes. If a company cannot sell directly to the end user or final retailer, an important selection criterion for middlemen should be the amount of control the marketer can maintain. Of course, there are risks in international distribution relationships as well—opportunism and exploitation are two. Finally, one of the most alarming examples of distribution channels out of control regards the current worldwide shortage of fish; retailers and distributors in affluent countries literally feed the demands of their voracious customers and kill the fisheries along the way.[20]

Coverage

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

Many companies do not attempt full-market coverage but seek significant penetration in major population centers. In some countries, two or three cities constitute the majority of the national buying power. For instance, 60 percent of the Japanese population lives in the Tokyo–Nagoya–Osaka market area, which essentially functions as one massive city.

At the other extreme are many developing countries with a paucity of specialized middlemen except in major urban areas. Those that do exist are often small, with traditionally high margins. In China, for example, the often-cited billion-person market is, in reality, confined to fewer than 25 to 30 percent of the population of the most affluent cities. Even as personal income increases in China, distribution inadequacies limit marketers in reaching all those who have adequate incomes. In both extremes, the difficulty of developing an efficient channel from existing middlemen plus the high cost of distribution may nullify efficiencies achieved in other parts of the marketing mix.

To achieve coverage, a company may have to use many different channels—its own sales force in one country, manufacturers' agents in another, and merchant wholesalers in still another.

Character

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

---

[19] Ting-Jui Chou and Fu-Tang Chen, "Retail Pricing Strategies in Recession Economies: The Case of Taiwan," *Journal of International Marketing* 12, no. 1 (2004), pp. 82–102.

[20] "Japan's Tuna Crisis," *The New York Times*, June 27, 2007, p. A22; Elisabeth Rosenthal, "In Europe, the Catch of the Day is Often Illegal," *The New York Times*, January 15, 2008, pp. A1, A6.

You can buy just about anything at Stockmann's Department Store in Helsinki—men's and women's fashions, hardware (hammers, etc.) and software, bakery goods and garden supplies, fillet of reindeer and furniture, televisions—yes, everything from Audi A3s to zuccini. It even has cold storage services for your mink. But Stockmann's doesn't stock Samsung cell phones. The Korean company hasn't yet penetrated Nokia's home market. Of course, the product line is thin but rich at Cartier's in Paris. And you can find the Samsung at the Grand Bazaar (Kapali Carsi) in Istanbul, billed as the oldest and largest covered marketplace in the world. The 15th-century mall competes for customers with its 20th-century cousin, Akmerkez Etiler, in a high-income neighborhood about 10 miles away. Finally, Louis meets Lenin here on Red Square in Moscow. Russians now go for the luxury brands at the old government department store (still with the unattractive name, Gum), recently transformed into a 800,000 square foot in-door, high-end shopping mall. You can see St. Basil's Cathedral in the background, and just 200 meters across the square, Comrade Vladimir Lenin's embalmed body is entombed in a chilly mausoleum. While the old communist isn't too happy about free enterprise disturbing his view, he certainly must be pleased about the 2008 resumption of the annual Red Square May Day military parade after its seventeen-year hiatus.

Channel captains must be aware that channel patterns change; they cannot assume that once a channel has been developed to fit the character of both company and market, no more need be done. Great Britain, for example, has epitomized distribution through specialty-type middlemen, distributors, wholesalers, and retailers; in fact, all middlemen have traditionally worked within narrow product specialty areas. In recent years, however, there has been a trend toward broader lines, conglomerate merchandising, and mass marketing. The firm that neglects the growth of self-service, scrambled merchandising, or discounting may find it has lost large segments of its market because its channels no longer reflect the character of the market.

Continuity

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

Channel Management

The actual process of building channels for international distribution is seldom easy, and many companies have been stopped in their efforts to develop international markets by their inability to construct a satisfactory system of channels.

Construction of the middleman network includes seeking out potential middlemen, selecting those who fit the company's requirements, and establishing working relationships with them. In international marketing, the channel-building process is hardly routine. The closer the company wants to get to the consumer in its channel contact, the larger the sales force required. If a company is content with finding an exclusive importer or selling agent for a given country, channel building may not be too difficult; however, if it goes down to the level of subwholesaler or retailer, it is taking on a tremendous task and must have an internal staff capable of supporting such an effort.

Locating Middlemen

The search for prospective middlemen should begin with study of the market and determination of criteria for evaluating middlemen servicing that market. The checklist of criteria differs according to the type of middlemen being used and the nature of their relationship with the company. Basically, such lists are built around four subject areas: productivity or volume, financial strength, managerial stability and capability, and the nature and reputation of the business. Emphasis is usually placed on either the actual or potential productivity of the middleman.

The major problems are locating information to aid in the selection and choice of specific middlemen and discovering middlemen available to handle one's merchandise. Firms seeking overseas representation should compile a list of middlemen from such sources as the following: the U.S. Department of Commerce; commercially published directories; foreign consulates; chamber-of-commerce groups located abroad; other manufacturers producing similar but noncompetitive goods; middlemen associations; business publications; management consultants; carriers—particularly airlines; and Internet-based services such as Unibex, a global technology services provider. Unibex provides a platform for small- to medium-sized companies and larger enterprises to collaborate in business-to-business commerce.

Selecting Middlemen

LO5

The importance of selecting and maintaining middlemen

Finding prospective middlemen is less a problem than determining which of them can perform satisfactorily. Low volume or low potential volume hampers most prospects, many are underfinanced, and some simply cannot be trusted. In many cases, when a manufacturer is not well known abroad, the reputation of the middleman becomes the reputation of the manufacturer, so a poor choice at this point can be devastating.

Screening. The screening and selection process itself should include the following actions: an exploratory letter or e-mail including product information and distributor requirements in the native language sent to each prospective middleman; a follow-up with the best respondents for specific information concerning lines handled, territory covered, size of firm, number of salespeople, and other background information; check of credit and references from other clients and customers of the prospective middleman; and, if possible, a personal check of the most promising firms. Obtaining financial information on prospective middlemen has become easier via such Internet companies as Unibex, which provides access to Dun & Bradstreet and other client information resources.

Experienced exporters suggest that the only way to select a middleman is to go personally to the country and talk to ultimate users of your product to find whom they consider to be the best distributors. Visit each possible middleman once before selecting the one to represent you; look for one with a key person who will take the new product to his or her heart and make it a personal objective to make the sale of that line a success. Furthermore, exporters stress that if you cannot sign one of the two or three customer-recommended distributors, you might be better off having no distributor in that country, because having a worthless one costs you time and money every year and may cut you out when you finally find a good one.

The Agreement. Once a potential middleman has been found and evaluated, the task of detailing the arrangements with that middleman begins. So far the company has been in a buying position; now it must shift into a selling and negotiating position to convince the middleman to handle the goods and accept a distribution agreement that is workable for the company. Agreements must spell out specific responsibilities of the manufacturer and the middleman, including an annual sales minimum. The sales minimum serves as a basis for evaluation of the distributor; failure to meet sales minimums may give the exporter the right of termination.

Some experienced exporters recommend that initial contracts be signed for one year only. If the first year's performance is satisfactory, they should be reviewed for renewal for a longer period. This time limit permits easier termination, and more important, after a year of working together in the market, a more suitable arrangement generally can be reached.

Motivating Middlemen

The level of distribution and the importance of the individual middleman to the company determine the activities undertaken to keep the middleman motivated. On all levels, the middleman's motivation is clearly correlated with sales volume. Motivational techniques that can be employed to maintain middleman interest and support for the product may be grouped into five categories: financial rewards, psychological rewards, communications, company support, and corporate rapport.

Obviously, financial rewards must be adequate for any middleman to carry and promote a company's products. Margins or commissions must be set to meet the needs of the middleman and may vary according to the volume of sales and the level of services offered. Without a combination of adequate margin and adequate volume, a middleman cannot afford to give much attention to a product.

Being human, middlemen and their salespeople respond to psychological rewards and recognition of their efforts. A trip to the United States or to the parent company's home or regional office is a great honor. Publicity in company media and local newspapers also builds esteem and involvement among foreign middlemen.

In all instances, but particularly when cultural distances are great,[21] the company should maintain a continuing flow of communication in the form of letters, newsletters, and periodicals to all its middlemen. The more personal these are, the better. One study of exporters indicated that the more intense the contact between the manufacturer and the distributor, the better the performance by the distributor. More and better contact naturally leads to less conflict and a smoother working relationship, and relationships are key, particularly in relationship-oriented cultures in emerging markets.[22]

Finally, considerable attention must be paid to the establishment of close rapport between the company and its middlemen. In addition to methods noted, a company should be certain that the conflicts that arise are handled skillfully and diplomatically. Bear in mind that all over the world, business is a personal and vital thing to the people involved.

Terminating Middlemen

When middlemen do not perform up to standards or when market situations change, requiring a company to restructure its distribution, it may be necessary to terminate relationships. In the United States, this termination is usually a simple action regardless of the type of middlemen; they are simply dismissed. However, in other parts of the world, the middleman often has some legal protection that makes termination difficult. In Colombia, for example,

[21] Carl Arthur Solberg, "Product Complexity and Cultural Distance Effects on Managing International Distributor Relationships: A Contingency Approach," *Journal of International Marketing* 16, no. 3 (2008), pp. 57–83; Chenting Su, Zhilin Yang, Guijun Zhuang, Nan Zhou, and Wenyu Dou, "Interpersonal Influence as an Alternative Channel Communication Behavior in Emerging Markets: The Case of China," *Journal of International Business Studies* 40, no. 4 (2009), pp. 668–89.

[22] Gerald A. McDermott and Rafael A. Corredoira, "Network Composition, Collaborative Ties, and Upgrading In Emerging Market Firms: Lessons from the Argentine Autoparts Sector," *Journal of International Business Studies* 41, no. 2 (2010), pp. 308–29.

CROSSING BORDERS 15.3 Managing the Humps in the Camel Market

BIRQASH, EGYPT—The sun is high and it's a slow day for selling and there's not much for a camel trader to do except scatter hay and greens and listen to the big beasts munch. Sounds like shoes walking through gravel.

Essam Ammar lifts a cell phone from his tunic. "Hi, Ahmed. No, I won't lower the price." Eyes roll. Ammar pulls the phone from his ear and looks at it; Ahmed's words crackle in the air. Click. It's not even noon. The day seems in retreat.

"I've been doing this for 29 years," says Ammar, who wears a white-lace cap and an even snowier pinstriped vest, a risky choice amid blowing dust and rubbish fires. "You have to know your camels, setting price to age. The best come from Sudan. The ones from Somalia don't adapt so well. I can tell if a camel will bite me or just run away. It is essential to know such things." The traders around him, some with blood splotches on their tunics, nod.

The Birqash camel market about 20 miles northwest of downtown Cairo is an unfortunate place to end up if you have four legs and a long neck. It's not so great these days for camel traders either. Herdsmen in Sudan and Somalia are pushing up prices but the traders—the middlemen—often can't pass the increases on to hard-pressed butchers in Cairo and across the Nile Delta. Egypt's inflation is keeping many families from buying camel, the traditional meat they ate when beef and mutton grew too expensive. It's the cruel global economic ripple that finds even the battered crossroads of places like Birqash.

"I'm making about 5,000 pounds [$915] less each year because camel prices are rising and butchers can't afford to buy and people can't afford the price of meat," says trader Ali Hamed, who hasn't seen his wife in months. "I'm married, with two children. I used to send home 350 pounds [$65] a week but now can only manage 150 pounds [$28]. My wife does the best she can. I'd like to go home more, but for the price of a train ticket I can buy two bags of wheat to feed my family."

Hamed lives in southern Egypt. His father traded camels and Hamed, who never went to school, figured that's what village boys grew up to do. Instead of a book bag, he picked up a herding stick and started learning about camels traveling north from Sudan along the Nile or arriving in freighters from Somalia at the port of Suez. They are white, beige, the color of sand and gray. A camel can be healthy one day and die the next; it is a mystery of the trade.

Boys with bottles and brushes mark camels for sale with purple and green letters. They dart around legs, beneath tails, careful not to be kicked, and some of them will inherit a stall on market row when they become men. A trader doesn't just appear here; he is raised on stories of uncles and cousins who shoveled dung and tended wounds and cursed sick camels long before he was born.

"This market is controlled by 10 to 15 families," says Abdel Wahab Wagih, the market historian and man who keeps an eye on what enters and leaves through the gate. "The traders inherited the businesses from their fathers and grandfathers. The younger generations got educated and many of them have university degrees, but they still come here to run the family trade."

The price of camel meat has been expanding too. In the last year camel has risen from $1.80 a pound to as much as $2.90 a pound, still cheaper than beef and mutton, but costly enough that many Egyptians have crossed it off their shopping lists.

It used to be easier, though.… Taxes are higher and the Egyptian government has new health regulations and stricter inspections for camels entering the country. Some wait for days and weeks at the borders, where healthy camels are exposed to sick ones. One trader had 30 camels die before they reached the market. It all means money. Lost money.

"It's strange, you know, Egypt is a poor country but there are still a lot of rich people and they keep getting richer," Ammar says. "I guess that's how it's supposed to be."

His cell phone rings. "Hi, Ahmed." Ammar inspects his fingernails, yawns. "No, Ahmed, I'm not lowering the price." Click.

Source: Jefrey Fleishman, "Camel Trade Runs into Sand," *Los Angeles Times*, October 23, 2009, pp. A1, A29. Copyright © 2009. Reprinted with permission.

if you terminate an agent, you are required to pay 10 percent of the agent's average annual compensation, multiplied by the number of years the agent served, as a final settlement.

Competent legal advice is vital when entering distribution contracts with middlemen. But as many experienced international marketers know, the best rule is to avoid the need to terminate distributors by screening all prospective middlemen carefully. A poorly chosen distributor may not only fail to live up to expectations but may also adversely affect future business and prospects in the country.

Controlling Middlemen

The extreme length of channels typically used in international distribution makes control of middlemen especially important. Marketing objectives must be spelled out both internally and to middlemen as explicitly as possible. Standards of performance should include the sales volume objective, inventory turnover ratio, number of accounts per area, growth objective, price stability objective, and quality of publicity. Cultural differences enter into all these areas of management.[23]

Control over the system and control over middlemen are necessary in international business. The first relates to control over the distribution network, which implies overall controls for the entire system to be certain the product is flowing through desired middlemen. Some manufacturers have lost control through "secondary wholesaling" or parallel imports.[24] A company's goods intended for one country are sometimes diverted through distributors to another country, where they compete with existing retail or wholesale organizations.

The second type of control is at the middleman level. When possible, the parent company should know (and to a certain degree control) the activities of middlemen with respect to their volume of sales, market coverage, services offered, prices, advertising, payment of bills, and even profit. Quotas, reports, and personal visits by company representatives can be effective in managing middleman activities at any level of the channel.

The Internet

LO6

The growing importance of e-commerce as a distribution alternative

The Internet is an important distribution method for multinational companies and a source of products for businesses and consumers.[25] Indeed, a good argument can be made that the Internet has finally put the consumer in control of marketing and distribution globally.[26] Computer hardware and software companies and book and music retailers were the earliest e-marketers to use this method of distribution and marketing.[27] More recently there has been an expansion of other types of retailing and business-to-business (B2B) services into e-commerce.[28] Technically, e-commerce is a form of direct selling; however, because of its newness and the unique issues associated with this form of distribution, it is important to differentiate it from other types of direct marketing.

E-commerce is used to market B2B services, consumer services, and consumer and industrial products via the World Wide Web. It involves the direct marketing from a manufacturer, retailer, service provider, or some other intermediary to a final user. Some examples of e-marketers that have an international presence are Dell Computer Corporation[29] (www.dell.com), which generates nearly 50 percent of its total sales, an average of about $69 million a day, online; and Cisco Systems (www.cisco.com), which generates more than $1 billion in sales annually. Cisco's Web site appears in 14 languages and has country-specific content for 49 nations. Gateway has global sites in Japan, France, the Netherlands, Germany, Sweden, Australia, the United Kingdom, and the United States, to name a few (www.gateway.com). Sun Microsystems and its after-marketing company, SunExpress, have local-language information about more than 3,500 aftermarket products. SunPlaza enables visitors in North America, Europe, and Japan to get information online about products and services and to place orders directly in their native languages.

[23]Jody Evans and Felix T. Mavondo, "Psychic Distance and Organizational Performance: An Empirical Examination of International Retailing Operations," *Journal of International Business Studies* 33, no. 3 (2002), pp. 515–32; David A. Griffith and Matthew B. Myers, "The Performance Implications of Strategic Fit of Relational Norm Governance Strategies in Global Supply Chain Relationships," *Journal of International Business Studies* 36, no. 3 (2005), pp. 254–69.

[24]See the discussion of parallel imports in Chapter 18.

[25]Vinh Nhat Lu and Craig C. Julian, "The Internet, Strategy and Performance: A Study of Australian Export Market Ventures," *Journal of Global Marketing* 21, no. 3 (2008), pp. 231–40.

[26]"Crowned at Last, A Survey of Consumer Power," *The Economist*, April 2, 2005, insert pp. 1–16.

[27]"A Giant Sucking Sound," *The Economist*, November 7, 2009, p. 62.

[28]Carlyle Farrell, "The Role of the Internet in the Delivery of Export Promotion Services: A Web Site Content Analysis," *Journal of Global Marketing* 21, no. 4 (2008), pp. 259–70.

[29]Evan Ramstad and Gary McWilliams, "For Dell, Success in China Tells a Tale of Maturing Market," *The Wall Street Journal*, July 5, 2005, pp. A1, A8.

Besides consumer goods companies such as Lands' End, Levi, and Nike, many smaller[30] and less well-known companies have established a presence on the Internet beyond their traditional markets. An Internet customer from the Netherlands can purchase a pair of brake levers for his mountain bike from California-based Price Point. He pays $130 instead of the $190 that the same items would cost in a local bike store.

For a Spanish shopper in Pamplona, buying sheet music used to mean a 400-kilometer trip to Madrid. Now he crosses the Atlantic to shop—and the journey takes less time than a trip to the corner store. Via the Internet, he can buy directly from specialized stores and high-volume discounters in New York, London, and almost anywhere else.

E-commerce is more developed in the United States than the rest of the world, partly because of the vast number of people who own personal computers and partly because of the much lower cost of access to the Internet than found elsewhere. In addition to language, legal, and cultural differences, the cost of local phone calls (which are charged by the minute in most European countries) initially discouraged extensive use and contributed to slower Internet adoption in Europe.

Services, the third engine for growth, are ideally suited for international sales via the Internet. All types of services—banking, education, consulting, retailing, hotels, gambling—can be marketed through a Web site that is globally accessible. As outsourcing of traditional in-house tasks such as inventory management, quality control, and accounting, secretarial, translation, and legal services has become more popular among companies, the Internet providers of these services have grown both in the United States and internationally.

Moreover, online B2B enables companies to cut costs in three ways. First, it reduces procurement costs by making it easier to find the cheapest supplier, and it cuts the cost of processing the transactions. Estimates suggest that a firm's possible savings from purchasing over the Internet vary from 2 percent in the coal industry to up to 40 percent in electronic components. British Telecom claims that procuring goods and services online will reduce the average cost of processing a transaction by 90 percent and reduce the direct costs of goods and services it purchases by 11 percent. The Ford, GM, and DaimlerChrysler exchange network for buying components from suppliers could reduce the cost of making a car by as much as 14 percent.

Second, it allows better supply-chain management. For example, more than 75 percent of all Cisco orders now occur online, up from 4 percent in 1996. This connection to the supply chain allowed Cisco to reduce order cycle time from six to eight weeks to one to three weeks and to increase customer satisfaction as well.

Third, it makes possible tighter inventory control. With Walmart's direct Internet links between its inventory control system and its suppliers, each sale automatically triggers a replenishment request. Fewer out-of-stock situations, the ability to make rapid inventory adjustments, and reduced ordering and processing costs have made Walmart one of the industry's most efficient companies.

The worldwide potential for firms operating on the Internet is extraordinary, but only if they are positioned properly[31] and well supported by management.[32] The World Wide Web, as a market, is rapidly moving through the stage where the novelty of buying on the Web is giving way to a more sophisticated customer who has more and constantly improving Web sites from which to choose. In short, Web merchants are facing more competition, and Web customers have more choice. This situation means that if a company is going to be successful in this new era of marketing, the basics of good marketing cannot be overlooked. For example, Forrester Research has discovered that nearly half the international orders received by U.S. companies go unfilled, even though a typical U.S. company can expect 30 percent of its Web traffic to come from foreign countries and 10 percent of its orders to come from abroad.

[30]Oystein Moen, Iver Endresen, and Morten Gavlen, "Use of the Internet in International Marketing: A Case Study of Small Computer Software Firms," *Journal of International Marketing* 11, no. 4 (2003), pp. 129–49.

[31]Byeong-Joon Moon and Subash C. Jain, "Determinants of Outcomes of Internet Marketing Activities of Exporting Firms," *Journal of Global Marketing* 20 (2007), pp. 55–72.

[32]Gary Gregory, Munib Karavdic, and Shoaming Zou, "The Effects of E-Commerce on Export Marketing Strategy," *Journal of International Marketing* 15 (2007), pp. 30–57.

CROSSING BORDERS 15.4

One of the Many Dark Sides of the Internet: Growing Organ-Supply Shortfall Creates Windfall for Online Brokers

Growing demand for organ transplants worldwide is bringing new clout to online middlemen who charge ailing customers enormous fees to match them with scarce body parts.

These brokers have stepped in to fill a breach created by steep shortfall in supply. In rich nations, people are living longer at the same time that a drop in deaths from automobile accidents has shrunk a key source of donated organs. Because buying and selling organs is illegal almost everywhere, brokers say they match prospective patients with sources outside their own country's health system. *Forbes* located offers of transplants online priced at anywhere from 60 to 400 percent more than their typical costs. One California broker arranges kidney transplants for $140,000 and hearts, livers and lungs for $290,000. Most of these transplants are being carried out in hospitals in developing countries, where medical and ethical standards "don't rise to Western levels."

More alarmingly, the Web sites that shill transplant deals might just be camouflaging a more nefarious business: underground organ trading. Desperate "transplant tourists" generally cannot determine whether an organ was harvested legally or if the kidney they are receiving was sold by a destitute Nepali or Brazilian, often for as little as $800. In China, authorities admitted two years ago that they have been harvesting organs from executed prisoners. Recently Beijing has agree to stop this controversial practice.

Sources: "Growing Organ-Supply Shortfall," *The Wall Street Journal*, January 12, 2007, p. B4 (from *Forbes*, January 29); "Challenge Now Is To Find Other Sources of Organs," *South China Morning Post*, October 2, 2007, p. 15.

By its very nature, e-commerce has some unique issues that must be addressed if a domestic e-vendor expects to be a viable player in the international cybermarketplace. International legal issues were discussed in Chapter 7. Particularly, high-flying Google is under censorship attack and other kinds of controls[33] in both China[34] and Italy.[35] Many other issues arise because the host-country intermediary who would ordinarily be involved in international marketing is eliminated. An important advantage of selling direct is that total costs can be lowered so that the final price overseas is considerably less than it would have been through a local-country middleman. However, such activities as translating prospective customer inquiries and orders into English and replying in the customer's language, traditionally done by a local distributor, have to be done by someone. When intermediaries are eliminated, someone, either the seller or the buyer, must assume the functions they performed. Consequently, an e-vendor must be concerned with the following issues.

1. **Culture.** The preceding chapters on culture should not be overlooked when doing business over the Web. The Web site and the product must be culturally neutral or adapted to fit the uniqueness of a market, because culture does matter.[36] In Japan, the pickiness of Japanese consumers about what they buy and their reluctance to deal with merchants at a distance must be addressed when marketing on the Web. Even a Japanese-language site can offend Japanese sensibilities. As one e-commerce consultant warns: in a product description, you wouldn't say "Don't turn the knob left," because that's too direct. Instead, you would say something like: "It would be much better to turn the knob to the right." To many Europeans, American sites come off as having too many bells and whistles because European sites are more consumer oriented. The different cultural reactions to color can be a potential problem for Web

[33]"Google Offers Free Web Music in China," *Los Angeles Times*, March 31, 2009, p. B3.

[34]Juliet Ye, "Chinese Video Takes Aim at Online Censorship," *The Wall Street Journal*, February 11, 2010, online.

[35]Adam Liptak, "When Free Worlds Collide," *The New York Times*, February 28, 2010, p. Opinion 1.

[36]Kai H. Lim, Kwok Leung, Choon Ling Sia, and Matthew K. Lee, "Is eCommerce Boundary-less? Effects of Individualism-Collectivism and Uncertainty Avoidance on Internet Shopping," *Journal of International Business Studies* 35, no. 6 (2004), pp. 545–59; Jan-Benedict E. M. Steenkamp and Inge Geyskens, "How Country Characteristics Affect the Perceived Value of Web Sites," *Journal of Marketing* 70 (2006), pp. 136–50.

Global Marketing on the Web at Marriott

The Internet today is the most global of any media invented so far, having leapfrogged television and radio—which may yet become global some day but are far from doing so. It is the only medium that approaches true global reach.

The power of the Internet results from its many unique attributes. It is unique in its ability to:

- Encompass text, audio and video in one platform.
- Operate in a dialogue versus monologue mode.
- Operate simultaneously as mass media *and* personalized media.
- Build global "communities," unconfined by national borders.

These attributes make it the most powerful medium on earth, unparalleled in its ability to communicate, especially to a global world. It is an international marketer's dream.

However, leveraging these characteristics in an effective manner requires dealing with various substantive issues. These issues include:

- Major differences in Internet adoption rates across the globe ranging from greater than 70 percent adoption in North America to less than 2 percent for the continent of Africa. This difference greatly influences the role of the Web as part of the marketing mix in international markets. Even for advanced EU economies, the variability of adoption is great, ranging from 88 percent in the Netherlands to 49 percent in Belgium. The average for the entire continent of Africa is around 1 percent (see www.internetworldstats.com).
- Unique issues caused by technology including broadband versus narrow-band, which drive what products and services can be marketed and how. In the narrow-band world, highly graphic and video-based Web sites are not viable. An example is the elaborate photo tours of hotels on www.Marriott.com, which download quickly on broadband connections but take inordinately long on narrow band. Therefore, a site designed for one market can be ineffective in another.

Renaissance is a Marriott-owned hotel brand. It uses various media to lead customers to its all-important Web sites, including print, television, Internet, and outdoor. Three 2-page print ads are directed toward U.K., Middle Eastern, and Chinese customers, and each of them lists the Web site addresses—the first two citing www.renaissancehotels.co.uk, and the last noting www.renaissancehotels.com.cn. Even though the same Web site ultimately serves customers in both the United Kingdom and the Middle East, the ad presentation is adapted to the more conservative dress appropriate in the latter region. Finally, you can see how the campaign is also used on the streets of Shanghai. Ask your classmates what "Be fashionable" translates into on the latter two ads.

- Costs to globalize can be enormous if multiple language sites need to be built. For example, translating the 110,000-page Marriott.com Web site is a very costly undertaking, both on a one-time and ongoing basis. Add to that the costs of translating the back-end systems that feed the site, and the costs rise exponentially. For sites with a lot of constantly changing content and heavy dependence on back-end systems, maintaining foreign language sites can be prohibitively expensive.
- Implications of differing labor costs that affect return on investment (ROI). For example, in the United States, the cost of an online booking for Marriott is less than half that of a phone booking. That differential may not apply in many Third World countries, where labor costs are often very low, making it difficult to justify a Web site investment.
- Different approaches to privacy, access, and infrastructure investment also require changes to strategy by market.
    - On privacy. For example, EU laws are much more stringent than U.S. laws; as a result, the e-mail marketing strategy in the European Union is much more cautious than in the United States.
    - On access. Some countries regulate access to the Internet. For example, China only allows access to approved sites, whereas the United States does not limit Internet access.
    - On infrastructure investment. Some countries have private investment fueling the development of the telecom technology systems required to enable Internet access (e.g., the United States), whereas in other countries, state-owned phone companies have this responsibility. In general, markets that have depended state investment have been laggards in the Internet space.

Apart from all of these issues, one of the most important challenges for companies contemplating a global Internet presence is determining whether they should build "foreign market sites" or "foreign language sites." In an ideal world, with infinite resources, the answer could be to build both. However, that option is rarely possible given resource constraints. This challenge has been a key issue for Marriott International, which has responded in different ways, depending on market situations. In some cases, the hotel company tried one approach before moving to the other. In fact, Marriott's experience in this area is an excellent illustration of the issue. To clarify the issue using France or French as an example, the question was:

Should we have a global site in French that caters to ALL French-speaking customers, no matter which country they live in

OR

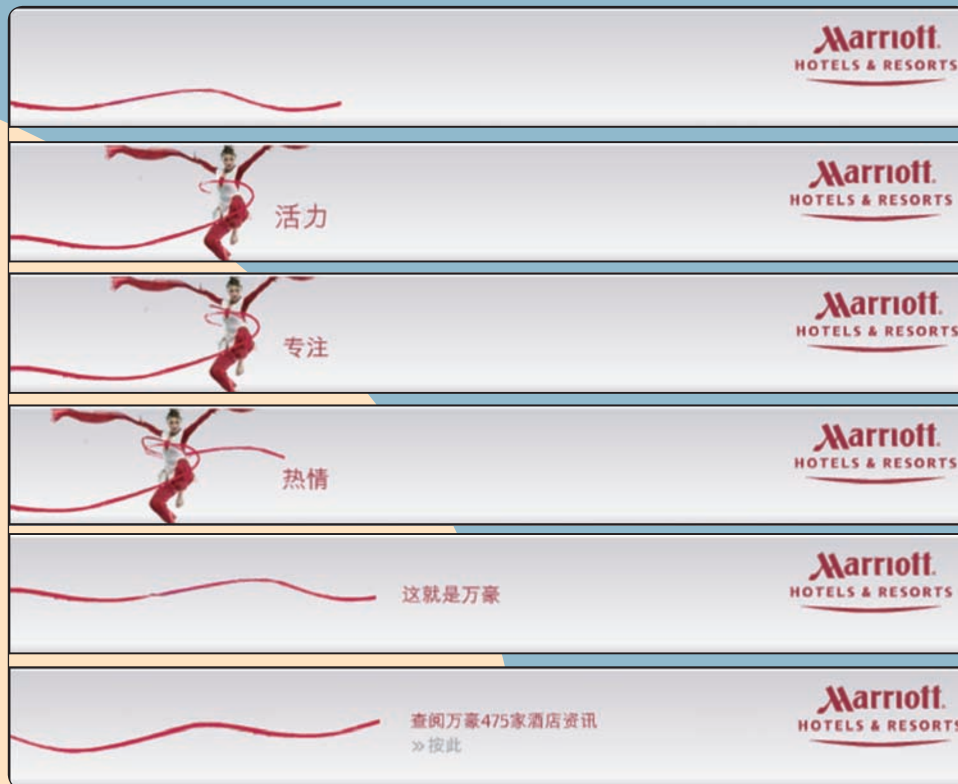
Should we have a site in the French language, which addresses the needs of the LOCAL French market?

Having a French language site for a global French-speaking market had significant benefits, because there is a sizable French-speaking population in the world, which includes major parts of North and Central Africa and the Caribbean islands. However, in this case, Marriot decided in favor of a local site for France. In summary, the company found that

- The needs of French customers living in France were very different from the needs of customers in French-speaking Africa or Haiti. Customers living in France prefer different destinations than those living in other French-speaking areas, such as the Caribbean.
- Promotional approaches were also different for France than for other French-speaking countries. Using a U.S. example to illustrate, sweepstakes are far more popular and accepted in the United States than in Europe.
- Finally, the French market dwarfed all other French-speaking markets combined. Therefore, if Marriott could only afford to maintain one French site, it was more cost effective to address the largest French market, namely, France.

In 2009 and 2010 Marriott International faced increased pressure from the Province of Quebec authorities in that their French language site did not meet the needs of their local population and thus, was not compliant with their local laws. In the face of fines and other business actions by the Quebec authorities, Marriott International revised their strategy concerning a French language site and decided for a change of strategy in order to be compliant with local Canada laws while at the same time continue to serve the greater France area – France, Belgium, Switzerland, the Levant and the Maghreb. It is now working to turn its France site into a French language portal, which will be released this summer, following its very successful strategy in the Latin America market; i.e. one portal for the entire region that can serve many customers across the different Francophone markets in the world where it operates.

The second series of banner ads might flash across a computer screen in China; the last panel asks visitors to click to go to the Marriott Web site there. Marriott maintains 11 Web sites to attract its global clientele to its 2,800 hotels around the world. The sites appeal to consumers in the following countries: the United States, the United Kingdom, Ireland, Australia and New Zealand, France, Germany, China, Japan, South Korea, Latin America (Spanish/Espanol), and Brazil.



Thus, as Marriott's globalization program evolves, we see a combination of market and language approaches, deploying them across diverse markets in varied combinations as it makes the most sense for its business needs.

Paradoxically, when faced with the same question for Spanish—a Spanish-language site or a site for Spain/individual Spanish-speaking countries—Marriott decided to go for a Spanish-language site for several key reasons:

- None of the Spanish-speaking markets was very large for Marriott. Although Spain is the largest economy in the Spanish-speaking world, as of now, the company does not have enough hotels there or enough traffic from Spain to cost effectively build a site uniquely for Spain. That applies to all other Spanish-speaking countries.

- There was greater commonality of destinations among many Spanish-speaking countries—especially the Latin American countries—than among French-speaking countries. For example, the United States is an equally popular destination for almost all Latin American countries.

Ironically, Marriott initially took the opposite approach to the same question, resulting in eight Spanish sites for various Latin American countries. However, it quickly found that it was impractical to build, manage, and maintain so many sites and get the returns on investment it desired. Although this scenario may and should change as the individual markets mature and gain critical mass, it appears that it will take some years. Until then, Marriott will maintain one Spanish-language site.

In summary, the international online marketplace is highly complex and continues to evolve. There is no single approach that fits every situation; even when that appears the case, it may not be for long, as is clear from the experience described. A key focus therefore should be on making good trade-off decisions and maintaining flexibility in strategy.

Source: Shafiq Khan, Senior Vice President eCommerce with Luis Babicek, Marriott International, 2010. (Photos Courtesy of Marriott.)

sites designed for global markets. While red may be highly regarded in China or associated with love in the United States, in Spain it is associated with socialism. The point is that when designing a Web site, culture cannot be forgotten.

2. **Adaptation.** Ideally, a Web site should be translated into the languages of the target markets.[37] This translation may not be financially feasible for some companies, but at least the most important pages of the site should be translated. Simple translation of important pages is only a stopgap measure however. If companies are making a long-term commitment to sales in another country, Web pages should be designed (in all senses of the term—color, use features, etc.) for that market. One researcher suggests that if a Web site does not have at least multiple languages, a company is losing sales. It is the company's responsibility to bridge the language and cultural gap; the customer will not bother—he or she will simply go to a site that speaks his or her language. As discussed, culture does count, and as competition increases, a country-specific Web site may make the difference between success and failure.[38]
3. **Local contact.** Companies fully committed to foreign markets are creating virtual offices abroad; they buy server space and create mirror sites, whereby a company has a voice mail or fax contact point in key markets. Foreign customers are more likely to visit sites in their own country and in the local language. In Japan, where consumers seem particularly concerned about the ability to return goods easily, companies may have outlets where merchandise can be returned and picked up. These so-called click-and-mortar models have gained a large following.
4. **Payment.** The consumer should be able to use a credit card number—by e-mail (from a secure page on the Web site), by fax, or over the phone. Although this accessibility had been an important problem in burgeoning markets like China, customers and banking systems there are now beginning to catch on fast.[39]
5. **Delivery.** For companies operating in the United States, surface postal delivery of small parcels is the most cost effective but takes the longest time. For more rapid but more expensive deliveries, FedEx, UPS, and other private delivery services provide delivery worldwide. For example, Tom Clancy's bestseller *Executive Orders*, shipped express to Paris from Seattle-based Amazon.com, would cost a reader $55.52. The same book delivered in 4 to 10 weeks via surface mail costs $25.52, which is a substantial savings over the cost of the book in a Paris bookstore, where it sells for $35.38.
6. **Promotion.** Although the Web is a means of promotion, if you are engaging in e-commerce, you also need to advertise your presence and the products or services offered. The old adage "Build a better mouse trap and the world will beat a path to your door" does not work for e-commerce, just as it does not work with other products unless you tell your target market about the availability of the "better mouse trap." How do you attract visitors from other countries to your Web site? The same way you would at home—except in the local language. Search engine registration, press releases, local newsgroups and forums, mutual links, and banner advertising are the traditional methods. A Web site should be seen as a retail store, with the only difference between it and a physical store being that the customer arrives over the Internet instead of on foot.

When discussing the Internet and international channels of distribution, the question of how traditional channels will be changed by the Internet must be considered. Already, comparison shopping across the Continent via the Internet is wrenching apart commercial

[37]Barbar De Lollis, "Travel Firms Aim To Speak Customers' Language," *USA Today*, February 12, 2007, p. B1.

[38]Patrick Y. K. Chau, Melissa Cole, Anne P. Massey, Mitzi Montoya-Weiss, and Robert O'Keefe, "Cultural Differences in the On-Line Behavior of Consumers," *Communications of the ACM* 45, no. 10 (2002), pp. 138–43.

[39]Bruce Einhorn and Chi-Chu Tschang, "China's E-Tail Awakening," *BusinessWeek*, November 19, 2007, p. 44.

patterns cobbled together over centuries. Before the Internet, Europeans rarely shopped across borders, and car companies, exempt from EU antitrust laws in distribution, offered cars at price differentials of up to 40 percent. The Internet has blown this system apart and allows the European customer to shop easily for the best price.

Not only will the traditional channels change, but so will the Internet, which is still evolving. Much of what is standard practice today may well be obsolete tomorrow as new means of data transmission are achieved, costs of accessing the Web decrease, and new e-commerce models are invented. The Web is rapidly growing—and changing as it grows.

Logistics

LO7

The interdependence of physical distribution activities

When a company is primarily an exporter from a single country to a single market, the typical approach to the physical movement of goods is the selection of a dependable mode of transportation that ensures safe arrival of the goods within a reasonable time for a reasonable carrier cost. As a company becomes global, such a solution to the movement of products could prove costly and highly inefficient for seller and buyer. As some global marketers say, the hardest part is not making the sale but getting the correct quantity of the product to customers in the required time frame at a cost that leaves enough margins for a profit.[40]

At some point in the growth and expansion of an international firm, costs other than transportation are such that an optimal cost solution to the physical movement of goods cannot be achieved without thinking of the physical distribution process as an integrated system. When an international marketer begins producing and selling in more than one country and becomes a global marketer, it is time to consider the concept of *logistics management*, a total systems approach to the management of the distribution process that includes all activities involved in physically moving raw material, in-process inventory, and finished goods inventory from the point of origin to the point of use or consumption.[41]

A *physical distribution system* involves more than the physical movement of goods. It includes the location of plants and warehousing (storage), transportation mode, inventory quantities, and packing. The concept of physical distribution takes into account the interdependence of the costs of each activity; a decision involving one activity affects the cost and efficiency of one or all others. In fact, because of their interdependence, the sum of each of the different activity costs entails an infinite number of "total costs." (*Total cost* of the system is defined as the sum of the costs of all these activities.)

The idea of interdependence can be illustrated by the classic example of airfreight. One company compared its costs of shipping 44,000 peripheral boards worth $7.7 million from a Singapore plant to the U.S. West Coast using two modes of transportation—ocean freight and the seemingly more expensive airfreight. When considering only rates for transportation and carrying costs for inventory in transit, air transportation costs were approximately $57,000 higher than ocean freight. But when total costs were calculated including warehousing, insurance and inventory expenses, airfreight was actually less costly than ocean freight because of other costs involved in the total physical distribution system.

To offset the slower ocean freight and the possibility of unforeseen delays and to ensure prompt customer delivery schedules, the company had to continuously maintain 30 days of inventory in Singapore and another 30 days' inventory at the company's distribution centers. The costs of financing 60 days of inventory and of additional warehousing at both points—that is, real physical distribution costs—would result in the cost of ocean freight exceeding air by more than $75,000. And ocean freight may even entail additional costs such as a higher damage rate, higher insurance, and higher packing rates.

Substantial savings can result from the systematic examination of logistics costs and the calculation of total physical distribution costs. A large multinational firm with facilities and customers around the world shipped parts from its U.S. Midwest plant to the nearest East Coast port, then by water route around the Cape of Good Hope (Africa), and finally

[40]"Network Effects," *The Economist*, October 18, 2008, p. 76.

[41]An excellent source on this subject is Donald F. Wood et al., *International Logistics*, 2nd ed. (New York: Amacom, 2002).

to its plants in Asia, taking 14 weeks. Substantial inventory was maintained in Asia as a safeguard against uncertain water-borne deliveries. The transportation carrier costs were the least expensive available; however, delivery delays and unreliable service caused the firm to make emergency air shipments to keep production lines going. As a result, air shipment costs rose to 70 percent of the total transport bill. An analysis of the problem in the physical distribution system showed that trucking the parts to West Coast ports using higher-cost motor carriers and then shipping them to Asia by sea could lower costs. Transit time was reduced, delivery reliability improved, inventory quantities in Asia lowered, and emergency air shipments eliminated. The new distribution system produced annual savings of $60,000.

Although a cost difference will not always be the case, the examples illustrate the interdependence of the various activities in the physical distribution mix and the total cost. A change of transportation mode can affect a change in packaging and handling, inventory costs, warehousing time and cost, and delivery charges.

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

One of the major benefits of the European Union's unification is the elimination of transportation barriers among member countries. Instead of approaching Europe on a country-by-country basis, a centralized logistics network can be developed. The trend in Europe is toward pan-European distribution centers. Studies indicate that companies operating in Europe may be able to cut 20 warehousing locations to 3 and maintain the same level of customer service. A German white goods manufacturer was able to reduce its European warehouses from 39 to 10, as well as improve its distribution and enhance customer service. By cutting the number of warehouses, it reduced total distribution and warehousing costs, brought down staff numbers, held fewer items of stock, provided greater access to regional markets, made better use of transport networks, and improved service to customers, all with a 21 percent reduction of total logistics costs.

Summary

The international marketer has a broad range of alternatives for developing an economical, efficient, high-volume international distribution system. To the uninitiated, however, the variety may be overwhelming. Careful analysis of the functions performed suggests more similarity than difference between international and domestic distribution systems; in both cases, the three primary alternatives are using agent middlemen, merchant middlemen, or government-affiliated middlemen. In many instances, all three types of middlemen are employed on the international scene, and channel structure may vary from nation to nation or from continent to continent.

The neophyte company in international marketing can gain strength from the knowledge that information and advice are available relative to the structuring of international distribution systems and that many well-developed and capable middleman firms exist for the international distribution of goods. Although international middlemen have become more numerous, more reliable, and more sophisticated within the past decade, traditional channels are being challenged by the Internet, which is rapidly becoming an important alternative channel to many market segments. Such growth and development offer an ever-wider range of possibilities for entering foreign markets.

Key Terms

- Distribution process
- Distribution structure
- Large-Scale Retail Store Law
- Agent middlemen
- Merchant middlemen
- Home-country middlemen
- Export management company (EMC)
- Trading companies
- Export Trading Company (ETC)
- Complementary marketing

Questions

1. Define the key terms on the previous page.
2. Discuss the distinguishing features of the Japanese distribution system.
3. Discuss the ways Japanese manufacturers control the distribution process from manufacturer to retailer.
4. Describe Japan's Large-Scale Retail Store Act and discuss how the Structural Impediments Initiative (SII) is bringing about change in Japanese retailing.
5. "Japanese retailing may be going through a change similar to that which occurred in the United States after World War II." Discuss and give examples.
6. Discuss how the globalization of markets, especially Europe after 1992, affects retail distribution.
7. To what extent, and in what ways, do the functions of domestic middlemen differ from those of their foreign counterparts?
8. Why is the EMC sometimes called an independent export department?
9. Discuss how physical distribution relates to channel policy and how they affect each other.
10. Explain how and why distribution channels are affected as they are when the stage of development of an economy improves.
11. In what circumstances is the use of an EMC logical?
12. In which circumstances are trading companies likely to be used?
13. How is distribution-channel structure affected by increasing emphasis on the government as a customer and by the existence of state trading agencies?
14. Review the key variables that affect the marketer's choice of distribution channels.
15. Account, as best you can, for the differences in channel patterns that might be encountered in a highly developed country and an underdeveloped country.
16. One of the first things companies discover about international patterns of channels of distribution is that in most countries, it is nearly impossible to gain adequate market coverage through a simple channel-of-distribution plan. Discuss.
17. Discuss the various methods of overcoming blocked channels.
18. What strategy might be employed to distribute goods effectively in the dichotomous small/large middleman pattern, which characterizes merchant middlemen in most countries?
19. Discuss the economic implications of assessing termination penalties or restricting the termination of middlemen. Do you foresee such restrictions in the United States?
20. Discuss why Japanese distribution channels can be the epitome of blocked channels.
21. What are the two most important provisions of the Export Trading Company Act?
22. You are the sales manager of a small company with sales in the United States. About 30 percent of your business is mail order, and the remainder is from your two retail stores. You recently created an e-store on the Web and a few days later received an order from a potential customer from a city near Paris, France. The shipping charges listed on the Web are all for locations in the United States. You don't want to lose this $350 order. You know you can use the postal service, but the customer indicated she wanted the item in about a week. Air express seems logical, but how much will it cost? Consult both the FedEx home page (www.fedex.com) and the UPS home page (www.ups.com) to get some estimates on shipping costs. Here are some details you will need: value $350; total weight of the package, 2.5 pounds; package dimensions, 4 inches high by 6 inches wide; U.S. zip code, 97035; and French zip code, 91400. (Note: It's not fair to call UPS or FedEx—use the Internet.)
23. Based on the information collected in Question 22, how practical would it be to encourage foreign sales? Your average order ranges from about $250 to $800. All prices are quoted plus shipping and handling. You handle a fairly exclusive line of Southwestern Indian jewelry that sells for about 15 to 20 percent higher in Europe than in the United States. The products are lightweight and high in value.