UNIT 10 INTERNATIONAL DISTRIBUTION

Structure

10.1 OBJECTIVES

After going through this unit, you should be able to:

- describe the systems of international channel
- explain the types of intermediaries and their functions
- discuss the factors affecting the choice of channel
- describe the guidelines for selecting, motivating and controlling the channels
- draft an agency agreement
- discuss the issues of physical distribution in international marketing.

10.2 INTRODUCTION

The distribution process for international marketing involves all those activities related to time, place and ownership utilities for industrial and end consumers. The selection, operation and motivation of effective channels of distribution often turn out to be crucial factors in a firm's differential advantage in international markets. The diverse activities and culturally differentiated roles of channel intermediaries make the formulation of distribution strategies a challenge for any firm entering international markets.

International marketing distribution is similar to that in domestic marketing. What differs, of course, at the environmental influences that, in the end, may lead to substantially different policies and channel options. The international marketer needs to understand how environmental influences may affect the distribution policies and options. Using this knowledge the international company must use the most appropriate channels on a country-by-country basis.

The structure of the distribution system available in a country is influenced by the economic development of the country, the personal disposable income of consumers and the quality of the infrastructure, as well as factors such as culture, physical environment and the legal/political system. Marketers, while developing a distribution strategy must focus on how to transport the goods from the manufacturing locations to the consumer most effectively. Although distribution can be totally handled by the manufacturer, often the goods are moved through middlemen such as wholesalers, distributors, retailers agents. An understanding of the structure of the available distribution system is extremely important in the development of a sound distribution strategy. In this unit you will learn various international channel system, the types of intermediaries, factors affecting the channel choice and the process of selecting and motivating the overseas agents. You will be further acquainted with method of drafting of an export agency agreement.

10.3 INTERNATIONAL DISTRIBUTION — MEANING AND IMPORTANCE

Distribution channels are the link between producers and customers. It is acknowledged that effectiveness of marketing depends among other factors, on making the product available at the right places, at the right time and at the minimum possible cost. A distribution channel is defined as "the path traced in the direct and indirect transfer of title to a product as it moves from a producer to the ultimate consumer or industrial user."A distribution channel, in other words, is a set of firms and individuals that take title, or assist in transferring title to a particular good or service as it moves from the producer to the consumers. Channels of distribution consist of two categories of intermediaries or middlemen, namely:

i) merchants who take title to the goods;

ii) agents who do not take title to the goods but assist in the transferring of the title.

Each member of a channel is a link in a distribution network of organizations that extends from the producer to the users of products and services. Though it is found that some firms perform all channel functions, typically several organizations are linked together in a distribution channel to carry out the various activities including storage, transportation, sales contract, service, sorting and re-packing. The channels of distribution available in a country depend on its stage of economic development. The economic development of a country may influence the channels of distribution in the following way.

i) The more developed countries have more levels of distribution, more specially stores and supermarkets, more department stores and more stores in the rural areas.

ii) The influence of foreign agents declines with economic development.

iii) The manufacturer — wholesaler — retailer functions become separated with increasing economic development.

iv) Financing function of wholesalers decline and wholesale markets increase with increasing development.

v) The number of small stores declines and the size of the average store increases with increasing development.

vi) Retail margins improve with increasing economic development.

10.4 INTERNATIONAL CHANNEL SYSTEM

In international marketing, two categories of channels are involved, namely, channels between the nations and channels within the foreign market. In other words, the international distribution system consists of two sub-systems, namely, the domestic system and the foreign system. There are two ways of exporting, namely, direct exporting and indirect exporting. When the export is direct, the producer himself takes the responsibility

for the marketing job and makes direct sale to any or more of the foreign customer. The important kinds of foreign customers (here the word customer is used to refer to the firm/person who buys the product from the exporter) — are importers, distributors, government departments, industrial buyers, retailers and consumers. If any of these customers is not a final consumer, he is a marketing middleman or a channel member between the producer and the final consumer. Whether to sell directly to the customers or indirectly through agents or distributors will depend on the relative strengths of the various factors involved.

10.4.1 Indirect Exporting

The distinction between direct exporting and indirect exporting is on the basis of how the exporter carries out the transaction flow between himself and the foreign importer and the buyer. In indirect exports, the manufacturer utilizes the services of various types of independent marketing middlemen. In other words, when a manufacturer exports indirectly, he transfers the responsibility for the selling job to some other organization. On the other hand, in direct export, the responsibility for performing international selling activities rest on the producers. These activities are carried out by organizations that are administratively part of the manufacturerſs company.

The indirect method is more popular with firms, which are beginners in export activities, and with those whose export business is not sizeable. Indirect exporting has the following advantages:

i) **Standing in the market:** Since a new exporter is likely to be an unknown element and even if the price and quality of his product may match those of the competing companies, many buyers will not take risk of dealing with an unknown party's offer. In such a situation it would be easier and, in fact, advisable, to gain credibility in the market by persuading a known distributor to handle the product because the standing of the distributor will make the customers accept the offer.

ii) **Economies of Scale:** Customers of certain range of products generally purchase a set of complementary products rather than one. A distributor handling a complete line can therefore effectively economize on selling costs. A manufacturer-exporter, selling directly, may not enjoy its economic advantage, unless it is a very large company manufacturing a complete line of complementary products.

iii) The firm does not have to build up an overseas marketing venture.

iv) The channel is simple and inexpensive.

v) The risk involved is less, since a local party is involved.

vi) Little or no investment is required to enter the overseas market.

vii) The manufacturer incurs no start-up costs for the channel and is relieved of the responsibilities for physically moving the goods overseas.

viii) The intermediary is likely to represent several clients who can help share distribution costs.

ix) No company personnel are required to do the overseas business.

x) The middleman may have established network of sales offices and better marketing and distribution knowledge.

This method is, therefore, advantageous for firms with small means and for those whose limited export business does not justify large investments in the development of their own international marketing infrastructure.

The main limitations of the indirect method of exporting are:

i) The manufacturer gives up control over the marketing of its products to another firm. This situation may adversely affect the product's success in the future.

ii) If the chosen intermediary is not aggressive, the manufacturer may become vulnerable, especially in cases where competitors are able to obtain the services of more aggressive intermediaries.

iii) The indirect channels may not necessarily be permanent. Being in the business of handling products of profits, the intermediary may discontinue handling a manufacturer's product if the profit margin is low or if a competitive product offers a better profit margin.

iv) If the product has a long purchase cycle and requires substantial resources for market development then the export middlemen may not devote the necessary effort to promote the market.

10.4.2 Direct Exporting

Direct export refers to the sale in the foreign market by the manufacturer himself. Instead of signing an export agent or export merchant, the manufacturer makes the sale directly to the foreign buyers. The export is direct, as the manufacturer does not use any middleman in the channel between the home country and the overseas market. Due to the complexity of trade regulations like bank formalities, insurance requirements and problems associated with transportation, personnel with special training and experience are required to handle these tasks. Also the volume of export sales must be sufficient large to support the in-house staff. Factors in favour of direct exporting are as follows:

i) **Control:** The exporting company will have direct and full control over marketing operations and, therefore, can device and implement the proper marketing strategy in tune with the conditions prevailing in the export market.

ii) **Customer Satisfaction:** In the case of highly specialized equipments, buyers would generally prefer to deal directly with the manufacturers as they expect to be completely assured of the service and backup system. Distributors may not have personnel with the requisite technical knowledge and experience for providing pre-sale, point of sale and after — sales service.

iii) **Profit:** By selling directly the exporting company can save on the commission that otherwise becomes payable to the agent. If the volume of sales is fairly high, it may become more profitable for a firm to establish its own sales office than paying commission to a distributor.

The greatest advantage in direct selling is active market exploitation by the manufacturer and the consequent benefits of gainer of experience in export marketing and being in touch with the market. The channel improves communication between the manufacturer and the customer and information and data from the market will be more reliable and more easily available.

Direct selling has some limitations. It is a difficult channel to manage if the manufacturer is unfamiliar with the foreign market. Moreover, the channel is time consuming and without a large volume of business, the manufacturers may find it too costly to maintain the channel. In short, direct export entails more risks, but more control and more return.

A number of organizational arrangements are available to a company for carrying on direct exporting. These are:

i) The export business may be conducted by a domestic export department or division.

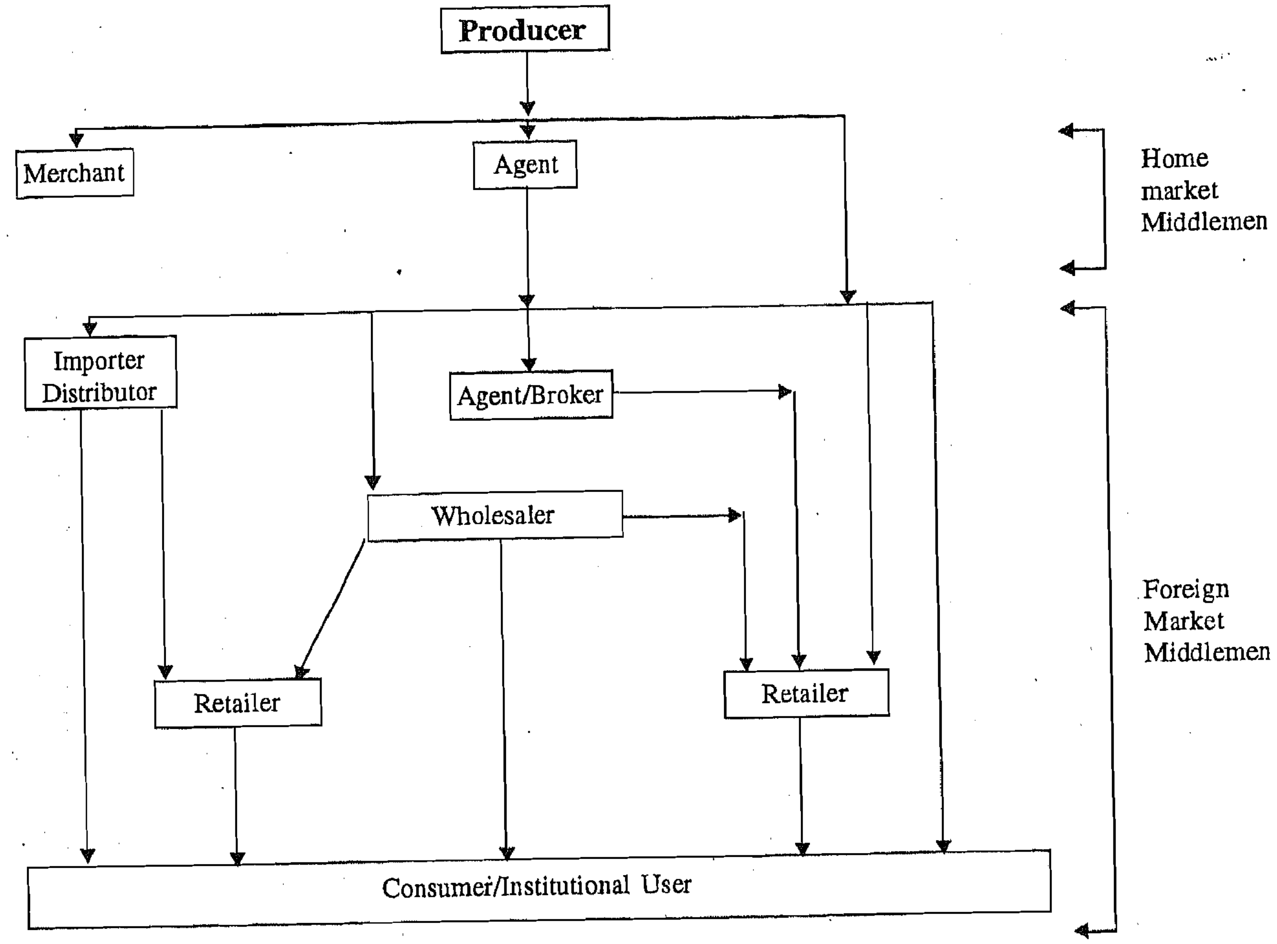
ii) The company may establish overseas sales branches or subsidiaries in addition to domestic marketing department. As part of overseas sales branch, the company may also establish storage/warehousing facilities.

iii) A company may employ travelling salesmen in the overseas market. These travelling salesmen may be home based or attached to the foreign branches or subsidiaries.

10.5 TYPES OF INTERMEDIARIES AND THEIR FUNCTIONS

There are several types of intermediaries associated with both direct and indirect channels. Look at Figire 10.1 which gives the broad channels that are available to a manufacturer.

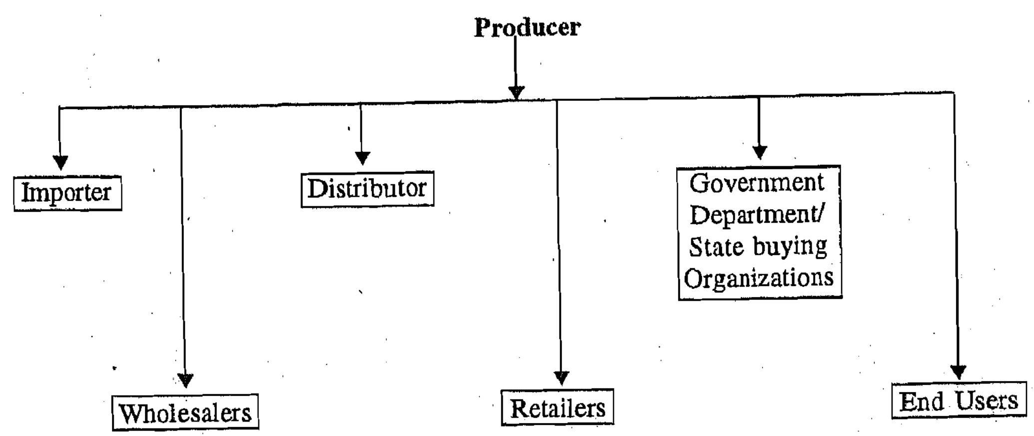
Figure 10.1 : International Marketing Channel System



10.5.1 Direct Channel (Foreign Market Channel Members)

Direct Exporting channels are shown in Figure 10.2

Figure 10.2 : Direct Exporting Channels



Importers: Importers identify local market requirements and find products from the world markets to satisfy these requirements. Importers purchase goods in their own names and act independently of the manufacturers. As independent middlemen, these channel members use their own marketing strategies and keep in close contact with the markets they serve.

Foreign Distributors: A foreign distributor is a firm in the overseas country that has exclusive rights to undertake the distribution function for a manufacturer in its country or specific area. The distributor purchases merchandise from the manufacturer at a discount and then resells the merchandise to retailers and, at times, to final consumers also. The distributor's function in many countries may be a combination of wholesaler and retailer.

But in most cases, the distributor is usually considered as an importer or wholesaler.

There are a number of benefits in using a foreign distributor. Unlike agents, the distributor is a merchant who buys and maintains merchandise in his own name. This arrangement simplifies credit and payment activities for the manufacturer. To carry out the distribution function, the foreign distributor is often required to warehouse products, parts and accessories and to have adequate facilities to service buyers and users.

Foreign Retailers: If a manufacturer directly supplies to foreign retailers it means that the products in question are consumer products rather than industrial products. There are several means by which a manufacturer may contact the foreign retailers and may provoke their interest in carrying his product. These range from personal visit by the manufacturer's representative to mailing of catalogue, brochures and other literature to prospective retailers. For various reasons, most large retailers prefer to deal directly with the manufacturers. Large food chains in USA and Europe are mostly in direct contact with foreign manufacturers. Department stores, supermarkets, specially stores, discount stores and hypermarkets are among the most important retailers, which buy directly from supplying countries.

Government Department/State Owned Trading Companies: In some countries, government departments and/or government owned companies buy large quantities of certain goods often on long-term basis directly from suppliers. These are generally essential goods meant for mass consumption or for use in Government Departments.

End Users: Sometimes, a manufacturer may sell directly to foreign end users with no intermediary involved in the process. This direct channel is a logical and natural choice for high unit value and high technology items.

Overseas Agents: Details regarding this channel are discussed in sub-unit 10.7.

10.5.2 Indirect Channel (Domestic Market Channel Members)

A manufacturer may often not sell directly to the various foreign parties (i.e. foreign distributors, foreign retailers, government department, state controlled trading companies, end users etc.). There are many intermediaries that operate between the foreign buyers and the local manufacturers.

The manufacturer deals with one or more domestic middlemen who, in turn, move or sell the product to foreign middlemen or final users. Although there are many kinds of local sales intermediaries, all of them can be grouped under two broad categories:

i) Domestic Agents
ii) Domestic Merchants

The basic difference between the two arises on account of ownership(title) and not the physical possession of the merchandise. Domestic agents never take title to the goods, regardless of whether they take possession of the goods or not. While domestic merchants, on the other hand, own the merchandise, regardless of whether they take possession of the goods or not. Let us discuss them in detail.

Domestic Agents

Agents can be classified according to the principal whom they represent. Some agent intermediaries represent the buyer; others represent the interest of the manufacturer. Those who work for the manufacturer include export broker; manufacturer's export agents, export management companies and co-operative exports. Agents who look after the interests of the buyer include purchasing agents and country controlled buying agents. These are discussed below:

Export Management Companies: In some countries, there are Export Management Companies (EMC), which manage, under contract, the entire export activities of a manufacturer. When compared with export agents, the EMC has greater freedom and authority. EMCs provide extensive services to manufacturers ranging from promotion of products overseas to shipping arrangement and documentation. In short, the EMC is responsible for all the manufacturer's international marketing activities and they are compensated in forms of commission or retainers plus commission.

Export Broker: The function of an export broker is to bring the buyer and the seller together for a fee. The broker may be assigned one or more foreign markets by the seller.

He negotiates the terms for the seller (i.e., manufacturer) but cannot conclude the transaction without the principal's approval of the arrangement. For any action performed, the broker receives a fee or commission. An export broker does not take possession or title to the goods. In effect, he has no financial responsibility other than sometimes making an arrangement for credit. The export broker is considered useful because of his extensive knowledge of the overseas markets and foreign customers. This knowledge enables the broker to negotiate the most favourable terms for the principal.

Manufacturer's Export Agent: Export agents are individual or firms that assist manufacturers in exporting goods. Unlike EMC's, export agents provide limited services. These agents focus more on sale and handling of goods. Using an export agent has the advantage that the firm does not need to have an export manager to handle all the documentation and shipping tasks. While the disadvantage arises from the export agentfs limited market coverage, which may require the services of a number of export agents to cover different parts of the world. The export agent works on commission.

Purchasing Agent: The purchasing agent represents the foreign buyer. By residing and conducting business in the exporter's country, the purchasing agent is in a favourable position to seek a product that matches the foreign principal's (buyer's) preferences and requirements. Operating on the overseas customerfs behalf, the purchasing agent acts in the interest of the buyer by seeking the best possible terms. The purchasing agent's client pays a commission for the services rendered. The purchasing agent is also known as the commission agent or buying agent.

Country Controlled Buying Agent: This kind of agent performs exactly the same functions as the purchasing agent, the only distinction being that a country controlled buying agent is a foreign government's agency or a quasi-government firm. The country controlled buying agent is empowered to locate and procure goods for his country. This agent may have offices located in countries that are major suppliers.

Resident Buyer: Another variation on the purchasing agent is the resident buyer. A resident buyer is an independent agent who is located near highly concentrated production centres. Although functioning much like a regular purchasing agent, the resident buyer is different because he is retained by the principal on a long term basis to maintain continuous search for suitable new products. The long-term relationship makes it possible for the resident buyer to be compensated with a retainer, besides commission for business transacted.

Domestic Merchant

Export Merchant: The domestic based export merchant buys the manufacturer's product and sells it abroad on his own. When this type of middlemen is used for overseas marketing, the job of the manufacturer is limited to essentially production and at most domestic marketing. In such cases, except production related functions such as carry out modifications in the product and product mix which may be sometimes required to suit the export market, all other international marketing tasks are handled by the export merchant.

Export Houses: In India, there are a number of export houses that export products produced by manufacturers. Some companies have established their own export marketing subsidiaries. They perform export marketing functions for manufacturing companies including physical handling of the products, promotion in overseas markets, etc. leaving the manufacturer to concentrate on production. They extend credit to manufacturers, provide advice on product modification etc. They have good contacts in the overseas markets and may also have established network of sales offices round the world.

Trading Companies: Unlike an export house, which concentrates on exports, a trading company is active both in exports and imports. Japanese trading companies have been very successful in promoting the country's exports. Like export houses, the trading companies, offer a broad range of services from marketing research to financing and present a relatively inexpensive choice for the small and medium enterprises to undertake international business. The advantages to manufacturers in routing their products through trading companies are:

i) They can benefit from the economies of scale inherent in the operations of large sized trading firms;

ii) They can benefit from the technical and financial support provided by the trading firms;

iii) Since trading companies are resource rich, they are in a position to employ qualified and specialized staff to look after the complicated work relating to export marketing and the manufacturer gets the benefit of specialized service;

iv) The bargaining strength of trading firms, particularly dealing with powerful overseas buyers is a great advantage to small sized manufacturers;

v) The popularity of non established trading firm in overseas markets will be a significant advantage to a small or medium enterprise, particularly in the earlier stages of venturing into export markets;

vi) Trading firms are able to absorb many of the risks inherent in international trade because of their strong resource base.

Piggybackings: When a company does not find any channel-partner with sufficient interest to pioneer new products, the practice of piggybacking may offer a way out of the situation. Piggybacking is an arrangement with another company, which sells to the same customer-segment, to take on the new products as if it were the manufacturer. The products retain the name of the manufacturer and both partners normally sign a multi-year contract to provide for continuity. The new company is, in essence, 'piggy-backing' its products on the shoulders of the established company. A Japanese manufacturer of soyu sauce 'Kikkoman' decided to piggyback on Del Monte's sales force for its entry into USA. The two companies had earlier signed a technical agreement allowing Kikkoman to sell Del Monte's tomato juice in Japan. Following Kikkoman's entry into the US market, the company planned to enter several South American Countries. As a result of this move, Kikkoman was in a position to gain immediate distribution for its products, a process it would have taken the firm years to develop, on its own. Similarly, Colgate Palmolive Company has been distributing Wilkinson blades in many international markets. Sony Corporation serves as a distributor in Japan for a number of European and US companies. Through it's Sony International House wares, Sony distributes for such companies as Whirlpool, Schick, Regal Ware and Health Company. The principal asset of the exporting firms being their experience in dealing with overseas markets as manufacturers themselves, they are well aware of and sympathetic towards the problems of other manufacturers interested in developing exports.

Under a piggyback arrangement the manufacturer retains control over a number of marketing decision areas, particularly pricing, positioning and promotion. The partner acts as a 'rented' sales force only.

Check Your Progress A

1. What do you mean by distribution channel ?

....

....

....

....

2. Distinguish between direct exporting and indirect exporting.

....

....

....

....

3. Distinguish between domestic agent and domestic merchants.

....

....

....

....

4. State whether the following statements are True or False.

   i) The more developed countries have less levels of distribution.

   ii) The indirect exporting method is more popular with firms, which are beginners in export activities.

   iii) Domestic agents take title to the goods.

   iv) The export broker negotiates the terms for the seller but can not conclude the transaction without the principal's approval of the arrangement.

   v) The purchasing agent represents the foreign seller.

10.6 FACTORS AFFECTING CHANNEL CHOICE

The following are some factors that need to be considered before taking a decision whether to go for direct or indirect export.

Factors	Indirect	Direct
The Market	Dispersed Small potential sales Consumer market	Concentrated Large potential sale Industrial market
The Product	Non-technical product Consumer goods	Technical products Industrial goods
Marketing skill of the Company	Company lacks marketing skill and experience	Company possess marketing skill and experience
Degree of control	Company desires little control	Company desires high degree of control
Financial condition of the company	Weak financial condition	Strong financial condition

Following are some additional points to be considered for channel choice:

1. **Characteristics of the Product**

   i) Unit Value — In general, direct sales are preferred for items of high unit value.

   ii) Bulk and weight — If bulk transportation is possible, direct exporting is preferred.

   iii) Perishability — The more perishable is the product, the shorter should be the channel.

   iv) Fashion goods are usually sold direct to retailers.

   v) Standardization — Indirect sales are recommended for standardized products.

   vi) Stages of market development — New products are promoted by direct sales. Indirect sales may be adopted for established products.

2. **Who is the Buyer ?**

   i) *Government Departments* - In some countries, government departments buy commodities directly, often on a long-term basis.

   ii) *Industrial Buyers* - Large industrial companies often buy, direct from producers, their requirements of raw materials, spares and components.

   iii) *Distributors* - A distributor buys and holds large stocks of a product in return for an exclusive right to sell the product in the area represented by him.

   iv) *Wholesalers* - Some large wholesalers may prefer to buy directly from producers.

   v) *Large Retail Stores* - Large departmental stores may prefer to buy their requirements directly from producers.

3. **Volume of Sales Expected**, i.e., the existing and the potential future size of the market. The larger the size, the shorter will be the channel.
4. **Firm's Own Resources** - How much resources in terms of finance, skill, time and attention the firm can devote to exporting will also determine the channel choice. Resource rich firms can opt for direct export. While resource scarce firms can export their products through intermediaries.

Criteria for Selection of Channels

i) Costs involved - How much investment is required on the part of the firm moving its products through a particular channel ?

ii) The behaviour of the competitors, i.e. what are the firms in similar line doing ?

iii) Possibilities of getting appropriate feedback from customers regarding the response to the product.

10.7 SELECTING AND MOTIVATING OVERSEAS AGENTS

You have learnt about various channels operating in the overseas markets. Let us now discuss how to select and motivate the agents ?

10.7.1 Overseas Agents

In order to be in constant touch with a particular territory and to exploit the full potential of the market, it may be necessary for an exporting organization to have its own offices in that market. But many small and medium enterprises may not be able to afford the resources required to open their own offices abroad. Under such circumstances, commercial agents may be a viable alternative. They can perform the functions, which an overseas office of the parent body is expected to do. The role of commercial agents, thus, becomes crucial from the standpoint of exporting firms. The agent, being a local person, is likely to be thoroughly conversant with the market and is expected to have wide contacts not only in the business but also in government and, therefore, will be in a position to promote the interest of the exporting firm. The agent does not trade on his own but secures orders in the name of and on account of the principal and gets commission on the basis of the business that he has able to generate. The major advantages of having an agent in the export market are:

i) In some countries there are legal stipulations that all imports/tenders are to be handled through a local agent, who is a resident and citizen of the country. In such cases, appointment of the agent becomes obligatory.

ii) The agent is a local man and is, therefore, expected to be more knowledgeable of the marketing conditions and prospects of specific products in that market than an outsider.

iii) He is likely to have good contacts with the decision-makers at various levels, which is crucial for building up large sales.

iv) He will have offices in the major commercial centers of the country and, therefore, will be in a position to call personally on main buyers at regular intervals.

v) Data and information relevant to the principal's operations can be collected and disseminated by the local agent faster and cheaper.

vi) Since agent is paid on commission based on the value of the orders secured by him, he has incentive to get large business and besides no fixed or overhead cost is to be incurred by the parent firm.

vii) A well established firm generally has warehousing facilities, which are crucial in the export marketing of certain types of products.

viii) An agency firm also has specialized sales staff competent to handle sales of different types of items.

ix) An agent can also provide after sales service, which is crucial in promoting sales of durable consumer goods and capital equipment.

10.7.2 Identifying Foreign Agents

There are various ways to identify agents in the foreign markets. Embassies and High Commissions in the concerned countries, International Merchant Banks and Chambers of Commerce in various countries generally provide information on local agents. Import promotion centres established in various countries also help in this regard. The International Union of Commercial Agents and Brokers based in Amsterdam provides information on agents in European countries and the United States of America. Another method of identifying agents is to visit fairs and exhibitions. Since a large number of agents also visit these fairs, it is possible to contact them personally. Advertisements in trade journals can also bring in fruitful results.

Once a list of potential agents is prepared the next step for an exporter is to decide on the particular agent whom he would like to appoint. Agents have to be selected with care, and selection of agents takes time and effort and calls for good judgement. There are essentially three qualities, which an exporter should look for in an agent. First is character, which means that the agent must have established his credibility in the particular business he is engaged in. the second quality is capital, i.e. he must have a sound financial base for his business operations. And finally, he must have the capacity, i.e. he should have contacts in the right places and possess adequate marketing expertise to promote the products of the principal. These are the three 'Cs' that really make an agent successful.

Before deciding on a particular agent, the exporter should decide as to what type of agent he would like to have. A question may arise as to whether a big agency house should be approached or a smaller one will be better. The answer to this question depends on the level of business that the exporter expects to generate in the first and subsequent years. If the initial level of business is not expected to be large, a big agency house will not be interested in taking up his agency. In such a case, a medium size agency organization will be better suited for the exporting firm. Similarly, there are both advantages and disadvantages in appointing a very small agency firm. The advantage is that, the firm being small, is likely to make sincere attempts to generate business and will devote more attention to the promotion of exporting company's products. The disadvantage is that such an organization may not have adequate contacts and resources.

Once the firm has identified the characteristics of the agent and the range of service, he has to render, the firm should obtain the following information in order to find out the appropriateness of that agent. These are:

i) How long has the agent been in business ?

ii) How many salesmen has he got ? their experience and reputation.

iii) Names of the other accounts he is presently handling. Does he carry any lines that are directly competitive with or complementary to the firmſs lines ?

iv) Total turnover during the last few years.

v) What is the average turnover per account ?

vi) Has he got adequate working capital ?

On the basis of the answers to these queries the firm should be able to evaluate the potentialities of various agents and make the final choice.

10.7.3 Motivating and Controlling the Agents

The exporting firm must develop a system for motivating the agent. One way to motivate the agent is through granting exclusive agency rights in a particular territory. This means that he will be solely responsible for the development of a particular market and will receive commission on all orders, which the firm gets from the market.

Another method of providing incentive to the agent is to introduce variable commission rates. In the beginning of the year a target may be set. If the agent is able to surpass the target, he may be given a higher rate of commission. Supplying the sample orders promptly is also one way to keep the agent happy. Providing promotional materials is an important way of motivating the agent. It may also be desirable to invite the agent periodically to the head office so that he can see the company's operations firsthand and also participate in the formulation of the marketing strategy.

The export firm must also develop a system to evaluate the performance of the agent. One criterion of evaluation can be the share of the market that the company has secured and how the market share is changing over time. The annual rate of growth in sales is another criterion. Number of new customers developed by the agent can be another factor in the evaluation process.

10.7.4 Payment of Agency Commission — Rules in India

Payment of commission to overseas agents is allowed either by remitting the amount or by deducting it from the invoice value. The application indicating the particulars, such as exporterís code number, customs/shipping bill number and date, name of commodity, name and address of the buyer/agent and export value should be submitted to the authorized dealer together with an attested copy of invoice and documentary evidence in support of the amount to be remitted.

For remitting the agent's commission, the exporter will have to purchase foreign exchange from the free market. Alternatively, he can maintain a foreign exchange account to the extent of 50 per cent of the f.o.b value of his export earnings.

10.8 EXPORT AGENCY AGREEMENT

Agency agreement is a legal document, which establishes the commercial relationship between the principal and the agent. It incorporates the conditions agreed upon by the concerned parties for the conduct of business. When negotiating an agency agreement, the points to be noted are:

i) Parties to the contract

ii) Contractual products

iii) Contracted territory

iv) Duration of the contract

v) International buying groups may like to contact the exporter directly. Exporters should reserve the right to negotiate directly with international buying groups in their own countries for orders which ultimately will be executed in the agents territory — whether the agent will be eligible to commissions on such sales should be made explicit in the agreement.

vi) When credit terms are involved and the principal is not sure of the credit worthiness of the buyer, he should have the right to reject the order.

vii) Payment of commission

a) Rate at which commission is to be paid

b) Calculated on percentage basis — the base for such calculation

c) The time when commission becomes payable

viii) Settlement of disputes

ix) Renewal and termination of agency.

A specimen agency agreement is given below:

AN AGREEMENT made this ....day of ....20....
BETWEEN...Whose Registered office is situated
at..
....(hereinafter called "the Principal") of the one part and
....
....(hereinafter called "the Agent") of the other part.

WHEREBY IT IS AGREED as follows:
(for use by Sole Agent)

The Principal appoints the Agent as and from the
.... to be its Sole Agents in..(hereinafter called "the area") for the sale of .... Manufactured by the Principal and such other goods and merchandise (all of which are hereinafter referred to as "the goods") as may hereafter be mutually agreed between them.

OR

(for use by Export Houses/Exporter not being manufacturer)

The Principal appoints the agent as and from the .... to be its Sole Agents/Agent in .... (hereinafter called "the area") for the sale of ....
Manufactured in India or .... (hereinafter referred to as "the goods") as may hereafter be mutually agreed between them.

2. The Agent will during the term of .... years (and thereafter until determined by either party giving .... Months' previous notice in writing) diligently and faithfully serve the Principal as its Agent and will endeavour to extend to the sale of the Principal within the area and will not do anything that may prevent such sale or interfere with the development of the Principalís trade in the area.

3. The principal will from time to time furnish the Agent with a statement of the minimum prices and the terms at which the goods are to be sold and the Agent shall not sell below such minimum price but shall endeavour in each case to obtain the best price obtainable.

4. The Agent shall not sell any of the goods to any person, company, or firm residing outside the area, nor shall be knowing sell of any of the goods to any person, company, or firm residing within the area with a view to their exportation to any other country or area without the consent in writing of the Principal.

5. The Agent shall not during the continuance of the Agency hereby constituted, sell goods of similar class of such as would/or might compete or interfere with sale of the Principal's goods, whether on his own account or on behalf of any other person, company, or firm whatsoever.

6. Upon receipt by the Agent of any order for the goods, the Agent will immediately transmit such order to the Principal who (if such order is accepted by the Principal) will execute the same by supplying the goods direct to the customer, or his order.

7. Upon the execution of any such order, the Principal shall forward to the Agent, a duplicate copy of the invoice sent with the goods to the customer and, in like manner, shall, from time to time, inform the Agent when payment is made by the customer to the Principal.

8. The Agent shall duly keep an account of all orders obtained by him and shall, every three months, send a copy of such account to the Principal.

9. The Principal shall allow the Agent the following commissions (based on f.o.b. Indian Rupee values) in respect of all orders obtained by the agent in the area, which have been accepted and executed by the Principal. The said commission shall be payable every .... Months on the amounts actually received by the Principal from the customers.

10. The Agent shall be entitled to commission on the terms and conditions mentioned in the last preceding clause on all export orders for the goods received by the Principal, for export into the area. Export orders in this clause mentioned shall not include orders for the goods received by the Principal from and sole delivered to customer's principal place of business outside the area although such goods may subsequently be exported by such customer into the area, excepting where there is conclusive evidence that orders which may actually be transmitted via the Head Office in India are resultant from work by the Agent with the customers.

11. Should any dispute arise as to the amount of commission payable by the Principal to the Agent, the same shall be settled by the Auditors for the time being of the Principal whose certificate shall be final and binding on both the Principal and the Agent.
12. The Agent shall not in any way pledge the credit of the Principal.
13. The Agent shall not give any warranty in respect of the goods without the authority in writing of the principal.
14. The Agent shall not, without the authority of the Principal, collect any money from customers.
15. The Agent shall not give credit to or deal with any person, company, or firm, which the Principal shall, from time to time, direct him not to give credit to or deal with.
16. The Principal shall have the right to refuse to execute or accept any order obtained by the Agent or any part thereof and the Agent shall not be entitled to any commission in respect of any such refused order or part thereof so refused.
17. All disputes or differences whatsoever arising between the parties out of or relating to the construction, meaning and operation or effect of this contract or the breach thereof shall be settled by arbitration in accordance with the Rules of Arbitration of the Indian Council of Arbitration and the award made in pursuance thereof shall be binding on the parties.
18. This agreement shall, in all respects, be governed and interpreted in accordance with the Laws of India.

    IN WITNESS whereof, the parties hereto have subscribed their signature on the day and year first herein before written.

(Signatures)

10.9 OVERVIEW OF PHYSICAL DISTRIBUTION DECISIONS

International physical distribution encompasses the logistics or movements of goods across countries from the sources of supply to the centers of demand. In other words, it is concerned with getting the right product to the right place at the right time in a good condition at a reasonable cost. Warehousing, transportation and inventory control are the major components of physical distribution. In international distribution there are complexities of national borders, customs of trade, tariff and now tariff barriers, carrier performances, credit risks, exchange regulations and the attendant necessity of filling numerous documents.

As mentioned earlier, the three importance aspects of physical distribution are warehousing, transportation and inventory management. The basic decisions to be made concerning warehousing relate to the number of warehouses needed by the company, size and their points or location. The decisions on the above will depend on where the firms customers, both current and potential are geographically located around the world; what is the pattern of their current demand and what demand pattern is likely to emerge in the future; and what level of customer service should be provided. The transportation decision mainly revolves round the choice of the model of transportation for moving the goods from the original producer to the ultimate consumer. This decision will be influenced by such factors as the type of transportation available, the nature of product, the size of shipment, the distances to be travelled, the type of demand and the relative costs of different shipping alternatives.

Inventory management deals with stocking inventory to fill customer orders. It involves two decisions — how often to order in a given period and how much to order. Physical distribution should be considered as an integrated system. The cost involved in administering warehousing, transportation and inventory functions are inter-related, and they must be considered simultaneously for effective decision-making.

Check Your Progress B

1. Enumerate three factors affecting the channel choice.

    ....

    ....

    ....

    ....

2. Enumerate four characteristics of the product.

    ....

    ....

    ....

    ....

3. What is an export agency agreement ?

    ....

    ....

    ....

    ....

4. State whether the following statements are True or False.
    i) New products are promoted by direct sales.
    ii) Large industrial company often buy from the intermediaries.
    iii) Commercial agents are not viable for small firms.
    iv) In some countries there are legal stipulations that all imports are to be handled through a local agent.
    v) Physical distribution should be considered as an integrated system.

10.10 LET US SUM UP

Distribution channels link the original producer with the final consumer. It is said "a product is not produced unless and until it is distributed". Distribution provides time and place utility to the product.

A manufacturer can directly reach his product to the end users, government departments and state trading organizations or reach the consumer though importers, distributors, retailers, wholesalers or agents in overseas countries or he can avail of the services of specialized channel members such as export broker, export agent, buying agent, export merchant, export house or trading house. There are also the practice of 'piggybacking' by some companies in arranging with other companies which serve the same customer segments to carry their products. A number of factors such as the nature of the market, the type of product, the objectives and resources of the firm, the skill and experience of the firm in export marketing, the degree of risk and control associated with the type of distribution, the return desired, the type of buyer, the stage of market development, the type of channel available in a country, the legal environment relating to distribution in a particular country etc. affect the channel choice of a company.

Overseas agents play an important role in promoting a firm's products in their territories. They, being located in the country of sales are generally known to be very familiar with the territory, have valuable contacts, employ specialized staff and provide constant feedback to the exporting firm. However, great care should be taken in selecting an overseas agent. In the selection of an agent, the services offered by Chambers of

Commerce, International Banks Embassies and High Commissions etc., may be availed of. A suitable system for motivating and controlling the agent should also be devised. An agency agreement, providing for all possible contingencies must also be concluded by the export firm with the agent. Physical distribution encompasses important areas such as warehousing, transportation, risk taking and inventory management and all areas are inter-related. Hence, an integrated approach is suggested for physical distribution management.

10.11 KEY WORDS

Distribution Channel: The path traced in the direct and indirect transfer of title to a product as it moves from a producer to the ultimate consumer or industrial user.

Indirect Exporting: Transfer of the selling responsibility to other organization by the manufacturer.

Direct Exporting: Manufacturers retain the responsibility for performing international selling activities.

Domestic Agents: The agents who never take the title to the goods, regardless of whether they take possession of the goods or not.

Domestic Merchants: The agents who own the merchandise, regardless of whether they take the possession of the goods or not.

Piggybackings: An arrangement with another company, which sells to the same customer segment and takes the new products as if it were the manufacturer's product.

Export Agency Agreement: A legal document, which establishes the commercial relationship between the principal and the agent.

10.12 ANSWERS TO CHECK YOUR PROGRESS

A. 4 i) False ii) True iii) False iv) True v) False
B. 4 i) True ii) False iii) False iv) True v) True

10.13 TERMINAL QUESTIONS

1) Distinguish between direct and indirect selling channel. Discuss the advantages and disadvantages of both the channels.
2) Distinguish between domestic agents and domestic merchants. Explain various types of domestic agents.
3) Describe various types of domestic merchants with suitable examples.
4) What are the factors affecting the channel choice ? Discuss the criteria for selection of channels.
5) Do you think that the overseas agents are advantageous. Discuss and explain how can you identify a foreign agent.
6) Draft a hypothetical export agency agreement.
7) Write short notes on the following:
   (a) Overseas agent
   (b) Piggybackings
   (c) Export agency agreements.

UNIT 11 INTERNATIONAL MARKETING COMMUNICATION

Structure

11.0 OBJECTIVES

After studying this unit, you should be able to:

- describe the concept of marketing communication
- explain the process of communication
- identify the elements of promotion mix and explain them
- explain the concept and role of international marketing communications
- identify the key decisions and common issues in international marketing communications.

11.1 INTRODUCTION

Marketing communication—one of the 4 Ps of the marketing mix—refers to all forms of communications that organizations use to influence buying behaviour of present and potential customers. Marketing communication should be designed to inform customers about the benefits and values that a product or service offers. The principal forms of marketing communication are advertising, personal selling, publicity and sales promotion. All these elements can be utilized in global marketing also. However, the environment in which marketing communication programmes are implemented can vary from country to country. In this unit, we shall discuss the meaning, objectives, role and key decisions, common issues and major communication tools in international marketing communication.

11.2 MARKETING COMMUNICATION

Communication has a very important place in marketing. It is that function of marketing which is charged with the task of informing the target customer about the nature and type of the firm's product and services, their unique benefits, uses and features as well as the