UNIT 12 INTERNATIONAL DISTRIBUTION AND SALES POLICY

Objectives

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

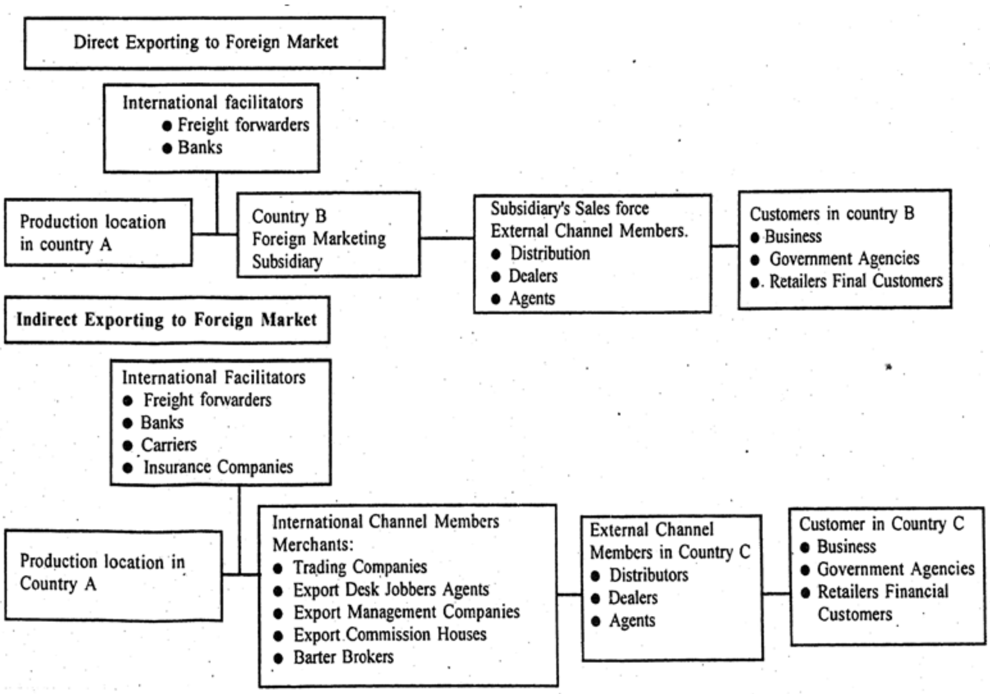
- explain the international distribution channels and the options available of direct and indirect distribution
- identify the key elements of international distribution and sales policy
- highlight the importance of systematic management of channel members and their innovation and control
- gain an overview of the physical distribution management.

Structure

12.1 INTRODUCTION

Distribution plays an important role in the implementation of the international marketing programme as it enables the products and services to reach the ultimate customer. And international marketing firm has the option of managing its distribution function either directly or indirectly through middleman or a suitable combination of the two.

Exhibit 12.1: Examples of International Distribution Channels



Due to physical distance, and also the differences in geographical, cultural and market characteristics of the trading countries, use of middlemen is found quite prevalent in international marketing. In fact, distribution is one such primary functions of marketing which makes use of the services of external independent agencies that bind the firm in a long term relationship.

12.2 INTERNATIONAL DISTRIBUTION CHANNELS

Distribution has two elements, the institutional and the physical. Physical distribution aspects cover transport and warehousing.

The longer the channel, the more likely that producer's profits will be indirectly reduced. This is because the end product's price may be too expensive to sell in volume, sufficient for the producer to cover costs. Yet cutting channel length may be impossible, as country infrastructure requirements may dictate they being there.

As already mentioned international marketers have the options of organizing distribution of their goods in foreign markets through the use of indirect channels, i.e. using intermediaries, direct channels or a combination of the two in the same or different markets.

1. Indirect Distribution

Indirect channels are further classified based on whether the international marketer makes use of domestic intermediaries. An international marketer therefore, can make use of the following types of intermediaries for distribution in foreign markets.

a) Domestic Overseas Intermediaries

- Commission buying agents
- Country-controlled buying agents
- Export management companies (EMCs)
- Export merchants
- Export agents
- Piggy backing

b) Foreign Intermediaries

- Foreign Sales Representatives
- Foreign Sales Agents
- Foreign Stocking and Non-Stocking Agents
- State Controlled Trading Companies

The definition and major advantages and disadvantages of the above types of intermediaries are given in Exhibit 12.2

2. Direct Distribution

The options available to international marketer in organising direct distribution include sending missionary skies representatives abroad from the headquarter, setting up of local sales/branch office in the foreign country or for a region, establishing a subsidiary abroad, entering into a joint venture or franchising agreement.

Exhibit 12.2 Intermediaries in International Distribution : basic definitions

(a) Domestic Overseas Intermediaries

Type	Definition	Advantages	Disadvantages
Commission buying agents	Working for a foreign company on salary/ commission basis in search of lowest prices & best deliveries	Same ease as domestic sale	No true international exposure experience gained
Country controlled buying agents	Similar as above but controlled by the foreign government	Same as above	Same as above
EMCs	Independent firm contracted by manufacturer to develop exports sales handle shipping and delivery arrange for payment	Immediate experience and international contracts	Some loss of control and lower gross Profits
Export merchants	Purchase for own account to resell in the market place	Same ease as domestic sale	Loss of market control
Exporters	Act as international manufacturers representative	Low overhead expense	Lack of control
Piggy backing	Selling to domestic company with compatible product line already well placed in the international market	Immediate access to experienced held force in same product area	Partial loss of control and lower gross profits

b) Foreign Intermediaries

Foreign sales representatives	Foreign manufacturer who handles related product line on commission basis	Knowledge of local market and ability to cover area	Sells number of products and may not push yours
Foreign sales agent	Same as above but with degree of authority to commit your company	Same as above, can make local decisions	Same as above
Distributor stocking or non-stocking	Purchase your products for resale to end user	Same as above plus can provide on site service	Some lack of control and pricing
End user	Similar to above though do not use product directly	Local control	Requires export sales force
State buying companies	Your foreign customer	Often found in centrally controlled economies	Same as above

Companies having long-term interest in international marketing find it expedient to deploy their own sales force in foreign markets. This helps them in increasing their sales volume through committed market development activities, better control and motivation of foreign intermediaries being used, and paving the way for smoother transition to direct distribution and marketing.

12.3 INTERNATIONAL DISTRIBUTION POLICY

The international distribution policy of a firm according to Cateora, should cover the following factors:

1) Question of control, size of margins, length of channels, terms of sale and channel ownership.

2) Resource (money and personnel) commitment plans for the distribution function management keeping profit goals in a foremost position.

3) Specific market goals expressed in terms of volume, market share and margin requirements, to be accomplished.

4) Return on investment, sales volume and long run potential as well as guidelines for solving routine distribution problems, and

5) The relationship between long-and short-term goals, the extent of the company's involvement in the distribution system as well as the extent of its ownership of middlemen.

Adapting to distribution patterns

Notwithstanding, the international distribution policy of the company, the factor of flexibility to adapt the distribution policy to local conditions of the foreign markets is very crucial for effective results

A clear understanding of the target market characteristics covering aspects such as traditions and conventions in the wholesaling and retail distribution patterns (see Exhibit 12.3); shopping habits of customers including customers reliance on channel members for product information and servicing; commercial terms; and legal requirements help define the selection of channel.

The following trends help to illustrate the need to the above analysis for suitable adaptation of the distribution patterns:

- In the US, there has been a rapid expansion of large supermarkets and other retail chains, and also the deep-vertical integration into wholesale and manufacturing by large retail houses:

- In Sweden, a powerful consumer-oriented cooperative movement handles a substantial business in food, petroleum, etc.

- In Mexico, there is a modern retail distribution for the urban people, and traditional outlets and public distribution system exists for the poor.

- In China, wholesalers mainly control the Chinese distribution system.

- In Japan, large trading companies, handle half of Japanese trade while a large number of wholesale and retail outlets help products to penetrate in its market.

- In Saudi Arabia, a small number of hands approved by the royal family control its manufacturer-wholesaler retailer distribution system.

- In Peru, importers act as distributors or wholesalers, and retaining is done typically through retail chains and street merchants.

Exhibit 12.3 : Characteristics of Middlemen in Foreign Countries

Type of Duties	Agents				Merchants				
	Broker	Factor	Manufacturer's representative	Managing agent	Comprador	Distributor	Dealer	Import Jobber	Wholesaler And Retailer
Take title..........................	No	No	No	No	No	Yes	Yes	Yes	Yes
Take Possession..................	No	No	Seldom	Seldom	Yes	Yes	Yes	Yes	Yes
Continuing relationship...........	No	Sometimes	Often	with buyer seller	Yes	Yes	Yes	No	Usually not
Share of foreign output............	Small	Small	All or part for One area	n.a.	All one area	All for certain countries	Assignment area	Small	Very small
Degree of control by principal......	Low	Low	Fare	None	Fare	High	High	Low	Nil
Price authority........................	Nil	Nil	Nil	Nil	Partial	Partial	Partial	Full	Full
Represent buyer or seller..........	Either	Either	Seller	Buyer	Seller	Seller	Seller	Self	Self
No of principals.....................	Many	Many	Few	Many	Few	Small	Few major	Many	Many
Arrange shipping....................	No	No	No	No	No	No	No	No	No
Type of goods.......................	Commodity and food	Commodity and food	Manufactured goods	All types Manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods	Manufactured goods
Breadth of line.......................	Broad	Broad (often specialized)	Allied lines	Broad		Narrow to broad broad	Narrow	Narrow to broad	Narrow to broad
Handle competitive lines............	Yes	Yes	No	Yes	No	No	No	Yes	Yes
Extent of promotion and Selling effort...	Nil	Nil	Fare	Nil	Fair	Fair	Good	Nil	Nil usually
Extend credit to principal..........	No	Yes	No	No	Sometimes	Sometimes	No	No	No
Market information..................	Nil	Fair	Good	Nil	Good	Fair	Good	Nil	Nil

Note n.a. = not available

Source: Philip R. Cateora. International Marketing,

Agents in Foreign Markets

Agents, known by different names and performing varying functions in different foreign markets, have an historically established place in international distribution. While agents do not take the title to the goods, their importance stems from: local language proficiency, access to important policy and decision-makers, overcoming business culture differences, short circuiting the buying-selling process, and performing the cumbersome formalities and complying with routines and procedures of the foreign market.

Activity-1

Visit a firm involved in imports/exports and find out the channels of distribution used by it.

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12.4 SELECTING DISTRIBUTION CHANNELS AND CHANNEL MEMBERS

Channels are an integrative part of the marketer's activities and as such are very important. They also give a very vital information flow to the exporter. A channel is an institution through which goods and services are marketed. Channels give place and time utilities to consumers. In order to provide these and other services, channels charge a margin. The, longer the channel the more margins are added.

Within the overall international distribution policy of the firm, the factors of :. (1) capital requirements; (2) level of distribution costs; (3) desired extent of control over distribution channel; (4) depth of market coverage; (5) product-market distribution pattern characteristics; (6) competitive practices; (7) legal requirements; and (8) short-tern versus long-term involvement of the firm in international marketing govern the choice of distribution channels.

Basically the choice comes down to two alternatives, the producer /seller selling direct or through an international merchant or agent.

This is followed by the development of a criteria for the selection of specific intermediaries. The criteria generally includes factors as financial soundness, local government contacts, business reputation, distribution network, technical support and infrastructural facilities (esp. relating to heavy industrial goods), business experience and managerial expertise, commercial terms, and extent of exclusivity to the international marketer. As the selection of the channel members commit the marketer to them for a relatively long period of time, their selection involves a cautious process and a careful analysis and referencing. Some international marketers make us of an elaborate process in this regard which begins with relative rating of candidate firms on pre-determined criteria, an example 8f which appears in Exhibit 12.4.

Exhibit 12.4 : Example of Distributor (Dealer) Selection Criteria

Criteria (no ranking implied)	Distributor 1			Distributor 2		Distributor 3	
	Weight	Rating	Score	Rating	Score	Rating	Score
1 Financial soundness and depth of channel member	4	5	20	4	16	3	12
2 Marketing management expertise and sophistication	5	4	20	3	15	2	10
3 Satisfactory trade/ customer relations and contacts	3	4	12	3	9	3	9
4 Capability to provide adequate sales coverage	4	3	12	3	12	3	12
5 Overall positive reputation and image of the company	3	5	15	4	12	4	12
6 Product compatibility (synergy or conflict?)	3	3	9	4	12	4	12
7 Pertinent technical know-how at staff level	—	—	—	—	—	—	—
8 Adequate technical abilities and service support	—	—	—	—	—	—	—
9 Adequate infrastructure in staff and facilities	1	5	5	3	3	3	3
10 Proven performance record with client companies	2	4	8	3	6	3	6
11 Positive attitude toward the company's products	1	3	3	3	3	3	3
12 Mature outlook regarding the company's inevitable progression in market management	1	3	3	3	3	3	3
13 Excellent government relations	1	4	4	3	3	3	3
	Score		111		94		85

SCALES		*Rating*		*Weighting*
	5	Outstanding	5	Critical success factor
	4	Above average	4	Prerequisite success factor
	3	Average	3	Important success factor
	2	Below average	2	of some importance
	1	Unsatisfactory	1	Standard value

Source : Based on Finding and Managing Distributors in *Asia, Business International* quoted in Toyne and Walters. *Global Marketing Management:* P. 510.

After the channel member is selected it is a prudent business practice to enter into a written agreement spelling out the scope of commitment to each other and thus minimising the possibility of disputes and misunderstandings. Exhibit 12.5 lists the items that should be included in a typical agreement with the foreign channel members.

Exhibit 12.5 Items to include in an Agreement with Foreign Channel Members

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

Source : A Basic Guide to Exporting, United States Department of Commerce, p. 66 quoted in Subhash C. Jain, International Marketing Management, p. 498.

Motivation of Channel Members

In order to get the best out of the international marketer and channel member relationship it is necessary that economic and non-economic incentives be used for the purpose. It may be emphasized that channel members being independent business entities, their key consideration for relationship is economic. If the channel member does not get an adequate economic return it is unlikely that he will put in his best in the business. In addition, regularity of contact, involvement in goal setting, better understanding of the international marketer's business, and provision of assistance in market development or other areas of deficiency of the channel members capability prove useful for getting the channel members more than what they are generally expected to contribute.

Robert Douglas Stuart suggests the following ways for strengthening the channel member's loyalty:

- Build your distributor with your company: bring him into your picture; discuss future plans as they affect his area with him, seek his advice.
- Give your distributor an effective profit margin; try to keep in mind that you want to be in business with him for several years; make him want to continue the relationship.
- Be sure he has credit terms which make him competitive, or more so, in amount and length of payment.
- Maintain regular correspondence, and make sure he can clearly understand what you have to say.
- Make a point of commenting on successful distributors in whatever communication you use in his area (advertising, publicity, sales bulletins, and so on)
- Keep your obvious control to a minimum; as his performance improves, your supervision can be reduced.
- If financing is needed locally and you have the ability to help, do so if his situation justifies this.

- ....Bring the distributor……(to your country) on occasions and let him see what goes on.
- Establish a recognition system: recognition certificates, cash prizes, trips, and so on.
- Make available remembrance items: give always with your company name perhaps, if warranted with his name too.

Control of Channel Members

Control of channel members in international distribution though difficult yet is an important aspect of its management. Accomplishment of sales targets, market coverage and development goals, payment schedules, and profit contribution made are some of the factors on which the performance of channel members is appraised and controlled. Constant monitoring, periodic reviews, regular communications and intermittent suggestions help a marketer to control its channel members and keep the marketer-channel member power balance in its favour. Legal requirements and adverse impact on reputation must be given their due weightage if and when the unavoidable decision of termination of channel member is to be taken.

12.5 INTERNATIONAL PHYSICAL DISTRIBUTION MANAGEMENT (IPDM)

Ever since globalization transformed the transport sector, national boundaries have become permeable to penetration by trade, creating the need for flexible transport solutions. Intermodalism and containerization were the by-products of this era and were poised to metamorphosize transport of "general cargo", moving it `seamlessly' through sea and land arteries. Forty years ago, the physical process of exporting or importing goods was arduous. Goods needed to be transported by lorry to the port, unloaded into a warehouse and then reloaded into the ship `piece by piece'.

The management of physical distribution of goods includes the functions as well as costs associated with packing, order taking and processing, and inventory control. Given the geographical distance, the associated business risks and the variety of transportation modes available, the management of this function poses a difficult challenge so far as the objectives of ensuring ready and regular supply of goods, in foreign markets at the most optimal costs are concerned.

Physical Distribution Management, known as the dark continent of marketing offers tremendous potential in cost cutting and improving profitability. It requires the use of a systems approach and the management of the transportation, warehousing and inventory functions in an integrated manner.

To facilitate the performance of the tedious physical distribution activities and procedure, international freight forwarders play an important role. The typical functions performed by them are given below:

1) Figure costs, FAS or C&F.1Develop most economic methods of shipment to port, port charges, wharfage, handling, tollage, etc. at port of exit; ocean freight rate and steamship services available; consular requirements and fees, insurance costs for terms of coverage specified in sale; export licence or import permit requirements.
2) Make. steamship booking; If payment is by letter of credit, check date shipment must be onboard and expiration date for negotiating documents. Investigate transit time from plant to port, and free time allowed so shipment will arrive in time and demurrage will not be incurred.
3) Instruct shipping department when to make shipment from plant. Notify Steamship Company when shipment made and whether by rail, truck, air or piggy express, giving routing, name of carrier.
4) Secure pier permit. Make arrangements for delivery to pier.
5) Prepare export declaration showing shipper, consignee, value and commodity classification number.

6) Prepare bill of lading, checking compliance with all conditions and terms of sale, shipper consignee, open or order notify, freight collect or prepaid, description, etc.

7) Present export declaration to Custom House for approval and deliver to Steamship Company.

8) Present bill of lading to steamship company for execution.

9) Secure consular forms, prepare consular documents (in foreign language if required) Present to consul for visa.

10) After shipment is on board, secure signed bill of lading from steamship company, paying ocean freight and charges.

11) Assemble documents; bill of lading, commercial and consular invoices, certificate of origin, export licence, import permit, as required.

12) If payment is by sight draft, prepare draft, attach necessary documents and have exporter's bank forward. If on letter of credit, present documents to bank holding credit

Large-sized shipping vessels, increase in number of air cargo planes, development of air cargo terminals, containerization and other innovations in bulk transportation have been successful in reducing both the transit time and delays but at higher costs. It is therefore necessary that the PDM be managed in a cost-effective manner.

An in-depth study of the PDM costs and an analysis of the causes of delays and damages to goods can point out to areas of potential savings in costs and improvement in customer service satisfaction.

Containerization

`Containerization', the term very familiar to present day shipping industry was a completely unknown concept a few decades back.

It was Malcom McLean, owner of a huge trucking company in USA, who first conceived the idea of containerisation by transporting. containers through `Ideal - X' in 1956 and initiated a revolution in the history of shipping industry. Over the years, the industry has created a separate identity within the shipping world through continuous development and Maersk Lines, P&O Nediloyd, Sealand Services (CSX), APL and others have come up as international majors serving customers all over the globe.

The growth of containerization in India has been slow and steady. The formation of Container Corporation of India (Concor) as an autonomous body under the Ministry of Railways in 1988 boosted the efforts at increasing containerised traffic in the country. Over the years, volume of container traffic has experienced continuous growth and registered a volume of2.22 million TEUs in 1999-2000 at the major ports of India.

A significant number of international container lines are active in India making business through their own office or through selected agents. Amongst the Indian shipping companies, only `The Shipping Corporation of India' is active in the international liner business. It has tied up with Zim Navigation of Israel and Yang Ming Line of Taiwan to provide services on international routes.

Of the 11 major ports of the country, Jawaharlal NehruPort (JNP) and Mumbai Port have. established as the gateway ports for container traffic to India having a combined market share of around 60% of the total container traffic. Lack of adequate infrastructure in form of container handling equipment, CFS network and rail network in other ports have led to concentration of container traffic at Mumbai and JNP. Liberalisation and privatisation policy taken up by the Government of India has resulted into the commissioning of new ports like Adani and Pipavav.

The various advantages offered by containerization include:

1) Containers can be loaded and sealed at the consignor's premises or at nearby container depot, minimizing the risk of theft.

2) Since the goods are not directly handled during voyage, the risk of damage is minimized.

3) Cargo can be loaded in a matter of hours rather than days The reduction in handling time at ports results in increasing berth capacity

4) The faster turn-round enables ships to make a higher number of annual voyages and reduces the number of necessary ships.

Because of the numerous advantages, both air and water carriers encourage the use of containers by charging lower rates for containerized shipments.

Activity-2

Tick the most appropriate answer

1) The selection and motivation of effective channels of distribution are often crucial factors for:

   a) cost advantage

   b) differential advantage

   c) political advantage

2) Distributors who do not take title but distribute goods on behalf of international marketers are called:

   a) wholesalers

   b) retainers

   c) agents

3) The discretion that an international marketer has or wants in seeing that goods adequately get through to the customers is a function of:

   a) control

   b) market coverage

   c) cost

4) Warehousing, transportation and inventory management are aspects of:

   a) physical distribution

   b) channel control

   c) distribution policy

5) Effective distribution performance requires that the marketer and the intermediaries

   a) adapt their roles

   b) display commitment to developing business

   c) exhibit lower levels of conflicts

   d) all of the above

12.6 SUMMARY

International distribution and sales policy decision is one of the most complex aspect of international marketing management. Along with price and promotion decisions, a decision has to be made on the distribution system. There are two components to this the physical (order processing storage/warehousing and transport) and the institutional aspects. The latter involves the choice of agents, distributors, wholesalers, retailers, direct sales or sales forces. Again, each has its own advantages and disadvantages.

However, it is in the channel of distribution that the international marketer can encounter many risks and dangers. These involve many transaction costs both apparent and hidden. Risks include loss in transit, destruction, negligence, non-payment and so on. So careful choice and evaluation of channel partner is a necessity.

Regular report on foreign markets, foreign visits, deployment of sales force abroad and, an in-depth analysis of physical distribution cost and obstacles help a firm to streamline its international distribution, offer superior customer service, and keep distribution cost within reasonable limits. Since distribution decisions bind the marketers with their channels for long-term, its implications in terms of costs, flexibility, control and reputation must be examined carefully before committing the decision.

12.7 SELF-ASSESSMENT QUESTIONS

1. Distinguish between direct and indirect distribution channels, giving suitable examples.

2. What are the key elements of a distribution strategy?

3. You have been assigned the task of selecting distributors to handle you firm's line of air conditioners. What criteria will you use to select among the ten possible distributors?

4. What should be the objective and the way in regard to management of the international distribution channels for a garment and leather products exporter who has made a serious commitment to develop its exports to Rs.500 crores in next 3 years from the present level of Rs. 50 crores.

5. Study a large exporter and examine its international distribution function. In what ways can the prevailing distribution arrangements be made more effective.

6. For any industrial product of your choice discuss the factors which have to be considered in the choice of a channel of distribution.

12.8 FURTHER READINGS

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