

Svend Hollensen

GLOBAL MARKETING

5th Edition

Chapter 16 Distribution decisions

Learning objectives (1)

- Explore the determinants of channel decisions
- Discuss the key points in putting together and managing global marketing channels
- Discuss the factors influencing channel width (intensive, selective or exclusive coverage)
- Explain what is meant by integration of the marketing channel

Learning objectives (2)

- Describe the most common export documents
- Define and explain the main modes of transportation
- Explain how the internationalization of retailing affects the manufacturer
- Define grey markets and explain how to deal with them
- Explain what is meant by the 'Banana Split Model'

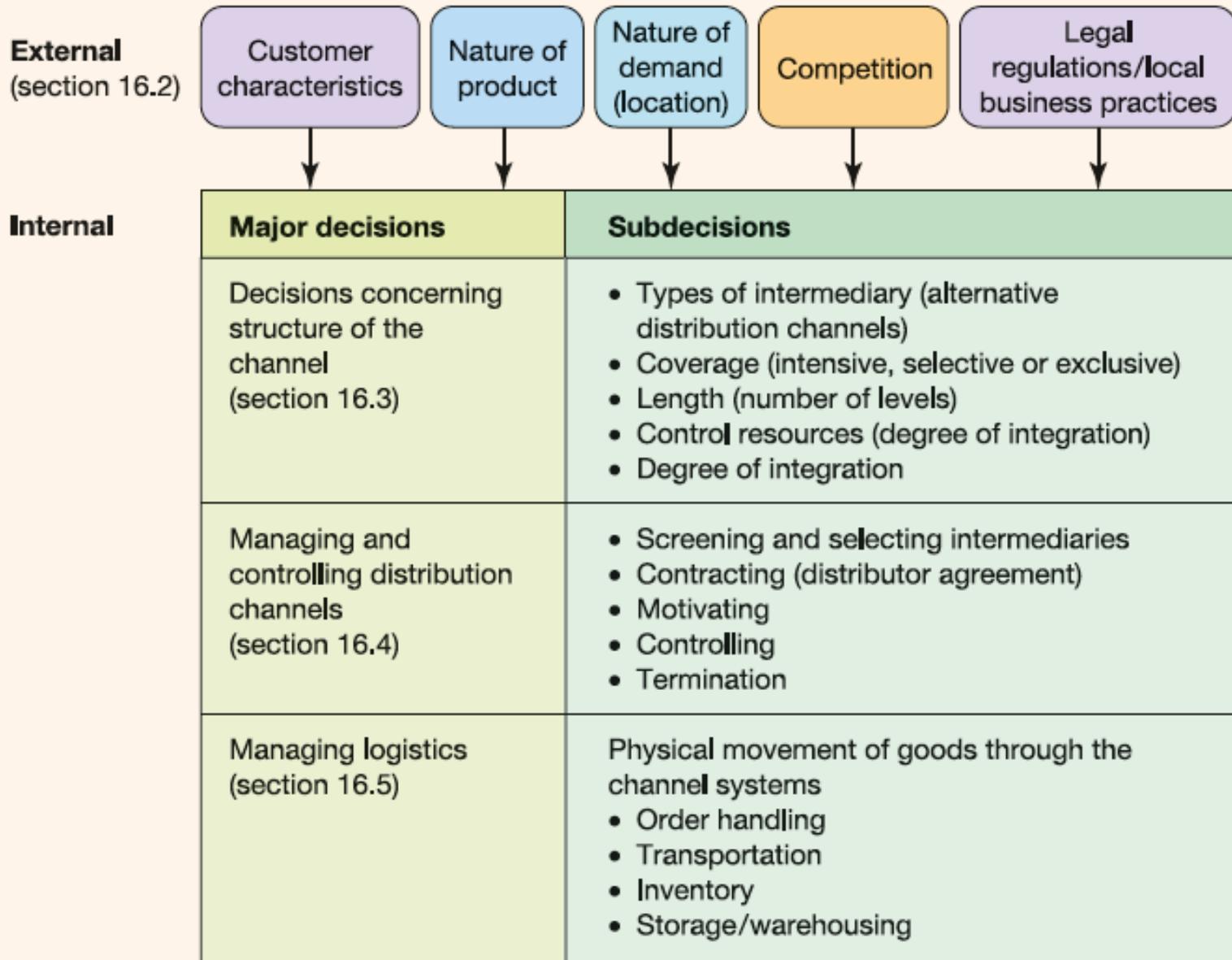


Figure 16.1 Channel decisions

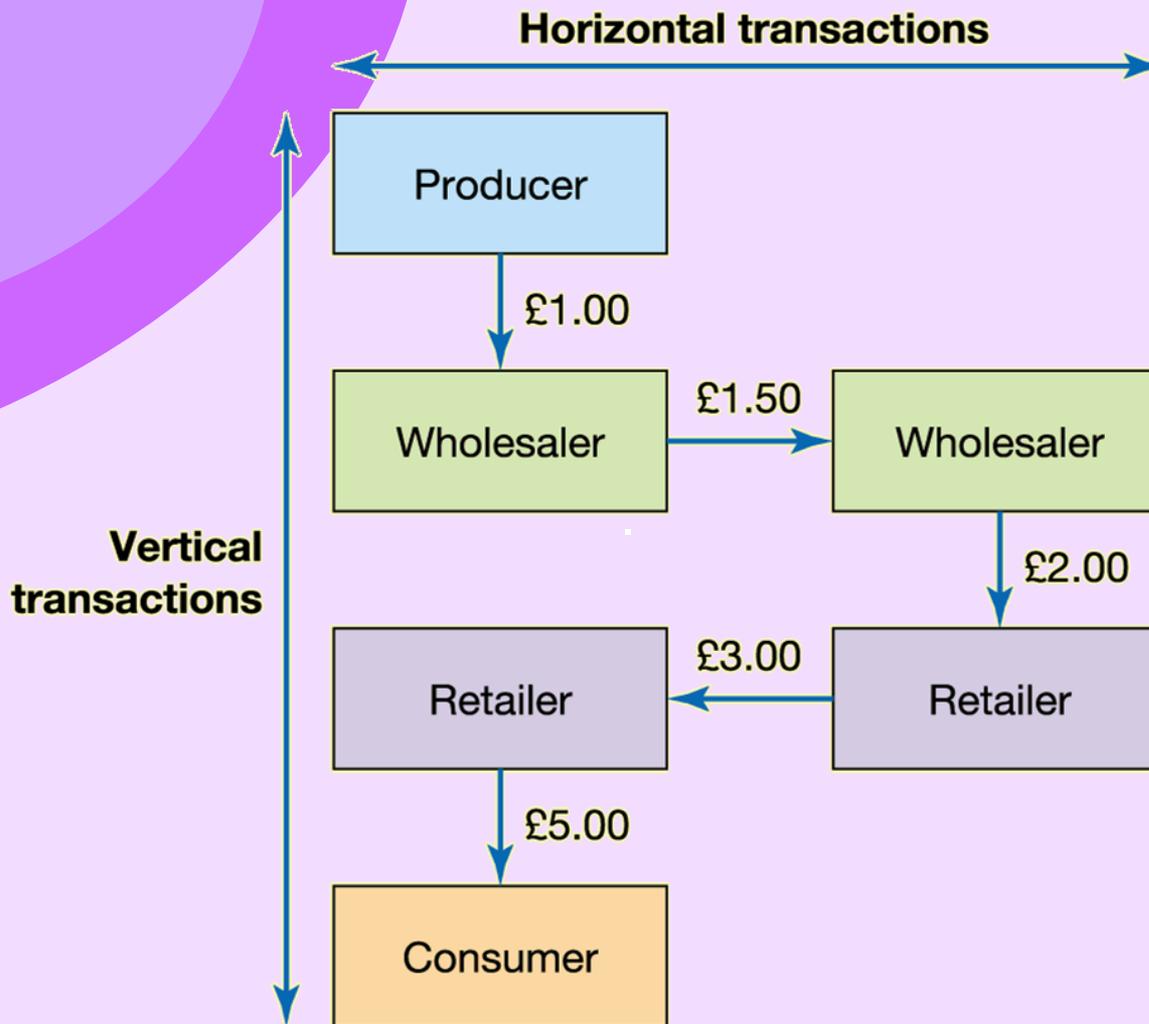


Figure 16.2 A hypothetical channel sequence in the Japanese consumer market

Source: Lewison (1996, p. 271)

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

As shown in Figure 16.3, three different approaches are available:

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

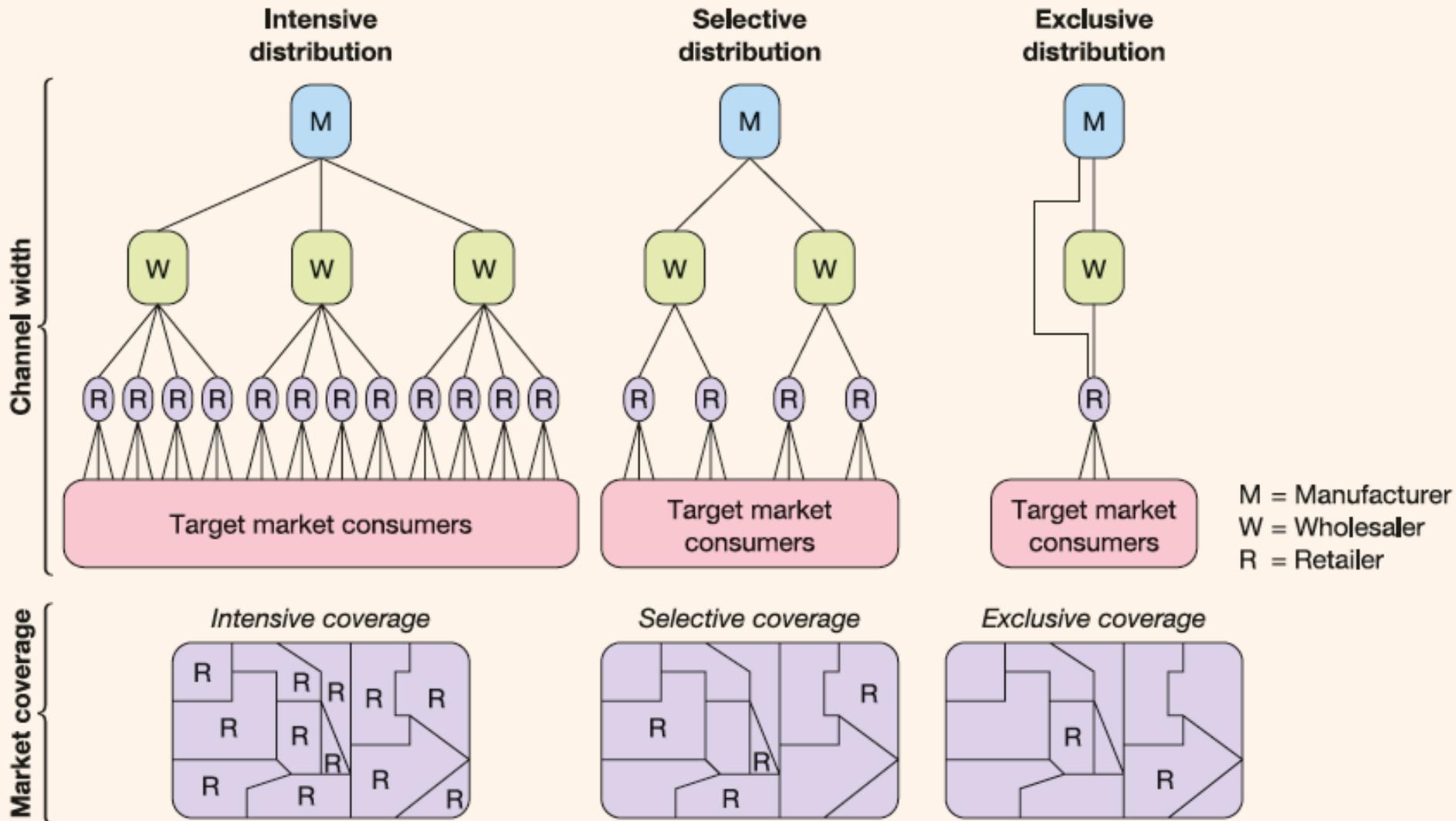


Figure 16.3 Three strategies for market coverage

Source: Lewison (1996, p. 271)

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

Figure 16.4 Factors influencing channel width

Source: adapted from Lewison (1996, p. 279)

Functions performed by intermediaries

Carrying of inventory

Demand generation

Physical distribution

After-sales service

Credit extension to customers

What is this?

What form of integration means seeking control of channel members at different levels of the channel?

Vertical integration

What is this?

What form of integration means seeking control of channel members at the same level of the channel (i.e. competitors)?

Horizontal integration

Guidelines for anticipating and correcting problems with international distributors (1)

- Select distributors – do not let them select you
- Look for distributors capable of developing markets
- Treat the local distributors as long-term partners
- Support market entry by committing money, managers and proven marketing ideas

Guidelines for anticipating and correcting problems with international distributors (2)

- Maintain control over marketing strategy
- Make sure distributors provide you with detailed market and financial performance data
- Build links among national distributors at the earliest opportunity



Figure 16.6 Criteria for evaluating foreign distributors

Source: adapted from Cavusgil *et al.* (1995)

Table 16.1

An example of distributor evaluation by the use of selection criteria from Figure 16.6

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

Scales:

Rating	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

What is this?

What term is used to describe the movement of goods and services between suppliers and end users?

Logistics

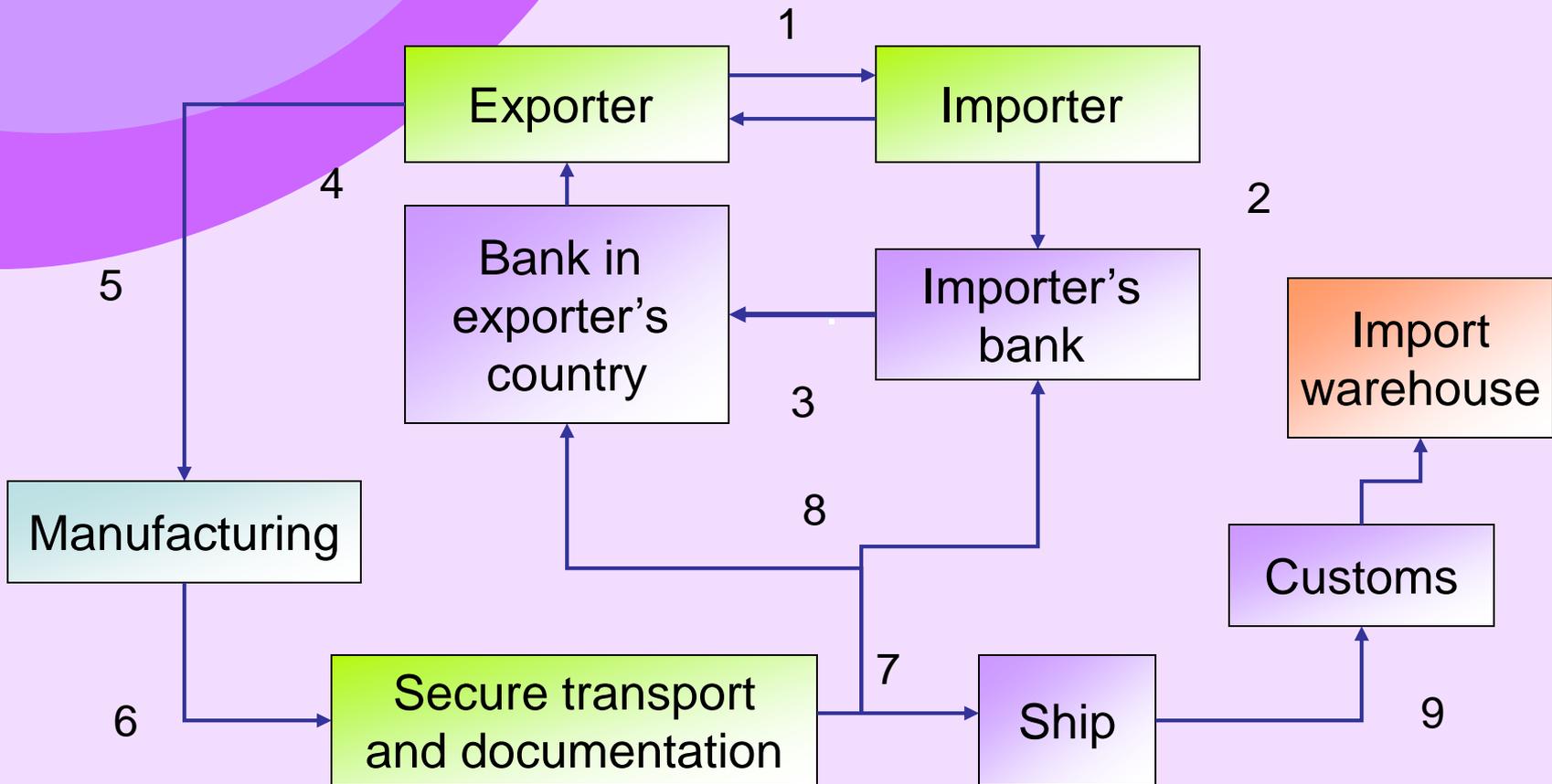


Figure 16.7 The export procedure

Source: Albaum et al. (1994, p. 419).

Most common export documents

Transportation

- Bill of lading
- Dock receipt
- Insurance certificate
- **Banking**
- Letter of credit

Commercial

- Commercial invoice
- **Government**
- Export declaration
- Consular invoice
- Certificate of origin

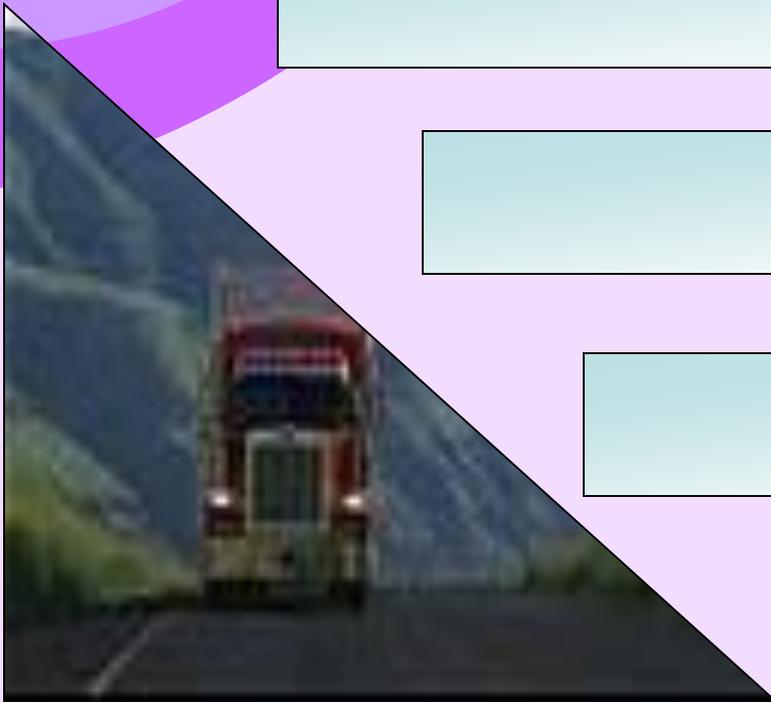
Main modes of transportation

Road

Water

Air

Rail



Factors affecting transportation mode decision

- Cost of different transport alternatives
- Distance to the location
- Nature of the product
- Frequency of the shipment
- Value of the shipment
- Availability of transport

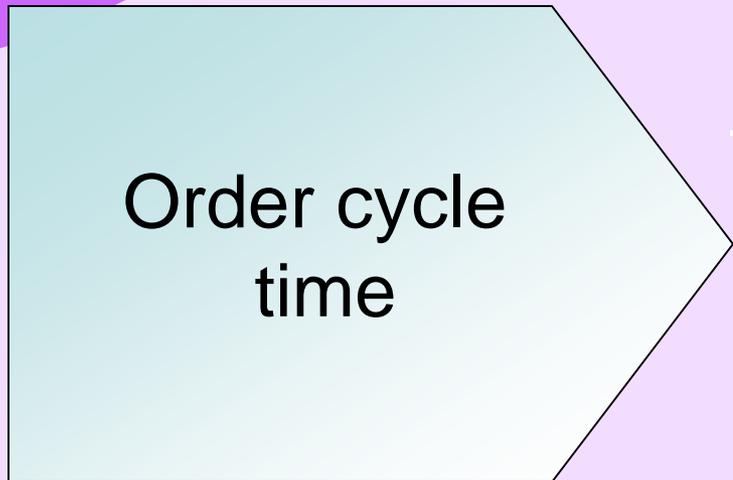
Services provided by freight forwarders

Coordination of transport services

Preparation and processing
of transport documents

Expert advice

Factors affecting level of inventory decisions



Issues affecting warehousing decisions

- Where the firm's customers are geographically located
- The pattern of existing and future demands
- The customer service level required

EXHIBIT 16.1 How Bosch-Siemens improved customer service and reduced costs by closing warehouses



Figure 16.8 Bosch-Siemens' European distribution centres

Source: Albaum *et al.* (1994, p. 419)

Internet distribution strategies

Present only product information on the Internet

Leave Internet business to resellers

Leave Internet business to manufacturer only

Open Internet business to everybody

Special issue 1: international retailing

EXHIBIT 16.2 Ferrari – the venerable Italian sports maker is going into retailing



© Justin Kase z02z / Alamy

What is this?

What term is used to describe the ability of a channel member to control marketing variables of any other member in a channel at a different level of distribution?

Channel power

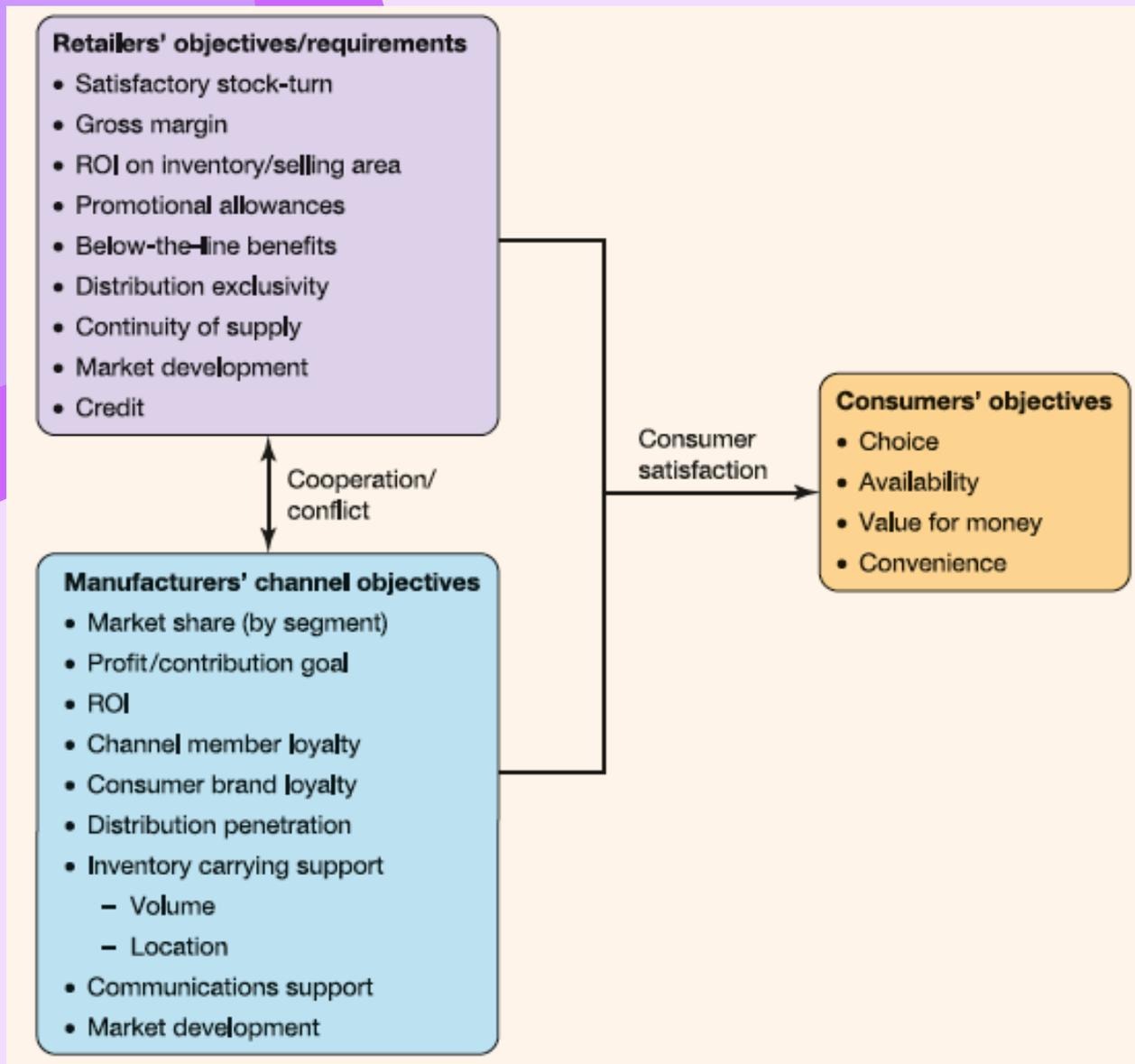
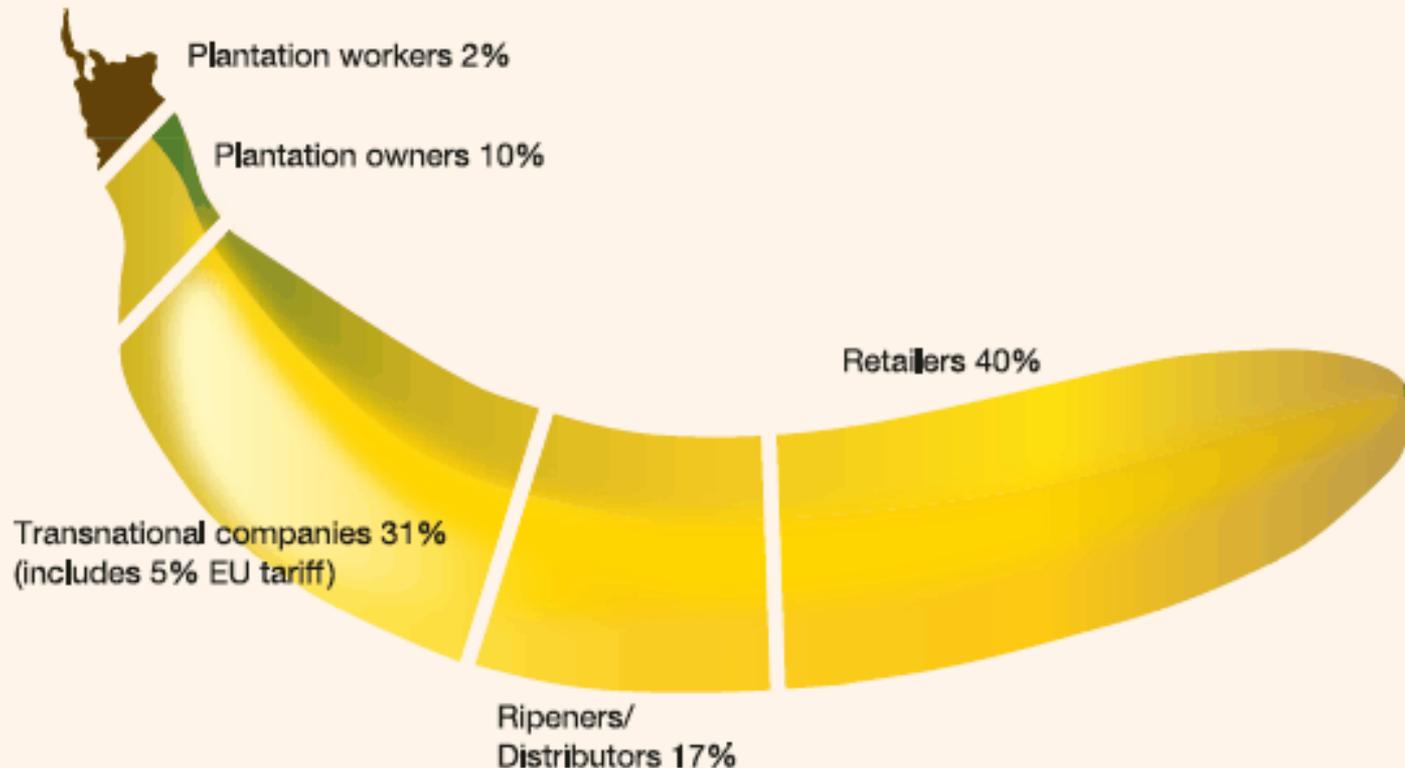


Figure 16.10 Channel relationships and the concept of trade marketing

EXHIBIT 16.3 The 'Banana Split' model



There is a high degree of overlap between the transnational companies and the ripeners/distributors: Four of the five transnationals are also involved with ripening: Chiquita, Dole, Del Monte and Fyffes.

Figure 16.9 The 'Banana Split' model. How much (in percentages of the retail value in the UK) stays with each chain actor to cover costs and margin

Source: adapted from Vorley, B. (2003), Fig. 7.2, p. 52

Special issue 2: grey marketing (parallel importing)

What is this?

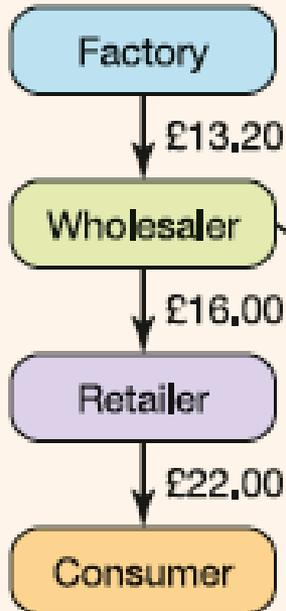
What term is used to describe the importing and selling of products through market distribution channels that are not authorized by the manufacturer?

Grey marketing

Two markets kept separate by the manufacturer.
Same product sold in the two markets.

Low-price market

Official prices



High-price market

Official prices

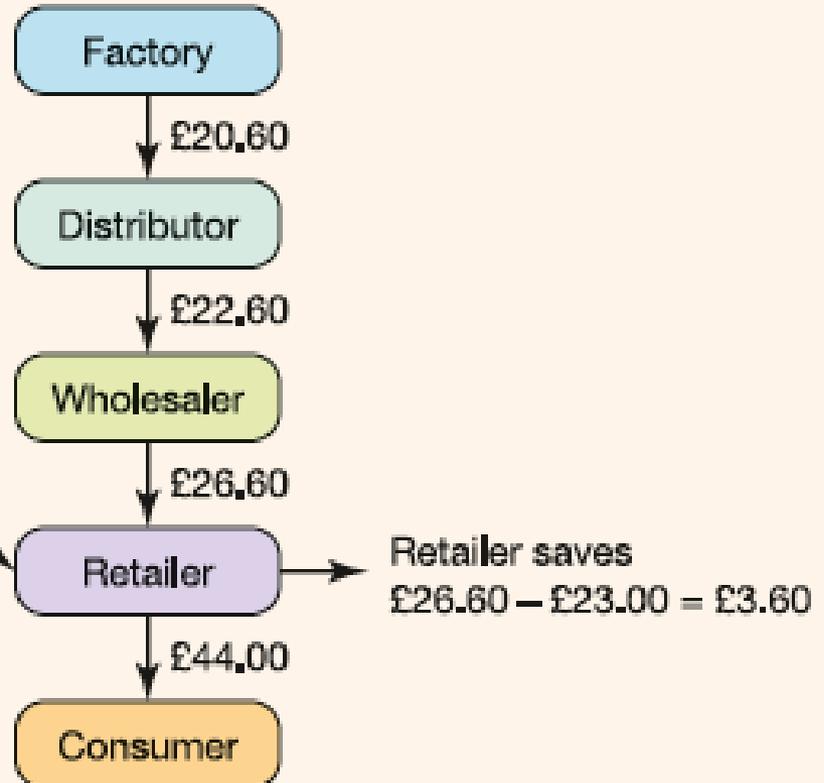


Figure 16.11 Grey marketing (parallel importing)

Source: Paliwoda (1993, p. 300). Reprinted with permission from Butterworth-Heinemann Publishers, a division of Reed Educational & Professional Publishing Ltd.

Strategies to reduce grey marketing

- Seek legal redress
- Change the marketing mix
 - Product strategy
 - Pricing strategy
 - Warranty strategy

CASE STUDY 16.1

De Beers: forward integration into the diamond industry value chain

D
DE BEERS

A History of
Diamonds

Selecting the
Perfect Diamond

Our Jewelry

Our Store

About us



Red Carpet
Glamour

[Corporate Responsibility](#) | [Contact us](#) | [Privacy Policy](#)

Table 1**Mark-ups on diamonds**

Stage of distribution	Mark-up (%)	Average value of 0.5 carat gem (US\$/carat)
Cost of mining	–	100
Mine sales	67	167
Dealers of rough gems	20	200
Cutting units	100	400
Wholesaler dealers	15	460
Retail	100	920

Source: adapted from Ariovich (1985) and Bergenstock and Maskulka (2001).

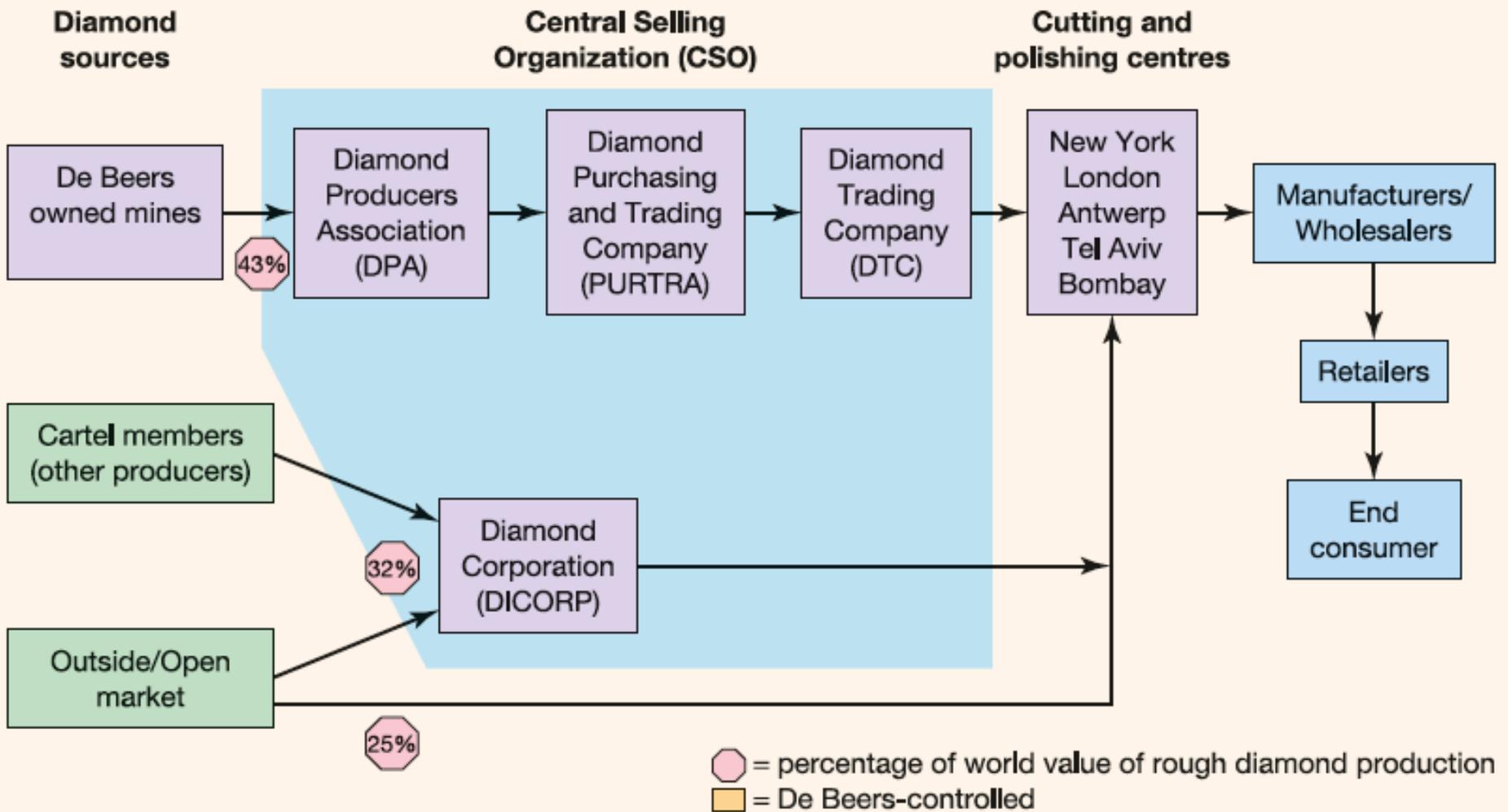


Figure 1 De Beers' diamond distribution

Sources: adapted from De Beers Annual Report and Bergenstock and Maskukla (2001)

QUESTIONS

1. What could be De Beers' motives for making this 'forward integration' into the retail and consumer market?
2. Is it a wise decision?
3. How should De Beers develop its Internet strategy following this forward integration strategy?
4. Would it be possible for De Beers, with its branded diamonds, to standardize the international marketing strategy across borders?

CASE STUDY 16.2

Nokia: what is wrong in the US market for mobile phones – can Nokia recapture the number 1 position from Motorola?



Nokia E71

Table 1

Nokia's ten largest markets (€ million in net sales) 2006–08

	2008	2007	2006
China	5,916	5,898	4,913
India	3,719	3,684	2,713
UK	2,382	2,574	2,425
Germany	2,294	2,641	2,060
Russia	2,083	2,012	1,518
Indonesia	2,046	1,754	1,069
USA	1,907	2,124	2,815
Brazil	1,902	1,257	1,044
Italy	1,774	1,792	1,394
Spain	1,497	1,830	1,139

Source: based on www.nokia.com.

Table 2

The world market for mobile handsets (2008)

Company	HQ country	Number of sold units (million)	World market share (%)	USA market share (%)
Nokia	Finland	460	38	9
Motorola	USA	109	9	23
Samsung	South Korea	193	16	22
LG Electronics Co.	South Korea	97	8	15
Sony Ericsson	Japan/Sweden	97	8	1
Others (e.g. RIM (BlackBerry), Apple (iPhone), Sanyo)	Misc.	254	21	30
Total		1210	100	100

Approximately 160 million mobile phones were sold in the USA in 2008.

Source: based on www.idc.com.

QUESTIONS

1. Prepare illustrations of the distribution channels of mobile phones from Nokia to its end consumers in the United States.
2. What are the reasons for the global leadership of Nokia in mobile phones?
3. Why is Nokia the market leader in mobile phones on the world basis, but not in the US market?
4. What can Nokia do to recapture the number 1 position in the US market?

VIDEO CASE STUDY 16.3 DHL

download from www.pearsoned.co.uk/hollensen

Questions

1. What are the macroeconomic drivers for the growth of the logistics business?
2. What are the most important issues in keeping DHL's international competitiveness?
3. How can DHL be perceived as a local company in most countries of the world?

Questions for discussion (1)

- Discuss current distribution trends in world markets
- What are the factors that affect the length, width and number of marketing channels?
- In attempting to optimize global marketing channel performance, which of the following should an international marketer emphasize: training, motivation or compensation? Why?

Questions for discussion (2)

- When would it be feasible and advisable for a global company to centralize the coordination of its foreign market distribution systems? When would decentralization be more appropriate?
- Do grey marketers serve useful marketing functions – for consumers and manufacturers?
- Why is physical distribution important to the success of global marketing?

Questions for discussion (3)

- Discuss the reasons why many exporters make extensive use of services of freight forwarders
- Discuss the implications for the international marketer of the trend towards cross-border retailing
- Many markets have relatively large numbers of small retailers. How does this constrain the international marketer?

For discussion (4)

- How is retailing know-how transferred internationally?
- What services would the manufacturer like to receive from the retailer?