

# **Channels of Distribution**

**International Distribution**

**Direct & Indirect Selling Channels**

**Types of Intermediaries**

# Issues Related to International Distribution

- Using Established Channels: Channels that already exists
  - Could charge high prices
  - Could be blocked by competition
  - Channel partnership is a long-term decision: Company may be bound indefinitely to the channel choice.
- Building Own Channels:
  - Necessary if there are no channels/ or existing channels do not conform to company needs.
  - Expensive
  - Time-consuming

Using Home-Country Middlemen: The Company is likely not to be involved in managing the marketing mix in the host market

- **Export Management Companies:**
  - Highly specialized in certain industries and/or regions. Mostly represent smaller businesses. E.g. Amex
  - Works as a “company's export department”
- **Trading Companies:**
  - Large Companies that specialize in intermediary services (risk reduction, financial assistance)
  - The Japanese Model: sogo shoshas or general trading company (more investment holdings)

# International Distribution Using Home-Country Middlemen

- Home-Country Brokers and Agents:
  - Middlemen who bring international buyers and sellers together in the company's home country.
  - Do not carry title to the product/ commission based
  - Manufacturer's export agent: represent a manufacturer
  - Buying offices: buyers located in the firm's home country, representing different international firms

# International Distribution Using Home-Country Middlemen

- Cooperative Export Arrangements:
  - Also known as piggybacking and mother henning e.g. car manufacture market tires
  - Involve exporters agreeing to handle export functions for unrelated companies on a contractual basis
  - Complementary export agents export complementary products on a commission basis.
  - Complementary export merchants take title to the complementary products that they export.

# International Distribution Using Home-Country Middlemen

- Export merchants:
  - Intermediaries who take title to and possession of the products they carry.
  - Responsible for shipping and marketing the products in the target market.
  - Carry competing brands
  - Examples:
    - Export jobber, who carries commodity goods, but does not take physical possession of the goods.
    - Norazi agent, who deals in illegal and/or gray market products.

# International Distribution

## Using Foreign-Country Middlemen

Using Host-Country Middlemen: The Company is likely to have a presence in the host country

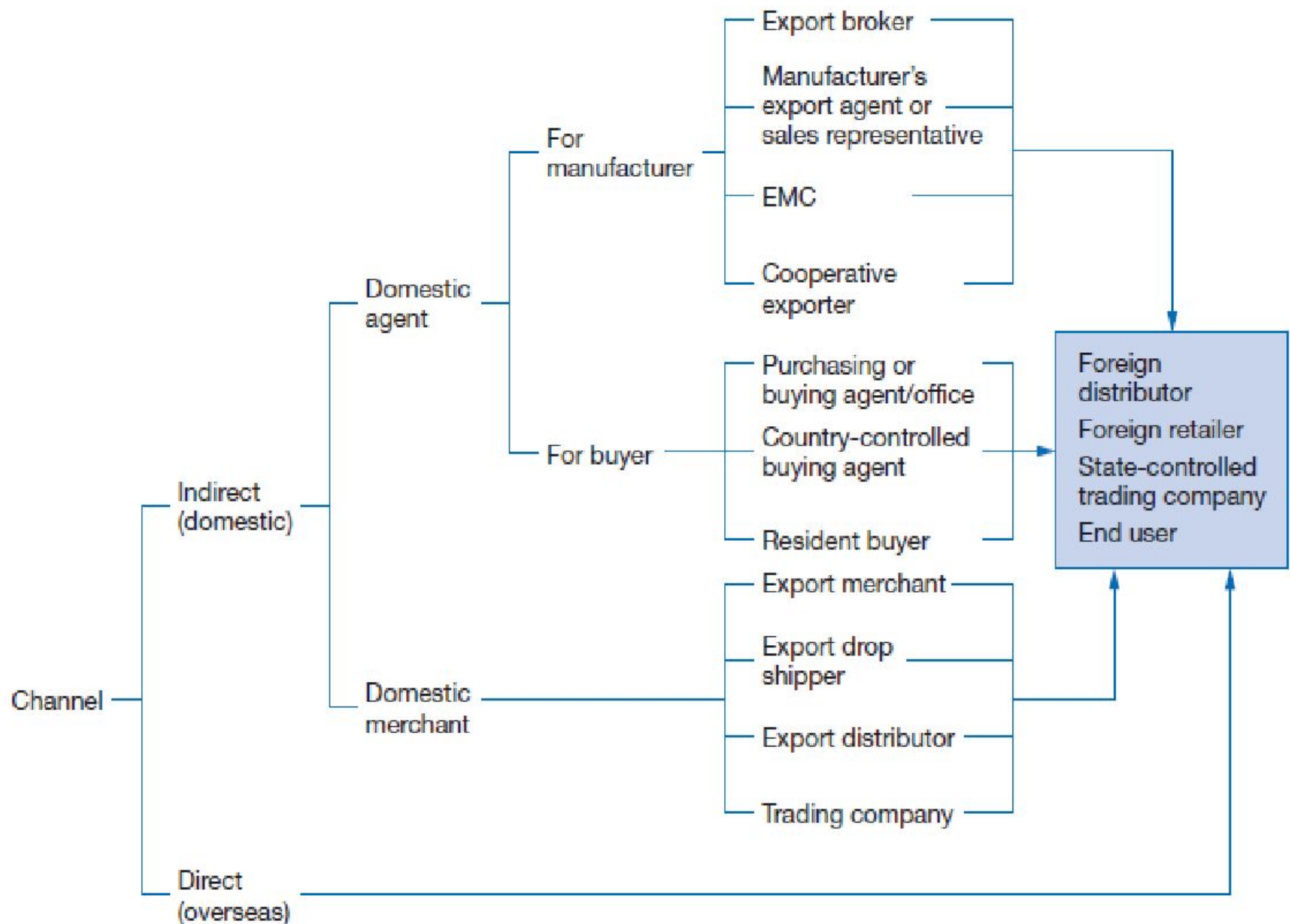
- Merchant Middlemen:
  - Intermediaries who carry the manufacturer's product line in a particular country.
  - Usually carries title to and has physical possession of the products.

# International Distribution

## Using Foreign-Country Middlemen

- Agents and Brokers:
  - Bring Seller and buyers together but do not carry title and take possession of the products
  - There are many types of agents and brokers in international markets, such as manufacturers' representatives and managing agents.
    - Act as the manufacturer's sales representatives and are paid on commission.
    - Act as managing agents (also known as compradors), with an exclusive arrangement with the company, representing it in the foreign market; they are paid as a percentage of sales.





# Direct & Indirect Selling Channels

- **INDIRECT SELLING CHANNELS**
  - selling through home-country intermediaries
  - simple and inexpensive
  - lack of marketing control

# Direct & Indirect Selling Channels

- **DIRECT SELLING CHANNELS**
  - direct contact with overseas intermediaries or consumers
  - requiring more time and cost
  - better control

# Agent vs. Merchant

- Taking possession vs. taking title (ownership)
- Compensation: profit/loss vs. fee/commission
- Employee vs. independent contractor

# Agent

- may or may not take possession
- never taking title
- compensation: commission
- more difficult to terminate relationships

# Merchant

- may or may not take possession
- always taking title
- compensation: profit/loss
- easier to terminate relationships

# Types of Intermediaries:

## Direct Channel

- Foreign Distributor
- Foreign Retailer
- State-Controlled Trading Company
- End User

# Types of Intermediaries: Indirect Channel

- Export Broker
- Manufacturer's Export Agent or Sales Representative
- Export Management Company (EMC)
- Cooperative Exporter
- Purchasing/Buying Agent
- Country-Controlled Buying Agent



# Types of Intermediaries: Indirect Channel

- Resident Buyer
- Export Merchant
- Export Drop Shipper
- Export Distributor
- Trading Company

# Channel Decisions

- Channel length
  - Number of times a product changes hands among intermediaries
- Channel width
  - Number of middlemen at a particular point in the channel
- Number of channels
  - Single channel vs. dual/multiple channels

# Determinants of Channel Types

- Legal Requirements
- Product Image
- Product Characteristics
- Middlemen's Loyalty and Conflict
- Local Customs
- Power and Coercion
- Control

# Representation Agreement and Termination

- paying attention to agency termination laws
- having agreements in writing
- avoiding evergreen contract

# Gray Market

- Causes
  - Price differential
- Legal Dimension
  - Protecting independent U.S. trademark owner
- Ethical Dimension
- Product Quality

# Gray Marketing: Manufacturers' Strategies

- Identifying and punishing offenders
- Educating consumers
- Standardized worldwide price
- Multiple brands

# Self Work

- Direct and Indirect Selling Channels
- Types of Intermediaries: Direct Channel
- Types of Intermediaries: Indirect Channel
- Channel Development
- Channel Adaptation
- Channel Decisions

# Self Work

- Determinants of Channel Types
  - Legal Requirements
  - Product Image
  - Product Characteristics
  - Middlemen's Loyalty and Conflict
  - Local Customs
  - Power and Coercion
  - Control



# Self Work

- Selection of Channel Members
- Representation Agreement and Termination
- Black Market
- Gray Market
- Distribution of Services