

Global Marketing

Contemporary theory, practice and cases

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Chapter 12

Global Placement and Distribution Channels

Learning objectives

After reading this chapter you should be able to:

- Understand the role of distribution in the international marketing mix.
- Identify the main internal and external factors influencing distribution decisions.
- Understand how to manage global placement and international distribution channels.
- Evaluate different types of channel intermediaries.
- Recognize the existence of differences in the retailing system of different countries.
- Analyze the internationalization of retailers.
- Describe the main activities related to physical distribution.

Power of Distribution

Distribution channels are the organizations, agents, wholesalers, retailers, etc., who move the product to the final consumer.

Physical distribution involves logistic activities such as transportation, packaging, inventory, and storage of the product to be exported to another country.

International distribution networks should concentrate on giving the final customers product information and accessibility, maintaining profitable distribution, partner relationships, and strengthening the company's global marketing strategy.

What kind of influencing factors have to be taken into consideration when designing a distribution network internationally?

Which managerial factors are relevant in channel and logistic decisions?

What is the involvement level of retailers in the internationalization process?

Factors Influencing International Distribution Decisions

A company has to evaluate the most suitable channels in terms of **structure, management, and control**.

- **Internal factors:**

- The **international marketing strategy of a company**, with a given entry mode strategy and a degree of control that the company aims to reach
- The **distribution strategy**, mainly influenced by objectives of market penetration, by the competitive structure, and by the financial strength of the company
- The **product complexity**
- The size and development of the company's **marketing and sales functions** (export department)

- **External factors:**

- The characteristics of the distribution system
- Local regulations
- The stage of the product's life cycle
- Consumer purchasing and shopping habits
- Market size and density of population
- The competitive climate

Internal Factors

- **Company entry mode**

- Less risky modes of entry can force the company to **delegate its distribution choices to a foreign partner**
- Intermediate entry modes, strategic alliances, franchising agreements, joint ventures, or greenfield investments allow the company to develop **direct or short distribution channels**

- **Distribution strategy**

- An **intensive distribution strategy** occurs when producers use as many outlets as possible
 - E.g. Michelin Group, Vodafone
- A **selective distribution strategy** is based on using fewer but selective intermediaries
 - E.g. Valentino Group
- With an **exclusive distribution strategy**, the producer gives a limited number of retailers the right to sell its products in their specific territories
 - E.g. Inditex

Valentino: an example of selective distribution strategy



Valentino in Neimann Marcus US department stores

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Internal Factors

- **Product complexity**

- Exporters should differentiate their relationship with intermediaries, because complex products require **extensive information exchange and interaction** in order to solve functional problems related to **product delivery, installation, and after-sale service**.

- **Organization of the export department**

- Defined by the number of managers employed in the department, their international professional background, marketing skills, and their operating budget.
- A **simplified export department** will tend to opt for **indirect distribution choices** using local intermediaries and delegating to them all distribution activities despite lower control over the target market.

External Factors

- **Differences in the distribution system, logistics, and transportation infrastructure**
 - Inefficiency of logistics and of transport infrastructure makes it necessary for a company to use local intermediaries. However, using numerous intermediaries means lower control over the final market.
 - E.g. Beer industry
- **Local regulations**
 - For example, multi-level marketing in China is illegal and may be met with legal action
- **Stage of the product lifecycle**
 - In the introductory stage, market penetration and market coverage are very low; in the growth stage, selective distribution is recommended, while in the maturity stage, intensive distribution is usually required

External Factors

- **Purchasing and shopping habits**

- These habits are deeply rooted in the country's culture and are difficult to change
 - E.g. Walmart's international investments

- **Competitive climate**

- Distribution strategies can also be influenced by choices made by competitors
- Competitors may have exclusive contracts with local retailers or wholesalers or may own their sales channels
 - E.g. Shiseido

- **Market size and density of population**

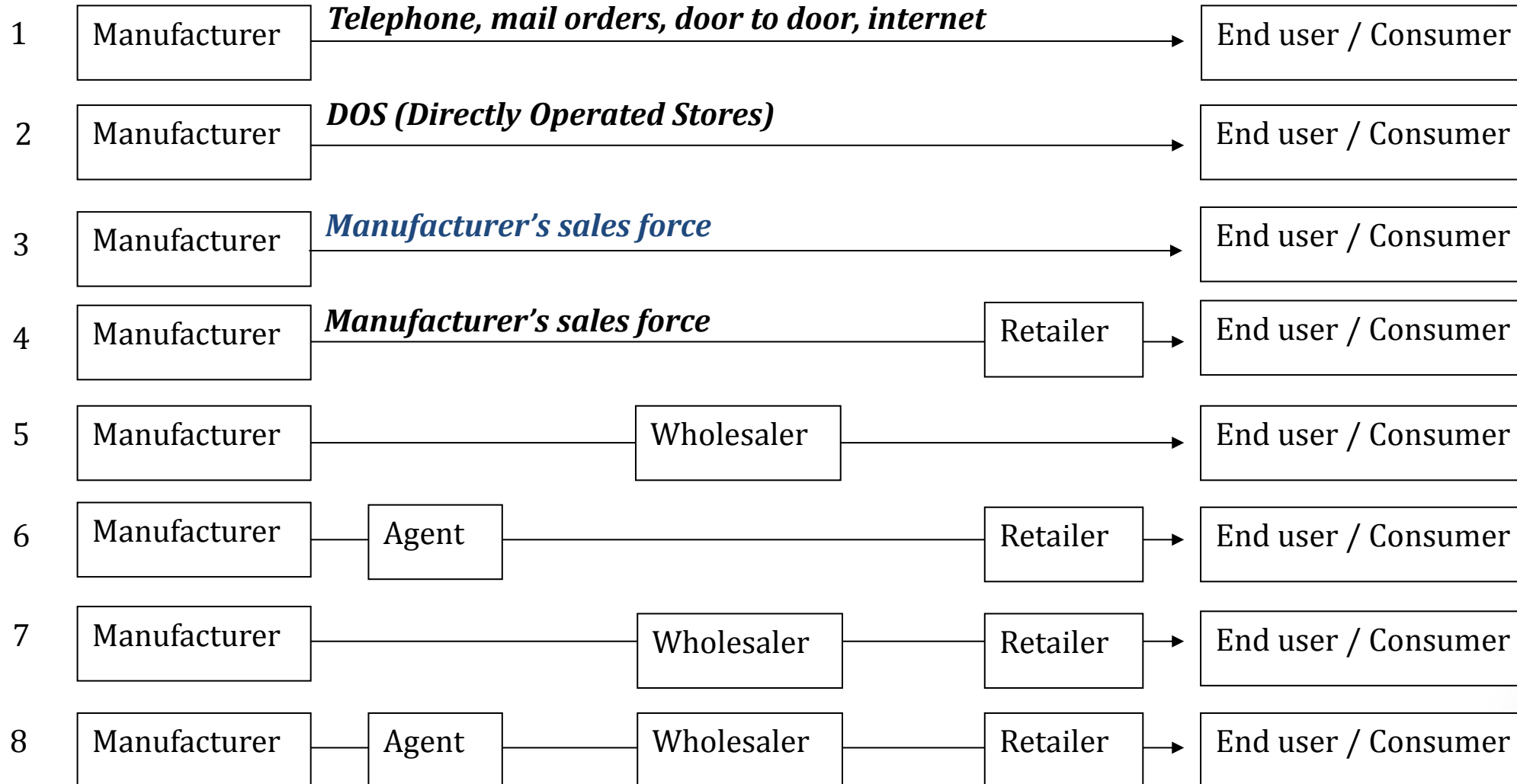
- The distribution strategy Procter & Gamble developed to target rural China demonstrates how the company's success in relation to competition has been determined by its ability to develop distribution strategies that target a huge market with a rural population spread.

Managing International Distribution Channels

Advantages and disadvantages of different alternatives:

- Direct versus indirect channels
- Conventional distribution channels versus vertical marketing systems (VMS)
- Selection among different types of intermediaries (agents, wholesalers, and retailers) identifying which ones are considered more suitable
- **Direct and Indirect Distribution Channels**
 - A channel is **indirect** when **one or more intermediaries** (i.e., agent, wholesaler, retailer) are involved in the transaction. The **channel can be short or long**, depending on the number of intermediaries used by the company.
 - The **length of a distribution channel** is determined by the number of levels and types of intermediaries
 - The **width of the channel** is defined by the number of intermediaries of the same typology operating in the channel

Alternative International Distribution Channels



Direct Channels

- The direct marketing channel has been developed through the growth of **Internet selling** (Alternative 1).
- With the necessity to create brand value and differentiation against competitors, **Directly Operated Stores** are acquiring significant importance (Alternative 2).
 - E.g. Armani in the form of flagship stores
- If a company has a limited number of customers, it can serve the market directly through a **specialized internal sales force** or through a **global key account organization** (Alternative 3).
 - Direct control is typical for **industrial goods**
- **Purchasing offices:** controlling its purchasing activity backward through agents that are internal to the company

Conventional versus Vertical Marketing Systems

- **Conventional distribution channel:** intermediaries are independent and act as if they are running a separate business: the manufacturer is in charge of manufacturing and selling, the wholesaler develops only wholesaling activities, and the retailer manages the store.
- **Vertical marketing system (VMS):** intermediaries are linked in a unique integrated system that favors cooperation and synergies
 - Control can be developed as a corporate, contractual, or administrative VMS

A vertical system is usually required in situations where it is necessary to **manage a complex product both in the sale and after-sale phases.**

- A manufacturer can **increase the control of its sales process** by integrating distribution activities
- When **the retailing format available in the foreign country is not suitable for its goods**, a company can opt for forward integration through owned stores (**Directly Operated Stores**) or franchising.

Multi-channel Strategies



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L'Oréal advertising in Venice

Companies usually define **multiple channels** (direct and indirect, with different types of intermediaries), and choose the more **suitable channel organization** (conventional or vertical).

- E.g. Italian company Ferrero, L'Oreal

One of the main issues in a multichannel strategy is the **coordination necessary in order to convey the same message to the final consumer.**

- E.g. Allstate Corporation

L'Oréal Example

<i>Distribution channels</i>	<i>Brands</i>
<ul style="list-style-type: none"> • <i>Hairdressing salons</i> 	<i>L'Oréal Professionel, Kérastase, Redken, Matrix, Mizani, Pureology, Shu Uemura Art of Hair, Essie, Carita, Decléor</i>
<ul style="list-style-type: none"> • <i>Mass retailing channels: hypermarkets, supermarkets, drugstores and traditional stores</i> 	<i>L'Oreal Paris, Garnier, Maybelline New York, Softsheen. Carson, Essie</i>
<ul style="list-style-type: none"> • <i>Cosmetic stores, travel retail, department stores, own-brand boutiques and dedicated e-commerce websites</i> 	<i>Lancome, Biotherm, Helena Rubinstein, Diesel, Giorgio Armani Beauty, Yves Saint Laurent Beauté, Kiehl's, Guy Laroche, Ralph Lauren, Cacharel, Shu Uemura, Clarisonic, Victor Rolf, Paloma Picasso, Yue Sai, Maison Martin Margiela, Urban Decay.</i>
<ul style="list-style-type: none"> • <i>Pharmacies, drugstores, medi-spas</i> 	<i>Vichy, La Roche-Posay, SkinCeuticals, Sanoflore, Roger&Gallet</i>
<ul style="list-style-type: none"> • <i>Directly Operated Stores (DOS)</i> 	<i>The Body Shop</i>

Sources: Adapted from: <http://www.loreal.com/group/our-activities.aspx> and <http://www.loreal.com/brands/consumer-products-division.aspx> retrieved on January 17, 2015

Types of Channel Intermediaries

- **Agents:** operate in the name of the company but do not take title to the goods they sell
 - Offer a limited service and usually work for a commission
- **Wholesalers:** take title to the goods and sell them to customers buying for reselling or for business use
 - Play a fundamental role in bridging the gap between demand and supply
 - It is important to consider the **power concentration** of wholesaling activities
 - The **degree of vertical integration** influences the power of a foreign wholesaler
- **Retailers:** manage the final link between the provider and the consumer
 - There can be wide differences in the retailing format between countries due to **local shopping habits, lifestyle, economic progress, and local regulation**
 - E.g. Emerging markets and developed markets
 - There can be **differences in the retailing formats also inside the country**

Example of traditional and modern retailing in China



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Manufacturer Alternatives

- **Independent retail intermediaries**
- **Partnerships with some global retailers**
 - For example, Unilever expands in international markets through the continuous internationalization process of global retailers
- **Introducing innovations while focusing on a retail format**
 - Beiersdorf, LU biscuits
- **Leased concession**
 - A “boutique” operated by the brand is located in a larger store
- **Wholly owned stores (DOS – Directly Operated Stores) or franchising networks**
 - E.g. Bulgari
- **Choice of a famous retailer**
 - E.g. Maria Sharapova’s brand, Sugarpova, in the New York store Henry Bendel

LU Biscuits Example



LU biscuit brand in a Chinese supermarket

Internet retailing

- Internet retailing is generating about **5 percent of global value**, and it is **constantly growing**
- **United States is definitely the largest market**, but also countries like **China** are rapidly catching up, and e-commerce represents an opportunity also for **other emerging markets**.
- Comparing developed and emerging markets, also **consumers shopping behavior is different**. For example, in **mature markets** internet retailing is mainly preferred because of **price and flexibility**, while in **emerging markets**, **brands variety** is the most important reason. Nevertheless in these markets e-commerce has to face the **problem of consumers' low trust in online payment security**.
- One of the companies that has undoubtedly paved the way for Internet selling is **Amazon**, followed by other three big players of internet selling, i.e. **Tmall**, that is part of the **Chinese Alibaba group** and has 45 percent of internet retailing in China, **eBay** and **Apple**.

Internationalization of Retailing

The prerequisite to manage the development of an international network is the **creation of a store brand value recognized by foreign consumer.**

Retailers have to identify the best mode to enter a foreign market. There are five alternatives:

- **Investment with a minority control**
 - The retailer is usually in its initial stages of internationalization and has limited knowledge of the local environment and low expertise.
- **Directly operated stores (DOS) – Greenfield investment**
 - The retailer chooses to open one or more stores in important locations creating store brand awareness in the most attractive markets.
- **Franchising**
 - The retailer signs franchise agreements with local business partners, providing the store brand and the format, marketing support and training.
- **Joint Venture**
 - Retailers can enter a foreign market through a joint venture with a local partner.
- **Acquisitions – Brownfield investments**
 - Retailers can buy a local retail chain gaining immediately access to the foreign market.

Main decisions of international retailers

- **Country and firm level factors** can significantly influence retailers' internationalization.
- **Standardization / adaptation** issues:
 - the **growing globalization of consumer goods** is seen as one of the variables that will gradually encourage standardization.
 - the analysis of **local markets** clearly points out that **format adaptation** (i.e., the adaptation of the style, design, layout, and assortment of the store) is an almost necessary choice.
 - need of **adaptation of the local offer in terms of assortment, promotion, and selling techniques**.
 - In general, it is important to analyze if **consumer perceptions of core attributes of the retailing format** differ between countries and how a retailer can adapt to these variations (see the example of Carrefour).
- Global retailers face a **highly competitive environment** in their internationalization process, also by **local retailers**. Hence:
 - global retailers can choose to develop local **strategic alliances**.
 - global retailers **invest time and resources to identify differences in the host countries**, and adapt to these differences crafting their strategies and their operative decisions.

Local assortment in a Carrefour supermarket in China



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One of the reasons for its success internationally is attributed to its ability to **adapt to local reality**, to **understand its needs and purchasing behaviors** and **adapt both format and assortment**

Physical Distribution

The primary objective of physical distribution is to **manage the movement of finished products from the company to its customers.**

- In some cases, **bureaucratic obstacles become strong entry barriers** that foreign companies can overcome only with alliances with local partners that support physical distribution activities.
- Where there are **poor transportation and logistics standards**, foreign companies have to face **inefficiencies** that can significantly affect their costs.
 - In China and India, transportation and logistics remain difficult not only in the countryside but also in fast-growing cities.

Transportation of Goods in Beijing



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Logistics

- The need to **improve physical distribution efficiency** is strongly felt in most of the companies that operate on an international level:
 - **cost control** has become more critical
 - there is an increasing need to **distribute products quickly to customers** and to **guarantee high quality service and sustainability** in moving everyday millions of products from factories to the points of sale
- Some companies have turned **logistics into a corporate philosophy**
 - E.g. Spanish group Inditex
- In the business to business there are companies where the **logistic system** is a key element of **competitive advantage**.
 - Dutch company Flora Holland

Flora Holland: flower and plants ready to be delivered after the auctions



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