Chapter 2

Distribution Channels in International Marketing

INTRODUCTION

The theme of this chapter is that Strategy ought to determine Structure, i.e. that the method by which an exporter reaches a market ought to be influenced by how he sees future development in that market. In practice, however, the cart may come before the horse, i.e. the exporter may first choose an export channel – possibly that which involves least effort on his part – and by so doing, determine his prospects in the market. The most subtle danger is not that an inappropriate choice of export channel will mean an obvious failure, but rather that the export effort will apparently be quite successful without ever achieving the full potential of the market, simply because the export channel can create its own appropriate size of market which may be less than the potential.

In some markets external constraints may limit the choice of channels available, e.g. even where a marketing company registered in the foreign market might be most appropriate, it may be legally impracticable. Again, where licensing appears very much a second best to direct exporting, it may be all that is permitted. Nevertheless, given the political constraints sometimes imposed by the government of the exporting or importing country, it is surprising how often exporters may make important decisions most casually, and in so doing either limit future prospects of expansion, or store up problems for the future when they may wish to change their distribution methods.
THE SHORT-TERM APPROACH

The choice of distribution channels in any market, domestic or foreign, is partly a matter of company policy and partly a matter of the nature of the product.

A company may choose to exercise virtually no control over the distribution of the products and be content to sell, in effect, ex-factory or ex-warehouse. Generally it does so because it regards its strength as being on the production side rather than in marketing. One example of this might be a company producing industrial components to order; alternatively perhaps, consumer or industrial products which cannot be readily branded, and which are not likely therefore to generate consumer loyalty to be reinforced by advertising.

A producer of branded goods has rather more room for manoeuvre in that he can attempt to promote consumer loyalty which will give him a measure of independence from any particular distribution chain. A producer of equipment requiring installation or after-sales servicing has little option but to extend his influence along the distribution chain. At the very least he has to ensure that his products are being handled by distributors who are technically competent, and he may choose to control the distribution chain himself.

These factors apply also to overseas markets, with the possible additional qualification that if there are one or two more stages in the distribution chain, there may be an equal number of mark-ups to be added to the cost structure: or looking at the situation from the other side, more opportunities to economise by handling distribution further down the line. The other complication in exporting is the one remarked on earlier, i.e. that it may be necessary to have a short-term method of broaching a new market, which will be replaced by a more appropriate distribution method once the market has been proved.

The short-term approach for goods which do not require servicing may be the use of an export house which either buys directly from the exporter and ships the goods overseas on its own account, or undertakes for a commission to deliver and sell goods overseas. Variants on the export house are the con-