Determinants of Export Channel Intensity in Emerging Markets: The British Experience in China

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Abstract. Export channels into emerging markets differ markedly in channel intensity. This inductive study of 18 British manufacturers and their Chinese intermediaries led to propositions exploring the mechanism behind the marked differences. Findings from the study indicate that low channel intensity may restrict exporting manufacturers’ market coverage and expose them to high risks of intermediary opportunism in emerging markets where channel environments are highly uncertain and legal frameworks are weak. However, low channel intensity policy can be an appropriate option when exporting manufacturers face the threats of gray marketing and fake products or when they require heavy intermediary commitments.

Keywords: export channel intensity, emerging markets

1. Introduction

Exporting into emerging markets has been a common practice for many manufacturers located in developed countries (Johansson, 2000). One of the highly important decisions for these firms is how many export intermediaries should be used in emerging markets. In other words, what will be the optimal channel intensity there? Channel intensity can be defined as the degree to which a manufacturer limits the number of intermediaries operating in a specific market, which ranges from a single distributor (exclusive distribution) to an unrestricted number of distributors (intensive distribution) within the market (Fein and Anderson, 1997). The traditional theory on channel intensity argues that using too few intermediaries limits a firm’s level of exposure in the marketplace but using too many intermediaries can be detrimental to the firm’s image and its competitive position (Stern, El-Ansery and Coughlan, 1996). The traditional theory links product class and consumer buying behavior to channel intensity (Copeland, 1923). Based on such product class and consumer buying behavior framework, high channel intensity is optimal for those products which customers will not expend efforts to seek out for purchase and low channel intensity is optimal for those products which customers purchase at some effort. In recent years the product class and consumer buying behavior framework has been challenged as it cannot explain why firms of the similar products differ in distribution intensity (Frazier and Lassar, 1996). A possible explanation is that some unknown determinants also influence channel intensity and the channel intensity mechanism is more complicated than mere product class and consumer buying behavior. The channel intensity mechanism can be even more complicated across different countries where firms have to face cultural diversity and
demand diversity. However, few studies on the determinants of export channel intensity have been reported (Frazier, 1999).

The purpose of this article is to identify the determinants of export channel intensity in emerging markets. In recent years some emerging markets, such as China, have grown into important markets for exporters (Luo and Peng, 1999). Findings from this study can be interesting for the exporters in emerging markets. Moreover, emerging market environments are substantially different from those in mature markets. In emerging markets legal infrastructures are weak and market jolts are frequent (Nelson, Tilley and Waler, 1998). Thus, exporters cannot apply their experience in mature markets to emerging markets. They need different theoretical guidelines when they decide on their channel intensity in emerging markets.

This article is organized around two research questions: (1) What factors affect export channel intensity in emerging markets? and (2) Do patterns of channel intensity in emerging markets differ from those in mature markets? The results reported here are a set of propositions explaining these unexplored areas. The empirical grounding of the propositions is the subject of this article.

2. Literature review

Three existing perspectives are related to the current study. The first perspective is an institutional approach. It differentiates emerging markets from mature markets and indicates that emerging markets may provide exporters with attractive market opportunities but will expose exporters to high risks associated with uncertainties (Johansson, 2000). An emerging market can be defined as a market that satisfies two criteria: a rapid pace of economic development, and government policies favoring economic liberalization and the adoption of a free-market system (Arnold and Quelch, 1998). The primary impediments in emerging markets appear to be the environmental uncertainties and the lack of strong legal frameworks, which have allowed a large increase in opportunism and rent-shifting (Nelson, Tilley and Waler, 1998). Emerging markets include transition economies, such as China, and rapid-growth developing countries in Asia, Latin America, Africa, and the Middle East (Hoskisson et al., 2000).

Emerging markets are at introduction and early growth stage of product life cycle (Vernon, 1966). At this stage, a large amount of financial investments is required to cover customer education, establishment of marketing infrastructures, brand establishment, product adaptation, and development of market-specific knowledge (Porter, 1990). Great psychic distance adds to the expenses of all these efforts (Eriksson, Johanson and Majkgard, 1997). However, investors have to be careful in emerging markets (Czinkota and Ronkainen, 2001). Macroeconomic stability, a precondition for investments, has been difficult to achieve in emerging markets (Hoskisson et al., 2000). Moreover, the development of market institutions, such as legal infrastructures, has been slow and difficult (Arnold and Quelch, 1998). Partnerships with resident partners in emerging markets may reduce the investment risks but will increase operation risks (Czinkota and Ronkainen, 2001). The contextual uncertainties lead to resident firms’ behavioral uncertainties. Without market mechanism and well-established legal infrastructures, opportunism and corruption may prevail (Lou and Peng, 1999).