



Global Marketing

Alessandra Bucci

Chapter 12

Global Placement and Distribution Channels

The Power of Distribution

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

it can be **physical or digital**.

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. INDIRECT MODE**
- Intermediate entry modes, strategic alliances, franchising agreements, joint ventures, or greenfield investments allow the company to develop **direct or short distribution channels. DIRECT MODE**

- **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. Italian 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 in a Luxury US department store



Source: © Author.

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

- **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.

- **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

Managing International Distribution Channels

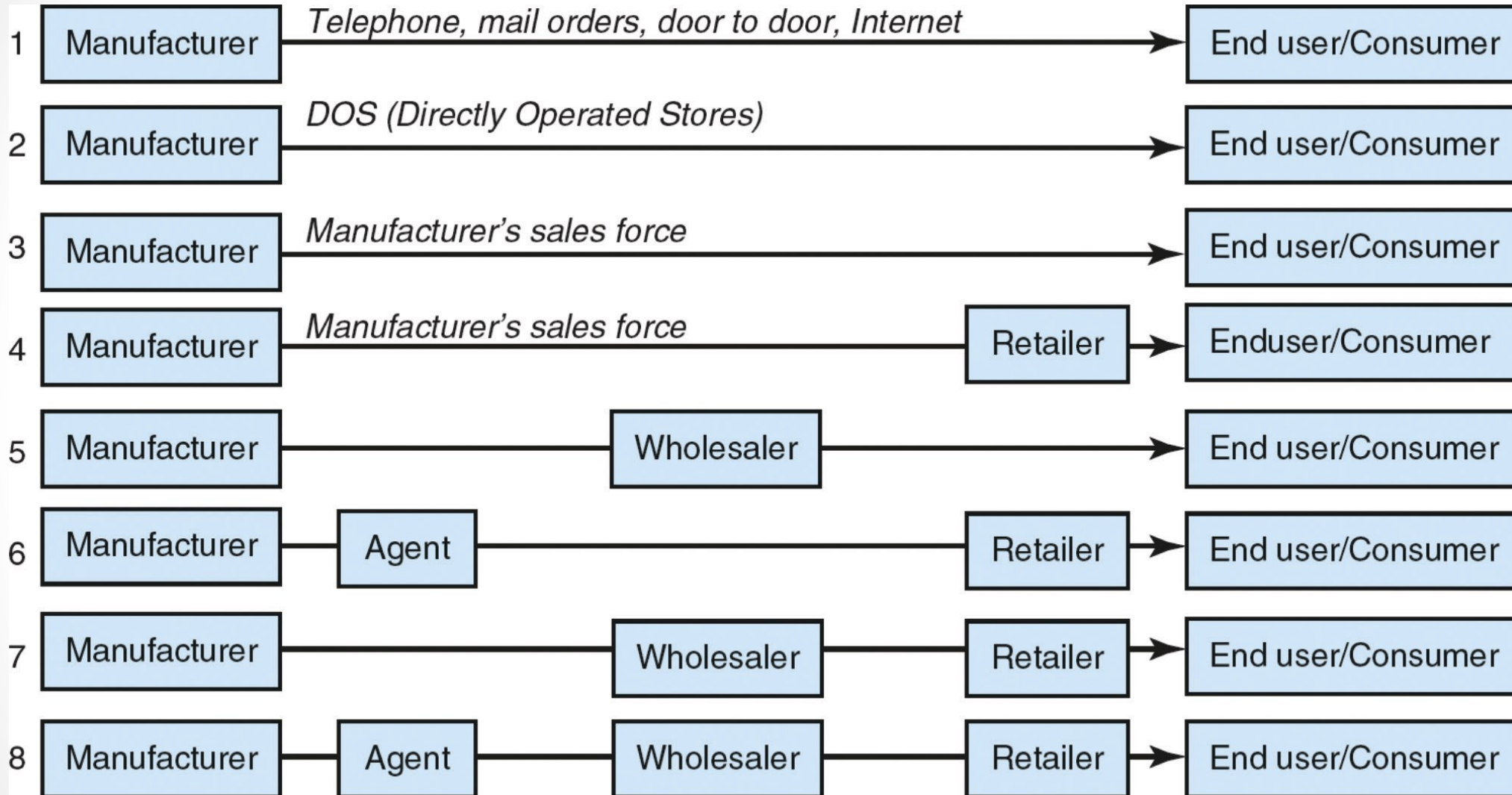
Advantages and disadvantages of different alternatives:

1. Direct versus indirect channels
2. Conventional distribution channels versus vertical marketing systems (VMS)
3. 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

International Distribution Channel Options



Source: Compiled by author

exaples

direct shops



Subdued



Direct Channels

- The direct marketing channel has been developed through the growth of **Internet selling** (Option 1).
- With the necessity to create brand value and differentiation against competitors, **Directly Operated Stores** are acquiring significant importance (Option 2).
 - E.g. Armani and Ermenegildo Zegna 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** (Option 3).
 - Direct control is typical for **industrial goods**

Indirect Channels

- In the case of indirect marketing channels, the relation between the manufacturer and the final consumer is filtered by **intermediaries—agents, wholesalers, and retailers—who perform different functions such as holding inventories, financing, selling and promoting, and managing after-sales services (options 4 to 8).**
- The channel can be short or long, depending on the number of intermediaries used by the company. When the company has many foreign clients, **the role of these intermediaries is fundamental to reduce the number of exchanges, to overcome cultural barriers, and to simplify the selling process.**
- On the other hand, **using indirect channels carries the risk of losing control of the physical flow of products, the ability to determine pricing policy at every stage of the channel, inventory payment, and promotion policy.**

DIRECT

INDIRECT

ADVANTAGES

MORE CONTROL
SENSE OF BELONGING
CUSTOMERS LOYALTY
SPECIALIZATION
COMPANY LOYALTY
FAST EXECUTION OF COMPANY
STRATEGY

NO FIXED COSTS
FAST MARKET PENETRATION
TERRITORY COVERAGE
FASTER WITHDRAWAL OF THE
CONTRACT
INCENTIVES TO SALES

CHANNEL

DIS ADVANTAGES

FIXED COSTS
RISK OF LESS INCENTIVES TO SALES RESULTS
RISK OF LEOPARD SPOTTED TERRITORY
COVERAGE

LESS FEEDBACK
LESS IDENTIFICATION
LESS CONTROL
LESS CUSTOMER LOYALTY
LESS SPECIALIZATION
EASY TRANSITION TO COMPETITORS

The issues of indirect channel

- **exclusivity**

- agent and wholesalers representing a single firm of a multi firm
- retailers commercializing only a brand of a category...
- the exclusivity has a cost

control

- brand image
- prices
- promotions
- advertising

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. E.g. franchising
 - 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



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., french cosmetic giant 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 Advertising in Venice

Source: © Author.

Distribution Channels, Consumption Universe, and Beauty Categories for L'Oréal Brands

Distribution Channels	Hair salons	Mass retail	Department stores perfurmeries	Pharmacies drugstores medispas	Branded retail	Travel retail	E-commerce
Beauty Categories	Haircare	Hair Color	Skincare	Fragrances	Makeup		
Consumer Products	L'Oréal Paris; Garnier; Maybelline New York; Nyx Professional Makeup; Essie; Niely Dark And Lovely; Mixa; Magic; Carol's Daughter; Stylenanda; Logocos Naturkosmetik						
Active Cosmetics	La Roche-Posay; Vichy; Cerave; Skinceuticals; Roger&Gallet; Sanoflore						
Professional Products	L'Oréal Professionnel; Redken; Matrix; Biolage; Kérastase; Pureology; Decléor; Shu Uemura Art Of Hair Carita; Pulp Riot; Mizani; Baxter; Seed Phytonutrients						
L'oréal Luxe	Lancôme; Yves Saint Laurent; Giorgio Armani; Kiehl's; Biotherm; Urban Decay; It Cosmetics; Shu Uemura; Ralph Lauren; Helena Rubinstein; Viktor&Rolf; Cacharel; Clarisonic; Diesel; Yvesai; Atelier Cologne Maison Margiela; House 99; Proenza Schouler; Valentino						

Sources: Adapted from Annual Report 2018 L'Oréal. www.loreal-finance.com/sites/default/files/2019-10/LOreal_2018_Annual_Report_0.pdf; L'Oréal The Power of Beauty www.loreal-finance.com/sites/default/files/2019-10/LOreal_Kepler_Chevreux_Aut_2019%20%281%29.pdf [all accessed October 24, 2019].

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**

Examples of traditional and modern retailing in China



Source: © Author.



Source: © Author.

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








































LU Biscuit brand in a chinese supermarket



Source: © Author

Trenitalia channels

91

<u>channels</u>	<u>Costs</u>	<u>UPSELLING</u>	<u>LOYALTY</u>	<u>EXPERIENCE</u>
Ticket office	\$\$\$	 		 
Agencies	\$\$	  	  	  
OLTA	\$ \$			 
Digital	\$		 	 
Self Service	\$			
Freccia Club	\$ \$	  	  	   
Call Center	\$ \$			

Internet retailing

- Online worldwide sales amounts to USD 3.53 trillion, representing 14.1% of all retail sales worldwide, and **by 2022 they are projected to grow to USD 6.54 trillion, reaching a share of about 22%**
- UK and China are the countries with the highest percentage of e-commerce retail sales on total retail sales
- Comparing developed and emerging markets, **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 four big players of internet selling: the Chinese companies **JD.com Inc.** and **Alibaba group**, **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 store in China



Source: © Author.

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 Guangzhou, Guangdong Province, China



Source: © Francesco Venier.

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



Source: © Author.