

Global Marketing

Tenth Edition



Chapter 12

Global Marketing Channels
and Physical Distribution

Learning Objectives

12.1 Identify and compare the basic structure options for consumer channels and industrial channels.

12.2 List the guidelines companies should follow when establishing channels and working with intermediaries in global markets.

12.3 Describe the different categories of retail operations that are found in various parts of the world.

12.4 Compare and contrast the six major international transportation modes and explain how they vary in terms of reliability, accessibility, and other performance metrics.

Distribution Channels: Terminology and Structure (1 of 2)

- **Physical distribution** is the physical flow of goods through channels.
- A **channel of distribution** is “an organized network of agencies and institutions that, in combination, perform all the activities required to link producers with users to accomplish the marketing task.”

Channel Objectives & Utility

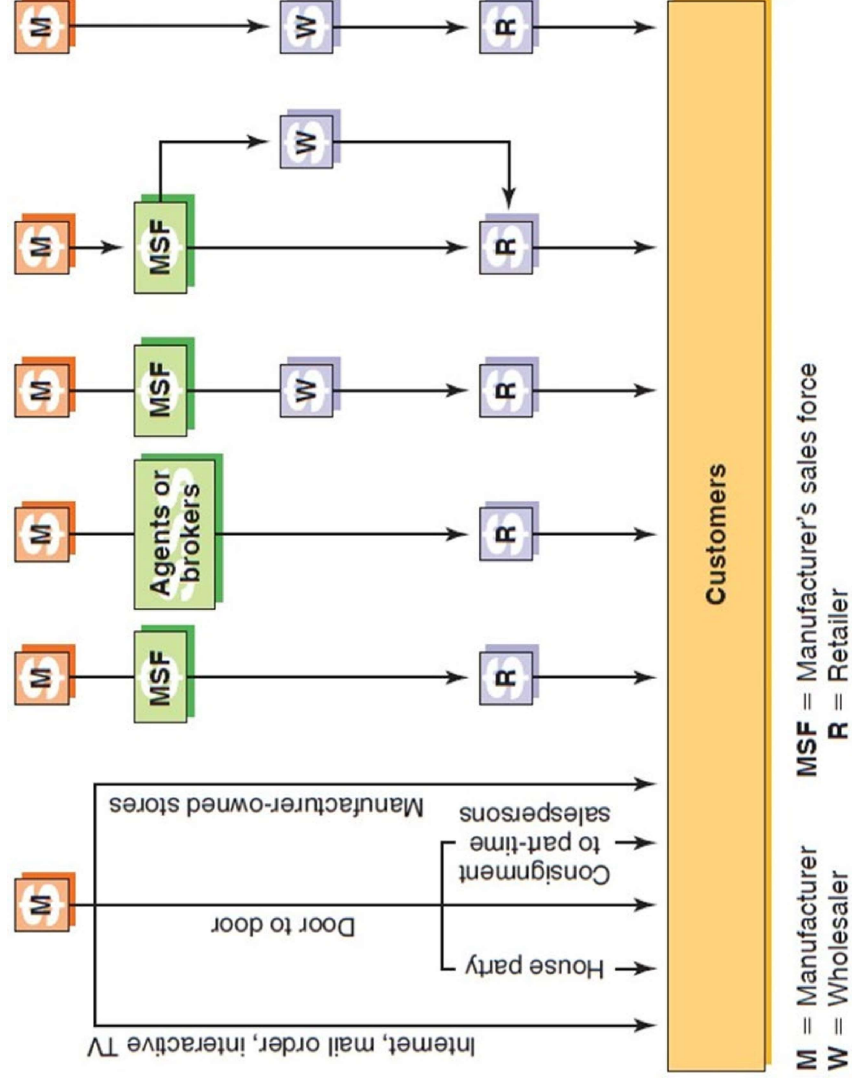
- Marketing channels exist to create utility for customers
 - **Place utility** - availability of a product or service in a location that is convenient to a potential customer
 - **Time utility** - availability of a product or service when desired by a customer
 - **Form utility** - availability of the product processed, prepared, in proper condition and/or ready to use
 - **Information utility** - availability of answers to questions and general communication about useful product features and benefits

Distribution Channels: Terminology and Structure (2 of 2)

- Distributor - wholesale intermediary that typically carries product lines or brands on a selective basis
- Agent - an intermediary who negotiates transactions between two or more parties but does not take title to the goods being purchased or sold

Consumer Products Channels

Figure 12-1 Marketing Channel Alternatives: Consumer Products



Peer-to-Peer Marketing

- The Internet and other related media are dramatically altering distribution
- Interactive TV may become a viable direct marketing channel in the future
- eBay pioneered P2P
 - Helped Disney and IBM set up auction sites for B2C auctions
- Interactive TV is coming when homes are wired for 2-way

Door-to-Door Selling

- Mature form in the U.S.
- Tupperware has a sales force of 200,000 in Indonesia, its biggest market
- Growing popularity in China-Avon, Mary Kay
- ½ of cars are sold door-to-door in Japan with 100,000 salespeople



The U.S. accounts for only 10% of Tupperware sales. Tricia Stitzel is CEO of the company.

Consumer Channels

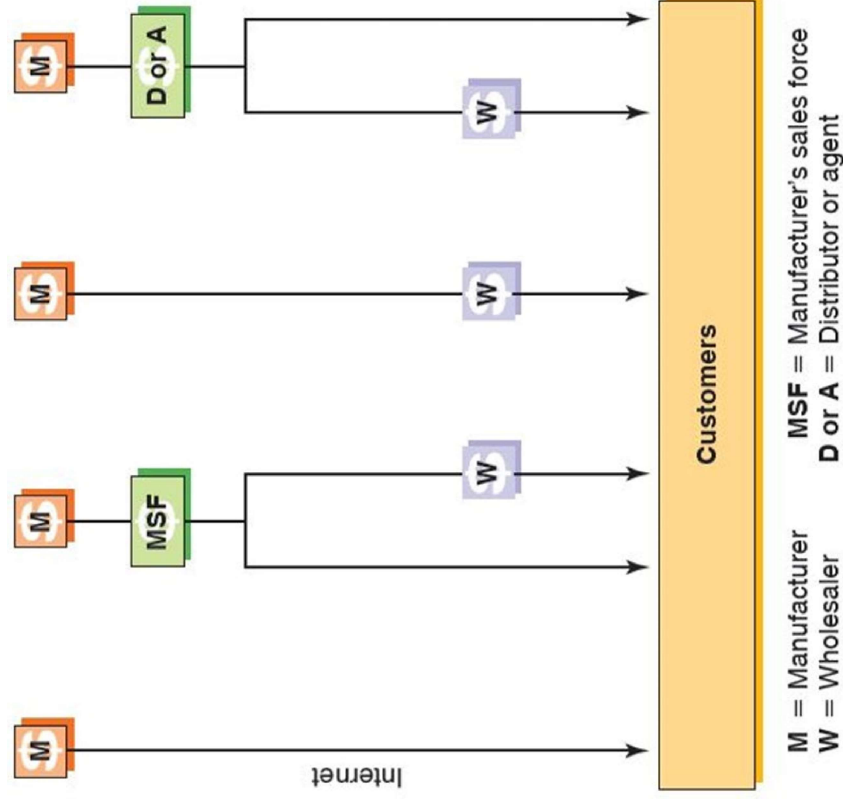
- Manufacturer-owned stores
 - Nike, Levi Strauss, Apple, Sony, fashion design houses have **flagship stores**
- Independent franchise
- Independent retailers
 - Walmart
- **Flagship retail stores** for Apple, Sony, well-known fashion houses, Nike to build brand loyalty, showcase products, and help gather marketing intelligence

Retailing in Developing Countries

- Consumers purchase food, soft drinks, and other items at “Mom & Pop” stores, kiosks, and market stalls in single-use packages
- 70% of Mexicans shop at these stores
- P&G aids stores that carry at least 40 P&G products with displays, promo materials through a **golden store** program
- Nestlé has a floating supermarket that sails the Amazon River to reach remote areas

Industrial Products Channels

Figure 12-2 Marketing Channel Alternatives: Industrial Products



Establishing Channels

- **Direct involvement** - the company establishes its own sales force or operates its own retail stores
- **Indirect involvement** - the company utilizes independent agents, distributors, and/or wholesalers
- Channel strategy must fit the company's competitive position and marketing objectives within each national market

Working with Channel Intermediaries (1 of 2)

1. Select distributors - don't let them select you
2. Look for distributors capable of developing markets, rather than those with a few good customer contacts
3. Treat local distributors as long-term partners, not temporary market-entry vehicles

Working with Channel Intermediaries (2 of 2)

4. Support market entry by committing money, managers, and proven marketing ideas
5. From the start, maintain control over marketing strategy
6. Make sure distributors provide you with detailed market and financial performance data
7. Build links among national distributors at the earliest opportunity

Intermediaries

- Be realistic about the intermediary's motives
- May maximize its profit rather than the manufacturer's
- May engage in **cherry picking**-only taking products with known demand
- Manufacturer may need to establish its own distribution channel although it will have high costs
- Or the manufacturer can supplement the cost of the sales force of the distributor

Global Retailing (1 of 2)

- Department stores
- Specialty retailers
- Supermarkets
- Convenience stores
- Discount stores and warehouse clubs
- Hypermarkets
- Supercenters
- Category killers
- Outlet stores



The LP12 Mall of Berlin opened in 2014 with 270 stores as well as apartments.

Global Retailing (2 of 2)

- European retailers spread to colonies in the 19th, early 20th centuries
- Global retailers serve developing nations with more products & better prices
- **Organized retail** refers to modern, branded chain stores
 - Only 5% of India's total market
 - Sector will have double-digit growth

Table 12-1 Top Five Global Retailers, 2017

Rank	Company	Country	Formats	Sales (\$ millions)
1	Walmart Stores	United States	Discount store, wholesale club	\$485,873
2	Carrefour	France	Hypermarket	82,996 (2016 data)
3	Tesco PLC	United Kingdom	Supermarket/hypermarket	69,501
4	Metro AG	Germany	Diversified	43,828
5	Aldi	Germany	Discount store	NA

Types of Retailers (1 of 5)

- **Department stores** have a product mix under one roof
- Expansion outside of the home market is usually limited to a few countries
- Two views:
 - “It’s quite difficult to transfer a department store brand abroad. You have to find a city with the right demographic for your offer. If you adapt your offer to the locality, you dilute your brand name.”
- “Conceptually, department stores are global brands already because we live in a world with an enormous amount of travel between cities and continents.”

Maureen Hinton, London Retail Analyst

Marvin Traub, former CEO, Bloomingdales

Types of Retailers (2 of 5)

Specialty Retailers

- Less variety than department stores
- Offer merchandise depth & high levels of service
 - The Body Shop, Victoria's Secret, Starbucks

Supermarkets

- Between 50,000 & 60,000 sq. ft.
- Grocers haven't spread outside the US b/c market size is vast
- UK Tesco is global

Types of Retailers (3 of 5)

Convenience Stores

- High-turnover convenience & impulse goods
- Prices 15-20% higher than grocery stores
- 7-11 is the world's largest
 - 64,000 locations
- Trend towards locating in malls, airports, office buildings, and college & universities

Discount Retailers

- **Full-line Discounters**
 - Wide variety of merchandise; Ex. Walmart
- **Warehouse Clubs**
 - Memberships fees; Ex. Sam's, Costco
- **Dollar Stores**
 - Sell at a single low price; Ex. in U.S. Family Dollar, Dollar Tree; Internationally, My Dollarstore has rapid growth
- **Hard Discounters**
 - Limited assortment, rock bottom prices

Types of Retailers (4 of 5)

- **Hypermarkets** are hybrid retailers combining the discounter, supermarket & warehouse club; 20,000-30,000 sq. ft.
- **Supercenters** have lower priced groceries plus general merchandise; half the size of a hypermarket; Walmart operates 3,275 stores plus 100s in Mexico, Argentina, and Brazil
- **Superstores** aka **Category Killers & Big-Box** sell vast assortments of a product category
 - Toys ‘R’ Us, Home Depot, IKEA

Types of Retailers (5 of 5)

Shopping Malls

- Groups of stores in one place
- Enclosed or outdoor
- Leisure destinations offer entertainment & convenience
- Trend towards outdoor “lifestyle centers” with food courts & entertainment

Outlet Stores

- Shops that offer excess inventory, out-of-date merchandise or factory seconds
- Popular in the US, expanding into Europe & Asia

Global Retailing Trends

- Environmental Factors that cause retailers to look outside the home country
 - Saturation in the home country market
 - Recession or other economic factors
 - Strict regulation on store development
 - High operating costs
- Critical Question
 - What advantages do we have relative to the local competition?

Figure 12-3 Global Retailing Categories

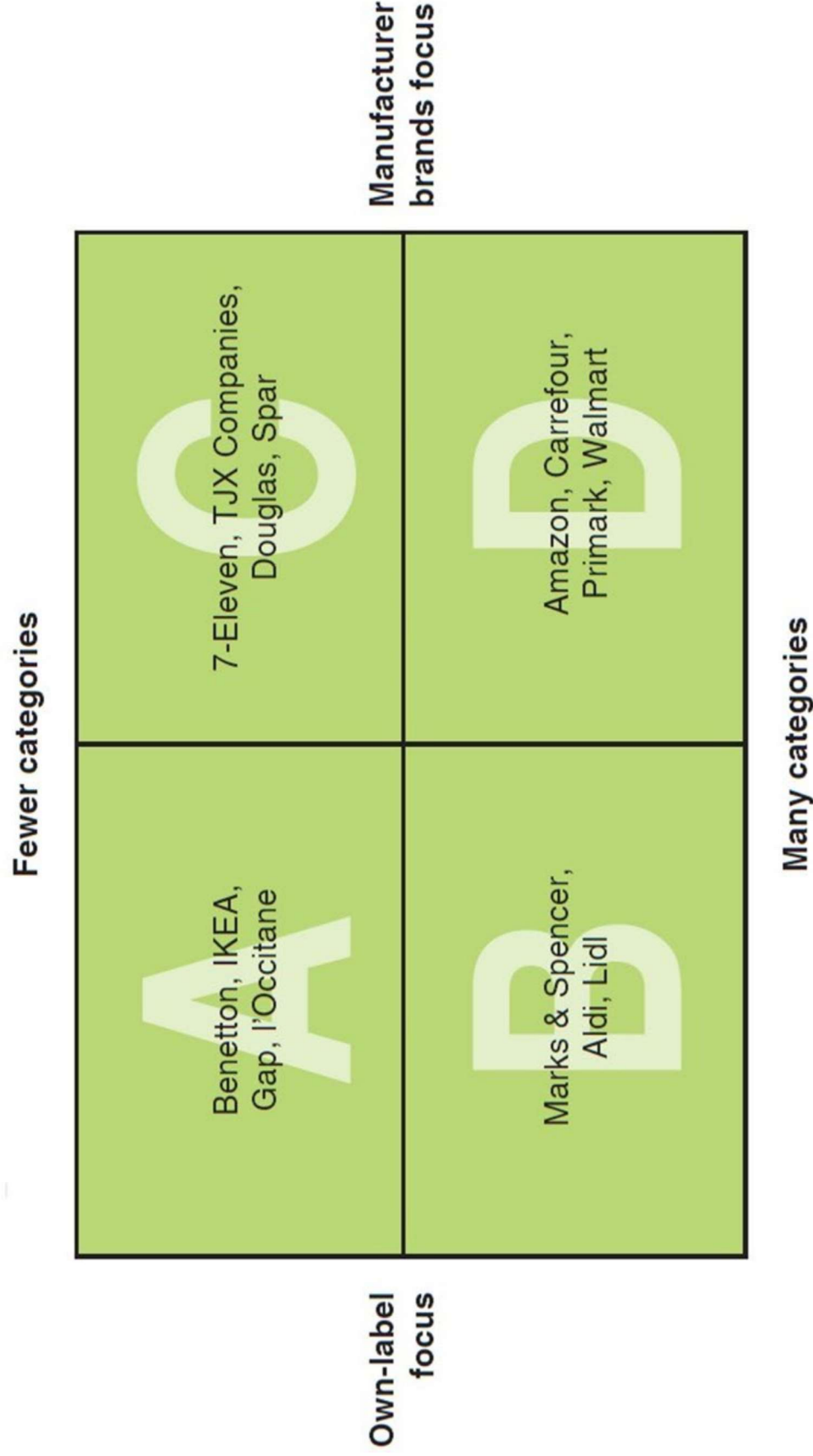
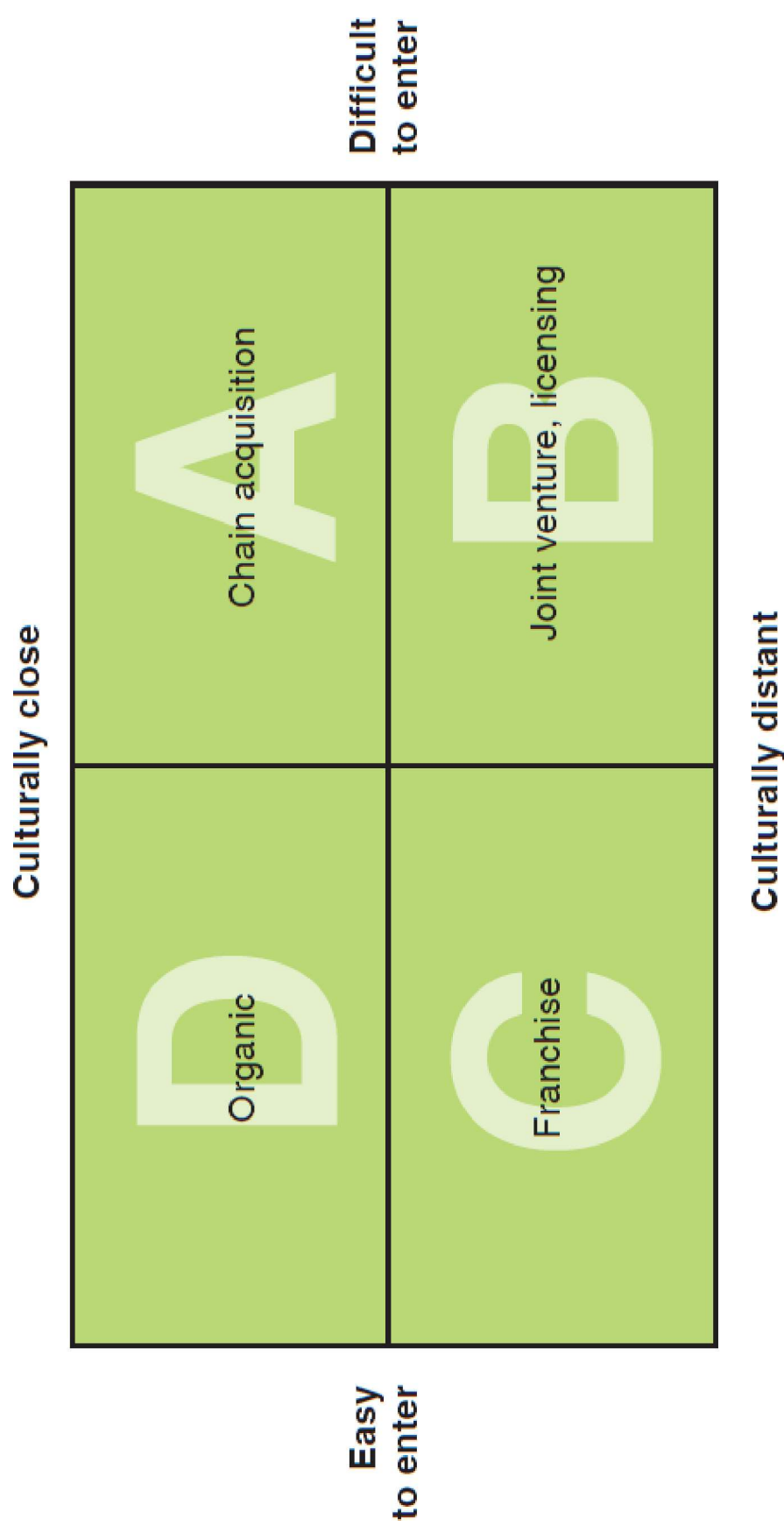


Figure 12-4 Global Retailing Market Entry Strategy Framework



Global Retailing Strategies (1 of 2)

- **Organic Growth**

- Company uses its own resources to open a store on a greenfield site or acquire one or more existing retail facilities

- **Franchise**

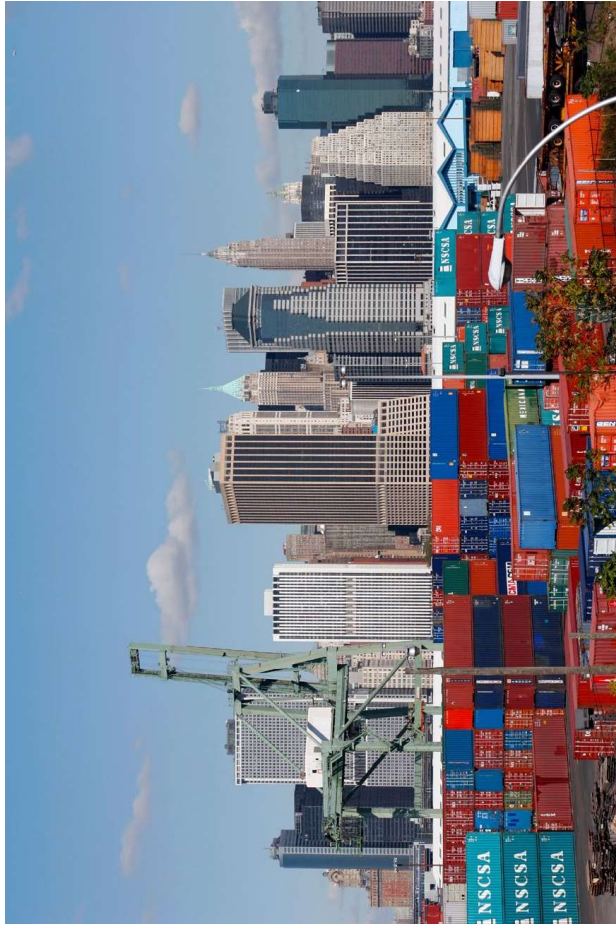
- Appropriate strategy when barriers to entry are low yet the market is culturally distant in terms of consumer behavior or retailing structures

Global Retailing Strategies (2 of 2)

- **Chain Acquisition**
 - A market entry strategy that entails purchasing a company with multiple existing outlets in a foreign country
- **Joint Venture**
 - This strategy is advisable when culturally distant, difficult-to-enter markets are targeted

Supply Chain Definitions

- Supply Chain
 - Includes all the firms that perform support activities by generating raw materials, converting them into components or finished products, and making them available to customers
- Logistics
 - The management process that integrates the activities of all companies to ensure an efficient flow of goods through the supply chain



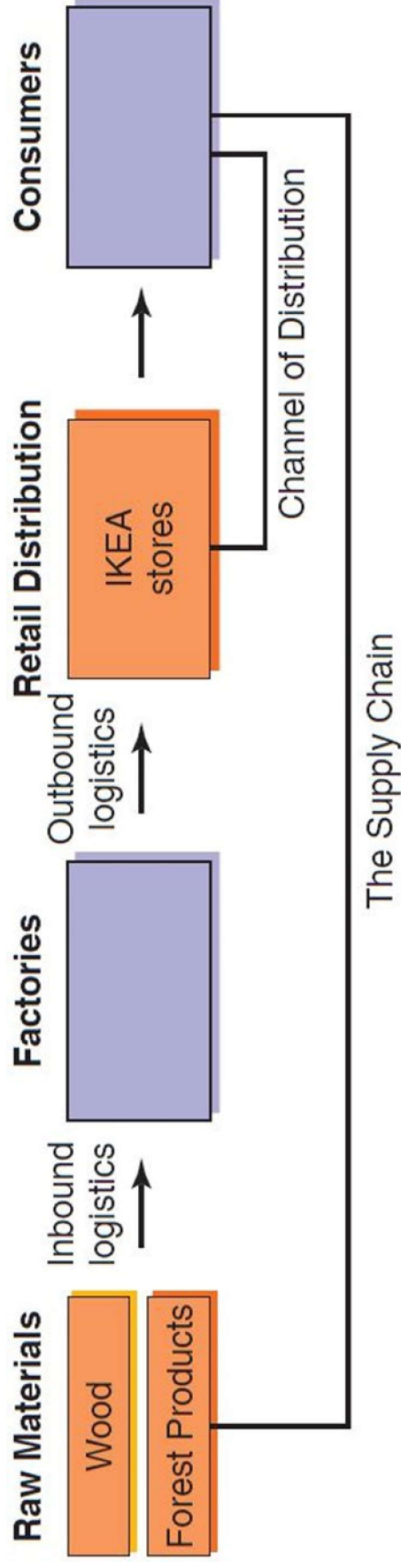
Physical Distribution, Supply Chains, and Logistics Management (1 of 2)

- **Order Processing**
 - includes **order entry** in which the order is actually entered into a company's information system; **order handling**, which involves locating, assembling, and moving products into distribution; and **order delivery**.
- **Warehousing**
 - Warehouses are used to store goods until they are sold
 - **Distribution centers** are designed to efficiently receive goods from suppliers and then fill orders for individual stores or customers.

Physical Distribution, Supply Chains, and Logistics Management (2 of 2)

- **Inventory Management**
 - Ensures that a company neither runs out of manufacturing components or finished goods nor incurs the expense and risk of carrying excessive stock of these items
 - Social media can play an important role by connecting social media followers with the brand
- **Transportation**
 - Method or mode a company should utilize when moving products through domestic and global channels; the most common modes of transportation are rail, truck, air, and water

Figure 12-5 Supply Chain, Value Chain, and Logistics



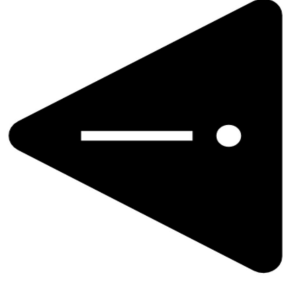
Transportation

Table 12-4 Comparison of Major International Transportation Modes

Mode	Reliability	Cost	Speed	Accessibility	Capability	Ease of Tracing
Rail	Average	Average	Average	High	High	Low
Water	Low	Low	Slow	Low	High	Low
Truck	High	Varies	Fast	High	High	High
Air	High	High	Fast	Low	Moderate	High
Pipeline	High	Low	Slow	Low	Low	Moderate
Internet	High	Low	Moderate to fast	Moderate; increasing	Low	High

- Channel Strategy - analyzing each shipping mode to determine which mode, or combination of modes, will be both effective and efficient in a given situation

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