INSTITUTE OF LAW, JIWAJI UNIVERSITY, GWALIOR

COURSE - B.COM. LL.B. FIVE YEAR
SEMESTER – VI
SUBJECT - INTERNATIONAL MARKETING

UNIT- 4 –TOPIC - INTERNATIONAL LOGISTICS AND FACTORS AFFECTING CHANNEL SELECTION

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International Logistics

In supplying world markets, companies try to work out systems that will be competitively practical and permit lowest cost operation so that profit is maximized. This is one of the key components of the global unification strategy upon which the overall effectiveness of a multinational firm depends. Looking at the operations of U.S. companies, we find that logistic systems are commonly composed of four main components.

Export of finished products from the United States. Virtually all companies start their logistic planning with a strong preference for exporting from the United States. Manufacture abroad always involves some risks, along with the complications of managing operations from a distance.

Furthermore, exports from the United States add to the volume of output of domestic plants, making them more efficient.

Manufacture in a foreign country for sale in that country. Under this heading fall two types of situations. First are the plants in less developed countries. Companies selling goods in these countries are repeatedly confronted with the choice of manufacturing on a protected basis within the country or being excluded by restrictions designed to protect those who are willing to manufacture. Sometimes companies have decided to take the second choice rather than make sizable investments of money and manpower in small markets. But because of the long run potential in the developing countries, most companies are reluctant to be frozen out of them.

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As barriers to trade are lowered, therefore, companies have shifted toward logistic systems based on small number of fairly large plants located at strategic spots around the world. Export of components from the United States and third countries. Although many finished products cannot be exported from the United States, it is generally possible to export some parts or supplies for use in foreign plants, especially those manufacturing complex products like drugs, automobiles, and electronic equipment.

Factors affecting channel selection

(A) INTERNAL FACTORS : Although diverse internal factors influence specific channel selection situations, the most important are :

(1) Company Size
(2) The Need For Distribution Control
(3)Required Special Functions
(4) Product Characteristics
(5) Desired Entry Speed
(6) Desired Penetration.

(i) COMPANY SIZE - International companies of different sizes require different marketing channels. Companies, the size of Sears and IBM, do not enter foreign markets little by little. Companies this large generally need channels capable of delivering substantial volumes of business. Some large companies opt for direct distribution channels (that is, for partial or full ownership of the channel). Smaller concerns are much more likely to utilize indirect distribution channels through long chains of existing marketing intermediaries.

(ii) NEED FOR DISTRIBUTION CONTROL – A company's need for distribution control stems from different circumstances. Companies with worldwide images related to distribution performance generally desire considerable control.

Actually manufacturers depend on channel members for multitude of services like financing, physical distribution, warehousing, inventory, promotion, and payment collection etc. The companies, therefore, need to exercise control over these intermediaries. It does so using inventory financing, rebates and commissions, merchandise returns, and promotional support.

(iii) REQUIRED SPECIAL FUNCTIONS – An international company may require the performance of special distribution functions in order to perform well in certain world markets. Automakers opening up markets overseas absolutely require special and adequate services from their distributor-dealer networks. High-tech companies such as IBM and Xerox can only function effectively in world markets when their distribution channels provide competent repair and maintenance facilities and stock adequate suppliers of spare parts.

(iv) PRODUCT CHARACTERISTICS - Some products have special characteristics that influence marketing channel selection. Certain products require a speedy introduction to a market. Fashion items have to be in dealers' salesrooms at the start of new season. Other products (for examples, fruits and vegetables and seafood) are perishable and require special handling (even refrigeration) as well as speedy distribution to points of sale. Moreover, certain chemical products, dairy products, and items such as fresh-cut flowers require special characteristics in the distribution channels.

(iv) DESIRED ENTRY SPEED - Sometimes, international firms have special reasons for wanting to enter certain markets quickly. Companies taking advantage of Western Europe's economic unification in 1992 (for example, Whirlpool) invested early and spent much time and effort putting together Pan-European distribution channels swiftly. If entry speed is a prime concern, this may affect the channel that is chosen; for example, a channel "available now" may be selected over a more desirable channel that is "tied up for the foreseeable future.

(v) DESIRED PENETRATION - Some companies enter international markets only to skim the high end of these markets; other enter from the low end and seek deeper market penetration. The desired degree of penetration affects the channel structure that is sought.

(B) EXTERNAL FACTORS : Certain external factors also influence the choice of an international marketing channel. Four of these external factors are :

(1) Competition
(2) Market Characteristics
(3) Legal Barriers
(4) Availability

(i) COMPETITION - The intensity of competition varies not only in different world markets but also among different components of marketing channels. If there is keen competition in certain markets, it is highly desirable to have marketing channels capable of handling strong competitors. The multinational firm entering a new market seeks to choose a marketing channel that can compete on an equal basis with local channels.

In choosing a marketing channel, a company must also assess the degrees of competition that exists among wholesalers, other marketing intermediaries, and distributors as well as retailers. A company has to decide where to focus the competitive edge.

(ii) MARKET CHARACTERISTICS - Unique market characteristics play a critical role in shaping marketing channels in some countries. If the market is geographically widespread rather than concentrated, for instance, a channel must be capable of serving this kind of market. It must have both the type of marketing intermediaries and the number of intermediaries that a disposal market requires. Other market characteristics also need to be considered.

(iii) LEGAL BARRIERS - In some countries, there are legal and ownership requirements that force multinationals to use indirect marketing systems made up of local institutions.

(iv) AVAILABILITY - Whether certain types of distribution institutions exist or are available also makes a difference. In many overseas markets, both IBM and Xerox were unable to find the types of marketing institutions they desired for their marketing channels. Therefore, market by market, these companies built their own marketing channels from scratch. But if local institutions that are capable of functioning effectively in the internationals marketer's proposed distribution channel exist, the marketer is likely to utilize them.

THANK YOU