

Global Marketing

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Edition

Global Marketing Channels and Physical Distribution

Chapter 12

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Learning Objectives

1. Identify and compare the basic channel structure options for consumer channels and industrial channels.
2. List the guidelines companies should follow when establishing channels and working with intermediaries in global markets.
3. Describe the different categories of retail operations that are found in various parts of the world.
4. Compare and contrast six major modes of international transportation and explain how they vary in terms of reliability, accessibility, and other performance metrics.

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

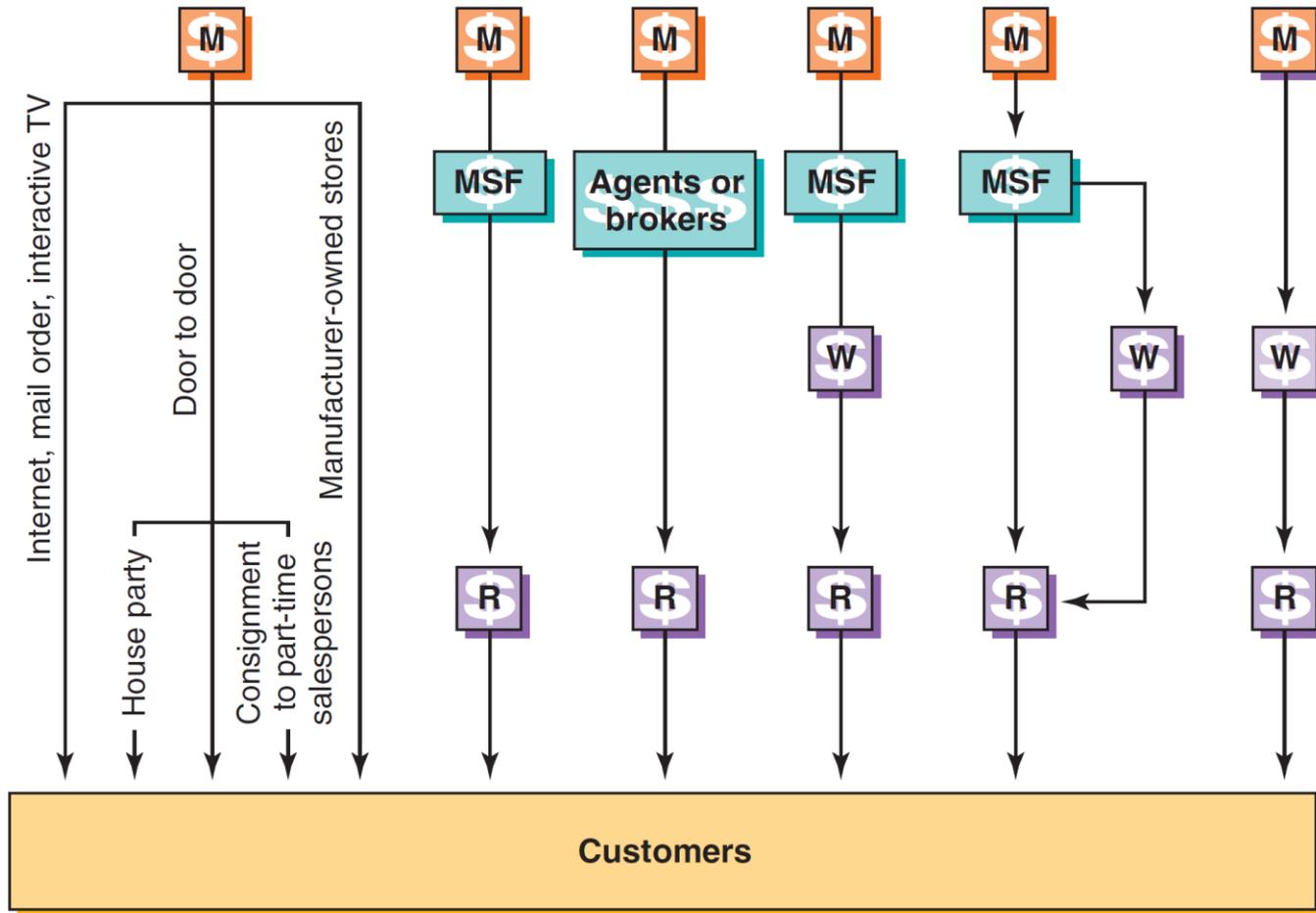
Distribution Channels: Terminology and Structure

- Distribution is the physical flow of goods through channels
- Channels are made up of a coordinated group of individuals or firms that perform functions that add utility to a product or service

Distribution Channels: Terminology and Structure

- 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



M = Manufacturer
W = Wholesaler

MSF = Manufacturer's sales force
R = Retailer

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.
- Growing popularity in China—AIG insurance, Mary Kay, Tupperware, Avon, Amway
- Amway sales tripled in China, 1998-2004 to \$2 billion, Co.'s biggest market
- ½ of cars are sold door-to-door in Japan with 100,000 salespeople



The U.S. accounts for only 10% of Tupperware sales.

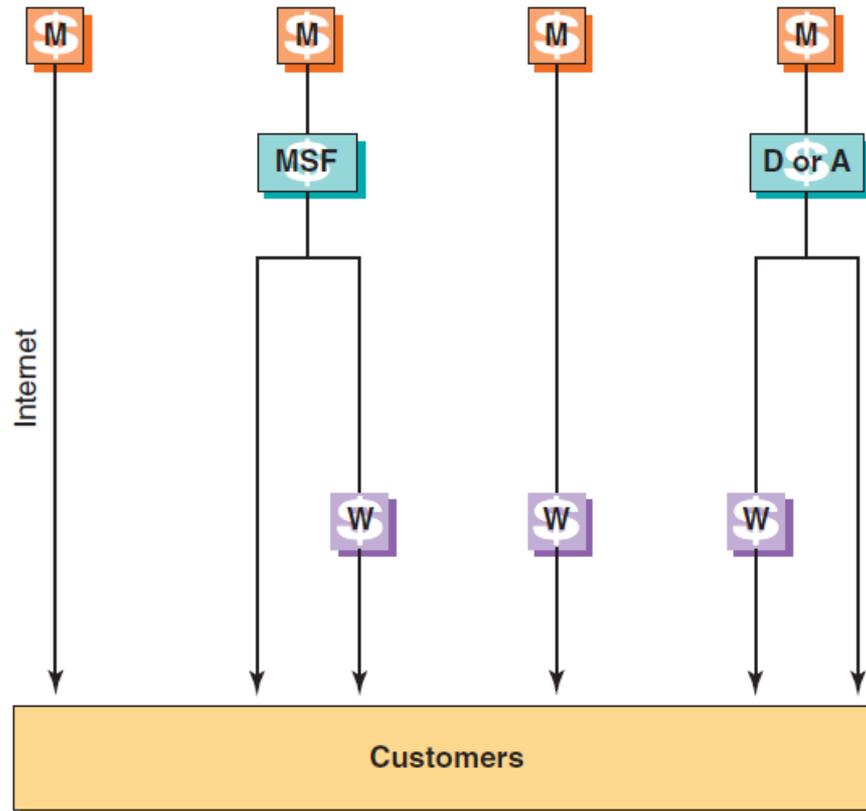
Consumer Channels

- Manufacturer-owned stores
 - Walt Disney opening 600 new stores globally
 - Nike, Levi Strauss, Apple
- Independent franchise
- Independent retailers
 - Wal-Mart
- Flagship retail stores for Apple, Sony, well-known fashion houses, Nokia, 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

Industrial Products Channels



M = Manufacturer MSF = Manufacturer's sales force
W = Wholesaler D or A = Distributor or agent

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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. 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 (Cont.)

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

Global Retailing



Apple operates more than 450 stores in 16 countries.

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

Global Retailing

- 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

Top 5 Global Retailers, 2012

| Rank | Company | Country | Formats | Sales (\$ millions) |
|------|----------------|----------------|--------------------------------|------------------------|
| 1 | Walmart Stores | United States | Discount store, wholesale club | \$469,162 |
| 2 | Carrefour | France | Hypermarket | 100,601 |
| 3 | Tesco PLC | United Kingdom | Supermarket/hypermarket | 98,062 |
| 4 | Metro AG | Germany | Diversified | 86,372 |
| 5 | Aldi | Germany | Discount store | 73,000 |

Types of Retailers

- **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.”

Maureen Hinton, London Retail Analyst

- “Conceptually, department stores are global brands already because we live in a world with an enormous amount of travel between cities and continents.”

Marvin Traub, former CEO, Bloomigdales

Types of Retailers

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

Convenience stores

- High-turnover convenience & impulse goods
- Prices 15-20% higher than grocery stores
- 7-11 world's largest
 - 26,000 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

- **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
- **Superstores** aka **Category Killers & Big-Box** sell vast assortments of a product category
 - **Toys “R Us, Home Depot, IKEA**

Types of Retailers

Shopping Malls

- Groups of stores in one place
- Enclosed or outdoor
- Leisure destinations offer entertainment & convenience

Outlet Stores

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

Global Retailing

- Environmental Factors
 - 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?

Global Retailing Strategies

- 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 Categories

Fewer categories

Own-label
focus



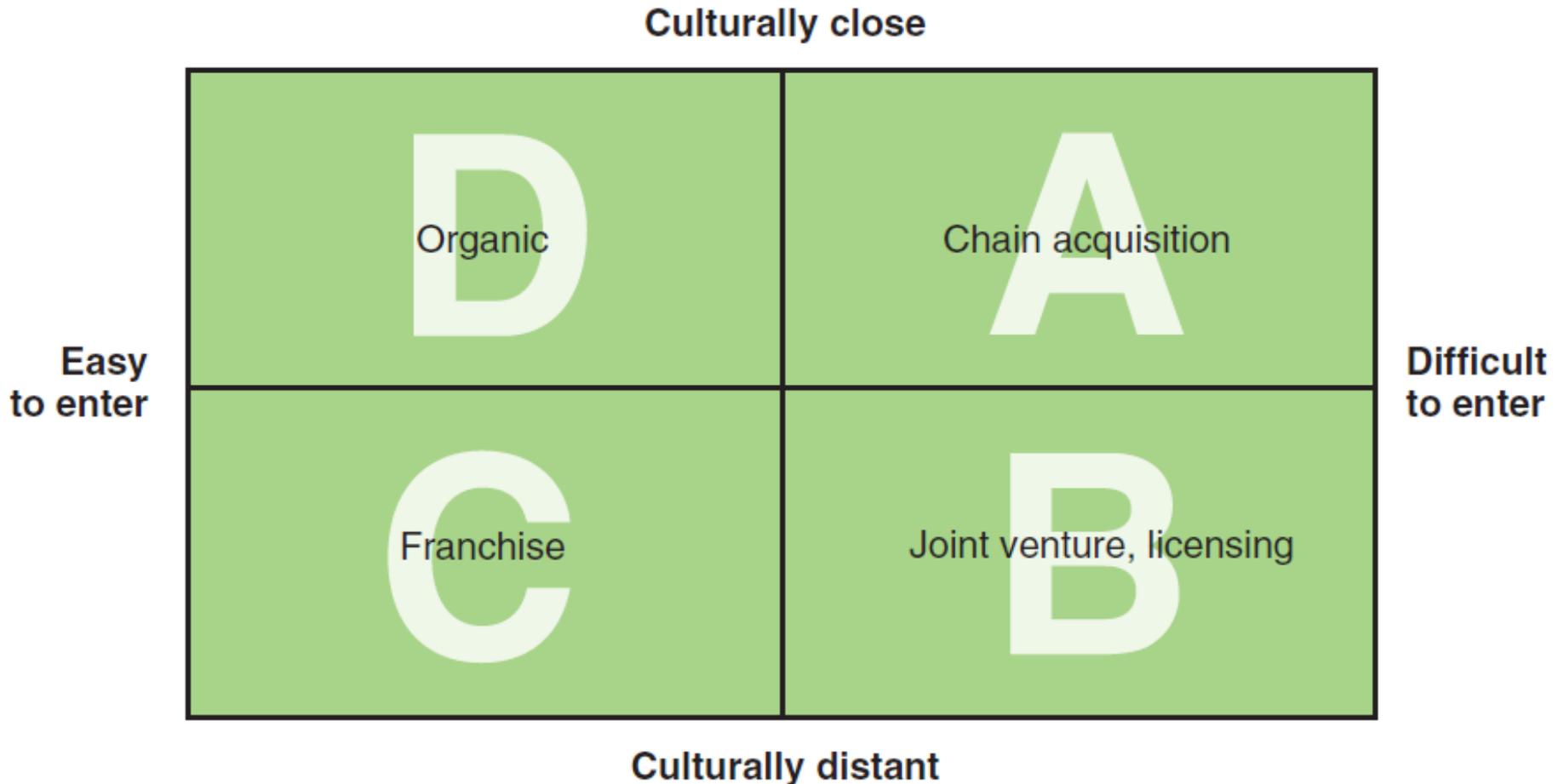
Manufacturer
brands focus

Many categories

Global Retailing Strategies

- 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

Global Retailing Market Entry Strategy Framework



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



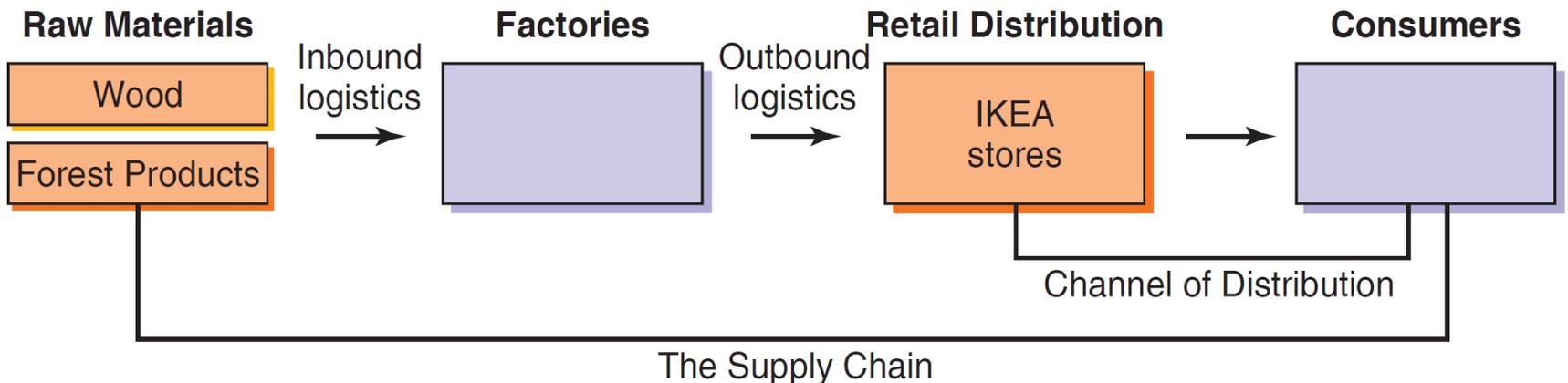
Physical Distribution, Supply Chains, and Logistics Management

- 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

- 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
- 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

Order Processing



Transportation

| 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