

Svend Hollensen

GLOBAL MARKETING

5th Edition

Chapter 10 Export modes

Learning objectives (1)

- Distinguish between indirect, direct and cooperative export modes
- Describe and understand the five main entry modes of indirect exporting
 - export buying agent;
 - broker;
 - export management company/export house;
 - trading company; and
 - piggyback
- Describe the two main entry modes of direct exporting
 - distributor;
 - agent

Learning objectives (2)

- Discuss the advantages and disadvantages of the main export modes
- Discuss how manufacturers can influence intermediaries to be effective marketing partners

Major types of exporting

Indirect export

Direct export

Cooperative export

What is this?

The measurement of the strength of a relationship between manufacturer and export-partner in terms of trust, commitment and cooperation is known as _____.

Partner mindshare

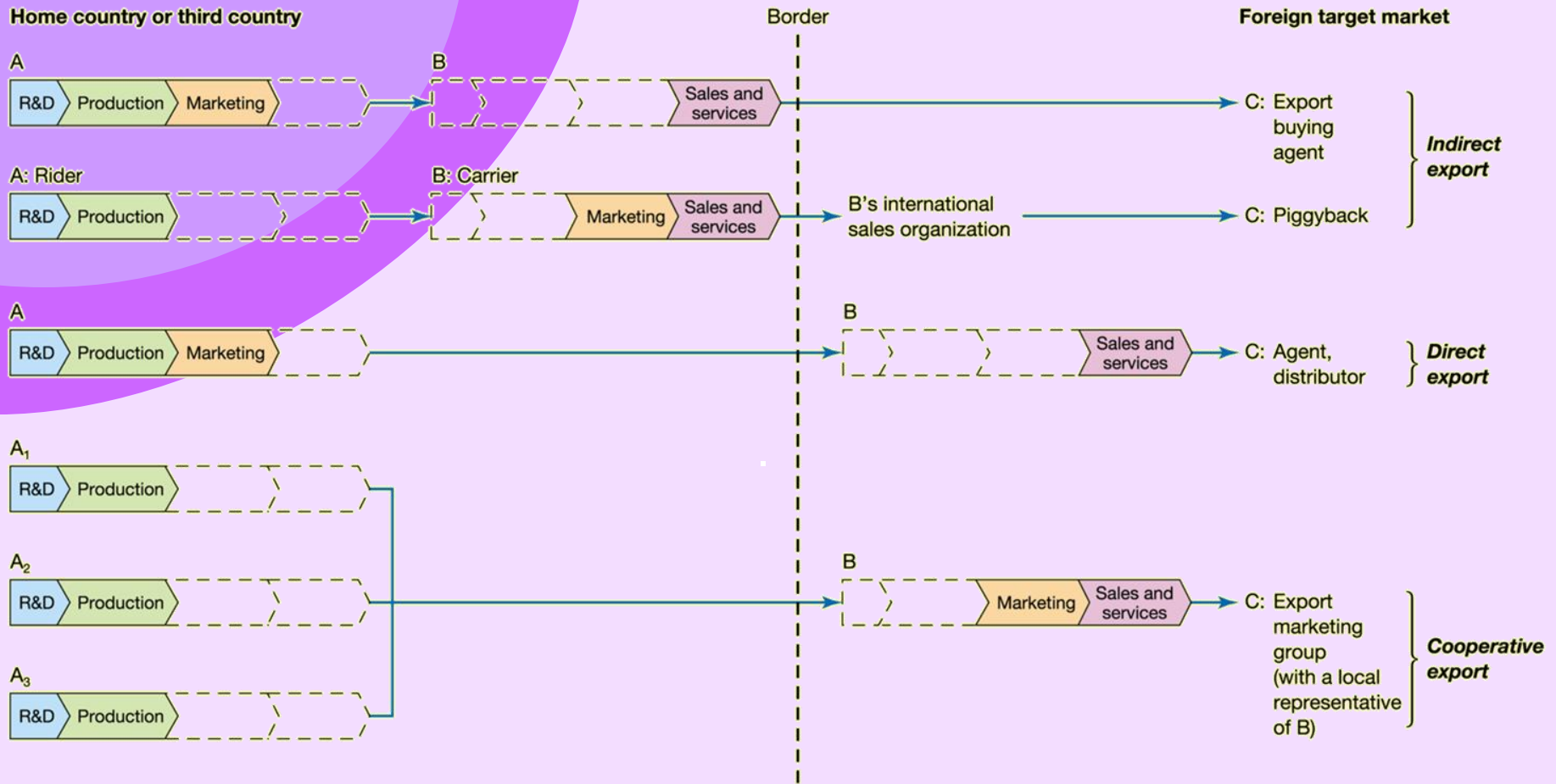
Drivers of mindshare



**Commitment
and trust**

Collaboration

**Mutuality
of interest
and common
purpose**



Note: A, A₁, A₂ and A₃ are manufacturers of products/services.
 B is an independent intermediary (agent).
 C is the customer.

Figure 10.1 Export modes

Note: A, A₁, A₂ and A₃ are manufacturers of products/services. B is an independent intermediary (agent). C is the customer

What is this?

Which mode of export refers to a manufacturer's use of independent export organizations located in its own country (or a third country)?

Indirect export modes

Indirect export modes (1)

- Sale is like a domestic sale
- Most appropriate for firms with limited international expansion objectives
- Appropriate for firms using international sales as a means of disposing of surplus production

Indirect entry modes

Export buying agent

Broker

Export management company/export house

Trading company

Piggyback

What is this?

What term refers to a representative of foreign buyers who is located in the exporter's home country and provides services such as identifying potential sellers and negotiating prices?

Export buying agent

What is this?

What term refers to an agent, based in the home country, who is a specialist in performing contractual functions but does not actually handle the products sold or bought?

Broker

Export management company/export house

- Specialist companies that act as the export department
- EMCs spread selling, administrative and transport costs because of economies involved making large shipments of goods from a number of companies
- EMCs offer far wider exposure for client products at a lower cost

Disadvantages of using EMCs

- EMC specialization may not correspond to supplier objectives
- EMCs are paid commission and may focus on opportunities that enhance returns quickly
- EMCs may represent too many clients to provide outstanding service to any single one
- EMCs may carry competing products

What is this?

What term refers to an indirect mode of export which entails an inexperienced SME 'riding' on the capabilities of a larger company already experienced in foreign markets?

Piggyback

Piggyback considerations for the carrier

Advantages

- Enables use of excess export capacity
- May fill gap in product line
- Broadens product range without development and manufacturing costs

Disadvantages

- Quality control concerns
- Continuity of supply issues

Piggyback considerations for the rider

Advantages

- No need for distribution system
- Opportunity to learn from carrier

Disadvantages

- Loss of control over marketing of products
- Potential lack of commitment from carrier
- Carrier may wish to acquire rider

Direct export modes

Export via distributors

Export via agents

What is this?

An independent company that stocks the manufacturer's product, but has substantial freedom to choose its own customers and price is known as a _____.

Distributor

What is this?

An independent company that sells on to customers on behalf of the manufacturer, does not stock the product and earns profits from commission paid by the manufacturers is known as an_____.

Agent

Choice of an intermediary

- Ask potential customers to suggest a suitable agent
- Obtain recommendations from institutions such as trade associations, chambers of commerce and government trade departments
- Use commercial agencies
- Poach a competitor's agent
- Advertise in suitable trade papers

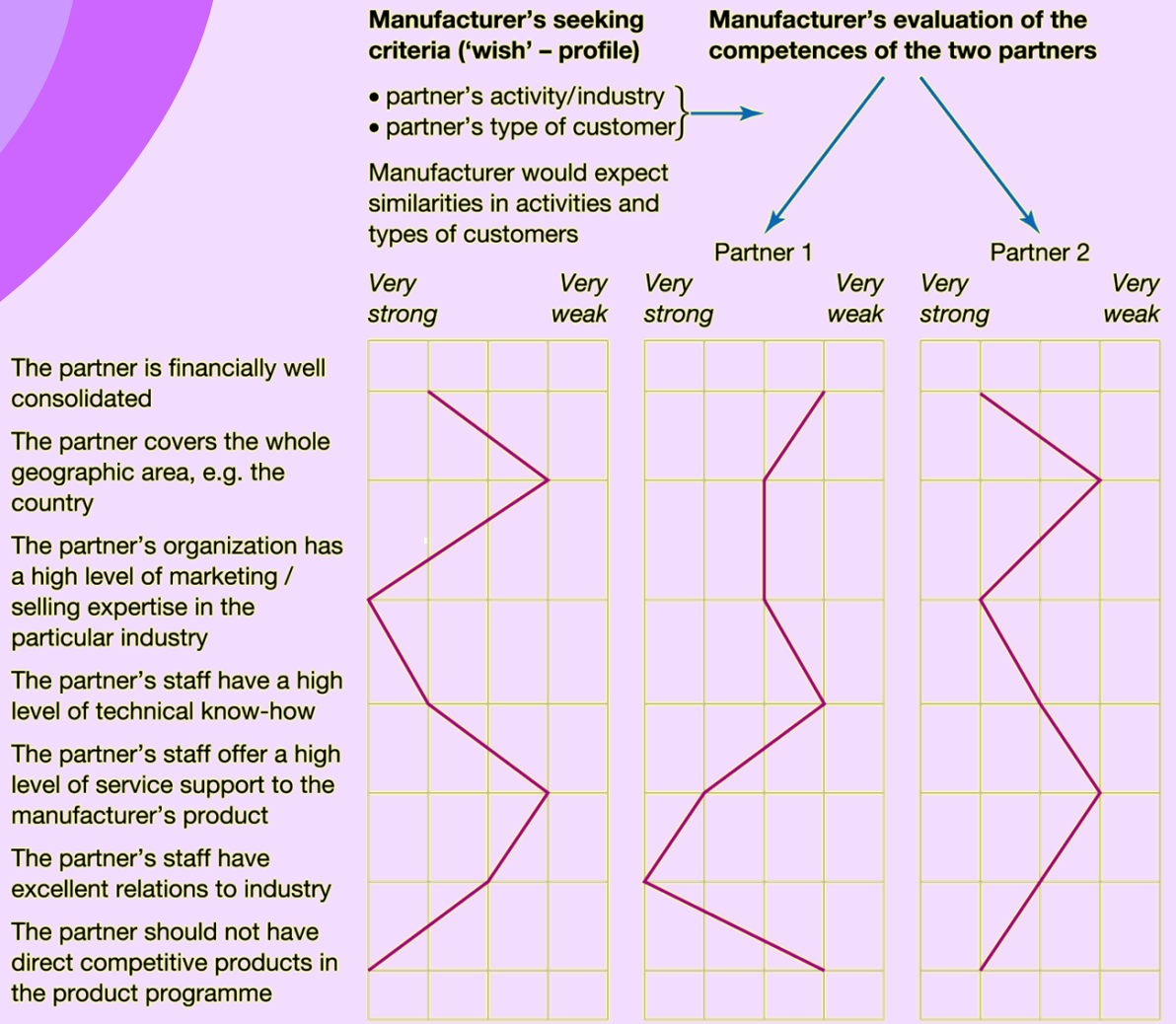


Figure 10.2 An example of matchmaking between a manufacturer and two potential distribution partners

What to look for in an intermediary

- Size of firm
- Physical facilities
- Willingness to carry inventories
- Knowledge/use of promotion
- Reputation with supplier, customers and banks
- Sales performance record
- Cost of operations
- Overall experience
- Knowledge of English or other relevant languages
- Knowledge of business methods in manufacturer's country

EXHIBIT 10.1 Lofthouse of Fleetwood's (Fisherman's Friend) decision criteria when selecting new distributors



Fisherman's Friend is a registered trademark of Lofthouse of Fleetwood Ltd.

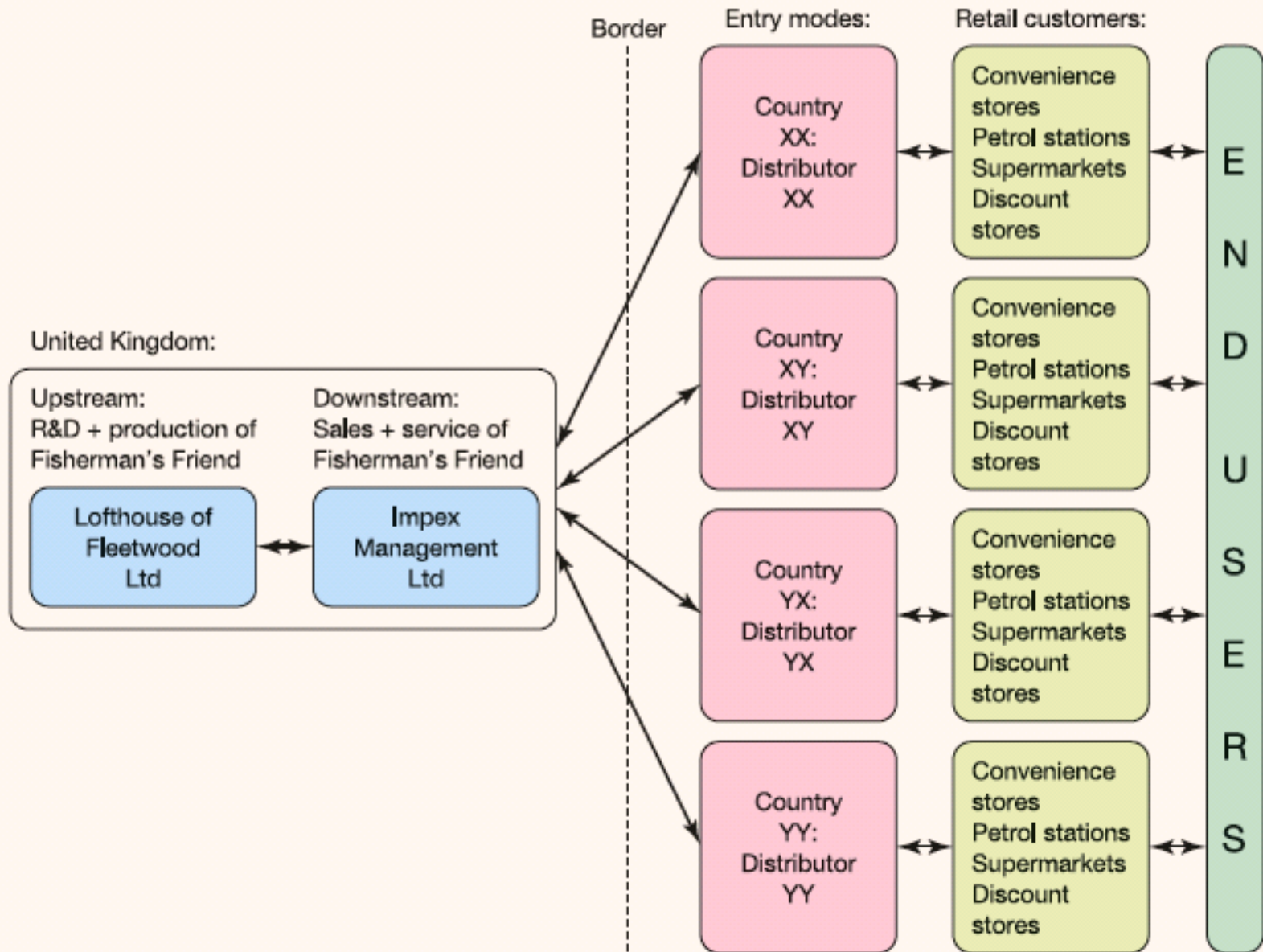


Figure 10.3 International distribution system of Fisherman's Friend

Fisherman's Friend: Criteria for selecting a distributor (1)

Among the criteria for selecting a distributor, Lofthouse and Impex have agreed on using the following:

- **Size:** Lofthouse wants a distributor to be small enough for Fisherman's Friend to have an important role and an adequate share of the distributor's total turnover and attention. Lofthouse prefers to be a big fish in a smaller pool. This needs to be balanced against the need to have a distributor big enough to have the right contacts to the retailers.
- **Products:** a distributor should be selling complementary product lines and have experience and suitable contacts in relevant product markets. They should not be handling direct competitors' products – Lofthouse wants exclusivity.
- **Organizational structure for sales:** the number of sales representatives and their coverage of the market (which geographical regions and types of retail channels are covered? How often?)

Fisherman's Friend: Criteria for selecting a distributor (2)

- Financial status: Lofthouse wants the distributor to be financially stable and secure.
- Culture and values: Lofthouse is looking for long-term relationships. Therefore it is important that the distributor has similar culture and values as Lofthouse.
- Family business: as Lofthouse is a family-owned business, they are looking primarily for distributors that are also family businesses.

Contracts with intermediaries

General provisions

Rights and obligations
of manufacturer

Rights and obligations
of distributor

1. General provisions

Identification of parties to the contract

Duration of the contract

Definition of covered goods

Definition of territory or territories

Sole and exclusive rights*

Arbitration of disputes

2. Rights and obligations of manufacturer

Conditions of termination

Protection of sole and exclusive rights

Sales and technical support

Tax liabilities

Conditions of sale

Delivery of goods

Prices

Order refusal

Inspection of distributor's books

Trademarks/patents

Information to be supplied to the distributor

Advertising/promotion

Responsibility for claims/warranties

Inventory requirements

Termination and cancellation*

3. Rights and obligations of distributor

Safeguarding manufacturer's interests

Payment arrangements

Contract assignment

Competitive lines*

Customs clearance

Observance of conditions of sale

After-sales service

Information to be supplied to the manufacturer

* Most important and contentious issues.

Source: Root, F. R. (1998) *Entry Strategies for International Markets: Second Revised and Expanded Edition*, pp. 90–91. Copyright © Jossey-Bass 1998. Reprinted with permission of John Wiley & Sons, Inc.

Principles of the law of agency

- An agent cannot take delivery of the principal's goods at an agreed price and resell them for a higher amount without the principal's knowledge and permission
- Agents must maintain strict confidentiality regarding their principal's affairs and must pass on all relevant information
- Principal is liable for damages to third parties for wrongs committed by an agent

Country market attractiveness

<i>High</i>	7. Get new partner	8. Grow partner	9. Consider integration
<i>Medium</i>	4. Get new partner	5. Grow partner ----- Maintain	6. Maintain position
<i>Low</i>	1. Consider exit	2. Maintain position	3. Consider alternative mode
	<i>Low</i>	<i>Medium</i>	<i>High</i>

Partner performance

Figure 10.4 International partner matrix

Agent entitlements upon contract termination

- Full payment for any deal resulting from its work
- A lump sum of up to one year's past average commission
- Compensation for damages to agent's commercial reputation caused by unwarranted termination

Functions of export marketing groups

- Exporting in the name of the association
- Consolidating freight, negotiating rates and chartering ships
- Performing market research
- Appointing selling agents abroad
- Obtaining credit information and collecting debts
- Setting prices for export
- Allowing uniform contracts and terms of sale
- Allowing cooperative bids and sales negotiation

Table 10.2

Advantages and disadvantages of the different export modes for the manufacturer

Export mode	Advantages	Disadvantages
<i>Indirect exporting</i> (e.g. export buying agent, broker or export management company)	Limited commitment and investment required. High degree of market diversification is possible as the firm utilizes the internationalization of an experienced exporter. Minimal risk (market and political). No export experience required.	No control over marketing mix elements other than the product. An additional domestic member in the distribution chain may add costs, leaving smaller profit to the producer. Lack of contact with the market (no market knowledge acquired). Limited product experience (based on commercial selling).
<i>Direct exporting</i> (e.g. distributor or agent)	Access to local market experience and contacts with potential customers. Shorter distribution chain (compared to indirect exporting). Market knowledge acquired. More control over marketing mix (especially with agents). Local selling support and services available.	Little control over market price because of tariffs and lack of distribution control (especially with distributors). Some investment in sales organization required (contact from home base with distributors or agents). Cultural differences, providing communication problems and information filtering (transaction costs occur). Possible trade restrictions.
<i>Export marketing groups</i>	Shared costs and risks of internationalization. Provide a complete product line or system sales to the customer.	Risk of unbalanced relationships (different objectives). Participating firms are reluctant to give up their complete independence.

CASE STUDY 10.1

Lysholm Linie Aquavit: international marketing of the Norwegian Aquavit brand

THE CONTENT OF THIS
BOTTLE HAS BEEN TO SEA
FOR 146 DAYS.
YOU'LL NOTICE AFTER A COUPLE OF GLASSES.



The content of this bottle has travelled around the world crossing the equator twice. This might sound as an exotic gimmick, but it's not. Sending the sherry casks containing Linie Aquavit to Australia and back on Norwegian ships is an old tradition. Furthermore it's the most important part of Linie's famous recipe. The length of the voyage, the constant rolling of the ship and the variation in temperatures combine in a unique maturation process making Linie the most exclusive aquavit in the world.

ARCUS
ARCUS
PRODUKTER AS

LINIE AQUAVIT. AROUND THE WORLD IN SHERRY CASKS.
ARCUS PRODUKTER AS. OSLO, NORWAY.
TEL. +47 2297 5500. FAX +47 2265 7338

QUESTIONS

1. What are the main advantages and disadvantages for Arcus of using export modes, compared to other entry modes, for its Linie Aquavit?
2. What should be Arcus' main criteria for selecting new distributors, or cooperation partners, for Linie Aquavit in new markets?
3. Would it be possible to pursue an international branding strategy for Linie Aquavit?
4. Which brand should be the major brand for the US market: Linie Aquavit or Vikingfjord Vodka?

CASE STUDY 10.2

Parle Products: an Indian biscuit manufacturer is seeking agents and cooperation partners in new export markets



QUESTIONS

1. Which region of the world would you recommend Parle Products to penetrate as its first choice?
2. What kind of export mode would be most relevant for Parle Products?
3. How could Parle Products conduct a systematic screening of potential distributors or agents in foreign markets?
4. What would be the most important issues for Parle Products to discuss with a potential distributor/agent before final preparation of a contract?

VIDEO CASE STUDY 10.3 Honest Tea

download from www.pearsoned.co.uk/hollensen

Questions

1. Discuss how its policies regarding social responsibility helps Honest Tea in its exporting efforts.
2. What research method would you recommend for selecting the most suitable agent in Germany?

Questions for discussion (1)

- Why is exporting frequently considered the simplest way of entering foreign markets and thus favoured by SMEs?
- What procedures should a firm follow in selecting a distributor?
- Why is it difficult – financially and legally – to terminate a relationship with overseas intermediaries? What should be done to prevent or minimize such difficulties?

Questions for discussion (2)

- Identify the ways to reach foreign markets by making a domestic sale.
- What is the difference between direct and indirect exporting?
- Discuss the financial and pricing techniques for motivating foreign distributors.
- Which marketing tasks should be handled by the exporter and which ones by its intermediaries in foreign markets?

Questions for discussion (3)

- How can the carrier and the rider both benefit from a piggyback arrangement?
- When a firm begins direct exporting, what tasks must it perform?
- Discuss the various ways of communicating with foreign distributors.

Questions for discussion (4)

- ‘When exporting to a market, you’re only as good as your intermediary there’. Discuss.
- The international marketer and the intermediary will have different expectations concerning the relationship. Why should these expectations be spelled out and clarified in the contract?