

Factors that influence a choice of distribution channels



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According to the Encyclopedia of business (n. d), distribution channels are pipelines through which goods and services flow from the producer to the end user i. e. the consumer. The distribution channel can be short and direct implicating, a direct flow from the producer to the consumer, or it can be an opus of several interconnected, independent but mutually dependent, intermediaries or middlemen. Each ancillary in the distribution channel receives the item at one pricing end and hands it over to the next higher pricing point until reaches the end user. Distribution channels vary globally, despite impending trends of economic intergrations. This is due to distinctive aspects unique to each country like consumer habits, political-legal framework, acquisition tactics of goods and services, classification of the country in the development scale, meaning if a country is developed or developing among other factors(ByGalicia, 2008).

European Distribution structure

The European Union consists of about 25 countries and they constitute about 45 % of the world's population according to Agard. J (n. d). With the formation of the European Union and the introduction of a common currency, the market segments have extended geographically consequently stretching out the distribution channels. However, with the biggest market in Europe, the allotment of goods and services is liberal and smooth compared to their regional counterparts. The process has been abridged with the formation of European development agencies that enable the transition of goods from the hands of local manufacturers to the international exploitation devoid of exploitation and inflated distribution costs. This is achieved through commission agencies and export companies along with creating trade associations with targeted foreign markets (Virtual advisor, 2000). With infrastructure as a key facet in the distribution process, the European market is conducive, investing in the use of technology which is considered imperative in any market in current times. The European Union market upon its initiation of the economic integration embarked on a mission to revamp its infrastructure and is popularly known as a ' high-technology market that places great value on delivery speed and reliability, technical support, customized products, and post-sales service' (Virtual Advisor, 2000). The mentioned factors along with the impeccable physical infrastructure witnessed in the European Union have helped in aiding the smooth and fast flow of goods and services in the extensive distribution channels. The Just-In-Time approach whereby actual orders provide an indication as to when the goods are to be manufactured has also been espoused. This in relation to distribution ensures low costs in terms of storage costs and build-up of stock

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that may become obsolete. Furthermore, this sophisticated technique of production ensures emphasis is given to delivering the goods effectively to the end user, as a result enhancing the process by dealing with the complexities that may arise.

North American Structure

The North American structure is the most reliable and advanced because the marketing experts in actual fact comprehend the channel structure and additionally, have researched on the channel configurations and the relationships that exist within it(Czinkota. M et. al). With the ongoing recession, North American businesses are constantly finding ways to reduce business operating costs hence the adoption of the direct store delivery dynamics, which entails optimizing and synchronization between the involved parties, mostly the manufacturer, to ensure delivery of goods and services is prompt and cost effective to everyone including the end user.

Russia and Eastern Europe

The distribution structure in Russia and Eastern Europe is exemplifies a lot of coercion. The most outstanding impediment is the infrastructure, which is dismal compared to the rest of Europe, which boasts perfect infrastructure. Domestic airways and motorways are still underdeveloped. However with the current wave of technological adoption across Europe, Russia has not been left behind though some remote areas of the country and Eastern Europe are still to experience the change for instance, the density of the postal network is yet to reach some areas due to complications in the payment methods.

Russia's growth in the marketing sector has been attributed to the increase of internet users, which is considered a great interactive tool between
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producers and consumer (Export Enterprises December, 2010). Corruption practices are also unbridled in the Marxist states. Most of the distribution businesses are government owned and are coupled with strict and unfair laws aimed at wiping out any competition and preventing foreign competitors from penetrating the market.

Japan

According to Kikuchi. T (1995), Japan was and still is the second largest economy and a global leader in industrial productions and other technological innovations. Its distribution channel is different considering the complexities attached to its “ cash cow” products. He asserts that the distribution channels are segmented per product, meaning there are no broad-spectrum wholesalers in Japan. This due to the product segmentation and also due to the fact that the market is flooded with so many retail outlets of minuscule size, specializing in different products. These results in a number of layers of wholesalers meaning some wholesalers vend goods to other wholesalers. Since Japan is considered a favorable financially viable ground, many markets are trying to infiltrate the market including large corporations from large American and other European countries. The case is the same for Japan corporations trying to do the same. Kikuchi. T (1995) explains that the established distribution channels in Japan is a classic and ‘ closed distribution system’ having been adopted centuries ago, and slightly revised to fit the current changes. He stresses that the Japanese trade practices are indiscernible and are structured with the intention of shunning down any new entries in their economy. In the current times, Japan has also been labeled calculating and defensive, with other economies mounting

pressure on Japan to 'let their guard down' regarding trade relations. The existence of critically disapproved large scale retail law has acted as an obstruction in the import sector, due to restrictions imposed on small scale retailers, barring them from selling imported goods.

Trends in distribution

Technological advances have transformed the world into a virtual village and distribution channel structures are shifting with effect to this. Information technology is enabling producers to interact first hand with consumers, through the introduction of e-commerce thereby shortening the channels.

Multinational corporations are targeting developing countries as their markets, despite the poor infrastructure. However the driving force for this is to cut on the production and operating costs associated with distribution.

Developing countries are characterized by cheap labour, conducive political and legal laws for foreign countries and cheaper export and import taxes e. g. some American industries in the food and textile market have shifted production bases into Asian economies due to less taxes and cheap labor.

Local and cross border alliances are also being formed to facilitate easier distribution of goods and in retrospect, curb logistics costs. Instead of using vertical distribution channels, many corporations especially in the food industry like Sainsbury in Europe which has restructured its supply chain network to take advantage of the economies of scale. This move will help them 'to take inventory out of the regional centers as the multi-retailer centers make more frequent deliveries possible without a corresponding increase in transportation costs' Ferrer. J(25 July, 2003).

Alternative middlemen

Home country middlemen-middlemen in the home market of the company

Export Management Company: important middleman for firms with relatively small international volume. In this case, home country middlemen are most likely to be used by firms that have low production volumes and are uncertain about the foreign markets. The middlemen can also offer investment, financial advice or licensing help regarding the distribution process in foreign markets.

Trading companies: accumulate, transport and distribute goods from many countries. Home country middlemen help firms that do not want direct contact with the foreign market due to complexities involved or lack of experience.

Complementary marketers/piggybacking-using another company's channels to go export products i. e. using a firm's identity or association to export products that are not necessarily owned by the firm or without the consumers knowing about the parent firm.

Manufacturer's Export agent (MEA): individual agent or firm providing a selling service for manufacturer's-these export agents oversee the dispatching of products to foreign countries, representing the firm but not taking title of the goods. They also assist in financing and shipping of products.

Home country brokers: Varieties of middlemen performing low-cost agent service . They oversee the basic functions of distributing goods locally. They

do not take title or responsibility for the goods and demand less commission compared to the others.

Buying offices entails sourcing companies that will prepare the exporting process as per the protocols laid down in the export rule. These functions include auditing of the goods and supplier, processing the required documents and booking of shipping room among other functions.

Export merchants buy goods from importers and repackage the bought goods, branding them with a new identity for re-sale

Export Jobbers aid exporters by establishing consumer trends and preferences, buying the goods abroad and selling them in the local markets. They also provide corresponding goods and services such as spare parts, maintenance and repair, with authorization from the original manufacturer.

Foreign-country middlemen -middlemen in foreign markets

Manufacturer's representatives-represent the producing company in another country. They do not take title ownership of the goods, nor are they liable for the goods. They strictly sell the goods without bearing any risk

Distributors: merchant middleman-According to the Citeman Network (n. d) these distributors have ' exclusive rights sale rights in the specific country and work in close cooperation with the manufacturer.'

Foreign country brokers: agents who deal largely in commodities and food products. According to the Citeman Network, foreign country broker's roles

are to uphold a good affiliation with the consumer and to provide fast and effective services in terms of delivery

Managing Agents- conducts business within foreign nation under exclusive contract to the parent company. The managing agents also known as compradors operate under an exclusive contract by the parent firm. They are entitled to some a share of the profit incases of a sales boom.

Dealers: anyone who has continuing relationship with a supplier in buying/selling goods. Dealers are attributed exclusive selling rights by the supplier of products in a pre-determined geographical area.

Import jobbers, wholesalers, retailers: facilitate exchange of goods between manufacturer and consumer.

Government affiliated middlemen-Political and legal systems and requirements exist in any distribution structure. Procurement of goods and services for government own use is done through public offices to ensure the set protocols are adhered to.

Reference(CiteMan Network September 9, 2010)

4) Discuss the factors affecting choice of channel. (25 % weight)

Cost-The cost approach strategy aims at ensuring that producers or manufacturers produce goods with cheap production costs but resulting in quality products that will ensure that they have a competitive advantage over their competitors in the market.

Capital requirement- Financial corollary is greatly considered when choosing a channel. Expenses arising from warehousing, transport, middlemen commissions among others are evaluated. This is to ensure that enough capital is available to facilitate consumer satisfaction through efficient and timely deliveries. This outcome is analyzed to determine if there is need to outsource the service of middlemen such as wholesalers or retailers.

Control-The selected channel choice should have freedom and ample power in their distribution activities in the selected market niche. This is to avoid exploitation and to ensure that the distribution of goods will not be averted to unstipulated channels.

Coverage-If the market covers a large geographical area, then the producer will have to opt for longer channels and vice versa in the case of small markets.

Character-The product characteristics are also considered for instance in the case of fast moving consumer goods (FMCG), producers go for shorter channels. Complex products especially in the manufacturing or information technology markets require shorter channels due to the need of skilled middlemen, with experience of handling such goods. Additionally, it must also fit the character of the company implying that some practices must be aligned to the existing practices of the company.

Continuity-Since the marketing sector is a dynamic area, longevity is more or less unexpected. If a company is planning to continue with their operations for long, they should seek channels which are reliable and create a business

rapport to ensure loyalty connections are made and most importantly
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maintained. This will prove valuable, in times of economic recessions where most middlemen tend to avoid distributing products that aren't bringing in profit.

Reference (CiteMan Network September 4, 2010)