

# Trade kings a zambia consumer company marketing essay



**ASSIGN  
BUSTER**

For a firm in its initial internationalisation, it will have to use indirect export strategies where it uses intermediary organisations that have the necessary experience in handling export sales on behalf of experienced or low level exporting organisations. As the firms export grows and the firm acquires knowledge in the export market including the preparations of the export documents, it may now opt to use the direct export strategy with less use of intermediaries

Most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties or redesign their products to suit different customer needs and expectations. A higher degree of involvement in the domestic market and the company may need a larger customer base to achieve economies of sale.

As Trade Kings expanded in Zambia, its marketing personnel was able to collect information on the potential opportunities in Malawi. It was actually observed that travelers going to Malawi had introduced the brand maheu there and was a popular brand. This information provided the basis for conducting formal market research which revealed that the brand would successfully sale in Malawi. The company eventually entered the Malawian Market in 2001 through an indirect export strategy.

## **LEARNING CURVE REQUIREMENTS**

Firms which intend a heavy future involvement might need to learn from the experience that close involvement in an overseas market can bring, some companies may not have any major resources and experience in

international trade. Trade Kings did not have any experience in international marketing as it was initially only selling its brands in Zambia.

## **RISKS**

Some risks such as political risks or the risk of the expropriation of overseas assets by foreign government encourages firms entering into overseas markets to pursue an indirect exports strategy as it is safer. On the other hand, the risk of losing touch with customers and their requirements would encourage a direct export strategy.

There is political stability in Malawi, Mozambique and South Africa and this provided opportunities for Trade Kings to enter these foreign markets. The lack of experience in export marketing meant that Trade Kings would have to use already experienced exporters, although it would not be in touch with the customers in these countries.

## **CONTROL NEEDS**

Control over the export operations, particularly over the marketing mix and the distribution channel varies between indirect and direct exporting strategies. Indirect export strategy offers virtually no control to the exporters.

Trade Kings had no control over indirect exporters. These were willing to sale on behalf of Trade Kings. However, Trade Kings later opted to use direct export strategy which allowed for greater control over its export operations in Malawi, Mozambique and South Africa.

## **HOW MANY MARKETS TO ENTER**

The company must decide how many foreign markets to enter and how fast to expand. The risk is the substantial resources needed and the difficulty of planning export strategies into many diverse markets. (Kotler 2004, Page 640).

## **EVALUATING POTENTIAL MARKETS**

It is important to evaluate the potential of several foreign markets. Many companies prefer to sell to neighbouring countries because they understand these countries better and can control their costs effectively.

Most Zambians are familiar with Malawi due to historical and political factors. Trade Kings would not find it difficult to enter the Malawian Market.

## **DECIDING HOW TO ENTER THE MARKET**

Once a company decides to target a particular country, it must determine the best mode of entry. Its broad choices regarding export strategies include an indirect export strategy and a direct import strategy.

A firm internationalizing for the first time has no experience in export documentation, lack local knowledge in the foreign market and valuable distribution contacts. Trade Kings had to depend on the experienced exporters. In this case it would have to use indirect export strategy.

## **EXPORTING STRATEGIES**

Exporting is the easiest, cheapest, and most commonly used route in to a new foreign market. Many firms become exporters in an unplanned haphazard and reactive way, simply by accepting orders from the potential

customers who happen to be based overseas. However it was common for a firm to take a proactive approach to exporting by the systematic planning and the identification and the selection of target markets for its exports. This gives rise to several advantages over those entry methods which require greater involvement in the overseas market.

### 3. 1 ADVANTAGES TO THE EXPORTER

3. 1. 1 The principal benefit is that the exporters are able to concentrate production in a single location, in order to achieve economies of scale and consistency of product quality.

Trade Kings would produce the Maheu brand and distribute it to its foreign markets in Malawi, Mozambique and South Africa. The demand as at now does not require the setting up of a plant in these countries. However Trade Kings is considering a plant in Malawi that will produce a range of consumer products similar to the ones produced in Zambia.

3. 1. 2 Firms lacking the know-how and experience can try internationalization on a small scale. Trade kings had started exporting maheu brand on a small scale until the brand gained popularity in 2002. The demand for the brand had increased in Malawi.

3. 1. 3 Exporting enables firms to develop and test their plans and strategies.

Trade Kings had to attain the learning curve effect and eventually was able to pursue a more expansionary export sales to Malawi, Mozambique and South Africa by pursuing direct export strategy.

3. 1. 4 Exporting enables firms to minimize their operating costs, administrative overheads and personnel requirements.

### 3. 2 INDIRECT EXPORT STRATEGY

#### 3. 2. 1 EXPORT HOUSES

Export house are firms which facilitate exporting on behalf of the producer.

There are three main types of export houses:

### **EXPORT MERCHANTS**

These act as export principals, they buy goods from a producer and sell them abroad.

Trade Kings was able to sell its maheu brand to export merchants in Lusaka who were exporting a range of consumer products in Malawi.

### **ADVANTAGES OF EXPORT HOUSES**

The producer gains the benefits of the export houses market knowledge and contacts. Trade kings was able to use a major export house ABC international export that was able to buy a range of consumer products from various suppliers in Zambia and transport them to Malawi, Mozambique and South Africa. As business continued with ABC company, Trade Kings acquired knowledge that was helpful in setting its own export market department.

Except in the case of export agents the producer is relieved of the need to do the following:

Finance the export transaction

Suffer the credit risk

Prepare export documentation

Trade Kings was not able to incur any promotional and distribution expenses. This was borne by ABC Company. All export documentation was done by the exporter.

In some cases export merchants receive preferential treatment from foreign institutional and organisational customers.

ABC International Exporters is a large company that has been in the export marketing of consumer products to Malawi including supplying goods to government institutions and organizations. It has developed strong relationships with valuable contacts in the country that it exports to.

## **DISADVANTAGES OF EXPORT HOUSES**

Ultimately, it is not the producer but the merchants decision to market a product and so a producer is at the Merchants mercy.

At this time the merchant was buying less Trade Kings brand in preference to their company brands.

Any goodwill created in the market usually benefits the Merchant and not the producer.

As with all intermediaries, an export house or Merchants might service a variety of producing organization. An individual producer cannot rely on the Merchants exclusive loyalty.

Trade kings brands has created strong loyalty in Malawi, However ABC Company was not effectively marketing the brand. It was also over -pricing the brand leading to lower sales. The exporter also was also increasing stock of Trade Kings Competitor. This lead to the creation of Trade Kings export marketing department.

Export houses are not normally willing to enter into long term arrangements with a producer.

Trade King had entered with a 2 (two) year contract with ABC International Exporters as they did not want a 5 (five) year contract initially. However as demand for the brand increased in Malawi, the exporter wanted a long term contract.

Trade Kings entered in to contract with a specialist export management firm, International Distributors Limited, a specialist export Consultancy and logistics firm.

## **DISADVANTAGES OF SPECIALIST EXPORT MANAGEMENT**

The drawbacks of using the specialist export managers include:-

As the export manager is an independent organisation, it can leave the producer's service and the producer will have gained as inhouse expertise.

The contract was not renewed because the international distributor firm lacked the resources to fully exploit the foreign markets.



As the producer does not learn from experience of exporting, this may adversely affect future options by restricting those available.

The Trade Kings did not benefit any export knowledge from the distributors as all export management functions were done by the firm.

The specialist export manager may not have sufficient knowledge of all the producers in the market.

International distributors proved to lack adequate knowledge in the foreign markets in which Trade Kings could increase its sales.

### **3. COMPLIMENTARY EXPORTING**

Complementary exporting or piggy back exporting occurred when one producing organisation referred to as the carrier uses its own established international marketing channels to market the products of another producer referred to as the rider as well as its own.

### **ADVANTAGES OF COMPLIMENTARY EXPORTING**

There are advantages to both the carrier and the rider as follows:

The carrier earns increased profit from a better use of distribution capacity and can sell a more attractive product range.

The rider obtains entry to a market at low cost and low risk.

Trade Kings did not use this mode of indirect export strategy.

## **4. TURNKEY CONTRACTS**

Turnkey contracts may also provide opportunities for complementary exporting. A single firm engaged in a particular project overseas such as construction, petroleum refining, pharmaceutical and civil engineering projects will often acquire products and services from other firms in the home country for the project. (Hill 2005, page 485)

Trade kings did not use much of indirect export strategy.

## **DIRECT EXPORT STRATEGY**

Direct export strategy occurs where the producing organisation itself performs the export tasks rather than using an intermediary. Sales are made directly to customers overseas who may be wholesalers, retailers or final users. Sales may increasingly be made via e-commerce on the internet.

As the volume of sales increased and a forecast of demand showed that Trade Kings brand were steadily growing including detergents, candles, match ticks. Sweets, snacks and bathing soaps. Marketing in this environment is similar to the marketing in the domestic market, although there are the added problems of distance product regulations language and culture. (Hill, 2005 Page 488)

## **OVERSEAS AGENCIES**

Overseas export agent is an overseas firm hired to effect a sales contract between the principal (i. e the exporter) and a customer. Agents do not take title of goods, they earn a commission.

Trade Kings entered into a contract with Malawi export agent, Malawi export Limited.

## **THE ADVANTAGES OF OVERSEAS AGENTS**

An exporter may use overseas agents due to the following reasons:-

They have extensive knowledge and experience of overseas market and the customers.

Malawi Export Limited, an indigenous local firm, large importer was able to increase the sale of trade Kings products.

Their existing product range is usually complementary to the exporters. This may help the exporter penetrate the overseas market. Unlike ABC international exporters who were able to stock Trade Kings Competitors brands.

The exporter does not have to make a large investment outlay. Trade Kings did not have to spend resources in building a depot and managing it. This was all done by the Malawi Export Limited.

The political risk is low

Malawi export Limited is an indigenous Malawian firm and has vast local knowledge and local contract. It is able to withstand any political challenges in Malawi.

## **DISADVANTAGES OF USING OVERSEAS AGENTS**

The disadvantages of using overseas agents and these are:

An intermediary's commitment and motivation may be weaker than the producer's. The Malawi export Limited was still able to market others brand by different suppliers and was based towards brands whose turnover was very high compared to Trade Kings brands.

Agents usually want steady turnover using an agent may not be the most appropriate way of selling low volume, high value goods with unsteady patterns of demand, or where sales are infrequent.

Trade Kings brand were of average turnover and Malawi Export Limited failing to meet the expectations of Trade Kings. This led to the formation of a Trade King's branch office in Malawi. This would also deal with Mozambique and South Africa.

Many agents are too small to exploit a major market to its full extent. Many service only limited geographic segments.

As a market grow large it becomes less efficient to use as an agent. A branch office or subsidiary company will achieve economics of scale.

The demand for the Trade king brands kept on growing since 2004 and management had to commit its resources in developing an overseas branch office in Malawi.

A careful analysis was done by Trade Kings prior to the selection of the Malawi Export Limited Company to act as an overseas agent for the Malawian market.

## **COMPANY BRANCH OFFICES ABROAD**

A firm can establish its own office in a foreign market for the purpose of marketing and distributing its product.

### **ADVANTAGES OF A COMPANY BRANCH OFFICE**

The advantage of Company's branch office in setting its own distribution office, a firm may have the following advantages:

When sales have reached a certain level branch offices become more effective than agencies.

A Trade King Branch was finally opened in the capital city, Lilongwe in Malawi on 1st June, 2005 with most staff being Malawians.

Sales performance will improve as the commitment and motivation of a producer's own staff should be more effective than those of an agent.

Trade Kings Staff were committed to ensure that they attained the sales targets. The level of motivation was high leading to surpassed sales targets in 2006, this lead to the expansion of the branch to also effectively manage sales in Mozambique.

The producer retains complete marketing control. Trade Kings had now a strong presence in Malawi and in Mozambique. The branch was now able to pursue aggressive marketing of Trade Kings brands through advertising campaigns, sales promotions campaigns and participation in trade exhibitions in Malawi and Mozambique.

## **DISADVANTAGE OF COMPANY BRANCH OFFICES ABROAD**

Trade Kings experienced the following drawbacks when it set- up firm setting an overseas Company branch in Malawi

Higher investment overhead and running costs are entailed.

There can be a political risk particulaly expropriation of assets.

The firm will be subject to local staff legislation which it may not welcome.

## **CONCLUSION**

Mode of entry has implications for the distribution channel. Although in domestic markets firms often give some control over distribution to intermediaries this problem is magnified in international terms. Trade Kings later experienced distribution problems through its indirect export strategy in Malawi. The distributors had earlier on provided Trade Kings with higher sales. However it started to over stock a range of products from various competing firms. This led to a decline in Trade Kings maheu brand despite the product having established brand loyalty on the Malawian market.

It can be observed that, for many overseas operations means they are forced into the aims of intermediaries even though this may not be the ideal means of the satisfying the needs of the end consumers.

Trade kings enventually had to opt for investing directly in the Malawian market through a direct export strategy.