Sales and Distribution Management
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Lecture – 40
International Sales and Channel Management

[FL] Today, we will be beginning with the last lecture of our course on Sales and Distribution Management and this is lecture 40, where we shall be speaking about International Sales and Channel Management.

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And, the various topics which we shall be covering in this particular lecture are first we will introduce how you know the sales and distribution management becomes relevant and important in international markets, then we shall be discussing that why should companies want to enter international markets, why should they study international markets before entering them.

How do they go about selecting an international market, what are the different modes of entry into international markets, and then we shall be speaking about you know selecting international channel partners, little bit about international logistics and we should also be talking about you know certain documents which are used international trading and which become which hold a lot of relevance whenever there is any kind of entry made by an organization into international markets.

So, let us first begin with why does sales and distribution become the sales and distribution management become even more relevant in the case of international markets.

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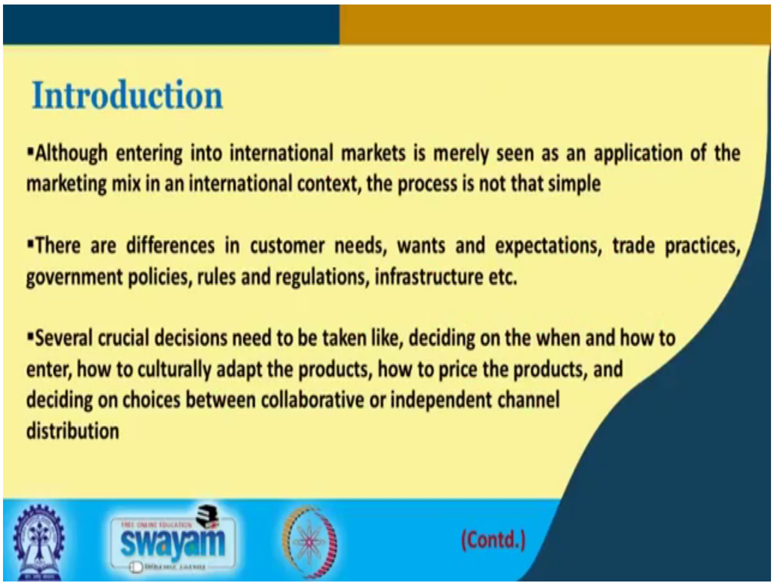

Now, all 3 although entering an international market or a new market abroad is merely seen as an application of the marketing mix and the four piece and the marketer would generally believe that if he can adapt it four piece in a good way or his marketing mix in a good manner, he would be able to succeed. Well, this is not so and the process is not that simple. So, although entering international markets is merely seen as an application of the marketing mix into in the international arena the process is not that simple.

There are lot of differences across countries with respect to customer needs, wants, preferences, trade practices, government policies, rules, regulations etcetera and all of these must be taken into account before companies decide to venture into foreign markets. Very crucial decisions need to take a need to be taken like, deciding on when and how to enter, how to culturally adapt to the product, how to go about pricing, how to go about you know deciding on the distribution and channel and deciding on choices between collaborative or independent channel distribution and how to go about the promotion make.

So, while companies decide to enter international markets the process is not simple because it would mean an entirely new mix to be framed or to be designed and very important and crucial decisions need to be taken with respect to you know the timing of entry, the mode of entry and also with respect to collaborative and independent channel distribution especially in the case of our subject of discussion, which is international sales management.

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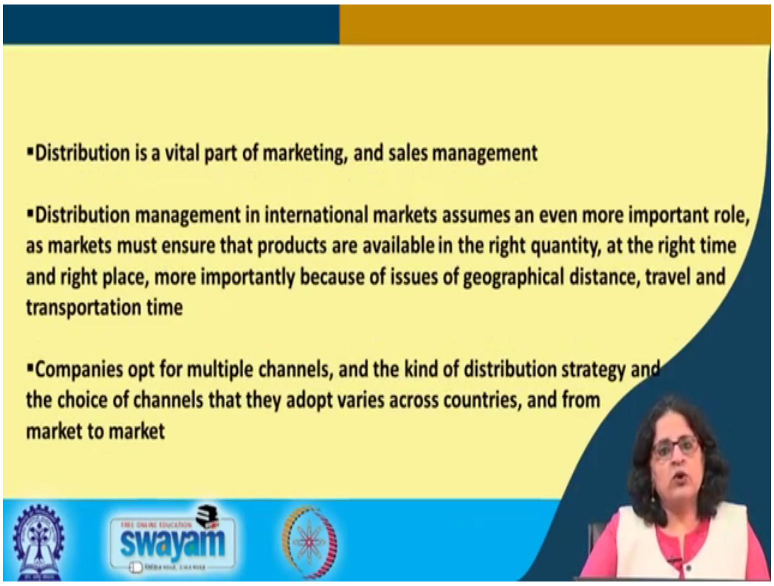

Now, what is an international market? Now, an international market is a market which is outside the territorial boundaries of a company's own domestic or entities market and entering into the international market or a foreign market is actually you know trying to expand marketing operations across national borders of a country. So, when companies decide to go multinational or go international they basically enter into these international markets and they expand their marketing operations across the national boundaries you know of a country they move beyond their own country and move internationally.

Now, according to the American Marketing Association international marketing is the is the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas goods and services to create exchanges that satisfy individual and organizational objectives. So, the very traditional definition of marketing gets changed in the context of in the international marketing and which is defined as the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas goods and services to create exchanges to set that satisfy individual and organizational objectives.

Now, as we all know distribution is a vital part of marketing and of course, of sales management and distribution management in the international market assumes an even more important role as marketers must ensure that products are available at the right price at the you know and at the right in the right quantity at the right time and at the right place. And more importantly because when we talk about international markets and when we talk about the company venturing into foreign markets, there are issues about of geography called distance, travel and transportation time.

So, the very you know fundamental of ensuring that the right kind of product is available in the right quantity at the right time and at the right place assumes even more importance because there are issues with respect to physical distance their issues with respect to travel and the transportation time and companies must take it must be very careful to ensure that the distribution channel is planned in such a way it is designed in such a way that the customer is able to get the right product at the right time at the right place and at the right price.

Now, companies opt for multiple channels, and the kind of distribution strategy and the kind of channels that they adopt or the choice of channels that they adopt varies across countries, and from market to market. So, the kind of a distribution strategy a particular company may have for a country in Asia may be very different for a comp for a country in Africa or in Australia. And, even within Asia the kind of strategy that it has for one country in Asia would be very different to another you know another country in Asia itself.

So, within the continent across the continents there a huge amount of differences of which need to be taken care of and accordingly the distribution channel needs to be designed you know keeping in mind the target market characteristics, keeping in mind the sales potential in the curve in the country, keeping in mind competitors and keeping in mind at the socio-economic political consideration. So, you know distribution channel management becomes very very relevant and very very important in the context of the international arena and these decisions must be very very very carefully made.

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Now, why do companies want to enter international markets? Now, there are large number of reasons why companies get attracted to enter international markets. In fact, after gaining a strong foothold over the domestic markets, most companies explore towards entering international markets. And, there are large number of reasons for this, one, in most companies today face saturation of domestic markets because a lot of competitors exist in the domestic markets and lot of multinationals and foreign players also enter the domestic market and their own domestic market and so, they have find a lot of competition both with the domestic players as well as with the multinationals who enter their country.

Also, foreign markets offer immense opportunities and a huge scope for growth when a company has reached a saturation level in the domestic market and hence international market service very attractive markets they seem to be very lucrative and profit profitable for many companies and they use these international markets to supplement the profits earned from the domestic market.

So, there is a great deal of saturation which we see today in domestic markets. Most companies face tremendous competition because are not only because of the domestic players involved, but also because of imports in their respective countries and foreign markets offer immense opportunities and a huge scope of growth when the company has reached it is saturation level in the domestic market and hence international markets serve as very lucrative markets profitable markets for many companies for supplementing the profits earned from the domestic markets.

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Now, other reasons are capturing new markets internationally helps companies gain cost advantages. They could also those countries could act also act as a source of raw material and which was available at cheaper prices. In case of excess capacity which cannot be absorbed locally companies again seek markets abroad. And, entering new markets is also used by companies as a strategy to minimize the amount of risk which they face because of excessive competition in the domestic markets.

International markets help companies diversify and expand business to new territories and they all you know the companies who opt for international marketing also are able to build a good brand image for themselves in international markets as well. And, the rapid advancement in technology today has as it is made it easy for companies to enter international markets and reach out to customers across the globe.

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Now, why should companies need to study international markets before entering them? Now, this is very very important you know that companies you know study foreign market or you know the socio-economic political environmental conditions in foreign markets before entering them and this is something which is which is an exercise which should be undertaken much ahead of before deciding to go ahead with an entry into the foreign market.

Now, why should the companies do this? Now, this is because the huge number of differences in customer expectations across countries. Customers of no two countries will be alike and their perception you know with respect to products, with respect to brands, as well as their motivations for purchase will all vary. Customer expectations vary, customer needs wants and preferences also vary and so, their perception towards products, towards services as well as the reasons underlying purchase also vary.

Differences exist with respect to government rules, regulations, policies, procedures and a thorough understanding of this is also very very necessary before a company decides to enter a foreign market. Trade practices also vary across countries and how players operate in the market will vary from one country to the other and this needs to be understood and analyzed in a very you know carefully, so that it can be understood whether an entry into the market or a foreign market would be profitable or would be viable or not.

Further the difference in the physical infrastructure you know the quality of the physical infrastructure also affects business which might not be the same in two countries and so, it is very very important that infrastructure issues also need to be taken care of because in no two countries infrastructure will be the same, quality of infrastructure will differ and this will affect business and so, companies must also understand you know differences with respect to physical infrastructure.

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Now, how do companies go about selecting in international markets? Now, companies should be very very careful while making decisions with respect to entering a foreign market as a lot of time and money can go waste if a wrong decision is made it. Entering a new market means a huge investment with respect to infrastructure, with respect to manpower; with respect to you know investments in financial investments etcetera.

And, in case there is a failure this it can negatively affect the image of the company and of the brand. So, it is very very carefully you know companies must decide to actually a venture into foreign markets and there are many factors which must be taken into consideration while selecting in a national market like the market size, the pricing, the market structure, the language of the people in the host country, availability of raw materials, cultural perspective, human resources, availability laws and regulations, currency rates and fluctuation as well as political risks.

So, let us discuss each one of these one by one.

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Now, let us first come to the market size. Now, the market size is indicative of the potential you know of the sales potential in a particular country and it is indicative of the scope of the company to sell its products and services in international market. Companies must take into consideration that, the larger market is, the larger the sales potential is, the higher would be the competition because other competitive players would also be eyeing at the same territory.

Apart from the market size, other factors which need to be taken care of or the socio-economic and cultural dimensions, as well as the demographics of the population in terms of the age makes the gender makes the literacy levels the per capita income etcetera because all of these have a bearing upon customer needs wants and preferences as well as their intentions and actual purchase.

The second thing, which companies must take into mind when selecting an international market is pricing. Now, pricing is an important factor that must be considered the company intending to international market must decide you know very carefully, they must assess the cost and decide on the pricing dynamics accordingly.

The demographics of the population special specifically the disposable income levels of the residents of the country must be taken into consideration because this will have an impact on their saving patterns, on their spending patterns on their expenditures etcetera. So, this is again which can have a you know impact on the price sensitivity of the people and accordingly companies will have to decide on the price dynamics so that they are able to make this. So, that can ensure that keeping in mind the cost, they are able to fix a price which will be able to give them enough profits.

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Next is the market structure. So, the competitors operating international markets and similar product categories must also be taken into account. It becomes very important for a company to understand the product lines offered by the competitors, the prices of the competitors, the distribution strategies, the promotional programs, financial positions, market share etcetera. And, the existing customer base of the comp competitors operating in the territory also is an important factor that needs to be taken care of.

Another factor which needs to be taken care of when companies decide to enter of enter a particular foreign market is the language of the host or language of the people in the of the host country. Now, marketing is about communicating and it can only happen effectively when there is an understanding of language between the two parties or the buyer and the seller or between a company and the customer.

And, language plays a very very important role in establishing a connect between the brand name and the product positioning by a company. So, it is very very important that language is taken care of. In fact, you know company should ensure that the brand names are in no way you know hold double meanings or in no way are culturally offensive to you know people in the host country or in the country where they are you know thinking of expanding.

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Availability of raw materials is again another important factor that needs to be taken care of. Before entering international market a company must ensure that the required raw materials can be procured in the right quantity and at the right price in the foreign country, especially if the company is into production and manufacturing is and is going to set up its own production and manufacturing base in the foreign in the foreign country. The cost of raw materials should not exceed the designated costs for the company.

The cultural perspectives are at most important it is very important to understand the cultural components of a foreign country culture lays the foundation of the product features and the attributes and lies at the core of the marketing communication with customers. So, culture we all know influences needs, wants, preferences; it influences product usage, it influences peoples tendency towards price sensitivity, as well as communication styles and methods.

So, a poor understanding of culture can lead to resentment from customers in a foreign country and it can prove to be highly costly for a company leading to heavy losses. So, it is very very important that companies understand the cultural elements of the foreign country before deciding to make an entry into those foreign markets.

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Human resources: Now, before entering a foreign market and establishing a base there, a company must ensure that skilled human resources are available. We all know manpower are the most important assets for an organization and are a pre-requirement for smooth functioning of any company the laws and regulations again are something which needs to be given attention to and very very serious attention to.

Laws will vary from one country to another, and it is important to know and understand the do's and do not's for each of those countries. It is important to know the policies, the procedures, as well as the rules, regulations regarding investments, manufacturing, production, marketing, taxation, profit repatriation, safety, employment, pollution etcetera.

So, before entering and international market is important that, the company fulfills all the legislative requirements with respect to entry and operations in the foreign land. All necessary licenses must be obtained and required registration forms must be complied with or completed and filled and submitted and approvals obtained before production and marketing activities are initiated by the company.

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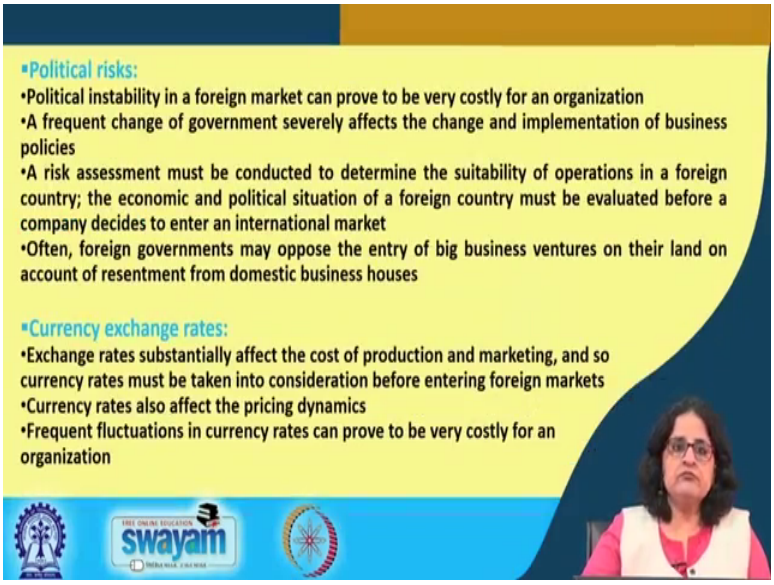

Very very importantly companies must also take care of the political risk. A political instability in a camp in a country can prove to be extremely expensive for an organization. A frequent change of organization which brings in frequent change in policies and procedures and rules and regulations is something which no company would want and so, most companies will avoid such countries where there is a frequent change of government and there is political instability.

A risk assessment must be done to determine the suitability of operations in a foreign land, the economic and political situation of the foreign country must be evaluated before the company decides to enter a particular market. Often, foreign in governments in fact, may oppose an entry because they may feel that they may be resentment from their domestic business houses and so, before a company decides to enter it must ensure that it has carefully studied the laws of the land, it has analyzed the political risks, understood the legal framework and the legislative machinery and then entered and approved and received approvals and then makes an entry.

Currency rates again are to be taken care of. Exchange rates substantially affect the cost of production and marketing and so, currency rates must be taken into consideration before entering a foreign land. Currency rates affect pricing dynamics and the frequent fluctuations in currency can again proved to be very costly for an organization. So, wherever there is any kind of a political or economic instability it is always wise to go in for a thorough analysis before deciding to enter such markets.

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Now, how do companies enter markets? Now, there are several modes of entry of you know which are available as alternatives for companies to enter foreign markets. Companies have for now various options to choose form. They may export through a local agent or through a foreign agent or export to a foreign importer or distributor or set up a local office in that particular country or opt for licensing and franchising or they may you know set up joint ventures or they may set up wholly manufactured wholly owned manufacturing units.

Now, the choice and structure of the distribution channels and the channel partners depends upon the sales potential, the sales volume, the nature of the product, then it kind of competition that exists, the legal and regulatory framework etcetera.

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But, companies could have different options to choose from they to start with they could go for indirect exporting. Now, in this case the company acts as a third party supplier and it will operate by selecting an importer in the foreign country who further sells the products of the company. It is a price sensitive strategy in the sense that you know the local agent would also or the importer would also look for you know sellers who would be able to sell them price a product at the least prices.

So, it is a price sensitive strategy, but the benefit is that the importer knows how to sell to customers in his own local market and in addition this minute this particular method also limits down the growth perspective of the supplier who does not have to go out of the way to set up an established basis in the foreign country and can easily do so with the help of a third party supplier or a importer.

The second option which companies can go for is direct exporting which helps marketers enter foreign markets with a low cost minimum risk strategy. In the case of direct exporting, the company directly supplies the products to customers in foreign markets. Again, this is again a price sensitive strategy as customers will want to always buy from those who sell at a minimum price.

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Now, we come to licensing and franchising. So, another option which companies can have for, you know, as a mode of entry to foreign market is licensing and franchising. Now, licensing involves a fee payment by the licensee in key in exchange for the use of a brand name or a company name or a patent or a trademark and franchising involves the same except that in addition the franchise a provides help to the franchisee. He decides on standards of standardized operating procedures and guidelines which the franchisee must actually adhere to.

Now, licensing and franchising allow companies to minimize that initial investment in a foreign country. The model is also helpful for companies to develop a better understanding of the country and it is people before they make you know huge investments into foreign lands.

The other option which, another option, which companies can have in the form of joint ventures; a joint venture is like forming a partnership with a local player. The local partners knowledge of the market of the people you know in the country helps in better adapting to the needs of the foreign market by this particular you know company and it also helps adopt a sound and suitable marketing and communication strategy while dealing with customers.

So, in case a company decides to enter into you know to actually enter you know the foreign land as a joint venture and forms partnership with the local players, the local player would have a better idea about the customers in that country about their needs wants preferences etcetera and this local partner would be able to help the company to adapt to adapt his fours piece to suit the needs and wants of the people there and it would the local partner would also be help, I would also be able to help you know add the help the company adopt a sound and suitable marketing and communication strategy while dealing with the customers.

Another option or alternative is the companies can have to enter foreign lands is through direct investment. Of course, this is one of the costliest ways of entering a foreign market and it sets it involves setting up the whole business in a foreign country just like the way it is done in a domestic country. So, in this method the company exercises full control over a international operations and you know that the amount of risk is high investment is high, but control is maximally exercised because the company is on its own going to set up it is business just like the other way it sets up in its own country in the foreign land.

Also the company exercises full control with respect to its operations, with respect to its processes, procedures and manufacturing operations.

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Now, how do companies go about selecting international channel partners? Now, companies has again either could of go as a follow or could adopt a market based choice rather than a company based choice or they could go for a company based choice rather than a market based choice.

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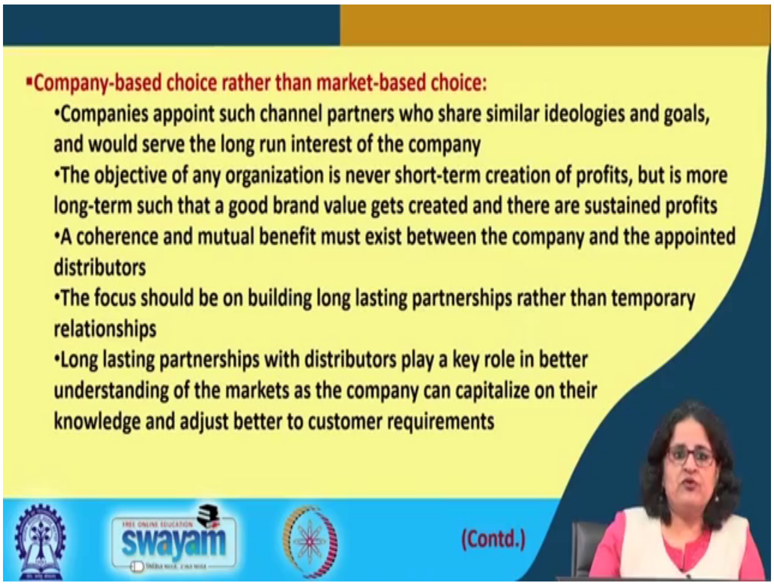

So, let us just discuss what each of these two is. Now, when we talk about a market based choice what we are trying to see is that our companies often ask potential customers to provide details of their preferred suppliers and the names that are provided by the potential customers are chosen as distribution partners. We see this is very very commonly in the B to B scenario, but the problem is that often the companies get names of such suppliers or such distributors and they end up selecting such who are already the who are also the competitors distributors.

So, of course, the advantage is that these distributors have better knowledge of the markets and they will be able to deal with the customer better. But, again these the distributors may or may not provide adequate attention to the new entrant and this could be a challenge. The other option which companies could opt for is a company based choice other than the market based choice, where the companies appoint such channel partners who share similar ideological you know ideologies and the goals and would serve the serve the company in the long run.

So, companies the objective of the organization is never short term creation of profits, but is more long term such that the good brand value gets created and there are sustained profits. So, what companies look for is appointing such channel partners who share similar ideologies and goals and would serve the long term interests of the company. A coherence and mutual benefit must exist between the company and the appointed distributors.

And, the focus has to be on building and maintaining long term relationships long term partnerships rather than temporary relationships. Long lasting partnerships with distributors play a key role in better understanding of the markets as the company can capitalize on the knowledge and on the experience of these you know channel partners and they can better adjust to the customer requirements.

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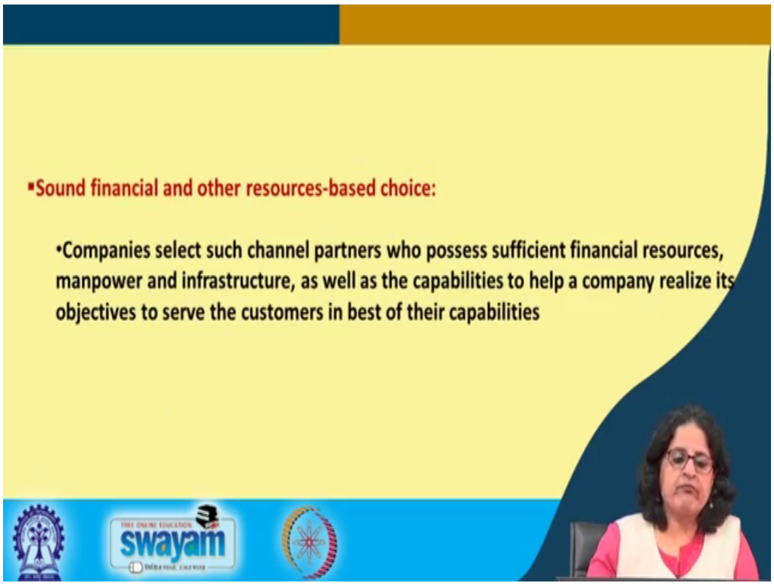

Companies also look for sound financial and other resources in their channel partners. One of the key determinants which one of the key we key factors which they look for while selecting channel partners is the financial condition of the channel partner and he is you know the and the kind of infrastructure which is available with him.

So, companies select such a channel partners who possess sufficient financial resources manpower and infrastructure as well as the capabilities to help a company realize its objectives and to serve the customers better with the best of capabilities. So, sound financial or other resources are another determinant which companies use to select their channel partners.

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Now, we discuss a little bit on international logistics. We have discussed logistics in the previous classes as well. So, while logistic management decisions are crucial for an organization they assume even greater importance in the context of international distribution management and this is again because of the physical distance as well as the complexities because of currency variations and exchange rate variations, transportation infrastructure and transportation modes, packaging as well as a cross border trade regulations.

So, logisitics may be used as a competitive tool and this would involve close collaborations and partnerships between customers and suppliers and again technologically advanced information systems infrastructure for warehousing and storage transportation information systems etcetera.

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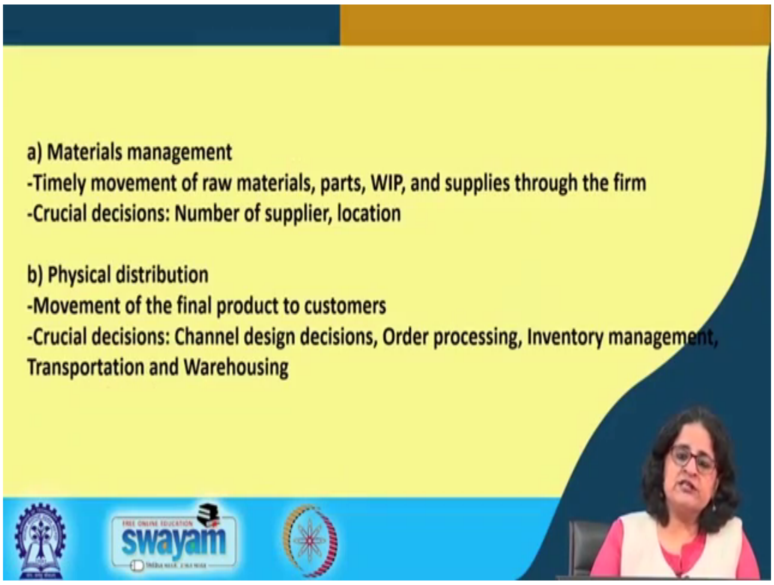

So, the two things that need to be taken care of here are materials management and physical distribution. Material management would involve the timely movement of raw materials, parts, Work In Progress, and supplies through the firm. And, the crucial decisions here are with respect to the number of suppliers, who are available, the location etcetera.

And, physical distribution relates to the movement of the final goods through the customers. Again, the crucial decisions here with respect to channel design decisions, order processing, inventory management, transportation and warehousing.

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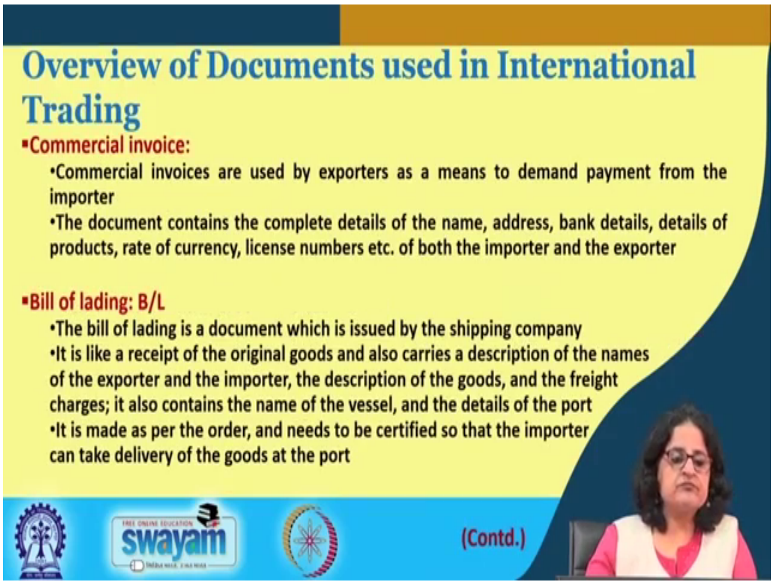

Now, lastly let us come and this is come to a discussion on you know the documents which are used international trading. There are about few documents which need to be prepared and submitted you know either at the at the customers end or at the port or you know while entering a particular country with the foreign office there, international office there in that country. So, these are things which need to be taken care of.

The first document is the commercial invoice. Now, commercial invoices are used by the exporters as a means to demand payment from the importer and the document contains the complete details with respect to the name, the address, the bank details, the details of the products, the rate of currency, the license numbers etcetera of both the importer as well as the exporter.

The second is a bill of lading which is also the BL. Now, the bill of lading is a document which is used which is issued by the shipping company. And, it is like a receipt for the original goods and also carries the description of the names of the importer and the exporter, the goods which are being transported and the freight charges, it also contains the name of the vessel and the details of the port from where it is being shipped and to where it has to reach. It is made as per to order, and needs to be certified so that the importer can take delivery of the goods at the port.

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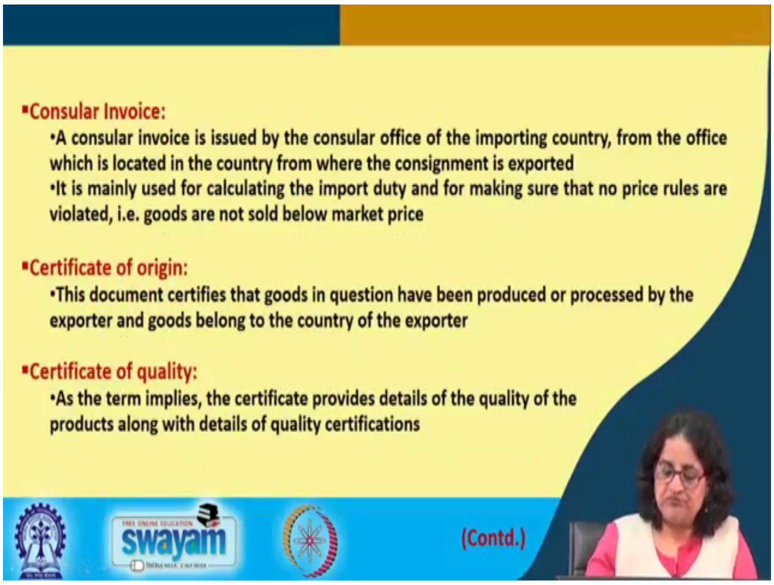

Consular invoice is issued by the consular office of the importing country of the importing country, from the office which is located in the country and from where the consignment is exported. It is mainly used for calculating the import duty and for ensuring that no price tools are violated and goods are not sold below market price.

We also have something called the certificate of origin and the certificate of quality. A certificate of origin is a document that certifies that the goods in question have been produced or processed by the exporter and the goods belong to the country of the exporter. On the other hand, the certificate of quality as the term implies is a certificate which provides the details of the quality of the products along with the details of quality certifications.

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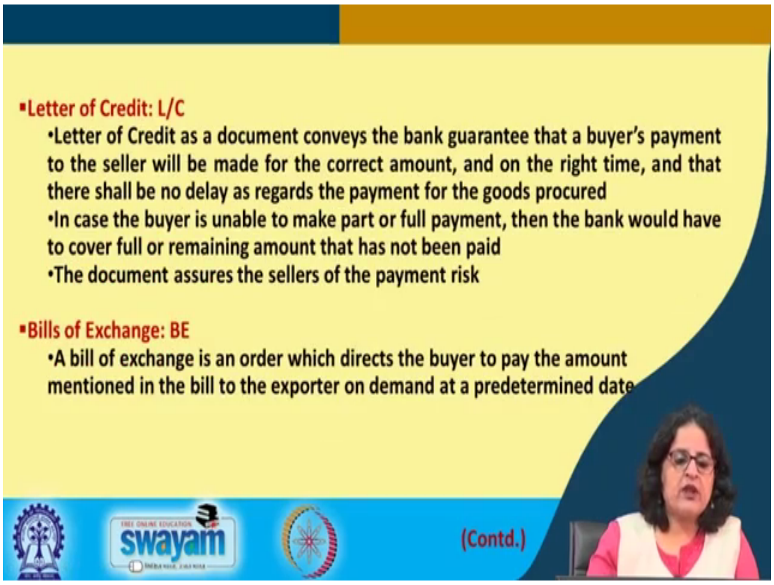

The LC or the letter of credit: now, the letter of credit is as a document conveys the bank guarantee that a buyers payment to the seller will be made for the correct amount and on the right time and that there shall be no delay as regards the payments for the goods procured. In case the buyer is unable to make the payment either in part or in full then the bank will have to make the payments and it will have to cover full or remaining amount that has not been paid. The document again here ensures the seller of the payment risk.

There is another document which is the bills of exchange or the BE. Now, a bill of exchange is a order which directs the buyer to pay the amount mentioned in the bill to the exporter honored on demand at a predetermined date.

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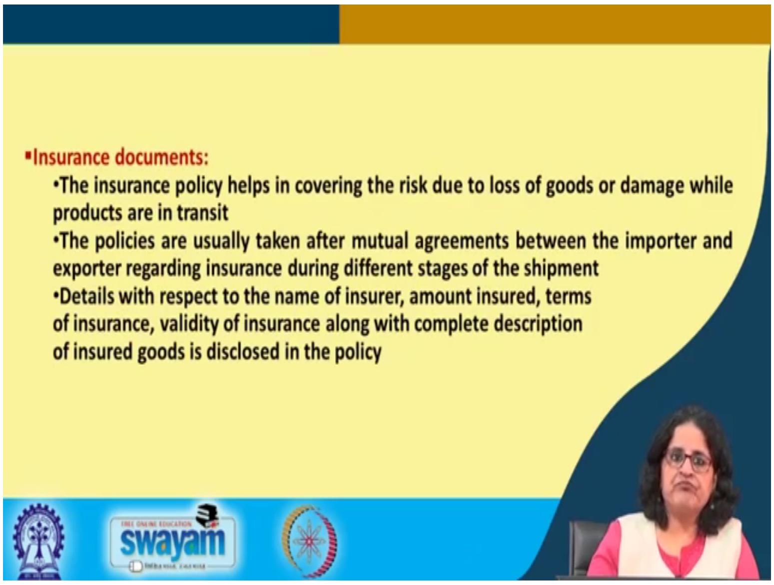

Finally, there are the insurance documents. Now, the insurance policy helps in covering the risk which may which may occur which can be you know which might occur due to the loss of goods or damage while the products are in transit. Now, the policies are usually taken after mutual agreements between the importer and exporter regarding insurance during different stages of the shipment have been arrived at.

Details with respect to the name of the insurer, the amount insured, the terms of insurance, the validity of the insurance along with complete description of the insured goods is disclosed in the policy and is it abided by the both parties and the insurance company.

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With this we come to an end of this lecture. The references are Still, Cundiff and Govoni Sales and Puri, Sales and Distribution Management 2017, Pearson India. Havaldar and Cavale, Sales and Distribution Management 2017, McGraw Hill and Panda and Sahadev, 2011 and 12 Oxford University Press.

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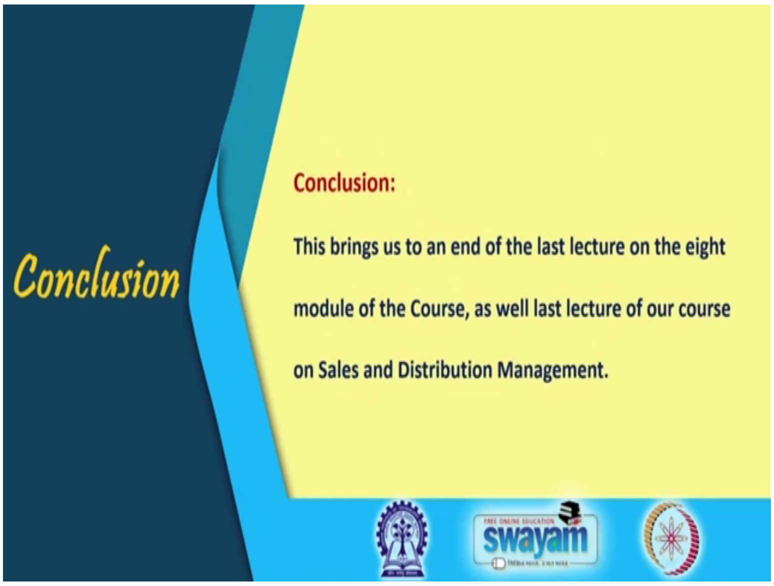

So, with this we bring we come to an end to you know the last lecture on the eight module of the course, and as well as the last lecture of our course on Sales and Distribution Management.

Thank you.