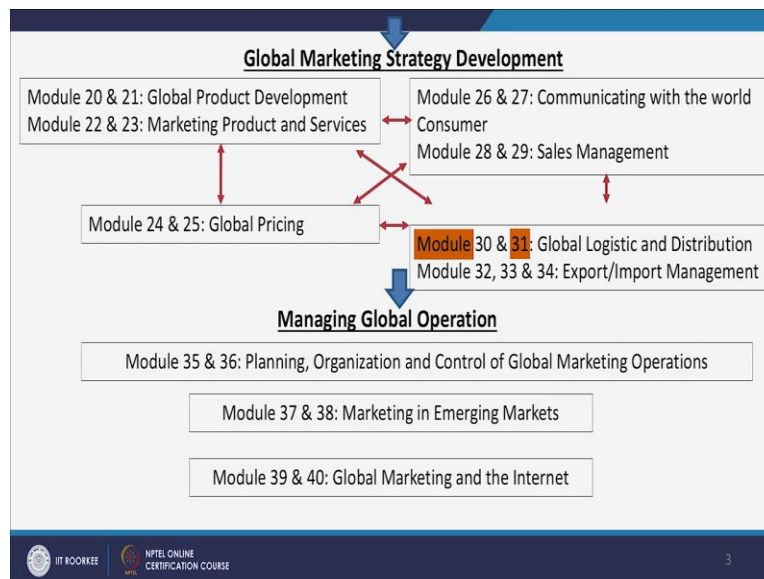


**Global Marketing Management**  
**Prof. Zillur Rahman**  
**Department of Management Studies**  
**Indian Institute of Technology- Roorkee**

**Lecture – 31**  
**Global Logistics and Distribution – Part II**

Welcome to global marketing management and we will continue with the discussion on global Logistic and distribution that we were talked about in module 30

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And in module 31 also we will continue with the same discussion.

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## Module Overview

1. Introduction
2. Definition of Global Logistics
3. Managing Physical Distribution
4. Managing Sourcing Strategy (continued)
5. Free Trade Zones
6. International Distribution Channel
7. International Retailing
8. Conclusion

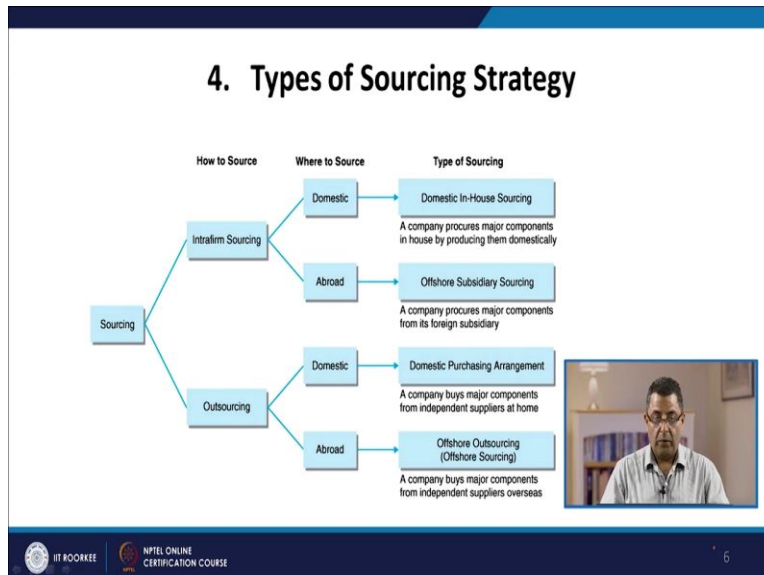
Already Discussed in Module 30



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So, you see that in module 30 we have talked about the definition of global logistics and managing physical distribution and also about managing Sourcing strategy. So, we will continue with the managing of the Sourcing strategy and then we will talk about the free trade zones, International distribution channels and retailing.

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This is what we had talked about in the last module so this is in house domestic outsourcing that we have we can have outsource subsidiaries Sourcing, Domestic purchasing arrangements and offshore outsourcing so these are the 4 types of sourcing strategy that are available to any global company.

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## Managing Sourcing Strategy: Intra-Firm Sourcing

- Multinational companies can procure their components in-house within their corporate system around the world.
- Trade takes place between a parent company and its subsidiaries abroad, and also between foreign subsidiaries across national boundaries. This is often referred to as **intra-firm sourcing**.
- If such in-house component procurement takes place at home, it is essentially **domestic in-house sourcing**.
- If it takes place at a company's foreign subsidiary, it is called **offshore subsidiary sourcing**.



Multinational companies can procure their components in house within their corporate system around the world. So, trade takes place between the parent company and subsidiary abroad and also between foreign subsidiaries across the national border. So, it can be between two substances which are across the border and this is often referred to as a intra firm Sourcing. Now this intra firm Sourcing is one of us is one of the biggest contributor to the international trade that we have talked about in the first module.

So, if such in house component take place at home it is essentially called as domestic in house sourcing and if it takes place has a company's foreign subsidiary level it is called as out source subsidiary sourcing so these is all about intra firm sourcing.

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- About 30 percent of **U.S. exports** is attributed to U.S. parent companies transferring products and components to their affiliates overseas.
- About 40 percent of **U.S. imports** is accounted for by foreign affiliates exporting to their U.S. parent companies.
- **Source:** United Nations Center on Transnational Corporations, Transnational Corporations in World Development: Trends and Perspectives (New York: United Nations, 1988).




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About 30% of the US exports are attributed to US parent company transfer in products and components to their affiliate overseas. Now you see that 30% of the total export is intra firm. About 40% of US imports is accounted for by foreign affiliates exporting to their US parent company companies. So, now this you see what are the major components of exports and imports and the data has been taken from here that is United Nations International corporations.

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### Managing Sourcing Strategy: Outsourcing (Contract Manufacturing)

- A drift in the US corporate strategic emphasis from manufacturing to finance and marketing was evident in 1970.
- As a result, manufacturing management gradually lost its organizational influence.
- Production managers' decision-making authority was reduced so that R & D personnel prepared specifications with which production complied and then marketing personnel imposed delivery, inventory, and quality conditions.
- In a sense, production managers gradually took on the role of outside suppliers within their own companies.



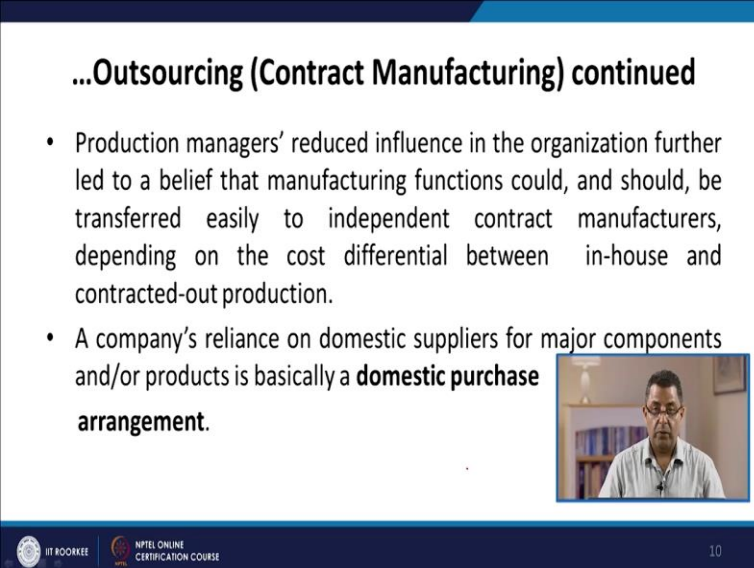
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Another types of Sourcing strategy is that we have seen is outsourcing or contract manufacturing a drift in the US corporate strategic emphasis from manufacturing to finance and marketing war became evident in 1970. As a result manufacturing management graduate lost is lost its

operational influence. Production manager's decision making authority was reduced so that R and D personnel prepared specifications with which production complied.

And then marketing personnel in post delivery in delivery inventory and quality conditions in the sense production manager gradually took on the role of outside suppliers within their own firm and that was because the production as the function was reduced in its importance in the whole seems of things.

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**...Outsourcing (Contract Manufacturing) continued**

- Production managers' reduced influence in the organization further led to a belief that manufacturing functions could, and should, be transferred easily to independent contract manufacturers, depending on the cost differential between in-house and contracted-out production.
- A company's reliance on domestic suppliers for major components and/or products is basically a **domestic purchase arrangement**.

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So, production managers reduced influence in the organisation further led to a belief that manufacturing function could or should be transferred easily to independent contract manufacturers depending on the cost differential between in house and contracted out production. So, all this production function was outsourced to someone who was doing it is at a lesser cost. So, the company's reliance on domestic suppliers for major components and of product is basically a domestic purchase arrangement.

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### ...Outsourcing (Contract Manufacturing) continued

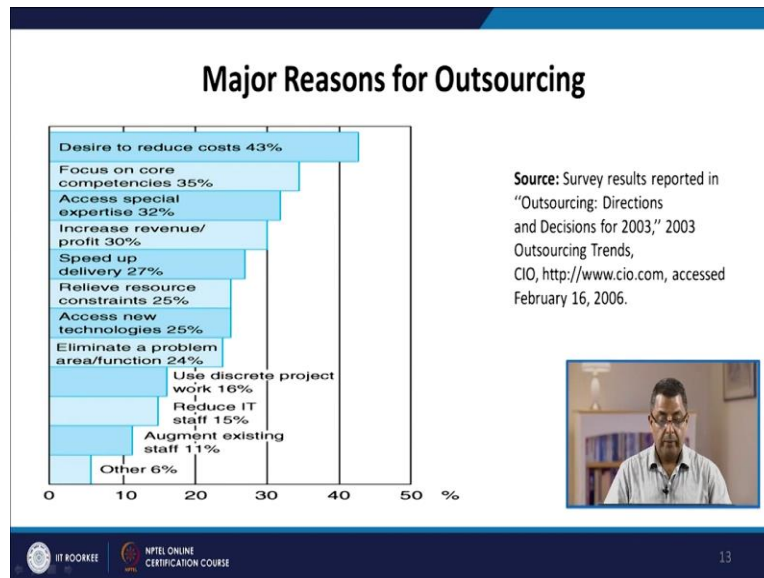
- In order to lower production costs under competitive pressure, U.S. companies turned increasingly to outsourcing components and finished products from abroad, particularly from newly industrialized countries including **Singapore, South Korea, Taiwan, Hong Kong, Brazil, and Mexico.**
- Initially, subsidiaries were set up for production purposes (i.e., offshore subsidiary sourcing), but gradually, independent foreign contract manufacturers took over component production for U.S. companies.



In order to lower production cost under competitive pressure US companies turned increasingly to outsourcing components and finished products from abroad particularly from newly industrialized countries include in Singapore, South Korea, Taiwan, Hong Kong, Brazil and Mexico. Initially subsidiaries setup for production that is Offshore Subsidiary Sourcing but gradually independent foreign contract manufacturers took over component production for US companies.

So, initially it was from within the subsidiary from home subsidiary sourcing but then slowly independent foreign contract manufacturers who had further cost advantage cost effectiveness so that they took as manufacturers. This phenomenon is known by many times usually called Offshore Outsourcing or more casually as Outsourcing. For example Apple Dell and Gateway outsource 100% off the laptop computers from Quanta computer Inc that is which is a Taiwan is company and the world's largest maker of laptop. Dell computers alone account for half of its sales. So, it is that the restraints of 50% of the sales come from Dell and the rest of the 50% come from Apple, Gateway and some other brands.

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These are some of the major reasons for outsourcing first stage and the four most the most important one as the percentage shows is the desire to reduce cost and the desire to reduce cost is because of because of the increase competition and change in technology, reduce product life cycle. Another important reason for outsourcing is focus on core competencies so 35% of the time companies want to focus on core competence and outsource all the other activities.

Another reason is access special expertise it means to access some expert that is not available within the company and it is available outside. So, access special expertise is yet another reason for outsourcing. Increasing in revenues or profits so on the first and there was there is a desire to reduce cost and on the other hand there is also a desire to increase revenues and profit. But the reduction cost is more important as compared to increasing revenues and profits. Then another reason for outsourcing which is to speed up the delivery process and relief sourcing constraint resources constraint.

So, the constraint that goes into it, so the company wants to free up those resources and therefore they going in for outsourcing. Another reason that is sighted for outsourcing is access to new technology. So, as the technology life cycle is coming down, as new technologies are coming in. So, obviously a company will not have will not like to spend lots of money in buying new technology. So, in order to gets access to new technology day going for outsourcing.



And yet another reason is to eliminate a problem area for the function for that that was a problem area for them they were not able to cope up or solve that problem so that is why they have outsourced it.

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**Hollow Corporations: Outsourcing continued**

- Procurement from independent foreign suppliers (i.e., offshore outsourcing) affects the *domestic employment* and *economic structure* and sometimes also raises *ethical issues*.
- Companies using such a strategy have been described pejoratively as **hollow corporations**.
- It is occasionally argued that those companies are increasingly adopting a “designer role” in global competition by offering innovations in product design without investing in manufacturing and process technology.



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Now this brings up to us to another very important concept that is of Hollow Corporation. Procurement from independent foreign suppliers Offshore Outsourcing affects the domestic employment and economic structure and sometime also raise ethical issues like whether the workers are being paid properly, what are the working conditions where these people work. So, company using such a strategy has been described as Hollow Corporation.

They do not have anything but then they are still a company. It is occasionally argued that those companies are increasingly adopting a designer role in global competition by offering innovations in product design without investing in manufacturing and process Technology. So, these are just designing companies and that is why they are called as Hollow Corporation because all kind of manufacturing is being done by someone else.

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## Hollow Corporations: Outsourcing continued

- For example,
  - At least 80 people died and another 100 were seriously injured when a garment factory collapsed in **Dhaka**, Bangladesh in 2004. The factory made sweaters for European retailers **Carrefour** and **Zara**.
  - These people were working in unsafe conditions to produce goods for consumers in the West.



For example at least 80 people died and another 100 was seriously injured when a garment factory collapsed in Dhaka Bangladesh in 2004 the factory wait sweaters for European retailers Carrefour and Zara. These people were working and unsafe conditions to produce goods for consumers in the in the west and they have to work in unsafe conditions because the companies they are working for, they want to be in business and they have quoted very low prices on which they will supply the sweaters to Carrefour and Zara.

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## 5. Free Trade Zones (FTZs)

**A free trade zone (FTZ)** is an area that is located within a nation (say, the United States), but is considered outside of the customs territory of the nation.

- The use of FTZs has become an integral part of global sourcing strategy as they offer various tax benefits and marketing flexibility on a global basis.
- In the United States, a free trade zone is officially called a **Foreign Trade Zone**.



Another concept that we will talk about in this module is that of free trade zone. So, we have talked about free trade zones earlier also. Now we will look at the free trade zone from different perspective. Free trade zone is an area that is located within the region within the country say is

United States but is considered outside of the Customs Territory of the nation. So, it is physically within the country but for the purpose of customs, it is considered to be outside the country.

So, that is only notional. The use of FTZ have become an integral part of global sourcing strategy as they offer various tax benefits and manufacturing flexibility on a global basis. In the United States of free trade zone is officially called as foreign trade zone. So, they are officially called as foreign and not as domestic. And they have several advantages regarding text benefits and manufacturing and marketing flexibility.

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**...Free Trade Zones continued**

- US FTZ's are licensed by the **Foreign Trade Zone Board** and operated under the supervision of the **US Customs Service**. Presently, some 700 FTZ's are in operation. Across the US, about 3,35,000 jobs are directly related to activity in FTZ's.

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US, FTZ's are licensed by the foreign trade zone board and operate under the supervision of the US customer service. Presently some 700 FTZ are in operation across the US, about 335000 jobs are directly related to the activity in FTZ's.

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### ...Free Trade Zones continued

- Legally, goods (including materials, components, and finished products) shipped into an FTZ in the United States from abroad are legally considered not having landed in the customs territory of the United States and thus are not subject to U.S. import tariffs, as long as they are not sold outside the FTZ in the United States.



Legally, goods that includes materials component and fresh products shipped into an FTZ in the United States from abroad are legally considered not have not having landed in the Custom Territory of the United States. So, physically they are considered they are in United States but they are not considered within the custom territory. And these are not subject to the US import tariffs as long as they are not sold outside the FTZ in the United States.

So, they come in US, physically they stay within this FTZ which is considered to be outside the custom territories so they do not attract any kind of import duty and they can be shipped from FTZ to some other country or if they are shipped within the United States then they will attract the custom duty otherwise they can be shipped to other countries without attracting any kind of import duty. So, the basic advantages is that will give rise to lot of employment within the US.

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## Benefits of Using a Foreign Trade Zone (FTZ) in the United States

1. *Duty deferral and elimination.* Duty will be deferred until products are sold in the United States. If products are exported elsewhere, no import tariff will be imposed.
2. *Lower tariff rates.* Tariff rates are almost always lower for materials and components than for finished products. If materials and components are shipped to an FTZ for further processing and finished products are sold in the United States, a U.S. import tariff will be assessed on the value of the materials and components, rather than on the value of the finished products.
3. *Lower tariff incidence.* Imported materials and components that through storage or processing undergo a loss or shrinkage may benefit from FTZ status as tariff is assessed only on the value of materials and components that actually found their way into the product.
4. *Exchange rate hedging.* Currency fluctuations can be hedged against by requesting customs assessment at any time.
5. *Import quota not applicable.* Import quotas are not generally applicable to goods stored in an FTZ.
6. *"Made in U.S.A." designation.* If foreign components are substantially transformed within an FTZ located in the United States, the finished product may be designated as "Made in U.S.A."



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So, the benefits of using a free trade zone in United States as well as in any other country can be first is due to duty deferral and elimination. So, the duty will be deferred until products are sold within the country, if products are exported elsewhere no import tariffs will be imposed. Another is this FTZ may also have lower tariff rates, so tariff rates are almost always lower for materials and components then for the finished product because the value added in material component is less as compared to the finished product.

If material and components are shipped to an FTZ for further processing and finished goods are sold within inside the country that is domestically then the import tariff will be assessed on the value of the material of the component rather than the value of the finished goods because the landed item was the material and the component. So, import tariffs will be levied on material component and not all the finished goods and when there when they are levied on material materials and components the rates are lower as compared to other finished products.

Lower tariff of incidence, imported material component that through storage or processing undergo a loss or shrinkage may benefit from benefit from FTZ status as tariff accessed only on the value of material and component that actually found their way into the product. So, many of them, the component and material they may that may go waste because of the manufacturing process that is not used to access the duty.


Then it can also give benefit of exchange rate hedging by currency fluctuation can be hedged against by requesting custom assessment at anytime. So, when the time is more suitable than the then the company can ask for request for custom assessment. In FTZ, import quotas are not applicable, so import quota are not generally applicable to goods stored in FTZ and then they can also use made in USA or made in Europe or made in Japan, Made in India designation.



So if foreign components of substantially transformed within the FTZ is it located within the country the finished product may be designated as made in USA or Made in India or made in Japan.

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### Example of Aging Imported Wine: FTZ continued

- A **U.S.** wine importer purchases what is essentially **newly fermented** grape juice from **French** vineyards and ships it to an FTZ in the United States for **aging**.
- After several years, the now-aged French wine can be shipped throughout the United States when an appropriate U.S. import tariff will be assessed on the original value of the grape juice instead of on the market value of the aged wine.
- If tariff rates are sufficiently high, the cost savings from using an FTZ can be enormous.



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Let us look at the example of aging imported wine, a US wine importers purchases what is essentially newly fermented grape juice from French vineyards because this French vineyards are known to have a; known to grow very good grapes and ship and then it shipped to and FTZ in United States for aging now this newly fermented grape juice is kept in US for aging. After several years the now aged French wine can be shipped throughout the United States when an appropriate us import tariffs will be assessed on the original value of the grape juice instead of on the market value of the aged wine.

So, now you see that can make a huge amount of difference in the prices and if tariff rates are sufficiently high the cost saving from using an FTZ can be enormous.

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**...Free Trade Zones continued**

- All parties to the arrangement benefit from the operation of trade zones.
- The **government** maintaining the trade zone achieves increased investment and employment.
- The **firm** using the trade zone obtains a beachhead in the foreign market without incurring all costs normally associated with such an activity. As a result,
  - Goods can be reassembled, and large shipments can be broken down into smaller units.
  - Duties could be due only on the imported materials and the component parts rather than on the labor that is used to finish the product.



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All parties to the arrangement benefits from the operations of a trade zone. So, that the whole idea of the FTZ activities all stakeholders they get benefit out of it. So, the government maintaining the trade zone achieves increased investments and employment. The firm use the trade zone using the trade zone obtain a beach head in the foreign market without incurring all cost normally associated with such an activity.

So, for the advantage of the firm is that it will be in that country without incurring all kind of cost involved. As a result goods can be reassembled and large shipments can be broken down into smaller shipment. So, various components can be brought into the FTZ and that they can then be reassembled so large shipment can be broken down into smaller unit. Duties could be due only on the important material and the components rather than on the labour that is used to finish the product.

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## Variants of FTZs

- In addition to free trade zones, various governments have also established export processing zones (EPZ), special economic areas (SEA) and special economic zone (SEZ).
- **India** was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in **Kandla** in **1965**.
- EPZs are industrial estates which form enclaves from the national customs territory of a country and are usually situated near seaports or airports.



And then come the various variants of FTZ this ft that they come in various forms. The various governments have also established export processing zones or special economic areas. So export processing zones are also called as EPZ and special economic areas are also called as a SEA and then there are special economic zone that is SEZ. India was one of the first in Asia to recognise the effectiveness of the export processing zone model in promoting exports with Asia's first EPZ setup in Kandla in 1965.

So, you see that India started with this concept as early as 1965. EPZ are industrial states which form enclaves from the national custom territory of a country and are usually situated near the seaport or the airport. So that the cost of transportation of these materials- raw material and components within the country, it decreases. The entire production of EPZ is normally intended for exports.


EPZ are provided with well developed infrastructure facility so that the cost is kept low. In India the major objectives of EPZ that are: the first is to earn foreign exchange then to generate employment opportunities and to facilitate transfer of technology by foreign investment and by other means and to contribute to the overall development of the economy. So, when all of the above happens it will lead to overall development of the economy.


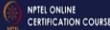
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## SEZ (Special Economic Zone) in India

- To overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000.
- It was followed by SEZ Act 2005.





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To overcome the shortcomings experienced on account of the multiplicity of control and clearances absence of world class infrastructure and an unstable physical region and with a view to attract large for investments in India is special economic zone policy was announced in April 2000 it was followed by SEZ act in 2005. So, now you see that the government of India has been giving so much importance to special economic zones because of the various benefits associated with them.


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## SEZ (Special Economic Zone) in India

**EPZ v. SEZ:** In the SEZ there will not be any inspector raj and once commodities go in, no body will ask any question until they come out.

The **main objectives** of the SEZ Act are:

- generation of additional economic activity
- promotion of exports of goods and services
- promotion of investment from domestic and foreign sources
- creation of employment opportunities
- development of infrastructure facilities

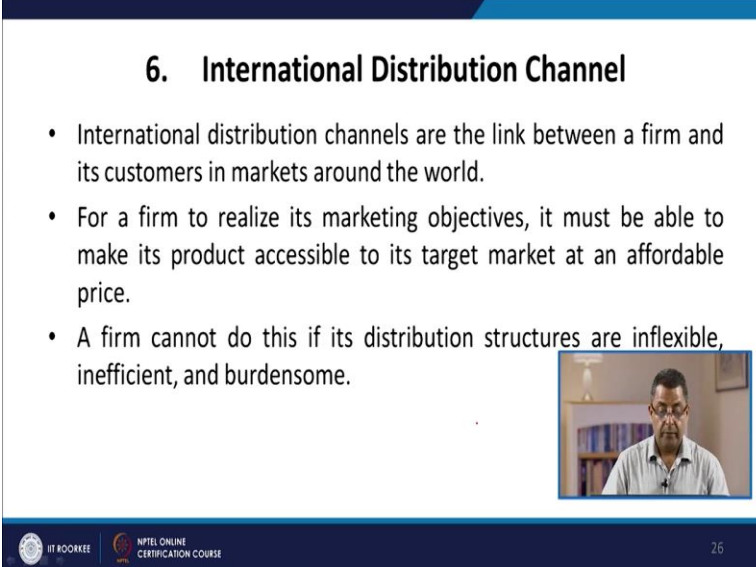




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Now let us look at EPZ versus SEZ what is what is what. In the SEZ there will not be any Inspector Raj and once the commodities go in nobody will ask any questions until they come out. The main objectives of this SEZ act are generation of additional economic activity, promotion of


exports goods and services, promotion of investments from domestic and foreign sources, creation of employment opportunities and development of infrastructure facilities.

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**6. International Distribution Channel**

- International distribution channels are the link between a firm and its customers in markets around the world.
- For a firm to realize its marketing objectives, it must be able to make its product accessible to its target market at an affordable price.
- A firm cannot do this if its distribution structures are inflexible, inefficient, and burdensome.



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Next in that we will talk about in this module is the international distribution channel. International distribution channels are the link between the firm and its customer in market around the world. For a firm to realize its marketing objectives, it must be able to make its product accessible to target market and that too at an affordable price. A firm cannot do this if its distribution structure is inflexible inefficient and burdensome.

So, if the distribution system does not cater to, does not look after the company's strategy and objectives then it becomes difficult for the company to realize its marketing objective.

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### ...International Distribution Channel continued

Companies have **two options** when it comes to configuring their international distribution systems:

1. A firm may decide to sell direct to its customers in a foreign market by using its own local salesforce or through the internet. E.g. **Dell**
2. A firm may decide to use the resources of independent intermediaries, most often at the local level. E.g. **Hewlett-Packard (HP)**



Now company has two options when it comes to configuring the international distribution system. The first option is that the firm may decide to sell directly to its customers in foreign Market by using their own sales force or through the internet. So, that is the example of DELL but for others of firm may decide to use the resources of independent intermediaries and which are most often at the local level for example HP. So, within the desktop of the laptop and computers market you can find both these options.

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### ...International Distribution Channel continued

**Dell & HP: Same personal computer industry but different distribution systems**

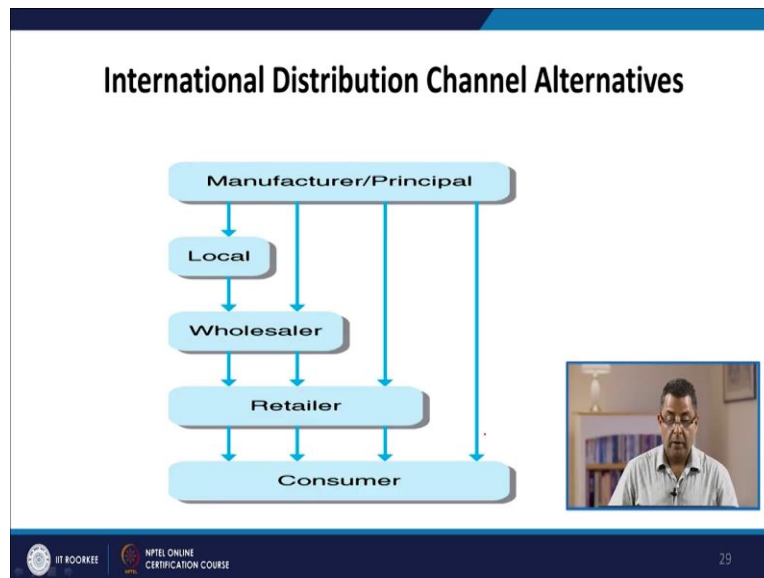
- **Dell** distributes its PCs directly from its assembly factories to end-users anywhere in the world, while **HP** uses international agents and retailers.
- **Dell** customers may have to wait several days or weeks to get a PC, whereas **HP** customers can walk away from a retailer with a PC immediately.



Same personal computer industry but different distribution system. So, DELL distributed its PC's directly from its assembly plant to end users anywhere in the world. While HP uses

international agents and retailers. DELL customers may have to wait several days to get a PC whereas HP customers can walk away from a retailer without PC immediately.

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These are the various international distribution channel alternatives. So it can manufacturer from here they go directly to the consumers or they may move to local wholesaler the retailer and then to the customers or there can be a manufacturer selling two local and the wholesaler and retailer and then to the customer. So, these are the various combinations of channel alternative that are available.

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### ...International Distribution Channel continued

- Distribution channels that use **intermediaries, agents, or merchants** positioned between the manufacturer and customers in a distribution channel, can often have several levels and employ several intermediaries, each with its own specific purpose within the distribution channel.
- The use of intermediaries can be a relatively **easy, quick and low-cost entry strategy** into a new foreign market.

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Distribution channels that use intermediaries, agents or merchants positioned between the manufacturer and the customer in a distribution channel can often have several levels and employees several intermediaries each with its own specific purpose within the distribution channel. The use of intermediary can be relatively easy quick and low cost entry strategy into a foreign market. So, when the company used in two intermediaries, agents and merchants so that have different kind of advantage.

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**Channel Management**

**Guidelines for choosing foreign intermediaries:**

- Search for intermediaries capable of developing markets, not just those with good contacts.
- Regard intermediaries as long-term partners, not as a temporary means of market entry.
- Actively search for and select intermediaries; do not let them select you.
- Support your intermediaries by committing resources such as marketing ideas, funds etc.



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Now how to go; let us see at, let us look at the guidelines for choosing a foreign intermediary. The first is to search for intermediaries capable of developing market and not just goes with good contacts. Regard intermediaries at long term partners not as a temporary means of entry. Actively search for and select intermediaries, do not let them select you and support your intermediaries by committing resources such as marketing idea and funds etc.

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### ...Channel Management continued

- Ensure intermediaries provide the information you need, including up-to-date market information and detailed sales performance data.
- Attempt to maintain as much control as possible over the marketing strategy.
- Try to make links with national intermediaries as soon as possible after entering a foreign market.



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Ensure the intermediaries provide the information you need including up-to-date market information and details of sales performance data. Attempt to maintain as much control as possible over the marketing strategy and try to make links with national intermediaries as soon as possible after entering the foreign market.

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### 6. International Retailing

- In developed countries, retailing employs between 7 percent and 12 percent of the workforce and wields enormous power over manufacturers and consumers.
- Retailing involves very locally entrenched activities, including stocking of an assortment of products that local consumers prefer and seasonal promotion catering to local shopping pattern (e.g., shopping frequency, time of shopping, and traffic jam), and seasonal promotion as well as meeting local competition on a daily basis.
- **International retailing** is any retailing activity that transcends national borders.

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Another important concept in this module is that of international retailing. In developed countries retailing employs between 7% and 12% of the work force and weilds enormous power over manufacturers and consumers. And retailing involves very locally entrenched activities including stocking of an assortment of products that local consumers prefer and seasonal promotion catering to the local shopping pattern.

For example shopping frequency, time of shopping and the traffic jams etc., and seasonal promotion as well as meeting local competition on daily basis. Now you will see, how difficult, what are the tasks that it has to look after? It is not only about stocking but stocking according to the local consumer preferences and then also look for seasonal promotion because different cities and different countries and different faces will have different kind of occasions.

And then also they will also have to look for look after the local competition and that to on a daily basis. So, international retailing is any retailing activity that cut across national borders.

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Rank	Retail Company	Country of Origin	Total Sales (in \$ billion)	Foreign Sales (%)	Number of Foreign Markets
1	Wal-Mart	United States	376.4	22	14
2	Carrefour	France	122.2	53	37
3	Metro Group	Germany	87.4	55	32
4	Tesco	Britain	86.8	25	13
5	Seven & I	Japan	79.1	34	8
6	Ahold	Netherlands	77.5	82	8
7	Kroger	United States	69.5	0	0
8	Sears	United States	64.8	12	2
9	Costco	United States	64.7	20	8
10	Target	United States	62.6	0	0

Source: Global Retail Intelligence, [www.planetretail.net](http://www.planetretail.net), and Fortune, 2006.



Let us look at the international operations in the world top 10 retailers. The first is WallMart and it comes from US and it is there in 14 markets and then the total sales is 376 while the foreign sales is 22. Then there is another group called Carrefore that comes from France. Then Metro group it comes from Germany, Tesco comes from Britain. And Carrefore has 37, while Metro group has 32 and Tesco has 13 stores respectively.

And you see that Carrefore has the total sales of 122 billion dollars and 53% of it sales come from foreign sales. Metro group has it is 87 total sales of 87 billion US dollars and 55% of sales comes from foreign sales. Now you see that metro group, although it is, although the total sales is less but then the total contribution of foreign sales to total sales is more. So, and then there are



several other stores for which this data is given and this is taken from Global Retail Intelligence and this is a website.

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**...International Retailing continued**

**Private Label Branding (Store Brands)**

- Retailers increasingly rely on private-label brands (store brands) to appeal to price conscious customers as well as to broaden their product offerings.
- Worldwide share of packaged consumer goods - 18%
- Attractive to MNCs facing strong local competition
- Launching the product as a store brand enables the firm to get the shelf space access that it would otherwise be denied.



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Another important concept in international retailing is that of private label branding, that is that are also called as the store brands. Retailers increasingly rely on private label a brand that is the brands that are owned by the store. To, appeal to prices conscious customers as well as to broaden their product offerings. So, now retailers, in addition to selling manufacturers brand they also have their own brand and these brands come at a lesser price so that they can then target the price conscious customers and also to broaden their product offering.

So, now they will have 10 different types of detergents there rather than just having seven different types of detergents and because they are more regularly in touch with the customer so they now what kind of detergent the customer wants.

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### ...International Retailing continued

#### Private Label Branding (Store Brands)

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Worldwide share of package consumer goods that comes from the store brands is 18%. Attractive to MNC's facing is strong local competition. So, when the competition is more strong locally then this becomes an attractive options of the multinational companies. Launching the product is a store brand enables a firms to get the shelf space access that it would otherwise be denied. So, now when the company when the when the store has its own brand then obviously they can they have access to the shelf space which is which comes for a price for other companies.

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### ...International Retailing continued

- For **Example**, in **Japan**, manufacturers that do not have the resources to set up a distribution channel network have tied up with local retailers to penetrate the market.
- **Eastman Kodak** also decided to offer private-label film in Japan. Most of the distribution system is locked up by the local competitors, **Fuji** and **Konica**. Kodak hoped to grab a larger share of the Japanese film market by making a private-label film for the **Japanese Cooperative Union**, a group of 2,500 retail stores.



For example in Japan manufacturers that do not have the surface resources to setup distribution channel network have tied up with local retailers to penetrate the market. Eastman Kodak also

decided to offer private label film in Japan. Most of the distribution system is locked by local competitors. Fuji and Konica, Kodak hoped to grab a larger share of the Japanese film market by making private label film making cooperative union a group of 2500 retail stores.

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**...International Retailing continued**

**"Push" versus "Pull"**

- Fundamental change in the way goods and services reach the consumer is at the heart of this retailing revolution.
- *Previously*, the manufacturer or the wholesaler controlled the distribution chain across the world.
- The retailer's main competitive advantage lay in the:
  - merchandising skills of choosing the assortment of goods to sell in the store.
  - closeness to the customer which was used to beat the rival retailer across the street.



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Another important issue in any kind of release date of push versus pull fundamental change in the way good and services reach the consumer is at the heart of the retailing revolution. Previously the manufacturer of the whole wholesale are controlled the distribution channel across the world. The retailer's main competitive advantage are: merchandising skills of choosing the assortments of goods to sell in the store, because they know the customer and they decide on assortments of goods that is to be sold.

And the closeness to the customer which was used to beat the rival retailers across the street and then they know more about customer so they can beat the competition.

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### ...International Retailing continued

- The manufacturer decided what goods were available and, in most countries, at what price they could be sold to the public.
- *But now*, the traditional **supply chain** powered by the **manufacturing push** is becoming a **demand chain** driven by **consumer pull**—especially in the developed countries where the supply and variety of goods is far above base-level requirements of goods and services.



The manufacturer decided, what goods were available and in most countries, at what price they would be sold to the public. But now the tradition supply chain powered by the manufacturing push is becoming a demand change given by consumer pull, especially in the developed countries where the supply and variety of goods used far above base level requirements of goods and services. So, this is happening more in the case of developed countries but this phenomena of push versus pull, or the intensity of pull is becoming more than the intensity of push, and the supply chains becoming the demand chains, is happing across the world. But it has already happened in the developing world.

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### ...International Retailing continued

#### On-Time Retail Information Management

- The chief reason for holding stocks is to smooth out bumps in the supply chain.
- However one of the biggest sources of inefficiency in logistics occurs exactly because distribution channel members just do so independently of each other.
- It is known as the “**bullwhip effect**”—after the way the amplitude of a whiplash increases down the length of the whip when it is cracked.


Another related concept is on-time retail information management. On time is what we are talking of. The chief reason for holding stocks is to smooth out bumps in the supply chain. So, when there are bumps and you have stocks and those bumps can be smoothen out. However, one of the biggest sources of inefficiency in logistics occur exactly because distribution channel members just do so independently of each other.

So, when this logistic is not seamlessly integrated and all the distribution channel members, they work independently, then inefficiencies and logistics comes in and these inefficiencies is called as the bullwhip effect, after the way the amplitude of the whiplash increases down the length of the whip when it is cracked. So, you may look at a whip that is used by anyone riding a horse etc. So, this is the concept that is used to demonstrate the bullwhip effect.

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**...International Retailing continued**

- For **Example, Procter & Gamble** noticed the **bullwhip effect** about the shipment of **Pampers**, its well-known brand of disposable diapers.
- Although the number of babies and the demand for diapers remained relatively stable, orders for Pampers fluctuated dramatically.
- This was because information about consumer demand can become increasingly distorted as it moves along the supply chain.



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For example, Procter and Gamble noticed the bullwhip affect about the shipment of Pampers. It is well known brand of disposable diapers and the Procter and Gamble noticed that effect in that disposable diaper. Although the number of babies and the demand for diapers remain relatively stable. Order for pampers fluctuated dramatically. So, babies cannot be born overnight so the number of babies and therefore the demand for diapers it is stable or in the short term.

But orders for pampers they fluctuated dramatically this was because information about consumer demand can become increasingly distorted as it moves along the supply chain and

because of that that distortions in the in the information lead to the fluctuation in demand for pampers.

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**...International Retailing continued**

- Based on the information, the manufacturer scaled up the production. But when the increase in demand turns out to be short-lived, the distribution channel is left with too much stock and orders are cut back.



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Based on the information the manufacturer scaled up the production but when the increase in demand turned out to be short lived, the distribution channel is left with too much stock and orders are cutback.

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**...International Retailing continued**

- Computer systems can now help retailers to overcome bull-whip-effect.
- This information technology has had **two** consequences:
  - 1. Reduced Inventory-**
    - i. A well-managed retailer no longer has to keep large amounts of inventory—the stock burden has been passed upstream to the manufacturer.
    - ii. The retailer has a lower chance of running out of items.

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Computer system can now help retailers to overcome this bullwhip effect. The Information Technology has had two consequences: the first is the reduced inventory. A well managed retailer no longer has to keep large amounts of inventory. The stock burden has been passed

upstream to the manufacturer. So the retailers are not keeping the inventories because now they have on time and real time information about the demand for the product that they sell.

The retailer now has a lower chance of running out of items. So as soon as they are near to finishing of the stock, the stocks are brought in.

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**...International Retailing continued**

- For **example**, **Wal-Mart** keep informed its more than 60,000 suppliers in **US** through **Retail Link system**, which supplier can tap into over a secure internet connection.
- Suppliers can check stock levels and sales down to the level of individual stores.
- Wal-Mart may have a brutal reputation for driving down costs, but its investment in information systems has played a large part in building one of the world's most efficient supply chains, capable of handling more than \$300 billion of annual sales.

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For example, Walmart keep informed its more than 60000 suppliers in US through retail link system, which supplies can tap into over a secure internet connection. Suppliers can check stock levels and the sales down to the level of individual store. Walmart may have a brutal reputation for driving down cost. But its investment information system has played a large part in building one of the world's most efficient supply chains capable of handling more than dollar 30 billion of annual sales.

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### ...International Retailing continued

#### 2. Market Information at the Retail Level

- Retailer is the one that has real-time knowledge of what items are selling and how fast. This knowledge is used to extract better terms from the manufacturers.
- This trend in the transfer of power to the retailer in the developed countries has coincided with the lowering of trade barriers around the world and the spread of free-market economies in Asia and Latin America.






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And other important concept is that of market information at the retail level, retailer is one that has real time knowledge of what items are selling and how fast. This knowledge is used to extract better terms for the manufacturer. This trend in the transfer of power to the retailers in the developed countries has coincided with the lowering of trade barriers around the world and the spread of free market economy is an Asian and Latin America.

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### ...International Retailing continued

As a result, retailers such as the-

- United States'** Toys 'R' Us, Tower Records, and Wal-Mart;
- Britain's** Marks & Spencer and J. Sainsbury; Holland's Mark;
- Sweden's** IKEA;
- France's** Carrefour; and
- Japan's** 7-Eleven Stores

-are being transformed into global businesses.



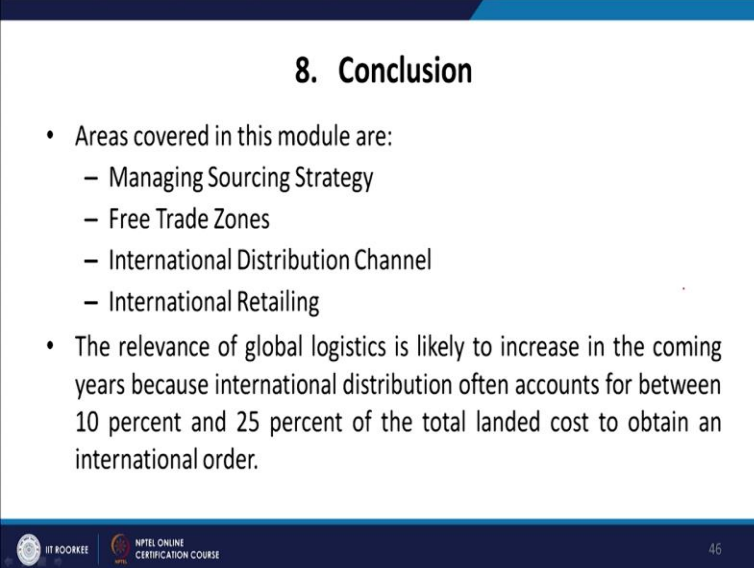



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As a result retailer such as in United States Toys R Us, Tower Records and Walmart; in Britain Marks and Spencer and J.Sainbury Holland's Mark; in Sweden IKEA; France Carrefour, Japan's Eleven Stores are being transformed into Global buasiness because of this use of information technology and on time and real time information. So, to conclude in this module we have talked

about managing, we have continued to talk about managing social study from the earlier module and we have looked into sourcing strategy in greater detail.

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**8. Conclusion**

- Areas covered in this module are:
  - Managing Sourcing Strategy
  - Free Trade Zones
  - International Distribution Channel
  - International Retailing
- The relevance of global logistics is likely to increase in the coming years because international distribution often accounts for between 10 percent and 25 percent of the total landed cost to obtain an international order.

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Then we have talked about free trade zones which also called as Special Economic Zone or free trade areas or special economic areas. Then we also looked have also talked about International distribution channel and the international retailing. The relevance of global logistics is likely to increase in the coming years because International distribution often account for between 10% to 25% of the total landed cost to obtain an International border.

Inflation currency exchange and tracks rates that differ across National borders complicate these logistic issues but International Logistic manager can exploit those differences to their advantage which are not available to the domestic firm. So, these things can be used to an advantage to reduce cost and this kind of advantage is not available to the purely domestic firm.

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- Inflation, currency exchange, and tax rates that differ across national boundaries complicate these logistics issues, but international logistics managers can exploit those differences to their advantage, which are not available to domestic firms.
- In the area of international distribution, marketing managers need to make careful decisions on the configuration of their distribution channel.



In the era/ area of international distribution, marketing managers need to make careful decisions on the configuration of a distribution channel.

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The first two are the books on which this module is based and the third one is the website, thank you.

