CHAPTER 12

GLOBAL MARKETING CHANNELS AND PHYSICAL DISTRIBUTION

SUMMARY

A. A **channel of distribution** is the network of agencies and institutions that links producers with users. **Physical distribution** is the movement of goods through channels. **Business –to-consumer (b-to-c) marketing** uses consumer channels; **business-to-business** (b-to-b) **marketing** employs industrial channels to deliver products to manufacturers or other types of organizations. **Peer-to-peer** marketing via the Internet is another channel. **Distributors** and **agents** are key intermediaries in some channels. Channel decisions are difficult to manage globally because of the variation in channel structures from country to country. Marketing channels can create **place utility**, **time utility**, **form utility**, and **information utility** for buyers. The characteristics of customers, products, middlemen, and environment all affect channel design and strategy.

B. Consumer channels may be relatively direct, utilizing direct-mail or door-to-door selling, as well as manufacturer-owned stores. A combination of manufacturers' sales forces, agents/brokers, and wholesalers may also be used. Channels for industrial products are less varied, with manufacturers' sales forces, wholesalers, and dealers or agents being used.

C. **Global retailing** is a growing trend as successful retailers expand around the world in support of their growth objectives. Retail operations takes many different forms, including **department stores**, **specialty retailers**, **supermarkets**, **convenience stores**, **discount retailers**, **hard discounters**, **hypermarkets, supercenters, superstores**, **shopping malls, outlet stores**, and **outlet malls**. Selection, price, store location, and customer service are a few of the competencies that can be used strategically to enter a new market. One way to classify retailers is by using a matrix that distinguishes companies offering few product categories with an own-label focus, many categories with an own-label focus; few categories with a manufacturer-brand focus, and many categories with a manufacturer-brand focus. Global retail expansion can be achieved via **organic growth**, **franchising**, **acquisition**, **joint venture**, and **licensing**.

D. Transportation and physical distribution issues are critically important in a company's value chain because of the geographical distances involved in sourcing products and serving customers in different parts of the world. A company's **supply chain** includes all the firms that perform support activities such as generating raw materials or fabricating components. **Logistics** and **logistics management** integrate the activities of all companies in a firm's value chain to ensure an efficient flow of goods through the supply chain. Important activities include **order processing**, **warehousing**, and **inventory management**. To cut costs and improve efficiency, many companies are reconfiguring their supply chains by outsourcing some or all of these activities. Six transportation

modes—air, truck, water, rail, pipeline, and Internet—are widely used in global distribution**. Containerization** was a key innovation in physical distribution that facilitates **intermodal transportation.**

LEARNING OBJECTIVES

12-1 Identify and compare the basic structure options for consumer channels and industrial channels.

12-2 List the guidelines companies should follow when establishing channels and working with intermediaries in global markets.

12-3 Describe the different categories of retail operations that are found in various parts of the world.

12-4 Compare and contrast the six major international transportation modes and explain how they vary in terms of reliability, accessibility, and other performance metrics.

DISCUSSION QUESTIONS

12-1. In what ways can channel intermediaries create utility for buyers?

The major categories of channel utility are:

- place utility (the availability of a product or service in a location that is convenient to a potential customer),
- time utility (the availability of a product or service when desired by a customer),
- form utility (the availability of the product processed, prepared, in proper condition and/or ready to use), and
- information utility (the availability of answers to questions and general communication about useful product features and benefits).

12-2. Which factors influence the channel structures and strategies available to global marketers?

Factors include customer characteristics, product characteristics, middleman characteristics, and environmental characteristics. In Latin America, low per-capita incomes and limited access to traditional sources of credit are two *customer characteristics* that contributed to the emergence of the low-volume *pulperia.* In Japan, relationship-oriented car buyers expect car salespersons to visit them at home. As described in the chapter, the distribution of wine is partly determined by the *product characteristics* of bulk and heat sensitivity.

Although many wineries also engage in direct sales, either via delivery service or by selling to visitors, exporting wine necessitates use of intermediaries who, as described, create utility as they move the wine. *Middlemen characteristics* are particularly important in Japan, where both the multilayered wholesale and retail systems are extremely fragmented. Relationships with channel intermediaries tend to be long term. Termination can be difficult and expensive; also, the tendency of intermediaries to "cherry pick" the best lines means newcomers to the market may have problems finding a distributor. An example of *environmental characteristics* can be seen in the success of direct selling by Avon in China, Russia, and Latin America where the retail infrastructure is underdeveloped.

12-3. Compare and contrast the typical channel structures for consumer products and industrial products.

Consumer channels tend to exhibit more variety and be longer (have more intermediaries) compared with industrial channels. This is due in part to the fact that there are typically more customers for retail products than for industrial goods, and consumers purchase smaller quantities on a more frequent basis. Also, the increased complexity and cost of industrial products, as well as the information needs of customers, combine to keep industrial channels relatively short and direct. Direct, short channels are especially appropriate if a product requires a great deal of service support after the sale.

12-4. Identify the different forms of retailing, and cite an example of each. Identify retailers from as many different countries as you can.

The standard retail classifications are covered in the chapter. Students should be able to identify and describe the attributes of each type, e.g., department store, specialty retailer, category killer, etc. Make sure the students understand the meaning of "own label" (private label) versus a focus on manufacturers brands. Working at the board, compile a list of examples of each type from different countries. Which of the companies is international or global in scope? Why?

12-5. Identify the four retail market expansion strategies discussed in the text. Which factors determine the appropriate mode?

The four strategies include organic, franchise, chain acquisition, and joint venture. The combination of factors affecting choice of mode is shown in the matrix: culturally close/easy to enter; culturally close/difficult to enter; culturally distant/easy to enter; culturally distant/difficult to enter.

12-6. Many global retailers are targeting China, India, and other emerging markets. In terms of the strategies described in Figure 12-4, what would be the most likely entry strategies for these countries?

Figure 12-4 shows a matrix that defines markets and countries as either: Culturally close, difficult to enter, culturally distant, and easy to enter. The strategies for companies trying to do business in these countries have four options: chain acquisition, joint venture or licensing, franchising, and organic growth. For China which tends to be "difficult to enter" and/or culturally distant joint ventures or franchising would be preferred.

For India, it would most likely be franchising and joint ventures as well. Each choice/selection would of course depend on the company and their particular business.

12-7. Which special distribution challenges exist in Japan? What is the best way for a non-Japanese company to deal with these challenges?

> In Japan, exclusive distribution arrangements can keep some competitors out of the market. As noted in the Chapter 11 discussion of *keiretsu,* Japan's unique form of industrial groups also creates a strong sense of interdependence among Japanese companies. Generally, strong social relationships are required to obtain channel support. Non-Japanese companies should follow the example of Toys R' Us by choosing a local partner, cultivating the necessary relationships, and using diplomacy and home-government contacts when necessary to level the playing field.

OVERVIEW

Specialty retailers such as Zara, H&M, and Uniqlo are just three of the many elements that make up distribution channels around the globe. Today, global supply chains connect producers in all parts of the world, and sophisticated logistics are utilized to ensure the smooth flow through the system. The American Marketing Association defines a channel of distribution as "an organized network of agencies and institutions that, in combination, perform all the activities required to link producers with users to accomplish the marketing task." Physical distribution is the movement of goods through channels; channels, in turn, are made up of a coordinated group of individuals or firms that perform functions that add utility to a product or service.

Distribution channels are one of the most highly differentiated aspects of national marketing systems. Retail stores vary in size from giant hypermarkets to small stores in Latin America called *pulperias.* The diversity of channels and the wide range of possible distribution strategies and market-entry options can present challenges to managers who are responsible for designing global marketing programs. Channels and physical distribution are crucial aspects of the total marketing program; without them, a great product at the right price and effective communication means very little.

ANNOTATED LECTURE/OUTLINE

Distribution Channels: Objectives, Terminology, and Structure
√ (Learning Objective #1)

Marketing channels exist to create utility for customers.

The major categories of channel utility are:

- **place utility** (the availability of a product or service in a location that is convenient to a potential customer),
- **time utility** (the availability of a product or service when desired by a customer),
- **form utility** (the availability of the product processed, prepared, in proper condition

and/or ready to use), and

- **information utility** (the availability of answers to questions and general communication about useful product features and benefits).

The starting point in selecting the most effective channel arrangement is a clear focus of the company's marketing effort on a target market and an assessment of the way(s) in which distribution can contribute to the firm's overall value proposition.

Who are the target customers, and where are they located? What are their information requirements? What are their preferences for service? How sensitive are they to the product or service's price?

Each market must be analyzed to determine the cost of providing channel services.

What is appropriate in one country may not always be effective in another.

As mentioned previously, distribution channels are systems that link manufacturers to customers. Although channels for consumer products and industrial products are similar, there are also some distinct differences between them.

In **business-to-consumer marketing** (b-to-c or B2C), consumer channels are designed to put products in the hands of people for their own use.

By contrast, **business-to-business marketing** (b-to-b or B2B), involves industrial channels that deliver products to manufacturers or other types of organizations that use them as inputs in the production process or in day-to-day operations.

A **distributor** is a wholesale intermediary that typically carries product lines or brands on a selective basis.

An **agent** is an intermediary who negotiates exchange transactions between two or more parties but does not take title to the goods being purchased or sold.

Consumer Products and Services

There are six channel structure alternatives for consumer products (Figure 12-1). The characteristics of both buyers and products have an important influence on channel design.

The first alternative is to market directly to buyers via the Internet, mail order, door-to-door selling, or manufacturer-owned retail outlets.

The other options utilize retailers and various combinations of sales forces, agents/brokers, and wholesalers.

Product characteristics such as degree of standardization, perishability, bulk, service requirements, and unit prices have an impact as well. Generally speaking, channels tend to be longer (require more intermediaries) as the number of customers to be served increased and the price per unit decreases.

Bulky products require channel arrangements that minimize the shipping distances and the number of times products change hands before they reach the ultimate customer.

The Internet and related forms of new media are dramatically altering the distribution landscape.

E-Bay pioneered a form of online commerce known as **peer-to-peer** (p-to-p) marketing whereby individual consumers marketed products to other individuals.

Time-pressed consumers in many countries are increasingly attracted to the time and place utility created by the Internet and similar communication technologies.

Low-cost, mass-market products and certain services can be sold on a door-to-door basis via a direct sales force. **Door-to-door** and house-party selling is considered a mature channel in the United States and it is growing in popularity elsewhere.

In Japan, the biggest barrier facing U.S. auto manufacturers isn't high tariffs, but rather the fact that half the cars which are sold each year are **sold door-to-door!** Toyota and its Japanese competitors maintain showrooms, but they also employ more than 100,000 car salespeople.

Another direct selling alternative is the *manufacturer-owned store* or *independent franchise store.*

For example, Singer established a worldwide chain of company-owned-and-operated outlets to sell and service sewing machines.

Companies with strong brands establish flagship retail stores to showcase products or obtain marketing intelligence.

Such channels supplement, rather than replace, distribution through independent retail stores.

Other channel structure alternatives for consumer products include various combinations of a manufacturer's sales force and wholesalers calling on independent retail outlets, which in turn sell to customers.

For mass-market consumer products (i.e., ice-cream novelties, cigarettes), a channel that links the manufacturer to distributors and retailers is required to achieve market coverage.

Wal-Mart's growth resulted from economies achieved from buying huge volumes directly from manufacturers.

Perishable goods impose special demands on channel members who ensure that merchandise is in satisfactory condition (form utility) at the time of customer purchase.

In developed countries, distribution of perishable food products is handled by a company's own sales force or by independent channel members.

In less developed countries, public marketplaces are important channels; they provide a convenient way for producers of vegetables, bread, and other food products to sell their goods directly.

A simple channel innovation in a developing country can increase an overall value proposition.

For example, using plastic bags to keep bread fresh evoked a favorable response among Russians. The bags themselves created utility as a reusable "gift."

The retail environment in developing countries presents similar challenges for companies marketing nonperishable items.

In Mexico, and other emerging markets, Proctor and Gamble products are packaged in single-use quantities at a relatively high per-unit cost. Mexicans tend to shop in tiny independent "mom-and-pop" stores called by P&G "high-frequency stores".

Industrial Products

As is true with consumer channels, product and customer characteristics have an impact on channel structure (see Figure 12-2).

Three basic elements are involved: the manufacturer's sales force, distributors or agents, and wholesalers.

- A manufacturer can reach customers with its own sales force, a sales force that calls on wholesalers who sell to customers, or a combination.
- A manufacturer can sell directly to wholesalers without using a sales force, and wholesalers, can supply customers.
- A distributor or agent can call on wholesalers or customers for the manufacturer.

Channel innovation can be an essential element of a successful marketing strategy.

Dell's rise to market leader was based on the decision to sell directly to the consumer and build computers to customers' specifications.

ESTABLISHING CHANNELS AND WORKING WITH CHANNEL INTERMEDIARIES

√ **(Learning Objective #2)**

A global company expanding across national boundaries must either utilize existing distribution channels or build its own. Channel obstacles are often encountered when a company enters a competitive market where brands and supply relationships are already established.

If management chooses *direct involvement*, the company establishes its own sales force or operates its own retail stores.

The other option is *indirect involvement*, which entails utilizing independent agents, distributors, and retailers.

The channel strategy used in a global marketing program must fit with the company's competitive position and overall marketing objectives in each national market.

Channel decisions are important because of the number and nature of relationships that must be managed. Channel decisions typically involve long-term legal commitments and obligations to various intermediaries.

It is imperative for companies to document the nature of the relationship with the foreign partner. As the saying goes, *"The shortest pencil is better than the longest memory."*

Companies entering emerging markets for the first time must exercise particular care in choosing a channel intermediary. Typically, a local distributor is required because the market entrants lack knowledge of local business practices and needs a partner with links to potential customers.

Here are some specific guidelines for dealing with channel intermediaries:

- Select distributors. Don't let them select you.
- Look for distributors capable of building markets, rather than those with a few good customer contacts
- Treat local distributors as long-term partners, not as temporary market-entry vehicles.
- Support market entry by committing money, managers, and proven marketing ideas.
- From the start, maintain control over the marketing strategy.
- Make sure distributors provide the company with detailed market and financial performance data.
- Build links among national distributors at the earliest opportunity.

When devising a channel strategy, it is necessary to be realistic about the intermediary's motives. On the one hand, it is the intermediary's responsibility to implement an important element of a company's marketing strategy.

Agents sometimes engage in **cherry picking**—the practice of accepting orders only from manufacturers with established demand for products and brands. Cherry picking can also take the form of selecting only a few choice items from a vendor's product lines.

A manufacturer with a new product or a product with a limited market share may find it more desirable to set up some arrangement for bypassing the cherry-picking channel member.

In some cases, a manufacturer must incur the costs of direct involvement by setting up its own distribution organization to obtain a share of the market.

An alternative method of dealing with the cherry-picking problem: a company may decide to rely on a distributor's own sales force by subsidizing the cost of the sales representatives the distributor has assigned to the company's products.

This approach has the advantage of holding down costs by tying the manufacture in with the distributor's existing sales management team and physical distribution system.

GLOBAL RETAILING

√ **(Learning Objective #3)**

Global retailing is any retailing activity that crosses national boundaries. Global retailers serve an important distribution function; they provide customers with access to more products and lower prices than were available previously.

When global companies expand abroad, they often encounter local competitors. In India, *organized retail,* a term that is used to describe the modern, branded chain stores, currently accounts for less than 5 percent of India's total market.

In some instances, it is a local retailer that breaks new ground by transforming the shopping experiences.

Retail business models may undergo significant adaptation outside the country in which they originated. Today's global retailing scene is characterized by great diversity (Table 12-1).

Retail stores can be divided into categories according to the amount of square feet of floor space, the level of service offered, width and depth of product offerings, or other criteria.

Types of Retail Operations

Department stores have several departments under one roof, each representing a distinct merchandise line and staffed with a limited number of salespeople.

Specialty retailers offer less variety than department stores. They are more narrowly focused and offer a relatively narrow merchandise mix aimed at a particular target market.

Supermarkets are departmentalized, single-story retail establishments that offer a variety of food (e.g., produce, baked goods, meats) and nonfood items (e.g., paper products, health and beauty aids), mostly on a self-service basis.

Convenience stores offer some of the same products as supermarkets, but the merchandise mix is limited to high-turnover convenience and impulse products. Prices for some products may be 15 to 20 percent higher than supermarket prices.

Discount retailers can be divided into several categories. The most general characteristic that they have in common is their emphasis on low prices.

Full-line discounters typically offer a wide range of merchandise, including nonfood items and nonperishable food, in a limited-service format.

The *warehouse club* is a segment of discount retailing; consumers "join" the club to take advantage of low prices.

Dollar stores sell a select assortment of products at one or more low prices.

Hard discounters include retailers such as Aldi that sell a tightly focused selection of goods – at rock-bottom prices.

Hypermarkets are a hybrid-retailing format combining the discounter, supermarket, and warehouse club approaches under a single roof.

Supercenters offer a wide range of aggressively priced grocery items plus general merchandise in a space that occupies about half the size of a hypermarket.

Superstores (also known as *category killers* and *big-box* retailers) is the label that many in the retailing industry use when talking about stores such as Home Depot and IKEA.

Shopping malls consist of a grouping of stores in one place; an assortment of retailers that will create an appealing leisure destination; typically, one or more large department stores serve as anchors. (Exhibit 12-7)

A current trend in "malls" is towards outdoor shopping centers called "lifestyle centers".

Outlet stores are a variation on the traditional shopping mall: retail operations that allow companies with well-known consumer brands to dispose of excess inventory, out-of-date merchandise, or factory seconds. They are often grouped together in **outlet malls**. (Exhibit 12-8)

Trends in Global Retailing

Currently, a variety of environmental factors have combined to push retailers out of their home markets in search of opportunities around the globe.

Saturation of the home-country market, recession or other economic factors, strict regulation on store development, and high operating costs are some of the factors that prompt management to look abroad for growth opportunities.

Even as domestic retailing grows more challenging, an ongoing environmental scanning effort is likely to turn up markets in other parts of the world that are underdeveloped or where competition is weak.

High rates of economic growth, a growing middle class, a high proportion of young people, and less stringent regulation make some country markets very attractive.

For example, Laura Ashley, Body Shop, Disney Stores and other specialty retailers were lured to

Japan by developers who need established names to fill space in large, suburban, American-style shopping malls.

The large number of unsuccessful cross-border retailing initiatives suggests that anyone moving into global retailing should proceed with great caution and due diligence.

The critical question for a would-be global retailer is, "Which advantages do we have relative to local competition?"

The answer will often be, "Nothing," when the existing competition, local laws governing retailing practice, distribution patterns, or other factors are considered.

However, a company may possess competencies that can be the basis for competitive advantage.

Competencies can also be found in less visible value-chain activities such as distribution, logistics, and information technology.

Japanese retailers offered few extra services to their clientele; whereas the Gap offered liberal return policies and special orders; in response, many Japanese consumers switched loyalties.

Due to economies of scale and distribution methods unknown to some Japanese department store operators, the foreign retailers offered a greater variety at lower prices.

A matrix-based scheme for classifying global retailers is shown in Figure 12-3.

IKEA and other retailers in **quadrant A** typically use extensive advertising and product innovation to build a strong brand image.

In **quadrant B**, the private-label focus is retained, but many more product categories are offered.

Private label retailers that attempt to expand internationally face a double-edged challenge: They must attract customers to both the store and the branded merchandise.

Retailers in **quadrant C** offer many well-known brands in a relatively tightly defined merchandise range. A few decades ago, this type of store tends to quickly dominate smaller established retailers by out-merchandizing the local competition and offering customers superior value by virtue of extensive inventories and low prices.

Retailers in **quadrant D** offer the same type of merchandise available from established local retailers. What the newcomers bring to a market is competence in distribution or some other value chain element.

Global Retailing Market Expansion Strategies

Retailers can choose from four market entry expansion strategies when expanding outside the home country.

These strategies can be diagrammed using a matrix that differentiates between (1) markets that are easy to enter versus those that are difficult to enter and (2) culturally close markets versus culturally distant ones. (Figure 12-4)

Organic growth occurs when a company uses its own resources to open a store on a greenfield site or to acquire one or more existing retail facilities from another company.

Franchising is the appropriate entry strategy when barriers to entry are low yet the market is culturally distant in terms of consumer behavior or retailing structures.

In global retailing, **acquisition** is a market-entry strategy that entails purchasing a company with multiple retail locations in a foreign country.

Joint ventures and **licensing** are advisable when culturally distant, difficult-to-enter markets are targeted.

INNOVATIVE THINKING, ENTREPRENEURIAL LEADERSHIP AND THE GLOBAL STARTUP
Mr. Selfridge: An American Retailer in London

Retailers may have a difficult time crossing borders if they fail to appreciate differences in retailing environments and consumer behavior and preferences. However, just the opposite was true when Selfridge opened his department store just off Oxford Street. In traditional British stores, articles were kept behind counters and shoppers had to ask clerks for help. By contrast, Selfridge put the goods out for people to see and touch. “The customer always comes first,” Selfridge declared.

Londoners had never seen anything like it. In the twenty-first century, Selfridges continues to be at the forefront of retailing innovation. Its flagship London store is home to Europe’s largest cosmetics department. Window displays have featured buzz-building “performances” such as humans in animal costumes modeling lingerie.

As Peter Williams, CEO of Selfridges, said, “Our competitors are not just other department stores. Our competitors are restaurants, theaters, a weekend away, or other entertainment venues.”

Achieving retailing success outside the home-country market is not simply a matter of consulting a matrix and choosing the recommended entry strategy. Management must also be alert to the possibility that the merchandise mix, sourcing strategy, distribution, or other format elements will have to be adapted. Management at Crate & Barrel, for example, is hesitant to open stores in Japan. Part of the reason is research indicating that at least half the company's product line would have to be modified to accommodate local preferences. Another issue is the company's ability to transfer its expertise to new country markets.

PHYSICAL DISTRIBUTION, SUPPLY CHAINS, and LOGISTICS MANAGEMENT

√ **(Learning Objective #4)**

In Chapter 1, marketing was described as one of the activities in a firm's value chain.

The distribution *P* of the marketing mix is a critical value-chain activity.

Physical distribution consists of activities involved in moving finished goods from manufacturers to customers.

The value chain concept is much broader, for two reasons.

1. It is a useful tool for assessing an organization's competence as it performs value-creating activities within a broader **supply chain** that includes *all* the firms that perform support activities by generating raw materials, converting them into components or finished products, and making them available to customers.
2. The particular industry in which a firm competes is characterized by a value chain.

The specific activities an individual firm performs help define its position in the value chain.

If a company is somewhat removed from the final customer, it is said to be *upstream* in the value chain.

A company that is relatively close to customers is said to be *downstream* like a retailer.

Logistics is the management process that integrates the activities of all companies—both upstream and downstream—to ensure an efficient flow of goods through the supply chain.

INNOVATIVE THINKING, ENTREPRENEURIAL LEADERSHIP, AND THE GLOBAL STARTUP
Malcolm McLean: Containerization Visionary

Malcolm McLean was an entrepreneur. He developed an innovative industrial product and used it to help his business grow. Along the way, he revolutionized the way goods are shipped, thereby helping usher in the era of globalization. By applying the basic tools and principles of modern marketing, McLean achieved remarkable success.

Until the mid-twentieth century, shipping goods was slow and expensive. Longshoremen would unload as many as 200,000 separate pieces of cargo from trucks or warehouses near the docks and then stow each item on an oceangoing freighter. The process was reversed at the end of the journey.

The solution was obvious to McLean: the solution was containerization – the use of standardized steel boxes that could be loaded with freight at the factory and shipped by rail or by truck to a port. McLean was pragmatic. He didn't care about the "romance of the sea". For him freight was freight.

As Marc Levinson notes in his book about McLean, the container turned the economics of location on its head. Containerization revolutionized the handling of cargo. McLean's innovation – containerization – represented a disruptive technology.

An industry's value chain can change over time.

The value chain, logistics, and related concepts are extremely important as supply chains stretch around the globe (Figure 12-5).

Physical distribution and logistics are the means by which products are made available to customers when and where they want them.

The most important distribution activities are order processing, warehousing, inventory management, and transportation.

Order Processing

Activities relating to order processing provide information inputs that are critical in fulfilling a customer's order. **Order processing** includes:

- *Order entry*, in which the order is actually entered into a company's information system;
- *Order handling*, which involves locating, assembling, and moving products into distribution; and
- *Order delivery,* the process by which products are made available to the customer.

Warehousing

Warehouses are used to store goods until they are sold; another type of facility, the *distribution center*, is designed to efficiently receive goods from suppliers and then fill orders for individual stores or customers. Modern distribution and warehousing is such an automated, high-tech business today that many companies outsource this function.

One of the driving forces behind the growth of third-party warehousing is the need to reduce fixed costs and speed up delivery times to customers.

Inventory Management

Proper inventory management ensures that a company neither runs out of manufacturing components or finished goods nor incurs the expense and risk of carrying excessive stocks of these items.

Another issue is balancing order-processing costs against inventory-carrying costs.

Transportation

Transportation decisions concern the method or *mode* a company should utilize when moving products through domestic and global channels.

The word *mode* implies a choice, and the major transportation choices are rail, truck, air, water, pipeline, and the Internet (Table 12-4).

Rail provides an extremely cost-effective means for moving large quantities of merchandise long distances.

In the United States, rail carriers such as CSX and Burlington Northern Santa Fe account for nearly half of all cargo moved when measured by ton-miles. (Exhibit 12-11)

Trucks are an excellent mode for both long-haul, transcontinental transport and local delivery of goods. In nations with well-developed highway systems, truck freight provides the highest level of accessibility of any mode.

There are two main types of water transportation.

Inland water transportation is an extremely low-cost mode generally used to move agricultural commodities, petroleum, fertilizers, and other goods that, by their nature, lend themselves to bulk shipping via barge.

Inland water transportation can be slow and subject to weather-related delays.

Virtually any product can be shipped via *ocean transportation*.

Although sailing times are not competitive with air transportation, it is generally more cost effective to ship large quantities of merchandise via ocean than by air.

Why is water rated "low" in reliability? In any given year, approximately 200 freighters sink due to bad weather or other factors.

Air is the fastest transport mode and the carrier of choice for perishable exports such as flowers or fresh fish, but it is also the most expensive.

Thanks to the digital revolution, the *Internet* is becoming an important transportation mode that is associated with several advantages and one major disadvantage.

> **Disadvantage:** the Internet's capability is low.
>
> **Advantages:** Anything that can be digitized—text, voice, music, pictures, and video—can be sent via the Internet. Advantages include low cost and high reliability.

Channel strategy involves an analysis of each shipping mode to determine which mode, or combination of modes, will be both effective and efficient in a given situation.

Containerization refers to the practice of loading ocean-going freight into steel boxes measuring 20 feet, 40 feet, or longer. Containerization offers many advantages, including flexibility in the product that can be shipped via container, as well as flexibility in shipping modes.

Intermodal transportation of goods involves a combination of land and water shipping from producer to customer.

The decision of which mode of transportation to use may be dictated by a particular market situation, by the company's overall strategy, or by conditions at the port of importation.

Logistics Management: A Brief Case Study

The term **logistics management** describes the integration of activities necessary to ensure the efficient flow of raw materials, in-process inventory, and finished goods from producers to customers.

J.C. Penney's provides a case study in the changing face of logistics, physical distribution, and supply chains in the 21st century.

Penney's outsources its private-label shirt supply chain to TAL Apparel Ltd. of Hong Kong. Penney's North American stores carry almost no extra inventory of house-brand shirts.

When a shirt is sold, scanner data is transmitted to Hong Kong. TAL's computer and replacement shirts are sent to stores without passing through Penney's warehouse system.

Since the shirts are sent via air or ship; by working with TAL, Penney's can lower inventory costs, reduce the quantity of goods marked down, and respond to consumer tastes.

CASES

Case 12-1: Welcome to the World of Fast Fashion

Overview: Part of the appeal of fast fashion is the low prices. Also attractive is the speed at which inventories are replenished and updated with affordable versions of the latest runway trends from the world's fashion capitals. The need for speed is fueled in part by social media.

Some observers criticize the fast-fashion business model on the grounds that it can lead to worker exploitation; that it encourages uniformity of consumption; that it feeds a culture of disposability; and that it creates waste. In addition, it breeds the perception among consumers that the prices charged by some purveyors of well-made, high-quality apparel are exorbitant.

The myriad choices of inexpensive clothing mean that many items are donated or discarded after being worn just a few times. Those cast-off items find their way into a separate supply chain that winds through India and then on to Africa and other developing countries.

12-8: What is so appealing about fast-fashion brands such as H&M and Zara?

Students answers will vary but good students will recognize the importance of the low prices and immediate customer satisfaction.

12-9: Fast fashion has been criticized on the grounds that the same "looks" are found on display racks everywhere and the clothing itself may be poorly constructed. Do you agree?

I do agree with this statement, but student answers will vary quite a bit. This is a true test of a simplified supply chain with zero sustainable.

12-10: Is the fashion industry doing enough to create sustainable supply chains? What about the issue of discarded clothing items that have never been worn or barely been worn?

No, I do not believe the fashion industry is doing enough. In this author's opinion, this industry is only concerned with the next move, for instance first to India. After that, they are not concerned with the ultimate disposable of discarded clothing items.

Case 12-2: Can Walmart Crack the Retail Code in India?

Overview: The vast majority of Indian retail activity is conducted in cramped stalls with about 50 square feet of floor space. There have been many calls for regulatory reform, and some observers believe organized retailing will grow at a rate of 30 to 35 percent in the next few years. For now, however, some members of the ruling National Congress Party are concerned about the impact of organized retail on the millions of small-scale, "mom-and-pop" stores.

In India, Walmart must do much more than just set up wholesale and retail stores. It is trying to transform India's agriculture sector by using its hyper efficient practices to improve productivity and speed the flow of produce and other goods. Walmart and a partner, Bayer Cropscience, work with farmers to improve yields and quality. In addition, Walmart has begun bypassing traditional middlemen by signing up farmers and sending its own refrigerated trucks to the farms. One reason farmers like working with Walmart: The global giant pays the farmers promptly.

Mike Duke, Walmart's CEO, appears undaunted by the challenges his company faces.

12-11. What are the biggest obstacles facing Walmart and other foreign retailers in India?

The government has demanded that foreign retailers invest $100 million in India, with at least half the money going to so-called "back end" operations and infrastructure including cold storage facilities and transportation infrastructure. It has to contend with India's poor infrastructure and inefficient supply chains, which stem from producers using outdated techniques. Produce is typically transported on open trucks, horse-drawn carts, and tractors to wholesale markets in large cities.

12-12. Summarize some of the elements in India's political, economic, and cultural environments that can impact the market opportunity there.

> Western-style, big-box retailing is anathema to many Indian activists and policymakers, who fear that Walmart will drive some of India's millions of shopkeepers out of business. Legislators are also suspicious of the company's motives. The vast majority of Indian retail activity is conducted in cramped stalls with about 50 square feet of floor space. Each of India's 28 states retains the right to approve or ban foreign-owned stores.

12-13. Review Figure 12-4. Which quadrant of the matrix applies most directly to India? Why?

> India would be in Quadrant B – culturally distant and difficult to enter. Using a joint-venture to enter India can be interpreted to show the how difficult it will be to succeed. The people of India have never experienced the shopping experience of a large superstore like Walmart – it is culturally at the opposite end of the spectrum.

12-14. Going forward, to what degree will Walmart be required to adapt its business model in India?

> Student's answers will vary to this question, however, understanding the Indian consumers' shopping behaviors will be key to the answer.

<u>TEACHING TOOLS AND EXERCISES</u>

Additional Case:

"Mary Kay Inc.: Asian Market Entry (B). John A. Quelch. *HBS* 509067.

Activity: Students should be preparing or presenting their Cultural-Economic Analysis and Marketing Plan for their country and product as outlined in Chapter 1.

Out-of-Class Reading: Gabrielsson, Mika, V.H. Manke Kirpalani, and Reijo Luostarinen. "Multiple Channel Strategies in the European Personal Computer Industry." *Journal of International Marketing* 10, no. 3 (2002), pp. 73-95.

Internet Exercises: Visit www.amazon.com and critique their web site. Does it motivate you to buy? What problems or concerns do you have with its site?

Go to www.walmart.com and examine its "direct to store" shipping policy. Do you find that this is an added convenience having your selection shipped to your local Wal-Mart? Or do you find this an inconvenience versus Amazon's direct to home shipping policy? Explain your reasoning and rationale.

Go to L.L.Bean at www.llbean.com. This huge direct marketer has made the transition from strictly catalog selling to selling via the Internet. Critique the web site. Does it motivate you to buy? What other interesting features are found on this site?

Writing Assignment: Do research on the **railroads** or on the **airlines** as a mode of shipping and write a brief paper on the strengths and weaknesses, the future, and the popularity of these modes.

Writing Assignment: By the time this IM is published, Cadbury Chocolates will be owed by either Hershey's or Kraft Foods. Do some extensive Internet search and a) find out what the implications are for increased international distribution of Cadbury; and b) specifically, explore this implication for Cadbury in the India market.

SUGGESTED READINGS

Books

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Czinkota, Michael R. *The Japanese Distribution System.* Homewood, Ill.: Irwin, 1994.

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Gabrielsson, Mika, V.H. Manke Kirpalani, and Reijo Luostarinen. "Multiple Channel Strategies in the European Personal Computer Industry." *Journal of International Marketing* 10, no. 3 (2002), pp. 73-95.

Goldman, Arieh. "The Transfer of Retail Formats into Developing Economies: The Example of China." *Journal of Retailing* 77 no. 2 (Summer 2001) pp. 221-42.

Merrilees, Bill, and Dale Miller. "Direct Selling in the West and East: The Relative Roles of Product and Relationship (*Guanxi*) Drivers." *Journal of Business Research* 45, no. 3 (July 1999), pp. 267-273.

Raguraman K., and Claire Chan. "The Development of Sea-Air Intermodal Transportation: An Assessment of Global Trends." *The Logistics and Transportation Review* 30, no. 4 (December 1994), pp. 379-396.

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Samiee, Saeed. "Retailing and Channel Considerations in Developing Countries: A Review and Research Propositions." *Journal of Business Research* 27, no. 2 (June 1993), pp. 103-129.

Sheffi, Yossi and James B. Rice, Jr. "A Supply Chain View of the Resilient Enterprise." *MIT Sloan Management Review* 47, no. 1 (2005), pp. 41-48.

Stock, James R. "The 7 Deadly Sins of Reverse Logistics." *Materials Handling Management* 56, no. 3 (March 2001).

Vida, Irena, James Reardon, and Ann Fairhurst. "Determinants of International Retail Involvement: The Case of Large U.S. Retail Chains." *Journal of International Marketing* 8, no. 4 (2000), pp. 37-60.

Weigand, Robert E. "Parallel Import Channels—Options for Preserving Territorial Integrity." *Columbia Journal of World Business* 26, no. 1 (Spring 1991), pp. 53-60.