DESIGNING MARKETING CHANNELS FOR GLOBAL EXPANSION

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The advantages of servicing new markets is attractive to organizations, particularly those that have stabilized or matured and are seeking new growth avenues. Unfortunately, many businesses seek global expansion with little regard for the many intricacies of other cultures, which include cultural differences and buying habits. Global expansion requires thorough research and an acute understanding of the consumer within his or her respective culture. Developing proper marketing channels is the catalyst to achieving international success.

INTRODUCTION

The growth of international commerce continues to grow at incredible rates. Virtually every organization in the U.S. has considered the possibility of international trade or is actively involved in the globalization of their products. The advantages of servicing new markets is attractive to organizations, particularly those that have stabilized or matured and are seeking new growth avenues. Unfortunately, many businesses seek global expansion with little regard for the many intricacies of other cultures, which include cultural differences and buying habits. In fact, many businesses believe they are forced to expand globally due to competitive forces which obligate them to retain their market position, thus leading these companies into an unsuccessful approach to international trade. Global expansion requires thorough research and an acute understanding of the consumer within his or her respective culture. Developing proper marketing channels is the catalyst to achieving international success.

The past decade has witnessed the growth of the internet, which has inspired increased numbers of entrepreneurs. Advantages of the internet include the ability of a smaller organization on a limited budget to become successful as a global firm. However, many small to midsize organizations lack the resources to successfully market their products to other countries, and frequently market their products in an improper manner or incorrect market.

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Most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile customers, face political and legal uncertainties, or redesign their products to suit different customer needs and expectations (Keller and Kotler 2006).

Companies that venture into international business must consider the preferences of their foreign customers and their attraction to their product. Companies must also be aware of the political structure of the foreign country including the country's regulations and potential unexpected costs. Also, the company may not realize the need for managers with international experience, or consider the implications of political turmoil or significant currency exchange changes (Keller and Kotler 2006).

MARKETING CHANNELS

Companies that elect to expand internationally are increasingly dependent upon their marketing channels. Marketing channels are sets of interdependent organizations involved in the process of making a product or service available for use or consumption. They are the set of pathways a product or service follows after production, culminating in the purchase and use by the final end user (Keller and Kotler 2006).

Due in large part to the globalization of trade, competition among businesses has intensified; thereby contributing to the heightened importance of distribution in a firm's overall marketing strategy. While high quality products, effective promotions, and competitive pricing have become ubiquitous, firms are increasingly turning to distribution as a key strategy of marketing differentiation. Thus, delivering the product to the final customer faster and more efficiently than the competition becomes a critical success factor (Anderson, Dubinsky, and Mehta 2003).

A marketing channel system is the particular set of marketing channels employed by a firm. Decisions about the marketing channel system are among the most critical facing management. One of the chief roles of marketing channels is to convert potential buyers into profitable orders, thus not simply serving a market but making a market (Keller and Kotler 2006).

The channels chosen affect all other marketing decisions. The company's pricing depends on what type of channels are used, as channel members can collectively earn margins that account for 30 to 50 percent of the ultimate selling cost. The firm's sales force and advertising decisions depend upon how much training and motivation is needed for channel managers. In addition, channel decisions involve relatively long-term commitments to other firms as well as a set of policies and procedures (Keller and Kotler 2006).

INTERNATIONAL MARKETING CHANNELS

In the current competitive climate, the motivation of international channel partners to achieve individual and collective goals is becoming increasingly important. More specifically, motivation aimed at enhancing performance of all channel partners becomes crucial to the effectiveness of interfirm alliances. This situation places a premium of the channel captain's employing appropriate leadership styles that motivate international channel partners to perform distribution tasks and marketing functions more efficiently and effectively than their competitors (Anderson et al. 2003).

The choice to venture into international commerce will require marketing channel decisions. These decisions will affect the success or failure of the expansion as the reliance upon aspects of the marketing channel are of critical importance, particularly in comparison to the marketing channels in practice by a company's primary competitors.

Moreover, many companies are now seeking to establish a value network, which is a system of partnerships and alliances that a firm creates to source, augment, and deliver its offerings. A value network includes a firm's suppliers and its supplier's suppliers, and its immediate customers and their end customers (Keller and Kotler 2006).

The importance of the value network cannot be understated, as the development of business partners is a critical component to an organization's success and may lead to a competitive advantage for the organization. A successful value network provides faster responses and shortened lead times, improved performance and quality, marketing advantages, and improved pricing resulting in increased profitability.

By paying close attention to the strategic and tactical issues relating to delivery channels, companies greatly improve their chances of being repaid in terms of significantly improved revenues and profitability (Morelli 2006). Because international channel partners can significantly influence a firm's success or failure in the long run, manufacturers are becoming increasingly concerned about the performance of the institutions they constitute among their marketing channels. Moreover, the level of performance attained by their channel partner is pivotal if a firm is to achieve a competitive advantage (Anderson et al. 2003).

Successful global marketing channels require a mix of a superior product, the diligence of market researchers to determine the validity of marketing the product to a particular area, the selection and development of marketing channels and representatives, and proper motivational and leadership skills that are necessary to drive success.

Marketing channels exist in many forms. Direct channels provide a direct contact with the customer, such as a direct sales force, internet sales, or telephone sales. Indirect channels relate to the use of agents, dealers, distributors, franchising, licensing, or joint ventures. Organizations must carefully consider the implications of each channel or consider the possibility of using multiple options.

SELECTION OF A MARKETING CHANNEL

Choosing the correct channel is the crucial component of international selling. Many organizations may change from one channel to another until they become pleased with the results. Other companies use a multi-faceted approach, and then focus upon the successful channels. According to Morelli (2006), the primary factors consist of how much control a company wishes to have, how much of the market a company wishes to cover, and what cost factors relate to the planned or actual use of marketing channels (Morelli 2006).

The development of marketing channel partners is similar to a supply chain management that many companies have adopted. Firms are increasingly adopting a supply chain philosophy referred to as relationship marketing in response to maturing markets, globalization, and greater competition. This approach to managing supply chain relationships views these relationships as key assets of an organization which allows firms to maintain and increase sales and to improve communications and better coordinate buyer-supplier relationships. These sorts of industrial buyer-supplier relationships, characterized by relatively long-term time horizons, non-market modes of governance and high levels of commitment and trust, have been viewed as a durable basis for competitive advantage (Carter and Morris 2005).

The dependence upon international marketing channel partners places organizations in a position where they are at the mercy of their selected partners. U.S. organizations find it difficult to service some countries which are reluctant to purchase from Americans, but willing to accept American products. Additionally, many American producers alter their products to appeal to the tastes and preferences of the buying customer. While large organizations are able to train and staff a business with internal natives, smaller to midsize companies are often reliant upon the distributors in use.

Yet not all of these relationships lead to mutually beneficial results with some firms in a distributor-organization relationship acting opportunistically to gain greater benefits at the expense of the other party. Others may show a propensity to leave, particularly in response to a short-term commitment or difficulties in cooperation or decision-making (Carter and Morris 2005). Firms which are unable to develop strong relationships with their marketing channel distributors will often suffer from inadequate exposure and possible failure to export, regardless of the product.

In any instance, building effective relationships with the marketing channel managers will eliminate most of the negative occurrences, but these relationships are challenging to develop due to the infrequency of personal contact. Ideally, organizations would develop internal candidates with knowledge of the company's strategy and culture who then have the ability to transfer these attributes to the product's distribution. The challenge occurs in certain regions where it is necessary to use existing natives familiar with the country who often receive minimal training and are unaware of the company's legacy.

NICHE PRODUCTS: BERINGER WINE

Niche products are exceptionally difficult to market internationally as niche characteristics are commonly high quality, higher priced products. The appeal with niche products is the occurrence of brand loyalty and customer loyalty. In their study of niche marketing of wine, Goodman and Jarvis (2005) determined that niche products service a smaller customer base that shows higher loyalty and repeat purchasing of the brand. Thus, a niche channel requires the marketer to move to a customer relationship management. This is difficult in a retail environment where the focus has to be on establishing the niche product. If the company develops the niche product and establishes a customer database, where customers are more loyal, then the organization needs to undertake a relationship marketing approach (Goodman and Jarvis 2005).

In September, 2002, Beringer Wine was deciding whether or not to pursue growth through globalization of their wine products. Beringer's wine was sold in the United States through a distribution system that included wholesale distributors and retail outlets. Direct shipping or selling via the internet was difficult due to the legal requirements of selling a controlled substance, resulting in the reliance upon distributors. Several U.S. wineries had already established joint ventures with foreign partners in an effort to increase market share; create synergy with distribution channels, marketing, and sales; diversify production sources and growing seasons; and reduce costs (Gamble, Strickland and Thompson 2005).

In response to their competitors, Beringer executives felt compelled to distribute their wine globally. Reluctant to form international partnerships, Beringer chose to establish a decentralized approach to global distribution by locating managers within their region of responsibility to ensure that business decisions are based on local market conditions and individual customer requirements. Yet, Beringer CEO Walt Klenz indicated the uncertainty of Beringer's global expansion by stating: "We need a balance between global values, that is, building a brand that is common to all markets, while adapting to what every local market needs. How do we develop a series of core global brands at different price points, create a globally-oriented organizational culture, revamp our product line to make it more accessible to a new generation of wine consumers, and build internal communications systems to support an increasingly complex production marketing interface?" (Gamble, et. al. 2005)

Klenz's uncertainty is a common reaction to the pressures many organizations face when realizing the need to become a global business. Decades ago, globalization was relegated to large organizations with the available resources to evaluate effective marketing and distribution techniques required to service individual countries. Despite these available resources, many of these companies used a standardization approach that failed to capture the appeal of the local citizens. Currently, global expansion is no longer limited to the few but is now a competitive necessity for the majority of companies, who are ill-equipped to afford a failure to expand.

INTERNATIONAL MARKETING OPPORTUNITIES: FLETCHER COLE

Alternatively, some organizations embrace international expansion as the opportunity to overcome challenges. Fletcher Core, a Colorado-based manufacturer of snowboards and snowboard equipment, recognized the need to market their products in Europe. Fletcher decided to expand operations by building a distribution center in Germany. This location gives Fletcher easy access to the snow resorts of the Alps, a strong employee base that understands Alpine conditions, and close proximity to the Munich airport (Baker and Roberts 2006).

Fletcher's marketing and distribution avenues are easily manageable as the Alps are very similar to the mountains in Colorado, thus providing Fletcher with a confident approach to selling their products internationally. Fletcher also limits their product to one particular region and is able to build a distribution center in lieu of using foreign distributors. Fletcher's ability to maintain complete control provides an advantage that other organizations are often unable to follow.

Fletcher Cole's approach to globalization is highlighted by their selection of a region similar to their own. Frequently, businesses approach globalization with an across the board approach designed to appeal to all countries. These approaches generally require the services of international distributors and a hit or miss approach to selling. Instead, many companies can use the approach demonstrated by Fletcher Cole, and expand internationally in much the same way that the company would expand locally.

Adapting to the local preferences and cultures can be complex and difficult. Businesses dependant upon marketing channels must adhere to the motivational needs of their channel managers. According to Dziobaka-Spitzhorn (2006), this can be achieved by trust and confidence. It is the manager's task to evoke trust and faith in all team participants and its environment. Confidence in doing the right things – and doing them right – increases the motivation to contribute efficiently and effectively to the project. Good performance management can help launch an organization into a virtual cycle of success (Dziobaka-Spitzhorn 2006).

SAMSUNG'S GLOBAL STRATEGY

The global marketplace is characterized by reduced trade barriers, intensified competition, shortened product cycle life, and deepening industrial segmentation. Samsung Electronic Company is one of the leading global competitors worldwide. While other global competitors progress at a marginal rate, Samsung leaps forward with innovative management and growth strategy (Kim 2007).

Since the beginning of Samsung's existence, the strategic intent has been to become a major global competitor with a premium brand position in the global market. Initially, Samsung positioned itself as the low end and low quality producer. Samsung's strategic choice of starting at the low end was based upon environmental conditions including low national income, limited purchasing power of the local market, and the availability of a niche-market export for low-end models (Kim 2007).

Samsung's marketing techniques minimized the necessity of channels, as their approach was to provide a lower cost product which would appeal to buyers. Samsung's strategy differs from those in the marketing industry which is specific to a target market and subsequently reliant upon proper channel techniques and marketing strategies. Furthermore, cultural aspects favor producers in some countries as opposed to other countries.

CHANNEL RELATIONSHIPS AND CULTURAL DIFFERENCES

Inter-cultural relationships require trust, commitment, cooperation, and dependence in order to become successful. In marketing channels, channel structure refers to the patterned or regularized aspects of relationships between channel participants. These participants depend upon each other in order to achieve their goals. Yet each partner's dependence on his or her channel partner is determined by the motivational investment in the relationship. Motivational investment refers to the value of the resources or outcomes mediated by the other party (Ha, et al. 2004).

According to previous channel behavior research, increased dependence creates more cooperative action in the channel member relationships. Channel members who depend upon the role performance of another are more likely to exert greater effort to maintain the relationship. On the other hand, members who feel less dependent are less inclined to cooperate (Ha, et al. 2004). Effective relationship management and motivational skills are needed to encourage channel members to achieve optimal performance.

However, cultural similarity or dissimilarity plays a large role in relationship management techniques. Cultural distance refers to the extent of which a culture is seen as being different from one's own. When cultural distance is high, the language, laws, regulation, business practices and consumer attitudes tend to differ. Cultural differences are often the source of miscommunication between business partners due to the extent in which alliance negotiators know and understand each other's actions (Ha, et al. 2004).

Thus, it can be theorized that the success or failure of marketing channels can be attributed in some ways to the existence of cultural distance. For instance, the U.S., has less difficulty establishing marketing channels in Canada, a country in close geographical proximity with few language or political barriers, than in Iran, a country with significant cultural differences as well as geographical, political, and language barriers.

CHANNEL MANAGEMENT STRATEGY

Strategies for effective channel management in different countries may well require the use of contrasting leadership styles. Several studies have found that the cultural environment can significantly affect marketing channel structure and strategy and the relationships among international channel partners. Seemingly, in order for international channel strategies to be successful, channel leaders should take into consideration the cultural context in which they operate (Anderson et al. 2003).

Further studies have concluded that distribution systems in developed countries are much more manageable than in developing countries. Marketing channels tend to be long in developing countries as serious financial and organizational constraints hamper the organization and distribution among members in the marketing channel. Additionally, legal systems and crime prevention are deficient, and corruption is often a serious problem (Ghauri, Lutz, and Tesfom 2004). These obstacles make it difficult to establish a relationship management approach to marketing channel management.

Many channel researchers suggest that behavior in marketing channels can be characterized by relational exchanges with a focus on long-term payoffs. Over the past two decades, firms have increasingly resorted to relational exchanges as a means of attaining competitive advantage. Adoption of this philosophy will lead to the development of long-term buyer-seller relationships and the forging of strategic alliances and partnerships between channel participants (Anderson et al. 2003).

These relationships are often reflected within the leadership style used by the channel leader. Successful leadership approaches often refer to the extent of activity channel leaders' exhibit with their channel partners. Consequently, a channel leader using a particular leadership style will manifest a certain degree of that style. Moreover, a channel leader may exhibit varying degrees of leadership styles concurrently or have a greater propensity for using one style instead of another (Anderson et al. 2003). Channel partners who accept an active role in channel management are aptly motivated to participate in the success of the channel.

INTERNET DISTRIBUTION STRATEGIES

The spread of the internet as a successful medium of communication and exchange has broadened the scope of doing business to the global market place. The internet is a global phenomenon in which fortune will favor truly global players. Substantial market shares within one set of territorial or market boundaries have started to become meaningless in a global context. On the other hand, niches unsustainable within purely domestic markets become viable in an electronic networked environment (Mehta 2008).

For U.S. organizations, internet exposure has provided the opportunity for many organizations to develop marketing channels through customer relationships. On the basis of customer service quality, long-term relationships may be forged or even strategic channel alliances can be formed. International managers should be well aware of the needs of their intermediary channel customers and fine-tune their customer service quality measurements (de Ruyter, Lemmink and Wetzels 2000).

While the internet cannot eliminate or replace the classical functions performed within a marketing channel, the internet can restructure them. In itself, the internet has become a distribution channel for products and services, with the components of speed, interaction and flexibility. As a distribution channel, the internet provides a portal for communication between the buyer, the seller, and the entire distribution phase of the physical item. The internet offers the marketing channel potential of eliminating some of the marketing costs and combines in the shrinking of the channel and making distribution much more efficient (Gurau, Ranchhod and Hackney 2001).

Distributors are increasingly squeezed between the competing needs to reduce operational costs while maintaining or increasing customer service. As competitive, price-driven markets have forced down prices and margins, organizations must do more with less. Due to the price transparency that the internet provides, it drives power down the channel to the customer (Finch and Frickenstein 2006). Thus, the internet provides the customer with the opportunity to establish a reverse marketing channel in which the customer determines the preferred channel route that the organization should follow.

The increased use of the internet as a marketing channel and the continued growth of global business have led to diminishing cultural differences and a worldwide open trading system excluded by only a few countries. Business leaders continue to develop markets that were once considered unattainable and consumers have an abundance of product choices available in an astoundingly quick fashion.

However, many established global companies fear that the internet has the potential to hurt them; to be competence destroying instead of competence enhancing; compromise their distribution network assets rather than leverage them; and disrupt their industry leadership positions rather than reinforce their dominance. Thus, global corporations are faced with challenges created ny the use of the internet as a new distribution channel (Mehta 2008).

CONCLUSION

Globalization is one of the many options available to organizations, but it is not a necessity for future success. The more critical issue for survival is whether it has its own strategic advantages over its competitors to meet the dynamics of the domestic and global markets. If a business finds that globalization is consistent with its strategic advantages, it is critical to analyze this and other options (Moon 2005).

Ultimately, organizations that choose to enter into international business must closely align themselves with the proper locale and thoroughly investigate the preferred marketing channels which will appeal to consumers. Diligent marketing channel selection and relationship building can drive a product to success.

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