

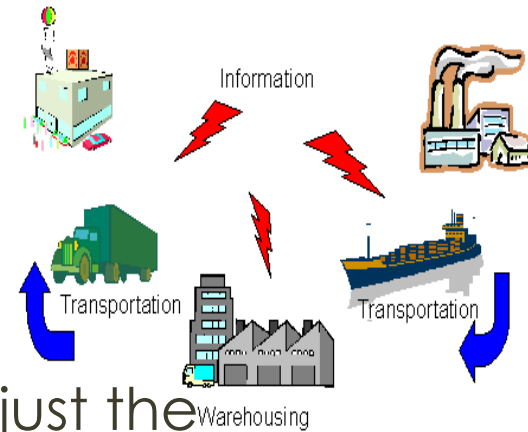
# Lesson 8 - Physical Distribution Challenges

In this lesson, we will gain an understanding of the factors involved in the physical distribution of products in a foreign market. We will learn about grey marketing.

# Physical Distribution

Physical distribution involves more than just the movement of goods from where they are produced to where they are consumed. It considers the location of plants and warehousing, transportation mode, inventory quantities, and packing. Physical distribution takes into account the interdependence of the costs of each activity; a decision involving one activity affects the cost and efficiency of one or all of the others.

## (Physical) Distribution



# Selecting a Distribution Channel

- Identify specific target markets within and across countries.
- Specify marketing goals in terms of volume, market share, and profit margin requirements.
- Specify financial and personnel commitments to the development of international distribution.
- Identify control, length of channels, terms of sale and channel ownership.

# Handout: Factors Affecting the Choice of Channel

Read about the 6 C's that can be followed when selecting a channel.

# Role of Middlepeople in the Distribution Channel (1 of 4)

While patterns of distribution are changing, nearly all international companies need intermediaries in their distribution systems. When margins are low and there is an ongoing struggle for consumer preference, wholesalers try to offer extra services to make their products more attractive to their buyers. When wholesalers are not interested in promoting merchandise, manufacturers must create incentives for intermediaries or else carry on these functions themselves.

# Role of Middlepeople in the Distribution Channel (2 of 4)

Most countries have a distinct pattern relative to the breadth of product lines carried by wholesalers and retailers. The distribution system in some countries can be characterized by intermediaries who carry or can get everything; in other countries, every intermediary may be a specialist carrying extremely narrow product lines. In some countries government regulation limits the breadth of product lines. Licensing requirements to handle certain merchandise is not uncommon.

# Role of Middlepeople in the Distribution Channel (3 of 4)

Cost levels and intermediary margins vary widely from country to country, depending on the level of competition, services offered, efficiencies or inefficiencies of scale, and geographic and turnover factors related to market size, purchasing power, tradition, and other determinants.

# Role of Middlepeople in the Distribution Channel (4 of 4)

Some correlation may be found between the stage of economic development and the length of marketing channels. Channels are likely to be shorter for industrial goods and high-priced consumer goods than for low-priced products. Combination wholesaler-retailers or semi-wholesalers exist in some countries adding length to the supply chain. In some countries adequate market coverage through a simple channel of distribution is impossible. Sometimes only parts of a distribution structure exist, so several distinct distribution channels are necessary to reach different segments of a market. Channels suitable for distribution in urban areas may not provide adequate rural coverage.



# Assignment #1 - Role of Middlemen in the Distribution Channel

- See Handout for Assignment #1

# Grey Market

A grey market occurs when a product is bought and sold outside of the manufacturer's authorized trading channels. If a storeowner is an unauthorized dealer of a certain high-end electronics brand, the product is considered to be sold in the grey market. If the product is illegal, it would be selling on the "black market".

- Read the article in the handout to learn more about the grey market: *Court rules fundamental difference between copyright licence and assignment*
  - *Law Times August 7, 2007*

# Assignment #2 – Grey Market

- See Handout for Assignment #2