

# **EXPORT MARKETING AND FINANCE**

## **WEEK 11 MANAGING EXPORT OPERATIONS**

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## **WEEK ELEVEN**

### **MANAGING EXPORT OPERATIONS**

#### **11.1 Introduction**

Welcome to week 11 lecture! We have made great strides towards completion of the course. We are now in the second last topic where we examine strategies for managing export operations. We will focus on developing export strategy, physical distribution, logistics strategy and management.

#### **11.2 Intended learning outcomes.**

At the end of this lecture, you will be able to

1. Describe export market strategy development.
2. Discuss physical distribution strategy.
3. Discuss the logistics strategy.
4. Evaluate custom planning strategy.

#### **11.3 Understanding export strategy**

Developing an export strategy is one of the chief responsibilities of an export marketer. The strategy guides all activities that will help service an export order. An export strategy will constitute all activities and decisions regarding how the company will export to a foreign country, determination of pricing strategies, the products that will be sold, the markets it will sell to, as well as how the products will be exported. Darling and Seristö (2004) have identified the following as key strategic issues for consideration in strategy development: analyze market opportunity; assess product potential; establish market entry mode; make a firm commitment; allocate necessary resources; identify technical issues; develop strategic marketing plan; organize operational team; implement marketing strategy; and evaluate and control operations. Each of the steps will be discussed briefly.

1. Analyzing export market opportunities: marketing opportunities in foreign markets are identified through market research. The research focusses on the potential need for the product, the risks involved, the level of competition and all requirements that would have to be met before the product is exported. If potential demand is there the next step is to assess product potential.
2. Assess product potential: the exporter must determine the potential demand through market research. The demand must be large enough to warrant further action from the marketer. The marketer must also evaluate whether the product will have to be modified to meet exporters' expectations. Establishing product potential will also require one to determine its uniqueness, brand reputation and costings among others.
3. Establish market entry mode. There are two major ways of entering into a foreign market: direct or indirect. Indirect entry is where the firm uses middlemen to take its goods to foreign market while direct marketing is where the firm is engaged in export business. This

choice is guided by control, cost, expertise, relationship building, and market fit among others.

4. Make a firm commitment. Once the firm has established the mode to use, it must demonstrate firm commitment especially from top management for the strategy to work. The management must give all necessary support in terms of resources and goodwill and negotiate any contracts required as well as obtain any licenses.
5. Allocate necessary resources: export business is a costly endeavor, and the marketer must be willing to bear the costs. The main costs include procurement of goods, licenses costs, shipping costs, taxes among others.
6. Identify technical issues: these are issue that are unique to export business and may pause a challenge to the marketer. These revolve around documentation process, financing, regulations, and all other technical challenges that may be encountered.
7. Develop a strategic marketing plan: all marketing activities must be guided by a marketing plan. The plan is drawn from an overall company plan and will constitute marketing objectives, strategic activities, and evaluation methods.
8. Organize operation team: export operations require a team to be set to carry out the activities effectively. The export manager has been appointed and a team under him is selected. The manager must be conversant with export procedures and the international markets.
9. Implement marketing strategy: the export marketer will then implement the strategy. This will require coordination of all processes, activities, and procedures.
10. Evaluate and control operations: the export market must have in place evaluation and control mechanisms to ensure that the strategy is working. Evaluation will ensure that if the strategy is not working, that corrective actions are put in place. This will be done all the time until the strategy produces expected results.

#### **11.4 Factors that influence development of export strategy.**

Development of export strategy requires effort as it is a complex process that involves many considerations. Branch (2006) have identified the following major issues that a marketer must consider increasing chances of success in export marketing strategy.

- a) **Company objectives:** the objectives are found in the company's business plan which is reviewed regularly according to the changing market environment and spans three to five years.
- b) **Company resources:** the extent to which both large and small companies have specialist personnel engaged in shipping and warehouse distribution activities depends on the markets, products, international distribution networks they serve, complexity of the operations and the volume of business involved.
- c) **The company's position in the marketplace:** the higher the company's profile, the more likely is the company to be market leader and to play a dominant role in the distribution arrangement.

- d) **Legal and political constraint:** several governments insist that imported goods are conveyed on their airlines or shipping services and FCA or EXW.
- e) **The sales focus and market stability:** company's may be reluctant to set up an extensive and logistics department to cater for irregular shipments to unstable markets.
- f) **Level and nature of competition:** with increase in overseas markets deployments, methods by which goods reach the buyer become extremely competitive as the options increase and the value-added benefit becomes more closely analyzed by the buyer in the selection of the supplier. This raises the need for the exporter to choose the most advantageous and competitive distribution network to obtain and retain overseas business.
- g) **Cost:** there are several cost elements in an international distribution network, and it is important that an exporter constantly monitor these costs to ensure they remain competitive in the market in which they operate and especially in terms of value-added benefit.
- h) **Value added benefit:** the choice of distribution network should be evaluated on the perceived benefits it brings to the buyer and the resulting value-added benefit. Shippers are constantly looking for improved efficiency in the distribution network which they can transform into improved profitability and competitiveness derived from the imported product.
- i) **Flexibility of service:** flexibility arises from the range of facilities offered by the carrier and route options whose distribution network enables the shipper to exploit market opportunities.
- j) **Frequency of service:** basically, competitive transit times and frequent, reliable services at a competitive rate are the best ingredients to facilitate overseas market development and enable the buyer to maximize profits from the imported goods.
- k) **Logistics:** the need for inventory management which normally requires substantial resource investment and may necessitate the alternative of a company requiring to have an operating alliance with another company for purpose of cost sharing and value adding to the company services, leading to enhanced competitiveness.
- l) **Maximize:** the company business must strive to maximize business volume through flexible pricing strategies which places particular emphasis on the need to generate high business volume to support the company infrastructure and resources available to the shipper.
- m) **Culture:** the company must fully understand the market culture in which they are dealing and this embraces the importers' company management culture, and in particular the management decision making process.

### 11.5 International distribution strategies

International distribution strategies vary depending on the location of the firm and location of the market. Branch (2006) notes that an international company can use a mixture of international

distribution strategy depending on company resources, infrastructure, products, culture, markets, competition, and cost efficiency factors and that strategy options available are summarized in Table 11.1

**Table 11.1 International Distribution Strategy options**

<b>International Distribution Strategy</b>	<b>Explanation</b>
Near and distant markets	Near markets are easier to serve than distant markets, regular business and control systems are easy to set up, freight cost is lower and transit time quicker. exporters tend to have better comprehension of the near markets especially in areas of infrastructure, culture risks and ongoing developments.
Destination seaports	Importers prefer countries which are on the international container network, modern container berth ports, good infrastructure and served by rails. The factors that influence choice of destination or feeder seaport include overall efficiency, infrastructure, level of tariffs, overall transit time, degree of technology, competitiveness, range of facilities, proximity to buyers address etc.
Sea-land bridge and sea-air bridge	This mode of transport opens new markets and offers good inventory management, especially for perishable goods with such competitively priced services offering quick transit times and numerous benefits to shippers.
Distriparks	They are found in major ports. They provide a new dimension to international physical distribution where suppliers, shippers or exporters can lease warehouse accommodation in the port environs and assemble, process, and label the products with substantial cost savings.
Free trade zones/industrial zones	Like distriparks, the zone enables the user to lease land and accommodation from the port authority and undertake the manufacture and/or componentized assembly process. Cost, local taxes and rate reduction are realized as well as providing a means to enter markets which are restrictive by using local labor in the manufacturing and assembling process.
Customs planning	It involves a wide variety of customs activities including tariff costing outwards, duty preference and origin, freight procurement, VAT, outwards processing relief, standard exchange relief, temporarily imported goods, customs warehousing, free zones, carnets, export licensing, valuation and local export control.
Districentre	It is virtually a warehouse. the concept emerges from four major trends; manufactures concentrating on their core production and sales activities; manufacturers organize their production decentrally and internationally; making product lifecycle faster and shorter with flexible distribution; and logistics and EDI becoming essential in international distribution. The system provides a total transportation service package geared to individual manufacturers and their customs needs.

Serving a single market	It offers a high volume of business, potentially good profitability, good infrastructure, trade within very low risk, single product specification, good logistically and computer focused distribution, ease market entry, free circulation within the market, single currency, labor mobility within the market and free capital movement. It provides opportunities to have regional distribution centres.
Routeing	Routing of consignment requires examination where ultimate choice influence transit time, transshipment resources, handling and any constraints on weight, length etc., customs examination resource, total overall costs, reliability, frequency, mode of transport, value added benefit and insurance.
Economic blocks	Companies situated in economic blocks and customs unions should strive to export within the block or union which offers the potential to develop volume business and to take advantage of the liberalization of trade within the block or union.
Consolidation	Consolidation of stock is a growth market by air, truck and container which is economical. a network of services exists worldwide.
Packaging	It is a form of protection and an aid to handling, identity, and stowage. Excessive packing increases the volumetric size of the goods that can increase freight cost on high volume products.
Loadability and stowage	Shippers should advise a stowage plan to ensure they make the best use of cubic and weight capacity of the truck or container. The optimum size packing that maximizes loadability will lower the distribution cost of product and result in more competitive pricing.
Distribution centres	It is associated with distriparks, districentres and free trade zones. The concept exists whereby the exporter will centralize all his products on one distribution centre which will feed into the neighboring market. It is so similar to just-in-time or districentre concepts and can be described as the cluster market distribution centre concept which provides lower distribution costs and improves the service to the importer.
Piggyback and trade associations	Several exporters selling in common overseas territories have joined forces and operate common distribution channels apportioning the cost. Such a system is called "piggyback" where the inexperienced exporter works on the backs of the established overseas exporter.
Third countries	An increasing volume of business is now conducted on a third-country basis and may involve a different distribution network.
Buyer's or importer's portfolio empathy	Good relationships and lasting business development emerge from the strategy of empathy whereby exporter and importer share each other's views and objectives in the conduct of international trade. Special attention being the infrastructure obtaining in the buyer's country and the most acceptable and efficient distribution method.
Currency	The freight rate may involve the exporters or currency or a third currency, but the currency used requires careful evaluation.
Audit of carrier or freight forwarder	The selection of the most suitable freight forwarder and carrier requires careful evaluation with the feasibility test of both undertaken and a system devised to monitor transits.

Direct or indirect marketing	Choosing direct marketing, the exporter has complete influence over the distribution in consultation with the importer. In the case of indirect marketing, the exporter may sell through an intermediary and has less influence on the distribution arrangements.
Shippers' council	It exists in many countries, and it provides a useful contact point to advise on local distribution resources; infrastructure; problem areas and possible solutions; and availability of freight forwards /logistic operators/customs regulations.

Source: adopted from Branch A. (2006) *Export Practice and Management*, Thomson Learning

### 11.6 Physical distribution

This is a critical step in export business and right decisions must be made. Physical distribution encompasses the movement and handling of products outward to points of consumption or use. In export business the processes, procedures, and documents required in export shipments are relatively more complex because of the following (Albaum et al, 2016):

- a) The passage of goods across national boundaries, with attendant legal requirements.
- b) Shipment by ocean-going vessels or international airlines, with attendant security needs and specific documentary requirements.
- c) The time and distance required to complete the transaction, with attendant needs for ensuring payment.

### 11.7 Significance of physical distribution

Physical distribution is significant to an export marketer because of the following (Albaum et al, 2016):

- The price that the ultimate user in foreign markets must pay is strongly influenced by the way in which the product is physically moved from the manufacturer/exporter.
- Through export market strategy, the marketer can increase profits directly – through either reduced costs or increased sales.
- Physical distribution can have a positive effect on a company's sales volume through the service provided such as the speed with which a product can be provided to a customer; the reliability with which the average speed of service is achieved; the degree of immediate availability of the product; and the arrival of the product in good condition.
- Company structures: The physical distribution system can determine whether the firm succeeds or even survives in foreign markets.

### 11.8 Decision areas in physical distribution

The export marketer has to make decision in several areas: these include nature of shipment, warehousing, transportation, material handling and order processing and documentation among others ((Albaum et al, 2016).

- a) Nature of the shipment: this will constitute such things as the minimum size of the unit pack, the quantities to be shipped, the type and method of packing to be used to protect the

product from damage in transit and the identification markings to be placed on the outside packing container.

- b) **Transportation:** the marketer will consider the route that the shipment is to follow, selecting the mode(s) of transportation, and providing adequate insurance coverage.
- c) **Warehousing:** this encompasses storage, assembling, breaking bulk shipments into smaller sizes to meet customer needs and preparing products for reshipment.
- d) **Materials handling:** Provision must be made for the internal movement of products within plant and warehouse facilities.
- e) **Carrying inventory:** This involves determining the proper level of inventory to hold so that a balance is maintained between customer service and inventory cost.
- f) **Order processing and documentation:** Correct documentation is essential to the successful physical movement of a shipment. Davies (1984, has summarized the so-called 'problem of documentation' as consisting of five main components. These are as follows:
  - **Complexity:** numbers of documents and correspondents.
  - **Culture:** language, currency, law.
  - **Change:** changes in requirements.
  - **Cost:** costs of preparation.
  - **Error:** consequential costs of error and cost of correction.

### 11.9 Distribution Network Problem Areas and Possible Solutions

The physical distribution process encounters many challenges that the export marketer needs to be aware of. The marketer has to anticipate these challenges so as to develop an appropriate solution. Branch (2006) identifies the following challenges and some of solutions to be considered:

- a) **Industrial disputes:** Industrial disputes or a build-up of traffic at a seaport can seriously disrupt a service and result in a delay in goods' arrival. Alternative routes should be explored at the earliest possible time to include transferring to air freight.
- b) **Trucks and container types:** The range of truck and container types tends to increase but it generates an imbalance of their use especially in the container business, liquid imports, perishable foodstuffs, and machinery export. It can result in a shortage of specific container types at peak time.
- c) **Dangerous goods:** Dangerous goods and individual loads require special arrangements where the following become relevant in the international movement of individual loads:
  - Checking of the ports of departure, destination, and any transshipment areas
  - Have plan and specification of shipment to evaluate stowage, handling arrangement and identify weight distribution.
  - Pre-planning of transportation of an indivisible load especially regarding route and time scale.
  - Consider that the rates for transporting indivisible loads are assessed on a cost-plus profit basis.

- d) **Cargo monitoring:** The need for companies to monitor closely all transits and any irregularities to initiate early remedial measures with the parties concerned. Computerization of the shipment logistics enables quicker and more accurate routine work.
- e) **Management team:** Some companies have a low profile in the management structure, especially at senior level in the international physical distribution trends. In a market that is more globally focused, the tendency is to have a professionally qualified management team for the company's international physical distribution.
- f) **Exchange risks:** Exchange risk remains evident in many markets. The need to seek advice from professional sources, especially the national bank of the importer's country.
- g) **Cargo insurance:** Cargo insurance. Exporters should check that the importer has insured the goods and take contingent measures when in doubt.
- h) **Documentary credits:** Documentary credits should be checked thoroughly on arrival to ensure they represent the terms already agreed and the exporter can negotiate with the distribution arrangements.
- i) **Faulty documents:** Faulty documents are a frequent cause of late payment and delivery of goods. Professionally qualified personnel handling such documents can reduce the risk, and attendance at training courses and seminars enables staff to keep up to date. Full use should be made of EDI resources and techniques. A logistic distribution plan should be devised and monitored using EDI resources.

### **Review questions:**

1. Critically examine major problems encountered in physical distribution of products in international markets and propose solutions.
2. Examine main problems of documentation in export marketing.
3. Discuss significance of physical distribution to an export marketer.
4. Identify and explain main international distribution strategies available to an export marketer
5. Critically evaluate factors that influence development of export strategy.
6. Discuss steps you would follow in developing an export marketing strategy

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