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**THE INFLUENCE OF INTERNATIONAL MARKETING CHANNEL
MANAGEMENT ON EXPORT PERFORMANCE
(THE CASE STUDY OF FINNISH EXPORTING FIRMS
TO SOUTH EAST ASIA MARKET)**

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ABSTRACT:

This study is to find out how the comprehensive international marketing channel management can influence to the firm's export performance. The theoretical framework used in this study mostly based on the Marketing channel management literatures and for the empirical study, the annual report of the firms, publication regarding to target country information and the specific industry and the interview were used to collect the data. The theoretical framework focuses on the International marketing channel management which compose of two main areas; (1) International channel design and (2) International channel management. The proposition of this study is the firm who develops the comprehensive marketing channel has the potential to be successful on the desired export performance.

The research method used for this study is qualitative, case study method with the structured set of questionnaires. The comparison of two firms has been done to find out whether are there any differences between the firm who develops the comprehensive international marketing channel and the firm who does not in term of export performance. The main finding for this study is that the firm which develops the comprehensive marketing channel tends to be more successful than the firm who does not, in term of export performance. The firm whose its export performance is successful tends to perform the following channel practices (1) Having the strong presence in the target countries (2) Conducting market approach rather than market approach (3) Having clear channel objectives throughout the channel (4) Efficiently resources and capabilities using (5) Good channel partner selection (6) Establishing commitment throughout the channel

KEYWORDS : International marketing channel, Export performance , Channel design, channel management, South East Asia

1. INTRODUCTION

1.1 Background of the study

The study of the channel management has been widely discussed and researched due to the increasing of business units and the competitive environment that create the opportunities and chaos for business in supplying the products or services to the customers. Moreover, as the world becomes more globalized, it is essentially needed for the businesses to search for the opportunity to be successful. One of the most commonly method is to expand their businesses into the international market. New market seeking, and increasing in the growth of sales have become the general norm of the nowadays firms. Nevertheless, the market is not for one, but it is for all business participants who are competing with one another among the complex and unstable environment. Therefore, firm that is able to develop the comprehensive international marketing channel, has the high potential to become the successor and be able to survive in the market (Stern 1999).

This study focuses on Finnish firms who export to South East Asia market. This is because South East Asia market is still one of the most important markets in Asia for Finland, after the main countries in Asia like China, Japan, and Korea. The proportion of Finnish export to main South East Asia countries such as Thailand, Singapore, Malaysia and Philippines accounted for 8% of the total trade to all Asia countries, where 33% of the export goes to Middle East region and 66% goes to the rest of the Asia including South East Asia region. However, South East Asia region accounted for about 16% of the export trade from Finland to the rest of Asia excluding Middle East. The growth of South East Asia market from year 2004 until year 2006 grew 5 %. The export from Finland to Asia accounts 13.8 % of all region export market and grew from year 2005 for 13 % which is the second biggest export market for Finland. However, the export share from Finland to EU countries is still in the first rank which accounted for 73.4% in year 2006 and grew by 50% from year 2005 (Tulli 2004 – 2006.)

From the statistics, the trade with South East Asia region seems to get growing and it is still one of the main important markets in Asia after China, Japan and Korea or Far East region. Therefore the study of Finnish export in South East Asia is very interesting, because South East Asia market is the second biggest market in Asia after East Asia. See figure 1. The main countries in South East Asia are Singapore, Malaysia, Philippines and Thailand to Finland according to the Total export values of each country (Tulli 2006). Therefore in this study, these four main countries are the target of South East Asia region.

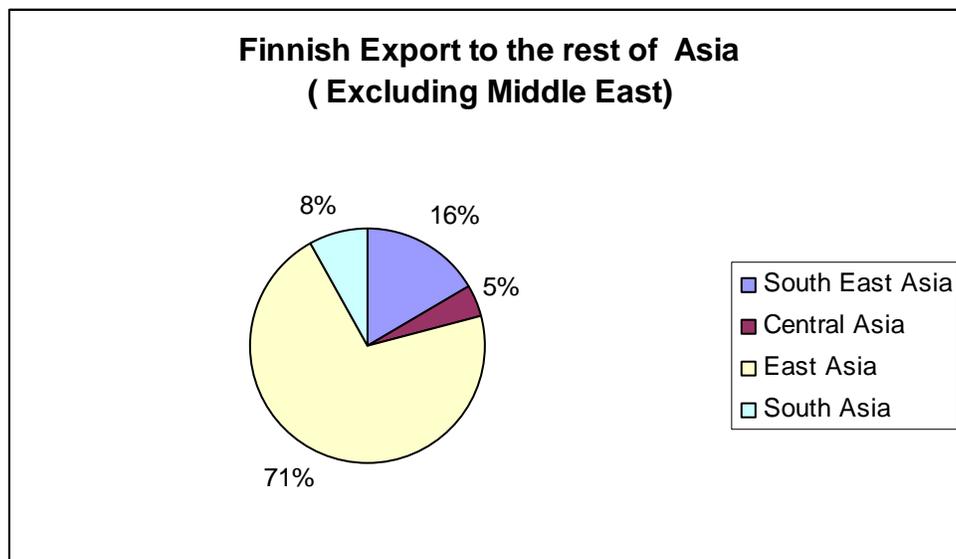


Figure 1. Finnish Export trade to the rest of Asia, excluding Middle East (Tulli 2006).

1.2 Objective, limitation and the benefit of the study

Refer to the current situation of Finnish firms that exporting to South East Asia region; some firms are so successful in their export performance whereas some firms are not. For those firms who are successful, one of the reasons might be that, their international marketing channel has been developed comprehensively while others are not.

Coughlan, Stern, Anderson, and El-Ansary (2006: 2) stated that the current situation of many firms in the industries has placed the low awareness of the value on developing the comprehensive channel that might create strategic marketing asset to the firm. Therefore, failure to realize the value of marketing channel may result in the low ability to compete in the industries.

Objectives

The primary objective of the study is to understand how the comprehensive international marketing channel development influences to the export performance of the firms which export to the main countries in South East Asia such as Singapore, Thailand, Malaysia and Philippines. To study this, the following sub objectives must be achieved;

1. To understand what are the channel alternative structures and the key factors in developing international channel design.
2. To understand what are the key factors in increasing international channel management's satisfaction.
3. To compare two Finnish firms channel practices and performance in main countries of South East Asia.

Limitation of the study

The scope of this study is aiming at the manufacturing Finnish firms who are exporting to South East Asia .The main focus on the channel development is from the producing firm's point of view only. The target countries are mostly focused in Thailand, Singapore, Malaysia and Philippines.

In addition, it is aware that international marketing channel development might be just one of the most important factors that influences to the firm's performance. However, other factors such as Firm's financial structure, Organization management and other marketing strategies etc... are also the important factors that influences to the firm's performance as well. However, this study, only focus on the role of International marketing channels management only.

The benefit of the study

This study benefits to the manufacturing firm aspect and the research aspect.

For the manufacturing firm, this study brings the understanding of what are the correct channel practices and what are the key issues that need to be considered and focused when developing the international marketing channel.

For the further research study, the researcher can use this study to gain the understanding on how the practices of the Finnish firms are when developing the international channel marketing in South East Asia. This study can be used to form the deeper experiment between their international marketing channel practices and their export performance in the quantitative way or qualitative way by using this report, to focus on the specific issues.

1.3 Structure of the study

Chapter 1 presents the introduction to the study, background of the study, research problem, objectives of the study, limitation of the study, the benefit of the study and the structure of the study.

Chapter 2 presents the channel alternative structures factors and the key factors that are related to channel design, which are company related factors and market related factors

Chapter 3 presents the key factors that are related to channel management which are compatibility of goal, objectives and market strategies; and the balance of position, role and benefit of channel members.

Chapter 4 presents the methodology used, data collection and validity and reliability of the study

Chapter 5 presents the result from the empirical study by comparing the international marketing channel practices between two Finnish firms.

Chapter 6 presents the summary of the theoretical framework, the management implication, and the suggestion for the further study.

2. INTERNATIONAL CHANNEL DESIGN

The purpose of this chapter is to present the key issues that firms need to consider when developing the international channel design. Because the well-developed channel design is one of the elements in marketing channel that influences to the firm's performance, therefore, it is essential for the firm to have the great understanding on marketing channel concept.

2.1 The marketing channel concept

“Marketing channel is like the gatekeeper between the manufactures and the end user. Failure to understand the channel can result in the failure of the whole chain” (Coughlan et al. 2006: 1-2). The concept of marketing channel development is to use the marketing channel **as the strategy to build the firm's competitive advantage** (Bruce 1981; Stern 1999; Wise and Baumgartner 1999; Bowersox & Cooper 2006; Coughlan et al. 2006).

The concept of marketing channel consists of **two broad topics** which are **channel design and channel management** in which channel design mainly discusses the selection of the channel and the channel management mainly discusses about the channel relationship (Bruce 1981:1; Bowersox & Cooper 1992; Rangan et al. 1992; Coughlan et al. 2006). Channel design will be presented under this chapter whereas channel management will be presented in the Chapter 3. The channel design and the channel management issues must be viewed in the combination even when conducting the channel design (Frazier 1983). This proves that channel design and channel management cannot be neglected when developing the marketing channel.

Marketing channel is defined as the process in making product or services available for consumption starting from the creation point to consumption point where the key members in marketing channel consists of manufacturing firm, distributor/wholesaler retailer/ agent, end users (who can be consumer or business customers) (Vaile et al. 1952; Bruce 1981:1; Coughlan et al. 2006: 4-10). This shows that marketing channel process must be able to integrate with the overall business activities.

Blythe & Zimmerman, (1992:208) stated that marketing channel should be able to add the utilities of the products and services in term of place, time, ownership, and information where **place utility** means making the product available in a place which is convenient for the customer; **time utility** means making the goods available at a time which suits the customer's needs, for example; the form of just in time delivery; **ownership utility** means the speed in ownership transfer which once the transaction has been proceeded ,the owner can benefit from the goods or service immediately; **information utility** means that distributors can answer the questions related to the goods or services directly and providing faster information service to the customers.

The rationality behind the marketing channel is, first of all, to support the others functions of business. These functions are ownership transfer process which includes buying, selling, transportation, financing, storage, risking and standardizing. Secondly, marketing channel can reduce the complexity of the repeated activities such as new supplier selection, negotiation, selling and buying arrangement etc...Thirdly, by specializing in the overall channel activities, marketing channel can improve the firm's efficiency (Bowersox & Cooper 1992:6-15; Coughlan et al. 2006.)

2.1.1 The reality of the international marketing channel

Bowersox & Cooper (1992) and Coughlan et al. (2006) discussed that firms must take into account the (1) member's awareness (2) degree of visibility (3) multiple engagements (4) intensity of involvement (5) degree of acceptance (6) level of cooperation and conflict, before conducting the marketing channel development. These issues will be discussed in more detail in the following.

(1) **Member's awareness** means the awareness of the existing channel, channel members and roles (Bowersox & Cooper1992:6; Coughlan et al. 2006:1-3). When the marketing channel developed in the foreign country, the awareness of the channel may be neglected. Especially if the firms use the domestic middlemen to do the market in foreign country, the awareness of who the channel member is; for example foreign channel member; may be not clear and not presenting the real existing channel picture because the firm has quite limited

visibility to know who are their customers and channel partners. Therefore, it may result in the failure of understanding the channel chain.

(2) Degree of visibility the level of understanding the total channel flow or activities from upstream to downstream level (Bowersox & Cooper 1992:6). When the firms operate in the distant from the foreign country; whether the firms may or may not have the local office in the foreign country; the visibility of the firm in the channel from upstream to downstream level may be not so clear. Especially the visibility of the foreign market may seem to be disadvantage when comparing with the local competitors. Therefore, the firm has to find the way to increase its visibility in the foreign market in order to compete with the local competitors or even with the other foreign competitors.

(3) Multiple engagements; the multiple channel arrangement that might occurs may lead to the channel conflict (Bowersox & Cooper 1992:6). When the firms want to maximize its market coverage, in order to compete with the local competitors whose market coverage is advantage, the firm may try to use all the available channels to maximize the market coverage. However, the conflict may arise because the multiple engagements may lead to the competition within the channel.

(4) Intensity of involvement; the intensity of working relationship among the channel (Bowersox & Cooper 1992:6). When the firm operates from the distant, especially, those who use the service from the domestic middlemen, the firm may lack the opportunity to directly involve with the channel member (foreign middlemen and customers). Therefore, the firm may lose the chance to create the good working relationship among the channel.

(5) Degree of acceptance; firm's will to integrate the resources into the channel (Bowersox & Cooper 1992:6). When the firm wants to access the foreign market, many kinds of cost occur, for example, cost in searching for middlemen, negotiation cost, establishing local offices cost, communication cost etc... . All these costs require resources such as staff, sale work force, capital etc... In some case, entering to foreign market may require higher cost than home market. Therefore, the success of the channel requires the firm's will to integrate the resources into the channel and that involves the huge cost that might occur.

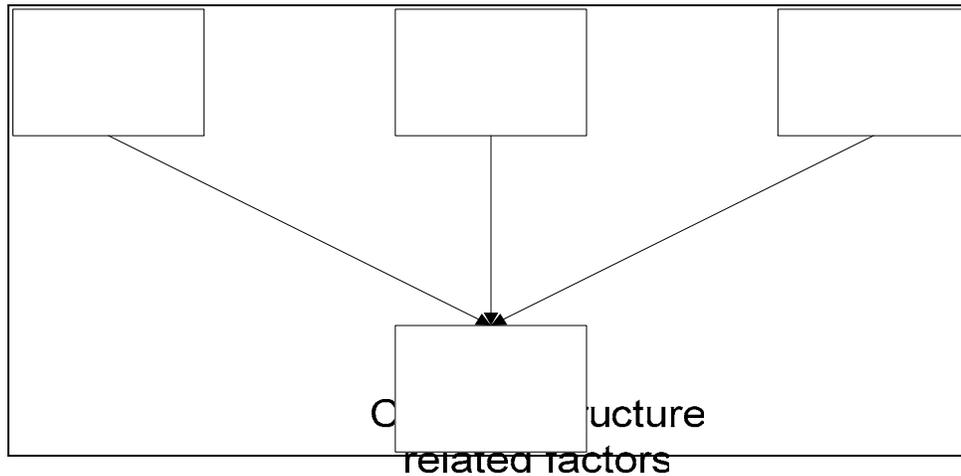
(6) Level of cooperation and conflict (Bowersox & Cooper 1992:6). Culture is one of main elements in channel working relationship. Especially, when the firms' home culture is very distant from the foreign market's culture such as the working style, communication style, language, etc... These are the issues that may lead to the rise of conflict and poor cooperation among the channel, because it may create the misunderstanding of the goal, objectives and even the personal conflict.

These six issues reflect the reality of international marketing channel. Firm needs to find out what channel practices needed to be done in order to decrease or increase such effects on the international marketing channel.

As discussed earlier, international marketing channel development consists of two main areas which are (1) channel design (2) channel management. In this chapter, factors that are related to channel design will be discussed and factors that are related to channel management will be discussed in Chapter 3.

In generally, we can categorized three main factors that are directly related to the international channel design which are company related factors, market related factors and channel structure related factors (Bruce 1981:8; Czinkota & Ronkainen 2004; Morelli 2006; Coughlan et al. 2006.)

Firstly, channel structure related factors; firm must be able to identify channel alternative structure, the channel structure elements, and to select the right channel partners. **Secondly, company related factors** constitute of the firm's channel objectives, firm's resources and capabilities and firm's marketing mix. Firm must be able to link these factors to the suitable channel choice. Thirdly, **market related factors** constitute of doing target country analysis, competition analysis, and customer analysis. Firm needs to design the channel in the way that it is suitable with the market demand, competition in the market and the constraints within that target country. Company related factors and market related factors need to be considered along with the channel structure related factors in order to formulate the optimal channel design. See figure 2



Compan
fact

Figure 2. Key factors on international channel design (Bruce 1981:8; Czinkota & Ronkainen 2004 in Blythe and Zimmerman 1992; Morelli 2006; Coughlan et al. 2006.)

All of these key issues will be discussed in the following session where the purpose is to first, present the alternative channel structure and secondly identify the main relevant factors in developing the international channel design because these factors are the crucial variables that influence to the firm's performances.

2.2 Channel structure

Channe

In order to develop the optimal channel design, channel structures need to be considered along with the company factors and market factors. Because, the scope of this study, is mostly concerned the focal firms who are mainly manufactures that exporting to South East Asia, therefore the discussion on this topic will begin with the type of export mode discussion, following with channel structures elements and channel partner selection.

2.2.1 Export mode

The type of the export mode used is the constitution of the channel design and it is the starting point before the decision on what the channel structures should be; for example, the degree of directness of the channel, level of intermediaries, type of middlemen, and number of channels. According to Luostarinen & Welch (1990), firms have three alternatives on exporting; indirect export, direct export and own export. See figure 3

Indirect export refers to the export activities that the producing firm buys or used the service from domestic intermediaries to carry on the export task. (Luostarinen & Welch 1990: 21). Indirect export suits the firm that does not have the knowledge or expertise in the foreign market or do not have enough resources in term of capital or work force to establish the connection with the foreign market. Using indirect export can be easier to access the foreign market when firms do not have enough resources and capabilities. On the other hand, the firms may lose the visibility in the foreign market and may not be able to address the customer's demand, target country constraints and the competition in the foreign market that well. If there are the reputable middlemen in that foreign market, firms may decide to use middlemen to open the market first and pick up the business later. Moreover, if the foreign market, are geographically remote or culturally distant, the used of trading house, or agency may be useful and save the cost of developing the channel in foreign market (Luostarinen & Welch 1990:22.)

Direct export refers to the export activities that carry on by producing firm and directly inter-contact with the foreign intermediaries or intermediaries in that target country. In addition, the setting up of foreign sale subsidiary which can be seen as foreign direct investment can be understood as direct export as well. This is because it is the behavior of exporting directly to the intermediaries in the foreign country where the sale subsidiary is represented as the intermediaries in the foreign country (Luostarinen & Welch 1990: 25). Direct export suits the firm that has enough knowledge about the exporting activities and foreign market knowledge. Usually, direct export requires higher financial resources than indirect export, therefore firm engages into direct export need to have capital to invest in export activities on their own. In addition, communication or language should

be able to communicate with the middlemen in the foreign market. Moreover, direct export gives the visibility of the customers' needs and more direct contact with the market (Luostarinen & Welch 1990:27.)

Own export refers to the export activities that producing firm carries on the export activities directly to the end customers. Usually, own exporting occurs when there are no domestic middlemen or foreign middlemen between the producer and the final customers (Luostarinen & Welch 1990: 27). Own export can be the most efficient way of exporting because the firm has very high visibility of the customers and the market situation. However, it requires a lot of traveling and contacting with customers which are time consuming and costly. The firm needs to be skillful and own expertise knowledge of that market about final customers very well. In addition, own export can be very risky if the customers' demand is too large. Firm may not be able to response with the demand and it may require more expenses on the export activities (Luostarinen & Welch 1990:28.)

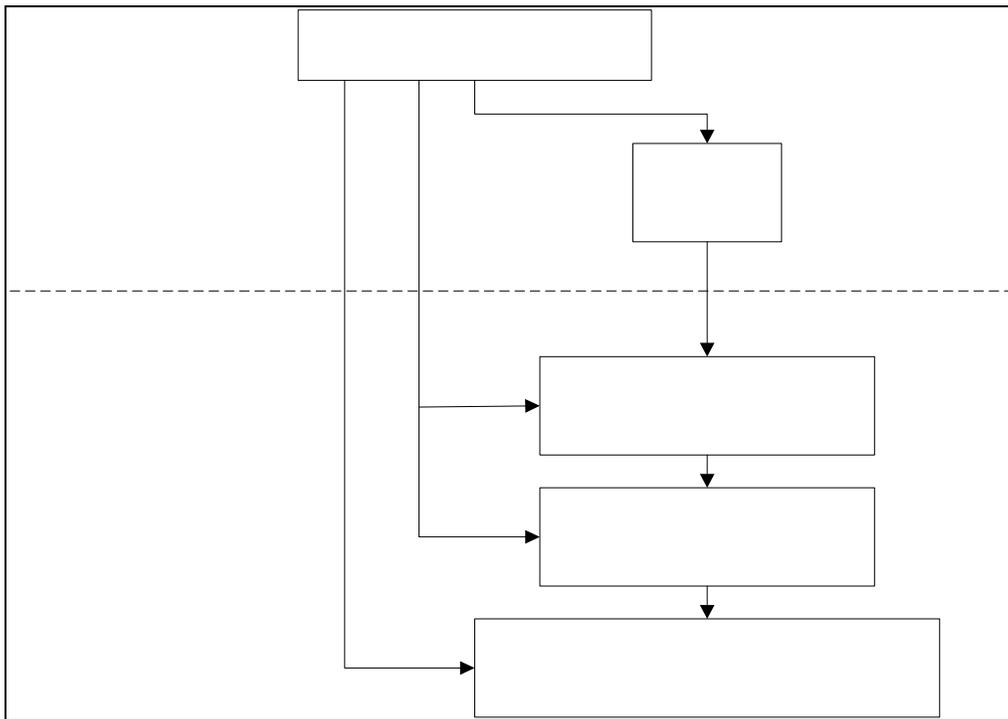


Figure 3. Type of export modes, adapted from (Luostarinen & Welch 1990).

After the firm has made the decision on what type of export modes will be used, depending on the selected mode, the channel structures need to be designed in corresponding with the selected mode. The direct and indirect export modes impact to the channel structures elements on how direct the channel should be, how many level of the channel structure should be, how many intermediaries at each level should be, and what type of intermediaries will be used etc...These are the issues that firm needs to consider after the mode is selected. Later, channel structure elements, channel partner selection and the allocation of channel partners' responsibilities need to be identified and discussed as they are the main factors of the channel structure design.

2.2.2 Channel structure Elements and the challenges

According to Bruce (1977: 71- 82), Bowersox & Cooper (1992: 85-86),Coughlan et al. (2006:21), the constitution of the channel structure can be grouped into five elements which are degree of directness, number of middlemen, type of middlemen, number of channels and degree of cooperation.

(1) Degree of directness of the channel - The degree of directness of the channel refers to the length of the channel. There are two types of the channel which are direct channel and indirect channel. For example, channel that consists of producer-agent/distributor-wholesaler-retailer-consumer is considered as the very indirect channel and it is three levels of channel, whereas channel that consists of producer – direct sale force-consumer is considered as the direct channel. However, the degree of directness of the channel depends on many things such as product, price, promotion, distribution strategy, customers; competitors etc... All of these issues need to be taken into consideration when making the decision on how directness of the channel should be. These issues will be discussed in more detail later on how it impacts to the channel structure.

In term of the international market, where the visibility of the customers is not so clear as the domestic market, the firm may want to increase its visibility to the foreign market by having more direct channel which gives the opportunity for the firm to have a better direct

contact with the customers and understands the foreign market situation better. Moreover, the more direct the channel is, the firm can possess the better control on the middlemen. The firm can direct the middlemen to do the channel activities in the way that the firm desires to serve the goal. Especially when the firm is distant from the foreign market and does not have its own foreign offices, the way to reach the customers mainly depends on the middlemen. However, when the visibility of the firm is increased and the firm wants to maximize the market coverage, the firm may decide to lengthen the channel (More indirect channel) and increases the numbers of middlemen (Intensive distribution) (Cateora 1990; Stern 1999.)

(2) Number of middlemen at each level - Number of intermediaries at each channel level determines the degree of intensive distribution. In generally, there are three levels of intensity; intensive distribution, selective distribution and exclusive distribution. Intensive distribution means that the customers can easily purchase the products through many trading areas. Exclusive distribution means that the products can be purchased through only one vendor whereas the selectivity distribution is the distribution level between intensive and exclusive level, depending on which ends of the distribution type is going toward to (Coughlan et al. 2006). The degree of intensity directly relates to the directness of the channel. The more the level of middlemen used, the higher the number of middlemen and the more intensive the channel is.

In the international context, the firm's visibility to the market may not be as clear as the local competitors and sometimes there is the limitation of the available channel in the foreign country. Therefore, the firm may not certainly know whether all the demands have been captured already. The firm may want to increase its channel coverage in order to assure all customers or all segments of the market have been covered. In this case, the firm may have to increase the number of middlemen in order to increase the intensity of the channel (Stern 1999; Cateora 1990.)

(3) Type of middlemen - According to Morelli (2006), **Distributors (or wholesalers)** – are intermediaries who sell products to other channel members who in turn resell the products. Distributors offer broad market coverage and reduce costs for their suppliers by providing logistics service such as warehousing, transportation and customer services such as sale support and credit. **Agents** - are individuals or companies that sell products on

behalf of a manufacturer. Agents do not take physical title to the goods and generally do not provide the logistics service. Their sale is typically remunerated on a commission basis.

Dealers/retailers purchase the products from manufactures or distributors for direct resale to end users. When manufactures have direct relationship with dealers, they normally play a stronger role in demand generation than distributors do. Types of intermediaries directly relate to the physical distribution strategy and the logistics service function required by manufacture. For example, if the manufacture requires the middlemen to take care of storage, delivery and inventory management etc..., the manufacture should use the middlemen that provide the logistics facilities such as full service distributor. The firm should not use agent, because agent does not provide such logistics service functions.

In the international context, type of middlemen used is very important, because the market characteristics in each country are different. The firm cannot always uses the existing distribution strategy that has been used in the home market, therefore the distribution strategies in each foreign country can be varied and that leads to the right selected types of middlemen. In some foreign countries, the particular type of middlemen may not be available. In this case, the firm has to find the substituted middlemen that can be used to work out the market instead (Cateora 1990 ; Stern 1999.)

(4) Number of channels – Generally ,there are two types of channel which are (1) Dual channel refers to the combination of direct and indirect channel (2) Multiple channels are the variety channel patterns that tend to serve different of customers segmentation (Bruce 1977: 74.) The number of the channels depend on how much coverage of the market the firms want as long as the its channel members can still maintain the good working relationship.

In the international context, the local competitors normally possess the better market knowledge, customers' demand knowledge and the better market coverage. In order to obtain the same level of the market coverage, the firms may need to use all available channels in order to maximize the market coverage. Even though the use of multiple channel may be difficult to manage since there are a lot of parties involved and the conflict may easily arise in term of the benefit sharing among the channel (Stern 1999; Cateora 1990.)

(5) Level of cooperation between focal firm and the other channel members-

Product training, trade promotion, advertising, management cooperation and consulting etc... are the investment of the firm that leads to the increasing in channel cooperation. If the firms want to maximize the goodwill among the channel, the firms have to invest in such resources and be able to manage the conflict within the channel. The channel that is more direct and having less number of middlemen can be easier for the firm to provide such resources and investment which enable the firm to establish the closer relationship.

In the international context, it is very important because it consumes a lot of time for the foreign firms to establish the connection with the local middlemen. Therefore, if the coordination between the focal firm and the middlemen is not so good, it can result in the discontinuation of the middlemen or the dysfunctional of the channel. Finally, the new channel negotiation, or new channel member selection process has to occur over and over again, if the coordination among the channel is the problem (Stern 1999; Cateora 1990.)

Developing suitable channel structure is not the difficult task and in the same time, not an easy one. Three main challenges needed to be considered when developing the channel structures.

First -how much coverage should the firm have and in what form? or how to make the potential customer's find the firm's products easily? This is asking whether what type of the distribution that the firm should pursue; intensive, exclusive, or selective distribution? As discussed earlier, the local competitors or the existing competitors in that foreign market may have the better market coverage or better middlemen. Therefore, firms may need to realize on how much the market coverage the firm should desire when comparing to the cost that occurs and the degree of competition. Moreover, the firms may need to find out who are the key middlemen that are able to help the firm to compete in the local competition (Bruce 1977; Coughlan et al. 2006:21,113-147.)

Second- how to combine the different channel structure types by accessing the market in the multiple ways with different formats? The firms go to the market by multiple types of channels, because the firm expects that multiple channel can serve their entire segments. As discussed earlier, multiple channels may lead to the channel conflict. The result of conflict may lead to the discontinuation. Therefore, the firm needs to make sure that multiple

channels do not affect the continuation of the channel ,because it will require a lot of time and cost later when the discontinuation occurs (Bruce 1977; Stern 1999; Coughlan et al. 2006:21,113-147.)

Third- should the firm goes to the market by its own or used the third party or used both (dual distribution)? Dual distribution is another challenge when firm is deciding whether to go to the market by their own channel division or using both own channel and third parties. However, dual distribution is often the case in B2B when the big customers come to ask the manufacture in favor for having trade that directly deal with the manufactures and skipping the downstream channels. Also, it is often that manufactures come down to play the role of channel members by its own division to serve even the end users. Therefore, the conflict may arise when the downstream channel members claim the inappropriate role played by the manufactures. Dual channel can be the risk to the dysfunctional of the channels and in the same time can benefit to the manufacture when the firm wants to offer the variety values to the specific customer segments. However, in the international context, the firm may lose its visibility in the foreign market if the firm chooses to use the third party service. However, the cost of using the third party service may not be as high as using its own channel since the firm needs the expertise ,accumulated knowledge of the foreign market and frequent traveling to the foreign country (Bruce 1977; Stern 1999; Bowersox & Cooper 2002; Coughlan et al. 2006:21,113-147.)

2.2.3 Channel partner selection

According to Stern (1999) the choice and the performance of the selected partners are the ultimate determinants to the success and failure of a marketing channel. There are several reasons why channel partner selection is important to the channel development. Below are the explanations.

(1) Good channel partners indicate the establishing of channel commitment - Good channel partners will invest the resources and capabilities to the channel in order to achieve the mutual goals and objectives and to establish the long term commitment Coughlan et al. (2006).

(2) Good channel partners will recommend the manufacturing firm's products to the customers - According to Johnson (1994) and Keough (2005), channel partners become more and more important to the customer's choice nowadays. For example distributors have developed their role from the general physical distributors to be the brand specifiers to the customers. More than 80 % of industrial customers in US prefer to select the products according to the recommendation of the distributors. Therefore, it is logical to conclude that channel partner selection is one of the most important issues in the marketing channel, because the good channel partners will try to support and promote firm's products.

(3) Smoothen business transactions – good channel partners can be relied on their payment and the delivery. Payment is one of the issues that many manufacturing firms aware of, because it directly relates to the cash in flow of the firm. Channel partners who are able to sell but unable to collect the payment, may result in the loss of profit which directly impacts to the firm's performance (Stern 1999.)

(4) Wide distribution network – good channel partners normally belong to the wide distribution network, because they are experienced, skillful and able to use their existing network to distribute the firm's product widely (Kotler 2000).

In the international context, especially the firms that need to depend mainly on the local partners, channel partner selection is one of the most important issues when develop the marketing channel. The manufacturing firm can used the benefit of wide distribution network of its channel partners or brand specifier credibility to promote their products in the foreign market.

According to Moore (1974), Stern (1999), Blythe & Zimmerman (2005) there are four main issues that needed to be considered when selecting the channel partner

- (1) Sales performance
- (2) Financial performance
- (3) Management performance
- (4) Compatible of Product carried

Sale performance can be evaluated from number of sales and competence of sales such as sale stability, sales on the related product line, ability to generate new customers, growth,

and number of success in reaching the target and after sale service. Firms that mainly rely on the middlemen either foreign middlemen or domestic middlemen; sale performance of the channel partners is the first key that considers the ability to generate the sales and profit to the firm.

Financial performance can be evaluated from balance sheet, profit and lost, credit from financial institutions, ability to pay debt, return on investment etc...Financial performance of the channel partners indicate the ability to pay the bills to the firm.

Management performance can be evaluated from company reputation, experienced management team, background of the management, credit handling, degree of cooperation in term of trade promotion, pricing policies, operating procedures, operating facilities such as inventory system, warehousing, transportation handling information exchange and sharing in term of customers, sales training, complaint handling etc...The management team of the channel partner must fit with the firm's characteristics, especially when the local culture such as working style, language, norms and people's attitude are different from the firm. Firm needs to consider these issues as well when selecting the partner, because they can easily manipulate the process of establish good working relationship among the channel.

Compatible Product carried can be addressed from number of products carried which tell the firms what degree of interest in promoting the firm's product can be shared with other products and competitors product carried. In the international context, manufacturing firm needs to find the channel partners that have the good knowledge about the products and the specific industry, because the firm can save time and cost on product training, specific industrial knowledge training etc...

2.3 Market related factors

Another main factor that influences to the channel design is market related factors. In the international context, market related factors directly concern with the target country analysis, competition analysis and customer analysis in that target country. Target country analysis addresses the general issues such as politics, economics, social and technology ,the availability of middlemen in that target country and the distribution culture in that target country. Competition in the industry addresses the factors such as new entrants, competitive rivalry, supplier power, buyer power and substituted product of that target country. Customer analysis helps the firm to address the ability to understand the customer's demand and market segmentation according to the customer's need (Ames & Hlavecek 1984; Bruce 1987; Bowersox & Cooper 1992; Czinkota & Ronkainen 2004; Blythe & Zimmerman 2005; Coughlan et al. 2006).

2.3.1 Target country analysis

In the international context, target country analysis is very important to the design of the channel, because it helps the firms to draw out the macro issues of that target country that might affect the design of the channel; for example; culture, language, trade agreement etc...In some countries where the language is the big barrier, firm may decide to use the local middlemen to work out the market for or setting up the local offices and hiring the local people to work for. According to Bowersox & Cooper (1992); Stern (1999); Czinkota & Ronkainen (2004), target country factors that influences to the international channel designs are (1) Macro factors which consist of political factor, economics factor, social and technological factors (2) Channel availability in that target country (3) Distribution culture. See Figure 4.

Macro analysis - The suitable framework for discussing macro analysis in that target country is to use the PEST framework analysis on macro level in order to observe whether there are any issues that limit or favor the channel choice. The analysis examines the impact of these forces on business and firm's strategy where the result can be used to take advantage of the opportunities or avoiding the threats (Byars 1991; Cooper, 2000). In the

international marketing channel context, PEST analysis is useful for the firm to decide on the export mode, location of the subsidiary offices, directness of the channel and middlemen type.

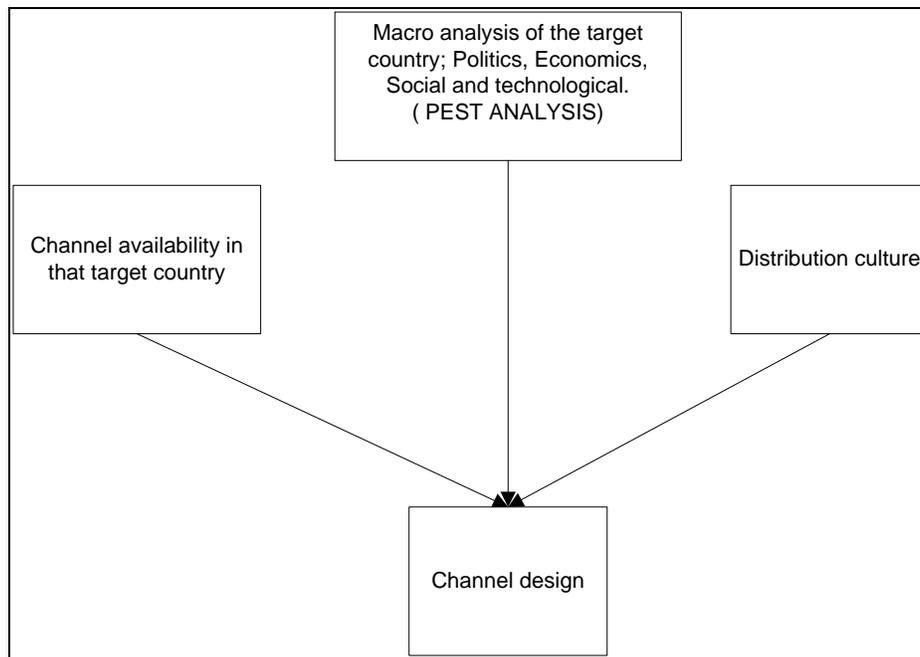


Figure 4. Target country factors that influence to the channel design (Bowersox & Cooper 1992; Stern 1999; Czinkota & Ronkainen 2004).

Below is the PEST dimension which shows the factors that are directly related to the channel design in that target country;

Political (Include legal and regulatory): consumer protection law, environmental issues, industry-specific regulations, inter-country relationship, taxes, local content law, and trade association; these are the factors that firms need to aware of. These factors may impact to the choice of channel in term of directness of the channel and number of intermediaries; for example; local content law may limit the channel choice such as export channel. High

import tax may not benefit to the channel that are too long (Terpstra 1981; Shaw & Onkvisit 1997; Czinkota & Ronkainen 2004.)

Economic: tariffs, quota, market size etc...these are the factors that firms need to aware of because they impact to the choice of channel in term of directness of the channel, export type, numbers of middlemen. For the country that tariff is high, the channel that is too long may not be the good idea. Country that has the limitation of the exporting quotas, firm may decide to choose indirect export from another country that has the trade agreement on free quota limit or special quota allowance to export to that target country. Market size affects the degree of intensity of the channel. Target country that has large market size on a particular product, means that firm may need to increase the number of middlemen to maximize the market coverage (Terpstra 1981; Shaw & Onkvisit 1997; Czinkota & Ronkainen 2004.)

Social: Culture such as languages, working style and attitude; these factors are important to the channel partner selection, directness of the channel and export type. Firm that does not have the language ability to communicate with the foreign market may decide to use the service from the domestic middlemen. In some countries, working style and the distant of the culture is so large from the manufacturing home country. Firm may decide to select the local middlemen who understand both the firm's working style and the local working style. In addition, setting up the local offices in the target countries and employing the local people to work for, are another ways for the firm to learn about the local culture, working style and attitude (Terpstra 1981; Shaw & Onkvisit 1997; Czinkota & Ronkainen 2004.)

Technological: Communication facilities, level of information technology, internet, transportation; these factors are important to the partner selection and directness of the channel. In some country where information technology such as internet is not so widely used, the use of email or internet telephone might be the problem. Communication is the key to establish the mutual understanding especially when the distant is the issue. Without regularly communication, it is difficult to achieve the channel objectives. Firm needs to select the middlemen that are capable to use the information technology to communicate with the firm regularly and even making the business report by using necessary software. In addition, the longer the channel is, the more difficult the firm can communicate or control,

unless the firm has to make sure that all partners are capable to use manage these issues (Terpstra 1981; Shaw & Onkvisit 1997; Czinkota & Ronkainen 2004.)

Channel availability in that target country- The channel availability can limit the channel design scope. The limitation on the availability of the channel can be seen as;

(1) The availability of the particular intermediaries such as particular retailer, wholesaler, dealer, agent or distributor. For some product, particular intermediaries are required. If the target country does not have such intermediaries, firms has no choice of conventional marketing channel; dealer or agent search; but to develop their own vertical market channel (Bowersox & Cooper 1992:419 ; Blithe & Zimmerman 2005).

(2) Large numbers of firms in the small number of available channels. In some countries, where there is the large amount of firms within the small number of available channels, the degree of competition is seen as extremely high. Therefore, firms need to consider whether it is worth to develop their own vertical marketing channel or to use the experienced third parties (Bowersox & Cooper 1992:419).

(3) The prohibited of channel alternatives for certain industries is restricted. In some countries, the alternatives channel cannot be created because it is controlled and prohibited such as drugs stores, alcohol stores etc...Therefore, the scope of channel alternatives is limited and firms have to find other alternatives in channel selection (Bowersox & Cooper 1992:419).

Distribution culture - Firm needs to analyze the existing channel structure of particular product in that foreign market. This is because, in the channel distribution, there is so called “Distribution Culture”. Particular product in particular market has its own existing distribution system and it is difficult to change the way it has been done ;for example, some particular product in a particular country may need certain number of middlemen levels until the products flow to the customers or end users. Moreover, the function performed by various types of middlemen is also different in many countries. In some countries, retailer or dealer has more power than the wholesaler/distributor or even manufacture. Firm needs to find out who are the suitable channel partners and learn to adapt the existing channel

structure to fit with the distribution culture of that country in order to compete with the existing channels (Czinkota & Ronkainen 2004.)

2.3.2 Competition analysis

Competition analysis gives the view to understand the competitors and other forces in the industry that relate to the competition. Competition analysis is one of the main elements that help the firms to address the factors that need to be considered when developing the channel design. It tells what types of channel the firm should pursue; for example, should it be direct, or indirect channel, what channel type do competitors apply?, What are the competitor's objective?, What are the capabilities of competitors?; Do the substitute products in the market offer the better marketing channel than the firm's product? Do the supplier – buyer preferences specific channel arrangements? (Lehman and Winder 1988:61.) To answer these questions, the best way is to look into the competition analysis proposed by Porter (1980.) In the international context, local competition in the foreign country can be difficult for the firm to access to the market. If there is the high degree of local competition, firms need to consider how to design and manage the channel that can overcome the competitors.

Porter (1980: 3-29) has identified five basic forces that indicate the competition structure of the industry. These forces are (1) Rivalry among existing firms (2) Threat of new entrants (3) Bargaining power of buyers (4) Bargaining power of suppliers and (5) Threat of substitute products or services. See figure 5.

Competitive rivalry is the result of the pressure when one or more competitors see the opportunities to improve their positions. When there is the competitive move by one firm, it usually affects the other firms within the industry. The elements of competitive rivalry include number of competitors and the size, similarities in strategies, assets and cost structures, and exit barriers. Industry that have less number of competitors and relative size of the competitors, the intense of the competition is lower than the industry that dominated by a few big players (Porter 1980.) Firms need to aware of the channel strategies that competitors pursue. If the firms cannot offer the better channel alternatives to the customers, or customers does not see the value of channel differentiation, firm may lose the

customers to its competitors easily (Bowersox & Cooper 1992; Coughlan et al. 2006.) For some industry that the competition in the foreign country is quite high, firm has to consider what kind of channels are the best and easiest to reach the customers. If the firm chooses indirect export, using the domestic middlemen to do the market, it might be the problem that firm does not have the opportunity to get closer to the customers. Firm may decide to do direct export either by setting up the local office or using the foreign middlemen to work out the market in order to keep the close distant with the customers. Moreover, the selection of middlemen is also one factor that helps the firms to compete with the local competition. Middlemen that used by competitors, firm may consider to lobby them to work for the firm instead in order to over come the competitors.

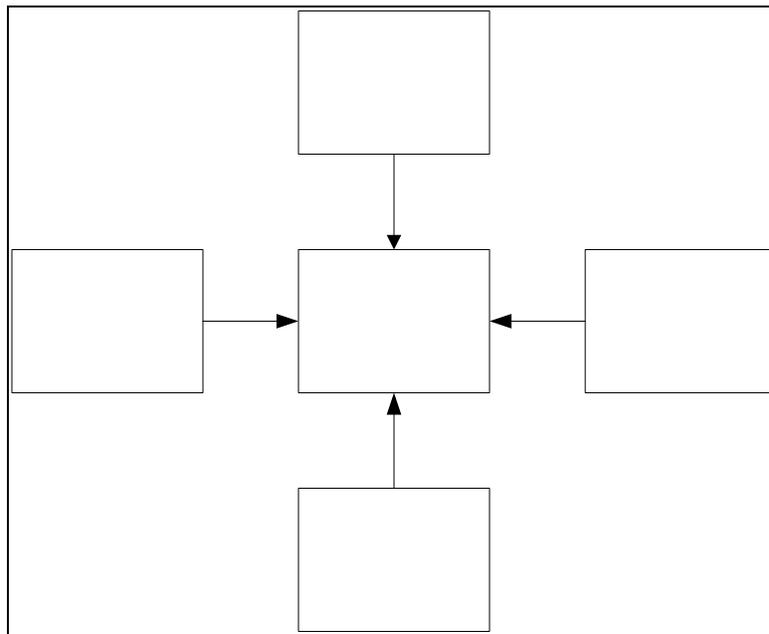


Figure 5. Forces driving industry competition (Porter 1980:4).

Threat of potential competitors New entrants are the threat which increasing the competition rivalry. However, the threat may be reduced if the barrier cost is high such as high investment industry, large economics of scales of existing firms or the channel arrangements that are hard to compete (Porter 1980.) In term of international marketing channel, firm may use the benefit of the channel's strength or channel network to prevent

the new comers. However, this means that the firm needs to have the reliable partners, and the number of middlemen should be high enough to build the wide network.

Substituted products affect the industry competition in term of limited return. Substituted products tend to create the ceiling on prices and the benchmark for the product performances. Channels of the substituted products that have the better offer toward customer's demand could be one of the threats that firm needs to take into account when developing the channel design. Substituted products can be considered as the indirect competitors. However, if the switching cost is low, and the products do not make any difference to the customers, the customers can easily switch to the product of indirect competitors (Porter 1980.) In the international context, this is the similar idea with the, competitive rivalry. Though the direct competitors may not be so competitive, indirect competitors can always be the threat to the firm at all time. Therefore, the firm needs to build the channel that is valuable to the customer perception and high switching cost to the customer decision. Firm may build the channel that provides extra service to the customers such as, information service, delivery service, after-sale service, or on site direct service. These add-on services are the extra that firm creates to make the channel offering more valuable. Partner selection, number of middlemen (Large channel network), are the important elements that impact to this issue as well.

Supplier power is directly related to the number of suppliers and their concentration; the switching cost of customers to alternative suppliers; and the availability of substitutes and the potential of suppliers for forward integration. The industry that has few large suppliers, the intense of the competition rivalry is increased (Porter 1980.) In term of channel design, supplier that is powerful may dictate the alternatives of the channel and firm may lose the control over the channel.

Buyer power is the ability that the buyer can demand more on price effective or more services from suppliers. If the buyers are few and limited amount, the buyers possess the higher power than the suppliers. In term of channel design, if the buyers are powerful, firms may need to adapt the channel design according to the buyers' demand (Porter 1980.)

2.3.3 Customer analysis

Business survives because it has the customers that generate the sales and profit enough for the business to maintain the position in the industry. Firm that has more customers indicates the better profit and stronger position of the firm in the market. Therefore, to formulate the competitive advantage, it is crucial for the firm to perform the customer analysis. Drucker (1954) stated that “learning everything possible about the customer’s business is the very essence of business marketing”

However in the reality, the situation can be varied to each firm in term of customers. If the firm has been in the industry for a while and the customer identity has been identified, then it is recommended to look at each specific customer’s situation. On the other hand, when the firm has just started up or started to access the new market, the identity of the customers might not be that clear enough to address the customer’s situation or the customer characteristics. Therefore, customer segmentation method is suggested for the firm to plan their business strategy.

In this thesis, I propose two views of customers analysis **(1) Customer analysis based on customer’s product, operation and cost** should be used when the identity of customers is clear and **(2) Customer segmentation** should be used when the picture of the customer is still broad or when the firm wants to repositioning itself. However, in the international context, when the firm firstly starts to export to the foreign market, the identity of the customers may not be that clear, therefore, the customer segmentation is the method that is recommended to use.

(1) Customer analysis based on customer’s product, operation and cost

Ames and Hlavecek (1984:68) introduced the approach to analyze the industrial customers in two main areas which understand customer’s operations and products and understanding customer’s cost.

Understanding customer’s operation and products is to understanding the critical function of the customer. The firms need the deep understanding on how its product can offer the customer critical function in the more cost effective way. Once the understanding of

customer's operation and products are identified, the firm can get the better picture on where and how the customer obtains the cost to perform the functions. The way to explore the opportunity of the firm toward customers is likely to occur when the firm knows how to improve the existing cost structure of the customers. Two main categories of cost can be identified as (1) what cost does the customer obtain when buying or using a product? (2) What cost does the customer avoid? The ranges of cost that are considered by these two questions include;

- Initial purchase cost is the amount the customer pays directly which include, quoted price of the product, charges of financing, freight, insurance, installation , technical assistance, warranty and / or service.
- Installation and start up costs may involve direct installation cost and other facilitating cost such as environmental handling cost, scrap etc...
- Operating cost includes labor cost, on going cost of utilizing the product or system, maintenance cost and depreciation.
- Switching cost is the cost the customers have to pay or lose when switching from one supplier to another.
- Life cycle costs are the cost that estimated to use the life of one product which includes salvage value and replacement cost.

(2) Customer Segmentation

On the topic of customer segmentation , there are two different views on how to segmented the customers (Coughlan et al. 2006) proposed the segmentation by service outputs according to Bucklin's Theory where as Bruce (1981:8) Ames and Hlavecek, (1984:92) Bowersox & Cooper, (1992:170) proposed the view on segmentation in term of industrial markets, type, geography, customer size, and use of the product. Therefore two views on customer segmentation are customer segmentation by service outputs and industrial customer segmentation. The explanation on each type of segmentation will be explained in detail as the following;

Customer segmentation by service outputs

Coughlan et al. (2006: 41) proposed that Segmentation analysis is the analysis of understanding the market or end users. No matter customers are business to end-user or business to business. The customer segmentation by using service outputs according to Bucklin theory (1966) can be used for both types of customers. Segmentation according to Coughlan et al. (2006) can be achieved by using service outputs as the criteria to categorize the end users or the customers according to the demand on service outputs in the market in order to design the channel offering that match with the customers' demands.

Bucklin (1966) stated that "Channel systems exist and remain viable through time by performing duties that reduce **end-user's search, waiting time, storage, and other costs**. These benefits are called service outputs of the channel whereas other things are being equal in term of price and products. The end users will prefer to deal with a marketing channel that provides a higher level of service outputs. The four generic of service outputs are (1) Bulk breaking (2) spatial convenience, (3) waiting or delivery time, and (4) product variety" Coughlan et al. (2006) added the other two service outputs to the list which are (5) customer service and (6) information provision. These six service outputs are the criteria that use to categorize the customers' demands for different customer segmentation in the channel system.

Bulk breaking - is the ability that the end-user can buy their desired product volumes. The purchased quantity size can be used to segment the customers. Moreover, the ordering size reflects the form of channel design in term of directness. When the ordering size is in large volume, channel should be more direct to serve the high capacity on one specific customer (Aspinwall 1962; Miracle 1965; Bucklin 1966; Lilien 1979.)

Spatial convenience- is the provision that bring the convenience of place or space to the customers when searching for the products to buy or to say reducing the customers' searching time. Therefore customers can be segmented by the type of customers who require the convenience of the service, and the degree of hurriness in the purchased products. Customers who require less time consuming on product search, are suitable for the direct channel since the firm can immediately serve the prompt demands to the customers (Aspinwall 1962).

Waiting time is the time that customer have to wait when ordering and delivering the products. The shorter the waiting time is, the more satisfied the customers are. Customers can use the products to serve their needs within the required period of time especially when the plan of production is strict. The channel that is direct, suits the customers who require short waiting time for ordering and delivering the products (Bucklin 1966.)

Breadth of variety means the more product variety available to customers, the higher the output of the marketing channel system and the higher overall distribution cost are. The more the customers require narrow product assortment, the more direct channel should be in order to gain the distribution cost effective (Bucklin 1966.)

Customer service All aspects of easing the shopping and purchasing process for customers, determine the level of customer's satisfaction. However the customer service offering must be sensitive enough to the target customers in order to stand out and capture the customers' perceptions. The higher the degree of the customer service, the more the direct channel should be in order to serve the customer's satisfaction (Miracle 1965.)

Information provision means the product or service information provided to the customers. Most of the information relate to the product attributes, usage capabilities, pre-purchase and post- purchase services. Products that need high information provision require the higher degree of directness. Selected middlemen need to be capable of information management in order to serve the customer's need within time (Aspinwall 1962; Miracle 1965; Bucklin 1966; Lilien 1979.)

The service outputs according to Bucklin (1966) directly impact to the directness of the channel. However, number of middlemen which indicate the intensity of the distribution channel also relate to the directness of the channel as well. Since, it will be too costly if the firm decides to pursue multiple direct channels while using numerous middlemen. Firm can use customer segmentation according to the service outputs to generate multiple channels system that matches with the customers' demands in each segment. In addition, partner selection also plays the role to the achievement on channel offerings as the generation of service outputs requires high level of coordination from the channel partners.

Service outputs can be used to identify different channel offerings for different customer segments. Coughlan et al. (2006: 55) stated that to apply the concept of service outputs to

the channel design, the channel segmentation needs to be done according to the service output demands. This means segmenting market group of end customers who differ not only in the products they buy but how they want to buy them. The service outputs used to categorize the segments must answer the demand of customer groups that share common preferences in purchasing. Three key issues that are important in channel segmentation should be taken into account are; (1) The buyer within a group must share the most similarity (2) Highly distinctive between the groups (3) Different on dimensions that are important to building up the distribution system. Finally, when the services outputs are defined, the segmentation appears and the firm can use segmentation to design the structure of the channel.

Industrial customer segmentation

Bruce (1981:8) Ames and Hlavecsek (1984:92) Bowersox & Cooper, (1992:170) proposed various approaches for segmenting the customers of the industrial market as the following;

(1) Segmenting by OEM, user and after markets This approach is to classify present or potential customers as original equipment manufactures (OEM), end users, or after market customers (After market customers is sometimes called the maintenance, repair and overhaul market: MRO). All industrial products can be classified into three categories which are (1) components or subassemblies (2) machinery and equipment (3) materials. Materials, machinery and equipment are typically sold in the OEM and end-user segments where components and subassemblies, are sold in all segments. The important information of defining the segments can be acquired by sales person. Once there is the involvement of intermediaries, the visibility of the segments is low to supplier or manufacture.

(2) Segmenting by SICs means segmenting by using the Standard Industrial Classification Codes. This method is varied according to the publishing organization of each country.

(3) Segmenting by End-Use application it is to segment the customers on how the product is used in various situations. It is simply asking the question of what functions benefit to the customers with this product by using cost-benefits relationship as the elements of question.

(4) Segmenting by common buying factors the common buying factors that are used to define segments are (1) performance (2) quality (3) service, (4) delivery (5) prices. However, this method is quite difficult to define since the priorities of buying are varied by the situation. However this method can lead to the great finding on the customer segments which may give the better alternative segments than the existing one and the firm is able to formulate the better marketing channel strategy.

(5) Segmentation based on geographic and account size are the options that often used in the industry especially when business is based on commodity typed products that involve with large number of markets and complex channels.

Ames and Hlavecek (1984: 104-107) proposed that good segmentation should draw out the following issues;

- (1) Segment should have measurable characteristics.
- (2) Segment should have identifiable competitors.
- (3) Segment should be served by common sales or distribution channels.
- (4) Segment should be large enough so that it represents a significant business opportunity.
- (5) Segment should be small enough to protect a position against competition.

In the author's opinion, the way to define the segmentation as discussed above giving the interesting point to discuss. Most of the marketing channel text- books are intending to describe the channel strategy in the view of consumer market than the industrial market view. They tended to separate the way of segmenting the market by looking at the type of business; consumer or industrial firm; and then described the segmentation criteria according to that. On the other hand, modern marketing channel text books looks at the segmentation based on customers' demands. By looking at the demand and preferences of customers, the segmentation can be used regardless the B2B or B2C type. Segmentation by looking at the service outputs demanded by customers, is the most recommended method by the modern marketing channel book because it answers the customers' needs that the firm can create the channel offering (Supply) to match with the service outputs demanded by the customers (Demand) However, the segmentation by service output is more dynamic and better responsive to the customer's preference. In addition, this method requires more

works on collecting customer information. Firms may need to conduct the customer survey to gain such insight information.

To obtain such information, the firm needs to have the close connection with the foreign customers. The more direct the channel is, the closer the firms to the customers are. However, it does not mean that the firm can only use the direct channel. If the firms want to maximize the market coverage, then the indirect channel should be used. However, the point is that, the selection of the middlemen must be thorough and adding the value to the firm. Firm should select the middlemen that can provide the customers' feedbacks or customer's information to the firm as much as possible.

2.4 Company related factors

It is crucial for the firm to draw out what the current situation of the firm is and what the goals that firms want to achieve are. Are the channel objectives clear and attainable? Do firms have such resource and capabilities to reach the objectives? and How to design the channel that fits with the firm's marketing mix? These three issues will be discussed in the followings.

2.4.1 Channel objectives

First step before the firm plans to develop the channel objectives, firm must know the following points (1) what is the firm's business? (2) Who is the customer? and (3) what should the business be? (Drucker 1973.) Morelli (2006) reported that the way to map the channel is to assess the current channels against the channel objectives which will help the firm to decide what channel offering types that the firm should go toward to.

To address the channel objectives, firm must know what the main corporate strategy is. According to Andrews (1987:13), corporate strategy is "the business in which a company will compete, preferably in a way that focuses on resources to convert distinctive competence into competitive advantage." In order to achieve the overall **corporate**

strategy, firms must develop the process that aims to develop the **competitive advantages**. According to Porter (1985:5), three basic competitive strategies are;

(1) **Cost leadership**- is to reduce overall producing and distributing products at the very lowest cost as much as possible for the price – especially price sensitive customer segment.

(2) **Differentiation** - can occur in many forms such as design or brand image, quality, technology, features, customer service, dealer network, distribution and other dimensions. Firm can distinguish themselves from the competitors by developing higher value channel offerings or increase the customer loyalty.

(3) **Focus** - The rationality of focus strategy is to serve the unique market segments more efficiently and protecting the firm from the vital competition. The firms can either choose to focus on cost or differentiation or both, but the firms need to do it in the way that increases the efficiency.

Firms need to know what strategies they are now focusing, because they influence to the firm's channel objectives. If the firm focuses on cost leadership, then the channel objective of the firm should be compatible with the competitive strategies. In this case, the design of channel should be cost efficiency while maintaining the demand serving capacity. If the firm focuses on differentiation strategy, firm needs to find out what tactics or strategies of the channel can be used to distinguish the firm's service level from its competitors and to serve the customer's demand and satisfaction.

Bruce (1977: 71- 82) discussed that in general, the channel objectives consists of four issues; maximizing the sales, minimize the cost, maximize channel goodwill and maximize channel of control.

Table 1 shows the relationship between the four channel objectives and the fifth elements of channel structure. Each element is divided into two extreme alternatives. The length of the channel or the degree of directness is divided into direct and indirect channels. The selectivity is divided into intensive distribution and exclusive distribution. The type of intermediaries is divided into the use of full-service intermediaries and a limited-function intermediary where full service means intermediaries offers not only the distribution

purpose but also the marketing mix function as well. The number of channel patterns is divided into single channel versus multiple channels and lastly, the degree of cooperation is divided into maximum and minimum cooperation. A (+) sign refers to the particular alternatives of the column that is compatible with the selected objective on the row and vice versa with the (-) sign.

Table 1. Relationships among objectives and channel structure elements (Bruce: 1977)

Objectives	Directness (Length of channel) Number of levels		Selectivity (Number of middlemen)		Type of Middlemen (Number of Functions)		Number of Channels		Degree of Cooperation	
	Di-rect	Indi-rect	Intensi-ve	Exclusi-ve	Full-service	Limited function	Single	Multiple	Maximum	Minimum
Maximize sales	+	-	+	-	n.a.	n.a.	-	+	+	-
Minimize cost	-	+	-	+	+	-	+	-	-	+
Maximize channel goodwill	+	-	-	+	+	-	+	-	+	-
Maximize channel control	+	-	-	+	-	+	+	-	+	-

In the international context, depending on what channel objectives the firm mainly focuses to; if the firm **focuses on maximizing the sales**, the firm has to enhance the market coverage and that requires the good knowledge of the target country, experienced middlemen, high number of middlemen and perhaps multiple channels. If **the firm focuses on minimizing the cost**, the firm has to use the channel that is cost and risk saving. Especially, for the firm which does not have the expertise knowledge on export to the target country, firm may decide to use domestic middlemen or foreign middlemen as the way to enter the foreign market. Moreover, firm may decide to focus only on the specific channel that firm is certain of profit generation. This is because more channels require more investment and expenses to support all channel activities. In addition, it also reflects that the level cooperation between the focal firm and the channel partners is not in the very high level.

If the **firm focuses on maximizing the channel relationship**, it is required that firm needs to have more direct contact with its channel members. This might be a bit difficult for the export firm whose resources and capabilities are limit but has the need to maximize the relationship. Partner selection will become very important issue to such firm, since firm may need the experienced and reliable partner to help the firm to go through this difficulty. In addition, the number of middlemen and the number of channels used also impact with this objective. The fewer the numbers of channel members to take care of, the easier to establish close connection and increase the intensive working relationship. **If the firm focuses on maximizing control**, meaning that the firm can possess the control over the channel that the channel member will perform the activities in the way the focal firm desires. The channel should be more direct, because firm can still possess the power and the proportion of power is not widely distributed. The small numbers of middlemen make it easier for the firm to control, and the limited service function middlemen such as agent (who earn only commission basis from the firm, but not owning the title of goods) should be used to maintain the control within the focal firm. Lastly, the few numbers of the channels are, the easier for the firm to control. Firm that wants to have the control requires the power that enables the firm to have the ability to control. Power can be obtained from many aspects and it will be discussed in more detail in Chapter 3 on how the firm uses the power to control.

2.4.2 Company's resources and capabilities

Firm's resources and capabilities are one of the main elements to help the firm to achieve its objectives and goals. Addressing the firm resources and capabilities can be achieved by conducting the internal analysis or the assessment on resources and capabilities of the firm's business functions which are production function, financial function, marketing function and management function (Bowersox & Cooper 1992:154). See table 2. In the international context, firm's resources and capabilities can be considered as the very essential factors that influence to the firm's decision on the channel structure, because the firm's channel structure directly relates to the ability to do the export and that ability requires available of resources and capabilities. Below are the internal functions that firm needs to take into consideration when developing the channel design.

Production function, resources can be addressed from the availability of workforce, production capacity, and availability of equipment where capabilities can be addressed from ability to pursue cost effective in term of cost of goods and cost of production, structure of the production that is efficient, and the flexibility of production (Bowersox & Cooper 1992:154 ,Stern 1999). Production that is cost effective can be competitive advantage of the firm. Especially, when the firm exports to the target country where the local competition is high, exporting firm needs to take into account the exporting cost as it may increase the total cost and results in the competitive cost disadvantage. If the firm's production cost is not effective, the firm may not be able to pursue the competitive cost of goods sold, unless the firm offers the product that is differentiated, value added and value to the price to the customers.

Financial function, resources can be addressed from working capital, profitability where capabilities can be addressed from balance sheet condition and ability to attract the capital (Bowersox & Cooper 1992:154 ,Stern 1999).Financial resource is another important issue that firm needs to consider before selecting the export type and formulating the channel structure. Firm that does not have plenty financial resource may consider using indirect export instead of own export and direct export. Moreover, channel structure that is more direct requires a lot of direct contacts with the channel members. Therefore, it requires more expense as well.

Marketing function, resources can be addressed from the availability of experienced sale staffs ,availability of good working channel members, brand recognition, differentiation of product, quality of the product, numbers of customer loyalty, clear segmentation and attractive promotion where the capabilities can be achieved from distribution capabilities, capabilities to promote good working channel relationship, capabilities of channel members (Bowersox & Cooper 1992:154 ; Stern 1999).Firm that knows the customers' demands and has the clear segmentation, is able to formulate the channel offering that fits with the customer's demand. Especially, the foreign customer's demand can be challenged to the firm, if the firm has no prior information, or do not study the foreign market characteristics well enough. Firm may need to obtain the information by searching experienced middlemen or having local people to work for in order to obtain that market information. Moreover, marketing function does not limit only customer's demand, but the experiences in sales, owing brand recognition, attractive promotion and distribution capabilities. These are the supportive activities that help the firm to enter the foreign market easier .If the firm's brand is recognized and well known by middlemen and customers, the middlemen will be more welcomed to carry the firm's products (Bowersox & Cooper 1992:154.)

Management function, resources can be addressed from experience, expertise and creativity of personnel, where capabilities can be addressed from the ability to work in the diversified culture or environment (Bowersox & Cooper 1992:154; Stern 1999). Especially, in term of international marketing, managers or top management should have well knowledge or experiences of the target country and the ability to use the language that can communicate with the foreign customers, middlemen etc... Firm that does not have experiences in the target country may decide to use domestic or foreign middlemen to do the market, or to establish the local office in that target country by employing the local people to work for and gain the market information from them. However, these depend on the level of expertise of the firm's management. Culture is another issue that firm needs to consider. Firm that is not able to handle with the diversified culture such as communication, working style, relationship development, attitude etc... can find it difficult when facing the cultural situation. Therefore, firm needs to increase the ability to work in the diversified culture by training the staffs for the situation that might occur in the future (Bowersox & Cooper 1992: 154.)

Table 2. Checklist for internal assessment Bowersox & Cooper, (1992:154)

Business Function	Attribution
Production	Cost Structure Flexibility Equipment Capacity, Work force
Finance	Balance sheet condition Profitability, working capital Ability to attract capital
Marketing	Quality Differentiation Customer loyalty Brand recognition Product line Sales force Advertising/promotion Distribution capabilities Channel relationships Segmentation
Management	Experience Depth Expertise Culture Creativity Organization

2.4.3 Company's marketing mix impact on channel design

Company's marketing mix is the concept of product, price, promotion and distribution strategies that impacts to the channel design. Firm's marketing mix can be used as one of the factors that predict what the channel structures should be (Bruce 1970; Bowersox & Cooper 1992: 194 – 221; Rangan et al 1992). Especially, when firm exports to the target country where the competition is high and local competitor is strong; firm needs to consider its marketing mix that fit with the market characteristics of that target country.

Product characteristics impact on channel design

Product characteristics can be broken down to (1) **Unit value**- product that has low unit value generally correlates with the intensity of distribution coverage. The low product unit value requires intensive distribution to maximize the gross margin. Therefore, the used of indirect distribution is recommended (Aspinwall 1958; Miracle 1965). (2) **Perishability**- product that is perishable refers to the high replacement rate that needs to be delivered to the customers often. Therefore, it needs the high degree of direct channel where the delay of movement and handling is decreased (Aspinwall 1958; Bowersox & Cooper 1992). (3) **Product complexity**- product that is high technical involved requires training, service, maintenance and installation. Therefore, the more complexity of the product is, the more direct and selective channel should be (Bruce 1970). (4) **Product customization** - when the product is customized to the need of customers, firm needs more degree of direct and selective channel to obtain the needs and information of the product adjustments in responding of time and customer's preferences (Aspinwall 1958; Miracle 1965; Anderson and Schmittlein 1984; John and Weitz 1988; Klein et al. 1990). (5) **Product life cycle** - when the product is in the introduction stage, the demand is unstable and difficult to gain the acceptance from intermediaries. Therefore, at this stage, the channel should be direct and selective than the maturity stage when the product gains more acceptant and needs to be distributed intensively. Therefore, at the maturity stage the distributors need to perform intensive distribution (Bruce 1970; Lilien 1979; Bowersox & Cooper 1992.) In the international context, firms need to consider what channel structures and export type would be the most suitable one for the firm's product's characteristics. Moreover, firms may need to consider also whether any adaptation should be made in order to response to the local preference in the foreign country.

Promotion impact on channel design

The most obviously seen promotion strategy that directly impact to the channel design is the use of **Push and Pull strategy**. **Pull strategy** is the strategy that stimulates the buyer or customer's demand to seek for the products or services. In general, advertising, sale promotions are forms of pull strategy that directly use to generate the demand from customers. Indirect channel is the suitable form to use with pull strategy when the firms sale force is limited but still want to perform the intensive distribution. **Push strategy** is the effort from manufacture to stimulate the intermediaries demand rather than the ultimate customers by using allowances, trade promotions, personal selling. Push strategy should be used with the channel that is direct because it takes less effort and budget to spend on these incentives (Aspinwall 1958, Bruce 1970; Bowersox & Cooper 1992.) In the international context, firms need to consider whether the use of Push and Pull strategies are appropriate with the local market or not. For example, the use of Pull strategy by media or advertising needs to draw out the local preferences and attention. The firm may need the help from the local media agency to assist in this matter.

Price impact on channel design

The main impact of price on channel design is the distribution of margin. Distribution of the margin derives from the pricing policy of the firm. Firm needs to consider whether the base price or the price setting by producing firm is having reasonable margin for the intermediaries. In generally, good intermediaries generally require high margin. In this matter, firm needs to consider the suitable price level that should be sold to the end customers. (Bruce 1970; Bowersox & Cooper 1992.) In the international context, price can be very sensitive for some group of customers. Therefore, the design of channel structure needs to correspond with the segmented customers as well. Especially, when the local competitors who understand the local customers, may know better what the suitable price for the market is. In this case, the firm needs to study the interaction between the market and the price level and then tries to design the channel structure according to the price policy.

Logistics impact on channel design

Types of middlemen used in the channel directly interact with the design of logistics. Some intermediaries such as service wholesaler or distributor can perform the logistics functions for the producing firm whereas agent will not do such function at all. Therefore, firms need to consider whether their middlemen are capable to manage the logistics function in the efficient way or not. Firm's logistics policy directly impacts to the selection of intermediary types (Bruce 1970). According to Bowersox & Cooper (1992: 194 – 221), the efficient logistics function is determined by service goal which can be measured in four ways (1) Inventory availability (2) Service capability which involves the speed, consistency and flexibility of the firm in order fulfillment. (3) Service quality which concerns ability of the firm that performing the order activities with error-free (4) zero defects. Moreover the efficient logistics design needs to be cost effective. One way to analyze the cost is to use the total cost analysis which consists of transportation cost and inventory cost. Middlemen types must be selected in corresponding with the logistics goal and cost that occurs in the process (Bowersox & cooper 1992: 194 – 221.) In the international context, firms which do not have resource and capabilities in managing the logistics functions may need the help from the middlemen to support the channel. Firm may decide to outsource the professional logistics service that firm is familiar in the home country to do the logistics service for the firm. In this case, the firm must have the connection with the logistics in the home country and the availability of the logistics firm must present in the host market country. Firm can place the reliability on the professional logistics services if they have been familiar with the working procedures and the connection has been established over time with the firm. However, if firms do not have any connection with the professional logistics company or no availability of that professional logistics service in the foreign country, firm may need to consider the local logistics company service or the middlemen types that support the logistics function.

3. INTERNATIONAL CHANNEL MANAGEMENT

The purpose of this chapter is to present the key issues that influence to the channel management. Good channel relationship results in the high level of the channel satisfaction. Therefore, the key issues that lead to the increasing of channel satisfaction level are;

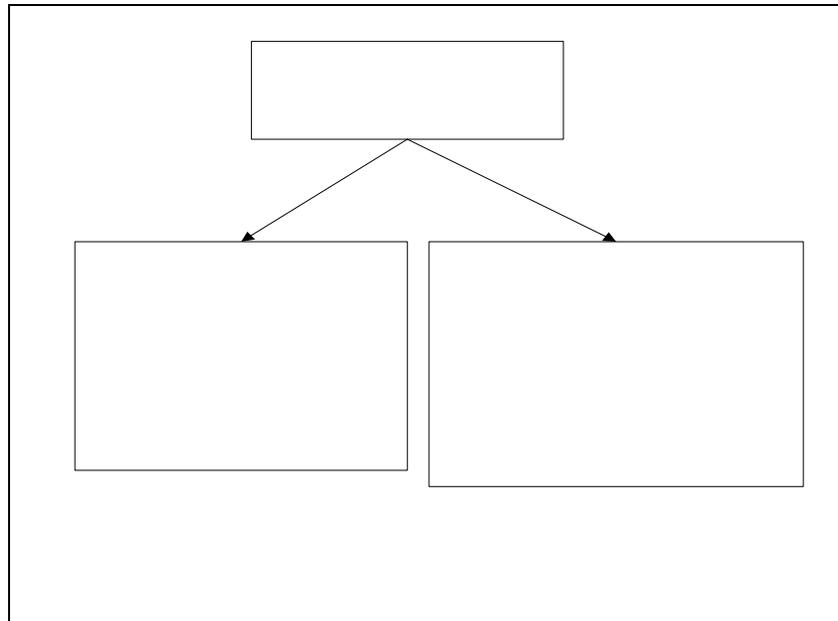
- (1) Compatibility of goal, objectives and marketing strategy among the channel members.
- (2) The Balance of role and benefits of the channel members (Bruce 1982; John and Reve 1982; Bowersox & Cooper 1992; Johnson 1994; Hardy and Magrath 2001:65-69; Coughlan et al. 2006; Dancer 2006.)

3.1 The importance of satisfaction factor in channel management

The good working relationship with the current and new intermediaries is the factor that leads to the success of the firm. The success on working relationship often depends on the **level of satisfaction** among the channel partners in which satisfied partners invest more resources into the relationship which in turn increasing the sum of the mutual benefit that all parties expect. Satisfaction issues are important to the channel management as it relates to the firm's performance (Gaski, 1984; Anderson and Narus 1990; Palmer 1997; Schellhase et al. 2000; Walter and Gemunden 2000; Abdul-Muhmin 2002; Rao and Perry 2002).

Hunt and Nevin (1974) stated that satisfaction can facilitate improved morale, cooperation among channel members and lower dysfunctional and conflict. Hunt (1977) stated that satisfaction is not simply the pleasurable of an experience, but it is the evaluation which given that the experience was at least as good as it was supposed to be. According to the fact above, it is reasonable to conclude that satisfaction is the main factor in developing good working channel relationship.

To increase the level of satisfaction firms need to be able to establish (1) the compatibility of mutual goal, objectives and market strategies (2) the balance of role & benefits of channel members (Bowersox & Cooper 1992:317; Hardy and Magrath 2001:65-69; Dancer 2006). See figure 6



**Satisfact
of channel rel**

Figure 6. Satisfaction as the main factor in channel management (Bowersox & Cooper 1992:317; Hardy and Magrath 2001:65-69; Dancer 2006).

Compatibility of Goal, objectives and market strategies

Key issues

3.2 Compatibility of goal, objectives and market strategies

- Ability to address channel members resources and capabilities

- Ability to address demand of channel members on goal objective and market strategies

- Ability to develop the effective communication

Goal, objectives and market strategies compatibility can be achieved by having the clear understanding on what the channel's mutual goals are, and what strategies that channel members need to pursue. The following are the main practices that firms need to conduct in order to increase the level of goal compatibility (John and Reve 1982; Bowersox & Cooper 1992; Johnson 1994; stern 1999; Hardy and Magrath 2001; Dancer 2006).

(1) Address the demand of channel members or another word asking what do the channel members expect from the channel arrangement. The compatible of goal, objectives and market strategies of the channel must derive from the same motives. All channel

members must have the mutual desires to achieve the goal and objectives (John and Reve 1982; Johnson 1994; Hardy and Magrath 2001; Dancer 2006). In the international context, firms really need to draw out the demand of the middlemen, especially for the firm that highly depends on the middlemen, because the success of the firms is also accounted by the interest in benefit of the middlemen. If the firm fails to understand what the middlemen want, it may affect the failure of whole chain as well (Coughlan et al. 2006). Firm also has to consider the method to communicate between the channel members especially if they are foreign middlemen. Misunderstanding communication can lead to the failure of demand address as well.

(2) Address the resources and capabilities of channel members by conducting the strength, weakness, opportunities and threat analysis of each channel members. Focal firm can know whether the demands or expected goals and objectives can be achieved or not and what are needed to be improved in order to achieve the goal so that goals and objectives are attainable by all parties (Bowersox & Cooper 1992:317; Johnson 1994.)

(3) Develop the Effective Communication. Goals and objectives must be thoroughly communicated throughout the channel so that all parties have the same understanding on the mutual goals and objectives, otherwise misunderstanding of goal and information distorted can result in the failure of mutual goal and objectives. The failure of the communication can occur in two ways (1) When the firm fails to exchange the critical information with other channel members (2) Noise or any distortion such as, culture, language, and misunderstanding (Bowersox & Cooper 1992: 328; Stern 1999:468.) Especially when the marketing channel is in the international level, noise or any distortion should be caution because it may lead to the misunderstanding and the misconception of the goals, objectives and strategies. This may result in the failure of goal compatibility establishment. This issue is very important in the international context, where the culture plays the important role in the communication. Especially, the countries in South East Asia region, people tend to use nonverbal communication more than the verbal communication (Written language or relying on the contract and written agreement). People in South East Asia tend to rely on gesture, face reading, and relationship development over time Shaw & Onkvisit (1997). Therefore, it might not be so easy for the firm, especially the western firm whose culture distant is quite large from the Asian firm. Firm may need to seek the advice from the local middlemen or cultural specialist agency to assist in this matter.

3.3 The Balance of Position, Role and benefits of channel members

Stern (1999) reported that “Marketing channel can be viewed as the sets of **interdependent organizations** involve in the process of making a product or service available for use or consumption”. According to the above statement, incentive or benefit that each channel member extracts from the interdependent channel arrangement may or may not be equally distributed. Moreover, uncertainty in the incentive shares and the independence, lead to the less effective role performance which result in the poor performance of overall channel flow (Coughlan et al. 2006:24). In addition, the competition within the channel members or the competition as a result of multiple channels is often the reasons of conflicts which result in poor satisfaction among the channel members and may lead to the dysfunctional of the channel (Bruce 1982: 231; Bowersox & Cooper 1992:327-328; Coughlan et al. 2006:256.) Focal firm and channel members must try to find the way to balance among the position, role and the benefits of the channel members. The arrangement of the negotiation among the channel members can help the firm to settle the agreement with its channel members. However, if the agreement between the firm and the channel members cannot be reached, channel conflict may arise and may result in the dysfunctional of the channels. Therefore, channel conflict management is needed to handle conflicts issues so that it can increase the level of cooperation.

Main issues that directly relate to the process of finding the balance are;

(1)Responsibilities allocation (2) Channel negotiation (3) Channel power dependence (4) Channel conflict and cooperation (5) Channel commitment (Bruce 1977; Bowersox & Cooper 1992; Coughlan et al. 2006.) These issues will be discussed in detail as following;

3.3.1 Responsibilities allocation

Firms must allocate the responsibilities of the channel member in order to find out the way to increase the efficiency of the channel members. In general, when any of the channel partners obtain high responsibilities in the channel, firm usually has to invest the resources in that channel partner as much as they responsible to the work or the goal of the focal firm

Anderson et al. (1992). However, to increase the efficiency of the channel, firm has to ask itself ; what channel partners are the most potential partner that generate the profit to the firm, and what channel partners are the exceed investment which should be eliminated.

According to Bruce (1977); Coughlan et al. (2006) and Morelli (2006), there are three main issues that firm needs to consider;

- (1) The cost occurring in the channel flow
- (2) The profit received from the channel partners
- (3) The capacity of the channel; the ability to serve the existing demand

From figure 7, marketing channel flows can be used as a tool to analyze the efficiency of the channel by focusing at the cost that occurs; minimizing the activities that are not necessary to the business and in the same time, allocating more resources in the flows that are crucial to the firm. This marketing channel flows can be customized to suit the firm situation. Figure 7 can be used to check up the efficiency of the channel in term of the cost that occurs and also can be used to match up the actual profit in term of rewarding to the channel member that creates the profit to the channel flow. Responsibilities allocation will be easier for the firms once the firms know which channel members are highly contributed members and those, who are not by looking at the cost, profit, and capacity service of that channel member. Channel members that are low contributed; need extra channel activities to increase their responsibilities such as training, more communicating, knowledge sharing. On the other hand, firms need to realize the firm itself responsibilities toward the channel also such as consistently coordinating with the channel members in developing the channel strategies, training, knowledge and information sharing and supporting other activities that are important to the success of the firm in that target country.

The firms need to also make sure that channel members realize what responsibilities they are performing.

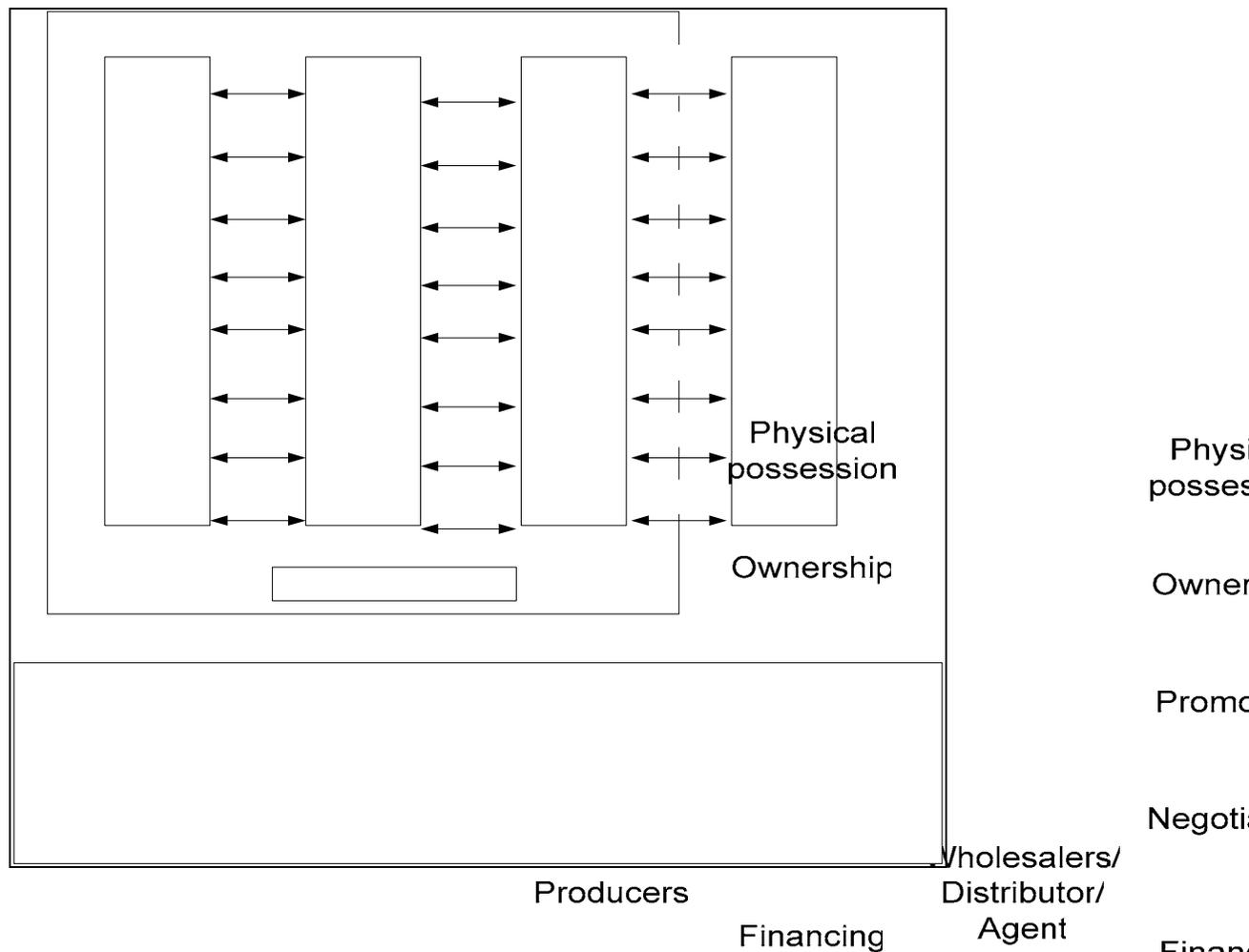


Figure 7. Marketing flows in Channel Coughlan et al. (2006).

3.3.2 Channel negotiation

The imbalance of position, role and benefits lead to the negotiation among the channel members. Bowersox & Cooper (1992:285-286) discussed that the management process that create, maintain and resolve the problem of the interdependent organizations over time is the interorganization negotiation. Interorganization negotiation is defined as “the management process of reaching agreement about which activities a firm will perform and

Commercial Channel system

The arrows show flows of activity in the channel. Each flow

how it will benefit from a marketing channel arrangement” Bowersox & Cooper (1992:285-286).

However, the use of negotiation in the channel arrangement is directly related to the channel leadership in which it relates to the power of the channel as well. According to Coughlan et al. (2006:24), “The channel member’s power is its ability to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution” It is believed that the channel power is used to influence the channel members to do the job more effective and increase the service outputs at the lower cost.

Negotiation in the channel can be categorized into two types

(1) New channel negotiation and (2) Mature channel negotiation. New channel negotiation is used when the business has just started and there is no existing between the negotiating organizations and the objective of the negotiation may be a one-time transaction or the formation of the channel. Mature channel negotiation is the negotiation of the ongoing relationship with the objectives of modification which are (1) changing balance of relative power, (2) resolving the conflict and (3) termination of the agreement (Bowersox & Cooper 1992:288-289).

In generally, negotiation topics can be categorized into five types according to Bowersox & Cooper (1992) which are (1) Share bargaining – is the process of share settlement in which shares are divided in the concept of one gets more, other gets less (2) Problem solving - is the process that parties work together to solve the joint problem.(3) Attitudinal bargaining- is the process that parties work together to tune the attitude altogether in order to facilitate the negotiation (4) In-group bargaining - is the process that the negotiator bargains with member of his own team and decision making group to reach the organization goal (5) Personal bargaining- is the process that the negotiator work to resolve the personal conflicts and needs.

However, to be successful in the negotiation, the following factors must be available

(1) Alternative courses of action must be available in the negotiation. (2) The negotiation must have rules and procedures. (3) Readiness of the channel members to engage in exchanging benefits or rewards (4) The willingness to commit the agreement of the channel members (Bowersox & Cooper 1992: 291-292.)

In the international context, especially when the channel members are local people in the foreign country, it is important to consider the culture of negotiation style so that the firms can understand and know how to react with such situation. In addition, good understanding of culture difference in negotiation also one of the factors that supports the negotiation process to come.

3.3.3 Channel power dependence

Especially, when the imbalance of the position, role and benefit occurs, members try to exert the power to change the situation in the way they desire. Therefore, power can play the important role in directing other channel member to do something in the way the firm wants. March (1955:434) defined power as “the ability to get someone to do something that would not otherwise be done” Grant and Levey (1980: 524- 530) viewed power as the ability to induce change. Anand and Stern (1985 : 365 -376) viewed channel power as the ability of one channel member that influencing or altering the decisions of other channel members. However, high joint of power dependence promotes trust, commitment and the relational behavior (Lusch and Brown 1982; Gundlach and Cadotte 1994; Kumar, Scheer and Steenkamp 1995).

Since marketing channel is the interdependent organization, therefore the concept of power dependence framework is the best described the channel negotiation and channel power dependence situation. According to Emerson (1962:32), the concept of power dependence can be explained as A and B relationship where A stands for focal firm and B stands for the channel member. For A to have power over B and to convince B to do things, B has to increase the level of dependence on A. From B depends on A concept, the determinant of dependency are the greater utilities (Value, benefits, satisfaction)that B gets from A and the fewer alternative sources of those utilities that B can find. This is because channel

members are not able to perform all the functions efficiently on their own. Therefore, the alternatives that each member has is quite limited and needed to be depended on others. As a result, power dependence concept can be used to influence and change the decisions and behavior of the dependent firm (Coughlan et al. 2006: 200.)

Johnson (1994) and Keough (2005) reported that nowadays distributors are increasing their role significantly. Buyers or customers has pointed that their purchasing was nearly always go along with the distributor's recommendation concerning the product selection. Distributors nowadays have changed their roles moving from the product providers to be service providers, and moreover, to be the technical providers, training providers and cost reduction assistant providers to customers. From this report, the power of distributor (intermediaries) in the channel seem to be increasing time and time, and different from the previous time when the producer tended to have more power in the channel and become channel leadership. For the producing firm to be successful in exploiting and balancing the power, firms must know how can they possess such power, and how such power can help them to manage the channel and grant the higher visibility on the customers. As we discussed earlier, producing firm normally has less visibility than the distributor. However, when the role of the distributor is increasing and more crucial to customer's purchasing, producing firm needs to focus more on the channel relationship with the distributors. Producing firm must learn to know what types of power the distributor exerts and the producing firm must try to minimize the gap of power, or increase the source of power that the firm is still lacking of in order to balance the power in the channel flow.

Next, it is interesting to understand how the firm can generate or degenerate such utilities in order to influence the channel member's action. The utilities meant in the concept of power dependence refer to the **source of power** that the firm can exploit to direct the behavior of the channel members. Source of power can be categorized into five forms which are reward power, coercive power, legitimate power, expert power and referent power (Bruce 1982; Bowersox & Cooper 1992; Coughlan et al. 2006).

Reward power is a benefit given to the channel member for changing its behavior where the effective reward power must include the following rules (1) B believes that A will reward on B, therefore A has to convince B (2) B owns the value resources that A believes that it will create the benefit. Reward power can be used in many forms ;for example using

the policies that assure the security and credibility in position of channel members such as “No Dual Distribution Policy”, sales and training support, marketing tools support, and other financial incentives (Bruce 1982; Bowersox & Cooper 1992; Coughlan et al. 2006.)

Coercive power is the concept of “B will be punished by A, if B fails to conform to A’s influence attempt.” It is the negative force to use in order to force or threaten another party to follow. This type of power easily perceives as the attack by the members and may create the conflict. The use of coercive power can be sensitive and need to be careful. However, the use of coercive power may be the great influencing method, if the real need of change is required (Bruce 1982; Bowersox & Cooper 1992; Coughlan et al. 2006.)

Expert power is the power of owning the special knowledge or expertise in which other channel members do not have. However, if the expertise has been transferred without having the rules or certain policy, then the power of expertise will be decreased. However there are other ways for the firm to remain expert and still sharing the information with the members for example; sharing only small information but preserving the critical information; accumulating new information all the time so that the knowledge learning process becomes more difficult to catch up by other parties; using “paid knowledge” system to protect the critical information (Bruce 1982; Bowersox & Cooper 1992; Coughlan et al. 2006.)

Legitimate power is the power which the target perceived as obligatory issues or the responsibility. Legitimate power can be grouped into two types (1) Law (legal legitimate power) which pursue by government such as law of contract, law of commerce (2) Norms or values refers to expectation of normal behavior or role of channel members that sustains the harmony of the channel (Bruce 1982; Bowersox & Cooper 1992; Coughlan et al.2006.)

Referent power is the power which B views A as the prestige reference and would like to identify itself publicly with A. This means when the name of the manufacture is prestige, downstream members would like to associate their name in the reputation of the manufacture brand. On the other hand, if the downstream own the prestige name, the manufactures would also like to associate their name in the reputation of the downstream member (Bruce 1982; Bowersox & Cooper 1992; Coughlan et al. 2006.)

In the negotiation, type of powers generally relate to the influencing strategies. There are six influencing strategies that are suitable with the different type of powers (Angelmar et al. 1978: 93-102; Coughlan et al. 2006:227).

- (1) Promise strategy: If you do what we wish we will reward you.
- (2) Threat strategy: If you do not do what we wish, we will punish you.
- (3) Legalistic strategy: You should do what we wish because you agree to do it in the (contract).
- (4) Request strategy: please do what we wish.
- (5) Information exchange strategy: Without mentioning what we wish, the most profitable way for entire parties is to following the discussed objectives and attitude.
- (6) Recommendation strategy: similar to information exchange strategy but include the statement that you will be more profitable if you do what we wish.

All of these six influencing strategies can be perfectly matched with the different kinds of source of power see figure 8.

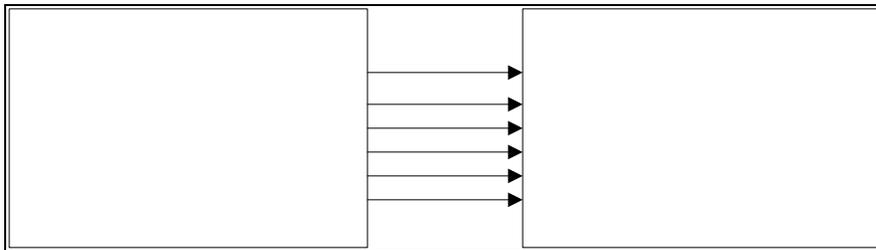


Figure 8. Influencing strategies in negotiation related to power (Angelmar et al. 1978: 93-102).

Reward and expertise power should be used with the influence strategies that give the neutral or positive influent to the channel member such as promise strategy, request strategy, information exchange and recommendation strategies. Coercion power should be used with the influence strategies that give the strong pressure or to say negative feeling to the channel member such as threat or request in some situation. Legitimacy power should be directly used with the legalistic strategy as it is the contracting style which relies mostly on the legal issues. Lastly, referent power can be used with the strategy such as request

strategy because it does not give any positive or negative feeling to the channel member (Angelmar et al. 1978.)

In the international context, firms need to find out how to increase the great utility that influences to the channel members' interest and what type of power that the firm should use to direct the channel members to do the activities in the way the firm desires. Firms need to learn the local middlemen's interest and what influencing strategy that suits with the culture of the local middlemen; for example people in South East Asia have face losing sensitive Shaw & Onkvisit (1997). Therefore, the influence strategy used cannot be too direct or too hard in front of many people. Moreover, people in South East Asia are collectivism type, therefore people might not do as the firm requests if it is going to destroy the harmony of the local team. In this case, the firm may have to consider the alternative actions that match with the culture and working style of the South East Asian people Shaw & Onkvisit (1997.)

3.3.4 Channel conflict and coordination

According to Coughlan et al. (2206:244), channel conflict is “the behavior by a channel member that is in opposition to its channel counterpart and conflict occurs when one member views its upstream or downstream channel members as the opponent”. Alter (1990) discussed that in the complex channel relationships, conflict and cooperation are likely to coexist and when the channel members work closely together, without conflict or cooperation, the relationship may not have the capacity to develop effective operations. Palamountain (1955) identified three types of channel conflict that occurs in the channel arrangement (1) Horizontal conflict (2) Intertype conflict (3) Vertical conflict

Horizontal conflict is the conflict that occurs between the intermediaries of the same level and the same types. For example, conflict that occurs between distributors and distributors on the channel benefits can distort the working relationship of all chain.

Intertype conflict is the conflict that occurs between the intermediaries of the same level but different types. Intertype conflict is the conflict that motivates the firm to keep developing its efficiency and respond to the changing market conditions. For example, the

conflict between the distributor and dealer who are trying to sell to the same target customers can result in the imbalance of position and role of the channel chain.

Vertical conflict is the conflict that occurs between the channel members from different level and type within the same channel flow. This kind of conflict usually occurs in the channel arrangements and potentially erodes the relationship and the coordination among the channel members; for example conflict between producing firm and the distributors in term of goal and objectives. Producing firm might be more interested in the intensive distribution whereas the distributors might be more interested in the margin gain on the products. This kind of conflicts results in the incompatible goal and objectives and can easily distort the relationship.

In the international context, firms need to be careful on the conflict issues that occur in the channel. Although, the conflict does not relate to the firm but the middlemen and middlemen themselves, the level of cooperation in the channel may be affected by those middlemen as they distract the harmony of channel relationship. Moreover, if the conflicts occur between firm and middlemen, then the firm needs to consider whether is this middlemen important to the performance of the firm or the availability of middlemen in that market or in that country is limited or not. If there is the limitation of the particular middlemen, firm may not be able to eliminate that middlemen out from the channel. Instead, firm needs to find the alternative actions to solve the conflicts.

Conflict resolution is another important issue that helps the firm to the increase the channel satisfaction. Conflict resolution can be achieved by generating effective communication and increasing the level of coordination (Bowersox & Cooper 1992:333 -336; Johnson 1994; Hardy and Magrath 2001:65-69; Coughlan et al. 2006: 271- 274; Dancer 2006).

Effective communication - Communication promotes trust and increases the level of coordination where the information exchange is the main key to develop the effective communication (Coughlan et al. 2006: 271- 274 ; Bowersox & Cooper 2006:333 -336).

Bowersox & Cooper (2006:333 -336) suggested that communication can be achieved in many forms such as

(1) **Persuasion**, involves communication between or among the parties, with the focus on influencing behavior through persuasion rather than sharing information.

(2) **Negotiation**, the aim of negotiation is to hold the conflict and to find the way to resolve the stress within the channel.

(3) **Politics**, the aim of using third party to resolve the conflict such as coalition ; formation among the channel members; to create more bargaining power, mediation and lobbying.

(4) **Withdrawal**, the aim of withdrawal is to terminate the conflict by withdrawing the relationship in order to avoid the problem. The alternative of the withdrawer must exist and if the alternatives are not available, the withdrawer must will to change the nature of business or goal.

Stern (1999: 469) suggested the step in information exchange as following;

- (1) Identify the topics of discussion.
- (2) Identify who in the channel that needed to be informed.
- (3) Identify what information is needed and relevant to be informed.
- (4) Identify how the direction of information should go, who should provide the information.
- (5) Identify the alternative outcomes that might occur after exchanging and preparing to handle that result.

In the international context, communication can be seen as the key to all things. Firm needs to be able to communicate in the language that the firm and the channel members understand each other. Culture aspects such as verbal and non verbal communication, can be sensitive in the international communication level. Local people in the foreign country, may or may not understand in the same way as the focal firm does and they may not explicit them in the speaking or written words, especially in the South East Asian culture where the face reading and gesture expression are more important than the written language. Therefore, firm needs to make sure that communication is clear and has the same

understanding. Assessing the understanding from time to time, is needed in the early stage of connection establishment until the channel members and the focal firm are familiar to the communicating style of one another and able to establish the correct understanding among the channel (Shaw & Onkvisit 1997.)

Increase level of Coordination - conflicts lead to the increasing level of coordination because they are coexisting to each other. Well cooperation among channel members lead to the capability to develop the effective cooperation (Alter 1990.) Therefore firms must consider the practices that lead to the increasing in channel coordination. Main practices that lead to the increasing in channel cooperation are;

(1) Channel members must develop the mutual goal, objectives and plan altogether by addressing what the firm and the other members want and what strategies should be used to achieve the goal. These can be done by assessing the resources and capabilities of the channel members. Finally, firm and the channel members must come to the agreement on the practices that are needed to achieve the goal and establish the commitment throughout the channel (Johnson 1994; Hardy and Magrath 2001:65-69; Bowersox & Cooper 2006:333-336; Dancer 2006).

(2) Support the channel members by providing information sharing, training, or consultancy that are critical to the relationship development (Hardy and Magrath 2001:65-69).

(3) Treat channel member as the asset and always monitor the relationship to remain healthy. (Hardy and Magrath 2001:65-69).

As conflict occurs and increased, both economic and non economic satisfactions are decreased. Moreover, trust; as the basic foundation of durable, well coordinated relationship and the belief in other party that acts with fairness, honesty and the concern of well being; will be decreased as well. Trust is the main element of the channel commitment between the focal firm and the other channel members, therefore decreasing in trust refers to decreasing in the desire to maintain the relationship. Drayer (2002) said that trust in business comes first and firm must trust in the relationship with the trading partner before the relationship develops to be the collaboration.

In the international context, especially with the South East Asian culture, trust is very important in establishing the relationship. The influence of circular traditional time of South East Asian believing that life is a cycle and the future outcome is the repeating process from the past. Therefore, trust needs to be developed over time with the familiarity, durable and honesty to one another (Shaw & Onkvisit 1997.)

The figure 9 developed by Steenkamp & Kumar (1999) shows the relation of conflict and channel relationship.

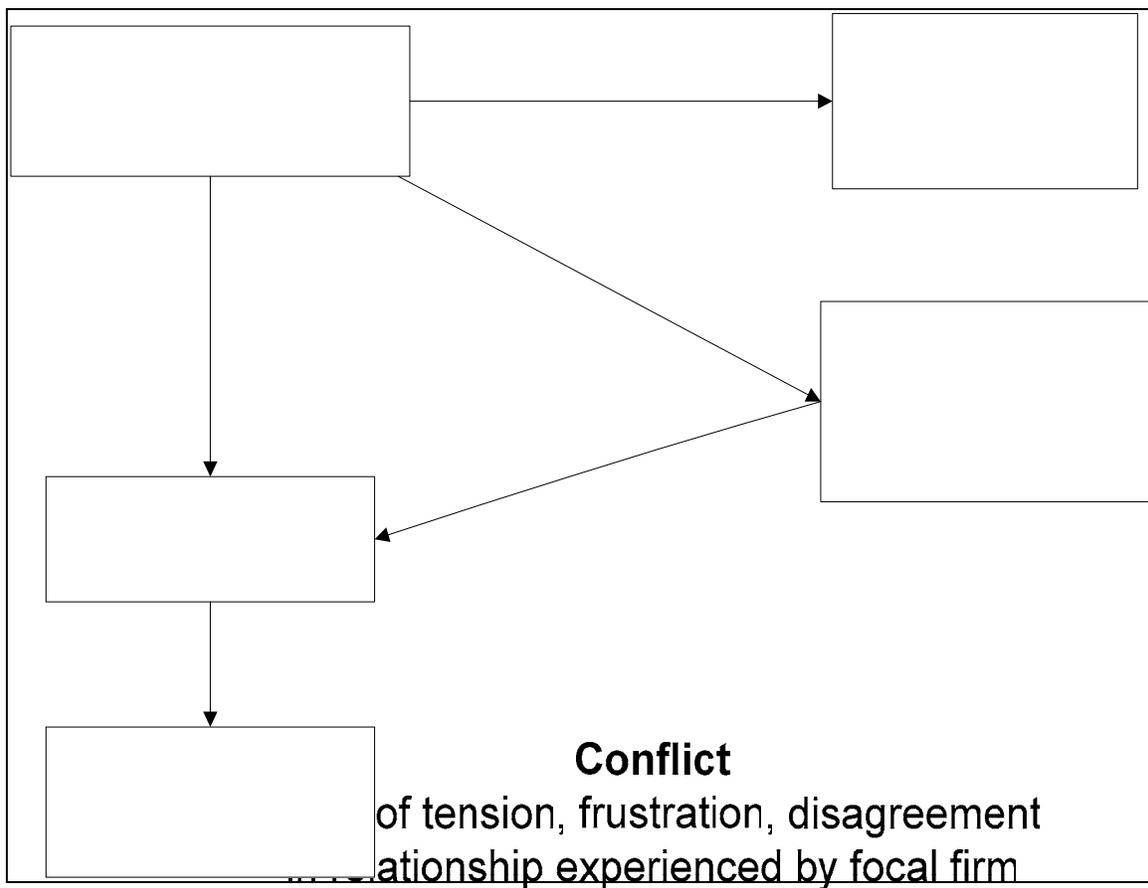


Figure 9. Effect of conflict on channel relationship (Steenkamp & Kumar 1999).

3.3.5 Channel commitment

Commitment refers to the ability to invest the resources and reach the mutual goal of the channel. The more the channel vertical integration is, the higher the commitment of the channel members are (Coughlan et al. 2006).

Anderson et al. (1992) suggested the checklist of the symptoms of commitment in marketing channels. See figure 10. This figure reflects the behaviors and attitude of the firms that pursue the genuine commitment. This framework can be used as the checklist to evaluate the firm commitment among its channel members

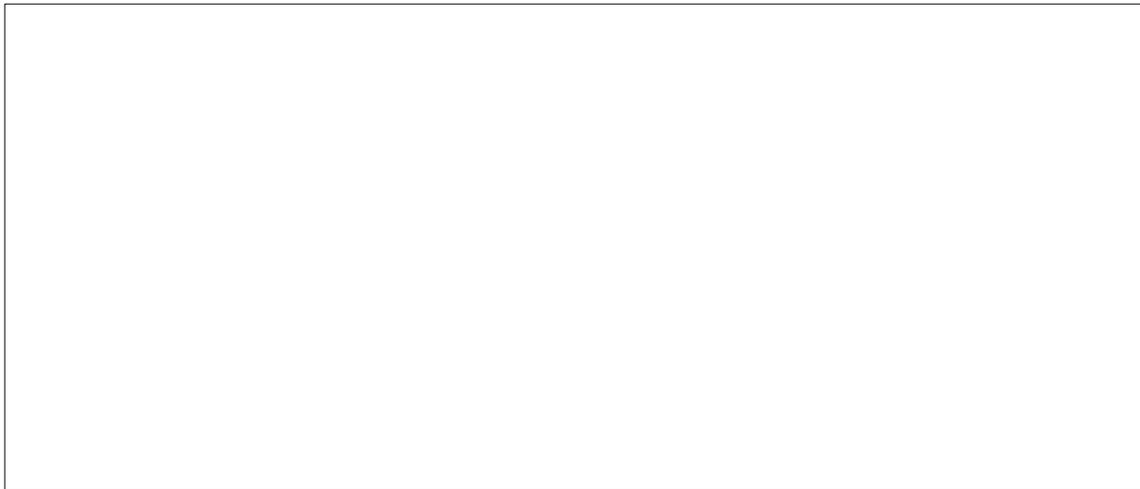


Figure 10. Commitment in marketing channels Anderson et al. (1992).

In the international context, commitment is very important for the firm , because it directly indicates the firm's success or failure in the foreign market. If the selected foreign middlemen fail to establish the commitment with the focal firm and vice versa, it can be very difficult for the firm to develop the existing channel arrangement. Commitment requires a lot of resources and capabilities investment; trust among the channel members

Checklist of commitment

A committed party to a relationship : manufacturer, distributor

patience with the mistakes and trouble; and long term relationship oriented. Without channel commitment, firm may easily lose its good channel members to the other competitors and result in changing the new channel member over time. These things create cost of new negotiation, new partner selection etc... and result in the slow growth of the firm's export performance (Stern 1999; Steenkamp & Kumar 1999; Coughlan et al. 2006.)

3.3.6 The relationship between the international marketing channel and the export performance.

As discussed earlier that "The concept of marketing channel development is to use the marketing channel **as the strategy to build the firm's competitive advantage** (Bruce 1981; Stern 1999; Wise and Baumgartner 1999; Bowersox & Cooper 2006; Coughlan et al. 2006) where the concept of international marketing channel consists of two broad topics which are international channel design and international channel management (Bruce 1981:1; Bowersox & Cooper 1992; Rangan et al. 1992; Coughlan et al. 2006). The Competitive advantage gives the potential for the firm to be success on the desired performance (Porter 1985). Therefore, **it is sounds reasonable to make the assumption that well -channel design development and good working relationship among the channel (channel management) can influence to the firm's performance as it is one of the most important factor that increase the firm's competitive advantage.**

4. RESEARCH METHODOLOGY

This chapter presents the methodology used and the summarized figure of the theoretical framework used in this study. Data collection and the validation of the study are presented in this chapter.

4.1 Methodology used

Case study is used in this study as the appropriate research approach. According to Yin (2003 : 5), case study is the appropriate method to use when dealing with the questions of “Why and how” and when there is no requirement of control of the behavioral on the events and when the researcher wants to focus on the contemporary events. In addition, the use of case study is to find the meaning in one specific situation in depth and valuable and transferable results in which the researcher makes the interpretation of that meaning (Maylor & Blackmon 2005). The case study approach used in this study is “Multiple-case study”. According to Yin (2003), the case study is the empirical inquiry that investigates a phenomenon within the real life situation and the use of multiple-case study can be achieved in two ways (1) by using literal replications predict the similar results (2) by using literal replication predict the contrasting result. In this study, the multiple-case study will be used to predict the contrasting of the result between the firm which is capable of developing comprehensive international marketing channel in South East Asia and the firm which is not.

According to Yin (2003: 21), there are five components that are important to develop the research design.

(1) **Study questions:** the study questions must provide the important clue regarding to the most relevant research strategy to be used. In this study, the study questions concerns “How and Why”

(2) **Study propositions:** is the attention of the study's scope. In this study, international marketing channel development in South East Asia is the attention of the study scope where, the study proposition is "Comprehensive international marketing channel development can influence to the firm's export performance" The study proposition will be studied by using the deductive method in which the theoretical propositions are generated in advance of the research process and the previous studies on theoretical framework used has been done in prior. The analytical task in this study is to match up the data with the designed theory framework in order to confirm or against.

(3) **Unit of analysis:** defines what the "case" is- in this study, the case of the study is the Finnish firms that export to South East Asia market.

(4) **The logic of linking the data to the propositions:** is a way of relating the data to the propositions, in this study, there is the evidence from the literature that the well-international marketing channel development can influence to the firm's performance. Therefore, it is logical to link this framework with the proposition.

(5) **Criteria for interpreting the study's findings:** findings can be interpreted in terms of comparing at least two rival propositions. In this study, two firms are compared to find the result, one is the firm which achieves the performance target and another is not. With this criteria, the linkage between the international marketing channel development in South East Asia and the firm's performance in that target area can be used to interpret their practices and finding the conclusions of the proposition.

According to the discussion above, the main reasons of using Qualitative, multiple-case study approach are; (1) According to the objective of the study, the research questions are dealt with "How and Why" questions. Therefore, the qualitative study is suitable for this objective. (2) To gain the deeper understanding of the specific market related factors in South East Asia that influences to the international marketing channel design and management. (3) To predict the result of two-contrasted international marketing channel practices in South East Asia whether are there any differences and how they influence to the firm's export performance. (4) To gain the understanding of the real and current situation of the international marketing channel in South East Asia from the Finnish firm perspectives.

4.2 Data collection

The data collection was done by using the face-to – face interview method to collect the data where the structured questionnaire was used for the interview. Main reasons are (1) The structured questionnaire can address each firm's behavior and attitude on their international marketing channel in South East Asia in the identical manner. (2) It is more reliable to predict the contrast of each firm when the questions are the same. Two firms were used to conduct the case studies. One firm is very well capable of conducting the international marketing channel in South East Asia and meeting its export performance's target where the other one find it difficult to develop the international marketing channel in South East Asia. The criteria used to select the studied firms are (1) Firms must do the export to South East Asia market (2) One firm is highly satisfied with their performance whereas the other one is not so satisfied. To make sure that the criteria are met, the calls were made to ask both firm's export managers whether they have the export operation in South East Asia market and how is the export situation in that market. After that the interviews were arranged, the interview took about one and a half hour for the 24 set of questions. Tape recording was used and the transcript of the interview has been attached with this report in the appendix chapter. The interviewing language is English since both of the export managers of these two firms are highly capable of English language. Therefore, there is no problem of English language using.

In addition, the annual reports of the firms, and the publication according to the target countries, have been collected in order to gain the extra information about the target countries and the firm's performance.

4.3 Validity and reliability

The quality of the research design can be assessed by four criteria (1) construct validity (2) Internal validity (3) External validity and (4) Reliability Yin (2003: 34).

The construct validity according to Yin (2003:34), the use of multiple sources of evidence, establishing chain of evidence and having key informants review draft case study report are the tactics used to increase the construct validity. In this study, multiple sources of evidence are used to construct the study's framework from various sources such as annual report of the firms, article related to the target countries, electronic publication of the competitors. The data collection on empirical facts have been many time reviewed with the informants that it contains all the relevant information and the report is presented as clear and compatible to the research questions as possible. However, the objective measurement on the firm's export performance cannot be used in this study. This is because (1) The confidential data of the firm which is not the public company cannot be revealed (2) No publication on annual report stated how much exactly the firm exports to South East Asia region. Therefore, to measure the firm's performance in this study the subjective method to measure the firm's export performance in main countries of South East Asia has been used. However, to increase this construct validity, the author has used the measurement according to Sousan (2004), whose research tells what subjective measurement are the most widely acceptable, reliable and frequently used to measure the export performance in the business research. The following are the subjective measurement used to measure firm's export performance in this study; export success, meeting expectation, customer satisfaction, satisfaction among the channel, export market share compared to the competitors.

Internal validity The study must be able to identify all the possibilities factors of causes that lead to effects and no threat factors that lead to the misinterpretation of the finding(Yin 2003: 36). Four tactics can be used to increase the internal validity (1) The pattern matching (2) Explanation building (3) Address rival explanations (4) Use logic models.

In this study, the pattern matching has done by referring to the international marketing channel literatures in which international marketing channel can be used to build the competitive advantage of the firm and that result in the desired export performance. The empirical study is to compare the firm who did the comprehensive international channel management and the firm who did not, in order to answers the proposition of the study. The comparison of these two firms which gives the different result on the export performance, is the evident that the proposition of the study matches with the empirical result.

The explanation building has been done by using the independent factors (Company related factors, market related factors, channel structure related factors and satisfaction in the channel related factors) according to the theoretical part to explain the behavior that influence to the dependent factor (Export performance) in the empirical study.

The logic models of this study, is using the literatures in the international marketing channel management that is believed to increase the firm's competitive advantage in which this advantage refers to the potential of increasing export performance. This case study is using these logical models to form the assumption of the study and to find the result on the empirical study by comparing two firms international marketing channel practices and the correct practices which report in the literatures.

Since this study only focuses on the role of international marketing channel development that influences to the firm's export performance, therefore, the acknowledgeable of the other factors that influences to the firm's export performance has been early discussed in the limitation of the study chapter. Other factors that influence to the firm's export performance were admitted but did not discuss in detail for this study. However, since the sub objective of this study is to compare the results between two firms, therefore, the comparison addresses the rival explanation on its own on how the practices are different and how they influences export performance in the different results.

External validity refers to the problem whether the study is generalisability beyond the immediate case study (Yin 2003:37). The study framework of international marketing channel development can be used to predict the studies regardless nationality of the firms or any target countries. However, in this study, though only two firms are used as the case studies, but the comparison of each two firms international marketing channel practices give enough the explanation on how the comprehensive international marketing channel management influence the firm's export performance.

Reliability refers to the objective of being certain that if the later investigator followed exactly the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions. In this study, the reliability can be met by providing the transcript from the interview, questionnaire set used in the interview, references for the literature used and

other various sources of data used, data collection process and discussion of the relevant theoretical frameworks.

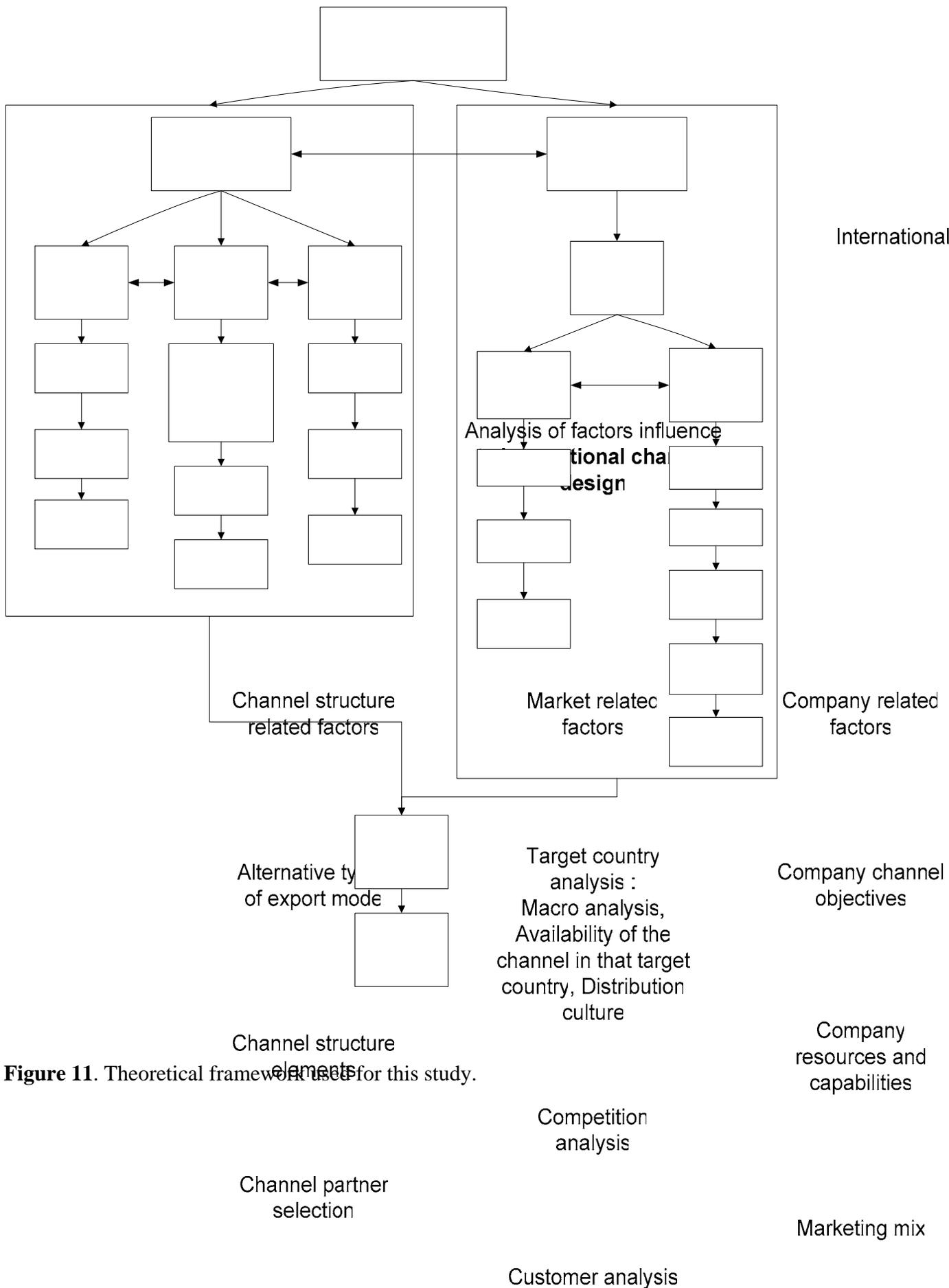


Figure 11. Theoretical framework for this study.

Figure 11 shows the summary of the theoretical framework used in this study and shows how the comprehensive international marketing channel management can be developed. Moreover, it shows that comprehensive international marketing channel management can bring the competitive advantage to the firm which later result in the desired export performance of the firm.

5. RESULT FROM THE EMPIRICAL STUDY

The purpose of this chapter is to present the findings result from the empirical study in which the questions have been designed to assess the abilities to develop the international marketing channel management and to assess their export performance based on their expectation and their performance compared with the competitors.

The discussion in this chapter will focus on the following points;

Firstly, the export performance of each firm will be described in comparison.

Secondly, the ability to understand the concept of marketing channel will be described and assessed in comparison.

Thirdly, ability to develop good channel structures and understand other factors which relates to channel structure will be described and assessed in comparison.

Fourthly, the ability to understand and develop the international marketing channel according to the market related factors in South East Asia such as target country factors, competition factor, and customer factors will be described and assessed in comparison.

Fifthly, the ability to understand and develop the international marketing channel in South East Asia according to the company related factors such as channel objective, company's resources and capabilities and marketing mix will be described and assessed in comparison.

Sixthly, the ability to establish the channel satisfaction and maintain the international channel relationship will be described and assessed in comparison.

The result from the findings will be described by using the referenced firm as Firm A and Firm B where Firm A stands for the company that are highly successful in the export performance in South East Asia and Firm B stands for the company that are slow successful in the export performance in South East Asia where the main target countries that are focused in this study are Thailand, Singapore, Malaysia and Philippines.

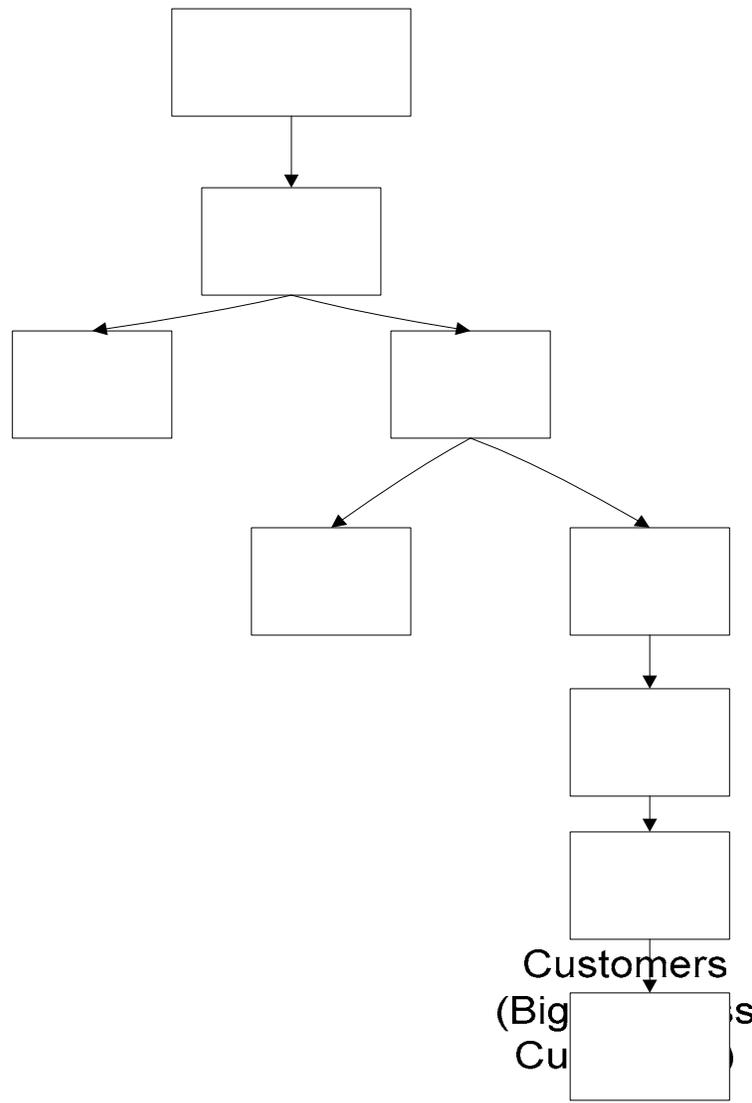
Background of Firm A

Firm A is a global manufacturing firm which widely distributed to Europe, North America and Asia where the main market is in Europe and USA. Though, Asia is not the firm's main target but it is the potential region for the firm to grow further and further. Firm A has

exported to South East Asia region for over 30 years. Firm A has set up its local office in Malaysia to take care of all South East Asia region sales and has employed the about 25 local staff to work in the Malaysia office. Local office in Malaysia has established for almost 13 years and acts as the agent which is 100 % nominated by the firm, however in some countries where there is the difficulty to set up the local office, the search for appropriate agent will be done and the agent is still 100% nominated by the firm. The firm exports its product directly from Head Quarter (HQ) to the foreign branch office who acts as the agent. Agent sells the product to end user and the MNC merchant (Distributor) which merchant again sells the products to the small distributors > dealer > end customers (Data monitor: company profile 2006). See figure 12.

Background of Firm B

Firm B is a manufacturing firm which is the market leader in home ware and interior design products. Firm B is very strong in its home market and Scandinavia. However, the international market for the firm currently is mainly concentrated on Europe, USA and Japan (Firm B's annual report, 2006.) However, in South East Asia region, the firm has exported for almost 50 years already, mainly to Singapore and Philippines but Malaysia and Thailand are the slow market for Firm B. Firm B does not have the local office in that region but use the foreign middlemen to do the export activities. The firm exports directly to these middlemen who act as the distributor/importer mostly, except in some country, middlemen act as the retailer as well. The firm nominates only one exclusive middleman for each country. There is no use of dual channel in Firm B. See Figure 13.



Head Quarter Firm
Finland

Subsidiary office
(Malaysia)
Act as Agent

Customers
(Big
Cu...s)

Figure 12. Channel structure of Firm A in South East Asia.

Business
Customer

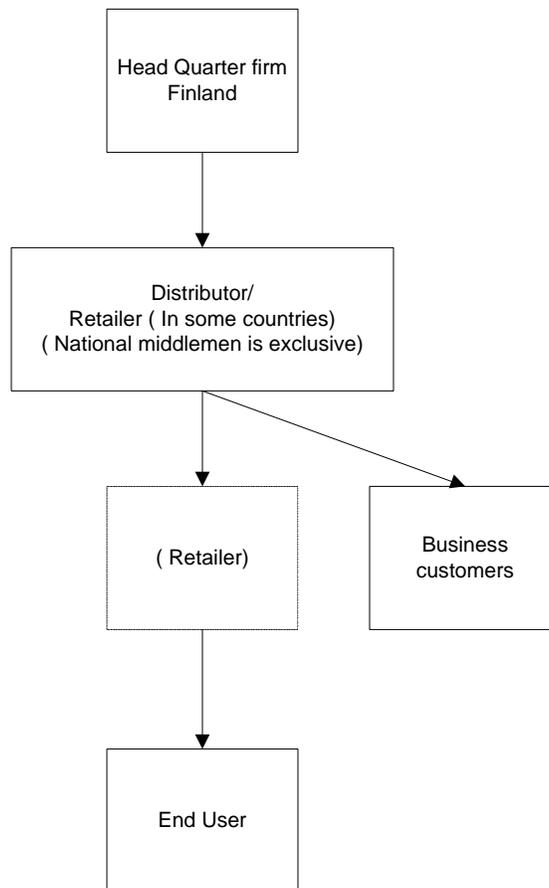


Figure 13. Channel structure of Firm B in South East Asia.

5.1 Assessing the export performance

The assessment of the export performance of each company is done by assessing the company's own target export performance and export performance against competitors.

However, in this study, it is found that time or the period that the company started to export in those countries is another important factor that needed to be considered in order to improve the reliability of the result and to decrease the overestimated effect of the interviewee when discussing about the firm's export performance.

The result from Firm A has shown the great success of export performance. The ability to grow the market in South East Asia region and the export's sale volume compare with the competitors. Even though recently there is the decrease in revenue growth in year 2005 for the market in other Asia countries excluding Middle East, China and Japan (Data monitor: Company profile 2006). However, it is found out that the decreasing in revenue growth came from the decline in the industry demand in South East Asia region which was the modest growth for over 20 years (Thuy 2006). In addition, when comparing the success against its competitors, especially the strong local competitors, Firm A has achieved to defeat the local competitors and become one of the market leaders in that region. In addition, Firm A has claimed that their channel satisfaction is very high and extremely few conflicts occur.

Firm B has claimed its success on export growth and performance expectation. However, when comparing with the competitors, Firm B has found that they are still far behind the competitors who are mostly European competitors that export to South East Asia markets as well. Moreover only Singapore and Philippines are the only profitable markets for the firm where the rest are slow and very minor. In generally, South East Asia market for Firm B is difficult task and takes almost 50 years to develop. Firm B considered itself in the introduction stage in South East Asia region. In addition, Firm B has claimed that their relationship with overseas channel partners is quite well but there has been a lot of changing the channel partners for over 50 year's period. According Sousesan (2004) , the method to measure export performance that are widely used and acceptable is not just only to measure the export performance according to the company target but competitors benchmarking needed to be considered as well. The reason can be that each firm has different expectation ; some expect low, some expect high ; therefore, when the question is subjective, it can be misinformation given when discussing about achievement of own export performance target. Also, it is more reasonable to also ask their export performance comparing with their competitors and moreover with the period of time they are in the market. This is because time indicates the ability to develop the efficient international channel program, the longer the time firm exports to that market, the more experienced in developing the international marketing channel should be. However, this is not the case for Firm B.

After all of these criteria have been taken into account, we have found that Firm A export's performance are more successful than Firm B. Firm B market sale volume is successful in some level with the small expectation from the management team but when compared with the competitors in term of market share and time spending on export operation, Firm B seems to be far behind the competitors in spite of the long exporting period. Therefore, it can be concluded that Firm B has find the export operation in South East Asia difficult when taking all other factors into account.

5.2 Assessing the ability to understand the international marketing channel concept

Firm A is able to see the importance of all channel members which starting from the manufacturing point until end user point. Firm A operates by taking all partners into consideration starting from end user > Dealer > small distributors > MNC Merchant (distributor) > Agent and Firm A itself, in backward direction. Firm A seriously understands the importance of the marketing channel expansion as the strategy for the firm to get growing by intensively investing the resources and capabilities to the personnel, channel development and the organization norm and policy. Firm A realized the success of the firm is to have the outstanding presence in that market area. Work with all channel partners with trust and commitment for the long term relationship and closely monitor the customer's behavior in order to develop the channel offerings according to the customer's needs .Firm A generally develops the channel offerings along with its middlemen.

Firm B operates as the firm oriented where the partners come as the unsolicited requests and no consideration of the end user or customers' needs. According to the interview, Firm B has no responsibility to develop the marketing channel with the middlemen in the South East Asia region. Firm is not seriously investing resources to expand the market in South East Asia. Firm B believes that product will sell on its own. The commitment among the channel is failed to be established, because there is no serious resource investment, and relationship is cut off when the sales of the channel partner is not reaching the target without channel review, conflict discussion and co marketing development with the channel partner. Cooperation among the channel exists as long as the channel partner can make the sales. However, Firm B reveals that their channel satisfaction is very well. This is somehow a bit doubtful and it will be discussed in more detail whether the channel satisfaction of

Firm B is by chance or it is real. However, no competition within the channel occurs because the firm's policy encourages the exclusive distribution strategy.

From the result above, it can be obviously seen that Firm A has the better understanding of the international marketing channel concept than Firm B. Firm A is able to show the understanding of marketing channel concept or to say, having channel member's awareness and the visibility of the market by intensively involved in the export activities with middlemen whereas Firm B -channel member's awareness is not clear and ,more or less, the firm has the awareness only to the foreign middlemen but cannot identify who are these middlemen' customers. This can be explained by, the degree of market visibility of the firm which needs to be high and clear. In order to achieve this, firm must have the close connection with the middlemen in order to know who their channel partners are (Bowersox & Cooper 1992 ; Coughlan et al. 2006.) In addition, setting up the local office in that region or country gives the opportunity for the firm to have the clearer visibility about the market and knows who belongs to the channel chain. Awareness of the channel members and the degree of market visibility are directly related to each other. When the firm have high visibility, the firm is likely to have more members' awareness (Bowersox & Cooper 1992 and Coughlan et al. 2006.) Therefore, this can be explained why Firm A has more channel member awareness over Firm B. Moreover, Firm A is able to establish the channel commitment with their middlemen whereas Firm B cannot and middlemen are changing over time. This is because Firm A realizes the value of resource investment and integration among the channel more than Firm B. Firm A has seriously involved into the channel development activities along with middlemen whereas Firm B does not want to involve in any channel offering development with middlemen at all. This can be explained by, the degree of firm's will to integrate resource into the channel and the intensity of involvement in working relationship of Firm A is higher than Firm B. However, both Firm A and Firm B do not have the conflict of competition within the channel. This is because dual channel does not exist in their channel structures. Though Firm A has two main channels, which are direct customers and the MNC merchant, however both of these channels are taken cared by one main middleman which is the agent. According to the interview and both Firm A and B annuals' reports, the firm's policy is to encourage the single channel in order to avoid the problems and the distortion of channel relationship harmonization.

5.3 Ability to understand the channel structure related factors.

Both Firm A and Firm B do direct export mode, except firm A has the local office in the South East Asia region which gives the opportunity to have the better visibility on the market. This can be assumed that firm A has resources and capabilities to invest into the international marketing channel more than Firm B. However, from the Firm A position, the local competitors are extremely strong. Without the presence of the firm in that region, it would be very difficult to achieve the target. However, when comparing with Firm B, though there is no local competitors but there are the strong European competitors presenting there as well. Without the self presence, Firm B find it more difficult to access the market information when comparing with the competitors.

Firm A has only single channel through the agent, however its agent performs both direct and indirect channel where the focus is more on indirect channel. There are many middlemen involved in the channel. Channel of firm A starts from HQ > agent (local offices) > MNC merchant (distributors) > Small distributors > Dealer and end customers and another channel, which is minor part, is HQ > agent > Big Business customers.

Firm B has only one main distributor in each country. The channel structure of Firm B is direct starting from HQ > national distributor (exclusive) > retail shop > end user. The products of Firm A and Firm B are different and need different channel structure. Firm A's product unit value is not so high and focusing on mass market whereas Firm B's product unit value is high and focus on the specialty market. Firm A performs intensive distribution where Firm B does exclusive distribution. This is because Firm A knows that its products are for mass market where as Firm B's products are for specific target customers. Firm A uses main middlemen type as the agent and the distributors whereas Firm B use only distributors. Because Firm A and Firm B do not take care of local logistics functions, therefore they used the distributors to take care of them. In additional, Firm A is able to identify who are their second or third level middlemen after the agent and the merchants (distributors) whereas Firm B only knows its distributor (First level middleman) but cannot specifically identify who are the second level middlemen, third level middlemen. Firm B claimed that they do not want to involve with the distributor's works. However, there is no dual channel existing in both firm's A and B channel structures.

In term of channel structure elements, according to Anderson and Schmittlein (1984), John and Weitz (1988), Klein et al. (1990), Miracle (1965), Aspinwall (1958), products that are specialty suits with the direct and selective channel. Therefore, according to the result above, Firm A and Firm B' channels are reasonable. In addition, the use of middlemen type is also reasonable as well. According to Bowersox & Cooper (1992), Bruce (1970), firms that do not have their own service logistics function should use the middlemen who are able to provide those activities such as service distributor or retailer. Though Firm A has agent but the agent sell through the merchant which acts as the service distributor. Therefore, firm A does not have to take care of the logistics service for the customers. According to Bowersox & Cooper, (1992), Coughlan et al. (2006), Stern (1999), conflict can be easily raised from the result of the dual channels which sometimes is difficult to resolve and may cause the dysfunctional of the channel. In the author's opinion, both Firm A and Firm B makes the right choice not to have dual channels. If firm A's channel is not strong and often having the conflicts, the channel partners can always easily go to work for the local competitors who are stronger which at the end it results in the dysfunctional of the channel. For Firm B, the products are specialty and no need to use intensive distribution. The more exclusive the distribution is, the more is the value of the products. Therefore, there is no use of dual channel as well. Lastly, Firm A's channel structure is reasonable with the product characteristics sold. Firm B's channel is reasonable as well but the weak points in Firm B's channel structure is that its channel structure is not clearly seen by the management team and there is no intention by the management team to be seriously co develop the international marketing channel with its partners. According to Coughlan et al. (2006:21), "Failure to understand the channel can result in the failure of the whole chains", this seems to be the answer why Firm B is still far behind the competitors and result in the channel partner changing over time.

In term of channel partner selection, Firm A's agent is 100% nominated by the HQ firm or to say it is one of the firm's foreign offices. Certainly, Firm A has no worry about any prior background of the agent. However, the merchants or the distributors of the firms are selected by using the multinational distributors companies who are mostly European companies that already have the existing connection with the HQ firm and also have their distribution network in South East Asia. The company used these distributors because they can have the proven track performance that can be reliable on their success. On the other hand, Firm B selects the distributors based on the financial performance, channel capacity

and the interest shown in firm's product. However, in most of the case, Firm B selects the distributors mostly by the first impression, feeling or the communication fit between the export manager and the distributor. According to Moore (1974), Stern (1999), Blythe & Zimmerman (2005), four main issues that needed to be considered when selecting the channel partner; (1) Sale performance (2) Financial performance (3) Management performance (4) Compatible product carried. It can be concluded that the MNC merchant who is the most important middlemen in Firm A's channel has been selected according to these four criteria. According to the information above, firm used MNC merchants to be the distributors in South East Asia in order to ease the solution because of their long traditional relationship with proven sale performance record, financial reliability, management skills, skillful in the product and industry. On the other hand, Firm B missed to consider the management performance of the channel partners in term of skill, experience and operation procedures etc... Channel partner selection is one of the most important factors that influences to the firm's success or failure of its marketing channel (Stern 1999). Therefore, it is reasonable to conclude that Firm A seems to have potential to be success in their marketing channel more than Firm B when looking at how the firms select their channel partners.

5.4 Ability to match the market related factors with the channel design

The questions asked for this topic are about what market related factors that the company takes into consideration when designing the channel. The market related factors can be found by doing (1) Target country analysis which consists of macro analysis; Political, Economical, Social and Technological factors, availability of channel in that target country and distribution culture in the target country (2) Competition analysis in the industry which addresses the factors such as new entrants, competitive rivalry, supplier power, buyer power and substituted product of that target country (3) Customer analysis which helps the firm to address the ability to understand the customers' demands and market segmentation according to the customers' needs.

In term of target country analysis, Firm A has considered; the trade agreement, tariffs, working style, and culture of relationship building in Asia, availability of middlemen in that

area and distribution culture in that area; as the factors that influenced to the channel selection. By setting up the local office in that region, the firm can reduce the high export tariffs in some countries in South East Asia as a result of local production preservation policy by the government (Thuy 2006). This is because South East Asia countries have the trade agreement with each other to reduce the import-export tariffs from the countries within South East Asia region (South East Asia, A Free Trade Area 2002). In addition, the language ability of people in Malaysia where Firm A has its subsidiary office is compatible with the working language of firm's A because Malaysian people used English language throughout the country (Finpro 2007). The used of local employee as the agent is the way that Firm A wants to learn about their working style as Firm A regards its success in export business is to learn the way the local think and do. According to Czinkota & Ronkainen (2004), Terpstra (1981) and Shaw & Onkvisit (1997), the small distant of culture can be one of the important reason why the foreign firm and the local people can work together so well. Therefore, Firm A's idea is to reduce the gap of culture by using all local people to work in the office with only one Finnish sale director in order to learn the way they work and adapt himself with the local norm and the local way.

In term of availability of the middlemen and distribution culture in South East Asia region, Firm A has a long traditional relationship with the Multinational company merchants who are also Firm A channel partners in European market. Therefore, there is no difficult for Firm A to work with these MNC merchant in South East Asia region. Moreover, Firm A also realized that the distribution culture in South East Asia in term of payment term seems to create the difficulty to the customers because of advanced payment. Therefore, Firm A has taken this opportunity to exploit the benefit of existing practices from the home market country which is long term payment to implement with South East Asia region and the result is they are very successful in competing with the strong local competitors.

Firm B did not consider these issues at all when designing the channel. Firm B rather wants the foreign middlemen to buy their goods and be able to work out the market. This may be because Firm B thinks that the product will sell itself and there is no need to consider such factors, or to say, Firm B is looking at the products rather than looking into the market. Moreover, the firm does not have enough resources and capabilities to take care of all countries in South East Asia market. Therefore, Firm B is unable to develop the marketing channel with the middlemen in those countries and this may be the reason why the

middlemen success is by chance. Firm B is happened to be fortunate in their business. However, with the constantly changing of the channel partners, it indicates that Firm B cannot establish the long term commitment among the channel.

On the contrary, Firm A who takes target country factors into account seriously, is able to develop the channel that compatible with the firm's culture and the strategic location of the subsidiary office. These give the opportunity to the firm to avoid the political force such as tariffs and used the trade agreement to exploit such benefit.

In term of competition in that region, Firm A knows exactly who their existing competitors are or who the new rivals in the market are. Firm A studies the competition very carefully which has given Firm A the tactic to defeat the competitors. Firm A stated that competitors, especially local competitors who are very strong in size and various numbers, are not so trustful and their payment term in the channel flow is not so attractive to the market. Once Firm A has found these weaknesses of the local competitors, Firm A tried so hard to build the relationship and trust with the customers. In addition, Firm A used the long payment term to attract the customers in order to answer to the customer preferences. At the end, Firm A is able to beat the local competitors with the attractive channel differentiation and the better channel offerings. This is clearly shown that Firm A has build the switching cost that customers have to aware when changing the supplier from Firm A to other firms. According to Porter (1980) high switching cost can reduce the intense of the competition and prevent the customers to switch to another supplier. In addition, with the wide distribution network of MNC merchant in South East Asia region, Firm A's channel network is hard to compete by the new competitors. According to Porter (1980), the threat of potential competitors can be reduced if the barrier cost is high. It is surely that Firm A is able to build the high barrier cost to block out the new competitors. Firm A's supply is sometimes limited when there is the shortage. With the enormous of demand and high barrier and switching cost, Firm A is able to exert the supplier power in the industry. Firm A is able to choose which customers are the best to supply by looking at their profitability and capacity of the channel and Firm A is able to control the channel into the direction the way the firm desired. However, in Firm A's situation, there is no buyer power involvement to be found and substituted product is not related in this case since Firm A's products are raw materials.

Firm B knew who the direct and indirect competitors are. Firm B discussed that the indirect competitors are currently building up their image to attract the customers whereas the direct competitors are ahead of Firm B. It seems that Firm B knew the facts but did not perform any action to reduce this intense in the competition. Many reasons can be explained (1) Firm lacks of the resources in personnel resources and financial resources to invest in channel development with the partners (2) Firm still believes that the product will sell itself and the right customers will find them (3) Firm's success wholly depends on the distributors' channel practices (4) Firm B does not have clear channel objectives for each country and no specific target sales set or developed with the channel partners.

In term of customer analysis, Firm A has done the market research seriously by using frequent sales visit, the publication of customer's performance from the electronic database for those customers who are public companies and outsourcing market research agency. After collecting the customer's information, Firm A classified its customers by using their needs and buying behavior as the criteria to segment the customers such as price sensitivity, ordering size, degree of loyalty etc... In this way, Firm A is able to produce the channel that is able to serve the customer's preferences and demand. According to Coughlan et al. (2006), the best way to segment the customer is to look at what the service outputs that customers prefer and try to segment the customers according to such service output preferences. Firm A, is certainly segmenting the customers by looking at the demand and preferences. In this way, the firm can easily use this segment to develop the channel offerings with channel partners that match with the customers' demands.

Firm B only uses general existing knowledge that the specialty products itself segment the customers. Because of producing the high unit price specialty product, Firm B thinks that those customers who are rich and like the products is the segmentation within its own. Obviously, Firm B has understood market segmentation in the general way and not specific into the need of those customers. However, this can be explained by several reasons (1) Firm B does not want to involve in the marketing activities in the target countries and Firm B perceived that it is the distributors' job even though there is only one middleman in each country and the channel is quite direct. (2) Firm B management team lacks of marketing knowledge (3) Firm B believes in products find its own customers than trying to find out what behavior of those customers who like to buy products are and how they to buy them.

5.5 Ability to match the company related factors with the channel design

The questions for this topic are about how clear of the firm's channel objectives are, what the resources and capabilities level of the firm are and how the firms match the marketing mix with the development of channel design. These are all the company related factors.

In term of company channel objectives, Firm A, firstly thought that to overcome the strong local competitors, firm needs to differentiate its channel from the competitors in order to attract the customers. Firm A differentiates itself from the competitors by focusing on the quality of the products, long payment term, intensive customer service care and reliable partners. Local competitors who do not focus on these issues have to lose their customers to Firm A. According to Porter (1985), differentiation can be used as the competitive advantage to distinguish the firm from the competitors by developing higher value of offering or increasing the customer loyalty. In addition Firm A is able to state what their channel objectives are and how much of the target they would like to achieve in this region, how much of market share they can expect to gain from the strong local competitors. Firm's A main goal is to maximize the sales in South East Asia region. Therefore, the use of intensive distribution that is mostly done by the MNC merchant (distributor) supports this objective. However, the firm does not directly use the dual channel but the agent (local office) performs two main sales channel which are MNC merchant and direct customers. This also supports the firm's objectives. Because the firm has very close relationship with the agent who is 100% nominated by the firm and MNC merchant that have already become firm A partners from the European market, firm A is able to have the high level of channel cooperation as well.

Firm B believes that their competitive advantage is the quality and the design that differentiated itself from competitors. However, only these alone are not strong enough to differentiate themselves from the competitors, because other competitors also think in the similar way as well. There is no concrete strategy on channel differentiation. This is because the firm does not have any intention to develop the channel with the middlemen in any local marketing activities. Firm B's main channel objective is to maximize the sale. Firm B selects national distributors who have wide network of distribution. However, this alone depends so much on the distributor success, because Firm B hardly knows who are

the retailers or the customers of the firm' distributors in those countries. Though the channel structure is reasonable in a way but Firm B's level of cooperation with the middlemen is quite low. According to Bruce (1977), high level of cooperation between the firm and the channel partners are the supportive factors for the firm to be able to maximize the sales. It is obviously that Firm B has failed to establish the high level of channel cooperation with the channel partners as the firm has no intention to coordinate with its channel members in regards of local marketing channel development

In term of company resources and capabilities, Firm A invests in marketing function and management function very much in order to develop the comprehensive channel in South East Asia. Firm invests in marketing research, sales visit, number of sale force which is about 25 people in the local office in order to gain the customers behavior and market characteristics in South East Asia region as much as possible. Firm A can create the channel offerings that match with the market demand such as channel differentiation from its competitors, customer segmentation based on customer needs, loyalty channel partners, while in the same time continuing develop the management team skills and capabilities by exchanging personnel between the local offices and HQ in order to gain both local and HQ goal and direction. Training by sending local people from the foreign country to Finland and personnel from Finland to the local offices in the foreign country is the key success in building up the strong channel team. This is because personnel can gain the clearer picture of what the goal and objectives of the HQ firms in South East Asia regions are and the cultural learning and knowledge sharing between the HQ and the local etc... In term of financial resources, firm A is the public company which is able to attract the capital better than those companies who are not, therefore firm A has abundant capital to spend on such investment. In term of production, firm A has developed its R&D constantly in order to develop the better products all the time.

In term of marketing function, Firm B tries to build the brand value to the product by its advertising but the firm did not co develop the marketing activities with the middleman in the South East Asia countries. Only brochure, leaflet and Point of purchase material (POP material) are given away to its middlemen. In addition, there is only one people in HQ office who take care of the sales in all South East Asia region, there is no team building within the HQ firm or either with the middlemen. According to Bowersox & Cooper, (1992:154), Stern (1999), firm that knows the customer's demand and has the clear

segmentation, is able to formulate the channel offering that fits with the customer's demand. Firm that's resources on management skills and capabilities are strong also help the firm to achieve its channel target in those countries. Since Firm B does not have appropriate sale work force, and not interest to building up the sales team in foreign country, therefore Firm B is unable to work out the market research on customer behavior and market characteristic in order to identify the clear market segmentation. Firm B is unable to develop the channel offerings to the market effectively. The success of the firm depends so much on chances and luck. Firm B does not provide any overseas training to the middlemen in those countries, the middleman has to make the request of overseas visiting to the HQ firm and the expense is on the middlemen side. In generally, only CD-ROMs are given away for the product training. Firm B's middlemen actually express more interest in Finnish culture working style than that the HQ firm tried to adapt itself to the local way. The middlemen who hold Firm B's products are more or less international people who know Finnish culture very well because the products sold are directly related to the Finnish culture and style. However, it is risky for Firm B to go further, when there is no knowledge sharing system or training system provided to the middleman. Firm B cannot be always so certain that, in the long term, middlemen still carry the interest in the Firm B's products while new competitors and existing European competitors in South East Asia region are getting stronger over time. Firm B may easily lose its good middlemen to the both direct and indirect competitors in the future. In term of financial resources, Firm B has limited financial resources to invest. Though it is a big firm but it is not yet the public company. Just recently, the firm starts to prepare itself to register as the public company in order to attract the capital. In the production function, Firm B also constantly employs R&D people to improve the product and design quality. In conclusion, though Firm B's resources and capabilities are limited, however, the proportion of the available resources and the expected goal are not appropriate because the channel formulation needs to be done together with the middlemen and firm must know what the market characteristics and customer demands are. Top management needs to consider this issue seriously, if they want to succeed in South East Asia market and over come its competitors.

In term of marketing mix impact, Firm A's product is considered as the low unit value, non perishability, middle complexity and standard and life cycle is in the maturity stage. According to Aspinwall (1958), Miracle (1965), Anderson and Schmittlein (1984), John and Weitz (1988), Klein et al. (1990), product that is low unit value and, non perishable,

low degree of complexity, standard and in the maturity stage, the channel structure needs to be more indirect and pursues intensive distribution strategy. Therefore, it can be concluded that Firm A channel structure is reasonable when taking product characteristics into account. Firm B's product is considered as high unit value, non perishable, low complexity and standard and product life cycle is in the introduction stage. According to Aspinwall (1958), Miracle (1965), product that is high unit value suits with the direct channel and selective or exclusive distribution. However, though products are low complexity and standard, because of the products' nature, the unit price plays the most important role in product characteristics as it is what the customers paid for. Therefore, it is more reasonable in this situation to focus at the unit value when deciding on the channel structure. According to Bruce (1970), Bowersox & Cooper (1992), and Lilien (1979), products which are still in the introduction stage, suits with the direct channel and selective distribution. It is logical to conclude that Firm B's decision on channel structure in term of directness of channel and degree of intensive distribution is reasonable when taking product characteristics into account.

In term of promotion impact on channel design, Firm A uses both Push and Pull strategy to attract the market. Push strategy is done by providing intensive training to the middlemen mainly in sales training, product training and personal selling. Pull strategy is done by using trust, image building and reliability on products quality to attract the end customers. For Firm B, pull strategy is not directly used by the manufacturing firm, but by the decision to use on middlemen's will. Firm B only provides advertising, leaflet and products materials as the tools for middleman to develop any local marketing activities in those countries. According to Bowersox & Cooper (1992), Bruce (1970), Aspinwall (1958), push strategy should be used when the channel is more direct because it takes less effort and budget to spend on these incentives. The reasons that Firm A uses both push and pull strategies can be that Firm A in reality has both direct and indirect channel where indirect channel is the main focus of the firm and direct channel is the minor part. Firm B does not use any push strategy at all. This seems to be conflict with the theory suggested by Bowersox & Cooper (1992), Bruce (1970), Aspinwall (1958). Basically, Firm B does not have the intention to develop the local marketing strategies with the national distributors, this might be the reason why Firm B does not use any push strategy. Also this explains why Firm B finds it difficult to achieve South East Asia market and takes very long time to build the market and why the competitors are so much far ahead. Even though the channel

structure in overall seems to be reasonable but the activities in the channel flow are not supportive.

In term of price, one of the Firm A's customer segment criteria is price sensitivity. Firm A is able to match the margin of price distributed throughout the channel with the channel structure form. Customers that are price sensitivity needs shorter channel chain to maintain the margin and the use of non reputable intermediaries can helps to maintain the margin because they do not require high margin (Bowersox & Cooper 1992, Bruce 1970). Firm A is able to develop the channel offerings and channel design that match with the customers' demands and still maintain the margin level. On the other hand, Firm B's product is considered as high margin product. Because the product is regarded as valuable and luxury, the use of direct channel and exclusive distribution is the most suitable strategy. The price in turn preserves the value of the product and price is not the main issue for Firm B customers. In this case Firm B channel strategy is suitable with the pricing policy.

In term of logistics, Firm A does not provide any logistics service to the customers. Once the products arrive at the port in the foreign country, the firm is out of the responsibility and it is customer's responsibilities to take care of the logistics from that point onward. Agent (Local office) for Firm A, does not take care any logistics service as well, therefore, the customers like MNC merchant who acts as the full service distributors and other direct customers take care of the logistics by themselves or outsource the MNC professional logistics handling to help with this matter. Firm B does not provide any logistics service to the customers either and the responsibilities belong to the distributors starting from the factory original point. Customers (national middleman) have to take care of logistics service starting from the factory point until the product arrives at their premise in foreign country. However, Firm B advices shipping rate as the support information for the distributors. Bruce (1970) stated that middleman such as full service distributors or professional logistics handling should be used when firm does not perform logistics service on its own. In this case, it is reasonable that Firm A uses MNC merchant acting as the full service distributors and outsource the MNC professional logistics service for direct customers if direct customers do not have their own logistics service. Firm B's national middleman takes care of all logistics service, however, Firm B does not pay attention whether their distributors have the capabilities to take care of logistics service or not. Because once the customers place the order, the responsibilities belongs to the middleman

right away prior the goods are shipped out from the factory. Currently, there is no problem of logistics matter, however Firm B has to be careful and pay attention to the ability of national middleman in term of logistics because once the order volume is bigger, the more complexity of the logistics will be.

5.6 Ability to establish channel satisfaction and maintain the international channel relationship

Compatibility of goal, objectives and market strategies and balance of position, role and benefits are the main issues that increase the level of satisfaction. However, the activities that involves in these issues concern channel communication, channel partners' demand addressing, SWOT analysis of channel partners, channel's responsibilities allocation, channel negotiation, power dependence in the channel, conflict resolution, channel coordination, and channel commitment.

Firm A reports that there is very few conflict in goal compatibility and the balance of channel position, role and benefits of the channel members. However, personal conflict is the issue case by case but overall Firm A believes that their conflict in the channel is very few. This is because Firm A invests so much on human resource training. Bringing local people to the HQ for training, gives them the opportunity to learn about HQ values, organization culture etc... Therefore, local offices employees are able to gain the same understanding as the HQ employees and work on the same direction. This action indicates that Firm A must have assessed the SWOT analysis of the local agent. In addition, the working relationship with MNC merchant is going smoothly. This is because Firm A has very close and traditional relationship with MNC merchant from the European market. The ability to understand each other's demand on the channel benefit is well understood. The working relationship with MNC merchant is systematic and professional. The communication goes smoothly and rare conflicts occur. Firm B does not perform any SWOT analysis, and demand addressing of the channel at all. Firm B main practices is to find the channel partners who are able to sales and profit to the firm whereas demand addressing and SWOT analysis are out of managerial boundary. As they perceived that it is not necessary to perform such analysis, cutting off the channel partner is the way to avoid the problematic partners. According to John and Reve (1982), Bowersox & Cooper

(1992:317), Johnson (1994), Hardy and Magrath (2001:65-69), Dancer (2006), the compatibility of goal, objectives and market strategies is the key factor that increases the level of channel satisfaction, can be achieved by addressing the demand of channel members, conducting SWOT analysis to assess resources and capabilities of channel members and developing the effective communication. From this theory, it obviously proves that Firm A is able to manage the compatibility of goal and objectives better than Firm B and it is the reason why Firm A's working relationship with MNC merchant is long term relationship whereas Firm B's relationship with its channel members is not. However, both Firm A and B do not have any problem in channel communication. Things can be understood clearly and no language issues occur. This might be because most of Firm A's channel partners are internationally operating firms whose employees are able to speak English well and have the perspectives on international working style while Firm B national distributors are mostly people who know about Finland well because of the products sold reflects to the Finnish design. These people are international who travel frequently and English is certainly not a problem.

In term of responsibilities allocation, Firm A always assesses its channel partner performance and cost that occurs in the channel in order to know who in the channel partner is the most efficiency one and who needs more training or more communication. On the other hand Firm B does not need to allocate the responsibilities for the channel members since each country has only one national distributor, however, the allocation of responsibilities within the local country is out of Firm B responsibilities and belongs to the middlemen in each country. In the countries level, Firm B has only two options decide when the channel partners do not perform the channel activities efficiently which are to continued or eliminated. However, the firm wishes to pursue the latter one than giving more training or more communication. As discussed earlier, Firm B rather want to avoid the problematic channel partners by cutting the problem one off from its channel and recruiting the new one instead. According to Coughlan et al. (2006), the commitment of the channel can be established when both parties expect to do the business in a long term, spend enough time to solve the problems and be patient on the mistakes and not continually look for another organizations etc..., it's obvious that Firm B fails to show the firm's commitment toward the channel member and that is the reason why the firm's middlemen have changed constantly over the time.

Moreover, Firm A performs the regular daily contact with customers and frequent visit so that the firm can understand what seem to be the problematic issues and resolve it right away. In addition, there is no report on cultural issues problem such as language, local norms and working style. Firm A reported that the success of channel relationship is to understand the local value and adapt itself to the local approach by not westernized all of activities but encouraging the people to see what are the HQ standard which implied the quality of work. In term of MNC merchant, who has the long traditional relationship with Firm A from European market, the use of MNC merchant seems to support Firm A channel working relationship a lot as it is the easier solution for the firms as the reliable partners. Firm A also report that the other success factor on channel relationship is trust. Firm A invest time, resources and capabilities to build the trust in the channel. Moreover, Firm A reports that the customers visiting has done 1-2 times a month for the important customers and once in three month for smaller customers. However, daily contact by phone is regularly used. Firm A uses the customers visit as the way to evaluate the customer's satisfaction. In this way Firm A can constantly collects the customers' problems, needs and demand in order to improve their channel offering continually. According to Finpro (2007), people in South East Asia countries such as Thailand, Singapore, Malaysia and Philippines pay high attention to long term relationship building as an example of gift giving, exchanging in order to leave the good impression constantly between people and people. Firm A realizes that most of business in South East Asia are driven by relationship and trust oriented therefore, this can be the reason why there is few conflict in Firm A's channel and the level of channel satisfaction is high. According to, Bowersox & Cooper (1992), Stern (1999), effective communication leads to correct understanding in the channel and increase in the channel coordination when the conflict is reduced. Steenkamp & Kumar (1999) reported that less conflict creates trust and economic satisfaction and trust created commitment. Also, it is reasonable to conclude that Firm A is successful to establish channel commitment as well.

Firm B reported that they do not have any conflict with the middleman at all and everything seems to go smoothly. Firm B usually keep the relationship with their channel partners by email daily. However, there is no field visiting in those countries ever occurred and sometimes the distributors fly to Finland to have the correct idea on how products are positioned and made, but the expense is fully belonged to the distributor or to say it is voluntary visiting. Firm B has no program to support the knowledge sharing activity.

However, Firm B's practice on "cut it off" policy is still doubtful. The report on Firm B's smooth relationship with the channel partners might be explained by "cut it off right away" policy that Firm B pursues. Firm B does not carry any problematic channel partners and that might be why Firm B does not report on any occurred conflict events and also it is the reasons why its middlemen are changing over time. However, when taking other issues into consideration such as growth of the market share comparing to competitors in South East Asia, middleman changing overtime. It can be concluded that Firm B channel working relationship might be the result of by chance relationship but no deep commitment established. According to Anderson et al. (2006), one of the practices that lead to the commitment among the channel is "to be patient with the mistakes even they cause the trouble". Firm B obviously fails to do that.

According to the report of Firm A and Firm B on their channel satisfaction, they both seem to please with their channel. However, though Firm B's current channel satisfaction is high. However, it might be that in the future when the problem occurs, the replacing of new channel partners might happen as well. As this study, can only observe the practices of on going channel satisfaction with the current channel partners, therefore it is out of the ability to understand the firm's past practices with its past channel partners on channel satisfaction building. The only thing is possible to conclude in this channel satisfaction topic, is to look from the past events that occurred and with the consideration of the current practices, in order to assume what had happened in the past and what might happen in the future.

Since both of the firms report that their channel satisfaction is quite high, the use of channel negotiation, channel power dependence of these two firms are not so widely perform in the channel. They both stated that these are not the issue when the channel satisfaction is high and when the conflict is rarely occurred.

Table 3 shows the conclusion of the two firms international channel practices comparisons. This figure gives clearly understanding on how these two firms have different channel practices and how the end result were shown from their channel practices

Table 3. Comparison of two firms international marketing channel practices and the export performance

Issues	Firm A practices	Firm B practices
(1) Assessing the export performance	<ul style="list-style-type: none"> - Satisfied with their export performance, become the leader of the market in South East Asian region even though the local competitors are very strong - Highly satisfied with the channel relationship with the channel members. - Middlemen have long term commitment with the firm. - The exporting period to South East Asia region is 30 years 	<ul style="list-style-type: none"> - Satisfied with their export performance, but admit that they are still far behind the other European competitors. - Successful in some countries such as Singapore and Philippines but the others are slow and minor market. - Middlemen have been changed many times over the last 50 years - The exporting period to South East Asia region is 50 years.
(2) Assessing the ability to understand the international marketing concept	<ul style="list-style-type: none"> - Aware all involved channel members - Has the high visibility of the market because of its own sale subsidiary presenting in that region - Aware that commitment and trust needs to be establish with all channel members 	<ul style="list-style-type: none"> - Aware only national middlemen (the closest middlemen) - No own sale subsidiary office representing in SEA region. Only use of national middlemen - Believe that product sell itself, middlemen that has the problem should be cut off from the chain at once.
(3) Ability to understand the channel structure related factors	<ul style="list-style-type: none"> - Reasonable channel structure when taking the product characteristics into account - Develop the marketing channel along with the main middlemen - Select channel partners by looking at the proven track record of sales, financial performance, management performance and 	<ul style="list-style-type: none"> - Reasonable channel structure when taking the product characteristics into account - No co-development in marketing channel with middlemen - The channel structure is not clearly seen by management team. - Select channel partners by looking at financial

	compatible product carried	performance, channel capacity, interest shown in the product, and mostly the first impression and communication fit with the HQ export manager. However Firm B missed to take the management performance into account
(4) Ability to match the market related factors with the channel design	<ul style="list-style-type: none"> - Considered most of the relevant issues especially, in term of Politics (Trade agreement, tariffs), Social (English language used in hub office in SEA region), availability of middlemen and distribution culture. - Firm A used the existing resources and capabilities to reduce the intense of the competition in SEA; such as creation of the attractive channel differentiation that allowed longer payment term and the strong distribution network of the MNC merchant partners that creates the high barrier cost; though the local competitors are very strong. - Developed the market research by using frequent sales visit, publication of customer's performance. - Segmenting customers according to the needs of the customers and develop the various channel programs according to the needs of the customers. 	<ul style="list-style-type: none"> - Did not consider the target country factors at all. Firm believes that product will sell itself. - No action to response with the direct and indirect competitors. The reason might be that (1) Lack of resources and capabilities in personnel and financial. (2) Believing of the product will sell itself. (3) Firm's success depend on distributors. (4) No clear channel objectives and no specific target sales set. - No market research on customer preference has done. Since the firm claimed to be distributor's responsibility. - Segmenting the customers by believing that the product will choose its own customers.
(5) Ability to match the company related factors with the channel design.	<ul style="list-style-type: none"> - Clear channel objectives (Maximize the sales) and using the channel 	<ul style="list-style-type: none"> - No concrete strategy to overcome the competitors - Having the channel

	<p>differentiation as the company strategy to overcome the competitors</p> <ul style="list-style-type: none"> - High investment on personnel resources and marketing function. - Develop the marketing channel activities with the partners. Knowledge sharing occurred. - Appropriate used of marketing mix according to the channel structures. - Professional logistics handling partners will be hired if its customers do not have the ability to take care of the logistics issues. 	<p>objectives but fail to establish the activities (such as marketing channel development with the middlemen) that support the objectives.</p> <ul style="list-style-type: none"> - Lack of team building, inappropriate numbers of sale work force. - The success of the firm mainly depends on the distributors. - No knowledge sharing system is done between the HQ and the middlemen. - The activities in marketing mix is not supportive. Two of the marketing mix strategies (Promotion and Logistics strategy) conflicts with the theory and inappropriate with the current channel structure. - The used of push strategy has not used to stimulate the demand from the middlemen. This might be the reason that the firm does not want to involve in any marketing issues with the distributors at the first place. - No concern of the middlemen ability in logistics handling.
<p>(6) Ability to establish channel satisfaction and maintain the international channel relationship</p>	<ul style="list-style-type: none"> - Assessing the SWOT of its channel partners. International training by exchanging local and HQ people is provided to reduce the weakness of its channel partners. - Long term relationship with the MNC merchant 	<ul style="list-style-type: none"> - No SWOT analysis performs to assess the ability of its channel partners. - Only focus on searching the middlemen who can create the sales. - Cutting off the problematic channel

	<p>who is the most important channel partners of the firm.</p> <ul style="list-style-type: none">- Daily contact with its customers and frequent visit	<p>member is the way to manage the problematic channel partners.</p> <ul style="list-style-type: none">- Daily contact by email but no field visiting in the target country. Distributors have to fly to Finland to gain the correct product information and all the expense belong to the distributors.- Lack of trust and commitment establishing among the focal firm and the channel partners.
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6. SUMMARY AND CONCLUSION

The purpose of this study is to summarize the theoretical framework used for this study and finding the result of the empirical study in order to understand how the comprehensive international marketing channel practices influence to the export performance of the firms which export to the main countries of South East Asia such as Singapore, Thailand, Malaysia and Philippines. The summary of the theoretical framework used and the management implication on the international marketing channel role that influence to the firm's performance are presented in order.

6.1 Summary of the theoretical framework

The objective of the study is to understand how the comprehensive international marketing channel practices influence to the export performance of the firms which export to the main countries of South East Asia such as Singapore, Thailand, Malaysia and Philippines. Therefore the chapter presents in this thesis followed by sub objectives of this study that need to be achieved.

Chapter 1 presents the interests on the study of Finnish firms that export to South East Asia region as this region is the second biggest market in Asia after Far East. Moreover, the assumption on the international marketing channel that influence to Finnish firm export performance has been discussed where the objective of this study is to understand how the comprehensive international marketing channel practices influence to the firm's export performance. The sub objectives of the study are (1) To understand what are the channel alternative structures and the key factors in developing international channel design.(2) To understand what are the key factors in increasing international channel management's satisfaction.(3) To compare two Finnish firms channel practices and performance in main countries of South East Asia.

Chapter 2 presents the main concept of marketing channel as the key to build the competitive advantage where the marketing channel is defined as the process in making product and service available for consumption starting from creation point to consumption point. Marketing channel consists of two broad topics; channel design and channel

management. The reality of the international marketing channel is presented to gain the deeper understanding of what actually happens to be the problem in the international marketing channel nowadays. The key factors that influenced to the international channel design are presented which are channel structure related factors, company related factors and market related factors.

In channel structure related factors chapter, three main key issues are presented (1) The alternative types of export mode (2) Channel structure elements and the challenges (3) Channel partner selection. In the alternative types of export mode chapter, each type of export mode is presented; direct export, indirect export and own export. Each type of export has different pros and cons and the resources and capabilities of the firm are required differently. The selection on the types of export mode is the first step to decide on what its Channel structure should be.

In the channel structure elements chapter, the elements that constitute the channel structures are presented. Firm has to define its (1) degree of directness or the length of the channel (2) number of middlemen at each level or level of intensive distribution (3) type of middlemen (4) Number of channels (5) level of cooperation between the focal firm and the other channel members. The firm needs to define these elements to match with the firm's objective, resources and capabilities and the market situation.

In channel partner selection chapter, the importance of channel partner selection is presented. Good channel partners indicate the establishing of channel commitment, become the brand specifier to the customers, provide smooth business transactions, possess wide distribution network. The criteria's in selecting channel partners that firm needs to consider are sale performance, financial performance, management performance and compatible product carried. Channel partner selection is one of the most important factors that influence to the channel design.

In market related factors chapter, three main key issues are presented; (1) target country analysis (2) Competition analysis (3) Customer analysis. Target country analysis consists of macro analysis of the target country (Politics, economics, social and technology), channel availability in the target country, and distribution culture in that target country. These analysis gives the knowledge to the firm on its international channel design should be in

order to correspond with that target country situation and environment. Competition analysis presents the factors that related to the competitive structure of the industry presented by Porter (1980). Five forces which are rivalry among existing firms, threat of new entrants, bargaining power of buyers, bargaining power of supplier, and threat of substituted products should be taken into consideration by the firm when performing the international channel design, because it gives the knowledge to the firm whether its channel design is competitive and strong enough in the industry. Customer analysis presents the way to understand the customers where two main views on customer analysis can be seen as (1) understanding customers' product and operation cost (2) segmentation customers. However, the main focus on customer segmentation is widely used in the marketing channel literature, where the customer segmentation is done according to the service outputs which are the duties that reduce the end- user search time, waiting time, storage and other costs. Firm that segmentation its customers according to the service output can respond to the customer's demand better in term of channel offering. Therefore, the customer analysis is one of the most important factor that influence the firm's channel design as the customers prefers to deal with the channel that offer the high level of service output (Bucklin 1966).

In company related factors chapter, three main key issues are presented; (1) Channel objectives (2) company resources and capabilities (3) Marketing mix. Firm needs to know what their competitive strategy is in order to define its channel objectives as it is the continual process. Cost leadership, differentiation or focus, firm needs to decide and develop the channel offerings that match with the competitive strategy. After that channel objectives should be matched with the firm's channel structure elements. Firm needs to know what their channel objectives are; Maximizing sales, Minimizing cost, Maximizing channel goodwill and Maximizing the control. Each objective requires different practices on each channel structure elements. Company resources and capabilities give the firm to understand its strengths and weaknesses. Firm needs to design the channel that appropriate with the firm' s resources and capabilities that the firm possesses, or firm needs to acquire such resources and capabilities to fulfill its need. The assessment on firm's resources and capabilities can be done by looking at four business functions; production, finance, marketing and management. Firm's marketing mix, is one of the issue that influence to the channel design, the product characteristics, price, promotion and logistics. Product characteristics, can be looked into five aspects; (1) product unit value (2) perishability (3)

product complexity (4) product customization (5) product life cycle. Each of them suggests the appropriate channel structure elements that should be used according to the product character. Promotion strategy suggests the strategies that should be used with the different channel structure. Price setting influences to the firm's channel structure elements. Logistics design impacts to the middlemen type selection.

Chapter 3 presents the key issues that increase the satisfaction among the channel members or to say it is the matter of international channel management. The key issues that related to the channel satisfaction are (1) compatibility of goal, objectives and market strategies (2) The balance of position, role and benefit of channel members. Compatibility of goal, objectives and market strategies can be achieved by addressing the channel members' demand, addressing the channel members' resources and capabilities, developing effective communication. The balance of position, role and benefit of channel members can be achieved by performing responsibilities allocation based on cost that occurred in the channel flow, profit received from each channel member and the ability to serve the existing demand; performing channel negotiation; exploiting the benefit of power dependence in the channel to direct the action of the channel members; managing the channel conflict and increased the channel coordination and establishment of trust and commitment. These key issues are all influencing the satisfaction among the channel members. The satisfaction of the channel member leads to the good working relationship in the channel chain. In addition, the relationship between the international marketing channel and the export performance is presented. International marketing channel is to use the marketing channel as the strategy to build the competitive advantage and that competitive advantage gives the firm's potential to be success in the desired performance. Therefore, it is logical to say that international marketing channel that consists of international channel design and international channel management can influence to the firm's export performance.

Chapter 4 presents the reason of using qualitative case study as the method for empirical study. This is because, the qualitative case study is suitable for the research objective that dealt with "how and why" and to gain the deeper understanding of market related factors and the situation of the marketing channel from Finnish firms perspective. Data collection is done by using face to face interview with the structured set of questionnaires, multiple

sources of evidence such as company annual report, target country information report, specific industry report.

The validity can be achieved by using the multiple sources of evidence, case study reviewed by key informants, using the theoretical framework to establish the pattern, logic model and explanation building, addressing the rival explanation by compared the result of two firms.

The reliability can be achieved by presenting the clear data collection process, with the attachment of questionnaires and transcript in the appendix, reference for the literature used, and the discussion that relevant to the theoretical framework.

Chapter 5 presents the empirical study by comparing the two Finnish firms' international marketing channel practices and their export performance in main countries of South East Asia region. From the empirical study, it is found that Firm A who does comprehensive international marketing channel practices is more successful in the export performance than the firm who does not in main countries of South East Asia region.

6.2 Management implication

The management implication of this study, will focus on the main marketing channel issues that are highly different between these two –case study firms as these activities indicate the level of comprehensiveness of the firm in international marketing channel development. It is believed that a comprehensive channel arrangement is able to influence to the firm's performance. The different on channel arrangements are able to show the contrast on level of marketing channel comprehensiveness and therefore explain why a firm whose international marketing channel is comprehensive, is able to have success on the export performance.

According to the result finding in Chapter 5, the following implications are the issues that explain why the firm's international marketing channel arrangements is so comprehensive that it influences to the firm's export performance;

(1) Strong presence of the manufacturing firm in international market Firm that has its presence in the international market can be more advantage than the firm who does not. Firm who pursues direct export type can use this opportunity to discuss the opportunity with the local distributors in order to establish the strong presence of the manufacturing in that target country such as setting up local office, flagship stores etc... as the strong presence indicates the level of customer's awareness toward the manufacturing firm brand. In addition, it also attracts the potential channel partners who like to be the part of the channel chain as well since they perceive the seriousness in developing the marketing channel in that country from the HQ firm and the willingness to invest in resources and capabilities of the firm in that target country.

(2) Market approach rather than product approach - Successful firm seems to develop its channel based on the market approach by looking at the customer's needs, market demand, target country specific factors analysis of competition in that target country, in order to create and develop the channel offerings that are advantage along with its channel partners. The firm that conducts the market research seriously is able to establish the clear customer segmentation according to the customer's need, not what on the firm's own criteria. The firm will focus on how to develop the channel offerings that are matching to the customer's demand, being advantage, competitive enough to compete with the other competitors and be able to maintain and control the bargaining power of buyer and the supplier in the market.

(3) Clear channel objectives communicate throughout the channel - the channel objectives which are ambiguous mean that there is no certain direction on strategy to achieve the objectives and there is no discussion on mutual objectives between channel partners and the focal firm. The problem firm usually did not discuss about their objectives with the channel partners. The firm only concerns about the sales of the channel partners whether is it growing or is it dropping. There is no assessing the demand of the channel partners, no assessing of SWOT of the channel partners and these issues have rarely been into the communication topics. Therefore, the firm's expectation and the channel partners' expectation can be different and it can be problematic when the channel partners are too pleased with the performance of their own while the focal firms perceived it as the failure. The changing over time of channel partners might be the result of the unclear channel

objectives as well. In addition, clear channel objectives will also help the firm to create the channel structure that matches with the firm's objective as well. Therefore, clear channel objectives result in the clear channel structure and clear channel structure results in the use of the resources and capabilities efficiently.

(4) Ability to use resource and capabilities efficiently - Resources of the firm such as sale staff, capital, skill and experience of management team and good channel members are the most important resources and capabilities that influence to the channel development as it reflects the main ability in production function, financial function, marketing function and management function. One of the factors that why the problem firm does not want to invest in the resources because they realize that their resources are limited and they should use the marketing that does not cost so much or invest too much on anything. Some how this thinking might be correct if the firm has just started, but for the firms who are already in the market for many years, this seems to be the short term oriented practices and indicates the inefficiently resources used. Successful firm seems to use it resources with the conscious by focusing on long term result oriented. For example, the investment on personnel training, or hiring more sale staff might be costly but it cannot be denied that personnel are the most important driving factors of the firm's performance. Certainly, abundant of resources and capabilities of the firm may indicate the ability to compete in the market. However if the firm does not know which resources and capabilities are needed to be invested and used efficiently, firm may easily fail to compete in the market as well. This thing goes the same with the firm who does not have the abundant of resources but understand which of the resources are important and needed to be invested and used efficiently, firm can also overcome the competitors as well.

(5) Good channel partner selection - Especially for firm that is highly depending on the middlemen's success. Good channel partner selection is one of the most important factors that the firm may easily fail to realize. From the result, firm who does not consider the ability of partner's in management skill, experienced and knowledge of the market, is having constantly partners replacement whereas firm who considers the partner's skill, experience and past records, is having the long term working relationship with its partners. In partner selection, it is important that firm considers the sale performance record as it indicates the past performance of the partners and the distribution network; financial performance as it indicates the ability to pay the bills and reliability of channel partners;

management performance as it indicates the skill and experience of partners and the potential network; product carried as it indicates the knowledge related to product that the channel partners have to carry for the manufacturing firm. Firm needs to consider all these criteria when selecting the channel partner as good channel partners are important to the firm. This is because (1) good channel partner is committed to the mutual goal and objectives of the channel (2) good channel partner acts as the brand specifier to the customers (3) good channel partner help the firm's business transaction to run smoothly in terms of payment, ordering, coordinating etc... (4) good channel partners normally have the good connection and channel network that indicates the channel capacity.

(6) Establishing commitment throughout the channel successful firm will invest resources and capabilities into the channel in order to achieve the mutual goals and objectives as well as co-develop the international channel arrangement with its channel partners. Firm needs to be patient for the mistakes or problem that occurs in the channel and spending time to discuss the problems with the channel partners. Trust and honesty with the channel relationship results in the reliability and the willingness of the channel to continue working together so on and on. Finally, long term oriented is the sum of these activities that leads to the commitment establishing. Without long term oriented, firm can easily cut off the problem away without looking into what causes the problem. Firm that is able to establish the long term commitment with its channel member will result in the long term relationship with its members and supportive working relationship. As channel partner is the key to success or failure of the firm according to Stern (1999), therefore, failure in establishing channel commitment with the good channel partners may result in the failure of business success as well.

Above are the practices which are different between the firm that pursue the comprehensive international marketing channel development and the firm who does not. However, from the result, it is surprising that there is very little to none cultural issues such as language and working style that lead to arise of conflict. This can be explained by two reasons (1) The firm has good understanding about Asian culture very well especially South East Asian cultures which most of the business seems to be Chinese people background. The firm knows that relationship building over period and trust are very important for them. Therefore, the firm rather adjusts itself into the local approach in order to understand the local thinking and local way rather than waiting for them to adjust. However, in author's

opinion, it is also wise as the firm purpose is to sell the products to these target countries. Therefore, learning and using the local approach with the local market is the suitable method. (2) Firm has got very good channel partners who understand the Finnish culture and Finnish working practices very well that they can adjust themselves according to the Finnish working style, however this is more or less by chance opportunity and the firm's situation might easily change according to the channel partner practices.

6.3 Suggestion for further study

This research study has given the result on how comprehensive international marketing channel development influence to the firm's performance. The research has given the management implication on practices are considered as comprehensive channel arrangement by comparing the international channel practices between two firms. However, this research has done by using case studies as the method to answer the research questions. It will be more interesting if the further research can use these implication to find out whether how true of these implications are by conducting the quantitative analysis with the large sample size of Finnish firms. Moreover, it is also interesting to know whether in all these implications which one has the strongest effect to the firm's performance in order to know what practice is the first priority that is needed to be done when the firm would like to improve its international marketing channel development.

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APPENDIX 1

Questionnaires

The introduction Script: My name is Nontharos Kiatwisanchai. Currently I am working on my master thesis on the topics of international marketing channel management. I would like to thank you first that you have given me such an opportunity to interview you about your marketing channel in South East Asia. The interview will take about one to one and a half hour.

1. Can you describe the firm exportation in South East Asia market? And can you describe your channel distribution in South East Asia? And who are your channel members?
2. How do you select your channel partners? Please describe?
3. How do you do the market research in those target countries? How do you collect the information?
4. How do you address the customer's demand?
5. How do you segment your customer?
6. What issues you take into consideration when you make competition analysis? And what actions you do to reduce the tense of competition?
7. How about other issues besides from customers and competition, what else you take into consideration when you do the target country analysis? For example politics, economics, social and technology issues? Are there any specific distribution culture issues? Or availability of specific channel in that target countries?
8. What are the firm's channel objectives in South East Asia?
9. How do you describes your resources and capabilities in the following issue;
 - In term of work force, sale force, production capacity, working capital, channel partner, distribution capabilities, expertise and knowledge of the target country?
10. Have you used any kind of promotion strategy in the channel? What are they?
11. What is the pricing policy of your firm toward the channel?
12. What is your firm logistics policy toward your channel partners?
13. What are the firm roles to the channel partners? Or what does the firm do to support the channel partners?
14. How do you allocate the channel works within the channel?

15. How often do you have the conflicts with your channel partners, mostly what issues?
16. How do you do to resolve the conflict issues?
17. How often do you have the meeting with your channel partners?
18. How does the firm prepare when the firm needs to negotiate with the channel partners?
19. When you want your channel partners to follow your direction on how to do the things, what do you say to them?
20. Whom in the channel creates most of the conflicts to your firm?
21. How do you communicate with your channel partners?
22. How often you have channel evaluation with your channel member?
23. So far, are you satisfied with your channel partners?
24. How's the firm's situation currently? Are you satisfied with the performance of the firm in term of meeting export sales expectation, market shared compared with the competitors, export success?

Ending script: Thank you very much for your time, this information is really valuable to my research study and I will keep this information confidentially.

APPENDIX 2

Transcript from the interview

Firm A

Q1. Can you describe the firm exportation in South East Asia market? And can you describe your channel distribution in South East Asia? And who are your channel members?

ANS: We have our local office in Malaysia which has been operating for about 15 years in South East Asia hub but we have been presented in the South East Asia for 30 years already. To be successful in exporting, you have to have local sale office and local representatives in those target countries. Our local sale office acts as the agent who takes care of the entire sales in that region. We have MNC merchants who are the main partners. This MNC merchant is also one of our partners in European market where we have established a relationship for many many years. Our agent or local sale office sells the products to these MNC merchants and to some of the big business customers. Later these MNC merchants sell the products to the distributors and other business customers. Then distributors sell to smaller distributors or dealers and after all to the end customers.

Q2. How do you select your channel partners? Please describe?

ANS: Since our main channel member is MNC merchant who has long and traditional relationship with our HQ firm. Therefore, we prefer to continue using them in our South East Asia market. We have already known their sale performance, their financial situation, and their management capabilities. Surely, we need to have members who know our products very well. However, the biggest customers are not always the best channel partners. The best channel partner is the person who focuses on long term relationship and commitment.

Q3. How do you do the market research in those target countries? How do you collect the information?

ANS: We used frequent sales visit in the beginning and for the customers whom are the public companies we found their information on the publication in electronic database and

especially when you are in the market for many years, you learn about customers more and more. In addition, sometimes we use market research agency also.

Q4. How do you address the customer's demand?

ANS: From frequent sales visits and years in the market in South East Asia. We noticed that good relationships in South East Asia are very important. You must have trust on your partners and customers. We knew that in South East Asia, no firm gives the long term credit payment to the customers. Most of the firms used advanced cash payment because nobody trusts anybody. Therefore, we know that we can use this long term credit payment to attract our customers. Moreover, there are customers who are price sensitive. Then we know what products we need to offer them and there are those customers who do not care about the price but the quality of the product or the delivery time. Also we know who are our loyal customers or partner customers. However, some customers' information are limited, therefore, relationship building with them is needed to get the information.

Q5. How do you segment your customers?

ANS: We segment customers by looking at what they need from us and then we try to develop our offering to match with their needs. For example, we know that this certain group of customers is loyal customer to us. This group of customers was price sensitive. This group of customers required long term payment. This group of customers bought in the big lots. This group of customers required certain delivery schedule. However, it is not only how we classified our customers, it is also how the customers classified us!

Q6. What issues you take into consideration when making competition analysis? And what actions you do to reduce the tense of competition?

ANS: We know that in South East Asia, the local competitors are very strong and we know that we can use the attractive long term payment to seduce the customers and to defeat the

competitors. We know that the local suppliers are not trustable and the local customers do not place high trust on the local competitors. Also, when there is the limitation of supply in the market, we choose the best customer to supply by looking the channel capacity and the loyalty of channel partner.

Q7. How about other issues besides from customers and competition, what else is there that you take into consideration when you do the target country analysis? For example politics, economics, social and technology issues? Are there any specific distribution culture issues? Or availability of specific channel in that target country?

ANS: Of course, we consider what EU can do for us in South East Asia market and how the trade agreements within that South East Asia region are. Also, we consider that in Asia, to do the business, relationship and trust are very important. The language is another thing, because a country like Thailand has a problem with communication because they do not speak English that well. The thing as mentioned earlier in South East Asia, is that most of the firms require cash payment in advance before distributing the products but we use this opportunity to develop the differentiation from the competitors. In term of channel availability, we have our MNC merchant as the main channel members. Therefore, we have no problem on channel availability in those countries.

Q8. What are the firm's channel objectives in South East Asia?

ANS: We want to compete with the local suppliers and want to gain the market share and we want to be the leader in this region.

Q9. How do you describe your resources and capabilities in the following issue; in terms of, work force, sale force, production capacity, working capital, channel partner, distribution capabilities, expertise and knowledge of the target country?

ANS: We hired 25 local people to work for us in the Malaysia office. These people know our products very well. We also sent them to HQ firm for training. We have the exchanging program between the HQ staff and the local staffs so that the local staff has a clear picture

on what are the goals and objectives of the firm. We have trustful partners as mentioned before and the company has been in the market in South East Asia for 30 years already, we know a lot about this region.

Q10. Have you used any kind of promotion strategy in the channel? What are they?

ANS: We provide training to our channel partners in product training, sales training and personal selling and we use our company image on product quality and environmental concern to advertise ourselves.

Q11. What is the pricing policy of your firm toward the channel?

ANS: For example, our customer who is in price sensitivity group, we know what product to sell them and at what price. We are able to maintain the price level by having the appropriate margin left for the distributors.

Q12. What is your firm's logistics policy toward your channel partners?

ANS: We do not take care of the logistics service to our customers. Our customers take care of the goods by themselves starting from the port in foreign country. For some customers who do not have their own logistics, we will outsource the logistics professional to take care of for them or as agreed between the firm and the customers.

Q13. What are the firm roles to the channel partners? Or what does the firm do to support the channel partners?

ANS: We work closely with our channel partners, especially our local office who acts as the agent and the MNC merchant. We provide them the training and we exchange and share the market information.

Q14. How do you allocate the channel works within the channel?

ANS: We cannot sell our products to everyone. Sometimes, we have to select to sell it to the best channel members. We look at how their channel capacity is, how the profit generates to us or how valuable they are to us.

Q15. How often you have the conflicts with your channel partners, mostly what issues?

ANS: We do not really have conflicts with our channel partners. Only sometimes some personal conflicts, but in overall, have to say that, our conflicts are very very small amount.

Q16. How do you do to resolve the conflict issues?

ANS: I think that we understand them and we use relationship to create trust. We have to act differently. We are not going there to teach them to behave like us, but we are flexible to learn about local people and understand local people, local behavior. Don't try to westernize any culture there, but work according to our standard by implying the quality of the work which helps us to avoid a lot of miscommunication. Moreover, we use training as the key to establish channel coordination by exchanging people from local office to HQ office.

Q17. How often do you have the meeting with your channel partners?

ANS: We are in daily contact with them, especially with the main channel partners by phone or e-mail. However, twice a year we have a big meeting where we discuss about the most important issues and the performance. Also, we do customer visits. For the main customers, the visiting cycle is twice a month. For the smaller customers, the visiting runs once a quarter.

Q18. How does the firm prepare when the firm needs to negotiate with the channel partners?

ANS: Interviewee already stated that there is very little of conflict in the channel, therefore, the channel negotiation is not the big issue.

Q19. When do you want your channel partners to follow your direction on how to do the things, how do you say to them?

ANS: Interviewee has already stated that they mostly try to understand and be flexible.

Q20. Whom in the channel that creates most of the conflicts to your firm?

ANS: Not the issue, since the conflict is very little.

Q21. How do you communicate with your channel partners?

ANS: By e-mail, phone and sales visit. English language is used as the corporate language. In addition, sale visit gives us the opportunity to resolve the customer's problems right away.

Q22. How often do you have channel evaluation with your channel member?

ANS: We do it twice a year but we are not so active anymore as 4-5 years ago, because it is now done every time when we visit the customer.

Q23. So far, are you satisfied with your channel partners?

ANS: Yes, we are very satisfied with the current situation.

Q24. How's the firm's situation currently? Are you satisfied with the performance of the firm in term of meeting export sales expectation, market shared compared with the competitors, export success?

ANS: Yes. We are successful in South East Asia and we can gain the market share from the strong local competitors and now we think that we are growing and becoming the leader of the region.

Firm B

Q1. Can you describe the firm exportation in South East Asia market? And can you describe your channel distribution in South East Asia? And who are your channel members?

ANS: We export directly to our distributor in South East Asia. Our distributor is a exclusive distributor who acts like the national distributor. After that, we do not know whom they are selling to because it is up to their decision and it is their responsibility not ours. Sometimes there are corporate customers in that country who request to buy the product directly from HQ, and then we will transfer this customer account to our national distributor in that country where the corporate customers are.

Q2. How do you select your channel partners? Please describe?

ANS: The partners come as the unsolicited request. They just walk in to our company or contact by e-mail. However, we choose our partners based on their channel capacity, whether they have wide distribution network or not, their ability to pay the bill and they must not carry the competitors' products. However most of the time, we choose our partners that we get impressed of based on the conversation and the right feeling that they have toward our products.

Q3. How do you do the market research in those target countries? How do you collect the information?

ANS: We did not really actually do anything, because the purchasing orders come as unsolicited orders. However, it is the national distributor's jobs to work out the market not ours.

Q4. How do you address the customer's demand?

ANS: We think that the products find their customers. Therefore, it is obvious that the customer must like our products and want to own it.

Q5. How do you segment your customer?

ANS: Because the product is expensive and high in value, therefore the product itself segments its customer. Certainly, the customer needs to have high level of income to afford this kind of product.

Q6. What issues you take into consideration when you making competition analysis? And what actions you do to reduce the tense of competition?

ANS: Well, we know that other European competitors are very far ahead of us in this market and we are following them. For the competitors that are not our direct competitors or producing the substituted products, they are concentrating on building the product image. However, we did not do anything, because we gave these responsibilities to our national distributors to plan their market strategy.

Q7. How about other issues besides from customers and competition, what else you take into consideration when you do the target country analysis? For example politics, economics, social and technology issues? Are there any specific distribution culture issues? Or availability of specific channel in that target countries?

ANS: No, we do not think that these issues will impact us.

Q8. What are the firm's channel objectives in South East Asia?

ANS: Surely, we would like to have the distributor that can sell our products as much as possible.

Q9. How do you describe your resources and capabilities in the following issue; In terms of work force, sale force, production capacity, working capital, channel partner, distribution capabilities, expertise and knowledge of the target country?

ANS: We have only four people in our export department and I am the only one who takes care of South East Asia market. We do not have plenty of capital, therefore we have to use it efficiently. However, in term of product development, we are constantly looking for new people to do product development. We have actually been in the market since 60's in South East Asia.

Q10. Have you used any kind of promotion strategy in the channel? What are they?

ANS: Our brand image itself is valuable and self-advertising, otherwise we only provide them the product information, product catalogues and other necessary product selling materials and give them advanced information on new products.

Q11. What is the pricing policy of your firm toward the channel?

ANS: We do not have price discount. We keep the price as it is because the price remains at its product value.

Q12. What is your firm's logistics policy toward your channel partners?

ANS: We do not provide any logistics service to our customers. The logistics responsibilities belong to the distributor starting from the factory point. We can only provide good shipping rate or recommend the logistics service to them.

Q13. What are the firm roles to the channel partners? Or what does the firm do to support the channel partners?

ANS: We support them by providing product material and sometimes we ask them to visit our factory so that they can have knowledge about our products. However, the expense belongs to the distributors. We leave all marketing responsibilities in that target country to the national distributor to work out the market. We are not going to develop any marketing plan with them.

Q14. How do you allocate the channel works within the channel?

ANS: Not an issue for firm B. There is only one national distributor and Firm B does not want to take care of the any other channel issues in that target country.

Q15. How often you have the conflicts with your channel partners, mostly what issues?

ANS: Not at all. Our work goes smoothly. Our distributors are frequent travelers, they are quite international people. We do not need that much cultural adjustment.

Q16. How do you resolve the conflict issues?

ANS: The only way to resolve the conflict is to cut the problematic distributor off from the channel and search for a new one.

Q17. How often you have the meeting with your channel partners?

ANS: No, we do not normally meet and I have never visited them in South East Asia. These people know us because they are frequent travelers and they came to us first. However, normally we contact with them by e-mail.

Q18. How does the firm prepare when the firm needs to negotiate with the channel partners?

ANS: Not the issue for Firm B, since they stated that everything with the channel partners goes smoothly.

Q19. When do you want your channel partners to follow your direction on how to do the things, how do you say to them?

ANS: Not the issue for Firm B, since they stated that everything with their channel partners goes smoothly.

Q20. Whom in the channel creates most of the conflicts to your firm?

ANS: Not the issue for Firm B, since they stated that everything with their channel partners goes smoothly.

Q21. How do you communicate with your channel partners?

ANS: Mostly by e-mail in English.

Q22. How often do you have channel evaluation with your channel member?

ANS: No, we do not have any evaluation.

Q23. So far, are you satisfied with your channel partners?

ANS: Yes. We are satisfied with the current partners but we have changed channel partners many times since 60's. Some partners contacted us once and were our distributor for a while and then they were gone.

Q24. How's the firm's situation currently? Are you satisfied with the performance of the firm in term of meeting export sales expectation, market shared compared with the competitors, export success?

ANS: Currently we are satisfied in some level. We have main market in Singapore and Philippines. In Indonesia and Thailand market is minor and no market at all in Malaysia. However, we admit that our competitors are far ahead of us. We think that we are still in the introduction stage in this market.