

## **The Management of International Distribution Channels : Focusing on the Perspective Korean Exporting Companies**

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### **Abstract**

**Purpose** – The objective of this research is to investigate how selected Korean General Trading Companies, (KGTCs), manage their international distribution channels to sustain the growth of the international marketplace. Specifically, the following questions were answered: What is the profile of the respondents in the position from the company, the experience in channel of distribution operations, the number of distribution channels existing in the international marketplace.

**Research design, data, methodology** –The thirty-nine respondents representing 55 percent have less than 10 years of experience in channel of distribution operations while 34 respondents, equivalent to 45 percent have 10 or more years of experience. All of the respondent KGTCs are using the channel of distribution in their export operations in Asia. Respondent KGTCs' 2015 export sales in Asia were between US\$ 100 to 200 million.

**Results** – There are no significant differences in the perceptions of the two groups of respondents with regard to the perceived practices of KGTC in the management of international distribution channels. Exporting companies use common sense when managing conflicts and emphasize the importance of a clear contract which states what obligations and requirements there are of each party in order to prevent conflict.

**Conclusions** – The higher level of details in the contract, the lesser would conflicts arise. The more intense communication, the higher level of information exchange. The higher level of details in the contract, the lesser would conflicts arise.

**Keywords:** Korean General Trading Companies (KGTCs), Exporting Companies, Distributor, Communication, Requirements

**JEL Classification Code:** A10, D39, L11.

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## **1. The Problem and Its Background**

Globalization of markets is a phenomenon that has received much attention and been extensively debated both at general societal/institutional/cultural levels and at market and business levels. In any globalization process, distribution of goods and services between and within local industrial and consumer markets is of great importance. Globalization of markets and reorganization of distribution are mutually dependent processes that involve changes in market structures. As national markets expand and as new opportunities arise for satisfying consumer demand, greater specialization in distribution is evident both in level of distribution and in goods and service handled. Moreover, as the global marketplace expands, many multinational firms have been influenced by mounting pressures to develop a worldwide communication, distribution and information network that facilitates the free flow of information and goods across national boundaries. Distribution channels excellence has become a powerful source of competitive differentiation. In the 1980's and 1990's, companies began to view distribution channels as more than simply a source of cost savings and recognize it as a source of enhancing product or service offerings as part of the broader supply chain process to create competitive advantage.

According to Ross (2004), in order to sustain the growth of the international marketplace and the integration of the world's economic activities it is vital to conduct efficient and cost-effective distribution. The challenge to global distribution management is to structure a supply chain that is responsive and flexible enough to cope with differences in customers' requirements and yet enable the benefits of focused manufacturing to be achieved.

Distribution builds stable competitive advantages, since marketing channels have a long-run character and to build them it is necessary to have a consistent structure; and due also to the fact that they are focused on people and relationships. With channels of distribution changing rapidly studies of consumers will need to focus not just on understanding product choice but also on understanding the reasons for channel choice.

According to Black et al, a common assumption that is made in many writings in the area of distribution is that the choice of channel can be seen in the same conceptual framework as choice of product. While this position might be a useful starting point, and while consumer choice models may provide useful insights, they do not readily deal with product-channel interaction in which the characteristics of the product affect the channels considered; nor do they examine consumer channel interaction in which the motivation for behavior affects channel choice. Therefore, there is a case for further search to consider the most appropriate framework for evaluating the determinants of consumer choice of channel.

The determination of the most appropriate channel becomes a screening process that leans heavily on qualitative assessments and judgments - the type of product appears to be a key-influencing factor for channel selection. The product can be described along two key dimensions that affect level of buyer involvement, i.e. complexity and the perceived risk associated with its purchase. Given the importance in distribution of matching product and channel, then clearly, as well as considering attributes of products, it would appear that attributes of the channels themselves will also be influential.

The range of distribution channels available in the consumer market has increased dramatically in the past decade and there has been a corresponding increase in the competition between channels. A variety of traditional retail formats now compete with telephone, mail, Internet, TV and digital TV as purchasing environments and consequently understanding the factors that will lead consumers to purchase from one channel rather than another becomes an increasingly important input to channel design and management. Consumer confidence in their ability to use a particular channel is clearly of considerable importance and while all were comfortable with conventional methods of distribution, more technology-based channels presented concerns. On the basis of these discussions, this researcher would want to gain a deeper understanding on how international distribution channels are used by the Korean General Trading Companies (KGTCs) in the consumer market.

The research was an attempt to determine how selected Korean General Trading Companies, (KGTCs), manage their international distribution channels to sustain the growth of the international marketplace. Specifically, the following questions were answered:

What is the profile of the respondents in terms of position in the company and experience in channel of distribution operations?

What is the profile of the respondents in terms of number of distribution channels existing in the international marketplace; and volume of exports in CY 2014 and position in the company?

What suggestions are offered in an effort to effectively manage a channel of distribution?

## **2. Review of Related Literature and Studies**

### **2.1. International Distribution Channels**

According to Jobber (2001), all products whether they be consumer goods, industrial goods or services require a channel of distribution. Channels can vary from direct, producer-to-consumer types to elaborate, multi-level channels employing many types of intermediaries, each serving a particular purpose. Most international firms would prefer to run a direct channel when using the firm's own sales force, but instead they are forced to use intermediaries, i.e. agents/distributors, due to low sales volume, high start-up costs and local knowledge.

The five (5) alternative consumer channels are (1) Producer – consumer, which is a direct marketing includes the use of for example direct mail, telephone selling and direct response advertising; (2) producer - retailer – consumer - It becomes economic for producers to supply retailers directly rather than through wholesalers. Consumers then have the convenience of viewing and/or testing the product at the retail outlet; (3) producer - wholesaler - retailer – consumer - longer channels like this tend to occur where retail oligopolies do not dominate the distribution system; (4) producer - agent/distributor - retailer - consumer and (5) producer - agent/distributor – wholesaler - retailer – consumer - these types of channel is most common when companies enter international markets, due to the fact that these do not require as much investment in terms of time and money; and exporting companies delegate the task of selling the product to an agent / distributor in the exporting company's name and receives commission on sales. The distributor has the entire responsibility of the rest of the distribution channel such as choice of intermediaries, storage and marketing and an agent has various responsibilities depending on the agreement with the producer.

### **2.2. Distribution channel intensity**

According to Kotler (2000), companies have to decide on the number of intermediaries to use a teach channel level. Three approaches are available: intensive distribution, selective distribution and exclusive distribution. Intensive distribution tends to maximize sales for the simple reason that more outlets increase the possibilities of consumer contact. Yet, this approach means a more elaborate marketing operation at the manufacturer level. Selective distribution is generally applied on rarely bought goods such as DVDs, computers and cameras according to Fein and Anderson (1997). On the other hand, exclusive distribution means severely limiting the number of intermediaries. It is used when the producer wants to maintain control over the service level and service outputs offered by the resellers.

### **2.3. International Distribution Channel Selection**

It is very important for the producer to choose the right type of distribution channel due to the fact that it is expensive and a major investment for the company. The producer must put much effort and consideration into this selection. Root (1998), states that when the exporting company decides to use an intermediary it must initiate a selection process in order to select high-quality intermediaries. It demands for considerable attention and effort.

The potential intermediaries must be compared and contrasted against determining criteria according to Czinkota and Ronkainen (2014). If the intermediaries have different capacities, needs and goals it may result in conflicts with the exporting company. Therefore, it is crucial that the intermediaries' outlook and approach comprehend to the companies. Some criterion can be characterized as determinant, in that they form the core dimensions along which candidates must perform well, whereas some criteria, although important, may be used only in preliminary screening.

### **2.4. Locating intermediary prospects**

According to Root (1998), information on prospective intermediaries in a target country may be collected from numerous sources such as government agencies, banks, trade publications, trade fairs and personal visits. Even though personal visits are expensive they are vital in order to evaluate the intermediaries' competence and opportunities in the local market. Furthermore, personal visits may result in close relations with the intermediary due to the fact that the exporting company can evaluate the needs of the intermediary. Another way of locating intermediary prospects is to ask existing and potential customers in the foreign market for guidance and advice. Berg (2000) states that by discussing with various participants of the trade fair a network is created which facilitate the locating of a prospective intermediary.

A trade fair is further more a good opportunity to investigate how various intermediaries work and what knowledge they have of the products they are currently selling. If the exporting company is ready to start selling in the new market it might be a good time to start participating actively in trade fairs. It is crucial to plan this carefully in terms of having enough material, in the appropriate languages. However, if participating actively in trade fairs in a too early stage it might be devastating and the exporting company would be recognized as not serious.

## **2.5. Channel Management**

Channel management is about choosing and motivating the intermediaries and to evaluate their achievements. Jobber (2001), further complements with the issue soft raining and managing conflicts between producer and intermediaries. The main issues to consider are; selection, motivation, training, evaluation and managing conflict. Selection is an important issue when managing distribution channels. When the exporting company has chosen a suitable intermediary, an agreement is set with the intermediary. The exporting company should be careful when writing the contract since it determines the geographic market the intermediary will cover. If the exporting company in a later stage wants to expand its export- and product market, problems or difficulties might arise if the intermediary demands exclusive rights to certain geographical areas. The contract should also include the terms of payments, what party should provide storage, contribute with service to customers and if and how the intermediary should conduct the marketing.

Motivation is important in order for channel members to agree to act as an intermediary, and allocate sufficient commitment and resources to the producer's lines. The key to effective motivation is to understand the needs and problems of intermediaries since needs and motivators are linked. Possible motivators include financial rewards, territorial exclusivity, providing resource support such as sales training, field sales assistance and provision of marketing research information, and developing strong work relationships such as joint planning, assurance of long-term commitment, and appreciation of effort and success. In order for an investment in export shall be successful and profitable it is important that both parties understand and respect each other, coordinate their goals and activities and cooperate with one another in order to achieve their common goals. By cooperating they serve and satisfy the target market in an effective manner according to Cooper.

Training can make the distribution more effective by handling the human resources in the best conduct according to Gattorna (1990). Effective handling of human resources is closely connected to quality improvement. By involving the intermediary in the quality work of the exporting company the exporting company might increase its policy concerning giving the end consumers quality and top service. The exporting company should not train the intermediary on only its own products but also the competitors' products, in order to lift out the advantages and competitive advantages of its own products and deliver that to the customers.

Evaluation of channel members has an important bearing on distributor retention, training and motivation decisions. It provides the information necessary to decide which channel members to retain and which to drop. The exporting company must, on a regular basis, see to it that the intermediary fulfils the wanted criteria of an ideal intermediary. This can be conducted by comparing the intermediary's performance against the standards that are based on the goals and vision of the company.

Managing Conflict within an international distribution channel is important in order to keep the efficiency and that all parties keep satisfied. The major sources of channel conflict are differences in goals, differences in desired product lines, multiple distribution channels and inadequacies in performance. Differences in goals means that most resellers attempt to maximize their own profit. This can be accomplished by improving profit margin, reducing inventory levels, increasing sales, lowering expenses and receiving greater allowances from suppliers. Differences in desired product line and for that resellers who grow by adding product lines may be regarded as disloyal to the original suppliers. Training in conflict management might be of great use in order to handle and solve conflicts in an effective manner which in its turn leads to a productive organization.

## **3. Research Design and Methodology**

### **3.1. Methodology**

This study is mainly descriptive due to the fact that the purposes and research questions are to describe and go deeper into the choice of international distribution channel.

Descriptive research aims to portray an accurate profile of persons, events or situations. This may be an extension of a piece of exploratory research. It is necessary to have a clear picture of the phenomenon on which you wish to

collect data prior to the collection of the data. Project tutors are often cautious of work that is too descriptive. They want you to go further and to draw conclusions from your data. They encourage you to develop the skills of evaluating data and creating ideas. These are higher-order skills than those of accurate description. Description in management and business research has a very clear place. However, it should be thought of as a means to an end rather an end in itself.

### **3.2. Research Approach**

The researcher used the quantitative approach in this study. According to Holme and Solvang (2007) a quantitative approach is suitable for statistical methods. It seeks deeper understanding of factors that to some extent influence the choice of distribution channels for example. It can produce statistical evidence based on probability sampling.

### **3.3. Sample and Sampling Technique**

According to Saunders and Thornhill (2010), sampling techniques provide a range of methods that enable out or reduce the amount of data you need to collect by considering only data from a sub-group rather than all possible cases or elements. The sampling techniques used was probability or representative sampling as it is possible to answer research question sand to achieve objectives that require you to estimate statistically the characteristics of the population from the sample.

The respondents for this research are the selected KGTCs due to the fact their export businesses require the use of intermediaries and/or representative in the importing counterparts. Selection was according to the following criteria: (1) 2008, export sales of not less than US \$1 million and (2) with at least ten (10) distribution channels in Asia. The selected KTCs are Samsung, Hyundai, Daewoo, LuckyGoldStar, Sunkyong, Ssangyong, Kumho, Hyosung, and HanHwa. Each of these KGTCs was represented by their officers, (managers and supervisors) with the following selection criteria:

- a. Has served the marketing department for at least three years, and
- b. Presently holding key positions (managerial/supervisory level) in the planning and distribution channel division.

There were 27 representing the managerial level and 42 supervisors or a total of 69 respondents from the 9 firms.

### **3.4. Research Instruments and Documentations**

The researcher adopted the questionnaire and unstructured interviews to gather the related information.

#### **3.4.1. Questionnaire.**

The questionnaire was developed with multiple choices presented for each item simplified to make answering convenient.

Validation of questionnaire. Testing and validation of the questionnaire were performed involving two managers and five supervisors of a chosen KTC, not included in the list of company respondents. The questionnaire was evaluated according to conciseness and accuracy. Vague and unclear portions of the questionnaire were modified or improved as suggested by the initial respondents.

#### **3.4.2. Unstructured interview**

Unstructured interviews were also conducted and carried out during the retrieval of the questionnaires. The interviews were conducted to confirm responses in the questionnaire and to gather related information that may not have been covered in the written instrument.

#### **3.4.3. Documentary analysis**

According to Yin (2008), there are six different data collection methods for case studies: documentation, archival records, interviews, direct observation, participant observation and physical artifacts. When gathering information for case studies a major strength is the opportunity to use many different sources of evidence. The use of several sources of evidence means that the researcher has the opportunity to obtain multiple measures of the same phenomenon that adds validity to the scientific study. Any findings or conclusions in a case study are likely to be

much more convincing and accurate if it is based on several different sources of information following a supporting form. No single source mentioned has a complete advantage over all the others.

Documentation was used in getting better insights of managing channel of distribution and in the formulation of the research questionnaire. Unstructured interviews were made to clear up vague answers to the retrieved questionnaires.

### 3.5. Statistical Treatment of Data

The data gathered were classified according to the sub-problems of the study. They were tabulated and analyzed using the following statistical tools:

(1) Percentage: The percentage is a ratio of each item to the whole and was used in presenting the profile of the respondents, the present distribution channel practices of the KTCs,

The formula is:

$$\begin{aligned} \% &= f/n \times 100 \\ \text{where: } f &= \text{frequency of response} \\ n &= \text{total number of respondents} \end{aligned}$$

(2) Weighted Mean: This is a measure of central tendency used to determine the mean weight of responses regarding the present distribution practices of KTCs.

The formula is:

$$\begin{aligned} \text{where: } W_m &= Sfx/n \\ W_m &= \text{weighted mean} \\ S &= \text{symbol of summation} \\ f &= \text{frequency of response} \\ x &= \text{scale value} \\ n &= \text{total number of respondents} \end{aligned}$$

The means were interpreted using the Likert Scale. The criteria that served as the basis for interpretation of the data were the following:

Weight	Range of Value*	Symbol	Interpretation
5	4.50 - 5.00	VGE	Very great extent
4	3.50 - 4.50	GE	Great extent
3	2.50 - 3.50	ME	Moderate extent
2	1.50 - 2.50	SE	Little extent
1	1.00 - 1.50	NE	No extent at all

Lower limit inclusive, upper limit exclusive.

(3) t-test: This is a test to determine the significance in the perceptions of the respondents grouped according to "gender" and "years of experience in channel of distribution" as regards the extent of distribution channels practices.

The formula is:

$$t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{(n_1 - 1)(s_1)^2 + (n_2 - 1)(s_2)^2}{n_1 + n_2 - 1} \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where :  $x_1$  = mean of the first sample  
 $x_2$  = mean of the second sample  
 $s_1$  = standard deviation of the first sample  
 $s_2$  = standard deviation of the second sample  
 $n_1$  = number of items in the first sample  
 $n_2$  = number of items in the second sample

Decision Criteria. Evaluation and analysis of the results of the t-test was carried at five percent (5%) level of significance. The null hypothesis is accepted when the computed absolute t-value is lower than the tabular t-value. It is rejected if the computed absolute t-value is equal to or greater than the tabular t-value.

## 4. Presentation, Analysis and Interpretation of Data

### 4.1. Profile of Respondents

Nine GTKCs of Korea have participated in answering the questionnaire of this research study for the school year 2013 – 2014. <Table 1> presents the profile of respondents where 27 managers represented 39 percent and 42 respondents, equivalent to 61 percent were from the supervisor level of employees.

As regards years of experience in channel of distribution operations, 65 respondents representing 94 percent have the experience of between five (5) to 14 years while the rest of the respondents have more than 14 years of experience.

As could be gleaned from the foregoing discussion, 39 respondents representing 55 percent have less than 10 years of experience in channel of distribution operations while 34 respondents, equivalent to 45 percent have 10 or more years of experience.

**Table 1: Profile of Respondents**

Position in the company	Frequency (f)	Percentage (%)
Management level	27	39%
Supervisor level	42	61%
Total	69	100%
Years of experience in Distribution Channel Operations	Frequency (f)	Percentage (%)
Below 5 years	17	25%
5 – 9 years	21	30%
10 – 14 years	27	39%
15 years and over	4	6%
Total	69	100%

### 4.2. Company Profile

The respondent KGTCs' profile in terms of: (1) number of distributions channels existing in the international marketplace and (2) as regards their volume of exports sales in CY-2014.

Three (3) KGTCs representing 33.33 percent have 16 to 20 channels of distribution operating in the market place. The same frequency and percentage of KGTCs have more than 25 channels of distribution in the present set up. Two of the KGTCs, equivalent to 22.23 percent pointed to the range of between 21 - 25 channels of distribution while one KGTC has between 10 – 15 distribution channels.

As could be seen, all of the respondent KGTCs are using the channel of distribution in their export operations in Asia. With regard to the volume of exports in Asia in CY-2008, five (5) respondents representing 55.56 percent generated between US\$51 to 100 million and another two (2) KGTCs, equivalent to 22.22 percent had export sales of between US\$101 to 150 million. Each of the remaining two respondents showed either between US\$1 to 50 million or over US\$150 million exports sales bracket.

**Table 2:** Profile of the Respondent KGTCs

(1) Number of distribution channels existing in the international marketplace	Frequency (f)	Percentage (%)
10 to 15 distribution channels	1	11.11%
16 to 20 distribution channels	3	33.33%
21 to 25 distribution channels	2	22.23%
More than 25 distribution channels	3	33.33%
Total	9	100%
(2) Export volume in CY 2014 in Asia	Frequency (f)	Percentage (%)
US\$ 1 to 50 million	1	11.11%
US\$ 51 to 100 million	5	55.56%
US\$ 101 to 150 million	2	22.22%
Over US\$150 million	1	11.11%
Total	9	100%

Clear from the foregoing discussion, respondents KGTCs' 2008 export sales in Asia were between US\$51 to 100 million.

#### 4.3. The perceived selection practices of an international distribution channel

Practices of KGTCs with regard to selection of international distribution channels have four phases -

1. Drawing up the intermediary profile
2. Locating intermediary prospects
3. Evaluating intermediary prospects
4. Choosing the intermediary

<Table 3> showed that financial strength had a mean value of  $X=4.56$  from respondent managers, which is interpreted to a very great extent practiced. However, from the perceptions of the respondent supervisors, financial strength's mean value of  $X=1.58$  is interpreted to a little extent practiced. On the average, respondents posited mean value of  $X=3.07$ , which is interpreted to a moderate extent practiced.

Making sure that the agent/distributor only handles complementing products and not competitive, knowing their product lines had a mean value  $X=4.52$ , which is interpreted to a very great extent practiced according to respondent managers while a mean value  $X=2.51$  from respondent supervisors is interpreted to a moderate extent practiced. The average mean value  $X=3.52$  from respondents is interpreted that knowing the product lines of agents/distributors is to a great extent practiced.

Further in Table 3 knowing the goals and strategies of agent/distributor had mean value  $X=3.21$  from respondent managers while mean value  $X=2.87$  was given from respondent supervisors, both interpreted to a moderate extent practiced.

Agent/distributor's willingness to cooperate with the exporter had a mean value  $X=4.80$  and  $3.25$  from respondent managers and supervisors, which is interpreted to a very great extent practiced and to a moderate extent practiced, in that order. The average mean value  $X=4.03$  from respondents is interpreted that agent/distributor's willingness to cooperate is to a great extent practiced in the selection process.

Compatibility with agent/distributor had mean values of  $X=1.25$  and  $X=1.45$  from respondent managers and supervisors, which is both interpreted to a no extent practiced. Relations of agent/distributor with local government had mean values of  $X=1.55$  and  $X=2.05$  from respondent managers and supervisors, both interpreted to a little extent practiced.



Knowing the agent/distributor’s commitment for the product had a mean value X=4.56 and X=3.58 from respondent managers and supervisors, which are interpreted to a very great extent and great extent practiced, in that order. On the average, a mean value X=4.05, which is interpreted to a great extent practiced.

The practice of locating prospect agent/distributor through information collected from banks got a mean value X=3.25 and X=3.44 from respondent managers and supervisors, both interpreted to a moderate extent practiced. Collecting information through referrals from existing foreign market had mean value X=3.64 and X=3.58 given by respondent managers and supervisors, both interpreted to a great extent practiced. Visit and/ or participation in trade fairs had mean value X=4.44 from managers and X=4.63 from respondent supervisors, both interpreted to a very great extent practiced. And referrals from trade organizations got mean value X=2.15 from respondent managers, interpreted to a little extent and mean value X=3.44 from supervisors, interpreted to a moderate extent practiced.

Evaluating intermediary prospects using bank references had mean value X=3.15 from respondent managers, interpreted to a moderate extent practiced and from supervisors, X=3.60 or to a great extent practiced. Reference from foreign suppliers had mean value X=2.70 or moderate extent practiced according to respondent managers and mean value X=2.15 or little extent practiced from supervisors. Evaluating through e-mail or letters posited mean value X=2.22 and X=2.05, both interpreted to a little extent practiced. And a comparative analysis using an acceptable measures/standards had mean values of X=3.48 and X=2.87, both interpreted to a moderate extent practice in the evaluation of prospective agent/distributor.

As could be gleaned from the above discussion, the perceived practices of respondent companies in drawing up intermediary profile are (a) financial strength of prospect agent/ distributor; (b) the product lines handled; (c) commitment to the product and (d) their willingness to cooperate with the principal exporter. In locating intermediary prospects, the exporting companies usually visit and/ or participate in trade fairs. And, in evaluating intermediary prospects it is perceived that the principal exporters rely mostly on information from banks, if not, through the use of acceptable measures/ standards.

**Table 3:** The Perceived Extent of KGTCs’ Practices with Regard to the Selection of International Distribution Channels

Particulars	Managers		Supervisors		Average Mean	
	(X) value	Interpretation	(X) Value	Interpretation	(X) value	Interpretation
(1) Drawing up the Intermediary profile:						
Financial strength	4.56	VGE	1.58	LE	3.07	ME
Product lines handled	4.52	VGE	2.51	ME	3.52	GE
Goals and strategies	3.21	ME	2.87	ME	3.04	ME
Willingness to Cooperate	4.80	VGE	3.25	ME	4.03	GE
Compatibility	1.25	NE	1.45	NE	1.35	NE
Relations with local government units	1.55	LE	2.05	LE	1.80	NE
Commitment for the product	4.56	VGE	3.58	GE	4.07	GE
(2) Locating intermediary prospects:						
Collecting information From banks	3.25	ME	3.44	ME	3.35	ME
Referrals from existing foreign market	3.64	GE	3.58	GE	3.61	GE
Visit and / or participation in trade fairs	4.44	VGE	4.63	VGE	4.54	VGE
Referrals from trade Organizations	2.15	LE	3.44	ME	2.80	ME

(3) Evaluating Intermediary prospects:						
Reference from banks	3.15	ME	3.60	GE	3.38	ME
Reference from foreign Suppliers	2.70	ME	2.15	LE	2.43	LE
Establish contact by letters or e-mail	2.22	LE	2.05	LE	2.14	LE
Comparative analysis using acceptable measures/ standards.	3.48	ME	2.87	ME	3.18	ME

The fourth phase consists of choosing the intermediary after the evaluations thereof. It is important to meet the intermediary in person in order to find out if there is any personal chemistry between the parties involved. The final choice of intermediary is well worth the time and money, due to the fact that the success of the exporting company's product in the foreign country will depend mainly on the intermediary's efforts.

#### 4.4. The perceived practices in management of international distribution channels

The perceived extent of KGTCs' practices with regard to the management of international distribution channel in <Table 4> showed that contract/ engagement would cover the storage,

**Table 4:** The Perceived Extent of KGTCs' Practices with Regard to the Management of International Distribution Channels

Particulars	Managers		Supervisors		Average Mean	
	(X) value	Interpretation	(X) Value	Interpretation	(X) value	Interpretation
(1) Contracts/engagement which usually covers:						
Storage	3.78	GE	3.54	GE	3.66	GE
Pricing & Budget	4.10	VGE	2.56	ME	3.33	ME
Covered market area	4.62	VGE	3.81	GE	4.22	GE
Product exclusivity	4.55	VGE	4.24	GE	4.40	GE
Product secrecy	3.25	ME	3.44	GE	3.35	GE
Royalty & Payments	4.58	VGE	4.61	VGE	4.60	VGE
(2) Motivation factors:						
Bonus /Rewards	4.87	VGE	4.77	VGE	4.82	VGE
Support on trade fairs	4.56	VGE	4.80	VGE	4.68	VGE
Trips & factory visits of intermediaries.	3.58	GE	2.67	ME	3.13	ME
(3) Training of agents:						
Advertising & Promotion	3.44	ME	2.41	LE	2.93	ME
Communication	3.56	GE	2.71	ME	3.14	ME

Management	2.44	LE	2.15	LE	2.30	LE
(4) Evaluation of agents/ Intermediaries						
Evaluation is a natural process throughout the collaboration using some measures/ standards.	4.87	VGE	3.54	GE	4.21	GE
Considers the sales volume as a yard-stick in evaluation of agents / intermediaries.	3.56	GE	4.00	GE	3.78	ME
(5) Managing Conflict						
Fair/ clear contract of agency/distributorship	4.76	VGE	2.87	ME	3.82	ME
Intense communication	3.88	GE	2.81	ME	3.35	ME
Close relations with agents	3.78	GE	3.11	ME	3.45	ME
Training of agents / intermediaries.	1.51	LE	1.28	NE	1.40	NE

Pricing & budget, covered market area, product exclusivity, product secrecy and royalty & payments. Contracts/ engagements consider provisions for storage had a mean value  $X=3.78$  and  $X=3.54$  from respondent managers and supervisors, both interpreted to a great extent practiced. Pricing & budget had mean value  $X=4.10$  or to a very great extent practiced according to respondent managers and mean value  $X=2.56$  or to a moderate extent from supervisors. Provisions on covered market area got a mean value  $X=4.62$  from respondent managers and mean value  $X=3.81$  from supervisors, interpreted to a very great extent and great extent practiced, in that order. Product exclusivity had mean values  $X=4.55$  and  $X=4.24$  from respondent managers and supervisors, which is interpreted to a very great extent and great extent, respectively. Product secrecy is to a moderate extent practiced with mean value  $X=3.25$  from respondent managers and to a great extent practiced (mean value  $X=3.44$ ) according to supervisors. Royalty & payments provisions in the contracts/engagement are to a very great extent practiced (mean values  $X=4.58$  and  $X=4.61$ ) according to respondent managers and supervisors, in that order. It could be seen that contracts/ engagements usually covers the provisions for storage, the covered market areas, product exclusivity and/or secrecy, and royalty & payments.

Further in <Table 4> are the perceived practices with regard to the motivation of agents/ intermediaries where bonus and rewards posited mean values  $X=4.87$  from respondent managers and  $X=4.77$  from supervisors, both interpreted to a very great extent practiced. Support on trade fairs had mean values  $X=4.56$  and  $X=4.80$  from respondent managers and supervisors, interpreted to a very great extent practiced. And, trips & factory visits of intermediaries with mean values  $X=3.58$  or to a great extent practiced according to respondent managers and  $X=2.67$  (to a moderated extent practiced) from supervisors.

As could be gleaned, it is the practice of respondent KTGCs to grant bonuses/rewards and supports on trade fairs to motivate their agents/ intermediaries.

More in <Table 4> are the perceived practices as regards training of agents/intermediaries with advertising & promotion having mean value  $X=3.44$  from respondent managers, interpreted to a moderate extent practiced and mean value  $X=2.41$  (least extent practiced) from supervisors. Communication got mean values  $X=3.56$  and  $X=2.71$ , from respondent managers and supervisors, interpreted to a great extent and to a moderate extent practiced, in that order. Training of agents/ intermediaries on management is to a least extent practiced (mean values  $X=2.44$  and  $X=2.15$ ) from respondent managers and supervisors, respectively.

Clear from this discussion, training of agents/ intermediaries are focused on the subject of advertising, promotion and communication.

Evaluation of agents/ intermediaries is a natural process throughout the collaboration using some measures/ standards is to a very great extent practiced (mean value  $X=4.87$ ) according to respondent managers and to a great extent (mean value  $X=3.54$ ) from supervisors. Considers the sales volume as a yard-stick in evaluation of agents/ intermediaries is to a great extent practiced (mean values  $X=3.56$  and  $X=4.00$ ) from respondent managers and supervisors. Agent/ intermediaries are, to a very great extent, evaluated throughout the collaboration using some measures/ standards.

Finally in <Table 4>, are the perceived practices as regards managing conflict where fair/ clear contract of agency/ distributorship had mean values  $X=4.76$  or to a very great extent practiced according to respondent managers and  $X=2.87$  (to a moderate extent) from supervisors. Intense communication had mean values  $X=3.88$  from managers, interpreted to a great extent practiced and  $X=2.81$  from supervisors, to a moderate extent. Close relations with agents had mean values  $X=3.78$  and  $X=3.11$  from managers and supervisors, both interpreted to a moderate extent practiced. And, training of agents/intermediaries with mean values  $X=1.51$  and  $X=1.28$  from respondent managers and supervisors, interpreted to a least extent or no extent at all practiced, in that order.

As could be seen, fair/ clear contract of agency/ distributorship, intense communication, and close relations with agents are the perceived practices as regards management of conflict.

#### 4.5. Null Ho Tests

<Table 5> presents the tests on the differences in the perceptions of respondents grouped according to managers and supervisory positions with regard to the practices of the KGTC in the management of international distribution channels.

The first null hypothesis (Ho1) tests pertain to the practices in the selection of intermediary profile, which consisted of three (3) items – 1) drawing up the intermediary profile, 2) locating intermediary prospects and 3) evaluation of the prospective agents. The null Ho test on item 1) drawing up the intermediary profile resulted to a computed t-value of 0.204. The next item, locating intermediary prospects got a computed t-value of 1.112 and the last item, evaluation of prospective intermediaries had a t-value of 0.977. All these ct-values were lower compared to the tabular t-values leading to the acceptance of the null Ho.

**Table 5:** Null Ho Tests

Particulars		df	'ct-value	'tt-value	Interpretation
Ho-1. Perceived practices in the selection of agents/intermediaries:					
a) drawing up the intermediary profile		12	0.204	1.782	Accept Ho
Xw1= 3.4929	Xw2= 2.4700				
S1 = 12.9502	S2 = 2.9549				
b) Locating intermediary prospects		6	1.122	1.943	Accept Ho
Xw1= 3.370	Xw2= 3.773				
S1 = 0.680	S2 = 0.2484				
c) Evaluating intermediary prospects		6	0.977	1.943	Accept Ho
Xw1= 2.888	Xw2= 2.668				
S1 = 0.225	S2 = 0.389				
Ho-2. Perceived practices in the management of international distribution channels:					
a) Contracts/ engagements		10	0.479	1.812	Accept Ho

Xw1= 4.1467	Xw2= 3.700				
S1 = 1.359	S2 = 1.834				
b) Motivation of intermediaries		4	0.048	2.132	Accept Ho
Xw1= 4.337	Xw2= 4.080				
S1 = 6.571	S2 = 6.543				
c) Training of intermediaries		4	0.307	2.132	Accept Ho
Xw1= 3.147	Xw2= 2.423				
S1 = 3.553	S2 = 2.010				
d) Evaluation of intermediaries		2	0.027	2.920	Accept Ho
Xw1= 4.215	Xw2= 3.770				
S1 = 18.195	S2 = 14.266				
e) Management of conflict		6	1.258	1.943	Accept Ho
Xw1= 3.482	Xw2= 2.518				
S1 = 1.442	S2 = 0.523				

Meaning, there are no significant differences in the perceptions of the two groups of respondents at .05 level of significance.

The second null hypothesis (Ho2) considered the practices if the management of international distribution channels with five (5) items – 1) contracts/ engagements; 2) motivation of agents/ intermediaries; 3) training of agents/ intermediaries; 4) evaluation of agents/ intermediaries and 5) management of conflict. The null Ho test results were  $t_c = 0.479$  for the perceived practices on contracts/engagements;  $t_c = 0.048$  for the motivation practices;  $t_c = 0.307$  for the training practices;  $t_c = 0.027$  for the perceived evaluation of agents/intermediaries; and  $t_c = 1.258$  for the perceived practices on management conflict. All these computed  $t_c$ -values were lower than tabular  $t$ -values at 0.5 level of significance. Hence, the null hypotheses were all accepted.

It could be deduced that there are no significant differences in the perceptions of the two groups (managers and supervisors) of respondents with regard to the perceived practices of KGTC in the management of international distribution channels.

## 5. Findings / Conclusions / Recommendations

### 5.1. Profile of Respondents

The research study covers the school year 2013 – 2014 and the respondents were 27 managers represented 39 percent and 42 respondents, equivalent to 61 percent were from the supervisor level of employees.

As regards years of experience, 65 respondents representing 94 percent have between five (5) to 14 years while the rest of the respondents have more than 14 years of experience in channel of distribution.

Three (3) KGTCs representing 33.33 percent have 16 to 20 channels of distribution operating in the market place. The same frequency and percentage of KGTCs have more than 25 channels of distribution in the present set up.

Two of the KGTCs, equivalent to 22.23 percent pointed to the range of between 21 - 25 channels of distribution while one KGTC has between 10 – 15 distribution channels.

In terms of volume of exports in Asia in CY-2008, five (5) respondents representing 55.56 percent generated between US\$51 to 100 million and another two (2) KGTCs, equivalent to 22.22 percent had export sales of between US\$101 to 150 million. Each of the remaining two respondents showed either between US\$1 to 50 million or over US\$150 million exports sales bracket.

## **5.2. The perceived selection practices of an international distribution channel**

Financial strength had an average mean value of  $X=3.07$ , which is interpreted to a moderate extent practiced. Making sure that the agent/distributor only handles complementing products and not competitive, knowing their product lines posited an average mean value  $X=3.52$  from respondents, which is interpreted to a great extent practiced.

Knowing the goals and strategies of agent/distributor had mean value  $X=3.21$  from respondent managers while mean value  $X=2.87$  was given from respondent supervisors, both interpreted to a moderate extent practiced. Agent/distributor's willingness to cooperate with the exporter an average mean value  $X=4.03$  from respondents, which is interpreted to a great extent practiced in the selection process.

Compatibility with agent/distributor and/or agents' relations with local government are both interpreted to a little extent practiced. Knowing the agent/distributor's commitment for the product got an average mean value  $X=4.05$ , which is interpreted to a great extent practiced.

The practice of locating prospect agent/distributor through information collected from banks got a mean value  $X=3.25$  and  $X=3.44$  from respondent managers and supervisors, both interpreted to a moderate extent practiced. Collecting information through referrals from existing foreign market had mean value  $X=3.64$  and  $X=3.58$  given by respondent managers and supervisors, both interpreted to a great extent practiced.

Visit and/ or participation in trade fairs had mean value  $X=4.44$  from managers and  $X=4.63$  from respondent supervisors, both interpreted to a very great extent practiced. And referrals from trade organizations got mean value  $X=2.15$  from respondent managers, interpreted to a little extent and mean value  $X=3.44$  from supervisors, interpreted to a moderate extent practiced.

Evaluating intermediary prospects using bank references had mean value  $X=3.15$  from respondent managers, interpreted to a moderate extent practiced and from supervisors,  $X=3.60$  or to a great extent practiced. Reference from foreign suppliers had mean value  $X=2.70$  or moderate extent practiced according to respondent managers and mean value  $X=2.15$  or little extent practiced from supervisors. Evaluating through e-mail or letters posited mean value  $X=2.22$  and  $X=2.05$ , both interpreted to a little extent practiced.

And a comparative analysis using an acceptable measures/standards had mean values of  $X=3.48$  and  $X=2.87$ , both interpreted to a moderate extent practice in the evaluation of prospective agent/distributor.

The fourth phase consists of choosing the intermediary after the evaluations thereof. It is important to meet the intermediary in person in order to find out if there is any personal chemistry between the parties involved. The final choice of intermediary is well worth the time and money, due to the fact that the success of the exporting company's product in the foreign country will depend mainly on the intermediary's efforts.

## **5.3. The perceived practices in management of international distribution channels**

Contract/ engagement cover the storage, pricing & budget, covered market area, product exclusivity, product secrecy and royalty & payments. Contracts/ engagements consider provisions for storage had a mean value  $X=3.78$  and  $X=3.54$  from respondent managers and supervisors, both interpreted to a great extent practiced. Pricing & budget had mean value  $X=4.10$  or to a very great extent practiced according to respondent managers and mean value  $X=2.56$  or to a moderate extent from supervisors.

Provisions on covered market area got a mean value  $X=4.62$  from respondent managers and mean value  $X=3.81$  from supervisors, interpreted to a very great extent and great extent practiced, in that order. Product exclusivity had mean values  $X=4.55$  and  $X=4.24$  from respondent managers and supervisors, which is interpreted to a very great extent and great extent, respectively.

Product secrecy is to a moderate extent practiced with mean value  $X=3.25$  from respondent managers and to a great extent practiced (mean value  $X=3.44$ ) according to supervisors. Royalty & payments provisions in the contracts/engagement are to a very great extent practiced (mean values  $X=4.58$  and  $X=4.61$ ) according to respondent managers and supervisors, in that order.

Motivation of agents/ intermediaries through bonus and rewards posited mean values  $X=4.87$  from respondent managers and  $X=4.77$  from supervisors, both interpreted to a very great extent practiced. Support on trade fairs had mean values  $X=4.56$  and  $X=4.80$  from respondent managers and supervisors, interpreted to a very great extent practiced.

And, trips & factory visits of intermediaries with mean values  $X=3.58$  or to a great extent practiced according to respondent managers and  $X=2.67$  (to a moderate extent practiced) from supervisors. Training of agents/intermediaries on advertising & promotion had mean value  $X=3.44$  from respondent managers, interpreted to a moderate extent practiced and mean value  $X=2.41$  (least extent practiced) from supervisors.

Communication got mean values  $X=3.56$  and  $X=2.71$ , from respondent managers and supervisors, interpreted to a great extent and to a moderate extent practiced, in that order. Training of agents/ intermediaries on management is to at least extent practiced (mean values  $X=2.44$  and  $X=2.15$ ) from respondent managers and supervisors, respectively.

Evaluation of agents/ intermediaries is a natural process throughout the collaboration using some measures/ standards is to a very great extent practiced (mean value  $X=4.87$ ) according to respondent managers and to a great extent (mean value  $X=3.54$ ) from supervisors.

Sales volume being considered as a yard-stick in evaluation of agents/ intermediaries is to a great extent practiced (mean values  $X=3.56$  and  $X=4.00$ ) from respondent managers and supervisors. Managing conflict where fair/ clear contract of agency/ distributorship had mean values  $X=4.76$  or to a very great extent practiced according to respondent managers and  $X=2.87$  (to a moderate extent) from supervisors.

Intense communication had mean values  $X=3.88$  from managers, interpreted to a great extent practiced and  $X=2.81$  from supervisors, to a moderate extent. Close relations with agents had mean values  $X=3.78$  and  $X=3.11$  from managers and supervisors, both interpreted to a moderate extent practiced.

And, training of agents/intermediaries with mean values  $X=1.51$  and  $X=1.28$  from respondent managers and supervisors, interpreted to a least extent or no extent at all practiced, in that order.

#### **5.4. Null Ho Tests**

Drawing up the intermediary profile resulted to a computed t-value of 0.204; locating intermediary prospects got a computed t-value of 1.112; and evaluation of prospective intermediaries had a t-value of 0.977, all ct-values were lower compared to the tabular tt-values leading to the acceptance of the null Ho.

The null Ho test results were  $ct=0.479$  for the perceived practices on contracts/engagements;  $ct=0.048$  for the motivation practices;  $ct=0.307$  for the training practices;  $ct=0.027$  for the perceived evaluation of agents/intermediaries; and  $ct=1.258$  for the perceived practices on management conflict. All these computed ct-values were lower than tabular tt-values at 0.5 level of significance.

#### **5.5. Conclusion**

From the foregoing findings, the following conclusions were drawn:

The thirty-nine (39) respondents representing 55 percent have less than 10 years of experience in channel of distribution operations while 34 respondents, equivalent to 45 percent have 10 or more years of experience. All of the respondent KGTCs are using the channel of distribution in their export operations in Asia.

Respondent KGTCs' 2008 export sales in Asia were between US\$51 to 100 million.

The perceived practices of respondent companies in drawing up intermediary profile are (1) financial strength of prospect agent/ distributor; (2) the product lines handled; (3) commitment to the product and (4) their willingness to cooperate with the principal exporter. In locating intermediary prospects, the exporting companies usually visit and/ or participate in trade fairs. And, in evaluating intermediary prospects it is perceived that the principal exporters rely mostly on information from banks, if not, through the use of acceptable measures/ standards.

Contracts/ engagements usually cover the provisions for storage, the covered market areas, product exclusivity and/or secrecy, and royalty & payments. It is the practice of respondent KGTCs to grant bonuses/rewards and supports on trade fairs to motivate their agents/ intermediaries.

Training of agents/ intermediaries are focused on the subject of advertising, promotion and communication. Agent/ intermediaries are evaluated throughout the collaboration using some measures/ standards. Fair/ clear contract of agency/ distributorship, intense communication, and close relations with agents are the perceived practices as regards management of conflict.

There are no significant differences in the perceptions of the two groups (managers and supervisors) of respondents with regard to the perceived practices of KGTC in the management of international distribution channels.

## 5.6. Recommendations

Exporting companies use common sense when managing conflicts and emphasize the importance of a clear contract which states what obligations and requirements there are of each party in order to prevent conflict.

From these conclusions, we can more specifically recommend that:

- The higher level of details in the contract, the lesser would conflicts arise
- The more intense communication, the higher level of information exchange
- The more intense communication, the more close relation takes place
- Close relations with agents/distributors are of competitive advantages

Training of agents/distributors is not a main issue in channel management it is that motivation to willingly cooperate.

Further recommendations would be:

- a. Management should invest in training, which would likewise cover practically the competitive products clarifying the advantages of the exporting company's products.
- b. It would be of interest to investigate the perspective of agents/distributors and pursue further research in how their selection process is constructed when choosing exporting companies;
- c. Another highly interesting research area would be to investigate new technology distribution channels such as internet, compared to our study that investigates traditional distribution channels; and
- d. It would also be of use to investigate, both traditional and new technology distribution channels, within the home market, instead of investigating out of the international perspective.

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## **Appendix 1**

### Definition of Terms

For a better understanding of this work, the following terms are defined:

**Channel of Distribution.** This is oftentimes called “intermediaries” as they are the middlemen from producers to consumers.

**Consumer.** This is the individual or institution which uses a product or services for personal satisfaction or benefit.

**Direct Channel of Distribution.** The producer to consumer structure is considered to be a very direct channel compared to for example the producer to agent to wholesaler to retailer to consumer structure which is an indirect channel.

**Distribution.** It is an inter-organizational system comprising of a set of interdependent institutions and agencies involved in the task of moving anything of value from its point of conception, construction, or production to points of consumption.

**Intensive distribution, selective distribution and exclusive distribution.** Intensive distribution is at one end of the scale where the policy is to distribute to as many outlets as possible, and that exclusive distribution is at the other end of the scale, where the policy is to distribute only to one intermediary at a given level in a given geographic area. The broad middle ground is normally referred to as selective distribution.

**Management.** This is a very broad term that boils down to accomplishing predetermined goals. In this research it refers only to the carrying out of goals of international channels chosen by Korean General Trading Companies (KGTCs) or Korean Trading Companies (KTCs).

**Marketing Mix Element.** It is the set of control able marketing variables, such as price, marketing communications, product and distribution.

**Marketing Strategy.** This refers to the detailed program of activities, which will achieve the set of company objectives.

**New or Young KTCs.** For this paper, this includes Korean trading companies who operated in the Philippines for at least one year but not more than five years.

**Trading company.** This term has been used in two ways in this paper. In its broad sense, it applies to a firm that buys goods in one national market to resell in foreign markets. The term also describes the respondent KGTCs.