

Welcome to IF Consulting's e-Newsletter

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Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

China's direct blow to Dell

It appears that Dell's direct-market sales are struggling in China. Although the company is keeping quiet, evidence suggests that the computer manufacturer is out of step with shifting market conditions in China. By focusing on large business and government customers in the major cities, Dell may have overlooked the growing demand in hundreds of smaller cities. These are the customers that may be difficult for Dell to reach; even the business customers in China prefer to see products before they buy.

Main rivals Hewlett-Packard, Founder and Lenovo have been doing a roaring trade through retail outlets throughout the country. Focussing on investment in hiring staff and recruiting retailers in secondary Chinese and Indian cities seems to be paying off for HP. Executive Vice-President of HP Ann Livermore asks, "You have to wonder, how well does the direct model work in the hinterland?"

Despite a recent share decline, Dell still sees China as a key growth market and is making a significant investment in the country. With 5000 employees in the country already, the company is in the process of building a second factory in China. In the short term however, the direct-seller may need to reassess its strategy in a country where relatively few consumers use credit cards or make their purchases over the phone or Internet.

http://www.businessweek.com/technology/content/oct2005/tc20051027_362966.htm?campaign_id=techn_Oct27&link_position=link15

IF Comment

Notwithstanding the amazing success of the computer giant's direct distribution model, Dell's reported issues in China confirm the view that for a distribution strategy to be effective, it must be built on the market requirements and profile.

In their push to drive efficiencies and economies of scale, multinationals and global companies also try to standardize their distribution models. The starting point is often one where each market (region or country) has its own distribution model. The diversity in distribution models is the result of the diversity of market conditions and market maturity/development. As the more developed economies have converged on many fronts, global companies have been able to introduce standard distribution models. However, this may not be the case in emerging markets.

Companies with a legacy and a history of dealing in developed markets before they have reached a level of standardization that enabled the introduction of less differentiated distribution models may be at an advantage. These companies may actually be better equipped to adapt their distribution models to the requirements of emerging markets as they can reach back in their past experiences to identify distribution models that work in such environments.



Marketing Channel
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Maximizing shareholder value
through creating the best route
to market

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Snippets

A former Liverpool tyre fitter is planning to take the European tyre market by storm with his online business, Blackcircles.com. The business, established for over four years, sells tyres online or through a call centre at savings of up to 40%. Dealing with a network of 987 independent garages and dealerships around the UK, he is now launching a franchise model, which he says will help revitalise small, independent garages facing stiff competition from large national tyre chains.

http://icliverpool.icnetwork.co.uk/business/news/tm_objectid=16385860&method=full&siteid=50061&headline=hope-for-the-small-garage-name_page.html

Sunrider, a door-to-door sales company based in the US announced this week that it will open 5,000 more franchised stores across China by the end of next year. The firm, which started to sell its cosmetics and health-care products through franchised agents in 1998 after China banned direct sales, said that it plans to continue its focus on despite the ban being lifted.

http://www.shanghaidaily.com/art/2005/11/18/214937/Sunrider_expands_its_franchise_horizon.htm

The music industry is putting pressure on Apple CEO Steve Jobs to change the pricing structure of music downloads. The industry is calling for a tiered pricing structure based on popularity, rather than the current system where 99cents buys any song in the catalog. So far, however, Jobs has stuck to his guns.

<http://www.ecommercetimes.com/story/Ax6Z3Tib2IzAlm/Apple-Under-Pressure-to-Change-Music-Pricing.xhtml>

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<http://www.i-f.com>