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SEMESTER – VI

SUBJECT - INTERNATIONAL MARKETING

TOPIC- DIRECT EXPORTING AND INDIRECT EXPORTING

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DIRECT EXPORTING

Basically there are two methods of exporting –

(A) Direct Exporting
(B) Indirect Exporting

In direct exporting, the export is undertaken directly by the manufacturer. The manufacturing firm makes its own arrangement to export its products either within the existing sales network or by creating a separate export department of division. This type of exporters is known as manufacturer exporters.

ADVANTAGES OF DIRECT EXPORTING

Following are the advantages of direct exporting:

(a)Goodwill
Due to direct contact with consumers the firm can establish close relationship with the consumers and create goodwill /reputation in the market.

(b) Optimum Production Capacity
A manufacturer selling in domestic as well as overseas markets can utilize his production capacity fully as wide market area is available. Excess production can be exported through special measures.

(c) Spreading of Risks

The direct exporter can spread business risks by exporting to several overseas markets. If he sells only in domestic market, there may be business risks due to recession, or other reasons.

(d) Export Obligation

At times, the manufacturer may have to fulfil export obligation due to import of machinery under the Export Production Capital Goods (EPCG) scheme. The manufacturer exporter can fulfil export obligation by direct exports.

(e) Direct Control

Direct exporters can exercise a direct control over export packaging, pricing, advertising, promotion, after sales services and other marketing activities.

(f) Export Incentives

The direct exporter can claim a number of incentives such as duty drawback, exemption form income tax, exemption from sales tax, refund of excise duty etc.

(g) First-Hand Information

Direct exporters get first hand information about the needs and requirements of foreign markets and there by can satisfy them effectively.

(h) Higher Price

Direct exporters can charge higher prices in comparison to competitors as they are well aware of the market conditions and can fulfill the requirements of consumers effectively.

DISADVANTAGES OF DIRECT EXPORTING

Following are the disadvantages of direct exporting:

(a)High Degree of Risk

Direct exporters are prone to more risks as they shoulder the twin responsibilities of manufacturing as well as marketing. They are also subject to the risks of domestic as well as overseas markets.

(b)More Investment

The exporter needs more capital investment suitable organization structure, more marketing efforts and effective supervision and control as the entire responsibility marketing is shared by the exporter himself.

(c) Lacks Specialization Since a direct exporter looks after numerous activities of production, distribution, marketing, he can't do justice to any one of them, creating chaotic situation in the organization.

(d) High Overhead A manufacturer exporter has to hear the production overheads as well as marketing overheads as he is engaged in production and exporting.

(e) Unsuitable to Small Firm Small firms may find it difficult to export directly on their own. They may depend more on the merchant exporters or co-operative marketing.

(f) Less Economies of Distribution The direct exporter may not be able to reap economies of large scales in respect of distribution. The merchant exporter can however, enjoy such economies, as he can combine several shipments together.

INDIRECT EXPORTING

The manufacturer does not directly export to foreign buyers. The manufacturer exports through intermediaries such as merchant exporters, export houses, all forms of trading houses, export consortia etc.

Advantages of Indirect Exporting:

The following are the advantages of indirect exporting

(a)Less Risks

Indirect exporters are prone to comparatively less risks as the risk of marketing gets transferred to export market intermediaries. At the same time, these intermediaries are specialized in their own field.

(b) Less Investment

Sine indirect exporters concentrate only on manufacturing or assembling of goods, they require a lesser amount of capital than the direct exporters.

(c) Specialization

A manufacturer specializes on production activates due to indirect exporting. He concentrates his attention on production activities only he is relived from the botheration of marketing exporting.

d) Suitable to Small Firms

The indirect method of exporting is more suitable to small firms. This is because small firms face a number of problems in negotiating and selling their products in the international markets.

They can export their products through intermediaries or marketing co-operatives.

(e) Availability of improved inputs

Indirect exporters can import raw materials, components, spare parts, etc. for export production through intermediaries such as export houses, trading houses etc.

(f) Technical Guidance

The manufacturer can obtain technical guidance for the manufacture of products from the export houses through whom he exports.

(g) After-Sale-Service

The export houses through their overseas offices may provide after-sale-service, which is beyond the scope of small scale manufacturer.

(h) Less Overhead

The indirect exporter has to share overheads relating to production activities only as he is not concerned with marketing. An indirect exporter will have less burden of overheads as compared to direct exporter.

Disadvantages of Indirect Exporting

The following are the disadvantages of indirect exporting

(a)Lower Price

(b)In case of indirect exports, there are many intermediaries. Hence, the total revenue gets distributed among various intermediaries and the exporter can’t charge a high price.

(b) No Export Incentives The exporting firm may not get the benefits of various incentives and facilities provided since he is not involved directly in the promotion of exports.

(c) Second Hand Information

The manufacturer may not get first hand information of the export markets. Some time, the intermediaries may not provide necessary information on time.

(d) Lack of Control

Indirect exporters can’t exercise a direct control over marketing decisions such as packaging, pricing, advertising, sales promotion and after-sales service due to their dependence on market intermediaries.

(e) Lower Sales The manufacturer may not be able to get more sales through the intermediaries. This is because the intermediaries may promote the sales of a particular manufacturer only.

DISTINGUISH BETWEEN DIRECT EXPORTING AND INDIRECT EXPORTING

Direct Exporting	Indirect Exporting
a) Meaning	
Export marketing is undertaken directly by the manufacturer.	The manufacturer exporter, exports the goods through intermediaries.
b) Market Information	
A manufacturer exporter gets first hand market information for his business as he operates directly in export marketing	In indirect exporting, the manufacturer gets information from intermediaries. Such information may be inadequate, unreliable and supplied late.
c) Control	
The exporting firm exercises complete control on export pricing. Packaging and so son.	The exporting firm has limited control on pricing etc. as marketing is given to the marketing middlemen

(d) Reputation	
The direct exporter can earn goodwill in international market.	The manufacturer may not earn reputation in overseas markets. The intermediaries get the reputation.
(e) Risks	
Direct exporters assume more risks as they look after both the production and marketing activities.	Indirect exporters assume fewer risks, as they are simply concerned with manufacturing or producing of goods.
(f) Investment	
It requires more investment as the exporting firm has to look after manufacturing and exporting.	It requires less investment as the exporting firm is concerned only with the manufacturing activity.
(g) Incentives	
Direct exporters can claim a number incentives such as rebate on income tax, duty drawback etc.	Indirect exporters can't avail these benefits unless the export documents are transferred in their name.

(h) Overheads	
The manufacturer/exporter has to bear production and distribution overheads.	The manufacturer has to bear only production overheads.
(i) Price	
Exports can fetch high prices if sold directly by manufacturer.	Exports may fetch lower price due to intermediaries margin.
(j) Specialization	
It requires concentration on both marketing and production aspects and as such lacks specialization.	In indirect marketing, the manufacturer can specialize in manufacturing aspects.
(k) Suitability	
This strategy is suitable for the large business houses having huge financial and physical resources.	This strategy is suitable for small businessmen as they may find it difficult to export directly.

THANK YOU