



Improving the distributor network of Promocionales Pacífico de México

Master Thesis

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Photographs on the cover:

Top: Temples on 'avenue of the dead' on the historical site of Teotihuacán, near Mexico City.

Bottom: The Zocalo, Mexico City's main square, with on the left side the country's biggest cathedral and in the center the National Palace.

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Executive Summary

Promocionales Pacífico de México SA de CV (abbreviated as PPM) is a Mexican company that trades in promotional items. These items are mainly purchased in China, and sold on the Mexican market.

With a turn-over increase of 30 percent per year over the last five years, PPM is growing very rapidly. Since the company was set up in 1998, it underwent some changes in strategy, but few in procedures and management techniques. This has led to the classical situation in which a company that started small and manageable grows out to become a large but under-structured organization, in which the informal methods become insufficient to control the operations. Thus, a need for professionalization arises, and implementation of better procedures becomes necessary.

This is also the case with the sales channel of PPM. The company works with two sales channels: direct sales to end users, and sales through a distributor network. It is this second channel, the distributor network, which is the focus of this report. The activities of the distributor network have been developed on an ad hoc basis, and are insufficient to accommodate the process of further internal and external growth.

The research objective is based on the problem formulation:

Which modifications in the distributor network of Promocionales Pacífico de México have to take place to accomplish growth?

The problems that inhibit growth and that are responsible for suboptimal efficiency of the network are not yet fully clear. Thus, before improvements can take place, this research first needs to identify the relevant problem areas.

The analysis of literature on distribution chains, sales channels and distributor networks; combined with an analysis of the state and developments of the Mexican market for promotional items; plus a scan of PPM's overall strategy, are used to design criteria with which the distributor network situation can be assessed. This analysis takes place on a strategic, tactical and operational level.

The assessment of the distributor network situation using these criteria, leads to the identification of problem areas.

Of these problem areas, two main themes are selected based on urgency, expected results and preferences of the company's management:

- Tactical: PPM does not work with a distributor selection profile, thus the active expansion efforts of the distributor network department take place without direction. A distributor profile is not used, because the organization has too little insight in its current network and in market developments.
- Operational: The distributor network department sees its distributors too much as final clients, and too little as a vital extension of its sales channel. This results on the one hand in a passive approach of the distributors, and on the other hand in the under-use of tools with which the distributors can be supported in their sales efforts.

To make the effective use of a distributor selection profile possible, research was done into the most attractive states of Mexico for expansion, based on three factors: Growth of GDP per state, GDP per capita per state, and the difference between PPM's network coverage per state and the GDP percentage per state of the total GDP. This leads to a ranking of states in which expansion efforts can be expected to be most successful. Furthermore, the current set of distributors in the network was analyzed to identify which types of companies are interesting as a target group for expansion efforts.

With these two results a distributor selection profile can be set up, which can be used to look for new distributors in a focused and efficient way, without having to invest heavily in very broad marketing campaigns.

To achieve a more active approach towards the distributors, on the one hand the way the salespeople of the distributor network department see their distributors should change. This can be accomplished through better training of the salespeople, and through a different salesperson selection. On the other hand, better tools should be used to support the distributors in their effort. For this, new incentive methods are proposed, as well as making better use of the existing market data and more continuous gathering of new market data. This more in-depth information about the directions of the distributors, their wishes, and their needs for new promotional items can be used to better serve the distributors, and thus indirectly support the growth of PPM's turn-over through its distributor network.

The two selected main directions for improvement should be implemented right away, since they will enable the distributor network of PPM to function in a more effective and efficient way.

Resumen Ejecutivo

Promocionales Pacífico de México S.A de C.V (PPM) es una empresa mexicana que compra y vende artículos promocionales. La empresa compra - en su mayoría- los artículos en China, y los vende en el mercado mexicano.

Con un aumento de ventas en más del treinta por ciento al año en los últimos cinco años, PPM crece rápidamente.

Desde la fundación en 1998, la empresa ha tenido muchos cambios en su estrategia, pero muy pocos en su técnica gerencial. Eso ha provocado la clásica situación de la transformación de una empresa pequeña y manejable a una más grande pero menos manejable. En una situación como ésta, los métodos informales vuelven a ser insuficientes para controlar las operaciones. Así aparece la necesidad de profesionalizar la organización y de implementar mejores procedimientos.

Sucede lo mismo en los departamentos de venta de PPM. La empresa tiene dos canales de venta: la venta directa a los clientes finales, y la venta por medio de distribuidores. Este reporte se centrará sobre el segundo canal, es decir, la red de distribuidores. Las actividades del canal de ventas en la red de distribuidores se han desarrollado de una manera ad hoc, y son insuficientes para acomodar el proceso de crecimiento interno y externo.

El objetivo de la investigación está basada en la formulación del problema:

<< ¿Qué modificaciones son necesarias en la red de distribuidores de Promocionales Pacífico de México para conseguir su crecimiento?>>

Los problemas que impiden el crecimiento y que son los responsables para una óptima eficiencia de la red de distribuidores no son claros. Así, antes de mejorar la situación, es necesario identificar las áreas de problemas relevantes.

Un análisis de la literatura sobre cadenas de distribución, canales de venta y redes de distribuidores, combinada con un análisis del desarrollo del mercado mexicano de artículos promocionales, además de una exploración de la estrategia general de PPM, son utilizados para diseñar criterios con los que se pueda analizar la red de distribuidores. Este análisis tiene lugar a un nivel estratégico, táctico y operacional.

Unas áreas de los problemas son identificado en los tres niveles usando los criterios diseñados en el última parte. De esas áreas de problemas, dos temas principales fueron seleccionados basados en la urgencia en los resultados estimados y en las preferencias estimadas por la gerencia de PPM.

- Táctico: PPM no tiene un perfil con el que pueda seleccionar nuevos distribuidores. Así, los esfuerzos de extender la red de distribuidores no están enfocados. PPM no puede tener tal perfil, porque falta entendimiento en la red de distribuidores actual y en los desarrollados en el mercado.
- Operacional: El departamento de la red de distribuidores ve a sus distribuidores demasiado como clientes, y no suficientemente como una extensión vital del canal de venta. Esto resulta por un lado en un acercamiento pasivo a los distribuidores, y por otro lado en un uso insuficiente de las herramientas de apoyo con las cuales los distribuidores podrían utilizar sus esfuerzos de ventas.

Para hacer posible el uso de un perfil para seleccionar distribuidores, se investigó cuáles son los estados de México más atractivos por expansión, basada en tres factores: el crecimiento del PBN por estado; PBN por capita por estado; y la diferencia entre la cobertura de la red de PPM y el porcentaje del GNP total por estado. Esto conduce a una clasificación de los estados más atractivos en donde enfocar los esfuerzos de expansión. Además, el grupo actual de los distribuidores

fue analizado para identificar las clases de empresas que son atractivas para los esfuerzos de expansión.

Con esos dos criterios, un perfil para seleccionar distribuidores puede ser utilizado para buscar y seleccionar distribuidores de una manera más eficiente sin la necesidad de invertir fuertemente en una amplia campaña de mercadeo (o marketing – en México es muy común este anglicismo).

Para conseguir un acercamiento activo de los vendedores del departamento de los distribuidores, por un lado es necesario cambiar el pensamiento de los vendedores. Se puede conseguir por medio de un mejor entrenamiento de los vendedores y a través de una selección distinta de dichos vendedores. Por otro lado, es necesario utilizar más herramientas que ayuden a los distribuidores en sus esfuerzos de venta. Por eso, son necesario nuevos métodos de estimulación, así como la mejor utilización de los datos de mercado existentes y la recolección de más información sobre mercados nuevos. Estos datos sobre los deseos de los distribuidores y sus necesidades por nuevos artículos promocionales pueden ser usado para servir mejor a los distribuidores, e indirectamente ayudar al crecimiento del ingreso de PPM a través de su red

Preface

This is my graduation thesis for the study Business Administration at the University of Twente, where I followed the specialization of International Management.

When I started my orientation on the possibilities for a graduation project, I wanted to go abroad, and possibly work in a country where Spanish is spoken. By then, I had been studying Spanish for a year, and I was looking forward to make use of it. I also hoped to find a place in which I would not be just one of the many students that do a graduation research, and I wanted to work for an international company that is still developing.

So when I got into contact with Promocionales Pacífico de México SA de CV in Mexico City, I was excited about the chance to work in this company. Both dynamical and in full development, PPM offered me a lot of freedom to set up my own investigation. This also meant that I came to Mexico with only a very open idea of what the situation of the company was, and what the underlying reasons were for their request to me to investigate possibilities for improvement of the distributor network.

This meant that I spent a considerable amount of time fine-tuning the problem definition and the boundaries of my report. Furthermore, the scarcity of reliable statistical data about the Mexican market for promotional items, combined with my still far-from-perfect Spanish have made this research project into a wonderful adventure.

I would like to thank a number of people who helped and supported me in the writing of this report and in the research that preceded it:

Lic. Stephan Toonen and Ing. Rik Koolen, respectively the CEO and the commercial director of PPM for offering me the opportunity to do my graduation research project in their company, for giving me the freedom to talk to everyone and work in each department, and for explaining me everything there is to know about the company and the market;

Fernando Careño, the manager of the distributor network department of PPM, for his full support and his incredible patience with my efforts to communicate in Spanish;

All the people within and outside of PPM who took the time to talk about their work, the market for promotional items, Mexican culture and distribution strategies;

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Finally I would like to thank my friends and family for their general support and encouragements, even when I was on the other side of the world.

Tim Straatsma,
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Introduction

Promocionales Pacífico de México SA de CV is a Mexican company that serves its customers with promotional and incentive items.

Giving away promotional items with the purchase of a product is one type of sales promotion, together with monetary promotions such as discounts and coupons, and non-monetary promotions such as contests, free samples and loyalty programs (Kwok & Uncles, 2005). Sales promotions are part of the marketing mix of products, and are designed to increase sales on the short term (Powers 1989). Of the different types of sales promotion, promotional items have the advantage that, if used effectively, they enhance the brand experience, provide a lasting reminder of the brand's existence, and promote the loyalty of the customers. This makes the use of promotional items attractive, also compared to the use of coupons, which are, although widely used in some countries, now believed to sometimes harm brand image and affect price perceptions (Kendrick, 1998).

In Mexico, the market for promotional items is growing steadily. From investments in this market in 2004 of € 558 million to € 658 million¹ in 2005, a growth could be witnessed of 17.8 percent. Furthermore, of the total market of commercial communication, the market share of promotional items is rising as well (CICOM, 2006).

Promocionales Pacífico de México SA de CV, in this report abbreviated as PPM, caters this market through two main sales channels. The first channel is the Direct Sales, which sells directly to bigger clients. The second channel is the Distributor Network, which supplies products to distributors. This research focuses on the Distributor Network. As part of the company's effort to professionalize and prepare for expected future changes in the market, the functioning and organization of the distributor network are investigated.

This thesis report therefore starts in **chapter one** with an introduction into the background and problem formulation that constitutes the basis of the research. The structure of the research that was conducted finalizes this chapter.

The **second chapter** consists of a theory review of sales channels and distributor networks. Special attention is given to prescriptive theories for improving distributor networks. This chapter contains the theories used throughout the report.

Chapter three looks into the Mexican market for promotional items. Through the use of multiple sources, expectations for future developments are given. Also an overview of PPM's overall strategy is given.

The information about distributor network theory combined with the prognoses for development in the Mexican market for promotional items will be used in the **fourth chapter** to create criteria with which the distributor network organization of PPM is assessed. In this chapter the criteria will also be made operational.

Chapter five analyzes the specific situation of PPM using these operational criteria. Through this, areas are identified that need improvement.

In the **sixth chapter**, the areas for improvement are prioritized and elaborated on. Based on expected effect and wishes of the company, a number of suggestions for

¹ Throughout this report all monetary amounts are given in Euros. Exchange rates used are from June 15th 2007. € 100 = US\$ 133.70 = MXN 1444.70

improvements are proposed to bridge the identified gaps in the design and management of the distributor network.

Chapter seven proposes practical steps for the implementation of the selected solutions.

The main body of the thesis finishes with the **eighth chapter**, which sums up the conclusions, the recommendations for further research, and the reflection on the research process.

The thesis content is accompanied by a list of the used references, as well as by a list of abbreviations, a list of figures and a list of tables used in the thesis. Additional data-sheets, maps and graphs can be found in the appendixes.

1. Research Plan

1.1 Introduction

In this chapter, the reasons behind the research project are explained. Furthermore, the formulation of the problem is presented, as well as the division of this problem formulation into more specific research questions. The approach of the research is explained, and a visualization of the structure of the conducted research is given.

1.2 Background and research objective

Promocionales Pacífico de México SA de CV is a company that trades in promotional items. These products are not produced by PPM, but are purchased from factories or other traders. The majority of the products are sourced abroad, mainly from Hong Kong, China and Europe. Some types of products, such as large products with low value, and items that are difficult to import, such as lighters and towels, are purchased nationally. The products are sold on the Mexican market, and PPM currently does not engage in re-exporting.

When the company was set up in 1998, the products were sold to final clients only, and were flown in from warehouses in Europe, which were owned by the Mid Ocean Group, one of the larger European promotional companies. PPM was organized as a foreign sales channel for the Mid Ocean Group.

To obtain better prices, the products later were sourced in Hong Kong, but still exclusively through the Mid Ocean Group's supply network. Furthermore, the catalogue published by the Mid Ocean Group was used by PPM as well.

Two years ago, PPM made a strategic repositioning, and became a completely independent firm. It now sources its products from multiple suppliers in China, Hong Kong, India and Europe. Mid Ocean Group is still among PPM's suppliers, but it did not retain its exclusive supplier status.



Fig. 1: Examples of promotional items of PPM

On the sales side of the company, PPM has also gone through different stages. When the products were flown in from Europe, direct clients were the only market that was targeted. PPM offered novelty products through its catalogue, which was actively spread among potential final clients. Many of the targeted companies, however, were already serviced by other suppliers, who saw themselves forced to become distributors for PPM to avoid the risk of losing their clients to PPM. Thus PPM received many requests for a formalized distributor structure, which was soon set up as a specific sales channel.

PPM defines itself as a supplier of promotional items, which can offer its clients a good service, and which is able to deliver new and innovative products. They have defined a mission, a vision and a set of goals, which are the guidelines for the company strategy.

Mission: ‘Promocionales Pacífico de Mexico provides high quality promotional items for a reasonable price. The company offers a complete service, and provides clients with promotional items suited to their specific needs’

Vision: ‘To become the number one company in promotional items in Mexico’

Goals:

- ‘To offer good service to the customers and distributors’
- ‘To capture a larger market share in the market for promotional items’
- ‘To improve the cooperation with final clients by working together with them on the development of special promotions’

PPM works with two types of products, the specialty promotions and the stock items. Specialty promotions are made to order on request of a client, and require a lot of combined effort from the supplier, the client and PPM. Special promotions furthermore have a production time of at least three months, and thus require good planning and direct communication lines with the client. Because of the nature of special promotions, which require direct communication and extensive exchange of specifications and adjustments, they are mainly sold to direct clients of PPM. These direct clients are large companies like L’Oreal, Unilever and Banamex.

Stock items are standard items, of which specifications are established, and which PPM usually orders without a specific client in mind. Of such standardized items, PPM has around 500 in its system, and many of those also on stock in Mexico and available for sales within a matter of days. Stock items are sold to direct clients as well as through the distributor network. The stock items are promoted through the use of a catalogue which is spread among distributors and final clients.

To service these two sales channels, PPM works with two separate sales departments; the direct sales department and the distributor sales department. Of course PPM has many other departments as well. These will be discussed using the value chain model by Porter:

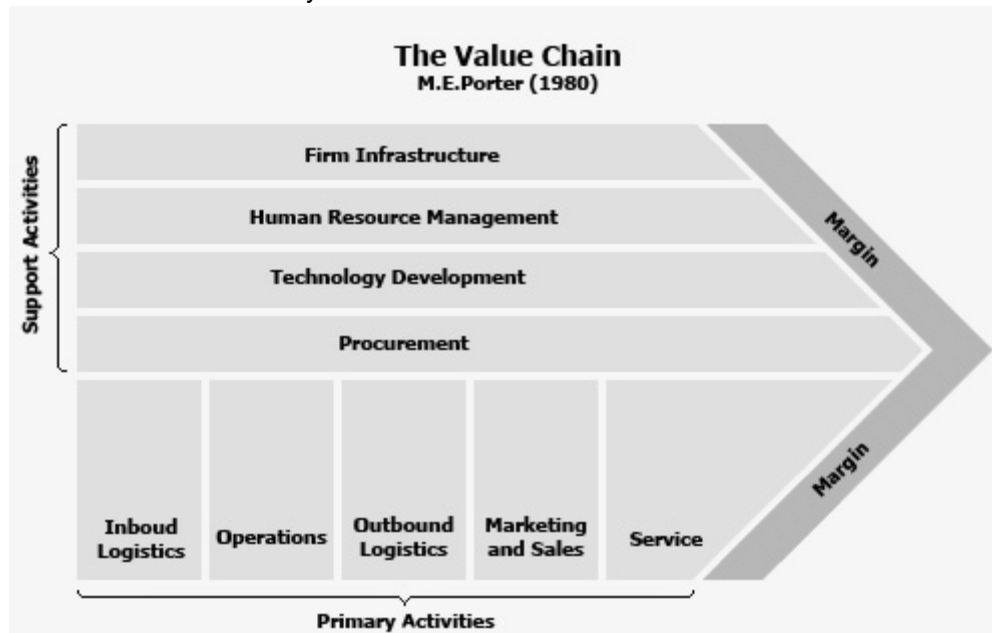


Fig. 2: Internal value chain (Porter, 1980)

When the primary activities of the company are observed, PPM is a good example of a tradition trading company, with a transportation department that fulfills the inbound logistic activity as well as the outbound logistics activity, and where the operations activity is relatively small. PPM does not conduct many modifications on

the products in which it trades. The only real operations activity is the printing of the logos which takes place in the print shop department.

The marketing and sales activities are the most extensive activities in PPM's value chain when the employee numbers are compared. Almost half the workforce is works in the direct sales and distributor network departments. The marketing department is relatively new and will take a more important place in the future.

Service activities are again quite small. The promotional items in which PPM trades do not require a lot of pre- or after sales service, and are not sold with some kind of service contract. For the distributor side, after sales service is kept under control through arrangements with distributors. The distributors take the responsibility over the promotional items at the moment that the items are delivered or picked up by the distributor.

When the support activities are regarded, the procurement plays the most prominent role. The efforts of the international purchasing department are part of the reason for PPM's success, because fast delivery times and low purchase prices are key assets in a trading company.

These sales departments are further supported by a number of other departments that are responsible for accountancy and financing, warehousing, utilities and management. An organization scheme of PPM can be found in appendix 1.

This report focuses on the distributor network and the distributor department of PPM. This department has relationships with about 4400 firms, 1100 from which are currently active distributors that buy items from PPM and sell them to their clients. The other 3300 companies have been distributors for PPM over the last years, but are currently not purchasing from PPM.

To avoid internal sales channel conflict in which distributors undercut direct sales efforts for the same set of large clients with a need for stock items, PPM has developed a stronger division between direct sales and distributor sales, also based on the total estimated budget of the end client (Koolen, 2007):

Size group	Only Stock	Only Special	Both
AAA	Distributor channel	Direct sales channel	Direct sales channel
AA	Distributor channel	-	-

Table 1. Strategic sales channel purposes (Koolen, 2007)

In this division, AAA clients have an estimated budget of over one million US\$ for promotional items, the AA clients are the remainder of clients. Thus, PPM's direct sales channel will only be used for large clients that (partly) need special promotions. Clients that have large budgets, but only need stock items, will solely be approached by the distributors. Clients needing special promotions will exclusively be approached by the direct sales channel.

As can be seen in the figure below both the direct sales channel and the distributor network department have grown the last five years. The two sales channels were roughly of equal size at the end of 2006. Attention has to be paid to the fact that the numbers for 2007 are based on a budget forecast, and it is not certain yet if this goal will be reached, although during the writing of this report turn-over growth per month was in line with expectations. For the exact numbers, see Appendix 2, Turn-over growth numbers per sales channel.

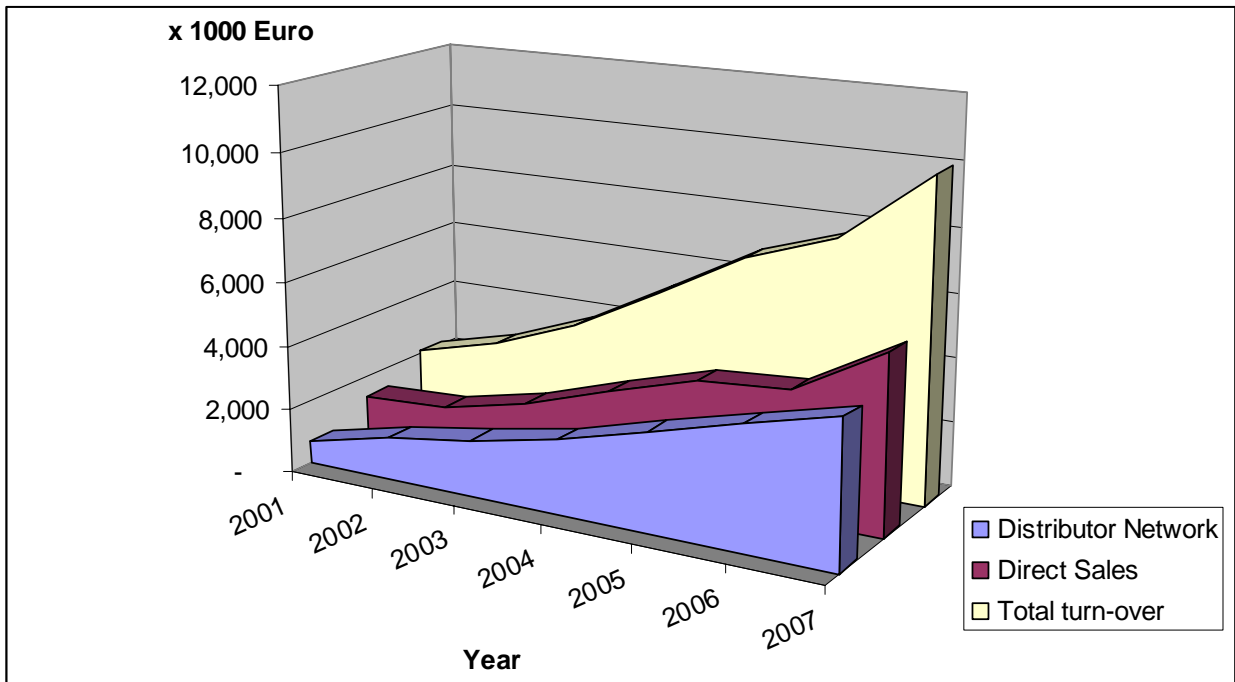


Fig. 3: PPM turn-over per sales channel (PPM/Carreño 2002 - 2007)

The market for promotional items in Mexico is highly fragmented. The principal estimates that PPM has a market share that lies between one and two percent, which is supported by data on the promotional items market. The biggest players in this market are estimated to cover not more than a four percent market share. This might indicate that there still is room for growth in market share and turn-over.

PPM wants to achieve this by improving its sales position. They aim not only at improving the profitability, but also at creating continuity, because changes and consolidations in this market are to be expected.

Thus, the following **objective** for the research can be formulated:

For the functioning of the company sales the distribution channels play a vital role.

Improving the sales channels will contribute to increased profitability and sustain continuity

1.3 Problem formulation

Concerning the problem formulation, a number of aspects were taken into consideration:

- The market for promotional items in Mexico is undergoing strong changes. The position of importers and distributors on this market is evolving, and PPM should anticipate on this to secure its continuity and to achieve growth.
- PPM has a large distributor network, but it does not have national coverage. 80 percent of the distributors are located in Mexico City and in the state of Mexico, which surrounds the city. Together they constitute 86.8 percent of the total turn-over that is generated by the distribution network. Thus, other economic regions in Mexico are underrepresented in the network.
- Only ten percent of PPM's distributors are responsible for 85 percent of the network turn-over. This makes the distributors department vulnerable.
- The top-management of PPM has set a budgetary goal for the distributor network department for a turn-over growth of eighteen percent.

Thus the **Problem formulation** is defined as follows:

Which modifications in the distributor network of Promocionales Pacífico de Mexico have to take place to accomplish growth?

In this problem formulation, the distributor network is defined as the group of external companies that purchase promotional items from PPM with the purpose of reselling them to end users. These distributors are not a part of PPM, but cooperate with PPM in one distribution chain.

1.4 Research questions

1. What does the literature advice on the organization of distributor networks?
2. Which criteria for the distribution network of PPM can be formulated based on the outcome of the literature review?
3. To which extent does the distribution department of PPM meet the identified requirements?
4. Which steps can be taken to improve the distribution department of PPM to make it better adapted to expected developments?

1.5 Research model and approach

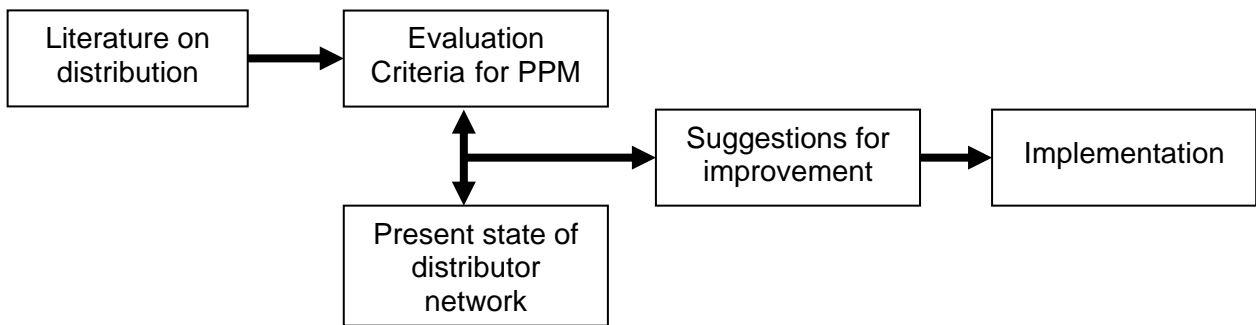


Fig. 4: Research Model

This research is future focused. The goal is to make the distribution department better adapted to the changing market situation, and to accomplish growth. To assess the distribution department, and to make recommendations for change, first criteria should be developed. These criteria will be obtained from a literature study on distribution channels and distributor networks.

The criteria will be specifically focused on PPM as a supplier of promotional items with a distribution network in Mexico. With these criteria, the present situation of the distribution department of PPM will be assessed. The points on which the present situation of PPM shows disparity with the criteria will then be identified.

The identified problem areas will then be prioritized, and the most important problem areas will be addressed. Following this, the implementation of the proposed improvements will be discussed. Finally, this results in the conclusions for the company, and recommendations for further research.

Boundaries to the research:

This research takes place as a graduation project. As such, the time available for it is limited and not all possible aspects can be assessed. This research focuses on the distributor department of PPM.

- The research does not look into other parts of the PPM organization besides the distributor department
- The model that will be created does not look into the logistics and warehousing techniques of the distributor network.

- Because the market for promotional items in Mexico is developing and changing rapidly, the timeframe for projection and planning advice will not exceed three years.

The main goal for the distributor network of PPM is to achieve growth in market share and volume. Ansoff describes four ways to achieve growth (1957):

Ansoff	Present product	New product
Present Market	Market Penetration	Product Development
New Market	Market Development	Diversification

Table 2. Growth matrix (Ansoff, 1957)

PPM as a whole is constantly working on the development of new promotional products and even on diversification into different product groups such as consumer electronics and furniture. For the development of the promotional items distributor department, however, the present product is a given. The focus will therefore be on growth strategies involving the present product.

Market-share growth through the distributor network can be reached through a growth in the coverage of the market (Market Development), and by improving the functioning of the current distributors (Market Penetration). This is a slightly different interpretation of the Ansoff Matrix theory, because PPM's distributor department is not producing any goods and focuses on trade in a pre-selected set of stock items, but the conclusions of the matrix can be translated into the wholesaler situation.

Market Penetration: Improving the functioning of current distributors.

To reach growth, PPM should retain its distributors, and motivate them to buy more of its products.

This could be done by focusing on:

- Lower prices
- Offering additional services or benefits to the distributors
- Increasing the marketing efforts

The effect of each approach depends on market-wide developments, on the availability of resources and competences, and on the market penetration efforts of other companies in the same market.

Lowering the prices for distributors would be a decision for the management, and is in this investigation not further explored. In stead, improvements and growth are sought through better channel management, so as to offer better added value and increase marketing efforts.

Market Development: Increasing market coverage.

To reach growth, PPM has to reach new customers with existing products.

According to Johnson and Scholes (2002), market development can be done through:

- Extension into market segments
- Development of new uses
- Geographical spread

The goal to which this report is written is not to investigate possibilities for the trade with different types of end clients, since PPM basically covers all market segments for promotional items. The development of different uses of the current products is

also not part of this investigation, since the current range of promotional items is very wide, and there would not be many other possible uses possible. Therefore, the focus for Market Development will be on geographical spread. Currently PPM's distributor network is covering parts of Mexico, and the department is not engaging in any re-exportation from Mexico to other parts of the world. In the past, some experiments have taken place with exporting to Colombia, but due to the complex bureaucratic system, re-exportation is deemed not to be a viable option at this time (Koolen, 2007). Perhaps when the bureaucratic burden on re-exportation diminishes, this option can be reconsidered. For now, enough possibilities for growth exist in the Mexican market and for the scope of this report, the Market Development focuses on Mexico exclusively.

2. Literature study on distribution and distributor networks

2.1 Introduction

To assess the distributor network of PPM, first a theoretical basis should be created. In this chapter, first and introduction into theories on distribution chains and distributor networks will be given to provide the necessary terms and concepts. Secondly, a rationale will be given for the theoretical direction required for PPM's distribution channel to achieve growth.

Thirdly, theories geared to PPM's specific distributor situation will be explored regarding channel design, channel management and channel functions.

2.2 Distribution chains

Distribution is what is traditionally meant with Place, the third of the four P's of McCarthy's marketing mix (1960). In this marketing mix, distribution is understood to be the way a company brings its products to its customers.

There is however a bit more to this than meets the eye in the first instance. In a broader sense, distribution is the activity that takes place in a distribution chain, and involves all the steps between the producer of a product and the final consumer of that product.

In the chain of distribution, there are different types of companies fulfilling different channel functions.

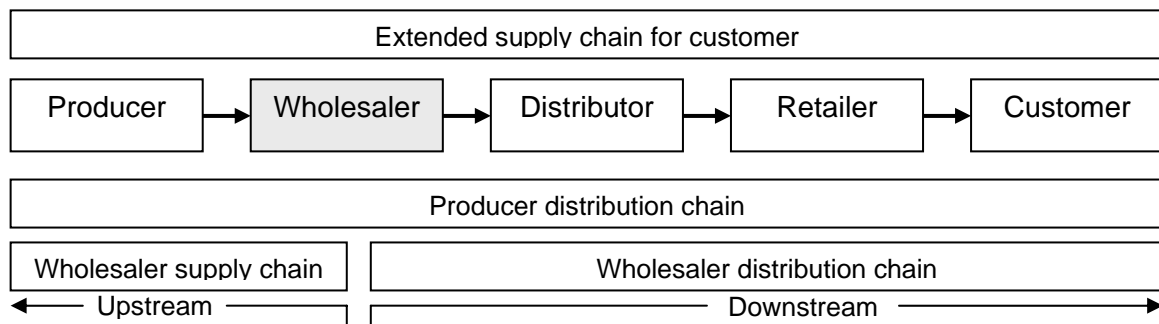


Fig. 5: Supply chain vs. distribution chain (Baily, 1987), (Berman, 1996)

The number of distributors and wholesalers in a distribution chain is not restrained. Situations occur where a producer and a retailer are separated by many layers of intermediaries, especially when the producer and the retailer are located in different parts of the world. In this case some intermediaries receive the goods from other intermediaries. The preceding company in a chain will be called the supplier, regardless if this is another intermediary or the original producer.

Much shorter distribution chains occur as well. In this case, the producer could sell directly to retailers. The absence of a distribution chain is possible as well, for example in situations where producers sell their items directly through an internet shop or with their own sales team.

Another possibility is the use of multiple sales channels, such as the use of a direct sales department and a distributor network at the same time. Although this often is a source of internal multi-channel conflict, more and more companies make use of this way to reach different target groups (Web & Lambe, 2006)

Except for the step between the retailer and the final customer, all the steps in the distribution chain are characterized by business-to-business relationships. In the above figure, the supplier of the raw materials or semi-finished materials is also featured, but only is a part of the extended supply chain, not of the finished product distribution chain.

Regarding the distribution chain, most literature focuses on the point of view of the producer or the retailer (Frazier, 1999). Less attention has been given to the position of the intermediaries in the middle of the distribution chain, although this position has become more important as a link between the manufacturer and the consumer (Kistner, Di Benedetto & Bhoovaraghavan, 1994). As noted before, this report focuses on the position of the distributor department of PPM, one of the intermediaries in the chain between producers and commercial users of promotional items.

Such intermediaries like PPM handle products without heavily altering them. The basic function of an intermediary is to get the items closer to the consumer or to the next link in the distribution chain. In this process the intermediary might repack or print the product, and is responsible for the transportation of the goods. Because of the nature of these activities, a large share of such a company's turnover is spent on purchasing the goods, by some estimates around 70 percent (Baily, 1993).

2.3 Strategic channel design

From the many different distribution chain options, a strategic choice has to be made on which one will be used in a specific situation. Each company wanting to set up a distribution chain has to make this choice, and the outcome depends on the market environment in which it wants to do business, and on the overall strategy the company wants to follow. Based on these inputs, the sales channel design is created.

Channel design literature is part of the broader distribution theory, which also looks into the more technical aspects of facility location and transportation routes, (Giannakis & Croom, 2004), which fall outside of the scope of this research.

The channel design decisions are mainly important at the moment a sales channel is set up. However, changing market conditions, the growth of the supplier or changes from the upstream part of the total distribution chain, can all lead to the necessity of change in the blueprint of the channel design. When channel design is regarded, the majority of the literature takes the point of view of the producer that wants to design a sales channel to bring its goods to the market. However, distributors are not passive elements in this, and can design sales channels for themselves, especially when they operate independently (Frazier, 1999).

Product type

To decide which choices to make in the sales channel design, the product type and the target market are important factors. After a diligent literature study by Kasturi Rangan et al (1992) concluded that there are eight main factors influencing the customer preference for direct or indirect contact with the producer:

Customer requirement	Direct if:	Indirect if:
1. Product information	High	Low
2. Product customization	High	Low
3. Product quality assurance	Important	Unimportant
4. Lot size	Large	Small
5. Assortment	Nonessential	Essential
6. Availability	Not critical	Critical
7. After-sales service	Not critical	Critical
8. Logistics	Complex	Simple

Table 3. Preferred directness of sales channels (Kasturi Rangan, 1992)

As an example, a final user wanting to buy a multi-million euro costing, complicated technical device, which has to be tailored to the customer's wishes and is vital for its business process, would like to deal directly with the producer.

If, however, a consumer wants to purchase a standard pack of printer paper, he would not like to have to deal with a far away paper mill, but would prefer to get local service from his office supply retailer.

A supplier can assess its customer's preferences using these factors, and make a decision on the directness its distribution channel should have.

Control versus investment

One of the most important outcomes of the decision for more or less directness is the balance between control over the channel activities, and the investment to reach this control (Cespedes, 1988), (Pelton, Strutton & Lumpkin 1997). The relationship between channel control and the financial resource investments that have to be done in the sales channel can be visualized as follows:

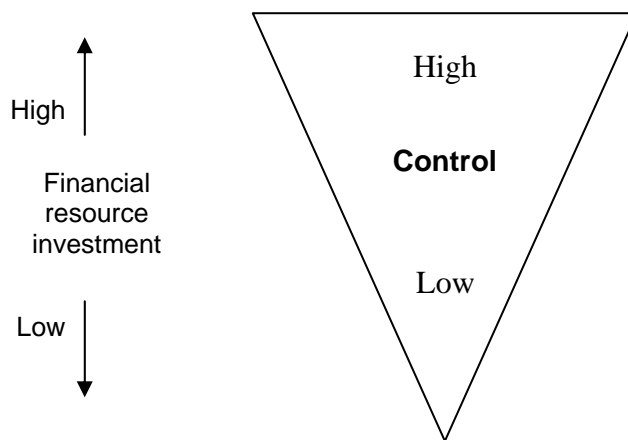


Fig. 6: Investment versus control of channel (Pelton, Strutton & Lumpkin, 1997)

Thus, if it is important for the supplier to retain high control over its channels, high investments will have to be made. This usually restrains the size of the channels, and consequently the share of the market that can be reached.

If, on the other hand, the supplier wants to cover a widely dispersed market with limited investments, control will have to be given up. This is for example the case when a manufacturer decides to use an external distribution chain and not do the sales itself.

When the choice for the use of an external distribution channel is made, the level of control that the supplier of such a distribution network has depends on further design decisions.

Exclusiveness

Exclusiveness is an important factor in channel design. It occurs when one firm grants another firm exclusive right for the sales of products. This can be the case when a distributor receives exclusivity from the producer or preceding distributor for a product line in a certain area. In this case the distributor will be the only one selling this product line in the designated area. Many importers of new products can be given as an example here. In exchange for access into the distributor's market, a producer grants exclusivity to the distributor. Here this will be called distributor exclusivity.

The other type of exclusivity is when a distributor is restricted to selling only the products of a certain supplier. An example is the soft drinks market, where bars sign contracts with one of the large soft drink suppliers to carry their brands, but not those of the competition. Here this will be called supplier exclusiveness.

Combinations are possible as well, in which both distributor and supplier exclusivity is present. Furthermore, many supplier-distributor relationships are characterized by double *non*-exclusiveness, in which the supplier supplies to multiple distributors in a geographic area, and the distributor purchases from multiple suppliers. This situation is characterized by the least mutual dependence.

Ownership

There are distributors that sell on a commission basis, and distributors that buy the goods and sell them for their own account. Distributors that sell on a commission basis are called agents, and usually operate under consignment of a producer. For example, insurance agencies sell insurances to final customers, and receive a commission for each insurance sold. These constructions are characterized by more control retention by the supplier.

Other distributors buy the goods, and sell them for a profit. They take more risk, but also have more freedom in their activities.

Channel Functions

A channel design decision that is directly related with the control vs. investment balance is the location of channel functions. These functions take place somewhere in the distribution chain, and each of these channel functions has to be fulfilled by one or more of the channel members, but it's location in the channel is not fixed. For reasons of control, a supplier would want to do the channel functions itself, but because channel functions are performed better through specialization, placing the functions downstream in the channel usually yields better results. Because the channel functions use resources, they also are points where value is added to the product. Members of the distribution channel that fulfill unique channel functions that cannot be fulfilled by other members are valuable for the network. These channel functions can be used as a way to gain more channel power, and to safeguard continuity.

The ten main channel functions are (Pelton, Strutton & Lumpkin 1997):

- Information: the gathering of market information
- Promotion: the design and distribution of communication to attract buyers
- Negotiation: the manner in which price and term agreements are reached
- Ordering: the communication of purchase intentions that flows from final customers through the channel members to the producer
- Financing: the procurement and allocation of funds required to finance the products throughout the channel
- Risk-taking: the taking of risk associated with the channel related work
- Possession: the physical handling of the products through movement and storage
- Billing: the forward movement of detailed lists of sold goods together with charges and terms
- Payment: the handling of payments by buyers
- Title: the transfer of ownership from channel member to channel member

2.4 Distributor selection

When the use of a distributor network turns out to be the best option, tactical choices for distributor selection have to be made. There is a large body of literature focusing on distributor selection. Most of this literature focuses on a supplier that needs to select a limited number of distributors, and all potential distributors are known. Usually this theory is designed for foreign companies that want to export through the use of a professional distributor. Although this is not always the case for expansion of an existing distributor network, there is some useful theory that will be used to assess PPM's situation regarding distributor selection.

General distributor selection consists of four steps (Root, 1994):

- Designing the distributor profile
- Locating distributor prospects
- Evaluating these prospects
- Choosing the distributor

Distributor selection profile

The distributor profile can be drawn up with very specific requirements, or more general. This depends partly on how intensive the distributor channel has to become. With distributor intensity the number of distributors in a certain region is meant (Mallen, 1996). According to Mallen, a more exclusive distribution tactic, and thus a less intense one, creates larger goodwill with the distributors, but allows for less market to be covered. A very intensive distributor tactic draws in many distributors who all have to be serviced and who can compete with each other, but which allows for a larger market to be covered.

A profile should make clear what kind of company the supplier is looking for. Examples of profile specifications are (Root, 1994):

- Size of the firm
- Trading areas covered
- Experience with similar products
- After-sales serving capabilities
- Reputation
- Financial strength

When the profile is specific enough, and leads to uniquely identifiable potential distributors, these can then be located, evaluated and chosen. However, if an intensive distributor tactic is followed and the profile is not that specific, a different method has to be followed for locating the distributor prospects. Marketing efforts have to be focused on the most interesting target groups of potential distributors to make them aware of the possibilities. To focus this marketing effort, the profile can be used to choose appropriate marketing tools to reach potential distributors. When this marketing effort yields distributor prospects, they can be evaluated and the most fitting ones can be chosen.

2.5 Channel management

When a distribution channel is up and running, and a distributor selection tactic is in place, there are still many factors the supplier of the channel can influence. Channel management is the combination of a number of activities aimed at reaching channel motivation and channel coordination, and is used to avoid or solve channel conflict.

This report focuses on the situation in which a PPM uses a network of downstream distributors as its distribution channel, and has a minimum amount of direct control over its network. In this situation, which is characterized by the least dependent relation, in which the wholesaler does not own the distributor, the distributor buys the goods from the wholesaler on its own responsibility, and there is no distributor- or supplier-exclusivity. The wholesaler in this situation has multiple distributors in a given market, and the distributor has multiple suppliers for similar goods. This situation is characterized by low levels of joint power, which has certain consequences for the channel management.

As noted by Frazier (1999), channel relationships with low joint power and low interdependence are likely to be characterized by low commitment and limited trust. In such situations, channel management is vital to create long-term relationships and avoid channel conflict. The correct use of channel management tools can increase the network's profitability and continuity.

Channel conflict

Especially when the independent organizations in a distribution channel do not depend strongly on each other and coordination is absent, room for channel conflict emerges (Kistner, Di Benedetto & Bhoovaraghavan, 1994). Each channel member works towards his own goals, and will only cooperate with the channel system when the channel goals are in line with the company goals. Because conflicts between a supplier and its distributors will have a negative effect on its business outcome, such conflicts should be detected and resolved (Metha et al., 2002). Channel conflicts can be resolved by aligning the distributor goals with the goals of the supplier, using channel motivation tools. Besides, better channel integration will remove many reasons for channel conflict.

Channel motivation

In channels with low joint power and dependency and non-exclusivity, distributors do not automatically cooperate with the supplier, and carry multiple brands, making it difficult for the supplier to receive enough attention (Gilliland, 2003). Therefore it is important for suppliers to find ways to motivate their distributors, using monetary or non-monetary incentives. This does not necessarily mean that the distributor receives a physical reward, but can also signify some type of support the supplier gives the distributor. Different authors come up with a number of incentive types that can be used to this goal:

- Credible channel politics, including reliable delivery and protection against internal competition
- Market development support, including promotional materials and training of distributors
- Supplemental contact, including distributor newsletters and access to online resources
- Financial incentives, including bonuses and discounts
- End-user encouragements, including comarketing with the distributors

(Metha, Dubinsky & Anderson, 2002),(Frazier, 1999),(Gilliland, 2003).

According to Gilliland (2004), channel incentives should be compatible with resellers' requirements. Distributors follow different strategies, and incentives should be adapted to these differences. Used incentives should have incentive compatibility, meaning that the purpose of the incentive should be congruent with the distributors' goals.

Four different goals are distinguished by, which drive the distributor. Distributors can have multiple goals simultaneously.

External achievement – The drive to satisfy external expectations regarding performance. The greater the potential gain, the better the distributor will be driven through this goal. Also the immediacy with which the incentive is received has a strong influence on this driver.

Stability – Stability is required to reach long term targets and to make optimal use of opportunities. For this driver, it is important that an incentive does not disturb ongoing activities.

Internal harmony – The drive to maintain good relations with channel members and clients. For the internal harmony driver, the fair balance between the incentives with which distributors are rewarded and the effort they have to make to earn it is important.

Flexibility – The drive to stay adaptive and flexible, and to be able to attract resources to adapt to a volatile market. For this driver, it is important that the incentive does not stand in the way of short term and long term flexibility.

Channel integration

A marketing channel is a system of different but interdependent companies. They work together because they can make profit through trade with each other. To reach better channel outcomes, and thus better individual firm outcomes, coordination between the channel members it is necessary to build long-term

relationships. This coordination will reduce redundancy of work done by different channel members, and allows for efficient allocation of the different channels functions (Metha et al., 2002). Another aspect of channel integration is improved communication. When channel members start to see each other as partners in the same business and start to share market information with each other, overall effectiveness will grow. In integrated channels, there is a downstream information supply about new products and new developments, and an upstream information supply about the market and customer demand. The more efficient this communication operates the better the overall channel outcome will be. Such improved integration and communication, however, is only possible when there is a certain degree of trust between members. Downstream channel members will only be interested in sharing market information with their suppliers, when they can be reasonably sure that this information will not be used by the supplier to approach the client directly. Such a sense of mutual trust does not come natural in low-dependency chains with low joint-power (Hu & Shue, 2004).

The information exchange, between the distributors and PPM is characterized by being very discrete, as opposed to relational. Thus hardly any joint planning takes place. According to Mohr and Nevin (1990) this would signify a market structure information exchange, in which trust between channel members is low, and only direct, formal information is exchanged.

Although other literature seems to prefer more collaborative information strategies, Mohr and Nevin point out that the type of information strategy should be matched with channel conditions, which entail the structure of the channel, the climate and the power between channel members. Because the suppliers and distributors in the Mexican promotional items have a more independent relationship, and the overall trust between members is low, a very collaborative communication strategy would not have the wanted effect, because it does not match the channel conditions. Therefore, it would at this moment be better to work with the more autonomous market structure information exchange.

2.6 Conclusion

The distribution situation of a supplier can be assessed and improved on different levels, as illustrated in figure 7. First, there is the strategic level, which deals with sales channel design issues such as the directness of the sales channel and the control the company has over its channel. It became apparent that there are multiple channels through which a manufacturer or upstream supplier can distribute its products to its end users. One of these methods is the use of distributors that buy from the manufacturer or supplier and sell to the end user or next distributor.

The channel design level is influenced by inputs from the company environment and the overall company strategy the company is following. These inputs influence the choice between the use of distributors or direct sales depends on the type of product, the order sizes, the level of technology, the end users need for service and customization, and the importance of availability of the product. These factors, that are external to the actual distributor network, also play a role when the tactical and operational levels are regarded. Therefore one of the outcomes of the literature research is that a scan of the company strategy and the company environment are necessary to come to good criteria and good solutions.

Secondly, the tactical level concerns distributor selection issues. For effective distributor selection, a supplier should design a distributor profile, locate and evaluate prospects using this profile, and choose the distributors that fit best with the profile.

Finally, the operational level of a distributor network concerns channel management issues. This involves the management of channel conflict, the motivation of the channel's distributors, and the integration of the channel partners.

The different levels of theory on distribution and distributor networks can be visualized as follows.

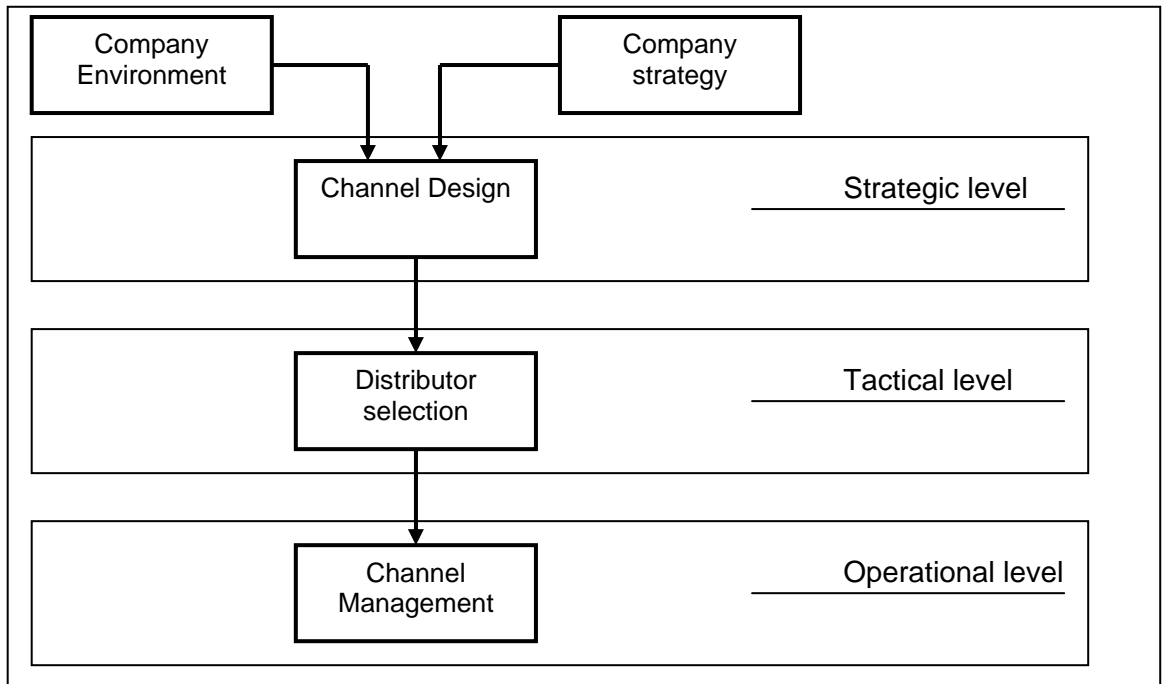


Fig. 7: Strategic, tactical and operational levels of Distributor Theory

3. PPM strategy and market developments

3.1 Introduction

As follows from the theory study in the last chapter, the strategic, tactical and operational levels of a sales channel are influenced by the overall strategy the company follows, and the environment. In this chapter, the strategy that PPM follows will be describes, as well as the company's environment.

3.2 PPM overall strategy

PPM is a trader that imports promotional items from overseas to Mexico. It currently uses two sales channels to sell two categories of products. The first product category is special promotions, which are items that are specially designed for a customer. For the design and creation of these items, expertise is necessary, and PPM can offer this to its large customers. For these special items, a differentiation strategy is followed, in which high perceived value is combined with medium to high prices, as compared to standard promotional items.

The second category of products that PPM carries is stock items. These items are not very unique, and PPM competes with many other traders for these orders. PPM attains a competitive advantage by having high volumes of these items in its local warehouse, so it can supply its distributors fast. Although expertise is needed for contracting, transportation and custom activities, stock items do not require a costly organization. Stock items are positioned with a low price strategy (Johnson & Scholes, 2002). These two competitive strategies are illustrated in the strategy clock.

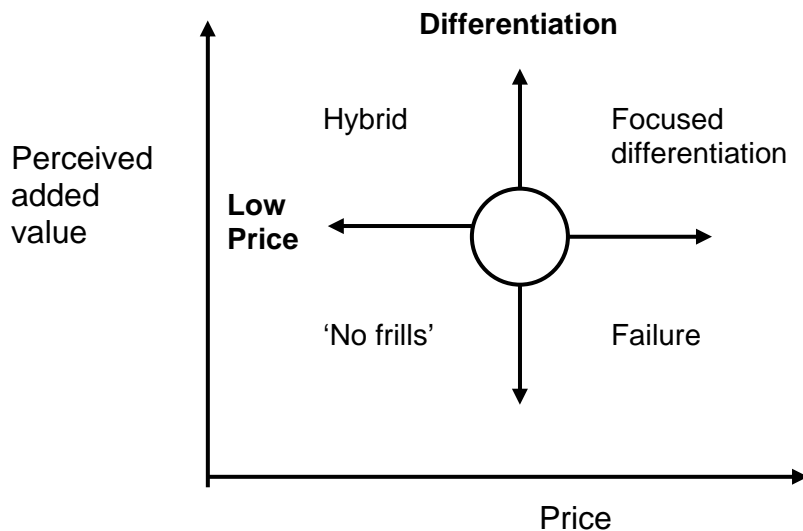


Fig. 8: The Strategy Clock (Johnson & Scholes, 2002)

To be able to offer the service and expertise necessary to follow a differentiation strategy for the special promotions, PPM has quite a large overhead. A design apartment with photographers and designers, a specialized purchasing department and a large product database all are necessary for competing on these special promotions. Currently the purchase and sales of stock items uses the same infrastructure.

The market for promotional items is changing rapidly, and an exploration of the market situation and its expected developments is necessary to analyze a company's distribution channel in this industry.

To do this, first the general political, economical, sociocultural and technological situation in Mexico is investigated. Following this, a more in-depth investigation in the Mexican promotional items industry is given. Finally, future developments will be identified on which present companies should adapt, so they can anticipate and make use of these changes.

3.2 Mexican PEST analysis

As Nelson and Garvey argued in their 2005 paper, to work towards a strategy that remains relevant in the fast changing environment, and thus is future-proof, market research can not sustain with only snap-shot data, but should also take information on trends into consideration. In the following PEST analysis (Johnson & Scholes, 2002), therefore, special attention is given to expected developments that have an influence on the market for promotional items in Mexico.

Political

After the 71 year rule of the PRI party (Partido Revolucionario Institucional) ended in 2000, the democratic system is steadily developing in Mexico. In July 2006, Felipe Calderon of the PAN (Partido Acción Nacional) won the last elections. He is considered to be pro-market development, and has announced tax reforms and privatisations (Business Monitor international, 2006).

Mexican bureaucracy is famous for being slow and corrupted, scoring 3.3 on the Corruption Perception Index of Transparency International (2006), which is below Latin American countries like Colombia, El Salvador, Uruguay and Chile. This notwithstanding, lately there have been improvements in this area.

Government policy is slowly working towards open trade. At this moment, the internal economy is still protected by high import duties on some products, such as textile from China. Also the importation of items like toys and lighters is highly restricted. Under different trade agreements such as NAFTA and agreements with the European Union, Latin American countries and Japan, import duties have already diminished. In the future, following global trends and pressure from the World Trade Organization, import duties can be expected to decrease further. A relevant example from the promotional market is the 351 percent import duty on flashlights from China, which was recently lowered to the standard 20 percent regime.

On the long run, Mexico is not rated as having high political risks, and is considered more stable than countries like Brazil, Argentina and Peru. This will have a stabilizing effect on the country, which will be good for the countries economy. (Business Monitor international, 2006)

Economical

Mexican economy in the past few years showed a steady rise in GDP, with a small dip in 2003. This growth is projected to continue. Real GDP growth is forecasted to be 3.5% per year until 2010, as is the GDP per capita growth. This means that the average person is expected to see his income grow, and purchasing power is expected to rise (Business Monitor international, 2006).

Economic growth is not evenly divided over all Mexican States. The Federal District, where Mexico City is situated, accounted for 20.5 percent of the total GDP, against having only 13.6 percent of the countries population, according to the most recent data from the 2004 census (INEGI a, 2006). Over the period 1993-2004, the GDP growth percentage for the Federal District was 1.46 per year. For some other states, like for example in Guanajuato and Nuevo León, where the economic regions of respectively Leon (5th city) and Monterrey (3rd city) are situated, economic growth in the same time span was over 4 percent per year (INEGI, 2006). This faster growth in some regions can be expected to continue, making these regions interesting for the promotional items business. See appendix 3 for a map with the states of Mexico.

Interest rates in Mexico are high, which has a negative effect on business development. Mexican export growth is slowing down, mainly because of strong competition from China and India. Many products that used to be produced cheaply in Mexico for the United States' nearby market are now manufactured in these Asian economies (Business Monitor international, 2006).

Because GDP and purchasing power are rising, the percentage of people belonging to the middle classes will grow. This, combined with its large population of 103.26 million (INEG, 2006), makes Mexico an attractive market for large supermarkets like Wall-Mart, Chedraui and Gigante. Although Mexico has a large and flourishing grey sector, with many open-air markets, the market share of the large supermarkets is growing (Sanchez, 2007). This is a positive sign for the market in promotional items, because these large supermarkets are the strongest pushers of promotional campaigns.

Sociocultural

The Mexican population is, on average getting older. The age pyramid forecasts from the U.S. Census bureau (2007) shows that the population, from a 'standard' underdeveloped country profile in 1995, has in recent years developed a narrower and more stable base, with a lower infant-mortality rate (see appendix 4). For the future, the age pyramid is expected to further stabilize. For the medium-term future, this will mean a larger average workforce.

Mexican society is heavily divided. A large part of the inhabitants work in the informal sector, and earn a marginal income (INEGI, 2006). On the other side there is a small group of very rich people in Mexico. A middle class is growing, but still quite small compared to many western countries. Because the middle-class can be expected to grow, more and more people will enter into the sphere of promotional items, because they can afford the products that make use of this type of promotions.

Technological

The Mexican economy is going through a process of technological professionalizing. Country wide internet access is increasing (INEGI, 2007), along with the middle-income class.

Global communication possibilities are also reflected on the Mexican economy, making it easier for companies to do business with foreign suppliers and customers. The better use of technological possibilities will make the Mexican economy work more efficiently in the future, although it will take quite some time before new developments reach all industries and businesses.

3.3 Mexican market for promotional items

The Mexican market for promotional items is a fragmented market without distinct market leaders. The largest wholesalers control a market share of about five percent, and the market is populated with many suppliers of marginal size. It is also a market with a large number of customers. Therefore, this market can be typified as a monopolistic competitive situation, which is characterized by multiple suppliers and multiple customers. In this situation, customers have partial market knowledge, and market transparency is not complete (Davies & Cline, 2005).

The company relationships in the distribution channels in this market are normally not characterized by exclusivity contracts, because the products are mainly generic.

The Mexican market for commercial communication is growing rapidly. This market represented investments of € 3.84 billion in 2004, which grew with 15% to € 4.41 billion in 2005. Of this total sum for investments in commercial communication, € 558 million went to promotional products in 2004. In 2005, this number had grown to € 657 million, an increase of 17.8 percent. This means that the market share for

promotional items as a part of commercial communication has grown. Promotional items now make up 15 percent of the larger market for commercial communication, making it the biggest segment after mass-marketing, which covers 59 percent with radio and television advertisements (CICOM / AC Nielsen, 2006).

Because of its strong growth, which for the reasons stated above can be expected to continue in the coming years, this market is prone to competitive rivalry. Using the five forces model by Porter (1980), the aspects of this rivalry will be explored for wholesalers of promotional items in Mexico.

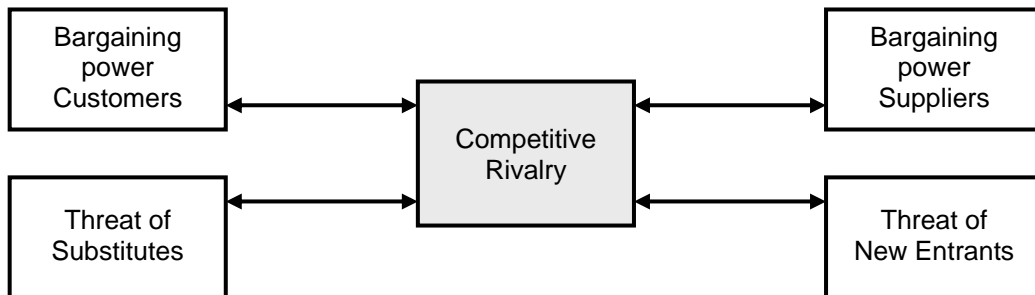


Fig. 9: Five forces model (Porter, 1980)

Bargaining power customers

The market for promotional items is not very transparent, because prices are normally not given right away, and pricing structure is not always easy to compare for distributors. Not only the final price of the products is of importance, but also the delivery times, the credit possibilities and the service a supplier can offer. Distributors can buy promotional items from multiple suppliers. This will however cost some effort, since new credit lines will have to be set up etc. Furthermore, Mexican businesspeople also attach much value to good relationships, and if possible will stay at their current supplier. Also, most distributors do not have the knowledge and resources that are necessary for backward integration. This leads to the conclusion that for distributors, customer bargaining power at the moment is relatively low.

Bargaining power suppliers

The suppliers of Mexican wholesalers of promotional items are national producers, as well as foreign manufacturers and traders. For the majority of promotional products, multiple suppliers can source or produce the same kinds of items, and competition takes place based in price. Also, switching costs between suppliers are low for wholesalers, because no technical adaptations have to be made to accommodate the trade with a different supplier.

For Mexican wholesalers, the danger of forwards integration exists, in which a factory or overseas supplier starts to sell directly to large final clients, cutting out the importers/traders.

From the point of view of Mexican wholesalers, the bargaining power of the suppliers is not very strong, except for the danger of forward integration.

Threat of substitutes

Promotional items are one of the ways for companies to communicate with their customers and relations. As such, they are part of the promotional aspect of a marketing mix. Other ways of commercial communication are substitutes of promotional items, such as mass-media advertisement, Point-of-purchase advertisements, direct mailings, etc. Distributors are generally specialized in promotional items, and would not easily start doing business in those other forms of marketing tools, thus the threat for substitution on this side is small.

However, for the final clients, this is a different question. Their goal is to get their message across, and if this turns out to work more effectively with TV commercials than with promotional items, the choice will be easy to make. This could pose a threat for wholesalers of promotional items, where it not that market data shows that the share of commercial communication taken by promotional items still is on the rise (CICOM / AC Nielsen, 2006). Besides, there is some evidence that promotional items are more effective than some other forms of commercial communication such as price-coupons (Kendrick, 1998). For the coming years, the threat for substitutes can be expected to be stable.

Threat of new entrants

To begin a company in Mexico that imports promotion items and sells them to distributors is not an easy task. For the investments in stock a large starting capital is needed. The standard arrangements in this market could also create cash flow problems, because distributors expect to receive credit on their purchases, which means that large quantities of resources will have to be reserved for this. Furthermore, specialized knowledge is needed to deal with custom rules, to work with overseas suppliers, and to set up a distribution channel. For foreign companies it is even harder to begin a business in Mexico, because of legal restrictions on the buying of property, and the strict rules surrounding foreign workers.

However, the World Bank in its yearly report on Doing Business (2007) states that setting up a business in Mexico took 58 days in 2003, against 27 days in 2006. The administrative burden thus is decreasing.

Furthermore, if a company succeeds in setting up good arrangements with overseas suppliers that want to enter the Mexican market, some of the startup hurdles can be taken more easily.

In the future, restrictions on foreign companies can be expected to decrease, as will the load of custom rules. The threat of new entrants thus will increase in the coming years.

Competitive rivalry

As was already mentioned before, the Mexican market for promotional items is quite fragmented. There are a large number of small providers of these items. Many of these providers produce a limited range of items locally, and can not offer high service and quality. The production prices for these companies are higher because of higher local workforce costs, although many of them are grey-circuit companies that do not pay taxes.

When companies are regarded that import a wide range of promotional items, offer good service and quality, and supply to a network of distributors, the selection is limited. There are just a small number of reliable competitors in this market that are able to supply good quality products. Some of them only target distributor networks; others also serve final clients directly. These large competitors are:

- Promoline: This company is one of the biggest in the market. It only supplies to distributors, and uses aggressive selling techniques
- Sunscope: This company, which also mainly targets distributors, imports its stock from the U.S. This makes their products more expensive than Chinese imports, because of which they focus on the top end of the market segment.
- Europromo: This firm services distributors as well as final clients. It imports its stock from Europe, making the items expensive.
- Capsa: Another company servicing both distributors and final clients. It as well imports from Europe, making their products quite expensive.
- Maxi: A company that sell to distributors and final clients. This is one of the oldest companies in this market, with a lot of experience, but a lack of innovative products.
- Promocionales pacífico de México: targets both final clients and distributors. The company purchases its stock and special productions in China.

This comparison makes clear that a part of the direct competitors do not source the products in the countries where they are made (mainly China), but from wholesalers in Europe and the U.S. In the future, more of the competitors can be expected to set up more direct sourcing activities themselves. The competitive rivalry can thus be expected to grow.

3.4 Expected market developments

Much market research done by companies focuses mainly on the development in their specific market, without paying attention to the general trends outside of their individual market, or to longer-term developments. This will lead those firms to adopt a short-term bias, and to overlook opportunities that arise outside of their direct environment.

To achieve better results, not only the relevant trends in the specific market, in this case the Mexican market for promotional items, are taken into consideration, but also the developments and trends in the broader environment. Furthermore, it is important to understand that the future is not just something that happens, but also something that can be partly formed by a pro-active organization (Nelson & Garvey, 2005).

Developments in the broader environment of the promotional items market suggest that the Mexican economy will grow further, and that the middle class will grow as well. This is important, because the middle class is the main end-user of promotion items. These are the people that go to supermarkets and buy class A products, the main commercial users of promotional items.

This growing economy is reflected in a growth of the market for promotional items. Compared to for example the American and United Kingdom markets, of respectively around € 13.47 billion and € 3.85 billion, the Mexican market is still quite small with € 0.55 billion (L. Basinait, personal communication, April 24, 2007), (C. Willis, personal communication, May 4, 2007). The Mexican economy will grow further, and the market for promotional items will increase as well. Because of the characteristics of the promotional items market, the market growth is expected to be larger than the general GDP growth. This development can be witnessed in data over the 2004 and 2006, in which the Mexican market grew with 17.8 percent. This growth also outperforms the total market for commercial communication, which grew with 15 percent over the same period (CICOM /AC Nielsen, 2006).

This growth will attract many new entrants into the market. This effect will be intensified by the opening of trade barriers, and the decreasing economic burden for businesses in Mexico.

Another threat for existing Mexican wholesalers in promotional items is the tendency of overseas producers and traders to attempt forward integration, as well as the tendency for downstream distributors to deal directly with overseas suppliers. Momentarily this development is not very strong in Mexico, but according to Mr. L. Basinait, executive director of research of the American Advertising Specialty Institute (ASI), and Mr. C. Willis of the British Promotional Merchandise Association (BMPA), this development is now taking place in the U.S. and the U.K., respectively. When the market matures, the same could very well take place in Mexico. This tendency is facilitated by developments in communication technology, which makes cooperation between distanced business partners less complicated.

3.5 Conclusions

The Mexican economy is growing steadily, and is boosting the market for promotional items. Future growth is expected, which will attract many new market entries, but will also offer chances for existing players in this market.

PPM, with its direct sales besides its distributor network sales, should be aware of the trend in more developed markets in which large end users with requirements for special orders purchase these orders directly from the overseas suppliers or manufacturers. For the future, PPM's smaller clients, serviced through the network, could become much more important, because direct sales might be pressurized.

This also implies that the distributor network should take a more prominent role, since sales through distributors to small and medium sized end users can be expected to be more stable, because the threat of vertical integration is less.

However, the distribution network of PPM will be pressured by a tendency from the side of the overseas suppliers and the downstream distributors to work more closely together on the side of the large distributors, which might be lost in the future.

Furthermore, the competitive rivalry will grow, and PPM should constantly strive to offer value to its distributors to avoid losing them to other wholesalers. Increased competitive rivalry is caused by new entries as well as by professionalizing competitors.

For the distributor network department of PPM, these developments mean that its market offers possibilities for growth, but also that it should strive to stay valuable for the distribution chain of which they are part, and to secure their future continuity and growth.

To avoid grave problems or bankruptcy when large clients are lost to vertical integration, and to establish the cash-flow needed to support sufficient stock levels to guarantee fast delivery, the distribution network should be well developed, with many medium sized clients, instead of relying on a small number of large clients.

Because total sales volume plays an important role in the competitiveness in this market, the department should strive to use the expected economic and market growth to accomplish increased company volume. To make use of the high regional growth numbers, PPM should have its distribution network present in these potentially profitable regions.

4. Criteria for the assessment of the distributor network situation of PPM

4.1 Introduction

This chapter introduces a set of criteria that were derived from the literature study on distributor networks, and is supported by information on developments in the Mexican market for promotional items and strategic boundaries of PPM. These criteria will be used to assess the market readiness of the distributor department of PPM.

It should be noted that these criteria are geared towards the organization of the distributor channel, and that it is focused on the Mexican promotional items market. It does not take upstream supply of PPM into account, and it does not look into the physical distribution of the goods.

Rationale behind the criteria:

- The total market is growing rapidly, but competitive pressure between wholesalers will increase. Furthermore, large commercial users are expected to deal more and more directly with overseas suppliers. Therefore PPM's distributor department should make sure that it offers added value to its distributors.
- The distribution network of PPM is characterized by independency and non-exclusiveness. Generally speaking, channel integration is low. To become a strong player, PPM should be focusing on motivating and supporting its distributors.
- Because of the risk of losing large clients and distributors, risks should be spread over many clients and distributors. Furthermore, because the market is growing, and PPM wants to gain market share, PPM should develop its market.

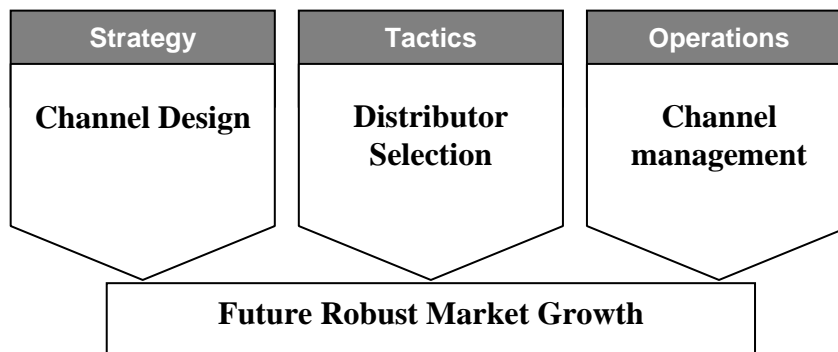


Fig. 10: Conceptual model of criteria

4.2 Strategic channel Design

The first step in assessing PPM's distributor network situation is to look at the strategic channel design decisions that were made. The channel design is already in place in PPM, with a direct channel for special promotions and a distributor network for stock items. Although it is not easy to change such a channel design after it has been implemented, its accuracy should be analyzed to decide if modifications are necessary.

To analyze the channel design, use will be made of the theory on preferred channel directness by customers (Kasturi Rangan, 1992). This model is described in the second chapter.

Criterion 1: PPM uses the right amount of directness in its sales channel design for its product categories.

- Apply product categories to the Kasturi Rangan model
- Assess the expected preference for product categories according to the model
- Compare the expected preferences with current situation

Because of changes in the market conditions, as identified in the last chapter, PPM runs the risk of becoming less relevant for the other members of the distribution chain when the stock item market is regarded. Furthermore, because the competitive pressure is increasing in this market, it is important for PPM to stay ahead of the competition. Offering sufficient added-value to the total distribution chain from producer to final user is needed to prevent becoming obsolete as a channel member, and secures a competitive position in the market.

Criterion 2: PPM is fulfilling robust channel functions in the distribution chain for stock items

This criterion will be investigated by identifying the channel functions that PPM is currently fulfilling, and comparing these with the total set of possible channel function provided by Pelton, Strutton and Lumpkin (1997).

- Identify which channel functions PPM is currently fulfilling
- Identify which of these functions are robust by analyzing if PPM has a special skill in fulfilling these functions, and if other channel members could easily take over these functions.
- Identify which other channel functions PPM could start performing to increase its added value to the chain.

4.3 Distributor Selection

The second part of the assessment of the distributor situation in PPM focuses on the tactical aspect of distributor selection. Besides growing organically, PPM also wants to expand its distributor network. To accomplish this in an efficient and effective way, a distributor selection tactic has to be used. Within such a tactic, a distributor profile has to be used to channel search efforts for new distributors.

Criterion 3: PPM uses a focused distributor profile to search for new distributors

- Identify currently used methods for searching and selecting distributors
- Assess if this constitutes a well designed selection profile that is used for a focused search and selection effort

As was established in chapter 3, Mexico has a number of regions that are characterized by strong growth, and which constitute interesting locations for PPM. If PPM wants to become a mayor player on the Mexican market for promotional items, it will have to be present in those states that are economically most interesting.

Criterion 4: PPM's distributor network is reaching potential customer concentrations in Mexico

To assess this criterion, PPM's current network coverage will be compared with statistical data about the economic development in the different states in Mexico. Based on this, the completeness off the network covering can be established. The potential of each state will be assessed based on a combination of purchasing power and percentage of national GDP.

- Identify network presence of PPM's network in the Mexican states
- Identify if the network of distributors is evenly spread over economic important regions.

4.4 Channel Motivation and Integration

Because channel member relationships in the Mexican market for promotional items are usually characterized by low mutual power and non-exclusivity, channel conflict can occur easily. To avoid this and to operate in a more efficient way, the operational level of channel motivation and integration should be assessed. This is also needed because the market for promotional items in Mexico is changing, and the competitive pressure can be expected to grow, as was seen in the third chapter. Therefore, PPM should look for ways that bind the distributors to the company, without lowering the margins and profitability.

Wholesalers can achieve channel cooperation by offering their distributors monetary and non-monetary incentives. In this way, the wholesaler can make sure that the distributor's goals are aligned with its own.

Channel integration is achieved by creating an atmosphere of trust between the wholesaler and the distributor, in which market and product information can be exchanged. A better integrated channel contributes to the outcomes of all the channel members, because the upstream members have a better picture of the market needs, and the downstream members have better insight in product development. The whole chain gets more competitive, because it is more flexible, and can adapt faster to changes in the market environment.

Criterion 5: Relevant incentives are used to stimulate distributors to buy products from PPM through the use of incentives

This criterion is investigated using the model provided by Gilliland (2004). He offers a model to assess what can be improved in the incentive mix for distributors. The relevant steps that are used are:

- Identify distributors' requirements for incentives
- Identify possible bases for incentives rejection
- Identify incentives that match with needs of distributors.

Gilliland (2004) also provides an extensive list with incentive types that can be used in such an incentive mix. A list with currently used incentives should be compared with the different types of goals that the distributors have. This is done based upon observation of distributor behavior and their reactions on incentives that have been used in the past. In this way, incentive possibilities that are not used but fit with the distributors need can be identified.

Criterion 6: PPM uses methods to obtain market information through its distributors

This criterion is investigated through the assessment of the tools that PPM currently uses to obtain information, compared with a rationale on the types of information PPM could use. In this, not only information necessary for the distributor department is taken into consideration, but also information that is needed for other departments of PPM, such as direct sales and purchasing.

- Identify which types of information can be provided by the distributors about end users and is useful for the different departments of PPM.
- Identify which types of information can currently not be accessed
- Identify tools that are currently used by the department to obtain information about end users, and if these tools cover the need for information

4.5 Measurement methods

For the measurement of the different criteria, a number of measurement methods were used.

Level	Element	Measurement method
Strategic		
	Expected client preference for sales channel directness based on model	Expert interviews with commercial director and distribution department manager; observations in distributor department; observations in direct sales department
	Fulfillment of channel functions	Expert interviews with commercial director and distribution department manager; observations in distributor department; observations in direct sales department
Tactical		
	Use of distributor selection profile in PPM	Expert interviews with distribution department manager; observations in distributor department
	Reach of potential customer concentrations	Analysis of company data; expert interviews with distribution department manager; analysis of Mexican statistical data
Operational		
	Use of incentives	Expert interviews with distribution department manager; observations in distributor department
	Types of information gathered from distributors	Expert interviews with distribution department manager; observations in distributor department

Table 4 . Measurement methods for criteria elements

4.6 Conclusions

In this fourth chapter, six criteria have been described, which are based in the theory on distributor networks and sales channels and on the developments in the Mexican market for promotional items. These criteria look into the three different levels that were distinguished in chapter two: the strategic level, which entails the preferred use of channel directness and the fulfillment of channel functions; the tactical level, which focuses upon distributor selection and distributor network expansion; and the operational level, which looks into channel motivation and integration. For each criterion steps have been identified with which the fulfillment of the criterion within PPM can be assessed. The chapter finishes with a table that describes the methods for the data gathering that are used to do the assessment.

5. Analysis of PPM

5.1 Introduction

With the use of the background information on distribution channels and distributor networks of chapter three and the information on the developments in the Mexican market for promotional items, which was condensed in the criteria in foregoing chapter, the situation of the network of distributors of Promocionales Pacífico de Mexico will be assessed.

5.2 Strategic channel Design

PPM is a channel member in the distribution chain for promotional items. It has multiple suppliers, both producers of promotional items and other suppliers. It also supplies its own distributor network. Thus, PPM is located in the middle of the distribution chain that can schematically be visualized like this:

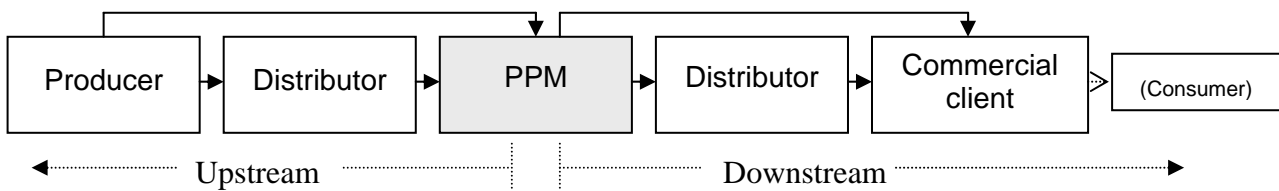


Fig. 11: visualization of PPM's distribution chain

As can be seen in the figure, the distributor network is one of PPM's sales channels. PPM also has a direct sales department that sells to final commercial clients. These two sales channels focus on different product categories; the special promotions and the stock items. This division in two sales channels will now be assessed.

Criterion 1: PPM uses the right amount of directness in its sales channel design for its product categories.

Customer requirement	Direct if:	Indirect if:
1. Product information	High	Low
2. Product customization	High	Low
3. Product quality assurance	Important	Unimportant
4. Lot size	Large	Small
5. Assortment	Nonessential	Essential
6. Availability	Not critical	Critical
7. After-sales service	Not critical	Critical
8. Logistics	Complex	Simple
Suitable PPM Channel	Direct Sales	Distributor network

Table 5. Preferred directness of sales channels (Kasturi Rangan, 1992) with positions of PPM's stock items

The Special promotion product category contains products that are specially customized and produced for a client. This means that a lot of product information has to be exchanged. The process is more complex than for stock items, and clients are prepared to plan such orders in advance, thus assortment and availability are not critical. To make such a complex and work intensive process worthwhile, usually the lot sizes are relatively large. This means that, following the Kasturin Rangan theory (1992), for special promotions customers will prefer a more direct channel.

The stock item product category contains standardized items that are bought by PPM without a specific client in mind. Customization is not possible with stock

items, and the key selling points for these products are availability, price and speedy delivery. Lot sizes can be fairly small and logistics are less complex than for special promotion items. Thus, following the Kasturin Rangan theory (1992), customers that buy stock items will prefer a more indirect channel.

Since the special promotion product category is distributed through PPM's direct final clients department, and the stock item product category is distributed using a more indirect distributor network, the positioning of the sales channels within PPM is well designed.

Criterion 2: PPM is fulfilling robust channel functions in the distribution chain for stock items

Because it runs the risk of losing distributors to vertical integration efforts of its suppliers, and because the competitive pressure is increasing, PPM should secure its position by improving its added value to the chain and to the market. This added value consists of a number of functions it performs for the channel. If PPM can perform these functions exclusively, or at least better/more efficient than the upstream or downstream members, the channel will need PPM, and thus its continuity is secured. If it can perform these functions better as its competitors as well, PPM's competitive position will improve as well.

In this channel analysis the focus lies on the distributor side, where PPM functions as a wholesaler.

The following list names the channel functions available, and the extent to which PPM fulfills them. The list was composed by Pelton, Strutton and Lumpkin (1997), who called them marketing functions.

Channel / marketing function	Function covered by PPM
Information: the gathering of market information	No
Promotion: the design and distribution of communication to attract buyers	Partially
Negotiation: the manner in which price and term agreements are reached	Yes
Ordering: the communication of purchase intentions that flows from final customers through the channel members to the producer	No
Financing: the procurement and allocation of funds required to finance the products throughout the channel	Yes
Risk-taking: the taking of risk associated with the channel related work	Yes
Possession: the physical handling of the products through movement and storage	Yes
Billing: the forward movement of detailed lists of sold goods together with charges and terms	No
Payment: the handling of payments by buyers	No
Title: the transfer of ownership from channel member to channel member	No

Table 6. Channel function (Pelton Strutton & Lumpkin, 1997)

- **Information:** As noted before, PPM has little insight in the future wishes and needs of its distributor's clients. This is channel function that could be fulfilled by PPM very well, since in the channel they have the unique position of having a large number of downstream distributors. Because of this they have the opportunity to gather valuable market information and use this to keep their stock inventory

relevant and offer its suppliers useful insight in the Mexican market. This reflects the conclusions of the information type analysis.

- **Promotion:** PPM helps the distributors in its network with the promotion of its products. This is done through the offering of catalogues which can be individualized for each distributor in its network. PPM also offers its distributors the option to create leaflets on its website, on which the distributor can choose to display any stock items that PPM sells. Although these are two good tools, PPM is not very active in helping its distributors with promotional activities, as it tends to see its distributors as clients, not as business partners.

- **Negotiation:** PPM negotiates strongly about prices and terms with its suppliers, and establishes the sales prices towards its distributors. The relationship PPM has with the overseas suppliers is one of the characteristics that are difficult to copy. The downstream links in the distribution chain need PPM, or one of its specialized competitors, to establish this contact and negotiate prices. This channel function thus is robust.

- **Ordering:** For the distributor network, which sales mainly consist of stock items, there is not a lot of ordering type of communication taking place. PPM does indirectly translate the practical request of its distributors into technical orders to its suppliers, but this is not a robust function, and the product type does not offer a lot of opportunity to improve the added value on this point.

- **Financing:** PPM offers credit lines to its distributors. This enables the distributors to grow and stay in business, which helps the development of PPM as well. PPM is not the only chain member offering this function, as they themselves receive credit from their suppliers, the traders in China. For PPM's distributors, the credit possibilities are very important, as it would be difficult to operate without external credit. Because the relatively small size and capital of many distributors, it is impossible for them to finance their operations themselves, and the overseas suppliers will be hesitant to supply such financing to unknown or small distributors. These characteristics make this channel function robust.

- **Risk taking:** PPM invests heavily in this channel function, because they order stock in China before it is sold, and store it in Mexico, with the potential risk of not selling the goods. This function would be difficult to fulfill for PPM's distributors, because they do not have the contacts with the overseas suppliers, and most of them lack the size to take these risks. This function thus is considered robust.

- **Possession:** PPM is responsible for transporting and storing the products. Because PPM organizes the transport from China to Mexico, and the long-time storage of the goods, the company takes the lion's share of this channel function. For the transportation part, this is not a very robust specialty, as this is conducted by third companies outside of the primary supply chain, under direction of PPM. Upstream or downstream channel members could conduct these transport and storage activities themselves, but would have to resort to the same third-party companies.

For the storage of the products, however, PPM has an advantage over its channel members. Since capital is expensive in Mexico, and most companies in the promotional items business do not have the possibility or the will to maintain large reserves, it is difficult for them to store large quantities of stock items over time. PPM does have this ability, and makes itself necessary to the downstream channel members.

- **Billing, Payment and Title:** These activities take place within PPM, but are not a source of added value or competitive advantage, and the market situation does not offer opportunities to change this.

Gap: PPM should improve its information channel function

Gap: PPM can improve its promotion channel function by thinking along better with its distributors, and by approaching them more as the intermediaries they are.

5.3 Distributor selection

PPM's distributor network has grown strongly in the last years, in number of distributors as well as in turn-over (36% over the last 6 years including this year's budget, according to internal financial data). This growth was mainly organic, which means that potential distributors came to PPM because they were looking for new business opportunities or for new products to offer their existing end users.

Criterion 3: PPM uses a focused distributor profile to search for new distributors

To accomplish this growth, marketing efforts were undertaken with flyers and posters in the Mexico city metropolitan area. Furthermore, PPM was represented on many promotional items and marketing fairs, to establish its market presence and make its name known to potential customers. Since the second half of 2006, PPM stopped with renting expensive locations on these events since the results were perceived to be decreasing.

PPM uses an intensive distribution strategy, in which distributors do not have to fulfill certain criteria to be part of the network. Every company that wants to buy promotional items to sell them again, can become a distributor of PPM, which is the reason for the high number of distributors in the network. The connection PPM has with its distributors can be characterized as a low joint-power relationship, with low mutual dependence. The distributors are not owned by PPM, and there is no type of exclusivity present. The distributors buy the items from PPM on their own account, and sell them to their commercial clients. PPM also does not give any geographic restrictions to its distributors, with the result that many distributors in the network are direct competitors of each other.

Currently, PPM's effort to find new distributors is not supported by the use of a distributor selection profile. The distributor network department of PPM usually does not actively search for new distributors, and on the occasions when this is done, it happens more or less ad hoc and intuitively.

Gap: PPM does not have a distributor profile for searching and selecting distributors

Criterion 4: PPM's distributor network is reaching potential customer concentrations in Mexico

Promocionales Pacífico de México has had contact with over 4400 firms, from which 1100 firms are currently active distributors. This enormous number of distributors is not evenly spread over the country. 80 percent of the distributors is located in Mexico City and in the state of Mexico, which surrounds the city. Together these distributors constitute 86.8 percent of the total turn-over that is generated within the network.

As was noted in chapter four on the trends and developments, some states of Mexico see a stronger economic growth than the Mexico City metropolitan area, and will become more important as financial centers. The distributor network of PPM is underrepresented in these locations.

Furthermore, of the total distributor turn-over of € 3.794 million, 66 percent was generated by the top 4 percent of the distributors, and 27 percent was generated by the five largest distributors alone. This signifies that a large share of PPM's distributor network turn-over depends on a small number of distributors. This has a number of negative sides. First of all, this high dependency on a small number of distributors is risky, especially because these distributors are the ones most likely to be attracted to vertical integration. Secondly, the large distributors have more bargaining power, which results in lower margins. Thirdly, these large distributors have large clients with large order sizes. These large stock orders make internal planning for stock items unpredictable, which can cause cash-flow problems.

Therefore, active distributor search should focus on medium sized companies, which is not currently done.

Gap: PPM's network of distributors is underrepresented in economically attractive areas

Currently, almost all of PPM's marketing efforts are unfocused and directed at all possible potential distributors. Thus, PPM does not direct its marketing efforts to find more distributors on those potential distributors that offer the best revenues or potentials for further growth. PPM can currently not focus its search efforts better, because they have no insight in the different types of companies that are its distributors, and can thus not adapt its distributor profile and its search efforts to search for the most attractive types of companies.

Gap: PPM lacks insight in the different types of distributors that could be attractive

5.4 Channel motivation and integration

As noted before, the type of relationship that exists between PPM and its distributors is characterized by low dependency and low joint power and a formal communication situation. This is partly inherent to the promotional item market in Mexico, which does not offer a lot of opportunities for heavy top-down control of the channel, since many items are not unique, and very tight control would just diminish the strength and flexibility of that particular distribution chain.

However, manufacturers and suppliers in the chain should try to achieve a well integrated channel in the sense of information exchange and cooperation. For this, the wholesaler should offer incentives to its distributors, and should use methods to build up a long-term relationship in which information is shared openly. A key issue in this is the way the distributors are approached by the distributor network department.

Criterion 5: Relevant incentives are used to stimulate distributors to buy products from PPM through the use of incentives

As discussed before, Gilliland (2004) indicated four goals distributors can strive for and which should be addressed by the incentives: External achievement; Stability; Internal harmony; and Flexibility.

PPM's distributors are a diverse collection of different companies. Therefore, only general guidelines can be used. When the four goals are regarded, the conclusion can be drawn that all of the drivers are present in PPM's distributors, although in different intensities. External achievement has on average the highest priority, followed by internal harmony, flexibility and stability.

Direct bases of rejection occur when an incentive is not in line with one of the four goals. For distributors of promotional items in this market situation, a number of incentive types could have such a negative effect, and should be avoided. Examples are incentives that restrict distributors in their behavior, and thus in their flexibility goal. Furthermore, incentives that entail a bonus system for higher sales have turned out to be less useful in the Mexican promotional items business. A small non-cash reward can be given to individual sales people of a distributor, but this creates internal problems, because distributors would have to share exactly who sold what to whom, information they want to keep confidential out of fear to lose clients. Another option is to reward the whole distributor for higher sales in the form of a bonus, but the owners of distributors are generally not interested in non-cash bonuses, and would rather receive a higher discount, which would be detrimental for PPM's margins.

Furthermore, a number of incentives is not suitable for the relationship between PPM and its distributors, because these incentives require exclusive channels and

are not geared to the arm's length relationships PPM has with its distributors, or because the product is not suitable for the incentive type.

With this background, the list of incentives offered by Gilliland (2004) has been analyzed for suitable incentive tools:

Suitable Incentive	Used by PPM
Sales support information	Yes
Promotional activities and Co-marketing	Yes
Unique sellable solutions	No
Online access to sales information	No
Supplemental contact such as newsletters	No
Training programs	No

Table 7. Incentives fitting to PPM's situation (adapted from Gilliland, 2004)

The list names a number of incentives that would be suitable to the goals of PPM's distributors, but which are not currently used. These incentive types should be researched and implemented.

Gap: Not all suitable incentive types are being used, and possibilities for implementation should be researched

The observations in the distributor network department showed that a number of these incentives were not considered, because the distributors are considered and approached as customers. Training programs and newsletters have not been considered yet by the department, because that would not fit in the shop-customer relation that they perceive PPM to have with its distributors. If this attitude would change towards a more cooperative stance, and the department would look for incentives that are focused on supporting the distributors in their efforts this could be beneficial for the turn-over of the distributors, and thus also for the turn-over of PPM. Such a support effort towards the distributors also helps to build longer-term relationships and can be used to build trust between the department and the distributors.

Gap: The distributor network department approaches its distributors too much as clients in stead of as a vital part of the sales channel

The distributors are the key between PPM and the final clients of its products. These final clients are the ones that ultimately decide to buy PPM's products or not, and therefore it is of high importance to know as much as possible about these clients and their wishes.

Because of the market structure information exchange, a direct change towards very open communication could have negative effects since the necessary trust should first be build up.

This notwithstanding, PPM can and should try to shift the market structure information exchange towards a more relation based one by improving the trust between the channel members.

Criterion 6: PPM uses methods to obtain market information through its distributors

The following table shows the types of information that would be useful to exchange from the viewpoint of PPM, and if these information types are already exchanged

Type of Information	Currently exchanged
Specific orders:	
Order size	X
Specifications	X

Budgetary information	X
Contact data of final client	-
PPM, General market:	
Needs for new stock items	-
Year budgets of final clients	-
Promotional activity planning of final clients	-

Table 8. Information types that could be exchanged between distributors and PPM

Because of the autonomous market structure information exchange, it would not be beneficial to demand all these types of information from the distributors at once. Because of the fear of vertical integration and losing clients, distributors are especially careful with revealing the identity of their clients.

It should, however, not be a problem for PPM under the current communication strategy to try to find out more about the general wishes and plans of the distributors' clients. Up to now, PPM has not made enough effort to make accurate assessments of the needs of the distributors. All future product demands prognoses are made based on intuition and last years sales.

Gap: Trust should be improved between PPM and its distributors, as to create a more relation based information exchange and to be able to engage in collaborative planning.

Gap: PPM does not make enough effort to disclose general market information about their distributors' clients

5.5 Conclusions

In this chapter, the formulated criteria have been used to evaluate the current situation within PPM. This has brought to light a number of gaps between the preferred and actual situation on the strategic, tactical and operational levels.

Level	Identified problem area
Strategic	Information channel function underused
	Promotion channel function underused
Tactical	Missing distributor selection profile
	Under-representation in attractive geographical areas
	Lack of insight in types of distributors
Operational	Underused incentive possibilities
	Too passive and customer focused approach of the distributors
	Low market insight
	Low intra-channel trust

Table 9. identified problem areas per level

In the next chapter, these problems will be discussed, and directions for improvement will be identified.

6 Problem prioritization and design of solutions

6.1 Introduction

In this chapter directions for solutions for the identified gaps between the preferred future situation and the current situation within PPM will be identified. Because a large number of gaps have been identified, first a prioritization will take place. The selected problems will then be further described and ways to improve these areas will be named.

6.2 Problem prioritization

The gaps that were identified in chapter 5 constitute a number of main problem areas. These problem areas are located on different levels: the strategic level; the tactical level; and the operational level.

The initial need for research for PPM focused exclusively on the tactical level, because expansion of the distributor network was deemed necessary. The conducted research shows that this expansion indeed is of high importance to accomplish sustained turn-over growth. However, changes on the operational level are also urgently needed, and will indeed support the improvements on the tactical level.

These problems are interconnected by the same underlying problem of the approach of the market by the distributor department. To achieve further growth, efforts have to be focused and active. Therefore, the following two main problem areas will be further discussed:

Level	Main problem area
Tactical	PPM is not making use of a selection profile, because of a lack of insight in the necessary criteria
Operational	PPM approaches its distributors too passively

Table 10. Main problem areas

Besides the problem areas on the tactical and operational levels, there were also some gaps identified on the strategic level. Because these problems seem less urgent and are expected to yield less result, the improvement on these areas can better be done in a later stage of professionalization of the distributor network.

The lack of an effective distributor profile for searching and selecting new distributors.

Because PPM does not work with a distributor profile, expansion efforts are unfocused and time and investments are not used efficiently. Furthermore, the expansion effort is very passive, and thus opportunities for increasing the networks turn-over are missed. The lack of a distributor selection profile is based in the underlying lack of market understanding. PPM does not have real insight in its network coverage or the types of distributors in its network.

This is an urgent problem, because PPM needs to focus on efficient expansion to attain its company vision to become the number one in the Mexican promotional market. PPM's management also sees this as one of the main problems for the distributor network department.

The passive approach of distributors, in which they are seen as customers in stead of as an extension of the sales channel.

The distributor network department, which manages and serves the distributors in PPM's network, currently functions in a passive way. Distributors contact the department and request information or place orders. These requests and orders are processed, and the contact is broken off. The establishment of contact the other way around, in which a PPM sales person contacts a distributor, is much rarer. A distributor that suddenly stops buying products is not automatically contacted, and thus distributor retention is lacking. Furthermore, distributors are not

actively approached to inform them about new products, or to find out if they have special wishes or needs. This is reflected in the sub-optimal use of incentive forms, and the lack of communication from the distributors to the department and vice versa.

This is an urgent problem, because the passive approach seriously holds back PPM's potential for growth in turn-over. Changes of sales force attitude and the implementation of more pro-active marketing tools can be expected to have direct results. The more active approach will also be beneficial for the communication and trust between the members in the chain. This view is shared by PPM's top management, although the distributor network department itself will have difficulties in changing its distributor approach. To tackle this problem, attention will also be given to the incentive tools that can be used to support the distributors, and to the gathering of market data.

6.3 Creation of a distributor selection profile

As was identified in chapter 5, PPM operates in a market that is growing, but it is not making optimal use of this growth, since it has an unbalanced distributor network, which is mainly concentrated around Mexico City. Furthermore, PPM does not operate with a preferred distributor profile, and thus is not able to focus on those potential distributors that are most valuable.

Distributor selection profile

To create an adequate distributor profile, the most attractive or highest potential types of distributors have to be identified. In the case of PPM, the main factors of such a distributor selection profile should be the geographic location in which the new distributors have to be searched, and the type of company that has to be looked for.

Geographic locations

The geographic location of distributors is done on Mexican state level, and is assessed based on three factors:

- The growth of the GDP of the state over an eleven year period, from 1993 to 2004 (INEGI, 2007)
- The GDP per capita of the state (PNUD, 2007)
- The difference between the percentage the state GDP takes of the total GDP and the percentage the states turn-over takes of PPM's total turn-over (INEGI, 2007)

The first point focuses on the economic growth over a multi year period, so as to give weight to faster growing states.

The second point looks into the income per capita, since promotional items are connected with a higher living style, and thus a higher per capita income is considered to be beneficial for the sales of stock promotional items.

The third point gives weight to the unbalanced situation in PPM's distribution network coverage. If for example PPM's distributor network turn-over in a state brings in 15% of total turn-over, but the states GDP is just 3% of total country GDP, the conclusion could be drawn that PPM is already relatively well represented in this state, and that it would be more beneficial to focus on states with a far lesser coverage.

Factors like distance from the capital or presence of competitors are not taken into consideration at this point. PPM ultimately wants to cover the whole country with its network, so the distance should not play a role. If sales in far away states start to pick up, warehousing facilities can be set up at strategic locations. As for the competitors, there is no exact data available of the coverage of other companies. Experts within PPM estimate that none of the large competitors has a strong presence outside of Mexico City, and that PPM should be quite able to compete

with local wholesalers because of its direct lines with the overseas suppliers and PPM's experience in this market.

The three factors are awarded different weights, in accordance with their perceived importance. These weight factors were established in cooperation with the commercial director of PPM.

Weight factors for state ranking	
GDP growth per state	30%
GDP per capita	50%
GDP%-PPM%	20%

Table 11. Weight factors for state ranking

In the original calculations that were applied to rank the states, the factor of GDP per capita is recoded into a scale of 1 to 10 to avoid giving this factor a higher discriminating effect than intended.

After all the data has been analyzed, a list with the ten most potential states can be made. The whole original data set including the recoding process can be found in appendix 5.

State ranking	State name	GDP growth%	GDP/capita in €	% difference turn-over/GDP
1	Nuevo León	4.1%	8,583	-5.32%
2	Chihuahua	4.0%	6,464	-4.22%
3	Coahuila de Zaragoza	4.6%	6,521	-2.77%
4	Quintana Roo	4.5%	7,256	-1.46%
5	Baja California	4.5%	6,155	-1.26%
6	Campeche	2.8%	7,910	-1.14%
7	Tamaulipas	4.4%	5,355	-3.12%
8	Aguascalientes	5.1%	5,619	-1.06%
9	Querétaro Arteaga	5.0%	5,267	-1.23%
10	Sonora	3.4%	5,397	-2.67%

Table 12. State Ranking Top 10, according to the three factors

This table shows that the states of Nuevo León, Chihuahua and Coahuila de Zaragoza are the three most attractive states. If the numbers are regarded, it shows that GDP growth in these states is relatively high, GDP per capita is high as well, and PPM is relatively under-represented in these states. Active expansion efforts should be guided by this information, as the most interesting states should get more attention. See appendix 6 for the geographic location of these states.

It should be noted that this method to identify the most attractive locations could be further fine-tuned by adding more factors that are regarded as important. If it becomes available in the future, it would for example be wise to take information about the presence of competitors in the different states into account. Depending on the exact arrangements around transportation costs and insurances, it could also be useful to take the distance from the Federal District into account.

It is, however, believed that the current ranking is a necessary and useful step towards a more effective distributor selection method.

Company types

PPM wants to spread its risks of losing distributors to competitors. For this reason, the overall strategy puts the focus for growth on medium sized distributors. These distributors bring in lower turn-over, but also have a lower risk of setting up relationships directly with overseas suppliers of PPM. Furthermore, the medium sized distributors pose a lower threat for channel conflict, as they have fewer possibilities to try to sell products to PPM's large direct clients.

In accordance with the average turn-over sizes each distributor generates, a division has been made by the company's management between large, medium and small distributors.

Division	Turn-over in MXN	In €
Large Distributors	> 500,000 Pesos	> € 34,500
Medium Distributors	200,000 – 500,000 Pesos	€ 13,800 – € 34,500
Small Distributors	< 200,000 Pesos	< 13,800

Table 13. Internal turn-over size division of Distributors

To see of what kind of companies the current distributor network is build up, the top 250 distributors were asked to report their main activity. As expected, most of these distributors of PPM's focus primarily one the purchasing and selling of promotional items. Of the large distributors, with a turn-over for PPM of over 500,000 pesos, 29 percent are international importers of promotional items. Thus, almost one third of the large distributors are direct competitors of PPM as well.

For the medium sized distributors it becomes apparent that besides the standard promotional items traders, also a couple of marketing bureaus are represented. Marketing and promotion agents are also represented among the top of the smaller distributors, but much less among the large distributors. This can be seen in the following table, in which the company types are divided based on the above-mentioned size categories.

Type	Large	Medium	Small	Total
Trader in promotional items	9	16	158	183
Importer in promotional items	6	1	5	12
Marketing bureau	1	4	17	22
Design	1	-	5	6
Printing	-	1	7	8
3 rd Services	-	-	6	6
3 rd manufacturing	4	2	7	13
All Types	21	24	205	250

Table 14. types of distributors vs. size

Based on this information, it would be wise for PPM to focus its expansion efforts not only on distributors of promotional items, but also on marketing bureaus. Already existing distributors of promotional items can easily be found and approached, and are an obvious interesting segment for PPM. Marketing bureaus should also be easy to approach, and form an interesting segment because they might not yet be under the influence of other promotional items suppliers.

It should be noted that the above entails an analysis of the current distributors. This might be perceived as if it does not have much value for the identification of future expansion opportunities. However, the current distributors came to PPM through organic growth, and thus it could be argued that these types of companies have a need for promotional items, and other types of companies do not have this need. If other types of companies would all have needed promotional items, they would already be stronger represented under PPM's network of distributors.

This of course leaves open the possibility for PPM to develop a new market by offering a product line especially suited for a type of company that has not previously been interested in the trade in promotional items. However, as long as such a new market has not been developed, it is unlikely that there are company

types in the Mexican market that need promotional items already, but never purchase them from PPM.

6.4 Change to more active approach of the distributors

PPM's distributor network department is, as was analyzed in the last chapter, not optimally motivating its distributors, and integration could be improved as well. This problem occurs because PPM's distributor network department is approaching the distributors too much as clients in stead of as a part of PPM sales channel. This passive stance of the department should change towards a more pro-active approach in which the distributors are motivated to generate turn-over and sell PPM's products. PPM should start better using incentives to support its distributors in their sales effort. Furthermore, the communication and trust between the distributors and PPM should be improved.

Active approach

PPM's distributor network department should change its attitude towards the distributors. This is a conceptual change, which primarily has to take place in the minds of the sales force, and is expressed in the support activities that the department undertakes. They should try to better understand the position of the distributors, and they should contact the distributors if the sales person signals that the distributor is buying less or is somehow not satisfied. They should start asking broader questions to their distributors, about their needs, about what they are missing in PPM's assortment, etc. This information should be gathered, and the purchase department should have insight in this as well. To achieve this, the manager of the distributor network department should take a leading role, and should motivate his salespeople to be more pro-active.

The need for this can partly be explained by the pull versus push question. Currently, PPM solely uses a push strategy, in which they try to sell as much as possible to its distributors, and the distributors have to take care of the rest of the channel. PPM could also induce the final clients of the distributors to buy more. This could be done by marketing efforts focused directly on these final clients, but this is currently impossible, because PPM does not have data about these final clients, and is not likely to receive this contact data from the distributors, because of the low trust relationship on this point. Another possibility would be a broad general marketing effort, for example with commercials on the national television for promotional items of PPM. This would be very ineffective, because PPM's stock items are not unique, so all competitors would benefit as well. Furthermore, the group of final clients is relatively small, and thus a broad marketing strategy would inefficient as well, because large investments would have to be made to reach a relatively small target group. Thus, it is justified to conclude that the implementation of pull strategy tools would not be the best way to approach this problem area. Something that could be done, and seeks the middle ground between pushing on the distributors' side and pulling on the final users' side, is to look for ways to support the distributors in their sales effort.

This should be supported by tools for the salespeople to help them signal the need for action. The database, which currently archives all the sales activities for the calculation of the monthly and yearly targets, should be used for signaling downfalls in the turn-over a distributor generates. If a distributor does not contact PPM for a set time, a salesperson should contact the distributor and find out what they need and with what PPM can help the distributor.

Channel incentives

Currently, PPM uses sales support information and some promotional activities to motivate its distributors. This leaves open a number of possibilities for motivation that should be explored. It might not be prudent to try to implement all of these

incentives at the same time, so some of the options will be discussed here. It must also be noted that not all distributors can be equally influenced by an incentive. For example, some experienced distributors will have little use for product training, but for start-up distributors, this could be very useful. Gilliland (2004) also signals this, and states that those incentives should be chosen that fit the majority of the distributors' needs.

The sales support information is already undertaken quite completely. Distributors can contact the department for information on the availability of stock items and prices. Distributors who want easier and more direct access to this information can consult the website of the distributor network department (www.giftscollection.com) to see the actual stocks and prices.

Promotional activities and co-marketing is partly done. PPM supports its distributors by publishing catalogs that they can use to promote stock items to their clients. PPM is also experimenting with the design of leaflets for special occasions (Christmas, rain-season) that are sent to the distributors, and which they can forward to their clients.

But PPM is not using this incentive type to its full potential. PPM should design much more promotional activities that can be adapted to the needs of each distributor. Especially for the medium and small size distributors, it is important to have such tools within easy reach and that they can be used not only with the name of PPM on it, but also with the name of that particular distributor.

Unique sellable solutions could be used by PPM as well. A unique sellable solution for PPM's distributors could be a special package that they can offer to their clients. PPM could for example purchase a special product every month, which distributors can offer exclusively to their clients. This could mean more risk for PPM, but will give PPM the opportunity to show its distributors that it is thinking along with them, and that they are always offering something new. This also gives PPM the opportunity to offer new products more often than twice a year when a new catalogue is published.

PPM could also design special packages for new distributors that have just entered the distributor network. To these new distributors an 'introduction package' could be offered with a set of popular stock items that the distributor can use as samples, accompanied by information material on working with PPM's promotional items.

Online access to sales information could constitute an incentive for the distributors in PPM's network, since it would enable them to look into their purchase history through a web environment. This could in the future be combined with some kind of bonus system. It could be quite beneficial to offer new distributors entrance to higher levels of discount if they reach higher levels of monthly turn-over. Now the different levels of discount are not awarded according to clear rules, but the introduction of online access to turn-over would enable the introduction of such standardized reward systems.

PPM could also do more to inform its distributors. The website, and additional newsletters, should be more actively used to let the distributors know about new product types that will soon come to the market, about new opportunities or services PPM offers its distributors, and about general market information that could be beneficial for the distributors. Such an active approach with information would be an excellent platform to make the distributors more aware of the unique qualities of PPM as well. PPM offers a number of advantages to its distributors, such as high national stocks; sharp catalogue prices; innovative and wide product range; in-house print shop; and the opportunity to buy on credit. These advantages should be communicated not only to potential new distributors, but also to the existing network.

In the same line lay the training programs. Not all distributors will be interested in this incentive, but it could be very useful for medium and small distributors that are developing their promotional items business. Special training days could be organized, for example for new distributors in the network. Also, special days can be organized for selected groups of distributors that have clients from a certain industry. Such a day should partly focus on market developments and partly on products that have a link with that industry.

Besides training days, there is also a possibility to organize special events for the most important distributors. They could for example be invited to go to a soccer match with a PPM representative. This cannot be organized for all the distributors, and should be focused on the largest distributors or the ones with the highest potential.

Such trainings and promotion days require quite some investments, but when they are done in PPM's main office by its own employees, the costs are limited and the benefits in improved relationship and improved distributor skill could be very worthwhile.

The introduction of new incentives is not only aimed at increasing the sales to distributors directly, but also at supporting the distributors in their sales effort. The incentive tools listed in table 13 all have a supportive effect towards the distributors in PPM's network. It is at this stage not possible to say how much the introduction of each incentive would cost, or how high the effect would be, because this all depends on the exact way the incentive would be used. It is therefore not possible to make a selection of the 'best' incentive to implement.

Communication

The current relationship between PPM and its distributors is not one of high mutual trust. This notwithstanding, cooperation and communication between the channel members should be pursued. In return for the incentives that are discussed above, PPM should try to receive something from their distributors as well, besides the obvious higher direct revenues that the incentives should stimulate. PPM also has to strive for more insight in the market in which they operate, by receiving information from their distributors.

Under the current level of trust between the channel members, a good first step would be to gather information about the wishes of the final clients. This could be general information such as the types of promotional items the clients are looking for, and more specific information about budgets and plans of aggregated groups of clients. In this, it is important not to ask directly for information with which distributors' clients can be identified, because that will further diminish the trust between the parties.

This market data should be gathered through a market research. PPM has a marketing department that could conduct such a research. It would be good to contact all active distributors, not only to gather market data, but also to let them know that PPM is still working for them.

Trust

To improve the trust between PPM and its distributors, PPM should work towards a more open communication, and should focus on building long-term relationships with all its important distributors.

The large and medium sized distributors already have a specific sales person within PPM that is responsible for them, and with whom they usually have some kind of long term relationship. However, at this point the relationship is very passive; the distributor only contacts PPM if it wants to purchase stock items or if it wants to inform about prices, and PPM virtually never contacts the distributor. This

signifies once again that distributors are seen as customers, and the distributor network department is acting to much as if it were a grocery store.

Furthermore, PPM should make clear it does not plan to 'steal' the distributor's clients. PPM has recently made plans for a stronger division between direct clients and distributors (Koolen, 2007), and this distinction should be communicated to the distributors as well. PPM should fortify this distinction between direct sales and sales through the distributor network as well by positioning the two sides as separate entities. Recently, the distributor network department has adopted a new name and image, which includes another logo, a separate website and business cards. In the future, separate offices and a juridical separation would be beneficial as well.

If distributors see that their comments are taken seriously, and that PPM's direct sales channel does not try to steal its clients, trust gets more chance to grow, and a more integrated channel could become reality.

6.5 Conclusions

Of the main problem areas, a choice has been made to focus upon two problems that exist at the tactical level and the operational level. These problem areas are urgent, improvements are relatively easy to implement, and can be expected to help the improvement of the distributor network situation.

On the tactical level, the solution lies in the creation of a distributor selection profile. For this, criteria have to be established. For PPM's distributor network, this can be done with a geographical criterion and a criterion regarding the type of company that is approached to become one of PPM's distributors. Statistics of the Mexican states, in combination with PPM company data, are used to rank the Mexican states for attractiveness for expansion. The attractive company types are identified through the analysis of PPM's current set of distributors. These two steps yield a distributor selection profile with which the distributor network department of PPM can search for new distributors in a more efficient manner.

On the operational level, a strong need for an attitude change was identified. The department responsible for the distributor network sees its distributors too much as final clients, and too little as a part of the sales channel. Thus, many chances for cooperation are missed, and insight in real market developments is sub-optimal. To achieve improvement on this aspect, an attitude change is needed of the sales people. Furthermore better use of incentives would help the distributors in their sales efforts, and would make PPM more attractive. Also, PPM should strive to gather more market data, so it can offer its distributors better service and better suited promotional items. This would also increase the trust between PPM and its channel members.

Chapter 7 Implementation

7.1 Introduction

The creation and use of a distributor selection profile, and the attitude change in the distributor network department, supported by new incentives and better market data gathering, are the solution directions that were elaborated in chapter 6. Both these changes have many implications for the department, and implementation will be crucial for success in both areas. Therefore, this chapter will introduce steps that should be followed to implement those changes. First, the process of the effective use of the new distributor selection profile will be clarified. Following this, the necessary steps for the introduction of the new incentives will be given, and implications of the national and company culture will shortly be discussed.

7.2 Distributor selection profile

Now that the main factors for distributor profile for the distributor network department of PPM have been established, this knowledge and way of working should be incorporated in the company. Of course, to come to an effective expansion on the network, just having a distributor selection profile is not sufficient. The selection of distributors can be done in 4 steps, as identified by Root (1994):

1. drawing up the distributor profile
2. locating distributor prospects
3. evaluating distributor prospects
4. choosing the distributor

The first step, which was blocking this process, has now been taken, and PPM should initiate the further steps of this process towards a larger, better spread and more effective distributor network. The total process can be divided in more precise steps that involve the decisions that PPM has to take, and by whom they should be taken. The following table shows this process, divided in different phases and activities. This need not be a one time process, but can be initiated many times, focusing on different target groups or on the same target group in a later moment in time. In fact, the use of the distributor selection profile should always be practiced, and multiple distributor search processes can be undertaken simultaneously. To supplement this process schedule with a timeframe would thus not be possible or even necessary.

Process phase	Activity	Main responsible department
Initiation	Decide on investment in and scope of expansion effort	Top management
Preparation	Choose a target group (one or more combinations of a Mexican state and a company type)	Distributor department
	Select appropriate location tool (direct mailing or other marketing tool)	Marketing department
	Design message suitable for target group	Marketing department
Execution	Carrying out the location process	Marketing department
Selection	Gathering reaction	Distributor department
	Evaluation	Distributor department

	choosing	Distributor department
Integration	Making arrangements, signing contracts	Distributor department
	introduction company, product training	Distributor department

Table 15. Distributor search activities and responsibilities

Initiation phase

The expansion effort has to be initiated by PPM’s management. Funds have to be reserved for the expansion effort. This depends on PPM’s financial situation, and on the urgency they give to rapid expansion and better network coverage. If a decision has been made for an active distributor search, subsequent steps can be taken.

Preparation phase

A number of things has to be decided on before the actual search can take place. First of all, a target group has to be selected, based on the profile. This target group can exist out of a target state and a target company type. For example:

Target group: Marketing bureaus in Nuevo León.

Following this, a way of reaching this target group has to be devised. In some cases it will be possible to obtain address data of the specific target group, for example through the golden pages, or through the database of an industry organization. In that case, a direct mailing can be used to invite the target group companies to become distributors for PPM. In other instances, such a data set cannot be acquired, and advertisement through a media type can be used. Because the target group is quite precisely defined, it is no longer necessary to invest in expensive and relatively ineffective broad media channels such as national TV or newspapers. To reach the target group, it might suffice to place an advertisement in a specialized magazine or in a local newspaper. For example:

Placing an advertisement in Mercadotécnica de Nuevo León, a magazine for local marketing bureaus.

The last step in the preparation phase is the creation of a suitable message for the selected target group. PPM can offer its distributors many advantages, and the most appropriate ones should be emphasized for each target group. For an existing distributor of promotional items that trades in articles from PPM’s competitors, stress could be put on PPM’s large stocks in Mexico, its high service and quality and its very competitive prizes. To approach other companies that not yet trade in promotional items to become distributors for PPM, the message should focus more on the extra incomes that can be generated through promotional items sales, with a low risk and good support facilities. For example:

“Increase your profit and offer your clients a complete service: supplement your marketing bureau with the sales of promotional items.

Promocionales Pacífico de Mexico

invites you to become a distributor of top quality promotional items. You can start helping your clients better and to earn extra income today! Contact us now, and let us tell you about our great opportunities and about the free sample package”

Execution phase

If all the preparations are completed, the actual location effort is carried out. Now, the search effort goes 'live', and from now on reactions can be expected from interested companies.

Selection phase

When companies are starting to react to the marketing effort, this has to be followed up. Currently, PPM follows a very intensive distribution strategy, in which all companies can become a distributor. This works very well for PPM, and there is no reason now to change this radically. However, PPM has limited capacities, so if many reactions are received, attention should be given first to the larger and medium sized companies. Furthermore, for very large existing distributors that not yet carry PPM's line, communication should take place between the distributor network department and the direct sales department to see if the distributor might be or might become a competitor for the direct sales channel. In such a case, it might be wise not to take the company as a distributor. Furthermore, very small companies that are expected to generate insignificant revenue for PPM could be declined distributorship. Within PPM's current network, there is no limit to the minimum turn-over a distributor has to generate. For expansion in other states of Mexico than the Federal District and Mexico State, small distributors become less attractive, because the average shipping cost will increase for very small orders.

Integration phase

New distributors should become an integrated part of PPM's distribution network. To accomplish this, the new distributors should get an introduction into the way PPM works, what all the options are for the different products, and what the working rules are. It would be best to invite the distributor to visit the office of PPM in Mexico City. Days could be organized on which new distributors receive an introduction of the company and a presentation of the products. On such a day, the new distributors could also get to know the salespeople of the distributor network department, and start working on the long-term relationship between PPM and the distributor.

Another, more formal part of the integration is the signing of the contracts that are related to delivery, credit line and payment rules.

7.3 Active approach

As described in chapter 6, the second change that has to take place within the distributor network department is the different approach of the distributors, in attitude and in the type of support that is offered. This change actually consists of different parts that augment each other. On the one hand a change has to take place in the minds of the salespeople of the distributor network department. They should start to see their distributors less as final clients, and should look further down the sales channel and understand that by helping their distributors, the total channel will profit, including PPM. On the other hand, practical tools have to be implemented to support this attitude change and give it direction

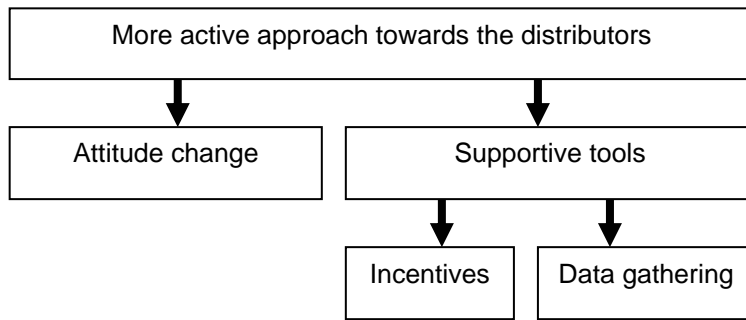


Fig. 12: Components of change towards more active distributor approach

Attitude change

Besides the operational activities that have to take place to create a more proactive approach of the distributors, an attitude change as to take place as well. The sales people from the distributor network department

When the cultural dimensions of Mexico, derived from the work of Hofstede (2007), are compared with the company culture within PPM, large overlap can be distinguished. The national culture ranks low on individualism, and high on masculinity and power distance index. Of most significance for a change process is uncertainty avoidance, on which the Mexican culture ranks very high as well. This is reflected in the company culture. The company has been changing over the years, and employees are probably more open for change than the average Mexican, but still have quite some resentment towards changes.

The proposed change toward a more active approach of the distributors in PPM's network is not a transformational, radical change of the second-order type, but a first-order change, characterized by adjustments in the process and system, meant to maintain and develop the organization (as described by Palmer, Dunford & Akin, 2006). Such a change can be expected to draw quite some resistance, for a number of reasons, such as the uncertainty avoidance described by Hofstede (2007).

Kotter and Schlesinger (1979) provide a 'situational' approach to manage resistance to change. Their approach consists of six methods that manage resistance. Each new change situation asks for a different combination of one or more of these methods. The six methods are:

Method	Characteristic	When to use
Education and communication	Informing about the rationale behind the change	Resistance because of lack of information
Participation and involvement	Involving personnel in the change process	Resistance because people feel left out
Facilitation and support	Providing technical and emotional resources	Resistance because people feel afraid and uncertain
Negotiation and agreement	Offering incentives to resisters	Resisters are in strong position to undermine change
Manipulation and cooptation	'buying' support by giving people key positions	If other methods cost too much time or resources
Explicit and implicit coercion	Threatening resisters	If change is vital, or when people have little capacity to resist

Table 16. Situational approach to resistance to change (Kotter & Schlesinger, 1979)

Considering the above methods and the situations in which they are most suitable, there are two methods which seem especially suitable for the attitude change that is needed for a more active approach of the distributors.

First of all the *Education and communication method*. There is almost no change project imaginable where this method should not be used, and the attitude change in PPM's distributor department could benefit much from a good information supply. The salespeople and the manager of the distributor network department are not automatically opposed to change, as they also understand that improvements are possible, and that such improvements are not only beneficial for PPM, but also for their annual bonuses. However, they should be convinced with arguments that the change is necessary and good, and they should receive training in other sales techniques. When they are informed about the rationale behind the attitude change and the working method change, a number of arguments can be used to convince PPM's salespeople:

- Approaching the distributors more actively and helping them in their sales effort will make it easier to attain personal and group sales targets
- Working in a more distributor focused way will make the activities of the sales people of the distributor network department more diverse, and will make their work more interesting
- More actively approaching the distributors will enable the salespeople to build stronger long-term relationships with their distributors
- A more active approach will result in better synchronized purchase efforts, thus enabling the salespeople to work more efficiently and offer their distributors better service
- A more active approach will be beneficial for PPM's turn-over, and thus supports job security for the salespeople of the distributor network department

The second method that should be used is the *Facilitation and support method*. Only telling the salespeople that they should change their behaviour will not make it happen automatically. The people also need to be reassured that the change has the support of the top-management, and that there really is the will in the organization to make it happen. Therefore, the CEO and the commercial director will have to express their support for the changes. What also is needed to facilitate the changes and prevent resistance, is the introduction of the incentives and information gathering procedures that are described in the next paragraphs.

Introduction of new incentives

The incentives that were identified in the sixth chapter all stimulate sales to the distributors as well as support these distributors in their own sales effort. Some incentives are more directly supportive, such as co-marketing, training programs and unique sellable solutions. Others are working more indirect, such as newsletters and online access to sales records.

On the long run, it would be good if all these incentives are implemented, because they all reinforce each other, need relatively low investments and can be expected to increase the network turn-over and improve the integration between the distributors and PPM. The implementation of the total incentive package should start with the selection by PPM's management of the incentive that they want to implement first. For each of the identified suitable incentive tools that is currently not or only partly used, a short description of a possible implementation is given.

Promotional activities and co-marketing

PPM already has a number of activities that can be grouped as co-marketing incentives. However, more of such supportive co-marketing tools should be developed, with a focus on medium sized distributors. It could be very beneficial to

design frequent leaflets with a selected set of related promotional items that can be printed or emailed by the distributors to their final clients. To accomplish this, the distributor network department, the purchase department and the marketing and design department should work together closely. The distributor network department should identify needs for new products with its distributors. The purchase department should then source such items, and the marketing and design department should create materials that can be adapted quickly for each distributor. For the distributors who wish so, the marketing and design department could even do the adapting for them.

Unique sellable solutions

There is one unique sellable solution incentive that should be introduced soon. As part of the expansion effort, and to build a better relationship with the distributors, PPM should design a package with a sample set and information material for new distributors. This should be combined with the trainings for new distributors, to create a complete structure to integrate new distributors.

Supplemental contact such as newsletters

The distributor network department should start contacting its distributors on a regular basis. Already the salespeople have the responsibility for providing service to a set of distributors. As a part of this responsibility, the salespeople should regularly contact a distributor if the distributor does not contact PPM. This is to prevent the loss of distributors due to a lack of attention or a mismatch in offering or service. The database system that gathers information about sales should be expanded with a tool that registers contact moments and gives an alarm if there has not been any contact for a certain time, for example three weeks.

Training programs

PPM also needs to introduce training programs. It would be good to create two different types of training; a general sales training and an introduction training. Existing medium sized distributors could be invited for a general training-day, on which they can re-establish their ties with the sales force, learn about new developments in the market, and see new stock items that PPM will bring to the market. Such a day should be led by the department's manager. Preferably a few distributors that are not competitors, and thus from different regions, would be invited, so they can also learn from each other

The introduction training days should be organized for new distributors. The elements of the training are comparable to the general training, except for a deeper introduction of the rules and procedures connected to being a distributor of PPM.

These trainings are an excellent way to create stronger ties with the distributors, and it would be good if PPM would start organizing this incentive activity soon.

Market research

PPM should gather market data to be better able to supply its distributors with the types of promotional items they need. Input for stock item purchases currently comes from data on actual sales, intuitive expectations of the commercial director and the purchase department, and through what is seen in catalogues of competing promotional item wholesalers. The data used for establishing the list of stock items should be enriched with more information on the wishes and needs of the distributors.

This should be done in two ways. The first step is to administrate which items were requested by the companies in the distributor network. Many of these requests are not fulfilled because the distributor decided to buy the product somewhere else (because the price was not optimal) or because the distributor needed an item that PPM does not offer as a stock item. Both types of rejection provide valuable information that should be gathered, analyzed and used for the selection of new items

The second step is to do a market research under the distributors. The marketing department should create a list of questions about the type of products the distributor needs, and the services it would like to see in PPM. In this way, market data is gathered that can be used to fine-tune the service towards the distributors and improve the stock assortment. Furthermore, doing a market research under the distributors in PPM's network will show the distributors that PPM is listening to them, and is a trustworthy supplier.

Process step	Activity
Step 1	Gathering current request information
Step 2	Distributor market research
Step 3	Analyzing data from step 1 and step 2 to select new stock items and improve service
Step 4	Add new stock items to assortment
Step 5	Notify distributors of availability of new stock items

Table 17. Activities for market data gathering

7.4 Conclusions

This chapter has introduced some practical steps for implementation of the directions for improvement of chapter six.

First, the process for using the distributor selection profile was elaborated on. This process consist out of five main phases: The initiation phase, in which the decision for an expansion effort is taken and some boundaries surrounding the process are established; the preparation phase, in which steps are taken to prepare the search and selection process; the execution, in which the location of potential new distributors is takes place through a marketing effort; the selection, in which interesting candidates are chosen; and the integration, in which the new distributor starts to become a part of the PPM network.

Secondly, the implementation of the attitude change was elaborated on. Here, two methods to manage the expected resistance to change were explored: the education and communication method and the facilitation and support method. To accommodate the attitude change, practical incentives and better gathering of information about the market should also be implemented. Therefore, a number of possible implementations of incentives were explored, as well as a plan for making more effective use of the available market information and for gathering more new market information.

Chapter 8 Conclusions and recommendations

8.1 Introduction

In this chapter, the conclusions of the research project are presented. This is done following the structure of the research questions as well as the main problem formulation.

Furthermore, reflections on the research project will be given. Attention will be given to the relevance of the thesis, to the making of the thesis and to the models and theories that were used to conduct the research project.

The chapter concludes with recommendations for further research.

8.2 Conclusions

Promocionales Pacífico de México is a relatively young company with large growth numbers. The use of a distributor network as one of the sales channels has never been part of a grand scheme, but was initiated on an ad hoc basis, because of a market need. Because of the many opportunities in this market, the turn-over growth of the distributor network has always been very positive. After the assessment of future developments in the market for promotional items, the conclusion can be drawn that growth will probably continue by itself for at least a couple of years more. However, the distributor network department lacks the necessary procedures and approaches to make the best of this situation. Although a number of chances to increase the turn-over are used, even more opportunities are missed.

This report set out on an exploration to identify the main problem areas that hold back the turn-over growth, and to propose ways to improve this situation. The central problem formulation that was used for this is:

“Which modifications in the distributor network of Promocionales Pacífico de Mexico have to take place to accomplish growth?”

A number of problem areas have been identified, using knowledge from the body of literature, information about PPM's overall strategy, and data about the developments of the market for promotional items. The focus areas are divided into three levels: the strategic level, which deals with channel design issues; the tactical level, which deals with the location and selection of distributors in the network; and the operational level, which deals with the management of the network of distributors and the department. On each of these three levels problem areas were identified. Because there are many possibilities for improvements which can not all be solved at once, a choice was made to start with two main problem areas on two different levels: The lack of a method for searching new distributors on the tactical level; and a passive approach of existing distributors on the operational level.

To deal with these problem areas, directions for solutions are proposed.

The use of a distributor selection profile is proposed, which is created by researching which states of Mexico have the most potential for expansion efforts, and which types of companies are the most attractive to approach as potential distributors for PPM. These two criteria are used to create a distributor selection profile which can be activated in a more efficient search effort for new distributors.

A more active approach of the distributors can be accomplished through an attitude change of the distributors, and the use of more pro-active incentive types. These incentives should not only be aimed at increasing PPM's turn-over on the short-term, but should be designed as well to support the distributors in their sales efforts, so that they are tied more strongly to PPM, which will be beneficial for the company's continuity. The introduction of new incentives should be accompanied

by the more efficient gathering of market data about the needs of the distributors for new product types.

It would be good if the proposed changes are implemented simultaneously, because they will have a synergetic effect. A number of the proposed incentives, such as the introduction trainings and the introduction package, are especially suited for new distributors. When distributor search and selection procedures are focused on a certain state and company type, the introduction efforts can be adapted to this target group as well. Another synergetic effect can be reached through the better gathering of market data which can then be used to create a more suitable product offering in co-marketing efforts.

8.3 Reflections

This paragraph gives reflections on the execution of the research and the outcome of the project.

Conducting the research in Mexico was on the one hand more difficult than expected, and on the other hand easier. PPM is a company that is very open, with employees and a management that were fully prepared to share all details about the company strategy, clients, plans for the future, etc. This made it easy to get to know the company; not only the distributor network department, but also the international purchasing office, the direct sales department, the transportation department, the marketing and design department and the other supportive departments. However, the lack of procedures, and the fragmentation of knowledge within the company, made it difficult to gather hard data. A lack of reliable statistical data also exists outside of PPM, in the market for promotional items in Mexico. Sector statistics about concentrations of promotional companies in the different states of Mexico, for example, are nonexistent.

Through the use of a number of theories and models on sales channels and distribution networks, and the background information of the developments of the market for promotional items in Mexico, criteria for a successful and robust distribution network situation have been designed. These criteria were designed for PPM specific situation of a distributor in a changing market with a large and open distributor network and no exclusivity. The assessment of PPM through the use of these criteria, yielded a number of problem areas, on which improvement could be achieved. This is a useful result for PPM, because now they have clear starting points for improvement efforts. To speed up this process, two main problem areas were selected for which an implementation plan has been written. These implementation texts are written for the use of a distributor selection profile and for the change to a more active approach of the distributors in PPM's network. PPM can use these proposals right away.

PPM has already made a start with implementing the distributor selection profile into its marketing efforts by placing advertisements in the golden pages of some of the attractive states of Mexico. Also on the side of a more active approach of the existing distributors progress is made. PPM is starting to use more cooperative marketing, such as leaflets that are designed by PPM, but can be printed with the name and logo of a specific distributor on it.

8.4 Recommendations

During the investigations for this thesis report, many areas were touched upon on which further researches seemed necessary. Not all these areas could be included in the current research. Therefore, it would be recommendable if the following areas receive attention in further research projects.

PPM is a company that has grown very fast, and where this rapid growth sometimes has forced the management to choose between direct growth or the

implementation of structure and procedures. Because the company started as a small organization, the structure has long been deemed less important than realizing maximum short-term growth. Now that the company has grown to a medium sized company, this lack of structure and procedures is slowly becoming visible. First the commercial director was able to control all activities of the sales force just by talking to the sales people and remembering all the things that were going on in the organization and with the clients. This now start to become impossible, because of the immense increases in turn-over, clients, products and sales people. This cannot only be seen in the distributor network department which was the focus of this report, but also in virtually all other departments. The lack of solid information sharing systems also causes PPM to miss chances because the sales channel departments and the purchase and transport departments lack efficient ways to communicate. Thus, research should be done to the ways the departments of PPM communicate with each other, and how information that now resides in the heads of individual employees can be made explicit and shared.

For the distributor network department, a number of problem areas have been identified, not all of which could be elaborated on in the implementation chapter. The better fulfillment of the channel functions and obtaining a stronger positioning of PPM in the market of promotional items in Mexico should be the subject of further research.

Besides the better gathering of information about the needs of the distributors and their clients, a more general marketing research should be undertaken in the future, which should give PPM better insight in the direction of the Mexican market of promotional items.

Further research should also be done to the ways in which the two sales channels of PPM, the direct sales and the distributor network, can be further separated in the future. They should not only be separated in appearance towards the market, as is already done now, but they should also work together in a different structure. An investigation should be set up to find out which construction would be most beneficial. There are a number of possible constructions, for example: a complete separation in which the two current departments become competing companies; a construction in which the direct sales department becomes a distributor of the distributor network department; or a construction in which the distributor department becomes one of the clients of the direct sales department.

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List of Abbreviations

Abbreviation	Significance
AMAPRO	Asociación Mexicana de Agencias de Promociones
BPMA	British Promotional Merchandise Association Ltd.
CICOM	Confederación de la Industria de la Comunicación Mercadotecnica
GDP	Gross domestic product
INEGI	Instituto Nacional de Estadística Geografía e Informática (National Institute for geographical and Informational Statistics)
MXN	Mexican Peso
PPAI	Promotional Products Association International
PPM	Promocionales Pacífico de México SA de CV

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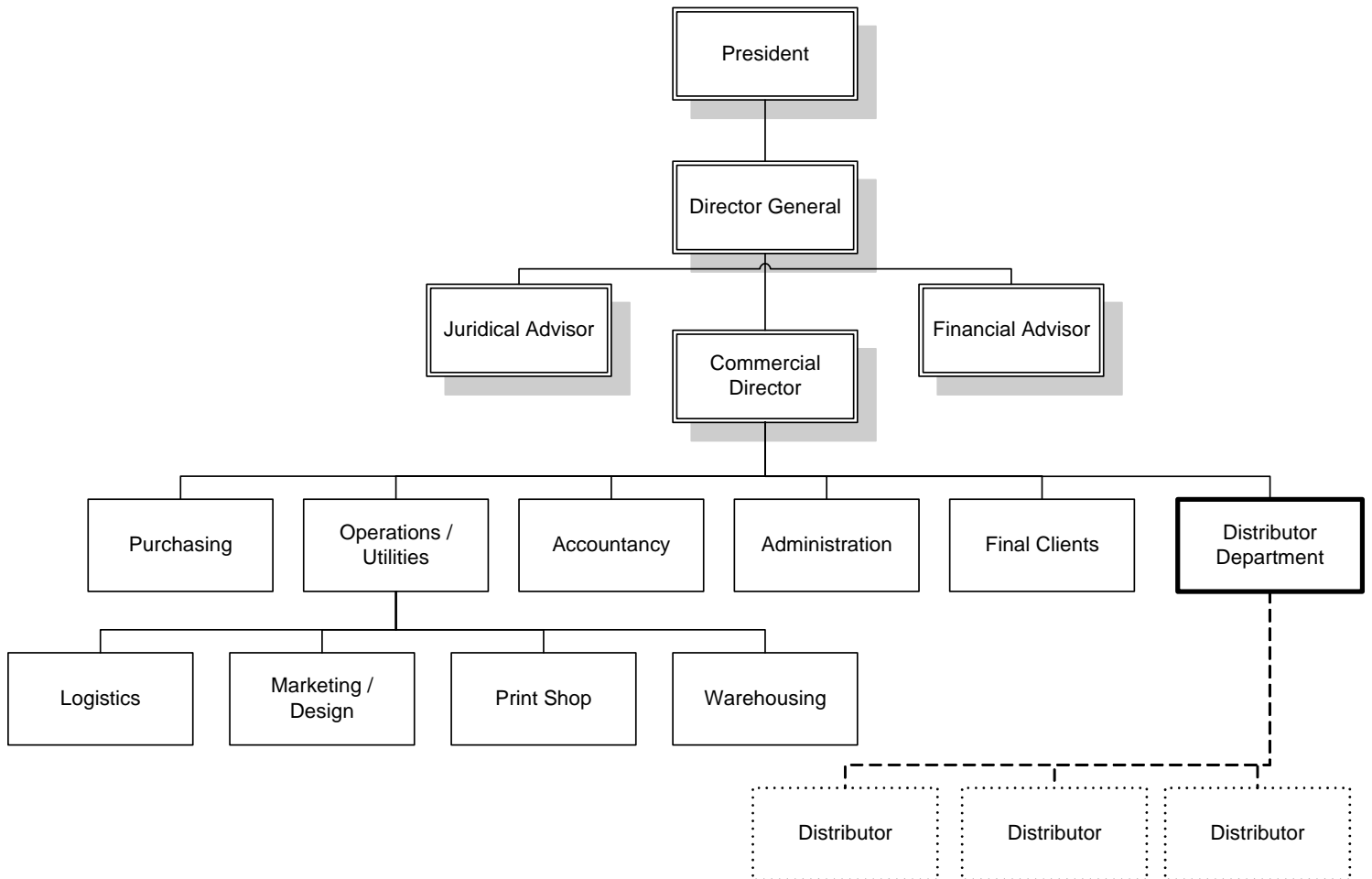


Appendices



Appendix 1

PPM Organization Chart



Appendix 2

Turn-over growth data per sales channel

	2001	2002	2003	2004	2005	2006	2007 (Budget)
Sales distributor network	736	1,328	1,772	2,298	3,058	3,794	4,485
Growth per year		80%	33%	30%	33%	24%	18%
Sales Direct sales force	1,339	1,458	2,061	2,959	3,741	3,935	5,520
Growth per year		9%	41%	44%	26%	5%	40%
Total Sales	2,075	2,786	3,833	5,256	6,799	7,728	10,005
Growth per year		34.20%	37.60%	37.10%	29.40%	13.70%	29.50%
Turn-over history per sales channel (Koolen, 2007), x € 1000							

Appendix 3

Map of the states of Mexico



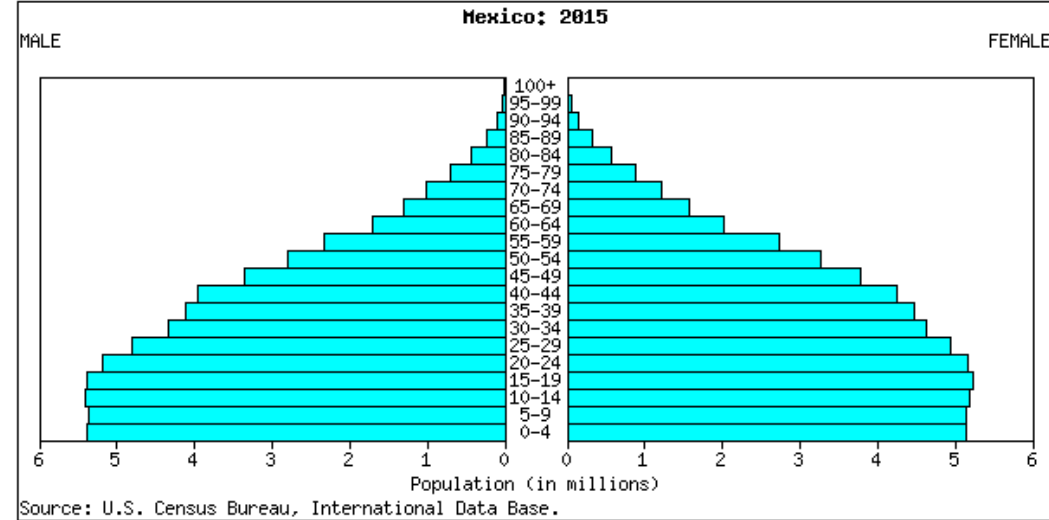
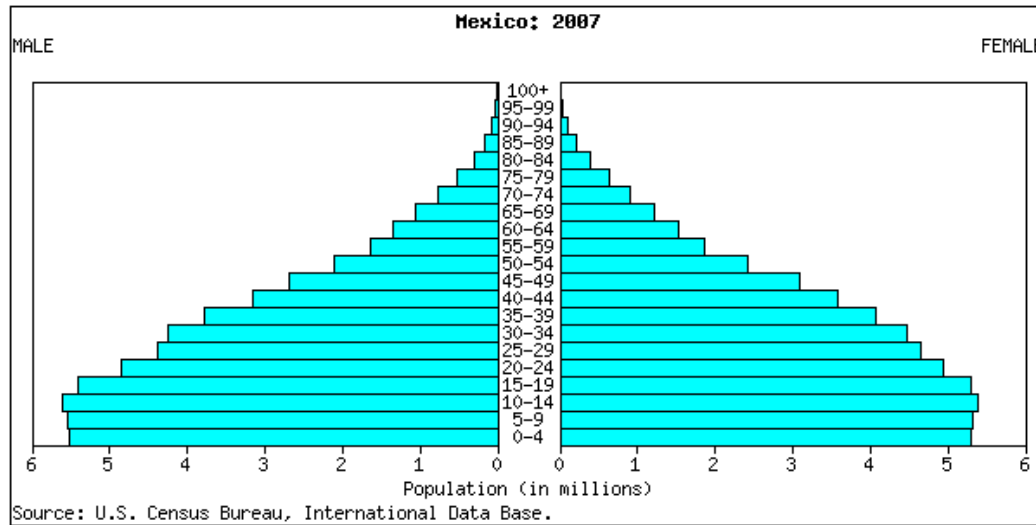
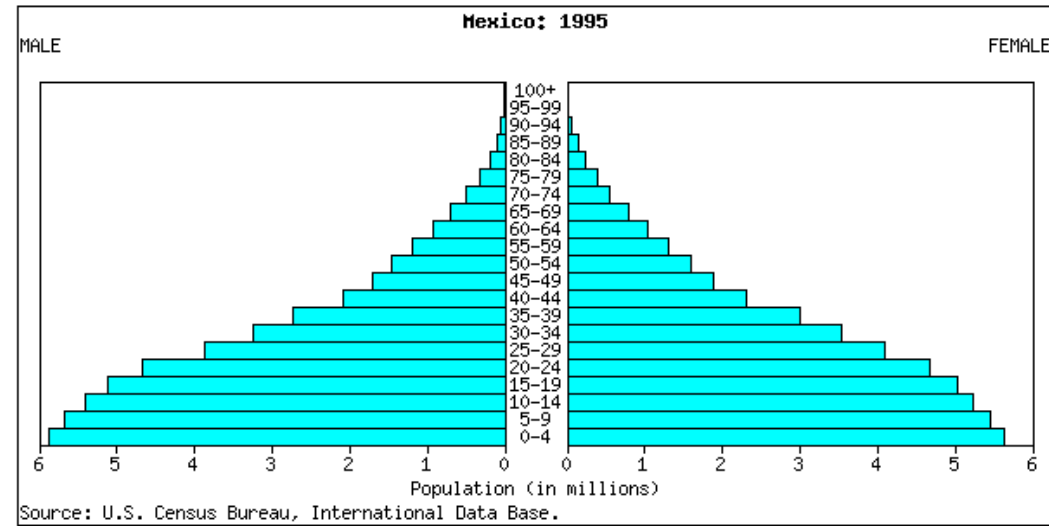
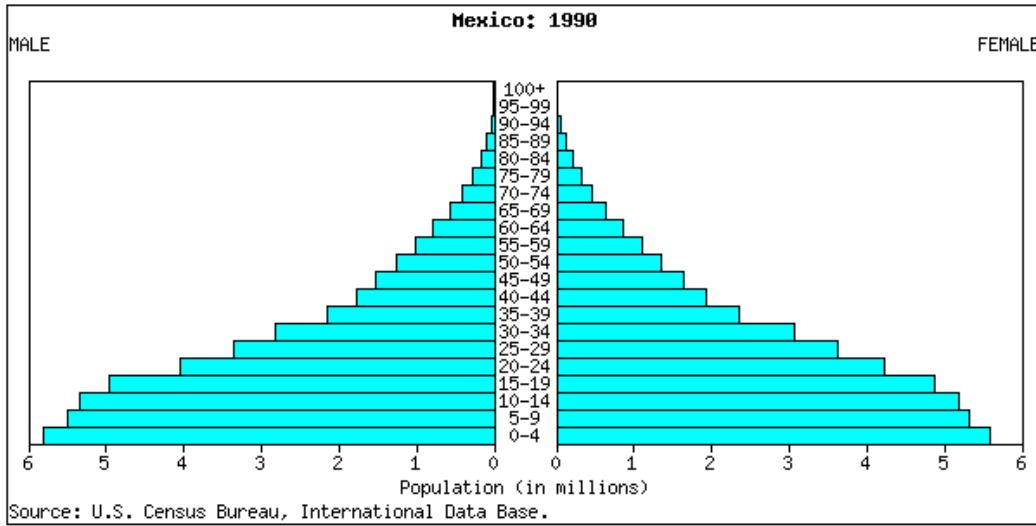
Map of Mexican states. Source: Public domain

State codes:

AG Aguascalientes	GT Guanajuato	QT Querétaro
BC Baja California	HG Hidalgo	SI Sinaloa
BS Baja California Sur	JA Jalisco	SL San Luis Potosí
CH Chihuahua	MI Michoacán	SO Sonora
CL Colima	MO Morelos	TB Tabasco
CM Campeche	MX State of México	TL Tlaxcala
CO Coahuila	NA Nayarit	TM Tamaulipas
CS Chiapas	NL Nuevo León	VE Veracruz
DF Distrito Federal	OA Oaxaca	YU Yucatán
DG Durango	PU Puebla	ZA Zacatecas
GR Guerrero	QR Quintana Roo	

Appendix 4

Age pyramids for Mexico for the years 1990, 1995, 2007, 2015



Source: <http://www.census.gov/ipc/www/idb/pyramids.html>

Appendix 5

Data sheet with potential rating per state

State	State name	# Clients	Turn-over (a)	% of GDP (b)	%dif turn-over GDP (c)	growth% (d)	GDP/capita (e)	Coded(e)	Rating
1	Aguascalientes	10	7,105	1.3%	-1.1%	5.1%	5,619	4	3.74
2	Baja California	3	79,543	3.4%	-1.3%	4.5%	6,155	5	4.10
3	Baja California Sur	2	933	0.6%	-0.6%	3.7%	5,821	4	3.22
4	Campeche	1	1,793	1.2%	-1.1%	2.8%	7,910	6	4.08
5	Chiapas	6	12,840	1.8%	-1.5%	2.9%	1,911	1	1.65
6	Chihuahua	5	8,072	4.4%	-4.2%	4.0%	6,464	5	4.55
7	Coahuila de Zaragoza	13	28,119	3.5%	-2.8%	4.6%	6,521	5	4.42
8	Colima	-	-	0.5%	-0.5%	2.7%	4,561	3	2.40
9	Distrito Federal	716	2,778,436	20.5%	52.6%	1.5%	11,918	10	(5.09)
10	Durango	4	4,916	1.4%	-1.2%	3.3%	4,203	3	2.73
11	Guanajuato	16	20,242	3.9%	-3.3%	4.2%	3,300	2	2.91
12	Guerrero	1	73	1.6%	-1.6%	1.3%	3,517	2	1.72
13	Hidalgo	3	271	1.4%	-1.4%	1.9%	2,563	1	1.34
14	Jalisco	38	155,410	6.4%	-2.3%	2.6%	2,658	1	1.73
15	México	205	519,631	10.3%	3.4%	2.8%	4,511	3	1.66
16	Michoacán de Ocampo	11	7,424	2.3%	-2.1%	2.8%	2,637	2	2.27
17	Morelos	12	26,920	1.4%	-0.7%	2.3%	4,126	3	2.34
18	Nayarit	-	-	0.5%	-0.5%	1.0%	2,707	1	0.91
19	Nuevo León	37	76,475	7.3%	-5.3%	4.1%	8,583	7	5.79
20	Oaxaca	1	631	1.4%	-1.4%	1.5%	2,058	1	1.25
21	Puebla	13	8,697	3.4%	-3.2%	3.3%	3,186	2	2.62
22	Querétaro Arteaga	12	20,138	1.8%	-1.2%	5.0%	5,267	4	3.73
23	Quintana Roo	4	2,839	1.5%	-1.5%	4.5%	7,256	5	4.14
24	San Luis Potosí	4	4,605	1.8%	-1.7%	3.2%	3,597	2	2.32
25	Sinaloa	3	2,154	2.1%	-2.0%	1.8%	3,640	2	1.95
26	Sonora	7	5,056	2.8%	-2.7%	3.4%	5,397	4	3.57
27	Tabasco	2	748	1.1%	-1.1%	1.8%	2,999	2	1.76
28	Tamaulipas	13	6,933	3.3%	-3.1%	4.4%	5,355	4	3.95
29	Tlaxcala	1	1,650	0.6%	-0.5%	3.7%	2,586	1	1.72
30	Veracruz de Ignacio de la Llave	9	4,920	4.1%	-4.0%	1.9%	2,790	1	1.88
31	Yucatan	7	11,423	1.4%	-1.1%	3.5%	3,768	2	2.28
32	Zacatecas	-	-	0.8%	-0.8%	2.9%	2,624	1	1.55

1159 3,797,995

Sources:

a --> in Euros | Internal databases of PPM, 2006

b --> Percentages per state of total GDP 2004 | Cuaderno de informacion Oportuno regional, INEG, Número 91 Primer Trimestre, 2007

c --> (% of network turn-over per state) - (% of GNP total per state)

d --> Annual GDP growth from 1993 to 2004 in percentages | Cuaderno de informacion Oportuno regional, INEG, Número 91 Primer Trimestre, 2007

e --> GDP/capita in Euros, Informe sobre desarrollo humano 2006-2007, PNUD, 2007

f --> To normify the GDP/capita, ammounts were ranked 1 to 10 using increments of 1110 Euros per rank starting at 1900 Euros

Appendix 6

A: Map of States of Mexico in which PPM has more than 10 distributors



B: Map of States of Mexico that are attractive according to the distributor selection profile

