

CASE 13.1
WHO CAN BEST INTRODUCE THE "CITY ADVENTURER" INTO SAUDI ARABIA?
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Instructor Notes

This is a typical case of an international manufacturer selecting a distributor for its product in a foreign country. There are three common ways for the manufacturer to enter a new foreign market: a local agency, a local distributor, or the company's own subsidiary. The main difference between an agent and a distributor is whether he/she maintains a stock of the principal's product (i.e., taking title or ownership). An agent will introduce a local customer to the principal but does not take title to the merchandise. The agent receives a commission from the principal for the products sold, which will be shipped directly to the customer. On the other hand, a distributor will buy a product from the principal and re-sell it locally. For a watch, it is a regular practice for foreign manufacturers to appoint either an agent or a distributor before considering whether they should start their own distribution facilities in a new market.

Rogart, a manufacturer of an expensive brand, wants to offset a decline in international sales by introducing a less expensive model (City Adventure) in Saudi Arabia. There are three prospective companies for consideration. The reader is required to choose the best company to be in charge of the marketing of City Adventure, which is 30% cheaper than Rogart's traditional products. Since the case provides a great deal of information, the reader has to identify relevant information to use. Rogart needs to consider the following: (1) showrooms and service centers that create an atmosphere of elegance and beauty, (2) first-class service-minded people with deep knowledge of the product, and (3) well organized logistics (a warehouse and transportation)

Information on geography is a relevant issue that should be considered. Much of Saudi Arabia is harsh and dry, with temperatures ranging between 20 and 45 centigrade. However, some areas are extremely humid. For a delicate product like a watch, having a dust-controlled, temperature-controlled, and humidity-controlled warehouse is a necessary condition. There are only three major cities in Saudi Arabia: Jeddah, Riyadh, and Al Khobar. The country's population is clustered in these three areas.

Information on culture, although important in doing business in Saudi Arabia, does not directly affect selection of a local partner. Legal issues, especially those related to termination of a local partner, are a critical consideration. The reader should note that Saudi Arabian Commercial law requires a foreign principal to provide a large amount of compensation to the local partner if the principal terminates an agency or distributor agreement without showing evidence of the local company's breach of contract. It is very rare that this kind of proof is made. As it is almost impossible to change a local partner once it is appointed, the selection should be done carefully.

Each nominee's characteristics is summarized as follows:

Ashraf Co., Ltd. This is a Lebanese company which acts as a wholesaler and retailer of branded products. It has a strong sales network in the eastern Saudi cities and does repair service in Kuwait. It has its own warehouse. Its advertisements appear in Arabic newspapers.

Detami Trading. This is a Saudi company. It is an agent for Japanese and European cars and premium watches. It has showrooms with repair services in Jeddah, Riyadh, and Damman. Delivery is made by mail. The company has no interest in doing its own advertising.

Dolphin Corporation. This is another Saudi company. It has a chain of specialty stores for marine products. The stores are located in Damman and Jeddah and have products that are popular with adventurers. It has showrooms and offers repair services. It owns a warehouse and has done advertising in Jeddah.

A case can be made for Rogart to choose Dolphin Corporation as its partners. The reasons include: (1) niche market advantage, (2) good and quick repair services, (3) attractive showroom, (4) a warehouse with good facilities, (5) being a Saudi company, (6) quick product delivery, and (7) good service to foreigners.