International trade intermediaries (ITIs) are specialist intermediaries that are involved in the distribution of goods across national borders. ITIs are sometimes known as trading companies, export management companies, sogo shosha, or simply, importer–exporters. ITIs may be involved in many activities and perform a variety of services, but their core activity is the management of international trade. This service either involves an agency-brokerage role (selling on behalf of another) or a merchant-reselling (taking title to the goods traded) role (Casson, 1998). ITIs are ubiquitous in global markets and are one of the most enduring organizational entities in the history of international business. Historically, ITIs have played a prominent role in the development of international trade and marketing in many societies (Ellis, 2003a; Carlos and Nicholas, 1988).

Acting as agents, ITIs exist because manufacturers sometimes lack the ability or the incentive to engage in exporting directly (see STRATEGIC EXPORT MARKETING–ACHIEVING SUCCESS IN A HARSH ENVIRONMENT). By consolidating orders from multiple suppliers, building trade-supporting infrastructure, and developing logistical expertise, ITIs can improve the efficiency of distribution channels lowering the costs of exchange for others. In return, the intermediary typically charges a commission based on the cost of goods sold.

Manufacturers may hesitate to contract with independent intermediaries because of the threat of opportunism. This threat is central to the agency dilemma and arises because the manufacturer and intermediary possess different information about the exporting task. This imbalance or asymmetry may be exploited by the ITI. For example, to win a contract, the ITI may be tempted to conceal or misrepresent information regarding their abilities and resources. If the manufacturer as the principal cannot fully verify these claims in advance, they may suffer the consequences of adverse selection. Another potential problem, moral hazard, may arise after the contract has been signed when the principal is unable to ensure that the ITI as the agent delivers the agreed-upon level of effort.

The hazards of relying on opportunistic intermediaries may render the agency relationship unattractive to manufacturers compelling them to pursue other modes of exchange, such as direct exporting. The circumstances under which manufacturers would prefer ITIs to in-house exporting can be predicted using transaction cost analysis, which describes the matching of exchange characteristics with particular exchange modes or governance structures (Anderson and Gatignon, 1986; Klein, Frazier, and Roth, 1990). For example, transaction cost analysis would predict a preference for direct or integrated channels (see INTERNATIONAL MARKETING CHANNELS) when traded products are complex and require a high level of after-sales service. In this type of exchange, the costs of performing intermediary functions in house are likely to be less than the combined ex ante costs of negotiating stringent contracts outlining the expected level of service and the ex post costs associated with monitoring and enforcing contractual obligations.

Acting as merchant resellers, ITIs create new markets for goods and services by developing exchanges between buyers and sellers located in different nations. In developing these links, the ITI may also transfer marketing skills to others in the channel. This may happen intentionally, as when an intermediary provides designs or materials for a new product, or unintentionally in the routine execution of the marketing function.

Although ITIs improve the efficiency of exchange and entrepreneurially create markets where none existed previously, their survival within cross-border channels of distribution is inherently impermanent. The information asymmetries that give ITIs their “edge” in a market tend to diminish over time undermining their position in the channel. As manufacturers gain experience dealing with foreign buyers, they may consider integrating intermediary functions and exporting directly to foreign markets. Indeed, by exceeding their client’s performance expectations, the intermediary may even hasten their own removal by signaling the benefits of going direct. This gives rise to the traders’ dilemma, which describes the increased risk of replacement attached to extreme levels of
performance: Poor-performing intermediaries risk being replaced by other intermediaries, while high-performing intermediaries may be eliminated by upstream suppliers or downstream buyers keen to reap the benefits of more direct exchange modes (Ellis, 2005). In view of these threats to their survival, intermediaries continually seek out new opportunities to broker relationships. Consequently, the survival of the ITI is a function of (i) prolonging the inevitable decline of existing exchange relationships and (ii) replacing lost business with new relationships. When the addition of income from new business no longer matches the loss of income from exiting clients, the intermediary will have started down the path to organizational decline.

Bibliography


