Marketing communications

SECTION 21.1 Distribution

What You'll Learn

- The concept of a channel of distribution
- Who channel members are
- Non-store retailing methods
- How channels of distribution differ for consumer and business-to-business products

SECTION 21.1 **Distribution**

Why It's Important

As you know, the marketing mix includes decisions about product, price, place, and promotion. In this chapter you will explore the place decision—that is, how the product will be distributed and sold in the marketplace. Making the correct place decision has an impact on the entire operation of a business.

Distribution

Key Terms

- channel of distribution
- intermediaries
- wholesalers
- rack jobbers
- drop shippers
- retailers
- brick and mortar retailers
- e-tailing

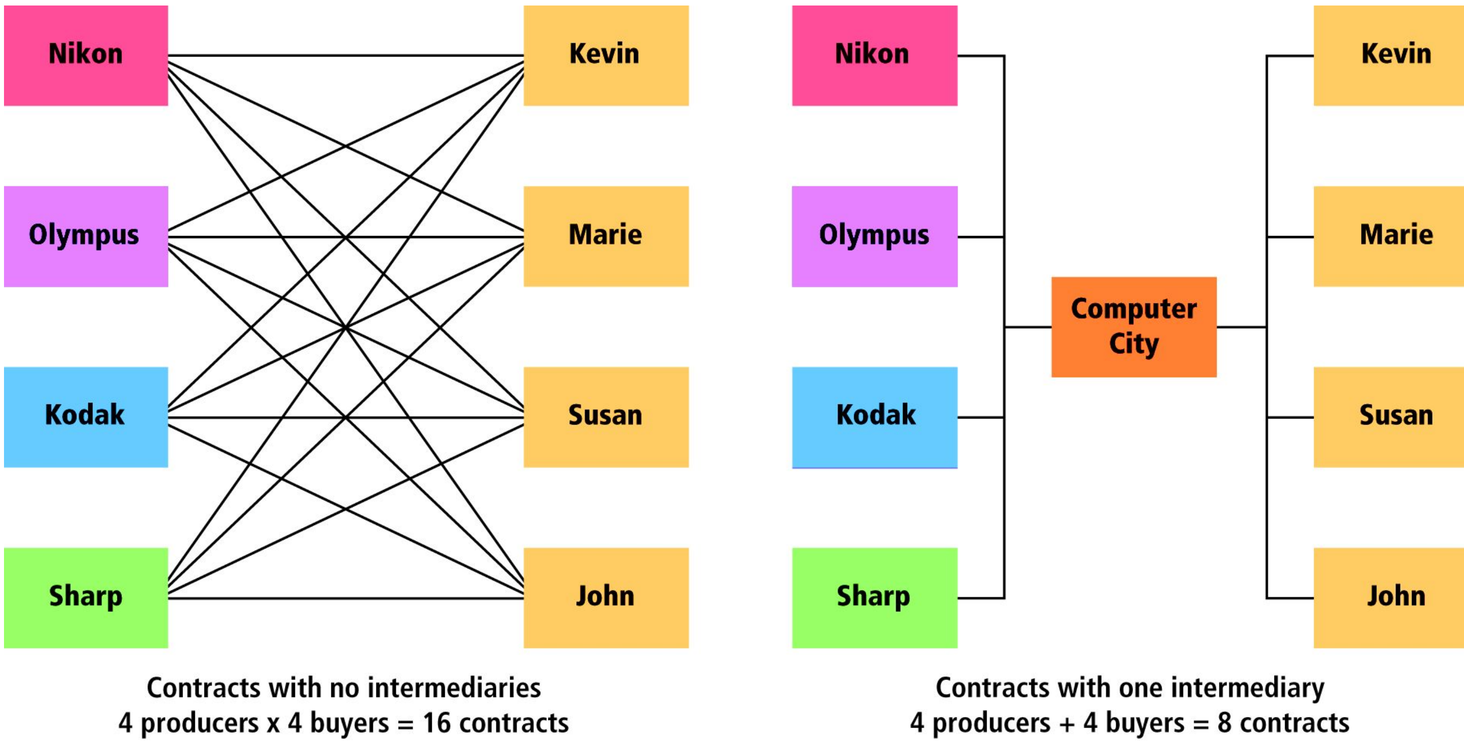
Distribution – how it works

The channel of distribution is the path a product takes from producer or manufacturer to final user. This is a Place decision, one of the four Ps of the marketing mix.

Channel members

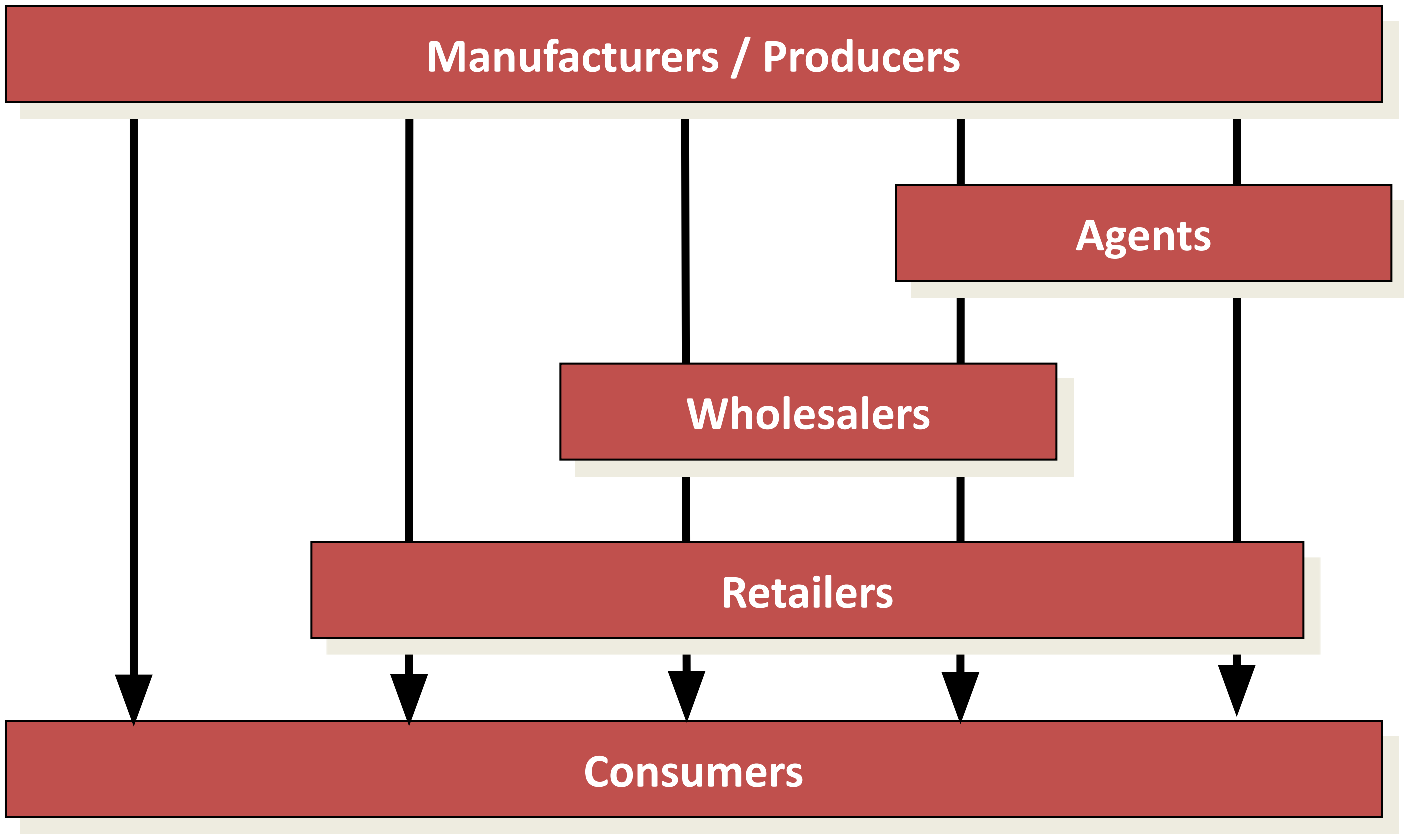
All the businesses involved in sales transactions that move products from the manufacturer to the final user are called **intermediaries** or middlemen. Intermediaries provide value to producers because they often have expertise in certain areas that producers do not have.

Intermediaries



Intermediaries reduce the number of transactions required by manufacturers to reach their final customers. What expenses of doing business are lowered by this reduction in transactions?

Channels of distribution



Wholesalers

Wholesalers buy large quantities of goods (taking title) from manufacturers, store the goods, and then resell them to other businesses. Their customers are called retailers. They may be called distributors when their customers are professional or commercial users, manufacturers, governments, institutions, or other wholesalers.

Wholesalers

Two specialized wholesalers are:

- rack jobbers
- drop shippers

Rack jobbers manage inventory and merchandising for retailers by counting stock, filling it in when needed, and maintaining store displays. They provide the display racks and bill the retailer only for the goods sold.

Wholesalers

Drop shippers deal in bulk items such as coal, lumber, and chemicals that require special handling. Drop shippers sell the goods to other businesses and have the producer ship the merchandise directly to the buyers. The products are owned, but never handled, by the drop shipper.

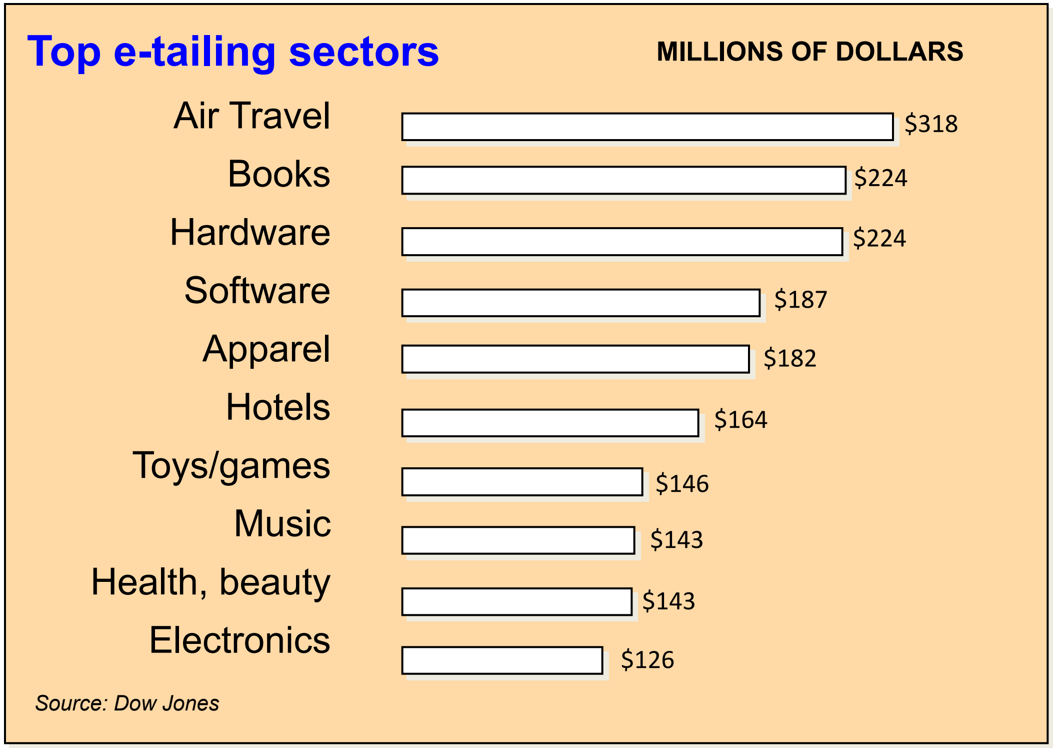
Retailers

Retailers sell goods to the final consumer for personal use.

Traditional retailers, called **brick and mortar retailers**, sell goods to the customer from their own physical stores.

Non-store retailing operations include automatic retailing, direct mail and catalog retailing, TV home shopping, and online retailing (**e-tailing**).

Shopping on the web



Note the millions of dollars attributed to online sales by e-tailers in one month. Which three sectors lead the list? How might this list be changed if the month was December?

Agents

Unlike wholesalers and retailers, agents do not own the goods they sell. **Agents** act as intermediaries by bringing buyers and sellers together.

Example: Real estate agents, food brokers, independent manufacturer's representatives.

Direct and Indirect Channels

Channels of distribution are classified as direct or indirect.

Direct distribution occurs when the goods or services are sold from the producer directly to the customer; no intermediaries are involved.

Indirect distribution involves one or more intermediaries.

Channels in the Consumer and Industrial Markets

Different channels of distribution are generally used to reach the customer in the consumer and industrial markets. Both markets make use of direct and indirect distribution.

Reviewing Key Terms and Concepts

1. What is a channel of distribution?
2. Name two major types of merchant intermediaries.
3. What type of intermediary is a rack jobber? A drop shipper?
4. Distinguish between brick and mortar and online retailers.
5. Which type of distribution channel—direct or indirect—is used more frequently for consumer products? For industrial products?

Thinking Critically

Do you think e-tailing will eventually replace brick and mortar retailers? Explain.

SECTION 21.2 **Distribution planning**

What You'll Learn

- The key considerations in distribution planning
- When to use multiple channels of distribution
- How to compare the costs and control involved in having a direct sales force vs. using independent sales agents
- The three levels of distribution intensity
- The effect of the Internet on distribution planning
- The challenges involved in distribution planning for international markets

Distribution planning

Why It's Important

Distribution decisions affect the entire company so it is important for you to know how they are made. It is also helpful to know how they are carried out in different markets, including international and e-marketplaces.

SECTION 21.2 Distribution planning

Key Terms

- exclusive distribution
- integrated distribution
- selective distribution
- intensive distribution
- e-marketplace

Distribution planning

Distribution planning involves decisions about a product's physical movement and transfer of ownership from producer to consumer. Distribution decisions affect a firm's marketing program. Some of the major considerations are:

- the use of multiple channels
- control vs. costs
- intensity of distribution desired
- involvement in e-commerce

Multiple channels

Multiple channels are used when a product fits both industrial and customer needs.

- **Example:** Cookies sold to supermarkets and airlines.

Retailers also use multiple channels.

- **Example:** A stationary store sells to the public and sells office supplies to businesses.

Control vs Cost

All manufacturers and producers must weigh the control they want to keep over the distribution of their products against costs and profitability. Decisions can involve:

- using an in-house sales force or independent sales agents
- accommodating the dominant member in a particular channel of distribution

Who does the selling?

A manufacturer can decide to use its own sales force or hire agents to do the selling, depending on how much control it wants over sales.

- **Direct Sales Force** Costly; manufacturer maintains complete control.
- **Agent** Less costly; manufacturer loses some control over how sales are made.

Who dictates the terms?

Retail giants like Wal-Mart and Home Depot force manufacturers to adhere to strict criteria regarding shipping, pricing, packaging, and merchandising. Some manufacturers adhere to these wishes because of the large volume of business generated by the retail giants; some prefer to distribute products through smaller retailers.

Distribution intensity

Distribution intensity has to do with how widely a product will be distributed. There are three levels of distribution intensity:

- exclusive
- selective
- intensive

Exclusive distribution

Exclusive distribution involves protected territories for distribution of a product in a geographic area.

- **Example:** Retailers associated with National Auto Parts Association (NAPA) buy stock from NAPA and participate in its promotions.

A variation is **integrated distribution**, in which a manufacturer acts as wholesaler and retailer for its own products.

Selective distribution

Selective distribution means that a limited number of outlets in a given geographic area are used to sell the product.

- **Example:** Ralph Lauren selects only top department and specialty stores to sell its products.

Intensive distribution

Intensive distribution involves use of all suitable outlets for a product. The objective is complete market coverage, and the ultimate goal is to sell to as many customers as possible.

- **Example:** Motor oil is sold in supermarkets, parts retailers, hardware stores, warehouse clubs, even mini marts.

E-commerce

E-commerce is the means by which products are sold to customers and industrial buyers through use of the Internet. In 2000 almost half of America's top retailers sold online.

E-commerce

Businesses use the Web to sell to consumers and to facilitate industrial sales.

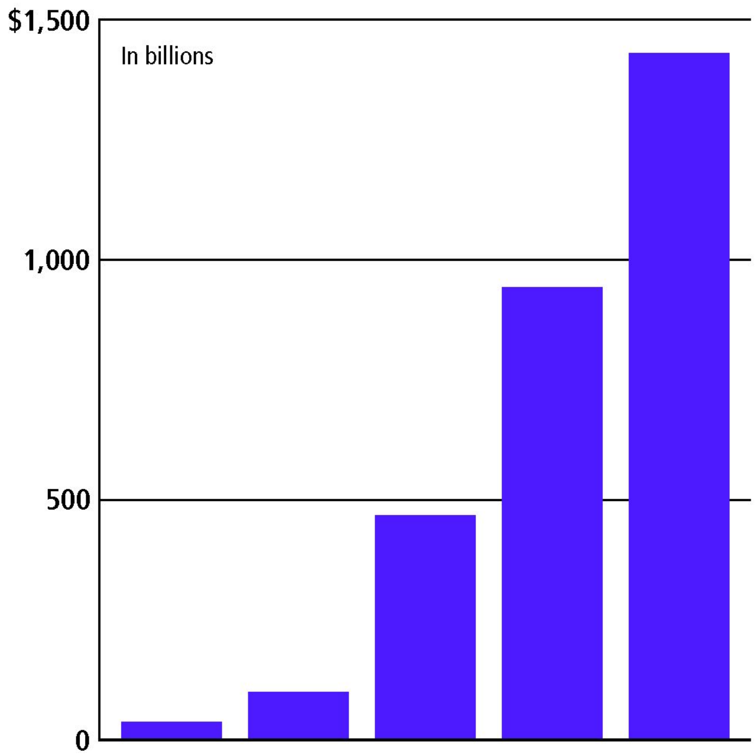
- **Example:** Panasonic uses its public Web site for information only, but it has a B2B Web site where retailers can check orders, pricing, and promotions.

Distribution Planning for Foreign Markets

Distribution planning takes on a new dimension when businesses get involved in international trade. Different environments in foreign markets require that businesses adjust their distribution systems. This also gives businesses the opportunity to experiment with different distribution strategies.

Going to the e-marketplace

Sales of goods and services via electronic marketplaces are projected to skyrocket



E-marketplaces for B2B operations provide one-stop shopping and savings for industrial buyers. Why would a business opt to be part of an e-marketplace rather than have its own Web site?

Reviewing Key Terms and Concepts

1. What key factors are considered when developing an effective distribution plan?
2. When are multiple distribution channels used?
3. Give two reasons for using a direct sales force instead of independent sales agents.
4. What are the levels of distribution intensity?
5. Explain the challenges businesses face when getting involved with distribution planning in Japan.

Thinking Critically

What problems might be created by a clothing manufacturer that establishes its own Web site to sell to the final consumer, while it also sells the same items to retailers for resale to consumers?

Questions?