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Distribution Policy

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Strategic Marketing/subject code

OUTLINE OF THE LECTURE

1. Basic terminology.

2. Distribution strategies.

1. DEFINITION OF DISTRIBUTION

- If expected marketing goals are to be achieved, a product must be made accessible (available) to the target market in an efficient manner. In many markets, the biggest constraint to successful marketing is distribution.

- When a product is manufactured it is typically shipped (and usually sold) to a distributor. The distributor then sells the product to retailers or customers.

- New approach to distribution – AVAILABILITY.

BASIC QUESTIONS REGARDING DISTRIBUTION

1. Should the product be sold through a retailer?
2. Should the product be distributed through wholesaler?
3. Should multi-level marketing channels be used?
4. How long should the channel be (how many members)?
5. Where should the product or service be available?
6. Should distribution be exclusive, selective or extensive?
7. Should channel members share advertising (co-op ads)?
8. Should electronic methods of distribution be used?
9. What will it cost to keep inventory of products on store shelves and in channel warehouses (reffered to as filling the pipeline)?

DISTRIBUTION PROCESS AND CHANNELS

- The way how to supply goods from producer to customer. The most important terms of distribution process are: right place, right quantity, good product form and type, good time.
- DC=chain of intermediaries, each passing the product down the chain to the next organization, before it finally reaches the consumer or end-user.
- A number of channels of distribution is available:
- Direct selling, such as via mail order, internet and telephone sales.
- Agent, who typically sells on behalf of the producer. They do not take ownership of products.
- Retailer (also called dealer or reseller), who sells directly to end customers.
- Direct (B2C) X Indirect (B2B).

DISTRIBUTION CHANNELS

- Distribution channels may not be restricted to physical products alone. They may be just as important for moving a service from producer to consumer in certain sectors, since both direct and indirect channels may be used. Hotels, for example, may sell their services (typically rooms) directly or through travel agents, tour operators, airlines, tourist boards, centralized reservation systems, etc.
- Other functions: collecting information, sales promotion, contacting (potential) customers, adjusting the supply to customers needs, bargaining, etc.
- To design a marketing channel system, marketers analyse customer needs and wants, establish channel objectives and constraints, and identify and evaluate major channel alternatives.

FUNCTIONS OF CHANNEL INTERMEDIARIES

- Reconciling the needs of producers and consumers – breaking bulk of products.
- Improving efficiency – reducing the number of transactions.
- Improving accessibility – improving location and time gaps.
- Providing specialist services.

TYPES OF INTERMEDIARIES

- Agents (they do not take ownership or physical possession of the products they represent).
- Producers agents (many producers).
- Sales agents (one producer).
- Brokers (bring potential buyers and sellers together).
- Wholesalers.
- Retailers.
- Purchasing agents (like sales but more functions).
- Resident buyers (geographic location).
- Franchising is the practice of using another firm's successful business model. For the franchisor, the franchise is an alternative to building 'chain stores' to distribute goods that avoids the investments and liability of a chain. The franchisor's success depends on the success of the franchisees. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business.

NUMBER OF CHANNEL MEMBERS

- Distribution channels can have a number of levels:
- The simplest level – direct contact with no intermediaries involved, as the „**zero-level**“ channel.
- The „**one-level**“ channel, features just one intermediary. In small markets (such as small countries) it is practical to reach the whole market using just one- and zero- level channels.
- In large markets (such as large countries) a **second level**, a wholesaler for example, is now mainly used to extend distribution to the large number of small, neighborhood retailers.

CHANNEL MOTIVATION

- It is difficult enough to motivate direct employees to provide the necessary sales and service support. Motivating the owners and employees of the independent organizations in a distribution chain requires even greater effort. There are many devices for achieving such motivation. Perhaps the most usual is `incentive': the supplier offers a better margin, to tempt the owners in the channel to push the product rather than its competitors; or a compensation is offered to the distributors' sales personnel, so that they are tempted to push the product.

- Conflicts in distribution might occur – who is doing what for how much money. (e-shop stealing customers of dealers)

VERTICAL MARKETING SYSTEMS (VMSS)

- Vertical marketing systems, as the name implies, are systems of vertically integrated channel members that are organized to induce cooperation and control into the channel in any of three ways:
  - By the common ownership of multiple levels of the channel by a single firm.
  - By creating contractual arrangements between channel members that specify exactly how the channel should function.
  - By virtue of the sheer ‘power’ that one member of the channel may have over other channel members to influence the decisions of those members.

FACTORS AFFECTING CHANNEL CHOICE

- Cost – most important factor – how much do we have to pay for it. Distribution costs may be as low as 30% of the total price but even up to hundreds of %!
- Competition – what channels are they using? How?
- Type of product – what type of channel is suitable for it.
- Culture – how are people used to buy (small shops, markets, hypermarkets).
- Customer – what are they like and what do they require.
- Control – how much control do I lose using some channels.
- Capital requirement – how much money is tied in distribution.
- Company goals – what do we want to achieve.

2. CREATING DISTRIBUTION STRATEGY

- Setting distribution objectives.
- Evaluation of the effects of internal and external environment.
- Choosing a distribution strategy - the number of levels of distribution channels, the choice between conventional / vertical / horizontal system, the choice between intensive / exclusive / selective distribution.
- Creating distribution tactics - the choice of participants in the distribution channels, creating a logistical strategy, order processing, warehousing, materials handling.

DISTRIBUTION STRATEGY OBJECTIVES

- As with all other marketing mix elements, we take into account the overall objectives of the strategy, based on companywide goals, mission and vision.
- Additionaly, we can have specific targets for distribution, for example:
  - Expansion / reduction of the number of distribution channels.
  - Optimizing distribution channels.
  - Modernization of distribution channels.
  - Innovations of distribution channels - finding entirely new ways.
  - Increase the benefits from the distribution channels for the customer (convenience).

EVALUATION OF THE EFFECTS OF INTERNAL AND EXTERNAL ENVIRONMENT

- Apart from the analysis that we conducted before the formulation of the strategy as a whole, we need to check distribution specifics, so we will probably need to perform additional specific analysis.
- Here are some of the trends that influence the distribution of the last decade, and that we will have to analyze:
  - The process of internationalization and concentration, with accompanying global companies.
  - Establishment of strategic business alliances, coupled with the demise of small business firms.
  - Multinational conglomerates gain market dominance.
  - There is a diversification in concepts of sales, expansion of store activities.
  - New forms of cooperation between producers and traders.
  - New technologies influencing sales - RFID merchandising.

DISTRIBUTION STRATEGIES

- **Intensive distribution** – many outlets, standard products of short-time consumption, purchase in routine way.

- **Selective distribution** – limited number of outlets, special products of long-time consumption, decision-making among several options.

- **Exclusive distribution** – only specially selected resellers or authorized dealers (typically only one per geographical area) are allowed to sell product, luxury and expensive products.

PARALLEL IMPORT/GREY MARKET

- Importers buy products from distributors in one country and sell them in another to distributors who are not part of the manufacturers regular distribution system.
- This practise is lucrative when wide margins exist between prices for the same product in different countries.
- These parallel imports upset price levels and result from ineffective management of prices and lack of control.

RETAILING

- **Retail** consists of the sale of goods or merchandise from a fixed location, such as a department store, boutique or kiosk, or by mail, in small or individual lots for direct consumption by the purchaser.

- Retailing may include subordinated services, such as delivery.

- Retailers are at the end of the supply chain.

TYPES OF RETAIL OUTLETS

- A **marketplace** is a location where goods and services are exchanged. The traditional market square is a city square where traders set up stalls and buyers browse the merchandise.
- **Supermarkets** - sell mostly food products;
- **Department stores** - very large stores offering a huge assortment of "soft" and "hard goods";
- **Discount stores** - tend to offer a wide array of products and services, but they compete mainly on price;
- **General merchandise store** - a hybrid between a department store and discount store;
- **Warehouse store** - low-cost, often high-quantity goods piled on pallets or steel shelves;
- **Variety store** or "dollar store" - extremely low-cost goods, with limited selection;
- **Demographic** - retailers that aim at one particular segment (e.g., high-end retailers focusing on wealthy individuals).

THE RETAIL MARKETING MIX

- Product range
- Product image
- Consumer franchise
- Shelf price
- Distribution
- Shelving
- Advertising

SUPERMARKET

- A supermarket, a form of grocery store, is a self-service store offering a wide variety of food and household merchandise, organized into departments. It is larger in size and has a wider selection than a traditional grocery store and it is smaller than a hypermarket or superstore.
- The traditional suburban supermarket occupies a large amount of floor space, usually on a single level. It is usually situated near a residential area in order to be convenient to consumers. Its basic appeal is the availability of a broad selection of goods under a single roof, at relatively low prices. Other advantages include; ease of parking and frequently the convenience of shopping hours that extend far into the evening or even 24 hours a day. Supermarkets usually allocate large budgets to advertising, typically through newspapers. The stores are usually part of a corporate chain that own or control other.

CURRENT TRENDS IN RETAIL

- Cooperation
- Globalization
- Private labels
- Electronization
- Acceleration of progress
- Competitive environment
- Purchase without shops
- Shopping centers
- Expertness and sales ethics growth etc.

WHOLESALING

- Wholesaling includes all the activities in selling goods or services to those who buy for resale or business use. It excludes manufacturers and farmers because they are engaged primarily in production, and it excludes retailers.
- Wholesalers pay less attention to promotion, atmosphere, and location because they are dealing with business customers rather than final consumers.
- Wholesale transactions are usually larger than retail, and wholesalers usually cover a larger trade area than retailers.
- The government deals with wholesalers and retailers differently in terms of legal regulations and taxes. Wholesalers are more efficient than retailers at performing one or more of the following functions: selling and promoting, buying and assortment building, bulk breaking, warehousing, transportation, financing, risk bearing, market information

TASKS OF WHOLESALE

- Assembling.
- Warehousing or storage.
- Dispersion.
- Transportation.
- Financing.
- Risk-bearing.
- Grading and packing.
- Pricing.

MULTI-LEVEL MARKETING (MLM)

- Is a marketing strategy in which the sales force is compensated not only for sales they personally generate, but also for the sales of others they recruit, creating a downline of distributors and a hierarchy of multiple levels of compensation. Other terms for MLM include network marketing, direct selling, and referral marketing.
- Criticism of MLM is based on their similarity to illegal pyramid schemes, price-fixing of products, high initial start-up costs, emphasis on recruitment of lower-tiered salespeople over actual sales, encouraging if not requiring salespeople to purchase and use the company's products, potential exploitation of personal relationships which are used as new sales and recruiting targets, complex and sometimes exaggerated compensation schemes, and cult-like techniques which some groups use to enhance their members' enthusiasm and devotion.

MERCHANDISING

- In the broadest sense, **merchandising** is any practice which contributes to the sale of products to a retail consumer. At a retail in-store level, merchandising refers to the variety of products available for sale and the display of those products in such a way that it stimulates interest and entices customers to make a purchase.

- For example the Apple Store.

QR CODES – VIRTUAL SHOP

- It is merely just pictures of products, each with a QR code attached to it so customers can just take a picture of it and hit the “buy now” button.
- These shops can be found in metro stations and before the customer arrives to his last stop, the package is already on its way.
- For customers it creates an opportunity to save some time because they shop while they commute.
- And for companies it presents an opportunity to save distribution costs, if they have good logistical centre.

PHYSICAL DISTRIBUTION - LOGISTICS

- The physical storage and transportation of goods, or the physical process of making a service type activity available.
- The holding of base or “buffer” stocks, via distribution warehouses and goods in transit, to “smooth” the relationship between the rate of production and the demand from channel intermediaries.
- Stocks held by intermediaries within the channel of distribution.
- Customer ordering procedures.
- Warehouse picking and order collection systems.
- Distribution control systems.

THE END

Thank you for your attention.
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