DISTRIBUTION STRATEGY AND SALES PLANNING

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DISTRIBUTION DECISIONS

- Distribution is the physical flow of products through distribution channels
- A channel of distribution is defined as a chain of market intermediaries or middlemen used by a producer or marketer to make products and services available when and where consumers or users want them
- Intermediaries are individuals or businesses that assists the producers in the performance of distribution tasks such as physical distribution among others
- Example of intermediaries includes wholesalers, retailers, and agents

Distribution objectives

- The first step in designing a distribution channel for a given product is to determine what objectives the channel must accomplish and their relative importance
- Objectives of distribution channels include the following:
  1. Increase the availability of the good or service to potential customers
  2. Satisfy customer requirements by providing high levels of service
  3. Ensure promotional effort: obtain promotional support from channel members

Distribution objectives (Cont'd)

iv. Obtain timely and detailed market information: middlemen are relied upon for fast and accurate feedback

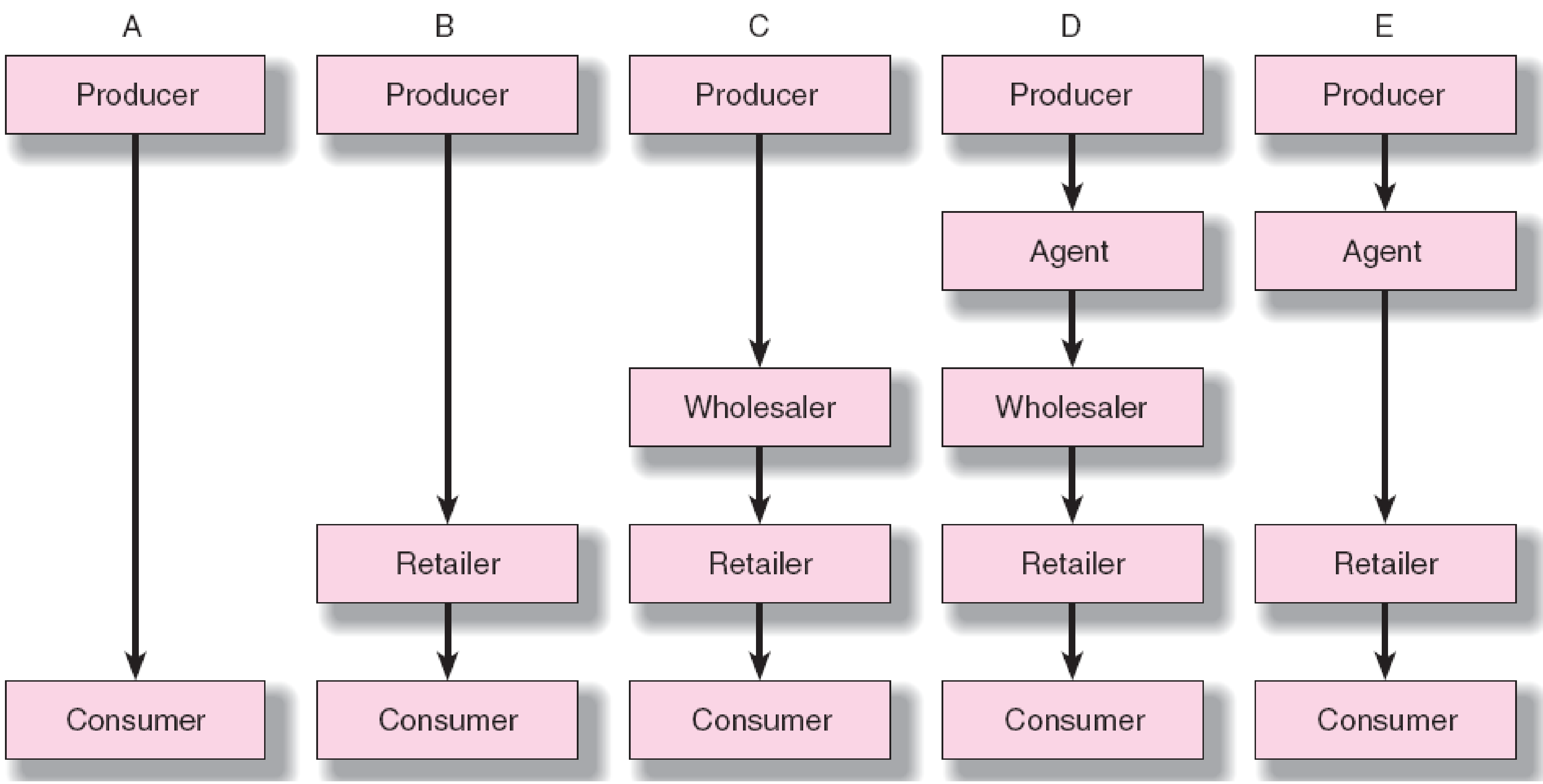
v. Increase cost- effectiveness

vi. Maintain flexibility

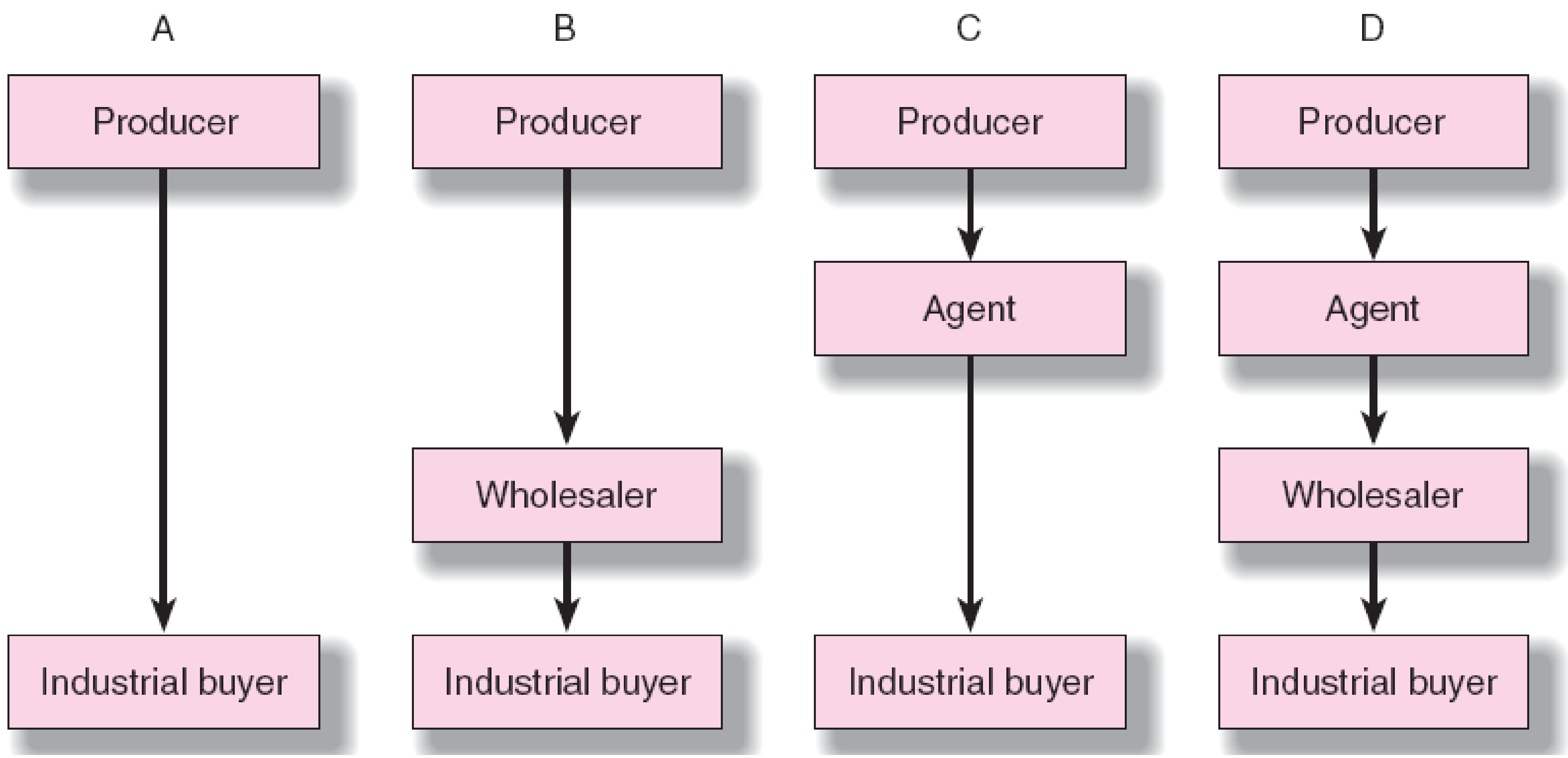
Major channels of distribution

- Five channels are widely used in the marketing of consumer products
- Channels vary in length from short to long, depending on the numbers of middlemen involved
- Some of the channels of distribution are displayed in the next slide

Marketing Channels for Consumer Goods and Services



Marketing Channels for Industrial Goods and Services



Factors Affecting Choice of Distribution Channels

- Since a channel of distribution should be determined by customer buying patterns, the nature of the market is the key factor influencing management's choices of channels
- Other major considerations are the product, middlemen, and the company itself
- A company should follow the following three Cs criteria when selecting distribution channels:
  - Control
  - Coverage
  - Cost

Factors Affecting Choice of Distribution Channels

a) Market considerations

- *Number of potential customers*: with relatively few customers, a manufacturer may use its own sales force to sell directly to consumers
- *Geographical concentration of the market*: sellers may establish sales branches in densely populated markets
- *Order size*: a manufacturer may sell directly to buyers with large order size

Factors Affecting Choice of Distribution Channels

b) Product considerations

- *Unit value*: the lower the unit value, the longer are the distribution channels e.g. sweets
- *Perishability*: products subject to perishability must be distributed fast through shorter channels
- *Technical nature of the product*: an industrial product that is highly technical is distributed directly to industrial users

Factors Affecting Choice of Distribution Channels

c) Middlemen considerations

- *Services provided by middlemen*: middlemen who provide services that the manufacturer is unable to provide influence choice of distribution channel
- Availability of desired middlemen
- *Attitude of middlemen toward manufacturers' policies*: congruency of manufacturer's policies to those of middlemen influence choice of distribution channel

Factors Affecting Choice of Distribution Channels

d) Company considerations

- *Financial resources*: a business with sufficient finances can establish its own sales force
- *Management's ability*: many firms with little marketing knowledge and abilities prefer to distribute through middlemen
- *Channel control*: manufacturers who desire to control the distribution opt for shorter channels
- *Services provided by seller*: distribution channel decisions are influenced by the marketing services the manufacturer is able to provide to middlemen

Functions performed by middlemen

- *Contractin*g: developing sales contracts
- *Sorting*: through bulk breaking and bulk building
- *Physical distribution*: transporting products physically to the final consumers through the channels
- *Stimulating demand*: they engage in personal selling and other promotional activities that translate to increased demand for products
- *Market information*: important source of information because they interact with customers

Determining Intensity of Distribution

- After selecting distribution channels, manufacturers decide upon the number of middlemen i.e. the intensity of distribution at the wholesale and retail levels
- Three strategies of distribution intensity include the following:

1. *Intensive distribution*: used by manufacturers of convenience goods. Intensive distribution places of advertising burden on the shoulders of manufacturers
2. *Selective distribution*: covers a wide range of distribution intensity. A business that adopts this strategy may have only a few outlets in a particular market. This strategy lends itself to specialty goods and industrial accessory equipment

Determining Intensity of Distribution (Cont'd)

A company may adopt selective distribution strategy after some experience with intensive distribution

3. *Exclusive distribution*: the supplier agrees to sell only to a particular wholesaling middlemen or retailer in a given market. This strategy is used in marketing of consumer specialty products such as expensive cars

Comparison of Intensive, Exclusive, and Selective Retail Coverage Strategies

	Retail coverage	Major strength	Major weakness	Products most appropriate for
Intensive	Maximum	Maximizes product availability	Lack of retailer support	Low-involvement consumer convenience goods
Exclusive	Single	Matches retailer clientele with target market; facilitates close cooperation with retailer	Risk of relying on single retailer	High-involvement specialty or shopping goods
Selective	Limited	Provides adequate coverage but not at expense of manufacturer–retailer cooperation	Difficult to implement given interstore competition, especially where discounts may occur	Infrequently purchased shopping goods

Multichannel distribution

- Companies are increasingly using multiple channels, also called dual distribution to reach markets
- Dual distribution is often used to reach a single market, but one in which there are differences in terms of size of buyers, densities within parts of the market
- A significant development in dual distribution is the use of competing channel systems to sell the same brand to the same market
- Multichannel systems employ separate channels to reach different target segments
- Members of a hybrid system perform complementary functions for the same customer segment.

Example of a Hybrid Marketing Channel