Place Strategies

Introduction

A nice morning! You are in your local market for buying vegetables, fish, grocery items or meat. But are you buying vegetables from farmers, fish from the fishermen or toothpaste form the company directly? Answer is big NO! These products have reached you after passing through various layers form the manufacturers and producers. This whole mechanism sums up to the distribution system. Even after the favourable product features, affordable pricing and well communicated promotions, if the product is not readily available in the market, then the ultimate purpose is not served; hence the importance of the distribution management. For this distribution or ***Place*** is an important tool of the marketing-mix. Hence, Lee Iaacoca, the legendary ex-boss of Genera Motors has commented, *"The company with the finest distribution system often wins the battle for market share and can substantially block a rival form penetrating a market."*

By distribution management, we mean the flow of physical goods, title, payment, information and promotion to ensure the availability and accessibility of the products to the consumers at proper time. There could be 3 types of flows:

- Forward flow: Some functions (physical, title, promotion) constitute a forward flow of activity from the company to the customer.
- Backward flow: Some functions (ordering, payment) constitute a backward flow from consumers to the company.
- Both directions: Some functions (information, negotiation, finance, risk-taking) occur in both directions.

Managing Marketing Channels

The English word 'channel' is based on the Norman word for canal. In marketing terms, this can be interpreted as the journey taken by products and/or services as they flow form their point of creation to points of intermediate and final use or consumption. A manufacturer selling a physical product and services might require 3 channels: sales, delivery and service. But due to complexity of operation and widely dispersed customers, most of the manufacturers cannot deliver their products directly to the consumers and have to depend on various intermediaries or Marketing Channels. The Marketing Channels are the sets of interdependent organisations involved in the process of making a product or service available for use or consumption. The members of the marketing channels perform following key functions:

- They oversee actual transfer of ownership form one person or organisation to another. The marketing channels receive products form a company or a representative of the company and transfer to another company or a representative of that company in the next level of distribution channel
- They assume risks connected with carrying out channel work. There are always some risks attached with the physical transfer of products in the form of pilferage, damage, misplacement etc. Although most of the companies pay for the valid claims, but still the intermediaries have to take risk in distributing the products properly to nullify any mistake on their part.
- They provide for the successive storage and movement of physical products. The products move from manufacturer's office or factory to final customers through some sequential stages.
- They take care of collecting buyers' payment and paying back to the seller in due time.
- They acquire the funds to finance inventories at different level in the marketing channel. Keeping inventory and turning the stock effectively to minimise the cost of idle inventory are the major decisions taken by them
- They place orders with the manufacturers as and when needed. They constantly keep in touch so that there is no stock out of the product.
- They reach agreement on price and other terms so that transfer of ownership or possession can be implemented. There are firmly laid rules and regulations (mostly written) regarding commission structure, credit period, discount amount for early payment, payment terms and producer guarantees against defective merchandise or price declines. A guarantee against price declines gives distributors an incentive to buy larger quantities.

- They develop and disseminate persuasive communications to stimulate purchasing. This is specially seen at the retail point, where the retailers often suggest taking certain product and rejecting some other.
- They participate in trade promotion schemes organised by the companies by promoting products with more emphasis.
- They provide pre and after-sales service.
- They gather information about potential and current customers, competitors' advertisement and other forces and factors in the marketing environment.

A channel is a passageway that allows the happening of certain processes. The term 'marketing channel' was first used to represent a trade channel covering the distance between the producer and the consumer. Marketing is understood to be an exchange process

A channel facilitates the transfer of ownership and the physical exchange of products and services. The diverse and complex nature of a variety of marketing channels ranges from a simple channel linking producer directly to the customer, to a complex one where there are several layers of distributors linking the producer to the end customer.

The definition of marketing channel as a set of interdependent organizations involved in the process of making a good or service available for use or consumption, bears some explication. It first points out that a marketing channel is a "set of interdependent organizations." That is, a marketing channel is not just one firm doing its best in the market --- whether that firm is a manufacturer, wholesaler, or retailer. Rather, many entities are typically involved in the business of channel marketing. Each channel member depends on the others to do their jobs. The definition makes clear that running a marketing channel is a "process." It is not an event. Distribution frequently takes time to accomplish, and even when a sale is finally made, the relationship with the end-user is usually not over. For example, think about an end user purchasing a microwave oven and it demands for post-sale service. Finally, what is the purpose of this process? The definition claims that it is "making a product or service available for use or consumption." That is, the purpose of channel marketing is to satisfy the end-users in the market, be they consumers or final business buyers. Their goal is the use or consumption of the product or service being sold. A manufacturer who sells through distributors to retailers, who serve final consumers, may be tempted to think that it has generated "sales" and developed "happy customers" when its sales force successfully places a product in the distributors' warehouses. This definition argues otherwise. It is of critical importance that all channel members focus their attention on the end-user.

The producer and final customers are part of every distribution channel. Depending on product nature, type of customers and degree of intensity of distribution networks, there could be various numbers of intermediaries (designated as length of channel) between manufacturer and customers.

- 0-level channel or direct-marketing channel: This consists of a manufacturer selling directly to the final customer. The major examples are telemarketing, door-to-door sales, mail order and manufacture-owned stores.

Manufacturer → Customer

- 1-level channel: This contains one selling intermediaries between manufacturer and customer.

Manufacturer → Retailer → Customer

- 2-level, channel: This contains one, two or three selling intermediaries between manufacturer and final customer.

Manufacturer → Wholesaler → Retailer → Customer

- 3-level channel: This contains three selling intermediaries between manufacturer and final customer.

Manufacturer → Wholesaler → Distributor → Retailer → Customer

There could be more levels of channels depending on the intensity of distribution network. The channels normally describe a forward movement of products. But there are some cases of reversing the flow of materials, where backward channels of distribution are needed. The consumer must be motivated to undergo a role change and become a producer or marketer of trash through backward channels in order to initiate the reverse distribution process. The example is plastic or newspaper recycling.

The relative strengths of direct and intermediary routes for managers can be summarised as follows:

Direct method

- It enables organisations to build strong relationships with consumers
- It puts the distribution network under the control of the manufacturer
- It increases margins on sales by cutting out the mark-ups of intermediaries
- It provides opportunities to complement and reinforce sales made through other methods
- It allows organisations to reach parts of markets not accessible through other methods

Intermediaries

- These help buying more per order than individual consumers
- The economies of scale operate to mutual benefit (i.e. manufacturers produce in bulk; intermediaries buy in bulk)
- They are physically closer to consumers and can provide market information
- They increase opportunities to make sales by bringing complementary products together to the benefit of the consumer
- They can offer after-sales service in locations convenient to consumers, rather than returning products to a factory
- Fewer relationships are required to maintain the distribution network than in dealing directly with thousands of individual consumers.

Marketing channels create four types of utility

1. Time utility–created by having products available when the customer wants them

2. Place utility–created by making products available in locations where customers wish to purchase them

3. Possession utility–created by the customer having access to the product to use or to store for future use

4. Channel members sometimes create form utility by assembling, preparing, or otherwise refining the product to suit individual customer tastes.

The concept of marketing channels is not limited to the distribution of physical goods. Producers of services and ideas also face the problem of making their output available and accessible to target populations. In designing the marketing channel, the marketer must understand the service output levels desired by the target customers. Channels produce 5 service outputs:

- Spatial convenience: The degree to which the marketing channel makes it easy for customers to purchase the product. Online shopping is becoming more popular in this fast moving world where people do not have time to go to shops. Hence companies like Amazon.com and eBay.com are offering products online so that you can order goods by just clicking mouse while sitting at your home.
- Product variety: The *assortment breadth* provided by the marketing channel. Customers prefer a greater assortment because more choices increase the chance of finding what they need. This is why hypermarket like Giant of RPG group is gaining popularity as people fine a lot of products and brands under one roof.
- Service backup: The add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service backup, the greater the work provided by the channel. Maruti developed extensive dealer and after-sales service network so that a person willing to repair a Maruti car does not have to wonder much. Eureka Forbes is another example that offers door-to-door sales and maintenance facilities for their products like water purifier and vacuum cleaner.
- Lot size: The number of units the channel permits a typical customer to purchase on one occasion.
- Waiting time: The average time customers of that channel wait for receipt of the goods.

Roles of Marketing Channels

Channel roles are the sets of activities or behaviours assigned to each intermediary in a channel system.

1st Role - Filling the gaps: The first and foremost role of a marketing channel is to fill the gaps between the production and consumption process. The various gaps are:

- Time gaps: Considerable time difference between the production and consumption of goods; **car, soap**
- Space gaps**:** Place of production not close to consumers**; Tata Motor's Pune factory and Kolkata consumer**
- Quantity gaps**:** Breaking down these large quantities into smaller quantities; **whole consignment to be despatched to dealers and retailers in cartons (in case of soaps and shampoos), crates (in case of soft drinks) or packs (in case of newspapers)**
- Variety gaps**:** Offering a variety of products; **shampoos are available in various sizes and forms (sachets, small and large bottles) as well as various types (for oily hair, anti-dandruff or with hair-conditioning feature)**

2nd Role - Channel Flow: Marketing channels perform a number of tasks in terms of channel flow, such as:

- Possession: The possession of goods thus gets transferred from the producers to the final customers.
- Ownership: The flow of ownership or transfer of the title of the goods
- Financial flow: The payment process usually in the opposite direction of the ownership and physical flow of goods
- Information flow: Creation of awareness helps in obtaining customer orders; Also customer complaints

- Risk flow: In the form of product perishability, fluctuating demand patterns, price fluctuations, faulty products,
- Negotiation: Agreement on price, financing, features
- Service: After-sales service like car distributor

3rd Role - Maintenance of Channel Levels: For consumer markets, the various levels of channels possible are zero, one, two and three levels.

- A zero level channel represents a manufacturer directly selling his products to the final consumer. Door-to-door selling, mail order catalogues, telemarketing, and manufacturer-owned retail outlets; **Amway, Tupperware and Eureka Forbes**
- A one-level channel represents a single intermediary, such as a retailer buying goods directly from the producer and selling them to the final consumer. **Automobile dealers (Maruti Udyog) and petrol pump dealers**
- A two-level channel represents two intermediaries: wholesaler & retailer; **Fast moving consumer goods (FMCGs)**

Industrial markets too possess the same channel levels but with minor exceptions.

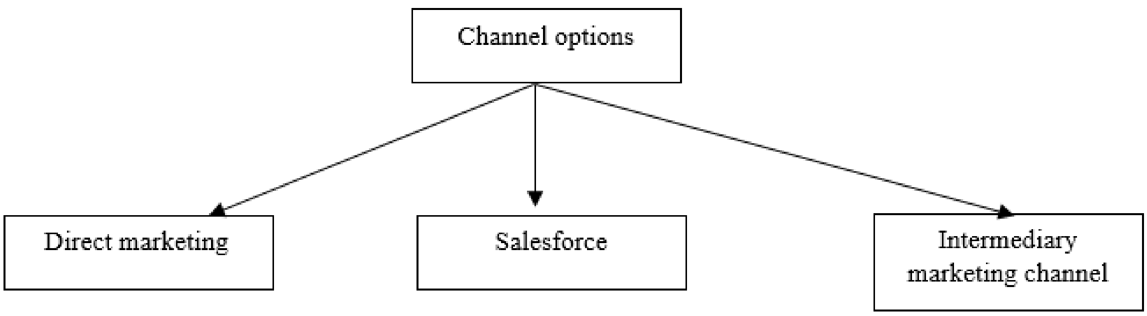
- In the zero-level channel, producers sell their products directly to the industrial customers.
- In the one-level channel, the producers' salespersons market their products to industrial distributors, who in turn, sell them to industrial customers. In the next stage, the manufacturer may use his representative to market the products to the industrial distributor, who in turn, sells the products to industrial customers.

Identifying major channel alternatives

After a company has defined its target market and desired positioning, it should identify its channel alternatives. A channel alternative is described by 3 elements:

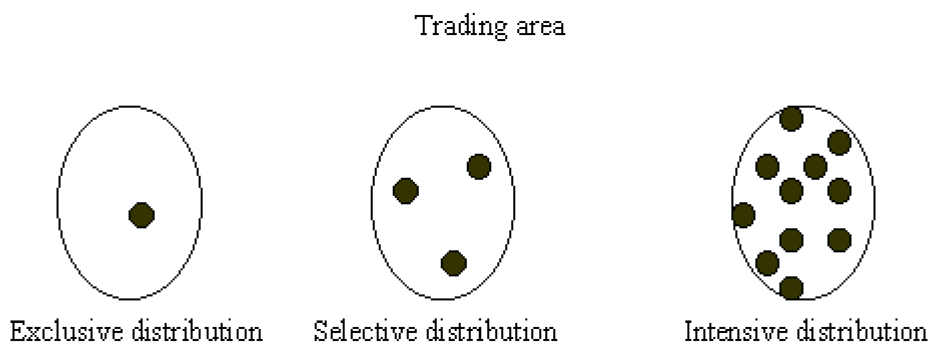
- **Company sales force:** Expand the company's direct sales force. Assign sales representatives to territories to contact all prospects in the area or develop separate sales forces for the different industries.
- **Manufacturers' agency:** Hire manufacturers' agents in different regions or end-use industries to sell the new equipment.
- **Industrial distributors:** Find distributors in different regions or end-use industries who will buy and carry the device. Give them exclusive distribution, adequate margins, product training and promotional support.

Doyle suggested that there are 3 generic channel options as illustrated below.



Source: Doyle (1994), pp. 318

After selecting a marketing channel, the company must decide on the number of intermediaries to be used at each channel level to provide the best target market coverage. The distribution intensity is the number of marketing intermediaries at each level of the marketing channel, which depends on nature of product and type of target customers. There are 3 major levels of distribution intensity:



Source: Cravens (1991), pp 428

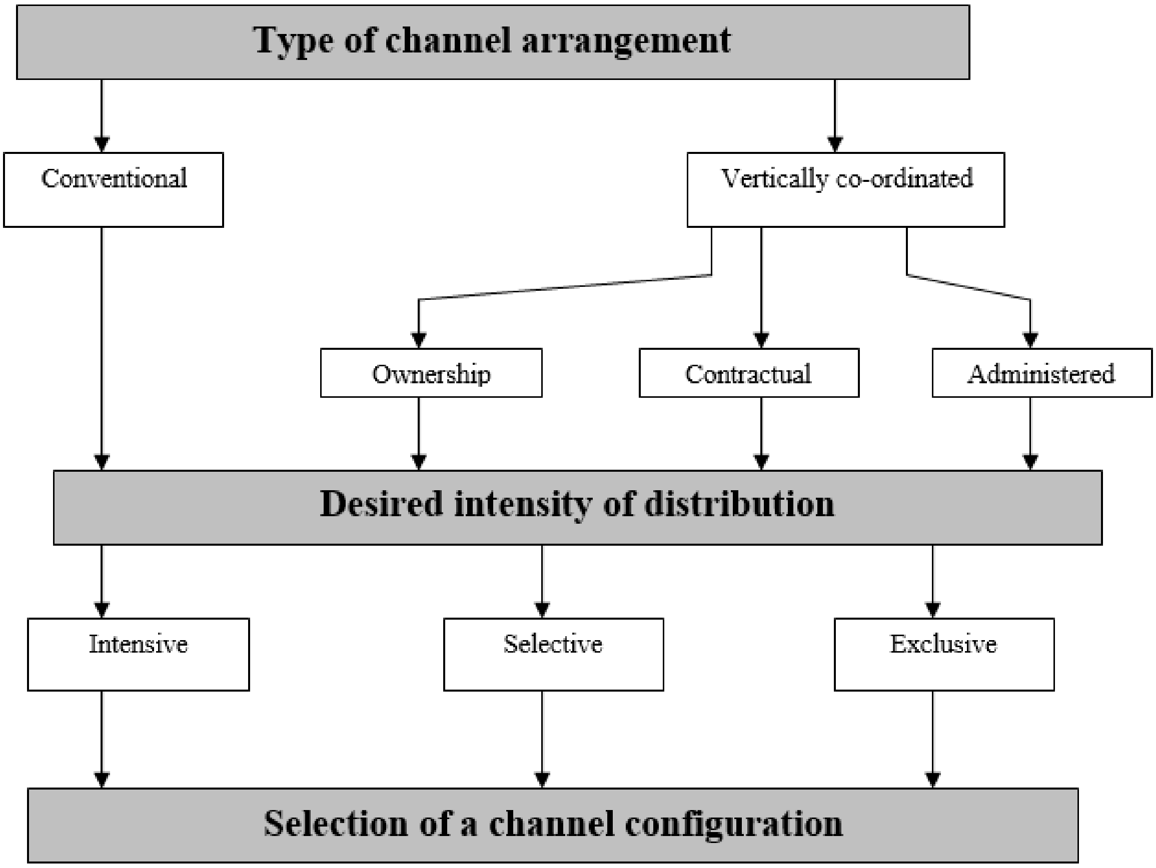
- **Intensive distribution:** It consists of the manufacturer placing the products in as many outlets as possible at each level of the channel to distribute a product. Convenience products such as bread, milk, newspapers, soft drinks, FMCG products (such as toothpaste, washing powder, soap, shampoo etc.) require this type of distribution so that whenever a consumer needs to purchase such type of products that are less expensive, purchased frequently and requires little shopping effort, they are readily available to him or her at all possible outlets. Thus you can find newspapers and magazines from street vendors, newspaper stands, grocery stores and other outlets.
- **Selective distribution:** It involves the use of more than a few but less than all of the intermediaries who are willing to carry a particular product. The shopping goods and durable goods such as automobiles and electronic appliances. Because such products are more expensive than convenience goods, consumers spend more time visiting retail outlets to compare prices, designs, styles and other features. It is normally used by established companies and also by new companies seeking distributors. It enables the producer to gain adequate market coverage with more control and less cost than intensive distribution.
- **Exclusive distribution:** It means limited number of intermediaries. The organisations use this type of distribution for products that have special features, purchased very rarely, require service or information to fit them to buyers' needs and more expensive. If you want to buy a Skoda Octavia car or Christian Dior perfume, you will find at much selected store that could be 1 or 2 outlets in a big metro city. It is also used when producer wants to maintain control over the service level and service outputs offered by the resellers. Often it involves exclusive dealing arrangement, in which the resellers agree not to carry competing brands.

The choice among the alternatives will depend to a large extent on the nature of the market offering, the target segment and the product positioning. Lancaster and Massingham suggested that the some of the factors that might persuade a company to prefer a more exclusive form of distribution include:

- Where the customer needs or expects specialist advice, facilities and service
- Where the manufacturer and/or distributor would gain from the enhanced image associated with selective or exclusive distribution
- Where potential sales volume would not warrant more intensive distributioWhere the manufacturer wishes to exercise more control over channel members' marketing activities

- Where more intensive distribution might result in conflicts between channel members

Cravens provided a summary of channel choice decisions as shown below.



Source: Cravens (1991), pp. 433

Functions of Marketing Channels

Facilitating the Exchange Process: The exchange process is the mechanism that connects the channel members and allows them to combine their resources and assess the market risks to achieve the common goals of the channel

Alleviating Discrepancies: Discrepancies occur when a marketing channel fails to match customer expectations

Type of discrepancies	Regrouping activities to avoid these discrepancies

Discrepancies of quantity occur when customers are unable to purchase the exact quantity of the product they want.	▪ Accumulating: This is the process of collecting the same product in large quantities. ▪ Allocating/'breaking bulk': Larger quantities are broken down into smaller quantities though various distribution levels.
Discrepancies of assortment occur when customers are unable to buy the exact combination of goods and services they want	▪ Sorting: Produce different varieties of products for different uses and profiles - **anti-dandruff, normal or dry hair shampoo** ▪ Assorting: In this process, the exact requirement of the customers is ascertained for a target group of customers.

- Standardizing Transactions**:** Distribution is standardized throughout the marketing channel so that consumers do not need to negotiate with the sellers on any aspect. **Mother Dairy booth**
- Matching Buyers and Sellers**:** Match the buyers' and sellers' needs. **Real estate marketing agent such as 99acress.com or MMG Realtors**
- Providing Customer Service**:** Includes installation, training, maintenance, repairing

Designing Distribution Channels

Designing deals with the decisions associated with forming a new distribution channel or modifying an existing one. **ITC distributes its products to more than a million outlets located in the major states and geographically arranged so that logistics costs are minimized. The company's distribution network consists of e-choupals, a two way rural sourcing and distribution system that sources agricultural products directly from farmers through 1,286 kiosks situated across 9,000 villages.**

Although distribution decisions need not precede other marketing decisions, they are a powerful influence on the rest of the marketing mix. Channel decisions are critical because they determine a product's market presence and buyers' accessibility to the product. Channel decisions have additional strategic significance because they entail long-term commitments. It is usually easier to change prices or promotion than to change marketing channels.

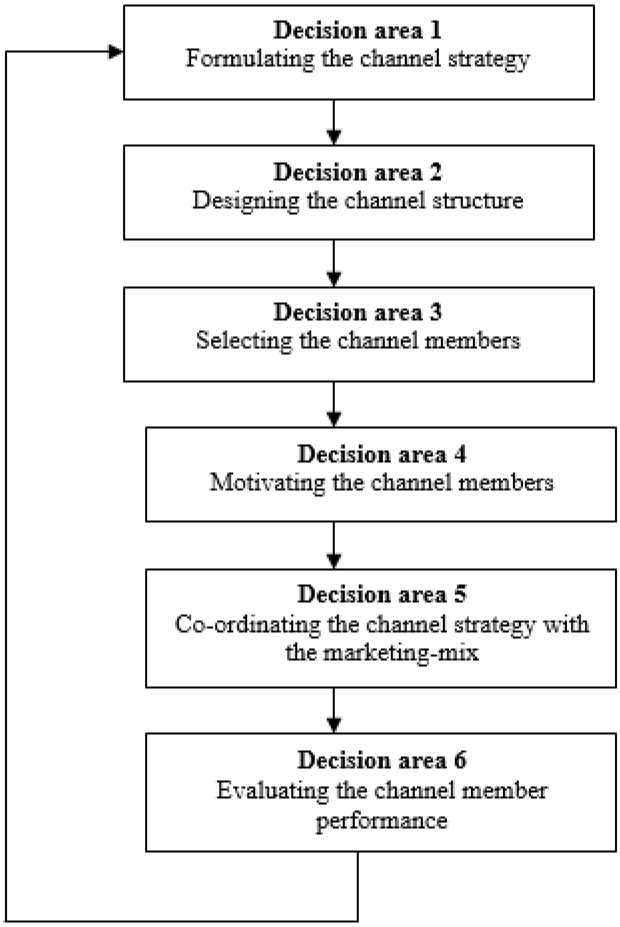
The 'distribution system' refers to the entire marketing process, and not just the physical product distribution. It is a set of interdependent groups and individuals concerned with transferring specific goods or services from the original producer or supplier to the final user or consumer.

Distribution channels are essentially sets of relationships where the parties being involved have to:

- Know each other's aims, policies and procedures
- Be aware of their planning horizons and management styles
- Be willing to accept tasks as well as impose them on others

The most effective distribution channels are those where the distributor's interests are made to coincide with the producer's interests. Before any commitment is made, the producer needs to be certain of the distributor's business aims, attitudes and customer franchise. It pays to remember that your distributors are customers too, and have the option to buy elsewhere. Distributors may take on some or all of the tasks involved in getting goods or services from the producer's door to the consumer's threshold. Transferring part of the company's image to the distributor implies that decisions taken by the middleman must be reviewed and should be of a long-term nature.

Rosenbloom identified 6 major decision areas in channel management.



Source: Rosenbloom (1995), pp 443

Analysing Customer Expectations of Service Output:

The analysis of why target customers buy their products helps marketers categorize the buying decisions of customers into four types of channel output utilities.

- Lot Size Utility: Refers to the total number of units of a product that a customer acquires during a transaction period. **Car rental agencies require cars in larger lot sizes, whereas individual customers purchase in a lot size of one. So, car manufacturing companies provide different distribution channels to meet the demand of these different sets of customers.**

- Convenience Utility:
  - ***Temporal convenience:*** Convenience in terms of time **(Courier service);**
  - ***Spatial convenience:*** Convenience in terms of space or location **(Maruti's wide dealer network);**
  - ***Both Temporal & Spatial:*** **ATMs**

- Selection Utility: Offering variety or breadth of product assortment: **The Mobile Store, Capital Electronics**

- Service Utility: Refers to the value added services such as **credit facility, free delivery, installations, repairs**

Formulating Objectives:

The objectives may vary with the size of the firms, market type, type of relationship **(franchising, exclusive distributorship)** with channel members, channel member's profitability, sales volume, brand associations, product portfolio and life cycle, managerial capabilities, attitude, performance

Evaluation of Distribution Environment:

The evaluation process consists of analysing, forecasting and observing the external factors that may influence the channel environment.

Channel Management

After designing the distribution channels, issues relating to the management of channels need to be addressed. These issues include selection of channel members, their training, motivation and evaluation, modifying the channel arrangement, and the legal and ethical issues in channel management.

1. Dual distribution: Manufacturer distributes products through more than one marketing channel. **Bajaj Allianz has its own sales force, corporate broker (Religare, Carvy) and Bancassurance agreement with ABN AMRO**

Exclusive dealing agreement: Distributor has to exclusively deal with only one manufacturer's product line. **Shops with Pepsi-sponsored refrigerator cannot stock any products of Coca-Cola.**

2. Tying agreements: Distributor can purchase other products produced by the manufacturer along with his main line of product. Manufacturers adopt this practice when the movement of their products in the market is not uniform. Therefore, they tie weaker products (like spares, tools and accessories) with the stronger or fast moving products (the machine). **ABP follows this practice for pushing The Telegraph and Business World in rural markets of West Bengal utilising the leverage of its anchor brand Ananda Bazaar Patrika**

3. Restricted sales territories: Manufacturer agrees not to sell products to any other distributor other than the appointed one within a designated geographical territory. The distributor too, in turn, agrees not to sell the manufacturer's products in any other territory other than the one designated to him. Franchising may be considered as an example of restricted sales territory agreement wherein the franchisor gives the franchisee exclusive sales rights in a particular territory.

4. Dealer's rights: Companies generally have the freedom to select their dealers, but their right to terminate the dealership is restricted. Although manufacturers can terminate the dealership on several grounds, they cannot do this easily in case of doubtful legal agreements pertaining to exclusive dealing or tying agreements.