

CHAPTER 15

Place

Sections

15.1 Channels of Distribution

15.2 Supply Chain



College
and Career
Readiness

Reading Prep

Before reading this chapter, look at all the illustrations. Illustrations help readers visualize the concepts and topics presented in the content. What information can you deduce from the chapter illustrations?

Check Your Marketing IQ

Before you begin the chapter, see what you already know about marketing by taking the chapter pretest. The pretest is available at www.g-wlearning.com/marketing/.

DECA Emerging Leaders

Hospitality Services Team Decision-Making Event, Part 1

Career Cluster: Hospitality and Tourism

Instructional Area: Market Planning

Knowledge and Skills Developed

Participants will develop many 21st century skills desired by today's employers in the following categories:

- communication and collaboration
- creativity and innovation
- critical thinking and problem solving
- flexibility and adaptability
- information literacy
- initiative and self-direction
- leadership and responsibility
- productivity and accountability
- social and cross-cultural skills

Specific Performance Indicators

- Identify information monitored for marketing decision-making.
- Explain the concept of marketing strategies.
- Explain the nature of marketing plans.
- Explain the role of situational analysis in the marketing planning process.
- Describe factors used by marketers to position products/services.
- Explain the role of customer service as a component of selling relationships.
- Explain the role of ethics in human resources management.

Purpose

Designed for a team of two DECA members, the event measures the team's ability to explain core business concepts in the format of a case study in

a role-play. This event consists of a 100-question, multiple-choice, cluster exam for each team member and a decision-making case study situation. The Team Decision-Making Event provides an opportunity for participants to analyze one or a combination of elements essential to the effective operation of a business in the specific career area presented as a case study.

For the purposes of this text, you will be presented with the material for this event in two parts. Part 1 presents the knowledge and skills assessed and an overview of the event's purpose and procedure. Part 2 presents the remaining procedures and the event situation.

Procedure, Part 1

1. For Part 1 in this text, read both sets of performance indicators. Discuss these with your team member.
2. If there are any questions, ask your instructor to clarify.

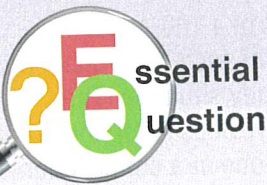
Critical Thinking

1. In a business, what information should be monitored for effective decision making?
2. Explain how marketing strategies and marketing plans impact marketing decisions.
3. What is the role of situational analysis in the marketing planning process?
4. Describe various factors marketers use to position products/services. Why are the factors important?
5. Discuss with your team member why performance indicators about the role of customer service and ethics might be included.

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Section 15.1



Why is place an important P in the marketing mix?

Channels of Distribution

Learning Objectives

- LO 15.1-1 Explain place as one of the four Ps of marketing.
- LO 15.1-2 Identify distribution channels for B2C and B2B markets.
- LO 15.1-3 Explain how to manage the channel of distribution.

Key Terms

supply chain
channel of distribution
intermediary
bulk-breaking
nonstore retailer
e-tailer
multi-channel retailer
direct channel
indirect channel

retailer channel
wholesaler channel
agent/broker channel
industrial goods
industrial distributor channel
agent/broker industrial
distributor channel
channel conflict

LO
15.1-1

Place

Place is one of the four Ps of marketing. *Place* refers to the activities involved in getting a good or service to the end user. It involves determining when, where, and how products get to customers. Place is also known as *distribution*.

A **supply chain** is the businesses, people, and activities involved in turning raw materials into products and delivering them to end users. Physical distribution is a part of the larger process of the supply chain. The supply chain can be very long for some businesses or very short for others.

A major part in the decision of place is selecting the channel of distribution. A **channel of distribution** is the *path* that goods take through the supply chain. *Channel members* are the organizations that help move products from their origination to the consumer. Channel members include producers and intermediaries.

Producers

Producers are businesses that create goods or services. They provide a specific role in the economy. In order for a business to meet consumer needs and wants, producers are needed to create



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Place refers to the activities involved in getting a good or service to the end user. *What companies can you name that help facilitate distribution?*

the end product. This industry creates three basic types of products: natural resources, agricultural products, and finished goods.

Natural Resources

Natural resources, such as timber, water, or minerals, are one type of product produced by the industry. Natural resources are also called *raw materials*. *Extractors* are businesses or people that take natural resources from the land.

Agricultural Products

Farmers raise crops and livestock that are sold to end users, such as consumers. These products may also be used by manufacturers to create other products.

Finished Goods

Finished goods are another type of product created by producers. *Manufacturers* are businesses that use supplies from other producers to make products. Some manufacturers use raw materials purchased from extractors. These businesses are called *raw-materials manufacturers* or *raw-materials producers*.

Manufacturers generally use assembly lines to mass produce identical products. However, there are also custom manufacturers, such as builders. A *builder* is an individual or business that contracts and supervises the construction of a building. Builders are considered manufacturers because they turn raw goods into a finished product.

Intermediaries

An **intermediary** is a business in the supply chain between the manufacturer or producer and the end users. Intermediaries serve three functions: transactional, logistical, and facilitating. These functions help make sure goods are in the right place and at the right time.

- The *transactional function* is typically the sales and marketing activities for the business. The intermediary contacts customers and provides information about the products.
- The *logistics function* is physically moving products from the manufacturers to distributors, retailers, or end users. The intermediary makes sure the product moves through the supply chain. This includes transportation, such as trucking, rail, or other shipping options.



Marketing Ethics

Collusion

It is unethical and illegal for intermediaries to participate in acts of collusion. *Collusion* occurs when channel members work together to eliminate competition by misleading supply chain managers, setting prices, or other fraudulent activities. Unethical businesses sometimes collude with other businesses so that they can dominate the marketplace. Collusion is not only unethical, it is illegal.

- The *facilitating function* is the final part of the supply chain. This involves the actual selling of the product or service to the end users. The end user could be consumers or businesses.

For example, think of an apple you ate recently. As shown in Figure 15-1, the apple was grown in an apple orchard owned by an apple farmer, the producer. The apple farmer sold the apples to an apple buyer, an intermediary. The apple buyer sold apples to the local store, another intermediary. You, a consumer, visited the store and bought the apple. You could have bought the apple directly from the apple farmer. However, the apple buyer and the store made the apple more convenient for you to buy when you wanted it.

Intermediaries are important to the supply chain process. They can add substantial value to a business by providing specialized services the business may not be able to afford. Intermediaries help to increase the number of end users a producer can reach, increase market share for the producer, and help to reduce some costs by sharing responsibilities.

One service that intermediaries can provide is bulk-breaking. **Bulk-breaking** is the process of separating a large quantity of goods into smaller quantities for resale. An intermediary buys goods in bulk and then breaks the bulk into smaller quantities of goods. For example, it is easier and cheaper to ship a bushel of apples rather than 100 separate apples. A grocery store can buy apples by the bushel and sell them to customers a few at a time.

There are several types of intermediaries, including wholesalers, retailers, and agents. Some intermediaries take ownership of the product. Other intermediaries act as facilitators and do not

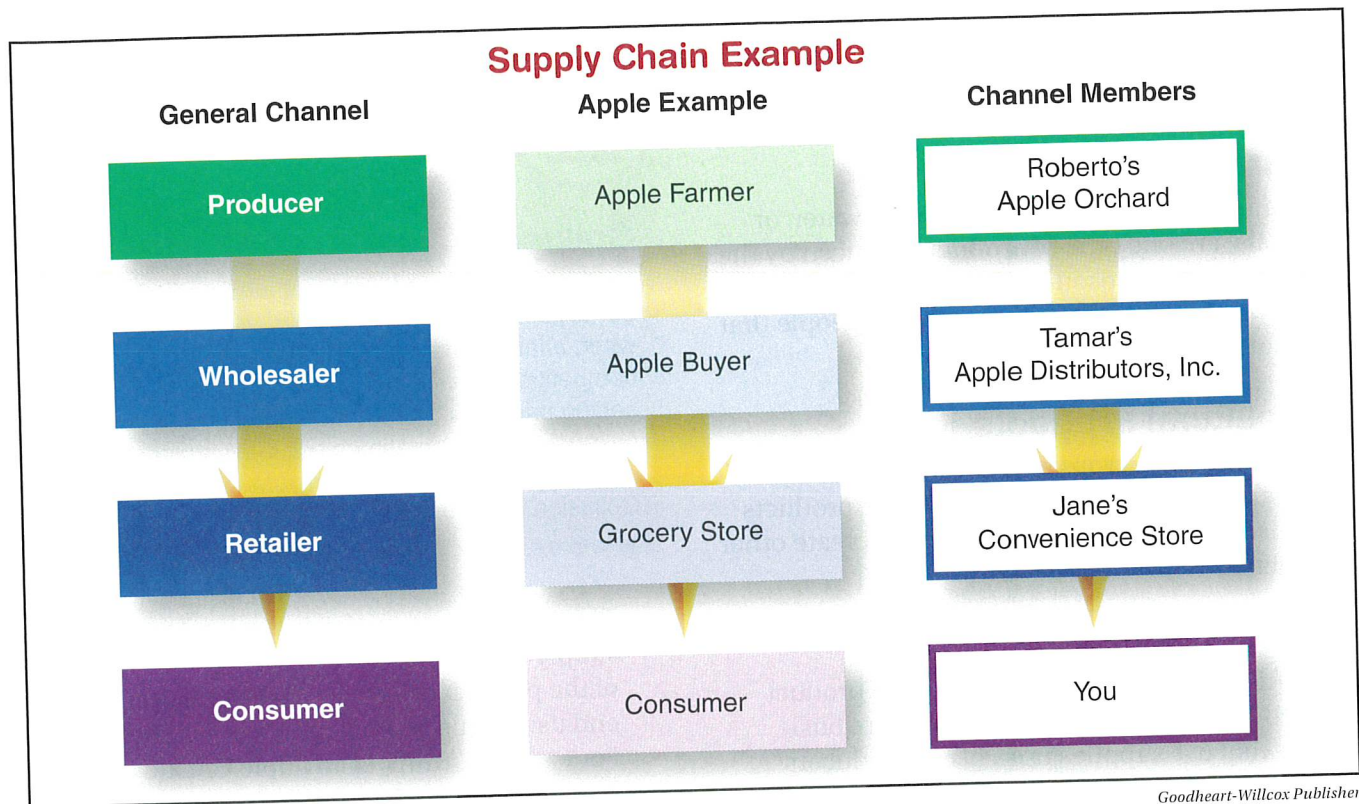


Figure 15-1 Intermediaries are important to the supply chain.

take ownership, but rather transfer the goods to another channel member.

Wholesalers

A *wholesaler* is a middleman between the producer and a person or organization in the B2B supply chain. They are often called *distributors* in the private enterprise system because they buy products in bulk and resell them in smaller quantities to retailers. They are a type of intermediary that facilitates storage and transportation of products in addition to other services, such as marketing. Wholesalers are sometimes categorized as merchant wholesalers or manufacturers' sales branches.

Merchant wholesalers own the merchandise they sell. They purchase large amounts of goods directly from manufacturers. Some merchant wholesalers offer limited service and may or may not provide additional services to the customer, such as marketing or transportation. *Rack jobbers* are merchant wholesalers who provide full services to the retailer and set up racks, maintain stock, and other activities. They bill the retailer only for the items that are sold.

Manufacturers' sales branches are company-owned businesses that are operated by the manufacturer and sell only their merchandise at wholesale

prices directly to the customer. They typically do not take ownership of stock, but only display the goods. One example is the Tandy Corporation that owned Radio Shack stores. These stores displayed and sold Tandy products and provided service and financing, but did not typically stock the merchandise.

Retailers

A *retailer* is a business that buys products from wholesalers or directly from producers and sells them to consumers to make a profit. Retailers play multiple roles in the private-enterprise system. Primarily, retailers directly provide consumers with the products that meet their needs and wants. Other functions they perform include promotion, credit, and returns. On a larger scale, retailers provide employment in communities and contribute to local economies.

Many retailers have physical brick-and-mortar stores, but some do not. A **nonstore retailer** is a business that sells directly to consumers in ways that do not involve a physical store location. Nonstore retail businesses include catalog sales, direct sales, and e-tailers.

Catalog sales generally use direct mailings. Retail businesses mail product catalogs to customers who can shop from the comfort of their



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An intermediary, like this shipper of oil, is between the manufacturer or producer and the end users in the supply chain. *What activities of intermediaries do you see in your community?*

home or office. An example of a business that uses catalog sales is L.L. Bean.

Direct sales retailers have sales representatives who approach customers outside of a fixed location. The sales representatives sell products to customers either in their homes or by telephone. For many years, businesses like Avon and Tupperware have sold products in this manner. Direct sales companies also sell products through their websites.

E-tailers are retailers that sell products through websites. Amazon is an example of an e-tailer.

Multi-channel retailers sell products through both brick-and-mortar stores and online sites. Target is an example of a multi-channel retailer because it sells products both in its physical stores and through its website.

Agents

Agents bring buyers and sellers together. They buy and sell goods for a commission and never take direct ownership of the products. An agent is someone working on the behalf of another party. Agents are also known as *brokers*. An agent may be hired by either the buyer or the seller. An example of an agent is a realtor. Realtors can be hired by property buyers to help find a property to buy, or by sellers to help facilitate a sale.

The goal of an agent is to create a favorable exchange for both the buyer and seller. Agents can be used anywhere in the supply-chain process. They are especially useful in facilitating international trade because they are often familiar with international laws, regulations, and customs that impact supply-chain transactions.

LO
15.1-2

Distribution Channels

Physical distribution involves responsibilities associated with the transfer of ownership of products from the producer to the end user. The original owner is at the beginning of the distribution channel. The final owner is the end user at the end of the distribution channel.

Most, but not all, intermediaries take ownership of the product as it moves through the channel of distribution. Agents/brokers never take ownership of the products.

When ownership is transferred to intermediaries in the distribution channel, each one assumes the risk and responsibility for the product. The new owner is the one who will suffer any loss if the product is damaged or lost. For that reason, producers must use caution when hiring intermediaries to transport their products to the end user.

Distribution Channels for B2C Market

Distribution for consumer goods can be either direct or indirect, as shown in Figure 15-2. A **direct channel** is the path of selling goods or services directly from a producer or manufacturer to end users without using intermediaries. The direct channel in the B2C market is when a consumer buys goods or services directly from the producers or manufacturers. Buying a computer online from Dell is an example of a direct-channel purchase.

An **indirect channel** uses intermediaries to get the product from the producer or manufacturer to the consumer. Indirect channels include the participation of a retailer, wholesaler, or agent/broker.

Employability Skills

Polite Language

When speaking to others at work, use respectful and polite language at all times. Use polite phrases such as “please,” “thank you,” and “you are welcome” whenever possible. Choose words that show respect to others. Never use profane words or phrases. To do so is inappropriate and unacceptable workplace behavior.

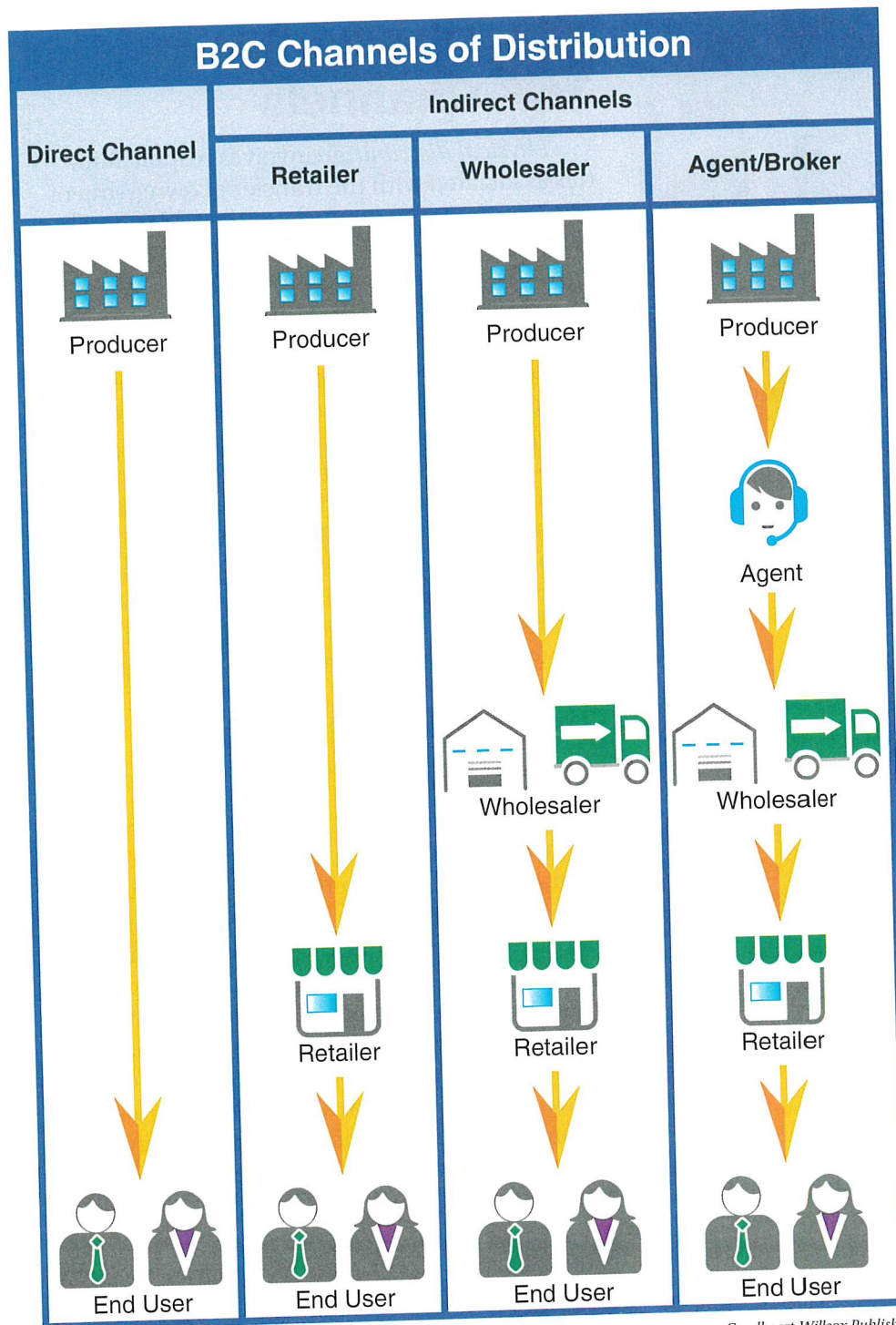


Figure 15-2 Distribution for consumer goods can be direct or indirect.

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The **retailer channel** is the path a product takes from the producer to the retailer, then from the retailer to the consumer. An example is a customer buying a product from a sporting goods store. The producer sells to the sporting goods store, which then sells to the consumer. The retailer channel is the shortest indirect channel in the B2C market.

The **wholesaler channel** is the path a product takes from the producer to a wholesaler, and

then to a retailer before reaching the end user. For example, a producer manufactures athletic equipment. The producer sells the goods to a wholesaler, who in turn sells to sporting goods retailers. The retailers then put the goods in their stores and sell to consumers. The wholesaler channel is an indirect channel.

The **agent/broker channel** is the path of selling in which the producer hires an agent to sell to the wholesaler. Some producers do not want to

assume the responsibility of selling or shipping products. Those producers contract with an agent to handle their goods after production. The agent never takes ownership of the goods, but facilitates the path from the producer to the wholesaler. This can include arranging transportation, scheduling shipping, and facilitating payment between the parties involved. The agent/broker channel is the longest indirect channel in the B2C market.

Distribution Channels for B2B Market

Goods used in the production of other goods or consumed by a business are called **industrial goods**. All businesses use industrial goods, either to manufacture goods or to operate the business.

Similar to consumer products, the channel to the end user may be direct or indirect, as

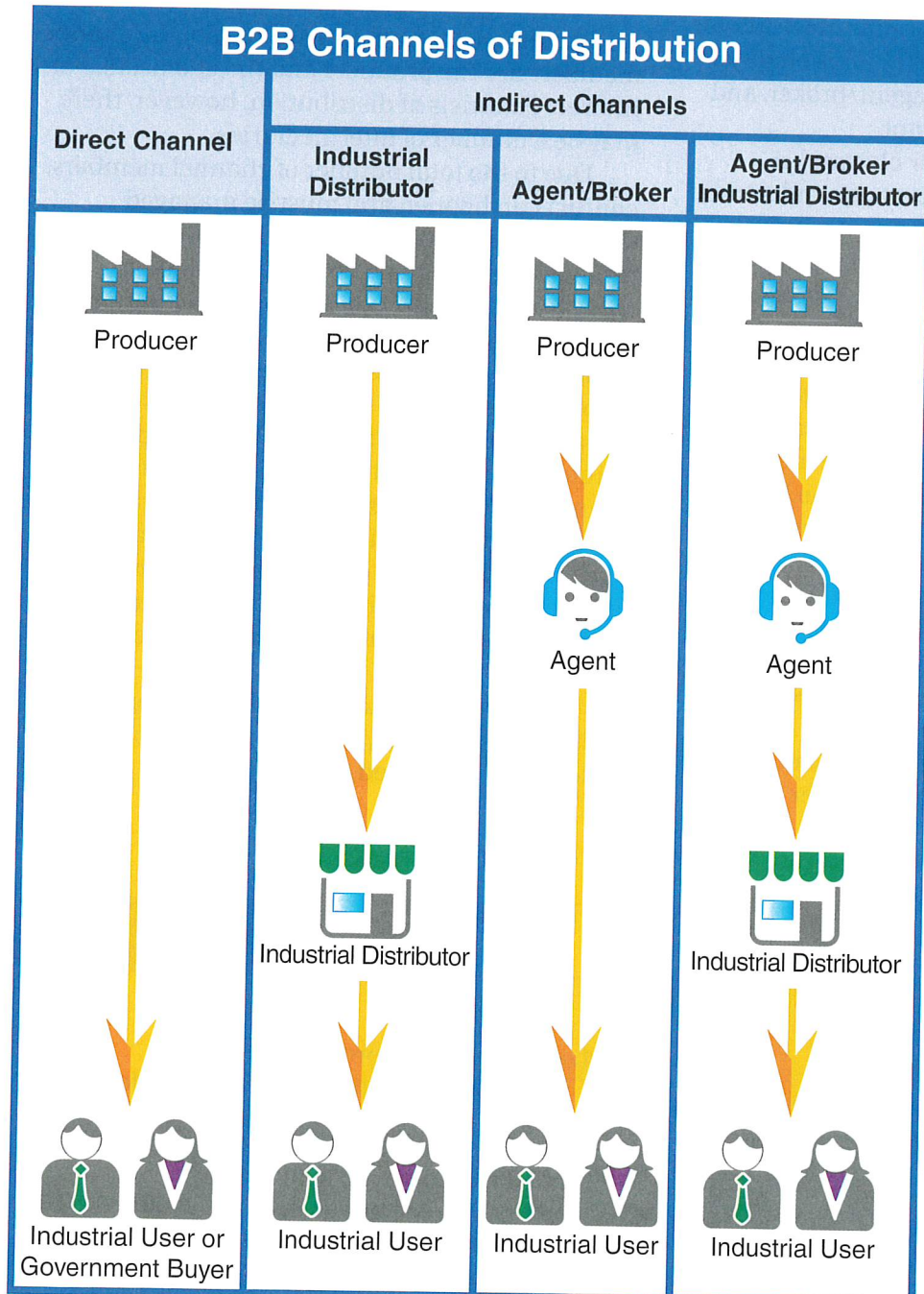


Figure 15-3 Distribution for industrial goods in the B2B market can be direct or indirect.

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illustrated in Figure 15-3. The *direct channel* in the B2B market is getting a product from the producer to the end user, which is a business or government. No intermediaries are used. An industrial user might purchase steel from a mill to build a new headquarters for a company. A business user may purchase computers from the manufacturer to use in day-to-day operations. The direct channel of distribution is the most common method for industrial goods.

An *indirect channel* uses intermediaries to get the product from the producer or manufacturer for industrial goods in the B2B market. This channel includes industrial distributor, agent/broker, and agent/broker industrial distributor.

In the **industrial distributor channel**, a product moves from the producer to an industrial distributor, and then to the end user. An industrial distributor performs the same services as a wholesaler in the B2C market. The difference is usually in the variety of products carried. Most industrial distributors specialize in one area of products. For example, an industrial distributor may focus on aftermarket car parts or chemicals used in the production of paint. Through the industrial distributor channel, end users in the B2B market buy a producer's goods from an industrial distributor.

In the *agent/broker channel*, a producer uses an agent to assume the full responsibility of selling, storing, and shipping products. Using this channel, end users in the B2B market buy a producer's goods from an agent/broker.

The **agent/broker industrial distributor channel** combines both the agent/broker and

industrial distributor channels and is the longest distribution channel. The producer first contracts with an agent/broker to find the best industrial distributors to provide selling, storage, and shipping services. In this channel, the end users in the B2B market buy the producer's goods directly from an industrial distributor.

LO
15.1-3

Channel Members

In a direct channel of distribution, the channel members are the producer and the end users. For indirect channels of distribution, however, there may be a number of intermediaries.

Due to the total number of channel members, conflict can happen and must be managed.

Channel conflict occurs when a producer sells products directly to end users in addition to maintaining its other channels of distribution. A common example of this is a manufacturer selling its products directly to customers through an e-commerce website, while also using its traditional channels of distribution to sell its products to intermediaries and retailers. Another term for channel conflict is *disintermediation* because the producer is reducing its use of intermediaries. The result of channel conflict is that the manufacturer, intermediaries, and retailers may end up competing with one another for the same product sales.

To manage the channel of distribution and maintain efficiencies, the channel members must be selected, motivated, and evaluated.



You Do the Math

Measurement Reasoning

Three-dimensional figures have length, width, and height. In other words, they have volume. Volume is an important measurement for shipping boxes, bottles, containers, and many other items. The area of a rectangular figure is calculated by multiplying its length, height, and width. The volume of a cylinder is calculated by multiplying the area of its base by its height.

Solve the following problems.

1. The inside of a shipping container is 6 feet by 18 feet by 8 feet. If a single box is 1 foot by 2 feet by 6 inches, how many boxes can fit inside the shipping container?
2. If a rectangular box has a volume of 161.28 cubic inches and its base measures 3.5 inches by 7.2 inches, what is the height of the box?
3. If a cylindrical fuel tank is 4.25 feet tall and holds 122.6 cubic feet of fuel, what is the area of the base of the cylinder?

Select Channel Members

Once the channel of distribution is chosen, the best channel members are selected. When choosing channel members with whom to work, these factors should be reviewed:

- length of time in business;
- product lines carried;
- reputation in the industry;
- previous experience with the producer;
- financial stability; and
- quality of the sales force and customer service.

Motivate Channel Members

Once a channel member is selected, it is necessary to keep that member motivated. Producers need their channel members to promote, sell, and distribute their products in order to make a profit. To motivate channel members, producers may offer special deals, premiums, and sales contests in an effort to maintain long-term relationships.

If more than one channel member is necessary to carry out distribution, the supply chain manager is in charge of supervising them. There

is always a possibility of conflict among channel members. Examples of issues include exclusive distribution rights for one intermediary and not the other, or one channel member feels another is not doing its job well. It is important that the supply chain manager maintains control and keeps all lines of communication open.

Evaluate Channel Members

After channel members are in place and performing, they should be evaluated. The supply chain manager sets measurable performance standards for evaluation. Standards may include prompt delivery, cooperative advertising, meeting sales quotas, service quality, treatment of lost or damaged goods, and overall satisfaction. Most producers review their contracts with channel members on an annual basis. They replace channel members who do not meet expectations or perform poorly. Intermediaries that have competitive pricing and meet or exceed expectations remain part of the distribution channel.

Section 15.1 Review

Check Your Understanding

1. What is a major part in the decision of place?
2. Name types of intermediaries.
3. Name two categories of wholesalers.
4. Why might some producers choose to use an agent/broker channel?
5. List examples of standards on which a channel member may be evaluated.

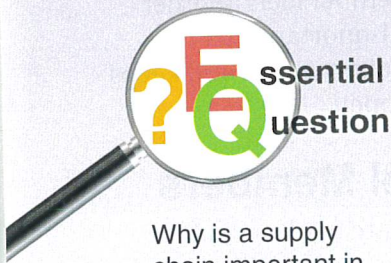
Build Your Vocabulary

As you progress through this text, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add them to your personal glossary.

agent/broker channel
agent/broker industrial distributor channel
bulk-breaking
channel conflict
channel of distribution
direct channel
e-tailer
indirect channel

industrial distributor channel
industrial goods
intermediary
multi-channel retailer
nonstore retailer
retailer channel
supply chain
wholesaler channel

Section 15.2



Why is a supply chain important in the economy?

Supply Chain

Learning Objectives

- LO 15.2-1 State various modes of transportation used by businesses.
- LO 15.2-2 Identify why storage is important.
- LO 15.2-3 Explain why a supply chain should be controlled by a business.
- LO 15.2-4 State specific concerns related to global distribution.

Key Terms

transportation
freight forwarder
private carrier
common carrier
pipeline
private warehouse
public warehouse

supply chain management
supply chain manager
intensive distribution
selective distribution
exclusive distribution
export management company

LO
15.2-1

Transportation

Transportation is the physical movement of products through the channel of distribution. Transportation decisions impact the price of a product and the length of time it takes to reach the end user. The cost of transportation can add up to 10 percent to the price of a product.

Physical distribution is one of the most important parts of place. The selling function helps to transfer ownership to the end user. However, the physical distribution actually gives the end user possession of the goods. Physical distribution also plays a competitive role in product promotion. It makes products available where they are needed, correctly fills orders, and provides on-time delivery.

Distribution is an important component of the supply chain as it influences the final price of a product and affects company profitability. Distribution strategies include decisions about transportation, storage, and utility costs. The goal is to utilize the best distribution services for the lowest cost. Efficient distribution services help keep customer prices lower.



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Transportation is the physical movement of products through the channel of distribution. *Why do you think companies choose one mode of transportation over another?*

A **freight forwarder** is a company that organizes transportation. It is not a shipper or carrier. Rather, it functions as an agent. Freight forwarders generally combine shipments from various companies. They combine the shipments and hire a transportation company to move them as one large shipment. By putting these smaller shipments together, money is saved for the companies shipping the goods.

Each type of transportation has different costs, efficiencies, and time constraints. For example, a less expensive and slower mode of transportation may be fine to ship large quantities of durable products. However, when shipping perishable goods, a more expensive and faster mode of transportation may be necessary.

There are six main methods of transportation, as shown in Figure 15-4. These transportation methods are road, rail, air, water, pipeline, and digital.

Road

Road transportation includes any motor vehicle that moves products on highways and roads. Vehicles used in road transportation are trucks, buses, vans, and automobiles.

According to the US Department of Transportation, trucking is the most common method of

distribution in the United States. Trucks are a flexible mode of transportation and can be modified to carry a specific type of cargo. For example, refrigerated trucks are designed to carry products that must be kept cold. Trucks that transport canned beverages are structured to hold the cases so they will not get broken in transit. Trucks that transport cars are designed to fit as many cars as possible on one truck. Many other types of trucks are designed for the specific product they carry.

Some large companies, such as Kroger, own their trucks. Products are shipped daily from company warehouses across the country to the local stores. A **private carrier** is a company that transports its own goods. Other companies hire independent trucking firms to move their products. Independent trucking companies are called **common carriers**, or *contract carriers*.

Transportation Modes for Distribution		
Mode	Advantages	Disadvantages
Road	• Can deliver door-to-door • Flexible schedules • Can be modified for specific cargo (i.e., refrigerator trucks)	• Weather delays • Traffic delays • Maintenance problems
Rail	• Sends large quantities over long distances • Inexpensive • Can carry trucks closer to the destination • Can be modified for specific cargo (i.e., flatbed railcars for intermodal containers)	• Slower method of transportation • Minimal destination flexibility • Needs a second mode of transportation to get to final destination
Air	• Fastest mode of transportation • Less chance of damage to items • Can save on warehousing as products arrive as needed	• Most expensive • Weather delays • Maintenance problems • Needs a second mode of transportation to get to final destination
Water	• Send large quantities over long distances • Can be modified for cargo (i.e., tankers for oil) • Inexpensive	• Slowest method • No destination flexibility • Needs a second mode of transportation to get to final destination
Pipeline	• Not subject to weather delays • Fewer maintenance issues • Low operating costs	• Can only carry products that flow (i.e., gasoline) • Expensive to build • Leaks linked to environmental damage • Needs a second mode of transportation to get to final destination
Digital	• Low to no operating costs • Easy access • Very fast delivery	• Only for electronic products or services

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Figure 15-4 Each type of transportation has different costs, efficiencies, and time constraints.



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Products need protection from weather, theft, and damage. *How does the warehousing of products help protect them?*

Private warehouses are those owned by a company for storage of its own goods. Large companies, such as Bed, Bath, and Beyond and Toys“R”Us, have their own warehouse facilities.

Smaller companies may lease storage space. A **public warehouse** is one that rents storage space to any company. Some public warehouse facilities provide delivery to the end user. By using this type of warehousing service, a business can reduce inventory-storage costs and losses due to damage or theft.

Some companies prefer not to use storage facilities, but stagger the delivery of inventory instead. By ordering a large quantity of product, they can negotiate when inventory is delivered. The manufacturer will make and hold the products in storage until the ship date.

LO
15.2-3

Supply Chain

A *supply chain* is the businesses, people, and activities involved in turning raw materials into products and delivering them to end users. **Supply chain management** is coordinating the events happening throughout the supply chain. It may also be called *channel management*.

When a business controls the supply chain, it can recognize efficiencies in time, process, and money. The supply chain is visualized vertically, with the raw material at the top and the final customer at the bottom. Products start at the top and move from link to link to reach the final customer. Effective supply chain management results in the following benefits:

- streamlined inventories;
- lower operating costs;
- timely product availability; and
- increased customer satisfaction.



Exploring Marketing Careers

Supply Chain Manager

One of the many tasks that contributes to a company's success is managing product flow. Not having enough of a product carries the risk of running out of stock. On the other hand, having too much of the product increases the need for warehousing, which in turn increases the company's costs. Forecasting managers are responsible for managing the flow of products through a company. They analyze purchasing patterns to forecast the need for specific products. Then they coordinate the activities of the production or purchasing, warehousing, and distribution departments to ensure that products flow smoothly from production or purchase through final sales and distribution. Other typical job titles for a supply chain manager are *forecasting manager*, *channel manager*, *supply chain director*, and *supply chain coordinator*.

Some examples of tasks that forecasting managers perform include:

- Analyze inventories to determine how quickly products are turned over
- Create demand and supply plans to ensure the timely availability of materials or products
- Monitor industry forecasts to identify trends that may affect the supply chain
- Coordinate purchasing, manufacturing, sales, marketing, warehousing, and distribution of products

Supply chain managers need a sound knowledge of production processes and should be able to maximize the efficient manufacture or purchase and distribution of products. They should understand transportation and distribution. In addition, they must have excellent math skills and an ability to analyze data to find purchasing trends. Most jobs in this field require a bachelor or master degree in accounting or a related field, as well as several years of experience. For more information, access the *Occupational Outlook Handbook* online.

These benefits directly impact the level and quality of customer service a company is able to provide. Streamlined inventories and timely product availability mean that salespeople can accurately schedule product deliveries. Lower operating costs mean that product prices are likely competitive. Satisfied customers, whether in the B2C or B2B market, are loyal customers.

The **supply chain manager** is the person who coordinates and monitors all the distribution activities, from building the product to delivery to the end user. After the product moves through the supply chain to the distribution stage, the manager makes place decisions. The supply chain manager must make choices about how to best get products to the end users. Several factors should be considered before deciding which channel of distribution to use. These factors include characteristics of the target market, distribution requirements of the product itself, impact of distribution cost on final price, and level of distribution used.

Target Market

First, objectives must be identified for the distribution channel. Answering the *who*, *when*, *where*, *why*, and *how* about the target market is the first step.

- Who is the target market?
- When do the customers buy?
- Where do they go to buy?
- Why do they buy?
- How do they buy?

Once these questions are answered, the supply chain manager can begin to weigh the choice of a direct channel or indirect channel to get the product to the end user.

Product

Product considerations are important when selecting the channel of distribution. The product itself will help to determine how it should be transported. If a product has a short shelf life or is perishable, it will need to be handled differently than a staple clothing item like jeans. Product life cycle is also important. Winter coats and summer bathing suits have different seasonal opportunities for selling. They must be shipped early or in the most efficient manner to get them to the final retailer on time.

Price

The method of transportation will influence the price that the end user pays for the product. If the product must be shipped quickly,

transportation costs may be high. This means the final price of the product may be higher. The opposite may also be true, and prices can be kept low by using less-costly shipping options.

Levels of Distribution

The level of distribution varies depending on how intensely the products will be distributed. The level of distribution plays a role in the channel that is selected. The three levels of distribution are intensive, selective, and exclusive, as illustrated in Figure 15-5.

Intensive Distribution

Intensive distribution is when product is placed in every potential sales situation possible. This allows a manufacturer, wholesaler, or retailer to have as much exposure as possible. Producers and distributors of convenience goods often choose intensive distribution strategies. For example, consumers can find newspapers, gum, milk, and bread at many different locations.

Selective Distribution

Selective distribution is selecting only certain places the manufacturer or wholesaler wants a product to be sold. Only select channel members are used. This method is used most often with shopping goods or brands with an exclusive image. For example, Coach purses and accessories can only be found at high-end department stores or Coach retail stores.

With selective distribution, there are just enough locations selling the product in a market area to adequately serve the target market. A retailer using selective distribution might locate one store in each major shopping mall. For example, Old Navy has a selective distribution approach.

Distribution Intensity	
Intensive distribution	Product is placed in every potential sales situation possible
Selective distribution	Product is sold in certain places selected by the manufacturer or wholesaler
Exclusive distribution	Product is sold by only one distributor in a market area

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Figure 15-5 The level of distribution plays a role in the channel that is selected.

Exclusive Distribution

Exclusive distribution occurs when there is only one distributor of products in a market area. Exclusive distribution traditionally occurs with highly technical or complex products that are expensive. An exclusive-distribution retailer has only one store to serve the entire market area.

For example, there is only one Rolls Royce automobile dealer in the Chicago area. These retailers can use the exclusive approach because their customers are willing to travel to buy these special products.

LO
15.2-4

Global Distribution

Companies that buy, sell, or distribute products globally can have more complex, or different, place decisions than those that only sell domestically. As explained in Chapter 7, there are legal and political issues that must be considered when operating a business globally. In addition, before distributing products to foreign markets, a business plan should be created. There are many product, price, place, and promotion issues that must be addressed. Examples of issues include the following.

- Does the company or product appeal to the foreign markets that are being considered? Is this company the right choice?

- Are there any cultural or other issues that would influence consumer acceptance of the products?
- Does the foreign market have the necessary technology to make conducting business seamless?
- What are the logistics of getting the product to the foreign market?
- Does the exchange value make the product profitable to export?
- Are there labor issues in the foreign country that should be investigated?

Distribution can be a challenge as other countries may not have the same quality of transportation infrastructure, including roads and airports, that is needed. In less-developed countries, basic infrastructure services may be inadequate, such as electricity, telephone services, and Internet connectivity.

To facilitate global distribution, many US businesses use intermediaries to help with foreign trade and distribution. An **export management company** is an independent company that provides support services, such as warehousing, shipping, insuring, and billing on behalf of another business. They are also called *export trading companies*. These companies also help businesses with foreign customs offices; documentation; and sizing, weight, and measurement conversions. Export management companies can be either local or foreign-owned.

Section 15.2 Review

Check Your Understanding

1. What role does physical distribution play in product promotion?
2. What is the goal of distribution?
3. What options does a business have if it does not have enough storage space within its facility?
4. Provide an example of the benefits of effective supply chain management.
5. Explain why distribution can be a challenge when selling into other countries.

Build Your Vocabulary

As you progress through this text, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add them to your personal glossary.

common carrier
exclusive distribution
export management company
freight forwarder
intensive distribution
pipeline
private carrier

private warehouse
public warehouse
selective distribution
supply chain management
supply chain manager
transportation

Chapter Summary

Section 15.1 Channels of Distribution

LO 15.1-1 Explain place as one of the four Ps of marketing.

Place refers to the activities involved in getting a good or service to the end user. It is also known as distribution. A major part in the decision of place is selecting the channel of distribution. Channel members help move products from their origination to the consumer. They include producers and intermediaries.

LO 15.1-2 Identify distribution channels for B2C and B2B markets.

Distribution channels can be direct or indirect. A direct channel is from the manufacturer or producer to the end user without using intermediaries. There are indirect channels of distribution for B2C goods that include retailer, wholesaler, or agent/broker. Three channels of indirect distribution in the B2B market include industrial distributor, agent/broker, and agent/broker industrial distributor.

LO 15.1-3 Explain how to manage the channel of distribution.

To manage the channel of distribution and maintain efficiencies, channel members must be selected, motivated, and evaluated. Multiple factors should be considered when choosing channel members. Once selected, it is necessary to keep that member motivated. After channel members are in place and performing, they should be evaluated.

Section 15.2 Supply Chain

LO 15.2-1 State various modes of transportation used by businesses.

Transportation is the physical movement of products through the channel of distribution.

Six main methods of transportation are road, rail, air, water, pipeline, and digital. Physical distribution gives the end user possession of the goods, plays a competitive role in product promotion, makes products available where they are needed, correctly fills orders, and provides on-time delivery.

LO 15.2-2 Identify why storage is important.

Products need protection from weather, theft, and damage. Retail and manufacturing businesses need areas to store physical inventory.

LO 15.2-3 Explain why a supply chain should be controlled by a business.

A supply chain is the businesses, people, and activities involved in turning raw materials into products and delivering them to end users. Supply chain management is coordinating the events happening throughout the supply chain. Factors to consider before deciding which channel to use are target market, distribution requirements, impact of distribution cost on final price, and level of distribution.

LO 15.2-4 State specific concerns related to global distribution.

Companies that buy, sell, or distribute products globally can have more complex, or different, place decisions than those that only sell domestically. Many product, price, place, and promotion issues must be addressed. Before distributing products to foreign markets, a business plan should be created. Distribution can be a challenge as other countries may not have the same quality of infrastructure.

Check Your Marketing IQ

Now that you have completed the chapter, see what you have learned about marketing by taking the chapter posttest. The posttest is available at www.g-wlearning.com/marketing/.

Review Your Knowledge

1. Explain place as one of the four Ps of marketing.
2. List and explain functions of intermediaries.
3. Identify distribution channels for B2C and B2B markets.
4. What is the result of channel conflict?
5. How is the channel of distribution managed to maintain efficiencies?
6. Identify various modes of transportation used by businesses.
7. Explain why storage is important.
8. Explain why a supply chain must be controlled by a business.
9. List and describe three levels of distribution.
10. State specific concerns related to global distribution.

Apply Your Knowledge

1. Does the business you selected qualify as a producer or intermediary? Describe why the business is one or the other.
2. A major part in the decision of place is selecting the channel of distribution. Review the channels of distribution described in this chapter. Which channel or channels would be the most appropriate choice for the business you have selected? Explain why.
3. Intermediaries serve three functions: transactional, logistical, and facilitating functions. Describe how your channel members serve these functions.
4. Identify the products that you will distribute as B2C or B2B. Next, create a flowchart to show the supply chain from the producer or manufacturer to the end user.
5. How would you motivate the members in your channel of distribution?
6. How would you evaluate the members in your channel of distribution?
7. Divide a sheet of paper into two columns. In the left column, list all the ways your

company can move its products from a producer or manufacturer to the end user. In the right column, explain the cost of the transportation method versus the amount of control it provides your company.

8. Describe how a freight forwarder could help facilitate transportation of products for your business.
9. Storage is critical to place strategies. Explain the storage needs of the products distributed by your business.
10. What is the level of distribution in your business? Should it be changed? If so, why?

Apply Your Math Skills

A movie production company is releasing a new movie for home viewing. It costs the company \$12 to produce each copy of the movie in any format. Apply your math skills to solve the following problems.

1. The consumer price for a DVD is \$19.99. How much profit does the production company generate on each DVD?
2. The consumer price of a Blu-ray disc is \$21.99. How much profit does the production company generate on each Blu-ray disc?
3. The consumer price of a digital download is \$16.99. How much profit does the production company generate on each digital download?

Communication Skills



**College
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Readiness**

Reading Read about the advantages and disadvantages of different transportation modes for distribution in Figure 15-4. How does the information in this chart relate to your prior knowledge about transportation?

Writing Think about your experiences with the digital delivery of products. This may include downloading music, books, or apps. Write several paragraphs that summarize your experiences. Use well-chosen details and well-structured event sequences. Evaluate the benefits and challenges you have experienced with products that are distributed digitally.

Speaking Read the Marketing Ethics feature in this chapter. Think of a time when you used your ideals and principles to make a decision that involved ethics. In retrospect, do you think you made the correct decision? Did your decision have any consequences? Share your opinions with the class.

Internet Research

Advantages of Buying Local Using the Internet, conduct a search for *advantages of buying local*. What are the advantages to a consumer who buys locally produced products? What are the advantages to businesses with shorter channels of distribution or supply chains?

Digital Delivery Conduct Internet research on *digital delivery*. What do you think its advantages and disadvantages are? What type of business could benefit from digital delivery of products?

Global Distribution Use Internet resources to research how distribution differs in other countries compared to the United States. How has technology impacted transportation and storage overseas? Identify any distribution challenges that still exist in developing nations.

Teamwork

Working with a team, create a chart that describes the major modes of transportation and the advantages and disadvantages of each. Identify types of products that may be best suited for delivery by each mode of transportation. Analyze how each mode of transportation can affect the cost of the products you identified.

Portfolio Development



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Documents Your portfolio will include documents that you have collected as well as those you have created. Any collected documents that highlight your skills and qualifications should be included. To add these to your printed portfolio, photocopy the documents. To add to your digital portfolio, scan the items.

Decide which file formats to use for the documents that you have created. You can use the default format to save your documents. For example, use Microsoft Word format for letters and essays or the Microsoft Excel format for spreadsheets. Someone reviewing your digital portfolio will need to have the same or a compatible program to open these files. Another option is to save created documents as PDF or HTML files. Keep in mind that having all of the files in the same format can make viewing easier for others who need to review your portfolio. If you are hosting your digital portfolio online, check the website for specifications on file formats and how to upload the documents.

1. Identify documents you have *collected* that will be included in your portfolio.
2. Identify documents you have *created* that will be included in your portfolio.
3. Photocopy these for your print portfolio.

Next, scan each collected document for inclusion in your digital portfolio. Save created documents in an appropriate format.