

# 8

## Distribution

### Objectives

After reading this chapter you should be able to:

- understand the role of distribution as providing an integral part of the product's benefits;
- explain the way agents, wholesalers and retailers work in the distribution system;
- choose the best distribution channel for a given market segment and product;
- explain some of the challenges facing retailers;
- know what to expect of different types of wholesaler;
- understand the difference between logistics and distribution.

## INTRODUCTION

Producing something that consumers would like to buy is only part of the story; people can only buy products that are available and easily obtained. In terms of the seven Ps distribution is the means by which place is determined. Marketers therefore spend considerable effort on finding the right channels of distribution, and on ensuring that the products reach consumers in the most efficient way.

In business-to-business marketing, distribution is often the real key to success. Business buyers may buy through agents or wholesalers rather than direct from producers, so that tapping into a good distribution network is the most important step a company can take.

## LOGISTICS V DISTRIBUTION

**Physical distribution** is concerned with the ways organisations get the physical product to a point where it is most convenient for the consumer to buy it. **Logistics** takes a wider view: originally based on military terminology, logistics is concerned with the process of moving raw materials through the production and distribution processes to the point at which the finished product is needed. This involves strategic decision-making about warehouse location, materials management, stock levels and information systems. Logistics is the area in which purchasing and marketing overlap.

In some ways the physical distribution of a product is part of the bundle of benefits that make up that product. For example, a jacket bought through mail order offers convenience benefits which a chain-store jacket does not. Conversely, the chain-store purchase may include hedonic benefits (the fun of shopping around, the excitement of finding a real bargain), which the mail-order company does not supply. Even when the actual jacket is identical, the benefits derived from the distribution method are different.

The purpose of any physical distribution method is to get the product from its point of production to the consumer efficiently and effectively. The product must arrive in good condition, and fit the consumer's need for convenience, or cheapness, or choice, or whatever else the particular target market thinks is important. Thus, from a marketing viewpoint, the subject of distribution covers such areas as transportation methods, wholesaling, high street retailing, direct mail marketing and even farm-gate shops.

Physical distribution is to do with transportation methods; **distribution strategy** decisions are about which outlets should be used for the product.

## Transportation methods

Transportation methods vary according to speed, cost, and ability to handle the type of product concerned. As a general rule, the quicker the method the more expensive it is, but in some cases it may be cheaper to use a faster method because the firm's capital is tied up for less time. For perishable goods such as fruit, **standby airfreight** can be as cheap as sea transport, when the lower incidence of wastage is taken into account.

The transportation method chosen for a particular product will depend on the factors listed in Table 8.1. In all these cases, there will be trade-offs involved. Greater customer service will almost always be more expensive; greater reliability may increase transit time, as will greater traceability because in most cases the product will need to be checked on and off the transport method chosen. As with any other aspect of marketing activity, the customer's overall needs must be taken into account, and the relative importance of those needs must be judged with some accuracy if the firm is to remain competitive.

**TABLE 8.1** Choosing a transportation method

Factor	Explanation and examples
<b>The physical characteristics of the product</b>	If the product is fragile (for example sheet glass) distribution channels need to be short and handling minimised. For perishable goods (e.g. fruit) it may be cheaper to use standby airfreight than to ship by sea, because there will be less spoilage en route.
<b>The methods used by the competition</b>	It is often possible to gain a significant competitive edge by using a method which is out of the ordinary. For example, most inner-city courier companies use motorbikes to deliver urgent documents, but a few use bicycles. In heavy traffic bicycles are often quicker, and can sometimes use routes that are not open to powered vehicles, so deliveries are quicker.
<b>The costs of the various channels available</b>	The cheapest is not always the best: for example, computer chips are light, but costly, and therefore it is cheaper to use airfreight than to tie up the company's capital in lengthy surface transportation.
<b>The reliability of the channel</b>	Emergency medical supplies must have 100% reliable transportation, as must cash deliveries.
<b>The transit time</b>	This also applies to fruit and computer chips.
<b>Security</b>	Highly valuable items may not be easily distributed through retailers. Direct delivery may work much better.

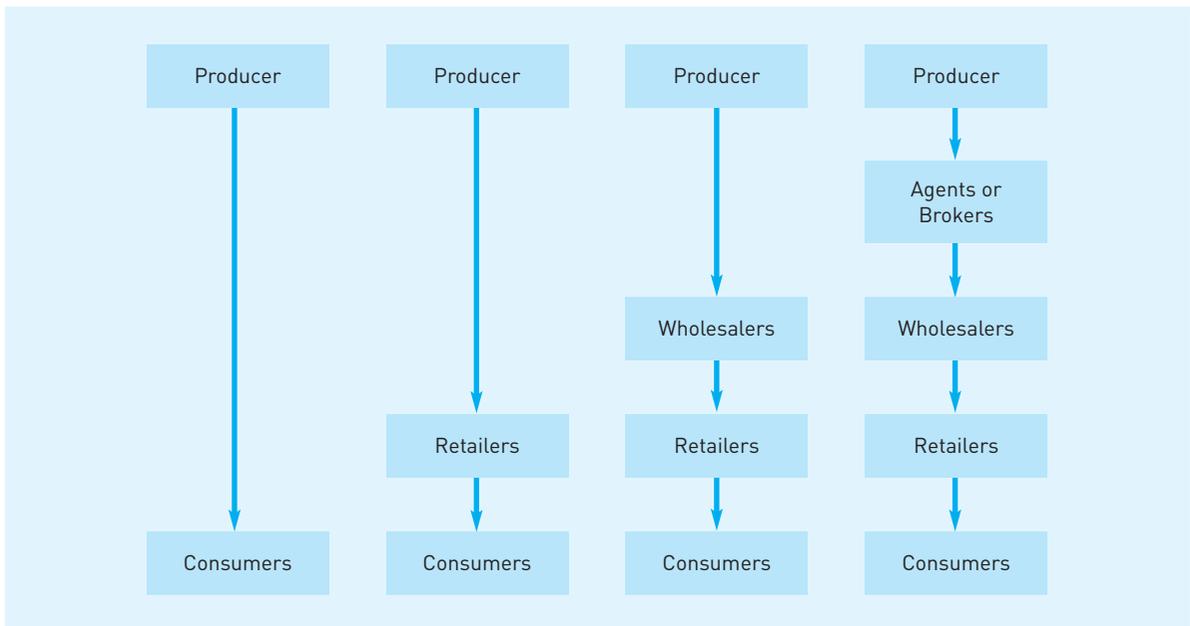
**TABLE 8.1** Choosing a transportation method (*continued*)

<b>Traceability</b>	The ease with which a shipment can be located or redirected. For example, oil tankers can be diverted to deliver to different refineries at relatively short notice. This allows the oil companies to meet demand in different countries.
<b>The level of customer service required</b>	Customers may need the product to be delivered in exact timings (for example, in just-in-time manufacturing). The Meals on Wheels service is another example; it is essential that deliveries are 100% reliable.

(Source: Adapted from *The Management of Business Logistics*, 4th edn, by Coyle, Bardi and Langley. © 1988. Reprinted with permission of South Western, a division of Thomson Learning: www.thomsonrights.com. Fax 800 730 2215.)

## Distribution channels

Transportation method is also affected by the **channel of distribution**, or marketing channel. Figure 8.1 shows some of the possible channels of distribution a consumer product might go through.

**FIGURE 8.1** Channels of distribution

(Source: Dibb *et al.*<sup>2</sup>)

Products are rarely delivered directly from producer to consumer, but instead pass through the hands of wholesalers, agents, factors or other middle men. For example, it is hardly likely to be very efficient for a tuna importer to deliver directly to every small grocery business in the country. (It would be even less efficient to deliver to each consumer.) The importer will probably employ an **agent** (who will be working for several manufacturers) to take orders from wholesalers. The importer will bulk-deliver the tuna to the **wholesalers**, who will then break the delivery down to send out to the **retailers**. The wholesaler either will deliver to the retailers along with the products of many other importers and manufacturers, or will offer a cash-and-carry service so that the retailers can make all their supplies purchases in one trip. The net result is a great saving in time, since the trucks are not going perhaps hundreds of miles with one case of tuna on board.

In fact, food frequently passes through lengthy and complex distribution systems. Each intermediary in the process performs a useful function, increasing the efficiency of the exchanges. Table 8.2 shows some of the functions carried out by intermediaries.

‘Cutting out the middleman’ is popularly supposed to be a way of buying things cheaper. In fact, for most products where agents and wholesalers are used, the savings made by greater efficiency more than cover the cost of the extra mark-up on the product. This means that cutting out the middleman is more likely to increase the cost of the product.

**TABLE 8.2** Functions of channel members

Function	Explanation
Sorting out	Separating out heterogeneous deliveries into homogeneous ones. For example, sorting a tomato crop into those suitable for retail sale and those suitable only for juice production.
Accumulation	Aggregating small production batches into amounts big enough to be worth shipping. Forwarding agents will arrange for small exporters to share a container, for example.
Allocation	Breaking down large shipments into smaller amounts. A wholesaler receiving a truckload of baked beans will sell them on a case at a time. This is also called bulk breaking.
Assorting	Combining collections of products that will appeal to groups of buyers. For example, clothes shops stock clothes from many manufacturers; food cash-and-carry wholesalers will specialise in all the products needed by caterers and grocers, including shop signs and plastic knives and forks.

Direct producer-to-consumer channels are typical of personal services such as hairdressing, where use of intermediaries would be impossible, and of major capital purchases such as houses or home improvements. This is because these products cannot be broken down into smaller units, or assorted, or accumulated. There is therefore no function for the middlemen to fulfil.

If the distribution network is efficiently managed, goods come down the channel and information goes up. Retailers can feed back information about what consumers need, either *formally* (by carrying out a monitoring exercise and passing the information to the manufacturer or wholesaler) or *informally* (since retailers order only what is selling, producers can infer what is required by the consumers). A good salesperson will also act as an information channel, and will find out from the retailers what they think consumers want, as well as convey information from the manufacturers to the retailer.

Major manufacturers often have several distribution channels, catering for different market segments. Food processing firms will usually have separate channels for caterers and for retailers, car manufacturers may deal directly with large fleet operators rather than operating through their retail dealer network, and electronics manufacturers may have one channel for consumer products and another for defence products.

Table 8.3 shows the functions of some of the members of a channel of distribution.

**TABLE 8.3** Categories of channel members

Channel member	Function
<b>Agents</b>	Agents usually act purely as a sales arm for the manufacturer, without actually buying the products. The agent never takes title to the goods; agency sales representatives call on major retailers and on wholesalers on behalf of a number of manufacturers, and take orders and arrange delivery. This saves the manufacturer the cost of operating a large salesforce to carry perhaps only a small product range.
<b>Wholesalers</b>	Wholesalers actually buy the goods from the manufacturers, often through an agent, then sell the goods on to the retailers or sometimes the final consumers.
<b>Retailers</b>	A retailer is any organisation that offers goods directly to consumers. This includes mail order companies, door-to-door salespeople and e-commerce organisations selling over the Internet.

## WHOLESALERS

The wholesaler carries out the following functions:

- Negotiates with suppliers.
- Some promotional activities: advertising, sales promotion, publicity, providing a salesforce.
- Warehousing, storage and product handling.
- Transport of local and sometimes long-distance shipments.
- Inventory control.
- Credit checking and credit control.
- Pricing and collection of pricing information, particularly about competitors.
- Channel of information up and down the distribution network, again particularly with regard to competitors' activities.

All of these functions would have to be carried out by each manufacturer individually if the wholesaler did not exist; by carrying them out on behalf of many manufacturers the wholesaler achieves economies of scale, which more than cover the profit taken.

The wholesaler also provides services to the retailers, as follows:

- Information gathering and dissemination.
- One-stop shopping for a wide range of products from a wide range of manufacturers.
- Facilities for buying relatively small quantities.
- Fast deliveries – often cash-and-carry.
- Flexible ordering – can vary amounts as demand fluctuates.

Again, from the retailer's viewpoint it is much more convenient and cheaper to use a wholesaler. Only if the retailer is big enough to order economic quantities direct from the manufacturer will it be worthwhile to do so. For example, few hairdressers are big enough to order everything direct from the manufacturers, so a large part of a salon's stock-in-trade is bought from wholesalers.

There are many different types of wholesalers:<sup>2</sup>

- **Merchant wholesalers** buy in goods and sell directly to the retailers, usually delivering the goods and having a salesforce calling on retailers in their area.

- **Full-service merchant wholesalers** provide a very wide range of marketing services for retailers, including shop design, sales promotion deals, advertising (sometimes nationally), coupon redemption, own-brand products, and so forth. A good example is Spar, the grocery wholesaler, which supplies corner shops throughout the UK and parts of the rest of Europe. The shops carry the Spar logo and stock Spar's own-brand products, but each shop is individually owned and managed.
- **General-merchandise wholesalers** carry a wide product mix, but little depth, dealing mainly with small grocery shops and general stores. They operate as a one-stop shop for these retailers. Cash-and-carry warehouses are a good example.
- **Limited-line wholesalers** offer only a limited range of products, but stock them in depth. They are often found in industrial markets, selling specialist equipment (such as materials handling equipment) and offering expertise in the field.
- **Speciality line wholesalers** carry a very narrow range, for example concentrating on only one type of food (e.g. tea). They are typically found dealing in goods that require special knowledge of the buying, handling, or marketing of the product category.
- **Rack jobbers** own and maintain their own stands or displays in retail outlets. Typical products might be cosmetics, tights or greetings cards. The retailer pays only for the goods sold, and usually does not take title to the goods – this can be a big saving in terms of capital, and since the rack jobber undertakes to check the stock and restock where necessary, the retailer also saves time.
- **Limited-service wholesalers** take title to goods, but often do not actually take delivery, store inventory, or monitor demand. A typical example might be a coal wholesaler, who buys from a producer and arranges for the coal to be delivered direct to coal merchants, without the coal first being delivered to the wholesaler.
- **Cash-and-carry wholesalers** offer a way for wholesalers to supply small retailers at minimum cost. The cash-and-carry wholesaler operates like a giant supermarket: retailers call, select the cases of goods needed, and pay at a checkout, using their own transport to take the goods back to their shops. This is an extremely flexible and efficient system for both parties.
- **Drop shippers** (or *desk jobbers*) obtain orders from retailers and pass them on to manufacturers, buying the goods from the manufacturer and selling to the retailer without ever actually seeing the goods. The drop shipper provides the salesforce and takes on the credit risk on behalf of the manufacturer, but does not have the storage costs or the overheads of a merchant wholesaler.
- *Mail order wholesalers* use catalogues to sell to retailers and industrial users. This avoids the use of an expensive salesforce, and works best for dealing with

retailers in remote areas. Goods are despatched through the post or by commercial carriers; these wholesalers take title to the products.

To summarise, wholesalers perform a wide variety of functions, all aimed at making the exchange of goods easier and more efficient. This leaves the manufacturer free to concentrate resources on improving production efficiencies and the physical product offering, and retailers to concentrate on providing the most effective service for the consumer.

## RETAILERS

Retailers deal with any sales that are for the customer's own use, or for the use of family and friends. In other words, any purchases that are not for business needs are the domain of the retailer.

Therefore, a retailer is not necessarily a high street shop, or a market trader; mail order catalogues, TV phone-in lines, even door-to-door salesmen are all retailers. Tupper Corporation (which sells Tupperware on the party plan) is as much a retailer as Aldi, Makro, or Coles, even though the product is sold in the customer's own home.

Traditionally most retail outlets have been in city centres or suburban high streets. Partly this was for convenience, so that shoppers had a central area to visit for all their shopping requirements, and partly it was due to planning regulations which zoned most retail shops in traditional retail areas, away from industrial parks and housing estates.

More recently out-of-town hypermarkets and shopping parks have been growing up. This is in response to the following factors:

- Greater car ownership means an increase in **outshopping** (shopping outside the area where the consumer lives).
- High city-centre rents and property taxes make out-of-town sites more attractive for retailers.
- Town planners have used retail parks as a way of regenerating decaying industrial sites on the edges of towns.

Such out-of-town sites have not necessarily damaged all town-centre retailers, although there has been a shift in the composition of city-centre retail districts. For example, food retailers have largely gone from central sites in major cities, except for delicatessens and speciality food outlets. In the United Kingdom, supermarket chain Tesco has recently begun to reverse this trend with the establishment of the Tesco Metro stores in city centres. These stores carry a limited range of products, usually in smaller pack sizes, and aim at office workers shopping in their lunch hours or convenience shopping.

Here are some descriptions of different types of retail outlet:

- **Convenience stores**, or corner shops, offer a range of grocery and household items. These local shops often open until late at night. They are usually family-run, often belong to a trading group such as Spar, Circle K or 7-Eleven, and cater for last-minute and emergency purchases. In recent years, the Circle K and 7-Eleven franchises have expanded internationally from the United States and are making inroads into the late-night shopping market. Convenience stores have been under threat from supermarkets as later opening has become more common, and as the laws on Sunday trading in many countries have been relaxed.
- **Supermarkets** are large self-service shops, which rely on selling at low prices. Typically they are well-laid-out, bright, professionally run shops carrying a wide range of goods.
- **Hypermarkets** are even bigger supermarkets, usually in an out-of-town or edge-of-town location. A typical hypermarket would carry perhaps 20 000 lines. The true hypermarket sells everything from food to TV sets.
- **Department stores** are located in city centres and sell everything; each department has its own buyers, and functions as a separate profit centre. Examples are Harrods of London, El Corte Ingles in Spain and Clery's in Dublin. Within department stores, some functions are given over to **concessionaires**, who pay a rental per square foot plus a percentage of turnover to set up a store-within-a-store. Miss Selfridge, Brides and Principles all operate in this way within department stores. The trend is towards allowing more concessionaires, and around 70% of Debenhams' floor space is allocated this way.
- **Variety stores** offer a more limited range of goods, perhaps specialising in clothes (e.g. Primark) or in housewares and music (e.g. Woolworths).
- **Discounters** (sometimes called baby sharks) are grocery outlets offering a minimum range of goods at very low prices. Often the decor is basic, the displays almost non-existent, and the general ambience one of pile-it-high-and-sell-it-cheap. Kwik Save, Lidl and Aldi are examples of this approach; such stores typically carry only 700 lines or so.
- **Niche marketers** stock a very limited range of products, but in great depth. Examples are Sock Shop and Tie Rack. They frequently occupy tiny shops (even kiosks at railway stations) but offer every possible type of product within their very narrow spectrum. Niche marketers were the success story of the 1980s, but declined somewhat during the 1990s.
- **Discount sheds** are out-of-town DIY and hardware stores. They are usually businesses requiring large display areas, but with per-square-metre turnovers and profits that do not justify city-centre rents. Service levels are minimal, the

stores are cheaply constructed and basic in terms of decor and ambience, and everything is geared towards minimising the overhead.

- **Catalogue showrooms** have minimal or non-existent displays, and are really an extension of the mail order catalogue. Customers buy in the same way as they would by mail order, by filling in a form, and the goods are brought out from a warehouse at the rear of the store. These outlets usually have sophisticated electronic inventory control.
- **Non-store retailing** includes door-to-door selling, vending machines, telemarketing (selling goods by telephone), mail order and catalogue retailing. **Telemarketing** may be inbound or outbound: *inbound* means that customers telephone the retailer to place an order, whereas *outbound* means the retailer telephones potential customers to ask them to buy. Currently outbound telemarketing is relatively unusual in UK consumer markets, although it is common in the United States; it is often used to make appointments for sales representatives to call, for products such as fitted kitchens or double glazing, but actual selling over the telephone is rare.

*E-commerce* refers to retailing over the Internet. Currently, e-commerce is dominated by business-to-business marketing, but dot.com firms such as Amazon.com, Lastminute.com and Priceline.com are making inroads into consumer markets. The growth of such firms is limited mainly by the growth in Internet users; as more people go on-line, the potential market increases and is likely to do so for the foreseeable future. Traditional retailers have not been slow to respond to the perceived threat: in the United Kingdom, frozen food retailer Iceland now offers an Internet service, with free delivery. There is more on this in Chapter 12.

Because consumer needs change rapidly, there are fashions in retailing (the rise and fall of niche marketing demonstrates this). Being responsive to consumer needs is, of course, important to all marketers but retailers are at the 'sharp end' of this process, and need to be able to adapt quickly to changing trends. The following factors have been identified as being crucial to retail success:

- *Location.* Being where the consumer can easily find the shop – in other words, where the customers would expect such a shop to be. A shoe shop would typically be in a high street or city-centre location, whereas a furniture warehouse would typically be out of town.
- *Buying the right goods in the right quantities* to be able to supply what the consumer wants to buy.
- *Offering the right level of service.* If the service level is less than the customer expects, he/she will be dissatisfied and will shop elsewhere. If the service level is too high, the costs increase, and also the customer may become suspicious that the prices are higher than they need be. Discount stores are expected to

have low service levels, and consumers respond to that by believing that the prices are therefore lower.

- *Store image.* If the shop and its goods are upmarket, so must be the image in the consumer's mind. As with any other aspect of the product, the benefits must be as expected, or post-purchase dissonance will follow.
- *Atmospherics* – the physical elements of the shop design that encourage purchase. Use of the right colours, lighting, piped music and even odours can greatly affect purchasing behaviour.<sup>3</sup> For example, some supermarkets use artificially generated smells of fresh bread baking to improve sales of bakery goods.
- *Product mix.* The retailer must decide which products will appeal to his/her customers. Sometimes this results in the shop moving away from its original product range into totally unrelated areas.

Recent trends in retail include the greater use of EPOS (electronic point-of-sale) equipment and laser-scanners to speed checkout queues through (and, incidentally, to save staffing costs), and the increasing use of **loyalty cards**. These cards give the customer extra discounts based on the amount spent at the store over a given period. The initial intention is to encourage customers to buy at the same store all the time in order to obtain the discounts, and in this sense the cards are really just another sales promotion. This type of loyalty programme, involving economic benefits, does have a positive effect on customer retention. The schemes also tend to help in terms of increasing the retailer's share of the customers.<sup>4</sup>

There is a further possibility inherent in EPOS technology, however. It is now possible to keep a record of each customer's buying habits and to establish the purchasing pattern, based on the EPOS records. Theoretically, this would mean that customers could be reminded at the checkout that they are running low on certain items, since the supermarket computer would know how frequently those items are usually bought. The phrase Domesday marketing has been coined by Professor Martin Evans to describe this; whether it could be seen as a useful service for consumers, or as an unwarranted invasion of privacy, remains as a topic for discussion.<sup>5</sup> EPOS systems in the UK were redesigned in 2004 to allow for the introduction of chip-and-pin credit cards. These have been used in France and Spain for many years to reduce credit card fraud and reduce time spent at the checkouts.

## MANAGING DISTRIBUTION CHANNELS

Channels can be led by any of the channel members, whether they are producers, wholesalers, or retailers, provided the member concerned has **channel power**. This power comes from seven sources,<sup>6</sup> as shown in Table 8.4.

**TABLE 8.4** Sources of channel power

Economic sources of power	Non-economic sources of power	Other factors
Control of resources. The degree to which the channel member has the power to direct goods, services or finance within the channel.	Reward power. The ability to provide financial benefits, or otherwise favour channel members.	Level of power. This derives from the economic and non-economic sources of power.
Size of company. The bigger the firm compared with other channel members, the greater the overall economic power.	Expert power. This arises when the leader has special expertise which the other channel members need.	Dependency of other channel members.
Referent power emerges when channel members try to emulate the leader.		Willingness to lead. Clearly some firms with potential for channel leadership prefer not to have the responsibility, or are unable to exercise the potential for other reasons.
Legitimate power arises from a superior-subordinate relationship. For example, if a retailer holds a substantial shareholding in a wholesaler, it has legitimate power over the wholesaler.		
Coercive power exists when one channel member has the power to punish another.		

**Channel co-operation** is an essential part of the effective functioning of channels. Since each member relies on every other member for the free exchange of goods down the channel, it is in the members' interests to look after each other to some extent. Channel co-operation can be improved in the following ways:

- The channel members can agree on target markets, so that each member can best direct effort towards meeting the common goal.
- The tasks each member should carry out can be defined. This avoids duplication of effort, or giving the final consumer conflicting messages.

A further development is **co-marketing**, which implies a partnership between manufacturers, intermediaries and retailers. This level of co-operation involves pooling of market information and full agreement on strategic issues.<sup>7</sup>

**Channel conflict** arises because each member wants to maximise its own profits or power. Conflicts also arise because of frustrated expectations: each member expects the other members to act in particular ways, and sometimes these expectations are unfulfilled. For example, a retailer may expect a wholesaler to maintain large enough stocks to cover an unexpected rise in demand for a given product, whereas the wholesaler may expect the manufacturers to be able to increase production rapidly to cover such eventualities.

An example of channel conflict occurred when EuroDisney (now Disneyland Paris) first opened. The company bypassed the travel agents and tried to market directly to the public via TV commercials. Unfortunately, this did not work, because European audiences were not used to the idea of booking directly (and also were not as familiar with the Disney concept as American audiences) so few bookings resulted. At the same time Disney alienated the travel agents, and have had to expend considerable time and money in wooing them back again.

Channel management can be carried out by co-operation and negotiation (often with one member leading the discussions) or it can be carried out by the most powerful member laying down rules that weaker members have to follow. Table 8.5 shows some of the methods which can be used to control channels. Most attempts to control distribution by the use of power are likely to be looked on unfavourably by the courts, but of course the abuse of power would have to be fairly extreme before a channel member would be likely to sue.

Sometimes the simplest way to control a distribution channel is to buy out the channel members. Buying out members across a given level (for example, a wholesaler buying out other wholesalers in order to build a national network) is called **horizontal integration**; buying out members above or below in the distribution chain (for example a retailer buying out a wholesaler) is **vertical integration**. An example of extreme vertical integration is the major oil companies, which extract crude oil, refine it, ship it and ultimately sell it retail through petrol stations. At the extremes, this type of integration may attract the attention of government monopoly regulation agencies, since the integration may cause a restriction of competition.

Producers need to ensure that the distributors of their products are of the right type. The image of a retailer can damage (or enhance) the image of the products sold (and vice versa). Producers need not necessarily sell through the most prestigious retailer, and in fact this would be counter-productive for many cheap, everyday items. Likewise a prestigious product should not be sold through a down-market retail outlet.

As the relationship between members of the distribution channel becomes closer power and conflict still remain important, but they are expressed in other ways, and the negotiations for their resolution change in nature.<sup>8</sup>

## EFFICIENT CONSUMER RESPONSE

Efficient consumer response (ECR) seeks to integrate the activities of manufacturers and retailers using computer technology; the expected result is a more

TABLE 8.5 Channel management techniques

Technique	Explanation	Legal position
<b>Refusal to deal</b>	One member refuses to do business with one or more other members: for example, hairdressing wholesalers sometimes refuse to supply mobile hairdressers, on the grounds that this is unfair competition for salons.	In most countries suppliers do not have to supply anybody they do not wish to deal with. However, grounds may exist for a lawsuit if the refusal to deal is a punishment for not going along with an anti-competitive ruling by a supplier, or is an attempt to prevent the channel member from dealing with a third party with whom the manufacturer is in dispute.
<b>Tying contracts</b>	The supplier (sometimes a franchiser) demands that the channel member carries other products as well as the main one. If the franchiser insists that all the products are carried, this is called <i>full-line forcing</i> .	Most of these contracts are illegal, but are accepted if the supplier alone can supply goods of a given quality, or if the purchaser is free to carry competing products as well. Sometimes they are accepted when a company has just entered the market.
<b>Exclusive dealing</b>	A manufacturer might prevent a wholesaler from carrying competitors' products, or a retailer might insist that no other retailer be supplied with the same products. This is often used by retailers to ensure that their 'price guarantees' can be honoured – obviously consumers will not be able to find the same product at a lower price locally if the retailer has prevented the manufacturer from supplying anybody else.	Usually these are legal provided they do not result in a monopoly position in a local area: in other words, provided the consumer has access to similar products, there will not be a problem.
<b>Restricted sales territories</b>	Intermediaries are prevented from selling outside a given area. The intermediaries are often in favour of this idea, because it prevents competition within their own area.	Courts have conflicting views about this practice. On the one hand, these deals can help weaker distributors, and can also increase competition where local dealers carry different brands; on the other hand, there is clearly a restraint of trade involved.

responsive stocking system for the retailer, which in turn benefits the manufacturer. Some of the features of ECR are as follows:

- *Continuous replenishment* under which the supplier plans production using data generated by the retailer.
- *Cross-docking* attempts to co-ordinate the arrival of suppliers' and retailers' trucks at the distribution centres so that goods move from one truck to the other without going into stock. Although transport efficiency falls because a supermarket truck collecting (say) greengrocery might have to wait for several suppliers' trucks to arrive, the overall speed of delivery of products improves, which can be crucial when dealing with fresh foods.
- *Roll-cage sequencing* allows storage of products by category at the warehouse; although this adds to the labour time at the warehouse, it greatly reduces labour time at the retail store.

The main problem with ECR is that it relies on complete co-operation between supplier and retailer. In any channel of distribution where the power base is unequal, this is less likely to happen; despite the overall savings for the channel as a whole, self-interest on the part of channel members may lead to less than perfect co-operation.

### CASE STUDY 8: AVON COSMETICS

When book salesman David McConnell began giving away small vials of perfume as sweeteners for his customers, he did not realise what a huge empire he was laying the foundations for. He soon realised that people were more interested in the perfumes than they were in the books – so he started the California Perfume Company in 1886, selling perfumes door-to-door. In 1939 the company became Avon.

In 1958 the first Avon ladies appeared in Britain, immaculately dressed and made-up, and began knocking on the doors of suburban homes, selling cosmetics to housewives who were unable to get out to the shops, or whose villages and towns lacked shops with a reasonable selection of cosmetics. The Avon ladies sold cosmetics and also recruited new salespeople, so the company grew with all the power of a chain letter.

Currently Avon sells over 7500 products in 25 languages, throughout 143 countries, employing 4.4 million salespeople. In 2003 the company turned over \$6.8 billion worldwide and made \$534.6 million in profits. The UK market share is second only to Boots, making the company a profit of £326 million in 2002. This is approaching the same level as competitor L'Oréal's entire UK turnover (£443 million in 2001).

The success of Avon is not based on the cosmetics themselves: the cosmetics are good, but nothing special, and the packaging ranges from the dowdy to the

garish. The corporate image is not exactly upmarket either: firms such as L'Oréal and Olay regard Avon as something of a joke, perhaps because of its direct selling approach, which puts it in the same class as double-glazing and door-to-door brush salesmen in some people's eyes. However, Avon products end up in some surprising handbags: fashion writers and film stars use the products, just a few of the one in three women in Britain who use Avon products. Avon has no presence on the high street: the products are sold only through its 160 000 Avon ladies, who still travel round selling to customers in their own homes. For this is the real strength of Avon: it distributes its products directly to people's homes, which caters for the housebound, the housewives with small children, those who live too far from the shops, those who have too little time to go and shop. It is the distribution method which overcomes all the other drawbacks. Recently the company has diversified its distribution onto the Internet, so customers can order on-line, but it is still the door-to-door 'Avon ladies' who are the backbone of the company.

In Iceland, Avon ladies traverse glaciers with the products in backpacks; in South America, they kayak up the Amazon and barter the cosmetics for gold nuggets, food or wood (two dozen eggs buys a Bart Simpson deodorant). In Turkey, one woman who had lost everything in an earthquake rebuilt her family's wealth single-handedly by selling Avon from tent to tent in the refugee camp. In Milton Keynes, Avon's top saleslady delivers the cosmetics from a specially adapted bicycle.

Avon also runs a website for transsexuals and transvestites. For obvious reasons, these individuals have a desperate need for make-up experts who can advise them in their own homes. Alice, a transvestite who has become an Avon lady, says 'Avon's services are priceless to those who are still too shy to buy make-up on the high street. Men just beginning to wear make-up have less idea of what to use than a young girl who might be just starting to use cosmetics.'

The sales cycle for Avon is three weeks. At the beginning of the period, a new brochure is issued and is delivered by hand to each customer. The sales lady collects the orders, then posts or e-mails them to Avon. One week later the products are delivered, and the representative then delivers the products, collects the money, and sends Avon its cut. Top Avon sales ladies are rumoured to earn around £30 000 a year, but most earn less – frequently they are themselves limited in their career possibilities by location, by children, or by husbands' working patterns. Avon offers them the flexibility to work around their other commitments. Having said that, Avon is regularly included in 'top 100 companies to work for' lists, and has many employees with 40 years' service or more. Perhaps the greatest success story in the company is Sandy Mountford, who joined the company as a sales rep at age 34 and was UK president of the company 16 years later.

Avon has a commitment to women. The company employs women, empowers women who may otherwise have no way of earning their own money, and supports women's causes. In 2003, Avon contributed \$300 million in total to breast-cancer research, and the company aims to go even further. Susan Kropf, the company president of Avon, says, 'We aim to create the world's largest-ever foundation for women'. Shareholders are happy about this – after all, the company's earnings in 2003 rose 25% on the previous year, and the dividends set new records.

Within the UK, competitors L'Oréal and Boots might regard Avon as something of a joke, but the joke is on them. Avon's unusual approach to distribution has meant that Avon UK has a faster-growing turnover and greater profitability than either of its competitors, despite running virtually no advertising and having no shops. Perhaps there is more to distribution than would at first appear.

### Questions

- 1 How might Boots or L'Oréal fight back against Avon?
- 2 Why would someone prefer to buy from an Avon lady rather than visit a High Street shop?
- 3 What needs does the Avon distribution system meet?
- 4 Avon deals direct with the public, yet cutting out the middleman increases costs. How can this happen?
- 5 What might be the limits on Avon's growth?

## SUMMARY

This chapter has been about getting the goods to the consumer in the most efficient and effective way possible.

Here are the key points from this chapter:

- Distribution forms part of the product because it has benefits attached to it.
- The faster the transport, the more expensive in upfront costs, but the greater the savings in terms of wastage and in capital tied up.
- Transport methods must consider the needs of the end user of the product.
- Cutting out the middleman is likely to increase costs in the long run, not decrease them.
- Retailing includes every transaction in which the purchase is to be used by the buyer personally or for family use.
- Retailing is not necessarily confined to high street shops.

## CHAPTER QUESTIONS

- 1 Under what circumstances might airfreight be cheaper than surface transport?
- 2 How might wholesalers improve the strength of their position with retailers?
- 3 Why might a wholesaler be prepared to accept a restricted-territory sales agreement?
- 4 When should a manufacturer consider dealing direct with retailers?
- 5 When should a manufacturer consider dealing direct with the public?

## MULTI-CHOICE QUESTIONS

- 1 The shipping of goods from supplier to customer is called:
  - (A) Logistics.
  - (B) Physical distribution.
  - (C) Place.
- 2 Which of the following does not take possession of goods?
  - (A) An agent.
  - (B) A retailer.
  - (C) A wholesaler.
- 3 A wholesaler who deals in goods without storing them is called:
  - (A) An agent.
  - (B) A drop shipper.
  - (C) A mail order wholesaler.
- 4 Which of the following is not an activity of wholesalers?
  - (A) Assorting.
  - (B) Bulk breaking.
  - (C) Merchandising.
- 5 A wholesaler that provides promotion, delivery and own-brand services to independent retailers is called:
  - (A) A speciality line wholesaler.
  - (B) A full-service merchant wholesaler.
  - (C) A cash-and-carry wholesaler.

- 6 A retailer is:
- (A) Any firm that sells to the final consumer.
  - (B) Any firm with a shop.
  - (C) Any firm which sells physical products.
- 7 A shop offering a limited range of goods at discount prices is called:
- (A) A niche marketer.
  - (B) A discount shed.
  - (C) A baby shark.
- 8 A retailer who rents a space inside a department store is called:
- (A) A concessionaire.
  - (B) A niche marketer.
  - (C) A rack jobber.
- 9 The physical environment of the store is called:
- (A) Its atmospherics.
  - (B) Its store image.
  - (C) Its decor.
- 10 Which of the following is a non-economic source of power?
- (A) Referent power.
  - (B) Legitimate power.
  - (C) Reward power.



## FURTHER READING

*Marketing Concepts and Strategies*, 3rd edn by S. Dibb, L. Simkin, W. Pride and O.C. Ferrell (London, Houghton Mifflin, 1998). This text has some very detailed chapters on distribution, using UK and European examples.

*Marketing Channels: A Management View*, 4th edn, by Bert Rosenbloom (New York, Dryden, 1991). A readable text, with a practically orientated view of how to deal with distribution issues.

James Cooper, Michael Browne and Melvyn Peters' book *European Logistics* (Oxford, Blackwell, 1991) gives a good readable overview of logistics problems.

## GLOSSARY

**Accumulation** Collecting small production batches from one or more manufacturers into amounts large enough to be worth shipping.

**Agent** An individual or firm who arranges sales of goods and services without actually taking possession of them.

**Allocation** (bulk breaking) Breaking down large shipments into smaller amounts.

**Assorting** Gathering together groups of related goods under one roof in order to sell them to specialist retailers.

**Cash-and-carry wholesalers** Stockists whose retailer customers visit the warehouse, pay for goods on the spot, and remove them in their own transport.

**Catalogue showrooms** High street retailers who display goods only by means of a catalogue.

**Channel conflict** Differences of direction between channel members.

**Channel co-operation** The process of co-ordinating the activities of channel members to achieve agreed objectives.

**Channel of distribution** The routes and intermediaries through which a product passes from producer to end user.

**Channel power** The means by which one channel member is able to exert his/her will over another channel member.

**Co-marketing** The marketing of one brand alongside another.

**Concessionaires** Retailers who rent space in department stores and use their own staff to sell goods to consumers.

**Convenience store** Small retailer located in a residential area offering household items and food.

**Department store** A large city-centre store offering a wide range of household goods, clothing, cosmetics and food.

**Discount sheds** Large out-of-town stores offering consumer durables or hardware.

**Discounter** A retailer offering a very limited range of goods at low prices.

**Distribution strategy** The planning process concerned with selecting the most effective outlet for goods and services.

**Drop shippers** Individuals or firms who take orders from retailers and buy the goods from manufacturers, shipping the goods without taking physical possession of them.

**Exclusive dealing** Agreements that prevent a channel member from dealing with a competing channel member.

**Full-service merchant wholesalers** Merchant wholesalers who also offer marketing services to retailers.

**General-merchandise wholesalers** Stockists of a broad range of goods to sell to retailers.

**Horizontal integration** The act of merging with, or buying out, competitors at the same level in the distribution channel.

**Hypermarket** A large out-of-town store offering a very wide range of consumer goods.

**Limited-line wholesalers** Stockists of a small range of goods for specialist retailers to buy.

**Limited-service wholesalers** Dealers who buy in bulk and arrange delivery to retailers without actually taking physical possession of the goods.

**Logistics** The process of co-ordinating the movement of raw materials through the manufacturing and distribution processes and networks to the end user.

**Loyalty card** A plastic card entitling the bearer to discounts on purchases at a particular store.

**Merchant wholesalers** Buyers of goods to sell to retailers, often using a salesforce.

**Niche marketer** A retailer offering a depth of range of a single product line.

**Non-store retailing** Any sales to consumers which do not take place in a shop.

**Outshopping** Buying goods from retailers outside the area where one lives.

**Physical distribution** Moving products from producer to consumer.

**Rack jobbers** Retailers who rent shelf space in retail shops and stock the shelves themselves.

**Retailer** An individual or firm who buys goods or services and sells them on to consumers.

**Sorting out** A wholesaler function of grading or classifying variable goods for resale.

**Speciality line wholesalers** Stockists of a limited range of goods specific to an industry.

**Standby airfreight** Cargo that will be loaded onto the next available aircraft with room for it.

**Supermarket** A large high street store offering food and household items.

**Telemarketing** Canvassing for business by telephone.

**Traceability** The degree to which a shipment can be located within the distribution network.

**Tying contracts** Agreements that insist on a channel member buying additional products to the main one being bought.

**Variety store** A retailer offering a limited range of related goods.

**Vertical integration** The act of merging with, or buying out, suppliers and customers in order to control the channel of distribution.

**Wholesaler** A distribution intermediary who buys goods with the intention of selling them on to retailers.



## REFERENCES

1. Coyle, J., Bardi, E. and Langley C.: *The Management of Business Logistics* (St Paul, MN, West, 1988).
2. Dibb, S., Simkin, L., Pride, W. and Ferrell, O.C.: *Marketing: Concepts and Strategies* (London, Houghton Mifflin, 1998).
3. Bitner, Mary Jo: 'Servicescapes: the impact of physical surroundings on customers and employees', *Journal of Marketing* (April 1992), pp. 57–71.
4. Verhoef, Peter C.: 'Understanding the effect of customer relationship management efforts on customer retention and customer share development', *Journal of Marketing*, **67** (4) (October 2003), pp. 30–45.
5. Evans, Martin: 'Domesday marketing', *Journal of Marketing Management*, **10** (5) (1994), pp. 409–31.
6. Michman, R.D. and Sibley, S.D.: *Marketing Channels and Strategies*, 2nd edn (Worthington, OH, Publishing Horizons Inc., 1980).
7. Marx, W.: 'The co-marketing revolution', *Industry Week* (2 October 1995), pp. 77–9.
8. Gadde, Lars-Erik: 'Activity co-ordination and resource combining in distribution networks: implications for relationship involvement and the relationship atmosphere', *Journal of Marketing Management*, **20** (1) (2004), 157–84.