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Marketing Modules Series

Module 7: Placement/Distribution

Teaching Slides



Photo: Union Square NY city Farmers Market
<http://www.urban75.org/photos/newyork/ny169.html>



<http://www.getwraps.com/produce-patch-new-design.gif>

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EB 2013-08ii --- June 2013

Complete Marketing Modules Series available at: <http://hortmgt.gomez.dyson.cornell.edu/Marketing-Modules.html>

Distribution Defined

- Encompasses all the physical activities necessary to make your product or service available to your customers when and where they need them
- Key component of the so-called “supply chain”

The way a product or service is distributed is important because it impacts customers' feelings about the product/service and how it positions in their minds!

Marketing Channels Defined

A “marketing channel” consists of the individuals and businesses that participate in the process of making a firm’s product or service available for use or consumption by the end user.

Marketing Channel Design and Marketing Channel Management encompass the most important decisions in the definition of a firm’s Distribution Strategy!

Marketing Channel Design:

- Length: direct, indirect or both
- Breadth: intensive or selective distribution

Marketing Channel Management:

- Policies
- Procedures

Direct Marketing Channels

In a direct marketing channel the producing firm or the producer deals directly with the end user of its product or service and performs all the channel functions. Vehicles to communicate and sell to the end customer include:

- Sales personnel
- Direct mail
- Telemarketing
- E-mail
- Internet
- Text messaging
- Farmers markets, CSA ops, U-Pick/PYO ops
- Craft shows and fairs

Indirect Marketing Channels

In an indirect marketing channel a chain of individuals and businesses (intermediaries) are involved in the distribution process, each passing the product down the chain until it finally reaches the consumer or end-user

Intermediaries are either resellers or specialty service firms

- Resellers (also denominated distributors and dealers), take ownership of products. Examples: retailers, wholesalers and industrial distributors
- Specialty Service Firms: organizations that provide additional services and do not take ownership of products. Examples: agents, brokers, distribution service firms, warehousing and insurance companies

Choosing a Distribution Channel

Key Factors

- Product: type of product, positioning and price
- Firm: financial, human and technological characteristics
- Price: target price vs. channel length
- Customer: how to reach the customer in the most effective way possible and intensity of product availability or distribution coverage (mass, exclusive or selective)

Distribution Functions

The main distribution functions are:

- Order processing
- Inventory management
- Transportation
- Warehousing

The distribution system should be designed in such a way that it allows the firm to achieve the desired level of customer service at the lowest possible cost!

Selecting a Distribution System

*Typically a Trade-off:
Desired level of service vs. Associated Costs*

Key Questions:

- Which channel and intermediaries will provide the best coverage of your target market?
- Which channel and intermediaries will best satisfy the buying requirements of your customers?
- Which channels and intermediaries will be the most profitable?

Selling Directly to Consumers

Opportunities:

- Total control of how products are sold and serviced
- Ability to respond quickly to changes in the market, customers' needs, or both
- Can be faster and cheaper than using intermediaries

Challenges:

- Have to take on the marketing and distribution functions

Options to sell directly to consumers include:

Direct selling

Direct marketing (mail-order/catalog sales and telemarketing)

Online marketing (internet)

Farmers markets, CSA ops, U-Pick/PYO ops

Special events (fairs and craft shows)

Selling through Intermediaries

Activities of intermediaries include, but are not limited to:

Buying and selling, assembling, storing, displaying and promoting products or services

Benefits to producers and consumers:

- Can facilitate producers' entrance to traditional markets and/or access to new markets, reaching geographically scattered customers, speedy delivery of products in small quantities
- Able to bring the products or services to convenient places in a timely fashion

Selling through Retailers

- ***Benefits to producers:***

Opportunity to reach target market, build product demand through retail promotions and access to feedback

- ***Benefits to consumers:***

Possibility of buying small quantities of a wide assortment of products at reasonable and/or affordable prices

Factors to consider (and to determine retailer format to choose):

Target market served, product offerings, pricing structure, promotional emphasis, distribution method and service level

Selling through Wholesalers

Wholesalers (also denominated distributors) buy and sell bulk merchandise to other wholesalers or to retailers and do not sell directly to the end consumer

Services offered:

Buying, selling, storing, transporting, providing marketing information, financing and risk taking

Benefits:

- Provide buyers (such as small retailers) with access to products that they can't buy in big quantities
- Provide producers with access to markets (such as an array of small retailers which would be very expensive to reach directly)

Wholesalers - Formats

Defined on the basis of:

Products carried, promotional activities, distribution method, service level and product ownership (whether or not they take title to the products they handle)

- General merchandise
- Specialty merchandise
- Contractual
- Cash and carry
- Truck
- Rack jobber
- Drop shipper
- Broker
- Agent

Food Retailing in the U.S.

Factors Impacting Distribution Practices

- Consolidation (bigger retailers)
- Self-distribution
- Purchasing directly from producers
- Distribution centers
- Vertical integration
- Focus on smaller number or bigger suppliers
- Sales arrangements beyond price: off-invoice and/or promotional, rebates, or other discounts, volume commitments or automatic product replenishment provisions, quality and packaging specifications, and food safety assurances such as third-party certification
- Supply Chain Management!

Foodservice in the U.S.

Factors Impacting Distribution Practices

- Complex network of suppliers, sales representatives and distributors
- Distributors vary widely in size, territory covered, types of accounts serviced, volume of business and approach to the markets they serve
- Direct negotiations with national and regional suppliers
- Forward pricing
- 75% of the foodservice business of both broad-line and produce distributors are focused on commercial accounts with the remainder dedicated to non-commercial businesses (schools, military, government, etc.)