June 2013 EB 2013-08

MARKETING MODULES SERIES

Marketing Module 7: Placement/Distribution

Sandra Cuellar-Healey, MFS MA

Charles H. Dyson School of Applied Economics & Management
College of Agriculture and Life Sciences
Cornell University, Ithaca NY 14853-7801

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Foreword

A marketing strategy is something that every single food and agriculture-related business (farms, wholesalers, retailers, etc.), no matter how big or small, needs to have in place in order to succeed in the marketplace. Many business owners in the food and agriculture sector in New York State and elsewhere are hesitant to set up an actual marketing strategy because they simply do not know how to go about developing it. How to better market their products and services remains a primary concern among New York State food businesses as a result.

In response to this need, we offer this Marketing Modules Series of eight modules which constitute a comprehensive training course in marketing management. The overall goal of this series is to improve the marketing skills of food business managers and owners in New York State so that they can develop successful marketing strategies to increase business profitability. More specifically, these Marketing Modules are intended to support the efforts of extension specialists and extension educators as they develop marketing training programs for their stakeholders.

Module 1 (Marketing) offers an overview of the series and discusses the basic pillars of a marketing strategy. Modules 2, 3 and 4 (Customer, Company and Competition, often referred to as 'The 3 Cs') focus on key concepts and techniques to conduct market analysis. Modules 5, 6, 7 and 8 (Product, Price, Placement/Distribution and Promotion, or 'The 4 Ps'), hone in on the essential elements of marketing tactics.

To facilitate their use in extension-related educational activities, modules tow to eight consists of three components: 1) a summary of the fundamental concepts, 2) a real-world example relevant to the New York State food and agriculture system to illustrate these concepts, and 3) a set of teaching slides to be used in training sessions and other educational activities in which these modules can be used individually or in combination. Because Module 1 (Marketing) is an overview of the whole series it only includes components 1 and 3. Examples for each of the sections in Module 1 can be drawn from the other seven Modules.

The author is grateful to Wen-fei Uva for initial funding and direction of the Marketing Modules project; to Miguel Gomez for his expert advice and for funding the completion of this module; to Nelson Bills for his extensive editorial and content suggestions; and to Michael Hawk for contributions to formatting.

The complete Marketing Modules series can also be accessed online at: http://hortmgt.gomez.dyson.cornell.edu/Marketing-Modules.html.

1. What is Placement/Distribution?

Placement, more commonly named distribution, encompasses all the physical activities necessary to make your product or service available to your customers when and where they need it. The distribution strategies and channels that a firm chooses should match the characteristics of its product or service, the firm's business plan and the target market.

Distribution is also a key component of the so-called "supply chain", a procurement model designed to streamline the distribution system by eliminating transaction costs that don't add value to the enterprise. To achieve maximum supply chain profitability, a firm's distribution system must be both effective (deliver a product or service to the right place, in the right amount, in the right condition) and efficient (deliver at the right time and for the right cost). *For more information on Supply Chain and Supply Chain Management see Supplement No.1 at the end of this module.*

The way a product is distributed, including the place where it is offered for sale and the reputation of the reseller, along with the purchasing experience (delivery time, condition of delivery, etc.) is important because it impacts customers' views on the product and the likelihood of follow-up sales.

2. Marketing Channels of Distribution

A marketing channel consists of 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 (consumers or industrial users). Marketing channel design and marketing channel management constitute the most important decisions a firm must make regarding its distribution strategy.

Channel design encompasses the issues of "length" and "breadth". Channel length refers to whether the distribution will be "direct" or "indirect" or both and whether the firm deals directly with the end user or one or more intermediaries. Some firms may use both approaches to serve different target markets. Channel breadth refers to how intensely or selectively the firm wants to distribute its product. Intense distribution is justified when the firm is aiming for maximum customer convenience (such as a basic product/service). Selective distribution is justified for those products/services for which the customer is willing to travel and search for the product/service, the costs of stocking the product are high and the degree of market development needed to sell the product/service is high (e.g., high end cars).

Channel management relates to the policies and procedures that will be adopted in order for all members involved in the distribution channel to perform the required functions. Because conflict between members of the distribution channel is common, good communications, trust and understanding among all members, along with attention to proper design of contracts are key to the effective functioning of the channel.

2.1 Direct Channels

A direct marketing channel is one in which the producing firm establishes contact with the clients (consumers or businesses) of its products or services and performs all the channel functions. To this end, firms use a variety of vehicles to communicate and sell to their customers, including: sales personnel, direct mail, catalogs, telemarketing, e-mail, the internet, and text messaging. In other types of direct marketing channels such as farmer's markets, Community Supported Agriculture (CSA), U-Pick operations and special events like craft shows and fairs, the producer directly interacts with the buyer to make the sale.

2.2 Indirect Channels

An indirect marketing channel consists of a chain of businesses (or intermediaries) involved in the distribution process, each passing the product down until it finally reaches the end-user. An indirect marketing channel might just mean using a retailer to get to the end consumer, or it might imply using both a wholesaler and a retailer or even using an agent/broker/sales representative, a wholesaler and a retailer.

Intermediaries are generally classified as resellers or specialty service firms that perform transactional, logistical and facilitating functions. Transactional functions involve buying, selling and risk taking (stocking merchandise in advance of sales). Logistical functions include gathering, storing, and dispersing of products. Facilitating functions encompass a variety of activities to assist producers in making their products and services more attractive to buyers (promotions, demonstrations, etc.).

2.2.1 Resellers

Resellers purchase or take ownership of products from the producing firm with the intention of selling them to others. The most common categories are:

Retailers: businesses or persons that sell products directly to final consumers as opposed to wholesalers or suppliers who sell products to other businesses.

Wholesalers: distributors or middlemen that purchase products from suppliers (such as producers or other wholesalers) and in turn sell them to other resellers, such as retailers or other wholesalers.

Industrial Distributors: work mainly in the business-to-business market and perform a variety of functions including, selling, stocking, and delivering a full product assortment along with financing.

2.2.2 Specialty Service Firms

Specialty service firms provide additional services to help with the exchange of products but generally do not purchase the product, that is, they do not take ownership of the product. The most common categories are:

Agents: organizations that mainly bring suppliers and buyers together in exchange for a fee. The two major types used by producing firms are: manufacturers' agents and selling agents. Manufacturers agents (or representatives), work for several producers and carry noncompetitive, complementary merchandise in an exclusive territory. Selling agents for retailers represent a single producer and take responsibility for all the marketing functions. Agents design promotional plans, set prices, determine distribution policies, and make recommendations on product strategies. Selling agents are often used by small firms in the food industry to access markets.

Brokers: organizations that bring sellers and buyers together for a fee but, unlike agents, have no continuous relation with the seller or the buyer. Food brokers differ from most conventional brokers however, in that they act on behalf of producers on a permanent basis. Brokers are used extensively by sellers of seasonal products such as fruits and vegetables.

Distribution Service Firms: offer services to facilitate the movement of products such as assistance with transportation, storage, and order processing. Others, such as insurance companies and firms offering transportation routing assistance, provide additional services to aid in the distribution process.

3. Key Factors in Choosing a Distribution Channel

Choosing how the functions needed for distribution of your product or service will be best conducted goes to the very fundamentals of the marketing strategy. Key factors that need to be considered at this point include those related to the product, the firm, the price and the customer.

3.1 Product Factors

The type of product and how it is positioned and priced all have an impact on how it is distributed. In general, highly sophisticated products (e.g. computers and products of high unit value) are distributed directly to buyers. Unsophisticated or standardized products with low unit value (e.g. table salt and sliced white bread) are typically distributed through indirect channels. Your product might be available year round or seasonal, it might be fragile or sturdy, it might be durable or perishable, general purpose or specialized, etc. You need to know your products' requirements and identify the organizations that can provide needed functions in the most cost-effective way.

The lifecycle stage of your product is also important for distribution. For example, intermediaries might hesitate to carry a new product (i.e. the introductory stage), so accomplishing distribution through them might be challenging. In the growth stage it is important to gain market share as rapidly as possible. It may be to your advantage to have as many distributors as possible under these circumstances. In the maturity stage of a product's life, distribution efficiency is the key and, during the decline stage, distribution efforts are usually reduced significantly. *For more information about Product Lifecycle Stages see Marketing Module 5: Product*

3.2 Firm Factors

The financial, human and technological characteristics of your firm have an important bearing on the distribution channel choice as well. Firms that can’t afford to have their own sales force, for example, might use agents or brokers to reach wholesalers or other buyers. On the other hand, a firm that produces multiple products for a particular target market might be better off using a direct channel.

3.3 Price Factors

The price at which you seek to sell your product also impacts how you need to distribute it. For example, the inclusion of intermediaries in your distribution strategy may affect your product’s pricing since each member of the channel seeks to make a profit for their contribution to the sale of your product. If there are too many intermediaries the eventual selling price may be too high to meet your sales’ targets.

3.4 Customer Factors

In selecting a distribution channel for your product, you need to choose the approach that reaches your customers in the most effective way possible. You need to know who your potential buyers are, where they buy, when they buy, how they buy, and what they buy.

Another key factor is the level of distribution coverage needed to effectively address your customer’s needs. Distribution coverage is measured in terms of the intensity with which the product is made available. The density or number of stores in a particular geographical area and the type of intermediaries used constitute the basics of distribution coverage. In the case of products that are purchased by a customer at a physical outlet, there are three main levels of distribution coverage: mass (or intensive) coverage, exclusive coverage and selective coverage. Mass coverage means that a firm tries to place its products or services in as many outlets as possible. Exclusive coverage is the exact opposite of mass coverage with only one retail outlet in a particular geographical area carrying the firm’s product. In selective coverage a firm selects a few retail outlets in a specific area to carry its products. *For more information about distribution coverage see Supplement No.2 at the end of this module.*

4. Distribution Functions

Your distribution system should be designed to achieve the level of customer service you want to offer at the lowest possible cost. The main distribution functions are: order processing, inventory control, transportation, warehousing, and inventory management.

4.1 Order Processing

Order entry and processing directly affects a firm’s ability to meet its customer needs and expectations. You need to have a system that allows your customers to easily place orders, according to their specific needs, be it at the counter, by phone, by mail or electronically. Order processing typically consists of five major activities: a credit check, recording the sale, making the appropriate accounting, locating and shipping the item, and adjusting inventory records. The development of the UPC (Universal Products Code) or bar code, used to identify products, and capable of storing lots of information in a very limited space, has facilitated the efficiency of order processing. *For more information about UPC see Marketing Module 5: Product*.

4.2 Inventory Management

Inventory management is a major element of the distribution system and constitutes a "balancing act" between the costs of excessive inventory and the costs of "out of stocks". Forecasting techniques are commonly used to project future sales and their implications for inventory management. Knowledge about the demand patterns at the consumer level gives producers a better chance of ensuring that the right amount of product is available at any given time.

Significant improvements have been possible in inventory management during recent years due to the development and adoption of "just-in-time" (JIT) and "quick response" systems. JIT involves reducing costs by cutting inventories to absolute minimum levels and requiring vendors to deliver products as they are needed. Among "quick response" systems, Electronic Data Interchange (EDI) and the Internet are widely used. EDI consists in the electronic exchange of business documents in machine-readable formats, thereby allowing for cutting costs associated with time-consuming data entry and expensive paperwork, reducing errors and speeding up the procurement cycle. It constitutes a very efficient system for order processing and inventory management and updating.

4.3 Transportation

Transportation is a critical component in the cost of distribution and for many products (such as perishables) constitutes the key to satisfactory customer service. A fast and efficient transportation system often gives a firm a competitive edge.

The primary factors to consider are the route and network along which your product is to be shipped and the mode of transportation to use. The route refers to whether the product will be shipped directly to the end consumer or if it will go through a series of layers. The network is the collection of locations and routes along which your product can be shipped.

There are four distinct modes of transportation from which to choose: air, truck, rail, and ship. Each option has specific characteristics with respect to the speed, size of shipments (from small packages to pallets to full trucks), costs of shipping, and flexibility.

When analyzing the different modes of transportation you need to take into consideration which will be best for shipping your product: whether or not it allows for final delivery of your product at your buyer's desired location, how quickly it will be delivered, the cost of shipment and the amount of product that can be shipped at one time within one transportation unit. It is often necessary to make use of more than one transportation mode. Package carriers, i.e., transportation companies like FedEx, UPS and the U.S. Postal Service, typically use a multimodal approach mostly using air, truck and rail transportation.

4.4 Warehousing

Warehousing functions include storage and/or distribution (the latter are also called distribution centers). These facilities can have several levels of automation and climate control. The location of warehouse facilities is a key factor, and strategically located facilities allow firms to respond quickly to customers' needs while reducing buyers' need to maintain large inventory at their own locations.

Storage warehouses are used for storing products during moderate to long periods of time with the purpose of balancing supply and demand for both producers and buyers. They allow resellers to obtain the best prices from suppliers by buying in large quantities that they can sell to their customers in smaller quantities. They also allow for products' build-up at the producer end, which can then be shipped in large quantities to spread transportation costs more effectively. Storage warehouses are most often used for seasonal products.

In distribution centers, the objective is to keep products moving as fast as possible, rather than storing it. Distribution centers serve as points in the distribution system at which products are received from many suppliers and quickly shipped out to many customers. With perishable products (e.g., produce), for example, most of the product enters in the early morning and is distributed by the end of the day.

5. Selecting Your Distribution System

Because most distribution activities add costs and don't produce any revenue, designing a distribution system typically involves a trade-off between the desired level of service and the costs associated with providing such service. You need to weigh the number and quality of distribution features that you would like to offer (e.g., ease of placing orders, order tracking, speed of delivery, etc.) against the cost of providing them. Three key aspects of distribution system design are:

- 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?

Depending upon your answers to the above questions you might decide to sell directly to your customers or to sell through intermediaries such as retailers or wholesalers.

5.1 Selling Directly to Consumers

By selling directly to the end consumer you can control your product's sales and service. You can respond quickly to changes in the market, your customer's needs, or both. Selling direct can also be faster and cheaper than using intermediaries, but it also means that you are responsible for most marketing and distribution functions. There are several options available to sell you products directly to the consumers including, but not limited to: direct selling, direct marketing (mail-order/catalog sales and telemarketing), on-line marketing (Internet), farmer's markets, Community Supported Agriculture (CSA) Operations, U-Pick Operations and special events.

Direct Selling, also called door-to-door retailing, involves direct sales of goods and services to consumers through personal interactions and demonstrations in their home or office. The concept of direct selling is to provide maximum convenience to consumers and allow the producing firm to control its distribution channels. In recent years however, direct selling sales have been on a steady decline.

Direct Marketing, refers to other selling strategies in which there is a direct communication between the producer and the end consumer. Customers can order merchandise by mail, by phone, by visiting a mail-order desk in a retail store, or by computer or fax. Mail order, catalog sales and telemarketing are traditional examples of this type of marketing. In the mail order and catalog sales strategy, producers focus on attracting buyers through customer services provided through toll free numbers, computerized shopping services and unique catalogs. Mail ordering and catalog sales are particularly effective for products that are not available in stores, have unusual features and whose appeal can be communicated with words and pictures. Telemarketing involves interacting directly with the consumer by phone. It is often considered a more efficient way of targeting consumers than direct mail. However, this distribution channel has undergone dramatic changes that limit its use. New legislation and tighter regulation for telephone solicitations now address consumer privacy, industry standards and ethical guidelines issues.

Online Marketing constitutes an increasingly popular marketing channel that allows buyers to search for, evaluate and order products electronically. Using the Internet or other electronic commerce modes implies displaying your products, making sales, managing inventory and doing accounting all electronically. To this end you can develop your own website, join existing ones or offer your products though other firm's websites. Developing a website can be relatively inexpensive or very costly. To be effective, the website has to be interactive and up-to-date, connected to other sites, indexed to search engines, and finally, it has to be promoted!

Farmer's Markets play a vital role in enabling farmers (particularly small and medium-size growers) to gain direct access to customers eliminating the middlemen and potentially increasing their profit. On the other hand, farmer's markets provide customers the opportunity to buy high quality fresh produce and to interact with the producer of their food. They have become increasingly popular throughout the United States with the number of operating farmers markets increasing by a 4.5 factor in the last 18 years: from 1,755 in 1994 to 7,864 in 2012.

Community Supported Agriculture (CSA) Operations are becoming more and more popular as a direct farm marketing channel due to increased consumer interest in local and organic fruit and vegetables. The core principle of a CSA operation is that growers and consumers provide mutual support and share the risks and benefits of food production. As such, consumers become "share-holders" of the farm or garden by pledging in advance to cover the anticipated costs of the farm operation and the farmer's salary. In return, they receive a share of the farm's output throughout the growing season, and the satisfaction of reconnecting to the land and of supporting local growers. By participating in CSA operations growers receive better prices for their crops, gain some financial security, and are relieved of much of the burden of marketing. According to the 2007 Census of Agriculture, more than 12,500 farms in the US reported marketing products through a CSA operation

U-Pick/Pick Your Own (PYO) Operations became popular during the Depression and after World War II when prices were so low that farmers were not able to cover the labor and material costs. This kind of operation is most common with crops that imply high labor costs and little harvesting expertise. Products typically sold through this type of operation include berries, tomatoes, pumpkins and Christmas trees.

Special Events such as fairs and craft shows constitute not only an important opportunity for a producer to interact and sell directly to consumers but also a way to assess their response to new products and a way to build a mailing list. Sampling is possible and labeling is often less important. Firms need to investigate and select those events most appropriate for their product and target market.

For more information about Selling Directly to Consumer see "Direct Marketing" in the Marketing Module 8: Promotion.

5.2 Selling Though Intermediaries

Activities performed by intermediaries include, but are not limited to: buying and selling, assembling, storing, displaying and promoting products or services. Intermediaries represent benefits to both producers and consumers. They facilitate producers' entrance to traditional markets and/or access to new markets, reaching geographically scattered customers, and speedy delivery of products in small quantities. For firms that don't have the money or the time to conduct the distribution functions themselves, hiring intermediaries or outsourcing some of these functions is the only alternative. Consumers benefit from intermediaries due to their ability to bring the products or services to convenient places in a timely fashion.

5.2.1 Selling Through Retailers

Retailers offer many benefits to suppliers and consumers alike. For consumers the benefits relate to the possibility of buying small quantities of a wide assortment of products at reasonable and/or affordable prices. Benefits to suppliers relate to the opportunity of reaching their target market, building product demand through retail promotions and having access to feedback from consumers. Selling to retailers usually implies that the producer must be able to offer a product line in the right volume, to provide promotional support and to adequately deal with the business practices of each specific retailer, including warehousing, packaging, UPC labeling, distribution systems, credit terms, sales promotions, etc. Retailers can be classified on the basis of one or more of the following criteria, related to their marketing strategies: target market served, product offerings, pricing structure, promotional emphasis, distribution method and service level. An additional characteristic used in classifying retailers relates to ownership.

In the U.S. food retail industry the number and type of outlets has increased significantly in recent years. Starting in the early 1990's over a dozen different types of traditional, convenience and non-traditional retail channels are selling groceries and competing for a share of the $584 Billion US retail food market (2011.) The emergence of so many diverse retail formats reflects a very competitive and innovative industry that strives to meet today's consumer's diverse and fast changing demands. Traditional retail formats include conventional supermarkets, superstores, food/drug combo stores, natural/specialty stores, limited assortment stores, super warehouse stores and "other grocery stores" (typically small grocery stores/ethnic stores, etc.). Non-traditional food retail formats include wholesale clubs, supercenters, dollar stores, drug stores, mass merchandisers, military commissaries, as well as direct marketing (online stores and farmers' markets). The increasing diversity of food retail formats currently operating in the U.S. market implies that suppliers need to employ different strategies in order to successfully supply them.

5.2.2 Selling Through Wholesalers

Wholesalers (also known as distributors) buy and sell bulk merchandise to other wholesalers or to retailers and do not sell directly to the end consumer. Like retailers, wholesalers exist in many formats, participate in a wide range of industries, offer a variety of services and represent benefits for both their suppliers and buyers. Buying, selling, storing, transporting, providing marketing information, financing and risk taking are among the services commonly offered by wholesalers. As specialists in the performance of marketing functions, wholesalers perform these activities more efficiently than suppliers and buyers, thus representing significant benefits to both. Providing buyers (such as small retailers) with access to products that they can't buy in big quantities and providing producers with access to markets (such as an array of small retailers which would be very expensive to reach directly) constitute the two most important benefits wholesalers offer.

Like retailers, wholesalers can be classified on the basis of the following four criteria: products carried, promotional activities, distribution method and service level. Product ownership (whether or not wholesalers take title to the products they handle) constitutes yet another differentiating characteristic. Taking all these factors into account, wholesalers are categorized as: general merchandise, specialty merchandise, contractual, cash and carry, truck, rack jobber, drop shipper, broker and agent. *For more information on wholesaler formats see Supplement No. 3 at the end of this module.*

6. Distribution Practices – Food Retail Industry

The evolution of the U.S. food retail industry in recent years, towards a more consolidated industry with bigger retailers and an ever-increasing competitive pressure, has brought about several new practices in the industry. These include self-distributing, purchasing produce directly from producers and arranging for shipment through distribution centers. With these changes, the role of terminal markets where wholesalers typically used to centralize the offer of many suppliers and satisfy the needs of many buyers is minimal.

In addition, in the midst of this highly competitive environment, retail buyers are increasingly interested in concentrating their purchases and partnering (vertically integrating) with a smaller number of larger, preferred suppliers who can provide products in the volumes needed on a year-round basis. Under this new procurement model of direct transactions between retailer buyers and their suppliers, sales arrangements typically go beyond price to include different types of fees (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 certifications.

7. Distribution Practices - Foodservice Industry

Foodservice in the U.S. is a diverse and highly competitive industry, including all establishments, businesses and services that prepare and serve meals, snacks and beverages away from home, ranging from corner pubs and fast-food franchises to fine restaurants. However, chain/multi-unit operations dominate the foodservice industry.

To ensure consistent quality and freshness, as well as competitive prices, foodservice companies negotiate directly with national and regional suppliers. The larger the customer, the greater the bargaining power over suppliers.

Distributors to the foodservice industry vary widely in size, territory covered, types of accounts serviced, volume of business and approach to the markets they serve. Typically they are classified according to: ownership (publicly or independently owned), geographical coverage (local, regional or national), product line(s) (broad-line or specialty) and mode of operation (systems or customer specialists). Approximately three-quarters of the foodservice business of both broad-line and produce distributors is focused on commercial accounts with the remainder dedicated to non-commercial businesses (schools, military, government, etc).

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Supplement No. 1 - Supply Chain and Supply Chain Management

A ***"supply chain"*** is composed of all the stages needed to fulfill a customer's order and implies the dynamic flow of information, product and funds between these stages. The objective of every supply chain is to maximize the overall value generated, or profitability, defined as the difference between the revenue generated from the customer and the overall cost across the supply chain. A supply chain includes not just producers and intermediaries but also transporters, warehouses, retailers, and the customers themselves. The number of participants in a supply chain is variable and depends on the customer's needs and the role each participant plays in meeting those needs. In some cases, the producer may fill customer orders directly and in other cases, it is necessary to involve several participants. Functions performed by supply chain participants include, but are not limited to: new product development, marketing, operations, distribution, finances and customer service.

"Supply chain management" refers to the management of information flows, products and funds between and among the stages of a supply chain in ways that maximize profitability. For the successful management of a supply chain, decisions on these flows need to be made in critical phases of supply chain design, planning and operation. Decisions made during the design phase are also referred to as "strategic" supply chain decisions and include the location and capacity of production and warehousing facilities, products to be manufactured or stored, required modes of transportation, and type of information system to be used. Strategic decisions are made for the longer term and are very expensive to alter on short notice. Decisions made during the planning phase determine the parameters within which a supply chain will operate over a specified period of time. These decisions are related to aspects such as the markets that will be supplied from different locations, subcontracting of production, replenishment and inventory policies to be followed, and the timing and size of marketing promotions. During the operation phase decisions are made on a weekly or daily basis and are related to customer's individual orders. Allocating individual orders to inventory or production, setting a date for the order to be filled, generating pick lists at a warehouse, allocating an order to a particular shipping mode and shipment, setting delivery schedules of trucks, and placing replenishment orders constitute the types of decisions made by a firm in this phase.

WalMart's – A Successful Supply Chain Model[1]

WalMart's supply chain is based on a platform of collaboration and technology. WalMart has been a pioneer in collaborating with suppliers to reduce total supply chain costs. WalMart has been successful at changing the traditionally adversarial (win-lose) relationship between retailers and suppliers into one where both win (win-win). WalMart makes commitments to suppliers (such as forward volume guaranteed and never canceling shipments) and at the same time "grades" supplier performance to ensure that they live up to their commitments (such as on-time deliveries, in-stock position, etc.). With respect to technology, their "Retail-Link" system allows for the gathering, coordination and management of point of sale information that is made

[1] Information summarized by Bill Drake - Food Industry Management Program, Dyson School of Applied Economics and Management, Cornell University

available to suppliers through a protected web-based portal, thus making the supply chain more "demand based". Vendors co-manage inventories and are responsible for monitoring inventory at various distribution centers and replenishing it on a "just-in-time" basis.

Supplement No. 2 - Distribution Coverage

Mass Distribution Coverage

The mass coverage (also known as intensive coverage) strategy attempts to distribute products widely at nearly all locations in which that type of product is sold. This level of distribution is only feasible for relatively low priced products that appeal to very large target markets. With such a large number of locations selling the product, the cost of distribution is extremely high and must be offset with very high sales volume. This type of distribution is mainly used for convenience products or services like candy, fast food, newspapers, and soft drinks.

Exclusive Coverage

Under this distribution strategy, a firm chooses to distribute its products or services to just one retail outlet in a particular geographical area. This type of distribution is typically used for high-end products targeted to very narrow markets. A relatively small number of customers characterized as “discriminating” in their taste for products, seeking to satisfy their needs with high-quality and expensive products and often demanding a high level of customer service constitute these markets. Another type of exclusive distribution that doesn’t necessarily involve high-end products corresponds to those products only available in selected locations such as company-owned stores.

Selective Coverage

Under selective coverage, a firm seeks to limit the locations in which its product is sold. Products distributed with selective coverage appeal to smaller, more focused target markets compared to the size of target markets for mass marketed products. Consequently, because the market size is smaller, the number of locations needed to support the distribution of the product is less.

Supplement No. 3 - Wholesaler Formats

General Merchandise Wholesalers – take title to the products and offer broad but shallow product lines that are mostly of interest to convenience stores, variety stores, and novelty retailers. They offer only limited service and promotional activities. Because they handle such a wide range of products, their knowledge of individual products may be limited.

Specialty Merchandise Wholesalers – take title to the products and supply a narrow assortment of product lines with great depth and as such, they tend to be very knowledgeable of the markets they serve. They perform limited promotional activities and their service level can vary from limited to full.

Contractual Wholesalers – bring together and manage many independent retailers. They carry general and specialty products to which they do take title. They conduct extensive promotional activities and offer full service limited to the retailers involved in the contractual arrangement.

Cash-and-Carry Wholesalers – take title to the products and perform most wholesaling functions except for financing and delivery. Buyers visit the wholesaler's facility, select their order, pay in cash and then handle (carry) their own purchases to their place of business. This format is particularly important in the food industry.

Truck Wholesalers – also referred to as a truck jobber, primarily operate out of a truck that is stocked with products. They take title to the products and often have assigned geographic territories where they regularly visit buyer's locations. They market perishable food items and make regular deliveries to their buyers, perform sales and collection functions and promote product lines.

Rack Jobber – also denominated service merchandisers, these wholesalers take title to the products and sell from a truck but are assigned and manage space (i.e., racks) within a retailer's store. They provide the racks, stock the merchandise, price the products, and makes regular visits to refill the shelves. This form of wholesaling is most prominent with magazines, candy, bakery, and health-and-beauty products.

Drop Shipper – perform a limited function and do not take physical possession of products, though they do take ownership. Drop shippers receive orders from customers and place them with a product supplier who ships directly to the buyer. They operate in industries in which goods are bulky and buyers place large orders.

Broker – is responsible for bringing buyers and sellers together, does not take ownership of products and often doesn't even handle them. They operate on commission (a pre-negotiated percentage of the sale) by the party that hires their services. In most cases the relationship between the broker and the buyer and seller only lasts through the purchase. Brokers can be found in the food industry, importing/exporting businesses and real estate.

Agents – also bring buyers and sellers together but tend to work for clients for an extended period of time. Like brokers, agents generally are paid on commission. Two common types of agents are: manufacturers' agents and selling agents. A manufacturer's agent represents a number of manufacturers of related but non-competing products. A selling agent is responsible for the entire marketing program of a firm's product line.