



**POLITECNICO
DI MILANO**



Marketing mix

Distribution

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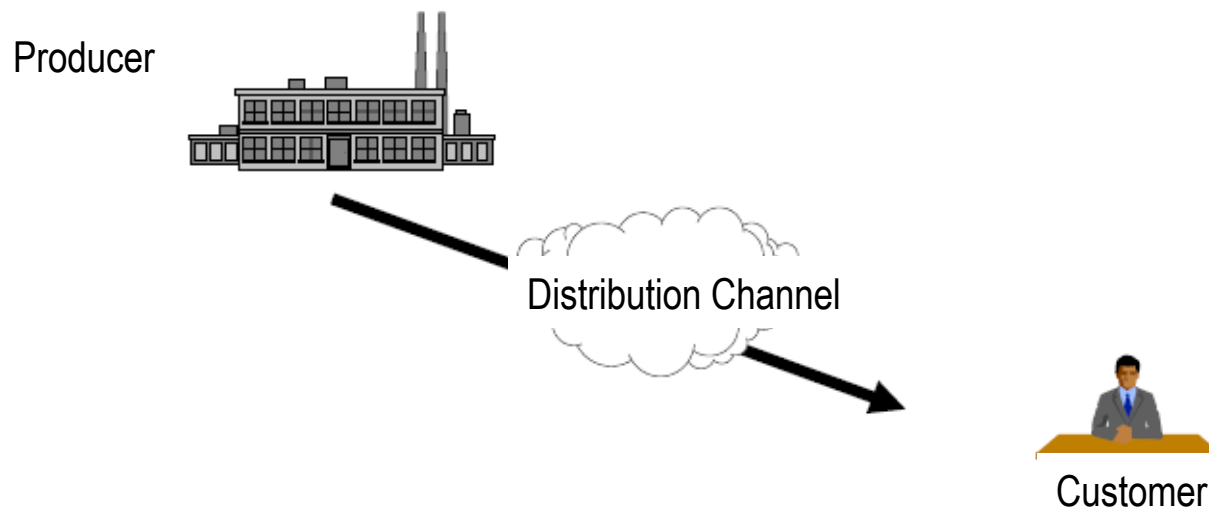
1. The concept of distribution
2. Typology of channel
3. Typology of intermediates
4. Designing the distribution channel
5. Marketing systems
6. Digital and multichannel environment
7. Trade marketing



1. The concept of distribution

A traditional view

The distribution is the structure that makes the product (or service) physically available for the customer.



What is the difference?



Apple Store, New York



Unieuro/Walmart



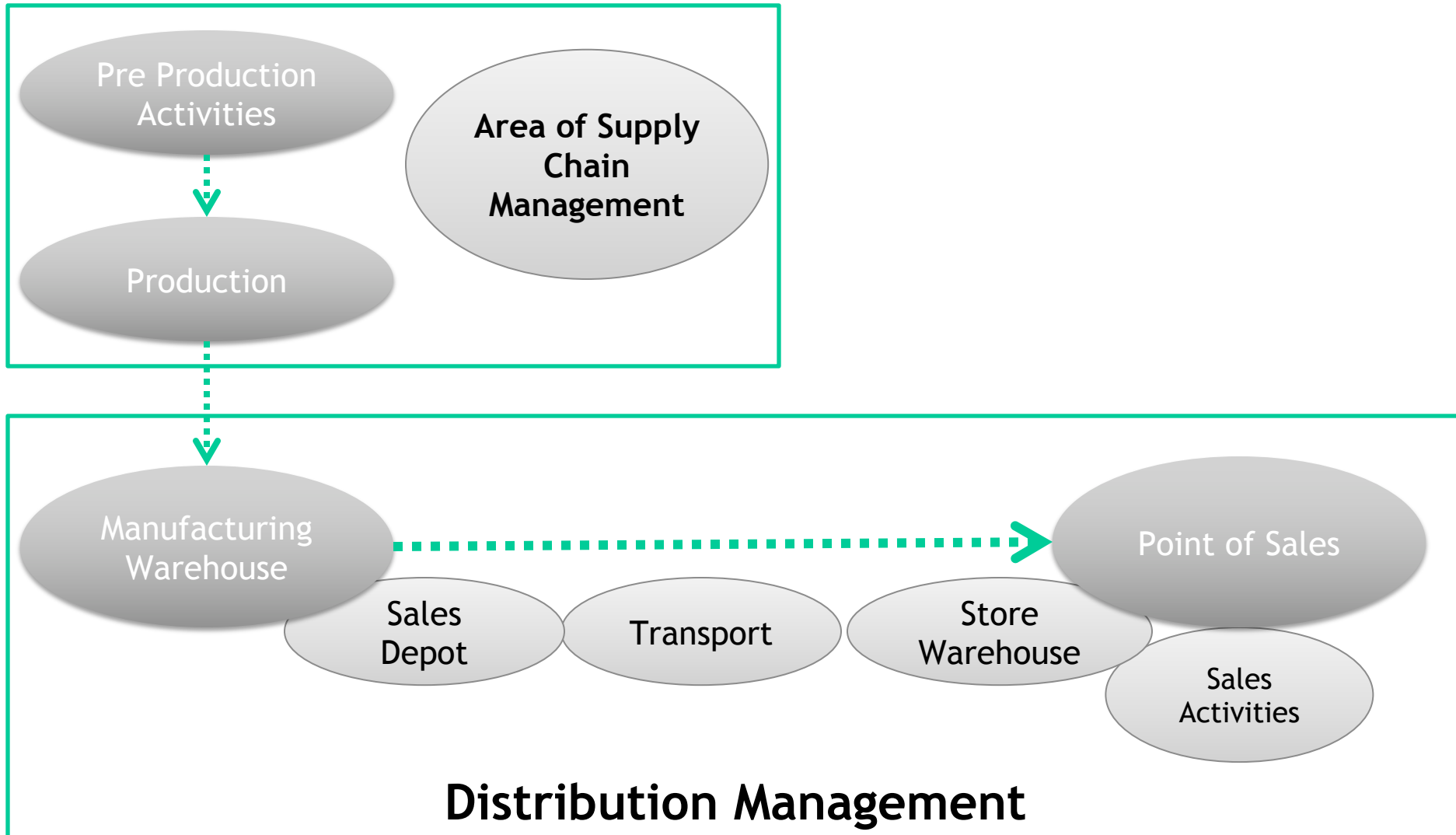
Apple.com



Media world.com



Venditore Apple Business





Distribution: a general definition



Distribution becomes the set of systems which transfer information and products from a producer to a customer and vice-versa in order to conclude a commercial transaction.

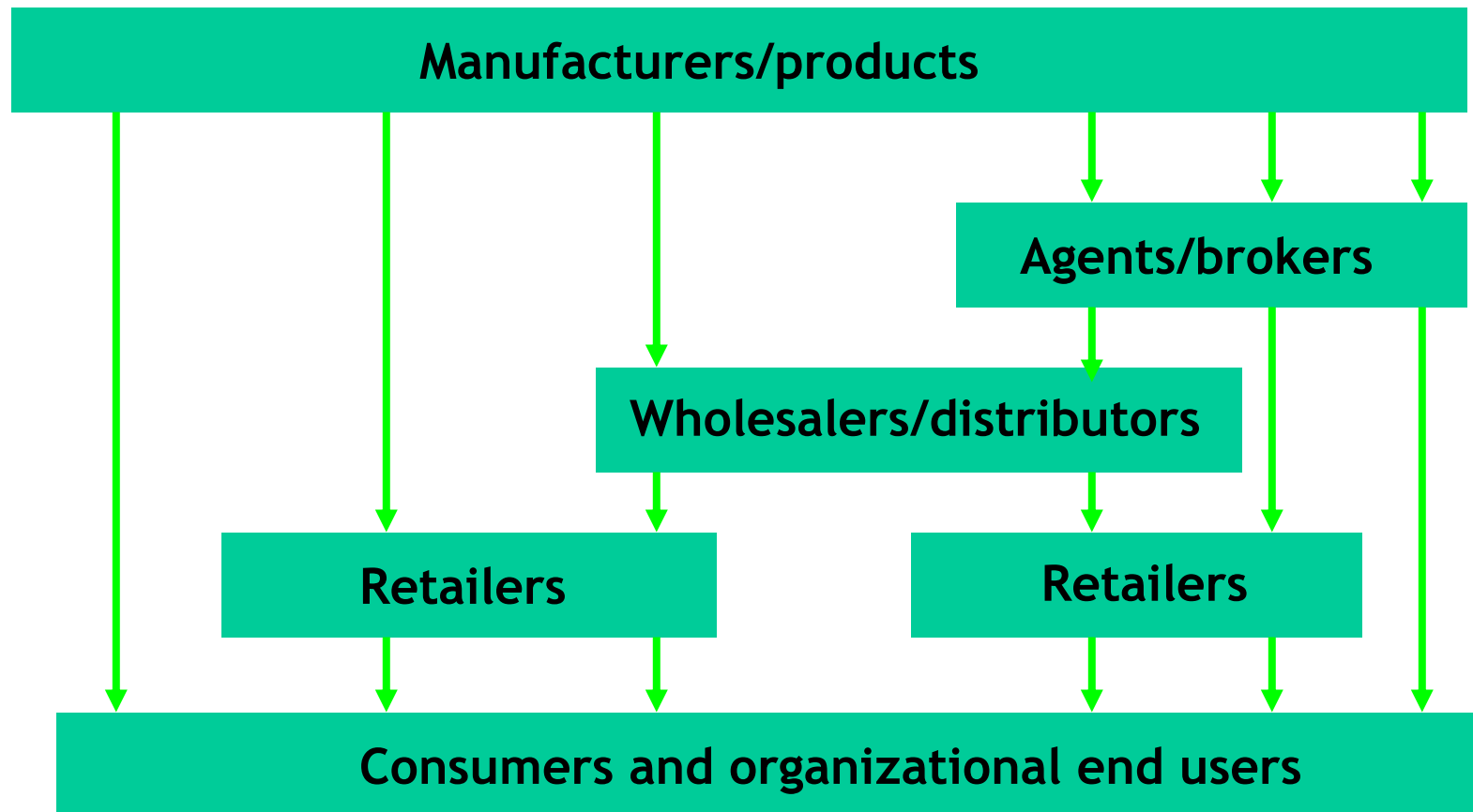


Which functions?

1. **Transportation**
2. **Gather information on current and potential customers**
3. **Gather information on competitors and on the environment**
4. **Management of the direct touchpoint with customers**
5. **Receive orders and negotiate**
6. **Manage the inventories**
7. **Manage payments involving also banks**



- **Geographic and demographic development of markets**
- **Specialization**
- **Economies of scale**
- **Diminished** number of contacts necessary to put into contact demand and supply
- **Lack** of financial resources to preside the market directly

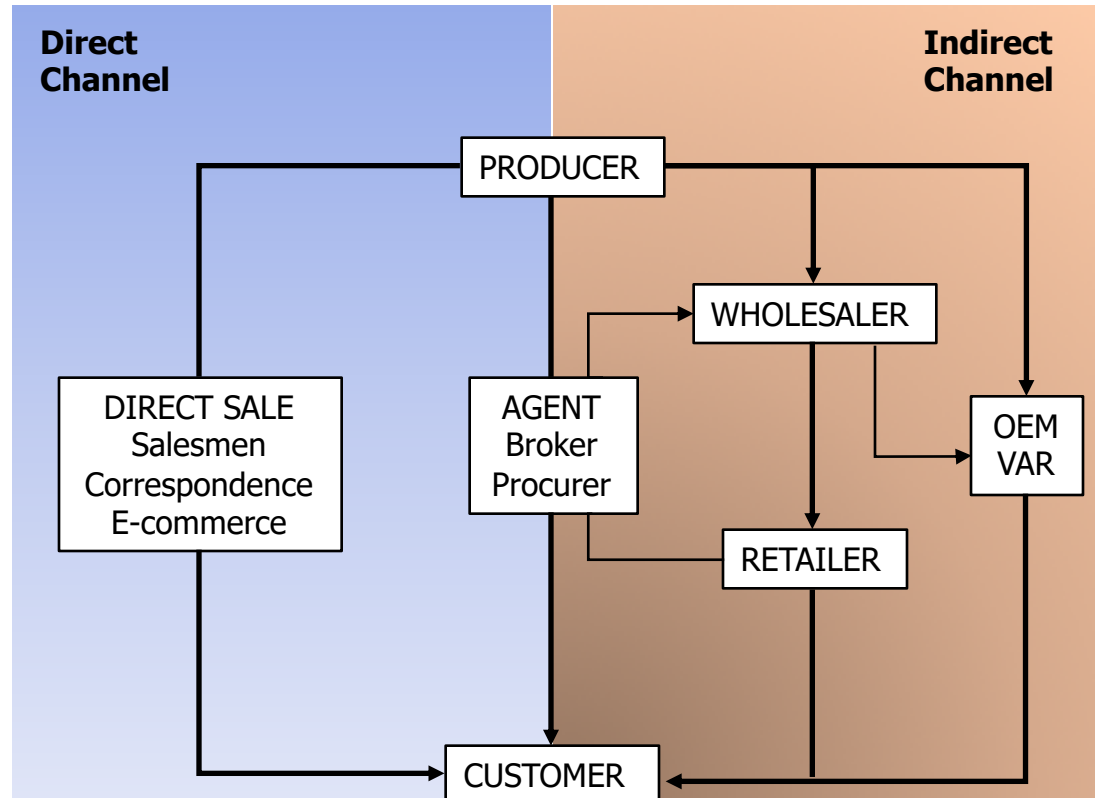




2. Typology of channel

direct channel

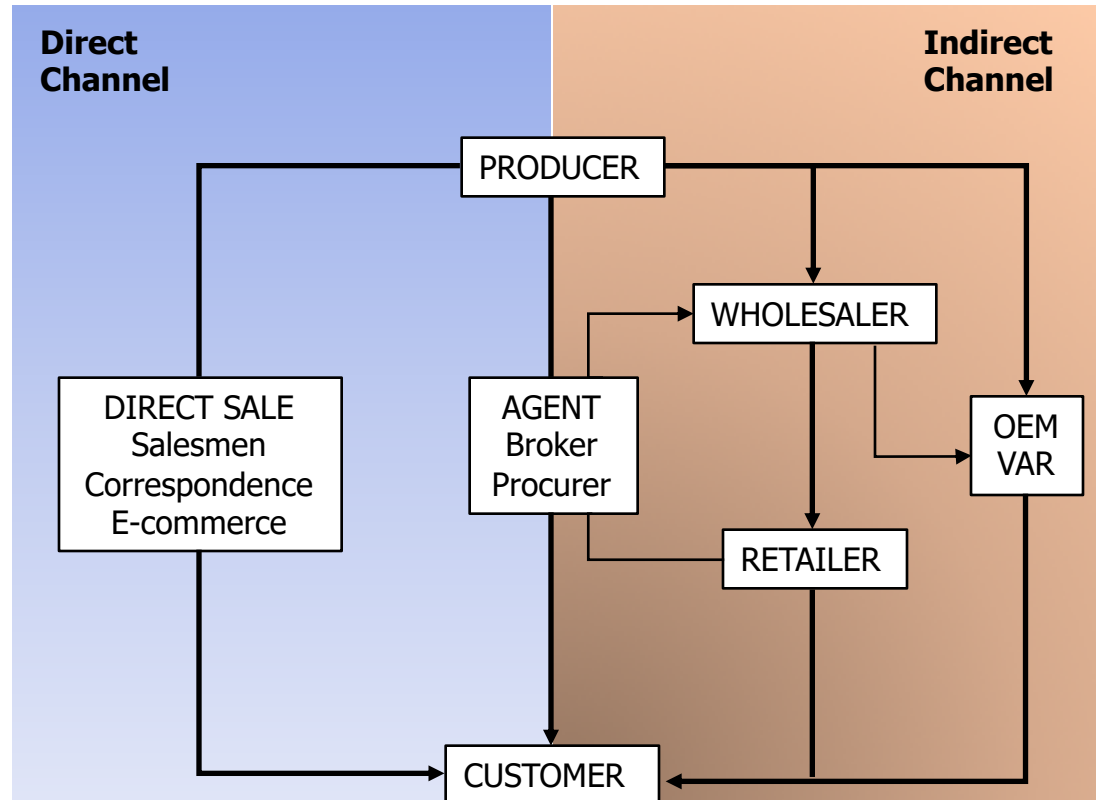
- The direct channel is a channel in which a direct contact between producer and customer emerges. Small companies, especially in their early phases, almost always use direct sellers; sometimes, the owner himself follows the sales.





indirect channel

- In the indirect channels, a series of independent figures is located between the producer and the customer.





Typology of channel

indirect channel

- The independent organizations that work on the interface between producer and customer (wholesaler or retailer) are born and are well developed for different reasons:
 1. geographical and demographic development in the markets
 2. critical mass of the activity of distribution
 3. specialization the activity



3. Typology of intermediates

Distributors (wholesalers and retailers)

- Buy and sell products
- Assume risks about commercial credits and obsolescence
- Mono-brand or multi-brand

Agents

- Work for the producer
- Receive a fee
- Deliver and make the invoice directly from the producer to the customer
- May keep stock only “on consignment”



Brokers

- Lead the agreement between producer and customer
- May receive a fee from both the actors, according to the rules of the market or the effective client
- Ex.: raw materials, insurances, etc.

OEM (Original Equipment Manufacturer) – VAR (Value Added Resellers)

- Incorporate in the own product, in a recognizable way, components of other products
- Es.: installers, software-houses, producers of machines



Choice of the typology of traditional channel

	Direct Channels	Indirect Channels
Number of Customers	few	a lot
Purchasing mode	large lots	small lots
Unitary value of the good	high	low
Products' standardization	low	high
Production range	wide	narrow
Financial resources available	large	small



Internet caused the shift on this channel!



After the choice of the channel to be used, it is necessary to define the **sample size of the «points of contact»** (stores, independent sellers, agents, OEM, VAR, that will manage the product).

Intensive distribution

- A lot of points of contact, with wide geographical coverage and wide selection (more brands)
- For current purchases or «on the place»

Exclusive distribution

- Few points of contact, specialized, mono-brand
- Image, technical contents and higher margins

Selective distribution

- **Average number of specialized distributors**



It is necessary to allocate a series of tasks along the distribution channel:

- Research of information on the market
- Promotion of the sales
- Technical consultancy
- Contact with the customers (actual or potential)
- Commercial adjustment of the product
 - Quantitative (wholesale or retail)
 - Qualitative (customization, etc.)

...



...

- Negotiation of the commercial conditions
- Physical distribution
 - Transport and stock
 - Installation
- Financing / collection of money
- Assumption of the commercial risk



Criteria

- Financial: estimated incomes and costs
- Channel control
- Flexibility and adaptation in time
- Ability to provide the service designed
- Consistence to corporate strategy
- Compliance to constraint

E.g. desire to get more control → vertical integration



Selecting the actors



- **Experience**
- **Reputation and potential**
- **Product portfolio**
- **Localization and competences**



Example: a high-couture brand looking for selective/exclusive distribution

- Strong experience
- Localization close to city centers
- Adequate, distinctive positioning of the other products offered
- Retailer's experience, setting and personnel supporting the shopping experience

Possible alternatives: La Rinascente (Italy), Neiman Markus or Saks Fifth Avenue (USA), Harrods (UK), etc.



In order to complete the own distribution strategy, the producer must decide on which ring of the supply chain concentrating its marketing effort.

Push strategy: the distributor “pushes” the whole chain

- The producer concentrates its effort on the distributor that in turn will work on the final customer
- More active role for the distributor (and better margins)
- The producer supports the sales (technical, logistic, etc.)
- Easier in a **selective channel**
- Typical for products to be installed (OEM)



Pull strategy: the customer «pulls» the whole chain

- The producer concentrates its effort on the customer that in turn will ask for the goods to the distributor
- Reactive distributor
- The producer invests especially on the promotion
- Easier in an **intensive** channel
- Typical for “finite” products



4. Designing the distribution channel

Steps

1. Determining the customer service
2. Setting objectives and fixing constraints
3. Identifying alternatives
4. Evaluating alternatives



Key variables

- Lot size
- Delivery time
- Spatial distribution (distribution intensity)
- Product variety
- Complementary services



- Strengths and weaknesses of intermediaries
- Distribution channels adopted by competitors
- Norms and laws



Most businesses use third parties or **intermediaries** to bring their products to market.

They try to forge a "distribution channel" which can be defined as ***“All the organizations through which a product must pass between its point of production and consumption”***

Why does a business give the job of selling its products to intermediaries?

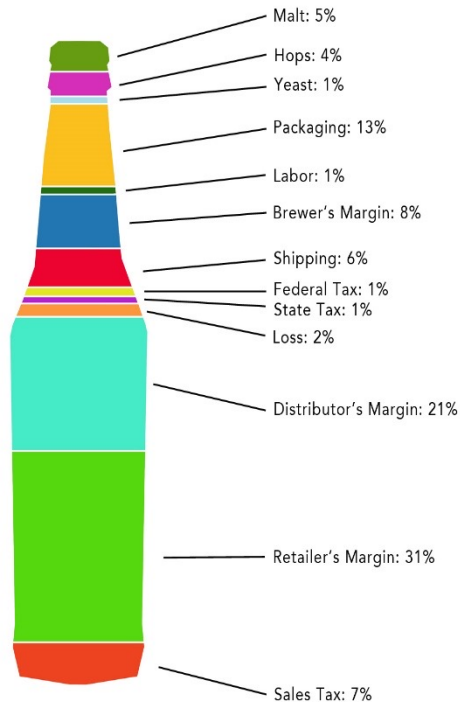
The answer lies in efficiency of distribution costs. Intermediaries are specialists in selling. They have the contacts, experience and scale of operation which means that greater sales can be achieved than if the producing business tried to run a sales operation itself.



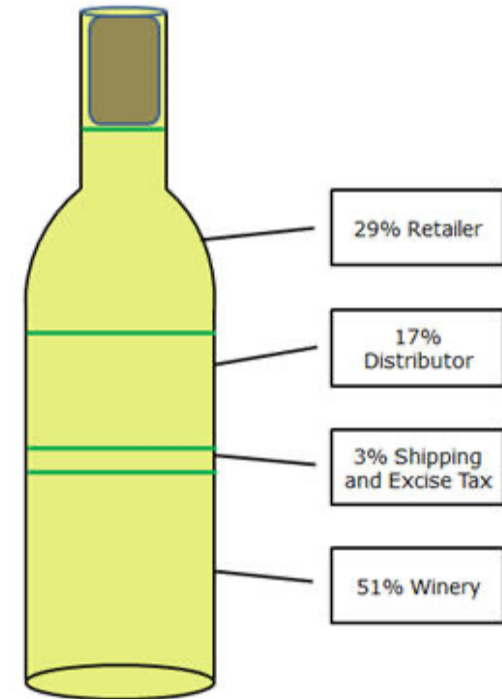
Evaluating alternatives - Margin

Why Craft Beer Costs So Much

Good craft beer regularly costs as much as \$12 a six-pack -- twice as much as beers from brands like Bud or Coors. But a HuffPost Taste investigation of the economics of craft beer revealed that a lot of work and materials go into each bottle. On the chart below, you can see just how much of the final cost of a six-pack goes to each stage of the process.



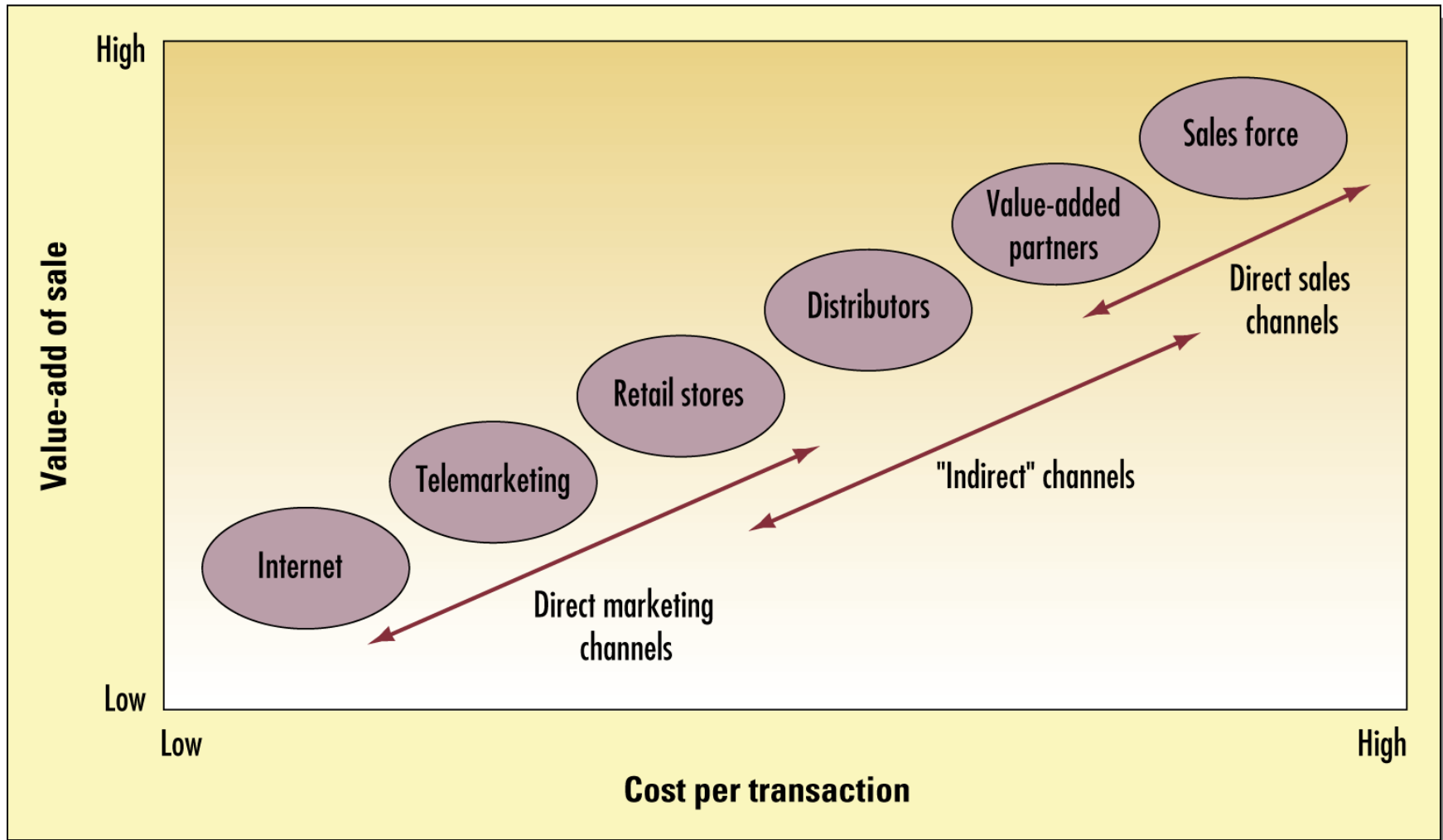
Cost Analysis of an Energy Drink



Who get's the money?



The Value-Adds versus Costs of Different Channels





5. Marketing Systems

Approaches to distribution

↓ From **conflictual** relationships

↓ ...to **cooperative** relationships: partnership

e.g. Toyota

Focus on total cost reduction **all along the distribution chain**

↓ ...to **cooperative and competitive** relationships: **coopetition**

e.g. private labels



Customer value is created **also** by the distribution network

- Physical distribution
- Communication distribution
- Information and financial distribution

Value network as a competitive advantage

E.g. Apple's value network is composed by the developer of apps for iPhone, iPod and iPad provided also through App Store.



Vertical marketing systems

- Focal firms extend their **control** along the distribution channel
- They aim at eliminating dysfunctional behaviors
- The solution gets closed to **vertical integration**
- Channel works as a unique, consistent system



- A franchising system (a particular form of vertical system) is a system of individual franchisees, a tightly knit group of enterprises whose systematic operations are planned, directed, and controlled by the operation's franchisor.
- The franchisor owns a trade or service mark and licenses it to franchisees in return for royalty payments
- The franchisee pays for the right to be part of the system
- The franchisor provides its franchisees with a system for doing business

Examples: Starbucks in Europe, Benetton, some McDonalds.



Orizzontal marketing systems

- **Partnership** among companies at the same tier of the supply-chain
 - Synergies in marketing efforts and increased effectiveness
 - Companies extend/complete their product set
-
- Examples: SystemU, Conad, Eldo,...



Channel Conflicts, Horizontal and Vertical

Horizontal conflicts occurs among firms at the same level of the channel.

✓ For example, some Ford dealers complained about other dealers in the city who stole sales from them by being too aggressive in their pricing and advertising or by selling outside their assigned territories.

Vertical conflicts refers to conflicts between different levels of the same channel.

✓ For example, General Motors came into conflict with its dealer some years ago by trying to enforce service, pricing, and advertising policies.



6. Digital and multichannel environment

Channel proliferation (physical channel, sales agents, mobile, internet, catalogue, telephone, e-mail, television, etc.)

Multichannel marketing aimed at reaching different customers/segments through different channels

e.g. computer:

-pre-purchase: internet, tv, press, etc.

-purchase: retail, telephone, catalogue, internet, etc.

-post-purchase: retail, telephone, internet, etc.



E-commerce

Direct channel, rapid growth

Not only e-commerce: m-commerce, t-commerce

E-commerce challenges:

- Traditional fulfillment should be restructured → Distribution center becomes critical to deliver a good customer experience
- Increasing selection of merchandise
- Consumers purchase process is different
- Consumers switch between online and traditional channels along the purchase process



E-commerce pros

- Savings by reducing the intermediaries role
- Savings thanks to online promotion/advertising
- New customers
- Direct control of the final market
- Not limited geographically
- Possibility to provide abundant information on products
- Create market for niche products



E-commerce cons

Greater competition:

- International Companies
- Consumers have more information and can directly compare products

Not everybody use online channels: there is still the need to keep traditional channels

Inability to experience the product: e.g. luxury product need to be experienced



New opportunities come from digitalizing the physical world, enabled by the rapid development and penetration of AI and the Internet of Things.

«**Hybrid competition**» is happening at the **physical-digital intersection**:

➤ Digital giants are moving into the physical sector:

e.g. Amazon has opened new **retail stores in addition to its acquisition** of Whole Foods; Google has entered automotive and transportation through its Waymo subsidiary;

➤ Incumbents are pursuing digitalization, opening online channels and digitalizing their offer:

e.g. John Deere has invested heavily in IoT technology by adding connected sensors to its tractors and other equipment. The company collects and analyzes data from each machine, using the insights to update its equipment or provide complementary services to users

Source: The new logic of Competition. By Ryoji Kimura, Martin Reeves, and Kevin Whitaker. Boston consulting group 2019



New digital tools and platforms enable brands to directly engage with customers, improving the shopping experience, and collecting valuable data at every point along the path to purchase (**direct-to-consumer strategy**)

Both established and emerging brands may benefit:

- avoid traditional channel costs (e.g. listing fees, establishing vendor agreements with local retailers etc)
- avoid the costs associated with the consolidation of major retail industry players (decreasing negotiating power)
- leverage data analytics
- develop deeper relationships with end customers
- expand reach globally
- sell goods more profitably
- deliver more differentiated product offerings (digital stores can offer many more products than they can physically stock)
- avoid major investments in infrastructure

Source: Going digital, going direct. Deloitte



«Home» as a new point of contact between the brand and the consumer

Brands understood that the most important point of contact with a consumer is when his needs emerge, not when purchase takes place.

Companies are trying to getting closer to customers and to be part of their life, in the most intimate environment -the house-

e.g. Google Home or Alexa by Amazon: consumers use them at home, by interacting with a human voice and looking for support in their daily activities



7. Trade marketing

↓ *Marketing effort towards intermediaries*

Design of a marketing strategy for the retailer or the intermediary

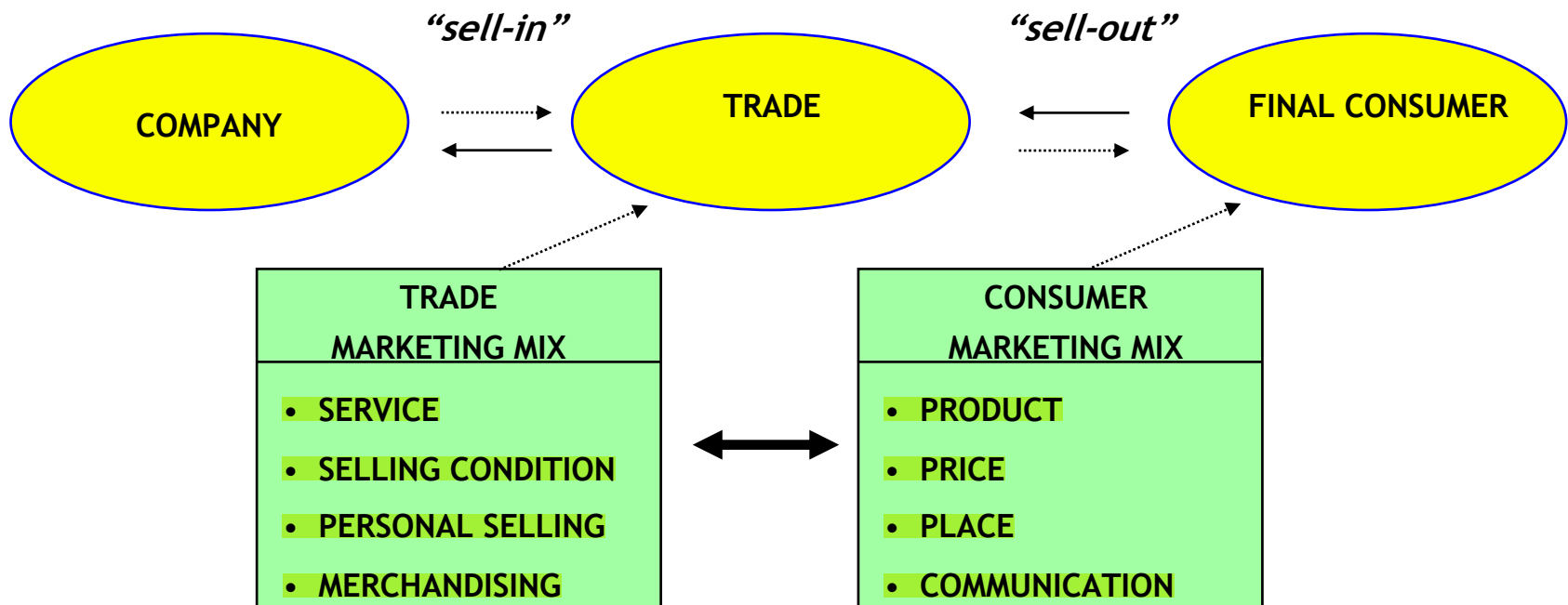
Focus:

Creating (indirectly or directly) customer value through an improvement of trade satisfaction and margins



Marketing action at two levels:

- intermediate customer (trade)
- final customer





Trade marketing: actions and impacts

- Information sharing
- For every tier of the distribution-chain, analysis of the customer's demand
- Development of conjoint initiatives with customers and distributors
- Enhanced emphasis on distribution channel control
- Improvement in the logistics (e.g. VMI)
- Improvement of the commercial offers
- Partnerships and stronger collaboration