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4.5 The seven Ps of the marketing mix

Place

Place is related to how products are delivered from the producer to the customers, and it involves various distribution channels. Choosing the correct distribution channel is part of the decisions of the marketing mix.

Essentially, producers have two options: to sell directly to the consumer or to use an intermediary. An intermediary is a person or business that acts as a ‘go-between’ in transactions. There are three types of intermediary that a business might use to help with the distribution process:

- a wholesaler
- a retailer
- an agent

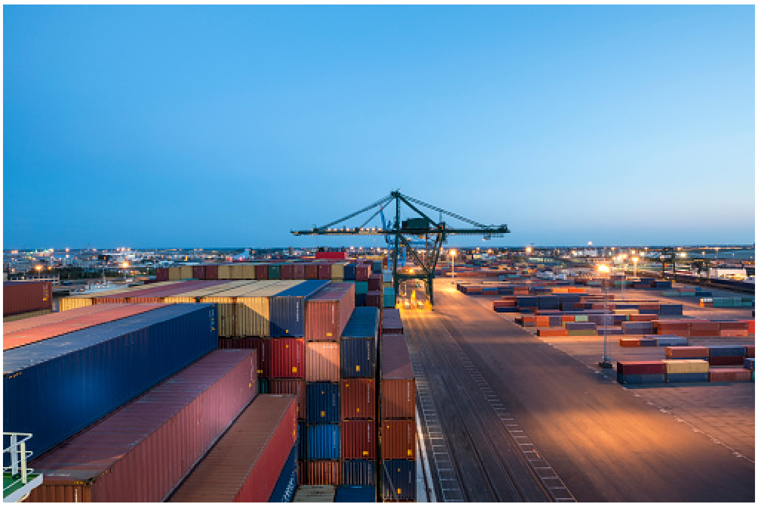


Figure 1. Place: How goods are delivered to customers.

Credit: Thierry Dosogne, Getty Images

Exam tip

Remember that place is different from location. Place is a part of the marketing mix. Place describes how the product is delivered to the customer. Location, on the other hand, refers to a decision taken by a business about where to locate or relocate its premises or production facilities.

In cases that involve delivery of services, place and location could be the same. An example is a hotel. But for other types of products, place and location could be different.

Wholesalers

Wholesalers specialise in purchasing large quantities of stock from producers, storing the stock, and then selling it on to retailers and – sometimes – consumers. Wholesalers provide an important link between producers and smaller retailers. They act as a central delivery and collection point, so they can significantly reduce distribution costs. However, it is important to know that wholesalers charge a fee for their service to producers.

Imagine a situation in which a small town has just four producers: Producers A, B, C and D and four retailers: Shops 1, 2, 3 and 4. Each producer makes a unique product, and all four products are demanded by all four retailers. But there is no wholesaler.

How many different deliveries would there need to be from the producers to the retailers in order to facilitate this?

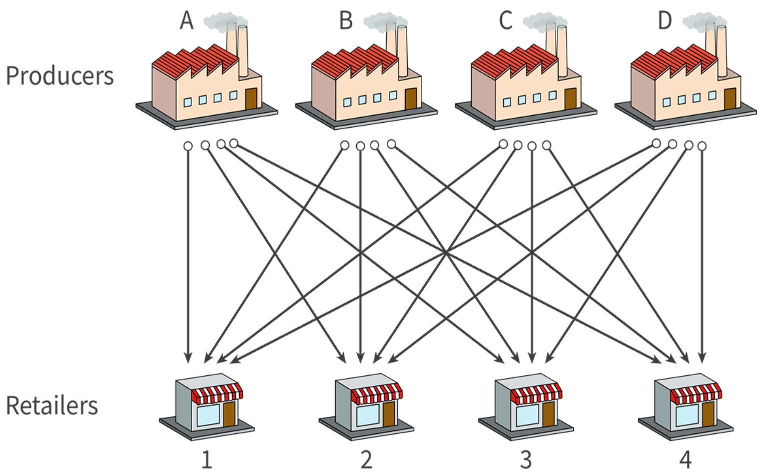


Figure 2. Distribution without a wholesaler.

The scenario described above is illustrated in **Figure 2**. Each producer would need to make four different deliveries – one to each retailer – making 16 different deliveries in total.

Now consider the same situation, but this time with a wholesaler acting as an intermediary. Each of the four producers now makes just one delivery to the wholesaler. The wholesaler stores the products and sells them on to the four retailers. The wholesaler delivers to each of the four retailers. This means there need to be only eight different deliveries in total, as illustrated in **Figure 3**. This is half the number than without a wholesaler. Using a wholesaler can save producers and retailers time and cost.

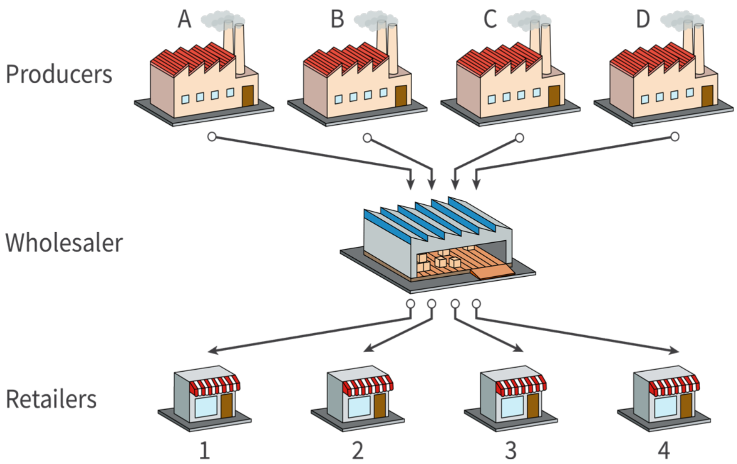


Figure 3. Distribution with a wholesaler.

Wholesalers serve another important role, sometimes referred to as breaking bulk. Wholesalers buy large quantities from producers. Their large order size means that they achieve purchasing economies of scale (Section 1.5.2 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/internal-and-ext-economies-id-36534)), which reduces their average costs. The wholesalers then store these goods in large warehouses until they are needed by retailers. This reduces storage costs for both producers and retailers.

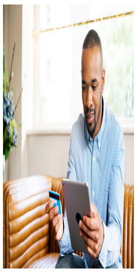
Retailers

Retailers purchase goods from wholesalers and producers, then sell them to the final consumer. Retailers come in all shapes and sizes, such as:

- convenience stores
- supermarkets
- online retailers
- department stores
- vending machines
- high street shops and chain stores

A convenience store.
Credit: andresr, Getty Images

A supermarket.
Credit: Drazen_, Getty Images



An online retailer.
Credit: Tim Robberts, Getty Images

A department store.
Source: hiro449944 (https://en.wikipedia.org/wiki/Le_Bon_March%C3%A9#/media/File:Le_Bon_March%C3%A9,_Paris_3 _panoramio.jpg), CC BY 3.0 (https://creativecommons.org/licenses/by/3.0), via Wikimedia (

High street shops and chain stores.
Credit: ZenShui/Alix Minde, Getty Images

A vending machine.
Credit: helovi, Getty Images

Figure 4. Different types of retailers.

Consumers often choose a specific retailer because the location or range of products makes it convenient for them to shop there. Think about the last shop you went to. Why did you go there? Was it because it was the closest shop to your home or school? Was it because it had good transport links or parking? Or was it because of the range of products it offered? Producers often select retailers to distribute their goods based on how easy it is for their target market to visit and make a purchase.

Sometimes choosing the right retailer can be the most important decision in the marketing mix. It is very important for a business to make it easy for its target market to sample and purchase its product. If a producer chooses the wrong distribution channel, consumers may not even know a product exists.

Agents

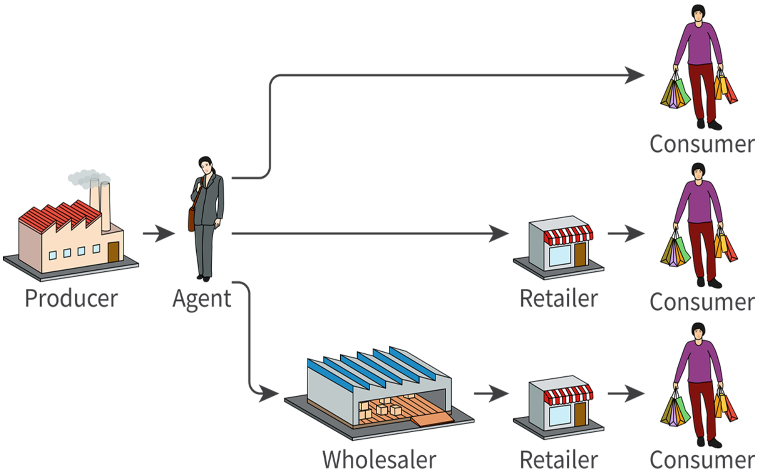


Figure 5. Agents can use any of the distribution channels.

An agent is a person who acts on behalf of another person or group. An agent may be used to aid any of the distribution channels explained above. Agents promote and sell products on behalf of producers. The key difference between an agent and a retailer is that the agent does not own the product it is selling. Instead, the agent promotes the product and charges a commission, which is a percentage of money on every sale it arranges. Examples of agents include:

- price comparison websites
- travel agents
- estate agents
- eBay
- international distributors

International distributors play an important role in helping companies to achieve global expansion. When businesses first start to sell their products in other countries, they will know very little about the local market. International agents can provide this knowledge, at a cost. They can promote the company's product to foreign wholesalers and retailers. They can also advise on local laws and customs to ensure costly mistakes are not made.

Activity

Learner profile: Inquirers
Approaches to learning: Research skills (information literacy)

Interview the person responsible for buying products for your school. This might be the head of administration or someone else.

Find out which products are purchased from wholesalers, which are purchased from retailers and which are purchased through agents.

Distribution channels

A distribution channel is the path a product takes when it travels from producer to the final consumer. The exact combination of intermediaries used will depend on factors such as the product type, the size of the distributor, business objectives, cost, control and legal factors.

Direct distribution

Direct distribution does not involve the use of intermediaries. Instead, producers sell directly to their customers. A simple example would be a local bakery or florist. These businesses can control their own prices and do not have to pay any commission to agents, allowing them to keep 100% of any sales revenue they receive.

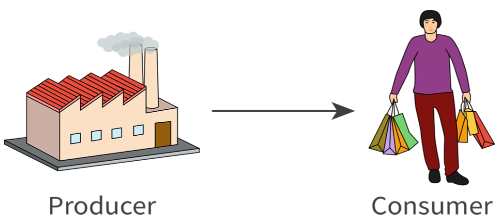


Figure 6. Direct distribution.

Direct distribution also allows businesses to enjoy close contact with their customers. This two-way dialogue allows a business to understand the needs of its target market, meaning that goods and services can be developed to meet customers' requirements.

Case study

Converse By You

Taking advantage of mass customisation technology (Subtopic 5.2 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39052)), shoe company Converse offers its customers the chance to design their own shoes. Customers can log on to the Converse website and personalise their own unique pair of shoes, which are then manufactured and shipped directly to them.

Do a search for 'Converse By You' and design your own pair.

1. Outline the type of distribution channel that is used by Converse By You. [2 marks]
2. Explain the benefits to Converse of using this type of distribution channel. [4 marks]

Indirect distribution

Indirect distribution involves the use of one or more intermediaries between the producer and the buyer. A producer may decide to distribute their products using an intermediary – a person or business that is responsible for selling the product to buyers. Indirect distribution helps producers to focus on their core activities because they do not have to worry about distribution.

It is possible for a business to use more than one distribution channel for its product. Using more than one channel helps the product reach a range of market segments.

Producer to retailer to consumer

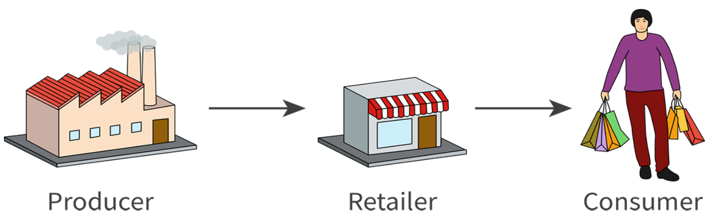


Figure 7. Distribution with one intermediary.

Large national and international retailers, such as Walmart, or online stores such as the iTunes store or Amazon, allow producers to access a huge number of consumers easily. In this model, producers deliver their products to central distribution hubs, owned by the retailers. From there, the retailers take care of sending the product to their stores. This system allows retailers and producers to form close relationships. Some retailers have now developed electronic data exchanges that allow them to order a replacement product directly from a producer as soon as the product is sold out in their stores.

Producer to wholesaler to retailer to consumer

If a product is going to be sold through smaller convenience stores, it may be necessary to use a wholesaler to store and distribute the product; these small retailers may not have the resources or buying power to purchase directly from producers. The small retailers therefore use wholesalers that can offer a range of products and break bulk. The disadvantage of this channel is that there are two intermediaries, adding a markup to the price. Goods can end up being more expensive than if they are sold without wholesalers involved.

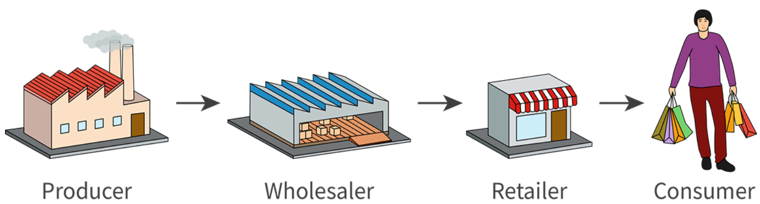


Figure 8. Distribution with two intermediaries.

Activity

Learner profile: Knowledgeable
Approaches to learning: Thinking skills (transfer)

Choose a distribution channel for the following products. Explain your choice in each case:

- clothing for a formal event
- a truck
- an imported car
- clothing to be exported
- a can of soda
- a can of tomatoes

An evaluation of distribution channels

Table 1 lists the benefits and limitations of the various distribution channels considering the producer's interest.

Table 1. Benefits and limitations of various distribution channels.

Channel	Benefits	Limitations
Direct distribution	**Eliminates intermediary expenses.** All the profit is earned by the producer. **Increases direct contact with customers.** This gives the producer the possibility of carrying out marketing research. **Provides control.** The producer can take decisions over the marketing mix of the product.	**Reduces distribution options.** By using this distribution channel, producers may see a reduction of sales. **Increases internal workload.** All activities are carried out and financed by producers. **Raises costs.** All the delivery and all the promotional activities are carried out by the producers.
Producer to retailer to consumer	**Easy distribution of the product.** The producer can deliver its products to more places. **Consumers can try the product.** As a consequence, producers can increase their sales.	**Intermediary keeps some profit.** A commission should be paid to the intermediary, reducing the producer's profit. **Loss of control over the products.** The producer loses control over the products and decisions about them.

Channel	Benefits	Limitations
Producer to wholesaler to retailer to consumer	**Reduces costs.** The wholesaler will advertise the products to retailers, reducing the costs for producers. Storage is a cost that is also covered by the wholesaler. **New markets.** Gives producers the possibility of entering a new market, which otherwise would not be easy to access.	**Another intermediary keeps some profit.** The wholesaler is another intermediary who is paid a commission, reducing the profit of the producer. **No control.** Producers do not have control over the marketing mix of the products.
Agents or brokers	**Opportunities for new markets.** Agents have specific knowledge of the legal aspects of each country, which is needed in order to introduce new products successfully. This gives the producer the possibility of increasing sales.	**A commission must be paid.** A fee must be paid to the agent, reducing the profit to the producer. **No control.** Producers do not have control over the marketing mix of the products.

Watch the following video to learn more about place in the marketing mix.

Video 1. Explaining the importance of a good product distribution.