

PLACE AND PLACEMENT

Chapter 6



SELLING AUTOMOBILES IN MALLS

How does the typical Filipino middle-class family go about buying a family car?

Studies show that car-buying is a family venture for this market class. When the time comes to check out the likely car models for consideration, the entire family wants to come along so that they can check out the vehicle for themselves, sit inside, appreciate the interiors, and even slam the car doors shut a few times to "test for quality. In many instances, seeing the family being happy with a car already seals the deal for the parents, and the car gets sold right there and then. Yet for the longest time, car showrooms kept regular office hours-opening from 8 a.m. or later, closing by 5 or 6 p.m., and being closed on Sundays.

SELLING AUTOMOBILES IN MALLS

With this kind of schedule, how often can an interested family gets to check out a promising vehicle as a group?

It was not until the 2000s when car dealers finally saw the wisdom of going where their market was and this was in the malls. Dealers began exhibiting their latest vehicles in mall lobbies, especially on weekends when entire families were likely to visit. Coupled with aggressive installment payment plans, this resulted in a dramatically increased awareness for the exhibited vehicles along with increased sales as deals became easier to close on the spot. It can even be argued that malls have become a primary reason for the explosive growth of car sales in recent years.

SELLING AUTOMOBILES IN MALLS

The **third P** in the marketing mix, **Place**, is covered in this chapter. Place refers to distribution logistics as well as the literal location where you sell your products. It covers issues such as types of distribution channels, possible conflicts that can arise, and how to motivate the channels that help bring your products closer to your market.

THE PURPOSE OF PLACE

Why invest in a distribution system in the first place?

If you are a new producer of goods, getting your products to your market wherever they may be, can pose quite a challenge. If you have just opened a new service establishment, choosing your location could also be a brain-stumper as well.



THE PURPOSE OF PLACE

The third P. of the marketing mix, **Place** (a.k.a. **distribution channels**), is all about efficiency. It seeks to answer the question of how best to move products from the producer to the consumers. What is the best way to place your products into your consumers' hands? Where is the best place to set up a shop?



THE PURPOSE OF PLACE

Distribution has **three** key objectives, namely:

- **to effectively reach your target market;**
- **to minimize costs of dissemination; and**
- **to maintain consistency.**



THE PURPOSE OF PLACE ✨

You will want your products to reach your intended market and not (necessarily) other parties. You also want to do this as cheaply and as speedily as possible. Finally, you want your products to reach your markets in exactly the way you want them to be experienced.

Distribution channels are the set of interdependent organizations that are involved in the process of making a product or service available for use or for consumption by the consumer or individual user.

THE PURPOSE OF PLACE ✨

These can include wholesalers, sales personnel and territory managers, authorized distributors, and retail stores. It also involves the contractual relationships between these entities, if any, as well as the selection of actual points of distribution.

Decisions involving distribution systems can be among the most challenging in marketing. The reason is that, more often than not, it involves having to deal with third parties which therefore quickly becomes matters involving relationships and even politics.

THE PURPOSE OF PLACE ✨

Distribution decisions include questions of where it is best to sell your products. For example, if you are selling sugar-free ice cream, should you sell it through:

- (a) supermarkets just like regular ice creams,
- (b) small health stores that are frequented by upscale clients,
- (c) drugstores and pharmacies,
- (d) door to door via sales people, or
- (e) special food carts? All of these distribution points have their own pros and cons, and each has its own set of target markets.

THE PURPOSE OF PLACE ✨

Diageo Philippines distributes imported liquor throughout the country.

It does this through three identified distribution channels:

- **On-trade channels.** These are places where the products are directly consumed, such as bars and restaurants.
- **Off-trade channels.** These are stores where the products are bought for later consumption, such as supermarkets, wine shops, and liquor stores.
- **Duty-free channels.** Because Duty-free malls represent a significant bulk of sales of imported liquors, Diageo has segregated these as special off-trade channels, with consumers

TERMS AND RESPONSIBILITIES FOR DISTRIBUTORS

Handling distribution channels is really all about the clear and proper delegation of distribution responsibilities. Before distribution can commence, the following issues need to be ironed out and be made very clear in order to minimize future problems.

TERMS AND RESPONSIBILITIES FOR DISTRIBUTORS

Price Policies

Ideally, a firm will want to have control over how products are priced down the line, all the way to the retail level. The way to do this is through a well-mapped price list that gives the suggested retail price (SRP) at the retail level, along with distributor prices and even a schedule of volume incentives and discounts.

TERMS AND RESPONSIBILITIES FOR DISTRIBUTORS

Price Policies

Distributors are expected to follow these prices. On the other hand, there are firms that are okay with allowing their distributors to set their prices down the line. While this gives distributors further incentive to carry the products, it also implies that the firm should be willing to completely detach itself from managing retail prices.

TERMS AND RESPONSIBILITIES FOR DISTRIBUTORS

Conditions of Sale

This involves key transactional details between the firm and the distributor pertaining to the transfer of goods, such as terms of payment for goods received, credit terms (e.g., number of weeks before payment), and guarantees for matters such as defective products. These are contractual matters and the clearer these are laid out, the better as it will minimize the possibility of ambiguities that may prove costly over the long term.

TERMS AND RESPONSIBILITIES FOR DISTRIBUTORS

Territorial Rights

As with the conditions of sale, the scope of coverage for sales by the distributor needs to be made as clear as possible in order to minimize the possibility of territorial disputes between fellow distributors. Territories can be specified in terms of geography (cities, provinces, etc.) or markets (private sector, government institutions, etc.).

TERMS AND RESPONSIBILITIES FOR DISTRIBUTORS

Services and Responsibilities

This specifies the duties and responsibilities of both the firm and its distributor. Firms, for example, may be held responsible for ensuring that proper levels of stocks are always made available to the distributor with penalties to be imposed to the firm should stocks fall below required levels. Distributors, on the other hand, may be made responsible for matters such as meeting sales targets and submitting sales reports with penalties to be imposed for non-compliance.

FUNCTIONS OF DISTRIBUTION CHANNELS

Distributors are not just points for selling goods or executing services. They can actually take on quite a number of roles, many of which can be negotiated depending on how much bargaining power a producer has.



FUNCTIONS OF DISTRIBUTION CHANNELS

Gather Information About Customers

Distributors are the intermediaries between producers and consumers. Therefore, they can be given the responsibility of gathering information about the market. Distributors can do this directly through forms and questions or more subtly through automated methods such as loyalty cards that are linked to customer databases.

FUNCTIONS OF DISTRIBUTION CHANNELS

Communicate and Promote Products.

Distributors who are points of retail can either take care of the task of promoting the products or at least serve as platforms for presenting the product's communications. Examples would be spotlights that accentuate the product from the shelves or having "promodizers" merchandizers who personally try to convince shoppers to try the product.

FUNCTIONS OF DISTRIBUTION CHANNELS

Reach The Proper Market

The point of sale should either be a regular destination point of the target market or it should be designed to attract them.

Negotiate with Buyers

Certain products, like automobiles and real estate, may require some modifications in terms, such as discounts, additional features, or freebies, before a customer agrees to buy. Distribution channels (e.g., brokers and dealerships) can take care of this

FUNCTIONS OF DISTRIBUTION CHANNELS

Take Orders

The actual order-taking is a function that may be too complicated for a producer to take on. Online sites such as Zalora, for instance, specialize in closing deals and offering convenient online payment options.

FUNCTIONS OF DISTRIBUTION CHANNELS

Finance Inventory-Keeping

Producers of tangible goods need to convert their goods into liquidity as quickly as possible in order to have a continuous flow of working capital for continued operations. The longer the goods lie in the producer's hold as inventory, the longer their cash flow will be tied up. Distributors can offer to buy their goods up front, often at a steep discount, to provide the producer with rapid liquidity.

FUNCTIONS OF DISTRIBUTION CHANNELS

Finance Consumer Purchases

Certain products can be offered through deferred payment schemes, lease arrangements, or installments. These kinds of arrangements will be difficult for a producer to take on, but may be easy for distributors particularly those with tie-ups in financial institutions.

FUNCTIONS OF DISTRIBUTION CHANNELS

Assume Risks of Channel Work

Once a distributor gains ownership of goods from a producer, the distributor is now responsible for any outcome of those goods. If the goods remain unsold, then the distributor has to find ways to sell them. If those goods are lost through accidents or spoilage, then it is the distributor's problem as well. This is a valuable service from the producer's perspective since it will no longer be worrying about these risks.

FUNCTIONS OF DISTRIBUTION CHANNELS

Move Physical Products

Shipping, trucking, and point-to-point distribution-all of these can be taken care of by the right kinds distributors. It thereby frees the producer from having to worry about the logistics of shipping goods to the hands of consumers.

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FUNCTIONS OF DISTRIBUTION CHANNELS

Provide Payment Facilities

More and more consumers are choosing to use alternatives in paying cash for their purchases, such as through credit or debit cards. These payment methods require bank-furnished infrastructure, such as card readers, which the distributors can avail of. Oversee transfer of ownership. For certain products, the signing of contracts or the details for closing a sale can be a tedious and lengthy process. Producers may not have the patience for overseeing all of these. Distributors can take on this role, freeing producers to focus on their core competence of actual production.

CONSIDERATIONS IN DISTRIBUTION DESIGN

Firms can opt to sell their products themselves, with no channels to avail of which is called a zero-level or direct distribution system. This may be possible if

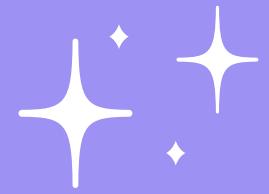
- (a) the firm only expects low volumes of transactions and has no ambition to sell to a wider market, or
- (b) it is ready to invest in the technical skills and logistics required to set up a widely-spanning distribution system.

CONSIDERATIONS IN DISTRIBUTION DESIGN

If a firm deals directly with retailers, then there is one layer of distributors between the firm and the customers. This is a case of single-level distribution system. If a firm assigns regional wholesalers who in turn deal with retailers, then there are now two layers between the firm and the customers which is now a case of two-level distribution system. There can be any number of levels between the firm and the end consumers, it depends on the design of the distribution system

Should a business set up its own distribution system or should it just rely on other parties to take care of the distribution functions for them? There are pros and cons to either option.

CONSIDERATIONS IN DISTRIBUTION DESIGN



	Pros	Cons
In-house distribution system	Full control over distribution process	Expensive to set up, requiring new skills and investments
Outsourced distribution system	Ease and speed of mobilization	May not have full control over the results Margins and payment periods are subject to negotiations

Setting up your own distribution system



CONSIDERATIONS IN DISTRIBUTION DESIGN

Setting up your own distribution system can be expensive and complex, but it also means having as much control as possible over the logistics and even your customers' experience.

In many countries, Apple offers official Apple Stores or retail stores that are company-owned. Here, the customer experience is fully managed; down to how each product is showcased and how the service personnel interact with customers. By contrast, device manufacturers—such as Samsung which rely on electronics store chains cannot offer the same level of Store could. This is because electronic stores are third-party entities that are not under Samsung's employ. Besides, these stores are also selling brands other than Samsung.

CONSIDERATIONS IN DISTRIBUTION DESIGN

The simplest distribution system that a firm can set up is a sales force that will make direct sales calls with potential clients. More complex systems would, for example, involve having nationwide networks that have strategically located warehousing points and retail chains that report to these. If you are concerned about offering a very particular kind of experience for your customers at the point of purchase, then you may be better off owning and controlling your own distribution network.

Outsourced distribution systems, on the other hand, mean relying on professional distribution services to take care of physically pushing your products to the consumers. This includes marketing companies, sales organizations, and partnerships with retail chains or simply dealing directly with large retailers. Letting the professionals handle distribution matters can be a big relief for companies that want to focus on production, but a number of things can go wrong. For one thing, if the distributors are untried and you are not familiar with their track record, they may do an unsatisfactory job of selling your products for you. They may already have too many other products in their hands and so cannot put sufficient attention to your products.

CONSIDERATIONS IN DISTRIBUTION DESIGN

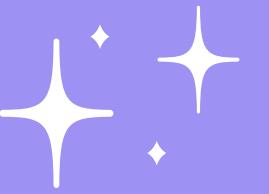
Bargaining power is a very important factor when considering whether or not to deal with third party entities for distribution. If you happen to have a very strong and very "powerful" brand (i.e., your products have a lot of brand equity), then it may be easy to convince distributors to abide by your terms. This includes the suggested retail price, payment terms, and instructions for proper selling. Unfortunately, if you do not have brand recognition or a reputation of note with the distributors, then the tables may be turned and you will have to abide by their terms. This could include having to suffer through very long payment terms—over three months before they process your payment—which could squeeze your working capital.

If you do not have sufficient bargaining power with your distributors, then you may have to offer incentives such as higher distributor margins, longer terms of payment, or bonuses and other extras. At the very least, you may have to develop very good personal relationships with them in order to get better terms.

CONSIDERATIONS IN DISTRIBUTION DESIGN

Perhaps the lowest form of distributor arrangement would be consignment. Here, you simply ask a distributor to stock your goods for you. There is no transfer of ownership, which means that you still carry the risks should the goods not sell sufficiently and your working capital will be tied up until such time the goods actually sell. The distributors may also not have much of a compelling reason to actively push your products-unless they are given a very generous profit margin. But for startups with no brand equity, sometimes consignment is the easiest way to get their feet into visible retail areas

CONSIDERATIONS IN DISTRIBUTION DESIGN



Service issues will affect the design of a distribution system.

These include:

Lot size. How big is the typical volume of purchase that a customer is likely to make? If your market is expected to buy in bulk (eg, you are selling to resellers), then you will need a distribution point that can carry bulk-sized inventory. But if your market is expected to buy in small quantities, then you need distribution points that are designed to buy in bulk and sell per piece.



CONSIDERATIONS IN DISTRIBUTION DESIGN

Waiting time. Do customers expect to have the product in their hands immediately or do they accept a bit of waiting time to occur? The ability of distributors to ship your goods to your customers may be a vital consideration. Furniture showrooms, for instance, may take several days to deliver large items as they first have to commit logistics from distant production areas

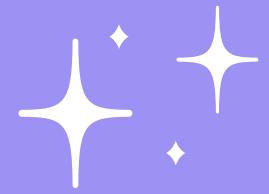
Location. Is the distribution network located conveniently close to your target market's regularly visited areas? The old saying that it is all about "location, location, location" remains very true for many industries. Quite a number of otherwise promising businesses have closed down simply because there is not enough foot traffic where they set up their shop.

CONSIDERATIONS IN DISTRIBUTION DESIGN

Variety. Is your target market expecting to shop through a wide variety of different products before choosing an item, or are they expected to come to the store already committed to buying a particular brand? If you are dealing with variety seekers, then you may need to produce a variety of goods. You will also need distributors that are in fact open to presenting a wide variety of stocks.

Add-on services. Do you plan to offer on-site services to your buyers, such as customization, alteration, or personalization? If so, then you will need to choose distributors that have personnel who are willing to be trained and who have sufficient floor area to carry out your intended services.

CONSIDERATIONS IN DISTRIBUTION DESIGN



The nature of your product will also affect your choice of distribution system. Among these are:

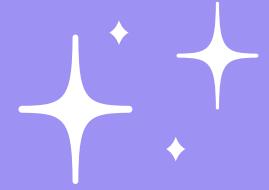
Product size. If you are selling a large object, then you will need distributors that are capable of handling and even showing it to your clients.

Perishability. If you are selling perishable goods, then you will need distributors that have cold storage facilities possibly throughout multiple points along the distribution network.

Technical complexity. If you are selling a product that requires special presented or explained to customers), then you will need distributors that have competent people on board who have the time and the willingness to be trained. You will also need to provide incentives in order to get them to undertake the requisite training.



MINI-CASE: THE GOURMET NACHOS



In 1993, friends Marty Aquino and Jon Perez sought to set up a food cart business in the country. Based on their travel experiences, they decided that nachos crispy chips that were typically dipped in a salsa would be a viable product to offer as these were becoming increasingly available across the United States. These are often being offered in places such as convenience stores, supermarkets, skating rinks, ski lodges, airports, and pubs. The question that their product will have to answer is, will Filipinos be as interested in nachos the same way that Americans have been growing increasingly fond of it?

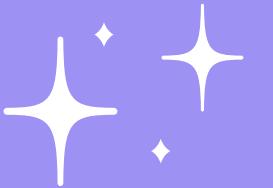
Adapting the flavors of their nachos to suit Filipino tastes, they soon created a food cart concept along with branding, packaging, and cart design. Their first cart was set up at SM City North Edsa in Quezon City, where it was located next to the movie theaters. Regular sized nachos were servings of 100 grams, topped with hot melted cheese. Additional toppings such as salsa, ground beef, and chili con carne were also available at a small add-on price for each toppings.



MINI-CASE: THE GOURMET NACHOS

Their first cart became a success. Duly inspired, Marty and Jon proceeded to open a second branch at the theater area of SM Megamall in Mandaluyong City. Soon, the new business was opening even more branches. Not all branches were doing well though. A cart at Robinson's Galleria mall in Pasig City, situated on the ground floor alongside other food carts, gave middling revenues. A cart at the Shangri-La Mall (right next to SM Megamall) that was also situated next to other food carts on the ground floor delivered average performance. The same was observed with their cart in V-Mall at the Greenhills Commercial Center in Mandaluyong that was also situated on the ground floor alongside other food carts. Then there were the problematic carts. At Ever Gotesco Mall in Quezon City, their cart was located next to the supermarket checkout. It was a mall that catered to the broad market, so there was a lot of foot traffic. However, few people paid attention to the nacho cart. The same was observed in their cart at the Tutuban Mall, a very populist mall in old Manila. Despite the very heavy foot traffic, their cart that was at the entrance of a supermarket was hardly patronized.

MINI-CASE: THE GOURMET NACHOS



What was the common denominator here? Why were some branches successful while others were not?

The key to success was apparently the context of the locations. At least for Filipinos, the form factor of nachos makes it perceived to be a snack for moments of entertainment, such as while watching movies. So when the nacho cart is placed next to a supermarket or next to other food carts, it will not fare as well because its location positions it as trying to compete against regular foods where it will be theater, then it worthy choice versus the likes of popcorn and other snacks. This also means the high traffic areas per se, such as in popular malls, will not be viable because the average person will not consider nachos as a "food" choice.



Thank you

Hopefully, this year's report can make our
company even better

