Marketing Mix

4. Place Strategies

Marketing Mix: Place

Most producers *do not sell their goods directly* to the final users; between them stands a set of intermediaries performing different functions.

These intermediaries constitute a **marketing channel**, also called a **trade channel** or **distribution channel** - the "Place" element in the marketing mix.

These distribution channels make a product or service available for use or consumption

Marketing Mix: Place

The channels affect all other marketing decisions. For example:

- The company's pricing depends on whether it uses online discounters or high-quality boutiques.

- Its sales force and advertising decisions depend on how much training and motivation dealers need.

- Channel decisions include long-term commitments with other firms and sets of policies and procedures.

Marketing Mix: Place

In managing its distribution channels, the company can follow a **push** or / and a **pull** marketing strategy.

A **push strategy** uses the manufacturer's sales force, trade promotion money, or other means to *induce intermediaries* to carry, promote, and sell the product *to end users*.

A push strategy is particularly appropriate when:
- there is low brand loyalty in a category,
- brand choice is made in the store,
- the product is an impulse item

Marketing Mix: Place

In a **pull strategy** the manufacturer uses advertising, promotion, and other forms of communication *to persuade consumers to demand* the product *from intermediaries* (thus inducing the intermediaries to order it).

Pull strategy is appropriate when:
- there is high brand loyalty in the category
- when consumers are able to perceive differences between brands
- and when they choose the brand before they go to the store.

Top marketing companies employ both push and pull strategies.

Marketing Mix: Place

Channel Integration and Systems

Marketing Mix: Place

Channel Integration and Systems

A ***conventional marketing channel*** consists of:

- an independent producer,
- wholesaler(s),
- and retailer(s).

Each is a separate business seeking to maximize its own profits and no channel member has complete control over other members.

But there are also ***vertical***, ***horizontal***, and ***multichannel*** marketing systems.

Marketing Mix: Place

Channel Integration and Systems

1. Vertical Marketing Systems (VMS)

A vertical marketing system includes the producer, wholesaler(s), and retailer(s) acting as a ***unified system*.**

Under a *conventional* system, each piece in the distribution channel functions as an *independent business* and tries to increase its own profits.

But vertical marketing systems arose to eliminate duplicated services and conflict over independent members.

VMSs have become the dominant mode of distribution in the U.S

Marketing Mix: Place

Channel Integration and Systems

1. Vertical Marketing Systems (VMS)

Three types of vertical marketing systems:

1.1. CORPORATE VMS brings all of the elements of the distribution channel, from manufacturing to the stores **under single ownership**.

For example: Apple is responsible for doing everything related with their products: has place for the designing, making and selling the products.

Marketing Mix: Place

Channel Integration and Systems

1. Vertical Marketing Systems (VMS)

1.2. CONTRACTUAL VMS: Independent *production* and *distribution* companies **formally agree** to integrate their resources to obtain bigger sales impact than they could achieve alone.

For example, if 15 independently owned restaurants enter into an agreement with a produce wholesaler, the total costs go down for everyone thanks to bulk ordering and shipping.

Marketing Mix: Place

Channel Integration and Systems

1. Vertical Marketing Systems (VMS)

1.3. ADMINISTERED VMS:

One member of the distribution channel wields enough power, generally though sheer size, to control the activities of the other members of the distribution channel *without a formal agreement or ownership*.

For example: Walmart (a massive retailer), dictate their terms and conditions to the other members of the distribution channel (usually producers and wholesalers)

Marketing Mix: Place

<u>Channel Integration and Systems</u>

2. Horizontal Marketing Systems

In this channel development, two or more unrelated companies put together resources and programs to exploit a ***marketing opportunity***.

Horizontal Marketing Systems happens when each company lacks the ***capital***, ***know-how***, ***production***, or marketing ***resources*** to venture alone, or it is afraid of the risk.

The companies might work together on a temporary or permanent basis.

Marketing Mix: Place

Channel Integration and Systems

For example: a bank and a supermarket agree to have the bank's ATMs located at the supermarket's locations

Marketing Mix: Place

Channel Integration and Systems

3. Multichannel Marketing Systems

Most companies today have adopted multichannel marketing.

Disney sells its DVDs through five main channels:

1. Movie rental stores such as Blockbuster
2. Disney Stores (now owned and run by The Children's Place),
3. Retail stores such as Best Buy
4. Online retailers such as Disney's own online stores and Amazon
5. and the Disney catalog and other catalog sellers.

This variety affords Disney maximum market coverage

Marketing Mix: Place

Channel Integration and Systems

3. Multichannel Marketing Systems

Adding more channels gives companies three important benefits.

- The first is **increased market coverage**. There are more customers able to shop for the company's products in more places

- The second benefit is **lower channel cost**. For example, selling by phone is cheaper than personal selling to small customers.

- The third is more **customized selling**. For example, by adding a technical sales force to sell complex equipment.

Marketing Mix: Place

Channel Integration and Systems

There is a trade-off, however: new channels can introduce conflict and problems with control and cooperation.
Two or more channels may end up *competing for the same customers*.

Companies need to decide:
- **how much** of their product to offer in each of the channels
- and how to use different sales channels for **different sized** customers:
    - a direct sales force for large customers,
    - telemarketing for midsize customers,
    - and distributors for small customers

Marketing Mix: Place

Channel Integration and Systems

Many “brick-and-mortar” companies debated whether to add an **online e-commerce** channel.

They thought about the potential channel conflict with their **offline** retailers, agents, or their own stores.

Eventually, most companies had added the Internet as a distribution channel after seeing *how much business was generated* online.

Marketing Mix: Place

Procter & Gamble has only used traditional physical channels of distribution for years; now is selling some big brands such as Tide, Pampers, and Olay online.

Procter & Gamble is able to examine **consumer shopping habits** more closely.

So managing the **online and offline channels** has become a priority for many firms.

Marketing Mix: Place

Retailing and wholesaling

Marketing Mix: Place

Retailing

A **retailer** or **retail store** is any business whose sales volume comes mostly from retailing.

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Retailing includes all the activities in selling goods or services directly to final consumers

Any organization selling to final consumers –whether it is a manufacturer, wholesaler, or retailer– is doing **retailing**.

It doesn't matter *how* the goods or services are sold (in person, by mail, telephone, vending machine, or on the Internet) or *where* (in a store, on the street, or in the con- sumer's home)

Marketing Mix: Place

Retailing

Types of retailers:

- Store retailers
- Nonstore retailers
- Corporate retailers

1. STORE RETAILERS

There are different formats of store retailers. The most important types of major store retailers are:

Specialty store: Narrow product line. The Limited, The Body Shop.
Department store: Several product lines. JCPenney, Bloomingdale's.
Supermarket: Large, low-cost, low-margin, high-volume, self-service store designed to meet total needs for food and household products. Kroger, Safeway.
Convenience store: Small store in residential area, often open 24/7, limited line of high-turnover convenience products plus takeout. 7-Eleven, Circle K.
Drug store: Prescription and pharmacies, health and beauty aids, other personal care, small durable, miscellaneous items. CVS, Walgreens.
Discount store: Standard or specialty merchandise; low-price, low-margin, high-volume stores. Walmart, Kmart.
Extreme value or hard-discount store: A more restricted merchandise mix than discount stores but at even lower prices. Aldi, Lidl, Dollar General, Family Dollar.
Off-price retailer: Leftover goods, overruns, irregular merchandise sold at less than retail. Factory outlets; independent off-price retailers such as TJ Maxx; warehouse clubs such as Costco.
Superstore: Huge selling space, routinely purchased food and household items, plus services (laundry, shoe repair, dry cleaning, check cashing). Category killer (deep assortment in one category) such as Staples; combination store such as Jewel-Osco; hypermarket (huge stores that combine supermarket, discount, and warehouse retailing) such as Carrefour in France and Meijer in the Netherlands.
Catalog showroom: Broad selection of high-markup, fast-moving, brand-name goods sold by catalog at a discount. Customers pick up merchandise at the store. Inside Edge Ski and Bike.

Source: Data from www.privatelabelmag.com.

Marketing Mix: Place

Retailing

1. STORE RETAILERS

These different formats of store retailers will have **different marketing strategies**.

They have different competitive and price dynamics, and they meet different consumer preferences for service levels.

For example: Self-service is the cornerstone of all discount operations. Many customers are willing to carry out their own "locate-compare-select" process to save money. In other cases (full service) salespeople are ready to assist in every phase of the "locate-compare-select" process.

Marketing Mix: Place

Retailing

2. NONSTORE RETAILING

Although more than 80% of retailed goods and services are sold through stores, nonstore retailing has been growing much faster than store retailing.

Nonstore retailing falls into four major categories:

- direct selling,
- direct marketing (which includes telemarketing and Internet)
- automatic vending,
- buying services

Marketing Mix: Place

Retailing

2. NONSTORE RETAILING

a) Direct selling, (also called *multilevel selling* and *network marketing*). Companies sell door-to-door or at home sales parties.

Examples:

Avon, Electrolux (one-to-one selling)

Tupperware and Mary Kay Cosmetics (one-to-many selling): A salesperson goes to the home of a host who has invited friends; the salesperson demonstrates the products and takes orders.

Marketing Mix: Place

Retailing

2. NONSTORE RETAILING

b) Direct marketing has roots in direct-mail and catalog marketing. It includes: telemarketing, television direct-response marketing and electronic shopping (Amazon.com, Autobytel.com).

As people become more accustomed to shopping on the Internet, they are ordering more goods and services from different web sites.

Marketing Mix: Place

Retailing

2. NONSTORE RETAILING

c) Automatic vending (vending machines) are found in factories, offices, large retail stores, gasoline stations, hotels, restaurants, and many other places. It's a 24-hour selling, self-service, and they offer different goods such as soft drinks, coffee, candy, newspapers, magazines, foods, cosmetics, etc.

d) Buying service is a storeless retailer with a specific clientele (usually employees of large organizations). These consumers can buy from a list of retailers that have agreed to give discounts in return for membership.

Marketing Mix: Place

<u>Retailing</u>

3. CORPORATE RETAILING AND FRANCHISING

Many retail stores are independently owned, but there are also some **corporate retailing organizations.**

Franchise organization is a type of types of corporate retailing.

In a franchising system, individual franchisees are enterprises whose operations are planned, directed, and controlled by the franchisor.

Marketing Mix: Place

Retailing

3. CORPORATE RETAILING AND FRANCHISING

Franchises are distinguished by three characteristics:

1. The franchisor **owns a trade** and **licenses it to franchisees** in return for royalty payments.

2. The franchisee **pays for the right to be part of the system**. Start-up costs include rental and lease equipment, and usually a regular license fee.

McDonald's franchisees may invest as much as $1.6 million in total start-up costs and fees. The franchisee then pays McDonald's a certain percentage of sales plus a monthly rent.

Marketing Mix: Place

Retailing

3. The franchisor provides its franchisees with a **system for doing business**.

McDonald's requires franchisees to attend "Hamburger University" in Illinois to learn how to manage the business.

Marketing Mix: Place

Retailing

Videos: Retailers place techniques

Marketing Mix: Place

Wholesaling

Wholesaling includes all the activities in selling goods or services to those who buy for resale.

Wholesalers (also called **distributors**) differ from retailers in different ways:

- Wholesalers pay less attention to promotion, atmosphere, and location because they are dealing with **business customers** rather than final consumers.

- Wholesale transactions are usually larger than retail transactions