

Chapter Nine – How do producers get their products and services to their target customers?

This area of the marketing mix is usually called 'distribution' simply because its main concern is to distribute goods and services to the target customers. Organizations typically use a large number of strategies to get their goods and services to target customers rather than only one. Critical to understanding and managing distribution are the concepts of **time** and **place utility**. **Time utility** can be defined as having the product available when the customer would prefer to acquire it and **place utility** is having the product available where the customer would prefer to acquire it. While the internet can provide the ultimate in time utility for some products or services (for example, e-mail), for many products, it does not provide sufficient time utility. Buying a book over the internet still requires that the book be delivered to the buyer before 'consumption of the product'. Therefore, it is generally *faster* to buy a book from a local retailer than to obtain the same book through the internet. However, the development of the market for e-books may change this situation. For example, this e-book is delivered to the user instantly anytime the user desires to access it. The action on the part of the reader is to gain ability to log on to the internet and go to our website (<http://www.principlesofmarketing.com>).

A marketer may adopt a **broadcast strategy** in which products are sent out to customers in as wide a manner as possible. This strategy is usually not efficient or effective for most firms, particularly small firms due to the cost. The strategy is typically adopted by many organizations that have not done sufficient research to understand the specific characteristics their target customer and how the customer would generally prefer to obtain the product or service in question. For example, organizations that are production-oriented concentrate primarily on manufacturing their products efficiently (with the underlying assumption that there will be a demand for the product). Sales-oriented organizations focus on promotion and personal selling and are not typically concerned with the ideal product solution that the customer is seeking. Technology oriented firms assume that customers are seeking the most advanced technology, thus these firms focus on the most advanced way of doing things whether the customer is seeking this solution or not. All of the organizations above often adopt these respective orientations because they have insufficient knowledge of customers or concern for customers to engage in a focused distribution strategy.

We use the terms **goods** to refer to tangible products (those that can be seen and touched, for example a new pair shoes) and the term **services** to refer to intangible products (for example a visit to the dentist), those that cannot be seen or touched during the process of providing the service. Although traditionally services have been delivered through a 'direct' marketing channel or directly from the seller to the buyer, as technology develops, many services are now be delivered directly to the customer. Previously, these services required personal contact between seller and buyer. For example, investment decisions (in stocks,

bonds, or other investment options) historically required a face-to-face meeting between the investor and his investment advisor. Today, many people manage their investments through the internet and never work face-to-face with another human being. Financial services offered by banks are similar in that, since the introduction of the Automatic Teller Machine (ATM), it is not necessary for customers of banks to meet face-to-face with bank representatives. As the practice of “direct deposit” and other electronic forms of banking grow, there will be less and less need for personal interactions between financial institutions and their customers. This is not to say that there will no longer be a need for ‘bricks and mortar’ banks, because some segments of customers will still feel it necessary to visit personally with the bank’s representatives.

Focused Distribution Strategy – “Five Rights don’t make a Wrong”

A focused distribution strategy is driven by customers’ needs, and thus is created in relation to when and how customers would prefer to buy a product or service. Thus, the organization seeks to deliver the ‘**right** product with the **right** service, to the **right** customer, at the **right** time and **right** place. For example, if we market a product that customers would prefer to buy any time of day or night and any day of the week, we would strive to make the product available to customers on an around-the-clock basis. For example, emergency medical care for people and their pets might constitute such a product (service). Note that many Wal-Mart stores adopted this approach to ensure that Wal-Mart products are available whenever customers might seek them and that Walgreen drugstores have adopted the same strategy. Over the last few decades people in the U.S. have grown to expect that some types of stores will ‘always be open’ and thus many leading market-oriented organizations have responded to that expectation and many others have not. Of course, not all customers for most products have the same wants and needs, thus, the demand for all products and services does not occur on this basis. For many marketers, the idea of being open to serve customers virtually all of the time is not a viable strategy. Again, ‘five rights don’t make a wrong’ thus the only viable way to know what the target market wants is to understand them well enough to answer the ‘five rights.’

This distribution strategy requires that the firm commit to learning about and caring about its customers. This has to be a strategic or long-lived commitment with adequate resources devoted to accomplish the task. Many firms advertise that they have this commitment, but in reality, few do.

Options for focused distribution

In the U.S., there are usually many options available to create and effectively manage distribution. We say, “usually,” because the distribution function (‘Place’) tends to be the least flexible component of the four P’s in the marketing mix. Thus, while distribution options usually exist, frequently some creativity is

required to identify and weave these options together into an effective system that provides high satisfaction levels to customers.

Options for focused distribution in the consumer market

Earlier, we defined a consumer as someone who buys for ‘their own, personal non-business use.’ This definition clearly identifies most shoppers at K-Mart as consumers, for example. However, if we consider ‘Sam’s Club’ and other similar organizations, a portion of their sales come from those who are buying for businesses or institutions. Why does this matter? As indicated in an earlier chapter, the buying behavior of consumers and those representing organizations differ considerably. Organizational purchases are often more planned and driven by predefined specifications, whereas consumer purchases include a larger portion of unplanned purchases.

Although there are literally dozens of different alternatives for distributing products and services to consumers, the alternatives fall into two basic options: (1) direct distribution and (2) the use of one or more marketing intermediaries.

Direct distribution is an approach in which the producer also manages distributing the product to the consumer. Examples of direct distribution include Mary Kay cosmetics (website: <http://www.marykay.com/>) and Motel Six (website: <http://www.motel6.com/>). Mary Kay operates on a direct distribution system that depends on the performance of a large network of Mary Kay Consultants who are independent contractors to Mary Kay. This workforce is close to a million women who operate as independent business organizations. This website will be of interest to most women in business if only in its educational attributes regarding organizational mission and culture.

Motel 6 delivers its services directly to customers via an individual or company that has agreed to certain guidelines articulated in a franchising agreement. The service component plays the major role in each of these businesses which is not surprising, because most services are distributed directly from the producer of the service to the consumer of the service. A notable exception is the delivery of travel services in which at least some component of the service (finding an appropriate flight and booking it) is sometimes delivered via a marketing intermediary (travel agent). However, as more and more people locate and book travel arrangements through internet providers (for example, Travelocity (<http://www.travelocity.com>) and Cheaptickets (<http://www.cheaptickets.com/>), there is becoming less demand for personal contact with travel agencies except in case of more complicated travel plans and travel plans for inexperienced travelers.

For tangible goods (products), Goodyear Tire Stores (<http://www.goodyear tires.com/about/employ/open/retail-06.html>) operates a network of over 750 company-owned retail outlets in the U.S., thus the company has

chosen to own and operate its own retail stores and thus engage in direct distribution.

Given the above examples, one might believe that most large companies choose to deliver goods to their customers through direct distribution. However, this is not the case and most products in the U.S. are distributed through marketing intermediaries such as wholesalers and manufacturers representatives. Why are producers who use direct distribution in the minority? Because there are many marketing intermediaries (called 'middlemen' in the past) that provide better service and are much better equipped to provide distribution services than the producer. For example, if you operated a fishing fleet in Alaska, your primary concern and abilities would be related to operating a fleet of boats, and locating and catching fish. Clearly, a wise person would spend his/her time focusing on this aspect of the business. Whereas, there would, no doubt, be an organization that has as its primary concern and abilities, the processing of the fish brought into port every day. Although, as a fishing operation one organization could do both fishing, and processing, it might not have the resources to perform both activities. Thus, in most industries, there are different firms engaged in the different endeavors it requires to produce and deliver the product to the consumer's door.

In the grocery industry, companies like Sysco (<http://www.sysco.com/>) and the Fleming companies (<http://www.fleming.com>) provide everything from training classes in merchandising to recipes for new dishes to their customers, as well as distributed products from producers to retail grocers.

The above example would represent a distribution channel in which both wholesalers and retailers are needed as marketing intermediaries. Note that a 'retailer' is technically a marketing intermediary, so that when a retailer advertises s/he 'cuts out the middleman,' it is unlikely that claim is true because, technically the retailer IS a middleman!

In summary, the above discussion should help you conclude that while marketing intermediaries are not always used, they provide essential services which usually add value to products that we, as consumers desire to purchase. The key to the value of a marketing intermediary is that the marketing intermediary provides services with which we as consumers cannot do without. The only time when a marketing intermediary is not needed is when we as consumers are willing to perform some of the services that the marketing intermediary performs. For example, if we are willing to drive to Rocky Ford, Colorado, to buy our cantaloupes, we have performed a service usually reserved for a marketing intermediary. In fact, in this case, there probably will be at least two intermediaries involved, the transportation company that moves the melons from Rocky Ford to your home town, and the retailer who grades the melons and places them for display in his/her grocery store. So, the next time you go to the

grocery, realize that the reason you are able to buy exotic products from all around the world depends largely on the services of marketing intermediaries. They don't necessarily make distribution more expensive but they do often make it much better, providing consumers with more place and time utility.

As the reader can see, there are many different options to distribution, but the main option other than the direct channel, is the option that includes the use of marketing intermediaries, of which there are many different kinds.

Options for focused distribution in the organizational market

Although there are instances in which the distribution channel to provide satisfaction to an organizational market is identical to the distribution that will provide maximum satisfaction to a consumer market such as Sam's Club in the U.S., these two types of markets usually make use of different kinds of marketing intermediaries, at least in title. For example, **manufacturers' representatives** are used widely in organizational markets than they are in consumer markets. A manufacturers' representative is an independent organization that represents a group of different producers. The manufacturers' representative will usually have as clients several different producers that manufacture products used in the same industry or application. For example, a manufacturers' representative in the building materials industry might work for several different producers of structural materials for building homes. Examine the following URL address to find the websites of different categories of manufacturers' representatives. (<http://search.yahoo.com/search?p=manufacturers%27+representatives&n=25>).

Industrial distributors are marketing intermediaries that service organizations by providing them with products and services in a convenient manner. There are literally tens of thousands of these firms in the U.S. alone. However, the firms are often 'hidden' from consumers since most are located in industrial districts within cities. See the following website for an example of an industrial distributor: <http://www.wwid.com/>.

Different types of products in consumer markets

It is helpful to study the type of behavior in which consumers engage to better understand their wants and needs when it comes to product or service delivery. For consumer products, researchers have identified several different types of products based on consumer behavior. We will describe four of these types of consumer products: Unsought goods, convenience goods, shopping goods, and specialty goods. It is helpful to consider three characteristics when attempting to place a product or service in one of these categories. First, we must realize that we classify goods and services on what behavior we would expect from most consumers, thus, pizza would be classified as a convenience good because most consumers buy it in that manner. That is, when most people buy pizza, the purchase decision is not a high involvement purchase surrounded by

considerable perceived risk. While you might say: “I only eat the pizza baked by my favorite local pizza place: Rubino’s Pizza,” you should realize that the pertinent question is not how you personally buy pizza, but how most consumers buy pizza. We would observe the effort put into the purchase including how much time is spent on the purchase and how often the product is purchased. We also consider the price and the personal significance of the purchase, because these directly impact how much time you are willing to spend on the making the purchase. Situational effects are also important to consider, including time pressure and occasion of the purchase because each of these factors affect the personal significance of the purchase.

Therefore, we define a **convenience good** as a product or service that is purchased with:

1. minimal amount of time expended under
2. normal consumption conditions (for example, not a special occasion or of particular personal significance) and that is
3. purchased frequently.

One can see that with convenience goods, time and place utility are extremely important because the most available supplier of the product may be the one that is chosen solely on location of the supplier (for example, gasoline for your lawnmower).

Shopping goods are those products that are purchased less frequently for which the average consumer is willing to spend some extra time in the shopping process. For example, when buying a new CD player for her car, a consumer may want to compare several different brands and stores before she decides on which CD player to buy. Thus with shopping goods the consumer will usually compare different brands and suppliers before s/he makes a purchase decision. The added time the consumer is willing to spend will vary directly with the cost of the new product and the personal significance (perceived risk or situational impacts) of the purchase.

Specialty goods are products that we purchase for which we have a definite preference for the supplier. This preference may be based on prestige of the supplier (for example, Rolex wristwatches <http://www.rolex.com/>) or a long-standing involvement with the product (for example, Krispy Kreme Donuts: <http://www.krispykreme.com/kkcollect.html> also <http://www.bluebell.com/>).

Unsought goods are those products that consumers will not normally buy during regular shopping activities. For example, the family doesn’t usually decide to spend a nice spring day shopping for burial plots and funeral services. While we all have need for these products and services, they are not necessarily pleasurable to consider buying, thus we in one way or another avoid buying certain products and services during our normal shopping activities. For

example, if you own an automobile, think back to the last time you bought a battery for your car. Most of us only buy a battery when we believe our present battery must be replaced, thus, the good is unsought in normal shopping activities. Intangible goods, such as life insurance also fit into this category. (for example, look at <http://www.northwesternmutual.com/> , <http://www.prudential.com> and <http://www.sci-corp.com/>).

Marketers of unsought goods choose intriguing appeals, usually based on perceived risk, either of personal risk (for example, assuaging grief of family members) or financial risk (dramatizing the consequences of financial loss).

Different types of products in organizational markets

In organizational marketing, researchers have classified products, not on behavior observed among organizational buyers and decision makers, but on the intended use of the product or service. Thus the types of organizational products we identify are based on what purpose the organization has for the product or service being acquired. For example, a local gift shop may need to buy a new neon sign for its window to draw the attention of passers-by. The gift shop is buying the neon sign, not to resell, but to use in the conduct of its business, thus the intended use is to promote the gift shop and increase its sales.

The following are brief descriptions of the different types of good and services in organizational markets:

- i. Raw materials - products that are in their natural form like salmon from the sea or coal from the earth.
- ii. Process materials – products that have undergone some change in form utility, for example, trees that have been cut into boards in a lumber mill.
- iii. Component parts – products do not undergo any change in form utility and appear in the final product in identical form, for example, spark plugs or windshield wipers in a new automobile.
- iv. Major equipment – products for which the basic processes of the organization depend, for example, jet planes for a commercial airline carrier or ovens for a bakery.
- v. Accessory equipment – products that are used to facilitate and maintain basic production and operations of the firm. For example, a hand drill used by a tent manufacturer.
- vi. Supplies – these products are similar to convenience goods in the consumer products typology in that they are of minor cost and are consumed frequently. Examples would include oil and grease for maintaining major equipment.
- vii. Business services – intangible portions of the company's basic processes that enhance and protect its operations for example security services and cleaning services

Chapter Nine Exercises

1. Read the history of Krispy Kreme donuts on the Krispy Kreme website (<http://www.krispykreme.com/kkcollect.html>), and write a one-page report on what you find there.
2. Give two examples of other similar company success stories you find on the web and describe them in a one-page essay.
3. Why are Rolex watches only distributed through selected jewelry stores and not K-Mart? In a one-page report describe how does this example identifies one of the common reasons for distributing a product through only a few outlets.
4. List three different products that belong in each category of consumer products and explain why you think most consumers would classify them this way.
5. Why do are there different approaches for classifying consumer products and organizational products? Can you think of products that can fit into either area? Explain.
6. Explain how drive-through windows for fast-food restaurants relate to place and time utility. Many futurists expect present trends toward more time and place utility to continue. Do you agree? Why or why not?
7. Visit the Mary Kay website and write a one-page essay summarizing what you found there (<http://www.marykay.com/>).
8. Visit the Sysco Website and write a one-page essay on what you found there (<http://www.sysco.com/>).
9. What are marketing intermediaries and why do most business people believe it is imperative in our economy to have marketing intermediaries?
10. Are retailers (organizations that sell primarily to people who buy for their own, personal non-business use), marketing intermediaries? Explain.
11. Give examples in which a personal computer would be major equipment for one organization and accessory equipment for another.
12. Search the internet with the keyword "industrial distributors" and write a one-page summary on what you found. Why are consumers not more familiar with this type of organization?
13. Is a premium sound system in a new car a 'component part' or 'accessory equipment' to an organizational marketer? Explain why most consumers would answer accessory equipment, although that is incorrect.

Chapter Nine Glossary

Broadcast strategy – a distribution strategy based on delivering the product or service to customers on as wide a basis as possible. Often as a result of inadequate knowledge about customer needs and wants and characteristics

Focused strategy – a distribution strategy based on delivering the product or service based on performance of upstream marketing activities to determine the 'five rights' of the organization's product or service.

Direct distribution – an approach used by some organizations in which the organization itself is responsible for delivering its products and services to the customer.

Marketing intermediary – an independent organization that assists producers in delivering their products and services to their customers

Manufacturers' representative – a type of marketing intermediary that serves several non-competing producers of complementary products by accessing and maintaining relationships with a wide variety of customers in business-to-business markets

Industrial distributor – a type of marketing intermediary in business-to-business that services organizations by providing them with products and services usually in a specific product category such as electrical or plumbing supplies.