

GOALS

Explain the difference in the channels of distribution and determine which is appropriate for different businesses

Evaluate different types of promotion tools

KEY TERMS

channels of distribution, p. 114

advertising, p. 117

publicity, p. 120

**JUMP START**

As Cheryl continued planning for the opening of her day spa, she turned her attention to the distribution and promotion elements of the marketing mix. She realized that as a service provider, she would sell her services directly to her customers. However, she would have to consider distribution methods for the supplies she would use and the products she would sell at her business to ensure she had everything when she needed it. As for promoting her business, Cheryl decided to place a newspaper ad and host an open house to celebrate her grand opening. She knew there were many other ways she could promote her business. What recommendations would you make to Cheryl about distribution and promotion?



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Distribution

Distribution is an important component of the marketing mix that involves the locations and methods used to make products available to customers. As you develop a distribution strategy for your business, you will determine how you will get your goods and services to your customers. You must be sure you have the right product in the right place at the right time.

Channels of distribution are the routes that products and services take from the time they are produced to the time they are consumed. Choosing the right channel of distribution for a product includes finding the most efficient way to ship it to desired locations. Using the right distribution channels saves time and lowers costs for both buyers and sellers.

Direct and Indirect Channels

Channels are either direct or indirect. A *direct channel* moves the product directly from the manufacturer to the consumer. An *indirect channel* uses *intermediaries*—people or businesses that move products between the manufacturer and the consumer. Agents and wholesalers serve as intermediaries.

Channel Options

Entrepreneurs should examine the different options for channels of distribution and choose the one that best meets the needs of their business and customers. The four basic options are illustrated and described below.

1. **Manufacturer to Consumer** The product can be sold by the manufacturer directly to the consumer through the Internet, direct mail, or television shopping channels. There are no intermediaries involved, and this option is the most cost-effective. However, sales opportunities are limited because it is more difficult for a manufacturer to reach the final consumer.
2. **Manufacturer to Retailer to Consumer** A sales force can sell manufactured goods to retail stores, and the retail stores can sell to the consumers. This option is more expensive than selling directly from the manufacturer to the consumer, but it offers more sales opportunities.
3. **Manufacturer to Wholesaler to Retailer to Consumer** To reach a large market, the manufacturer can sell large quantities to a wholesaler who will then store and sell smaller quantities to many retailers. Even though more intermediaries are involved in this method, prices can be lower because the manufacturer is producing mass quantities of the product, resulting in lower production costs.
4. **Manufacturer to Agent to Wholesaler to Retailer to Consumer** With this option, the manufacturer does not get involved in selling. Selling is handled by an agent. This option is often chosen by manufacturers involved in international marketing.

Distribute Goods and Services

Retail, service, and manufacturing businesses will choose different channels of distribution based on the needs of their businesses. All types of businesses must carefully plan their distribution strategy to ensure customer satisfaction.

Retail Businesses A retail business has many ways of selling products. As the owner of a retail business, you can distribute products in various ways.

- Offer your product or service to consumers in a convenient location and during convenient hours.
- Use catalogs, fliers, and other advertisements to reach customers who live outside the area. Ship phone or fax orders directly to customers.
- Create a website. People with access to the Internet can visit your website to learn about your products and services and to make purchases.

TEAMWORK

In small groups, draw flow charts tracing all the channels of distribution possible for one of the following products: apples, calculators, magazines, milk, or motor oil.

Service Businesses Most entrepreneurs who own service businesses sell their services directly to customers. These businesses have a single, direct channel of distribution because the production and consumption of a service happens at the same time. For example, electricians, restaurant owners, and lawyers deal directly with the people who purchase their services. Some service businesses, such as film developers, use retail stores to distribute their services.

Manufacturing Businesses Manufacturers usually do not sell directly to customers. Instead, they make their products and then sell them to other businesses, such as retailers. The retail store then sells to the final consumer.

Some manufacturers distribute their products very broadly and use all possible channels of distribution. Other manufacturers distribute their products through selected outlets only. For example, high-priced cosmetics usually are sold in exclusive department stores. Inexpensive cosmetics are sold in discount stores and drugstores.

Physical Distribution

All types of businesses must receive goods from suppliers. Whether or not they sell goods to customers, all businesses need paper, computers, raw materials, and more to be able to function. Retail businesses need to obtain goods to sell. Regardless of the type of business, distribution needs must be considered.

Physical distribution includes not only transportation but also storage, handling, and packaging of products within a channel of distribution. A product may move through several channel members by various forms of transportation to get it to the point where it will ultimately be sold to consumers. As the product is transported, it will be stored at points along the channel as paperwork is processed and it is moved to the next channel member. To protect the product, storage facilities along the channel must be adequate and safe.

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Why do business owners need to carefully select the mode of transportation used for delivery of products?

Transportation Products can be moved by airplane, pipeline, railroad, ship, truck, or a combination of methods. You must determine which method is best and most cost-efficient for your products. Factors to consider in making a transportation decision include what you are shipping and where it is being shipped. If you are shipping a small product to someone in your city, you would probably choose a parcel delivery service. If you are shipping a large item to another country, you would probably send

the item by ship or air and use a truck to get the product to and from the shipyard or airport. If the product is perishable, you may need to choose a carrier that provides refrigeration or that can move the product very quickly to its destination.

Product Storage and Handling Efficient storage allows channel members to balance supply and demand of products. However, this adds to the cost of the products and also adds the risk that products may be damaged or stolen while stored. Most products are stored in warehouses at various points through the channels of distribution.

Packaging Packaging is designed to protect the product from the time it is produced until it is consumed. If the product is not protected during the distribution phase, it could be damaged or destroyed, resulting in a loss of money to channel members. Packaging requirements will vary depending on the product, the way it is shipped, and where it is being shipped.

CheckPOINT

Why are channels of distribution different for different types of businesses?

Promotion

You will have to promote your business to make customers aware of the benefits of buying from you. Promotion takes many forms, including advertising, publicity, personal selling, and sales promotion. The strategy created by adopting a blend of some, if not all, of these techniques is called your *promotional mix*. Once you determine your promotional mix, you must obtain the approximate costs for all forms of advertising media that you plan to use and determine whether this budget is realistic for your business.

Advertising

Service industries, manufacturers, and retailers all advertise. **Advertising** is a paid form of communication sent out by a business about a product or service.

Your advertising should clearly communicate the message and image you want to convey. If, for example, your marketing strategy is to have low prices, advertisements highlighting your prices might be appropriate. If your aim is to target customers who are willing to pay higher prices for excellent service, advertising that describes your well-trained staff would fit your image.

Once you choose a message, you will need to decide which advertising medium to use. To choose a medium, you will have to consider both cost and effectiveness in reaching your target audience.

Online Advertising As Internet use has increased, online advertising has become widely used by businesses to promote their products and services. This is a cost-effective way for businesses to get information to potential customers. It allows potential customers to use keyword searches and to browse through online catalogs by category to find available products and services.

Online advertising does have some disadvantages. Many marketers have abused the Internet and its ease of use with excessive *spamming*—sending mass mailings by e-mail to Internet users. Excessive use of pop-ups, flashy banners, and spam has caused people to use software to block promotions.

Television Advertising Promotions on television are the best way to reach a large number of people quickly. Television advertising comes in the form of commercials and paid advertisements. Commercials are usually less than a minute in length and are run during breaks in television programming. They are very short promotions about a product or business. Paid advertisements—also known as infomercials—can last a half hour or more and go into depth about the product being offered.

Television advertising expenses include the fee you have to pay the station, which is based on the amount of time your advertisement or commercial plays. You also must consider the costs of producing the commercial. If a one-minute commercial costs \$25,000 to produce, you pay the television station \$2,000 for each minute it airs, and you plan to have it aired 30 times, the cost per minute would be $[\$25,000 + (\$2,000 \times 30)] \div 30 = \$2,833.33$.

Television advertising can be very expensive. Producing even a low-budget commercial can cost thousands of dollars. You will need the help of video and production professionals when developing a television ad. You also will have to pay a network or cable station to broadcast the commercial.

Television reaches too broad an audience to be effective for most businesses. If, for example, only one percent of the audience is interested in a particular product, advertising on television is not likely to be cost-effective.

Radio Advertising Radio advertising can be effective for small businesses. It is less expensive than television promotion. You can also be more certain you are reaching your target market. Radio stations tend to attract a particular kind of listener. Pop rock stations target teenagers and people in their twenties. Classical or talk radio stations usually attract older listeners. Selecting a station whose listeners share the same demographics as your target market can increase the effectiveness of your advertising. You can contact stations and ask for a demographic profile of their listeners.

The costs of radio advertising are determined in the same way as the costs of television advertising. You must pay for air time and production costs.

A disadvantage of radio advertising is that radio is a purely audio message, and it cannot visually show your product. Radio listeners may tune out or even “surf the airwaves” during the commercial spots. You also may need professional help when developing a radio ad, which can be costly.

Newspaper Advertising Newspapers have been the single largest form of advertising in the United States. However, as more people are looking to the Internet for news and information, newspaper circulation has dropped

in many cities. Small businesses may choose to promote their products and services in the newspaper because it is relatively inexpensive, it targets a limited geographic area, and it reaches large numbers of people.

As with other forms of advertising, there are some disadvantages of newspapers. Newspapers reach a large audience, but much of that audience may not be interested in your business. Another disadvantage of newspaper advertising is the fact that newspapers carry so many advertisements that readers may overlook yours.

Telephone Directory Advertising Telephone directories list the phone numbers of people and businesses in a certain area. Directory ads usually appear on a page close to the listing of the business placing the ad. Directory ads can be similar in appearance to newspaper ads. Customers look in telephone directories again and again, making them a good advertising medium.

A disadvantage of directory advertising is that people look in the directory only when they are already in search of a particular type of business. With directory advertising, it is not easy to persuade customers to try your business instead of a competitor's.

Direct-Mail Advertising Direct-mail advertising includes fliers, catalogs, letters, and other correspondence sent to target customers through the mail. Mailing lists for target markets are available for purchase. If your business sells hospital beds, you can purchase targeted mailing lists of people who would purchase your product. You can also get lists of people based on the geographic area. Companies that specialize in maintaining targeted mailing lists can provide almost any kind of list for any kind of business.

Direct-mail advertising can be effective if people read it, but many people throw out direct-mail advertising, calling it “junk mail.” If you use this method of advertising, you will want to come up with an attention-grabbing design or other means of making people want to read it.

Magazine Advertising Magazines are an excellent way to aim products and services at specific markets. Fitness magazines are full of advertisements for athletic equipment. Magazines targeting teenage girls are full of advertisements for products that appeal to them, such as cosmetics and clothing.

Most magazines are nationally distributed. This can make them inappropriate for businesses that sell in a limited geographic area. Some cities have local magazines, which would be an effective way to target a certain area.

Outdoor Advertising Outdoor advertising includes billboards and signs. Such advertising can be effective in keeping the name of your business in a place where many people can see it. But because people view such advertising quickly as they drive by, it cannot include much information. Also, outdoor advertising may not project the image your business is trying to convey.



Why are newspaper ads a popular way to promote a business?

Transit Advertising Transit advertising consists of signs on public transportation. Transit advertising can provide more information than is typically seen on a billboard. Such advertising can be effective if the market you are trying to reach includes many people who use public transportation.

FOR IMMEDIATE RELEASE

GALA OPENING OF LUISA'S GOURMET LUXURIES

Come celebrate the opening of Luisa's Gourmet Luxuries on Friday, September 20, at 8:00 p.m. Hors d'oeuvres, imported champagne, and French pastries will be served at the event. Music will be provided by Glendale's leading jazz ensemble, Jazz Expressions.

The opening of Luisa's Gourmet Luxuries marks the realization of a dream by owner Luisa Ramirez. "As a specialty cook," she says, "I could not always find the products I needed. And I was never happy with the selection of produce and baked goods in town." Luisa decided to open a store that would offer the kinds of products she could not find elsewhere in town.

Luisa's Gourmet Luxuries offers an astounding selection of products, including 14 different kinds of olive oil, 12 different kinds of rice, and pasta products from several different countries. "Everyone's tastes are different," says Luisa, "so I offer a large selection."

For more information, contact:

Luisa Ramirez, Proprietor
Luisa's Gourmet Luxuries
1610 Marbury Road, Glendale, CT
(275) 555-3983

Publicity

Publicity is a nonpaid form of communication that calls attention to your business through media coverage. Good publicity can be as helpful as advertising. Publicity is free, but staging an event or bringing in a celebrity to generate publicity usually is not. While there are things you can do to attract positive media attention, publicity is largely out of your control. Publicity can be negative if the media coverage is unfavorable. One form of publicity is a *press release*, which is a written statement to inform the media of an event or product. An example of a press release is shown here.

Other Types of Promotion

Advertising and publicity are not the only ways to promote your business. You can offer sales promotions or use personal selling.

Sales promotion is the act of offering an incentive to customers in order to increase sales. Examples of sales promotion include contests, free samples, coupons, rebates, frequent purchaser programs, and special events.

Some companies offer rebates. A *rebate* is a refund offered to people who purchase a product. For example, customers

who purchase a \$12 bottle of olive oil may be entitled to a \$2 rebate from the manufacturer.

Personal selling is direct communication between a prospective buyer and a sales representative. The sales representative attempts to persuade the prospective buyer to make a purchase. Being courteous, knowledgeable, and available to customers will reflect positively on your business.

Telemarketing is using the phone to market your product or service. It can be a cheap, effective way to let people know about your business or about special offers. Keep in mind that some consumers consider telemarketing to be annoying and would rather not be contacted at home.

CheckPOINT

Describe the differences among advertising, publicity, and sales promotions.
