

CHAPTER 12

PLACEMENT

IN THIS CHAPTER

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- Choosing a distribution strategy
- Distribution partners
- Creative placement strategies

INTRODUCTION

The final element of the marketing mix is **placement**, or **distribution**. Distribution describes all activities involved in moving goods from the producer to the customer.

All businesses rely on some form of distribution network to sell and deliver their products. They might take care of distribution themselves, work with intermediaries, or use some combination of the two.

This chapter will introduce you to the basics of distribution, and help you to choose the right **distribution channels** for your product.

It's important to choose the right type of distribution from the start, because distribution strategies can be difficult and expensive to change once they're in place.

DISTRIBUTION BASICS

Distribution strategy means choosing the most convenient and efficient means of delivering your product to your customer, while maximizing your profitability and reinforcing your brand identity.

Of course, your distribution channels must fit your product, price and promotion strategies. Imagine trying to place premium handcrafted jewelry at 7-11, or offering

maple syrup through an auto parts catalog, or selling staplers at a farmers' market. It wouldn't be long before you were out of business. Your distribution strategy must make sense for your product, your positioning and your customers.

Choosing a distribution strategy also requires you to assess your capabilities and resources. Can you handle warehousing and shipping operations? If not, you may need a wholesaler, distributor or fulfillment provider. Can you afford to hire and train a sales team? If not, you may need to work with agents or brokers. Do you offer green products? If so, you may need to green your supply chain by seeking environmentally preferable channel partners.

Earlier, we explained that every interaction with a customer communicates something about your business. This remains true when you're choosing distribution channels and partners. How does the channel fit your brand identity? How do your partner's policies affect your customer service? You need to strike a balance between selling efficiently and maintaining control of your brand and customer service.

Service businesses also need a distribution strategy. For instance, some bookkeepers work from home, some rent an office space and some do most of their work at their



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clients' homes and offices. If you're offering a service, you must give customers the access and convenience they expect.

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In the old days, we hardly ever had any broken tiles. Maybe a few here and there, but never a whole case worth. We did everything by hand in those days, and we took pride in our work, so we were careful.

When we started growing, we started having to deal with outside people who weren't always so careful. The bigger we got, the more people we dealt with, and the more tiles we lost.

The Albuquerque to Los Angeles run was the worst. We usually had two or three broken crates, which was bad enough. But then in one week, six crates got broken and five got lost. They just vanished into thin air! For me, that was the last straw.

Benny Canales founded Ixta Tile five years ago in order to design and sell traditional hand-painted Mexican tiles for gardens, bathrooms and kitchens. When he started out, the tiles were custom-made for each of his buyers, most of whom lived in Benny's hometown of Albuquerque, New Mexico.

Three years later, Ixta Tile couldn't have been more different. They'd stopped making hand-painted tiles. Instead, they were producing large quantities of bulk tiles—painted with stencils or stamped with designs from a press—and shipping them to large distributors in California, Arizona and Texas.

More tiles meant more shipping, more shipping meant more breakage, and the breakage was getting very expensive and frustrating.

Benny couldn't stop thinking about how different things had been when his company was first starting out. How—and why—did Ixta Tile change so drastically?

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CHOOSING A DISTRIBUTION STRATEGY

Like any business strategy, distribution strategies require you to know your objectives, your customers, your time and budgetary constraints, your brand, and the pros and cons of your alternatives. Distribution objectives might include achieving service goals, increasing speed to market, ensuring safety and reliability, or reducing costs.

Here are some things to consider when choosing distribution channels:

- **Product.** Perishable or fragile products may require direct sales to avoid spoilage or breakage. Fragile products may not survive certain types of distribution (as in this chapter's story about Ixta Tiles). Low-cost products manufactured in bulk may be ideal for wholesalers, so as to reduce your warehousing needs. Also, there may be shipping restrictions on certain products, based on weight, size, materials, destination or purpose.
- **Pricing and profits.** Which strategy will allow you to meet your sales and profit goals, given your price? The more intermediaries you have, the higher your costs are likely to be. But if you sell direct, you have to do everything yourself. That can be expensive, too. And it can also take time away from the **core competencies** that are critical to your success, like making your product or keeping your books.
- **Promotion.** The amount and type of promotion your product requires may affect your distribution strategies. For example, if your product requires face-to-face personal selling on features and benefits, you will need to choose a channel that facilitates this kind of interaction. If you sell a smaller product that's typical bought on impulse, your strategy won't require this level of personal interaction; a display near cash registers may be adequate.

- **Customers.** Psychographics and demographics are crucial when choosing distribution channels. Your distribution strategies must reflect your customers' lifestyle and expectations. If your target customers don't shop at malls, there's no sense in selling to a mall-based retailer. If your customers are rural, they're much less likely to visit an urban pop-up retail outlet. If your customers normally buy online, they may have expectations about delivery time and packaging.
- **Competition.** How do your competitors sell? Will your products be handled by the same stores, wholesalers, distributors or agents? If so, will you get equal treatment? What about online competition? If an online retailer offers lower prices and free shipping, what can you offer to outweigh those advantages? Faster service? More personal service? Locally made goods that tell a compelling story?
- **Confidence.** Can you trust your intermediaries? Remember: The way they display and deliver your product reflects on you, not them. Also, they may cause cash flow problems by delaying payments. Can you afford to have all your eggs in one basket?
- **Branding.** Will your intermediaries reinforce your brand identity and keep its promises? Will they represent your product's features and benefits in a way that complement your own marketing efforts, or will they dilute or damage your brand?
- **Technology.** Your distribution methods must reflect your customers' access to and attitude toward current technology. If your distribution channel requires some sort of technological know-how or equipment, you must make sure your channel partners have it and are willing and able to use it.

No matter which strategy you use, you must assess its cost and effectiveness. The

Placement Strategies Worksheet will get you started.

Direct vs. Indirect Distribution

There are two primary distribution channels:

- **Direct distribution** means that you supply your product directly to your customer, whether through mail order, a retail outlet, a digital download, or by providing a service. When you sell directly, you can control how your products are presented and respond quickly to customer needs. You also avoid the costs associated with intermediaries, but you may have higher costs associated with marketing, sales and order processing.
- **Indirect distribution** relies on intermediaries such as wholesalers or distributors. Each intermediary gets a percentage of the profits. On the other hand, a good intermediary will reduce costs or boost sales enough to make the tradeoff worthwhile.

Many businesses pursue a **dual distribution** method that includes direct and indirect channels. For example, you might sell products indirectly through someone else's retail outlet while also offering them through your own website.

Industrial Goods

Direct distribution is relatively common in industrial business-to-business sales. Many industrial manufacturers have only a few, very large customers to whom they sell directly. Industrial products are usually more expensive and complex than consumer products. They also figure prominently in the production of other products, and must meet certain quality standards and be delivered on time. In short, buyers and sellers in industrial markets are often tied together closely in a partnership. In-house sales forces, telemarketing and the

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Internet are the major ways that industrial manufacturers market directly to their customers.

Alternatively, wholesalers and agents can provide a more cost-effective way of selling many small industrial products to smaller customers. Intermediaries can also help get a new product established among industrial customers. They can even provide technical and promotional support, depending on the terms of the contract.

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When we started out, we were in the right place at the right time.

There was a lot of demand for traditional, hand-painted tiles, and nobody else was doing it on our scale. Lots of people in Albuquerque and Santa Fe wanted authentic tiles for their bathrooms and kitchens, but we also had a lot of buyers in Los Angeles and Phoenix.

Things were going really good for us. I was adding artists and operations people all the time, so I knew we were growing. But I wasn't prepared for what happened next.

One day, the largest distributor of ceramic and clay tiles in the western United States called Benny and urged him to create a line of tiles for large-scale production.

The tiles would be similar to Ixta Tile's bestsellers, but simpler, with colors and designs that were neutral enough to appeal to a wider range of buyers.

If Ixta Tile could do this at a competitive price, the distributor offered them a great deal: It would be the exclusive representative for Ixta Tile in the United States. In exchange, Ixta would get high-volume orders and a generous percentage of the proceeds.

The offer was too attractive to pass up, and Benny accepted it gladly.

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Intensive vs. Selective Distribution

The goal of **intensive distribution** is to get a product into as many outlets as possible. This strategy makes sense when customers have an immediate need for a product and make little or no distinction between one brand and another (e.g., ballpoint pens or shoelaces). The consumer's primary interest is convenience; he will buy whatever brand is available at the nearest outlet.

In **selective distribution**, the product is offered at a limited number of outlets specializing in products of that type (e.g., sporting goods or computers). Usually, these products that are bought less often, represent a larger percentage of household income, and require more research and emotional investment than intensively distributed goods.

The most limiting form of selective distribution is **exclusive distribution**. In this arrangement, a specific wholesaler, retailer or distributor is granted the sole legal right to offer a product within a specific geographic area. This is most commonly used for luxury items and expensive machinery, but it's also a fairly common strategy for specialty items aimed at a niche market.

Exclusive distribution can be great if you have the right partner. Otherwise, it can be disastrous. Do plenty of research before agreeing to an exclusive deal, and make sure that your contract clearly specifies terms, duties, performance measures and a cancellation clause if the distributor fails to perform.

Product Life Cycle

Placement strategy usually varies depending on what stage of the product life cycle your product is in.

- **Introduction.** Distribution tends to be highly selective, aiming narrowly at early adopters and likely buyers.

- **Growth.** As interest in the product grows, additional distribution channels are added to meet demand.
- **Maturity.** As competition increases, distribution becomes more intensive. The use of more intermediaries and incentives is typical at this stage.
- **Decline.** Distribution often shrinks or becomes more specialized. For example, a declining product may only be available online, on demand, overseas or through a discount outlet.

Distribution Strategies for Service Businesses

Your marketing plan should clearly describe how and where your customers will receive your services:

- At your home or office
- At the customer's home or office
- At a retail outlet, such as a shop, cart, mall or kiosk
- Via email or Internet
- Over the telephone
- By mail or overnight service

Consider the costs associated with each option. If you will go to your customer, your price must cover the cost of travel. If customers will come to you, your price must cover the cost of maintaining and insuring an office or workspace.

You should also consider what you competitors are doing. If your main local competitor requires customers to come into an office, you may be able to compete by making house calls.

Although service providers usually deal with customers directly, don't overlook the potential for indirect selling. For example, if you're a landscaper, you may be able to have a local nursery market your services to its customers.

Licensing

Licensing is an arrangement where one business sells another the right to produce or market its product. This allows manufacturers to reap the benefits of a product's reputation and brand without the risk of investing in new products. It effectively transfers the responsibility of marketing, production and distribution to the licensee. Core functions and responsibilities may be retained by the licensing company if they decide that these tasks are better done in-house.

DISTRIBUTION PARTNERS

Often, small businesses don't have the time, money, expertise or resources to deliver products directly to customers. Instead, they outsource certain tasks to distribution partners or **intermediaries**:

Retailers

Retailers buy products from manufacturers, distributors and wholesalers, and then mark up the price to make a profit.

Some retailers may ask you not to sell to their local or national competitors, which can limit your ability to earn the income you need. Also, retailers who insist on consignment sales may tie up your merchandise and money without making a serious effort to sell your goods.

Consider the costs associated with each distribution option.

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I didn't realize it right away, but when I agreed to that distribution deal, I changed everything. It's like I woke up and found myself running a different business with new rules. We still made tile, we were still on Candelaria Road, and we were still called Ixta. But everything else changed so much you couldn't recognize it.

Representatives of the distributor explained that Ixta Tile had previously been offering a luxury item—their tiles might appeal to wealthy buyers, but they wouldn't

necessarily appeal to shoppers at mass retailers like Home Depot and Tile World, who tended to be more conservative and price-conscious. To be competitive, Ixta Tile would have to simplify its designs, cut back production quality and discontinue its handcrafted products.

Accordingly, Ixta Tile's designers began choosing milder colors, cheaper ceramics and simpler designs for the mass market. They also began the process of retooling and automation to ramp up production.

A year into the new agreement, Benny felt like the only thing he did anymore was oversee a manufacturing and packing plant.

Several times a week, the tiles were painted, fired, cooled and packed in crates, each of which held 3,000 tiles. The crates were then picked up by a shipping company, loaded on trains, carried to distribution centers, and trucked to retailers in each territory.

Ixta Tile was barely involved in this process, but their contract terms specified that they were responsible for broken or lost tiles. Breakage was running at 8 percent of total sales, and Benny was worried about it.

Some of these problems, I could put down to growing pains and getting used to a new system. After all, we weren't experts at packing and shipping, which I should've thought of before I signed the contract.

What bothered me a lot more is that I was starting to feel very frustrated artistically. I launched my business to do something that was really important to me, something tied to who I am and where I come from.

And then all of a sudden, I was making an ordinary product that didn't really speak to me. We competed more on price than on quality, and I didn't feel that our work stood out the way it used to. It's not like we were doing bad work. We still made nice tiles. But the fire was gone, you know? There was no passion anymore.

The breakage was upsetting, and it was taking a serious bite out of our profits. But as you can see, that wasn't the whole story.

Deep down, I'd been unhappy for a while. I didn't let it show at work, but for me, the joy was gone.

Most of the problems I had, I felt like we could solve them by getting back to our roots. Of course it would've been very easy to run away from the distribution deal just because I was unhappy, but I knew that wouldn't be a smart way to operate. I needed to be able to prove to everyone—but especially to myself—that I was making this decision for the right reasons.

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Wholesalers

Wholesalers buy products and sell them to other wholesalers or retailers. They don't sell directly to the public. They often have close relationships with regional or national retailers, and they may have their own system for transporting your goods.

Wholesalers are often very helpful to businesses introducing new products, because they can use their leverage and expertise to push the product into stores. Also, wholesalers often buy in bulk, which can reduce your storage and inventory costs. However, you'll get a lower per-unit price from a wholesaler than you would from a retailer or a direct sale.

Distributors

Distributors buy merchandise from manufacturers and resell it to wholesalers, retailers or sometimes directly to the final customer. Here are some cases in which your business might need a distributor:

- Customers are scattered geographically and require small-quantity deliveries
- Products require little or no technical selling
- Basic repackaging or customization is required to fit local customer needs
- Distributors are traditionally used in your industry

Fulfillment Providers

In order to compete with giant retailers like Amazon, many small businesses are outsourcing shipping functions to third-party fulfillment providers that handle order processing, packaging, shipping and inventory management functions. This allows small retailers to allocate more resources to marketing and sales, and reduce warehousing and inventory management costs, while also speeding up delivery.

Of course, this approach isn't for everyone. For example, most fulfillment providers have minimum monthly order levels that smaller businesses may find it difficult to meet. But it may be a good option to keep in mind as your business grows.

Agents

Agents charge a commission to facilitate sales between manufacturers and their final customers. Agents do not take title to the products they deal with; they simply represent businesses and their products.

- **Manufacturers' agents** sell a business's product in a specific geographic region, usually on an exclusive basis.
- **Sales agents** often have more control over setting prices and terms of sale. It's not uncommon for them to take over all or part of the marketing effort for a product, including promotion and distribution.

Brokers

Brokers specialize in particular product categories and have the least amount of direct involvement with the manufacturer and end users. They unite buyers with sellers, and have only short-term relationships with each. Like agents, they do not take title to the products they broker.

Working With Intermediaries

Begin with a clear, simple contract that covers the following issues:

- Sales staff, quotas and incentives
- Pricing and discount policies
- Minimum reorder and inventory quantities
- Geographic territory
- Handling of house accounts
- Training and technical support
- Terms of payment
- Management of service and repairs
- Return policy
- Reports and feedback from distributors on sales and market conditions
- Cancellation clause

Evaluating Your Intermediaries

Once you've decided to use intermediaries, your next task is to evaluate their:

- Selling ability
- Record for paying bills on time
- Promptness and accuracy
- Compatibility with your business's culture and operations
- Willingness and ability to offer marketing feedback
- Professional reputation in the industry
- Dun & Bradstreet credit rating

Using Sales Representatives

A professional representative can be the best friend a growing business has. They're easy on your cash flow, because they add no fixed costs. They're usually paid on

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commission or when they make a sale; some reps may even pay for products in advance.

As specialists in their product category and geographic area, they're likely to know the industry and market better than you do. Outside reps may be able to offer better technical support or service than you can. They can also help shoulder the responsibility of promotions and advertising.

That said, some reps need plenty of support to sell effectively. They can also be hard to train, monitor and motivate. It may take a lot of effort to get your money's worth.

The first step in building a first-rate sales team is finding the right people to staff it.

The first step in building a first-rate sales team is finding the right people to staff it. Trade journals, websites and representative associations can tell you who the major reps are and what types of customers they serve. There are also national and local representative and dealer associations, and lists of reps maintained by local and state chambers of commerce.

Business-oriented social networking sites like LinkedIn can help you find qualified reps in your area. Also, noncompeting businesses that deal in similar products might be able to recommend a good rep.

Here are some tips for choosing and working with reps:

- Evaluate their selling techniques, contact base and technical knowhow
- Make sure the rep's personality suits your business.
- Review her track record and get references.
- Clearly define your sales expectations, base fee, expense reimbursements and commission arrangements.
- Prepare and sign a written contract.
- Hire the rep for a three-month trial and assess results.
- Don't micromanage. Hire bright people with good references and let them prove themselves.
- Contact them at least once a week to keep them in the loop.
- Give each rep a sales manual. Include product specs and photos, competitive comparisons, references and samples.
- Create an informal newsletter or blog. Use it to announce contests, highlight new products, answer questions, and show territorial sales volumes.
- Give them immediate support. If they have questions or problems, give them swift, personal attention.
- Pay your commissions on time.
- Give them quality leads. The more they have, the more they can sell.

And here are some things your rep should do for you:

- Keep you informed. You should get weekly updates on prospects and sales efforts.
- Track their expenses. Each rep should prepare regular expense reports and submit receipts.
- Ask for help. Reps should request product or technical expertise whenever they need it to make a sale.
- Keep learning. A good rep will stay on top of industry and market trends.
- Provide feedback. Communicate any customer problems, comments or complaints.
- Be honest and positively represent your business.
- Aggressively sell your product.

CREATIVE PLACEMENT STRATEGIES

Unconventional distribution methods can be both effective and inexpensive. You

may find that your best placement ideas come from rethinking how your product is used. Maybe it has another purpose you haven't thought of yet, or maybe it could be combined with some other product or service. In either case, identifying a new use may lead to new placement opportunities.

Another possibility is redesign. Can you make changes that will give your product a wider appeal? Can you make it meet more needs by giving it additional functions? Can you replace a cheap plastic shell with highly polished bamboo or stainless steel? If so, you may be one step away from acceptance by a prestigious retailer or distributor.

The more competition you face, the wiser it is to find ways of differentiating your product. The demand for clever reworkings of existing products is getting stronger all the time. Catering to this trend can earn you profitable placement opportunities.

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Could Ixta Tile really go back to traditional tile-making without downsizing drastically or going broke? Benny calculated that since the new tiles would be custom-painted and use a higher grade of ceramics, he could charge between \$8 and \$25 a piece.

In addition to Ixta's traditional customers, Benny knew that expatriate communities of wealthy Mexicans were still growing in the Southwest, and they were building and buying like crazy. This represented a great new market for Ixta Tile. He also knew that interest in ethnic style and Mexican folk art was booming in the United States. Benny often received calls from people who were looking for the authentic Talavera tiles in which Ixta used to specialize.

By contrast, Ixta Tile's new customers tended to mix and match designs. They might choose a Ixta design for the kitchen—perhaps as an accent for the backsplash—and use some other company's tile in the bathroom. Earlier customers wanted a consistent look in

every tiled room and bought much larger amounts.

Benny did some research and found that if Ixta Tile sold direct through design showrooms that took a 15-percent commission on sales, they would get fewer but more profitable orders and have more control over the sales and delivery process. Higher prices would allow him to pack the tiles more carefully, and reducing breakage would improve his bottom line.

Even though the numbers looked good, he still worried that it was too risky to cut production quantities, raise prices and limit distribution.

I was worried about the numbers, and I was also worried that I was letting my dissatisfaction get in the way of clear thinking. I had a lot of people working for me, so I had a responsibility to do the right thing. But then my wife Pilar said, "Just go and talk to them, Benny. They may feel the same way you do."

So I did, and I found out that most of them—the painters and designers, especially—did feel just the same as me. And just like me, they hadn't wanted to say anything that would hurt morale. We all agreed that we had a calling and we weren't living up to it. From that point, I felt like I'd be happy no matter what happened. We would make it work or we wouldn't. But it would be on our terms either way.

There were problems and issues to sort out at first, but in the end, it all came together and now we're finally back to where we want to be. We've gotten some good press in a couple of design magazines; people seem to like that we decided to get out of the big-box stores and keep things more traditional. It's generated a lot of interest and sales. But for me, the most important thing is that we're being true to ourselves and our work.

It all goes to show that sometimes you have to take a step backward in order to move ahead.

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NxLevel® TECH TIP

BUSINESS RESOURCES AND THE WEB

Omnichannel Retailing and Distribution

Today's consumers want to buy whatever they want from wherever they are, using whatever tools and payment methods they have at hand. Often, a single transaction will take place across multiple channels, using multiple means of communication.

To meet the demands of omnichannel retailing—which seeks to deliver a seamlessly integrated customer experience across every channel and device—businesses are increasingly creating omnichannel distribution networks. For example, retail stores can be turned into fulfillment centers, so that they effectively function as showrooms, warehouses and distribution nodes.

The ability to process and track single orders across multiple channels, and to offer customized delivery options ranging from in-store pickup of online orders to same-day delivery, is a primary goal of growth-oriented, forward-looking businesses. The impact of this evolving business model on logistics, transportation and—most important of all—customer expectations will affect businesses of all sizes in years to come.

CONCLUSION

The success of your business depends on reaching the greatest possible number of your target customers, so a great deal of thought and research should go into selecting the best method of placing your product.

A distribution strategy that fits your product positioning and the rest of your marketing mix will bring you one step closer to achieving success. As with every other component of the marketing mix, the solution lies in knowing your customers and finding imaginative ways to differentiate your product.