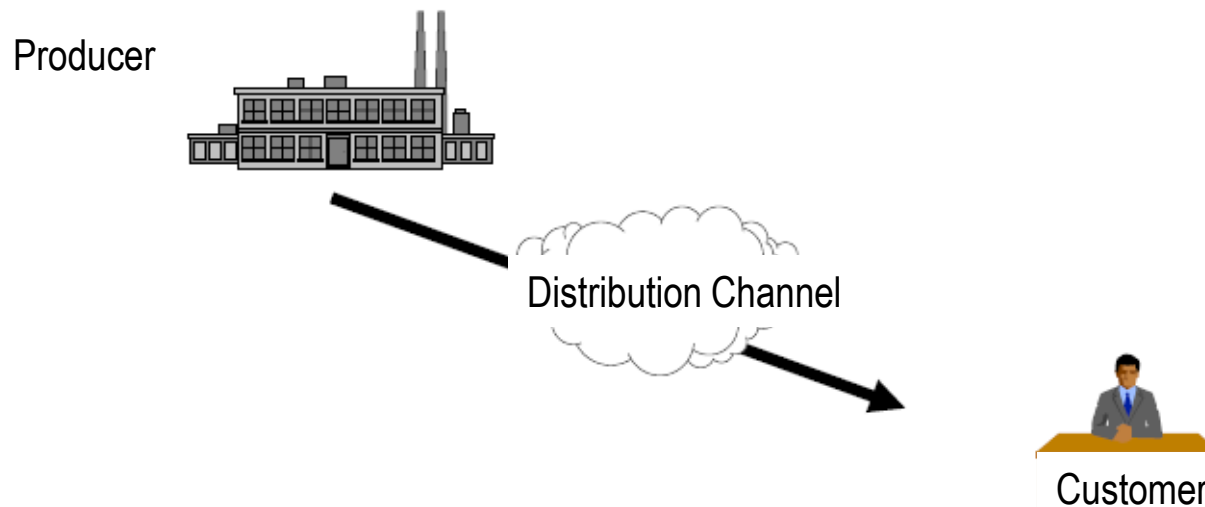


# **Marketing Systems and Environments: Distribution**

## Distribution: a traditional view

The distribution is the structure that makes the product (or service) physically available for the customer.

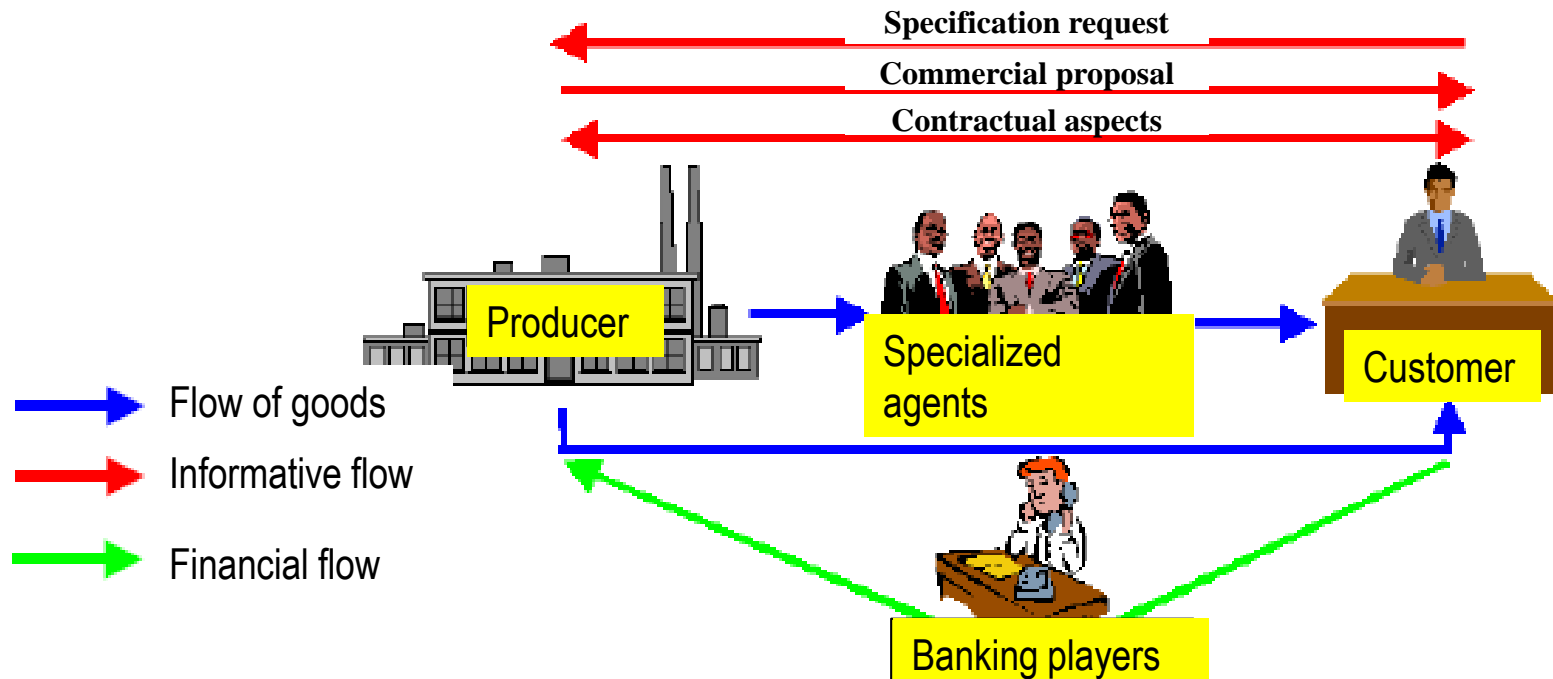


## Distribution: the distribution flows

In a commercial transaction, beyond the **physical flow** of the goods, there are at least two flows which, in the B2B market, assume an increasing importance:

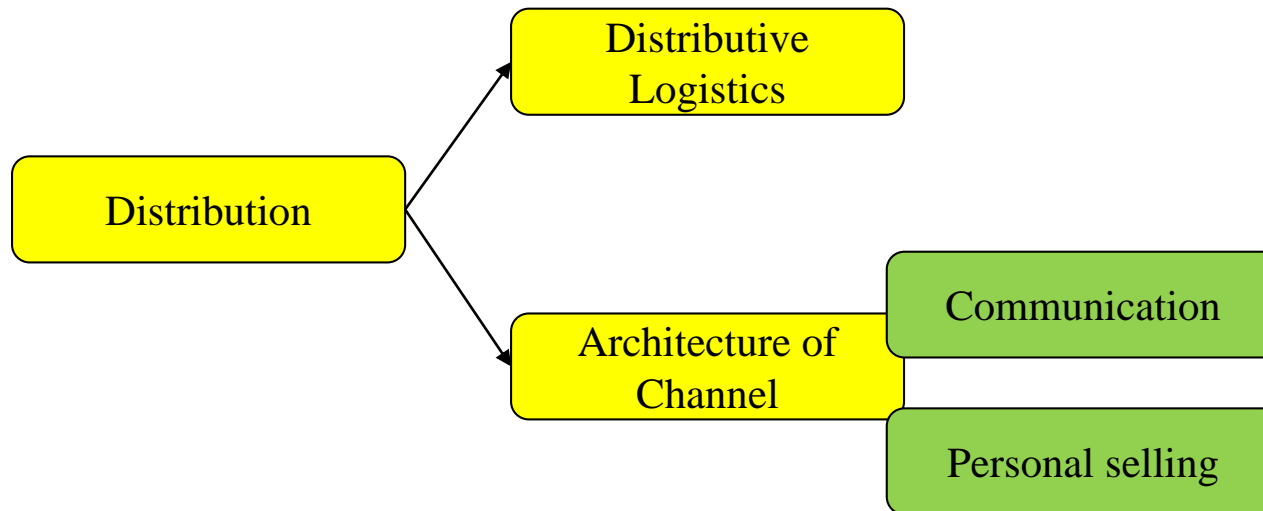
- **Informative flow:** necessary to define the content of the transaction
- **Financial flow:** related to the payment, for whom also external agents have a role

# Distribution: the distribution flows



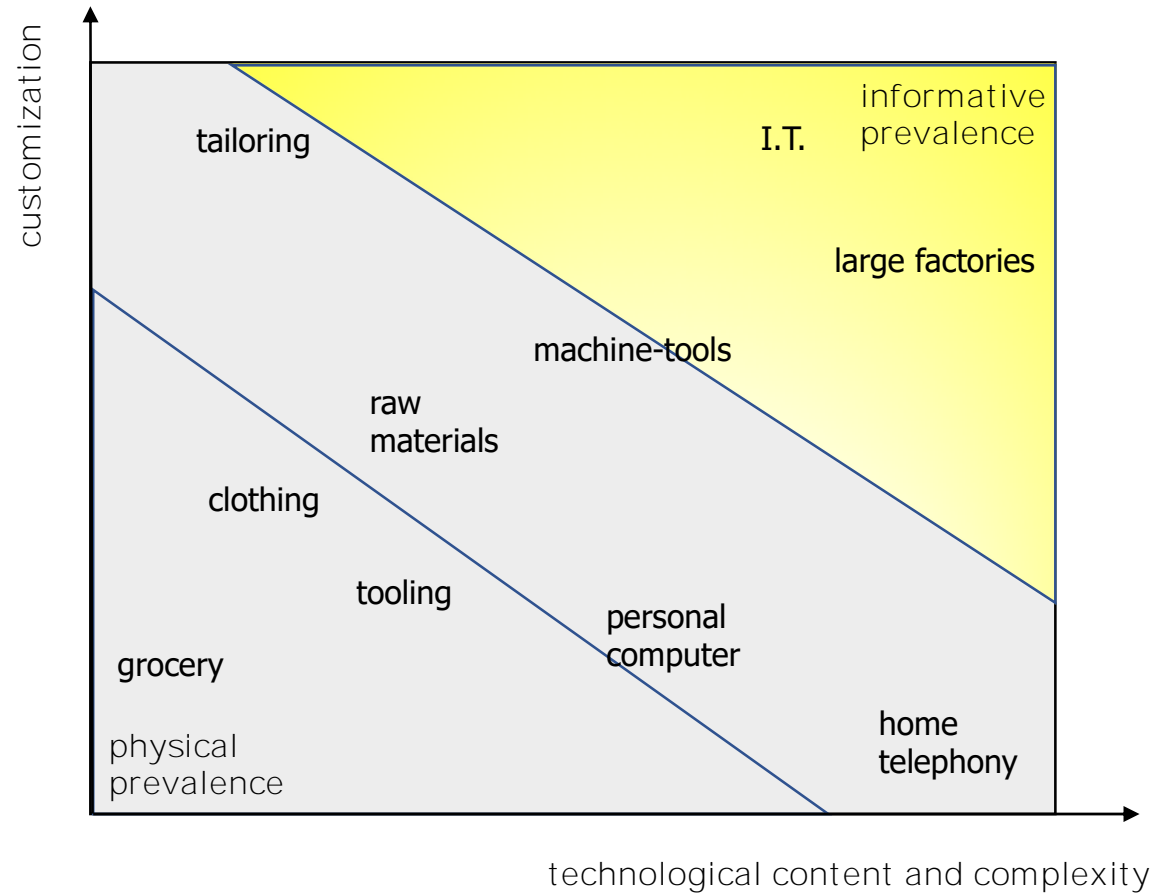
## Distribution: a complete vision

The distribution comprehends, then, aspects of real distributive logistics by an architecture of the channels, that has the responsibility to allow the informative exchange showing a synergy with other two levers: communication and personal selling.



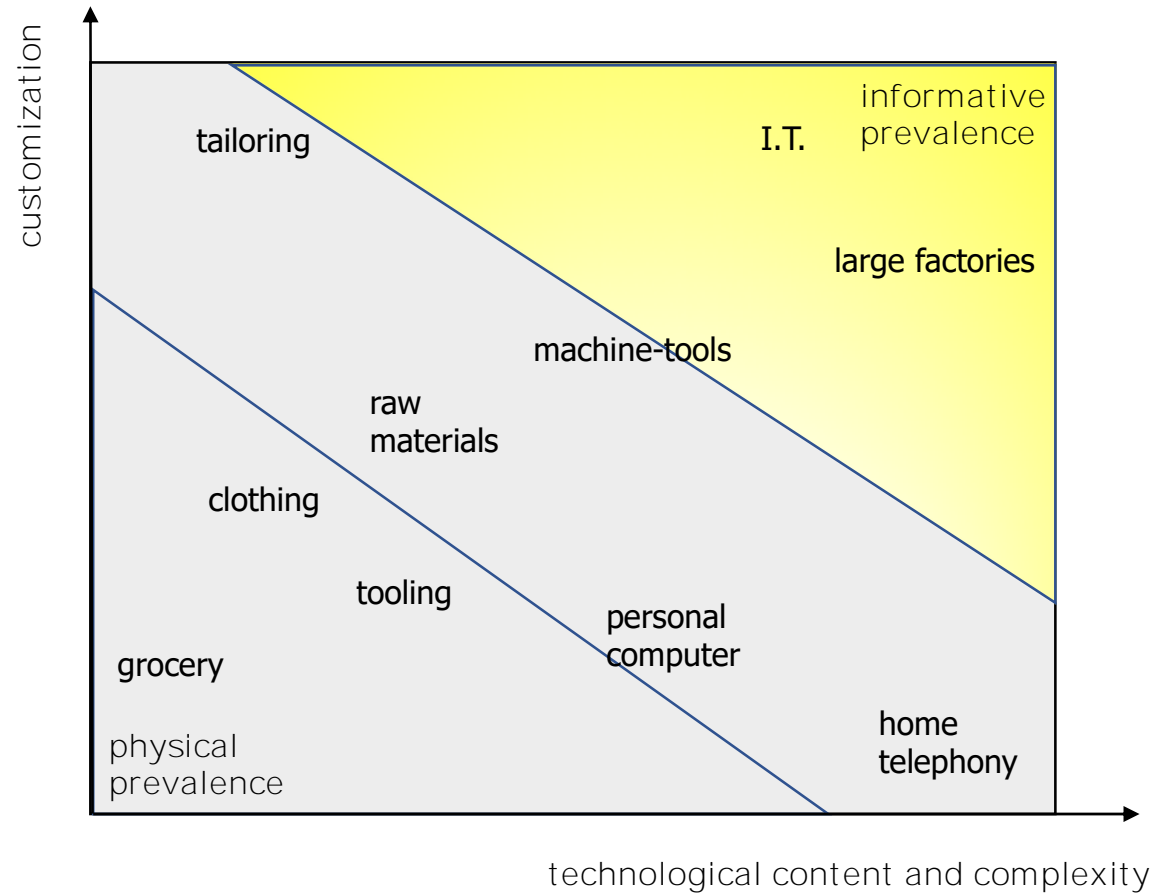
# Informative content of a transaction

- Among the factors which lead the complexity of the commercial transaction of a good, the degree of customization and its content (or technological complexity) are the main ones.
- The higher the presence of these factors, the higher the level of information in order to get the commercial transaction.



# Informative content of a transaction

- In the area of «physical prevalence», the distributive logistics is the essence of the distribution intended as traditional.
- In the area of «informative prevalence», before reaching the exchange, an important work of definition about the needs, the requirements and the clauses is necessary.



## Distribution: a general definition

Distribution becomes the set of systems which transfer information and products from a producer to a customer and vice-versa in order to conclude a commercial transaction.



# Definition of a distribution channel

To define a distribution channel, it is necessary to make clear:

- Typology of the channel
- Dimension of the channel
- Allocation of the responsibilities along the channel

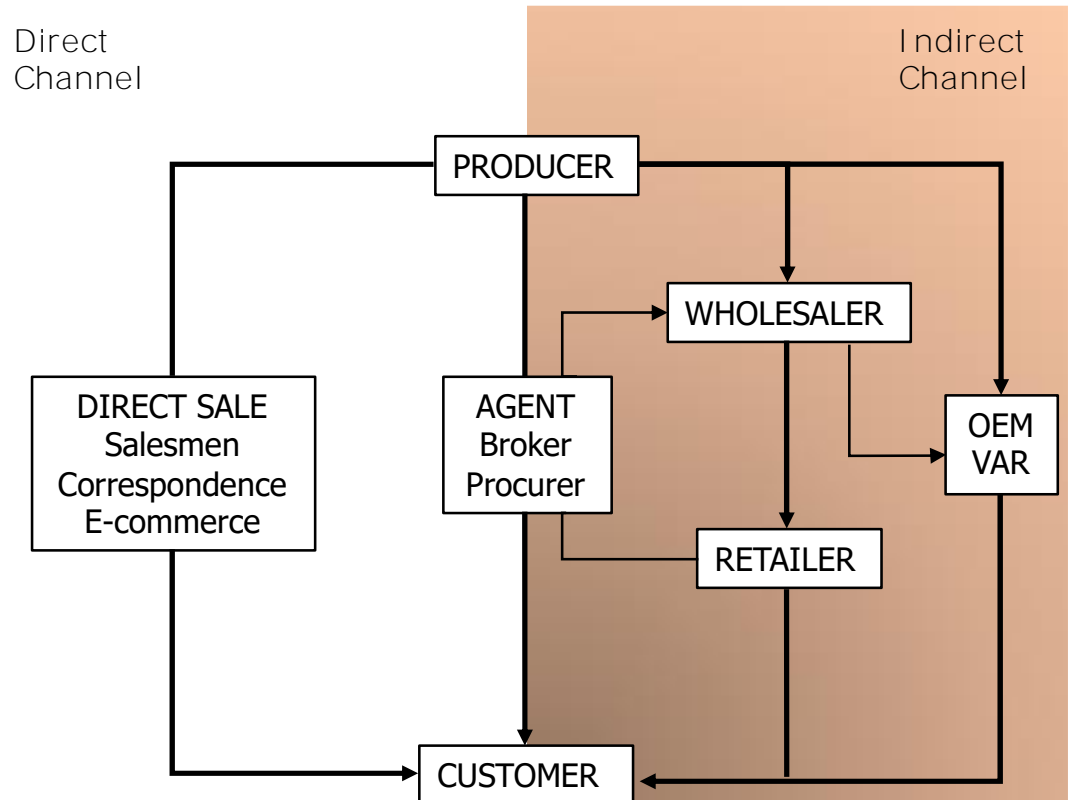
# Definition of a distribution channel

On the basis of:

- Costs (efficiency of the channel)
- Control of the producer on channels and customers (prices)
- Possibility of adjustments over time
- Service level (technical support, products availability, geographical / sectorial coverage)
- Strategies
- Constraints / usages

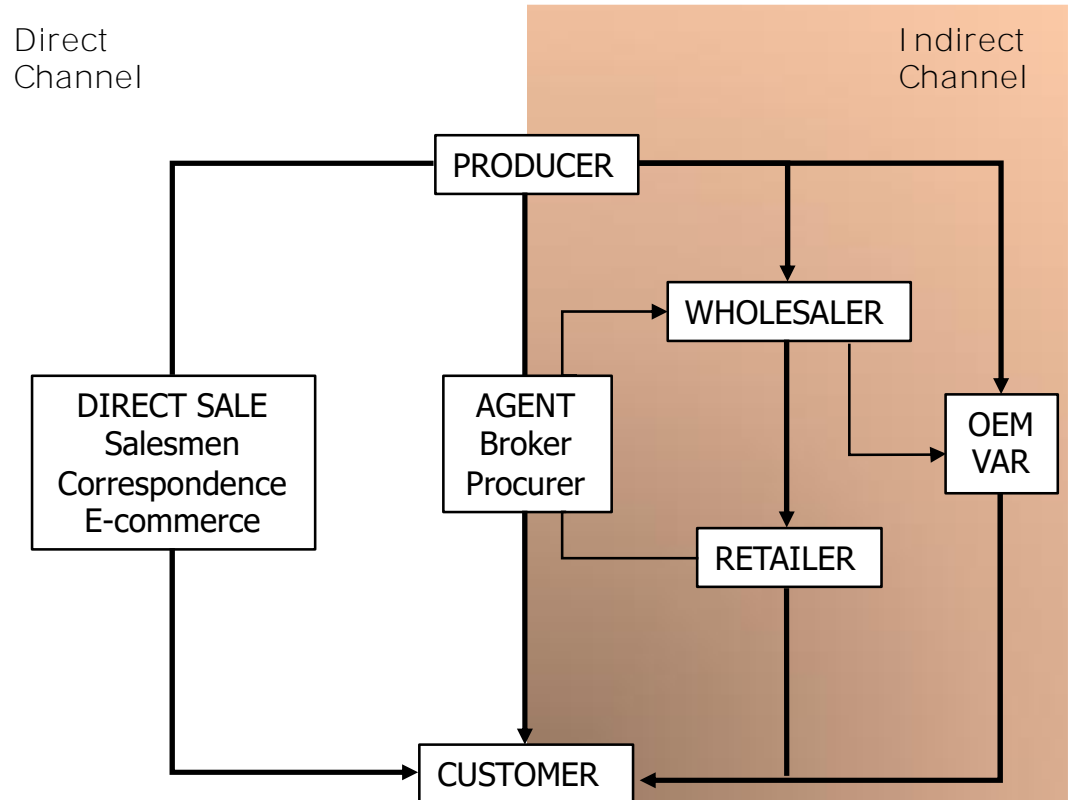
# Typology of channel (direct channel)

- The direct channel is a channel in which a direct contact between producer and customer emerges. Small companies, especially in their early phases, almost always use direct sellers; sometimes, the owner himself follows the sales.



# Typology of channel (indirect channel)

- In the indirect channels, a series of agents is located between the producer and the customer.



## Typology of channel (indirect channel)

- The independent organizations that work on the interface between producer and customer (wholesaler or retailer) are born and are well developed for different reasons:
  1. geographical and demographic development in the markets
  2. critical mass of the activity of distribution
  3. specialization the activity

# Typology of intermediates

## Distributors (wholesalers and retailers)

- Buy and sell products
- Assume risks about commercial credits and obsolescence
- Mono-brand or multi-brand

## Agents

- Work for the producer
- Receive a fee
- Deliver and make the invoice directly from the producer to the customer
- May keep stock only “on consignment”

# Typology of intermediates

## Brokers

- Lead the agreement between producer and customer
- May receive a fee from both the actors, according to the rules of the market or the effective client
- Ex.: raw materials, insurances, etc.

## OEM (Original Equipment Manufacturer) – VAR (Value Added Resellers)

- Incorporate in the own product, in a recognizable way, components of other products
- Es.: installers, software-houses, producers of machines

## Choice of the typology of channel

	Direct Channels	Indirect Channels
Number of Customers	few	a lot
Purchasing mode	large lots	small lots
Unitary value of the good	high	low
Products' standardization	low	high
Production range	wide	narrow
Financial resources available	large	small

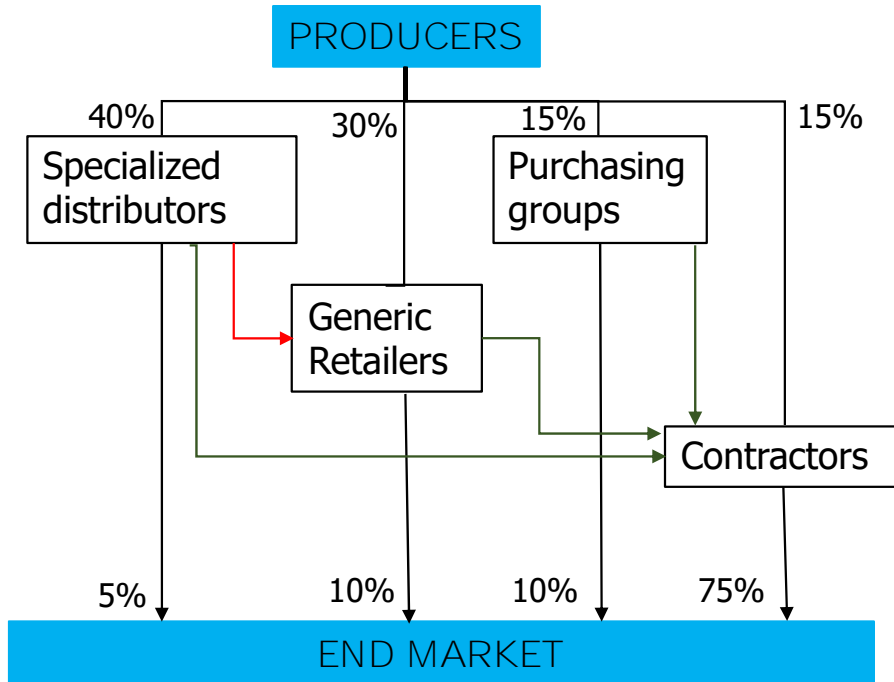


Internet caused the shift on this channel!

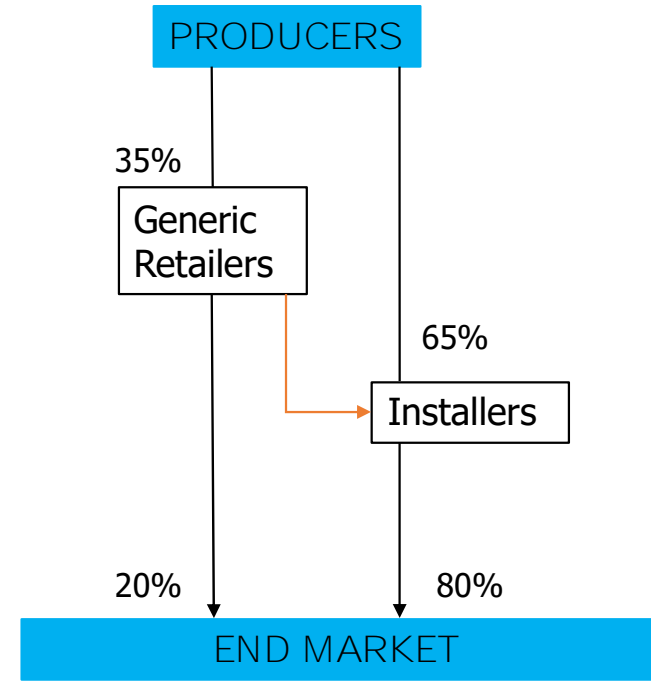


# Different structures of channel in very similar segments

## Insulators



## Waterproofing



## Dimension of the channel

After the choice of the channel to be used, it is necessary to define the sample size of the «points of contact» (stores, independent sellers, agents, OEM, VAR, that will manage the product).

### **Intensive distribution**

- A lot of points of contact, with wide geographical coverage and wide selection (more brands)
- For current purchases or «on the place»

### **Exclusive distribution**

- Few points of contact, specialized, mono-brand
- Image, technical contents and higher margins

### **Selective distribution**

- Average number of specialized distributors

# Dimension of the channel

	<b>Intensive Distribution</b>	<b>Selective Distribution</b>	<b>Exclusive Distribution</b>
Main Features	<ul style="list-style-type: none"> <li>• Great volumes</li> <li>• Frequent purchases</li> </ul>	<ul style="list-style-type: none"> <li>• Middle volumes</li> <li>• Not-frequent purchases</li> <li>• Durable goods</li> <li>• Brands of prestige</li> </ul>	<ul style="list-style-type: none"> <li>• Limited volumes</li> <li>• Not frequent purchases</li> <li>• High unitary value</li> <li>• Exclusive for the area / monobrand</li> <li>• Quality of the relationship</li> <li>• Brand of prestige</li> </ul>
Degree of coverage	High, capillar	Good	Limited
Degree of control	Low, complex	Middle	High
Cost	Low	Middle-low	High

# Allocation of the responsibilities along the channel

It is necessary to allocate a series of tasks along the distribution channel:

- Research of information on the market
- Promotion of the sales
- Technical consultancy
- Contact with the customers (actual or potential)
- Commercial adjustment of the product
  - Quantitative (wholesale or retail)
  - Qualitative (customization, etc.)

...

# Allocation of the responsibilities along the channel

...

- Negotiation of the commercial conditions
- Physical distribution
  - Transport and stock
  - Installation
- Financing / collection of money
- Assumption of the commercial risk

# Specific features of the distribution channels of industrial goods

- Reduced number of the «contact points» (in comparison to the that for the goods of a person)
- Big lots of purchase
- Existence of direct channels (due to the high level of customization and to presence of big lots of purchase)
- Need to have technological knowledge for the sellers
- Stronger relationships between producers and distributors

## ***Push* and *pull* strategies along the distribution channels**

In order to complete the own distribution strategy, the producer must decide on which ring of the supply chain concentrating its marketing effort.

### **Push strategy: the distributor “pushes” the whole chain**

- The producer concentrates its effort on the distributor that in turn will work on the final customer
- More active role for the distributor (and better margins)
- The producer supports the sales (technical, logistic, etc.)
- Easier in a selective channel
- Typical for products to be installed (OEM)

## ***Push* and *pull* strategies along the distribution channels**

### **Pull strategy: the customer «pulls» the whole chain**

- The producer concentrates its effort on the customer that in turn will ask for the goods to the distributor
- Reactive distributor
- The producer invests especially on the promotion
- Easier in an intensive channel
- Typical for “finite” products



# Factors for the choice of the *push e pull* strategies along the distribution channels

Features of the market	Push strategy	Pull strategy
Segmentation	High	Low
Customization of the good	High	Low
Dimension of the market	Low	High
Possibility of access to the final customers	Low	High
Existence of channels of promotion linked to the final customer	Low	High