CHAPTER-5

MARKET COVERAGE

• INTRODUCTION

• DISTRIBUTION
MARKET COVERAGE

1. INTRODUCTION

The channel members may handle different portions of the transaction, but they must all agree on the end result—that the product(s) will be placed in the market in the manner desired by the producer or manufacturer, and that placement of the product(s) meets the contractual agreements of producer, retailer, and everyone in-between.

Once a channel is selected, the distribution strategy can take three different forms. They are listed as follows, from most restrictive to least restrictive—and remember, in retail, the term “restrictive” does not automatically have a negative connotation.

Definition
"Number of active retail and/or wholesale outlets (relative to a saturation level) that sell a specific firm's brands in a given market. Required market coverage is achieved by following concentrated marketing, differentiated marketing, or undifferentiated marketing strategy."

1.1 KINDS OF MARKET COVERAGE

It is a method employed in capturing a planned share of a market by following concentrated marketing, differentiated marketing, or undifferentiated marketing strategy."

CONCENTRATED MARKETING

Is a market segmentation and market coverage strategy whereby a product is developed and marketed for a very well-defined, specific segment of the consumer population. The marketing plan will be a highly specialized one catering to the needs of that specific consumer segment.

Concentrated Marketing is a strategy whereby a product is developed and marketed for a very well defined and specific segment of the consumer population. Concentrated marketing is particularly effective for small companies with limited resources because it enables the company to achieve a strong market position in the specific market segment it serves without mass production, mass distribution, or mass advertising.

Some features of Concentrated Marketing are:
➢ A concentrated marketing approach aims at a narrow, specific consumer group through one specialized marketing plan catering to the needs of that segment.
➢ Concentrated marketing is popular for small firms for these reasons:
   • Mass production, mass distribution, and mass advertising are not necessary.
   • It can succeed with limited resources and abilities by concentrating efforts.
➢ If concentrated marketing is used, it is essential for a firm to do a better job than competitors in several areas.
• The company needs to tailor its marketing program for its segment better than competitors.
• Competitors' strengths should be avoided and weaknesses exploited.
  ➢ The majority fallacy, appealing to a large segment that is laden with competition, should be avoided.
  ➢ A potentially profitable segment may be one ignored by other firms.
  ➢ Per unit profits can be maximized through market segmentation. Total profits are not maximized because only one segment is sought.
  ➢ A distinct niche can be carved out for a particular brand.

DIFFERENTIATED MARKETING

Differentiated marketing combines the best attributes of undifferentiated marketing and concentrated marketing. It appeals to two or more distinct market segments, with a different marketing plan for each. Typically differentiated marketing creates more total sales than undifferentiated marketing, but it also increases the costs of doing business.

Some features of Differentiated Marketing are:
  ➢ Differentiated Marketing also called as multi segment marketing is wherein a company attempts to appeal to two or more clearly defined market segments with a specific product and unique marketing strategy tailored to each separate segment.
  ➢ Firms such as Maruti-Suzuki use differentiated marketing to attract all segments. Others, such as Hyundai, and Microsoft appeal to two or more segments, but not all segments.
  ➢ Some companies, such as Time Inc., use both undifferentiated marketing and concentrated marketing approaches in their multiple-segmentation strategy. They have one or more major brands for the mass market and secondary brands geared toward specific segments.
  ➢ Company resources and abilities must be able to produce and market two or more different sizes, brands, or products. Costs vary, depending on modifications needed.
  ➢ Differentiated marketing should enable the firm to achieve several objectives:
    • Sales maximization.
    • Recognition as a specialist.
    • Diversification.
  ➢ Differentiated marketing can be achieved without involvement in the majority fallacy.
  ➢ Two or more sizable and distinct consumer groups are necessary. The more clusters facing the firm, the greater the opportunity for differentiated marketing.
  ➢ Wholesalers and retailers usually find differentiated marketing to be desirable, because it enables them to reach different consumers, offers a degree of exclusivity, allows orders to be concentrated, and encourages private labels.
  ➢ Total profits should rise as the number of segments serviced increases.
  ➢ A firm must balance revenues obtained from selling to multiple segments against the costs.
  ➢ A company must be careful to maintain product distinctiveness in each consumer segment and to guard its image.
UNDIFFERENTIATED MARKETING

Market coverage strategy whereby a company ignores differences within a market and attempts to appeal to the whole market with a single basic product line and marketing strategy. Undifferentiated marketing relies on mass distribution and mass advertising, aiming to give the product a superior image in the minds of consumers. It is cost effective because there is only one product line to be produced, inventoried, distributed, and advertised. Also the absence of segmented market research lowers the costs of consumer research and product management.

Undifferentiated marketing is a marketing strategy that works as if all consumers have similar tastes and motivations. It is sometimes known as mass marketing. There are distinct advantages and drawbacks to undifferentiated marketing.

Most marketing falls into three main categories. Undifferentiated marketing treats all consumers the same way. Differentiated marketing involves producing different marketing for specific market segments. Concentrated marketing focuses the entire marketing on only one market segment.

Some of the differences among these types of marketing are disputable. In some definitions, differentiated marketing involves the same product, but marketed in different ways to different market segments. In other definitions, it can cover a company that develops variations on a product to cover these different segments. One example would be a drinks company that developed a low-calorie version of its product to appeal to the health market.

The main benefit of undifferentiated marketing is that it does not require as much focus and research to identify the tastes of individual market sections. It can also mean the company can be confident that it will not miss out any potential consumers in its marketing. This strategy makes sure marketing reaches people who do not fall into the supposed target market but would still be interested in buying.

1.2 MARKET COVERAGE STRATEGY

Concentrated Marketing Strategy
A concentrated marketing strategy is targeted to one specific market segment or audience. For example, a company might market a product specifically for teenage girls, or a retailer might market his business to residents in a specific town. Concentrated marketing strategies are often geared for smaller groups of people, because they are designed to appeal to a specific segment.

Differentiated Marketing Strategy
A differentiated marketing strategy is when a company creates campaigns that appeal to at least two market segments or target groups. For example, a store can promote a sale that appeals to people in at least two cities or locations, or a company can market a product that appeals to women in at least two age groups. Differentiated marketing strategies can target many more than two segments; shoe companies often create campaigns that appeal to both men and women in a variety of age groups. Differentiated marketing strategies can also use different messages in the same campaign for different segments. For example, a retailer might market low cost to a budget-conscious segment and product quality to an affluent market segment.

Undifferentiated Marketing Strategy
“Sales growth strategy that ignores market segment differences and attempts to appeal to all prospective customers with a single, basic product line through mass advertising and distribution. Also called mass marketing.”

When discussing differentiated and concentrated marketing strategies, it is also important to understand undifferentiated marketing strategies. Basically, in an undifferentiated marketing strategy, marketers use the same message for all segments of the market. This is similar to mass marketing; marketers typically create a message that appeals to everyone, so the message is often general or simple to allow more people to relate.

An undifferentiated targeting strategy is used when a company decides to communicate the benefits of its product by sending the same promotional message to everyone. For an undifferentiated strategy to be successful, the company's product must be readily available and affordable and must provide the same benefits to all consumers. Very few companies with consumer products meet these criteria.

Example

To better understand differentiated, concentrated and undifferentiated marketing strategies, it helps to look at an example from each perspective. Assume a restaurant is trying to market its new business. Using a differentiated marketing strategy, the restaurant can appeal to the college crowd by marketing cheap specials on food and drinks, the family crowd by marketing kid-friendly meal options and table entertainment and to the elderly by marketing senior discounts and early-bird specials. Using a concentrated marketing strategy, the restaurant can market its convenient location to a group of residents within 10 miles of the business. Using an undifferentiated marketing strategy, the restaurant can highlight its grand opening celebration.

2. DISTRIBUTION

“The movement of goods and services from the source through a distribution channel, right up to the final customer, consumer, or user, and the movement of payment in the opposite direction, right up to the original producer or supplier.”

Distribution encompasses all the physical activities necessary to make your product or service available to your customers when and where they need it. The distribution strategies and channels that a firm chooses should match the characteristics of its product or service, the firm’s business plan and the needs of its target market.

Here are three distribution examples:

<table>
<thead>
<tr>
<th>DIRECT TO END USERS</th>
<th>SELL THROUGH A DEALER NETWORK</th>
<th>SELL THROUGH A VAR (VALUE-ADDED RESELLER)</th>
</tr>
</thead>
<tbody>
<tr>
<td>You have a sales team that sells directly to Fortune 100 companies.</td>
<td>You sell a product through a geographical network of dealers who sell to end-users in their areas. The dealers may service the product as well.</td>
<td>You sell a product to a company who bundles it with services or other products and resells it. That company is called a Value Added Reseller (VAR) because it adds value to your product.</td>
</tr>
<tr>
<td>You have a second product line for small businesses. Instead of using your sales team, you sell this line directly to end-users through your website and marketing campaigns.</td>
<td>Your dealers are essentially your customers, and you have a strong program to train and support them with marketing campaigns and materials.</td>
<td>A VAR may work with an end-user to determine the right products and configurations, and then implement a system that includes your product.</td>
</tr>
<tr>
<td>You have two markets and two distribution channels.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To create a good distribution program, focus on the needs of your end-users.
If users need personalized service, you can utilize a local dealer network or reseller program to provide that service.

If your users prefer to buy online, you can create an e-commerce website and fulfillment system and sell direct; you can also sell to another online retailer or distributor that can offer your product on their own sites.

You can build your own specialized sales team to prospect and close deals directly with customers.

Wholesalers, resellers, retailers, consultants and agents already have resources and relationships to quickly bring your product to market. If you sell through these groups instead of (or in addition to) selling direct, treat the entire channel as a group of customers — and they are, since they’re buying your product and reselling it. Understand their needs and deliver strong marketing programs; you’ll maximize everyone’s revenue in the process.

**Distribution Intensity**

Distribution intensity refers to the number of intermediaries through which a manufacturer distributes its goods. The decision about distribution intensity should ensure adequate market coverage for a product. In general, distribution intensity varies along a continuum with three general categories: intensive distribution, selective distribution, and exclusive distribution.

**2.1 INTENSIVE DISTRIBUTION**

“Takes place when suppliers sell through as many retailers as possible. This arrangement usually maximizes suppliers' sales; and it enables retailers to offer many brands and product versions.”

“A marketing strategy under which a company sells through as many outlets as possible, so that the consumers encounter the product virtually everywhere they go: supermarkets, drug stores, gas stations, and the like. Soft drinks are generally made available through intensive distribution.”

Where the majority of resellers stock the 'product' with convenience products, for example, and particularly the brand leaders in consumer goods markets (price competition may be evident).

Products, when viewed by consumers in their totality, are seen as a bundle of attributes or satisfactions including possession utilities and time and place utilities. Producers of convenience goods and certain raw materials aim to stock their products in as many outlets as possible (i.e. an intensive distribution strategy). The dominant factor in the marketing of such products is their place utility. Producers of convenience goods such as pens, confectionery and cigarettes try to enlist every possible retail outlet, ranging from multiples to independent corner shops, to create maximum brand exposure and maximum convenience to customers. With such products, every exposure to the customer is an opportunity to buy, and the image of the outlet used is of less significant factor in the customer's mind than the impression of the product.

Using an intensive distribution strategy, the company tries to achieve as many sale’s points as possible and to multiply the distribution centers, to ensure a high volume of business and maximum coverage of sale’s territory (LAMBIM, 2000). Conconi (2005) emphasizes that this kind of distribution are commonly used by beverage and food companies, whose products
can be found in a vast number of distribution points such as supermarkets, drugstores, convenience stores, vending machines, etc.

2.2 SELECTIVE DISTRIBUTION
"Type of product distribution that lies between intensive distribution and exclusive distribution, and in which only a few retail outlets cover a specific geographical area. Considered more suitable for high-end items such as 'designer' or prestige goods."

This is the normal pattern (in both consumer and industrial markets) where 'suitable' resellers stock the product. In this case retailers can keep the competitors products in their outlets e.g. furniture etc.

Suppliers who appoint a limited number of retailers, or other middlemen, are chosen to handle a product line, have a policy of selective distribution. Limiting the number of intermediaries can help contain the supplier's own marketing costs and at the same time enables the grower/producer to develop closer working relations with intermediaries. The distribution channel is usually relatively short with few or no intermediaries between the producer and the organization which retails the product to the end user.

In other way, Selective distribution is distribution of a product through only a limited number of channels. This arrangement helps to control price cutting. By limiting the number of retailers, marketers can reduce total marketing costs while establishing strong working relationships within the channel. Moreover, selected retailers often agree to comply with the company's rules for advertising, pricing, and displaying its products. Where service is important, the manufacturer usually provides training and assistance to dealers it chooses. Cooperative advertising can also be utilized for mutual benefit. Selective distribution strategies are suitable for shopping products such as clothing, furniture, household appliances, computers, and electronic equipment for which consumers are willing to spend time visiting different retail outlets to compare product alternatives. Producers can choose only those wholesalers and retailers that have a good credit rating, provide good market coverage, serve customers well, and cooperate effectively. Wholesalers and retailers like selective distribution because it results in higher sales and profits than are possible with intensive distribution where sellers have to compete on price.

Selective distribution is a retail strategy that involves making a product or group of products available only in certain markets. This is the opposite of open distribution, where a product line is distributed to as many markets as possible. There are several reasons for employing this approach, including the potential for limiting competition and minimizing distribution costs so that net profits are higher.

The process of selective distribution focuses on identifying specific markets where a company's products are highly likely to be favored by consumers in the area, while avoiding distribution to areas where there is less of a chance of gaining a significant market share. Often, this situation comes about because a number of similar products are already available through certain markets, and the level of competition is higher. By choosing to distribute goods through handpicked retailers within certain geographic regions, it is possible to avoid some of this competition, while still tapping into the demand for products of that type.
Channel members should have certain facilities in order to store and market products effectively, for example, frozen food products require that intermediaries have adequate deep freeze display facilities. Specialised resources may be necessary, for example, certain ethical pharmaceutical products require that intermediaries are capable of offering advice as to the use and limitations of the product, so such products might be restricted to pharmacies. The product may have a carefully cultivated brand image that could be damaged by being stocked in limited line discount outlets where products are displayed in a functional way to reduce overheads and the final price. Selective distribution is used where the facilities, resources or image of the outlet can have a direct impact on customers' impressions of the product. An example here is ‘up market’ brands of perfume.

Selective distribution means the retailers are carefully screened, and only a few are permitted to carry the product line. As with exclusive distribution, part of the goal here is to enhance the image of the product by making it harder (but certainly not impossible!) to obtain. This allows the retailer to charge full price. The ladies’ clothing industry is full of selective distribution agreements between designer labels and so-called "finer" department stores. (The producers may have other, lower-priced merchandise lines to sell to discounters; but these are generally sold under separate, secondary brand names.)

2.3 EXCLUSIVE DISTRIBUTION

"Only specially selected resellers or authorized dealers (typically only one per geographical area) are allowed to sell the 'product'. In this retailers are restricted to keep only one manufacturer's products, e.g. exclusive outlets of cars, apparels and jewelry, etc."

Exclusive distribution is distribution of a product through one wholesaler or retailer in a specific geographical area. The automobile industry provides a good example of exclusive distribution. Though marketers may sacrifice some market coverage with exclusive distribution, they often develop and maintain an image of quality and prestige for the product. In addition, exclusive distribution limits marketing costs since the firm deals with a smaller number of accounts. In exclusive distribution, producers and retailers cooperate closely in decisions concerning advertising and promotion, inventory carried by the retailers, and prices. Exclusive distribution is typically used with products that are high priced, that have considerable service requirements, and when there are a limited number of buyers in any single geographic area. Exclusive distribution allows wholesalers and retailers to recoup the costs associated with long selling processes for each customer and, in some cases, extensive after-sale service. Specialty goods are usually good candidates for this kind of distribution intensity.

For some products, producers deliberately limit the number of intermediaries handling their products. They may wish to develop a high quality brand image. Exclusive distribution to recognised official distributors can enhance the prestige of the product. Exclusive distribution is a policy of granting dealers exclusive rights to distribute in a certain geographical area. It is often used in conjunction with a policy of exclusive dealing, where the manufacturer requires the dealer not to carry competing lines. Car manufacturers have such arrangements with their dealers. With the arrangement goes a stipulation by the manufacturer that the distributor is able to uphold appropriate repair, service and warranty handling facilities. By granting exclusive distribution, the manufacturer gains more control
over intermediaries regarding price, credit and promotional policies, greater loyalty and more determined selling of the company's products.

Exclusive distribution is an extreme form of selective distribution. That is, the producer grants exclusive right to a wholesaler or retailer to sell in a geographic region. This is not uncommon in the sale of more expensive and complex agricultural equipment like tractors. Mahindra Tractor Company, for example, appoints a single dealer to distribute its products within a given geographical area.

Some market coverage may be lost through a policy of exclusive distribution, but this can be offset by the development and maintenance of the image of quality and prestige for the product and by the reduced marketing costs associated with a small number of accounts. In exclusive distribution producers and middlemen work closely in decisions concerning promotion, inventory to be carried by stockists and prices.

The details of an exclusivity agreement can have important ramifications for both producer and distributor. Some involve tied-agreements where an enterprise wishing to become the exclusive dealer for a given product must also carry others within that agribusiness's product line. For instance, a chemicals manufacturer could have a fast selling herbicide and will tie the exclusive distribution for such a product to a slower moving specialist product like a nematicide.

Agribusinesses which are considering becoming involved in exclusivity agreements need to be aware of their legality. In some markets, exclusivity agreements are either prohibited altogether or are restricted in some way because they are judged, by regulatory authorities, to lessen competition in the marketplace.

Exclusive distribution is thought of most frequently for high-rupees products such as luxury cars or Rolex watches, but the fact is that even small-ticket items like toys are considered exclusive when they are in high demand. In an exclusive distribution agreement, one retail store or chain of stores has the legal right to market and sell the product line in a geographic area. Exclusive distribution is sometimes requested by the retailer, not the producer, to ensure that the retailer has something unique, that customers can't get anywhere else. This may also mean the retailer commits to not selling any products that are going to compete with the line. In exchange, the producer or manufacturer offers sales assistance, training, point-of-purchase materials, and other perks to the exclusive distributor. Such a distribution arrangement can work toward the "exclusive" image of the product (because it's harder to get), the retailer (for having "the only ones" available), and the manufacturer (by implying that the company is interested in marketing "quality, not quantity."

In B2B commerce, exclusive distribution works well for extremely specialized product lines, such as heavy equipment or high-tech products, ordered to the customer's specifications and budgeted for in advance of the purchase. In an exclusive distribution strategy, the producer takes control of the quality of services performed and also deal/contract with the intermediary not to commercialize competitors' brands, characterizing a deal based on relationship.

In a short we can say that, in intensive distribution, the product is sold to as many appropriate retailers or wholesalers as possible. Intensive distribution is appropriate for products such as chewing gum, candy bars, soft drinks, bread, film, and cigarettes where the primary factor influencing the purchase decision is convenience. Industrial products that
may require intensive distribution include pencils, paperclips, transparent tape, file folders, typing paper, transparency masters, screws, and nails. In selective distribution, the number of outlets that may carry a product is limited, but not to the extent of exclusive dealing. By carefully selecting wholesalers or retailers, the manufacturer can concentrate on potentially profitable accounts and develop solid working relationships to ensure that the product is properly merchandised. The producer also may restrict the number of retail outlets if the product requires specialized servicing or sales support. Selective distribution may be used for product categories such as clothing, appliances, televisions, stereo equipment, home furnishings, and sports equipment.

When a single outlet is given an exclusive franchise to sell the product in a geographic area, the arrangement is referred to as exclusive distribution. Products such as specially automobiles, some major appliances, certain brands of furniture, and lines of clothing that enjoy a high degree of brand loyalty are likely to be distributed on an exclusive basis. This is particularly true if the consumer is willing to overcome the inconvenience of travelling some distance to obtain the product. Usually, exclusive distribution is undertaken when the manufacturer desires more aggressive selling on the part of the wholesaler or retailer, or when channel control is important, exclusive distribution may enhance the product's image and enable the firm to charge higher retail prices.

Sometimes manufacturers use multiple brands in order to offer exclusive distribution to more than one retailer or distributor. Exclusive distribution occurs more frequently at the wholesale level than at the retail level. In general, exclusive distribution lends itself to direct channels (manufacturer to retailer). Intensive distribution is more likely to involve indirect channels with two or more intermediaries.

**DISTRIBUTION STRATEGY**

Strategic distribution is a competitive advantage that accrues generally from the configuration of a distribution network (who, what, where, when) and, more specifically, from the selection of partners (i.e. middlemen) who intermediate between the company and the customer by performing necessary fulfillment and service activities.

More specifically, a company's distribution strategy is largely defined by decisions on the number and type of customer interfaces. That is, order entry points (where and how orders are placed) and fulfillment nodes (where and how customers obtain finished goods).

At the extremes are two fundamental fulfillment options: direct distribution from the manufacturer to customers and intermediated (indirect) distribution through aggregators that carry products from multiple suppliers (who may themselves be complementors be competitors).

For consumer products, aggregators fall into two broad categories: remote access (catalogers, ecommerce companies) or local access (typically brick and mortar retail stores). Remote access fulfillment typically involves the submission of an order via mail, telephone, or the internet to a centralized site with shipments made to a customer's specified location from one or more remote distribution centers, usually via a 3rd party carrier such as UPS or FedEx.

Local access fulfillment is the traditional and still more prevalent form. Inventory is maintained at physical outlets for immediate on-site purchase by customers, or with remote orders placed for subsequent pick-up by customers.
An increasing number of manufacturers have implemented direct fulfillment capabilities. Manufacturers that fulfill directly typically do so remotely (from factories or central distribution facilities), though some have local presence with retail stores (e.g. Sherwin-Williams paints) or factory outlet stores (which are primarily used to clear excess inventories and outdated merchandise). Some companies have coordinated their remote and local capabilities. For example, Best Buy allows customers to order on the web, and either receives direct shipments or pick-up (or return) products at local stores. Gateway has opened local stores for demonstrating products and closing sales that are remotely fulfilled.

In general, both direct and intermediated fulfillment is becoming increasingly integral to most companies' retail distribution strategy. At the retail level, there are two distinct types of distribution: exclusive distribution (the retailer carries only one brand), and shared distribution among many brands. For example, soft drink brands share distribution in grocery stores (all major brands are carried), but have exclusive rights at some venues (e.g. restaurants, sports arenas, college campuses, vending machines). Securing distribution at the exclusive venues (that, by definition, offer 100% share where carried) typically requires companies to deeply discount prices or pay rights fees. Winning in shared distribution is a function of traditional day-to-day, hand-to-hand marketing combat, including strong brand recognition, aggressive pricing, prominent display presence, and demand-driving promotions.
To obtain greater benefits, it takes the right distribution strategy to deliver the goods or services wares into the hands of consumers. The following is a distribution method that can be selected by a business to maximize profit.

**Intensive Distribution Strategy**

"An intensive distribution strategy seeks to distribute a product through all available channels in an area. Usually, an intensive distribution strategy suits items with wide appeal across broad groups of consumers, such as convenience goods."

An intensive distribution strategy is executed by making the product available in as many places as possible. This increases brand awareness through availability, rather than through marketing and various promotions. Intensive distribution is a distribution strategy that places product wares at many retailers or retailers and distributors in various places. This technique is suitable for products or goods of daily necessity that has demand and high levels of consumption. Examples of such basic foods, cigarettes, toothbrushes, toothpaste, soap, detergent, and so forth.

**Intensive distribution** aims to provide saturation coverage of the market by using all available outlets. For many products, total sales are directly linked to the number of outlets used (e.g. cigarettes, beer). Intensive distribution is usually required where customers have a range of acceptable brands to choose from. In other words, if one brand is not available, a customer will simply choose another.

**Selective Distribution Strategy**

Selective distribution is a distribution method of distributing products or services in a particular market area by selecting only a few distributors or retailers in a region. Among
the distributors or retailers will have a competition to win customers in a way, technique and strategy respectively.

**Selective distribution** involves a producer using a limited number of outlets in a geographical area to sell products. An advantage of this approach is that the producer can choose the most appropriate or best-performing outlets and focus effort (e.g. training) on them. Selective distribution works best when consumers are prepared to "shop around" - in other words - they have a preference for a particular brand or price and will search out the outlets that supply.

**Exclusive Distribution Strategy**

**Exclusive distribution** is an extreme form of selective distribution in which only one wholesaler, retailer or distributor is used in a specific geographical area. Distribution is to give exclusive distribution rights of a product in one of two distributors or retailers only on a local area. Goods or services offered by exclusive distribution types are goods with high quality and price with a limited number of consumers. Examples of exclusive distribution are like a car showroom, factory outlet, restaurant franchise, mini markets, supermarkets, hypermarkets, and others.

**DISTRIBUTION CHANNEL STRATEGY**

The following table describes the factors that influence the choice of distribution channel by a business:

<table>
<thead>
<tr>
<th>Influence</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market factors</td>
<td>An important market factor is &quot;buyer behaviour&quot;; how do buyer's want to purchase the product? Do they prefer to buy from retailers, locally, via mail order or perhaps over the Internet? Another important factor is buyer needs for product information, installation and servicing. Which channels are best served to provide the customer with the information they need before buying? Does the product need specific technical assistance either to install or service a product? Intermediaries are often best placed to provide servicing rather than the original producer - for example in the case of motor cars. The willingness of channel intermediaries to market product is also a factor. Retailers in particular invest heavily in properties, shop fitting etc. They may decide not to support a particular product if it requires too much investment (e.g. training, display equipment, warehousing). Another important factor is intermediary cost. Intermediaries typically charge a &quot;mark-up&quot; or &quot;commission&quot; for participating in the channel. This might be deemed unacceptably high for the ultimate producer business.</td>
</tr>
<tr>
<td>Producer factors</td>
<td>A key question is whether the producer have the resources to perform the functions of the channel? For example a producer may not have the resources to recruit, train and equip a sales team. If so, the only option may be to use agents and/or other distributors. Producers may also feel that they do not possess the customer-based skills to distribute their products. Many channel intermediaries focus heavily on the customer interface as a way of creating competitive advantage and cementing the relationship with their supplying producers. Another factor is the extent to which producers want to maintain control over how, to whom and at what price a product is sold. If a manufacturer sells via a retailer, they effective lose control over the final consumer price, since the retailer sets the price and any relevant discounts or promotional offers. Similarly, there is no guarantee for a producer that their product(s) are actually been stocked by the retailer. Direct distribution gives a producer much more control over these issues.</td>
</tr>
</tbody>
</table>
Product factors: Large complex products are often supplied direct to customers (e.g., complex medical equipment sold to hospitals). By contrast, perishable products (such as frozen food, meat, bread) require relatively short distribution channels - ideally suited to using intermediaries such as retailers.

**How do we design and manage distribution channels to maximize our coverage of the marketplace?**

In the last section, we considered the characteristics and make up of marketing channels. While the channel comprises a number of organizations, Kotler indicates that these are "more than a simple collection of firms tied together."

Channels can be considered as dynamic entities within the demand chain that require purposeful establishment and constant management during the life of a product or service. The members of the channel may be linked in either a formal or informal manner.

**Formal channels**
In the formal channels, the parties are linked together by legal agreements and each has obligations and responsibilities within the channel. For their participation, members receive agreed payments for services that enhance the value of the product.

**Informal channels**
Informal channels are where there are no binding agreements between the parties who receive profit from selling at a higher price for their value adding. In this case, the links are based on dependency and often very successful. Channel motivation or incentives are necessary to ensure that there is benefit for all members participating in the channel.

**DISTRIBUTION SYSTEM**

Before settling for a distribution system, the marketer has to keep in mind various factors affecting distribution system (like marketing decision and relationship issues).

**DISTRIBUTION: DISTINGUISHING FEATURES**

As far as financial services are concerned, distribution fulfills the following roles:

1. The provision of appropriate advice and guidance regarding the suitability of specific products.
2. The provision of choice and a range of product solutions to customer needs.
3. The means for purchasing a product.
4. The means for establishing a client relationship.
5. Product sales functions.
6. The provision of information concerning relevant aspects of financial services.
7. Access to the administration systems and processes required for the ongoing usage (consumption) of the product or service.
8. The means for managing a customer relationship over time.
9. The cross-selling of additional products to existing customers.