CHAPTER-13

EVALUATING THE MAJOR ALTERNATIVES OF MARKETING CHANNELS

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EVALUATING THE MAJOR ALTERNATIVES OF MARKETING CHANNELS

1. INTRODUCTION

Distribution channels move products and services from businesses to consumers and to other businesses. Also known as marketing channels, channels of distribution consist of a set of interdependent organization such as wholesalers, retailers, and sales agents involved in making a product or service available for use or consumption. Distribution channels are just one component of the overall concept of distribution networks, which are the real, tangible systems of interconnected sources and destinations through which products pass on their way to final consumers.

As Howard J. Weiss and Mark E. Gershon noted in Production and Operations Management, a basic distribution network consists of two parts: 1) a set of locations that store, ship, or receive materials (such as factories, warehouses, retail outlets); and 2) a set of routes (land, sea, air, satellite, cable, Internet) that connect these locations. Distribution networks may be classified as either simple or complex. A simple distribution network is one that consists of only a single source of supply, a single source of demand, or both, along with fixed transportation routes connecting that source with other parts of the network. In a simple distribution network, the major decisions for managers to make include when and how much to order and ship, based on internal purchasing and inventory considerations.

In short, distribution describes all the logistics involved in delivering a company’s products or services to the right place, at the right time, for the lowest cost. In the unending efforts to realize these goals, the channels of distribution selected by a business play a vital role in this process. Well-chosen channels constitute a significant competitive advantage, while poorly conceived or chosen channels can doom even a superior product or service to failure in the market.

Goods produced in factories and/or commodities produced in agriculture must reach consumers. The systems by means of which goods reach the consumer are known as distribution channels. These are organizations that facilitate the sale and movement of products. The totality of all distribution channels forms a distribution network. Distribution is a very complex system but can be conceptually divided into four major categories: 1) market makers, 2) sellers, 3) transporters, and 4) hybrids.

PARTICIPANTS IN DISTRIBUTION

Market Makers

Market makers are organizations that provide either a real or virtual place where goods may be bought and sold. Classical example are the farmer’s market, considered as the entity that actually rents space to farmers for their stalls, a stock market that controls who may or may
not trade by selling seats on its exchange, a shopping mall that makes its money by leasing space to stores at the mall, convention centers like McCormick Place in Chicago that hosts trade fairs, and a franchiser who, in effect, sells a method, a name, and an image. Markets need not be "places." Therefore catalog publishers and web-based sellers are also "market makers." A pure form of a web-based market maker is the auction house eBay: eBay itself does not sell anything; it hosts a selling/buying community. The distribution function fulfilled by market makers is the aggregation in a real or virtual place of diverse and competing sellers. Thus market makers provide a convenience to the customer who likes to compare many competing products with the least amount of trouble.

Sellers and Resellers

Selling organizations either purchase and own the goods they sell or they fulfill a selling function without ownership. If they are in the first category, they will be called distributors, wholesalers, jobbers, retailers, or dealers. If sellers are in the second category, they will be called brokers, traders, rep organizations, and agents. The distinction between these categories is all important from the producer's point of view. "Purchasing and owning" sellers are the most desirable because they take possession and cannot return the merchandise. Sales agents just represent: they take no ownership risk.

Transporters

Central to every distribution system, but usually least talked about, is the community of organizations that physically store and move the goods. These elements may be owned by sellers or producers; most often they are independently owned. The Post Office and commercial freight carriers, or instance, are important players. Transporters operate warehouses and provide ground, water, and air transport services.

Hybrids

Some of the functions described above are mutually exclusive. A seller either owns merchandise or does not. Other roles, however, are more easily combined and traditionally have been. A grocery store is thus the merging of an old farmers market and a dry goods market into a single enterprise that now "makes its own market" and also owns all the merchandise it sells. Major grocery chains also tend to own all or part of the transportation system they use. In the modern environment a large shopping mall is a market of markets, each store within it being itself an assembly of many types of merchandise that, once, were sold in separate markets. A restaurant is the best example of a small "hybrid." It creates its own market by offering a diversity of foods; it combines the production function by cooking the food and the selling function by offering it for sale on site. Most diverse stores such as grocery chains, drug stores, department stores, and major discounters are hybrids in that they make a market but also own and sell the merchandise. The ice cream vendors selling in the city from a little truck combines seller and transporter roles in a hybrid distribution mode.
2. IDENTIFYING MAJOR ALTERNATIVES

When the company has defined its channel objectives, it should next identify its major channel alternatives in terms of types of intermediaries, the number of intermediaries, and the responsibilities of each channel member.

Types of Intermediaries

A firm should identify the types of channel members available to carry out its channel work. For example, suppose a manufacturer of test equipment has developed an audio device that detects poor mechanical connections in machines with moving parts. Company executives think this product would have a market in all industries in which electric, combustion, or steam engines are made or used. The company's current sales force is small, and the problem is how best to reach these different industries. The following channel alternatives might emerge from management discussion:

Company sales force
Expand the company's direct sales force. Assign outside salespeople to territories and have them contact all prospects in the area or develop separate company sales forces for different industries. Or, add an inside telesales operation in which telephone salespeople handle small or midsize companies.

Manufacturer's agency
Hire manufacturer's agents— independent firms whose sales forces handle related products from many companies—in different regions or industries to sell the new test equipment. Industrial distributors:
Find distributors in the different regions or industries who will buy and carry the new line. Give them exclusive distribution, good margins, product training, and promotional support.

Number of Marketing Intermediaries

Companies must also determine the number of channel members to use at each level. Three strategies are available: intensive distribution, exclusive distribution, and selective distribution.

Producers of convenience products and common raw materials typically seek intensive distribution—a strategy in which they stock their products in as many outlets as possible. These goods must be available where and when consumers want them. For example, toothpaste, candy, and other similar items are sold in millions of outlets to provide maximum brand exposure and consumer convenience. Procter & Gamble, Coca-Cola, and other consumer goods companies distribute their products in this way. By contrast, some producers purposely limit the number of intermediaries handling their products. The extreme form of this practice is exclusive distribution, in which the producer gives only a limited number of dealers the exclusive right to distribute its products in their territories. Exclusive distribution is often found in the distribution of new automobiles and prestige women's clothing. For example, Bentley dealers are few and far between—even
large cities may have only one or two dealers. By granting exclusive distribution, Bentley gains stronger distributor selling support and more control over dealer prices, promotion, credit, and services. Exclusive distribution also enhances the car's image and allows for higher markups.

Between intensive and exclusive distribution lies selective distribution—the use of more than one, but fewer than all, of the intermediaries who are willing to carry a company's products. Most television, furniture, and small-appliance brands are distributed in this manner. For example, Maytag, Whirlpool, and General Electric sell their major appliances through dealer networks and selected large retailers. By using selective distribution, they do not have to spread their efforts over many outlets, including many marginal ones. They can develop good working relationships with selected channel members and expect a better-than-average selling effort. Selective distribution gives producers good market coverage with more control and less cost than does intensive distribution.

Responsibilities of Channel Members

The producer and intermediaries need to agree on the terms and responsibilities of each channel member. They should agree on price policies, conditions of sale, territorial rights, and specific services to be performed by each party. The producer should establish a list price and a fair set of discounts for intermediaries. It must define each channel member's territory, and it should be careful about where it places new resellers. Mutual services and duties need to be spelled out carefully, especially in franchise and exclusive distribution channels. For example, McDonald's provides franchisees with promotional support, a record-keeping system, training, and general management assistance. In turn, franchisees must meet company standards for physical facilities, cooperate with new promotion programs, provide requested information, and buy specified food products.

Evaluating the Major Alternatives

Suppose a company has identified several channel alternatives and wants to select the one that will best satisfy its long-run objectives. Each alternative should be evaluated against economic, control, and adaptive criteria.

Using economic criteria, a company compares the likely profitability of different channel alternatives. It estimates the sales that each channel would produce and the costs of selling different volumes through each channel. The company must also consider control issues. Using intermediaries usually means giving them some control over the marketing of the product, and some intermediaries take more control than others. Other things being equal, the company prefers to keep as much control as possible. Finally, the company must apply adaptive criteria. Channels often involve long-term commitments to other firms, making it hard to adapt the channel to the changing marketing environment. The company wants to keep the channel as flexible as possible. Thus, to be considered, a channel involving long-term commitment should be greatly superior on economic and control grounds.

Selecting Channel Members

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members. For example, when Toyota first introduced its
Lexus line in the United States, it had no trouble attracting new dealers. In fact, it had to turn down many would-be resellers. In some cases, the promise of exclusive or selective distribution for a desirable product will draw plenty of applicants.

At the other extreme are producers who have to work hard to line up enough qualified intermediaries. When Polaroid started, for example, it could not get photography stores to carry its new cameras, and it had to go to mass-merchandising outlets. Similarly, when the U.S. Time Company first tried to sell its inexpensive Timex watches through regular jewelry stores, most jewelry stores refused to carry them. The company then managed to get its watches into mass-merchandise outlets. This turned out to be a wise decision because of the rapid growth of mass merchandising.

When selecting intermediaries, the company should determine what characteristics distinguish the better ones. It will want to evaluate each channel member’s years in business, other lines carried, growth and profit record, cooperativeness, and reputation. If the intermediaries are sales agents, the company will want to evaluate the number and character of other lines carried and the size and quality of the sales force. If the intermediary is a retail store that wants exclusive or selective distribution, the company will want to evaluate the store’s customers, location, and future growth potential.

**Motivating Channel Members**

Once selected, channel members must be motivated continuously to do their best. The company must sell not only through the intermediaries but to them. Most companies see their intermediaries as first-line customers. Some use the carrot-and-stick approach: At times they offer positive motivators such as higher margins, special deals, premiums, cooperative advertising allowances, display allowances, and sales contests. At other times they use negative motivators, such as threatening to reduce margins, to slow down delivery, or to end the relationship altogether. A producer using this approach usually has not done a good job of studying the needs, problems, strengths, and weaknesses of its distributors.

More advanced companies try to forge long-term partnerships with their distributors to create a marketing system that meets the needs of both the manufacturer and the distributors. Thus, Procter & Gamble and Wal-Mart work together to create superior value for final consumers. They jointly plan merchandising goals and strategies, inventory levels, and advertising and promotion plans. Similarly, GE Appliances works closely with its independent dealers to help them be successful in selling the company’s products. In managing its channels, a company must convince distributors that they can make their money by being part of an advanced marketing system.

**Evaluating Channel Members**

The producer must regularly check the channel member’s performance against standards such as sales quotas, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in company promotion and training programs, and services to the customer. The company should recognize and reward intermediaries who are performing well. Those who are performing poorly should be assisted or, as a last resort, replaced. A company may periodically "requalify" its intermediaries and prune the weaker ones.
Finally, manufacturers need to be sensitive to their dealers. Those who treat their dealers lightly risk not only losing their support but also causing some legal problems. The next section describes various rights and duties pertaining to manufacturers and their channel members.

3. Alternative marketing channels

Rarely does a manufacturer use just one type of channel to move its products. It usually employs several different or alternative channels (Lamb et al., 2008). Lamb et al. (2008) identify four alternative marketing channels: multiple channels, nontraditional channels, strategic channel alliance and reverse channels. According to Lamb et al. (2008), multiple channels exist when a manufacturer uses two or more channels to move the same products to target markets; non-traditional channels exist when internet, mail order and other non-traditional channels are used. Strategic channel alliance is established by creating a marketing channel relationship with already existing channels. Finally, the reverse channels occur when products move in the opposite direction to traditional channels, say from consumers back to manufacturers.

Cooperatives: An Alternative

An alternative to a distributorship is to establish a sales or marketing cooperative. Companies in the same industry, or similar industries, form Cooperatives ("Co-Op") to achieve operating, advertising, and purchasing efficiencies and economies of scale. Typically, the Co-Op is owned and controlled by its members. Commonly known retail Co-Ops (which are often confused with franchises) include ACE Hardware and NAPA Auto Parts. Co-Ops have been especially effective in certain inventory-intensive industries, such as hardware, automobile parts and accessories, pharmacies, and grocery stores. Co-Ops typically provide a common trade identity that each independent business may use in its advertising and promotion. However, ownership of the actual trademarks rests with the Co-Op itself. Retail Co-Ops, if properly structured, are exempt from FTC Rule 436 and from some state franchise laws. An attorney should periodically review the organization and ongoing operation of the Co-Op.

A Co-Op is a business owned and controlled by the people who use its services, and finance and operate the business for their mutual benefit. By working together, they can reach an objective unattainable by acting alone. These mutually beneficial services can include obtaining production supplies, processing and marketing member products, or providing functions related to purchasing, marketing or providing a service. The Co-Op may be the vehicle to obtain services that are otherwise unavailable or more beneficial to members. The underlying function of the Co-Op is to increase member income or in other ways enhance their way of living. A Co-Op may or may not be incorporated and may or may not have its own staff or operate independently from its constituent members. Operating characteristics of a Co-Op include the following:

Service At-Cost. The purpose of a Co-Op is to provide a service to its user-owners at the lowest possible cost, rather than generate a profit for investors. However, the Co-Op must generate income sufficient to cover all administrative costs and meet continuing capital
needs. Because many costs cannot be absolutely determined before year-end, it is important for a Co-Op to charge competitive market prices, or fees for services, and then determine its at-cost basis at year-end.

Financial Obligation and Benefits Proportional to Use. Benefits are tied to use rather than to the amount of investment. Likewise, members are obligated to provide financing in proportion to the use that produces those benefits. Most Co-Ops' bylaws provide a system of returning capital contributions to maintain proportionality on a current basis. The bylaws should also include a provision that establishes the Co-Op's obligation to return net margins—total income from all sources minus expenses—to patrons. When the net margin is returned to members based on their use of the Co-Op, it is called a patronage refund.

Democratic Control. Voting control is vested with the membership, either on an equal basis or according to use, rather than based on the amount of stock each member holds. Democratic control is usually expressed as one member, one vote. A few cooperatives have limited proportional voting based on use.

Limited Return on Equity Capital. This feature means that payments for use of members' equity capital, primarily in the form of stock dividends, are limited. It does not mean that benefits realized from the Co-Op, monetary or otherwise, are limited. The overriding value of the Co-Op to its owners is in the range of services or economies of scale that it provides. Limiting the return on equity capital is a mechanism to support distribution of benefits according to use. It helps to keep management decisions focused on providing services attuned to members' need. Both federal and state laws recognize limiting the payment for the use of equity capital. Some state laws require that Co-Ops either limit the dividends on stock or member capital to 8 percent a year or follow one-member, one-vote control. Co-Ops usually perform any one or a combination of four kinds of service functions, but with varying strategic emphasis. These include the following:

Purchasing. Co-Ops provide members with consumer goods, products for resale through their members or equipment, and supplies for their business operation. Individual Co-Ops may form federations of cooperatives to obtain further benefits of group purchasing.

Marketing. Co-Ops market the products their members produce, such as crafts or agricultural products. Marketing includes assembling, processing, and selling products or services in retail or wholesale markets for members.

Service. Co-Ops provide services related to the production of a product or service for business or the home. These services may include credit, electricity, telephones, insurance, research, telecommunications, common management, or other shared services.

Production. Co-Ops pool production and distribution resources in large-scale industries such as agricultural products or electrical utilities. Distributors, sales representatives, and cooperatives are all different venues for enabling entrepreneurial companies to sell their products and services. Understand the similarities and differences, and chose the alternative that is right for your business.
Each channel alternative needs to be evaluated against economic, control and adaptive criteria.

**Economic criteria:**
- The first step is to determine whether a company sales force or a sales agency will produce more sales.
- The next step is to estimate the costs of selling different volumes through each channel.
- The final step is comparing sales & costs.

Each channel alternative will produce a different level of sales and cost. Company sales representatives concentrate entirely on the company's products; they are better trained to sell the company's products, they are more aggressive because their future depends on the company's success on the other hand, sales agency could comically sell more than a company sales force. The sales agency has more number of sales representatives and secondly, sales agency has better knowledge of the geographical area in which he is operating.

**Control criteria:**

"The agents may concentrate on other customers' products or they may lack the skills to handle our products."

Channel evolution has to include control issues. Using a sales agency poses a control problem. A sale agency is an independent business firm seeking to maximize its profits. The agents may concentrate on the customers who buy the most, not necessarily of the manufactures goods. Further, the agent might not master the technical details of the company's product or handle its promotion materials effectively.

**Adaptive Criteria:**

"The channel members must make some degree of commitment to each other for a specified period of time."

Each channel involves some duration of commitment and loss of flexibility. A manufactures seeking a sales agency might have to offer a five year contract. During this period, other means of selling such as direct mail might become more effective, but the manufactures is not free to drop the sales agency. A channel required a long commitment needs to be greatly superior on economic or control grounds to be considered.

Example—
Suppose a company has identified several channel alternatives and wants to select the one that will best satisfy its long-run objectives. The firm must evaluate each alternative against economic, control, and adaptive criteria. Consider the following situation:
A furniture manufacturer wants to sell its line through retailers. The manufacturer is trying to decide between two alternatives.
1. It could hire ten new sales representatives who would operate out of a sales office. They would receive a base salary plus a commission on their sales.
2. It could use a manufacturer's sales agency that has extensive contacts with retailers.
Choice for marketing channel

Lamb et al. (2008) suggest that the choice for a marketing channel depends on an analysis of several factors like market factors, product factors and producer factors. These factors include:
Product analysis by considering the product characteristics (product factors) like size, price, perishability, status attached to the product, and the nature of benefits offered by the producers.
Market analysis by considering market characteristics (market factors), size of target market, profile of potential buyers, geographical dispersion of the market, and customer expectations.
Producer analysis considers the manufacturer’s financial, managerial and marketing resources. Financial position of an organization for example involves consideration of ability to supply the required quantities, to offer adequate promotional support, and to supply at a price acceptable to the channels of distribution used.
According to Palmer (2000), manufacturers distribute their products by considering three options: intensive distribution, exclusive distribution and selective distribution for the purpose of maintaining a competitive advantage on the market.

Major Marketing Channels

Hundreds of channels are used to distribute the output of Indian production, processing, manufacturing and service industries. Canned food products usually pass through wholesalers and retailers to reach the consumer. Some vacuum cleaners and encyclopedias are sold directly to the consumer. Numerous variations exist: Channel selection depends on the circumstances of the market and on consumer needs. Channels for reaching the consumer may vary over time. For example, the channel for distributing beer has changed from taverns to supermarkets. Channels shift, and effective marketers must be aware of consumer needs so they can keep their distribution methods up to date.

HOW TO DETERMINE A GOOD DISTRIBUTION CHANNELS?

If you know who your customers are, then it is easier to determine how to get your product or service to them. Even if you do not have the research data needed to make a full target market strategy, you can begin the process of determining your distribution channels.

To determine your distribution you need to know your product well. Will it be something typically purchased at a grocery store? Will you need a sales agent? Or can you sell direct? Below are typical distribution channels. Relay to your potential venture capital investors how you think your product or service will use the following:

**Direct Sell** – You may want to sell your product or service directly to customers. If you do sell directly, will it be through internet sales? Or will you need a brick and mortar store to display goods? Selling directly can save money on “middleman” distributors, but requires much more effort on marketing and customer service.

**Agency** – An agent is someone who works on your behalf to sell a product. An agent could be a direct hire who works only for you, or an independent contractor selling on behalf of many clients. An agent is usually a good and convincing salesperson and has access to good
leads. Though you may sell more through an agent, they usually work on commission, or for a portion of the sales they make for you.

Distributor – A distributor is the “middleman” wholesaler who sells to multiple retail markets. A distributor can save a lot of money on direct retail selling and delivery. Of course, your product to the end consumer will be marked up by the cost of the distributor and the retailer markup.

Retail – Retailers are dealers or resellers who carry many products sold directly to consumers. If you want to avoid a wholesale distributor and sell directly to retailers, you will need a way to transport or deliver services or products.

The Internet in the Distribution Channel

By using the Internet, even small firms with limited resources can enjoy some of the same competitive advantages as their largest competitors in making their products available to customers internationally at low cost. E-commerce can result in radical changes in distribution strategies. Today most goods are mass-produced, and in most cases end users do not obtain products directly from manufacturers. With the Internet, however, the need for intermediaries and much of what has been assumed about the need and benefits of channels will change. In the future, channel intermediaries that physically handle the product may become largely obsolete. Many traditional intermediaries are already being eliminated as companies question the value added by layers in the distribution channel. This removal of intermediaries is termed disintermediation, the elimination of some layers of the distribution channel in order to cut costs and improve the efficiency of the channel.

Independent Intermediaries

Independent intermediaries do business with many different manufacturers and many different customers. Because they are not owned or controlled by any manufacturer, they make it possible for many manufacturers to serve customers throughout the world while keeping prices low.

Merchant Wholesalers

Merchant wholesalers are independent intermediaries that buy goods from manufacturers and sell to retailers and other B2B customers. Because merchant wholesalers take title to the goods, they assume certain risks and can suffer losses if products get damaged, become out-of-date or obsolete, are stolen, or just don’t sell. At the same time, because they own the products, they are free to develop their own marketing strategies including setting prices. Merchant wholesalers include full-service merchant wholesalers and limited-service wholesalers. Limited-service wholesalers are comprised of cash-and-carry wholesalers, truck jobbers, drop shippers, mail-order wholesalers, and rack jobbers.

Merchandise Agents or Brokers

Merchandise agents or brokers are a second major type of independent intermediary. Agents and brokers provide services in exchange for commissions. They may or may not take possession of the product, but they never take title; that is, they do not accept legal ownership of the product. Agents normally represent buyers or sellers on an ongoing basis, whereas brokers are employed by clients for a short period of time. Merchandise agents or
brokers include manufacturers' agents (manufacturers' reps), selling agents, commission merchants, and merchandise brokers.

Manufacturer-Owned Intermediaries

Manufacturer-owned intermediaries are set up by manufacturers in order to have separate business units that perform all of the functions of independent intermediaries, while at the same time maintaining complete control over the channel. Manufacturer-owned intermediaries include sales branches, sales offices, and manufacturers' showrooms. Sales branches carry inventory and provide sales and service to customers in a specific geographic area. Sales offices do not carry inventory but provide selling functions for the manufacturer in a specific geographic area. Because they allow members of the sales force to be located close to customers, they reduce selling costs and provide better customer service. Manufacturers’ showrooms permanently display products for customers to visit. They are often located in or near large merchandise marts, such as the furniture market in High Point, North Carolina.

ADVANTAGES AND DISADVANTAGES OF ALTERNATIVE CHANNELS OF DISTRIBUTION

There's a well-established notion that teachers often learn more from their students than the reverse. The information you're about to review is a good example. The data were gathered and refined during my research of marketing channels for the Ph.D. What you'll see is a bulleted array of the pluses and minuses associated with the various alternative channel options a manufacturer faces.

TYPES OF DISTRIBUTION DISCUSSED

Direct Distribution—Personal Selling
Direct Distribution—Internet
Direct Distribution—Telephone
Direct Distribution—Mail
Indirect Distribution—Retailers
Indirect Distribution—Agents/Brokers/Reps
Indirect Distribution—Distributors

DIRECT DISTRIBUTION--PERSONAL SELLING

POSITIVES
- Personal, CRM
- They have a relationship with the customer
- Customer knowledge, esp. BIG customers
- Better/expert/technical product knowledge
- Loyalty, pride in company/product
- They work for you—control
- Very focused/total mind share
- Possibly high ROI
- Repeat business
- Can offer service
- Control brand image, positioning
NEGATIVES
- Less expensive, more profitable than agents
- Faster communications

NEGATIVES
- Very expensive, not suitable for most goods/services, or for most customers
- Limited coverage
- Limited network
- Salesman can leave with the business
- Lacks overview
- Might focus on bonus and not customer satisfaction
- Cannot call on large customer base
- Big commitment to recruiting and training
- Sometimes identify too closely w/customer
- Large territories may limit contact

DIRECT DISTRIBUTION--INTERNET

POSITIVES
- Low cost, overhead
- Higher profit potential
- Instantly global if desired, wide exposure
- Always current
- Can target segments
- Instant access for the customer, convenient
- Easy to use
- Can be cross-sold by other sites
- Can obtain high visibility on right sites
- Open 24/7/365, access growing w/wireless
- Good source of customer feedback/research
- Better and better security
- Less data entry error
- “Free” customer information
- Cookies
- Educates customers
- Can be customer friendly

NEGATIVES
- Limited audience (not everyone has it or will use it for shopping)
- Lack of one-to-one interaction, impersonal
- Spamming/laws
- Security problems, trust
- Over 65 misses the market
- Requires a big logistics investment (inventory, warehousing, packing, shipping, record keeping, billing, AR)
- Three click rule
- No human contact, not personal
- So far limited to price-driven customers
- Fear of fraud, ID theft, security
• Product limitations
• Lack of post-purchase service, returns an issue
• May not reach late majority and laggards
• Cannot touch, feel, smell products, concerns about colors, not tangible

DIRECT DISTRIBUTION—TELEPHONE
POSITIVES
• Direct contact
• Inexpensive
• Efficient
• Quick
• Can reach remote areas
• Can be part of a CRM system
• Easy
• Personal contact
• Can be a good source for leads

NEGATIVES
• Cold calls
• Actually is impersonal
• Regulations
• Unpopular with customers
• Often outsourced, off-shore, comprehension issues
• Intrusive
• Annoying
• Unsolicited
• Order-taking vs. selling
• Poor follow-up

DIRECT DISTRIBUTION—MAIL
POSITIVES
• Relatively inexpensive
• Measurable results
• Testable packages
• Can reach a large audience
• Can find hard to reach/new customers
• Can be altered segment by segment
• Can be personalized
• Non-threatening
• Can build brand recognition
• Introduce new products
• Offer can foster goodwill
• Catalog shopping is fun

NEGATIVES
• Low levels of effectiveness/response
• Postage costs rising
• Targeting may be questionable
• Huge waste—will it be opened
• Low ROI
• Requires investment in logistics (like the Internet)
• Not prestigious, negative image, “junk mail”
• Customer must buy w/o touching/seeing
• Considered a nuisance, “junk” mail
• May foster emotional backlash
• Not environmentally sound
• Catalog shopping is fun

INDIRECT DISTRIBUTION--RETAILERS

POSITIVES
• Very wide distribution, size, exposure, # of outlets, volume, adds web services
• Carry our inventory, cost sharing
• Offers aggressive marketing, up sell opportunity.
• Can offer personal consumer assistance, service
• Data rich environment, market research
• Create markets by offering clusters of competing brands
• Adds its own brand luster to our brand
• Might offer financing
• Post-sales service, added personal services
• Trusted by consumer
• Impulse purchase possible and instant gratification
• Some people like shopping stores, comparison, hands-on for customers
• POP and can cross-merchandise
• Assumes some overhead: sales, inventory, promotion

NEGATIVES
• Long channel—lots of work, complexity
• Low level of control by us, they set price
• Can be expensive, e.g., slotting, volume return, and promotional allowances
• Can return items that don’t sell
• Can use us as a loss leader and thus hurt our brand reputation
• Also sells our competitors
• Store reputation may be neutral or negative
• May offer poor customer service
• Can be demanding, controlling
• High employee turnover
• Customer must leave home to buy
• We don’t know the ultimate customer
• Lose control of product presentation
• Low margins

INDIRECT DISTRIBUTION--AGENTS/BROKERS/REPS
POSITIVES
- Expertise
- Broad network
- Good relationships with customers
- Personal, face-to-face
- Pricing and competitive intelligence
- Minimal distribution costs
- Established channel
- Quick access to market, mores sales people
- Regional expertise/location, penetrate markets and channels not covered
- Carry complimentary lines; easy for customer
- Can add quickly, flexibility
- They assume some promotional duties
- They assume some overhead

NEGATIVES
- Very independent, difficult to control
- Expensive commissions
- Expensive/difficult to train
- Lack of product knowledge/less than captive
- Loyalty to their biggest selling lines
- No direct customer contact by you
- If they leave, you lose the customer
- They also represent others—focus is limited
- Less loyalty
- Loss of brand image control
- No control over their tactics
- More sensitive to competitive pricing, customer price pressure