

Place – the distribution of goods and services

Place is all about where businesses sell their products and what methods are used to distribute the goods to the customer. Place is ‘the marketplace’, where buyers and sellers meet and exchange payment in return for goods and services. The marketplace does not have to be ‘physical’, such as a shop – it could be online, over the phone or through mail order.

The two key questions businesses ask in relation to place are:

1. Where shall we sell our products?
2. What methods shall we use to distribute the goods to the final consumer?

For some goods choosing the right ‘place’ is obvious: baked beans are traditionally sold on supermarket shelves, chocolate bars in newsagents, sun cream in chemists and so on. However, choosing a place to sell a product can be more complex and may be part of an overall strategy in an attempt to achieve an image or develop a brand.

Why ‘place’ is important

The place where a product is sold can be used as part of a strategy to establish a certain brand identity. When Häagen-Dazs ice cream was launched in the UK, it was only available through upmarket outlets such as Harrods and Covent Garden coffee bars. The objective was to establish a super-premium ice cream brand. Only when this perception was established in consumers’ minds was the product offered for sale through a wider range of outlets. Today it can be found in supermarkets all across the UK.

Some goods are now sold through a wider range of outlets than ever before, which encourages higher levels of consumption. A good example of this widening of the number of places where a product is sold can be seen with some soft drinks. Go into any train station, airport or leisure centre and you will see soft drinks vending machines. Premium prices are often charged because demand is high – participants are thirsty and hot after a game of squash and 90p for a can of Coke is acceptable.

Prime selling space can be jealously protected. Manufacturers offer retailers discounts if their brand is given pride of place on supermarket shelves. Wall’s ice cream has fought through the courts to prevent other brands being sold in fridges they have supplied to local supermarkets and independent shops.

Distribution

Distribution is all about how to get the goods to the customer. Traditional methods have relied upon the ‘manufacturer – wholesaler – retailer – consumer’ chain. However, for many goods and services this relationship has broken down. Direct selling, whether through the internet, or through magazines, catalogues or junk mail, can allow businesses to supply their customers more readily – and often at much lower prices.

With the growth in size of retailers and improvements in stock ordering methods, there has been a reduction in the need for the ‘middleman’ – wholesalers are often cut out of the equation. This use of a direct supply relationship between manufacturer and retailers cuts costs for large businesses. This puts increasing pressure on smaller retailers, who still rely on wholesalers to supply them with their goods for sale.

Methods of distribution

- **Using a wholesaler**

Traditional methods of distribution have relied upon the ‘manufacturer – wholesaler – retailer – consumer’ chain.

The wholesaler has a role in breaking bulk – this means buying large quantities from the manufacturer and selling smaller quantities to the retailer. This relationship is useful to all parties concerned. The manufacturer has the convenience of selling in bulk to the wholesaler. Single drops of very large quantities lower distribution expenses. The small retailer, who buys in quite small quantities, benefits because they do not have to store large quantities of stock and can buy at their own convenience.

- **Manufacturer to retailer**

For many goods and services the use of wholesalers has declined significantly. With the retail market now dominated by big businesses the role of the wholesaler has become much less important. Manufacturers supply most of their produce direct to the big retailers, each of which buys massive quantities. This growth in the size of retailers, and improvements in stock ordering and handling methods (EPOS systems), has led to a reduction in the need for the middleman – wholesalers are cut out of the chain. This reduction in the length of the distribution chain cuts costs for large businesses and represents a good example of a purchasing economy of scale.

- **Direct selling – manufacturer to consumer**

Direct selling, whether through junk mail, magazines and increasingly through the internet,

has allowed manufacturers to charge much lower prices. Books bought over the internet can be 40% cheaper than high street prices. More singles are now sold as downloads from online music retailers such as iTunes than as CDs through record shops. Traditional catalogue shops, such as Index, have been replaced by B2C – Business to Consumer internet shopping. Selling direct allows manufacturers to keep more of the profits and attract customers through competitive prices and convenience.

Internet marketing

Internet sales are increasing massively. During November 2014 online sales were over £7 billion in the UK, up 9% on the previous year. Tesco, the UK's largest grocery retailer, have a full range of products for sale on the internet and their major competitors, such as Sainsbury's, Asda and Morrisons have all followed their example. The internet retailer Amazon.com, which started as an online bookseller, has opened up distribution centres all over the UK, employing thousands of previously unemployed people. 'Click and collect' is becoming more and more popular. John Lewis reported that 40% of its online sales over Christmas 2014 were through 'click and collect'. Business to business trade on the internet, where shopping around for best value is so important, looks like becoming the new method of cost reduction.

E-commerce can offer a low-cost way for small businesses to compete against much larger rivals: products can be marketed and sold worldwide with an internet e-commerce enabled shop. To actually set up an internet based shop can cost just a few hundred pounds and the cost can be further reduced through the use of auction sites such as ebay. There are several entrepreneurs who have become millionaires by selling through ebay. Although some potential customers are still wary of using the internet to buy goods because of issues related to fraud or non-delivery, the majority of UK households have purchased goods online and the proportion using e-commerce continues to grow significantly.

Multi-channel distribution

It makes sense to try to use a combination of distribution channels. For example, Apple sets up its own shops (with carefully designed brand values) in major cities. It also sells through a huge range of retailers and, of course, has an online presence. In adopting such a strategy Apple is maximising as many of the advantages as it can from each distribution channel chosen.

Discussion themes

Explain what is meant by a distribution channel.

'Businesses without an internet sales presence are doomed to failure.' To what extent do you agree with this statement?

What is multi-channel distribution?

How important was place in Mars' marketing mix?

Mars ice cream

<http://luiscabral.net/economics/teaching/mars.pdf>

<http://news.bbc.co.uk/1/hi/business/141928.stm>