Place: the silent 'P'

The marketing mix often forms the basis of questions on marketing strategy. Much is said about product, promotion and price, but very little about place. ***Ian Marcousé*** *thinks it is time to make a bit of noise about it*

Place means obtaining the right level of distribution in the right type of outlets. This sounds quite easy, but in practice it is one of the most difficult and important marketing variables. Retail shelf space is very crowded and very valuable, especially the prime space at eye level and at good places for impulse purchase, such as at checkouts.

If you have just come up with a new range of organic soups, you can only hope to gain wide distribution if the supermarkets are willing to reduce the shelf area devoted to soups that have current customers. Chopping out even the lowest-selling brand may mean giving up many hundreds of thousands of pounds of business — all just in case your brand sells more. Clearly, any retailer is going to take a lot of persuading, especially as there are likely to be regular buyers of every product in a shop, and 'delisting' an item is bound to anger someone. How, then, are such decisions made?

Retailers decide on their stock ranges on the basis of known sales. Many rely on the traditional measure of 'sales per square metre'. If Heinz has 3 m^2 of shelf space and sells £6,000 of soup, while Crosse and Blackwell (Nestlé) has 1 m^2 and sells £1,000 of soup, then Heinz has twice the sales per square metre (£2,000 vs £1,000). The same calculation can and should be done to assess the *profit* per square metre. If the Nestlé product generates a lower profit per square metre than Heinz, then the Nestlé product could be delisted if the shelf space can be used more effectively.

If you came up with a wonderful idea for a brand new ice cream, how would you get distribution for it? The freezers in corner shops are usually owned by Walls and Mars, so they frown upon independent products being stocked in 'their' space. Offering a third freezer for free would be hugely expensive, leading to impossibly high costs per unit, especially if you only had one product line to sell. Furthermore, shopkeepers would lack the floor space to be willing to accept your 'free' gift. To the retailer, every metre of shop floor space has an actual cost (the rental value) and an opportunity cost (the cost of missing out on the profits that could be generated by selling other goods). In effect, then, your brand new ice cream is likely to stay on the drawing board — obtaining distribution will be too large a barrier to entry to this market.

What if your new product was a more ordinary item, say a new biscuit brand? You have analysed the biscuit market, identified a gap for a range of 'special occasion' biscuits and now need to get your products in place before consumer advertising starts next month. You have two strategy options: direct sale to retailers, or selling to wholesalers and cash and carry outlets (see Tables 1 and 2). The latter option is relatively low cost, as you will only need a small sales team to negotiate with under 3,000 grocery wholesalers. Direct sales to retailers could be prohibitively expensive, as there are more than 100,000 potential retail stockists. In all probability, you would opt for a combination of both distribution channels: direct sale to retail multiples, such as Tesco, Asda and Morrisons; plus the traditional wholesale channel as the only cost-effective way to reach independent outlets.

Either way, though, a major sales job needs to be done. Retailer and wholesaler alike must be persuaded to stock your product range instead of another that is already generating some income. To achieve this, a typical approach would be to:

- Display and hand out free samples of your product at a trade exhibition.
- Use direct mail to send advertising messages and product samples to trade buyers. (Do you have a good mailing list? McVities will know every key decision-maker in the retail trade — do you?)
- Advertise in the trade press, e.g. *The Grocer* magazine. Your advertisement will show the attractiveness of the packaging, and will emphasise the market gap that has been identified, the generous trade profit margins available, the heavy consumer advertising support, and the point-of-sale (POS) display materials that are being provided to increase the level of impulse purchasing within the store.
- Identify and agree distribution and sales targets for each area of the country and type of outlet. A major company, such as McVities, is likely to be confident of achieving distribution targets as high as 80–90%. A new small firm may find it very difficult to gain distribution at 25% of stores. Having set distribution targets, send sales representatives to visit each of the main wholesale and retail buyers. If you are very confident of success, you can try to get orders from every outlet. An alternative approach is to negotiate with the major multiples to agree on an exclusive arrangement, e.g. that your product will be stocked only at Tesco for its first 6 months. This gives the retailer the possibility of a worthwhile benefit — if your product is a success, Tesco scores a minor triumph in its competitive battle against Sainsbury's and the others.

Table 1 *Pros and cons of the direct channel*

Advantages of direct sales (excluding 'middle man')

- Direct contact with the retailer. This may give the ability to influence shop display and pricing.
- Cuts out the wholesaler's profit margin.
- May learn directly from retailers about changing customer tastes/requirements.

Disadvantages of direct sales

- May require far more visits, deliveries and administration, adding to overheads.
- For a new firm, building up an effective sales force will take time and prove expensive.
- Independent retailers go to wholesalers at least once a week, whereas a sales force is unlikely to make direct visits more than once a month.

Table 2 *Pros and cons of the traditional distribution channel*

Advantages of distributing through a wholesaler

- The wholesaler knows the local marketplace better than a national firm, so may push the new product on the right local shops.
- The wholesaler may offer delivery and credit to local shops — a national firm cannot easily do this.
- Despite the wholesaler's profit margin, this distribution channel may be more cost effective as it cuts out many overhead costs.

Disadvantages of using a wholesaler

- The wholesaler's profit requirements may add to the retail price consumers have to pay.
- Retailers will only buy goods if customers are asking for the products, so there's no scope for persuading them to buy.
- The extra stage in the distribution channel may be too slow for perishable items such as fresh fruit or dairy products.

Place is of particular importance in business studies because it can represent a major barrier to entry, especially for new small firms. The practical constraint on the amount of shop floor space makes it hard for new products to gain acceptance unless they are genuinely innovative. Therefore existing producers of branded goods can get quite complacent, with little serious threat from new competition.

Famously, in the nineteenth century, Ralph Waldo Emerson said, 'If a man can make a better mousetrap, though he builds his house in the woods the world will make a beaten path to his door.' In other words, if the product is good enough, customers will come and find you. In a modern competitive world, though, the vast majority of products are not that exciting or different from others. So it is crucial to provide customers with convenient access to your products and/or shelf space in an eye-catching location. Getting products into the right place should not be taken for granted.

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