DISTRIBUTION CHANNELS

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Distribution channels

The ‘place’ element of the marketing mix refers to where products are made available to consumers. This is also called distribution. Distribution channels are the means by which businesses get products to their consumers. Distribution may involve the use of intermediaries, such as retailers. There may be a series of links in a chain of distribution as products are sold between different businesses on route to the final consumer. There are three main types of distribution channel:

- Direct to the consumer
- To the consumer via retailers
- To the consumer via wholesalers and retailers

**Direct**

Well known examples of businesses that sell direct to the consumer are Direct Line (insurance) and Dell (computers). These businesses do not rely on shops or other intermediary businesses to sell their product. As a general rule, low-value mass-market products such as basic foodstuffs are not usually sold direct. Suppliers need the help of wholesalers and retailers to ‘break bulk’. On the other hand, more expensive products, especially niche products with relatively low volume sales, are more likely to be sold direct. Direct sales are often through online or mail order. Some businesses that sell direct may have their own retail stores. Clothing retailer Zara is an example of a business that owns retail stores to sell goods that it has manufactured. Many service sector businesses sell direct to the consumer. A notable exception is financial services. Products such as mortgages and share-based investments are often sold through intermediaries such as financial advisers.

**Distribution via retailers**

Larger retailers, such as Tesco, Sainsbury and Morrisons, purchase from manufacturers and sell on to consumers. This method of distribution is sometimes called modern distribution. Products reach consumers via one intermediary. You may think with own-label products that the supermarket chains are selling direct to consumers, but these products are usually produced by other businesses and sold to the shops. Large high street and out of town retailers such as Halfords and B & Q have enough buying power to negotiate low bulk prices with producers. The producer benefits by being able to concentrate primarily on making the product, without having complicated distribution systems to supply thousands
or millions of individual consumers. Producers just have to distribute to retailers. Retailers make these products available to consumers where they need them.

Selling to wholesalers or large retailers reduces the cost of distribution for the manufacturer.

**Distribution via wholesalers and retailers**

This type of distribution channel involves at least two intermediaries – wholesalers and retailers. This is sometimes called traditional distribution. Wholesalers are businesses that purchase in considerable bulk from various producers at a discounted price and then sell smaller batches to many different retail businesses. Some wholesalers work like supermarkets, in that retailers come to the wholesaler and take goods away. (These are called ‘cash and carry’ wholesalers.) Other wholesalers deliver to retailers. As we have seen, large national chains do not tend to rely on wholesalers. However, using wholesalers is an effective way of getting products stocked in smaller retail businesses without having the transport costs involved in making small deliveries to them. Independently owned convenience grocery stores and pet shops are examples of businesses that often buy their stock from wholesalers.
Factors influencing the method of distribution

Distribution strategies are influenced by the cost of distribution methods, the nature of the market and the extent to which the producer wishes to control how products are marketed.

For example, suppose that a company decided that there is profit to be made in making plastic clothes pegs. It invests in a state of the art assembly plant and produces many thousands of pegs, which are packaged in bags of 25 or 50. The company decides it will distribute the product nationally, direct to consumers. A vast fleet of mobile peg sales vans travels the country, making house to house sales. Is this a sensible distribution strategy?

You will probably have understood that clothes pegs are not something that consumers need to buy every day or even every month. Each bag might only carry a profit of a few pence. The value of sales from the vans is likely to be be modest, but the cost of maintaining a fleet big enough to reach the whole country will be huge. Aiming to sell the pegs at trade prices to wholesalers and/or retailers is more realistic. Pegs can be sold in bulk to a much smaller number of customers.

On the other hand, if those pegs are merely one part of a large range of homeware goods manufactured by the company, some kind of direct distribution is a more realistic option. Betterware is an example of
a well established business that sells a homeware range direct to the consumer through door to door company representatives.

**Cost of distribution**

An advantage of using wholesalers and larger retailers for producers is that each delivery will be a large one and far fewer deliveries need to be made than would be needed if the delivery were straight to the consumer. This reduces the cost of distribution.

On the other hand, each intermediary involved in the chain of distribution seeks to make a profit. The purchase price that retailers and wholesalers pay is inevitably less than the price that producers might charge if they were selling direct to the consumer. Mail order is one way for the producer to consider selling direct at retail prices. The cost effectiveness of internet sales has also led to a growth in direct selling.

If customers are prepared to come to a factory shop or some other outlet controlled by the producer, then direct selling becomes more attractive to some producers. A classic example of this is the ‘pick your own’ fruit farm. The grower may find that selling direct in this way is more profitable than selling to retailers because products are sold at a higher price than wholesalers or indeed the supermarket chains would pay, while the cost of making sales is fairly small.

On the other hand, place is not isolated from other elements of the marketing mix. The grower who sells direct to consumers will probably need to spend money on promoting his or her business to local consumers. Far less promotion is required if the grower already has a long-term relationship with one of the big supermarkets.

**Nature of the market**

High volume mass market products have to be sold in large amounts to a very large number of customers. There is no such thing as a regional toothpaste manufacturer, for instance. The market for this sort of goods is national or possibly international. A business that seeks to produce toothpaste or detergent on a small scale will not have the economies of scale that competitors have and the price will be entirely uncompetitive. It makes sense to distribute mass market products that consumers purchase frequently through retailers.
On the other hand, if a market has a smaller number of customers, direct distribution becomes more feasible. Producers of industrial goods may seriously consider direct distribution because they have a small number of customers. There is no need to distribute aeroplanes or oil rigs (for example) through retail outlets. Getting these products to the consumer is in some ways far less complex than delivering consumer goods to millions of people.

**Control of marketing**

Whenever a producer uses an intermediary to sell its products it is handing over a degree of control over promotion and price to the intermediary. This may be to the advantage of the producer. Being stocked in an established national retail chain can mean that the product is well promoted. The producer gains the benefit of association with a successful brand name and may even be featured in an advertising campaign funded by the retailer.

On the other hand, the way that an intermediary markets a product may not fit in with what the producer seeks. Perhaps the product is displayed badly in store. Or retailers may sell the product at a very low price, against the wishes of the producer. This creates the danger of a lower “going rate” for the product.

There are many ways in which producers can exercise some degree of control over how intermediaries market a product. For example, confectionery producers such as Mars provide free display racks to shops if retailers allow its representatives to dictate how products are merchandised. Producers can also provide product training for retail staff and specify recommended prices. For some producers however, only distributing direct provides them with the control over marketing that they seek.
Activity 27 : ASOS and Place

In 2000 entrepreneur Nick Robinson was running a product placement business called Entertainment Weekly. His company was paid by big brands to associate them with celebrities. He found out that when NBC broadcast the series *Friends* they received over 4000 phone calls asking where a lamp featured on the programme could be bought. Robinson thought about this and decided that there might be an opportunity for a business selling copies of the clothes worn by celebrities. This eventually led him to create the online fashion retailer As Seen on Screen (now known simply as ASOS). Ten years later ASOS had a turnover of £227 million. The website can be seen at www.asos.com.

ASOS has a target market of 18–35 year olds. About 70% of clothes sales come from deals the company makes with manufacturers to provide own-brand labels for ASOS. The remaining 30% of sales is a range of famous name fashion brands. Although online sales account for only a small part of UK fashion sales (most are through conventional retailers), ASOS is emerging as the online market leader.

Robinson's approach to marketing is to offer fashion products at reasonable prices through the cost efficient method of online distribution. The site has a bigger range than its high street competitors. The range covers men's and women's clothes as well as jewellery, cosmetics and children's wear. Customers looking at any item in the online catalogue can click on video links to see a model walking up and down in those clothes. At the ASOS warehouse, a special catwalk is kept busy to enable the company to produce the videos. The web site is easy to navigate and its no-fuss returns policy works much better than most of its competitors. Robinson says that although he admires Topshop, Zara, River Island and HM he has no desire to open any shops..."Well if I could have the Topshop Oxford Circus site then yes. Its not because I want a shop, its because of the marketing benefit. But a shop not shops."

[Sources: *The Guardian* 18th April 2008 and 24th June 2010; www.startups.co.uk.]
1. When the consumer purchases clothes from ASOS, what distribution channel is involved? (2)

2. Suggest why the manufacturers that sell to ASOS do not sell direct to consumers. (4)

3. Why is a simple returns policy important to ASOS? (2)

4. What benefits does ASOS offer customers compared to high street retailers? (8)

5. What do you think Nick Robinson meant when he said that he would like a shop similar to the TopShop branch in busy central London Oxford Circus? (6)