Distribution and Pricing: Right Product, Right Person, Right Place, Right Price

- What is distribution and the various channels of distribution?
- What are the various physical distribution options?
- What are in-store and nonstore retail strategies and trends?
- What are the key factors in physical distribution?
- What are core pricing objectives and strategies?
- What are the basics of pricing practice including customer perception?
Distribution: Getting Your Product to Your Customer

Channel of Distribution – the path that a product takes from the producer to the consumer
Channel Intermediaries – informally called middlemen. They facilitate the movement of products from the producer to the consumer.
The Role of Distribution: Adding Value

**Form Utility:** Turning inputs into finished goods

**Time Utility:** Providing products at the right time

**Place Utility:** Offering products at the right place

**Ownership Utility:** Providing credit, cashing checking, delivering products

**Information Utility:** Offering helpful information

**Service Utility:** Providing fast, friendly, personalized service
Reducing Transactions Through Marketing Intermediaries
The Members of the Channel: Retailers versus Wholesalers

**Retailers** – the distributors that sell products directly to the ultimate users

**Wholesalers** – distributors that buy products from producers and sell them to other businesses or nonfinal users
Wholesalers: Sorting out the Options

Merchant Wholesalers

- Full-service
- Limited Service
  - Drop Shippers
  - Cash and Carry
  - Truck Jobbers
Retailers: The Consumer Connection

- **Store Retailers**
- **Nonstore Retailers**
  -✓ Online
  -✓ Direct Response
  -✓ Direct Selling
  -✓ Vending
Retailers are encouraging consumers to buy through multiple channels.
### Store Retailers

<table>
<thead>
<tr>
<th>Category</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category Killer</strong></td>
<td>Home Depot, Best Buy, Staples</td>
</tr>
<tr>
<td><strong>Convenience Store</strong></td>
<td>7-eleven, AM/PM markets</td>
</tr>
<tr>
<td><strong>Department Store</strong></td>
<td>Nordstrom, Neiman Marcus, JCPenny</td>
</tr>
<tr>
<td><strong>Discount Store</strong></td>
<td>Target, Walmart, Kmart</td>
</tr>
<tr>
<td><strong>Outlet Store</strong></td>
<td>Nike, Gap, Gucci, Versace</td>
</tr>
<tr>
<td><strong>Specialty Store</strong></td>
<td>Barnes &amp; Noble, Victoria’s Secret, Hot Topic</td>
</tr>
<tr>
<td><strong>Supermarket</strong></td>
<td>Kroger, Safeway, Albertson’s, Whole Foods</td>
</tr>
<tr>
<td><strong>Supercenter</strong></td>
<td>Walmart Supercenters, Super Target</td>
</tr>
<tr>
<td><strong>Warehouse Club</strong></td>
<td>Costco, Sam’s Club</td>
</tr>
</tbody>
</table>
Distribution Strategy

INTENSIVE DISTRIBUTION

SELECTIVE DISTRIBUTION

EXCLUSIVE DISTRIBUTION
Without a Map:
Your Shaving Cream May be Spying on You!

The next time you walk out of your local drug store, radio frequency (RFID) tags may help a high-tech billboard to be exposed specifically to YOU.

- The chips emit radio frequency waves that can identify the location of any product
- The tags have been used for supply chain management
- Many retailers are now mandating their use
- The benefits are huge but consumers may feel the benefits are intrusive
Determining the best distribution channels for your product is only half the distribution strategy.

Supply Chain Management – planning and coordinating the movement of products along the supply chain

Logistics – focuses on the tactics involved in moving the products

How will the product flow through the channel from producer to consumer?
Elements of the Supply Chain

✓ Supply chain management can be increasingly complex

✓ Coordination can be a challenge

✓ *Gap contracts with more than 3,000 factories in 50 countries*
Elements of the Supply Chain

1. Raw Materials
2. Logistics (transportation, coordination, etc.)
3. Warehouse/Storage
4. Production
5. Warehouse/Storage
6. Logistics (transportation, coordination, etc.)
7. Distributors—Marketing and Sales
Marketers must consider what each mode of transportation offers.

The right choice depends on the needs of the business and the product.
### Modes of Transportation

<table>
<thead>
<tr>
<th>Mode</th>
<th>Percentage of U.S. Volume based on 2006 ton-miles</th>
<th>Cost</th>
<th>Speed</th>
<th>On-time Dependency</th>
<th>Flexibility in Handling</th>
<th>Frequency of Shipments</th>
<th>Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rail</td>
<td>40.0%</td>
<td>Medium</td>
<td>Slow</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Extensive</td>
</tr>
<tr>
<td>Truck</td>
<td>27.9%</td>
<td>High</td>
<td>Fast</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>Most extensive</td>
</tr>
<tr>
<td>Ship</td>
<td>12.1%</td>
<td>Lowest</td>
<td>Slowest</td>
<td>Lowest</td>
<td>Highest</td>
<td>Lowest</td>
<td>Limited</td>
</tr>
<tr>
<td>Plane</td>
<td>0.3%</td>
<td>Highest</td>
<td>Fastest</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Pipeline</td>
<td>20.0%</td>
<td>Low</td>
<td>Slow</td>
<td>Highest</td>
<td>Lowest</td>
<td>Highest</td>
<td>Most limited</td>
</tr>
</tbody>
</table>

Proactive Supply Chain Management

• Supply chain management can build a competitive advantage

• Supply chain management is complex

• Many firms outsource their supply chain activities

  — *Firms like UPS have been successful in supply chain management*
Pricing Objective and Strategies: A High Stakes Game

• Pricing plays a key role in the demand for products
• Price is a tough variable
  o Legal constraints
  o Intermediary pricing
• Stable pricing is not the norm
  o Prices must constantly be evaluated
Pricing Objective and Strategies

Building Profitability

- Matching the Competition
- Creating Prestige
  - Skimming Pricing

Boosting Volume

- Penetration Pricing
- Every-day-low Pricing
- High/Low Pricing
- Loss Leader Pricing
Oops: “Slippery Finger” Pricing Goofs

- Free flights from Los Angeles to Fiji.
- Round-trip tickets from San Jose, California, to Paris for $27.98.
- $1,049 televisions wrongly listed for $99.99 on Amazon.
- $588 Hitachi monitors mistakenly priced at $164.
- $379 Axim X3i PDAs wrongly priced at $79 on Dell’s site.
Matching Competition & Creating Prestige

• The goal is to set prices based on what everyone else is doing

• Wipe out price as a point of comparison

• Use price to send consumers a message

Rolex watches and Bentley cars use *prestige pricing* to reinforce their image

• Price skimming entices price-insensitive consumers
Breakeven Point (BP) =

\[
\frac{\text{Total fixed cost (FC)}}{\text{Price/Unit (P) – Variable cost/unit (VC)}}
\]

Breakeven analysis – the process of determining the number of units that must be sold to cover costs.
Businesses make decisions to adjust the product price and/or costs.

- Raise prices
- Decrease variable costs
- Decrease fixed costs
Fixed Margin Pricing

- **Cost-Based Pricing**
- **Demand-Based Pricing**

**Profit Margin** – the gap between cost and the price per product.
• Napster changed the music industry with free file-sharing
• In 2003, iTunes offered a new opportunity
• Despite iTunes, downloads of illegal file sharing continues to thrive
• In 2007, Radiohead offered their album online and allowed listeners to pay what they thought the music was worth
  • 62% paid nothing
  • 38% paid an average of $6.00
• In 2009, iTunes changed its pricing structure to three tiers that favors the record label more
Consumer Pricing Perceptions: The Strategic Wild Card

• Consumer price perceptions can defy logic!

• The link between price and perceived quality can be powerful

Consumers will use price as a quality indicator

• Does odd pricing like $196 or $199 always mean a bargain?
• Dan Gold and his wife owned a Southern California liquor store that sold wines for 79¢, 89¢ and $1.49

• They changed all the prices of the wine to 99¢
  ✓ The 79¢ sold better at 99¢
  ✓ The 89¢ sold better at 99¢
  ✓ The $1.49 sold better at 99¢

• In 1982, Gold launched the successful 99 Cent Only chain, *Worth a half a billion dollars in 2009*
Looking Back

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